



Ibec submission on the DSP Control and Fraud Initiative 2014 – 2017

March 2014

7th March 2014

Ref: DSP Control and Fraud Initiative 2014 – 2017

Dear Sir,

I am writing to you on behalf of Ibec, which represents the interests of Irish business including indigenous and multinational enterprises, MNEs and SMEs, spanning all sectors of the Irish economy. Ibec and its sector associations work with government and policy makers both nationally and internationally to shape business conditions and drive economic growth.

Ibec welcomes the fact that the Department has commenced work on the formulation of a new a control and fraud initiative for the period 2014 to 2017 and that the Department is seeking to consult and obtain the views of business as part of this process. It is Ibec's position that in times of fiscal constraint initiatives such as this can help reduce costs for the state, play a role in reducing disincentives to work and make Ireland a more attractive place to do business. In the following document Ibec wishes to address three key areas where the control and fraud initiative may interact with business interests:

1. Social welfare overpayment
2. The DSP and Employers
3. The role of technology and the private sector in control and fraud

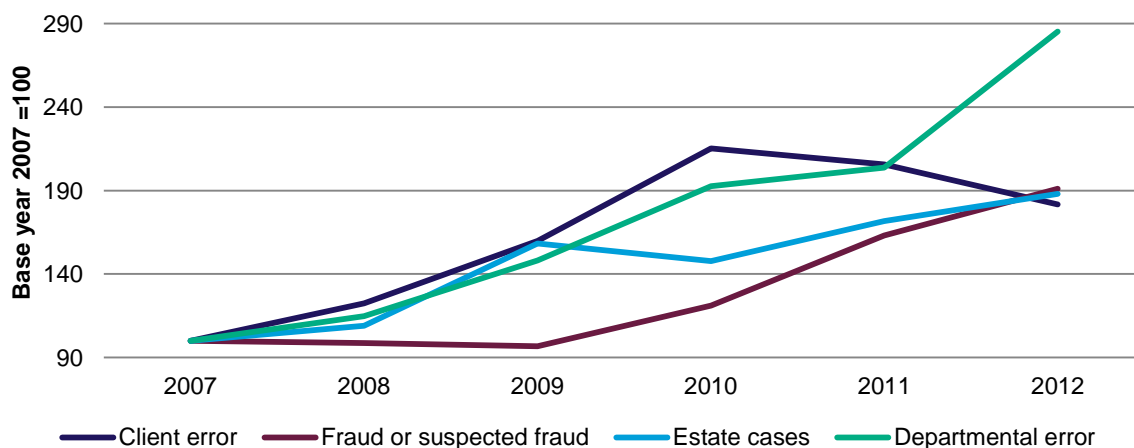
1. Social welfare overpayment

The Department of Social Protection makes income support payments to about 1.5 million people each week. Its overall budget for 2013 is approximately €20 billion. Within an organisation of this size it is clear that some overpayment will occur. According to the Comptroller and Auditor General overpayment debt outstanding from the Department of Social Protection in 2012 was €375 million. This represents an increase on €194.4 million or 62% since 2007.

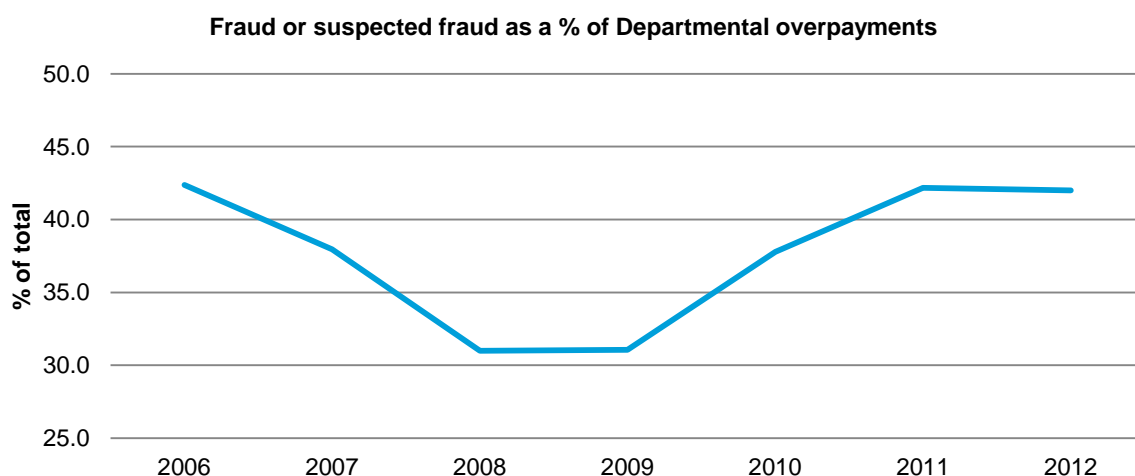
It has been notable that recovery rates have increased from 9% to 13% during the period since 2007. However, although recovery rates have increased the levels of new overpayment are growing at a faster rate than expenditure increases. The C&AG noted that from 2007 to 2012 overpayments recorded each year increased by more than 90% while welfare expenditure increased by only 25%. In value terms annual recovery has increased by €30.4 million between 2007 and 2012 while new overpayments recorded increased by €46.4 million.

When we decompose the reason for overpayments and study their change in the period for which data is available it appears that departmental error is the fastest growing of all the categories, with overpayment in this category increasing by 185% in a five year period. On the other hand client error (overpayment due to client mistake rather than fraud), estate cases and fraud or suspect fraud have risen in the region of 90% in the same period.

Index of DSP overpayments, by reason



It is important to note that, according to C&AG, error and not fraud is the principal reason for overpayments of social welfare. Fraud accounts for only 42% of overpayments by the most recent figures (2012). These figures, allied to growth figures for the different categories of overpayment, suggest that because of the increased claims on departmental resources (in volume terms) attempts to recover overpayment at the back-end are being outweighed in value terms by increases in new overpayments at the front end.



Scheme complexity

Ibec believes that a number of schemes administered by the Department remain over-complicated and that this is evidenced in the rates of overpayment coming from error rather than fraud. Increased volumes of claims on the Department's resources seem to have had a disproportionate effect on overpayment due to departmental error. This suggests that the volume and complexity of schemes is in excess of what can be reasonably complied with by Department clients or staff with an associated cost to the taxpayer. It is Ibec's opinion that for this reason the control and fraud initiative presents an opportunity to revisit the case for a single working age payment.

It is Ibec's opinion that the underlying principle of a single working age payment should be the assumption of trust balanced by a high level of effectiveness in identifying and punishing fraud (similar to the approach to tax compliance). This system would require paying proportionate attention to the accessibility and quality of job-placement, career guidance and counselling services; the relevance and quality of the training and education programmes to which unemployed people are directed and the different supports people need in the early months compared to later periods of unemployment spells.

Ibec welcomes the fact that public data systems increasingly 'talk' to each other and that the Department, Revenue, Intreo and other public bodies are becoming more empowered and competent to share data. These advances should be allied with regular advanced techniques in risk assessment and serious sanctions for people committing fraud which are certain to be enforced.

2. The DSP and the employers

Ibec provides a wide range of employer services in human resources, industrial relations, management, training, employment law and health and safety. As part of this we support business compliance and on a daily basis we promote and advise on this. Ibec believe that increased prevention, detection and deterrence of fraud will be supported by easier access for employers to appropriate usable information, reducing anomalies or frictions between the tax and welfare systems, risk assessment and serious sanctions for individual fraud.

As part of this, the DSP control and fraud initiative must be cognisant of the burden of business regulation and compliance costs as well as anomalies in the tax regime. The design of social welfare schemes should balance the prevention of fraud with the need to not be an unnecessary burden on business. For this reason, the Department should conduct regulatory burden impact assessments and audits of new and existing in work benefit schemes.

Anomalies between the tax and welfare system should not be a disincentive to work. For example, the abolishment of the PRSI allowance of €127 per week has amplified an existing kink in the tax system, where an

increase in gross pay at certain levels actually results in lower net or take home income. This particularly affects low paid workers. Previously, an employee on €18,400 per annum received €399 less in take-home pay than an employee on €18,300 per annum, and had to earn €19,100 before experiencing an improvement in net income. Now, the loss is €663 per annum and requires an income of €19,400 to achieve a net increase. This anomaly has a disproportionate impact on people at these income levels and has also had an impact on employers by effectively disincentivising the take-up of overtime work at these income levels.

Separately, Ibec has identified that there is scope for the Department to better inform potential claimants and employers of where the areas of client error in particular lie and hence reduce the risk of error and fraud for in-work schemes. Information is key in this regard and producing employer/employee friendly information is something which Ibec is happy to work with the Department on.

It is the experience of a large number of firms that the Department's website, welfare.ie is not employer friendly. The alternative State website on employment, workplacerelation.ie suffers from similar issues. In particular for this initiative, there is currently no reference to the fraud risk under the employer section of the website.

Additionally, we have been unable to find clear reference to clarify boundaries between work and welfare for employees or employers. Addressing these information issues may be a first step to reducing both fraud and client error particularly when it comes to in-work welfare payments. Again, we are happy to work with the Department on the need to clarify boundaries and rules concerning employment and social protection payments for employers and employees in an accessible manner.

As part of this process we see an opportunity for the Department to review payment transfers to employers. There is a need to streamline the payment process to employers to ease visibility of payment transfers e.g. sick pay and maternity pay, so employers are better aware of who is receiving social protection payments and be in a stronger position to spot anomalies.

Again, a more streamlined approach to entitlement rules, with fewer anomalies between schemes, would be easier for clients and employers to understand, comply with, and spot fraud. The variation in entitlement days (for example waiting days for illness benefit and not for job seekers payments) complex rules around part-time working (including the lack of ability to claim for part of week for illness benefit to facilitate a flexible return to work) may increase the risk of client error and fraudulent behaviour.

3. The role of technology and the private sector in control and fraud

The Department of Social Protection, like most government bodies, are engaged in activities which relate to a small set of common processes, for example entitlements (including grants, pensions, welfare payments, housing etc.); inspections (including compliance, inspections, investigation, audit and enforcement); collections (of revenue or income) and licensing. It has been recognised that many public bodies have difficulties with debt collection and fraud. These are all areas in which the private sector could play a role through enabling better services and through the use of technology.

Based on international best practice, areas where the Department could look to the private sector for assistance in control and fraud include:

- ICT services. These have evolved considerably with the development of new technologies and the convergence of IT and communications. These include both the building of IT systems and the ongoing management of databases, servers' applications and communication systems.
- Managed services which can support the substantial range of services provided directly to users.
- Business process outsourcing (BPO), which involves contracting out a specific business task, while the Department retains strategic and governance control. BPO can include back office (purchasing, payroll or records management) and front office (e.g. call centre).
- Professional services, which cover a vast range of consultancy or advisory service activities in the areas of human resources, financial, legal and general management consultancy.

Social welfare payments card

The Public Service Reform Plan 2014-2016 contains specific actions relating to improved data use across government, improved user-experience for citizens and exploiting IT infrastructure to reduce transaction costs. The plan makes explicit reference to the lead role the Department is playing in the roll-out of the Public Services Card (PSC), which will 'evolve to become the mechanism by which citizens can easily validate their entitlement to public services and the infrastructure that supports the Card will be used to support the delivery of a range of other services'.

In the context of claiming entitlements, the PSC is being used as a means of verification of the service-user (e.g. social welfare payments, free travel scheme etc). However, there are other initiatives that the Department should examine that would better address issues relating to control and fraud. One such project would be the introduction of a social welfare payments card (including Child Benefit). Ibec believes that this will have a beneficial impact on the domestic economy, as well as reducing black market activity and should be prioritised.

Benefits of a card scheme for social welfare payments include:

- Reduced need to handle cash.
- Promotion of life skills/social inclusion (e.g. customers without bank accounts).
- Quicker access to funds for customers.
- Easier monitoring.
- Better focussing of resources (i.e. focus on exceptional cases)
- Less pressure on counter services and better staff allocation.
- Inbuilt safeguards.

The Department should consider the full range of sourcing models, which vary in their complexity and decide which may be the most appropriate option for a specific area based on desired outcomes. As we have observed in the designing of the Department's own JobPath initiative, there are a number of financing models that could be considered such as payment-by-results.

4. Summary

In summary Ibec would like to take this opportunity to thank the Department for its invitation to submit views on their control and fraud initiative. Ibec looks forward to continued engagement with the DSP on discussions around reducing scheme complexity, the single age in work payment, working with the private sector on risk assessment and the implementation of technological resources to combat fraud as well as providing information to the business community which may help reduce client error and make sure welfare payments are reaching those most in need.

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