



National Audit Office

Report

by the Comptroller
and Auditor General

**Department of Health & Social Care, NHS England,
NHS Business Services Authority**

Investigation into penalty charge notices in healthcare

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Department of Health & Social Care, NHS England,
NHS Business Services Authority

Investigation into penalty charge notices in healthcare

Report by the Comptroller and Auditor General

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National Audit Act 1983 for presentation to the House of
Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

8 May 2019

We undertook this work in response to concerns raised in the media and to us directly suggesting negative effects on the health of some people who have received penalty charge notices (PCNs). Recent media reports have noted the significant increase in PCNs issued, the difficulty of navigating the system for some who claim an exemption and the consequences that can arise when vulnerable people struggle to deal with receiving a PCN. In this investigation, we set out the facts about PCNs (such as the numbers issued, and the amount paid), as well as the steps the NHS is taking to support those who have trouble understanding the system and/or paying the penalty charge.

Investigations

We conduct investigations to establish the underlying facts in circumstances where concerns have been raised with us, or in response to intelligence that we have gathered through our wider work.

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Key facts

5.6m

penalty charge notices
(PCNs) issued since 2014

£133m

recovered by NHS
Business Services
Authority (NHSBSA)
since 2014

£246m

outstanding debt owed
to the government
through unpaid PCNs
since 2014

£212 million estimate of the loss to the NHS from prescription and dental fraud in 2017-18

30% of PCNs issued since 2014 were later cancelled by NHSBSA as a valid exemption was subsequently confirmed to be in place

£11.2 million cost to NHSBSA of collecting £36.5 million of penalty charges in 2017-18, around 31 pence per £1 recovered

1 individual taken to court for repeated fraudulent claims against the NHS

36% of the value of PCNs issued since 2014 remains outstanding

£49 million estimated reduction in prescription fraud from 2012-13 to 2016-17

What this investigation is about

1 This investigation examines the health sector's use of penalty charge notices (PCNs). PCNs are sent to those who have claimed a free prescription or dental treatment when they were not entitled to do so; or have a valid exemption which cannot be confirmed at the time of checking. The NHS Business Services Authority (NHSBSA), which administers PCNs, has three main aims in relation to charges for prescriptions and dental treatment:

- to recover costs erroneously paid by the NHS;
- to deter and reduce fraud; and
- to ensure people are better informed about their eligibility to claim free prescriptions and dental treatment.

2 Each year, around 1.1 billion prescription items are dispensed and 39 million dental treatments undertaken. In 2019-20, each item on a prescription costs £9.00 and dental treatments are charged in three bands (£22.70, £62.10, £269.30), depending on the treatment. Some people are exempt from paying if they have a valid reason (for example they are under 16 or they receive certain benefits). Those who claim a free prescription or dental treatment without a valid reason, whether fraudulently or in error, could be issued with a PCN. A PCN has two components – the original cost of the prescription or dental treatment and a penalty charge of up to £100 (Appendix Two).

3 The Department of Health & Social Care (the Department) is the policy owner for this area. NHS England is the service owner, and commissions the NHSBSA to administer the loss recovery service for prescriptions and dental treatments. The Department for Work & Pensions (DWP) has a role in checking the data supplied by NHSBSA against its benefits database to confirm whether a customer was in receipt of a benefit at the time of the claim for a free prescription or dental treatment. NHSBSA also has a contract with Capita to issue a proportion of dental PCNs.

4 We undertook this work in response to concerns raised in the media and to us directly suggesting negative effects on the health of some people who have received PCNs. Recent media reports have noted the significant increase in PCNs issued, the difficulty of navigating the system for claiming an exemption and the consequences that can arise when vulnerable people struggle to deal with receiving a PCN. Various groups, such as the British Dental Association and the Prescriptions Charges Coalition, have publicly voiced similar concerns. The Department, NHS England and NHSBSA have acknowledged that the current exemption system has weaknesses. This is responsible for some of the problems with the PCN system.

5 These concerns relate to those who have received a PCN despite holding a valid exemption, and in particular to those who struggle to understand their eligibility for free prescriptions and dental treatments and how to navigate the system successfully. We recognise that there is a genuine tension between the use of PCNs to reduce fraud and error and the concern that they may cause for those who receive them. In this investigation, we set out the facts about PCNs (such as the numbers issued, and the amount paid), as well as the steps NHSBSA is taking to support those who have trouble understanding the system and/or paying the penalty charge.

6 We conducted our fieldwork in January and February 2019. We met with officials from the Department, NHS England and NHSBSA, as well as other government departments. We reviewed documents and data relating to the issuing of PCNs, visited the NHSBSA call centre and consulted with third-party stakeholders such as the British Dental Association and the Prescription Charges Coalition. Appendix One sets out our methods in more detail.

7 Our investigation focuses on:

- the entitlement to free prescriptions and dental care (Part One);
- the use of penalty charge notices to recover funds for the NHS and to deter fraud (Part Two); and
- improving knowledge about eligibility for exemptions (Part Three).

Summary

Key findings

The use of penalty charge notices (PCNs) to recover funds for the NHS

1 The NHS estimates that it lost around £212 million in 2017-18 from people incorrectly claiming exemption from paying prescription and dental charges.

In 2017, the NHS dispensed 1.1 billion prescription items in the community, and in 2017-18, issued 39 million courses of dental treatment. Around 89% of prescription items dispensed and around 47% of dental treatments were claimed as exempt from charges (paragraphs 1.2, 1.3, 2.11 and Figure 1).

2 There has been a significant increase in the exemption checks and total value of PCNs issued since 2014. NHS England has commissioned the NHS Business Services Authority (NHSBSA) to increase its exemption-checking activity significantly since 2014. For example, the number of prescription checks has risen from 750,000 in 2014-15 to 24 million by 2018-19. Over the period 2014-15 to 2018-19, although the number and value of prescription PCNs has been rising, the proportion of checks resulting in PCNs has been declining. In 2014-15, one in four checks resulted in a PCN, compared with 1 in 20 checks by 2018-19. Over this period the value of PCNs issued has risen from £12 million to £126 million per year for prescriptions and from £38 million to £72 million per year for dental treatments (paragraphs 2.2, 2.3, 3.6, 3.9 and Figures 4 and 5).

3 Since April 2014, NHSBSA has attempted to recover NHS funds from incorrect claims for free prescriptions and dental treatment by managing the distribution of 5.6 million PCNs with a total value of £676 million. Of these:

- £133 million (20%) were collected;
- £297 million (44%) were resolved without a penalty charge being paid; and
- £246 million (36%) remain outstanding (paragraphs 2.3 to 2.7).

4 Since 2014, around 1.7 million PCNs have been issued but subsequently withdrawn because a valid exemption was confirmed to be in place following a challenge. This represents 30% of the total number of PCNs issued since 2014, with a value of £188 million. A PCN issued where a valid exemption was later confirmed to be in place is one of three main explanations for why a PCN may be resolved without a penalty charge being paid. The other two explanations are:

- NHSBSA agreed to remove the penalty charge following communication with the individual concerned, although the cost of the prescription or dental treatment remained payable. Since 2014, NHSBSA has removed the penalty charge from 0.3 million (5%) PCNs with a value of £17 million.
- NHSBSA will cancel a PCN where the claimant cannot be identified and located based on the details provided on the prescription or dental form. Since 2014, NHSBSA has cancelled around 0.5 million (10%) PCNs with a value of £92 million (paragraph 2.6).

5 NHSBSA spent £11.2 million in 2017-18 on managing the PCN process, which equates to 31 pence per £1 recovered. In 2017-18, it cost NHSBSA £6.8 million to process PCNs for prescriptions and £4.4 million for dental charges. This cost, which includes the cost of the Capita service provided to NHSBSA, is covered by the income generated by PCNs, with the surplus paid to NHS England (paragraph 2.18).

Deterring fraud

6 NHSBSA has not always been able to collect debts from people who routinely misuse the system. Between September 2014 and March 2019, 114,725 people have received five or more PCNs for prescriptions, indicating a pattern of incorrect claims. However, until recently NHSBSA had taken no action against these people. The NHS Counter Fraud Authority has acknowledged that NHSBSA's work led to an estimated £49 million reduction in prescription fraud from £217 million in 2012-13 to £168 million in 2016-17, but said in 2019 that the focus of NHSBSA's PCN strategy had been on recovery of losses and charges from penalty notices. Capita runs a debt collection process for the dental cases it manages (paragraphs 2.12 to 2.13, and 2.16 to 2.17).

7 NHS England and NHSBSA are now starting to take a firmer approach to deterring fraud. In early 2018, NHSBSA started trialling an approach with people who have received five or more PCNs in a 12-month period but had made no attempt to pay. Under this new approach, selected repeat offenders are interviewed under caution at a police station and appropriate cases are shared with the Crown Prosecution Service (CPS) for a decision on whether to open criminal proceedings. To date, NHSBSA has submitted five cases to the CPS. One case was heard in court in January 2019. The defendant pleaded guilty, paid the prescription charges owed and received a conditional discharge. NHSBSA has sought approval from the Department of Health & Social Care (the Department) to implement a debt collection process for prescriptions. NHSBSA began a debt collection process for dental cases in January 2019 (paragraphs 2.14 and 2.15).

Reducing confusion caused by the complexity of the system

8 NHSBSA accepts that the rules around entitlement are complicated and recognises that genuine mistakes and confusion happen. The entitlements to free prescriptions and dental treatment are set by the Department. Factors which may cause mistakes and confusion include:

- **Universal Credit.** Universal Credit claimants are only eligible for exemptions if their monthly earnings are below a specified level. Additionally, there is no option to indicate receipt of Universal Credit on NHS prescription forms. The Department expects to update the paper version of the prescription form in late 2019.
- **Differences between benefits.** For example, a person who receives means-tested Jobseeker's Allowance is eligible for free prescriptions and dental costs, whereas a person who receives other types of Jobseeker's Allowance is not, although they might qualify for assistance under the NHSBSA's low income scheme. The key difference is that the income-based allowance is means-tested whereas the other is not.
- **Differences between dental and prescription criteria.** For example, people aged over 60 are entitled to free prescriptions but not to free dental treatment.
- **The need to apply for an exemption certificate.** For example, if a person is pregnant or suffers from certain medical conditions they must apply for an exemption certificate to obtain free prescriptions.
- **The length of time that exemptions apply for.** A medical certificate is valid for five years; a low-income scheme certificate depends on the person's circumstances; and benefit-related exemptions last as long as the benefit itself, except for Universal Credit where exemption status depends on monthly earnings (paragraphs 3.2 to 3.5, and Figure 2).

9 NHSBSA is unable to identify all vulnerable people in advance of issuing a PCN but will try to limit the impact where such people are later identified. NHSBSA attempts to reduce the likelihood of issuing a PCN to vulnerable people but is unable to prevent all vulnerable people from receiving a PCN. NHSBSA deals with this issue by removing penalty charges for those people it identifies as vulnerable after the person has challenged the PCN. This arrangement relies on the vulnerable person challenging the PCN, and not all vulnerable people may feel able to do so (paragraph 2.10).

10 NHSBSA has only recently undertaken its first national advertising campaign to inform people about PCNs. NHSBSA has been significantly increasing its checks since 2014. However, it only undertook a national advertising campaign for the first time in 2018. NHS England approved NHSBSA's £1.6 million funding request for the campaign to tell people to check before claiming an exemption or risk a PCN. Prior to this campaign, NHSBSA had provided advertising material to pharmacists and dentists and ran a small-scale advertising campaign in Stoke-on-Trent. It also began to develop online support tools to help people determine whether they are eligible for free prescriptions and dental treatment in 2017 (paragraphs 3.6 to 3.8).

Future developments

11 NHSBSA is developing a system to reduce the likelihood of fraud or error occurring in the first place. Currently, NHSBSA can only detect fraud and error after it has taken place, and the checking system is complex due to the different types of possible exemption. NHSBSA is working with the Department for Work & Pensions to develop a system that allows pharmacists and dentists to check peoples' eligibility for benefit-related exemptions at the time the transaction occurs. A pilot to check health-related exemptions in real-time began in February 2019 in four pharmacies. If successful, this kind of approach could significantly reduce the amount of fraud and error that occurs, and therefore the number of PCNs NHSBSA needs to issue (paragraphs 2.8, 2.9 and 3.7, and Figure 2).

Concluding comments

12 Free prescriptions and dental treatment are a significant cost to the NHS, so it is important that it can reclaim funds from people who are not exempt from charges and deter fraud. However, eligibility rules under the current system are complicated and difficult for people to understand, and NHSBSA still issues a significant number of PCNs that are later successfully challenged. Since 2014, NHSBSA has significantly increased the number of checks it carries out and the number of PCNs it issues but has only recently started taking commensurate steps to improve public awareness of the rules. A simpler system or better real-time checking will be important going forward in deterring fraud but not disadvantaging vulnerable people.

Part One

Entitlement to free prescriptions and dental care

1.1 This part of the report sets out information on the number and cost of prescriptions and dental treatments undertaken in England in 2017-18; the reasons why some people are exempt from paying; the governance and responsibilities of the organisations involved; and the loss recovery process.

Prescription and dental treatments in England

1.2 In 2017, the NHS dispensed 1.1 billion prescription items in the community. These are individual items listed on a prescription form which, when paid for, cost £9 each (cost as at 1 April 2019). Prescription forms can include more than one item. In 2017, around 985 million of the prescription items dispensed (89% of the total) were claimed as exempt from payment. Of the items that were paid for, around half were paid using prepayment certificates (**Figure 1** overleaf).

1.3 In 2017-18, the NHS delivered 39 million courses of dental treatment. Dental treatments are charged in three bands (£22.70, £62.10 and £269.30) depending on the treatment undertaken. In 2017-18, around 47% of dental treatments were claimed as exempt from charges (Figure 1).

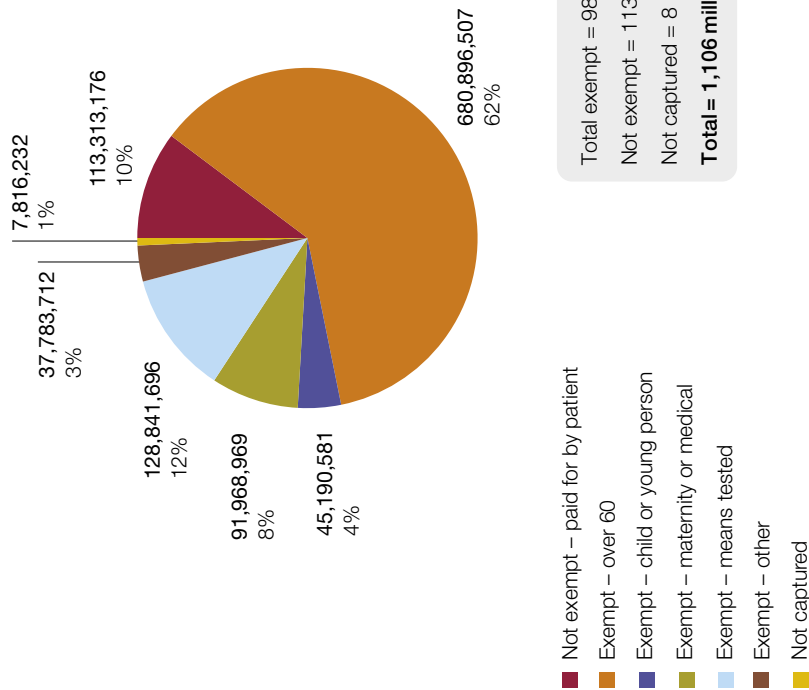
Exemptions from paying for treatment

1.4 People can be exempt from paying for prescriptions and dental treatment because of age, medical conditions, maternity, or because they receive benefits or have low income. However, a person's eligibility for exemption may vary between prescriptions and dental treatments (**Figure 2** on pages 13 and 14). For example, people aged over 60 are entitled to free prescriptions but not to free dental treatment. This explains why a lower proportion of dental treatments are exempt from payment.

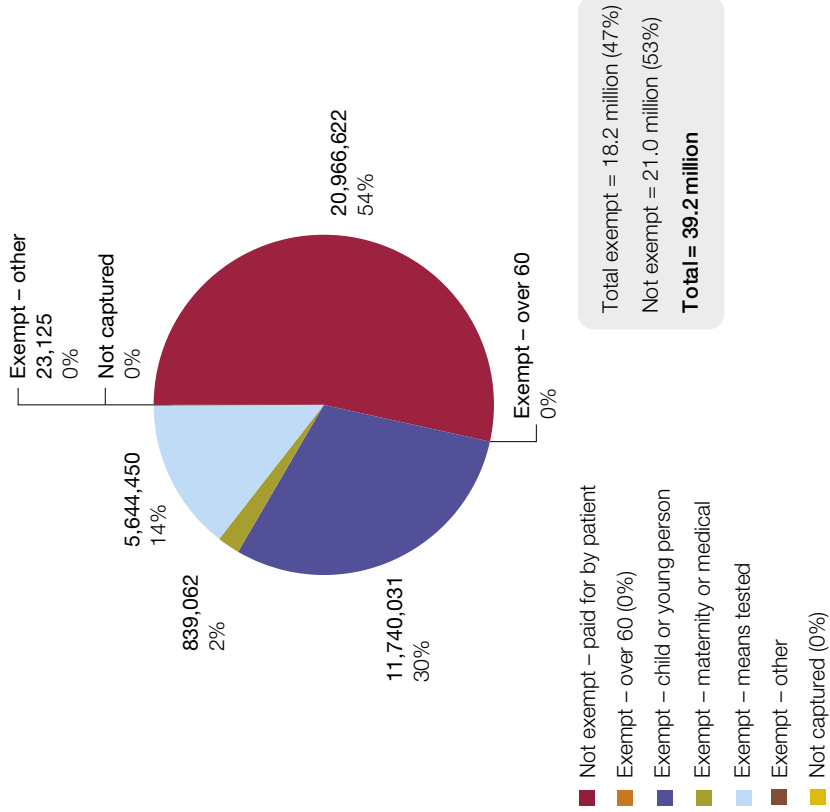
Figure 1
Number of prescription items and courses of dental treatment, by exemption category

A low proportion of people pay for prescriptions, while most pay for dental treatment. Children are the main beneficiaries of free dental care, while the over-60s are the main beneficiaries of free prescriptions

a) Number of prescription items dispensed in 2017, by exemption category



b) Number of courses of dental treatment provided in 2017-18, by exemption category



Notes

- 1 Prescriptions to NHS inpatients and dental treatments provided in hospitals are not included.
- 2 Data in this figure come from prescription and dental forms prior to any exemption checks.

Source: National Audit Office analysis of NHS Digital data

Figure 2

Exemptions from the cost of prescriptions and dental treatment

There are some differences between the eligibility rules for free prescriptions and for free dental treatment

Exemption type	Exemption category	Responsibility for checking	Eligibility for free prescriptions	Eligibility for free dental treatment
Age-related	Child (under 16)	NHS Business Services Authority	Eligible	Eligible
	Young person (16–18)		Eligible in some cases ¹	Eligible in some cases ²
	Aged over 60		Eligible	Not eligible
Maternity and medical	Expectant mother	NHS Business Services Authority	Eligible ³	Eligible ³
	Has had a baby in the last 12 months		Eligible ³	Eligible ³
	Specific medical conditions		Eligible ⁴	Not eligible
Means-tested	Income Support	Department for Work & Pensions	Eligible ⁵	Eligible ⁵
	Income-based Jobseeker's Allowance		Eligible ⁵	Eligible ⁵
	Income-related Employment and Support Allowance		Eligible ⁵	Eligible ⁵
	Pension credit guarantee credit		Eligible ⁵	Eligible ⁵
	Universal Credit		Eligible in some cases ^{5,6}	Eligible in some cases ^{5,6}
	Child tax credits	NHS Business Services Authority	Eligible in some cases ⁷	Eligible in some cases ⁷
	Working tax credits with a disability element		Eligible in some cases ⁷	Eligible in some cases ⁷
	Other low income		Eligible in some cases ^{8,9}	Eligible in some cases ^{8,9}
NHS hospitals	NHS hospital inpatients	No checks	Eligible	Eligible in some cases ¹⁰
	NHS hospital outpatients	NHS Business Services Authority	Eligible in some cases ¹¹	Eligible in some cases ¹²
Other	People receiving War Pension Scheme payments with an accepted disability	No checks	Eligible in some cases ¹³	Not eligible

Figure 2 *continued*

Exemptions from the cost of prescriptions and dental treatment

Notes

- 1 Eligible if in full-time education.
- 2 Eligible if aged: a) under 18, or b) under 19 and in full-time education.
- 3 A maternity exemption certificate is required.
- 4 A medical exemption certificate is required. These are issued on application and are only available for a limited range of conditions.
- 5 The partners (including civil partners) and dependants under the age of 20 of people qualifying for these benefits are also eligible.
- 6 People are eligible if they had net earnings of a) £435 or less in their last assessed period (usually a month); or b) £935 or less in their last assessed period and their Universal Credit included an element for a child; or they or their partner had limited capability for work or limited capability for work and work-related activity.
- 7 People are eligible if they have income for tax credit purposes of £15,276 or less and apply for an NHS tax credit exemption certificate. Claimants can be in receipt of Child Tax Credits, Working Tax Credits with a disability element or both.
- 8 Depending on a person's circumstances, they can receive full help or partial help. They can apply for the scheme as long as their assets don't exceed £23,250 where they live permanently in a care home or £16,000 where they don't. The assessment takes into account council tax and housing costs, so people can get help with health costs even if their income is too high for a means-tested benefit. People need to apply for an NHS certificate to qualify.
- 9 People are not exempt where they receive Incapacity Benefit, contribution-based Employment and Support Allowance, contribution-based Jobseeker's Allowance, Disability Living Allowance, Council Tax Reduction, Housing Benefit or Pension Credit Savings Credit, when paid on their own. They may nevertheless qualify under the NHSBSA's low-income scheme.
- 10 Eligible if treatment is carried out by the hospital dentist.
- 11 NHS hospital outpatients are eligible for free prescriptions if they qualify for one of the other listed exemptions. Claims for these exemptions would be checked by NHSBSA where medication is prescribed using a prescription form.
- 12 NHS hospital dental service outpatients may have to pay for dentures or bridges.
- 13 A War Pension exemption certificate is required and the prescription is for the claimant's accepted disability.

Source: National Audit Office review of NHS documents and website information, such as www.nhs.uk/using-the-nhs/help-with-health-costs/get-help-with-prescription-costs/

Responsibilities and governance arrangements

1.5 The Department of Health & Social Care (the Department) is the policy owner for recovering NHS funds from incorrect claims for free prescriptions and dental treatment. NHS England is the service owner and commissions NHS Business Services Authority (NHSBSA) to issue penalty charge notices (PCNs) to recover these funds. NHSBSA is a special health authority and an arm's-length body of the Department, established in 2006. It provides a range of important central services to NHS organisations, NHS contractors, patients and the public. NHSBSA administers the Loss Recovery Services, which include the Prescription Exemption Checking Service and the Dental Exemption Checking Service. NHSBSA has a contract with Capita to manage part of the dental checking service. Information on exemptions is mainly held and checked by NHSBSA, except for information on benefits exemptions. The Department for Work & Pensions (DWP) has a role in checking the data supplied by NHSBSA against its benefits database to confirm whether a customer was in receipt of a benefit at the time of the claim for free prescription or dental treatment.

1.6 In the past, the approaches to prescription checks and dental treatment checks were slightly different.

- **For prescriptions:** Before September 2014, individual NHS England primary care support services organisations were responsible for checking prescription exemptions. However, from September 2014, NHSBSA took on this responsibility. These checks initially excluded DWP benefits and focused on exemptions administered by NHSBSA (HC2 low-income scheme certificates,¹ tax credits, medical exemption, maternity exemption) and prepayment certificates. In June 2017, NHSBSA expanded its exemption checks to include DWP benefits.
- **For dental treatment:** Initially, NHSBSA outsourced the dental PCN service as it did not have the processes in place to do so itself. In 2010, NHSBSA contracted Capita to undertake dental exemption checks and issue PCNs. In June 2016, NHSBSA itself began checking some dental treatment exemptions and issuing PCNs. In 2017, NHSBSA agreed a contractual change whereby Capita's role was amended to sending out PCNs that NHSBSA had checked. NHSBSA is planning to bring Capita's remaining functions in-house when its contract ends in December 2019.

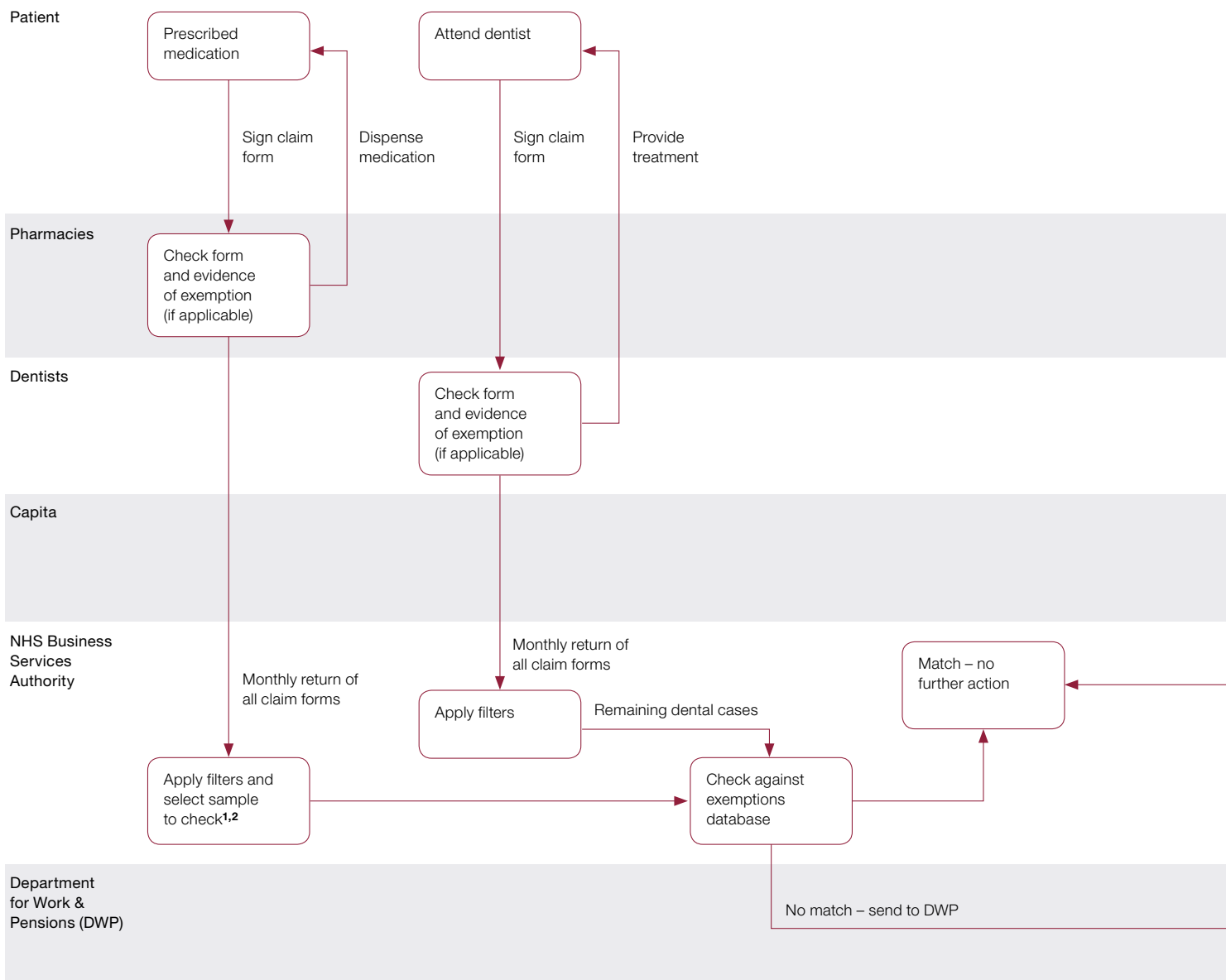
The process for recovering costs through penalty charge notices

1.7 Each month, NHSBSA checks a sample of prescriptions and dental treatments where no fee has been paid to see whether the exemption is valid. For benefits exemptions, this involves asking DWP to confirm that the customer was in receipt of a relevant benefit at the time of claiming for the free prescription or dental treatment. NHSBSA or Capita will issue a PCN to those people it cannot confirm had a valid exemption. A PCN has two components – the original cost of the prescription or dental treatment and a penalty charge of up to £100 (Appendix Two). The person may pay the charge or challenge the reason for issuing the PCN, either through NHSBSA's contact centre or online. A challenge may sometimes result in NHSBSA cancelling the PCN, or removing the penalty charge on the condition that the person pays for the prescription or dental treatment. NHSBSA will apply a surcharge of 50% of the penalty charge if the recipient does not challenge or pay the PCN within 28 days. We have set out the loss recovery process in detail in **Figure 3** on pages 16 and 17.

¹ HC2 low-income scheme certificate, available at: www.nhsbsa.nhs.uk/nhs-low-income-scheme/hc2-certificates-full-help-health-costs

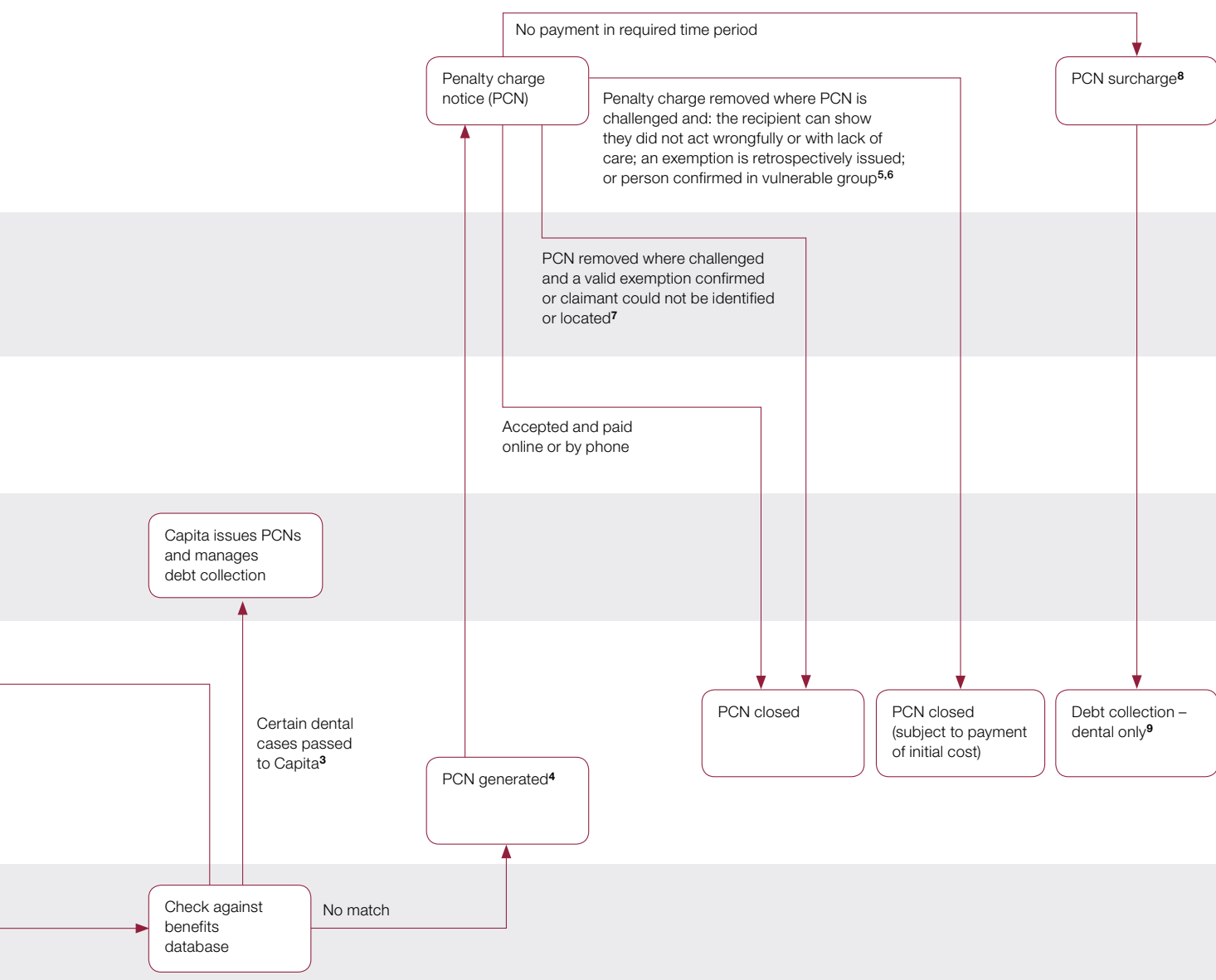
Figure 3
The NHS Business Services Authority (NHSBSA) loss recovery process at January 2019

The interaction of various groups in the loss recovery process



Notes

- 1 The NHSBSA applies filters to remove certain cases from the population for checks. These include for exemptions it has assessed to be low risk; those where there are known issues with the data; and to reduce the likelihood of issuing a penalty charge notice to vulnerable people, for example if the address indicates that it may be a residential care home.
- 2 The NHSBSA checks a sample of exempt prescriptions each month. It selects samples based on where the greatest risks exist.
- 3 Capita issues around 16,000 penalty charge notices each month on behalf of the NHSBSA.
- 4 A penalty charge notice has two components – the original cost of the prescription or dental treatment and a penalty charge of five times the original cost, up to a maximum of £100.
- 5 The NHSBSA may remove a penalty charge if the claimant should have been eligible, and subsequently applies successfully, for a medical or maternity exemption, or the low-income scheme.



Notes continued

- 6 The definition used by NHS England and the NHSBSA for a vulnerable person is someone who has a condition or disability affecting their state of mind and/or ability to understand the form (prescription or dental) or were incapable of dealing with their own affairs at the time the treatment commenced.
- 7 Circumstances where a valid exemption is in place but the NHSBSA is not aware of it include where someone may have a medical exemption card but has changed address.
- 8 The NHSBSA will apply a surcharge of 50% of the penalty charge if the recipient does not challenge or pay the penalty charge notice within 28 days.
- 9 The NHSBSA began a debt collection process for dental cases in January 2019.

Part Two

The use of penalty charge notices to recover funds for the NHS and to deter fraud

2.1 This part of the report details the number of penalty charge notices (PCNs) issued by the NHS Business Services Authority (NHSBSA), their outcomes, the cost of administering the loss recovery process and the steps taken by NHSBSA to deter fraud.

NHS England has commissioned NHSBSA to increase its checks on eligibility for free prescriptions and dental treatment

2.2 In 2014-15, the first year of its loss recovery process for prescriptions, NHSBSA issued around 144,000 PCNs at a total value of around £12 million. Since this time, NHS England has commissioned NHSBSA to increase the number of checks it undertakes:

- **For prescriptions:** NHSBSA increased the number of checks it undertook from around 750,000 in 2014-15 to around 24 million in 2018-19.²
- **For dental treatment:** Between 2016-17 and 2018-19, NHSBSA increased the number of checks it undertook on healthcare-related exemptions from around 820,000 to around 4.2 million per year. NHSBSA told us that it now checks nearly all claims for exemption from dental treatment.

NHSBSA plans to increase the number of prescription checks it undertakes further in 2019-20.

The number of PCNs issued has been increasing

2.3 Since April 2014, NHSBSA has managed the distribution of 5.6 million PCNs, equivalent to around 0.1% of the total number of prescriptions dispensed and dental treatments undertaken (**Figure 4**). The total value of these PCNs is £676 million (**Figure 5** on page 20). This comprises:

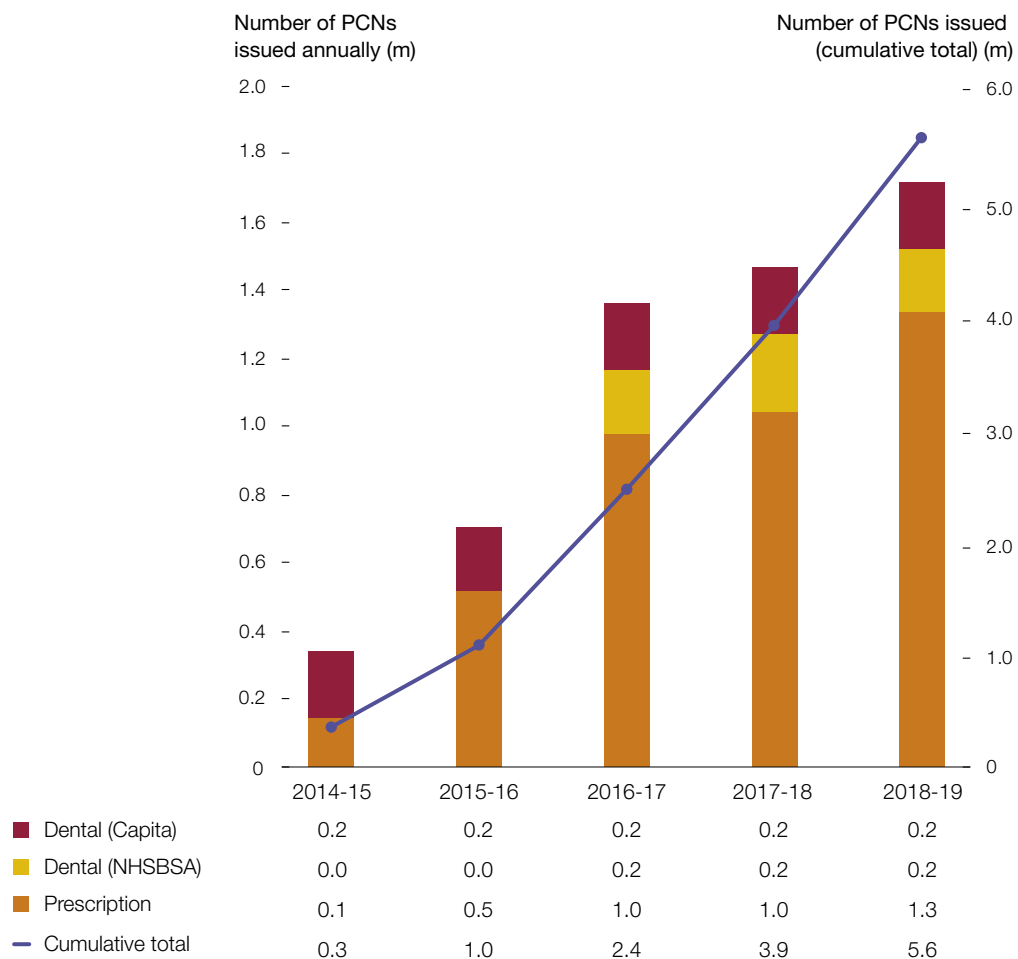
- 4.0 million PCNs for prescriptions at a value of £357 million; and
- 1.6 million PCNs for dental treatment at a value of £319 million (including 1.0 million PCNs issued by Capita at a value of £189 million).

Over the period 2014-15 to 2018-19, the value of PCNs issued has risen from £12 million to £126 million per year for prescriptions and from £38 million to £72 million per year for dental treatments.

² Sample checking figures for 2018-19 have yet to be finalised.

Figure 4
Penalty charge notices (PCNs) issued by year and type

The number of PCNs issued has been increasing



Notes

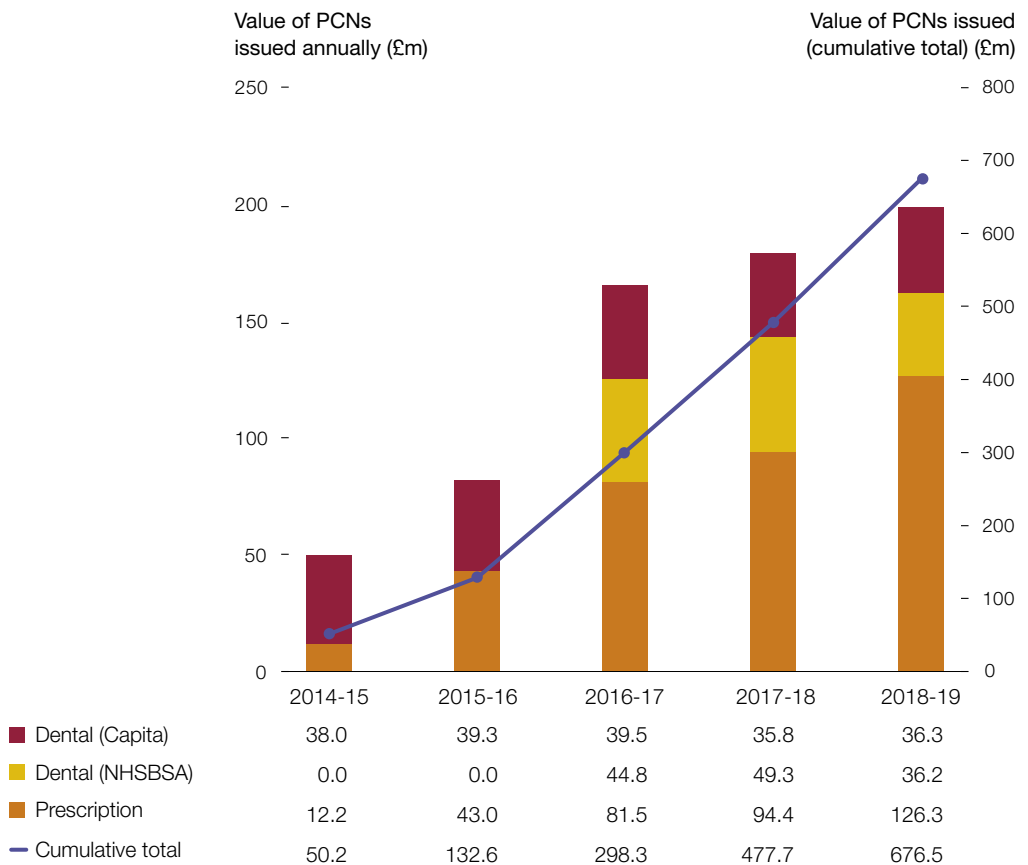
- 1 NHS Business Services Authority (NHSBSA) did not start checking dental exemptions until 2016-17.
- 2 Numbers may not sum due to rounding.

Source: National Audit Office analysis of NHS Business Services Authority and Capita data

Figure 5

Value of penalty charge notices (PCNs) issued by year and type

The value of PCNs issued has been increasing



Notes

- 1 NHS Business Services Authority did not start checking dental exemptions until 2016-17.
- 2 Numbers may not sum due to rounding.

Source: National Audit Office analysis of NHS Business Services Authority and Capita data

Outcomes of PCNs

2.4 NHSBSA classifies the outcomes of PCNs into three broad areas:

- **paid:** where the recipient accepts the PCN and pays the penalty charge (paragraph 2.5);
- **unpaid but resolved:** where the recipient challenges the PCN and NHSBSA identifies that it has been issued to somebody with a valid exemption, or agrees to remove the penalty charge on the condition that the recipient pays the original cost of the prescription or dental treatment; or where NHSBSA is unable to identify or locate the recipient (paragraph 2.6); and
- **outstanding:** where the recipient has not paid the penalty charge (paragraph 2.7).

Figure 6 sets out the outcomes of PCNs issued since 2014-15.

Figure 6

Penalty charge notices (PCNs) issued each year since 2014-15 and their outcomes

Since 2014, PCNs with a total value of £676 million have been issued with £246 million remaining outstanding

Year	Value issued (£m)	Paid (£m)	Unpaid but resolved			Outstanding (£m)
			Exemption confirmed (£m)	Penalty charge removed (£m)	Cancelled (£m)	
2014-15	50	12	13	1	17	6
2015-16	82	19	23	2	20	18
2016-17	166	32	56	4	24	50
2017-18	179	36	49	5	18	71
2018-19	199	33	46	5	13	101
Since 2014-15	676	133	188	17	92	246

Notes

- 1 A penalty charge notice (PCN) has two components: the original cost of the prescription or dental treatment and a penalty charge of up to £100 (see Appendix Two).
- 2 There can be a time lag between the issue of a PCN and payment or challenge by the recipient which means the data in this figure are subject to change. This is particularly the case for 2018-19 data.
- 3 Figures may not sum due to rounding.

Source: National Audit Office analysis of NHS Business Services Authority and Capita data

PCNs paid

2.5 Since 2014, PCNs have generated £133 million for the NHS. This amounts to 20% of the total value of PCNs issued (£676 million) since 2014-15. It is unclear exactly how many PCNs have been fully paid because some people may pay in instalments or only pay part of the PCN. Roughly half of the £133 million comes from prescriptions which, although they account for 72% of the PCNs sent out, tend to be for a lower overall value (Appendix Two). The £133 million includes:

- £67 million from PCNs for incorrect claims for free prescriptions since 2014-15, which represents an average recovery rate of around 19% of the total value of prescription PCNs;
- £19 million from PCNs that NHSBSA issued for incorrect claims for free dental treatment since 2016-17, which represents an average recovery rate of 14% of the total value of dental PCNs issued by NHSBSA; and
- £47 million from PCNs issued by Capita for incorrect claims to dental treatments since 2014, which represents an average recovery rate of 25% of the total value of dental PCNs issued by Capita.

PCNs unpaid but resolved

2.6 A further 2.5 million (45%) PCNs issued by NHSBSA and Capita since 2014, with a total value of £297 million (44%), have not been paid but are no longer live and considered resolved. These PCNs fall into three main categories:

- NHSBSA confirmed that a valid exemption was in place for the claimant. Since 2014, around 1.7 million (30%) PCNs issued by NHSBSA, with a value of £188 million, have subsequently been withdrawn following a challenge. These include around 1.2 million PCNs issued for claims for free prescriptions since 2014-15; around 0.2 million PCNs for dental treatments since NHSBSA started checking in 2016; as well as 0.2 million PCNs issued by Capita for dental treatments since 2014.
- NHSBSA removed the penalty charge following communication with the individual concerned. Since 2014, NHSBSA has removed the penalty charge from 0.3 million (5%) PCNs with a value of £17 million. These include: 0.2 million PCNs issued for prescription charges; about 11,000 dental PCNs since NHSBSA started checking in 2016; and 0.03 million PCNs issued by Capita, for dental treatments since 2014.
- NHSBSA cancelled the PCN because the claimant could not be identified or located from the details provided on the prescription or dental form. Since 2014, NHSBSA has cancelled around 0.5 million (10%) PCNs, with a value of £92 million.

PCNs outstanding

2.7 Since 2014, 36% of the value of all PCNs issued, a total value of £246 million, remains outstanding. This includes around 1.5 million (32%) PCNs issued by NHSBSA, to the value of £216 million, comprising:

- around 1.3 million (32%) prescription PCNs issued by NHSBSA since 2014; and
- around 0.2 million (34%) PCNs for dental treatments issued by NHSBSA since 2016.

The estimated value of the outstanding PCNs issued by Capita is £30 million, approximately 16% of the value issued since 2014.

Difficulties in checking eligibility for free prescriptions and dental treatment

2.8 As the data above show, approximately 30% of PCNs have been issued when a valid exemption was in place. This can be due to mismatches between the data on the prescription or dental form and the data held on exemptions by NHSBSA. An example would be where somebody has changed address but NHSBSA is not aware of the change. NHSBSA has been working on improving its data-matching rules to reduce the number of PCNs issued to people with a valid exemption. **Figure 7** overleaf shows that the percentage of PCNs issued where a healthcare exemption was later confirmed has fallen since 2014-15. However, as a large number of cases remain unresolved, it is not yet clear whether NHSBSA has been successful in reducing the number of PCNs issued to people with a valid exemption in place.

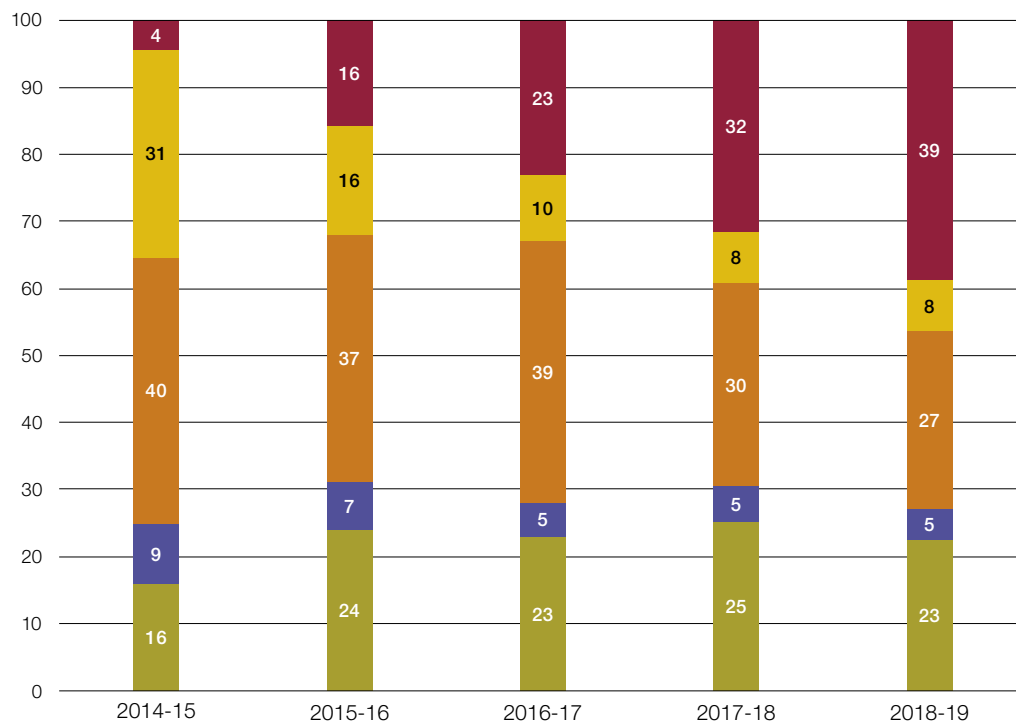
2.9 Matching exemptions claimed with the details of benefits claimants is an additional challenge to NHSBSA, as it currently has no direct access to the Department for Work & Pensions' (DWP's) data. Instead, NHSBSA sends DWP a batch of data twice a week in respect of free prescriptions so that DWP can check this against its database of benefit claims, and a batch of data once a week in respect of dental exemptions to do the equivalent check for them. Furthermore, there is a limit to the number of prescriptions (300,000 per week) and dental treatments (100,000 per week) that it can check. DWP is currently engaged in a project to develop an automated process for sharing real-time data. In February 2019, DWP said it will take four to six months to build the data-sharing service, with a further two months or more to integrate it into current systems.

Figure 7

Current status of penalty charge notices (PCNs) by the year in which they were issued

The percentage of PCNs issued where a healthcare exemption was later confirmed has fallen since 2014-15

Percentage of cases



- Outstanding
- Cancelled
- Exemption confirmed
- Removed
- Paid

Note

1 There can be a time lag between the issue of a penalty charge notice and payment or challenge by the recipient, which means the data in this figure are subject to change. This is particularly the case for 2018-19 data.

Source: National Audit Office analysis of NHS Business Services Authority and Capita data

2.10 Vulnerable people may struggle with understanding their exemption eligibility and whether it allows them to receive free prescriptions, free dental treatments or both.³ NHSBSA will try to reduce the likelihood of issuing a PCN to vulnerable people. For example, NHSBSA can stop a PCN being issued to a person whose address indicates that they may live in a residential care home. However, it is not able to prevent all vulnerable people from receiving a PCN. NHSBSA deals with this issue by removing penalty charges for those people it identifies as vulnerable after the person has challenged the PCN. This arrangement relies on the vulnerable person challenging the PCN, and not all vulnerable people may feel able to do so. The original cost of the prescription or dental treatment remains payable as vulnerable people are not automatically exempt from paying for prescriptions or dental treatments. However, NHSBSA removes the penalty charge in these cases in recognition of the complexity of claiming an exemption for those who are vulnerable.

Deterring fraud

2.11 The NHS Counter Fraud Authority's latest estimate (for the year 2017-18) was that the total loss to the NHS from fraud, bribery, corruption and error was £1.27 billion. Of this, £212 million (17%) related to individuals who were incorrectly claiming to be exempt from paying for NHS prescriptions and dental treatments. This included £162 million from incorrect claims to free prescriptions and £50 million from incorrect claims to free dental costs.⁴ Incorrect claims for free prescriptions and/or dental treatments fall into one of two categories:

- **fraud, bribery, corruption:** where someone deliberately claims free medication or treatment knowing that they are not entitled to do so; or
- **error:** where someone has mistakenly made a claim, that is there is no evidence that they have acted wrongfully.

2.12 An aim of the PCN process is to prevent people intentionally committing fraud against the NHS by making false claims about their entitlement to free prescriptions and dental care. Between September 2014 and March 2019, 114,725 people received five or more PCNs for prescriptions, indicating a pattern of incorrect claims. In that time, 227 people received more than 30 PCNs (**Figure 8** overleaf).

2.13 The NHS Counter Fraud Authority has acknowledged that NHSBSA's work led to an estimated reduction of £49 million in prescription fraud, from £217 million in 2012-13 to £168 million in 2016-17. However, it said in 2019 that the focus of NHSBSA's PCN strategy had been on recovery of losses and charges from penalty notices. The NHS Counter Fraud Authority noted the scale of repeat offending, outstanding charges and a limited enforcement policy.

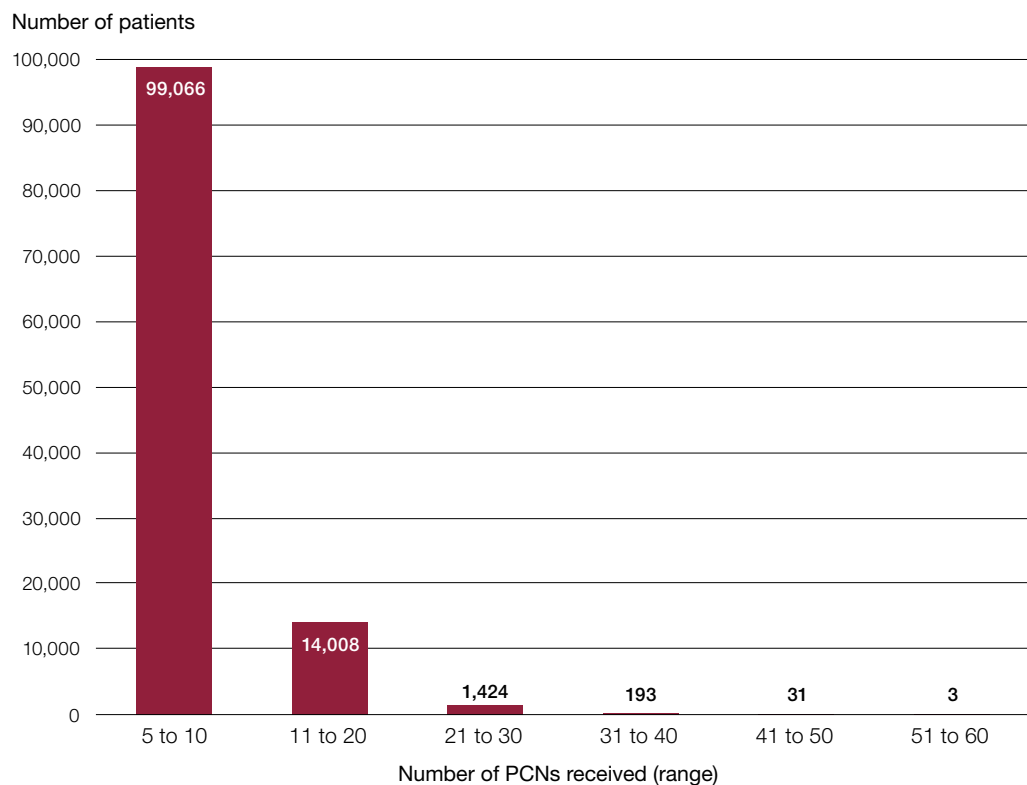
³ The definition used by NHS England and NHSBSA for a vulnerable person is someone who has a condition or disability affecting their state of mind and/or ability to understand the form (prescription or dental) or were incapable of dealing with their own affairs at the time the treatment commenced.

⁴ NHS Counter Fraud Authority, *The 2019 strategic intelligence assessment, reporting period 2017-18*.

Figure 8

Repeat offenders by number of penalty charge notices (PCNs) received for prescriptions

Between September 2014 and March 2019, 114,725 people received five or more PCNs for prescriptions, indicating a pattern of incorrect claims



Source: National Audit Office analysis of NHS Business Services Authority data

2.14 NHS England and NHSBSA have recently started to focus more on preventing fraud. Since early 2018, NHSBSA has been trialling an approach to dealing with selected repeat offenders. These are people who have received five or more PCNs in a 12-month period and made no attempt to pay or engage with NHSBSA. Under this new approach, NHSBSA will gather additional evidence about the individual involved and invite them to an interview under caution at a police station. Where appropriate, a case will then be passed on to the Crown Prosecution Service (CPS) for a decision as to whether to open criminal proceedings against the individual. To date, NHSBSA has submitted five cases to the CPS. One case was refused by CPS as not in the public interest, three are awaiting a decision and one was heard in court in January 2019. The result of the court case was that the defendant pleaded guilty, paid the prescription charges owed and received a conditional discharge.

2.15 Under directions given by the Secretary of State for Health & Social Care, NHSBSA was delegated the function to recover the relevant charges, penalties or surcharges as civil debts. NHSBSA's business case when it first set up the Prescription Exemption Checking Service states that debts that are not collected after an appropriate time, and subject to any further debt collection activity, should be written off and assumed as immaterial to NHS England. The increase in PCNs issued since 2014 has led to a related increase in debt from unpaid penalty charges and as a result NHSBSA has sought approval from the Department of Health & Social Care to implement a debt collection process for prescriptions. NHSBSA began a debt collection process for outstanding PCNs for dental charges issued by NHSBSA in January 2019.

2.16 Capita manages a two-stage debt collection process for the dental charge cases that NHSBSA assigns to it. The first stage is that Capita will send out a PCN. The financial agreement with NHSBSA is that, of the money that Capita receives in response to sending out a PCN, Capita keeps the penalty and surcharge and NHS England receives the treatment charge. Any payments made go towards the treatment charge first (that is, to NHS England) and only when this is fully paid, does Capita receive the residual.

2.17 The second stage involves Capita using Akinika, a private company debt collector that is part of the Capita group. Cases identified for this second stage debt collection include those where a PCN and surcharge have been sent to a person and the person has failed to make contact after 70 days, or has made contact but failed to provide evidence that they were exempt or paid the outstanding balance. Cases are excluded for debt collection if the debts are less than £10 or the case involves someone that NHSBSA has identified as vulnerable. Akinika's debt collection process consists of attempting to contact the person by letter and phone to take a payment or set up a payment plan. Akinika has been sent 213,896 live cases since March 2016 and has recovered £3.23 million. Capita pays 53% of the overall debt collected by Akinika to NHSBSA.

Costs of administering PCNs

2.18 NHSBSA spent £11.2 million in 2017-18 on managing the PCN process, which equates to 31 pence per £1 recovered. This included £6.8 million to process PCNs for prescriptions and £4.4 million for dental charges. NHSBSA recovered funds for the NHS of £19.4 million and £17.1 million respectively. The costs to NHSBSA of administering PCNs include checking exemptions, issuing PCNs and managing customer contact, mainly through a call centre. NHSBSA's costs, which includes the cost of the Capita service provided to NHSBSA, are covered by the income generated by penalty charges, with the surplus paid back to the NHS.

Part Three

Improving knowledge about eligibility for exemptions

3.1 This part sets out: the complexities in the exemption system; the work NHS England and NHS Business Services Authority (NHSBSA) are doing to improve public understanding of eligibility; and how NHSBSA measures the impact it is making.

The complexity of exemptions

3.2 The entitlements to free prescriptions and dental treatment are set by the Department of Health & Social Care (the Department). NHSBSA accepts that the rules around entitlement are complicated and recognises that genuine mistakes and confusion happen. Consequently, many people claim exemptions they are not entitled to by mistake rather than deliberately. These mistakes are driven by people's confusion about eligibility criteria that are, in some cases, difficult to understand (Figure 2 in Part One). The NHS Counter Fraud Authority said in 2019 that there was confusion about qualifying benefit exemptions.

3.3 Eligibility for free prescriptions and dental treatment for those who receive Universal Credit can be particularly confusing:

- Some claimants of Universal Credit are eligible while others are not. Claimants are only eligible for exemptions if their monthly earnings are below a specified level (see Figure 2). The Department for Work & Pensions (DWP) told us that, in practice, those eligible for exemptions under the legacy benefits and tax credit systems are likely to remain eligible under Universal Credit.⁵
- Eligibility can change rapidly. Claimants' earnings can change, meaning that their eligibility may change from one month to the next. This is comparable to Child tax credits and Working tax credits (Figure 2 in Part One).

⁵ Legacy benefits are six means-tested benefits for working-age households that will be replaced by Universal Credit: income-based Jobseeker's Allowance, Income Support, Housing Benefit, income-related Employment and Support Allowance, Working Tax Credit and Child Tax Credit.

- Prescription forms are confusing. There is no option for Universal Credit on prescription forms. Instead, claimants are advised to tick the box stating that they receive Jobseeker's Allowance. Universal Credit was first introduced in 2013. The Department expects to update the paper version of the prescription form in late 2019.⁶

Other government departments have taken different approaches to Universal Credit. For example, all Universal Credit claimants are automatically financially eligible for criminal legal aid, whereas many departments have earnings thresholds for Universal Credit claimants.⁷

3.4 Confusion can also arise where people need to understand the difference between benefits. For example, a claimant who receives income-based Jobseeker's Allowance is automatically eligible for free prescriptions and dental treatment, whereas a claimant who receives new-style Jobseeker's Allowance or contribution-based Jobseeker's Allowance is not.⁸ The key difference is that the income-based allowance is means-tested whereas the other two are not.⁹

3.5 There are other instances when people can find it difficult to understand the system:

- As highlighted in Part One, certain differences in the eligibility criteria for free prescriptions and dental treatment can be confusing for people who may, for example, be entitled to free prescriptions, but not to free dental treatment.
- Some people with medical conditions may not realise that they need to hold a valid exemption certificate to be eligible. Being pregnant or having a qualifying medical condition do not in themselves make a person eligible for free prescriptions. Such people only become eligible once they have applied for and received a maternity or medical exemption certificate.
- The length of time for which an exemption applies varies. A medical certificate is valid for five years; a low-income scheme certificate is valid for six months to five years depending on the person's circumstances; and benefit-related exemptions last as long as the benefit itself, except for Universal Credit where exemption status depends on monthly earnings. People may not realise they are no longer exempt if they have forgotten their exemption expiry date or are unaware of the circumstances in which their exemption expires.

NHS Counter Fraud Authority said in 2019 that there should be more effort to emphasise entitlement and clarify qualifying exemptions.

⁶ The Department is also working on updating the electronic prescription service version of the prescription form.

⁷ Claims for criminal legal aid must also satisfy an interests of justice test.

⁸ However, they might qualify for assistance under NHSBSA's low-income scheme.

⁹ Since December 2018, people can no longer apply for income-based Jobseeker's Allowance or income-related Employment and Support Allowance as the income related parts of these benefits have been replaced by Universal Credit.

NHSBSA is increasingly helping people to determine whether they are eligible for free treatment

3.6 NHSBSA started checking eligibility for free prescriptions in 2014 and for dental treatments in 2016. The main guidance on exemptions at that time was available on the NHS Choices website. Since that time, NHSBSA has increased the number of prescriptions it checks from 750,000 to 24 million and the number of dental treatments it checks from 820,000 to 4.2 million.¹⁰ Despite this, media articles and representative groups have highlighted that there is still widespread ignorance and misunderstanding of the exemption rules.

3.7 Over time, guidance on exemptions has been made available through a range of sources. NHSBSA provides guidance materials to pharmacies and dentists, and has produced easy-read materials. It also provides language translation via telephone or email if required. Since 2017, NHSBSA has developed two online support tools, which people can use to determine their eligibility for exemptions: an online eligibility checker, which determines whether somebody could be eligible for an exemption; and an exemption checker, which allows somebody to check whether they have a valid exemption in place at that date. These tools are still in the beta testing stage, but are publicly available. A pilot to check health-related exemptions in real-time began in February 2019 in four pharmacies. This will allow pharmacists to undertake checks as they issue prescriptions. The Department, NHS England and NHSBSA will consider whether to extend this service after the pilot is complete.

3.8 NHSBSA has recognised that receiving a PCN can be a person's first indication that they did anything wrong. To help improve this situation, NHS England recently approved a £1.6 million funding request from NHSBSA for a national communications campaign. The campaign started in September 2018 and ran for 14 weeks. The aim was to tell people to check before claiming an exemption or risk a penalty charge if found not to be eligible. As part of the campaign, NHSBSA sent all pharmacists a toolkit, which included posters and guidance documents intended to raise awareness and help people to determine their eligibility for an exemption from prescription charges. This is the first such national advertising campaign undertaken by NHSBSA. It had previously run an advertising campaign in Stoke-on-Trent to raise awareness of entitlements to free prescriptions and the consequences of an incorrect claim.

¹⁰ Sample checking figures for 2018-19 have yet to be finalised.

NHSBSA monitors the improvement in correct claims being made

3.9 NHSBSA uses performance metrics to assess whether the behaviour of those claiming exemptions from prescription charges is changing. One such metric assesses how many checks it must undertake to find an unsubstantiated claim for exemption. At the start of the prescription checking service in 2014-15, NHSBSA issued a PCN for every four checks it undertook. In 2018-19, NHSBSA checked 20 forms for each PCN it issued. For checks on dental exemptions, NHSBSA checked four forms for every PCN it issued in 2016-17, compared with 12 in 2018-19. NHSBSA considers this as evidence of the deterrent impact of PCNs and of increasing public awareness.

3.10 NHSBSA does not measure whether there are any unintended consequences of issuing PCNs, such as eligible people who are not claiming exemptions to which they are entitled, or whether fear of receiving a PCN will reduce the number of people willing to seek medical or dental treatment.

Appendix One

Our investigative approach

Scope

1 This investigation sets out the facts relating to the health sector's use of penalty charge notices (PCNs), which are sent to those who have claimed a free prescription or dental treatment when they are not entitled to do so. We undertook this work in response to concerns raised in the media and to us directly about the negative effects on the health of some people receiving PCNs. This work covers:

- the use of PCNs to recover funds for the NHS and to deter fraud;
- the complexity of navigating the system for those checking on their exemption eligibility; and
- future developments.

Methods

2 We interviewed relevant officials from the NHS Business Services Authority (NHSBSA), the Department of Health & Social Care (the Department), NHS England, the Department for Work & Pensions (DWP), the Legal Aid Agency and the NHS Counter Fraud Authority.

3 We reviewed key documents, such as the business cases for the Prescription and Dental Treatment Exemption Checking Service; the NHSBSA Annual Report and Accounts; various CFA documents; and written content produced by the NHS to help people check their eligibility for an exemption, such as the easy-read document *Are you signing for free prescriptions?* We also looked at the online tools provided by NHSBSA to help people check whether they are eligible for an exemption.

- 4** We undertook data analysis on PCN data provided by NHSBSA and Capita in order to present the numbers, values and outcomes of PCNs. We were provided with data on the number and value of PCN's issued since 2014, and a range of outcomes: paid; resolved because an exemption was later confirmed; resolved where the penalty charge was removed but the initial cost remained payable; and resolved where the PCN was cancelled. We have calculated the number of outstanding PCNs by subtracting the number of PCNs for each outcome from the total number issued. We have adopted the same approach for the value of outstanding PCNs. The outstanding PCNs as calculated by this method include special cases which do not strictly fall under the range of outcomes stated above, for example when a valid exemption is refunded by a cheque issued manually outside of the system.
- 5** We interviewed other stakeholders, including the British Dental Association, Prescriptions Charges Coalition and the Care Quality Commission.
- 6** We also reviewed information provided by individuals directly to the National Audit Office.

Appendix Two

The penalty charge system

1 A penalty charge notice (PCN) includes the costs of the prescription item or dental treatment and a penalty charge of five times the amount, which is capped at £100. NHSBSA will add a surcharge of 50% of the penalty charge if the recipient does not pay within 28 days. Where the penalty charge is removed, the original cost remains payable. **Figures 9** and **10** set out the amounts payable on a PCN by the number of prescription items dispensed or band of dental treatment received.

Figure 9
Penalty charge notices (PCNs) for prescriptions

PCNs for prescriptions by number of items dispensed

Prescription items	Cost of prescription (£)	Penalty charge (£)	Total charge (£)	Total charge including surcharge (£)
1	9	45	54	76.5
2	18	90	108	153
3	27	100 (capped)	127	177
4	36	100 (capped)	136	186

Note

1 A PCN has two components: the original cost of the prescription or dental treatment and a penalty charge of up to £100.

Source: National Audit Office analysis of NHS Business Services Authority website

Figure 10

Penalty charge notices (PCNs) for dental treatments

PCNs for dental treatments by band of treatment received

Dental treatment	Cost of prescription (£)	Penalty charge (£)	Total charge (£)	Total charge including surcharge (£)
1	22.70	100 (capped)	122.70	172.70
2	62.10	100 (capped)	162.10	212.10
3	269.30	100 (capped)	369.30	419.30

Note

- 1 A PCN has two components: the original cost of the prescription or dental treatment and a penalty charge of up to £100.

Source: National Audit Office analysis of NHS Business Services Authority website

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