

## PART A

**Report to:** Audit Committee  
**Date of meeting:** 30 June 2015  
**Report of:** Fraud Manager  
**Title:** Fraud Annual Report

### 1.0 **SUMMARY**

- 1.1 This report informs members of the work of the Fraud Section for the financial year 2014/2015 and provides updates on progress and developments for the current financial year.
- 1.2 Following the impending transfer in December 2015 of the investigation of Housing Benefit fraud to the 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.

#### **Contact Officer:**

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**Report approved by:** Nigel Pollard Acting 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 estimate in October 2014 from the Audit Commission's protecting the Public Purse estimated that fraud costs the UK public sector £20 billion a year and in local government more than £2.1 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 underpinned with effective counter-fraud policies and good practice procedures.

The Audit Commission report can be downloaded from:

<http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/Protecting-the-Public-Purse-2014-Fighting-Fraud-against-Local-Government-online.pdf>

3.2 It is recognised we must have effective core arrangements in order for us to be effective. These include prevention and deterrence, investigation and detection, recovery and redress and openness and transparency.

3.3 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.

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

#### **Housing Benefit and Council Tax Reduction**

3.5 In respect of Housing 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

3.6 The Department for Works and Pensions (DWP) sets the standards which govern the effective and secure delivery of housing 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

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

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

3.9 During 2014/15 the Fraud Section issued the following sanctions in respect of fraudulent claims;

Action	Three Rivers DC	Watford BC	Total
Administrative Penalties	2	2	4
Formal Cautions	3	6	9
Successful Prosecutions	3	6	9

3.10 In 2014/15 a total of 189 investigations were completed.

3.11 Of these investigations where a customer is suspected of committing an offence they are interviewed under caution by officers. 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 2014/15, a total of 348 referrals for investigation in respect of housing benefit were made. Of these, 187 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 of the major contributors is shown below;

Information Source	Three Rivers	Watford
Internal Council Departments	24	30
External sources including Police	18	28
National Fraud Initiative	Not Known	Not Known
Housing Benefit Matching Service (HBMS)	36	6
Fraud Hotline and anonymous letters	34	71
Department for Works and Pensions (DWP)	6	11
Website referral	21	42

3.13 In 2014/15 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.

<b>Benefit type</b>	Three Rivers	Watford
Housing Benefit	111,000	78,500
Council Tax	14,500	20,000
Other overpayments	40,500	74,000
Total	166,000	172,500

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. 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.

3.15 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.

### **Tenancy Fraud**

3.16 Tenancy Fraud is now continuing to be identified 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 Social Landlord providers. Making best use of available housing stock is paramount. 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 can lead to less 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. This equates to 300 properties.

- 3.17 To date we have recovered 17 properties that have been occupied illegally. A total of 63 cases further cases remain under investigation.
- 3.18 The National Fraud Authority calculated the average cost of placing a family in temporary accommodation amounts to £18,000; multiplied by 17 properties amounts to a potential saving of £ 306,000.
- 3.19 As well as identifying properties occupied illegally, we have been developing strategies that will hopefully provide a legacy of good practice for this new initiative.
- 3.20 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 neighbourhood officers.
- 3.21 Specialist tenancy fraud training has been developed and is being provided to local housing providers.
- 3.22 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 to which we have legal access. 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.

#### **Testimony from member of the Public**

- 3.23 “I would like to pay an enormous tribute to Javier Garcia, your Tenancy fraud investigator, on behalf of my mother and local residents of the Kings Langley community. Although we would like to remain anonymous due to Mr Garcia's recent enquires into another property, we would like to say a big thank you for all

of his hard work that has enabled several properties to be recovered from tenancy thieves. At last something is being done about this, for many years we have complained about people abusing the system and individuals not living in their council flats, but finally it seems that our persistent complaints have been taken seriously.

My mother often sees Mr Garcia patrolling the local area, and it has definitely made a difference, I have only had one dealing with Mr Garcia however his attitude and dedication toward addressing fraud is very endearing.

On behalf of myself, my mother and all the residents a VERY big well done!

Would you please ensure that Mr Garcia is shown this email.

Yours sincerely

The concerned but much happier residents of Abbots Langley.”

### **Other Fraud**

- 3.24 Blue Badge Fraud exercises continue to be held generally on a quarterly basis. They are normally conducted on a weekend, 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 may be assessed as quite small, the individual harm caused is significant. Fraudulent use of Blue Badges causes inconvenience and direct detriment 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 £1,000. 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 2014-15 we took forward to investigation thirteen cases, of which ten received a sanction, being either prosecution or a caution. To date we have a further five cases being investigated. The publicity and comments in the press

demonstrates the value of this work. The articles can be viewed at ;  
<http://www.watfordobserver.co.uk/search/?search=blue+badge+fraud>

- 3.25 In 2013 as previously reported 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 their 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, a device which identifies fraudulent documents.
- 3.27 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 various enquiries/investigations internally.
- Single Fraud investigation Service.**
- 3.28 The Government's Autumn Statement in December 2013 confirmed the creation of a Single Fraud Investigation Service (SFIS) delivered through the Department for Work and Pensions (DWP). SFIS was launched with the DWP and implementation commenced in 2014. For Three Rivers and Watford Council we have an implementation date of December 2015. Only the transfer of housing benefit investigation is in scope.
- 3.29 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 could be considered in scope for a Tupe-like transfer.
- 3.30 The Audit Commission's annual fraud report 'Protecting the Public Purse 2014' 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. This will be achieved by retaining a capability to investigate non-benefit related fraud proportionate to the risks and

working, in partnership with others.

3.31 As a consequence this change will enable opportunities to build upon the experiences gained, strengthen our existing joint working relationships and develop new strategies to provide a robust and resilient fraud prevention, detection and investigation service working in non-benefit and corporate fraud. This includes areas such as business rates, blue badge, tenancy, housing waiting list, procurement and council tax discount/reduction/exemption fraud. It will provide opportunities for more data analytics including regular matching of data. Following a successful joint bid to the DCLG, we are also soon due to launch a fraud app through which customers will be able to contact us directly from their smart phones to report fraud.

3.32 Meetings are scheduled with the Director of Finance and Acting Head of Finance to discuss proposals. Meetings are also planned for the end of June 2015 with the DWP to discuss the transfer of residual housing benefit fraud.

#### 4.0 **IMPLICATIONS**

##### 4.1 **Financial**

4.1.1 The Head 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**

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 will 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. If you wish to inspect or take copies of the background papers, please contact the officer named on the front page of the report.”

Protecting the public purse 2014 – link provided in body of the report.

#### File Reference

None