

AUDIT COMMITTEE: 12th NOVEMBER 2019

**RISK BASED VERIFICATION POLICY – HOUSING BENEFIT AND COUNCIL
TAX REDUCTION**

AGENDA ITEM: 5.2

REPORT OF THE ASSISTANT DIRECTOR, HOUSING AND COMMUNITIES

Appendices A – F of the report are not for publication as they contain exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972

Reason for this Report

To advise the Audit Committee of the proposed new approach to verifying claims for Housing Benefit and Council Tax Reduction.

1. The Audit Committee has requested this update in respect of its role:
 - To monitor the effective development and operation of risk management in the Council
 - To monitor progress in addressing risk-related issues reported to the committee.
 - To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
 - To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
 - To review the assessment of fraud risks and potential harm to the council from fraud and corruption.

Background

Current Verification Framework

2. The Housing Benefit scheme is overseen by the Department of Work and Pensions and the Council Tax Reduction Scheme is the responsibility of the Welsh Government. Both schemes are administered by the Local Authority Benefits Service.
3. During 2018/19 the service processed 13,980 new claims and 62,645 changes in circumstances. Claimants are currently required to provide original documentary evidence of their income, savings, rent and expenses in support of their claim and each new claim and change of circumstances is verified to the same standard.
4. This current approach to verification is inconvenient for the customer and costly to administer.

Risk Based Verification

5. Following the publication of the Department for Works and Pensions subsidy circular S11/2011, Local Authorities are able to implement a 'risk based' approach to verifying evidence in support of Housing Benefit new and change of circumstances claims. This is known as Risk Based Verification (RBV).
6. The Welsh Government have confirmed that this approach is also acceptable for the administration of Council Tax Reduction.
7. Risk Based Verification is a method of applying different levels of verification checks to claims according to the predicted risk associated with those claims. The approach allows less evidence to be accepted for those cases deemed to be at lower risk of fraud and error while increasing the verification activity focussed on claims more prone to fraud and error.

Advantages of Risk Based Verification

8. Taking a risk based approach ensures that information and evidence is only requested when needed and therefore has considerable advantages for both the customer and the service, these include:
 - Increased detection of fraud and error in high risk cases
 - Customer service improvements
 - Less time spent following up missing evidence in order to pay a claim
 - Improvement in the speed of processing, productivity and efficiency of assessment staff
 - Reduction in footfall at Hubs for verification of documents therefore improving waiting times for customers accessing other Hub services
 - Reduced administrative and postage costs

Issues

Department for Works and Pensions (DWP) requirements

9. The Department for Work and Pensions has provided guidance for Local Authorities wishing to adopt Risk Based Verification. This includes a requirement for a Risk Based Verification Policy which should detail:
 - The risk profiles that will be used
 - How the risk of each case will be determined (IT solution or clerical)
 - How the assumptions to determine risk will be tested and refined
 - The verification standards that will apply to each of the risk profiles
 - The minimum number of claims to be checked
 - Monthly monitoring and reporting of the Risk Based Verification performance which should include as a minimum; the percentage of cases in each risk category and the levels of fraud and error detected
 - A robust baseline of fraud and error detection against which the impact of Risk Based Verification could be measured

10. The guidance states that the policy must allow Members, officers and external auditors to be clear about the levels of verification necessary. It must also be reviewed annually but not changed in year as this would complicate the audit process.
11. It also recommends that the policy should be examined by the Council's Audit Committee and must be submitted for Member's approval and sign-off along with confirmation of the Section 151 Officers agreement.
12. The guidance further suggests that the information held in the Policy should not be made public due to the sensitivity of its contents.
13. Local Authorities will be required to produce a robust baseline of fraud and error detection against which to record the impact of Risk Based Verification.

Consultation with Audit Services

14. The service area requested the input of consultancy audit services. The objectives of the consultant exercise was;
 - To consider that the draft Risk Based Verification Policy met the Department for Works and Pensions requirements
 - To consider that the proposed processes sufficiently address risk
 - Advice and guidance on processes for consultation and approval of the Risk Based Verification Policy and planned future Risk Based Verification Monitoring, auditing and reporting mechanisms.
15. The full report and findings can be found in Appendix B
16. There were no concerns highlighted by the audit service and it was agreed that the policy met the Department for Work and Pensions guidelines.
17. Some matters for consideration were put forward and these matters have been be addressed:
 - An update the privacy statement and other process adjustments and policy amendments as advised by Information Governance.
These comments have been taken on board and approved Data Protection Impact Assessment attached, Appendix D
 - Documenting Risk Based Verification risks in a risk register and ensuring they are periodically reviewed as part of the operational reporting.
Service area risk register updated, Appendix F
 - Continuing to document issues arising and lessons learned in a log following full implementation for ongoing monitoring and review.
The shared issues and considerations log will be continued following the full roll out of Risk Based Verification
 - Formalising the checking / auditing arrangements for the training and quality team.
Draft procedure has been written
 - Formalising the process for performance reporting, and annual review.
Risk Based Verification policy has been amended and attached, Appendix A
 - Documenting the above in the Risk Based Verification policy, performance and quality team policies.
Policy amended and included in Appendix A

Risk Based Verification Pilot

18. In October 2018, authorisation was obtained to commence a small scale pilot of a risk based approach. A full analysis of the pilot can be found in Appendix C
19. A total of 1,526 risk categories were generated from May 2019 to September 2019. This was made up of 727 new claims and 799 change of circumstances.
20. There were no issues of concern raised and the percentage of cases reported in each risk category was within expected guidelines provided by the Department for Work and Pensions.

Summary of Pilot Findings

21. The evidence required in support of the majority of new claims and change of circumstances was reduced compared to the current verification process adopted by the service. There was a clear improvement in the processing times of those claims deemed to be at lower risk of fraud and error.
22. As expected the level of fraud and error detected increased as the risk category of the cases increased. The overall level of fraud and error detected within the new claims processed as part of the pilot is higher than the previous baseline fraud and error detection rate.
23. To test whether the system is functioning correctly, a “blind sample” of cases was automatically selected. The blind sample was subjected to a higher level of verification than would normally be required for its risk category. The purpose of the blind sample is to check whether any fraud and error would have been detected if full verification had been carried out. During the pilot the level of fraud and error detected in the blind sample was nil, showing that that the risk assumptions made by the software are robust.
24. It should be noted that there is some risk associated with applying lower levels of verification. If errors are found later, this could lead to an increase in claimant error overpayments and a subsequent subsidy loss to the Council if it was not possible to recover the overpayment in full.
25. The results demonstrated by the pilot as part of the “blind sample” process and the fraud and error detection rate within each category gives assurance that the risk associated with claims is being assessed correctly by the software and therefore minimises the likelihood of increased overpayments.
26. These results demonstrate that the assumptions of risk used by the software are robust and that increased verification activity is being targeted at those claims more prone to fraud and error.
27. The additional verification activity has resulted in an increased level of detection of fraud and error as the risk category of the cases increases as expected by the Department for Works and Pensions.

28. The risk profile of new claims and change of circumstances generated by the IT solution falls comfortably within Department for Works and Pensions guidelines.

Conclusion

29. Given the success and positive findings of the pilot it is proposed that full implementation of Risk Based Verification takes place. A Risk Based Verification Policy has been developed that covers all the requirements set out by the Department of Work and Pensions and this can be found at Appendix A.

Efficiencies

30. It is anticipated that this new way of working will reduce the administration required for benefit claims, and will allow the service to release 4 posts in the first instance, this can be achieved by the deletion of vacant posts. Further savings will be considered once the new arrangements are fully implemented.

Legal Implications

31. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.
32. The report identifies that an Equality Impact Assessment has been carried out and is appended at Appendix E. The purpose of the Equality Impact Assessment is to ensure that the Council has understood the potential impacts of the proposal in terms of equality so that it can ensure that it is making proportionate and rational decisions having due regard to its public sector equality duty.
33. The decision maker must have due regard to the Equality Impact Assessment in making its decision.

Financial Implications

34. The policy sets out the implementation and adoption of a risk based approach to verifying evidence supporting Housing Benefit and Council Tax new claims. This is anticipated to result in administrative efficiencies and a reduction in the resources required for assessment and processing of claims. The implementation of the policy also provides resilience against the anticipated reductions in the DWP Housing Benefit Administration Grant for 2020/21. The DWP requires S151 officer assurance and approval for the change in Policy. Directorate Management with the advice of Internal Audit have tested the system to mitigate against the risk of fraud or error and provided assurance for the S151 Officer to approve that the proposed changes contained within this report are appropriate for consideration.

RECOMMENDATIONS

35. That the Audit Committee considers the content of the report.

Jane Thomas
Assistant Director, Housing and Communities

The following is attached:

Appendix A: Risk Based Verification Policy

Appendix B: Internal Audit Briefing Report – RBV module

Appendix C: Risk Based Verification Pilot Analysis Report

Appendix D: Data Protection Impact Assessment form

Appendix E: Equality Impact Assessment

Appendix F: Service Area Risk Register

The following background papers have been taken into account

DWP Subsidy Circular S11/2011 & DWP General Circular G1/2016