

Background Quality Report: CTC and WTC error and fraud statistics

Dimension	Assessment by the author
Introduction	<p data-bbox="501 297 919 338"><i>Context for the quality report.</i></p> <p data-bbox="501 371 1362 539">Tax credits were introduced in April 2003 replacing Working Families' Tax Credit, Disabled Person's Tax Credit and Children's Tax Credit. They are an important part of the Government's policy aims to provide adequate financial incentives to work, reduce child poverty and to increase financial support for all families.</p> <ul data-bbox="596 573 1362 909" style="list-style-type: none"> - Working Tax Credit tops up the income of families on low or moderate income subject to certain eligibility criteria being met. More information about eligibility can be found on the HMRC website. - Child Tax Credit provides support to families for the children for which they are responsible. Children are eligible up to the 31st August after their 16th birthday or until their 19th birthday if they are in full-time non-advanced education. <p data-bbox="501 943 1299 1010">Estimates of error and fraud within WTC and CTC have been produced for all years since their introduction in 2003-04.</p> <p data-bbox="501 1043 1362 1346">The estimates are based on the results of HMRC's Error and Fraud Analytical Programme (EFAP) which involves investigations by compliance officers into the circumstances, as reported at finalisation, in a stratified random sample of 4,000 tax credit awards. The results of the investigations are recorded by the compliance officers on the department's management information system and these are transferred to the analyst for quality assurance and processing. They are then grossed up to estimate the level of error and fraud in the tax credit population as a whole.</p> <p data-bbox="501 1379 1362 1514">Initial estimates are produced 14 months after the end of the award year in question and revised estimates are published 26 months later if the headline rate of error and fraud favouring the claimant changes by more than +/- 0.2 percentage points.</p> <p data-bbox="501 1547 1362 1581">Methodological details are available in Annex A of the publication.</p>
Relevance	<p data-bbox="501 1615 1362 1682"><i>The degree to which the statistical product meets user needs in both coverage and content.</i></p> <p data-bbox="501 1715 1331 1850">This publication provides headline information on the number of Working Tax Credit and Child Tax Credit awards with error and fraud and associated value of that error and fraud. It also splits this by:</p> <ul data-bbox="596 1861 1347 2020" style="list-style-type: none"> - Error or fraud; - Claimant favour error and fraud or HMRC favour error (i.e. did the claimant or HMRC benefit from the mistake); - Type of tax credit award (in-work or out-of-work and

	<p>with or without children)</p> <ul style="list-style-type: none"> - Size of error (in bands); - Size of entitlement (in bands); - Reason for error and fraud (i.e. the area of the award where the error occurred – income details, childcare details, child details, hours worked details and disability details). <p>The primary use of these estimates is for providing the department and other interested bodies, such as NAO and Parliament, with summary information on the level of error and fraud in tax credits.</p> <p>The reason for not going into further detail that may be of interest is due to running into small sample sizes, for example we cannot publish splits of the reason for error and fraud separately by error and fraud. Data for geographies at lower than the United Kingdom are also not currently published due to small sample sizes.</p> <p>The population is defined as all tax credit awards with an entitlement for the award year in question at the date the sampling frame was drawn; this includes awards with an entitlement of zero (i.e. the size of their income has tapered the value of their award to zero).</p>
Accuracy and Reliability	<p><i>The proximity between an estimate and the unknown true value.</i></p> <p>The most obvious source of error is sampling error and to account for this we publish 95% confidence intervals for the overall level and rate of error and fraud as well as for the breakdown between error and fraud. The size of the sample selected and the amount of cases completed vary from year to year and, hence, so does the size of the confidence intervals, details can be found in the publications for each of the individual years. We round the high level estimates to £10m and 10,000 cases and the lower level estimates to £5m and 5,000 cases.</p> <p>There are a number of other potential sources of error:</p> <p>i) As part of the sampling process we remove cases that are part of the SA population from our initial sample and replace them with Self-Assessment (SA) Random Enquiry (RE) cases that have entitlement to tax credits. This is the only way to ensure that the income details reported under SA are fully examined. The drawback is that we cannot get enough SA RE cases to fully replace all the tax credits SA cases that we have removed and the remainder are replaced with non-SA tax credit cases. If the SA population have different rates of error and fraud to the non-SA population then the estimates will be biased.</p> <p>ii) Cases are worked by a number of different compliance officers, and historically these have been based in different locations/offices. Whilst there is standard guidance and quality</p>

	<p>assurance arrangements in place there is always room for error; the nature of the work also means that there is often an element of judgement involved in the decision making. The impact of this on the estimates is unknown.</p> <p>iii) Not all of the SA RE cases are completed in time for our publication dates which mean that we have to use incomplete income assessments for these cases. Therefore, we are likely to be underestimating both claimant and HMRC favour error and fraud.</p> <p>iv) There are errors contained in some of the data entered on the management information systems. The analytical quality assurance process attempts to remove as much of this as possible but there will still be some remaining. The impact of this on the estimates is unknown</p> <p>v) Our initial estimates are based on an incomplete sample as some cases are still being worked when we publish due to the length of time needed to complete them. Around 15% of cases are usually outstanding at this point, although this varies from year to year (see publications for the individual years for details). We make a projection for the additional error and fraud we expect this group of cases to add to the estimate, this is based on the results of the most recently completed cases.</p> <p>vi) Our final estimate is still based on an incomplete sample because a small proportion of cases are never taken up for enquiry due to a number of reasons, for example the claimant has died (this also affects our initial estimates). It is unknown whether this group as a whole has a higher or lower than average level of error and fraud and hence what the impact of this is on the estimates.</p>
Timeliness and Punctuality	<p><i>Timeliness refers to the time gap between publication and the reference period. Punctuality refers to the gap between planned and actual publication dates.</i></p> <p>This is an annual publication. The timing of the publication is affected by the need to wait, before an enquiry can be opened, until the tax credit awards sampled have had their award finalised for the award year in question, and, the subsequent time needed to conduct a full compliance enquiry. An award year runs from 6th April to the following 5th April and most awards are finalised by the end of the following June but those containing a self-employed claimant do not have to finalise until the end of the following January. Once all the data has been received enough time has to be allowed for it to be quality assured and processed before being put into an appropriate format for publication.</p> <p>Initial estimates are published in June of the following year and, if the headline rate of error and fraud favouring the claimant changes by more than +/- 0.2 percentage points, final estimates are published the following June. So initial estimates are</p>

	<p>released 14 months after the end of the award year in question and final estimates 26 months after.</p> <p>The publication is produced to a pre-announced schedule. The 2010-11 publication was published on the pre-announced date.</p>
Accessibility and Clarity	<p><i>Accessibility is the ease with which users are able to access the data, also reflecting the format in which the data are available and the availability of supporting information. Clarity refers to the quality and sufficiency of the metadata, illustrations and accompanying advice.</i></p>
	<p>The Finalised Tax Credits publications are released through UK National Statistics publication Hub which is a gateway to all UK National Statistics. The publication is available to download from the HMRC website as a PDF. It contains details of the methodology used and contact details, either via email or the telephone, for users to contact us with queries about the statistics.</p> <p>The HMRC website conforms to a number of accessibility criteria – more information can be found on the website itself:</p> <p>HMRC Accessibility</p>
Coherence and Comparability	<p><i>Coherence is the degree to which data that are derived from different sources or methods, but refer to the same topic, are similar. Comparability is the degree to which data can be compared over time and domain.</i></p>
	<p>The data is all gathered in the same manner but is recorded on and supplied to analysts via three different management information systems. The main MIS covers the vast majority of cases but some cases cannot be recorded on there and so come from a secondary MIS that supplies less detailed information. A third MIS supplies information on all cases but is used mainly to record the distinction between fraud and error which cannot be recorded on the other two. By using all three systems plus quality assurance processes involving other departmental data it is possible to put the sample data on a coherent basis for all cases.</p> <p>There are no other estimates of error and fraud in the tax credit system, although error and fraud is often confused with overpayments, for which separate statistics are published. The reason for this confusion is that, pre-finalisation, any incorrectness in a tax credit award could end up as an in-year overpayment, an overpayment at the end of the year that crystallises into debt or error and fraud depending on when and whether either HMRC corrects the award or the claimant reports their true circumstances. Only when the incorrectness lasts past finalisation is it deemed error and fraud.</p> <p>There have been a small number of changes that have had an impact on comparability over time:</p>

	<p>i) The sample frame used in 2004-05 differed to that used in 2003-04; the impact of this change is unknown.</p> <p>ii) In 2005-06 a new sample frame was introduced which gave better coverage of the overall tax credits population of interest. Some methodological changes were also made in 2005-06 which utilised the greater information available in the new sample frame:</p> <ul style="list-style-type: none"> • Awards are now selected on the basis of the strata that they have been in for the largest proportion of the year rather than the one corresponding to the entitlement sub-period they were in at the end of the year. • The sample results are now grossed to the total of entitlement sub-periods for the population over the whole year rather than to the single entitlement sub-period present at the end of the year • We now gross up to the position of the award on each tax credit profile rather than to each strata that the award falls into (the four strata are an amalgamation of the 10 different profile positions) which gives us increased accuracy over groups with potentially differing rates of error and fraud. • We moved from grossing our sample values to the total number of awards, instead using the total amount of entitlement. <p>The impact of this change is unknown.</p> <p>iii) A new penalty regime and associated guidance was introduced in compliance on 6 April 2008 and the split of total error and fraud between error and fraud has consequently changed. Therefore, results showing the split between error and fraud prior to 2008/09 are not comparable with subsequent years. This change increased the amount of error and fraud classified as fraud.</p>
Trade-offs between Output Quality Components	<p><i>Trade-offs are the extent to which different aspects of quality are balanced against each other.</i></p> <p>Initial estimates are currently published one year ahead of the final estimates in order, given the time lags involved, to maintain their relevance to users of the statistics despite the potential for revisions. These updated final estimates are only published if the headline rate of error and fraud favouring the claimant changes by more than +/- 0.2 percentage points.</p> <p>The sample size is chosen as a trade-off between the statistical accuracy of the estimates and the cost to HMRC of running the programme. The key determinant here is to ensure that the statistical accuracy of the breakdowns used to inform operational activity within HMRC are maintained at sufficient levels.</p>
Assessment of User Needs	<p><i>The processes for finding out about users and uses, and their views on the statistical products.</i></p>

and Perceptions	<p>A formal review of our National and Official Statistics publications was held between May and August 2011. Over 130 responses were received from a broad range of users.</p> <p>A report summarising the responses received was published in May 2012, with a summary of the results presented here.</p> <p><u>User Consultations:</u></p> <p>HMRC recognises the importance of consulting on policy, legislative and operational change and has set out its approach on its website. When it is appropriate to run a formal, public, written consultation exercise, HMRC Tax Credit Statistics do so in accordance with the Cabinet Office guidelines. Informal consultation, surveys and reviews are also conducted periodically.</p>
Performance, Cost and Respondent Burden	<p><i>The effectiveness, efficiency and economy of the statistical output.</i></p> <p>There is a significant cost to the department of producing these estimates. Approximately 60 full-time equivalent staff are employed from the operational side of the business plus around a third of an analyst, the total cost is approximately £1.5m.</p> <p>In carrying out the survey compliance yield is generated and therefore an exchequer gain is also made. The underlying data is also used to help improve the efficiency of the department's compliance activity and hence increase the exchequer gain from this activity.</p> <p>No estimate has been made of the burden placed upon the respondent.</p>
Confidentiality, Transparency and Security	<p><i>The procedures and policy used to ensure sound confidentiality, security and transparent practices.</i></p> <p>HMRC records management is designed to ensure HMRC compliance with:</p> <ul style="list-style-type: none"> ▪ the Data Protection Act 1998 (DPA); ▪ the Public Records Act 1967 (PRA); ▪ the Freedom of Information Act 2000 (FOI) (in particular the Code of Practice on Records Management issued under s46 FOI which requires that public authorities have effective record-keeping arrangements in place); and ▪ HMRC's own policies for the efficient management of its information. <p>Controlled Access Folders (CAFS) are used for the working production of the Provisional Tax Credit Statistics. Housekeeping checks are performed on the folder to ensure clarity of ordering and naming conventions. Information retrieved and published is for anonymised counts.</p> <p>With regard to Confidentiality, prior to the date and time of publication, the data is classified as restricted and is only made</p>

	known to those involved in the publication process or to those who have a quality assurance or operational need; a list of individuals falling into these latter two groups is available upon request. As part of the Ministerial Submission Process, designated individuals would have access to the published version twenty-four hours before the release of the publication – a list of those persons is available on the HMRC website.
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