

**FRAUD INVESTIGATION
(Report by the Head of Customer Services)**

1. INTRODUCTION

- 1.1 This report provides a summary of the historic activity of the Councils fraud team, the current threat of fraud and a proposal to provide a response to these threats following the introduction of a Single Fraud investigation Service (SFIS).
- 1.2 The fraud team was originally created to deal with the recognised threat of fraud within the Housing Benefit (HB) and Council Tax Benefit (CTB) schemes administered by the Council as an agent of the Department for Work and Pensions (DWP). The Team works closely with the DWP's investigators who investigate national benefits such as Job Seekers Allowance and Employment Support Allowance.
- 1.3 Over the last five years areas reviewed by the fraud team have increased. Investigations into other areas of fraud which affect the authority, such as council tax exemptions, housing and staff fraud are now also undertaken. These investigations are subsidiary to the main work of the fraud team, but are funded entirely through the central government grant (Benefits Admin Grant) and the recovery of sums defrauded.
- 1.4 In 2010 the Government announced that it would be launching a major review of the existing welfare system. One element of that review was to be the creation of the SFIS to investigate all types of welfare fraud.

The SFIS, under the control of the DWP, will combine the skills, experience and resources that exist within local authorities, DWP and Revenue & Customs to investigate all welfare benefits and credits. Information from the DWP suggests that the SFIS will become operational sometime between 2013 and 2015.

- 1.5 The effect of this announcement is twofold.
- The Benefit Admin Grant, on which the fraud team relies for funding, will be reduced as the welfare investigation role moves from the Council to SFIS.
- The creation of SFIS is likely to result in members of the fraud team moving to the DWP during 2015/16.
- 1.6 In June, the Panel received a report that summarised the key messages contained in the National Fraud Authority "Fighting Fraud Locally" report. The Panel agreed to establish a Working Group (consisting of Cllrs Butler, Churchill & Mitchell) to consider the current risks and implications from the introduction of SFIS and how fraud investigations may be undertaken across the Council from 2015.

2. FINDINGS

2.1 The Working Group has met on three occasions. Whilst the Panel did not set the Group formal terms of reference it considered the following areas.

- What was the real threat of fraud and its cost?
- How could this be evaluated and corroborated?
- How could this be reduced by having a fraud 'presence'?
- What was the cost of that 'presence' in absence of DWP funding?

2.2 Reports to Panel over the last few years have detailed actual fraud identified over a number of areas, both welfare and non-welfare. In addition, reports from a number of government agencies and private sector companies contain estimates of the likely cost of fraud.

Both of these sources have been used to establish the potential fraud risk across a variety of Council services, which the figures below show, may fall between £2.7m & £3.2m.

Source	Fraud Type	Potential loss £'k	
		Min	Max
Cabinet Office	Procurement Fraud	390	650
	Council Tax Fraud (Discounts & Exemptions)	330	560
	Staff Fraud	40	70
DWP/DCLG	Council Tax Support Fraud	210	
Audit Commission/ DCLG	Tenancy Fraud	1800	
HDC records NFA est of fraud: 5%	Rental Deposit	8	
	Housing Waiting List	250 false applications	

2.3 In addition to financial savings, the Working Group also felt that fraud investigations had a number of hidden benefits. These included:

- the deterrent effect of publicising fraud activity which delivers unquantifiable levels of savings.
- Indirect savings from investigations with partners or agencies who work for or with the Council.
- The moral issues of taking a zero tolerance attitude to fraud, linked with the Councils fiduciary duties to protect the public purse.

2.4 The Working Group looked at the current performance of the fraud team based on reported output for 2010/11 and 2011/12, Excluding welfare fraud, as the table below shows, actual recovery across the two years exceeded £450k.

Source	Fraud Type	2010/11	2011/12
		Actual recovery £'k	
Local Data-matching & NFI	} Council Tax Fraud (Discounts	139	0 ^a
Linked to other welfare fraud		5	11
Social Housing: £18k per Property recovered	10/11 = 6 11/12 = 11	108	198
Whistleblowing	10/11 = 5 11/12 = 12	Savings not separately recorded.	
Actual savings identified		252	209

^a. No local data matching work undertaken as no resource available.

- 2.5 In 2011/2012 the cost of the fraud team to the Council was £341k (This includes salaries of 7 staff, on-costs and all other expenditure). In the same period, income to the Council from the DWP, through the Benefit Admin Grant and subsidy, amounted to £385k. A further £50k was recovered from costs and fines awarded by the Courts. Grants and other income exceed the cost of the service.

The total amount of fraud identified in the period (both welfare and non-welfare) was £703k.

- 2.6 During 2011/2012, staff resources were allocated 80%/20% to welfare/non-welfare fraud, resulting in fraud recovery across these two area of £494k/£209k.

3. POTENTIAL TO DEAL WITH FUTURE FRAUD RISK

- 3.1. Up until 2015, the Benefit Admin Grant will continue to fund the work of the fraud team. During this period, investigations into welfare fraud will continue, as at present, to be directed and controlled by the DWP. Resources within the fraud team do not need to be solely used to investigate welfare fraud. The two year period of grace, prior to funding being reduced, allows the fraud team to investigate and establish the level of fraud in non-welfare areas.

- 3.2. The chart below estimates the potential loss in non-welfare areas, compared with known outcomes.

The figures within the '100% resourcing target' column are best estimates (based on known outcomes and the figures provided within the documents referred to in para 2.2) if resources were concentrated in these areas.

The target column includes both direct and indirect savings to the Council and other agencies (e.g. the Council only retains around 8% of Council Tax collected, with the major beneficiary being the County Council).

Source	Potential loss		Already Identified	100% resourcing target
	Min	Max		
			£ '000	
Procurement Fraud	390	650	----	50
Council Tax Fraud (Discounts/Exemptions)	330	560	11	100
Staff Fraud	40	70	----	25
Council Tax Support Fraud	210		100	100
Tenancy Fraud	1800		198	300
Rental Deposit	8		----	4
Housing Waiting List	250 false applications		----	20 false applications
Fraud losses – actual & potential			309	579

- 3.3. The estimated cost of the fraud team as at 2015 has been calculated and is shown below. The figures have taken into account the likely reduction in fraud team resources through the introduction of SFIS, inflationary increases, the savings noted above and income from other sources/funding streams including partners (who currently receive the benefits from the work of the fraud team but make no contribution towards its costs). It has also been assumed that all resources will be concentrated on investigating non-welfare fraud.

2015/16	£ '000
Expenditure	
Fraud team: Salary, on-costs etc, 5 employees	255
Grants & Other Income	
Revenue raised from direct savings	(50)
Council Tax support scheme	(100)
Cost awards and fines awarded by the Courts	(25)
Partner funding.	(100)
Anticipated surplus	20

The figures above do not include any external funding that the DCLG, National Fraud Authority or the European Union have made available, and for which submissions are in the process of being prepared.

4. NEW AREAS OF WORK

- 4.1. In April this year the National Fraud Authority approached HDC to create a 'Fraud Hub' for Cambridgeshire. This was followed a month later by the Chartered Institute of Housing and DCLG approaching the Council to create a 'Tenancy Fraud Forum' for Cambridgeshire. Both approaches were made due to the innovative approach that the Council takes to combat fraud.

- 4.2. The Fraud Hub and the Tenancy Fraud Forum will require a great deal of work across the County, much of which has already started, and will provide even greater savings across Cambridgeshire as well as HDC.
- 4.3. The fraud team are currently in negotiation with both LGA and the EU Funding Office in Strasbourg to secure funding to create a fraud forum/hub for Cambridgeshire in which HDC will take the lead for a number of partner agencies.

5. CONCLUSIONS

- 5.1 The Working Group have established that the risk of fraud across the Council's service areas is real.
- 5.2 Having in place a corporate counter-fraud resource will provide both effective deterrence and prevention as well as an investigative function. Evidence from past years shows that such activity will certainly provide savings (both direct and in-direct) to the Council and others, but these are difficult to accurately quantify and evaluate.
- 5.3 The Council has the opportunity to take advantage of the current funding arrangements to develop non-welfare fraud areas over the next two years. Using the information gained in that period to assess the fraud service required from April 2015 onwards.

6 RECOMMENDATIONS

It is recommended that:

- 6.1 The Panel acknowledge the work of the fraud team in combating all areas of fraud across Council services.
- 6.2 A proportion of welfare fraud work be re-directed to the DWP from April 2013. The resources freed by this change to be used to develop and investigate non-welfare fraud until March 2015.
- 6.3 A report be presented to the Panel in December 2014 that outlines the actual fraud identified in non-welfare work and proposals for the fraud service from April 2015 onwards.

BACKGROUND INFORMATION

The Financial Cost of Fraud: PKF Forensic Services, 2012
Fighting Fraud Locally: Home Office, 2012
Tackling Fraud and Error in Government: HM Government, 2011.
Protecting the Public Purse: Audit Commission, 2011.
Eliminating Public Sector Fraud: Cabinet Office, 2011.
Navigating Your Way Through Stormy Waters: PWC, 2011

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GLOSSARY OF TERMS.

AC Audit Commission
CIH Chartered Institute for Housing

CIFAS	Credit Industry Fraud Avoidance Service.
CTB	Council Tax Benefit (pre-2013)
CTS	Council Tax Support (post- 2013)
DWP	Department for Work and Pensions
DCLG	Department for Communities & Local Government
HB	Housing Benefit
MBUS	Making Best Use of Stock Team (Agency of CIH)
NFA-	National Fraud Authority
PWC	PriceWaterhouseCooper (Big 4 accountancy firm)
PKF-	PKF (UK) LLP (Accountancy firm. Lead partner with the Centre for Counter Fraud Studies at University of Portsmouth).
SFIS	Single Fraud Investigation Service
'Welfare'	Benefits paid by DWP under the Social Security Admin Act 1992