

PART A

Report to: Audit Committee
Date of meeting: 30 June 2014
Report of: Head of Finance
Title: Fraud Annual Report

1.0 SUMMARY

- 1.1 This report informs members of the work of the Fraud Section for the financial year 2013/2014 and provides updates on progress and developments for the current financial year.
- 1.2 Following the proposal to create a Single Fraud Investigation Service (SFIS) this report provides an update on the current position

2.0 RECOMMENDATIONS

- 2.1 To note the contents of this report.

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Report approved by: Alan Power, Head of Finance

3.0 DETAILED PROPOSAL

- 3.1 Fraud is a crime that affects all citizens including our tax payers and service users. The latest estimates from the Audit Commission indicate that fraud costs the UK public sector £20 billion a year and local government more than £2 billion a year. The harm caused by Fraud is not just financial. It damages local communities. It is vital therefore that we have a strong anti-fraud culture under pinned with effective counter-fraud policies and procedures. The Audit Commission report can be downloaded from:

<http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Protecting-the-public-purse-2013-Fighting-fraud-against-local-government.pdf>

- 3.2 The Council is committed therefore to providing a proportionate and efficient value for money Anti-Fraud Service which understands and acknowledges our fraud risks. We must have efficient policies that are reviewed, have sanctions in place for those that offend and that reflect legislative changes and continually strengthen existing and new partnerships. Countering Fraud is the responsibility of everyone.
- 3.3 The Fraud Section is part of the Finance Shared Service with Watford. The details below apply to both councils unless otherwise stated.

Housing and Council Tax Benefit

- 3.4 In respect of Housing Benefit, Council Tax Benefit and the Council Tax Reduction Scheme a complex legal framework is in place to define who is entitled to benefit and to reduce fraud from entering the system at inception. It is an integral part of the administration that everyone is aware and vigilant of the risks. Unfortunately, however good the administration of benefits is, it is always likely fraud will enter the system by deliberate acts.
- 3.5 The Department for Works and Pensions (DWP) sets the standards which govern the effective and secure delivery of benefits and counter-fraud activities. The purpose of this is to ensure that counter-fraud activities are properly managed. It is important to focus resources on fraud reduction, to identify, investigate and rectify administrative weakness and to assure Members of the integrity and quality of investigations. The changes proposed by the creation of SFIS, referred to in section 1.2, will be dealt with later on this report.
- 3.6 The current funding for housing and council tax benefit counter-fraud activities is paid via the general administration grant received from the DWP.
- 3.7 The fraud team are co-located in Three Rivers House and in the Watford Town Hall.
- 3.8 During 2013/14 the Fraud Section issued the following sanctions in respect of fraudulent claims;

| Action | Three Rivers DC | Watford BC | Total |
|--------------------------|-----------------|------------|-------|
| Administrative Penalties | 5 | 11 | 16 |
| Formal Cautions | 8 | 13 | 21 |
| Successful Prosecutions | 10 | 22 | 32 |

3.9 In 2013/14 a total of 461 investigations were completed.

3.10 A total of 113 interviews under caution were conducted by officers in 2013/14. These interviews are digitally recorded interviews in accordance with the Police and Criminal Evidence Act 1984. The majority take place in the Council offices with many conducted in Police stations or other organisations with which we collaborate. Generally, those conducted in a Police station are after the customer has been arrested and a search of their premises has been conducted.

3.11 In 2013/14 a total of 521 referrals for investigation were made. Of these, 186 were rejected as they failed their risk assessment. Failing a risk assessment can occur for a variety of reasons including something as simple as the person the allegation is made against not being in receipt of benefit. A referral breakdown is shown below;

| Information Source | Three Rivers | Watford |
|---|--------------|---------|
| Internal Council Departments | 21 | 40 |
| External sources including Police | 38 | 59 |
| National Fraud Initiative | 13 | 37 |
| Housing Benefit Matching Service (HBMS) | 32 | 71 |
| Fraud Hotline and anonymous letters | 51 | 64 |
| Department for Works and Pensions (DWP) | 9 | 6 |
| Website referral | 23 | 57 |

3.12 In 2013/14 following investigations we identified and issued invoices for overpayments in respect of fraudulent claims for benefit as shown below. Also included are details referred to in the table as other overpayments identified through our investigations that relate to either the DWP or HMRC.

| Benefit type | Three Rivers | Watford |
|--------------------|--------------|----------|
| Housing Benefit | £78,877 | £163,155 |
| Council Tax | £24,638 | £55,531 |
| Other overpayments | £18,322 | £34,308 |
| Total | £121,837 | £252,994 |

- 3.13 The service continues to take part in various data-matching exercises. These include the National Fraud Initiative (NFI) and Housing Benefit Matching Service (HBMS). The NFI is an Audit Commission mandatory exercise that matches data within the councils and between participating bodies to prevent and detect fraud. The key strength of the NFI is that it brings together a wide range of organisations, working together to tackle fraud. Participants of the NFI include 1300 organisations that include for instance other local authorities, police authorities, NHS bodies etc. These matches are not just confined to benefit fraud. Examples of some matches are shown below.

| Data Match | Possible fraud/ error |
|--|---|
| Housing benefit payments to payroll records | Claiming housing benefit by failing to disclose an income |
| Payroll records to records of failed asylum seekers and records of expired visas | Obtaining employment while not entitled to work in the UK |
| Council Tax records to electoral register | A council tax payer gets single person's discount and has not declared other persons living in the property |
| Payroll records to other payroll records | An employee is working for TRDC/WBC but has employment elsewhere that is not declared. |

- 3.14 The Fraud Section continues to work collaboratively with many organisations including the DWP, the Police, Immigrations and Border agencies and other local authorities. It is vital in terms of being efficient to work jointly with other organisations and not in silos.
- 3.15 2013/14 performance indicators are shown in the table below. 2012/13 outturn figures are also included to provide a comparison.

| | Target PI (FN11) | Outturn for 2012/13 for comparison purposes | Outturn for 2013/14 |
|---|------------------|---|---------------------|
| Number of cases closed following investigation | 330 | 639 | 461 |
| Number of sanctions issued (Excludes Blue Badge Fraud Prosecutions) | 62 | 91 | 69 |

Tenancy Fraud

- 3.16 Tenancy Fraud was identified and reported last year as an emerging risk and is now reported to be a major category of fraud loss by value in local government. Housing is an essential commodity and demand far exceeds supply. In 2013 the Audit Commission estimated that tenancy fraud losses amounted to £1.8 billion a year. This figure included those properties owned and managed by Housing Associations. Furthermore, the social value of housing to communities is considerable as families in temporary accommodation can often lead more transient lives which can lead to families unable to integrate into communities easily and provide stable educational environments for their children. This has implications for social cohesion. It is

estimated in our geographical location that a conservative estimate of 2% of properties are occupied illegally.

- 3.17 To date we have recovered 12 properties that have been occupied illegally. A total of 65 cases remain under investigation.
- 3.18 The National Fraud Authority calculates the average cost of placing a family in temporary accommodation amounts to £18,000 multiplied by 11 properties amounts to potential saving of £198,000.
- 3.19 As well as identifying properties occupied illegally we have been developing strategies that will hopefully provide a legacy in terms of good practice for this new initiative. Furthermore a data matching exercise has been conducted where we matched housing data from Watford Community Housing Trust, Thrive Homes, Hightown Praetorian Churches Housing Association and both of our housing registers to identify illegal occupation and subletting and incorrect homeless application. The data is currently be analysed and therefore no results are available.
- 3.20 An amnesty campaign is being held between 1st June – 1st July jointly with Watford Community Housing Trust, Thrive Homes, Paradigm Housing, and Hightown Praetorian and Churches Housing Association. The amnesty will generate both public awareness and give those that are illegally subletting or not residing at their property the chance to surrender their tenancy to avoid further action. Moreover, the amnesty we hope will generate further referrals.
- 3.21 Tenancy Fraud workshops are being provided to registered housing providers. At these workshops specialist advice and case support is given to relevant front line staff and neighborhood officers.
- 3.22 Specialist tenancy fraud training has been developed and is being provided to local housing providers.
- 3.23 Desktop intelligence checks are being conducted when there is a request for any change in tenancy, for example; right to buy applications, mutual exchanges and joint to sole tenancy applications. These desk top checks utilise the range of information and intelligence we have legal access to. This follows the introduction of the Prevention of Social Housing Fraud Act 2013. This legislation provides local authorities only with specific powers to investigate and prosecute tenancy fraud.

Other Fraud

- 3.24 Blue Badge Fraud exercises continue to be held generally on a quarterly basis. They are normally conducted on a Saturday generally around Watford town centre which is identified as being the most affected. The exercises are conducted jointly with Hertfordshire Police. It is reported by the Audit Commission that potentially 20 % of badges issued are misused. Whilst the loss in parking revenue maybe assessed as quite small the individual harm caused is significant. Fraudulent use of Blue Badges causes inconvenience and direct harm by depriving an individual in genuine need and entitlement to disabled parking facilities. It may also have a reputational damage to the Council. The penalty if prosecuted for blue badge abuse generally is a level 3 fine for which the maximum penalty is £1000. On each occasion this exercise has been

conducted blue badge misuse has been identified. Some drivers were cautioned whilst some badges were seized. Only the most serious cases are prosecuted. For the period 2013-14 we took forward to investigation 10 cases of which 4 received a sanction being either prosecution or a caution. To date we have a further 5 cases being investigated.

- 3.25 In 2013 the enhanced vetting scheme was introduced. The scheme introduced a more stringent vetting process for all new staff. As a local authority with a large number of employees, we have a responsibility to prevent and eliminate fraud within the Council. One of the ways we can achieve this is by undertaking a more robust vetting of direct recruits and agency staff before they are appointed. In order for the council to successfully prevent fraud, we must have effective policies and procedures that minimise the risk of appointing individuals with unsuitable backgrounds.
- 3.26 We work with all departments in both Councils to enhance the capability to carry out thorough intelligence checks when investigating areas of regulatory functions and assist in intelligence gathering and ID verification through the use of ID scan which identifies fraudulent documents.
- 3.27 In February 2014 we facilitated training to officers and Members on emerging risks and business rates fraud /evasion. The total value of business rate fraud detected nationally in 2012/13 was £7.2m However one particular case accounted for £5m of this loss. This amount both demonstrates the potential loss we need to be alert to but also the relatively small number of cases identified. Grants fraud is also another area of emerging risk and one such particular investigation is nearing completion.
- 3.28 The section continues to investigate other matters including money laundering allegations primarily to do with council tax payments. We facilitate the lawful obtaining of communications data under the Regulatory Powers Act 2000 (Ripa). We have also conducted a variety of enquiries and provide advice on evidence gathering. We have conducted an investigation into an allegation of bribery relating to WBC and an investigation for TRDC in respect of improper conduct of an individual tasked with completing the canvassing for elections where appropriate remedial action taken.

Single Fraud investigation Service.

- 3.29 The Chancellor announced the formation of a single service covering the totality of welfare benefit fraud in the Autumn Statement in December 2013. The announcement confirmed that the Single Fraud Investigation Service (SFIS) will be launched as a single organisation within the DWP and a phased implementation will commence in 2014. For Three Rivers DC we have an implementation date of December 2015 and given the lead authority model we now have we expect this to be the same for Watford BC. Housing Benefit fraud and residual Council Tax benefit investigation work currently undertaken by us will move to the DWP from that date subject to any delays that may occur.
- 3.30 Employees of Three Rivers DC, Watford staff having already transferred to Three Rivers under the lead authority model, who are assigned solely or primarily to this activity are considered in scope for a Tupe like transfer.
- 3.31 In February 2014 the Parliamentary Under Secretary of State for the Department for Communities and Local Government (DCLG) wrote to all local authority leaders and

chief executives. In this letter DCLG confirmed funding that will be available to support LA's in their counter fraud agenda.

- 3.32 The Audit Commission's annual fraud report 'Protecting the Public Purse 2013' encourages Councils to prepare for the introduction of the Single Fraud Investigation Service by considering the impact that SFIS will have on their capacity to tackle non-benefit frauds. Retaining a capability to investigate non-benefit related fraud, proportionate to the risks and working in partnership with others.
- 3.33 As a consequence work has begun on exploring the opportunities and options available to us. We are currently considering our potential fraud losses and risks to be able to scope a robust service fit for our specific needs. We are exploring options to adopt a shared arrangement with other neighbouring local authorities and also a County like scheme that would provide a framework to be able to more effectively capture the totality of criminality within our sector. Advantages include more data analysis and the opportunity to retain skilled officers. It is recognised Members have a vital role in these decisions

4.0 **IMPLICATIONS**

4.1 **Financial**

- 4.1.1 The Shared Director of Finance comments that there are no financial implications in this report as expenditure is contained within existing budgets.

4.2 **Legal Issues** (Monitoring Officer)

- 4.2.1 The Head of Democracy and Governance comments that there are no specific legal issues contained in this report.

4.3 **Equalities**

- 4.3.1 This is not a new policy.

4.4 **Potential Risks**

| | | | | |
|-------|-------------------------------------|-------------------|---------------|----------------------|
| 4.4.1 | Potential Risk | Likelihood | Impact | Overall score |
| | Transfer of all fraud staff to Sfis | 2 | 4 | 8 |

4.5 **Staffing**

- 4.5.1 The consequences of not properly preparing for the introduction of the Single Fraud Investigation Service could impact on our capacity to tackle non-benefit frauds.

4.6 **Accommodation**

- 4.6.1 No implications

4.7 **Community Safety**

4.7.1 No implications

4.8 **Sustainability**

4.8.1 No implications

Appendices

None

Background Papers

- The following background papers were used in the preparation of this report.
Protecting the public purse 2013 – link provided in body of the report.

File Reference

- None