

Report to Cabinet

26 January 2017

By the Cabinet Member for Finance & Assets

DECISION REQUIRED



**Horsham
District
Council**

Housing Benefit Subsidy & Future of the CenSus Revenues and Benefits Service

Executive Summary

Since 2004 the Council's Revenues and Benefits service has been run by Mid Sussex District Council under the CenSus Partnership.

This report outlines on-going issues with loss of Housing Benefit subsidy. It explains the work done so far, and in progress, to remedy these problems. The report also refers to issues with the collection of business rates. In light of the consultancy work completed for the Partnership, following Adur's notice to withdraw, the report considers the way forward for Horsham. It concludes the Council should seek to leave the partnership and find an alternative method for delivering the service and should take action to ensure that current issues are avoided in future.

Recommendations

That Cabinet is recommended:

- i) to seek to withdraw from the CenSus revenues and benefits partnership;
- ii) to ask management to prepare a report into the future options for the service for decision at its March 2017 meeting.

Reasons for Recommendations

To ensure the service is operated to optimise cost and quality in future.

Background Papers

The Future of CenSus Revenues and Benefits – Welfare Reform Club
CenSus (Revenues and Benefits) Subsidy Review – Welfare Reform Club
Horsham NDR Analysis – Tim Delany, CenSus
Performance Figures Taxes & Benefits – Gareth Jones, Horsham Performance & Commissioning

Wards affected: all

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Background Information

1. Introduction and Background

- 1.1. In November 2015, following the annual audit of Housing Benefit Subsidy Payments undertaken by the external auditor on behalf of the Department for Work and Pensions (DWP), the three councils in the CenSus Revenues and Benefits partnership received notice of losses of Housing Benefit subsidy due to the level of errors in the Councils' claims for 2014/15. Horsham's 2014/15 claim was qualified and the level of overpayment to be recouped by the DWP was set at £190,000. This figure is extrapolated by the DWP from errors detected in a sample by the External Auditor.
- 1.2. This was the second year of such losses for Adur and Mid Sussex but the first for Horsham because the 2013/14 claim was qualified, but below the error threshold, so no extrapolation was made and only £5,000 subsidy was returned to the Department for Work and Pensions. In February 2016 Adur District Council issued notice to Mid Sussex and Horsham District Councils of its intention to leave the CenSus Revenues and Benefits partnership in October 2017.
- 1.3. On 22 March 2016 the management of the CenSus partnership and the Chief Executive of Mid Sussex District Council presented their action plan to remedy the error rate to the Finance & Performance Sub Committee. Changes proposed to reduce the error rate included:
 - A dedicated review team to carry out reviews on all earnings cases within the caseload;
 - A second dedicated team to check a large proportion of all earnings cases actioned by the processing teams on a daily basis as a consequence of a new claim or a change of circumstance (these checks being carried out before payment etc. is released);
 - Additional checking of benefits overpayment cases, primarily of classification of the overpayment;
 - A more structured feedback loop to ensure that detailed information on errors made by individuals and errors made by 'type' were fed back to individuals, team leaders and the training team;
 - Outcomes discussed at individual 1:1s and by teams. The Benefits Manager and the Head of Service scrutinised and discussed outcomes and trends every month;
 - With support from the IRRV simplified guidance on the treatment of earnings was issued. An IRRV trainer has also delivered training to all benefits staff;
 - Accuracy training to help overcome transposition and inputting errors was delivered by a specialist training company throughout the year.
- 1.4. Given the timing of these changes, so late in 2015/16, they were unlikely to make a significant difference between 2015/16 and 2014/15 performance. The bulk of improvements would be expected in 2016/17.
- 1.5. In summer 2016 CenSus appointed a firm of specialist consultants, the Welfare Reform Club, to review the service and subsidy issues arising. The review by

Welfare Reform Club Limited was completed in November 2016. It reported an exceptional focus on quality from the CenSus team but did not come up with any further ideas to resolve the error issue.

- 1.6. On 30 November 2016 the Council received notification from the external auditors that the Housing Benefit Subsidy claim for 2015/16 would be qualified due to the level of errors. Because the level was above the error threshold the auditors expect the subsequent extrapolation by the Department for Work and Pensions to lead to a reduction in subsidy of around £249,000. Mid Sussex and Adur's 2015/16 claims are also qualified, although for a smaller sum than Horsham's. Due to the loss on the 2014/15 claim, Horsham made a provision for an expected further loss of £200,000 for the 2015/16 claim. The key area of error in 2015/16, as in previous years, is "earnings" cases. These are working age people who are in work and represent about 35% of the whole caseload
- 1.7. During the summer of 2016 the Welfare Reform Club also reviewed the future for the CenSus partnership once Adur leaves. They suggested 5 options for the future:
 - Continuing with 2 partners.
 - Looking for another partner.
 - Mid Sussex District continuing as a processing unit and Horsham buying its service from them.
 - Both Councils contracting the service from the private sector.
 - Disbanding the service and each Council seeking its own new model.

The Welfare Reform Club's report recommends the third option, setting up a contractual relationship between the 2 councils.

- 1.8. Horsham's internal audit team began an internal audit of the Housing Benefits service in November 2016. Although not yet finalised initial random sample testing suggests there is a continued, but falling, error rate in the current financial year. Because we do not know which claims will be reviewed in the external auditor's sample in autumn 2017 we are unable to tell whether this reduction in the error rate will reduce the subsidy loss or not for the 2016/17 year.
- 1.9. During November 2016 the Council's productivity team compared performance of the revenues and benefits service to that of its statistical near neighbours, following concerns raised by the Director of Corporate Resources about business rates collection rates. The work used the 3 commonly used indicators in the business: in year council tax collection, in year business rates collection and average new benefits claim processing time. Key findings of this work are:

Council Tax Collection

Horsham District Council collected 98.7% of the council tax which was due in 2015/16. This rate is higher than the mean average for all English district local authorities, and Horsham District Council ranks in the highest quartile for this measure. It performs very near to the mean average for the nearest neighbours group.

Business Rates Collection

Horsham District Council collected 97.5% of the business rates which were due in 2015/16. This rate is among the lowest of all English district local authorities, with Horsham District Council being ranked 182 out of 201. It is also below the mean average collection rate for the nearest neighbours group.

Benefits processing time

Horsham District Council took nineteen calendar days to process new housing benefit claims during 2016/17 quarter 1. This is quicker than the mean average for all English district local authorities, with Horsham District Council being ranked 53 out of 201 authorities (where 1 is quickest). It is also faster than the average for the nearest neighbours group.

2. Relevant Council policy

- 2.1. This report supports the Council's policy of efficiency and balancing the budget over the medium term. On-going error rates in the calculation of Housing Benefit, generating significant losses of subsidy each year, make the Council's ability to balance its budget going forward more challenging. The in-year business rates collection rate has an adverse impact on the Council's cash flow.

3. Details

3.1. Immediate benefits subsidy problem

To improve the quality of the database the CenSus partnership has employed some agency benefits assessors to reassess every earnings claim. The work of these assessors will be checked by management. This should clean the database and mean underlying error rates are removed. This should improve the situation in time to help the 2017/18 year and beyond.

Checking and training regimes designed after the 2014/15 audit and outlined in section 1.3 continue.

3.2. Future of the Service

In the light of the difficulties the partnership is facing in solving the issues with housing benefit subsidy and business rates collections it is proposed the Council should not accept the Welfare Reform Club's recommendation of buying the service from Mid Sussex but should look into alternative suppliers.

The Director of Corporate Resources applied to the Local Government Association for assistance with analysing the way forward for Horsham's revenues and benefits service. The Local Government Association provided the Council with a grant to fund one of their nominated consultants to help with the work. The consultant has been on site in January developing an options appraisal of the choices the Council has outside the CenSus partnership. The options appraisal will be presented to the 30 March Cabinet.

There are 3 main options the Council is likely to consider in this options appraisal:

- running the service itself;
- finding another partner, locally or further away;
- out-sourcing the service.

All options will incur exit costs that could be considerable.

4. Next Steps

4.1. Immediate problem

The plan within CenSus is complete the reassessment of all earning claims by 31 May 2017.

4.2. Future of the CenSus partnership

The report on the options will be completed for Cabinet on 30 March 2017.

Timescales on implementing the new model will vary depending on the type of model chosen. An in house service could be in place by 1 April 2018. An outsourced model, due to procurement rules, would be unlikely to be achievable before 1 October 2018. A partnership would depend on the partner and the maturity of their operation.

5. Views of the Audit Committee and Outcome of Consultations

5.1. Because the benefit subsidy issue arose as part of an external audit the Committee received a briefing on 4 January. The Committee noted the situation, expressed its concerns at the scale of the problems and its support for short and medium term work detailed in section 3 of this report.

5.2. The Finance and Assets Policy Development Advisory Group supported the proposal to leave the CenSus Revenues and Benefits partnership. The Group requested the March report contain details of the costs of the alternatives as part of the options appraisal.

5.3. The Monitoring Officer has been consulted on this proposal. He has advised that there is a formal legal agreement between the Councils for the CenSus Revenues and Benefits Partnership and therefore if the decision is to leave the Partnership, then the Councils will need to ensure compliance with the legal formalities as set out in the legal agreement.

5.4. The Chief Executive has discussed Horsham's plans to move away from the partnership with his counterpart at Mid Sussex District Council. This has included agreement to a number of guiding principles for the exit and transition period including cost minimisation, joint endeavours to improve the service and clean the databases during the transition period and setting realistic timescales. Unions and staff at Mid Sussex have been told that Horsham's Cabinet will consider the future of the service at tonight's meeting.

6. Other Courses of Action Considered but Rejected

- 6.1. All 5 options recommended by the Welfare Reform Club in section 1.6 were considered. The options for remaining in partnership with Mid Sussex, or buying a service from them, were rejected because there is insufficient confidence in the service making the changes necessary to improve performance, and the Council cannot continue to sustain the level of losses arising from the earnings errors.

7. Resource Consequences

- 7.1. The Local Government Association has given the Council £6,000 to pay for a consultant to complete the options appraisal.
- 7.2. It is unclear, at this stage, whether the new service can be provided within current budget or not. Evidence from the Welfare Reform Club's report suggests Horsham's current service is just below average cost compared to its nearest neighbours. These figures do not include the subsidy loss.

8. Legal Consequences

- 8.1. The legal consequences of leaving the CenSus revenues and benefits service are the Council will have to re-provide this statutory service at a cost currently unknown.

9. Risk Assessment

- 9.1. There are considerable risks associated with remaining or leaving CenSus.
- 9.2. The remain risks are:
- The benefit subsidy issues continue and the Council continues to lose £200-£250k a year.
 - Business rates performance remains low and continues to fall.
 - Mid Sussex seek a rapid exit from the arrangement at a future date.
- 9.3. The leave risks are:
- The benefit subsidy issues cannot be quickly turned around and the Council continues to lose £200-250k a year.
 - Because there are no obvious reasons for the low business rates' collection, rates performance remains low and continues to fall.
 - Given the current performance levels in benefits accuracy and business rates collection, Horsham could find itself paying a premium price to re-provide at this time.
 - As no supplier is likely to provide the service locally, the cost of transition, especially redundancy cost, could be high and there is a risk of a dip in performance in the early months of the new service.

10. Other Considerations

- 10.1. There are no crime & disorder; human rights; or sustainability issues arising from this report. Equalities issues, especially access issues, will be considered carefully as part of any resupply.