

PART A

Report to: Audit Committee
Date of meeting: 26 June 2013
Report of: Head of Finance (Shared Services)
Title: Fraud Annual Report 2012/13

1. Summary

- 1.1 This report informs Members of the work of the Fraud Section for the financial year 2012/2013 and provides details of updates and developments for the current financial year
- 1.2 The Audit Commission published its annual report, *Protecting the Public Purse – Fighting Fraud Against Local Government* in November 2012. As a part of the report the Commission supplies a checklist for those responsible for governance. Officers have provided comments and details of the actions taken against the checklist at Appendix A.

2. Recommendations

- 2.1 That this report and the contents referred to including the Audit Committee checklist shown at Appendix A be noted.

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Report approved by: Bernard Clarke, Head of Strategic Finance

3. DETAILED PROPOSAL

3.1 Fraud is a crime that affects all citizens including our tax payers and service users. The National Fraud Authority (NFA) estimates that fraud costs the UK £73 billion each year. Of this £73 billion it is estimated that £2.2 billion is attributed to fraud in local government. It is vital therefore that we have a strong anti-fraud culture underpinned with effective counter-fraud policies and procedures.

3.2 The Council is committed therefore to providing an Anti-Fraud Service which is supported by efficient policies that are reviewed, has sanctions in place for those that offend and that reflect legislative changes. Countering Fraud is the responsibility of everyone.

3.3 The Fraud Section is part of the Finance Shared Service. The details below apply to both councils unless otherwise stated.

Housing and Council Tax Benefit

3.4 In respect of Housing Benefit and Council Tax Benefit 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 of the risks. Unfortunately, however good the administration of benefits is, it is always likely some fraud will enter the system by deliberate acts.

3.5 The councils' expenditure on benefits totalled £71m in 2012/13.

3.6 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. Many changes are being implemented or piloted as part of the new Fraud and Error programme which includes Universal Credit and a Single Fraud Investigation Service.

3.7 The funding for counter-fraud activities is paid via the general administration grant received from the DWP.

3.8 The fraud team are co-located in Three Rivers House and in the Annex at Watford Town Hall.

3.9 During 2012/13 the Fraud Section issued the following sanctions in respect of fraudulent claims;

Action	Three Rivers DC	Watford BC	Total
Administrative Penalties	16	20	36
Formal Cautions	12	19	31
Successful Prosecutions	13	11	24

3.10 In 2012/13 a total of 639 investigations were completed.

3.11 A total of 190 interviews under caution were conducted by officers in 2012/13. 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.

3.12 In 2012/13 a total of 556 referrals for investigation were made. Of these, 136 were rejected as they failed their risk assessment. A referral breakdown is shown below;

Information Source	Three Rivers	Watford
Housing Benefit /Council Tax Section	14	49
Other internal Council Departments	15	8
External sources including Police	31	56
National Fraud Initiative (not loaded until April 2013)	-	-
Housing Benefit Matching Service (HBMS)	60	127
Fraud Hotline and anonymous letters	41	74
Department for Works and Pensions (DWP)	10	15
Website referral	17	39

3.13 In 2012/13 following investigations we identified and issued invoices for overpayments in respect of fraudulent claims for benefit as shown below. Also included are details of other overpayments identified through investigations that relate to either the DWP or HMRC.

Benefit type	Three Rivers	Watford
Housing Benefit	£167,241	£378,826
Council Tax Benefit	£40,162	£93,245
Other	£91,199	£233,760
Total	£298,602	£705,833

3.14 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. 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.

3.15 As can be seen from the above sample of matches, these data sets are not confined to just benefit fraud and include for instance pension fraud, blue badge fraud, tenancy fraud and taxi driver licences, (for example taxi drivers are matched to Asylum Seeker records).

3.16 The Fraud Section continues to work with many organisations including the DWP, the Police, Immigrations and Border agencies and other local authorities. It is vital to work jointly with all organisations and not in silos.

3.17 2012/13 performance indicators are shown in bold in the table below. 2011/12 outturn figures are also included to provide a comparison.

	Target PI (FN11)	Outturn for 2012/13	Outturn for 2011/12 for comparison purposes
Number of cases closed following investigation	330	639	491
Number of sanctions issued (Excludes Blue Badge Fraud Prosecutions)	62	91	77

Other Fraud and action to date

3.18 In 2012/13 the Fraud section has continued to consider emerging risks of fraud. Economic stress can increase the incentive to commit fraud. The Section has worked jointly on many cases to reduce fraud and the reputational damage it can cause. There is a specific Anti-Fraud and Anti-Corruption Policy, Housing and Council Tax Fraud Policy, Sanction Policy, Whistleblowing Policy and Bribery Act Policy. There is also a Fraud Response Plan which deals with non-benefit fraud.

3.19 The Fraud Section has investigated 3 cases of internal corporate fraud in 2012/13 and currently have 2 further cases ongoing for the current year.

- 3.20 In July 2012 the councils received a forensic health check review from Grant Thornton. The overall conclusion stated “there appears to be a good awareness of anti-fraud and corruption procedures within the Councils and effective governance arrangements are in place”.
- 3.21 Tenancy Fraud has been identified as an emerging risk and is reported to be the single largest category of fraud loss by value in local government. Housing is an essential commodity and demand far exceeds supply. In 2012 the NFA estimated that tenancy fraud losses amount to £900 million a year. There are many different ways of calculating tenancy fraud losses that include using temporary accommodation costs or that of an average replacement building cost.
- 3.22 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. As a consequence the Council successfully received a grant, in association with local housing providers, from the Local Government Association (LGA) to fund a new position of Tenancy Fraud Investigator. The main role of this post is to recover properties illegally sublet, prevent fraud by increased publicity and awareness, set up data-sharing protocols and promote best practice. We have just completed our selection process and interviews and have provisionally made an offer to a suitable candidate. In addition new legislation has just been passed which is known as the Prevention of Social Housing Fraud Act 2013. This legislation provides local authorities with specific powers to prosecute for illegally subletting and powers to prosecute for housing associations. It further provides for unlawful profit orders to be granted which essentially are intended to take the financial gain out of criminality.
- 3.23 In respect of Blue Badge Fraud, the Section has successfully carried out various exercises working jointly on a multi-agency approach with our Parking Services and Hertfordshire Police. It is reported by the Audit Commission that councils lose £46m per year in abuse and loss of parking revenue. In 2012/13 the Fraud Section successfully prosecuted 2 cases under Section 117 of the Road Traffic Act 1984. It also successfully publicised the prosecutions. On each exercise conducted blue badge misuse was identified. Some drivers were cautioned whilst some badges were seized and returned to Hertfordshire County Council. Only the most serious cases were prosecuted.
- 3.24 In 2013/14 we intend to further review other emerging risks which include the new Council Tax Reduction Scheme, Business Rates Fraud, Recruitment Fraud and further consideration of an enhanced vetting procedure for specified posts.
- 3.25 In 2012/13 the councils launched a new E-learning module which was mandatory for all staff to complete. The first module was Anti-Fraud and Corruption and Money-laundering and provided staff with an understanding of types of frauds that can occur within the organisation,

an understanding of Money-laundering and the Bribery Act. The second module was a fraud awareness package which dealt primarily with benefit fraud and assisted staff in developing their role in helping prevent fraud. Ultimately, the purpose of this training is to reduce the Council's exposure to fraud and corruption.

- 3.26 The Single Fraud Investigation Service (SFIS) partnership between local authorities, HMRC and the DWP is intended to bring together one unified service. The DWP had intended it to commence in April 2013 with harmonised policies. This has not happened and currently there are 4 pilot schemes running in different locations testing different aspects of the service. The latest information is that roll-out of some of the design of SFIS will now commence in April 2014.
- 3.27 Finally, we are working with all departments in both Councils to enhance the capability to carry out thorough intelligence checks when investigating areas of regulatory functions.

4. **Implications**

4.1 **Financial**

- 4.1.1 The Head of Strategic Finance comments that there are no financial implications in this report.

4.2 **Legal Issues** (Monitoring Officer)

- 4.2.1 The Head of Legal and Property Services comments that there are no specific legal issues in the report.

4.3 **Potential Risks**

Please identify potential risks using the graph below. An example is given to demonstrate how the graph should be used. The score is reached by multiplying the likelihood by the impact.

Potential Risk	Likelihood	Impact	Overall score
<i>The most significant potential risk is the possibility that the work of the fraud section is of poor quality and the service is ineffective. This could lead to higher incidences of fraud risks.</i>	1	4	4

Appendices

Appendix A - Audit Commission checklist for those responsible for Governance

Background Papers

- Audit Commission Protecting the Public Purse 2012

File Reference

- *None*