House of Commons
Work and Pensions Committee

Fraud and error in the benefits system: Government Response to the Committee's Sixth Report of Session 2013–14

Third Special Report of Session 2014–15

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The Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Work and Pensions and its associated public bodies.

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The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/workpencom. A list of Reports of the Committee in the present Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are Carol Oxborough (Clerk), Katy Gray (Second Clerk), Gary Calder (Committee Media Adviser), James Clarke (Committee Specialist), Emma Sawyer (Senior Committee Assistant), Siobhan Clifford (Web and Publications Assistant), and Nathan Hug (Committee Support Assistant)

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Third Special Report

On 15 May 2014 the Work and Pensions Committee published its Sixth Report of Session 2013–14, *Fraud and error in the benefits system* (HC 1082). We have now received the Government’s Response to the Report. It is reproduced as Appendix 1 to this Special Report. A letter dated 29 May 2014 from Lord Freud, Minister for Welfare Reform, to the Chair of the Work and Pensions Committee, is reproduced as Appendix 2 to this Special Report.

In the Government Response, the Committee’s recommendations are shown in bold italic text. The Government’s response is in plain text.

Appendix 1

Introduction

The Government welcomes the Committee’s Sixth Report of Session 2013–14 which considered fraud and error within the benefit system. The level of fraud and error is lower than before the start of the Parliament and both the Department for Work and Pensions (DWP) and Her Majesty’s Revenue and Customs (HMRC) are fully committed to reducing it further as part of the Government’s long-term economic plan.

The DWP has a strategic target to reduce overpayments due to fraud and error to no more than 1.7% of Annually Managed Expenditure (AME) spend by March 2015. This was set out in the joint DWP and HMRC strategy on tackling fraud and error in the benefits and tax credits system published in October 2010. We remain committed to doing all we can to meet this target and are working across Government and with local government to deliver initiatives that will contribute to further reductions in fraud and error as well as exploring any additional opportunities.

The Department is delivering key capabilities to allow us to meet our strategic commitments, including fully supporting the introduction of Universal Credit.

The 2013–14 initial estimates show that fraud and error within DWP benefits stands at £3.3 billion or 2% of overall welfare expenditure. Benefit fraud is at 0.7% of welfare expenditure, claimant error overpayments have fallen to 0.9% of spending and official error overpayments have dropped to their lowest rate of 0.4% of benefit expenditure.

The DWP and Local Authorities (LAs) recovered around £940 million in 2013–14 that had been overpaid due to benefit fraud and error across Great Britain, an increase of £100 million over the last two years.

HMRC decreased the rate of tax credits error and fraud from 7.3% in 2011–12 to 7.0% in 2012–13 and it is now at its lowest level since tax credits were introduced in 2003. HMRC is on track to reduce it further towards 5.5% by 2014–15.
Separating reporting of fraud and error statistics

Whilst we understand that making a distinction between claimant error and fraud is not always straightforward, we believe DWP could be clearer about the official estimated level of benefit fraud. We therefore recommend that DWP publish, on separate days, discrete statistical summaries of its estimated rates of a) fraud and b) official and claimant error in the benefit system, alongside its more detailed report, to reduce the risk of confusion or conflation of these statistics in media reporting and public perceptions about benefit fraud, and to emphasise the importance of actions to reduce error as well as fraud. (Paragraph 19)

We are keen to hear views about the presentation of our statistics and are happy to consider changes. We have a continuous improvement approach to making our Fraud and Error publication more accessible and relevant to users, recently adding infographics, an example of which is shown below.

DWP already separate out fraud from claimant error and official error within the National Statistics release. On 15 May 2014, DWP Press Office released via Twitter the following “Infobite” that clearly sets the three types of loss to the benefit system apart, with clear definitions.¹

![Infographic of Overpayments in the Benefit system]

Fraud and error are presented together because they are an estimate of the monetary amount lost to the benefit system, which is a requirement of the Annual Report and Accounts, as examined by the National Audit Office.

We agree that evidence suggests public perceptions of fraud in the benefit system do not reflect the situation. However, it is clear that this notion is not based on the national statistics, whether fraud, error or the total. Therefore we do not believe that changing the national statistics would have the desired effect on public understanding. Maintaining the link between them allows context to be drawn i.e. that fraud is substantially lower than error.

¹ This “Infobite”, plus others appears alongside our publication and can be accessed on the Internet.
Any substantial change to the calculation of the estimates would be likely to undermine confidence in the accuracy of the statistics. As DWP are currently working towards a target to reduce fraud and error by 2014–15, no change could be considered until after the 2014–15 publication as we need to keep the same measure to check against our target.

We are, however, considering a redrafting of the current publication: our 150 page document is unwieldy for our stakeholders. The base data, methodology and content would remain the same; the format of presentation (e.g. within a document or part of the supplementary tables and charts) is what is under consideration to ensure focus on key messages.

As part of this redraft, we will pay particular attention to ways in which we can reduce the risk of conflation between fraud and error, to meet the aim of the Committee’s recommendation.

**Communication with claimants**

*We recommend that, wherever feasible, DWP introduce updated claimant letters, using plain English, for its existing benefits, drawing on its learning from the development of Universal Credit communications. (Paragraph 24)*

We recognise the importance of high quality communications and the need to improve our letters to ensure these are written in plain English, are understood by our claimants and importantly drive the required claimant behaviours. As a result we have centralised the development of claimant communications into one team within our operational business.

The development and improvement of claimant communications will be done following a standard operating model which ensures claimant and behavioural insight are central to the production of content for our communications, whether that be a letter, form, text message or email.

Communications and behavioural insight experts within DWP’s Claimant Communications Unit have worked with academic and industry experts to develop new core standards for claimant communications. The improvement of our products will be aligned to these clear standards which ensure we provide clear and simple explanations to claimants. The Unit is working closely with operational colleagues to transform the clarity and effectiveness of our claimant communications.

We are developing an improvement plan to ensure we prioritise and target improvement activity at those products which are causing the most issues both to our customers and from a business efficiency point of view. To enable us to do this we are using our performance data and speech analytics to pin point those letters which claimants have to call for an explanation about. We will also be establishing feedback loops with claimants, operational staff and stakeholder organisations.
We also recommend that DWP give special consideration to the clarity of claimant letters in relation to Employment and Support Allowance, which will be the last of the current benefits into fully transfer to Universal Credit. (Paragraph 24)

An early priority for the Claimant Communications Unit is the improvement of ESA communications. This is on the back of the recent Litchfield recommendations which highlighted the need for improved products using behavioural insight to ensure we drive positive claimant behaviour.

Housing Benefit, Universal Credit and the role of local authorities

We welcome the introduction of the Automated Transfer to Local Authority Systems (ATLAS). We recommend that DWP and appropriate representatives from local government conduct a joint review of ATLAS, including the level of resource needed to analyse ATLAS data, with a view to enabling local authorities to access the DWP data they need to verify Housing Benefit claims more easily. This review should be conducted and improvements implemented before the end of 2014. (Paragraph 37)

The Department works continuously with LAs and across Government to explore ways of improving the administration of Housing Benefit (HB). We should not consider the Automated Transfer to Local Authority Systems in isolation as this is just one of the ways data is shared with LAs.

In addition to ATLAS, LAs receive information about changes in claimants’ circumstances direct from DWP legacy systems through a system known as Electronic Transfer of Data (ETDs). LAs also receive information at the point of claim through the Local Authority Input Document (LAIDs) and Local Authority Claim Information (LACIs). Subject to a range of controls designed to safeguard customer data, only authorised LA staff are able to access the Department’s Customer Information System (CIS) to see information held by the Department.

Currently the ATLAS and ETD notifications do contain a lot of duplicate information. This is because the data is drawn from different sources within DWP (ATLAS draws its data from CIS, while ETDs draw data direct from DWP legacy systems). CIS does not contain all the data LAs need for HB purposes, neither do the DWP legacy systems; drawing data from both sources gives LAs access to the full range of data available to DWP. Removing the duplication that exists between the ATLAS and ETD notifications would be a significant improvement for LAs and DWP has a project in place as part of the Local Authority Data Sharing programme that is aiming to achieve this before the end of 2014.

In addition to this project the Department, in a direct response to the Select Committee’s Report, has work in hand to develop and deliver an improvement plan for ATLAS to build on and complement existing improvement activity. This will specifically explore how challenges to performance improvement can be addressed and how the existing arrangements can be optimised. This activity, which will be undertaken across DWP and will involve local government, is due to reach an initial view by August 2014.

It is in everyone’s interests that LAs make the best possible use of all the data available to them for the assessment of HB claims. Where individual LAs are experiencing particular performance issues the Department has a small team of specialist consultants who will, at
no cost to the LA, review processes with them and suggest where improvements can be made. These reviews will often include the consideration of the arrangements for handling ATLAS notifications. In the past year this team has worked with 43 LAs and has previously run specific ATLAS workshops involving representatives from over 35 LAs.

The Department also encourages the sharing of good practice in a wide variety of ways. Examples include articles in relevant newsletters and magazines and through the use of an online collaboration tool to which all LAs have access at no cost to themselves.

By utilising real-time information (RTI) on PAYE income, Universal Credit has the potential to substantially reduce incorrect benefit payments due to inaccurate or late reporting of claimants’ earnings; and it is projected to produce significant savings in Tax Credits. However, RTI cannot provide the complete solution, as it will not apply to a significant proportion of claimants who are paid outside the PAYE system, including the self-employed. Moreover, the full gains of RTI in relation to reducing benefit fraud and error are largely dependent on the successful national implementation of Universal Credit, which is at least three years away by the most optimistic schedule. We therefore welcome steps to apply RTI to existing benefits where possible and recommend that DWP and HMRC consider methods to automate this process. (Paragraph 48)

The real-time information Bulk Data Matching project will match details of claimants receiving DWP legacy benefits against HMRC RTI to identify those claimants who have either failed to declare or have under declared earnings and non-state pensions.

The initiative will initially target 300,000 of the highest value overpayments, over 200,000 of which are for HB only whilst less than 100,000 of which relate to Income Support, Jobseekers Allowance, Pension Credit, Employment and Support Allowance and Carers Allowance.

This project is expected to begin generating referrals in a number of tranches during 2014-15; the first of which is expected to be issued in August 2014. This initiative was included in the Autumn Statement and is estimated to save £114 million in AME savings during 2014–15, £15 million of which are attributed to HB.

Many of the Department’s business processes include the use of earnings information, and the validation of evidence of earnings. Access to RTI data presents an opportunity to realise significant process efficiencies and achieve a more robust validation for payment calculations. The Fraud, Error and Debt Programme has begun work to explore how RTI data can be integrated into our business processes through different IT solutions. As part of this work, the Programme has developed a Proof of Concept to test how RTI data can be used to both prevent and detect fraud and error. The learning from this will help to inform the development of a permanent capability across DWP’s products and services, which the Programme is taking forward.

**Identification verification and the Integrated Risk Intelligence Service**

We believe that in the longer term biometric identity systems could have an important role to play in identity verification processes across government. We recommend that the Government continue the Cabinet Office work to explore a government-wide system; and evaluate the benefits of biometric identity verification in the social security system and
more widely across public sector services, including by examining the effectiveness of the voice-recognition system currently used in Australia. (Paragraph 55)

DWP identified the pan-government Identity Assurance (IDA) service, being developed by the Cabinet Office, as the core of its strategic Identity Management (IDM) solution and has been working closely with the IDA Programme (IDAP). In August 2013, following engagement with DWP’s major change programmes, the Department provided IDAP with a high level outline of its requirements of an IDA service.

Our work with IDAP has continued and plans are now in place to implement a Beta test IDA with the New State Pension digital transformation programme in late 2014. This Beta testing will confirm IDA meets the needs of the digital business service for the New State Pension, before we commence further Beta testing of IDA with Universal Credit and that service’s specific requirements as well.

The IDA service addresses two distinct identity assurance requirements: Identity Verification and Identity Authentication. Identity Verification provides evidence-based assurance of the real identity of a person. Identity Authentication then allows us to confirm on subsequent occasions that we are still dealing with the same person as originally verified, however we may interact with them. There are up to four increasing Levels of Assurance indicating improving confidence in verification or strength of authentication achieved, as defined by Government standards.

For the online IDA service, both identity verification and authentication are the responsibility of private sector Identity Providers (IDPs), rather than any Government authority. Whilst these IDPs must comply with the standards for verification and authentication set by Government, they are free to determine which compliant methods or technologies they use to verify and authenticate a person’s identity.

Biometric methods are needed to support the higher levels of assurance that may be required in subsequent authentication for high risk transactions, in line with HMG guidance, as appropriate to the channel in which they are used. DWP is keen to ensure that any value that can be obtained from biometric identity verification is added to the integrity and security of its services. DWP will evaluate the potential benefit that it may be possible to obtain from biometric identity verification, and any added value which can be included in the integrity and security of its services.

Simpler and cheaper authentication methods may be more cost effective for the lower levels of identity assurance, and may be able to support more flexible cross-channel use.

DWP has a strong requirement that the Cabinet Office should lead on extending the IDA service to address authentication in the telephony channel as well as the current online channel. The telephony channel will remain important to meet the range of accessibility and support needs of our customer base, as well as for access to pan-government Assisted Digital services and for other Departmental service contingency planning.

A major problem in developing an identity management service for the telephone is how to link and bind an identity already verified by a commercial IDP to a “credential” issued or captured for a person to be automatically authenticated to a department’s own customer
services over the telephone. This “federation” mechanism is easier to achieve with current online technologies than by telephone.

DWP will continue to actively engage in support of the IDAP as they evolve the standards to reflect emerging technologies around identity assurance in all channels. Industry has an important role to play by offering insight from their experience, to help Government innovate and address the core identity “federation” requirement over the telephone channel. The Department is managing its activity based on risk, evidence and intelligence to ensure that our response is focused on the key areas of loss/risk. Within the Fraud and Error Service, an Operations Centre has been established to draw in insight, evidence and analysis, and provide recommendations and priorities for deployment of resource.

The Single Fraud Investigation Service Project

The Single Fraud Investigation Service (SFIS) is, in principle, a good idea. However it makes no sense to roll out SFIS nationally, ahead of the national implementation of Universal Credit, while local authorities retain responsibility for Housing Benefit. We recommend that the implementation of SFIS be aligned where practicable with the expansion of Universal Credit Pathfinder areas and with national implementation of Universal Credit. We further recommend that, following the summer 2014 SFIS pilots, DWP pause implementation of SFIS to enter into negotiations with local government and the relevant trade unions about a national framework for the transfer of local authority fraud investigations staff into DWP. (Paragraph 75)

[See also Appendix 2]

The SFIS project will introduce a single set of policies and procedures for all welfare benefit fraud investigations and a single line of accountability in DWP’s Fraud and Error Service (FES). This will be a more efficient and effective way of delivering investigations as, currently, criminal investigations of welfare benefit fraud are carried out by 380 local authorities, HMRC and DWP, using different approaches and often gathering duplicate information on the same fraudster.

Single Fraud Investigations will be introduced in two phases. Phase 1 goes live on 1 July 2014 in the following LA areas: Blaenau Gwent, Cardiff, Corby, Cornwall, East Ayrshire, London Borough of Hillingdon, Oldham, Southampton and Wrexham.

Phase 2 will be a gradual rollout of all remaining LA areas from 1 October 2014–31 March 2016.

Experienced LA and HMRC fraud investigators will be brought into DWP’s local fraud teams, enhancing local knowledge and expertise. This will lead to a consistent service for customers across England, Wales and Scotland and allow for flexibility between sites to better manage the peaks and troughs of work flow.

DWP believes any delays in the implementation of the SFIS project would significantly reduce the business benefits, delay any savings and would allow losses to the public purse to continue at a time when measures to tackle fraud and error in the benefit system are needed more than ever.
A delay in implementation would also lead to concern and uncertainty for the staff affected as those involved in Phase 1 have already been issued with their transfer letters and advanced discussions are taking place. The full rollout schedule has already been shared with all stakeholders.

In response to the specific recommendations of the Committee, the Project did consider aligning SFIS Implementation with UC rollout during the Option Analysis but, for the reasons given above, Programme Board agreed in November 2013 to adopt the preferred approach of implementing over an 18-month period from October 2014 to March 2016. The Project consulted extensively and sign-off was obtained from all key stakeholders. The Project has now gained approval to proceed to Phase 1 Implementation at the Operational Readiness Review on 28 May 2014.

A firebreak is built into the implementation schedule from 2 July to 30 September 2014 to allow for an evaluation of the process, including any lessons learned. This time also allows for the application of any changes to the Phase 2 process or detailed implementation plans.

SFIS Project facilitates a National Joint Forum between LA Trade Unions, Departmental Trade Unions and Local Government representatives. The Forum is working on an agreement that will ensure the protection of staff terms and conditions as they transfer to DWP in phase 1.

The Project has reviewed the report published by the Work and Pensions Select Committee and, taking into account the significant progress made on the points raised by witnesses since the Committee met in March 2014, SFIS is confident that the recommendations have already been addressed.

Therefore, the Project will continue to progress with the Implementation activity for Phase 1 and Phase 2 in line with the current schedule. This decision has been shared with the WPSC and the Project Stakeholders.

**Data Sharing**

*We welcome the various pilots that DWP and HMRC have conducted on how data held by private sector and other public bodies could be used more effectively to reduce fraud and error and we urge the Government to roll out the most successful schemes as quickly as possible. (Paragraph 88)*

The Cabinet Office has embarked on an open policy-making process with government departments, civil society organisations and experts to develop joint policy proposals on sharing data across government. This includes data sharing for the prevention, detection, investigation and pursuance of fraud, error and debt; with which DWP and HMRC are fully engaged. The aim of the process is to produce a robust policy paper, including proposals for any necessary legislation.

DWP has a well-established data-matching capability based on data received from HMRC in particular and the Ministry of Justice among other government bodies. This is supplemented by a regime of case cleansing based on predictive models informed by past overpayment data.
DWP has a detailed understanding of the causes of overpayment informed by our regular measurement of fraud and error, the results of which are published each six months as National Statistics. The main losses are in the means-tested benefits, where failure to declare income, capital and partners are the main concerns. Whilst DWP has long matched against HMRC PAYE P45/46/14 data, it has been clear for sometime that we need to access additional financial data to make further inroads.

**Past work with Credit Reference Agencies (CRAs)**

DWP has had three bulk-matching CRA contracts and further debt tracing and propensity to pay ones. The first bulk-matching one was with Equifax and matched against Income Support lone parents. This was extended until DWP’s joint contract with HMRC which was won by Experian and matched against all our means-tested benefits other than Housing Benefit (HB). DWP had a separate contract with Experian for matching against HB.

DWP has learned a lot from these bulk-matching contracts, including the wisdom of basing them on payment by results rather than volume. We are also looking to learn lessons from HMRC’s successful experience, which can only partly be explained by the existence of more living together loss in Tax Credits in the first place.

The position on debt has been more successful. Debt Management piloted the use of CRA data beginning March 2011. Cases were scored and information provided on propensity to repay, which enabled Debt Management to apply the appropriate strategy in terms of engaging the debtor. Overall recovery on pilot cases increased, whilst breakage rates decreased, with Advisors able to set sustainable, lasting, repayment plans.

As a result, the use of CRA data was introduced by way of business as usual. This has helped Debt Management meet recovery targets and actively manage its debt stock. More recently, Debt has commenced a proof of concept on the use of individual Credit Bureau Level data as a means of better informing individual negotiations. This work is currently on-going.

**Current activity**

DWP is running a Proof of Concept with the Audit Commission’s National Fraud Initiative. This includes a wide range of data-sets not currently available to DWP, such as public sector payroll, Student Loans, Amberhill Identity fraud, and a variety of local government licensing and housing data.

The Department has sent 1.7 million cases drawn from Income Support, Jobseekers Allowance, Pension Credit and Employment and Support Allowance to the Audit Commission which is in the process of matching it against historic data from the last exercise in 2012. We expect to get access to the referrals in June 2014 and will be selecting a controlled sample to establish whether there is a case to submit DWP data as part of the next NFI exercise in October 2014, when the data will be fresh. Any Annually Managed Expenditure savings will be associated with the 2014 exercise rather than the current Proof of Concept.
DWP is a key partner in the Cabinet Office led Counter Fraud Checking Service (CFCS) pilot. This is seeking to establish the value of sharing known fraud data across the public and private sectors, including the banking and insurance sectors.

DWP is running a Proof of Concept, exploiting Specified Anti-Fraud Organisation legislation to see if we can establish a mutual data-sharing arrangement to prevent fraud in both DWP and the financial sector.

We also recommend that DWP and HMRC explore, with the Payments Council and the banking sector, the feasibility of establishing a system which flags up potentially incorrect benefits and Tax Credit payments, using data held by payments systems operators and banks on the types of payments due to enter individual bank accounts. The system should be used to trigger further investigation of potentially anomalous benefit payments, rather than automatically reject payments. (Paragraph 88)

We are currently in discussion with the Payments Council and the banking industry to create further advances in the area of data sharing and payments.

We are hopeful that activity in the banking sector with Vocalink around their Anti Money Laundering responsibilities will be of benefit to DWP as we wish to obtain warning of account “behaviours” that are not consistent with receipt of certain DWP benefits.

This work is proceeding slowly as the banks are being cautious in their response to our request to use data in this way.
Appendix 2

Letter to the Committee Chair from Lord Freud, Minister for Welfare Reform, 29 May 2014

I am writing in response to your report, *Fraud and error in the benefits system*, published on 15 May 2014, specifically with regard to the recommendations made in connection with the Single Fraud Investigation Service (SFIS).

I would like to thank you for your time in undertaking this review and provide a response to the recommendations which I have taken time to consider carefully. A formal response to all aspects of the report will be provided to the Committee from across DWP in July 2014, but I wanted to reply in advance in respect of SFIS due to the sensitivities around the implementation timescales.

Your key recommendation suggests delaying the SFIS Implementation to align with UC rollout.

The SFIS project has undertaken a substantial amount of stakeholder engagement over the last year or so and as part of that has also considered whether we should align the two projects.

Having considered your recommendations, I believe we should continue as planned for the following reasons:

- The benefits of implementing the Single Fraud Investigation Service Project from 2014-15 are clear and in fact there are increased benefits to a “single investigation” whilst Housing Benefit exists. Implementation of SFIS will lead to a single set of processes and procedures within a nationally flexible team, leading to more efficient and effective investigations, and more consistent treatment of benefit fraud. Any delay will reduce those benefits.

- The Project already has plans to pause implementation following the rollout of the early adopters to learn lessons before embarking on Phase 2 (remaining LA areas) from October 2014 to March 2016. This will ensure that delivery plans during this period are robust and enable us to make sure that staff moving from Local Authorities into DWP do so in the smoothest possible way.

- Many of our Local Authority stakeholders had expressed concern that if the implementation was delayed there would be further staff reductions within fraud and this is a valuable trained resource which we would not want to lose.

- Any delay in implementation would lead to an extended period of concern and uncertainty for the LA staff affected.

The report also recommended that the project engage with Trade Unions and Local Government. This activity has already been implemented. The Project facilitates a National Joint Forum between LA Trade Unions (Unison, Unite and GMB), Departmental Trade Unions and Local Government representatives. All parties were consulted on the Statutory
Instrument that allows the legal transfer of staff from LAs to DWP, and the Forum is working on an agreement that will ensure the protection of staff terms and conditions as they transfer to DWP.

Taking into account the significant progress made on the points raised since the Committee met in March 2014, I am confident that the concerns raised have already been addressed. Therefore, I have advised my officials to progress with implementation activity for Phase 1 and Phase 2 of the SFIS project in line with the current schedule.