

The Highland Council
Resources Committee – 28 May 2014

Agenda Item	10
Report No	RES/ 08/14

Report by Audit Scotland: Review of recovery of benefits subsidy in 2012/13

Summary

This independent Report into the subsidy claims of Scottish Councils and spending in areas not fully funded by the Department of Work and Pensions, and provides a useful insight into subsidy losses funded from each Council's budget.

The Report Summary (in Appendix 1, attached) identifies areas of good practice, which have been reviewed by the Council and will continue to be the subject of improvement actions.

1. Background

- 1.1 The background to this work by Audit Scotland looking at all 32 local authorities, is set out on page 5 of their Report.
- 1.2 It is important to note that the subsidy system is designed so that some elements of expenditure on Benefit do not receive full subsidy, as an incentive to Councils to manage these.
- 1.3 To put the losses into perspective, for 2012/2013 the Highland Council had the eighth highest caseload in Scotland and at £1.6m the eighth highest amount of local funding.

2. The Highland Council

- 2.1 With the processing of change in circumstances performance now in the top quartile nationally, continuing prompt and accurate administration should ensure that any Local Authority Error Overpayments (as defined) are minimised.
- 2.2 Subsidy at the rate of only 40% is received in respect of Claimant Error Overpayments, so this is an area where staff training continues to be focused in order to reduce subsidy losses.
- 2.3 Where Benefit Overpayments do arise there is a clear strategy and procedure as to how they are pursued, whether this be by recovery from ongoing benefit (although recoveries by this means are constrained by law), raising an invoice against the customer, or recovery from a Local Authority rent account that is in credit.

- 2.4 There are in place appropriate cross-Service management responses to the particular challenges posed by the Council's duties to the homeless, this being an area where the tenure of the housing offered has a consequence in determining the subsidy payable.
- 2.5 Whilst the reduction in both homelessness and overall Housing Benefit caseload has reduced the Council's net cost of benefit subsidy, this remains an area where the level of recovery of overpaid Housing Benefit is low.
- 2.6 The Service believes that it can increase income through more efficient processes in the issuing of invoices and more effective recovery processes. These efficiency gains are reflected in budget savings proposals in 2014/15, covered in an earlier report on today's agenda.

3. Checklist of Improvement Actions

- 3.1 The Audit Scotland Report (at exhibit 2), sets out examples of good practice that may help authorities generally to reduce subsidy losses. Appendix 2 shows local progress against these.

4. Implications

4.1 Financial

- 4.1.1 The level of subsidy lost represents a real cost to the Highland Council and councils generally, as highlighted in the Audit Scotland report. The Finance Service undertakes a number of actions to minimise cost, but believes that further progress can be made, and this is reflected in budget savings proposals for 2014/15.

4.2 Risk

- 4.2.1 Changes due to welfare reforms, and individuals' changing circumstances, present an ongoing financial risk to the Highland Council. The Council has established, and has proposals elsewhere on this agenda, to take a number of preventative measures to mitigate the impact. Effective and efficient processing of benefit claims and change of circumstances will also mitigate the risk of loss of subsidy.

4.3 Equalities

- 4.3.1. Benefits claims are progressed fairly and sympathetically, mindful of the experience of people on low incomes, unemployment, and others specifically impacted by welfare reforms. This is particularly the case for people with disabilities and single parents. The Council offers a Money Advice and Income Maximisation Services, and works closely with Citizens Advice Bureaux, to ensure that people access the benefits to which they are entitled. This work supports and complements the work to ensure that awards of benefit are made in accordance with regulations, but made promptly.

4.4 Other

There are no Legal, Climate Change/Carbon Clever or Gaelic implications arising from this Report.

Recommendation

Members are asked to note the useful information that is contained in this paper by Audit Scotland, and endorse the actions that are being taken by officers in accordance with best practice.

Designation: Director of Finance

Date: 19 May 2014

Author: WDD Lamont, Head of Exchequer & Revenues

Background Papers: Audit Scotland Report dated February 2014



Review of recovery of benefits subsidy in 2012/13

Summary report

 AUDIT SCOTLAND

Prepared by Audit Strategy, February 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Purpose of report

1. The purpose of this report is to provide insight into the extent to which local authorities are losing subsidy. Audit Scotland reviewed the subsidy claims of all 32 Scottish councils for 2012/13. The review focused on errors identified by authorities and auditors as well as spending by local authorities which was not fully funded by the Department for Work and Pensions (DWP) and was therefore a direct cost to local authority budgets.
2. This is a summary of the key findings from our full report entitled "*Review of recovery of benefits subsidy in 2012/13*" which is available from our website at http://www.audit-scotland.gov.uk/docs/local/2014/hb_140224_recovery_benefit_subsidy.pdf
3. This summary report sets out the main findings from the review. It identifies areas where some local authorities may not be performing as well as others. It identifies areas of good practice and areas where processes and practices could be revised in order to identify improvements which may help to maximise subsidy payments from DWP in future years and reduce the direct cost to councils.

Summary of findings

4. During 2012/13, Scottish councils paid out £2.17 billion in housing benefit (HB) and council tax benefit (CTB) awards. The DWP contributed £2.12 billion to this expenditure through subsidy payments, with the balance of £50 million being met directly from local authority budgets.
5. Our review of the Scottish councils' subsidy claims to the DWP identified that there is a significant variance in terms of the percentage of expenditure recovered from the DWP in respect of HB for properties rented from local authorities and properties rented from private landlords or housing associations. For HB on properties rented from local authorities, known as rent rebates, the percentage of HB expenditure recovered from DWP varied between 72.4% and 99.1%. The percentage of HB expenditure recovered for properties rented from private landlords or housing associations, known as rent allowances, ranged from 96.4% to 99.2%. The lower rent rebate recovery rate for some councils is due mainly to the loss of subsidy on expenditure to discharge local authorities' statutory homeless duty.
6. The areas where local authorities lost subsidy and therefore was a direct cost to council budgets include:
 - £32.4 million of expenditure on HB and CTB overpayments
 - £10.7 million of expenditure for benefit claimants housed by local authorities in temporary board and lodging, leased or licensed accommodation to discharge councils' homeless duties

- £4.3 million on rent allowance claims administered under the rules which were in force up to January 1996.
7. The certification of the 2012/13 subsidy claims by auditors identified errors which, if the DWP decide to reclaim subsidy, will result in a further £0.5 million to be met from local authority budgets. The subsidy audit identified that in order to help reduce subsidy loss, effective management arrangements should be in place to ensure that overpayments are minimised and where they do occur they are correctly classified and calculated.

Background

8. In Scotland, one in four households received financial support to help pay for their rent or council tax during 2012/13 in the form of HB and CTB.
9. Local authorities reclaim most of the HB and CTB that they have paid to claimants from the DWP by submitting subsidy claims that are certified by each authority's appointed external auditor.
10. However, some elements of HB and CTB do not receive full subsidy to encourage local authorities to control that element of expenditure. This includes high rents for care and support homes and temporary accommodation and the raising of overpayments. Overpayments of benefit are not fully funded to ensure that local authorities take due care when processing claims to ensure that they are accurate and take recovery action where appropriate.

Detailed findings

Types of benefit

11. HB and CTB are means tested social security benefits, administered by local authorities on behalf of the DWP. HB is intended to help customers meet housing costs for rented accommodation.
12. There are two categories of HB. Rent rebates are housing benefits paid to eligible tenants who rent their property from the local authority. Rent allowances are housing benefits paid to eligible tenants who rent their property from private landlords or housing associations.
13. CTB was a means tested social security benefit administered by local authorities on behalf of the DWP and was intended to help people on a low income to cover some or all of their council tax charge. It was available to claimants who rent or own their own home, regardless of whether they are unemployed or working.
14. UK government legislation abolished CTB from 1 April 2013 as part of the welfare reform programme. At the same time, the Scottish Government introduced the Scottish Council Tax

Reduction (CTR) scheme to replace CTB. Responsibility for assisting those who need help to pay their council tax in Scotland is now the responsibility of the Scottish Government and Scottish local authorities.

Qualifications to auditors' conclusions

15. The DWP requires that final subsidy claims are certified by external auditors prior to submission to the DWP. The certification of all Scottish councils' 2012/13 subsidy returns is now complete.
16. Of the 32 Scottish local authorities, auditors identified errors in 13 claims. If the DWP were to reclaim subsidy for the errors identified then over £0.5 million would be reclaimed across Scotland. Although, the DWP may reclaim subsidy where overpayments are identified, no additional funding is provided where underpaid benefit is identified by auditors.
17. The errors identified by auditors in 2012/13 were mainly due to benefits system reconciliations, misclassification of overpayments, and miscalculation of income and rent. It is good practice for local authority accuracy checking procedures to focus on these areas.

Significant areas of subsidy loss

18. We looked at the areas where local authorities lost subsidy. Those local authorities with significantly lower subsidy recovery rates across the various categories of expenditure should investigate the reasons why with a view to improving processes and performance. Exhibit 1 below details the main areas where subsidy was lost split across the three benefit types.

Exhibit 1

Subsidy area	Rent rebates	Rent allowance	CTB	TOTAL
Overpayments				
<p>Eligible overpayments</p> <p>These are overpayments that are not due to timing issues or overpayments caused by DWP error, local authority error or administrative delay. They include:</p> <ul style="list-style-type: none"> • claimant error overpayments - an overpayment caused by the claimant or a person acting on the claimant's behalf who fails to provide information in accordance with HB regulations or fails to report a change of circumstances • fraud overpayments - where the 	£8.5 million	£15.8 million	£7.1 million	£31.4 million

Subsidy area	Rent rebates	Rent allowance	CTB	TOTAL
<p>overpayment has arisen as a result of the claimant being found guilty of an offence, made an admission after caution of deception or fraud for the purpose of obtaining benefit; or agreed to pay a penalty under section 115A of the Social Security Administration Act and the agreement has not been withdrawn</p> <ul style="list-style-type: none"> other overpayments - any overpayments which do not fit into any of the other categories. For example where an authority makes a payment in good faith, but a change, such as an adverse decision in a judicial review, results in an overpayment. <p>For this type of overpayment, the amount of subsidy paid to local authorities is 40% of the overpayment. The losses shown represent the 60% not met by subsidy.</p>				
<p>Local authority error and administrative delay overpayments</p> <p>Four local authorities lost subsidy in this area. These are overpayments of benefit where either the local authority has made a mistake or error or where the local authority has been responsible for a delay in processing a claim.</p>	£0.39 million	£0.42 million	£0.19 million	£1 million
Audit of subsidy claims				
Errors identified during the audit of subsidy claims at 13 councils	£0.09 million	£0.06 million	£0.38 million	£0.5 million
Claims with statutory requirements				
Expenditure on accommodation to discharge homeless duties	£10.7 million	£0.5 million	N/A	£11.2 million
Rent allowance claims administered under the pre 1996 rules.	N/A	£4.3 million	N/A	£4.3 million

Subsidy area	Rent rebates	Rent allowance	CTB	TOTAL
<p>This category of expenditure relates to expenditure for claimants who either:</p> <ul style="list-style-type: none"> • have been claiming housing benefit before 2 January 1996; or • are living in "exempt" accommodation where the tenant is provided with care and support or supervision or • can be classed as "vulnerable" claimants and therefore the local authority is unable to restrict benefit under regulations. <p>Expenditure in this category receives full subsidy up to the rent officer's determined rent level and sixty per cent on the part of the rent that is above the rent officer's determination where claimants can be classed as vulnerable. Where claimants cannot be classed as vulnerable, expenditure above the rent officer's determination receives no subsidy.</p>				
TOTAL	£19.68 million	£21.08 million	£7.67 million	£48.4 million

19. Exhibit 2 below provides some suggested practices which may help local authorities reduce subsidy loss.

Exhibit 2

Subsidy area	Subsidy loss	Good practice
Eligible overpayments	<p>Total £31.4 million</p> <p>£8.5 million-rent rebates</p> <p>£15.8 million-rent allowances</p>	<ul style="list-style-type: none"> • Risk based, proportionate intervention activity is in place to identify change of circumstances and then take corrective action • The outcomes of intervention activity are monitored to identify improvements for future activity • Claimants are encouraged to report change of circumstances on time • Overpayments are rigorously recovered from claimants

Subsidy area	Subsidy loss	Good practice
	£7.1 million - CTB	<ul style="list-style-type: none"> • A proactive fraud culture is in place which encourages the reporting of possible fraudulent claims and leads are appropriately followed up • Successful prosecutions are advertised to help deter fraudulent claims
Local authority error and administrative delay overpayments	£1 million	<ul style="list-style-type: none"> • There are sufficient numbers of trained and effective benefits processors in place • Processes are in place to ensure backlogs of work do not build up. This includes ensuring that the workload is regularly monitored and appropriate early actions are taken when required • A robust quality assurance framework is in place which includes effective accuracy checking procedures as well as actions to address poor performance • Overpayments are rigorously recovered from claimants
Audit of subsidy claims	Over £0.5 million	<ul style="list-style-type: none"> • Effective accuracy checking procedures are in place • Accuracy checking procedures cover overpayment classification as well as the actual calculation of overpayments • Council IT departments, accountants and software providers are involved as appropriate where there are problems with benefit reconciliations • Subsidy claims are reviewed for errors and inconsistencies prior to submission to the DWP and auditors
Expenditure on accommodation to discharge homeless duties	Total £11.2 million £10.7 million - rent rebates £0.5 million - rent allowances	<ul style="list-style-type: none"> • The type of accommodation used is reviewed to ensure value for money and the best outcomes for claimants are being achieved • The cost of accommodation being used is regularly reviewed to identify if there are any alternative cheaper options • Contracts for the provision of accommodation are in place and are reviewed regularly to ensure value for money is being achieved • Value for money is achieved during tendering

Subsidy area	Subsidy loss	Good practice
		<p>exercises</p> <ul style="list-style-type: none"> Those people presenting themselves as homeless are not accommodated in expensive bed and breakfast accommodation where possible.
Rent allowance claims administered under the pre 1996 rules	£4.3 million	<ul style="list-style-type: none"> Claims are reviewed to ensure they are correctly classified Value for money is achieved in contracts for the provision of support services The cost of support services is regularly reviewed to ensure services are efficient and effective
Total	£48.4 million	

Total cost per council

20. Exhibit 3 below shows for each council, the subsidy loss funded from the council's budget.

Exhibit 3

Council	Cost
Aberdeen City	£1.6 million
Aberdeenshire	£1.4 million
Angus	£0.6 million
Argyll & Bute	£0.3 million
Clackmannanshire	£1.5 million
Comhairle Nan Eilean Siar	£0.1 million
Dumfries & Galloway	£1.7 million
Dundee City	£1.9 million
East Ayrshire	£1.1 million
East Dunbartonshire	£0.4 million
East Lothian	£0.6 million
East Renfrewshire	£0.3 million
Edinburgh (City of)	£7.7 million
Falkirk	£1.0 million

Fife	£1.8 million
Glasgow City	£9.3 million
Inverclyde	£0.8 million
Midlothian	£0.8 million
Moray	£0.4 million
North Ayrshire	£0.8 million
North Lanarkshire	£1.6 million
Orkney Isles	£0.1 million
Perth & Kinross	£1.3 million
Renfrewshire	£1.3 million
Scottish Borders	£0.7 million
Shetland Isles	£0.1 million
South Ayrshire	£1.0 million
South Lanarkshire	£3.1 million
Stirling	£0.3 million
The Highland Council	£1.6 million
West Dunbartonshire	£1.3 million
West Lothian	£1.9 million
Total	£48.4 million

Appendix 2

Subsidy Area	Good Practice	The Highland Council Position
Eligible Overpayments	Risk based, proportionate intervention activity is in place to identify change of circumstances and then take corrective action.	Interventions Strategy will be subject to review on an ongoing basis.
Eligible Overpayments	The outcomes of intervention activity are monitored to identify improvements for future activity.	This forms part of the Interventions Strategy.
Eligible Overpayments	Claimants are encouraged to report change of circumstances on time.	This has already been implemented and accepted by the 2013 Audit Scotland Housing Benefit Risk Assessment Audit. The Corporate Improvement Team is working with the Finance Service to introduce an online change in circumstances form by October 2014.
Eligible Overpayments	Overpayments are rigorously recovered from claimants.	Analysing recovery levels and reassessing inter-team actions to ensure most efficient progress on this.
Eligible Overpayments	A proactive fraud culture is in place which encourages the reporting of possible fraudulent claims and leads are appropriately followed up.	This is already implemented and accepted by the 2013 Audit Scotland Housing Benefit Risk Assessment Audit.
Eligible Overpayments	Successful prosecutions are advertised to help deter fraudulent claims.	Prosecutions can be reported in the media and related information has been passed to the Council's Public Relations team in the past. We also report anonymised statistics on an annual basis.
LA Error & Administrative Delay Overpayments	There are sufficient numbers of trained and effective benefits processors in place.	Overpayment training has been raised in ERDs. Local Authority Error rates are low and within the Threshold /Cap
LA Error & Administrative Delay Overpayments	Processes are in place to ensure backlogs of work do not build up. This includes ensuring that the workload is regularly monitored and appropriate actions are taken when required.	This is already implemented and accepted by the 2013 Audit Scotland Housing Benefit Risk Assessment Audit.
LA Error & Administrative Delay Overpayments	A robust quality assurance framework is in place which includes effective accuracy checking procedures as well as actions to address poor performance.	This is already implemented and accepted by the 2013 Audit Scotland Housing Benefit Risk Assessment Audit.
Audit of Subsidy Claims	Effective accuracy checking procedures are in place	This is already implemented and accepted by the 2013 Audit Scotland Housing Benefit Risk Assessment Audit. Accuracy levels are in excess of 99%
Audit of Subsidy Claims	Accuracy checking procedures cover Overpayment classification as well as the actual calculation of Overpayments.	This is already implemented and accepted by the 2013 Audit Scotland Housing Benefit Risk Assessment Audit.

Appendix 2

Audit of Subsidy Claims	Council IT departments, Accountants, and Software Providers are involved as appropriate where there are problems with benefit reconciliations.	No reconciliation issues, but would involve others as necessary if the situation merited it.
Audit of Subsidy Claims	Subsidy claims are reviewed for errors and inconsistencies prior to submission to the DWP and auditors.	Comparisons are made to mid-year estimates and previous claim forms to test reasonableness. The claim is also considered by the Head of Exchequer and Revenues before it is signed off.
Expenditure on accommodation to discharge homeless duties	The type of accommodation used is reviewed to ensure value for money and the best outcomes for claimants are being achieved.	Procedures in place (Head of Housing)
Expenditure on accommodation to discharge homeless duties	The cost of accommodation being used is regularly reviewed to identify if there are any alternative cheaper options.	Regularly reviewed by Housing
Expenditure on accommodation to discharge homeless duties	Contracts for the provision of accommodation are in place and are reviewed regularly to ensure value for money is being achieved.	Already in place (Head of Housing)
Expenditure on accommodation to discharge homeless duties	Value for money is achieved during tendering exercises.	Appropriate procurement arrangements are in place
Expenditure on accommodation to discharge homeless duties	Those people presenting themselves as homeless are not accommodated in expensive bed and breakfast accommodation where possible.	The Council's strategy has been to move steadily away from such provision.
Expenditure on accommodation to discharge homeless duties	Claims are reviewed to ensure they are correctly classified.	Intervention Strategy refers.
Expenditure on accommodation to discharge homeless duties	Value for money is achieved in contracts for the provision of support services.	All Council procurement is regulated.
Expenditure on accommodation to discharge homeless duties	The cost of support services is regularly reviewed to ensure services are efficient and effective.	Monitored by Head of Housing within corporate rules.