

*Confidential**Circulation: Trustees only***The Macfarlane Trust****Report to:** Board of Trustees**Date of meeting:** 29 April 2013**Report from:** Chief Executive**Subject:** Payments Review

Purpose of report

The purpose of this report is to advise trustees of significant failings which the Chief Executive has uncovered in relation to the way staff have been making regular payments to MFT beneficiaries, in particular to widows. The report also sets out the details of a review that has been carried out, the financial and other implications of this, and the proposed actions to remedy the position.

Background and introduction

In recent times, MFT has distributed in the region of £2 million each year to its beneficiaries in the form of regular monthly payments, out of a total spend of approximately £2.5 million. The level at which the monthly payments are made is dependent upon a beneficiary's household income.

An assessment of a beneficiary's household income is based on an annual census; separate censuses have been carried out for primary beneficiaries and infected widows. The census for both groups has historically been done in the last quarter of the financial year, ready for the coming financial year.

MFT has also given a lump sum winter fuel payment to primary beneficiary households.

In the weeks after I joined the organisation, an extremely confused picture started to emerge regarding payments to beneficiaries, which initially showed itself in relation to widows' payments when I was asked to resolve two particular long-standing and outstanding cases. The following came to light:

- **The last widows' census was conducted in the autumn of 2011; there has been no repeat widows' census since.** I was initially led to understand that this census was done as the basis for calculating 2011/12 payments; the Support Services Manager told me that a new one wasn't done because of "pressure of work". I was subsequently been told that this census was done to calculate the 2012/13 payments. However, **it has also subsequently emerged that this census from the autumn of 2011 was never processed or implemented.** Therefore, widows who were known to us prior to the autumn 2011 census have been getting paid their regular payments based on 2011/12 or even earlier income levels, and in addition, some widows who completed a census in the autumn 2011 census for the first time have NEVER as yet been paid. It seems that only where widows have complained that there censuses have been processed – which is how the matter originally came to my attention.

- **Even though the MFT board agreed to uplift the income benchmark for widows from £18,000 to £19,000 for the year 2012/13, widows whom we were paying prior to 1 April 2012 have not had their top-up payments increased to take into account the new £19,000 benchmark.** The Support Services Manager told me that the previous Chief Executive told her not to do this, and to wait until the end of the financial year, although I have not been able to find any proof of this instruction. Widows who have come onto our books since 1 April 2012 have, however, been getting paid against the £19,000 benchmark. This means that within the same beneficiary category, we are paying people at different levels.
- **To compound all this, some of the calculations have been done incorrectly.** It came to light that when income has been getting calculated, for the last 12 months, the Support Services Manager has advised her team that the way to calculate people's income when they receive weekly payments of any kind, eg weekly benefits, is the following calculation: weekly amount x 4 x 12. This means that we have been calculating income based on only 48 weeks of the year, not 52. This means that we have been understating people's income, and thus potentially overpaying them. Whilst this matter came to light in relation to payments to widows, this also means that primary beneficiaries' income and thus top-up payments have been calculated incorrectly; as a result we may also have paid winter fuel payments at the wrong level. The Support Services Manager has been unable to give me any logical explanation as to why she has approached the calculations in this way, other than to say it was for "consistency". However, she confirmed that she had not been instructed to make calculations in this way. The Finance Manager has told me that she knew this method of calculation was being used and had concerns about it, but didn't question it or raise it with anyone more senior. I have now notified staff that weekly income is to be calculated on the basis of *weekly income x 52*.
- **It has also subsequently emerged that whilst from 2012/13 council tax payments were meant to be deducted from household income, this has not always been taken into account.** This has resulted in an overstating of the widow's income and thus our underpaying them.
- **There also appear to have been several versions of the spreadsheet which sets out monthly payments circulating,** which may have meant that people have been getting paid the incorrect monthly amounts because staff have been using the wrong figures. On my instruction, the Finance Manager has now issued the correct spreadsheet to the Support Services team.
- **Until this situation came to light, there had been no written internal procedure setting out what we include and exclude when calculating income, and how the calculations should be done.** This has now been produced at my instruction.
- **The Finance Manager has been processing payments passed to her by the Support Services Manager, but has not been checking whether the calculations were correct.** She told me that she did not consider this to be her job.

Payments review

I advised the Chair as soon as I was clear what the problems were, and following discussion with him, we agreed to take on a qualified accountant for a limited time to undertake an independent review of all the payments made. In the circumstances, we did not feel we could entrust the review to anyone internally. The review was intended to establish the following:

- What we *have* been paying people compared with what we *should* have been paying
- The extent of the gap in financial terms, both for individuals and overall
- A method of rectifying the errors made, both in terms of paying people correctly, and in terms of establishing robust internal procedures

Findings and financial implications

The starting point for the review was to compare what we were paying people, compared with what we should have been paying them. The immediate issue which arose in the review was a proliferation of lists of widows – one being the alleged mailing list used for the original census, another the Access beneficiary database, and the third the list on the Great Plains accounting system. There are significant differences between each, meaning **we have no definitive data list for this section of our beneficiary community.**

Given that the Great Plains list includes widows who we have paid in the past, or are continuing to pay – whether top-up payments or child supplements – this was used as the starting point. Of the 253 widows on the Great Plains system, 144 files related to payments since May 2009. These were compared to the autumn 2011 census received; only 12 have been processed. Where receipted, most of the censuses were received in October and November 2011.

Of the 144 records selected from Great Plains, 48 census returns had not been received, of which 34 related to widows who were still being paid and 14 to widows who were no longer being paid.

In addition, a further 19 were received, 10 of which could be related to Great Plains, 9 could not.

Of 115 returns reviewed (144-48+19) for correct allocation of discretionary payments, the following emerged:

- 51 beneficiaries were identified with potential underpayments for 2011/12 and/or 2012/13, **totalling £171,000** (this takes into account the fact that the new £19k benchmark had not been applied from 1 April 2012)
- 20 beneficiaries were identified who appeared to be due discretionary payments for 2011/12 and 2012/13 for whom no such payments have ever been processed and paid, **totalling £224,000**
- 22 beneficiaries were identified with potential overpayments for 2011/12 and 2012/13 **totalling £51,000**

16 of the censuses reviewed were over the income limit for discretionary payments, 6 required no further action, and 5 require significant additional information before they can be processed.

In addition, as the board's decision was to backdate widows' payments to May 2009 for anyone able to provide adequate supporting documentation for the 2009/10 and 2010/11 financial years, there are additional potential liabilities as follows:

- **£352,000** for those we have never yet paid
- **£122,000** for those we have been paying but who might come forward for payments back to May 2009

Furthermore, the annual budget for widows' payments will need to be increased by approximately **£275,000** per annum (before any cost of living increase is applied) – please see separate budget paper being considered under Part A of the agenda.

In summary, the financial implications of this review are as follows:

• Immediate liability for underpayments and payments never made	£395,000
• Potential liability back to May 2009	<u>£474,000</u>
• Total one off liability	£869,000
 • Annual ongoing additional cost (before CPI increase)	 £275,000

NB All these figures will be subject to refinement as the detailed analysis and calculations continue, and I will need to review each case individually with the accountant before payments are implemented.

Way forward

In terms of payments to widows, we need to ensure that we are paying all widows who are entitled to regular payments under the scheme. It is therefore **recommended** that we do the following:

- Write to widows who we have never paid, giving them backpayment to the date of the census information they provided and ensuring they now receive monthly payments.
- Write to any widows we have underpaid, giving them backpayment for underpayments and ensuring they now receive the correct monthly payment.

In both cases, we do not necessarily have all the supporting documentation we would want. However, given how badly we have failed this group of beneficiaries, I do not think it would be practical or politically wise to go back now, after more than 18 months, to ask for supporting documentation.

The letters to people in relation to both of the instances above will need to be written carefully in the context of my having undertaken a review of all payments. Clearly there is the real possibility of negative publicity and unrest amongst the beneficiary community if it becomes generally known that we have been paying a large number of people incorrectly.

It is also **recommended** that we take the following approach:

- Where we have overpaid widows, it is recommended that we do not try to reclaim these funds, as the amount of overpayment is relatively small compared with the overall amount of money involved, and it has happened as a result of staff error.
- Undertake a new census once we have processed all the backpayments, to ensure that we are paying widows at the correct level in relation to their income.
- Undertake a serious data cleansing exercise; this will require additional, short-term staff resource.
- Where we have supporting documentation back to May 2009, we should backdate the payments, but we should not proactively invite people to apply back to this date.

- Following the board meeting, I will need to brief the Department of Health and the auditors.

The reserves paper presented in Part A of the board meeting makes a provision of £869,000 for the liabilities which have been uncovered as a result of this review. The budget paper also presented in Part A contains a higher annual figure than previously envisaged for widows' payments, given that there will now be a higher number of widows identified as eligible for regular payments as a result of this exercise.

When the independent review was first commissioned, I envisaged a review needing to be undertaken of all primary beneficiary payments as well. However, given that it has a considerable amount of time to review the widows' payments – and there is still further work to do - which number only a quarter of the primary beneficiaries, and also given the fact that the likelihood of errors is much greater in the widows' payments because of the narrower income brackets, I do not propose to do this now. The annual census of primary beneficiaries has not lapsed, even though some of the calculations may have been inaccurate. Once the calculations of income have been done for primary beneficiaries based on the census which was undertaken in February/March 2013, I have asked the Support Services Team to brief me on any primary beneficiaries who have been assessed as dropping down a payment level, so that if this is due to understating their income previously, we can handle the communication of this to them sensitively.

Clearly, this matter has raised a number of significant issues in relation to the key staff involved and I will brief the board about this at the meeting.