

# **Cherwell District Council**

## **Accounts Audit and Risk Committee**

**23 September 2020**

### **Housing Benefit Subsidy**

#### **Report of the Executive Director Finance**

This report is public

#### **Purpose of report**

To provide members of this committee with an update on the Housing Benefit subsidy claim audit for the financial year 2018-2019.

#### **1.0 Recommendations**

The meeting is recommended:

- 1.1 To note the contents of this report.

#### **2.0 Introduction**

2.1 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 the social rent sector. The administration of HB is now very complex due to the ever-changing regulations. During recent years there have been over 100 changes to the scheme making it increasingly difficult to train officers and to make accurate assessments. The introduction of the full Digital Service for Universal Credit is also impacting on the workload within the Benefits team. The caseload for working age customers is expected to reduce in Cherwell from 3233 in May 2019 to 2324 by the end of March 2021 as people transfer to Universal Credit. However, Councils will retain the more complex cases for working age customers such as temporary and supported accommodation, Housing Benefit for those of pension age and Discretionary Housing Payments for Housing Benefit and Universal Credit.

2.2 There are complex subsidy rules that determine how much of the HB expenditure by the Council is recouped from the Government. Where HB has been correctly 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. No subsidy is payable on the value of overpayments that are above the upper threshold.

- 2.3 Each local authority's appointed external auditor is required to certify that the annual claim is fairly stated and to report any errors 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. Although the value of any errors may be low the DWP method of extrapolation means that the value will be substantially increased. Although it is widely recognised that the extrapolation method is unfair there is no opportunity to challenge this with Government
- 2.4 This report is to provide members with an update on the Housing Benefit subsidy claim and the audit of the claim for 2018-2019.

### **3.0 Report Details**

#### **Background**

- 3.1 Cherwell District Council (CDC) outsourced the transactional back office functions of its Revenues and Benefits service in February 2010 to Capita. In September 2015 CDC Executive approved a business case for insourcing the Revenues and Benefits service. At the same time, it was agreed that the Cherwell Revenues and Benefits data be migrated from the legacy Northgate system to the Capita Academy system so harmonising systems across Cherwell and South Northants Councils. These huge changes had an impact on performance during 2017-2018 and whilst performance is much improved for 2018-2019 the impact of both the insourcing and the system migration are still being realised in the audit for 2018-2019.

#### **Housing Benefit Subsidy**

- 3.2 For the financial year 2018-2019 CDC submitted a Housing Benefit claim with a total value of £30,655,296. The audit of the subsidy claim was undertaken by Ernst and Young using a methodology determined by the DWP.
- 3.3 Initial testing is undertaken and if this testing identifies any error and the auditor is unable to conclude that the error is isolated the DWP methodology requires that an additional sample of 40 cases is tested which is focused on the error.
- 3.4 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 so £39,003.

3.5 Testing of the initial sample of 40 claims for CDC identified the following problems:  
Non-Housing Revenue Account

- incorrect application of earnings on 1 claim

Rent Allowances

- Incorrect calculation of self-employed earnings on 2 claims one of which resulted in an underpayment, one resulted in an overpayment
- Incorrect rent and effective date impacting on 3 claims one resulting in an underpayment and 2 in overpayments.
- Family Premium incorrectly applied on one claim. Not all the errors had a negative impact on the subsidy claim but resulted in 40 plus additional testing.

3.6 In line with the requirements of the subsidy audit additional testing was also carried out based on the preceding audit findings (known as cumulative assurance knowledge and experience or CAKE). This resulted in additional testing on overpayments (claimant error and earned income calculation) and private pension calculations

3.7 As per DWP methodology an additional sample of claims was selected for each of the problem areas: 40 rent allowance claims with income, 40 rent allowance claims with eligible overpayments, 40 temporary accommodation claims with eligible overpayments and 40 temporary accommodation claims with income. A summary of the errors found is shown below:

<b>Sample</b>	<b>Number of errors</b>	<b>Type of error</b>
40 rent allowance self-employed income cases	21	The errors were mostly the same, 11 claims had an underpayment of benefit and 10 claims were overpaid.
40 rent allowance claims with rent and effective dates of rent change	3	Rent incorrectly calculated. One of the incorrect claims was as a result of an incorrect assessment (100% rent included on claim which should have been based on 50%) by Capita prior to system conversation
40 rent allowances with family premium	0	
40 Rent allowances overpayments	2	Miscalculation of earnings

3.8 The value of the original errors found were relatively low but the DWP extrapolation process means that the values are much increased. A summary of the financial impact is shown below:

Area	Error	Financial impact	Comments
Rent Allowances: self-employed earnings	Incorrect income calculation	£54,141	Original cell £30,428,647 and percentage error rate 3.32%
Rent Allowances incorrect rent and effective dates	Wrong rent used and incorrect date of change resulting in overpayment on 2 claims one due to system conversion	£150,159	Original cell £30,428,647 and percentage error rate 0.49%
Rent Allowances Family Premium	Premium incorrectly applied on 1 claim	£1,219	Original cell £30,428,647 and percentage error rate 0.02%
Rent Allowances overpaid benefit	Income incorrectly calculated on 2 claims	£3,225	Original cell £30,428,647 and percentage error 0.048%

3.9 When the original subsidy claim was submitted in April 2019 the value of the local authority error overpayments was between the lower threshold and the upper threshold and therefore the 'additional' subsidy incentive was claimed. As a result of the additional testing and the resulting call adjustments it is likely that the value of the local authority error overpayments will increase, and it is likely that the additional subsidy will no longer be payable. This decision will be made by the Secretary of State

3.10 The overall value of the subsidy claim for 2018-2019 was in excess of £30m. Putting the errors further into context the value of the original errors was £9,332. However, the DWP method of extrapolation means that the value increased to around £208,000. Although it is widely recognised that the extrapolation method is unfair there is no opportunity to challenge this with Government and the Council has no choice but to repay the sum based on the decision made by the DWP.

3.11 On 19<sup>th</sup> June 2020 the DWP confirmed that, in view of the additional information presented by the Council and the future plans highlighted in the paragraphs below their decision is to recover £125,245

### **Future plans**

3.12 Every effort will be made to prevent further loss of HB subsidy in the future although it is impossible to accuracy check all HB assessments carried out which total around 23,000 per year for CDC alone

3.13 Following the subsidy audit for 17-18 a new performance framework was introduced for the Benefits team from April 2019. Under the new framework a total of 2,864 claims (for both Cherwell and South Northants Councils) have been accuracy

checked from April to December from a total of 19,357 claims assessed so around 14%. Results from the checking are given to officers each month and training needs identified. A considerable amount of training has also been undertaken including sessions on self-employed assessments, income and earnings.

- 3.14 Work is also underway to mitigate some of the risk from the 2019-2020 subsidy claim. A subsidy action plan was launched in November 2019 immediately following the initial feedback from this audit. A copy of the plan is shown at Appendix A of this report. The plan includes additional checking on claims in the 'problem' areas (although it is recognised that the sheer number of assessment means that not all of the claims will be checked), and the correction of any errors found (in advance of end of year). A Subsidy Improvement Officer will also be working on a more preventative approach for 2020-2021
- 3.15 The subsidy claim for 2019-2020 was submitted in April 2020. The auditors will then undertake a detailed audit in Autumn 2020 We have no way of knowing which claims will be reviewed in the auditor's sample which will again include additional testing on the areas identified during the 2019-2020 audit process and this makes it very difficult to offer any assurances on the level of subsidy that may be payable for 2020-2021.

## **4.0 Conclusion and Reasons for Recommendations**

- 4.1 Members are requested to note the contents of this report.

## **5.0 Consultation**

- 5.1 None

## **6.0 Alternative Options and Reasons for Rejection**

- 6.1 None

## **7.0 Implications**

### **Financial and Resource Implications**

- 7.1 The financial implications are as outlined within the report, with the repayment of 2018/19 subsidy being accounted for within the Councils outturn and reserves estimations.

Comments checked by:

Michael Furness, Assistant Director Finance

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## **Legal Implications**

7.2 There are no legal implications directly related to this information report.

Comments checked by:

Chris Mace, Solicitor, 01327 322125

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## **Risk Implications**

7.3 Any risk has been highlighted in the report.

Comments checked by:

Belinda Green, Operations Director, CSN Resources, 01327 322182

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## **Equality implications**

7.4 There are no equality implications directly related to this information report.

Comments checked by:

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## **8.0 Decision Information**

### **Key Decision**

**Financial Threshold Met:** Not applicable

**Community Impact Threshold Met:** Not applicable

### **Wards Affected**

All

### **Links to Corporate Plan and Policy Framework**

This links to the Council's priorities of a district of opportunity and sound budgets and a customer focused council

### **Lead Councillor**

Councillor Tony Illott Lead member for Financial Management

## **Document Information**

### **Appendix number and title**

- Appendix A Subsidy Action Plan

### **Background papers**

None

### **Report Author and contact details**

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