

# Tackling Fraud and Error in Government

A Report of the Fraud, Error and Debt Taskforce

# Foreword

**By the Rt Hon Francis Maude**

Minister for Cabinet Office and Paymaster General

Every year in the UK, fraud and error costs public services an estimated £31 billion, the equivalent of £500 for every person in Britain. These losses were not acceptable when there was far more money to spend and it's certainly not acceptable in times of austerity. Across the country people are trying to be smart with their budgets, careful with their spending and make their pay cheques go further. It is imperative the public sector does the same.



It has now been over a year since the Fraud, Error and Debt Taskforce was established to help coordinate Government action in reducing these unacceptable losses. In this time, the fight against fraud and error has been considerably re-energised and re-focused. HM Revenue and Customs has saved £50 million by introducing an application screening process that identifies fraud and error in new Tax Credits claims; £17 million has been saved through the use of Credit Reference Agency data to identify Tax Credits and benefit fraud; and the Department for Transport and Home Office are now recovering overpayments of £4.5 million as a result of spend-recovery audits on their accounts payable systems.

However there is now much more that can be done to improve the effectiveness of our response, building on the financial savings made so far. Further savings can be achieved providing we shift our focus towards prevention and early detection; and ensure that we always achieve the best possible value for money when investing resources to tackle financial loss.

This report sets out an ambitious but focused delivery programme that seeks to reduce levels of fraud and error across Government. We must continue to work together to support the national fraud strategy '*Fighting Fraud Together*', and demonstrate the significant financial benefits that can be made in reducing the harm of fraud and error in the public sector. The Fraud, Error and Debt Taskforce will continue to drive forward this activity over the next few years, helping to facilitate collaborative working between central and local government, and the public, private and civil sector in order to enhance our approach.

A handwritten signature in black ink that reads "Francis Maude".

**By David Gauke MP**

Exchequer Secretary to the Treasury

“The vast majority of people pay the right amount of tax and claim appropriate benefits. However, there is a small minority that doesn’t. This imposes an unfair burden on the honest majority and prevents money from reaching the vital public services that need it. Cutting down on fraud and collecting what we’re owed is vital to protecting the integrity of our tax system and protecting the nation’s revenue.



A handwritten signature in black ink that reads "David Gauke".

HMRC are at the forefront of tackling fraud and reducing the deficit, and they are harnessing their rich information sources and using increasingly innovative ways to prevent, detect and disrupt tax fraud. They have already brought in over £720 million ahead of forecast for this year. That’s why we’ve re-invested £900 million worth of savings into HMRC’s fraud enforcement capabilities to realise an additional £7 billion in revenue per year by 2014/15.”

**By Lord Freud**

Minister for Welfare Reform

“The current cost of fraud and error in the welfare system is unacceptable. Fraudulent and incorrect payments are almost equal to the tax paid by half a million minimum wage taxpayers every year. We have been very clear: fraud will not be tolerated and those who defraud or attempt to defraud the system will be punished. We are equally determined to drive out error and ensure that we pay the correct amount to the correct claimant every time.



A handwritten signature in black ink that reads "Freud".

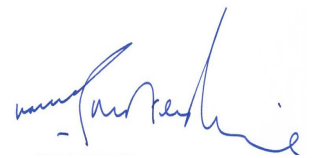
We have made clear progress since the publication of the strategy ‘*Tackling fraud and error in the benefit and tax credit systems*’. This Refresh was necessary to make sure the strategy is up to date, following the progress with our welfare reforms. The introduction of Universal Credit will deliver an entirely new benefit system, making it much more difficult for fraud and error to occur. It will be easier to spot error when it happens, and our penalties and sanctions will be tougher and faster to impose.”

**By James Brokenshire MP**

Minister for Crime and Security

“Fraud is a serious crime. Every pound stolen by fraudsters from the public sector is a pound less for front line services. In response we need to ensure that we have the best possible structures in place to tackle fraud.

Through the national fraud strategy ‘*Fighting Fraud Together*’, the Government is working closely with all its partners to reduce fraud and pursue those responsible. The National Crime Agency will be a powerful law enforcement organisation with economic crime at its heart, to promote greater co-ordination and help bring those who commit fraud to justice.”



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# Executive Summary

This report presents the progress made by Government in tackling fraud and error and outlines the programme of activity taking place across the Department for Work and Pensions (DWP), HM Revenue and Customs (HMRC), Cabinet Office and other government departments to reduce the impact of fraud and error.

## How much does fraud and error cost the public sector?

The National Fraud Authority (NFA) estimates that fraud costs the public sector around £21.2 billion a year<sup>1</sup>. That is 55 per cent of the nation's total fraud loss. The majority of the fraud loss is due to fraud against the tax and benefits systems but the Government is also losing significant sums to other fraud such as procurement, grant and payroll. These other fraud types accounted for annual losses of around £4.7 billion, £2.6 billion of which occurred in central government. Annex 1 provides a full breakdown of public sector fraud loss.

Errors in Government can take two forms – errors made by customers such as benefit claimants or grant recipients, or errors made by Government officials. Losses to error in Government are estimated at £9.6 billion, but this is limited to the two departments who know most about the extent of their problem – DWP and HMRC. These departments estimate that £3.6 billion is lost to error in the benefits and Tax Credits systems and £6 billion is lost as a result of tax errors. Losses resulting from error in other areas of spend are not known.

## What commitment is Government making to tackle these losses?

In 2010, a taskforce was established to help coordinate action across Government and the wider public sector to focus on efficiently and effectively reducing fraud and error loss in the public sector. Since it was set up, the Fraud, Error and Debt (FED) Taskforce has taken significant steps to understand the nature and scale of financial loss in the public sector, whilst piloting tools and techniques to pinpoint where savings can be made. In parallel, it has focused effort on overcoming barriers to tackle fraud effectively such as information and intelligence sharing, alongside exploring mechanisms that will embed a counter fraud and error culture across Government.

In addition to the activities of the FED Taskforce, there has also been considerable investment and commitment from DWP and HMRC in tackling welfare and tax fraud and error.

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<sup>1</sup> NFA Annual Fraud Indicator 2011  
<http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/annual-fraud-indicator>

In September 2010, HMRC announced plans to re-invest £900 million from savings made as part of its 2010 spending review settlement to tackle non-compliance in the tax system, including losses resulting from evasion, criminal attacks and the hidden economy. Based on this investment, it is estimated that £7 billion in extra revenue will be brought in each year by 2014/15, £4 billion of which will be the result of counter fraud activity. In October 2010, DWP and HMRC jointly published a strategy for tackling welfare fraud, working in collaboration with local authorities. This strategy set out plans to invest up to £425 million of their spending review settlement to reduce welfare fraud and error by £1.4 billion per year by 2015.

### **What are the key actions being taken to tackle fraud and error?**

This is the first time that Government has published its plans to tackle fraud and error across tax, benefit and other areas of Government spend in a single document.

The purpose of doing this is to strengthen the approach to efficiency and reform, identify the key cross-cutting activities in tackling fraud and error across government, and highlight areas where there is a need for greater collaboration between departments.

There are a number of activities underway in Government to drive out fraud and error. The key areas are outlined below:

### **Increased intelligence sharing**

- The NFA and Cabinet Office will lead on the development of an Intelligence Sharing Roadmap (ISR) that facilitates the sharing of information on known fraud and fraudsters across the public and private sectors. One of the first steps will be to detail the design of a counter fraud checking service.
- To support the ISR, DWP will develop the Integrated Risk and Intelligence Service for the purpose of identifying fraudulent and erroneous benefit and Tax Credit claims. HMRC will continue to develop 'CONNECT' to identify tax fraud and non-compliance.
- HMRC, DWP and other government departments will continue to pilot work to facilitate the exchange of fraud data with local government, law enforcement and private sector partners.

### **Focus on prevention**

- Government departments that administer benefits, grants and other application-based processes to obtain public funds will be required to screen applications before payment is made. HMRC is already using this approach to identify fraudulent and erroneous Tax Credit applications, and DWP is seeking to integrate a similar approach through the processing of Universal Credit claims.

- To support this work, the Cabinet Office will lead on a review of grants administration to identify opportunities where this preventative approach can be used to reduce grant fraud and error, and increase efficiency in grant processing.
- DWP and HMRC will continue to use Credit Reference Agency data to verify claimant circumstances on a payment by results basis, and will exploit opportunities for online transaction monitoring to identify criminal behaviour in real time.
- Fraud and error will be designed out of major Government projects and programmes through the use of independent fraud expert panels working alongside gateway review teams.
- All civil servants will be required to undertake a fraud awareness e-learning course. There will also be better vetting processes in place to help prevent staff and insider enabled fraud.
- HMRC will redesign the VAT registration process to better identify bogus VAT registrations and introduce a new system to ensure VAT is always paid on importation of new cars.

### **Targeting of high risk areas**

- Cabinet Office will support government departments and associated agencies and non-departmental public bodies in undertaking a 'spend-recovery' audit on their accounts payable systems to recover

fraudulent or erroneous supplier payments.

- DWP and HMRC will trial and evaluate a number of specialised taskforces to target areas where there is a high risk of tax evasion or benefit and / or Tax Credit fraud and carry out intervention campaigns and exercises to target specific problem areas.
- HMRC will help manage the risk of tax evasion by placing known evaders into the Managing Deliberate Defaulters programme.

### **Stronger enforcement and sanctions**

- DWP and HMRC propose to work closely with local authorities to develop a Single Fraud Investigation Service (SFIS) to investigate fraud across the benefit and Tax Credit systems. This will be supported by new powers in the Welfare Reform Bill which will introduce tougher penalties for fraudulent claimants. As SFIS develops, consideration will be given to using this service to take on other fraud investigations such as procurement and staff fraud.
- HMRC will expand its tax investigative capacity to take on 1,000 additional prosecutions each year, and create a specialised team to tackle offshore evasion. This work will be supplemented with a new Contractual Disclosure Facility which offers fraudsters an opportunity to co-operate fully in exchange for the certainty of not being prosecuted.



## Improved measurement of fraud and error

- Cabinet Office will assist government departments in completing quarterly returns on known and unknown fraud, error and debt losses and help them carry out pro-active fraud measurement exercises.
- DWP and HMRC will bring together their fraud and error measurement methodology to create a 'single measure' that provides an accurate and informative picture of the size of fraud and error in the welfare system.

## Structure of this report

This report outlines in more detail the programme of activity summarised above. The document has been divided into three key chapters:

- **Chapter 1** focuses on crosscutting activities to reduce fraud and error outside of welfare and tax.
- **Chapter 2** provides an update of DWP and HMRC's welfare fraud and error strategy.
- **Chapter 3** sets out HMRC's tax counter fraud strategy.

For further information on local governments' approach to tackling fraud please refer to 'Fighting Fraud Locally'<sup>2</sup>.

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<sup>2</sup> Fighting Fraud Locally will be available in February 2012

# Chapter 1

## Cross Government Activities

Until recently, the focus of counter fraud and error activity in Government had been on tackling fraud and error in the welfare and tax systems. However estimates published by the NFA last year showed that other areas of Government are also suffering significant fraud losses. Of the £21.2 billion lost each year to public sector fraud, at least £4.7 billion is attributed to losses outside of benefit and tax fraud, of which £2.6 billion occurs in central government. These figures do not include losses to error.

The realisation of these unacceptable losses led to the creation of a ministerial and senior official level taskforce, focused on reducing levels of public sector fraud. The Taskforce, chaired by Francis Maude (Minister for Cabinet Office) and supported by Lord Freud (Minister for Welfare Reform), David Gauke (Exchequer Secretary to the Treasury) and James Brokenshire (Minister for Crime and Security), published its first interim report *Eliminating Public Sector Fraud* in June 2011. In this report a number of proposals were set out for driving down levels of fraud and error in Government.

This chapter provides an update on the progress made in the last 12 months in

tackling fraud and error outside of tax and benefits, and sets out a programme of activity for reducing fraud in Government. While many of these activities will also address financial loss through error, further work is needed to properly understand error losses and identify areas of loss that are not addressed through the actions outlined in this report.

## Approach

The Taskforce has set out four priorities for improving Government's resilience to fraud, with an expectation that this will also contribute to reducing error:

- Greater **collaboration** between public bodies to efficiently and effectively tackle the problem
- Better **assessment** of fraud and error risk, and measurement of losses by departments in order for Government to better understand the problem and target resources to respond to the latest threats
- Greater investment in fraud and error **prevention** in order to end the 'pay first, check later' culture of previous years
- A **zero tolerance** approach to fraud in the public sector.

At the heart of a collaborative approach is the ability to share information and intelligence and develop an effective cross-cutting capability to prevent fraud and error. While some progress has been made in bringing together counter fraud activity there is still more that can be done to build a more rapid and effective response.

Combating fraud will be difficult without a clear understanding of the scale and type of problem. The Taskforce is firmly of the view that government departments need to measure fraud loss, and properly assess their fraud risk. All departments need to determine the extent of their fraud loss so that there is a pan-government understanding of the scale and threat. Departments then need to understand their fraud risk in the context of the overall public sector fraud threat to determine the appropriate response.

Prevention, not detection or punishment, is the most efficient way to reduce fraud loss and when vulnerabilities are detected they need to be designed out. Prevention requires embracing the power of data analytics and deploying them, for example, to prevent fraud at the application stage for Government grants, benefits and services.

To underpin the Government's approach to tackling fraud, there is a need to establish a zero tolerance culture across the public sector, where every employee recognises the threat from fraud and understands their role in how best to tackle it.

There is a need to put an end to the 'pay first, check later' culture and ensure that there is swift and sure justice for those who defraud the public sector. This will signify a step change in how seriously the Government is taking fraud.

Government will review what investigative powers are in place to ensure that when fraud does occur, action is taken against fraudsters. This will help underpin a zero tolerance approach and send out a strong deterrence message that fraud in the public sector will not be tolerated.

## Progress Update

**Pilot activity** - The Taskforce has supported a series of pilots aimed at driving out wasteful expenditure and identifying techniques that can be applied across the public sector. These pilots include the use of application screening processes by HMRC in regards to Tax Credit applications, the implementation of spend-recovery audits in the Home Office and Department for Transport (DfT), the use of Credit Reference Agency data to verify the circumstances of benefit and Tax Credit claimants and the piloting of behavioural insight techniques to prompt individuals to pay their tax on time. As a result of this pilot activity, savings of £72 million have been achieved so far.

**Alert system** - Since the interim report was published, government departments have initiated the sharing of known fraud data and

issuing alerts to others in the public sector. In one case, an alert was issued to government departments concerning the diversion of public funds into staff bank accounts. The alert ensured other departments were aware of the risk and could validate the integrity of their systems and processes to prevent this fraud affecting them.

**Counter Fraud Champion network** – A network of Counter Fraud Champions has been established to help strengthen the fight against fraud in the public sector and support the work of the Taskforce. Since this network was set up, there has been a step change in the focus, energy and commitment from departments in strengthening counter fraud resilience, with work now underway across departments in championing the benefits of counter fraud work. An example of the progress made by one department is highlighted in Box A.

**Scoping 'high risk' areas** – In depth analysis has been carried out on the top three cross-cutting threats of procurement, grants and insider enabled fraud. The findings of this work have been disseminated to Counter Fraud Champions and relevant counter fraud specialists to help inform counter fraud activity at a departmental level.

**Fraud e-learning tool** - Since the interim report was published, the NFA has worked with departments to develop a set of tools that will help to embed a culture of zero tolerance, including working with Civil Service Learning to develop a counter fraud e-

learning package for civil servants. This one hour course will be part of the core training package offered by Civil Service Learning from April 2012 and will be free for all departments and their agencies.

### **Box A – Department of Education**

The department has focused on a number of initiatives to tackle fraud. It has created a new 'Acting with Integrity' intranet site for staff, which contains policies and guidelines on preventing, detecting and reporting suspected fraud within the department. It has also improved the reporting of losses to fraud within the department, ensuring all losses are recorded and reported into a single place for the purpose of publishing this information via departmental Quarterly Data Summaries.

The department has established a Counter Fraud Committee bringing together elements of DfE that are involved in tackling fraud. A Fraud Alerts Coordinator has been appointed to manage fraud alerts, to ensure the department does not fall victim to cross-Government fraud threats. The department has also carried out a proactive fraud risk assessment with the Free Schools policy team.

**Quarterly Data Summary** – From July 2011, departments began recording their detected fraud and error on their Quarterly Data Summary (QDS), published on departmental websites. Departments provided detected losses to fraud and error for 2010-11 and for the first time, are now reporting their detected losses to fraud and error on a quarterly basis.

**Procurement fraud training course** – Following a recommendation in the NFA's scoping report '*Procurement Fraud in the Public Sector*'<sup>3</sup>, the Chartered Institute of Purchasing and Supply, together with the Chartered Institute for Public Finance and Accountancy, launched a procurement fraud training course for procurement specialists in November 2011. Public procurement specialists are now taking this training up as part of their professional development.

**Fraud risk assessment Guidance** – The NFA has produced guidance for public sector organisations on how to adapt standard structured risk management processes to better address fraud risks. The guidance concentrates in particular on the identification and assessment of fraud risks in a way that takes account of the fact that fraud is a deliberate act that seeks to avoid or abuse control systems and processes. The process outlined in the guidance has been tested with the Training and Development Agency for Schools and the Department for Education and will be available to all departments from March 2012.

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<sup>3</sup> <http://www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/procurement-fraud-public-sector>

## Further Actions

### Intelligence sharing

Fraudsters make multiple attacks across government departments and across the public and private sectors. The sharing of intelligence on known frauds and fraudsters must be the basis of a common defence as the criminals who attack us do not operate in silos.

There are currently many efforts to share intelligence on a bilateral basis between organisations in the public sector and with the private sector, however the current arrangements are not always effective. There is a web of intelligence sharing arrangements that reduces the coherence of counter fraud efforts. Good intentions to share intelligence are undermined by the complexity and general confusion over seemingly contradictory legal constraints.

To overcome this, the Government is working with stakeholders and building on existing initiatives such as HMRC's Connect, the National Fraud Intelligence Bureau, DWP's Integrated Risk and Intelligence Service, the Insurance Fraud Bureau and UK Payments' Financial Fraud Bureau to develop a framework for sharing intelligence more effectively. This Intelligence Sharing Architecture (ISA) will help co-ordinate intelligence gathering and analysis capabilities and establish a unified view of the fraud threat which will be shared across sectors. This will integrate with the National Crime Agency proposals for enhancing the UK's intelligence capabilities.

Central to the prevention of fraud will be the ability for public and private sector organisations to check information, for example applications for benefits, grants, loans or mortgages, against known fraud data.

Creation of this checking service will support Government and other public bodies to move towards a 'check first' approach. The Government will outline the steps that need to be taken to bring this concept to life, beginning with planning for the creation of the counter fraud checking service. Box B provides some examples of how the ISA can be used to identify fraudulent activity.

## **ACTION**

By April 2012, the National Fraud Authority and Cabinet Office will detail the design of a 'counter fraud checking service' as the first step in improving the Intelligence Sharing Architecture.

## **Moving to a 'Check first' culture**

HMRC has successfully piloted a screening technique for Tax Credit applications – named the Fraud and Error Assessment System Tool (FEAST). The tool analyses information provided by new and existing claimants on their Tax Credit application form, compares this against internal and external data (for example, DWP and Credit Reference Agency data) and decides the likelihood of the application being fraudulent or erroneous.

The Taskforce believes that the approach taken by HMRC is fully transferable to other application-based processes to obtain public funds, such as benefits and grants. HMRC has proven that information provided on application forms can be verified and validated before payments are made to recipients, which is something all departments who award benefits, grants and any other application-based process for publicly-funded services should adopt. The Government is committed to moving to a 'check first' approach by March 2015.

## **Key Action**

By March 2015, all departments who administer benefits, grants and other application-based process to obtain public funds will be using a similar approach taken by HMRC to screen applications before payment.

## **Box B – ISA Proof of Concept**

Two exercises have been carried out to help demonstrate the potential benefits of an integrated Intelligence Sharing Architecture:

**Data matching between DWP and Insurance Fraud Bureau** - DWP shared 19,000 records on potentially fraudulent National Insurance Numbers (NINOs) with the Insurance Fraud Bureau (IFB). 17,943 (92 per cent) of these records matched data held by IFB, with links made to more than 60,000 policies and 70,000 claims (of which over 50 per cent claims concerned personal injury claims). The exercise demonstrated two things. Firstly, that fraudsters operate across organisational and sector boundaries and secondly, that routine sharing of information between DWP and IFB could potentially detect fraudsters previously unknown to either organisation.

**Data matching between National Fraud Initiative and Operation Amberhill data** - Operation Amberhill is a Metropolitan Police initiative that collates details of known false and fraudulently obtained documents that are frequently used by criminals to support false identities. Public and private sector organisations can match this false document data against their own data to detect potential fraud and other criminal activity.

The National Fraud Initiative is a data matching exercise run every two years to prevent and detect fraud. It matches data from local government, the NHS and the private sector. In the last exercise, 20,000 strands of Amberhill data were compared to the NFI participants' data. This resulted in 1,967 matches across 203 different organisations including:

- 429 matches to housing benefit claimants
- 46 matches to disabled badge holders
- 157 matches to concessionary travel passes
- 238 matches to social housing tenants
- 38 matches to occupational pensioners
- 37 matches to taxi driver licences
- 53 matches to local authority payroll systems
- 107 matches to residential parking permits
- 121 matches to asylum seekers
- 609 matches to UK visa applicants

This exercise helped demonstrate that the timely sharing of intelligence across organisational boundaries is the only way to understand the true extent of criminal activity affecting the UK.

## Spend-recovery audits

The interim report presented outcomes of pilots undertaken by the DfT and the Home Office using data analytics to detect overpayments to suppliers on their accounts payable systems. Known as a 'spend-recovery' audit, the exercise matches key data such as purchase orders and invoices in order to detect duplicate or erroneous payments made to contractors.

Both the Home Office and DfT commissioned a supplier to undertake this exercise on a full payment by results basis, meaning the supplier undertakes the audit, detects overpayments then seeks to recover the overpayments from recipients, earning a fee from the amount recovered. To date, the Home Office has detected £4 million in overpayments and DfT has detected £0.5 million in overpayments. Recoveries are now underway.

Analysis by the Cabinet Office suggests that if all government departments, their agencies and non-departmental public bodies undertook this exercise over the previous five years of procurement expenditure, £100 million could be detected and recovered across Government. This exercise generates basis, so it is low risk and high reward for departments.

### Key Action

All government departments, agencies and non-departmental public bodies will undertake a 'spend-recovery' audit on their accounts payable system by December 2013.

## Counter Fraud Champion (CFC) network

CFCs have played an important role in raising the awareness of fraud and error in their departments and agencies and their work will ensure continuous improvement in the detection and measurement of fraud losses (see Box C for an outline of the CFC role). CFCs will be integral to ensuring the work in this programme of activity is delivered across Government and will continue to be developed to ensure the network is able to deliver further savings.

Looking forward, the CFC network will need to evolve to incorporate greater focus from the taskforce on tackling error and debt as well as fraud. This is particularly pertinent for debt, as the Taskforce looks to explore new methods for improving the collection of overdue debt as outlined in the interim debt report published in February 2012.



## Key Action

The role and remit of the Counter Fraud Champions network will formally expand into a Fraud, Error and Debt Champions network by May 2012.

## Fraud and error measurement

The interim fraud report highlighted the importance of government departments measuring and reporting their losses to fraud and error as well as undertaking risk measurement exercises in specific areas to detect fraud previously unknown to departments. This approach forms the basis for understanding specific areas of loss to fraud and error and helps to target the response needed.

Government departments are now reporting detected fraud and error on their Quarterly Data Summary (QDS). For the 2010/11 year, eight out of fifteen departments reported detected fraud losses totalling £4 million for that year (excluding tax and benefit fraud losses). This means that just over half of all government departments actually detected any fraud and error during the last financial year.

To assist departments in completing their QDS, Cabinet Office and NFA have issued guidance on how to report and classify detected fraud and error. This will be

## Box C – Role of the Counter Fraud Champion

1. Creation and maintenance of a counter fraud culture and engagement of employees in combating fraud and error
2. Measurement and reporting of fraud
3. Use of the Government's fraud alerts system, including creating alerts from fraud risk assessments and taking action against fraud alerts received
4. Assessment of fraud risk, identification of the areas most vulnerable to fraud, and fraud proofing of new policies and systems
5. Sharing of good practice on combating fraud

supplemented by further support and guidance on how to undertake proactive exercises in order to identify fraud risks and quantify fraud and error that was previously unknown.

With continued support from the NFA and Cabinet Office, departments will improve the regularity and accuracy of reporting detected fraud and will be encouraged to undertake proactive risk measurement exercises during 2012, in an effort to estimate the extent of losses to fraud and error in their department.

## Key Action

All government departments will use guidance and tools produced by the NFA and Cabinet Office to improve their measurement and proactive measurement of fraud and error from April 2012.

## Behavioural Insights

The Cabinet Office has continued to pilot the use of behavioural economics to prevent fraud and error. In January 2011, HMRC piloted these techniques to prompt 1,575 late taxpayers from the previous tax year into paying the right amount this year, resulting in an increased yield of £180,000. This was achieved by sending SMS alerts and carefully worded letters to prompt better compliance.

Following recommendations in the interim report, the Cabinet Office's Behavioural Insights Team (BIT) has partnered with a range of government departments, agencies and local authorities to set up a series of trials to test the effectiveness of various behavioural techniques. For example, the BIT worked with Manchester City Council to test interventions designed to prevent fraud and error in claims for council tax 'single person discount' exemption. This trial is outlined in Box D.

## BOX D - Manchester City Council - Council Tax Trial

In November 2011, Manchester City Council sent letters to the 38,000 households who are currently claiming a single person discount from paying council tax, in order to confirm their eligibility.

The Council sent three different versions of the letter in order to test a number of behavioural effects, such as reducing the prominence of the size of the discount and reframing the risk, salience and consequences of providing incorrect information. In addition, based on recent research from the US, the trial tested whether signing at the top of the form, rather than at the bottom (as is traditionally the case) could help reduce fraud.

More information on this and other trials the BIT are supporting is provided in 'Applying Behavioural Insights to Reduce Fraud, Error and Debt'.

The Cabinet Office will continue to identify opportunities to pilot behavioural insights techniques in different areas where losses are occurring due to fraud and error. Where the results of using behavioural insights techniques prove successful in preventing fraud and error, the Cabinet Office will identify opportunities to ensure these are rolled out more widely across Government

and will encourage the same across the wider public sector.

### Fraud experts panel

A key approach to preventing fraud and error is ensuring these risks are designed out of Government projects and programmes. The interim report recommended a focus on designing fraud and error risk out of the highest areas of expenditure in Government, namely major projects and programmes.

The creation of an independent panel of fraud and error experts to work alongside Gateway reviewers will help ensure that fraud and error risks are identified in major projects and programmes, providing an opportunity to address these risks for projects and programmes before they go live.

#### Key Action

Cabinet Office will establish an independent panel of counter fraud experts to work alongside Gateway reviewers in assessing major Government projects and programmes. The panel of experts will be in place by August 2012.

### Fraud awareness

Embedding a culture of zero tolerance to fraud across the civil service and wider public sector underpins cross-government efforts outlined in this report. To properly embed a culture of zero tolerance across Government,

public sector staff need to understand the risk of fraud and know how to prevent, detect and report their suspicions.

A generic fraud awareness e-learning tool developed by the NFA provides an opportunity to reach out to all civil servants to achieve this aim. The Government is committed to ensuring all civil servants undertake the e-learning programme over the next 12 months

#### Key Action

All civil servants will undertake the generic counter fraud e-learning tool from Civil Service Learning by April 2013.

### Grant fraud and error scoping study

A scoping study carried out by the NFA in 2011 identified the awarding of grants as a significant fraud risk. Approximately £80 billion is spent on publicly funded grants each year and the NFA estimates that grant fraud costs at least £472 million in central government alone.

However more needs to be done to understand how grants are administered and monitored across Government, including who receives them and what the processes are for verifying and validating information provided on applications forms. As such, a detailed review of grants administration is needed to fully understand the end to end

grant administration and award process, identify opportunities for greater efficiency in administration, and pinpoint areas of weakness that are enabling fraud and error. From here, the Government will be able to focus its response to fraud and error in grants administration.

### **Key Action**

The Cabinet Office will coordinate a full review of grants administration across Government by August 2012, mapping the organisations that award grants, how much they award and to whom, and what the processes are for validating and verifying information provided by applicants to prevent fraud and error.

## **Staff vetting enhancement**

Insider enabled or staff fraud is where employees within an organisation commit fraud themselves or enable fraud to take place inside or outside the organisation, using their privilege as an employee. A scoping study carried out by the NFA in 2011 has highlighted the risk of insider enabled fraud to public services, particularly during periods of economic downturn.

While Government has strict vetting procedures for civil servants, this does not extend to checking data on staff that have previously been dismissed or sanctioned for fraud. Organisations such as CIFAS, the UK's fraud prevention service, offer a service whereby members can check data on staff dismissed for fraud as a pre-employment

checking mechanism. The public sector has no such system, but would be able to prevent known fraudsters gaining employment in Government if it drew on such a service.

Over the next 12 months, Government will identify the options available for introducing a checking service on known fraud and fraudsters for the purpose of vetting public sector staff. This service will be made available to central government departments from January 2013.

### **Key Action**

By January 2013, the Government will have improved its staff vetting procedures by checking data on known fraudsters.

# Chapter 2

## Benefits and Tax Credits

The Government pays out around £180 billion in benefits and Tax Credits administered by DWP and HMRC. The most recent estimates put annual losses due to fraud and error in the welfare system at £5.2 billion, or almost 3 per cent of total expenditure. This is made up of £3.3 billion in DWP administered benefits (2.1 per cent of expenditure) and £1.9 billion in HMRC Tax Credits (7.4 per cent of expenditure).

In October 2010, DWP and HMRC jointly published '*Tackling fraud and error in the benefit and tax credits systems*'. This set out the Government's plans for reducing fraud and error in the welfare system to 2015. Since this strategy was published there have been some important changes and new developments. These include:

- The development of Real Time Information (RTI) which will provide DWP and HMRC with access to up to date PAYE information to verify claimant circumstances
- Advances in data matching, application screening and fraud risk analysis

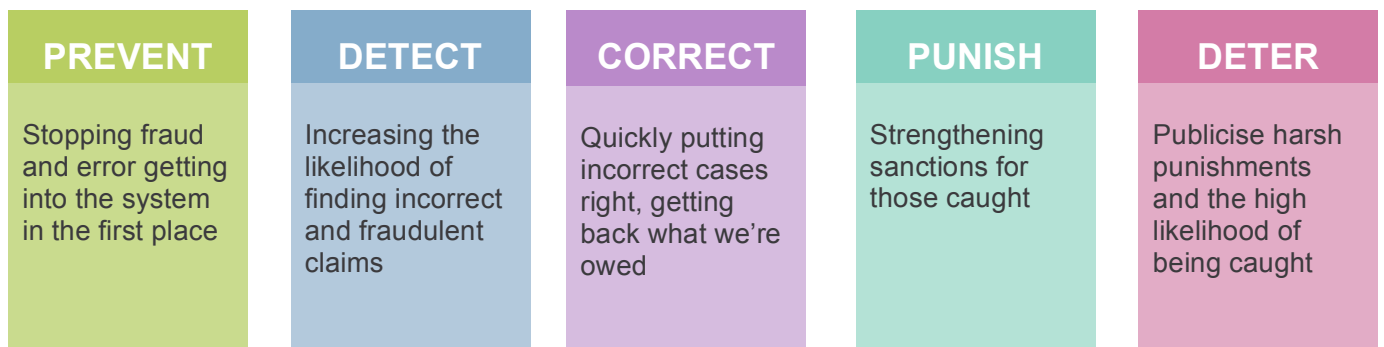
techniques, such as HMRC's CONNECT and FEAST systems.

- Lessons learned by DWP and HMRC around improving processes and developing new approaches to reducing fraud and error
- A better understanding of DWP and HMRC's collective ability to deliver and a stronger understanding of benefit and Tax Credits claimants
- The Government's welfare reform agenda and emerging design of Universal Credit, with a focus on ensuring that opportunities for fraud and error are minimised during the Universal Credit transition period.

In light of these changes and developments, DWP, HMRC and local authorities have collectively updated their welfare fraud and error strategy. This chapter provides an overview of this refreshed strategy and outlines the key activities being taken forward by DWP, HMRC and local authorities to reduce benefit and Tax Credits fraud and error.

## Approach

In order to deliver a step-change in performance DWP, HMRC and local authorities are continuing to develop and implement the integrated strategic framework set out in the 2010 strategy.



**Figure 1 – DWP and HMRC’s strategic approach to tackling welfare fraud and error**

The five principles set out in this strategy remain pivotal to DWP and HMRC’s approach (see Figure 1). The focus in year one is primarily on Prevent, Detect and Correct. Punish and Deter come with the enactment of the Welfare Reform Bill in 2012 which will provide the legislative power to impose stronger punishments, which in turn provides greater deterrence. This will be supported by communications that will stress the consequences of committing fraud and making incorrect claims.

One of the goals of the strategy is to change claimant behaviour so that minimal levels of error can be achieved and maintained. DWP and HMRC have a good understanding of welfare claimants’ attitudes and behaviours and this will be built on to influence compliance through the transition to the new system (see Annex 2 for further details on how this will be achieved).

## Progress Update

**Fraud and Error Assessment System Tool (FEAST)** - HMRC has taken a significant step towards designing out fraud and error in new Tax Credit claims. FEAST is a risk assessment tool, which identifies potential fraud and error before claims enter the system. FEAST has already helped to prevent losses of £50 million and is expected to save £70 million by March 2012.

**Automated Transfer to Local Authority Systems (ATLAS)** - ATLAS is an IT development that automatically informs local authorities of new awards or changes in benefits or Tax Credits. This has been successfully tested and has already made savings of £11 million by preventing overpayments and underpayments.

**Mobile Regional Taskforce** - The Mobile Regional Taskforce targets city and suburban areas that appear to be hotspots for fraudulent activity. Campaigns have been run in Birmingham, Cardiff and Croydon to assess the impact of different approaches on customer behaviour. The taskforce is

continuing to explore piloting a variety of approaches to determine those activities that result in the most effective outcomes.

**Credit Reference Agency (CRA)** - In December 2011, HMRC and DWP jointly signed a contract with Experian to supply CRA data on a payment by results basis. This is transforming the way in which fraud and error is identified, by targeting rule-breakers and fraudsters more effectively. To date, the use of CRA data has generated savings of over £17 million, with an expectation that £60 million will be saved by March 2012. An example of how CRA data can be used to identify fraud is shown in Box E.

**Crimestoppers** - In December 2011, Crimestoppers launched a joint initiative with DWP and HMRC in Glasgow, Leeds and Manchester to encourage people in those locations to report known benefit and/or Tax Credits fraud. Through press campaigns and the Crimestoppers website, this approach provides another way for citizens to take positive steps to help Government combat fraud.

**Case Cleansing** - The original welfare fraud and error strategy launched in 2010 introduced a programme of activity to correct the current stock of incorrect benefits payments. DWP now have over 1,000 dedicated staff working on a number case cleansing exercises. So far, these activities have generated savings of £413m.

**Tax Credit Campaign** – Tax Credit campaign based intervention programmes on High Risk Renewals, High Risk Changes of Circumstance and Undeclared Partners, all of which are in keeping with the HMRC Tax Credit Error and Fraud Strategy, focus on HMRC’s six principle loss groups. HMRC uses outbound telephony and targeted letter campaigns. These have helped to increase the number of interventions<sup>4</sup> from 250,000 in 2008-09 to 1.8 million in 2010/11 and have prevented losses of over £1 billion during 2011/12.

**Joint Investigations** - DWP and HMRC have undertaken a number of joint criminal investigations with a view to prosecute claimants who have perpetrated both Tax Credit and benefit fraud. The momentum is growing in this area and is proving a useful education in the proposed Single Fraud Investigation Service. So far 44 convictions have been secured on cases progressed as part of the joint working resulting in over £1.1 million in DWP overpayments and Tax Credit losses.

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<sup>4</sup> Activity to examine, investigate, check or correct a Tax Credit claim.

### **Box E – Example of the benefits of using CRA data**

A 30-year-old woman had a single claim for six children in the Tax Credits system. The information from the Credit Reference Agency identified a potential undeclared partner, thought to be her husband. HMRC researched links to the applicant, which revealed several joint financial commitments. The potential partner was listed on the Electoral Roll and his employer had the same address on his employment record.

The CRA pilot team contacted the applicant by letter to advise her that if she did not contact HMRC to discuss this irregularity, the money would stop. The applicant claimed that, although they had been separated for the last seven years, they had not divorced. HMRC pointed out that her three youngest children had all been born in the past five years and that the partner was listed as the father. Faced with this information, the applicant agreed that she should have submitted a joint claim. The award was corrected, resulting in prevented losses of £49,096.

## **Further Actions**

### **Integrated Risk and Intelligence Service**

A key strategy commitment is the creation of an Integrated Risk and Intelligence Service (IRIS). IRIS will provide a hub for analysing data to support counter fraud and error activities and will bring the capability to better target resources through the use of risk profiling, data matching (with real time information from a wide range of internal and external sources), and by employing analytical expertise and specialist customer behaviourists. IRIS will:

- Risk-assess all claims before they are paid, and identify claimants who require further verification checks prior to payment
- Support the effective maintenance of welfare benefit and Tax Credit claims, identifying unreported changes in circumstances
- Support a risk-based interventions strategy
- Support effective debt management, helping to maximise debt recovery through better targeting and supporting evidence around a customers circumstances.

During 2012/13, DWP and HMRC will bring a renewed focus to understanding the intelligence capability. Alongside this, a feasibility study of HMRC's CONNECT tool



will be completed to identify how this system can be integrated into IRIS. IRIS will need to be in place if the Single Fraud Investigation Service is to have the necessary tools to do the job.

### **Single Fraud Investigation Service**

A Single Fraud Investigation Service (SFIS) will improve the effectiveness of DWP and HMRC's counter fraud activity by increasing the number of fraud investigations and providing better value for money. In 2012 new powers have been included in the Welfare Reform Bill that will allow the departments to carry out a single investigation where fraud is suspected across the entirety of the benefit and Tax Credit systems.

Any design and capability of a single service will need to be flexible, so that DWP, HMRC and local authorities can undertake independent investigations. This will result in HMRC, DWP and local government working to one outcome, sharing resources and sharing and agreeing priorities.

### **Extension of prevention activities and support across government**

While both HMRC and DWP already undertake a degree of pre-capture checking for benefits and Tax Credits, this activity will significantly increase through harnessing similar systems and methodologies such as those used in FEAST and in the private sector.

### **Mobile regional taskforce**

The pilot activity is being evaluated and may be expanded to create a joint Mobile Regional Taskforce, which encompasses HMRC, LAs and DWP benefit and Tax Credits claimants.

### **Use of CRA data**

The industrialisation of CRA data matching activity has enabled DWP and HMRC to learn early lessons around the levels of performance and to generate further process and productivity improvements. This information will help to improve the tracking of benefits delivered through the use of CRA data (which are expected to be £800 million over the life of the contract with Experian).

### **Interventions**

Building on HMRC's success with their targeted letters campaign, DWP will commence a campaign using customer profiling tools to target customer segments in geographical areas. This approach will be refined so it becomes a tool for large-scale fraud prevention activity – using it at certain times of year when circumstances change more often, for example in July when the school year finishes.

### **Penalties and sanctions**

Powers in the Welfare Reform Bill will introduce tougher penalties for claimant error resulting in an overpayment and those who deliberately commit fraud. These powers include a minimum administrative penalty of £350 in cases of fraud, including attempted fraud, with four weeks loss of benefit and extended loss of benefit periods for offences which result in a conviction from four to 13 weeks for a first offence resulting in a conviction, then 26 weeks for a second offence of which the latter results in a conviction and 3 years for a third offence the latter of which results in a conviction; or in the case of serious; organised benefit fraud or identity fraud, an immediate 3 year loss of benefit and a new £50 civil penalty in cases of claimant error which results in an overpayment as a result of negligence or failure.

Penalties and sanctions are scheduled to come into force in 2012. Powers are also being taken to introduce loss of benefit sanctions into cases where someone has been convicted of Tax Credit fraud. This deterrent will be enhanced by communications that will stress the consequences of committing fraud and those failing to take care of their claims.

### **Single measures**

A robust system is being developed that will provide an accurate and informative picture of the size of the welfare fraud and error problem. A set of 'single measures' across Government will quantify the savings

achieved and the value for money for each initiative aimed at combating fraud and error. With support from the Performance and Measurement Unit in HM Treasury, proposals for a single set of measures will be available by the end of 2012.

### **Realisation of debt**

DWP and HMRC are introducing a zero tolerance approach to those people who deliberately choose not to pay their debts when they have the means to do so, and will look at new and radical ways of organising functions to meet the very challenging goals of real debt recovery.

Both DWP and HMRC will be required to deliver significantly more in terms of real debt recovery.

### **Real Time Information**

Currently, misreported earnings are one of the largest causes of error and fraud in the benefits and Tax Credits systems. Real Time Information (RTI) presents a real opportunity to reduce misreported earnings by giving timely and accurate information on most people's earnings.

RTI will be a vital tool for DWP and HMRC to exploit opportunities in real time in the effective and efficient management of Universal Credit to enable timely and accurate changes to entitlement and to combat fraud and error arising through income discrepancies and hours worked.

Employers will submit PAYE information and details of hours worked to HMRC at every pay-date e.g. weekly, fortnightly or monthly as opposed to the current annual, year-end requirement.

The controlled pilot will begin in April 2012. The expanded pilot will commence in July 2012 with a 'soft' go-live intended for November 2012, culminating in full migration of employer schemes by April 2013. RTI will be fully exploited for the purpose of identifying benefit and Tax Credit fraud and error by October 2013. The aim is for HMRC to deliver benefits of 177 full-time equivalent staff savings and prevent losses across HMRC and DWP of £395 million by 2015.

### **Fraud hotline**

Building on the use of data from outside and inside of government, we are looking at the fraud hotline to see how it can be improved and transformed and how it can complement the Crimestoppers initiative outlined above. How and where best to use this invaluable information from the public and our own staff is being tested in order to generate more accurate referrals for investigation.

# Chapter 3

## Tax

Each year around £470 billion of tax is collected. HMRC estimate that in 2009/10, the total net tax gap<sup>5</sup> - the difference between tax collected and the tax that should be collected - was £35 billion. This equates to around 8 per cent of the estimated total tax liability. A breakdown of the UK tax gap by behaviour type can be found in Figure 2.

Tax fraud covers a range of activities from those who work in the hidden economy and don't declare their earnings, right through to sophisticated attempts by organised criminals to steal tax using complex transaction chains to cover their activities. The tax losses from fraud – evasion, activities in the hidden economy and criminal attacks – accounted for an estimated £14 billion<sup>6</sup>.

Estimating the scale of, and trends in, tax gaps is a difficult and a relatively untested area of work for governments in the EU and around the world. HMRC is a world leader in this field and has developed estimates of the tax gaps for the main direct and indirect taxes that it administers that it believes are the best

possible, based on all the information presently available. At eight per cent of the estimated total tax liability, HMRC tax gap figures compare favourably with other leading economies. In January this year the IRS published the United States' latest figures, which showed a gap of 14.5 per cent, while the latest figures from Sweden show a gap of 10 per cent.

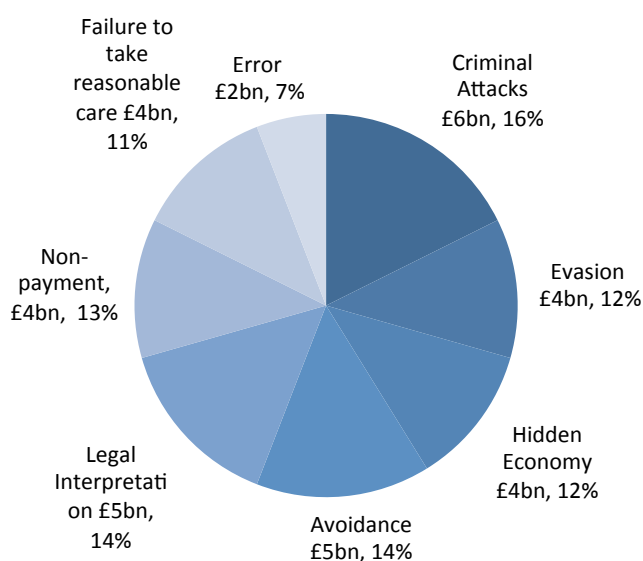


Figure 2 - Tax Gap by Taxpayer Behaviour 2009-10<sup>7</sup>

HMRC's Counter Fraud Strategy outlined in this chapter has informed its plans for the four years of the 2010 Spending Review. Bringing in more tax will help reduce the public deficit faster, so HMRC is transforming its compliance work and reinvesting over £900 million of its Spending Review savings into its work against avoidance, evasion and criminal attacks to bring in additional revenues of £7 billion a year by 2014/15.

<sup>5</sup> The Tax gap is the tax that is lost through non-payment, use of avoidance schemes, difference of interpretation on complex transactions, error, failure to take reasonable care, evasion, the hidden economy and organised criminal attack.

<sup>6</sup> Measuring Tax Gaps 2011: [www.hmrc.gov.uk/stats/mtg-2011.pdf](http://www.hmrc.gov.uk/stats/mtg-2011.pdf)

<sup>7</sup> Totals may not sum due to rounding.

Over half of this extra £7 billion will be delivered through a strategic shift in HMRC's compliance activity toward tackling more evasion, activities in the hidden economy, and organised crime. This is expected to reduce the UK tax gap to below 7 per cent in 2014/15, making it one of the lowest in the world. HMRC's approach is set out in more detail below.

## Approach

HMRC has developed a Counter Fraud Strategy which sets out its approach to tackling a wide range of fraudulent tax activities, including tax evasion, the hidden economy and organised criminal attacks. It is a comprehensive strategy which closely aligns with the themes of the National Fraud Strategy<sup>8</sup> and applies them to a tax environment. The HMRC Counter Fraud Strategy places as much emphasis on the prevention of fraud as it does on its detection and disruption. Some of these measures will also help reduce error.

The key elements are:

- Design fraud out of HMRC systems (**prevention**)
- Ensure secure entry to our systems through authentication and authorisation of customer identity (**prevention**)

- Encourage all HMRC staff to be alert for indications of internal and external fraud, regardless of where they work (**detection**)
- Provide an effective intervention capability supported by improved risk analysis and targeting (**detection and disruption**)
- Increasingly target our one-to-one interventions towards tackling deliberate non-compliance and evasion (**detection and disruption**)
- Work closely with other public sector bodies, law enforcement agencies and authorities overseas to see the full picture of criminality and maximise the recovery of stolen tax.

Losses to Error (which includes Failure to Take Reasonable Care) are estimated to be £6 billion, accounting for 18 per cent of the total tax gap. HMRC has developed a different approach to addressing error. Whilst most taxpayers are honest and want to comply with their obligations, some may require more support to get their taxes right. This is particularly the case among small business and the self-employed, who have more scope to make mistakes than individuals in employment.

HMRC's approach is to minimise error in the tax system by helping customers and their representatives to get it right, first time. Its objective is to simplify requirements and

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<sup>8</sup> Insert FFT link

processes so they are more readily understood by customers, thereby reducing the scope for error. For example a range of free toolkits are available to provide guidance on areas of error that HMRC frequently see in tax returns.

When HMRC find an error, they will telephone or write to the customer to work out the correct amount. Through its Business Education and Support service, HMRC can provide access to educational support to all customers that need it. This includes offering education through a range of channels such as online seminars, videos, tutorials and via the telephone. If the customer has not taken reasonable care, depending upon the circumstances, HMRC may also apply a penalty.

## Progress Update

In recent years, HMRC has increasingly refined its approach to centre on understanding and segmenting its customers, so that services and interventions are designed and delivered in a way that meets their needs and also influences their future behaviours. HMRC takes a tailored approach to the different customer groups, focusing resources, using new powers, more sophisticated compliance risk identification tools and ways of working to increase compliance revenues.

This approach has enabled HMRC to become more effective and efficient, and its multi disciplinary Taskforces, and innovative

Campaigns Team are real examples of this approach in action. Between 2005 and 2011 HMRC has almost doubled compliance yields at the same time that compliance resource has reduced by around 20 per cent. In 2010-11 the total yield from all its compliance activities was a record £13.9 billion, an increase of over £1 billion on 2009-10. In addition a further £2.5 billion revenue was protected through tackling organised criminal attacks. This year, at the time of publication, HMRC is around £700m ahead of where it was forecast to be in relation to its compliance effort.

## Further Actions

### Design fraud out of our systems

In order to make tax processes less vulnerable to fraud HMRC will continue to design them so that they are able to resist exploitation by fraudsters, while still being accessible and easy to use for the majority of honest taxpayers. HMRC will:

- Redesign the VAT registration process, improving HMRC's ability to identify bogus registrations and introduce a range of additional registration checks across tax regimes.
- Introduce a new system with DVLA to ensure VAT is always paid on importation of new cars.

- Place those individuals identified as tax evaders into the Managing Deliberate Defaulters programme, requiring them to provide extra information on their tax returns and prevent opportunities for repeat offending.

### **Ensure secure entry to our systems**

As more of HMRC’s systems move online, criminals will look to target any weak spot in online security. To ensure secure entry to online services for its customers, HMRC needs to be able to verify the identity of those seeking access, and be able to detect fraudulent transactions at the point of entry. HMRC will:

- Create a specialist Cyber Crime Team to improve HMRC’s response to cyber-enabled attacks by building our intelligence and operational expertise.
- Introduce online transaction monitoring to identify criminal behaviour in real time.
- Invest in front line teams who tackle suspicious registrations and repayment claims.

In addition, HMRC will continue to work with the Cabinet office and other public and private sector partners to improve the way customer identities are assured and authenticated.

### **Encourage all HMRC staff to be alert for signs of internal and external fraud**

Internal fraud is a risk for all organisations, and HMRC is no exception. While tax fraud is generally committed by HMRC customers (i.e. taxpayers) or organised criminals, in some cases it is also carried out or helped by HMRC staff. HMRC has developed internal fraud prevention plans in those areas where it considers it faces the greatest risk of internal fraud, and it ensures that its employees are able to recognise and deal decisively with staff found to have facilitated tax fraud. HMRC will provide customer-facing staff with fraud awareness training to help them identify rule breakers, and is making it quicker and easier for them to refer suspicious cases for further investigation.

### **Provide an effective intervention capability supported by improved compliance risk analysis and targeting**

Effective intervention means deploying HMRC’s specialist compliance staff – tax investigators - to the areas of tax fraud risk where they can have the greatest impact. HMRC has invested heavily in recent years to improve its risk analysis and targeting to better identify fraud and evasion cases. Its core risk analysis system, CONNECT, is a cutting edge data matching and intelligence tool that allows HMRC to cross-reference the data the department holds at the touch of a button.

## CONNECT data matching and intelligence tool:

30 internal and external data sources

1,000,000,000 pieces of information

HMRC investigators see a visual network of relevant data to help target businesses, individuals and sectors that pose the highest risks of error, fraud or criminal activity.



The intelligence generated can then be used to inform targeted Campaigns against the highest risk groups. These Campaigns ‘nudge’ the non-compliant towards voluntarily disclosing what they owe, and hit hard those who do not take the opportunity offered. Over the next three years HMRC will:

- Further invest in CONNECT to add to the data it can use; to speed up the supply of key data streams; and to use unstructured, text-based data such as telephone hotline information provided by the public.
- Build on its in-house CONNECT Academy to develop an enhanced programme of training for those data analysts carrying out risking and Intelligence work to ensure technology is fully exploited.
- Carry out four campaigns per year to target specific areas we know present a particular risk of non-compliance: For 2011/12: unregistered trading above the VAT threshold, private tuition, electricians

and E-vending. An example of this activity is outlined in Box F.

- Develop its intelligence gathering capability through more effective use of Credit Reference Agencies and wider third party data providers.

## Increasingly target our one-to-one interventions towards tackling deliberate non-compliance and evasion

A key element of HMRC’s strategy is to simplify its processes so that fewer customers make mistakes, which will allow it to refocus its resources on countering deliberate tax evasion and organised criminal attacks. These are the areas where trained compliance officers can be most effective in identifying, deterring and, where necessary, punishing the behaviour of deliberate rule-breakers. Key activities include:



## Box F – Medics Campaign

Following its launch in January 2010, HMRC's Medics Campaign saw over 1,500 voluntary disclosures by doctors and dentists of over £10m in unpaid tax.

After the voluntary period closed on 30 June 2010, information relating to those who didn't come forward was then put through CONNECT to identify those most likely to be tax cheats.

Based on this information over 1,500 targeted interventions into medics' tax affairs have been launched, ranging from those using our pioneering Behavioural Insights, or 'nudge' approach, to full blown criminal investigations. To date, these teams have recovered over £2 million with much more to come.

- The creation of twelve new compliance taskforces, focusing on areas where there is a high risk of tax evasion, with up to thirty new taskforces a year until 2015. These taskforces are a new way of working, bringing together different specialist teams to deliver a more robust challenge.
- Increasing the number of criminal investigations to deliver an additional 1,000 prosecutions a year, so that the risk of prosecution is a real one for all deliberate evaders.
- Cracking down on offshore evasion with a new dedicated team of specialist investigators.

- Toughening our civil investigation of fraud procedure by introducing a Contractual Disclosure Facility from 31 January. This new facility will offer fraudsters who cooperate fully with HMRC and disclose the full extent of their fraud the certainty that they will not be prosecuted, whilst ensuring HMRC recovers tax losses, penalties and interest in the most cost effective manner.

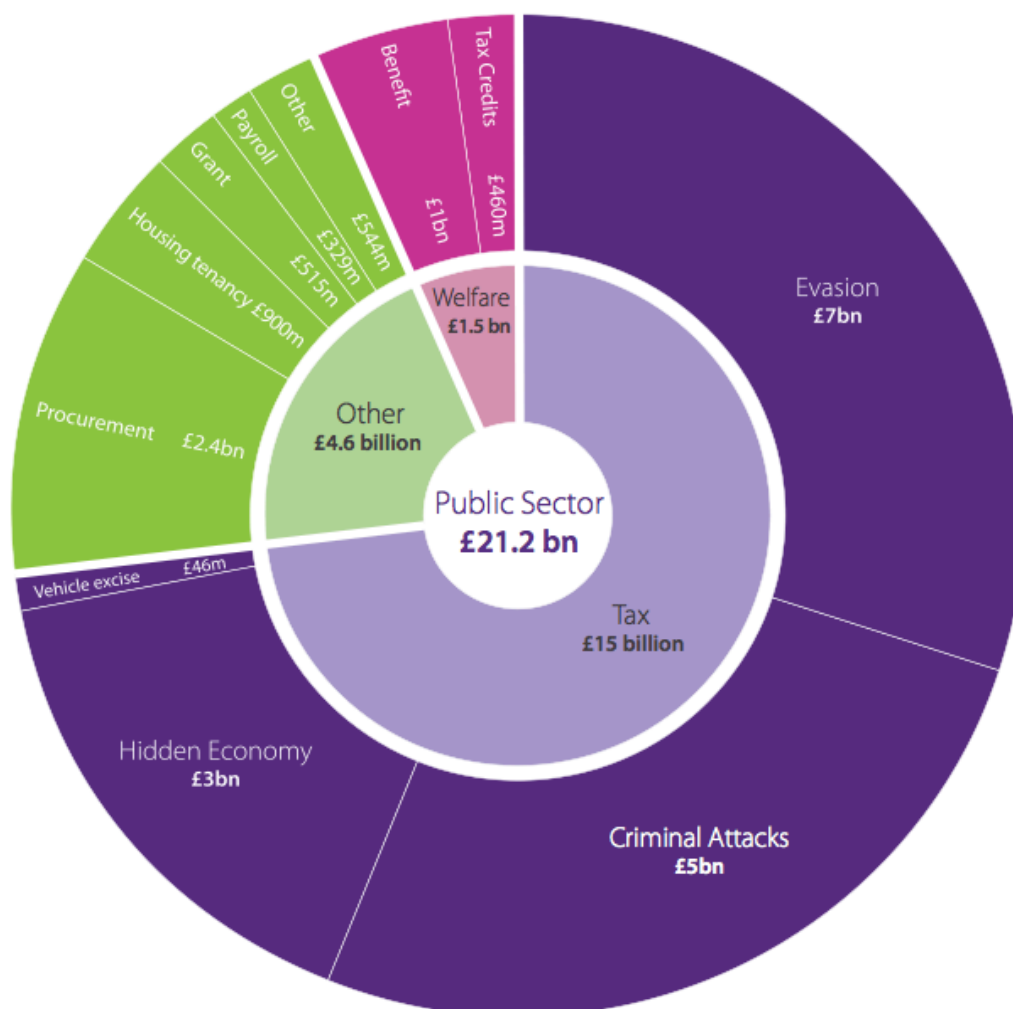
## Work closely with other public sector bodies and law enforcement agencies

HMRC will continue to work closely with the National Fraud Authority, the Cabinet Office Counter Fraud, Error and Debt Taskforce, and the formation of the National Crime Agency to strengthen the co-ordinated response to fraudulent behaviour across the law enforcement and criminal justice community. HMRC is also seeking new opportunities to make effective use of legal gateways to work collaboratively with other agencies, domestic and foreign, and maximise the recovery of stolen tax. Key activities include:

- Embed HMRC officers in the newly formed National Crime Agency Organised Crime Co-ordination Centre.
- Extend pilot work to exploit legal gateways for exchange of data on fraud with law enforcement and private sector partners.



## Annex 1 - Breakdown of Public Sector Fraud Loss<sup>9</sup>



Area	Total fraud loss	Fraud type	Fraud loss
Tax	£15 billion	Tax fraud	£15 billion
		Vehicle excise fraud	£46 million
Central government	£2.6 billion	Procurement fraud	£1.5 billion
		Grant fraud	£472 million
		Television licence fee evasion	£196 million
		Payroll and recruitment fraud	£177 million
		NHS patient charges fraud	£165 million
		Student finance fraud	£31 million
		Pension fraud	£7 million
		National Savings and Investments fraud	£0.39 million
		Local government	£2.1 billion
Procurement fraud	£855 million		
Payroll and recruitment fraud	£152 million		
Council tax fraud	£90 million		
Blue Badge Scheme abuse	£46 million		
Grant fraud	£43 million		
Pension fraud	£8 million		
Benefit and Tax Credits	£1.5 billion	Benefit fraud	£1 billion
		Tax Credits fraud	£460 million

<sup>9</sup> The NFA Annual Fraud Indicator includes HMRC's 2008-09 Tax Gap fraud figure. HMRC have now published an updated tax fraud estimate for 2009-10 of £14 billion.

## Annex 2 - Customer segmentation: the journey towards Universal Credit

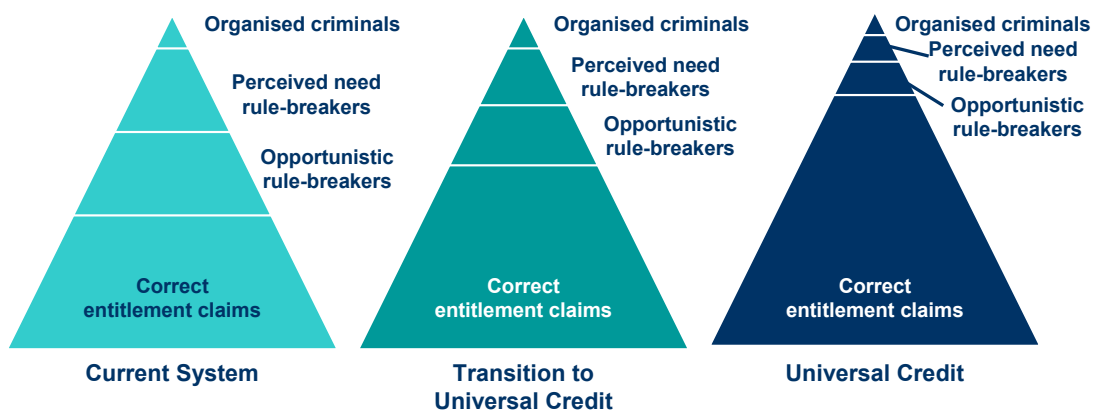
One of the goals of the DWP and HMRC joint welfare fraud and error strategy is to change claimant behaviour so that minimal levels of incorrectness can be achieved and maintained. DWP and HMRC have a good understanding of welfare claimants' attitudes and behaviours and this will be built on to influence compliance through the transition to the new system.

Activity will continue to focus on the majority of rule breakers that cost the most in fraudulent overpayments. They are broadly categorised as claimants who will commit fraud when they see the opportunity and claimants driven by economic reasons and perceived financial need to commit fraud.

Opportunistic Rule-Breaking can thrive in complex systems and it is reinforced by a misguided belief that there will be weak punishment when fraud is detected. A simpler system with Universal Credit and stronger sanctions attached to cases of fraud will deter this group from attempting or continuing false claims.

Perceived Financial Need is another driver for Rule-Breakers. The strongest motivation to change this attitude is high likelihood of financial penalties. The Single Fraud Investigation Service will increase the likelihood that they are caught and face a strong set of sanctions. The financial incentive is removed as financial penalties become an almost certain outcome to fraudulent claims.

The Universal Credit transition and the increasing intensity of our fraud prevention and detection activity will reduce the number of Rule-Breakers to minimal levels. At the same time we will relentlessly pursue organised criminals using information and data across from government and the private sector to reduce the space between organisational boundaries where it is possible for them to go undetected.





Published by the Fraud, Error and Debt Team

Publication date: 6 February 2012

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