

Update on Housing and Council Tax Benefit Subsidy Audits

SUMMARY

- 1.1 This report provides an update, as requested by action 43/11 from the Audit and Accounts Committee on 1 December 2011, of the Council's Housing and Council Tax Benefit Subsidy Audits for 2009/10, 2010/11 and 2011/12 and of the consequential budget implications relating to potential claw back of Government subsidy.
- 1.2 The Council's audited subsidy claims are subject to review and consideration by the Department of Work and Pensions - DWP - and ultimately a decision by the Secretary of State with regard to the level of any claw back to be made. This often results in considerable elapsed time from the end of the relevant year, completion of audit and receipt of any subsequent recovery decision by the Secretary of State.
- 1.3 The Council has worked extensively with its Auditors and the DWP on the three claims pending final settlement and has made prudent and sufficient provisions for potential claw-backs.

RECOMMENDATION

- 2.1 To note the continuing work and revised position in relation to 2009/10 subsidy claim and efforts to minimise the level of claw back of £1.49m, currently representing a 1.68% variation to the original claim.
- 2.2 To note the conclusion of the 2010/11 audit and the settlement of £610k claw back, representing a 0.63% variation to the original claim. This demonstrates a significant improvement on the previous year.
- 2.3 To note the conclusion and improvement of the 2011/12 audit and the potential for £259k claw back, representing a 0.26% variation to the original claim, demonstrating continuous improvement year on year.

- 2.4 To note that the overall budget provision for settlement of all three claims amounts to £2.359m. Based on the current position there is a potential favourable budget variation of £130k as the provision for the 3 claims amounts to £2.489m.
- 2.5 To note that the actions, detailed in paragraph 3.8 below, put in place by the Benefit Service, have demonstrated the continuous improvements made with regard to subsidy from 2009/10 to 2011/12, see appendix 2.

REASONS FOR RECOMMENDATION

2009/10 Housing and Council Tax Benefit Claim

- 3.1 The Auditor's report for the 2009/10 claim was submitted to the DWP on 28 February 2011. This set out the auditor's findings and gave an undertaking that further work would be undertaken by the Council in three key areas of the claim. Notwithstanding the need for this additional work the extrapolations (i.e. the values to be moved between different formulas that apply within the subsidy claim) suggested a potential reduction, or claw-back, in anticipated subsidy of £1.79m for which full budget provision has been set aside.
- 3.2 The original sampling carried out as part of the 2009/10 audit led to the sample containing a particularly high number of complex cases. This was due to the agreement to check cases falling across more than one cell. This reduced the number of cases to be checked but increased their complexity and therefore also increased risk of error. Consequently the claims selected for testing were unrepresentative of our caseload – tested 70% standard cases (higher risk) and 30% pass ported cases (lower risk). Our caseload comprises of 30% standard cases and 70% pass ported cases.
- 3.3 Given the impact of such high level extrapolations, the Council undertook to perform additional testing. This testing demonstrated a significant reduction in error rate in rent allowances. The Council and the Auditor reached agreement on the revised extrapolation based on the additional testing performed, and the outcome of the additional testing is a reduction to the extrapolation by £294k to £1.49m.
- 3.4 On 10 October 2012 the DWP informed the Council that no further work was needed in relation to the additional testing results. However, they asked that the authority provide mitigation in 2 cases found on audit where a referral was not made to the Rent Service in the prescribed time limits. The value of the extrapolation for these 2 cases amounts to £135k. In response the Council provided assurance to the DWP that non-referral of cases to the Rent Service is not systemic, demonstrated that no further issues were found in relation to referrals during 2 subsequent audits, and asserted that there was no material loss to the public purse as a result of these issues.
- 3.5 Our Auditor concurred with this view. On 3 January 2013 they wrote to DWP to confirm that they agree with the Council's position having seen evidence of the Rent Service information on local rent levels and recommended that the extrapolation of £1.49m could be reduced by a further £135k. The final value of claw-back for 2009/10 is now awaiting a decision by the Secretary of State.
- 3.6 Prudently the Council set aside a provision of £1.79m pending the outcome.
- 3.7 The original pre-audit claim amounted to £89.1m and the current and reduced suggested claw-back represents 1.68% of the total claim

2010/11 Housing and Council Tax Benefit Claim

- 3.8 The audit regime requires extended testing in all subsidy classifications where there were errors found in prior years. All errors found in audit testing require either an adjustment to the claim or a qualification report for review by the DWP. To mitigate against errors being found in this extended checking regime the Council, in partnership with the Auditor, put in place a targeted action with significant measures to improve the accuracy of benefit assessments, including:
- the appointment of a Subsidy Integrity Officer to assist in the improvement of subsidy data
 - Targeted checks on cases where there was a higher risk of error
 - Increased volume of cases selected for checking
 - Training sessions for all assessment staff to target areas of benefit assessment where error had occurred
 - Training sessions for all members of staff on subsidy awareness
 - Desk aids provided for assessment staff to support accuracy
 - Automating processes to avoid manual input errors, for example, change notifications received from DWP and HMRC
 - Individual coaching sessions for assessment staff to focus on improvement of accuracy
 - Procurement of a Quality Assurance module to assist in the checking of claims
- 3.9 The 2010/11 audit involved 577 additional cases being reviewed. The audit resulted in both an adjustment to the claim and a qualification report to the DWP with a cumulative impact of £609,667. In November 2011 the DWP confirmed that the subsidy claim had been finalised and that the final claw-back amounted to £609,667.
- 3.10 The original pre-audit claim amounts to £96.8m and the claw-back represents 0.63% of the total claim.

2011/12 Housing and Council Tax Benefit Claim

- 3.11 Given the elapsed time in the audit process, the improved position in 2010/11 did not negate the audit requirement for additional testing on the audit of the 2011/12 claim. During 2011/12 the Council continued with the measures to improve the accuracy of benefit assessments.
- 3.12 The 2011/12 audit involved 575 additional cases being reviewed. The 2011/12 audit resulted in both an adjustment to the claim and a qualification report to the DWP with a cumulative impact of £259,343 This was submitted to the DWP in the prescribed time limit of 30 November 2012. We now await the DWP's response to the qualification letter.
- 3.13 The original pre-audit claim amounts to £101.4m and the claw-back represents 0.26% of the total claim.

Future years' audits

- 3.14 The Auditor conducting the audit for the 2011/12 claim gave positive verbal feedback on the improved position. Clearly whilst the value of error has significantly reduced,

errors continue to be found on additional testing. The requirement for future years' audits to include additional testing will be subject to a review of the actions taken to improve the accuracy of the claim in addressing adjudication errors and a judgement made by the Council's auditors on the level and mitigation. This work assesses the likelihood of similar issues in future years' audits. Whilst this assessment has yet to be completed, early indications are that future years' audits may be subject to a 'lighter' additional testing regime which would give a clear endorsement to the continuous improvement actions and yield a reduction in audit time and therefore costs.

SUPPORTING INFORMATION

- 4.1 The Council pays Housing and Council Tax Benefit on behalf of the DWP and receives reimbursement for this through a complex subsidy scheme. Each year the Council submits two estimates of the amount of subsidy it requires from the DWP; one before the financial year begins and one mid-year. The DWP then pays the Council interim subsidy instalments each month based on those estimates.
- 4.2 Each year, the final year end claim is audited by the Council's external auditors. Any errors found are examined to determine if they affect the level of subsidy claimed and already paid. Individual errors are extrapolated to arrive at a figure which the auditor determines as over-claimed subsidy in any one particular area of the claim.
- 4.3 The methodology for audit and calculation of extrapolations is governed by the Audit Commission (AC) and prescribed via "HB Count Methodology". Further guidance is provided by AC to the Council's Auditor's on the level and detail of the tests to be performed, known as Attribute Tests. The Council has little influence on the approach but has to agree the sampling methodology which can either be across the whole claim population i.e. random selection of cases within Council Tax Benefit or that testing be restricted to a sub-population. Decisions here inform the basis of the extrapolation.
- 4.4 The Auditors findings are detailed in a report to the DWP. If an authority opts not to adjust the claim based on the audit findings, as was the case for Derby's 2009/10 claim, a "Qualification Letter" is prepared and will indicate areas requiring further work. All information is provided to the DWP who calculate the subsidy over and under payments and notify this to the Council, alerting it to the recommendation as to the amount of subsidy the Secretary of State must decide on recovery. The notification also provides the Council with an indication of any underpayments the Secretary of State may consider. At this stage the Council may be invited to submit any mitigation against recovery if it hasn't done so already. To determine the level of subsidy overpaid the whole claim then has to be re-worked as errors in one part of the claim may be either beneficial or detrimental when applied to other areas of the claim and relevant formulas.

4.5 Over years the administration of Housing and Council Tax Benefit has grown in complexity and as a result the propensity for assessment error has increased. In 2008/09 the volume of checks undertaken in the claim scrutiny was increased. This increase in checks increases the chance of finding error. The impact of this is widespread across all authorities:

“The number of qualifications on housing and council tax benefits is a particular concern...Overall 85 percent of benefits claims had qualifications or amendments or both...the complexity of the benefits and subsidy arrangements and the large volume of transactions involved, means there is considerable scope for error”

Source: Local government claims and returns: The Audit Commission’s report on certification work 2008/09. July 2010.

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Service Director(s) Other(s)	Peter Shillcock Group Accountant Kath Gruber Gaynor Valente – Welfare Reform, Policy, Subsidy and Financial Control Manager Sarah Loasby – Subsidy Control Manager
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Appendix 1

IMPLICATIONS

Financial

- 1.1 Details are contained within the body of the report.

Legal

- 2.1 Housing and Council Benefit is a statutory service.

Personnel

- 3.1 None.

Equalities Impact

- 4.1 None.

Health and Safety

- 5.1 None.

Carbon commitment

- 6.1 None.

Value for money

- 7.1 None.

Corporate objectives and priorities for change

- 8.1 Corporate Plan - promoting city growth. Efficient payment and increased take-up of benefit helps stimulate the local economy.

Appendix 2

Illustration of continuous improvement with regard to subsidy claw-back 2009/10 to 2011/12

