



Northern Ireland Audit Office

Report by the Comptroller and Auditor
General for Northern Ireland

Northern Ireland
Housing Executive

**Report by the
Comptroller and
Auditor General on
the 2012-13
Accounts**

NORTHERN IRELAND HOUSING EXECUTIVE

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

Part 1: Introduction

1. The Northern Ireland Housing Executive (the Housing Executive) is a Public Corporation sponsored by the Department for Social Development (DSD / the Department). The Housing Executive is the regional housing authority for Northern Ireland with a wide range of housing responsibilities including acting as landlord for housing stock of approximately 90,000 dwellings.
2. I am required to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly (the Assembly) and the financial transactions conform to the authorities which govern them.
3. This report reviews the results of my 2012-13 audit of the Housing Executive and sets out the reasons why I have qualified my audit opinion on the regularity of expenditure in the following areas:

- Response and Planned Maintenance Expenditure (Part 2)

The Housing Executive spent £51.4 million on response maintenance expenditure and £94.2 million in planned maintenance expenditure during 2012-13. Considerable problems continue to be identified relating to Housing Executive controls over work done by contractors on its response and planned maintenance programme; and

- Housing Benefit (Part 3)

The Housing Executive spent £632 million on housing benefit in 2012-13. Significant levels of estimated fraud and error in housing benefit expenditure continue to arise and I have qualified my opinion on this for a number of years.

4. I reported last year on issues relating to land disposals. These issues continue to be the subject of police investigations and therefore at this stage I cannot report further. I intend to keep these matters under review and may report further to the Assembly at a later stage. In addition I have not included issues relating to Housing Associations in this report as I consider these issues to be more relevant to my report on the Department's 2012-13 accounts.

Part 2: Response and Planned Maintenance

Qualified opinion due to weaknesses in the control of expenditure on response maintenance and planned maintenance

5. Last year I qualified my opinion on the regularity of both response maintenance expenditure¹ and planned maintenance expenditure² because I was unable to gain sufficient evidence to support this opinion. Since then significant weaknesses in control have continued to emerge in the Housing Executive's management of response and planned maintenance contracts which have led me to qualify my opinion on the regularity of this expenditure again. The total expenditure on response maintenance and planned maintenance during 2012-13 was £51.4 million and £94.2 million respectively.
6. The basis of my concerns on response maintenance expenditure is set out below:
- (a) Repairs Inspection Unit (RIU) inspections

Response maintenance work undertaken by the Housing Executive covers a large range of expenditure. I therefore seek to rely on the Housing Executive's internal controls to ensure that all work done by their contractors is properly inspected and payments are not made until the work has been satisfactorily completed. One of the key controls in ensuring that proper inspections are taking place within district maintenance sections is the RIU, now part of the Corporate Assurance Unit (CAU). This Unit selects samples of maintenance work done and re-performs the checks that have already been carried out in each of the districts. This year the Unit continued to identify a large number of instances where inspections carried out by the district offices are failing to identify poor standards of work or work that has not been carried out.

In previous years the Unit examined all 35 districts within the Housing Executive every year and presented a report for each district listing scores for four specific areas³ rating them according to their compliance within four bands namely, unacceptable, limited, satisfactory and substantial. Last year I noted that only 12 of the 35 districts scheduled for inspection had been visited. This year I have been advised that a further 14 of those districts not examined have now been visited and, following a risk based review, a decision was taken not to visit the remaining nine districts as previous inspections indicate they are the better performing districts. The results of the work of the Unit are summarised in Table 1 below:

Table 1: Results of inspection work by the Repairs Inspection Unit

	2012-13	2011-12	Total
Rating	Number of districts		
Substantial	-	-	-
Satisfactory	7	3	10
Limited	4	1	5
Unacceptable	3	8	11
	14	12	26

Source: NI Housing Executive.

NB: Results reported for three of the districts in 2011-12 have been revised upwards by CAU since I reported last year.

¹ Response maintenance relates to work that is undertaken in response to problems identified by tenants.

² Planned maintenance relates to schemes that are planned from time to time to maintain or upgrade a property.

³ Contract Management; Probity; Inspection (on site) and Procedures.

I am concerned by the fact that the Housing Executive CAU team has visited only 26 districts over two years. Given the level of concern relating to the district management of contractors ideally I would expect that each district should be visited annually. Furthermore of the 26 districts visited by CAU in 2011-12 and 2012-13, 16 (62%) have had the standard of their contract inspection work judged as either limited or unacceptable. I asked the Housing Executive to comment on this performance and it told me that the CAU inspection programme was risk based. It considered previous performance and applied a targeted approach focusing on higher priority districts and this broad approach was approved by the Risk and Performance Committee.

The Housing Executive advised that it took indicators of poor contract performance very seriously and noted that:

- the current contracts contain a range of Key Performance Indicators (KPIs) which provide ongoing measurement of contractor performance and cover four broad areas: quality of work, payment accuracy, timeliness and customer satisfaction;
- there is a robust and structured contract management regime, with clear lines of responsibility and accountability, and defined escalation arrangements to deal with disputes and performance issues;
- a statistically based sampling procedure is used to select jobs for inspection by Housing Executive maintenance inspectors;
- the results of these inspections are used to calculate some of the indicators;
- the contracts also contain Low Performance Damages clauses which are applied if a contractor fails to meet the required KPI targets. This is backed by a requirement for Contractor Improvement Plans which are formally monitored; and
- failure to meet KPIs and / or deliver the required improvements can result in termination of the contract.

I note that the types of weaknesses found by the CAU inspections include:

- over measurement where the quantity of the materials paid to the contractor is excessive compared to the materials required or used;
- work being paid for twice as there was confusion on the part of some staff over what was deemed to be included in the contract;
- work being paid for twice as contractor claimed for work that should have been completed at no additional cost as it fell within the 6 month defect liability period; and
- claims for work not completed by the contractor.

To address these issues the Housing Executive has undertaken a number of steps. One of the key responses has been the establishment of Response Maintenance Intervention Teams (RMIT) in May 2012 to visit all districts receiving limited or unacceptable ratings from CAU and devise detailed action plans to address the issues identified. The Housing Executive told me that as at May 2013, the RMIT had visited 16 offices and local action plans had been developed for each office. Furthermore the RMIT re-visits each office to confirm that the agreed actions have been implemented and that improvements are being delivered.

In addition the Housing Executive has delivered seminars to Maintenance Officers on the typical failings being identified by CAU and developed a competency training programme for all Maintenance Officers to attend. The Housing Executive told me that another key step was the 10 point Contract Management Improvement Plan for Response Maintenance which was approved in July 2012 and subsequently refined into 4 main themes around addressing the source of failure, addressing skills and training, structural issues and system enhancements. Also it told me that to support inspectors in their work:

- there has been a comprehensive review of the guidance and supporting materials used by them;
- the computer system has been amended to provide additional prompts and controls;
- greater use is being made of technology to allow better access to these materials;
- a pilot to evaluate the benefit of mobile hand held devices for survey and inspection purposes has been successfully completed; and
- new training courses have been developed to improve competences.

The Housing Executive has informed me that the Board has approved restructuring within it to allow the establishment of a new Asset Management Division which will be responsible for all maintenance and works activity. This will provide a refocusing of this critical function. Because of this work the Housing Executive expects to see a considerable improvement by the time of the next round of CAU inspections in 2013-14.

(b) Ongoing investigations into response maintenance contractors

I have previously reported my concerns relating to the Housing Executive's management of contractors carrying out response maintenance⁴ and the Public Accounts Committee (PAC) also reported on this matter in February 2013⁵. These concerns related to issues such as quality of workmanship and overcharging by contractors. Initially problems were identified in relation to one contractor, Red Sky, who provided response maintenance services across a number of districts, and as a result the contract with Red Sky was terminated in July 2011. Further examination was then carried out, both by my staff and the Department who commissioned a firm of accountants to report to the Minister. Both of these examinations have identified significant and systemic issues relating to the management of contractors.

7. The basis of my concerns on planned maintenance expenditure is set out below:

(a) Schemes Inspection Unit (SIU) inspections

SIU, which is also part of the CAU, performs a similar role to the RIU in respect of planned maintenance schemes⁶. The results of the 2012-13 inspections are set out in Table 2. During 2012-13 36 scheme inspections were completed which led to 11 schemes being classified as having limited quality and a further 11 being classified as having unacceptable quality (61%). In the previous year of the 20 schemes inspected nine had a limited rating and two were unacceptable (55%). It is concerning that these results indicate deterioration in performance, particularly in relation to the kitchen replacement scheme where issues have been known about for some time.

⁴ NIHE Management of Response Maintenance Contracts, NIAO, 4 September 2012.

⁵ Report on the Northern Ireland Housing Executive: Management of Response Maintenance Contracts, NIA 99/11-15, 20 February 2013.

⁶ In 2012-13 the Unit completed audits on kitchen replacement, windows replacement and external cyclical maintenance schemes. In 2011-12 the Unit also looked at heating replacement schemes and major heating schemes.

Table 2: Results of inspection work by the Schemes Inspection Unit

Scheme:	Rating			
	Substantial/Satisfactory	Limited	Unacceptable	TOTAL
External Cyclical Maintenance	1	-	-	1
Windows Replacement	8	1	1	10
Kitchens Replacement	5	10	10	25
TOTAL	14	11	11	36

Source: NI Housing Executive.

I asked the Housing Executive to comment on this and it told me that any SIU Reports which presented limited or unacceptable findings have been further evaluated to highlight any common issues or trends. As a result of this analysis, management has recognised and accepted that there are shortcomings in some aspects of electrical works, fire doors and egress windows. These issues are being addressed and have been brought to the attention of contractors who have been notified that work will not be accepted and paid for unless it meets the standards required under the specifications set by the Housing Executive.

It also told me that further significant work has been carried out by the Design and Property Services (DPS) division and CAU to deliver improvements throughout the year. This included:

- all Clerks of Works and Inspectors receiving training on the Housing Executive's policy and standard specifications, particularly when new specifications were introduced;
- a quarterly forum being established to apprise relevant staff about key inspection findings and to identify and agree where improvements will be made;
- SIU reports being a standing agenda item at monthly contractors' meetings;
- contractors being regularly informed that the Housing Executive will not accept any substandard work; and
- within DPS, a new Policy and Liaison role has been created to strengthen engagement between CAU, DPS and contractors. This is to identify any potential areas of disagreement or dispute, and to agree and bring forward solutions.

The Housing Executive recognises that, despite these efforts, the results of improvement plans can take time to become fully embedded and capable of being evidenced. An element of the SIU reporting is therefore reflecting previous practices which are known to be problematic. This has been reviewed and schemes are now being assessed on handover. However it has advised that it feels there have been recent positive indicators especially with the latest kitchen scheme reviewed by SIU being given a "substantial" rating.

It told me that during the 2012-13 year a new SIU methodology was approved by the Risk and Performance Committee and Board on the basis that it would be "road tested" before being applied more widely. This has highlighted further improvements which, when implemented, will make the inspection process more robust.

(b) Overpayments in respect of kitchen replacement schemes

Last year I reported on work ongoing within the Housing Executive to identify the extent of potential overpayments to contractors for a number of kitchen scheme replacement contracts. This was following on from a review by CAU in November 2011⁷ of five kitchen replacement schemes, one from each geographical area which identified potential overpayments to contractors of approximately £500,000. As 112 kitchen replacement schemes had been completed at that point this meant that there was potentially a very significant overpayment.

At the time of my report last year the level of overpayment was being disputed by Housing Executive management who had also arranged for their own analysis to be carried out which appeared to show that the potential for overpayment had been considerably overstated. These disagreements led to delays in progressing this issue but in late 2012 the Housing Executive finally appointed an external chartered surveyor company to provide an independent, sample based, assessment of a further 20 kitchen replacement schemes. This assessment has now been completed and has confirmed that there were significant weaknesses in the Housing Executive's management of these contracts.

One of the key issues identified by the assessment was in respect of payments made to contractors on the basis of a standard 'Project Price List' (PPL). The PPL was effectively the bill of quantities for each kitchen replacement scheme. However the Housing Executive made the mistake of assuming that the same work would be done for each house type when in fact requirements often varied significantly from one house to another. For example tenants may have undertaken additional work at their own expense such as installing floor and wall tiles, removing kitchen units to allow installation of new appliances or purchasing their own kitchen extractor units.

In fact the PPL only provided an indicative estimate of the cost of each piece of work and the contractor should have carried out 'remeasurement' to identify and cost the variation between the work actually completed at each dwelling and the PPL indicative cost. This remeasurement was generally not carried out and as a result contractors may have been paid for work which had not been done. Limited numbers of inspections were carried out by Housing Executive staff on the work done by the contractors but these were generally visual and did not include inspections by quantity surveyors.

The assessment by the external surveyors found that, in general, normal contract management arrangements had been set aside in favour of more relaxed procedures based on partnership, trust and mutual co-operation which meant that effective checking and inspection was not being carried out and consequently potential overpayments were not identified.

The work done by the external surveyors on the sample of 20 kitchen replacement schemes (out of a total of 242 schemes undertaken to date) found potential overpayments of £1.319 million out of a total cost for all schemes examined of £6.259 million. The proportion of estimated overpayments ranged from 2 per cent to over 40 per cent depending on the scheme and contractor involved. The Housing Executive has now used this work, together with work undertaken by its own Central Cost Group, as a basis for estimating the potential overpayments across all of its planned maintenance work since 2008 (the period of its current contracts). This estimate has been prepared largely by extrapolating the estimated error rates and has estimated the potential total contractor overpayment to be around £18 million.

⁷ This review pulled together the results of a number of individual inspection reports that had been prepared by the SIU and reported during 2010. At this stage the financial implications were not clear and issues were not followed up.

The Board has now arranged for an external independent review of the Housing Executive's handling of planned maintenance contracts to review how the overpayments arose, the reliability of the estimate on overcharging and the actions taken to recover the overpayments. The Housing Executive is also examining, through its legal advisers and by ongoing liaison with the contractors, how these potential overpayments might be recovered.

I am very concerned that the Housing Executive's seemingly lax controls appear to have resulted in such a large potential loss of public money. I am also disappointed that these issues were not addressed earlier, either when they were first identified by SIU in 2010 or when the issues were raised again in CAU's review in November 2011. Unfortunately there was a considerable degree of challenge by Housing Executive management to the findings of CAU which delayed the appointment of external surveyors until late 2012.

I asked the Housing Executive to comment on how such substantial overpayments in respect of the kitchen replacement schemes were allowed to arise and the likelihood of any recovery from contractors being achieved. The Housing Executive told me that it has already undertaken a substantial body of work to investigate this issue and to provide an estimate of the potential financial implications arising from it. A number of critical contributory factors have been identified, particularly with regard to how the contracts were implemented, the approach taken to inspection and approval of work, and how the Housing Executive engaged with contractors. These factors were considered in more detail in a report submitted to the Board. The Housing Executive informed me that that the Board is extremely concerned about how planned maintenance contracts have been managed and how the suspicions of overcharging have been dealt with. Accordingly, an independent external investigation was recently commissioned by the Chairman on behalf of the Board which is due for completion by October 2013.

With regard to recovery, the Housing Executive told me that its intention is to seek full repayment of all overpayments made to contractors and a legal recovery strategy, approved by the Board, has already been implemented. The first step of this has involved formal adjudications based on the independent evidence prepared by the external surveyors but further legal action cannot be ruled out. Given that the matter is currently being pursued through a defined legal process, the Housing Executive considers it inappropriate to make further comment at this stage.

I also asked the Housing Executive to explain how its controls have been strengthened to ensure that similar issues do not recur in future planned maintenance schemes. It told me that it has already taken action to put in place a range of improved controls and arrangements to address the weaknesses and behaviours which allowed the overcharging to happen. This includes:

- increasing the number of professional officers available to inspect and pass work for payment;
- retraining all relevant staff to emphasise the need for effective checking and monitoring of schemes; and
- the establishment of a Central Cost Group to provide an additional layer of scrutiny with regard to the approval of PPLs and certification of claims for payment submitted by contractors.

Looking ahead to the new contract framework for planned maintenance work (the former contracts expired in January 2013) the Housing Executive told me that it has redesigned the delivery model to include the use of external consultants as scheme managers. Within this new monitoring and control regime, which will measure the performance of both the consultants and contractors, they note there is a facility to impose, if required, financial sanctions for poor performance. It told me that this approach has been developed to provide a better transfer of risk, at the same time maintaining its overall accountability and responsibility for the stewardship of public funds. In addition, the future management of planned maintenance contracts will be informed by the findings of the independent external review.

Conclusion on response and planned maintenance expenditure

8. Based on the issues above I have qualified my opinion on the regularity of response and planned maintenance expenditure totalling £145.6 million in 2012-13. I was unable to obtain sufficient evidence that the Housing Executive's control of this expenditure was adequate for the purposes of ensuring that these payments had been applied for the purposes intended by the Assembly.

Other issues relating to planned and response maintenance

PAC Report on Management of Response Maintenance Contracts (February 2013)

9. Based on my review of Housing Executive management of response maintenance contracts (September 2012) the PAC held an Evidence Session and subsequently reported in February 2013. The Committee made ten recommendations, four of which are noted below:
 - the Department and Housing Executive should use the bedding-in period for the new response maintenance contracts let in August 2012 to critically evaluate how they are working in practice;
 - detailed information on the results and timeliness of inspections should be reported to the Housing Executive Board and Audit Committee who must also assure themselves that payments are being made promptly to all contractors;
 - Corporate Assurance Unit's independence from operational divisions must be recognised and upheld and its work should not be undermined; and
 - necessary investigations must be undertaken to establish the full extent of the contract management problems and the potential exposure in financial terms to ensure weaknesses are identified and eradicated.

The Housing Executive has informed me that there is an action plan in place to meet the PAC Recommendations. Many actions have already been completed and others are currently being implemented.

10. Both the Department and the Housing Executive have advised me that improvements have been made in the structure of the contracts and the way in which they are managed. Financial penalties can now be applied when contractors do not perform to the standard expected and these changes are expected to lead to improvement in performance and value for money. The Housing Executive also told me that clear escalation procedures are now in place in order to address occasions, should they arise, where unsatisfactory performance persists and that the new contracts will be critically evaluated through an Office of Government Commerce Gateway Review, operations review and benefits' realisation, which is scheduled for August 2013.
11. The Committee also noted their concerns that the failure to secure contracts at sustainable prices increases the risk that contractors may:
 - attempt to cut corners;
 - look for additional payments from the contracts; or
 - run into financial difficulty and in some cases go out of business.

12. In light of this I note with concern that in April 2013 a response maintenance contractor responsible for providing services to North and East Belfast and Lisburn went into administration and another contractor who initially terminated a contract in West Belfast subsequently went into administration in June 2013. This affected contracts in Shankill, South Belfast, Lisburn Dairy Farm and Portadown. The Housing Executive told me that the following action is being taken:

- for the North Belfast, East Belfast and Lisburn contracts the service is being delivered through the utilisation of adjacent “back up” contractors in conjunction with the in-house Direct Labour Organisation (DLO) contractor.
- in West Belfast, the service is being delivered by the in-house DLO contractor.
- it is the Housing Executive’s intention to take over contracts for Shankill, South Belfast, Lisburn Dairy Farm and Portadown, using the DLO, and discussions are ongoing with the Administrator.

13. I understand that CAU intends to issue response maintenance inspection reports for each of the twelve new areas and the first report should be drafted by the end of June. Given the fact that the new response maintenance contracts have been operating since August 2012 I am surprised that the Housing Executive has not pushed harder to receive independent assurance earlier. I also note that in some cases there have been delays of between 3-6 months in the issue of draft reports post scheme inspection visits. This is particularly concerning given the assurances by the Housing Executive that CAU’s role has been developed and strengthened. The Housing Executive told me that:

- while the new response maintenance contracts have been operating since August 2012, there was a “bedding in” period in relation to the key performance indicators;
- following that, in order to “road test” the CAU methodology, CAU inspected 3 districts, and the findings from these inspections were used to confirm the methodology;
- the 2013 -14 Programme of CAU inspections commenced in May 2013 and will cover all the response maintenance contracts;
- CAU will carry out the annual inspection programme and report on an area basis in line with the timeframes outlined in the revised methodology;
- the programme will be delivered by CAU within the agreed time frame; and
- management will ensure there is a timely response in relation to issuing findings to the area, holding exit meetings, providing area responses to CAU’s observations and issuing the Final Report.

The Housing Executive assured me that there is an ongoing commitment to ensure the effectiveness of both the role of CAU and the value obtained in terms of improved response maintenance management.

The Housing Executive accepts that there were some delays in implementing last year’s routine programme. However, this was due, in large part, to the urgent need to reprioritise CAU’s Repairs Inspection Unit resources towards investigatory work in response to concerns around a number of specific contractors together with additional workload which was identified following receipt of the accountant’s report commissioned by the Department. It acknowledges that further work needs to be done to ensure assurance reports are responded to promptly and within the required timescales and this is clearly a management responsibility.

Benchmarking of repairs costs

14. I welcome the fact that a number of benchmarking exercises have been carried out within the Housing Executive throughout the year. In the 2011-12 Housemark⁸ repairs value for money benchmarking exercise the Housing Executive's performance was compared to 27 other organisations⁹.

Table 3: Extract from 2011-12 Repairs Benchmarking Exercise

	2011-12	2010-11	Recommended or median
Volume of work categorised			
• Emergency	37%	44%	10%
• Urgent	26%	23%	20%
• Routine	37%	33%	70%
Average cost of repairs per property	£432	£386	£418
Costs of managing contracts	10.9%	12.3%	10.2%
% of Repairs passing inspection	91.3%	79.8%	96.3%

Source: NI Housing Executive.

15. I note the following:
- the volume of work categorised as emergency repairs by the Housing Executive continues to be well in excess of other organisations;
 - the average cost of repairs per property has risen by 12 per cent this year and is in excess of the median;
 - while contract management costs have reduced since 2010-11 they remain high in comparison to the median for other organisations and maintenance management has been considered as part of the Gateway and Governance Reviews; and
 - the apparent poor post inspection pass rate, although significantly improved since last year, is still lower than the median performance.

⁸ NIHE is a member of Housemark which is a subscription-based benchmarking service.

⁹ It is noted that only 2 of these 27 had housing stock over 20,000 and in 50% of the group the repairs service is provided by an in-house contractor.

Part 3: Housing Benefit

Qualification of regularity opinion due to estimated levels of fraud and error in housing benefit payments

16. The Housing Executive administers housing benefit on behalf of DSD. The Department's Standards Assurance Unit (SAU) regularly monitors and measures the estimated levels of fraud and error within the housing benefit system. In order to do this, the SAU randomly selects samples of ongoing claims and subjects them to detailed examination for evidence of official error, customer error or customer fraud¹⁰. The results of this testing are used to produce a range of likely fraud and error in housing benefit and the median of this range¹¹ is used to estimate the monetary value of the fraud and error in the year.
17. The estimates of fraud and error are by their nature subject to uncertainty because they are based on sample testing but do, however, represent the best measure of fraud and error available. In order to facilitate the timetable for the production of the financial statements, SAU's testing is reported on a calendar year basis, not on a financial year basis. I am satisfied that this is reasonable.
18. I examined the work undertaken by the SAU to assess the levels of fraud and error within the housing benefit system. My staff examined and re-performed a sample of the case work during the year and also reviewed the methodologies applied by the SAU in carrying out these exercises. I am content that results produced by the SAU are a reliable estimate of the total fraud and error in the housing benefit system.
19. The entitlement criteria and the method to be used for payment of housing benefit is set out in legislation. Where fraud and error has resulted in an over or underpayment of benefit to an individual who is either not entitled to housing benefit, or is paid at a rate which differs from that specified in the legislation, the payments made are not in conformity with the governing legislation and are therefore irregular.
20. The levels of fraud and error for housing benefit for the year 1 January 2012 to 31 December 2012, estimated by the SAU, are set out in the accounts¹¹ and in total represent some 4.2 per cent of housing benefit expenditure (including 0.3 per cent relating to underpayments due to customer error which are not part of my qualification).
21. Table 4 shows the housing benefit payments made during the calendar year of 2012 and the estimated amounts of fraud and error in relation to these payments, based on the work completed by SAU. The table shows that the total amount paid in the 2012 calendar year was £612 million with estimated irregular payments of £25.5 million comprising:
 - overpayments of £20.8 million (3.4 per cent of housing benefit payments); and
 - underpayments due to official error of £4.7 million (0.8 per cent of housing benefit payments expenditure).

All of the overpayments are irregular, whereas only underpayments made as a result of official error are deemed irregular.

¹⁰ Official error arises when housing benefit is paid incorrectly due to inaction, delay or a mistaken assessment by the NIHE. Customer error occurs when customers make inadvertent mistakes with no fraudulent intent. Customer fraud arises when customers deliberately seek to mislead NIHE.

¹¹ Note 29 to the accounts: Payment Accuracy.

22. Underpayments due to customer error of £1.7 million are not included in the figures above and are not deemed irregular as customers are not required to conform to governing legislation when making their benefit claims.

Table 4: Trends in estimated overpayments and underpayments due to fraud and error in housing benefit expenditure

	2012 £million	2011 £million	2010 £million	2009 £million	2007 £million
Total Housing Benefit Expenditure*	612	558.5	568.3	503.6	412.8
Overpayments					
Official Error	6.8	2.6	9.8	3.6	1.2
Customer Error	4.8	4.8	4.0	1.2	6.7
Customer Fraud	9.2	2.8	0.9	4.5	2.8
Total	20.8	10.2	14.7	9.3	10.7
% of Housing Benefit Expenditure	3.4%	1.8%	2.6%	1.8%	2.6%
Underpayments					
Official Error	4.7	3.6	2.4	3.4	0.3
% of Housing Benefit Expenditure	0.8%	0.6%	0.4%	0.7%	0.1%

*This amount is the population from which a sample was examined by the SAU. It is based on amounts paid in the calendar year and will therefore differ from amounts in the financial statements which are based on financial years.

Source: SAU Reports (SAU did not carry out an exercise covering 2008 due to resourcing issues.)

23. The figures in Table 4 show considerable volatility in the level of estimated fraud and error over the past number of years. To some extent this results from the sampling methodology which provides a range of likely fraud and error (within a 95% confidence interval). The figures represent the median within the range which is 3.4 per cent in 2012 and 1.8 per cent in 2011. However the possible range of estimated fraud and error is between 1.2 per cent and 5.9 per cent in 2012 and 0.6 per cent and 3.4 per cent in 2011. Nevertheless I consider that using the median provides a reasonable basis for comparisons of performance between years.
24. I recognise the considerable efforts and resources committed by the Housing Executive to address housing benefit fraud and error. However I am concerned to note the considerable increase in the estimated levels of fraud and error this year with estimated overpayments having increased by almost 50 per cent.
25. Worryingly the level of overpayments due to official error appears to have increased substantially, although it is still less than the comparable figure in 2010. As official errors arise from mistakes by the Housing Executive these errors are within its control and it is best placed to reduce them. In some cases the errors can be hard to identify and consequently the cumulative impact can be considerable. Reasons for official errors include:
- incorrectly recording a customer's income;
 - incorrectly applying complex benefit rates; and
 - making errors in establishing the customer's status (such as single status, etc).

26. In addition, I also note that the estimated level of underpayments due to official error has increased substantially, when compared with 2011, by 30 per cent to £4.7 million. This is a considerable increase in a figure which is now 0.8 per cent of total housing benefit expenditure compared to 0.1 per cent in 2007.
27. I asked the Housing Executive why it thought that the level of over and underpayments arising from official error have risen so significantly. It told me that:
- there has been a continuing increasing caseload due to the prevailing economic conditions (Housing Benefit caseload has risen by over 10 per cent in the last four years);
 - there was a substantial increase in workload following the full introduction of the Atlas¹² system at the start of the year as the volume of notifications has been extremely high with the system prompting approximately two million individual transactions (which affected about half a million claims during the year);
 - during the first six months of operation the majority of the notifications from the Atlas system had to be processed manually and each case was suspended while this was done; and
 - the processing of these transactions were given priority to prevent delays in payments to customers which meant that other work was affected. For example, an annual exercise to review earnings' cases, which is one of a number of counter-fraud activities, had to be postponed for the year.
28. Furthermore the Housing Executive told me that the pressure of the additional workload also undoubtedly affected the accuracy levels of assessments. During the year it told me that work was undertaken:
- to identify ways to automate the actions prompted via Atlas and it ultimately succeeded in automating approximately 80 per cent of these transactions; and
 - additionally, from October 2012, additional resources were introduced via an overtime facility to deal with the backlog of work that had built up over the first half of the year.
29. The Housing Executive considers that both of these measures meant that by the end of the year, workflow, although still at a higher level than in previous years, had been regularized which should help in addressing, and reducing, Official Error. Furthermore before the end of the first quarter of the current year, an exercise will be completed to examine the principal causes of Official Error over the full 2012-13 year which is expected to help improve performance in this area.
30. Customer error relates to situations where customers have made mistakes in claiming the benefit which are not judged to have arisen from fraudulent intent. This would include situations where errors arise because:
- customers cannot properly navigate the complex housing benefit system;
 - customers are unaware of rules on capital, investments or redundancy payments;
 - customers do not understand the requirement to report any changes in their circumstances; and
 - many customers incorrectly believe that reporting changes once to a public body will lead to all government bodies updating their records for that individual.
31. I note that estimated customer error is unchanged from last year. I asked the Housing Executive to comment on this and it told me as part of the strategy to prevent overpayments, it introduced the Atlas system to capture information on some changes in claimants' circumstances at an earlier stage to reduce the potential of customer error. In addition, annual exercises are undertaken to update information on earnings and occupational pensions to do likewise. Unfortunately it informed me that these latter exercises were postponed for 2012-13 due to the workload associated with the introduction of Atlas so the full benefits of

¹² This system provides authorities with electronic notification of all awards and changes in Tax Credits and the main Social Security benefits of HB customers.

these activities were not achieved. The Housing Executive anticipates that with all three systems running in 2013-14, improvement will be seen in this area.

32. The estimated level of customer fraud continues to increase substantially and at £9.2 million is more than three times higher than last year. Most commonly customer fraud arises from:
- under declaration of assets;
 - falsely stating the level of their own or partner's earnings;
 - undeclared and under declared occupational pensions;
 - customers working but not disclosing this; and
 - non –disclosure of customer's living arrangements where, for example, the customer has a partner but is claiming and receiving housing benefit as a single person.
33. This means that the level of fraud now more appears to be higher than at any time in the previous five years. This is particularly disappointing as it had been expected that the new Atlas system of electronic notification of changes in benefits this year would result in a decrease in fraud and error levels. I asked the Housing Executive to explain why it thought the estimated levels of fraud had increased so significantly in the current year. The Housing Executive told me on the basis of the cases identified as fraudulent by SAU it is possible that the postponement of the annual earnings exercise for 2012 has influenced the findings. It advised me that this exercise has been reinstated for 2013-14 and the impact of the introduction of Atlas has been previously referred to.

Conclusion on housing benefit expenditure

34. I consider the estimated levels of fraud and error in housing benefit expenditure to be material and I have therefore qualified my audit opinion on the regularity of this expenditure.

Other issues relating to Housing Benefit

Benefit overpayments to be recovered

35. Benefit overpayments arise whenever benefits are paid in error to customers. During the year the gross level of housing benefit overpayments owed by claimants increased from £45.4 million to £46.9 million. Table 5 shows the total value of benefit overpayments to be recovered by the Housing Executive as at 31 March for each of the last five financial years.

Table 5: Trends in the recovery of Housing Benefit Overpayments

£million	2013	2012	2011	2010	2009
Gross debt recoverable in year	46.9	45.4	41.8	37.5	31.8
Written off	(1.3)	(1.3)	(1.8)	(1.3)	(1.0)
Provided for ¹³	(15.5)	(15.8)	(13.1)	(12.1)	(10.8)
Net debt recoverable	30.1	28.3	26.9	24.1	20
Recovered	(13.9)	(13.9)	(13.1)	(12.8)	(10.5)
Recovery %	30.5%	31.4%	32.7%	35.3%	34.0%
Net debt at year end	16.2	14.4	13.8	11.3	9.5

Source: Housing Benefit Overpayment Returns and NI Housing Executive financial statements

36. I note that both the gross and net debt due from benefit overpayments has increased substantially over the last five years. My analysis above has shown a downward trend over the same period in the amounts recovered each year as a proportion of the amounts that are judged by the Housing Executive to be recoverable. I asked the Housing Executive if it considered that it had been less successful in recovering overpayments in recent years and also what it is doing to ensure that it is maximising the amounts it recovers. The Housing Executive told me that its capacity to recover housing benefit overpayments is constrained by a number of factors, including debtor's ability to repay, set deduction rates for some recovery methods and the lack of effectiveness of other methods. However, through the Housing Benefit Overpayment Strategy, the Executive reviews its performance regularly and seeks new and better ways to prevent and recover debt. The Housing Executive noted that, in terms of gross debt, the increase in 2012-13 was the lowest in the last five years and the amount recovered (£13.9 million) exceeded the target set for the Executive by the Department (£13 million).

Rent arrears

37. The Housing Executive has an annual rental income of £269 million. Table 6 shows the trends in the level of arrears over the past five years. I note that the level of arrears had started to reduce in 2010 and 2011 but by 2012 were back to the 2009 levels and have increased by a further £0.5 million in 2012-13. I asked the Housing Executive why this was the case. It told me that current economic conditions continue to impact adversely on tenants' living expenses and subsequently on their ability to pay rent and arrears. Furthermore in March 2013 approximately £500,000 of debt was reinstated for recovery action.

¹³ Provided for relates to debts that the Housing Executive consider may not be recovered but which are not yet in a position to be written off.

Table 6: Trends in the recovery of rent and rate arrears

	2013	2012	2011	2010	2009
Collectable rental income £million	305	287	285	279	275
Debt at year end £million	14.6	14	12.7	13.3	13.9
Arrears expressed as a % of collectable income	4.8%	4.9%	4.5%	4.8%	5.1%
No. of tenants > 13 weeks in arrears	3,342	3,339	2,988	3,170	3,603

Source: NI Housing Executive and NI Housing Statistics 2011-12

38. In May 2009¹⁴ I reported on rent arrears in the Housing Executive and this was followed by a PAC Report in October 2009¹⁵. PAC made nine recommendations specifically for the Housing Executive which were accepted by DSD. I am aware that the Housing Executive's Internal Audit Unit has reviewed progress in implementing these recommendations. However I have concerns that a number of them relating to debtor profiles, performance reporting and information systems may not have been addressed in the way the Committee intended. My concern has arisen because a number of figures requested during my audit relating to management of arrears (including an aged analysis of debtors) were not readily available. While the Housing Executive acknowledges that at the present time an aged analysis of debtors is not used, it advised me that a number of other analytical tools, which it considers to be useful, are available and used. I intend to examine this area in more detail in future years.

Welfare Reform

39. The increasing balance in arrears is particularly concerning given the proposed changes to the housing benefit scheme under the Welfare Reform Act 2012. From 1 April 2003 changes to the benefits system, including housing benefit, have been introduced in England for all tenants in council homes and housing associations. A further challenge for the Housing Executive will arise if Direct Payment of housing benefit reverts directly to tenants as is proposed for Great Britain.
40. This legislation is still under discussion in the Assembly. Pilot Projects run in GB since June 2012 have identified considerable increases in arrears and costs of obtaining rent from tenants. The Housing Executive has been evaluating the impact of the proposed changes and estimates that 25,000 tenants will under occupy their homes under the proposed changes and rent arrears are likely to increase significantly.
41. The challenge for the Housing Executive will be in dealing with tenants who cannot pay their rent as it is also responsible for providing emergency housing/homelessness accommodation to those in need. The Housing Executive has advised me that it is investing in services to improve rent collection and arrears recovery such as face to face interviews with vulnerable tenants, referrals to partner agencies and signposting to specialist

¹⁴ The Management of Social Housing Rent Collection and Arrears, NIA 104/08-09, 6 May 2009

¹⁵ Report on The Management of Social Housing Rent Collection and Arrears, 16/09/10R Public Accounts Committee.

agencies, updated information booklets on money advice, establishment of Telephone Contact Centre and liaison with DSD, NI Court Service and EJO on deductions and new debt cases.

Tenancy fraud

42. In my 2011-12 report I referred to tenancy fraud and how the Audit Commission¹⁶ considered it to be the largest category of fraud affecting local government services. Tenancy fraud is the possession of a social housing tenancy by someone who is not entitled to it. This deprives those on housing waiting lists of the chance of a permanent home and gives rise to additional costs for temporary accommodation and additional house building. It is estimated that tenancy fraud costs the public purse £1 billion a year in England and Wales. I have prepared a separate report highlighting good practice in this area which I will publish shortly. The Housing Executive has now developed a strategy to address this issue.

National Fraud Initiative

43. The National Fraud Initiative is an exercise to conduct data matching reviews to assist in the prevention and detection of fraud and I welcome that the Housing Executive has fully engaged with this process. The outcomes to date of this exercise in Northern Ireland have demonstrated the value of NFI in identifying and countering benefit fraud and error.
44. The Housing Executive has taken part in two NFI exercises which have involved matching data from a number of databases such as payroll and occupational pension details with its housing benefit records and preliminary work has been undertaken for a third exercise.
45. The second exercise identified 23,500 matches, of which just over 80 per cent related to Housing Benefit. Some of these matches¹⁷ are passed by the Housing Executive to the Social Security Agency's Benefit Investigation Service (the Agency). The Housing Executive has processed nearly 9,000 matches itself and has identified 26 instances of Housing Benefit fraud with a value of £190,000 and 197 errors with a value of £644,000.

¹⁶ Audit Commission: Protecting the Public Purse 2011: Fighting fraud against local government (10 November 2011).

¹⁷ These figures relate to housing benefit data matches which are sent to the Agency where personal information on passported claimants is required to process the match as this data is not held within the Housing Executive. The Housing Executive also investigates matches in other data sets, for example, creditors and payroll.

Part 4: Conclusion

46. I have qualified my regularity opinion on the Housing Executive's 2012-13 accounts for two reasons:

- Significant weaknesses continue to be identified in the Housing Executive's controls over work done by contractors on its response and planned maintenance programme; and
- Material levels of estimated fraud and error in housing benefit expenditure.

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2nd July 2013