

Corporate Governance and Standards Committee Report

Ward(s) affected: All

Report of Director of Resources

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## **Audit Report on the Certification of Financial Claims and Returns 2015-16: Housing Benefit Subsidy and Pooling Housing Capital Receipts**

### **Executive Summary**

The Council has received an audit report on the certification of financial claims and returns for 2015-16. The audit covers claims returns relating to expenditure of £39 million, spanning:

- Housing Benefit Subsidy worth £35.3m
- Pooling of Housing Capital Receipts worth £3.9m

Despite the auditor certifying an increase in the number of errors identified within the Housing Benefit Subsidy return, the net effect to the Council is an increase in DWP subsidy payable to us of £6,080. The additional checking undertaken by the auditor (Grant Thornton) has resulted in their request for additional fees of £12,500.

The auditor had no issues to report in respect of the total capital receipts subject to pooling, as officers have already corrected errors identified in the audit.

### **Recommendation to Corporate Governance and Standards Committee:**

The Committee is asked:

- (1) to note the position regarding the certification of claims and returns for 2015-16; and
- (2) to approve payment of the additional audit fee of £12,500 claimed by Grant Thornton.

### **Reason for Recommendation:**

To formally sign off our claims and returns for 2015-16.

## 1. Purpose of Report

- 1.1 The Council has recently received a report from its auditors Grant Thornton (GT) regarding their work to certify our financial claims and returns relating to the financial year 2015-16. GT's report is attached at **Appendix 1**.
- 1.2 The GT report relates to the qualification of our Housing Benefit Subsidy claim and the certification of the Pooling of Housing Capital Receipts.

## 2. Strategic Priorities

- 2.1 The audit of claims and returns support our values for our residents to deliver quality and value for money services.

## 3. Background

- 3.1 GT is required to certify certain claims and returns we make. The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments Limited (PSAA) has taken on the transitional responsibilities for the certification of the Housing Benefit Subsidy claim.
- 3.2 GT certified one claim for the financial year 2015-16 under the PSAA regime. This was the Housing Benefit Subsidy claim relating to subsidy claimed of £35.3 million.
- 3.3 We also asked GT to carry out work on our Pooling of Housing Receipts return (£3.9m) in line with the Department for Communities and Local Government's Assurance Instruction. This work was formally certified under the Audit Commission Act, but is now a separate audit-related service.

## 4. Audit Findings

### *Pooling Housing Capital Receipts:*

- 4.1 GT have no issues to report in respect of the total capital receipts subject to pooling of just over £3.9million or the one-for-one expenditure of £2.5 million.
- 4.2 Officers highlighted an error to GT in the previous cumulative total of 1-4-1 expenditure, and GT identified a typographical error. Both of these were corrected allowing GT to certify the return on 29 November 2016.

### *Housing Benefit Subsidy:*

- 4.3 GT identified a number of matters from the certification work, the details of which are contained in *Appendix A* of their report attached at **Appendix 1**. These matters resulted in the Auditor qualifying our subsidy return.
- 4.4 For 2015-16, there was an increase in the number of errors identified, which resulted in an increase for work required to certify this year's subsidy return. GT

report that the extrapolated financial impact on the claim was relatively insignificant to the total subsidy receivable.

4.5 In their report, GT stated the following:

- The Council makes a number of manual adjustments in compiling the subsidy return. Due to the errors identified in this area last year, all adjustments were checked and as a result further amendments were made.
- We identified various errors in how payments of child or working tax credits were taken into account in calculating claimants' income and therefore their entitlement to benefit.
- We identified a number of cases where income was incorrectly taken into account in calculating benefit entitlement.
- We found that the Council had not applied a software fix on a timely basis with the result that a number of claims were recorded as modified scheme (war pension) claims. Officers reviewed the population and we agreed the amendment required.
- We reported in the 2013-14 and 2014-15 housing benefit subsidy claims that the Council had incorrectly processed Automated Transfers to Local Authority Systems (ATLAS) uploads requiring manual alignment. We did not identify any such errors this year.
- We identified a software bug last year that caused two applicable amounts to be applied to a claim. We found the bug had been fixed and had no impact this year. We also found no errors on the only non-HRA claim in receipt of tax credits, which is an improvement on 2014-15.

4.6 In summary, because of the qualification, the DWP will in fact owe the Council £6,080.

4.7 This is the fourth year running that we have had the subsidy claim qualified, and as per last year the qualification will nevertheless result in additional grant being paid to us. Whilst this is good news, the techniques of extrapolation used by GT following DWP guidance could easily count against us in the future, as it did in 2012-13 and 2013-14.

4.8 Housing Benefit is a complicated subject and the intricacies of the funding and subsidy system can lead to additional subsidy being paid to local authorities even though errors are identified. The additional subsidy paid to us this year is, in part, due to our excellent performance in other areas of the subsidy claim and our low audited figure of Housing Benefit overpayments that have arisen due to our error. This figure is substantially below the thresholds laid down by the DWP and has allowed us to gain the additional subsidy of £6,080.

## **5. Advice**

- 5.1 The following paragraphs provide a broad commentary of the 2015-16 Housing Benefit Subsidy claim.
- 5.2 We do not have anything to pay over to the Department for Work and Pensions (DWP). The DWP will have to pay us additional subsidy of £6,080. Although a strange system, our performance in correctly raising overpayments has helped negate the effect of the errors identified during the audit process.
- 5.3 The extra work the DWP asked the Auditor to carry out resulted in additional fees of £12,500 being claimed by GT.
- 5.4 Because of a DWP claw back that arose a number of years ago, additional resources have been obtained from an independent audit company to check claims. This checking of claims provides information on errors found and allows us to analyse how and where any errors are occurring and to take the appropriate action. These additional resources have cost £15,000 in 2015-16 but are considered good value to provide confidence and assurance on a subsidy claim that recovers £35 million from central government.
- 5.5 Due to us making errors (no matter how unusual they are), GT will carry out additional testing on the 2016-17 claim, which potentially means they will find more errors: a virtuous circle until no errors are made at all over a period of three years.
- 5.6 The overall value of the subsidy claim is around £35million - the amount of benefit paid to claimants on behalf of the government. Putting the errors further into context shows that we only had a 0.09% financial error rate in our favour.
- 5.7 In addition, we must remember that the DWP does not have a financial tolerance level. Even 5p per week is expected to be extrapolated across an entire caseload should they need us to do so.
- 5.8 The qualification of the Housing Benefit Subsidy claim does not qualify the Council's financial accounts. Officers are aware that approximately 70% of councils have been qualified on their subsidy claim, but this does not mean the other 30% are perfect.
- 5.9 Finally, it is the nature of the volume and complexity of the work that creates errors, although in view of our workload the percentage of errors financially is minimal. In 2015-16 the Benefits Service processed nearly 3,000 new claims for Housing Benefit and Local Council Tax Support and completed over 30,000 changes in circumstances to claims.
- 5.10 We have taken plenty of steps to improve our competency, using various training methods and education for our Benefit Assessors, but as with any large and complex system, errors are bound to creep in. Overall, they do an excellent job with high accuracy rates, an excellent customer attitude and high levels of tolerance for all of the legislative, administrative and computer changes they

have to deal with. They are the same staff that had to administer the Local Council Tax Support Scheme (Council Tax Reduction) on top of the Housing Benefit work. The service has to cope with an extreme workload and officers are pleased to report that councillors have rarely been troubled with complaints.

- 5.11 Although there have been errors, albeit with additional subsidy payments to the Council, we need to address the errors to avoid qualification of the Housing Benefit subsidy claim in future years. This will be difficult because once the claim is qualified additional checking is carried out in future years, with the chance of further errors being identified.
- 5.12 In view of the errors identified on the self-employment calculations in 2015-16, we have been carrying out further checks on these claims in 2016-17 to help provide a higher level of assurance. This additional checking is in addition to the 100% check we undertake on all new claims processed. Coupled with this an initial 10% check of claims will be carried out on self-employment change of circumstance claims following calculation. Depending on the level of errors found, the 10% check will be reviewed to ensure it is appropriate.
- 5.13 Furthermore, although accuracy has featured on performance reviews for staff, this will be further enhanced to determine any errors made by individual members of staff are recorded and appropriate action taken where necessary. Finally, these measures will be kept under review, and consideration will be given to self-employment claims becoming a specialist area for calculation and the appropriate staff identified to deal with them, due to their complexity.
- 5.14 In relation to the errors identified for tax credits and ATLAS changes, we are now performing a 100% check on these cases. This 100% check will be reviewed monthly and will be dependent on the level of errors found. A lower percentage check will be applied should errors not be identified. This 100% check is resource hungry but is considered valued to try to remove the Housing Benefit claim from qualification.
- 5.15 The Revenues and Payments service will be undergoing a restructure shortly that will provide substantial annual savings over a 5 year period (due to budget pressures identified in the MTFP, we have decided not to replace Gordon Walker, Benefits Manager and Denise Day, Council Tax Manager). This will provide an opportunity to restructure roles with a greater emphasis placed on scrutiny of the Housing Benefit subsidy claim on a monthly basis. Civica, our software provider, have recently enhanced the subsidy reporting system which will allow a more flexible and proactive approach to Housing Benefit subsidy checking. This will provide a more stable and reliable approach to the process. GT also identified two areas where errors occurred in previous years that they no longer have concerns on, which represents good news.
- 5.16 The caseload of Housing Benefits claims has changed drastically in recent years and far more claims are received in relation to complex self-employment circumstances than previously. This has resulted in complex calculation of claims but a requirement still exists for good speed of processing for new claims and changes in circumstance to be retained. Although all these factors remain challenging we are committed to paying people their Housing Benefit quickly,

dealing with their changes in circumstances promptly and making sure the right level of benefit is paid on every claim processed.

- 5.17 The recommendations made by GT in their certification letter are comprehensive and achievable and will be built into the subsidy checking process. GT also reported that the software issue and manual ATLAS records reported as errors last year have been rectified and they have no concerns in these areas.
- 5.18 GT also reported on an error with the modified scheme figures arising from a failure to apply a fix in a timely manner. The above changes to introduce monthly checking will stop this occurring in future years.
- 5.19 The calculation errors identified were concerned around two main areas, self-employment claims and ATLAS tax credit calculations. In order to provide a greater level of assurance to these areas, all tax credit calculations, both manual and automated, are being checked fully and self-employment claims will form the basis for a greater level of checking on changes in circumstance.
- 5.20 At present, all new claims are checked before being put into payment.

## **6. Financial Implications**

- 6.1 The financial implications arising from this report are set out in the main text.
- 6.2 The indicator scale fee set by the Audit Commission regime for the Council for 2015-16 is £13,925. Due to the additional work required to address the issues identified by GT, we have agreed an additional fee of £12,500, subject to confirmation from PSAA. The additional audit fee can be managed within the budget of the Resources directorate.
- 6.3 We also asked GT to carry out work on our Pooling of Housing Receipts return in line with DCLG'S Assurance Instruction. This work was formerly certified under the Audit Commission Act, but is now a separate audit-related service. We agreed the fee for this work at £1,500.

## **7. Legal Implications**

- 7.1 There are no legal implications arising from this report.

## **8. Human Resources Implications**

- 8.1 There are no HR implications arising.

## **9. Conclusion**

- 9.1 The Housing Benefit subsidy claim has been qualified for 4 years and as a result, additional checking has been completed in 2016-17. It is regrettable that GT is still finding errors in the system. However, the errors are minimal when considering the considerable workload and on this occasion the DWP have to repay the Council money rather than the other way round. This could change in

future years should identified errors result in extrapolated figures meaning we owe the DWP money. We will implement the procedures shown to try to eradicate the errors and remove the HB subsidy claim from qualification in future years.

**10. Background Papers**

None

**11. Appendices**

Appendix 1: GT letter and report.