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CABINET

6 JUNE 2017

RISK BASED VERIFICATION POLICY

Portfolio Holder: Councillor Rupert Turpin, Business Management

Report from: Phil Watts, Chief Finance Officer

Author: Jon Poulson, Revenues & Benefits Manager

Summary

This report seeks cabinet approval to adopt a policy for the risk based verification of housing benefit and council tax reduction scheme claims.

1.   Budget and Policy Framework

1.1   It is the responsibility of Cabinet to approve the policies supporting the administration of housing benefit and the council tax reduction scheme.

2.   Background

2.1   Medway Council's housing benefit (HB) /council tax reduction scheme (CTRS) process currently requires original documents to support all new claims and changes in circumstance. Risk Based Verification (RBV) reduces this standard by targeting resource at higher risk cases and removing the need for low risk claims to be evidenced beyond statutory requirements.

3.   Options

3.1   The only option proposed in this report is to adopt RBV for new claims for HB and CTRS. The alternative would be not to implement RBV as it is not a statutory requirement, but this would not support the reduction in administration and targeting of higher risk cases as detailed below.

4.   Advice and analysis

4.1   The Department for Work and Pensions issued guidance on the use of RBV in HB/CTB Circular s11/2011 which is attached at Appendix 1.

4.2   The enablement of RBV allows greater efficiencies in processing by reducing the level of customer contact and correspondence flowing through the system. The intention is to implement RBV for new claims in the first instance as this is where the greatest efficiencies have been identified, with change of circumstance to be introduced at a later date as other digital transformation

projects within Medway Revenues & Benefits Service allow. The policy will be brought back before Cabinet at that time to reflect the changes and any amendments that may be needed as a result of lessons learnt from new claims going live.

4.3 Medway Council currently processes approximately 8,000 new claims per annum of which approximately 60% will fall into the low risk category, 25% in the medium risk category and 15% in the high risk category. Currently claimants of all risk categories have to supply original evidence of all aspects of their claim.

4.4 RBV is a tool that allows targeting of higher levels of verification to those claims in the high risk category, hence requiring less resource than needed to verify all case to that same standard.

4.5 The levels of verification needed for each risk category are detailed in the Risk Based Verification Policy, as set out in the Exempt Appendix.

4.6 Public consultation has not taken place in adopting this policy as it relates directly to the protection of the public purse through the reduction of fraud and error in the benefits system and does not have any impact on an individual's eligibility for benefit.

4.7 RBV will apply to all new claims for HB and CTRS, with a mathematical model used to determine the risk score for any claim. The model does not take into account any of the protected characteristics dealt with by the Equalities Act. A Diversity Impact Assessment is included at appendix 2.

5.   Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Qualification of subsidy	The risk of operating RBV at Medway is that of the annual subsidy claim as RBV will be the main basis for the subsidy claim audit.	Ensuring that all claims are verified in accordance with the RBV policy. Audit and counter fraud to be involved in the development of the scheme. Regular performance monitoring and quality assurance checks	

6.   Financial implications

6.1 The implementation and on-going costs of the RBV policy will be contained within the existing service budget. However, this new approach to claim verification will produce efficiencies as the additional checks to be made on high risk cases will take less resource than that saved by reducing checks on low risk cases.

6.2 Other local authorities have found that the additional checking of high risk cases has led to more fraud and error being identified at the Benefits Gateway. This means that less fraud enters the benefits system, reducing investigations and the need to collect overpayments. Alternatively, the fraud could remain undetected and at a cost to the public purse.

7. Legal implications

7.1 Risk Based Verification (RBV) is voluntary but if an authority chooses to adopt it, it must have an RBV policy in place. This policy must set out the risk profiles and verification standards that will apply and the minimum number of claims to be checked. The policy must be approved by Members and have the agreement of the Council's Section 151 Officer. Due to the nature of the content of the policy, and on the advice of the DWP, it is not made publicly available. There is also an expectation of monthly monitoring of RBV to ensure it is effective. The Chief Finance Officer (S151 Officer) has approved the Risk Based Verification Policy and recommends approval to the Cabinet.

7.2 The use of RBV is supported by legislation, DWP circulars and guidance.

8. Recommendation

8.1 That Cabinet adopts the Risk Based Verification policy, as set out in the Exempt Appendix.

9. Suggested reasons for decision(s)

9.1 To gain efficiencies in the benefit administrative process whilst increasing protection against fraudulent claims.

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Appendices
Appendix 1 – DWP Circular S11/2011
Appendix 2 – Diversity Impact Assessment
Exempt Appendix – Risk Based Verification Policy

Background papers
Risk based verification – Intelligence led processes and effective customer interactions
https://democracy.medway.gov.uk/mgIssueHistoryHome.aspx?IId=19573&PlanId=274

Department for Work and Pensions – Local authority insight survey – Wave 25
https://democracy.medway.gov.uk/mgIssueHistoryHome.aspx?IId=19573&PlanId=274

Housing Benefit and Council Tax Benefit Circular

Department for Work and Pensions
1st Floor, Caxton House, Tothill Street, London SW1H 9NA

HB/CTB S11/2011

SUBSIDY CIRCULAR

WHO SHOULD READ	All Housing Benefit (HB) and Council Tax Benefit (CTB) staff
ACTION	For information
SUBJECT	Risk-Based Verification of HB/CTB Claims Guidance

Guidance Manual

The information in this circular does not affect the content of the HB/CTB Guidance Manual.

Queries

If you

- want **extra copies of this circular/copies of previous circulars**, they can be found on the website at http://www.dwp.gov.uk/local-authority-staff/housing-benefit/user-communications/hbctb-circulars/

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Contents

Risk-Based Verification of HB/CTB Claims Guidance

Introduction

1. This guidance outlines the Department's policy on Risk-Based Verification (RBV) of Housing Benefit and Council Tax Benefit (HB/CTB) claims.

Background

2. RBV allows more intense verification activity to be focussed on claims more prone to fraud and error. It is practiced on aspects of claims in Jobcentre Plus (JCP) and the Pension Disability and Carers Service (PDCS). Local authorities (LAs) have long argued that they should operate a similar system. It is the intention that RBV will be applied to all Universal Credit claims.

3. Given that RBV is practised in JCP and PDCS, the majority (up to 80%) of HB/CTB claims received in an LA may have been subject to some form of RBV. Already 16 LAs operate RBV. Results from these LAs have been impressive. In each case the % of fraud and error identified has increased against local baselines taken from cells 222 and 231 of the Single Housing Benefit Extract (SHBE). In addition, in common with the experience of JCP and PDCS there have been efficiencies in areas such as postage and storage and processing times have improved.

4. We therefore wish to extend RBV on a **voluntary basis** to all LAs from April 2012.

   This guidance explains the following;

   - What is RBV?

   - How does RBV work?

   - The requirements for LAs that adopt RBV

   - How RBV claims will be certified

   - What are the subsidy implications?

What is RBV?

5. RBV is a method of applying different levels of checks to benefit claims according to the risk associated with those claims. LAs will still be required to comply with relevant legislation (Social Security Administration Act 1992, section 1 relating to production of National Insurance numbers to provide evidence of identity) while making maximum use of intelligence to target more extensive verification activity on those claims shown to be at greater risk of fraud or error.

6. LAs have to take into account HB Regulation 86 and Council Tax Benefit Regulation 72 when verifying claims. The former states:

"a person who makes a claim, or a person to whom housing benefit has been awarded, shall furnish such certificates, documents, information and evidence in connection with the claim or the award, or any question arising out of the claim or the award, <u>as may reasonably be required by the relevant authority</u> in order to determine that person's entitlement to, or continuing entitlement to housing benefit and shall do so within one month of being required to do so or such longer period as the relevant authority may consider reasonable."

Council Tax Benefit Regulation 72 is similar.

7. These Regulations do not impose a requirement on authorities in relation to what **specific** information and evidence they should obtain from a claimant. However, it does require an authority to have information which allows an **accurate assessment** of a claimant's entitlement, both when a claim is first made and when the claim is reviewed. A test of reasonableness should be applied.

How does RBV work?

8. RBV assigns a risk rating to each HB/CTB claim. This determines the level of verification required. Greater activity is therefore targeted toward checking those cases deemed to be at highest risk of involving fraud and/or error.

9. The classification of risk groups will be a matter for LAs to decide. For example, claims might be divided into 3 categories:

    –   **Low Risk Claims**: Only essential checks are made, such as proof of identity. Consequently these claims are processed much faster than before and with significantly reduced effort from Benefit Officers without increasing the risk of fraud or error.

    –   **Medium Risk Claims**: These are verified in the same way as all claims currently, with evidence of original documents required. As now, current arrangements may differ from LA to LA and it is up to LAs to ensure that they are minimising the risk to fraud and error through the approach taken.

    –   **High Risk Claims**: Enhanced stringency is applied to verification. Individual LAs apply a variety of checking methods depending on local circumstances. This could include Credit Reference Agency checks, visits, increased documentation requirements etc. Resource that has been freed up from the streamlined approach to low risk claims can be focused on these high risk claims.

10. We would expect no more than around 55% of claims to be assessed as low risk, with around 25% medium risk and 20% high risk. These figures could vary from LA to LA according to the LA's risk profiling. An additional expectation is that there should be more fraud and error detected in high risk claims when compared with medium risk claims and a greater % in medium risk than low risk. Where this proves not to be the case the risk profile should be revisited.

11. LAs may adopt different approaches to risk profile their claimants. Typically this will include the use of IT tools in support of their policy, however, the use of clerical systems is acceptable.

12. Some IT tools use a propensity model[1] which assesses against a number of components based on millions of claim assessments to classify the claim into one of the three categories above. Any IT system[2] must also ensure that the risk profiles include 'blind cases' where a sample of low or medium risk cases are allocated to a higher risk group, thus requiring heightened verification. This is done in order to test and refine the software assumptions.

13. Once the category is identified, individual claims cannot be downgraded by the benefit processor to a lower risk group. They can however, exceptionally, be upgraded if the processor has reasons to think this is appropriate.

The requirements for LAs that adopt RBV

14. RBV will be voluntary. However, all LAs opting to apply RBV will be required to have in place a **RBV Policy** detailing the risk profiles, verification standards which will apply and the minimum number of claims to be checked. We consider it to be good practice for the Policy to be examined by the authority's Audit and Risk Committee or similar appropriate body if they exist. The Policy must be submitted for Members' approval and sign-off along with a covering report confirming the Section 151 Officer's (section 85 for Scotland) agreement/recommendation. The information held in the Policy, which would include the risk categories, should not be made public due to the sensitivity of its contents.

15. The Policy must allow Members, officers and external auditors to be clear about the levels of verification necessary. It must be reviewed annually but not changed in-year as this would complicate the audit process.

16. Every participating LA will need a robust baseline against which to record the impact of RBV. The source of this baseline is for the LA to determine. Some LAs carry out intensive activity (along the lines of the HB Review) to measure the stock of fraud and error in their locality. We suggest that the figures derived from cells 222 and 231 of SHBE would constitute a baseline of fraud and error currently identified by LAs.

17. Performance using RBV would need to be monitored monthly to ensure its effectiveness. Reporting, which must be part of the overall Policy, must, as a minimum, include the % of cases in each risk category and the levels of fraud and error detected in each.

How RBV claims will be certified?

18. Auditors will check during the annual certification that the subsidy claim adheres to the LA's RBV Policy which will state the necessary level of verification needed to support the correct processing of each type of HB/CTB claim. The risk category will need to be recorded against each claim. Normally the LA's benefit IT/clerical system will allow this annotation.

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[1] Whilst DWP is of the opinion that the use of IT will support the success of RBV, it does not in anyway endorse any product or company
[2] The same safeguard must be applied to clerical systems

Other considerations

19. The sample selection for HB/CTB cases will not change i.e. 20 cases will be selected for each headline cell on the claim form. The HB COUNT guidance used by the external auditors for certification will include instructions for how to deal with both non-RBV and RBV cases if selected in the sample. For non-RBV cases, the verification requirements will remain the same i.e. LAs will be expected to provide all the documentary evidence to support the claim.

What are the subsidy implications?

20. Failure by a LA to apply verification standards to HB/CTB claims as stipulated in its RBV Policy will cause the expenditure to be treated as LA error. The auditor will identify this error and if deemed necessary extrapolate the extent and, where appropriate, issue a qualifying letter. In determining the subsidy implications, the extrapolation of this error will be based on the RBV cases where the error occurred. For this reason, it is important that RBV case information is routinely collected by ensuring that LA HB systems incorporate a flag to identify these RBV cases. If sub-populations on RBV cases can not be identified, extrapolations will have to be performed across the whole population in the particular cell in question.

21. We will now work with the respective audit bodies to incorporate this into the COUNT guidance. If you have any queries please contact Manny Ibiayo by e-mail HBCTB.SUBSIDYQUERIES@DWP.GSI.GOV.UK

Diversity impact assessment

TITLE *Name / description of the issue being assessed*	Risk Based Verification Policy
DATE *Date the DIA is completed*	18 May 2017
LEAD OFFICER *Name, title and dept of person responsible for carrying out the DIA.*	Jon Poulson, Revenues & Benefits Manager, BSD

1   Summary description of the proposed change

Medway Council's housing benefit (HB) /council tax reduction scheme (CTRS) process currently requires a standard set of original documents to support all new claims and changes in circumstance.

It is proposed to introduce Risk Based Verification (RBV). RBV targets resource at higher risk cases, removing the need for low risk claims to be evidenced beyond statutory requirements.

RBV will mean claimants considered low risk will need to provide less evidence, claimants assessed as medium risk will provide the same evidence as currently. Claimants who are assessed as high risk will need to provide more evidence.

RBV is also expected to reduce the likelihood of fraud and enables resources to be directed more effectively.

2   Summary of evidence used to support this assessment

RBV will apply to all new claims. A mathematical model is used to determine the risk score which does not take into account any of the protected characteristics.

As this is a new approach to verifying benefit claims, there is no baseline monitoring we can use as a comparison. However, use of RBV at other authorities suggest that:

60% of claimants will be assessed as low risk
25% of claimants will be assessed as medium risk
15% of claimants will be assessed as high risk

Teignbridge District Council implemented RBV in June 2013 and over the period that RBV has been in place, there has been a 28% improvement in processing times for new claims, a 10% reduction in the number of documents scanned, and 50% of new claims are returned as high risk. Teignbridge have managed to establish that they have an error baseline of 9% meaning that

91% of claim forms are correct.

There is no direct evidence as it is not possible to determine which claimants will fall within which risk groups until claimant data has been passed through a third party supplier's modelling.

However, the views expressed here are in line with the diversity statements of other authorities when introducing Risk Based Verification.

3   What is the likely impact of the proposed change?
(insert ✓ in one or more boxes)

Protected characteristic groups	Adverse impact	Advance equality	Foster good relations
Age			
Disabilty			
Gender reassignment			
Marriage/civil partnership			
Pregnancy/maternity			
Race			
Religion/belief			
Sex			
Sexual orientation			
Other (eg low income groups)		✔	✔

4   Summary of the likely impacts

RBV will apply to all new claims for HB and CTRS, with a mathematical model used to determine the risk score for any claim. The model does not take into account any of the protected characteristics dealt with by the Equalities Act but rather looks at previous claim history and credit agency information to determine the likelihood of it being fraudulent or erroneous.

60% of claimants will experience a positive impact since they will need to provide less evidence.
25% of claimants, will experience no impact since the evidence they are required to produce will remain the same.
15% of claimants, will experience an adverse impact since they will be

required to provide more evidence.

As the scoring takes place against all claims there should not be any equalities impact. It is possible, however, that groups with certain protected characteristics may be over or under represented in any of the risk groups and as such monitoring will be performed to determine whether this is the case or not.

5 What actions can be taken to mitigate likely adverse impacts, improve equality of opportunity or foster good relations?

Monitoring of risk groups to compare proportion of protected characteristic groups in risk groups with overall benefit claimants

The Council will undertake checks across all assessments to make sure guidance is adhered to correctly and appropriate decisions made.

Operational measures will be put in place and data collected to understand performance in relation to the policy. These will include:

Percentage of cases presented in each risk category;

Level of fraud detected in each risk category;

Level of claimant error found in each risk category;

Level of Council error found in each risk category.

Percentage of error found through quality assurance checks.

Officers will monitor the effect of fraud and error detection rates. It is expected that the levels of fraud and error will reduce over time. Fraud and error should be low in Low Risk cases and increased for Medium and High Risk categories. Qualified and experienced Fraud Investigation Officers will be used to carry out a proportion of checks on medium and high risk cases.

Whilst there are alternative providers of Risk Based Verification, they all use the same type of information to determine the likelihood of fraud and error. The success of the risk groups will be based on the amount of fraud and error identified as ultimately the Council has the responsibility to protect the Council's purse.

6 Action plan

Action	Lead	Deadline or review date
Monitoring of risk groups to compare proportion of protected characteristic groups in risk groups with overall benefit claimants	Jon Poulson	31/7/18

Implement checks across all assessments to make sure guidance is adhered to correctly and appropriate decisions made.	Jon Poulson	31/7/18
Implement operational measures	Jon Poulson	31/7/18
Implement Fraud monitoring	Jon Poulson	31/7/18

7   Recommendation

To proceed with the new policy, implementing the action plan

8   Authorisation

Assistant Director	
Date	