

NATIONAL REPORT

# housing benefit

the national perspective

**The Audit Commission promotes the best use of public money by ensuring the proper stewardship of public finances and by helping those responsible for public services to achieve economy, efficiency and effectiveness.**

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# housing benefit

## the national perspective

1



### Liaison and Partnership Arrangements

Councils depend on other organisations to provide a good service, and they may need to seek partners – from the private sector or from other councils – to improve.

2



### Simplifying the Regulations

Government efforts to simplify the scheme are welcome, but a wider range of options need to be explored, paying particular attention to the needs of genuine claimants.

3



### Improving the Funding Regime

The DWP should shift the emphasis away from penalising error, and instead reward good performance and customer focus, ultimately giving good councils some flexibility.

4



### Conclusions and Recommendations

Current efforts by both local and central government must continue to ensure that housing benefit services work effectively.

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## Preface

Housing benefit (HB) is a service that many councils struggle to deliver well. Poor performance can have a drastic impact on claimants' lives, leading to increasing hardship, stress and the threat of eviction. Too few authorities meet the best standards; although some can process new claims within 20 days, others take 100 days or more on average. Much of the 9 per cent increase in complaints to the Local Government Ombudsman in 2000/01 was the result of complaints about HB administration.

Over the past ten years, the Commission has published several reports on housing benefit. The first of these, *Remote Control*, called for a national system that encouraged local quality control (Ref.1). In 1997, following work with the National Audit Office (NAO), it published *Fraud and Lodging*, which called for more effective work against error and fraud (Ref.2). An update on this work (Ref.3) was published in April 1999 and in 2000, the Commission gave evidence to the Social Security Committee's inquiry into housing benefit (Ref.4).

This report follows the Audit Commission's paper *Housing Benefit Administration – Learning from Inspection*, published in October 2001(Ref.5). That paper focused on the action that local authorities could take to improve the service: raising the profile of the HB service; managing performance, staffing and training; responding better to claimants; and dealing with changes to the service in a constructive way (Appendix A).

But the paper did acknowledge that local authorities cannot be expected to solve all of the problems associated with HB administration on their own. Some of these problems may be due, in part, to the complex system of rules and regulations laid down by central government, and within which local authorities have little room to manoeuvre. The number and variety of statutory and non-statutory agencies involved in service delivery also adds to the confusion.

Section 34 of the Audit Commission Act 1998 enables the Commission to report on the impact of central government directions on economy, efficiency and effectiveness in provision of local government services. This report therefore makes recommendations to central government about the ways in which the HB system needs to be improved, from a national perspective. Its objectives are to make the system:

- easier for local authorities to administer; and
- most importantly, more focused on the three million households that rely on the service.

The study team consisted of Patrick Clackett, Geoffrey Rendle, Vicki Dimmick and Patricia French under the direction of Greg Birdseye.

This study is based on fieldwork carried out at a number of local authorities, discussions with the Department for Work and Pensions (DWP) and other stakeholders, and contributions from an advisory group (Appendix B). The study also drew upon research material including reports produced by the Audit Commission Inspection Service and the Benefit Fraud Inspectorate (BFI) collected during the previous 'Learning from Inspection' study. The Audit Commission is grateful for all these contributions. However, responsibility for this paper's conclusions rests with the Commission alone.

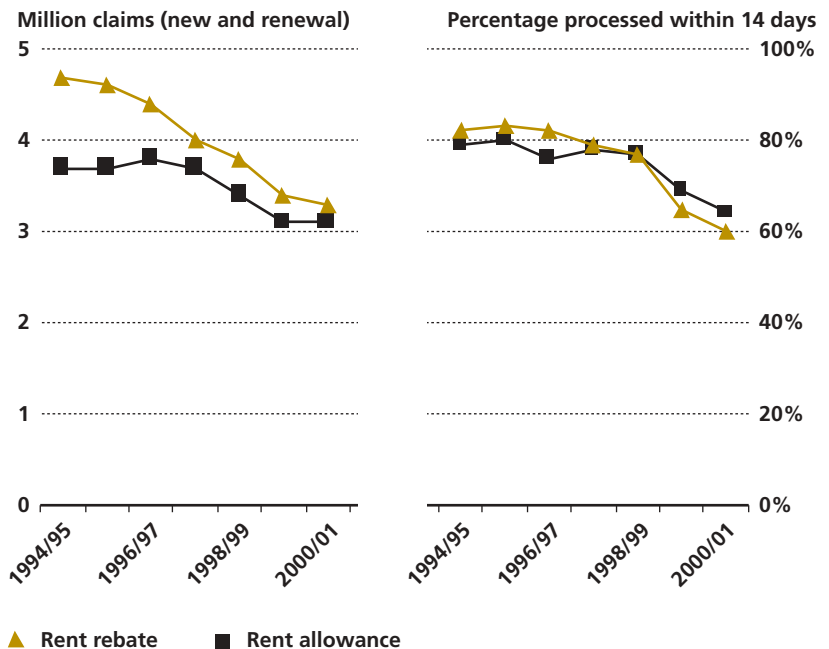
## Introduction

1. One in seven households in England and Wales depends on housing benefit (HB) to meet their basic housing needs. The key statistics about HB [BOX A, overleaf] show that the service affects people who rent from every housing sector, and that even good authorities can take 36 days on average to process a new claim, making mistakes on 2 per cent of claims. The speed of processing claims has worsened over the years, despite the fact that the number of claims has fallen. In 2000/01 only 63 per cent of claimants received their benefit within 14 days of gathering all the required information, as specified by the HB regulations [EXHIBIT 1].
2. HB services have gone through major challenges in the past ten years. For example, there has been:
  - an increasing emphasis on tackling fraud – since 1998 many councils have adopted the Government’s ‘Verification Framework’ (VF), which embodies tighter requirements for the evidence that claimants have to produce;
  - difficulties in recruiting and retaining benefits staff; and
  - many other changes, such as new rules on entitlement in 1996 which reduced the sums payable to most private sector tenants claiming HB for the first time.

EXHIBIT 1

### Trends in workload and performance (Great Britain)

The speed of processing HB claims has worsened over recent years, despite the fact that the number of claims has fallen.



Note. Broadly speaking, council tenants receive HB as rent rebates, while others receive rent allowances. See Appendix C for more details.

Source: Department for Work and Pensions management information

**BOX A**

**Key facts about housing benefit**

**1. Who gets housing benefit? and how much? [November 2001]**

Council tenants	Recipients	Average payment per week
England	1.63 million 51%	£46
Wales	121,000 59%	£41
Housing association tenants		
England	0.91 million 29%	£59
Wales	38,000 19%	£51
Other private sector tenants		
England	0.63 million 20%	£67
Wales	46,000 22%	£55

**2. Total payments (England and Wales, 2000/01 estimates)**

Rent rebates (mostly to council tenants) £4.6bn

Rent allowances (mostly to non-council tenants) £5.1bn

**3. What do authorities that are performing well achieve?**

English authorities at the best quartile in 2000/01 processed:

- new claims in an average of 36 days;
- changes to current claims in an average of 9 days; and
- 98 per cent of claims correctly, as judged by supervisory checks.

**4. How satisfied are users? [2000/01]**

In English authorities, satisfaction levels range from **62 per cent** of users (overall) who are satisfied with clarity of forms and leaflets, to **82 per cent** of users (overall) who are satisfied with staff in benefit offices.

**5. What does it cost to administer? [1999/2000]**

(average across authorities)	per claimant
London boroughs	£150
Unitary and shire district authorities	£105
Metropolitan borough councils	£75
Welsh authorities	£68

Total cost of administration (including council tax benefit) £480m

Source. 1. Department for Work and Pensions (Ref. 6)

2. Ref. 7

3. and 4. Best Value Performance Indicators, 2000/01 (Ref. 8)

5. Audit Commission Performance Indicators, 1999/2000 (Ref. 9)

*a lot of attention has been paid to reform over the years... little has changed*

3. By its nature, HB is complex. It is not easy to administer a means-tested benefit that takes account of a variety of frequently changing income- and housing-related needs and is paid regularly to a large number of people, without undue error or fraud occurring. Central government, key stakeholders and the Audit Commission recognise this complexity.
4. But while a lot of attention has been paid to reform over the years, culminating in evidence given by many stakeholders to the House of Commons Social Security Committee during 1999/2000 (Ref.4), little has changed. In fact, the HB system gets more complicated each year. Both the volume and diversity of HB regulations have risen dramatically; in 2001 alone, the Department for Work and Pensions (DWP) made 50 separate notifications or announcements about HB administration, ranging from major changes to minor communications.
5. Most ideas for reform have been unsuccessful because it is difficult to simplify or improve the HB system for one group of people without either making others worse off, or increasing the cost to the public purse. For example, changes introduced in 1996 treated new private-sector claims broadly less generously than previously (existing pre-1996 claimants' benefits were protected). To reverse the 1996 changes now would either increase the total cost of the national scheme (if everyone were to be assessed on the pre-1996 rules) or make people with pre-1996 arrangements worse off.
6. However, the Government has recently looked again at making changes to the HB system. The Green Paper, *Quality and Choice: A Decent Home for All* (Ref. 10) published in April 2000, recognised that HB has an important role to play in supporting people moving from welfare to work, in the social inclusion agenda and in the Government's wider housing objectives. In the short term, the Government is not planning to make sweeping changes to the whole HB system, but aims to stimulate better performance in local authorities by:
  - promising to free up or simplify aspects of the scheme;
  - issuing a performance framework that sets out clear targets for service delivery; and
  - establishing a 'help team' and 'help funds' to support councils that are experiencing difficulties.
7. And in 2001, the Welsh Assembly Government published the national housing strategy for Wales (Ref. 11). Recognising that housing policy (which is devolved to the Assembly) and HB policy (which is not devolved) need to reinforce each other, the Assembly stated that it would:
  - press the UK Government to abolish all restrictions on HB entitlements for people under 25; and
  - ensure that the DWP is made aware of Welsh views on opportunities for giving claimants more choice about their housing.

*The current willingness to reform HB is welcomed by many, but there is much debate... about what form change should take...*

The strategy is however generally supportive of the UK Government's proposals on HB, and particularly on the proposals for securing better administration of HB; it is these points which are relevant to this Audit Commission report.

8. The current willingness to reform HB is welcomed by many, but there is much debate within local government, voluntary bodies, such as Shelter and the National Association of Citizens Advice Bureaux (NACAB), stakeholders and government departments about what form change should take in the longer term. Some key questions include:

- should 'shopping incentives' be introduced whereby claimants retain some of the benefit if they accept lower rented accommodation?
- should housing credit replace housing benefit? and
- how will restructuring rents in social housing impact on HB?

9. Meanwhile public concern about the performance of existing HB services has continued to increase and this has led the Commission to produce its two recent publications:

- the October 2001 'Learning From Inspection' paper, on the role of local government (Ref. 5); and
- this report, which examines how central government and other agencies can help local authorities to deliver a good service.

Taken together, these publications make both short- and long-term recommendations to:

- *local government*, encouraging authorities to explore the options for better service delivery;
- *other stakeholders* – housing associations, the voluntary sector and other agencies – who have an interest in the way that HB is delivered; and
- *central government*, – identifying options which it can pursue to improve HB administration relatively quickly – recognising the changes to HB that may happen as part of the Government's longer-term reforms of welfare and social housing.

10. This report therefore encompasses three themes, which are explored in the next three chapters:

- *liaison and partnership arrangements*: recognising that fundamental change to the HB system would take time, this report first describes how the current system can work better if there is better joint working with statutory agencies, the voluntary sector and landlords, and better partnership with the private sector and with other councils;
- *simplifying the regulations*, especially those that define who is entitled to benefit and how their benefit will be assessed; these regulations have become increasingly complicated over time, and have caused problems and confusion for both claimants and councils; and

- *improving the funding regime* through which central government departments subsidise some of the costs that councils incur in administering the scheme and paying claimants, including the penalties and incentives that it includes.

The first of these should produce a direct improvement in how claimants experience the system. The last two should free up managers' and staff time. This can lead either to reduced administration costs, or to efforts being redirected, for example to improving the service, and guarding the system against fraud.

# 1



## **Liaison and Partnership Arrangements**

In administering housing benefit, local authorities depend on other organisations, particularly government agencies, to help them to provide a good service. Voluntary-sector bodies and landlords can also contribute to this. In addition, councils need to consider the scope for sharing aspects of service provision with the private sector or with other local authorities – particularly where they lack capacity to develop the service.

11. While most people accept that some form of change to the national scheme is inevitable in the longer term, there is still much that can be done at the local level to improve HB administration in the short term.

Performance is dependent on the action taken not only by local authorities but on that taken by many others outside the council [EXHIBIT 2]. HB is not a stand-alone service – it requires effective liaison with others. There are two aspects to this. Firstly, councils need to work with *other organisations* to help to improve the service to individual claimants:

- joining up with *government agencies*<sup>I</sup>: liaising effectively with Jobcentre Plus<sup>II</sup>, the Rent Service and, with the advent of tax credit schemes, the Inland Revenue;
- engaging with *the voluntary sector*; and
- *involving landlords*, including housing associations, in HB administration.

And secondly, where councils lack capacity – in terms of IT, staffing or resources – they need to explore how other partners might help to develop the service as a whole through *partnerships with the private sector*, and with *other authorities*.

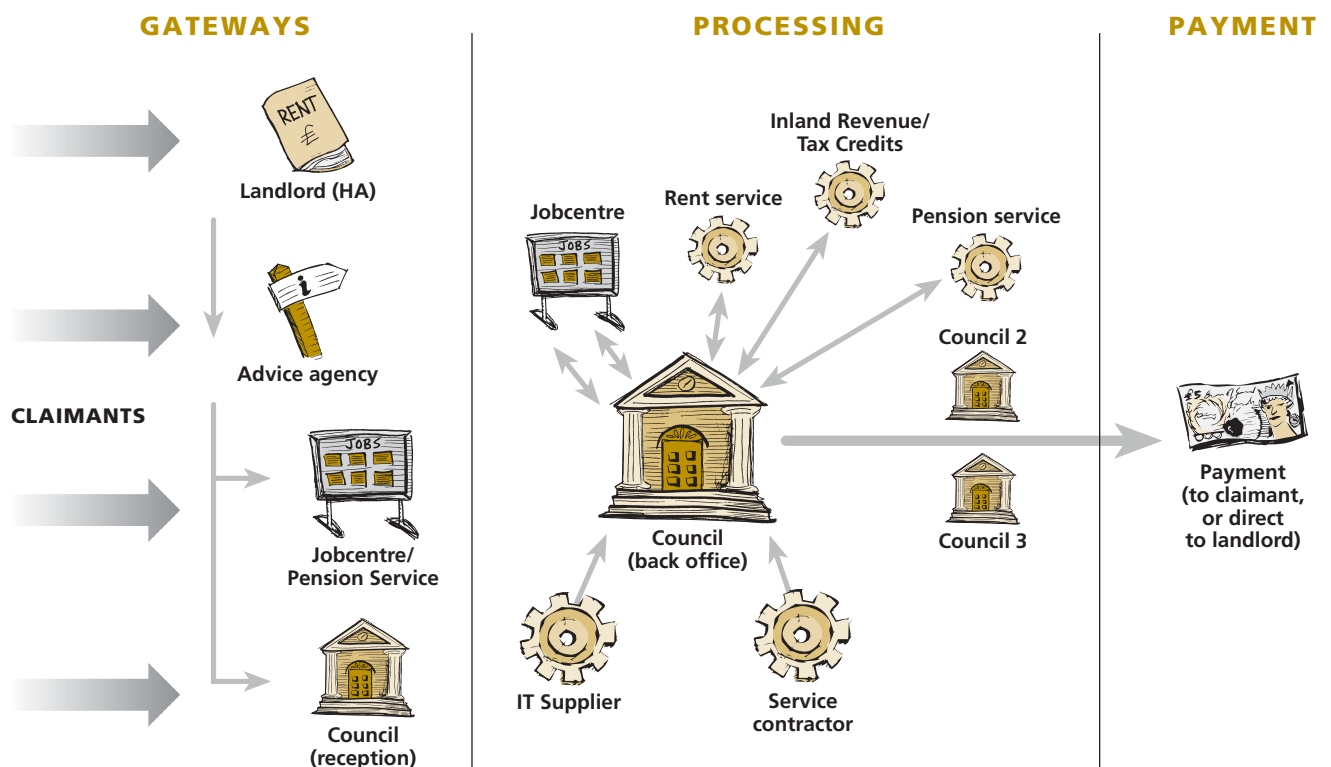
I Appendix C describes briefly the HB system and the main agencies involved.

II Jobcentre Plus is a new agency of the DWP which has taken over services previously provided by the Benefits Agency and the Employment Service – see Appendix C.

EXHIBIT 2

**Organisations potentially involved in the housing benefit service**

Performance is dependent upon many others outside the council.



Source: Audit Commission

## Working with other organisations

### Government agencies

12. Local authorities have relied on the Benefits Agency (BA) (and its successors) to supply information needed to assess and check most HB claims. In recent years the BA has worked to improve this flow of information. The DWP has set standards in a model service level agreement (SLA) which it encouraged local BA offices and local authorities to take up [BOX B]. Many aspects of this agreement have been identified as good practice in previous Commission research into SLAs in local government (Ref. 12). With encouragement from local authority associations, the DWP is now developing SLAs for all organisations involved in welfare benefits.

13. However, in practice these standards have often not been met. A BFI report published in August 2001 found, for example, that only 45 per cent of sampled claims had been despatched to local authorities within the specified two working days, and that only a small minority of the BA offices visited were performing well in terms of their service to local authorities (Ref. 13). There are two key problems.

#### BOX B

##### Features of the model SLA between Benefits Agency offices and local authorities

The SLA set out core service requirements between the former Benefits Agency (BA) and the local authority, and the performance targets to be met by each. It required the BA to:

- send HB claim forms to the local authority within two days;
- tell the authority about customers' entitlements to extended benefit payments...
- ...and about changes in Income Support and Jobseeker's Allowance entitlements;
- deduct HB overpayments and rent arrears from current Income Support or Jobseeker's Allowance payments; and
- take action on requests from the authority for National Insurance number traces.

Regular meetings between the BA and the authority formed part of the SLA. The authority also undertook to notify the BA of any changes in a claimant's circumstances that affected their entitlement to Income Support and Jobseeker's Allowance.

*Source: Audit Commission, based on DWP circular A24/2001*

*the relationship between councils and local benefit offices is very much one-way...*

**14.** First, SLAs need to represent a genuine agreement produced in discussions involving two parties, reflecting a mutual interdependence in delivering the service. But the relationship between councils and local benefit offices is very much one-way: councils need Jobcentre Plus offices to supply information about claims, yet Jobcentre Plus relies much less on councils. The nature of this relationship may explain why some local authorities have felt that they experienced a poor service from BA: for example, where BA resources were stretched, local authority HB work might get a lower priority than work on centrally administered benefits.

**15.** The second problem, identified by the BFI, was the lack of monitoring of these standards, and of accountability for them, within the former BA. There is often a risk that when performance begins to drop, for whatever reason, an SLA is soon being ignored as unrealistic or irrelevant. To counter this, SLAs between independent bodies need the backing of senior management; key monitoring information should be reported upwards and be openly available. Local authorities are publicly accountable for their performance on HB administration, but are dependent in part on the performance of Jobcentre Plus offices. The DWP should, therefore, strengthen its monitoring and performance management of standards in relation to HB work in Jobcentre Plus offices. (The Audit Commission recommended the publication of BA performance against SLAs as long ago as 1993 (Ref.1)).

**16.** The good practice contained in the existing SLAs now needs to be extended to the Inland Revenue, The Pension Service and other bodies that are responsible for supporting people through tax credit schemes. The move towards tax credits rather than benefit as the main means of support for people in work makes it even more important for arrangements between government agencies and local authorities to work effectively; managers in these organisations should be held responsible for developing effective communication systems with councils within the SLAs. For example, it should become routine that when the Inland Revenue awards a tax credit to a claimant based on annual income, it tells the local authority about any short-term changes to income that affect HB entitlement.

**17.** Some local authorities have said that the Data Protection Act 1998 (DPA) hinders them from obtaining from other agencies all the information that they need to decide a claim, because this is not compatible with the purpose for which the data was originally collected. For example, some former BA offices did not release any information concerning non-dependants, although councils need to take their income into account when the HB award is calculated. The Government has announced (Ref. 14) that it is investigating how authorities can be given tailored access to a wider range of centrally administered data. To this end, the DWP and its agencies should actively look for ways in which claimants can give consent to exchange of personal data for benefits purposes, and should continue to seek advice from the Office of the Information Commissioner on these matters. The DPA provides

*The DPA should not be a barrier where local authorities and claimants would, and should, benefit from data being more routinely shared.*

safeguards against loss of privacy where people have real concerns, but this should not be a barrier where local authorities and claimants would, and should, benefit from data being more routinely shared.

18. Rent Officers (ROs)<sup>I</sup> have the important task of ensuring that the HB scheme does not subsidise unduly high rent levels in the private sector. Accordingly, local authorities must refer most claims by private-sector tenants to the local RO. This extra step in the HB process could potentially increase complexity and lengthen processing times. However, since becoming an agency of the Department of Transport, Local Government and the Regions (DTLR), the Rent Service (RS) has done a great deal to make Rent Officer processes more systematic and respond effectively to claimants and local authorities:

- All RS offices are meeting or exceeding their statutory and Secretary of State targets (embodied in local SLAs with local authorities). For example, they currently process 87 per cent of referrals (against a target of 80 per cent) in three working days<sup>II</sup>. In a number of areas the RS and local authority parallel-process cases to further reduce the processing time.
- Prompt turnaround by the RS also directly assists those claimants who require an estimate of how much HB will contribute to their rent if their claim is successful: such ‘pre-tenancy determinations’ are normally completed within five working days.
- Pilot work by the RS to exchange data electronically with local authorities should further streamline the service and, if the pilots are successful, should be extended to all councils as soon as possible. The RS expects that the roll-out will be completed by the end of 2002/03.

In turn, local authorities need to play their part by contacting the RS promptly with the full details that it needs.

### **The voluntary sector**

19. Advice organisations, such as Citizens Advice Bureaux (CAB) also have a role to play in HB administration, as do charities that support vulnerable people, such as Shelter and Age Concern. These organisations can do much to assist claimants and authorities with HB claims – they often act as a first contact point for claimants, advise them of their entitlement and check that they have the necessary proof to support their claim [CASE STUDY 1].

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I Further details are at Appendix C.

II If the rent officer needs to inspect the property, the target is 85 per cent within 15 days to complete the referral.

**CASE STUDY 1****How the voluntary sector can help**

At Basingstoke and Deane Borough Council, local charities such as the YMCA and English Churches Housing Association assist their clients when they apply for HB. The charities check that their clients have the right information to claim, help to book an appointment with the HB office and may even accompany vulnerable clients to the Council. The English Churches Housing Association also provides the Council with a weekly list of all their clients (whether on HB or not), so that the HB assessor, who is allocated full time to dealing with these clients, can keep track of their claims and deal with changes as soon as they occur.

*Source: Audit Commission*

**20.** Some authorities have formal arrangements with such organisations. Council officers can, for example:

- provide advice about dealing with the questions that claimants ask;
- attend regular surgeries at advice centres; and
- distribute stocks of the local authority's claim form so that the organisations can help callers to complete them on site.

Regular liaison meetings can provide an important forum for feedback and consultation on a wide range of matters relating to local policy and practice.

**21.** Some councils have benefited from the assistance of voluntary organisations in vetting and preparing claims prior to assessment, but have then found that the Verification Framework (VF)<sup>1</sup> rules prevent them from relying on such work. Yet voluntary bodies might properly undertake at least part of the VF checks, provided that they can demonstrate that they are meeting the requirements of the framework.

**22.** However, while voluntary sector bodies can contribute to good HB administration in these ways, any working agreement between them and the council must recognise that their overriding responsibility is to act impartially and independently on behalf of their clients.

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<sup>1</sup> See Appendix C.

## Involving landlords

23. Sound working arrangements between housing associations (HAs) and local authorities are essential. In 2000/01, 28 per cent of all claimants were in HA accommodation, and this will increase substantially as a result of voluntary transfers of stock (LSVTs) from local authorities to HAs. HB remains an important service to LSVT tenants; so the implications of LSVT for HB administration need careful attention, starting well before the transfer, to ensure that the system continues smoothly as the new council-landlord relationship develops. The Commission's parallel study into stock transfer (due to be published in November 2002) will comment further on these concerns.

24. There is always scope for joint work between housing managers (in all sectors) and benefits sections on issues such as supporting vulnerable tenants, detecting fraud or dealing with tenants' movements. But for housing associations this can be more difficult to organise than for council properties, because HA tenants are one step removed from the local authority, receiving rent allowances rather than rent rebates. This increases the scope for delay and error, impacting on the claimant and on HA rent arrears.

25. HAs could have a direct role to play in administering HB. As landlords, they have access to details of tenancies and to certain changes in circumstances that affect the claim. They should, therefore, be able to help to prepare claims and should share information. The DWP has recognised this potential role by sponsoring a pilot exercise that allows selected HAs to verify claimants' documents under the VF regime<sup>1</sup>. In time, authorities and HAs throughout the country may be allowed to work in this way, provided that the following issues can be resolved;

- *Is the arrangement always cost-effective?* Shared responsibility may be relatively straightforward when one council is dealing with relatively few HAs; but where many HAs are involved, or where very large HAs deal with several councils, the arrangement is likely to be just as complicated as dealing with many private landlords.
- *Where should the costs fall?* HAs dealing with relatively small numbers of claimants may be able to absorb the costs of VF or claim building, but where numbers are large, for example, following an LSVT, such costs will rise. Who will pay – the local authority or the housing association?
- *What about conflicts of interest?* There is a tension between the HA as a landlord that wants to maximise its income from HB as soon as possible, and the new requirement to question evidence of identity under VF. HAs already vary in their approach to HB: some insist that the claimant has provided all the information necessary to support a HB claim before the keys to the property are handed over. Others, perhaps because they have more empty housing stock, may be less proactive as long as the HB claimant gets on to the rent roll.

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<sup>1</sup> HAs verify the claimant's identity, and all the information required for the means test and the rent payable.

## Developing capacity through partnerships

26. The Audit Commission's previous paper on HB drew attention to the importance of well trained staff to deliver the service, and adequate IT to support it (Ref.5). But some councils struggle to recruit or retain staff, or to invest sufficiently in IT to modernise their services. Such capacity problems call for rigorous appraisal of all the options. Best value reviews (BVRs) require authorities to challenge the way that services are provided; and as part of a review, councils need to explore whether, in whole or in part, the service can be performed by others – the private sector or other councils. This section goes on to consider the contribution that partnerships with *the private sector*, or *with other councils*, may make to HB administration.

### Private sector

27. Potentially, outsourcing can make a difference to any council service; consideration of procurement options should be an important part of the best value challenge agenda. The Audit Commission's paper *Competitive Procurement*, based on inspection and audit findings (published in March 2002) found that the benefits of good procurement most frequently cited by councils were (Ref. 15):

- an increase in investment;
- cost reduction;
- a change in organisational culture; and
- a clearer focus on service objectives.

28. Since the mid 1990s, some 30 councils have outsourced their HB service, either in whole or in part. Most that have done so have focused on cost and service performance, but with varying success, to judge by trends in performance indicators.

- Compared to in-house providers, a majority of outsourced services did make *cost-efficiency* gains [EXHIBIT 3, overleaf]. Indeed, a few district councils have made large gains since 1997/98.
- On *speed of processing*, however, a majority of outsourced services showed little or no improvement even compared to in-house services [EXHIBIT 4, overleaf].
- Almost no councils improved cost and the speed of processing simultaneously, and there have been several well-publicised failures.

EXHIBIT 3

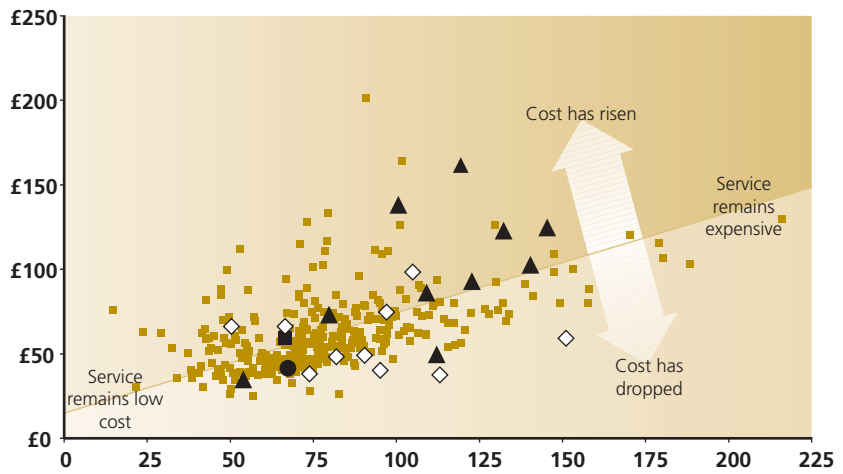
**Comparing the cost of administration between 1997/98 and 2000/01**

A majority of outsourced services made cost-efficiency gains.

Note 1. While both axes show measures of cost, the detailed definition of the performance indicators differs between years. The chart shows only to what extent authorities have improved or deteriorated relative to one another. It cannot show how much more or less expensive each service has become.

Source. Audit Commission Performance Indicators (1997/98) (Ref. 16), and Best Value Performance Indicators (2000/01) (Ref. 8)

Average cost (£) of handling a HB or CTB claim: 2000/01



The cost (£) of administration per claimant: 1997/98

- Cost of administration for non-outsourced authorities
- Cost of administration for outsourced authorities
  - ▲ London borough councils
  - ◇ Shire districts
  - Unitaries
  - Metropolitan borough councils

EXHIBIT 4

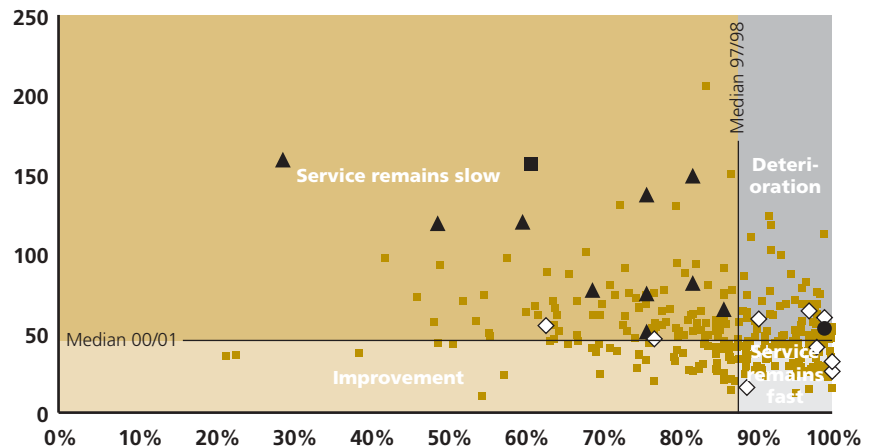
**Comparing the speed of processing housing benefit claims between 1997/98 and 2000/01**

A majority of outsourced services showed little or no improvement even compared to in-house services.

Note. See note to Exhibit 3 above.

Source. Audit Commission Performance Indicators (1997/98) (Ref. 16), and Best Value Performance Indicators (2000/01) (Ref. 8)

Speed of processing: average time for processing new claims (in days): 2000/01



The percentage of new claims for housing benefits from local authority tenants processed within 14 days: 1997/98

- Speed of processing for non-outsourced authorities
- Speed of processing for outsourced authorities
  - ▲ London borough councils
  - ◇ Shire districts
  - Unitaries
  - Metropolitan borough councils

29. To date, outsourcing HB has had a mixed track record in the 30 out of 400 authorities that have tried it. But discussions with some of these authorities suggest that problems have often arisen because the process of outsourcing has not been managed well:

- a poor HB service is unlikely to get better just by exporting it to the private sector;
- quite often, the only real effect has been to substitute one management team for another, with most of the in-house staff remaining (with their terms and conditions following contracting out being protected under the TUPE regulations);
- outsourcing has gone badly wrong where councils have not provided accurate information on workloads, and contractors have failed to anticipate workloads or attract well-trained staff;
- failure is also associated with loosely defined specifications, poor tender evaluation and poor, or non-existent, performance monitoring; and
- recovering from a past mistake is difficult – the scope to bring the service back in-house may be limited where staff have already been transferred to the private sector.

Some authorities that have made a success of outsourcing have turned round a poorly performing contractor by building in incentives for better performance: for example, by allowing the contractor to keep overpayment recoveries above a certain threshold, rather than tying the contractor and client side to a prescriptive regime of clauses and penalties.

30. In the right circumstances, and if carefully thought out and managed, outsourcing can provide an improved service. Occasionally, a partial outsourcing approach is preferable – providing many of the advantages while avoiding some of the potential disadvantages. For example, some councils have benefited from using the private sector to run post-opening operations, IT systems, or to assist with customer access points. This can allow private firms to lend proven expertise, rather than expecting them to get to grips with a complex system that is difficult to manage. But whatever the approach taken, councils that are about to involve the private sector must have a clear sense of the service improvements that they want, and they must ensure that any contractors they involve can deliver a customer-focused service and better IT, as well as a cost advantage.

### **Partnerships with other local authorities**

31. The private sector is not the only potential partner: councils should look to their fellow authorities for opportunities to increase efficiency and provide better services to claimants. Most initiatives to date have focused on shared training initiatives, the exchange of information on claimants, joint fraud work or IT procurement. Indeed, about half of the DWP's £1.8 million 'help fund' payments announced in February 2002 went to groups

of councils who bid for training initiatives. Few authorities, however, have explored the option of administering HB jointly with other authorities, despite the fact that there are no legal barriers to shared working.

**32.** Some successful authorities are reluctant to share HB processing, fearing that their performance might suffer if their resources are shared with their neighbours. And poor performing councils may be too concerned with sorting out their own problems to devote time to negotiating partnership arrangements. Such hesitation is understandable, but it is not a reason to do nothing. Indeed the opposite should be the case: partnership is a potential way of overcoming difficulties sooner and improving the use of resources.

**33.** Obtaining consensus is not easy – one promising joint initiative stalled because of the difficulty of getting the partners to agree the details of the shared arrangements [CASE STUDY 2]. These difficulties illustrate the importance of all parties adopting an open, co-operative and flexible approach where at all possible, so that the potential benefits of a partnership can be realised, to the benefit not least of HB claimants and taxpayers more widely.

#### CASE STUDY 2

##### What can go wrong with sharing

Three councils agreed to draw up a single contract specification for the processing of all their HB jointly, in order to benefit from more modern IT and from economies of scale. One contractor expressed an interest, but negotiations about the precise form of contract soon ran into difficulties. These were due in part to:

- differences of opinion about how the service would relate to the customer – each council wanted its own style of ‘front desk’, to reflect local circumstances, yet the contractor wanted a standard service for customers;
- location issues – staff in all of the councils (even those close to the proposed new site) were reluctant to relocate;
- disputes over the terms under which staff would transfer; and
- perhaps most importantly, differing perceptions of where risk should lie under the contract – both local authorities and the private partner wanted to minimize their share of the risk.

The distinct cultural and political styles of each council contributed to these difficulties. Unable to reach agreement, one council abandoned the partnership, and shortly afterwards, the contractor walked away from negotiations. Councils lost staff because of the continuing uncertainty and the contractor had to absorb set-up costs. Now two of the remaining council partners have agreed to concentrate on joint IT procurement.

*Source: Audit Commission*

**34.** A shared political commitment to partnership is key – councils should choose partners with suitable cultural and historical characteristics. Despite the practical difficulties involved in joint working, local authorities should continue to explore such options in the spirit of the recent local government White Paper for England (Ref. 17), and the Welsh Assembly Government’s recent policy statement on local government (Ref. 18).

**35.** Closer working with other organisations, outsourcing, and partnerships can bring advantages, by making the HB system, as it currently operates, work better. The recommendations overleaf, both short and long term, address these aims. But more fundamental questions need to be addressed, such as how the system itself can be improved or simplified, so that all councils, in partnership or not, can deliver a better service. These questions are considered in the next chapter.

## R E C O M M E N D A T I O N S



# 1

## Liaison and Partnership Arrangements

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### *Short term*

- 1 The DWP should strengthen its monitoring and performance management of standards of HB work in Jobcentre Plus offices (and in The Pension Service in due course), and make comparative data available to local authorities and the public.
- 2 The DWP should promote to the Inland Revenue the importance of high standards and good practice affecting HB administration (including SLAs).
- 3 The DWP should continue to examine whether Jobcentre Plus could lift some or all of the restrictions on sharing data with local authority benefit sections, in advance of the introduction of the planned Contract Management System.
- 4 The Rent Service should roll out electronic transfer of data to local authorities rapidly, if the pilots are successful.

### *Longer term*

- 1 Local authorities and voluntary-sector advice agencies should look for opportunities to work together to help claimants to get their details 'right first time' and checked and ready for assessment more quickly...
- 2 ...as should local authorities and housing associations.
- 3 HB services, particularly those facing persistent labour shortages or that need to modernise their IT, need to consider the option of outsourcing... ...but they need to review carefully how they would manage the contractor and what level of customer care the contractor can demonstrate.
- 4 Local authorities should continue to look for opportunities to share aspects of their service with other councils.



## 2

### **Simplifying the Regulations**

Housing benefit is complex, partly in order to constrain expenditure and guard against fraud. Many proposals have been made to simplify it, but only a few changes can be introduced easily; most require careful evaluation by the department. Meanwhile, new tax and pension credit arrangements risk making benefits administration yet more difficult; so effective consultation procedures are essential. And there may be scope to give good-performing authorities more discretion on benefits matters.

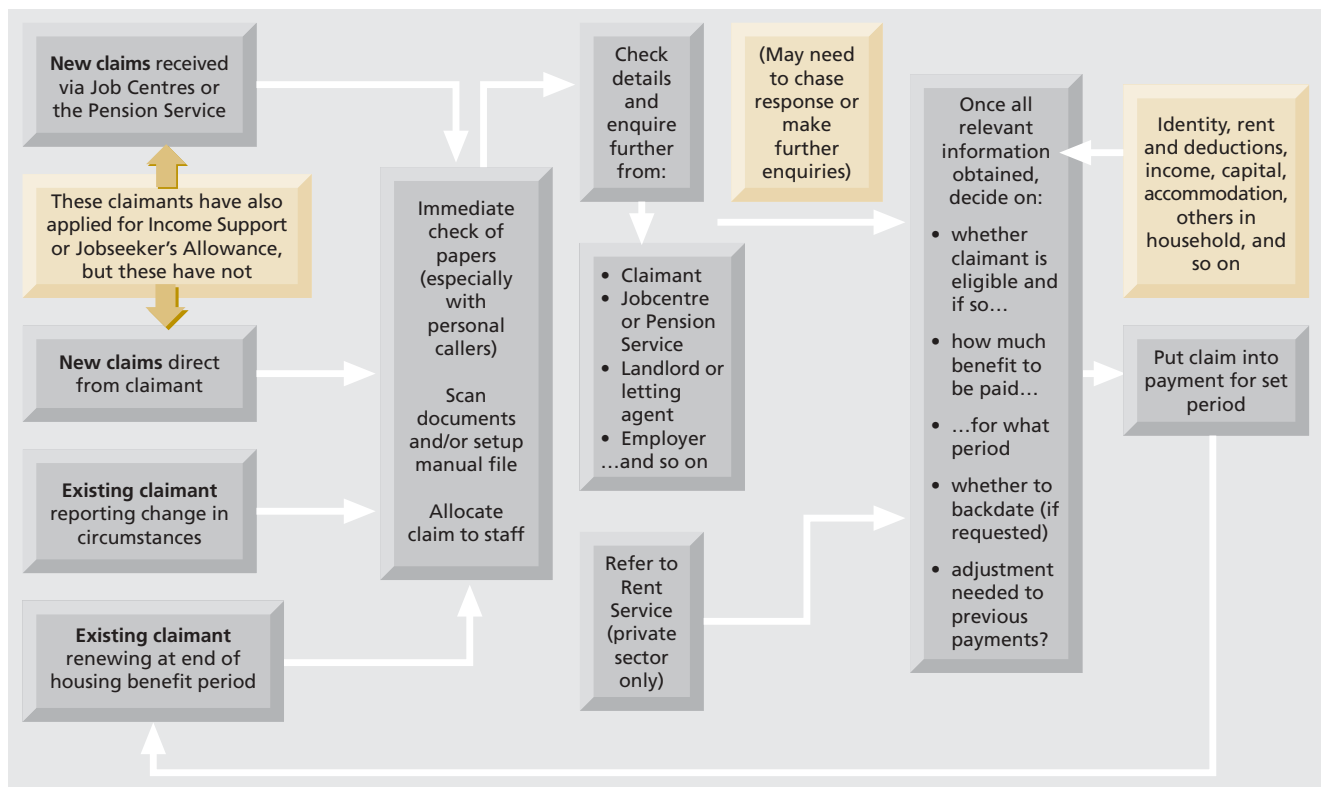
36. Housing benefit is complicated to process [EXHIBIT 5]. Changes that have been made to the system since 1988, often designed to constrain total expenditure or to make fraud more difficult, have almost always made the system more complicated. This chapter considers the potential for simplification. It first outlines the issues:

- *the objectives of the HB system*, concluding that the added complexities have generally served the objectives of central government rather than the interests of claimants and service providers;
- *how far is it possible to improve speed and accuracy?* concluding that there are no easy solutions to these problems; but...
- ...that there may be specific options for simplification that *improve customer care and improve the use of resources*, although most options have drawbacks that, at least partly, offset the advantages.

EXHIBIT 5

**The basic steps in processing housing benefit claims**

Housing benefit is complicated to process.



Source: Audit Commission

## The objectives of the housing benefit system

37. Ideally the HB system should meet a range of objectives:
- for claimants (and landlords, whose business is directly affected by how the service performs), it should be speedy, accurate, accessible, transparent, fair and convenient;
  - for service providers, it should be simple and economical to administer; and
  - for central government, it should be affordable without overstressing public expenditure, it should be well protected against fraud, and it should support wider policies, particularly in relation to housing, work and welfare.
38. However, it is difficult, perhaps impossible, to meet all of these objectives simultaneously [BOX C, overleaf]. It is primarily in the interests of meeting central government's objectives that HB rules have become more complicated over many years, for example:
- in 1996, benefit for most single people under 25 in private sector accommodation was restricted to the rent of a single room – a restriction that was eased somewhat in 2001;
  - since 1998, many authorities have introduced VF, which attacks fraud, but also makes the process more complex for claimants and authorities; and
  - in 1999, eligibility was restricted to exclude certain claimants whose relationship to their landlord might suggest that they are not genuine tenants – for example, a close relative residing in the dwelling – a desirable objective which, however, created further complicated issues and tests.

**BOX C****The various objectives of the HB system****To be equitable**

The simplest benefit scheme would be one that pays the same amount to all, irrespective of circumstance. But the underlying principle of a means tested benefit is that support should only be provided in relation to a person's needs. Taking account of individual circumstances – income, resources, family composition and accommodation – means that individual benefit payments vary. Any move towards a flat rate, or universal payment, could be regarded as *less equitable* on the grounds that some people will receive less than their needs, and others more than their needs.

**To be affordable**

Overall, HB costs £10 billion a year. Expenditure of this size is, of course, significant in terms of the Government's overall spending plans, and it would be unrealistic to suppose that any reform can be implemented without considering its effect on the public purse.

**To be secure against fraud**

The Audit Commission, central government and local authorities themselves have properly focused on ensuring that the HB system is protected from fraud. Any change to HB, particularly in terms of making it easier to claim in the first place, should not open up gateways to fraud and error. Ideally, some changes should have the effect of freeing up resources to focus further on anti-fraud work.

**To be workable in practice**

Changes that are intended to simplify one set of rules, or to make life easier for one group of people, can make the scheme as a whole more complex. Successive changes to entitlements for different groups of people mean that councils now have to administer claims in separate categories – in effect there are four HB systems, not one.

**To encourage better performance**

Local authorities are being encouraged to improve their performance in several ways: by the DWP's performance framework, BFI and best value inspection. Furthermore, comprehensive performance assessment (CPA) is now being developed in England, and the Programme for Improvement in Wales (Ref. 19). Any changes to the system or to the way that HB is funded should build upon these initiatives.

*Source: Audit Commission*

## How far is it possible to improve speed and accuracy?

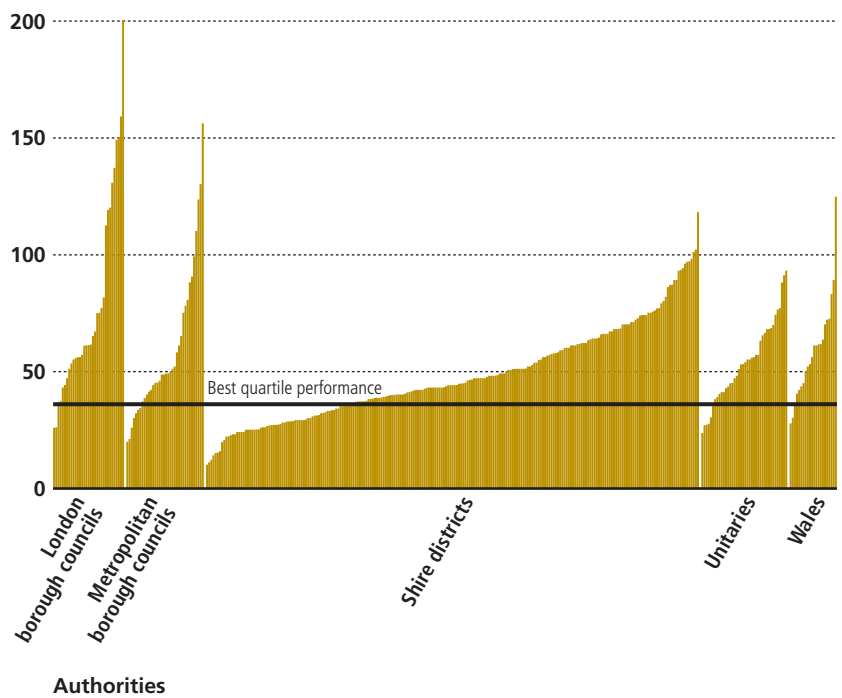
39. One criticism has been that the complexity of the system has led to lengthy processing times. The average time taken to process new claims in many authorities is above 50 days, in some the average is more than 100 days. Even with performance at the 36 day best quartile [EXHIBIT 6A], claimants who cannot afford the rent will have built up five weeks' arrears before they receive payment. Claimants also express concern about mistakes made by councils – in one-quarter of authorities, the error rate is over 6 per cent [EXHIBIT 6B, overleaf].

EXHIBIT 6A

### Average time to process a claim from start to finish, by local authority, 2000/01

Processing claims in 36 days represents best quartile performance.

Average time to process new claims (days)



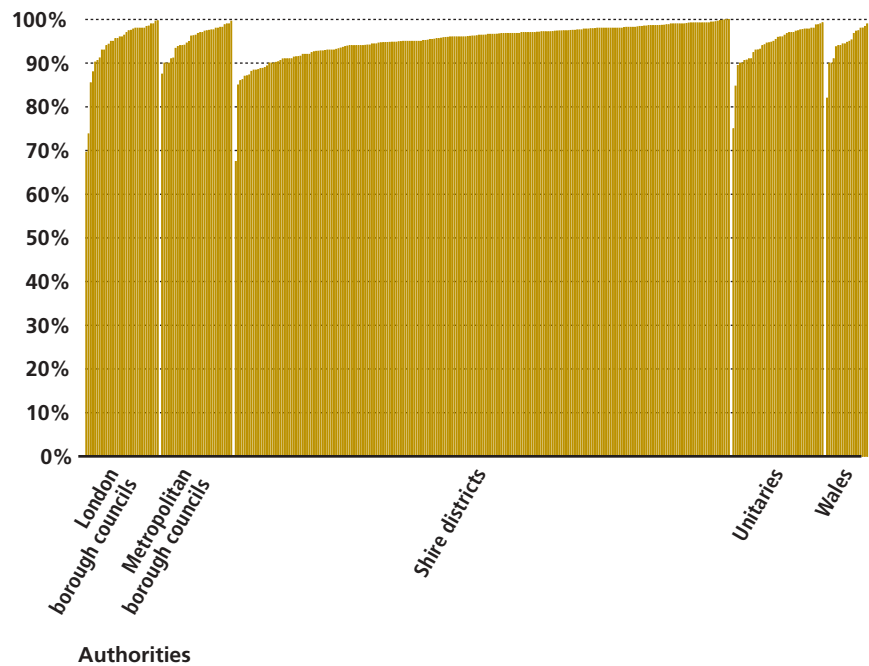
Source: Audit Commission, *Best Value Performance Indicators 2000/01* (Ref. 8)

EXHIBIT 6B

**Accuracy of benefit calculations, by local authority, 2000/01**

In one-quarter of authorities, the error rate is over 6 per cent.

Percentage of claims calculated correctly



Source: Audit Commission, *Best Value Performance Indicators 2000/01* (Ref. 8)

40. However, the Audit Commission’s analysis of a sample of claims that took a long time to be decided, and analysis of those where an official error was found, does not point to a consistent pattern of problems. Instead, it is the wide range of factors underlying delay and error that is most evident [BOX D]. On this evidence, specific simplification measures seem unlikely to bring about major improvements in speed or accuracy. Nonetheless, specific measures can impact on customer care and local authority throughput, because:

- there is anecdotal evidence from claimants that the complexity of the process is daunting; and
- from the authority’s point of view, if workload can be reduced, backlogs and delays should become less frequent.

It is these two aspects: improving customer care and making better use of scarce resources, that justify pursuing specific options for simplification.

## BOX D

**The complex nature of the complexity**

At field sites, the study team examined a small number of claims where the authority had taken a long time to reach its decision. The object was to identify any frequently occurring causes of delay, in order to identify those aspects of the process that could usefully be redesigned. If, for example, there had been evidence to show that a particular external agency was frequently slow in responding to the authority's enquiries, analysis on how to improve that communication link might have been fruitful.

However, no such pattern emerged. In many cases a temporary backlog or blockage in the authority had delayed processing the claim; in many, the claimant had been slow to respond to enquiries. But the differences between the claims were more evident than any similarities:

- some slow responses were from vulnerable individuals, but others were from people who seemed merely to be less organised, or unconventional, in their personal arrangements;
- one or two claims involved procedures that are often likely to prove complex, such as 'habitual residence' checks on claimants from abroad.

At one authority, the team examined management checks on the accuracy of claims. Again the variety of causes of inaccuracy was more evident than any common problem.

*Source: Audit Commission*

## Customer care and the use of resources

41. Many organisations have suggested specific ways of simplifying HB regulations and procedures in order to improve customer care and make better use of council resources. However, most (but not all) of these options would adversely affect other objectives of the service, such as containing overall cost and protecting against fraud. Decisions on these options must inevitably involve trade-offs between the advantages and disadvantages.

42. Some specific suggestions have been:

- that both Jobcentre Plus and the local authority use a *single claim form* for HB and council tax benefit<sup>1</sup> (CTB) purposes;
- reducing the *evidence of identity* for at least some claimants in VF compliant authorities;
- abolishing or at least simplifying *non-dependant deductions*;
- making fewer, or better-timed, *referrals to the Rent Officer*;
- requiring claimants to *report only major changes in circumstances*, rather than all changes, as at present;

<sup>1</sup> For further information on council tax benefit, see Appendix C

- requiring claimants to *report changes in circumstances to only one agency* (for example, Jobcentre Plus or the local authority) rather than to both, as at present; and
- *making awards for periods longer* than the current 60-week maximum, to appropriate claimants.

The following paragraphs discuss each of these options in turn.

### A single claim form

The majority of HB claimants first apply for other benefits such as Income Support (IS) or Jobseeker's Allowance (JSA)<sup>1</sup>. The BA, and its successors now administering these benefits, give each claimant a housing benefit form (NHB1) to complete (inside the main form for IS or JSA). This form is then sent on to the local authority; indeed, completing the NHB1 formally starts the process of claiming HB. However NHB1 does not contain all the information needed by the local authority, which on receiving the NHB1 almost always sends the claimant its own HB form to complete as well. This means that the authority is asking for some of the information a second time.

43. The duplication of effort involved in having to complete two forms just for HB is poor customer care: it is annoying for the claimant as well as wasting the authority's time and resources. In the past, a few councils and local BA offices have arranged for the BA to issue claimants with the local authority's form [CASE STUDY 3]. But elsewhere this problem, which seems to have a simple solution, has persisted for over ten years.

#### CASE STUDY 3

##### A partnership can make life easier for the genuine claimant

As part of Blackpool Borough Council's partnership with Jobcentre Plus – and prior to 2002, the BA office – the Council's own HB claim form is included as part of the claim pack for Jobseeker's Allowance and Income Support. Such good customer care is backed up by effective anti-fraud arrangements, since the partnership also covers a shared fraud team for HB and JSA/IS, located in the Council's offices.

*Source: Audit Commission*

<sup>1</sup> For further information on Income Support and Jobseeker's Allowance, see Appendix C.

44. Officials told the study team that the DWP will deal with this problem as the Jobcentre Plus initiative is rolled out – something made easier because each Jobcentre Plus office will cover the same administrative area as a small number of local authorities. Jobcentre Plus offices are to issue new claimants with either a national model claim form, or (by local arrangement) with the form used by the appropriate local authority. The DWP expects that this change will be launched early in 2003.

### Evidence of identity

All claimants must satisfy the local authority of their identity and their eligibility for HB. It is for the authority to decide what evidence it asks for to meet these requirements, except that most claimants must provide evidence of their own and their partner's national insurance number. Many authorities voluntarily comply with the DWP's VF, which aims to prevent fraud by (among other things) specifying in detail what evidence of identity, household composition and income claimants must produce.

45. The VF remains a controversial topic in terms of its effect both on councils and claimants. In 1999, the Audit Commission commented that 'full implementation of the Framework would require more resources than have so far been applied in most areas', for example, to make the prescribed number of home visits within the timetable laid down (Ref. 3). The DWP has since provided extra funding for councils that adopt the VF; but some councils report that they are unable to manage the extra workload involved unless they either spend still more money on administration from their general fund, or allow backlogs of work to build up. However, many councils that have introduced the VF have found that processing times return almost to normal once the systems have settled in, something that they ascribe to good planning and management of the change.

46. Claimants too are affected when a council becomes VF compliant. For most people it is probably only a minor inconvenience to have to produce original certificates and evidence of their financial affairs. But vulnerable elderly people, or those with unsettled lifestyles, may find it genuinely difficult to do this. Some people may possibly be put off claiming altogether, particularly if their entitlement is small. Even though the VF scheme has been actively promoted to authorities, no quantitative research into the effect on claimants and potential claimants has been published.

47. There is no dispute that claimants should produce evidence of their identity and other circumstances to support their entitlement to HB. Every public body has a responsibility to adopt appropriate procedures to counter fraud. However, an authority that deviates from any aspect of the VF is classed as non-compliant, and so (for example) cannot claim the

extra DWP funding for the VF. It is, therefore, important to question whether the rigidity of the VF's approach is always appropriate. Further evaluation work is called for.

### Non-dependant deductions

If the claimant has an adult relative or friend living in the household, these people will generally be classed as non-dependants who are expected to contribute to the rent. Regulations therefore lay down an amount by which HB is reduced for each such non-dependant, the amount depending on where they fit within six bands of income or benefit.

48. Non-dependant deductions (NDDs) cause difficulty both to councils and claimants:

- the claimant may not find it easy to establish how much a non-dependant is earning, or to supply the authority with updated information each time the non-dependant's income and employment alter; and
- for councils, establishing whether a person is living at the address, and when they started to do so, can be difficult, especially if the non-dependant has a transient lifestyle.

One authority visited gave the example of a housing association tenant living with two grown-up daughters aged 19 and 21. During the year 2001/02, HB and CTB had to be recalculated on 11 occasions – nine of the changes relating to one or other of the daughters attracting a different non-dependant charge. In total six amendment council tax bills were issued over the year, adding to the administrative costs of the council.

49. For these reasons, some (the Institute of Revenues, Rating and Valuation for instance (Ref. 20)) have suggested abolishing NDDs, or reducing the number of income bands.

- But abolition would not only add considerably to the cost of HB; it would also raise the question of equity – a claimant who lives alone and has no one else to help to pay the rent, might reasonably expect to receive more benefit than a claimant in identical accommodation who shares it with an earner who could contribute, other things being equal<sup>1</sup>.
- A less radical proposal is to reduce the number of income levels. If the six levels were reduced to two, with the higher level applying to non-dependants who are in work and whose pay is above benefit level, it might be easier for the claimant to establish which level should apply.

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<sup>1</sup> The PIVOT report (Ref. 21) estimated that introducing a flat rate of £15 per non-dependant would cost over £100m, equivalent to nearly 1 per cent of the total cost of HB payments.

This trade-off, between complexity and ease of administration, and equity and cost to the public purse, is typical of the difficult political judgements that must be made when considering the options for simplifying HB.

### Referrals to the Rent Officer

Most claims by private-sector tenants (but not generally by housing association tenants) must be referred to the local Rent Service<sup>1</sup>. Their decision, on appropriate rent levels for the accommodation and the locality, aims to ensure that any benefit paid does not subsidise unduly high rent levels in the private sector.

50. This large volume of referrals generates a workload that has the potential to increase processing times and backlogs. However, in practice this risk is well managed, and the Audit Commission's study site visits raised few, if any, concerns about Rent Officer referrals causing undue delay. However the *timing* of the referrals to the RO can be a substantial issue.

51. A Rent Officer decision is normally valid for one year and can be reviewed in-year only in certain defined circumstances. When the landlord increases the tenant's rent mid-year, HB cannot normally be increased until the authority can obtain a new RO decision at the end of the year. This rule makes no distinction between geographical areas of high and low demand for rental accommodation. However:

- where demand is high, mid-year rent increases can be substantial, and in order to help such tenants, many authorities are drawing heavily on their limited budgets for discretionary housing payments (DHP);
- in areas of lower demand, by contrast, rents can be quite steady, and the requirement to obtain an RO decision, while adding only a few days to the processing time, seems a poor use of the RO's time.

52. The RS already monitors local reference rents and so could indicate to the local authority how fast rents are rising, and whether the market is consistent across the area. The time of ROs would be better used if local authorities could refer more frequently where the market is heated and less frequently (within set limits) where market rent levels are proven to be steady. Some limited relaxation of the rules on timing RO decisions would make it easier to administer HB, as well as using rent officer resources better. There is no suggestion that such changes to the rules on referrals would have any major disadvantages elsewhere in the HB system.

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<sup>1</sup> See Appendix C.

### Reducing the requirement to report changes in circumstances

Once their benefit has been awarded, claimants are required to inform the council of all changes in their circumstances that might affect their housing benefit. This includes all changes in their income, capital, household composition or rent. (But claimants need not report matters that the authority should already know about – for example, a change to a council house rent.)

**53.** This is a burden on, for example, claimants in irregular employment with frequent changes in income; and it adds to the workload of the authority that has to process these continual, often minor, changes. In most authorities the average claim is affected by several changes of income per year.

**54.** The paperwork burden on claimants would reduce if they had to report only major changes in circumstances (as opposed to all changes). This would particularly help claimants whose circumstances are clearly likely to change during the award period, such as people in casual work. More radically, the award could be fixed for the period regardless of changes, as is the case for the Working Families Tax Credit.<sup>1</sup>

**55.** Councils would also have a reduced workload. Every change in circumstances that is cut out by such proposals would remove a whole self-contained piece of work for the authority's staff. This is a much more effective simplification than merely altering the way that part of a task has to be done: in such cases, even if the new rules are simpler, the assessor still has to remember the new rules and when they came into force. By contrast, requiring the authority to process fewer changes in circumstances altogether should reduce backlogs and delays, and allow staff time to be redeployed to other priorities.

**56.** However, relaxing the 'change in circumstances' requirements would make it more likely that claimants would fail to inform the council of changes that are large enough to merit notification. The council would then have to consider whether to write off or to recover any overpayment that arises.

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<sup>1</sup> See Appendix C.

### Reporting changes in circumstances to only one agency

People's circumstances – their income, capital and family circumstances – often change in a way that affects other benefits that they are receiving as well as HB. This is particularly true for the large numbers of people who are also receiving Jobseeker's Allowance or Income Support. Because these two benefits are centrally administered, claimants must inform both Jobcentre Plus and the local authority.

57. Requiring claimants to inform both organisations again represents poor customer care. Claimants might reasonably expect them to exchange such information between themselves as a matter of routine. Some areas of the country piloted the 'ONE' project in which there was a common gateway into both centrally and locally administered benefits, and evaluation of this initiative has been generally positive. So the principle that the claimant need only inform one organisation should be extended nationally as quickly as possible.

58. The DWP has announced that it will enable data that is gathered by Jobcentre Plus to be transferred to local authorities through a current IT development known as the Customer Management System. It expects that this will go live at one Jobcentre Plus office from October 2002, although there will not be complete national coverage until 2006. If successful, this will represent an important (and overdue) step forward in customer care.

### Making awards for longer periods to appropriate claimants

HB can only be awarded for a set period (currently 60 weeks at most). If it is not renewed at the end of this period, it lapses. In practice awards are renewed at least once a year; this requires:

- the local authority to send the claimant a renewal form during the eight weeks before benefit ceases; and
- the claimant to complete the form including extensive up-to-date details of, for example, their income and capital.

59. Renewing each claim at least once a year provides the authority with an opportunity to check that all claimants' details are up to date, and an opportunity to follow up any inconsistency with previous claims. But it also adds substantially to an authority's workload.

60. The Government has already announced that, from April 2003, pensioners' HB will be awarded for a longer period, up to five years. Since pensioners are less likely to move house or to have major changes in income, this announcement should reduce unproductive work. Similar considerations apply to other groups, such as people with a long-term

disability who are unlikely to find work (the work-related interviews at Jobcentre Plus offer the opportunity to investigate this), and the DWP might consider allowing longer awards to these groups too.

61. As with changes in circumstances, this would be an easy change to manage, because each renewal claim fewer would be one less self-contained piece of work for the authority's staff. However these advantages have to be set against the difficulty which authorities will experience in recovering overpayments from low-income claimants, especially when a change that affects their benefits is only discovered at the next renewal stage three or four years later.

62. All these changes have some merit, and need careful consideration. In making future decisions, the DWP should recognise:

- *the importance of evaluation*, since most options for simplification have potential disadvantages, which have to be carefully weighed against the expected advantages;
- *the need for a better process for introducing change* that allows a reasonable amount of time for consultation and implementation; and
- *the possibility of increasing discretion*: a different approach to the practical problems of administration would be to allow authorities more discretion over who receives HB, how much they are entitled to, and how to address the risks of error and fraud locally.

The remainder of the chapter sets out the Commission's conclusions in these three areas.

63. The Government has shown itself willing to make some straightforward changes:

- introducing a common claim form for Jobcentre Plus and local authorities; and
- proposing to allow responsible staff who are not employed by the authority to make the formal decision on a claimant's entitlement to HB (at present, regulations require that assessments made by agency staff, and those employed by private-sector contractors, are signed off by a council employee). Ministers have recently agreed in principle to make an Order to implement this change, but parliamentary and other procedure still had to be completed as this report went to press.

However, most options for change are more complicated and require evaluation.

64. Proposals for simplification are particularly worth considering if they can cut out whole pieces of work, as would reducing the numbers of renewals and changes in circumstances. All such proposals however need careful evaluation, given that they have disadvantages as well as advantages. In the past, opportunities to learn lessons from evaluation and consultation have not always been taken. One example is the VF; the only published evaluation of the framework was based on the subjective views of HB managers (Ref. 22). This was inadequate in terms of the questions raised by a number of authorities that implemented VF:

## The importance of evaluation

- whether some genuine claimants were deterred from claiming by the burden of documentation to be produced; or
- whether the renewal periods prescribed within the VF for different risk categories of claimant are equally appropriate to all authorities.

65. All proposals to simplify the system need to be carefully evaluated: for example, are genuine claimants being unreasonably burdened by systems that are designed to check public expenditure and attack error and fraud? The DWP is demonstrating that it is willing to consider simplification issues, and it should continue to explore them in consultation with local government and service users.

66. Of all the various stakeholders, only the DWP has the data and resources to commission, or carry out, such analysis. The DWP recently commissioned work on a number of possible simplifications such as RO referrals, and on the diversity of private rented sector schemes. The DWP should continue to evaluate such options, taking into account the requirements of all the parties affected: central government, service users, councils and private sector bodies that administer the HB scheme.

## A better process for introducing change

67. Other pressures will impose further complexity on the HB system in the next few years: for example, the new tax credits and the Pension Credit to be implemented during 2003 will require many changes to allowance and entitlement rules, as well as more frequent communication with the Inland Revenue. It is vital that the DWP delivers its commitment to introduce changes to regulations within a timescale that allows councils to implement them properly. This has often not been done in the past; inadequate consultation and late notification has caused problems for:

- service providers – over 400 councils have to interpret the changes in relation to their own procedures, they must arrange to train staff (numbering over 100 in the largest authorities), and load software tailored to their own system;
- software companies, who at short notice have to interpret the changes, incorporate them into software, issue patches and so on. This requires them to reschedule other business commitments, even though some suppliers aim to incorporate legislative changes at no extra cost to client authorities. It is not only operational procedures that have to be updated: the most difficult problems to solve can be the result of the way in which the changes affect the production of management statistics required by the department, and the software suites required to calculate the end-of-year subsidy claim; and
- the DWP itself, which has sometimes had to issue circulars correcting errors in a previous circular shortly after it was issued.

Such problems cause temporary, but significant, difficulty in providing a service to claimants, for instance, assessors may have to do manual calculations until software has been loaded and tested [CASE STUDY 4, overleaf].

## CASE STUDY 4

**The problem of implementing a change to HB**

The Department of Social Security published new regulations introducing Discretionary Housing Payments in March 2001. One fieldwork authority described how, although aware that a change was taking place, it had had no details beforehand. There had been only three months to make the necessary changes. Implementing the regulations required five versions of its software – involving changes to the database, to overpayment recovery procedures, letters and notifications, and interfaces with rent and council tax systems. In addition, staff had to be briefed and trained on the new regulations.

It is not surprising that this work was not completed in time – indeed the software supplier is still having difficulties eradicating all of the faults. This has meant that the authority has had to build in retrospective ‘fixes’ leading to a further drain on staff time and resources.

*Source: Audit Commission*

68. The DWP has committed itself to, and begun to implement, an improved process:

- a longer consultation period for local authority associations to comment on the proposals (a minimum of six weeks for significant changes);
- a period of six months between laying of regulations and major system changes coming into force;
- introducing changes in batches, normally no more than twice a year, rather than in a piecemeal fashion as in the past; and
- clear helpline arrangements so that authorities know who to contact with queries.

IT suppliers have also been invited to contribute at an early stage to a consultative process. A regulation steering group, made up of local authority association representatives and DWP officials, is to consider proposed changes and make recommendations on their timing.

69. These arrangements should help authorities to deliver a better quality service, and the DWP should continue to observe them stringently. Short-cutting – however pressing the reason, for example pressure from elsewhere in central government – is likely to degrade the service that authorities provide to claimants.

**Increasing discretion**

70. Another approach to the practical problems of administration would be to allow authorities a little more discretion over who receives HB, how much they are entitled to, and how to address the risks of error and fraud locally. Central government’s desire for equity and control of public spending has led successive administrations to extend the regulations and to define them tightly in an attempt to cover a wide range of

circumstances. As a result, the regulations are mostly prescriptive, giving local authorities little discretion except where wording requires interpretation<sup>I</sup>.

**71.** There is scope to offer authorities more discretion in a number of areas:

- on decisions that must be made in ‘hard cases’, both on who should receive benefit and how much they should be paid; and
- on the approach to minimising fraud and error.

**72.** ‘Hard cases’ arise because claimants’ circumstances are very varied and difficult to categorise. Although regulations have sometimes been changed in the past in order to address issues raised by a small group of claimants (for example, last year’s circular A48/2001 which instructed authorities not to reduce the HB paid to victims of World War II atrocities who receive new compensation payments), difficult cases continue to arise. For example<sup>II</sup>:

- A HB claimant was obliged to leave his flat for several months as a condition of bail after a confrontation with a neighbour. He continued to pay the rent in order to keep the flat, and went to stay with family at no further cost to the public purse. In due course he was found not guilty, while the neighbour was shown to have a record of serious violence. Nevertheless the council deprived the claimant of HB for the period of bail because he had been absent from the accommodation. On appeal, the benefit tribunal confirmed that the regulations left no other option, but recorded an opinion that justice had not been done.
- One authority visited was processing the claim of an asylum seeker whose refugee status had just been confirmed by the Home Office. In order to decide how much HB he was entitled to, the authority was obliged to establish his entitlement to Income Support back to 1998 when he first entered the country. The council has no power to agree an estimated payment acceptable to both parties despite the amount of work involved.

**73.** Although councils currently have a budget for discretionary housing payments (DHPs), this money can only be used to top up HB, not to support claimants who – even if the grounds appear unjust – are ineligible for HB. The concept of further local discretion admittedly raises several problems:

- claimants should generally feel entitled to the same national benefit wherever they live;
- benefit staff are used to working within a structure of regulations;
- special decisions raise questions about how to fund them, and whether they create precedents; and
- some councils use little of the existing DHP budget.

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<sup>I</sup> Although authorities can make discretionary housing payments (DHPs), the department has set strict limits on this budget. Such payments must only be made to people who are eligible for HB proper.

<sup>II</sup> The study team is grateful to NACAB for supplying information about this recent case.

But regulations, however complicated, will never cover all cases adequately. The alternative approach of allowing councils (or perhaps another organisation) more discretion in the details of administration, at least for a small number of hard cases, deserves further discussion.

**74.** Discouraging and protecting against error and fraud is another area where councils could be allowed more discretion. Some authorities do not wish to comply with every aspect of the VF, seeing the detail as too prescriptive. The Audit Commission expects authorities to develop their own assessments of risk (of fraud, for example), and then to manage a programme of work that focuses on the highest risks locally [BOX E].

**75.** The spirit of the 2001 Local Government White Paper for England is that high-performing councils should be allowed freedom and flexibility (Ref. 17). The concept of local Public Service Agreements (policy agreements in Wales (Ref. 19)) is accepted in other areas of local government. The DWP should consider whether such concepts could be extended to the administration of HB. The scope for giving greater freedom and flexibility should inform a review of the incentives and funding regime, which central government currently offers to local authorities that are responsible for HB. That regime is the subject of the next chapter.

#### BOX E

##### Assessing risks

*It is the responsibility of the audited body to identify and address its operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control.*

*Source: Audit Commission Code of Audit Practice (Ref. 23)*

## RECOMMENDATIONS



## 2 Simplifying the Regulations

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### *Short term*

- 1 As intended by the DWP, Jobcentre Plus should encourage its local offices to stop using the old NHB1 form as a gateway to housing benefit, and supply claimants either with the appropriate local authority's application form or use the new national model claim form.
- 2 The DWP should review the timing restrictions on local authority referrals to the Rent Officer.
- 3 The DWP should maintain and improve its process of consultation on changes to regulations.

### *Longer term*

- 1 The DWP should continue to evaluate a range of options for simplifying the operation of HB, giving full weight to the views of claimants and landlords.
- 2 The DWP should allow local authority services that perform well to exercise freedoms in two areas particularly:
  - piloting simplified regulations; and
  - basing their controls against fraud and error partly on local assessments of risk.
- 3 The DWP should make some provision for further discretion to be allowed in individual special cases.

## 3



### Improving the Funding Regime

Central government contributes to benefit payments that are made by local government and to their administrative costs, but the system is complex and difficult to follow. It leaves councils uncertain about how much of the costs they will have to meet out of general funds, and encourages caution rather than better performance. Adjustments should be made to the current system to make it simpler, but a major redesign is needed to encourage authorities to improve their services all round.

76. The Commission's analysis and evidence from stakeholders has identified that, although straightforward in its aims and concepts, the current funding regime can be improved. This chapter considers: first, the range of criticisms of how it operates; second, how short-term improvements might be introduced to adjust the current system; and third, some possibilities for more radical changes.

77. Local government administers HB on behalf of central government. In return, councils receive funding through a complex variety of routes [EXHIBIT 7, overleaf]:

- support towards the administrative costs of the service in the form of a specific grant, and an element of further support within the revenue support grant (RSG);
- some reimbursement for the rebates that they make on council tenants' rent accounts via the housing revenue account (HRA) subsidy from the DTLR or the Welsh Assembly Government (depending on whether they are in surplus or not on the HRA);
- reimbursement for most of the payments that they make to tenants of HAs and private-sector landlords, in the form of a grant claimed from the DWP, and an element of further funding within the RSG; and
- extra subsidy based on identifying error and fraud and taking legal action on fraud investigations.

Local authorities claim subsidy by submitting grant claims to these government departments. External auditors carry out detailed checks on the forms and, if necessary, qualify them, but this work is a special requirement of the funding regime and is not formally part of the audit<sup>1</sup>. This chapter refers to such work by external auditors as 'certification'.

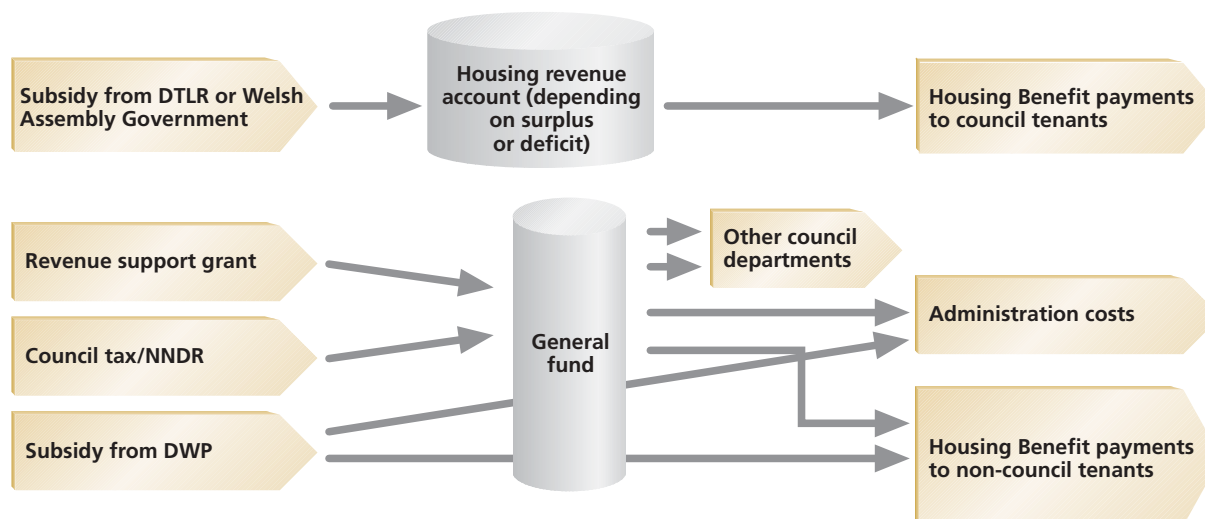
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<sup>1</sup> The Commission's *Code of Audit Practice* (Ref. 23) states that the certification of grant claims and returns 'is not one of the statutory functions of auditors. In carrying out this work, auditors are acting as agents of the Commission, rather than as appointed auditors.'

EXHIBIT 7

**The funding regime**

Councils receive funding through a complex variety of routes.



Source: Audit Commission

**Criticisms of the current regime**

78. Local councils, stakeholders and the Audit Commission have described the current system as flawed in several respects:

- it fails to reimburse local authorities beyond a ‘basic’ level of service;
- it lacks transparency and certainty;
- it is burdensome for authorities to administer and for auditors to certify;
- there are too many changes, often too late in the year; and
- it encourages caution, not performance.

79. *Failure to reimburse local authorities beyond a ‘basic’ level of service.* Funding arrangements are intended to reimburse authorities for the HB that they award to claimants – either as rent rebates or rent allowances – and to assist them with the cost of administering HB. In the 1980s, the Government funded almost the full cost of HB administration directly (including a contribution to the certification fee). But in the early 1990s, it introduced different arrangements for HRA and non-HRA payments (broadly corresponding to council tenants’ rent rebates and other claimants’ rent allowances). This change was supposed to encourage authorities to control their costs more closely and to become more efficient. However, as the pressure on local authority resources has increased, the effect has been either to limit the service to a very basic level or to force authorities to make cuts elsewhere to fund options such as take-up campaigns or improving customer access.

80. In recent years, only 95 per cent of non-HRA payments have been reimbursed by the subsidy mechanism, with approximately the remaining 5 per cent allocated through the RSG; and the administration grant has been based on expected workloads. An average authority pays out £14.4 million to rent allowance claimants on behalf of the DWP, and receives £13.3 million in direct subsidy. This means that it has to find £1.1 million from its general fund [BOX F].

81. A very different approach underlies the funding of council tenants' rent rebates through the housing revenue account (HRA). Those payments can still be reimbursed in full, depending on whether other elements of the HRA are notionally in deficit or in surplus. This decision is based on detailed complex calculations, but the effect is that in many authorities, the cost of rent rebates falls partly on the council's own rent income stream. As a result, council tenants on housing benefit are sometimes being subsidised by council tenants not on HB. This contrasts sharply with the fact that the cost of other claimants' HB is primarily met out of central government taxation.

82. *Lack of transparency and certainty.* Not only do authorities not recover their costs, they face confusion and uncertainty about what they might receive because:

- there is a variety of funding streams [EXHIBIT 7, above];
- they do not fit in with the local authority annual financial cycle;
- some are subject to retrospective adjustments;
- the final DWP subsidy is built up from many components which are difficult to predict, subsidised at several different rates [BOX F]; and

#### BOX F

##### The shortfall on the non-HRA side between subsidy and payments, for an average authority

In 1999/2000, an average authority:

- paid out £14.4 million on rent allowance
- less DWP subsidy £13.3 million
- so had to find £ 1.1 million from its own funds, made up as:

£0.71 million (5% of correct claims)	} since none of this is covered by direct subsidy
£0.24 million (75% of claimant errors)	
£0.07 million (100% of official errors)	
£0.02 million (50% of backdated payments)	
£0.02 million (20% of fraudulent claims)	
£0.02 million (40% of pre-1996 high rents)	
£0.01 million (other miscellaneous elements)	

Source. Data from DWP Finance Department, averaged across the 376 authorities in England and Wales

- the net cost of HB to an authority is the balance of very large payments on the one hand and a very large subsidy on the other. Any unpredictable factor can swing the pendulum sharply; for example, a downturn in the local economy – leading to a peak in redundancies and, hence, eligibility for HB – may well leave the authority with a shortfall to be met from its general fund.

As a result, councils often do not know what their final position will be until many months after the year end, making it difficult to plan and manage the service.

**83.** The move from rent rebates (fully reimbursed) to rent allowances (reimbursed directly at 95 per cent), for example, where a LSVT takes place, can also make financial management difficult. Authorities have to find the extra 5 per cent that is not reimbursed through the DWP subsidy, at least for a couple of years until the RSG formula catches up with events.

**84.** *Burdensome for authorities to administer and for auditors to certify.* The final DWP subsidy payment to authorities depends on a grant claim of over one hundred data items being compiled and certified. To avoid any loss of subsidy, authorities need to ensure that every claim and every overpayment is properly classified:

- longstanding protected private-sector claims, for example, have to be classified according to which former regulations applied when the award was first made; and
- overpayments<sup>1</sup> have to be categorised as claimant error, official error or fraud. After more investigation, the category may need to be changed, for example from claimant error to fraud, or to be split, for example between official and claimant error. Further complexity arises around those debts that have built up over many years.

**85.** All this requires not only a lot of staff training and work through the year, but heavy amounts of senior management time at the year end to ensure that systems reconcile. Some software systems miscalculate certain items required for the subsidy claim, and leave the authority with a significant amount of manual calculation to do. Few authorities find the subsidy process straightforward, and many allocate a senior manager to oversee the process full-time for several months, tying up valuable management time that could better be spent on managing the service itself.

**86.** Certifying the DWP grant claim is also time consuming: external auditors' work on the grant claim is estimated to cost several million pounds annually, and up to three months sometimes elapse between start and finish. In some authorities, auditors perform sample work throughout the year to provide early warnings of errors that may cause problems at

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<sup>1</sup> Further details of overpayments are at Appendix C.

year end. Nonetheless problems still arise when the DWP announces new rules late in the year, requiring adjustments that go back many months, or even into the previous financial year. All of this work is a further cost that authorities must find from their general fund.

87. The DWP grant claim form itself has faults – some cell entries overlap with others, individual entries are not reconciled to totals, and the form does not balance internally. Some entries on the form might total only a few thousand pounds in a total claim of tens of millions of pounds [EXHIBIT 8], yet auditors are required to check many hundreds of individual claims which still need to be checked.

88. Furthermore, key elements in the DWP subsidy claim form show large variations: for example, though backdated claims typically amount to half a per cent of total rent allowances paid, some authorities are reporting that they backdate less than 0.1 per cent, and others, more than 1 per cent. Although the rules on backdating allow some interpretation, this more than tenfold variation seems unlikely to be justified [EXHIBIT 9, overleaf].

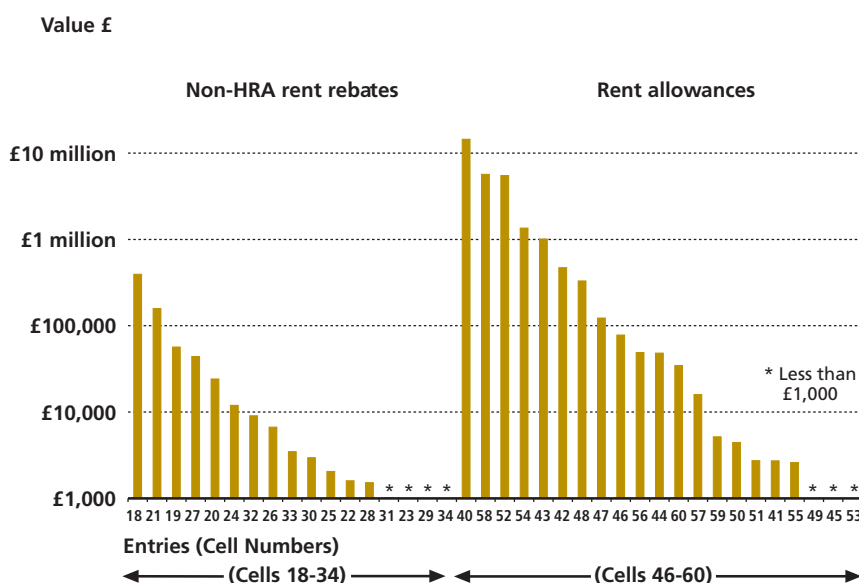
- The lowest values strongly suggest that some authorities are interpreting the regulations harshly. Claimant organisations criticise such councils for an unsympathetic approach to backdating; but it is encouraged by the subsidy regime.
- Auditors find that high values can occur because authorities mistakenly included retrospective adjustments to claims. In such circumstances, officers’ misunderstanding of the complex rules on subsidy can lead to an (arguably inappropriate) loss of subsidy for the authority.

89. Compounding these problems is the fact that the department amends its guidance and grant claim forms each year, adding in items such as benefit fraud data requirements and spending on supported accommodation.

EXHIBIT 8

**Boxes on the DWP grant claim – contents for an average authority – 1999/2000**

Some entries on the form can relate to just a few thousand pounds, within a total of tens of millions.



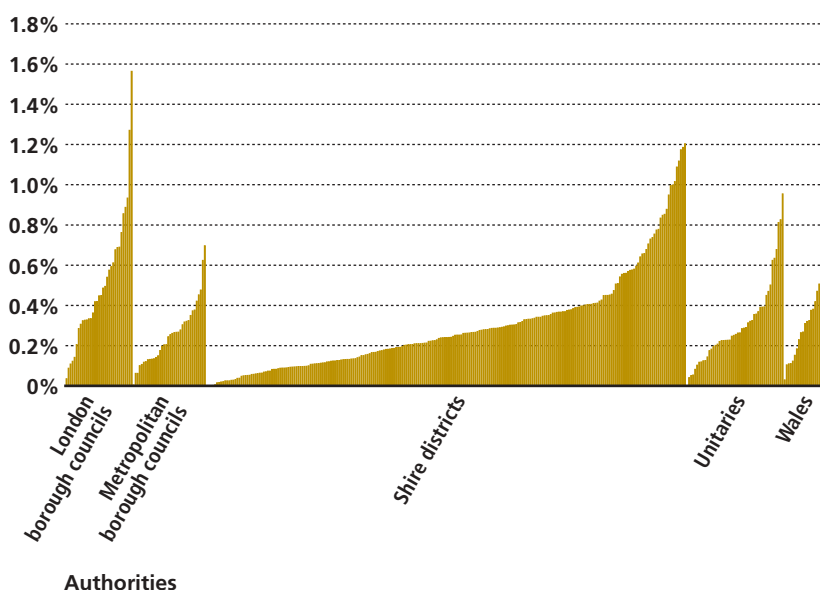
Source: Audit Commission analysis of data from the DWP Finance Department.

EXHIBIT 9

**Variations in backdating between local authorities**

The more than tenfold variation seems unlikely to be justified.

**Backdated rent allowance, as a percentage of total paid**



Source: Audit Commission analysis of data from the DWP Finance Department, 1999/2000

90. Further confusion can arise from the distinction between those claims funded via the HRA as rebates, and those funded via the DWP subsidy as rent allowances. Some council-owned properties, such as hostels and short-term leases are covered by the DWP subsidy, not the HRA. If claims are wrongly allocated to this category (a mistake that is easy to make occasionally) then they may be disallowed from the DWP claim, but by then the HRA claim cannot be reopened. The authority therefore loses the money, and the claim itself may be cancelled.

91. *Too many changes, too late in the year.* The draft subsidy amendment is published in December, but the final amendment and circular are not published until February or March, leaving little time before the start of the financial year for authorities to prepare as necessary. Often, the DWP announces changes to the claim form and to the rules affecting HB at several points during the year. These require authorities to adjust their software systems and their procedures, to test out any system changes and to translate the changes into procedures and training for staff.

92. *Encourages caution, not performance.* Simply put, the authority most likely to maximise subsidy is the authority which takes fewest risks:

- refusing to backdate claims unless the case for backdating is exceptionally strong;
- giving higher priority to detecting fraud (to maximise the fraud-related subsidy) than improving standards of service to claimants; and
- taking on fewer claims – by not advertising the service, or by rejecting claims at any opportunity to therefore minimise subsidy.

93. Error in the grant claim has sometimes had a substantial effect on the authority's finances. Following certification work, claims in 1999/2000 were increased (by an average £120,000) at 34 councils, and decreased (by an average £230,000) at 74 others. Following qualification, the DWP has in the past sometimes imposed penalties for procedural errors that appeared disproportionate to the authority. However, the recent DWP circular S1/2002 has emphasised that the Secretary of State will consider exercise of discretion in such cases.

94. It is perverse that councils are penalised if they abide by the regulations – losing 50 per cent of a claim each time they backdate a case, for example – and lose money when they take on more cases. If central government is effectively contracting with local authorities to provide a welfare service at a local level, then funding should act as a lever to deliver such benefit to as many as are entitled to it. The current system penalises errors but provides little incentive to give a good service to claimants.

95. Yet financial incentives can work well. Those offered for counter-fraud work were regarded as having been effective, at least in the past, by many managers contacted for this study. Payments under the weekly benefits savings scheme have often been large enough to fund extra full-time staff on local authority fraud teams. The work of these staff – identifying and reducing fraud – more than covers their salary costs.

96. Some simple adjustments to the current system, reflecting these concerns, could make the financial management of HB simpler and less burdensome, at least to some authorities. This is an area where short-term gains could be made [BOX G]. The DWP has recognised some of these, although action has yet to be taken.

## Adjusting the current system

### BOX G

#### Simple changes to the current subsidy system

##### Adjustments to the claim form

- Reduce the number of separate data entries – and the size of the claim form – by consolidating figures and ensuring that information is not requested in more than one place.
- To reduce error and omission, include control totals within the claim form, that individual entries should balance to.
- Ensure that IT software companies have adequate time to re-program all the data items requested on the grant claim forms – and link the data items to items that authorities need to reconcile their other systems to.

##### Certifying the claim

- Encourage authorities – perhaps using their internal auditors – to undertake more testing of the system during the year.
- Introduce a concept of materiality into the grant claim process whereby errors and adjustments below a certain threshold do not require reporting.

##### Timing

- The DWP should announce the rules affecting the grant claim as early as possible, bringing them in line with local authority budget cycles.

Source: Audit Commission

## Redesigning the regime

97. In effect, HB funding resembles payments under a contract between central and local government. Radical reform is necessary if this funding regime is to do what it should, that is:

- reimburse local authorities for the payments that they make on behalf of central government;
- reward good performance and customer care; and
- provide incentives to discourage inefficiency or error.

98. At present, poor administration impacts as much on claimants and council tax payers as the authority itself, since any subsidy loss has to be made good from council departments' budgets, or by raising council tax. A way forward for reform might be to separate the reimbursement of HB payments made by local authorities from the support that central government provides towards HB administration. A fairer system would reimburse local authorities directly for all legitimate payments made to eligible claimants, while encouraging better HB administration – through funding incentives or, where appropriate, penalties – targeted at the administration grant itself.

99. The DTLR is already planning to move HB subsidy for rent rebates out of the HRA and – possibly – into the DWP subsidy grant in order to improve transparency. Central government should go further to bring all administrative support together in one 'pot' – further improving transparency and allowing HB managers to relate the costs of their service to what they actually receive from central government. Administration grants could continue to be based on need – either more clearly through the standard spending assessment or based on a more up-to-date direct grant formula based on workloads and circumstance.

100. Central government could then focus effort on improving the speed, accuracy and quality of HB by influencing the administration grant (AG):

- local authorities would receive their 'normal' AG if they perform reasonably in relation to existing – and transparent – performance measures: the best value performance indicators (BVPIs), meeting the DWP performance framework (PF), and keeping official error under a percentage threshold, for example;
- authorities that achieve better performance – for example, those that exceed PF requirements or those that achieve upper quartile PIs – would receive a top-up of the AG. Such increases would be reinvested in further improving the quality of the service; and
- authorities that fail to achieve such performance or accuracy thresholds should be allowed some reasonable margin for occasional errors, but persistent failure should trigger either a financial penalty or some form of intervention – ranging from support and advice from a local 'help team' on the one hand, to a special inspection by the BFI on the other. An intervention could also include additional targeted funding, or extra staff – perhaps from a local Jobcentre – for those authorities that are struggling to turn things round.

Such action would avoid the negative spiral that some authorities find themselves in as backlogs and delay cause operational problems, which in turn trigger ever larger reductions in subsidy. And it should also encourage a positive attitude among staff.

**101.** In many areas of local government work, central government increasingly supports and rewards locally driven innovation and improvement. This sort of thinking underlies local public service agreements (policy agreements in Wales) as well as the comprehensive performance assessment (CPA) introduced in England in the 2001 White Paper on local government (Ref. 17). Performance on benefits services will contribute to judgements that are made about authorities as part of the CPA process. So it is arguable that authorities with a high-performing benefits service should see the benefits service receive some of the freedoms and flexibilities that are offered to high-performing authorities, especially since central government can already impose penalties on poor performers, and intervene in running them.

**102.** The agenda above sets out how local improvement and achievement might attract financial reward from central government. High-performing authorities would also be good candidates to pilot options for simplifying HB rules and procedures, provided that the authority was enthusiastic about the idea and committed to making it work.

**103.** These suggestions would, of course, require discussion between the DWP, stakeholders and local authorities, particularly around the issues of how much top-up should be paid, and how a reasonable performance threshold might be defined. However a redesign along these lines would have the potential to:

- free up management and staff time to work on how the service could be strengthened and improved; and
- create a culture where incentives for positive achievements balance the fear of being penalised for technical errors.

**104.** The suggestions for adjusting the current regime and redesigning it are summarised as recommendations overleaf.

## R E C O M M E N D A T I O N S



## 3 Improving the Funding Regime

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### *Short term*

- 1 The DWP, based on its consultation process with the Audit Commission, should shorten the grant claim form, reducing the number of cells and removing the requirement for the auditor to certify all small entries ('materiality').
- 2 The DWP and DTLR should give IT software suppliers longer notice of changes affecting the subsidy calculations.
- 3 The DWP and the DTLR should approve the rules affecting the grant claim as early as possible, bringing them in line with local authority budget cycles.

### *Longer term*

- 1 In the longer term, the DTLR, the Welsh Assembly Government and the DWP should move to a funding regime characterised by:
  - timely monitoring and review;
  - penalties that are proportionate to minor failure;
  - proposals for intervention and support (for example, using the Help Fund) in cases of major failure;
  - incentives for good performance; and
  - allowing for freedoms in the spirit of the recent Local Government White Papers for England and for Wales.



# 4

## Conclusions and Recommendations

Housing benefit is a crucial element of the national welfare system. Councils can do more to improve the service, and central government is also showing a willingness to implement change. Central government must maintain the momentum, and focus still more on users' experience of the service. In this way, a better housing benefit service should ultimately emerge – one that supports individuals better and also helps the Government to deliver key policy objectives.

**105.** Housing benefit is a difficult service to deliver well, and where it goes wrong it can have a drastic effect on the lives of claimants – adding to the burden of poverty, and leading to stress and the threat of eviction. And systematically poor delivery can make landlords reluctant to let to HB claimants, ultimately exacerbating homelessness. Councils are taking steps to improve through their own efforts, for example, in response to best value, and also in response to external stimulus from the BFI, the DWP's help team and now the Performance Framework.

**106.** But councils need help. They need to be able to rely on working with others – government agencies, the voluntary sector and landlords – to provide a seamless HB service to the user. And they need to explore partnerships – either with the private sector or other councils – especially where they lack the capacity to modernise their services.

**107.** Further improvement to HB administration depends upon central government. The Audit Commission acknowledges the steps that the DWP is taking to simplify the process – for example, abolishing form NHB1 and allowing claimants to enter the HB system by completing a single form – and considering better incentives for performance and claimant focus. These moves will help HB to support other government priorities, such as decent housing, a reduction in homelessness and a client-focused welfare system.

**108.** But further steps can be taken now to improve the system, for example:

- bringing the Rent Officer determination timetable into line with HB renewals;
- managing the performance of new agencies, such as Jobcentre Plus, so that the momentum generated in recent years is not lost;
- simplifying details of the subsidy grant procedures; and
- reducing the frequency and number of changes to the HB scheme during the year.

**109.** In the longer term, more radical change to HB administration systems is required – for example introducing a threshold below which changes in claimants' circumstances need not be declared. This report recognises the efforts that the DWP is taking to simplify the scheme nationally, but the agenda is wide. Some people on benefits may be deterred from accepting low-paid work by fear of losing housing benefit. In the interests of claimants, councils that administer HB, and central government itself, the DWP should continue its programme of research and evaluation in order to bring about improvements as soon as possible. Reform could usefully focus on:

- reducing the impact of non-dependant deductions on the amounts awarded to claimants;
- granting more flexibility to high-performing councils – for example allowing them to decide on benefit periods based on their local assessment of risk; and

- shifting the emphasis on funding away from a penalty-based regime towards one that encourages performance and customer focus.

**110.** The task of reforming the HB scheme from a national perspective is by no means a simple one, yet the reward – enabling people who are on low incomes to receive the support that they are entitled to with the minimum delay, error and stress – must be worthwhile.

## R E C O M M E N D A T I O N S



## Housing Benefit

## Chapter 1: Liaison and Partnership Arrangements

*Short term*

- 1 The DWP should strengthen its monitoring and performance management of standards of HB work in Jobcentre Plus offices (and in The Pension Service in due course), and make comparative data available to local authorities and the public.
- 2 The DWP should promote to the Inland Revenue the importance of high standards and good practice affecting HB administration (including SLAs).
- 3 The DWP should continue to examine whether Jobcentre Plus could lift some or all of the restrictions on sharing data with local authority benefit sections, in advance of the introduction of the planned Contract Management System.
- 4 The Rent Service should roll out electronic transfer of data to local authorities rapidly, if the pilots are successful.

*Longer term*

- 1 Local authorities and voluntary-sector advice agencies should look for opportunities to work together to help claimants to get their details 'right first time' and checked and ready for assessment more quickly...
- 2 ...as should local authorities and housing associations.
- 3 HB services, particularly those facing persistent labour shortages or that need to modernise their IT, need to consider the option of outsourcing... ..but they need to review carefully how they would manage the contractor and what level of customer care the contractor can demonstrate.
- 4 Local authorities should continue to look for opportunities to share aspects of their service with other councils.

## RECOMMENDATIONS

Housing Benefit

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## Chapter 2: Simplifying the Regulations

*Short term*

- 1 As intended by the DWP, Jobcentre Plus should encourage its local offices to stop using the old NHB1 form as a gateway to housing benefit, and supply claimants either with the appropriate local authority's application form or use the new national model claim form.
- 2 The DWP should review the timing restrictions on local authority referrals to the Rent Officer.
- 3 The DWP should maintain and improve its process of consultation on changes to regulations.

*Longer term*

- 1 The DWP should continue to evaluate a range of options for simplifying the operation of HB, giving full weight to the views of claimants and landlords.
- 2 The DWP should allow local authority services that perform well to exercise freedoms in two areas particularly:
  - piloting simplified regulations; and
  - basing their controls against fraud and error partly on local assessments of risk.
- 3 The DWP should make some provision for further discretion to be allowed in individual special cases.

## R E C O M M E N D A T I O N S



## Housing Benefit

## Chapter 3: Improving the Funding Regime

*Short term*

- 1 The DWP, based on its consultation process with the Audit Commission, should shorten the grant claim form, reducing the number of cells and removing the requirement for the auditor to certify all small entries ('materiality').
- 2 The DWP and DTLR should give IT software suppliers longer notice of changes affecting the subsidy calculations.
- 3 The DWP and the DTLR should approve the rules affecting the grant claim as early as possible, bringing them in line with local authority budget cycles.

*Longer term*

- 1 In the longer-term, the DTLR, the Welsh Assembly Government and the DWP should move to a funding regime characterised by:
  - timely monitoring and review;
  - penalties that are proportionate to minor failure;
  - proposals for intervention and support (for example, using the Help Fund) in cases of major failure;
  - incentives for good performance; and
  - allowing for freedoms in the spirit of the recent Local Government White Papers for England and for Wales.

## **Executive summary from 'Housing Benefit Administration – Learning from Inspection'** (Ref. 5)

### **Appendix A**

Over 3 million households in England and Wales rely on housing benefit (HB) to enable them to pay their rent in full. This involves local authorities in paying out over £10 billion a year on behalf of central government. Serious problems in delivering this service have persisted since at least the early 1990s.

- long delays in paying housing benefit (some authorities take over 100 days on average to process new claims) and failures of 'customer care' are causing hardship, anxiety and even the threat of eviction for claimants
- administration is tarnished by error, waste and fraud that is estimated to cost the taxpayer hundreds of millions of pounds each year
- as a result, early best value inspections have resulted in more 'fair' than 'good' judgements [based on information available in September 2001]

#### **The quality of the service delivered varies hugely.**

- the economy, geography and demography in which a local authority operates can make the benefits service easier to deliver well
- but similar authorities offer very different standards of service, suggesting that organisation and management can be at least as important as environment
- authorities that are providing a high-quality service tend to be those that value the benefits service, recognising its contribution to corporate objectives and giving it high profile

#### **Authorities must take action in four areas...**

- understanding the needs of claimants, not just as a matter of equality and respect, but to ensure that the details are more often 'right first time'
- probing how well the service is being managed: strong leadership and good performance management are two crucial ingredients, especially in view of the recruitment and retention problems in many areas
- building the capacity to deliver improvement in the future: HB sections are often struggling to cope as a consequence of outdated information technology
- re-evaluating relationships with the large number of council departments and external organisations involved with housing benefit work, to avoid error and delay

**Local authorities do not have to provide the whole service through their own employees.**

- HB is a service that has discrete elements (customer interface, administration, processing) and outsourcing of some or all of these must be considered as part of a best value review
- but outsourcing by itself is unlikely to solve the problems of a struggling service, although it can be effective in the right circumstances
- making it work depends on good management, by both client and contractor
- partnership between authorities appears promising, but it is rare and difficult to set up

Councils have little discretion in how they apply the housing benefit regulations. The case for reform of the scheme itself has been vigorously debated for many years, and the Audit Commission will be undertaking further work on the wider issues underpinning the scheme.

## Appendix B

### Acknowledgements

#### Advisory Group

The Commission is very grateful to the members of the advisory group for their advice during this study. They were:

Liz Ackroyd	<i>City of York Council</i>
Janet Alexander	<i>Institute of Revenues, Rating and Valuation</i>
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Gwyneth Taylor	<i>Local Government Association</i>
Steve White	<i>Guildford Borough Council</i>

#### Other Contributions

The Commission is also grateful for the advice of officials of the Department for Work and Pensions (particularly Paul Howarth, David Barr and Clive Singleton), the Department for Transport, Local Government and the Regions, the National Audit Office, the Welsh Assembly Government and the Local Government Association for Wales.

The study team liaised with Commission staff in Wales involved in a separate Welsh-specific study on collection of rents, rent arrears and housing benefit. That study is being carried out by the Audit Commission in Wales in partnership with Cardiff University, and is supported by the Welsh Assembly Government; publication is planned for autumn 2002.

The team also received helpful comments from the Institute of Revenues, Rating and Valuation's Benefits Committee of Inquiry, from Professor Steve Wilcox at the University of York, and from other stakeholders, including Age Concern and the Child Poverty Action Group.

#### Other Authorities

The Audit Commission is also grateful to officers at the following authorities for contributing to the study:

Birmingham City Council  
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 South Somerset District Council  
 Tameside Metropolitan Borough Council  
 Tandridge District Council  
 City of York Council

## A simplified guide to housing benefit administration

### Appendix C

(This appendix explains, in outline, how the majority of HB claims have to be handled. It is not practical here to cover all the aspects and special provisions within the regulations. A comprehensive, but readable, summary of the rules and guidance is set out in a 450-page guide, updated each year, written by Zebedee and Ward (Ref. 24).)

**Housing benefit** (HB) is a means-tested benefit that is paid to tenants with low income and limited capital, to help them to pay their rent. Local authorities (but not county councils in England) are responsible for assessing and paying claims under regulations and guidance issued by the Department for Work and Pensions (DWP) (the Department of Social Security prior to June 2001).

Council tenants receive the benefit in the form of a **rent rebate**, but for other tenants (including those of housing associations) the benefit takes the form of a payment or **rent allowance** paid either to the tenant or direct to the landlord.

Councils must satisfy themselves that they are paying HB properly. The Government has published a **Verification Framework** (VF) which aims to minimise fraud and increase accuracy throughout the life of a claim. The VF specifies:

- what documentation is acceptable as evidence of identity, residency and rent, housing composition, earnings, benefits, income and capital;
- maximum periods for which benefit can be awarded to people who are in risk groups defined by the VF;
- cross-checks that the authority should apply to the information that the claimant supplies; and
- visiting programmes and other checks that should be carried out while HB is being paid, again depending on the risk group to which the VF assigns the person.

The VF is voluntary; the DWP provides funding to those authorities that comply fully with the framework.

**Rent Officers** (ROs) monitor local private-sector rental markets, with the aim of ensuring that HB payments do not subsidise unreasonably high levels of rent. Local authorities must refer most private-sector claims to the local RO, including details, for example, of who will be living in the property. Since 1996, local authorities must base HB payments on the RO's decisions, and cannot lawfully pay more. In England, Rent Officers are managed by the **Rent Service** (RS), an agency of the DTLR. Both the RS and ROs in Wales act independently of local authorities.

If a claim is successful, then the council will award HB for a **fixed period** (currently 60 weeks at most). At the end of this period the claimant must renew their claim (and the authority should send them a renewal form in advance to make this easier.)

If a claim is successful, the claimant will normally be paid from the Monday following the date of their original claim. Inevitably, even in better-performing authorities, there is a gap between a claim being made and HB being paid; during this time the tenant may well fall into arrears, temporarily at least. In addition, councils must **backdate** payment (by not more than 12 months) if the claimant shows a sufficiently good reason why they did not claim sooner.

During the period when HB is being paid, many claimants will find that their income has changed – or their capital, household composition, or something else that affects the HB to which they are entitled. They must report these **changes in circumstances** to the council (and separately to Jobcentre Plus or The Pension Service – see below – if the changes also affect their entitlement to other benefits).

An error in the claimant's favour after payment has been started is called an **overpayment**. Overpayments occur for three reasons: error by the council or Jobcentre Plus ('official error'), error by the claimant, or fraud. Councils must have a considered approach to recovering overpayments, and in particular take steps to counter fraud.

**Council tax benefit (CTB)** helps people with low income and limited capital to pay their council tax. Like HB, CTB is administered by local authorities. Many of the CTB regulations closely parallel those on HB, and many people are entitled to both benefits. Therefore, most local authorities administer both schemes within the same department, such as Revenues and Benefits (although total expenditure on CTB is much less than that on HB, and so this report does not consider issues relating only to CTB).

**Income Support, Jobseeker's Allowance** and (for pensioners) the **Minimum Income Guarantee** are all administered directly by central government agencies, but they are closely linked to HB and CTB. A tenant who is eligible for one of these benefits is also usually eligible for HB and CTB.

- **Income Support** is payable to people who are on a low income and for whom employment is not considered to be an option, because, for example, they are lone parents, over retirement age, or sick or disabled<sup>1</sup>. (For pensioners, the Minimum Income Guarantee replaces Income support.)
- **Jobseeker's Allowance** is payable to people who are not in full-time employment and who are under retirement age, who are able to work and are actively seeking work. Claims may either be 'contribution-based' (based on the claimant's national insurance record), or 'income-based' (where the claimant's income is low).

---

<sup>1</sup> Retirement age for these purposes is taken to be 65 for men and 60 for women.

These benefits were administered by the **Benefits Agency (BA)** until 1 April 2002. On that date, two new central government agencies were formally established to serve people below and above retirement age respectively:

- **Jobcentre Plus** aims to integrate the employment and benefit services for people of working age. Some of its offices already provide a single interview that covers employment and training issues, as well as access to benefits. Over a period of years, the service plans to integrate the entire local office network of Jobcentres and BA offices fully in this way.
- **The Pension Service** is bringing together a range of services related to pensioners, including working out and paying the state retirement pension and Minimum Income Guarantee. It aims to offer an improved service through a network of pension centres that handle telephone and postal claims.

Liaison between the BA and local authorities has always been important to providing a good HB service, and this remains true for the BA's two successor agencies. Liaison is needed in several areas:

- The process of claiming Income Support or Jobseeker's Allowance is often also the start of a claim for HB and CTB from the local council.
- These agencies also collect and check some of the information on which local authorities must rely to establish a person's entitlement to HB and CTB.
- Many cases of fraud affect both local authorities and central government agencies, and efficient and effective detection and deterrence demand a shared approach.

The Government increasingly uses **tax credits** rather than direct payments to carry forward its welfare benefit policies. Tax credits are administered by the **Inland Revenue** so that the claimant has their income topped up, or their tax liability reduced. There are different schemes for different types of claimant, such as the **Working Families' Tax Credit** and the **Disabled Person's Tax Credit**. This use of tax credits will increasingly require:

- councils to liaise with the Inland Revenue, as well as with Jobcentre Plus and The Pension Service; and
- the DWP to introduce further changes to the HB regulations.

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The Audit Commission has produced a number of reports covering related issues.

### **Housing Benefit Administration Learning From Inspection**

Although much has been written about the shortcomings of housing benefit services, less has been published about how authorities can achieve change. Drawing on Commission and BFI inspections, and also on initiatives at authorities yet to be inspected, this paper from the Audit Commission shows how some authorities have achieved change in their housing benefit services – improving the accuracy and speed of processing and building good customer service.

2001, ISBN 1862403198, £15, stock code LLI2610

### **Match Winner Report of the 2000 National Fraud Initiative**

The Audit Commission's National Fraud Initiative (NFI) has become the UK's premier public sector fraud detection and deterrence exercise, and has detected over £110 million of fraud and overpayments since 1996. This update reports on the results of the 2000 National Fraud Initiative. It will help organisations at a national and local level to improve the effectiveness of their anti-fraud activity.

Update, 2002, ISBN 1862403627, £12, stock code GUP2743

### **Group Dynamics Group Structures and Registered Social Landlords**

More and more RSLs are reorganising to operate on a group rather than individual basis. The Audit Commission's report examines group structures in detail, investigating whether these new groups deliver the benefits to tenants and stakeholders that are hoped for by those who set them up. Throughout the report, experiences and good practice examples from real housing associations help to put the evidence into context. There is also a summary of 'critical success factors' at the end of each chapter.

National Report, 2001, ISBN 1862403201, £20, stock code LNR2618

### **Protecting the Public Purse: 2001 Update**

#### **Ensuring probity in local government**

The latest findings of the Commission's annual survey of fraud and corruption in local government highlights the key risk areas, new trends and increasing areas of risk. In particular, this year's survey examined council progress in response to the DSS's Verification Framework and the fresh challenges created by legislation such as the Local Government Act 2000. The publication also includes a checklist of good practice measures that councils should adopt.

Update, 2001, ISBN1862402655, £10, stock code

LUP1494

### **Fraud and Lodging Progress in Tackling Fraud & Error in Housing Benefit Update**

Following on from the 1997 report, this Update looks at what progress has been made in tackling fraud and error in housing benefit. During 1998, auditors found encouraging signs of progress but warned that there is no room for complacency. This report outlines changes and the progress made a year after the original study.

Update, 1999, ISBN1862401322, £10, stock code LUP1319

### **Fraud and Lodging Tackling Fraud and Error in Housing Benefit National Report**

In 1996/97, local authorities in England and Wales spent £11.1 billion on housing benefit. The Commission's report, which investigates the extent of housing benefit fraud, estimates that £905 million may be lost each year. Including case studies, it presents key findings and recommendations to help detect and prevent fraud.

National Report, 1997, ISBN1862400466, £20, stock code

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Housing benefit is a vital payment for one in seven households in England and Wales. But of the £10 billion paid out each year in benefit, only two-thirds gets to claimants on time – leading to stress, hardship and, possibly, eviction. There is much that local authorities can do to administer the benefit better – as pointed out in the Audit Commission’s previous paper, *Housing Benefit Administration – Learning from Inspection*. But local government cannot solve the problems of the system alone.

Improvement depends on all of the organisations involved – government agencies, the voluntary sector and landlords – working well with local government. It may also require councils to seek partners – either from the private sector or from other councils – to share the service. But the complexity of the rules and the processes limit what even the best councils can achieve.

There is widespread agreement that reform of housing benefit is overdue. Despite this little has happened over recent years. Central government has begun to address the issue of simplifying the system and encouraging better performance. However, options for change need careful evaluation in order to avoid further complexity – and without adversely affecting claimants. Genuine claimants deserve services that help them to meet their housing needs, rather than (as too often at present) adding to their problems.

This report focuses mainly on what central government can do to improve the system. It discusses a number of changes that could be made in the short term: for example, awarding housing benefit for longer periods, or reducing the need to refer claims to the Rent Service. But the report concludes that radical reform is required – shifting the emphasis of funding away from penalising error, and instead rewarding good performance and customer care – and ultimately, allowing high-performing councils to administer the service with greater flexibility.

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