

Cherwell District Council

Accounts Audit and Risk Committee

21 June 2021

Housing Benefit Subsidy

Report of the Director of 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 2019-2020.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of the 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 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 Local authorities reclaim HB that has been paid to claimants by submitting annual subsidy claims to the DWP. The subsidy claim details the HB expenditure which is recorded in various cells on the form. The claim divides the total caseload into various claim types. Within the Cherwell claim one item of data collection accounts for over £26m in HB expenditure.

- 2.3 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.
- 2.4 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
- 2.5 This report is to provide members with an update on the Housing Benefit subsidy claim and the audit of the claim for 2019-2020.

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 and whilst performance is much improved over recent years the impact of both the insourcing and the system migration are still being realised in the audit for 2019-2020.

Housing Benefit Subsidy

- 3.2 For the financial year 2019-2020 CDC submitted a Housing Benefit claim with a total value of £26,579,698. The audit of the subsidy claim was undertaken by Ernst and Young using a methodology determined by the DWP. Due to resourcing issues

EY requested an extension for completion of the audit which was formally agreed by Department for Work and Pensions

- 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.

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 resulting in an underpayment of benefit and therefore no impact on subsidy
- 1 claim where Housing Benefit on two homes was paid in error as housing costs were paid by Universal Credit. The remaining claims were checked with no errors. The claim form was amended.
- 1 claim with incorrect rent applied resulting in an overpayment of benefit. All remaining claims in this cell were checked and no errors found. The claim form was amended.
- 1 claim with incorrect Child Tax Credit amount. All claims in the cell were checked and no further errors found. The claim form was amended.

Rent Allowances

- Incorrect calculation of earnings on 3 claims which resulted in an overpayment. Additional testing was then carried out.
 - 3 claims had a report error which is a recognised system issue known to Capita. The claim form was amended to correct these errors and they are excluded from extrapolation.
 - 1 claim was identified as a misclassification of an overpayment. Additional testing of 40 cases was completed.
 - 3 claims had errors resulting in underpaid benefit. No extended testing was carried out.
- 3.1 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), tax credits calculation, family premium awards, eligible rent.
- 3.2 As per DWP methodology an additional sample of claims was selected for each of the problem areas A summary of the errors found is shown below:

Sample	Number of	Type of error
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	errors	
40 earned income rent allowance	14	Incorrect calculations of earned income. 10 cases resulted in overpayments of housing benefits with errors ranging from £0.09 to £365. 4 cases resulted in underpayments.
40 rent allowance income of self-employed	15	Initial testing showed no errors but extended testing as a result of CAKE. 7 cases resulting in overpayments totalling £6,434 8 cases with no impact on award of housing benefit.
40 rent allowances rent calculation	3	Initial testing showed no errors, but extended testing based on CAKE. 3 cases resulted in overpaid benefit of £30
40 overpayments	7	6 cases resulting in an overpayment of £78 1 case which resulted in nil impact on award of housing benefit.

- 3.3 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
Earned income	Incorrect income calculation	£28,073	Original cell total £26,049,842
Rent Allowances self-employed income	Incorrect calculation of self-employed income	£34,124	Original cell £26,049,842
Rent Allowances rent calculation	Incorrect rent calculation	£4,168	Original cell £26,049,842
Rent Allowances overpaid benefit	Incorrect classification of eligible overpayments	£207	Original cell £26,049,842

- 3.4 When the original subsidy claim was submitted in April 2020 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. It is likely that the additional subsidy will be payable. This decision will be made by the Secretary of State.
- 3.5 The overall value of the subsidy claim for 2019-2020 was in excess of £26m. Putting the errors further into context the value of the original errors was £7,642. However, the DWP method of extrapolation means that the value increased to around £66,572. Although it is widely recognised that the extrapolation method is unfair there is no opportunity to challenge this with Government and, whilst this is a much improved position on the 2018-2019 claim, the Council has no choice but to repay the sum based on the decision made by the DWP. The Council has recently received notification that the sum to be recovered will be £174,606 which is a

combination of the above £66,572 and £108,034. The latter being overpaid subsidy for local authority error as our threshold was exceeded due to the extrapolated sums and therefore, is due for repayment.

- 3.6 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 over 34,000 per year for Cherwell.
- 3.7 During 2020-2021 the Interim Subsidy Improvement Officer has been working with the Benefits team to identify subsidy problem areas and a considerable amount of training has been undertaken including sessions on self-employed assessments, income and earnings. This will be followed by increased accuracy checking to ensure that the training has been successful.
- 3.8 The subsidy claim for 2020-2021 will be submitted in April 2021. The auditors will then undertake a detailed audit in Autumn 2021 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 2019-2020 subsidy being accounted for within the Councils 2020/21 outturn and reserves estimations.

Comments checked by:

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Legal Implications

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

Comments checked by:

Richard Hawtin, Team Leader – Non-contentious, Tel: 01295 221695, Email: richard.hawtin@cherwell-dc.gov.uk

Risk Implications

7.2 There are no risk implications.

Comments checked by:

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8.0 Decision Information

Key Decision

Financial Threshold Met: N/A

Community Impact Threshold Met: N/A

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 Ilott, Lead Member for Financial Management and Governance

Document Information

Appendix number and title

None

Background papers

None

Report Author and contact details

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