

**URGENT BUSINESS AND SUPPLEMENTARY INFORMATION**

**Accounts, Audit and Risk Committee**

**22 March 2017**

Agenda Item Number	Page	Title	Officer Responsible	Reason Not Included with Original Agenda
11.	(Pages 1 - 4)	Housing Benefit Subsidy – Appendix A	Chief Finance Officer / Section 151 Officer	Appendix being reviewed and Finalised at time of agenda publication

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## Appendix A

### Housing Benefit Subsidy 2015-2016

#### Background

Housing Benefit (HB) is a means tested benefit, administered by local authorities on behalf of the Department for Work and Pensions (DWP). HB is intended to help claimants meet housing costs for rented accommodation both in the private and social rented sector. The administration of Housing Benefit is now very complex due to the ever changing Housing Benefit regulations. During the last five years there have been a total of 90 changes to the scheme making it increasingly difficult to make accurate assessments.

Local authorities reclaim HB that they pay to claimants by submitting annual subsidy claims to the DWP. The subsidy claim form details the HB expenditure which is recorded in various cells on the form. The subsidy claim divides the total caseload into various types of claims. Within our claim one cell accounts for £38m in HB expenditure.

Each local authority's appointed external auditor is required to certify that the annual claim is fairly stated and to report any error to the DWP in a covering letter that accompanies the claim. Where there are errors the claim is qualified and the DWP will seek to reduce subsidy payments to the Council. 80% of councils have been qualified on their subsidy claim.

There are complex subsidy rules that determine how much of the Housing Benefit spend by the Council is recouped from Government. Where HB has been properly paid, DWP will normally provide 100% subsidy to the Council. However where HB has been overpaid, DWP provides different rates of subsidy.

- Claimant error overpayments attract 40% subsidy.
- Local authority error overpayments are more complex and the DWP offers an incentive to encourage local authorities to be pro-active in reducing the level of local authority errors. The level of subsidy that local authorities may claim for local authority error is determined by thresholds, expressed as a percentage of the value of correct payments made. The thresholds are 0.48% (lower threshold) and 0.54% upper threshold. Where the local authority error overpayments are less than or equal to the lower threshold, local authorities receive 100% subsidy. Where they are more than the lower threshold but less than the upper threshold, local authorities receive 40% subsidy on the value of overpayments above the lower threshold. No subsidy is payable on the value of overpayments that are above the upper threshold.

#### Introduction

Cherwell District Council (CDC) outsourced the transactional back office functions of its Revenues and Benefits service in February 2010 to Capita for an initial period of 5 years and later took advantage of a 2 year extension built into the contract to make it

7 years in total. This decision meant that the assessment of HB claims is carried out by an off-site team managed by Capita.

In September 2015 CDC Executive approved insourcing as the Council's preferred option for the Revenues and Benefits service. A business case was then approved and the new joint Revenues and Benefits team was created. The new team will be fully resourced in time for the insourcing of the CDC Capita contract in June 2017.

## Housing Benefit Subsidy claim 2015-2016

In 2015-2016 CDC submitted a Housing Benefit subsidy claim with a total value of £38,224,565. The audit of the subsidy claim was undertaken by Ernst and Young using a methodology determined by the Department for Work and Pensions.

Initial testing is undertaken and if this testing identifies any error and the auditor is unable to conclude that the errors are isolated the DWP methodology requires that an additional sample of 40 cases is tested which is focused on the particular error.

The DWP methodology also requires auditors to extrapolate the results of the initial and additional testing by multiplying the subsidy cell total by the proportion of the sample value that is found to be in error. For example: a cell has a total value of £642,134. The cases selected for checking from the cell have a total value of £9,450. Errors are found totalling £574 (6.1% of the sample selected). The adjustment to the claim would be 6.1% of the total cell value of £642,134 (£39,003)

Testing of the initial sample for CDC identified the following problems:

- two cases where childcare costs had been miscalculated resulting in underpayments of benefit
- two cases where the earning calculation was incorrect resulting in a small overpayment
- one case where the self-employed earnings had been miscalculated causing an overpayment of benefit.

As per the DWP methodology an additional random sample of 40 Rent Allowances cases were tested with the results shown below.

Area	Results from initial and additional testing	Value of error	Extrapolated value
Rent Allowance	12 cases with incorrect earnings calculations causing overpayments	£872	£75,712
Rent Allowances eligible	2 cases where overpayments	£574	£15,601

overpayments	classified as eligible overpayments and should have been LA error		
Total			£91,313

The values of the original errors found were relatively low but the extrapolation process means that the values are much increased.

The auditors submitted a final report to the DWP on 21<sup>st</sup> December 2016. The Secretary of State has subsequently made the decision that no further work was required on the 2015-2016 and the overpaid subsidy of £91,313 shown in the table above will be recovered in full. This sum will be recovered from a future payment of Housing Benefit subsidy.

When the original subsidy claim was submitted in April 2015 the value of local authority error overpayments was below the lower threshold and therefore the 'additional' subsidy incentive of £98,430 was claimed. As a result of the additional testing and the resulting cell adjustments the value of local authority error overpayments increased and the incentive payment of £98,430 is no longer payable.

### Repayment of subsidy and moving forward

The overall value of the subsidy claim for 2015-2016 was in excess of £38m. Putting the errors further into context the value of the original errors was £1,446. However the DWP method of extrapolation means that the value increased to £91,313. Although it is widely recognised that the extrapolation method is unfair there is no opportunity to challenge this with Government and the Council is left with no choice but to repay this.

As previously highlighted in this report the Revenues and Benefits service is currently provided by Capita who process in excess of 650 new claim and change assessments each week.

The clauses of the Capita contract do not make any specific reference to liability for subsidy repayment so this is not an avenue that we are able to pursue when considering this issue. The contract does provide potential remedies in the event that the Council suffers a loss as a result of poor performance and these will be explored over the next month.

The subsidy claim for 2016-2017 will be submitted in April 2017. The auditors will then undertake a detailed audit in Summer/Autumn 2017. We have no way of knowing which claims will be reviewed in the external auditor's sample and this makes it very difficult to offer any assurances on the level of subsidy that may be

payable for 16-17. Any discussions with Capita may be centred on the audit checking for the 2016-2017 claim in an attempt to limit the risk for that claim.

As outlined earlier in this report the CDC Revenues and Benefits work will be insourced in summer 2017. This will offer us the opportunity to introduce a performance and training framework to support the team (many of whom will be new to the assessment officer roles) to assess claims accurately. This will include an accuracy and quality regime.