NORTHAMPTON
BOROUGH COUNCIL

AUDIT COMMITTEE REPORT

Report Title	Risk Based Verification (RBV) Policy.

AGENDA STATUS: **PUBLIC**

Audit Committee Meeting Date:	06 February 2020
Policy Document:	Yes
Directorate:	Chief Finance Officer
Accountable Cabinet Member:	**Cllr Brandon Eldred – Portfolio Holder - Finance**

1. Purpose

1.1 To review the approach to verifying claims for Housing Benefit and Council Tax Reduction and to seek approval of the Risk Based Verification (RBV) Policy.

2. Recommendations

2.1   It is recommended that the audit committee be requested to approve the Risk Based Verification Policy (Appendix A).

3. Issues and Choices

3.1 Report Background

3.1.1 Risk Based Verification (RBV) is currently being used and is a method of applying different levels of verification checks to benefit claims according to the predicted risk associated with those claims. The main benefits associated with the RBV approach are twofold:

- In low risk cases we are able to 'fast track' HB/CTR applications which deliver significant customer service improvements and service efficiencies

- In high risk cases we are able to 'more accurately' detect fraud and error at the point of data entry

3.1.2 The DWP have developed and approved a Risk Based Verification policy which sets out the information and evidence required before assessing claims for Housing Benefit and Council Tax Reduction (Appendix B).

3.1.3 In order to implement this approach the council is required to create its own RBV policy.

3.1.4 DWP consider it to be good practice for the RBV policy to be examined by the Local Authority Audit and Risk Committee annually. The policy must be submitted for Member's approval and sign off, along with a covering report confirming the Section 151 Officer's agreement and recommendation. The information held in the RBV policy should not be made public due to the sensitivity of its contents.

3.1.5 The Risk Based Verification policy defines the risk categories and the checks required for each category. This information is system based so that claims are automatically allocated a risk category prior to payment. Claims are put into 1 of 3 risk categories – Low, Medium or High.

4. Implications (including financial implications)

4.1 Policy

4.1.1 Northampton Borough Council is committed to the prevention, deterrence, detection and investigation of all forms of fraud and corruption. This policy links with Whistleblowing and the Anti-Fraud and Corruption Policy & Strategy.

4.2 Resources and Risk

4.2.1 There are no direct financial implications to adopting this policy. However, the experience of other Local Authorities who have adopted Risk based Verification is that more Fraud and Error has been identified at the Benefits Gateway representing a saving to the public purse.

4.2.2 The adoption of a RBV policy also means being able to focus resources appropriately on those claims that pose the greatest risk of fraud and simplifying the administrative process for those that pose the least risk.

4.3 Legal

4.3.1 DWP HB/CTB circular S11/2011 states that all LAs opting to apply RBV will be required to have in place a RBV Policy detailing the risk profiles, verification standards which will apply and the minimum number of claims to be checked. The relevant extract of the circular is held at appendix B

4.3.2 The councils legal obligation to verify information for Housing Benefit claims is defined in Housing Benefit Regulation 86 which states;

"a person who makes a claim, or a person to whom housing benefit has been awarded, shall furnish such certificates, documents, information and evidence

in connection with the claim or award, or any question arising out of the claim or the award, as may reasonably be required by the relevant authority in order to determine that person`s entitlement to, or continuing entitlement to housing benefit"

4.4 Equality and Health

4.4.1   There should not be any equalities and/or Health impacts arising from the RBV policy. The selection of risk cases is based on the algorithms developed by the supplier that take account of declared circumstances. It is used by many Local Authorities and the DWP. Should as a result of request for information an individual struggle to meet our requirements based on a protected characteristics every effort would be made to assist the individual in complying.

4.5 Consultees (Internal and External)

4.5.1   None

4.6 How the Proposals deliver Priority Outcomes

4.6.1   The RBV policy supports the council's priority of making every £ go further by protecting the public purse and thereby ensuring that public money is used to maximum benefit.

4.6.2   The calculations made indicate that 2.08 FTE has been freed to be deployed elsewhere in the service as a result of RBV implementation.

4.7 Other Implications

4.7.1   None

5. Background Papers

5.1   Appendix A – RBV Policy (confidential)
Appendix B – Extract DWP Circular S11/2011
Appendix C – Break down of RBV statistic for 18/19

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Stuart McGregor, Chief Finance Officer, S151

NORTHAMPTON BOROUGH COUNCIL
RISK BASED VERIFICATION POLICY

Northampton Borough Council

RBV POLICY FOR NORTHAMPTON BOROUGH COUNCIL ASSESSMENTS OF HOUSING BENEFITAND LOCAL COUNCIL TAX REDUCTION

RISK BASED VERIFICATION (RBV) POLICY

Introduction:
NBC is responsible for the calculation and award of Housing Benefit and Local Council Tax Reduction. This is subject to an acceptable claim form being submitted.

Background:
RBV is a method of applying different levels of checks to benefit claims according to the predicted risk associated with those claims. Local Authorities adopting RBV will still be required to comply with relevant legislation whilst making use of greater intelligence to target more extensive verification activity on those claims predicted to be at greater risk of fraud and error.

In all cases a National Insurance Number and original proof of identity is required.

RBV is practiced on aspects of claims in Jobcentre Plus (JCP) and the Pension Disability and Carers Service (PDCS). The DWP have confirmed it is the intention that RBV will be applied to all Universal Credit claims.

It has identified that adopting RBV it will provide the following benefits to customers and local authorities.

* Improve claim processing times, especially in relation to claims deemed "low risk".
* Identify any efficiencies through reduced administrative costs mainly in relation to 'low risk' claims
* Improve opportunity to identify fraud and error at the claim gateway
* Better targeting of resources.
* Enable out of hours claims/changes to be made with the customer being informed of the information that is required to support the claim/change of circs

Purpose of the Policy:
The purpose of this policy is to specify how Northampton Borough Council's Benefit Service will operate the RBV solution and to indicate the factors and processes that need to be followed to maximise its effectiveness.

The policy will enable a more efficient service, reducing the burden on customers to provide excessive levels of evidence. It will also reduce the cost of administering claims by reducing correspondence with customers and the subsequent scanning of evidence.

The main objectives relating to the policy are as follows:

- Understand the impact of the risk scores in terms of the likelihood of fraud and error being present
- To highlight any efficiency savings being targeted from the implementation of RBV for proactive in-claim reviews
- Setting out and initiating the required process changes in support of the risk score
- How checks and balances will be introduced into business as usual processes
- Performance reporting implications
- Outlining the baseline position in relation to the current levels of fraud and / or error that exists at the point of claim

Understand the impact of the risk scores in terms of the likelihood of fraud and error being present:

At the claim gateway the IT solution will determine the risk score of the claim / change in circumstance (CIC) and that in turn will determine the level of verification that needs to be applied to that claim by the assessment officer.

Each member of staff responsible for processing claims will be made fully aware of the changes introduced by this policy and full training will be given.

An integral part of the IT solution being used in RBV is a specially developed risk algorithm. This risk algorithm has been developed to identify the likelihood that fraud and error exists in a claim. This has been built using historical local authority data and its performance validated across a number of local authorities.

The estimated risk framework which is embedded in the IT solution is shown below:

Risk Score	Risk Group	Approximate percentage of claims in the risk group	
		New	CIC
1 2 3	HIGH	21%	24%
4 5 6 7	MEDIUM	27%	25%
8 9 10 11 12 13 14 15	LOW	52%	51%
This score will be calculated based on the claim details put forward for RBV	The risk group is determined by the risk score – the level of local verification required on the reported details is derived from the risk group	This is the expected percentage of claims that will fall into each risk group	

The above model is illustrative, the percentages for New Claims are as described and split over 15 risk scores, for Changes the high, medium and low risks are spread over 20 risk scores. Upon receipt of a change in circumstance or new claim the assessment officer will apply different verification procedures depending on the risk group reported by RBV.

If there is any doubt as to the score provided the assessment officer has an override option to **escalate** the claim to a higher risk group but cannot downgrade the risk score provided to a lower risk option.

To highlight the service efficiencies being targeted from the implementation of RBV

In addition to effectively targeting fraud and error (particularly in the high risk category) there may be significant processing efficiency implications with fewer customer interactions required for the low risk claims.

Setting out and initiating the required process changes in support of the risk score - Impact on verification process

A National Insurance number and identity confirmation must be made in all cases irrespective of the risk grouping; this is to comply with current legislation. Where photocopies have been supplied, the assessment office may still request original documents if there is any doubt as to the validity of the information provided.

Low risk claims / changes
On the basis of the risk algorithm outlined was estimated that 52% of claims / changes received will be low risk. In this instance only essential checks are made. (I.e. National Insurance Numbers and Id proof will be requested)

It is estimated that without checks there is a 3% chance in this risk category that fraud and error could enter the system at the point of entry, this is deemed to be acceptable in line with DWP guidelines.

Low risk claims / changes will be fast-tracked to calculation and claimant notification. The only checks / documents required for this risk group is:

- Proof of National Insurance Number's
- Proof of residency / ID.
- Student formal confirmation of student status. (If applicable).
- CIS check for State Benefits.

This will improve the customers experience as they will be able to amend their claims without supplying excessive data in support of the claim. This in turn will allow for an improved turnaround in the assessment process.

Medium risk claims
It was estimated that 26% of claims and changes will be deemed to be medium risk. Cases in this category must have the same checks as low risk. In addition proofs will be required on all information that needs verification. The documentation can be photocopies, scanned documents, emails or telephone conversations either recorded or un-recorded (with a suitably detailed case note).

It is estimated that without checks there is an 11% chance in this risk category that fraud and error could enter the system at this point.

High risk claims
It was estimated that 23% of claims and changes will be deemed to be high risk. In this instance documentation provided for each declared type of income or capital must be original documents or the best available evidence where original do not exist (e.g. online banking statements) and these claims will require additional checks to be made over and above the normal checks currently undertaken.

There is about 27% chance in this risk category that fraud and error could enter the system at the point of claim / change, this will lead to fraud and error being identified in claim, thus minimising subsequent overpayments and collection cost

These additional checks may involve, but are not limited to:

- Telephone interviews – voice recorded or detailed summary on a notepad
- Interviews at home or in the office.
- Original Proofs
- Cross referencing
- Interventions follow up after a period of time.

(Processes will be confirmed in the procedures when determined).

Each member of staff responsible for processing claims / changes will be trained in the use of the IT solution and the subsequent process change that will need to be implemented to support this policy has been developed prior to implementing the solution.

Cases cannot be downgraded by an assessment officer, but can be increased with approval from a Team Leader or senior officer. All cases which are upgraded are recorded along with the reasons for this so that this information can be fed through to the parameters if errors are found. Reasons for upgrading a case may include previous fraud, previous late notification of changes in circumstances, or where there is good reason to doubt the veracity of information provided.

Existing monitoring arrangements will be used to ensure that the policy is being enacted at the front line.

Setting the base line position in relation to the current level of fraud and error that exists at the point of entry to the system
The DWP expect local authorities that participate in RBV to set a robust baseline which to record the impact of RBV. The DWP are now recording baseline data for fraud and error which is published quarterly. This information can be reported from subsidy cells 222 and 231 of the Single Housing Benefit Extract which can be produced and monitored locally on a monthly basis.

How checks and balances will be introduced into business as usual processes
The RBV IT solution procured will have the ability to automatically select 5% of cases that will be deemed to be a 'blind sample'. The blind sample will, without the knowledge of the claim processor, randomly select a group of claims marking them as having a higher level of risk than that calculated by the risk model itself.

Performance reporting implications
There is a monthly performance report to ensure the effectiveness of the approach. The report will include the percentage of cases presented in each risk category and the levels of fraud and error detected in each.

The report will also outline how much fraud and error has been detected in blind sample cases. In addition to this it is our responsibility to ensure that our officers adhere to our RBV procedures to ensure that the policy is suitably enacted on a case by case basis. This means we will incorporate the RBV assessments under our normal quality checking procedures.

Policy approval:

This Policy has been produced in line with Department for Work and Pensions Guidance on the use of Risk-Based Verification as detailed in HB/CTS circular S11/2011 **Appendix A**

This policy is approved by:

Audit Committee:

Date: 06 February 2020

Chief Finance Officer (Section 151 Officer)

Name: Stuart McGregor

Signed:

Date: 07 February 2020

What we need to adhere to comply with the DWP requirements for RBV

Housing Benefit and Council Tax Benefit Circular HB/CTB S11/2011(extract)

RBV allows more intense verification activity to be focussed on claims more prone to fraud and error.

It is practiced on aspects of claims in Jobcentre plus (JCP) and the Pension Disability and Carers Service (PDCS).and the intention is, RBV will be applied to all Universal Credit claims.

From April 2012 the DWP said that LA's could volunteer to use a RVB process.

What is RBV?

RBV is a method of applying different levels of checks to benefit claims according to the risk associated with those claims. The idea is so LA's can take more time on the claims that are more likely to allow Fraud and Error in to the system.
In all cases LA's are required to see proof of National Insurance Numbers and to provide evidence of their identity.

LA's have to still take in to account HB Reg 86:

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

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

How does RBV work?

RBV assigns a risk rating to each HB/CTR claim. This determines the level of verification required. The idea is that we will target the medium and high risk claims in more depth. It is down to the individual LA's to classify the risk groups. Example below:

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

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

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

We would expect no more than around:

- Around 55% of claims to be assessed as low risk.
- Around 25% medium risk
- Around 20% high risk.

These figures could vary from LA to LA according to the LA's risk profiling. An additional expectation is that there should be more fraud and error detected in high risk claims when compared with medium risk claims and a greater % in medium risk than low risk. Where this proves not to be the case the risk profile should be revisited.

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

The requirements for LAs that adopt RBV:

All LAs opting to apply RBV will be required to have a **RBV Policy** detailing the risk profiles, verification standards which will apply and the minimum number of claims to be checked.

We consider it to be good practice for the Policy to be examined by the authority's Audit and Risk Committee or similar appropriate body if they exist. The Policy must be submitted for Members' approval and sign-off along with a covering report confirming the Section 151 Officer's agreement/recommendation. The information held in the Policy, which would include the risk categories, should not be made public due to the sensitivity of its contents.

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

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

Performance using RBV would need to be monitored monthly to ensure its effectiveness. Reporting, which must be part of the overall Policy, must, as a

minimum, include the % of cases in each risk category and the levels of fraud and error detected in each.

How RBV claims will be certified?

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

Other Considerations:

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

What are the subsidy implications?

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

The information for these stats relates to data collected November 2018 to September 2019

Risk category	Initial estimate	2018/19 actual
High	23%	19.7%
Medium	26%	30.15%
Low	52%	50.15%

Table 1 breaks down the way in which RBV software has apportioned claims made to Northampton Borough Council. From the Approximations given by the supplier based on their customer base new claims is seeing smaller percentages of high risk claims with a larger volume of Medium risk cases and a lower volume of low risk claims. At the moment 39% of customers new to HB have been able to make a claim quickly online with little or no further interaction with the R&B officers.

For Changes in Circumstances all categories broad reflect the initial estimation with 49% of customers who are reporting changes will complete an online form and have little or no interaction with the team.

Making the assumption that Medium risk would be the normal standard for processing without RBV, High would take longer and Low Less and using average processing times for each **it is calculated that the RBV process has saved the equivalent of 2.08 FTE** which has already been redeployed to other areas of R&B work.

Table 1

New claims	Average % of claims	volumes
High	17.74	694
Med	41.21	1773
Low	39.60	1873
	98.55	4340
CoC		
High	20.23	4411
Med	28.22	6039
Low	49.86	11123
	98.30	21573