

# Review of recovery of benefits subsidy in 2012/13

## Summary report



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](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
<b>Overpayments</b>				
<p><b>Eligible overpayments</b></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"> <li>• 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</li> <li>• fraud overpayments - where the</li> </ul>	£8.5 million	£15.8 million	£7.1 million	<b>£31.4 million</b>

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"> <li>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.</li> </ul> <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><b>Local authority error and administrative delay overpayments</b></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	<b>£1 million</b>
<b>Audit of subsidy claims</b>				
Errors identified during the audit of subsidy claims at 13 councils	£0.09 million	£0.06 million	£0.38 million	<b>£0.5 million</b>
<b>Claims with statutory requirements</b>				
Expenditure on accommodation to discharge homeless duties	£10.7 million	£0.5 million	N/A	<b>£11.2 million</b>
Rent allowance claims administered under the pre 1996 rules.	N/A	£4.3 million	N/A	<b>£4.3 million</b>

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"> <li>• have been claiming housing benefit before 2 January 1996; or</li> <li>• are living in "exempt" accommodation where the tenant is provided with care and support or supervision or</li> <li>• can be classed as "vulnerable" claimants and therefore the local authority is unable to restrict benefit under regulations.</li> </ul> <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>				
<b>TOTAL</b>	<b>£19.68 million</b>	<b>£21.08 million</b>	<b>£7.67 million</b>	<b>£48.4 million</b>

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



Subsidy area	Subsidy loss	Good practice
	£7.1 million - CTB	<ul style="list-style-type: none"> <li>• A proactive fraud culture is in place which encourages the reporting of possible fraudulent claims and leads are appropriately followed up</li> <li>• Successful prosecutions are advertised to help deter fraudulent claims</li> </ul>
Local authority error and administrative delay overpayments	<b>£1 million</b>	<ul style="list-style-type: none"> <li>• There are sufficient numbers of trained and effective benefits processors in place</li> <li>• 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</li> <li>• A robust quality assurance framework is in place which includes effective accuracy checking procedures as well as actions to address poor performance</li> <li>• Overpayments are rigorously recovered from claimants</li> </ul>
Audit of subsidy claims	<b>Over £0.5 million</b>	<ul style="list-style-type: none"> <li>• Effective accuracy checking procedures are in place</li> <li>• Accuracy checking procedures cover overpayment classification as well as the actual calculation of overpayments</li> <li>• Council IT departments, accountants and software providers are involved as appropriate where there are problems with benefit reconciliations</li> <li>• Subsidy claims are reviewed for errors and inconsistencies prior to submission to the DWP and auditors</li> </ul>
Expenditure on accommodation to discharge homeless duties	<b>Total £11.2 million</b> £10.7 million-rent rebates  £0.5 million-rent allowances	<ul style="list-style-type: none"> <li>• The type of accommodation used is reviewed to ensure value for money and the best outcomes for claimants are being achieved</li> <li>• The cost of accommodation being used is regularly reviewed to identify if there are any alternative cheaper options</li> <li>• Contracts for the provision of accommodation are in place and are reviewed regularly to ensure value for money is being achieved</li> <li>• Value for money is achieved during tendering</li> </ul>

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

## 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
<b>Total</b>	<b>£48.4 million</b>