

# **Fraud, Error and other Incorrectness in Disability Living Allowance**

**The Results of the Benefit Review of Disability Living Allowance**

---

**DWP** Department for  
Work and Pensions

**INFORMATION DIRECTORATE**

© Crown copyright 2005

**1-84388-596-4**

---

# **Fraud, Error and other Incorrectness in Disability Living Allowance**

**The Results of the Benefit Review of Disability Living Allowance**

---

Contact point for enquiries:

Charlotte Cheung

Fraud and Error Measurement  
Information Directorate  
Adelphi, 1-11 John Adam Street  
London  
WC2N 6HT

Telephone: STD 020 7962 8640

Email: [charlotte.cheung@dwp.gsi.gov.uk](mailto:charlotte.cheung@dwp.gsi.gov.uk)

## Table of Contents

<b>Summary .....</b>	<b>2</b>
<b>Chapter 1 Introduction.....</b>	<b>3</b>
Structure of the report.....	3
<b>Chapter 2 Review and Calculation Methodology .....</b>	<b>4</b>
Sample.....	4
Exclusions.....	4
Review methodology.....	4
Calculation methodology.....	5
Confidence Intervals .....	6
<b>Chapter 3 Classification of outcomes .....</b>	<b>7</b>
Benefit Correct.....	7
Official Error .....	7
Fraud .....	7
Change in Customer Circumstances .....	7
<b>Chapter 4 Analysis and Results.....</b>	<b>9</b>
Overpayments.....	9
Underpayments.....	10
Change in customer circumstances – no payment error.....	11
<b>Chapter 5 Change in Customer Circumstances .....</b>	<b>12</b>
<b>Chapter 6 Comparison with the previous DLA exercise.....</b>	<b>14</b>
Appeals and reconsiderations.....	14
Categorisations of fraud.....	14
Underpayments.....	15
<b>Annex A : Overview of the benefit .....</b>	<b>16</b>
<b>Annex B : What is measured in these results.....</b>	<b>18</b>

## Summary

This report contains estimates of the amounts overpaid and underpaid in Disability Living Allowance as a result of fraud, error and other sources of incorrectness.

The estimates are based on an exercise which took a random sample of 1200 claims and established the correct entitlement of each.

We estimate that in the year 2004/05 some £730 million was overpaid on Disability Living Allowance, corresponding to 9.1% of expenditure.

The equivalent estimate for underpayments is £200 million, representing 2.5% of expenditure.

The report breaks overpayments down into three categories: Fraud, Change in Customer Circumstances and Official Error. A large majority of overpayments are categorized as Change in Customer Circumstances.

Many of the overpayments in this category occur when customers' conditions have changed gradually, and it is not reasonable to expect them to know at what point the change would affect entitlement and should be reported. Such cases are not treated as "customer error" which is the normal designation on non-disability benefits for the non-fraudulent omission to report changes in circumstances.

Since the results are based on a sample rather than an examination of all claims, the estimates are subject to sampling error. The margins of error have been quantified and are shown in the report.

# Chapter 1 Introduction

- 1.1 This report presents the results of the Review of Disability Living Allowance (DLA) carried out in 2004 to estimate the level of overpayments and underpayments present in DLA due to fraud, error and other sources of incorrectness.
- 1.2 The report contains estimates of the amount of money over- and underpaid due to incorrectness in DLA entitlement along with the percentage of the caseload affected for the year 2004/05.
- 1.3 To complement the continuous measurement exercises already in place for Income Support, Jobseeker's Allowance and Housing Benefit and improve our information on the level of fraud and error across the benefit system the Department conducts individual 'snapshot' reviews of particular benefits (known as National Benefit Reviews) from time to time. The position in DLA was last reviewed in 1996.
- 1.4 The results are based on a random sample of 1200 customers in receipt of DLA in Great Britain (excluding Northern Ireland) who were subject to the full review process in the summer of 2004.

## Structure of the report

- 1.5 In the main report, the following chapters appear after the introduction:
  - Chapter 2 explains the full review process used in the measurement exercise.
  - Chapter 3 explains how the sample was drawn and gives details on how exclusions and outstanding results were treated.
  - Chapter 4 describes how cases are classified as fraud, change in customer circumstances or official error.
  - Chapter 5 provides the results of the amount of money over- and underpaid and the percentage of the caseload associated with the overpayments and underpayments.
  - Chapter 6 describes the "Change in customer circumstances" category.
  - Chapter 7 discusses the 1996 review into DLA over- and underpayments.
- 1.6 A set of annexes provide supplementary information on the results.
  - Annex 1 contains a brief overview of the benefit DLA.
  - Annex 2 provides further information on the nature of the incorrectness covered in this report.

# Chapter 2 Review and Calculation Methodology

## Sample

- 2.1 The Benefit Review covered customers being paid DLA by the Department for Work and Pensions. Northern Ireland DLA claimants, paid by the Social Security Agency in Northern Ireland were not included in the review.
- 2.2 A sample of 1200 DLA customers were subject to the full review process described below. The fieldwork was conducted in the summer of 2004.
- 2.3 The sample was spread across 33 geographical areas with the same boundaries as Jobcentre plus districts. Three areas were included from each of the 11 Government Office Regions (GORs). This approach was taken in order to ensure a wide and reasonably even geographical coverage. Within each GOR, the three areas were randomly selected from all areas within the GOR and reviews were then carried out on a simple random sample of customers from each area. The number of customers reviewed in each area varied from 30 to 45, depending on the caseload of the area they were selected from.

## Exclusions

- 2.4 There were a number of systematic exclusions from the sampling frame. The three categories of cases not in the sampling frame were:
  - Terminally ill cases (as the customer's circumstances were seen as being too sensitive for a review to be appropriate);
  - Cases known to be abroad; and
  - DLA cases less than 4 month old (because of the time lag between selecting the cases and completing the review).
- 2.5 The percentage of DLA customers that were excluded for such reasons is estimated to be less than 2% of the liveload. Although these cases were excluded from the sampling frame they are allowed for in the calculations using the assumption that they have the same fraud and error rate as the rest of the population. The national estimates therefore cover the entire DLA liveload.

## Review methodology

- 2.6 Pen picture checks on the sample cases were conducted prior to visits taking place to identify administrative errors. Administrative errors, which are a subset of "official error" are where the decision has been made correctly but input into the system incorrectly.

- 2.7 If an administrative error was identified on the case, the case was corrected immediately for legal reasons. As correction of the customer's benefit prior to a Review Officer (RO) check makes it difficult to establish customer fraud and error properly, administrative error cases were not subject to a Review Officer check. Ten administrative error cases were identified and in our calculations these cases were treated as having the same probability of customer fraud and error as cases subject to a Review Officer check.
- 2.8 Between two and four Review Officers were assigned to each of the GOR sample areas to visit customers. The ROs were given technical training on DLA prior to the reviews in order to follow the specially designed questionnaire and thus minimise any variation between the ability of different ROs to collect the necessary information on each case.
- 2.9 After the Review Officer check was completed, ROs provided a team of Decision Makers with any information or observations that suggested to them that there were unreported circumstances, or changes to the customer's medical condition.
- 2.10 Decision Makers (DMs) then performed an official error check on each case, looked at the questionnaire and any information provided by the ROs and requested further evidence, usually medical, if required. They then revised the award if appropriate and notified the customer. All cases were then passed to the central team at Internal Assurance Services Performance Measurement (IAS-PM) to classify the outcome based on the DM decision and further information obtained by DMs or Counter Fraud Investigation Service (C-FIS).
- 2.11 If customers felt that the decision had been made incorrectly they could ask for their case to be reconsidered or appeal against the decision.
- 2.12 At the appeal stage the customers may present additional information (which was not necessarily available at the review stage) or present their needs in an alternative way, which could lead to a new DLA decision being awarded or the original review decision being overturned. Because the rate of new decisions awarded at appeal or original decisions being overturned at appeal is relatively high compared to other benefits, the original review decisions have been adjusted to take into account the results of appeals and reconsiderations. In this way the results reflect what would be likely to happen to DLA expenditure if all cases were reviewed.

### **Calculation methodology**

- 2.13 There were a number of cases which were checked for official error but were not subject to a Review Officer check. These cases were administrative error cases, which were identified at the pen picture stage, and also customers who were in hospital throughout the visiting period. Cases where the customer was in hospital throughout the visiting period had the official error check performed on them but were replaced in the full sample by alternative cases.
- 2.14 In total there were 16 hospital cases and 10 administrative error cases in the sample.

- 2.15 Rather than exclude administrative error and hospital cases from the calculation, these cases were assumed in our calculations to be similar to the liveload in terms of fraud rates or their likelihood to have a change in their circumstances.
- 2.16 At the time this report was prepared, 11 of the customers appealing against the decision to reduce or remove their benefit were still awaiting the results of their appeal. It has been assumed that cases without an appeal result are similar to those with an appeal result. The appeal decisions for these cases have been simulated using the frequency of outcomes from similar cases where the appeals have been heard.

### **Confidence Intervals**

- 2.17 The sample has been taken as being representative of all DLA cases to produce national central estimates. Because the results are derived from a sample of claims, rather than of all claims, however, they are subject to statistical uncertainties. These uncertainties have been quantified and are presented in the results as 95% confidence limits. These define the range within which we can be 95% certain that the true value of the statistic in question lies.

## Chapter 3 Classification of outcomes

- 3.1 A central team classified each case into one of four categories based on the evidence provided by the ROs and further evidence obtained by Decision Makers.

### **Benefit Correct**

- 3.2 This category comprises all cases where the existing award is correct and there are no unreported relevant changes of circumstances or official error.

### **Official Error**

- 3.3 Cases where benefit was found to be incorrect as a result of action or inaction by officials are classified as official error.

### **Fraud**

- 3.4 These are cases where:
- the Decision Maker's decision results in an overpayment; and
  - there is evidence, by admission or 3rd party verification, that the customer could reasonably have been expected to know either that they had provided incorrect information at the start, or something had changed in their circumstances that they should have informed the Department about; and
  - there is a probability of intent to defraud on the customer's part.
- 3.5 If cases meet these criteria they are included in that category irrespective of whether any subsequent action leads to prosecution.

### **Change in Customer Circumstances**

- 3.6 Cases in this category had their DLA award changed at the time of the review for one of the following reasons:
- A) Incorrect information has been identified at the review which was accidentally supplied at some point during the claim.
  - B) A change in the customer's circumstances occurred on an identifiable past date which they neglected to report to the Department, but there was no intention to defraud on the customer's part.
  - C) A change in the customer's circumstances or condition has occurred gradually where we might expect one of the following:
    - i) The customer to reasonably know to inform the department because the gradual changes have now resulted in a significant change from their original needs.

- ii) The change in customer's needs to have been so gradual that it would be unreasonable to expect them to know at which point their entitlement to DLA might change.
- 3.7 The first two subcategories (A and B) above will result in a recoverable overpayment.
- 3.8 Cases in the third subcategory (C) above, however, are very unlikely to result in a recoverable overpayment. This is because we cannot quantify or define when the customer's change occurred. Because DLA law requires the Secretary of State to prove that entitlement to DLA is incorrect, rather than requiring the customer to inform us that their needs have changed, cases in this subcategory are technically legally correct, but reassessed after review activity.
- 3.9 It is not possible to categorise "change in customer circumstances" into the conventional "Customer Error" category used in other reviews. This is because of the difficulty in objectively classifying cases in the third subcategory into cases where we would or would not reasonably expect the customer to inform us of gradual changes in their needs.
- 3.10 Chapter 5 contains a more detailed consideration of this category.

## Chapter 4 Analysis and Results

- 4.1 This chapter presents the estimates for DLA fraud, change in customer circumstances and error that have been derived from the results from the sample reviews. The review results used take into account reconsiderations and appeals.
- 4.2 These results have also been adjusted to take into account the potential outcomes of outstanding appeals and the missing Review Officer check on administrative error and hospital cases.
- 4.3 The results have been grossed up to be nationally representative of the DLA liveload in the financial year 2004/05.
- 4.4 Figures for incorrect cases indicate the number incorrect at any one time, averaged over the year. They do not relate to the total number of individuals who received an incorrect payment during the year.
- 4.5 Monetary amounts have been rounded to the nearest £10 million, percentages have been rounded to the nearest 0.1% and numbers of cases to the nearest ten thousand. Because of this rounding, breakdowns of figures may not always sum to the total.

### Overpayments

- 4.6 The national estimates for the amount of money incorrectly paid and the proportion of incorrect cases are given in the following tables. The 95% confidence intervals associated with the central estimates are given in brackets.

**Table 1: Overpayments - Annual Monetary Value**

	Amount of money overpaid (£m)		% benefit overpaid	
Fraud	£40m	(£0m - £100m)	0.5%	(0.0% - 1.2%)
Change in Customer Circumstances	£630m	(£480m - £800m)	7.8%	(5.9% - 9.9%)
Official Error	£60m	(£20m - £110m)	0.8%	(0.3% - 1.4%)
Total Overpayments	£730m	(£570m - £920m)	9.1%	(7.1% - 11.3%)

**Table 2: Overpayments- cases**

	% of cases overpaid		Number of cases overpaid (thousands)	
Fraud	0.4%	(0.0% - 0.9%)	10	(0 – 20)
Change in Customer Circumstances	11.2%	(8.6% - 13.7%)	300	(230 - 360)
Official Error	1.3%	(0.6% - 2.1%)	30	(20 – 60)
Total Overpayments	12.8%	(10.2% - 15.5%)	340	(270 - 410)

## Underpayments

4.7 The national estimates for underpayments, rounded to the nearest £10M, due to changes in customer circumstances and official error are given in the following tables. The 95% confidence intervals associated with the central estimates are given in brackets.

**Table 3: All underpayments - Annual Monetary Value**

	Amount of money underpaid (£m)		% benefit underpaid	
Change in Customer Circumstances	£190m	(£130m - £260m)	2.4%	(1.6% - 3.2%)
Official Error	£10m	(£0m - £30m)	0.1%	(0.0% - 0.3%)
Total Underpayments	£200m	(£140m - £270m)	2.5%	(1.7% - 3.3%)

**Table 4: All underpayments- cases**

	% of cases underpaid		Number of cases underpaid (thousands)	
Change in Customer Circumstances	6.3%	(4.4% - 8.4%)	170	(120 - 220)
Official Error	0.3%	(0.0% - 0.7%)	10	(0 – 20)
Total Underpayments	6.6%	(4.6% - 8.9%)	170	(120 - 240)

## Change in customer circumstances – no payment error

- 4.8 Additionally, there were a number of cases which were incorrect due to a change in customer circumstances that did not result in an over- or underpayment.
- 4.9 These occurred when a customer's entitlement to the care component of DLA was incorrect, but the payment of the care component had been suspended prior to the review because the customer was in hospital or a care home. After the review the customer's care component entitlement was changed. However it remained suspended and so no payment error occurred.
- 4.10 The estimated number of cases is given in the table below. The 95% confidence intervals associated with the central estimates are given in brackets.

**Table 5: National level of change in customer circumstances with no payment error- proportion**

	% of cases		Number of cases (thousands)	
Change in Customer Circumstances	0.6%	(0.1% - 1.2%)	10	(0 – 30)

## Chapter 5 Change in Customer Circumstances

- 5.1 Normally incorrectness in benefit payments can be divided into three categories: fraud, customer error, and official error. In this review we report fraud and official error in the usual way. However the third category of incorrectness has been called “change of customer circumstances” (defined in 0) rather than “customer error”. This chapter explains why, and provides further information on this category.
- 5.2 In most benefits, a non-fraudulent failure to report changes of circumstances which affect benefit entitlement is a clear customer error. Typically the changes of circumstances involve a clear change in financial or personal circumstances.
- 5.3 In DLA there are some clear changes which the customer should report, for example hospitalization. However many of the changes are gradual improvements or deteriorations in medical condition and it is difficult for customers to know at what point their needs have changed to the extent that their entitlement to benefit is affected. In recognition of this, legislation provides that when a case is reassessed and benefit is reduced the Department will only raise and seek to recover an overpayment when it is reasonable for the customer to have realised they ought to have reported the change. In other cases the benefit will be treated as correct up to the point of reassessment.
- 5.4 Even though such cases are legally correct at the time of review, the amount of award in payment is still different from the technically correct entitlement. These differences are therefore included in this report as overpayments and underpayments. However the term “customer error” does not describe them accurately.
- 5.5 Ideally we would report separately the two categories of overpayments depending on whether or not it was reasonable for the customer to know the change should be reported. However the “reasonableness” element makes the two categories very hard to distinguish objectively.
- 5.6 For this reason a single category was used and the name “change in customer circumstances” was considered the best description. Note however that in a small number of cases, the incorrectness arises from a misstatement by the customer rather than an unreported change.
- 5.7 Although it is not possible to split this category into the two types described above, there is one subset of overpayments which are clearly customer error. This is the group of overpayments where a debt was raised on the case representing the accumulated overpayments since a date of change. These are the errors which fall in the category A and B classifications of paragraph 3.6. The estimated overpayment in these cases was £50m, out of the total £630m in the change in customer circumstances category.
- 5.8 The remaining £580m of overpayments is associated with cases where no debt was raised. This will include some cases where the customer was at fault but no date of change can be established, and some cases where it would not have been reasonable to expect the customer to know the change should be reported.

- 5.9 Since the legislation mentioned above only addresses overpayments, underpayments in this category could technically all be classed as customer error. In practice however customers will often have similar difficulties to those described above in recognizing when a change in condition would lead to entitlement to a higher award.

## Chapter 6 Comparison with the previous DLA exercise

- 6.1 The last review on DLA was carried out in 1996. It reported a figure of £499 million for fraud overpayments and very low figures (a total of less than £15m) for customer error and official error overpayments.
- 6.2 Although the current review and the review in 1996 both set out to measure fraud and incorrectness in DLA the results are not comparable. It is therefore not possible to draw conclusions about the trend in overpayments since 1996.
- 6.3 There are two main reasons for the non-comparability of review results. Firstly the results from the current review have been adjusted to take into account the outcome of any appeals or reconsiderations to the original review decision. Secondly the categorisations of fraud and error have been revised since 1996.

### Appeals and reconsiderations

- 6.4 As described in 0, the results of this review have taken into consideration the outcomes of appeals and reconsiderations which the review in 1996 did not. Because of this, the 1996 results are likely to have overstated the amount of fraud and error estimated in this report preventing comparability between the two reviews.

### Categorisations of fraud

- 6.5 In addition to the outcomes of appeals and reconsiderations being taken into account the definition of fraud between the reviews has been amended. This is likely to be one of the main reasons why the fraud figure is so much lower in this report.
- 6.6 In 1996, the headline figures presented included an estimate for expenditure overpaid in the national caseload where the DLA review process would confirm the presence of fraud, and also estimates for expenditure paid to cases in the caseload that the review process would suspect but not prove of being overpaid fraudulently. The confirmed and suspected fraud cases were broken down as follows:

#### **Confirmed fraud**

**Suspected fraud** Level 1: Mild suspicion that fraud exists but no proof.

**Suspected fraud** Level 2: Suspicion that fraud exists but no proof.

**Suspected fraud** Level 3: Strong suspicion that fraud exists but no proof.

**Suspected fraud** Level 4: Certain that a fraudulent situation has been discovered but insufficient information to establish the fraud.

- 6.7 The final figure for fraud in 1996 (£499m) was calculated by adding together the estimate relating to the confirmed fraud cases in the sample and the estimates relating to the cases with suspicion levels 3 and 4.
- 6.8 A figure for low suspicion fraud in 1996 was also given (£140m). However this estimate included cases where fraud or error was suspected but there was no change in the customer's benefit.
- 6.9 This categorisation of cases is now considered to be subjective as it required the interviewing officer to classify cases into different levels of suspected fraud where there was no supporting evidence to do so.
- 6.10 The definition of fraud in this current review is considered to be less subjective. This is because the fraud category contains only cases where there is evidence, by admission or 3rd party verification, that the customer could reasonably have been expected to know either that they had provided incorrect information at the start, or something had changed in their circumstances that they should have informed the Department about.
- 6.11 The confirmed fraud category in the 1996 review is similar to the standard definition of fraud used in this review. However, because of adjustments for appeal results in this review the results are not directly comparable.
- 6.12 The monetary amounts associated with the low level suspected fraud are not comparable to any monetary value estimated from this review. This is because this review only considers cases as incorrect if there has been a change to the amount of customer benefit.

## **Underpayments**

- 6.13 There are fewer differences in methodology between the two reviews for underpayments. The 1996 exercise reported underpayments of £245 million. For 2004/05 we estimate that underpayments amount to £200m. Expenditure has almost doubled since the earlier exercise, and this suggests that there has been a reduction in underpayments as a proportion of expenditure.

# Annex A: Overview of the benefit

## Background

- A.1 Disability Living Allowance is a non-contributory benefit payable to people who because of illness/disability need personal and/or mobility help and claim before their 65th birthday.
- A.2 The need for help with personal care or getting around must have existed for three months and must be expected to exist for at least a further six months. Customers who are terminally ill do not have to satisfy this qualifying period. Awards may be for a limited period or for an indefinite period.
- A.3 Disability Living Allowance has two components to help customers with the extra costs which arise as a result of their illness or disability and the help that they need.
- A.4 The rate payable depends on how much care a customer needs (care component) and the amount of difficulty a customer has in getting around outdoors (mobility component).

## Care component

- A.5 The care component is for customers who need help with personal care. There are three rates depending on the amount of care a customer needs.
- A.6 The highest rate is payable if a customer needs help both day and night.
- A.7 The middle rate is payable if a customer needs help during the day or night.
- A.8 The lowest rate is payable if a customer needs some help during some of the day (but less than the middle rate), or, if age 16 or over, is unable to prepare a cooked main meal for themselves if they had the ingredients.
- A.9 Terminally ill customers (i.e. customers who have a life expectancy of less than six months) will qualify for the highest rate of the care component straight away without the need to serve a qualifying period and regardless of any care needs they may have.

## Mobility component

- A.10 The higher-rate mobility component is payable if a customer:-
- cannot walk at all; or
  - is virtually unable to walk; or
  - has had both legs amputated at or above the ankle, or was born without legs or feet; or
  - is both deaf and blind and needs someone with them when outdoors;
  - is severely mentally impaired with severe behavioural problems and is receiving the highest rate of care component; or
  - would, by making the effort required to walk, endanger their life or cause deterioration in their health.

A.11 The lower rate is payable if a customer can walk but needs someone with them to provide guidance or supervision for most of the time when they are outdoors or on unfamiliar routes.

### Other rules

A.12 If the customer goes into a NHS hospital or similar institution, Disability Living Allowance will stop after 28 days (84 days for a child under 16).

A.13 If the customer goes into a care home where all or part of the funding is provided by a local authority or government department, the care component of Disability Living Allowance will stop after 28 days.

### Facts and figures

A.14 The following information relates to the year April 2004 to March 2005, during which this review was conducted.

A.15 In February 2005, 2.7 million people were in receipt of Disability Living Allowance.

A.16 The weekly amounts payable to DLA recipients were as follows:

<b>Rates of Disability Living Allowance</b>	
Effective from 12 April 2004 to 10 April 2005	
<b>Care Component</b>	
£58.80	Highest rate
£39.35	Middle rate
£15.55	Lowest rate
<b>Mobility Component</b>	
£41.05	Higher rate
£15.55	Lower rate

## **Annex B: What is measured in these results**

- B.1 This annex provides further information on the nature of the incorrectness covered in this report, and is intended to assist with interpretation of the results.
- B.2 Fraud is by its nature a covert activity, and it is possible that some frauds on sample cases will not have been uncovered. In addition, there are cases where fraud was suspected but not proven and benefit remained unchanged.
- B.3 The figures given in this report take no account of Instrument of Payment (IOP) fraud, for example the cashing of Giro's reported as stolen.
- B.4 Only some of the total benefit estimated to be overpaid is discovered by the Department, but where it is, some is recovered and therefore not ultimately lost. Overpayment recoveries are not included in these estimates.
- B.5 The benefit reviews which provide data for this report do not quantify behavioural effects, but simply report the money incorrectly paid out at the time of the review. As a result of overpayments being uncovered, claimants may claim other benefits, either as well as or instead of the benefit under consideration. The results in this report do not include the impact from such consequential behavioural effects. This is a further reason, in addition to the recovery issue explained in the previous paragraph, why care must be taken in interpreting the estimates of overpayments as losses in expenditure terms.
- B.6 The review only measured the incorrectness in DLA. Overpayments or underpayments in DLA may lead to incorrectness on other benefits the customer is claiming such as Income Support, but these additional impacts are not reported here.
- B.7 The methodology, which examines cases in payment, does not capture underpayments due to an incorrect decision being made that the claimant was not entitled to benefit. An example of this is where a claimant applies for a benefit and the application is refused incorrectly.



© Crown copyright 2005

ISBN 1-84388-596-4