

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: REVIEW OF FRAUD INVESTIGATION ACTIVITY

Meeting/Date: COMT – 28th April 2014
Corporate Governance Panel – 15th May 2014

Executive Portfolio: Barry Chapman, Executive Councillor for Customer Services

Report by: Corporate Fraud Manager (NDJ)

Ward(s) affected: All

Executive Summary:

Recent central government reports estimate the risk of loss, from fraud, across local government could be in the region of £2.2bn. These estimates use levels of loss generally accepted as accurate in both the public and private financial sectors. Using the same calculations estimates of the risk of loss to HDC might be as high as £2.5m per annum. This level is an indicator only and does not represent actual loss.

This report provides an overview of the activity of the Councils Corporate Fraud Team for 2013/2014.

For 2013/2014 the Team:

- Received 1,070 allegations of fraud.
- Investigated 330 cases and identified fraud, valued at £444k.
- Delivered future savings of around £964k to the taxpayer.
- Recovered 11 social properties that were being unlawfully used.
- Brought prosecutions in 28 of the most serious cases.

HDC receive grants from the DWP/CLG (Admin Grants) to fund its Benefit Team and provide for a fraud function, The Fraud Team generate further income from subsidy, awards of costs and financial penalties totalling £218k.

Assuming that all funds that were found to be fraudulent are recovered the Fraud Team will have delivered its service for 2013/2014 with a deficit of around £17k, but this would be offset by significant medium term savings- see section 6.1 Financial Resources/Implications for more detail.

Recommendation(s):

It is recommended that the Panel;

- Reviews the work undertaken by the Fraud Team against its targets for performance in 2013/2014.

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1. WHAT IS THIS REPORT ABOUT?

- 1.1 This report provides a summary of the activity of the Councils Corporate Fraud Team in 2013/2014 including the number of investigations undertaken, types of investigations, the value of fraud identified and the cost to undertake this work.

2. BACKGROUND

- 2.1 The current estimate of fraud affecting local government exceeds £2.2bn across England and Wales. Based on the same estimates the risk of loss, to fraud, for HDC has been put at around £2.5m per annum.
- 2.2 Understanding the potential risk of fraud and the cost to investigate this loss will help to inform the Council when it considers how to mitigate those risks. This report will show how the Council does this through deterrence, prevention and investigation.

3. ANALYSIS OF FRAUD

- 3.1 Analysis of potential fraud loss has been undertaken by various Government and Private Sector bodies, between 2011 & 2012 including the Audit Commission, Cabinet Office, Department for Communities and Local Government (DCLG), Department for Work and Pension (DWP), Deloitte and Price Waterhouse Coopers.
- 3.2 HDC has had an effective Fraud Team in place for some years tasked, in the main, with the investigation of housing benefit fraud, working in close partnership with the DWP.
- 3.4 The options to combat fraud loss across the whole of the Council fall into five distinct categories.

<i>Deterrence</i>	Making the option to defraud the council unattractive.
<i>Prevention</i>	Making it difficult to commit fraud against Council services.
<i>Investigation</i>	Catching those people who are alleged to commit fraud.
<i>Prosecution</i>	Punishing those people caught committing fraud.
<i>Recovery</i>	Recovering the financial loss/cost of fraud.

4. KEY RISKS

- 4.1 HDC administers and pays housing benefit (HB) and council tax benefit (CTB) as an agent of the DWP. The Council has a statutory duty to prevent homelessness and works in close partnership with a number of housing providers. The Council collects council tax and awards discounts and exemptions in prescribed circumstances. Annual fraud loss in each of these areas, for HDC, is estimated at;
- £350k housing benefit,
 - £1.8m Housing/Homelessness,
 - £330k- £550k council tax discounts/exemptions.

- 4.2 Central Government and the Audit Commission have highlighted other areas of fraud risk that may affect HDC including;
- £40K - £70K (per annum) staff fraud,
 - £390k £650k (per annum) procurement fraud.

- 4.3 For 2013/2014 the Fraud Team targets and aims were agreed as outlined below, these focused again mainly on housing benefit/council tax benefit fraud as the Team is funded from the Housing Benefit Admin Grant.

Area of Work	Strand	Target set
Publicity	<i>Deterrence</i>	To publicise prosecutions and activity of Fraud Team.
Use of WestMAP (In-house data-matching system)	<i>Prevention</i>	Increased use of data-matching
Weakness in Systems (This might include any Council service, staffing, IT system or procedure)	<i>Prevention</i>	When investigations revealed weakness in control- report to Service Manager
Fraud Awareness Training.	<i>Prevention</i>	To deliver training to Staff and Members
30 Investigations per 1,000 Benefit caseload (as at 31.3.2013)	<i>Investigation</i>	300
Number of days to 'Sift' reported matters.	<i>Investigation</i>	5 days
Investigation success (A successful outcome is one where a fraud/theft/ misappropriation is identified regardless of the value)	<i>Investigation</i>	60%
Sanction cases (Cases where a penalty, caution, fine or prosecution results from an investigation)	<i>Prosecution</i>	66
Percentage of successful prosecutions	<i>Prosecution</i>	95%
HB Debt Reduction	<i>Recovery</i>	Maintain recovery rate of 32% and see reduction in the balance of overpayments (OP) outstanding
To make the Team Cost Effective. (Cost neutral requirement based on Spend v Fraud & Ongoing Savings)	<i>Recovery</i>	Ensure cost of team to HDC mitigated by fraud identified and other income
Regulation of Investigatory Powers Provision (Managing the Councils use of surveillance and Interception Communications)	<i>(Corporate Service)</i>	Maintain compliance with RIPA across HDC.

5. WORK UNDERTAKEN

- 5.1 In 2013/2014 the Fraud Team received 1,070 allegations of fraud, these allegations come from a wide variety of sources but not all cases are suitable for full investigation. Cases not selected for investigation are 'sifted' and passed to other agencies/departments or rejected if no investigation is required
- Of the 330 cases investigated and closed fraud was identified in 166 cases valued at £444k. A further £974k of future savings was identified and £138k of potential council tax revenue (in-year and future years) raised.
- 11 social housing properties were recovered that were subject to some type of 'tenancy fraud'.
- In the most serious cases 28 prosecutions were brought, and a further 34 individuals were cautioned or fined.
- 256 cases were still subject to investigation, and carried forward into the current year, with 38 of these awaiting prosecution or some other penalty.

See Appendix 1 for 2013/2014 Fraud Team performance against its targets and aims.

5.2 Comparison with HDC previous annual performance in key areas of detection and outcomes.

Year	Cases Investigated	Success Rate	Value of Fraud (incl non-HB)	People Cautioned/ Fined	People Prosecuted
2009/2010	358	62%	£519k	51	35
2010/2011	463	63%	£504k	64	30
2011/2012	384	66%	£694k	35	48
2012/2013	297	50%	£288k	13	23
2013/2014	330	51%	£444k	34	28

This comparison between years indicates a decline in cases of serious, high value or long term fraud being identified as well as a decline in the volume of detected fraud. This is evidenced by the reduction in financial losses and people being fined/prosecuted compared to 2009/2010- 2011/2012.

6. RESOURCE IMPLICATIONS

6.1 Fraud Team

	£'000
Direct Expenditure	
Staff Costs (Salaries etc)	214
Legal Fees	11
Other direct expenses	10
Total expenditure	235
Direct Income	
DWP subsidy on HB overpayments	(107)
Council Tax Support/ Benefit/ Discount	(60)
Financial penalties imposed	(11)
Courts costs awarded	(11)
Other invoiced fraud	(29)
Total income	(218)
Net Direct (Surplus)/Deficit	17
Other Invoiced Income (assumes 100% recovery)*	
HB overpayments invoiced	268
Council tax future revenue	60
Total future income	328

**(These values include debts which may be written off or collected in future years.)*

7. OTHER IMPLICATIONS

7.1 In early 2013 the Fraud Team was successful in bidding for funding from the Local Government Associations (£27.5k) and DCLG (£341k) to create a Tenancy Fraud Hub across Cambridgeshire to expand on its work dealing with Tenancy Fraud. This funding will be used by partner agencies (CCC, SCDC, FDC, ECDC, PCC) to build data-warehouses, to identify fraud, similar to that at HDC and employ fraud investigators at those councils.

- 7.2 The use of a data-warehouse and results from localised data-matching at HDC was greatly expanded in 2013/2014. This resulted in one-off data-matching exercises including the identification of 34 long term empty properties that were in occupation (raising over £300k in New Home Bonus), over 200 housing waiting list applications being removed as 'out of date'/factually incorrect, raising over 600 queries on single person discounts for council tax, 34 employees records identified as being incorrect or 'out of date' and resulted in third parties benefit/discount/housing applications being amended. Over 100 potential frauds (including SPD, Licensing, Housing, Food Hygiene matters) were identified for full investigation many of which are ongoing.
- 7.3 In 2011, as part of the Governments welfare reform programme, the DWP announced that it would be launching the 'Single Fraud Investigation Service' (SFIS). This body will take over all welfare fraud investigations by March 2016 and see some investigation functions, and staff, move from local authorities (including HDC) to the DWP as well as the funding for this activity.
- 7.4 Due to the success of the work of the Fraud Team HDC have been approached by a number of neighbouring authorities to create a shared service for fraud. The viability of such a service is being reviewed at present.
- 7.5 In December 2013 the Fraud Team won an award from the National Fraud Authority and Cabinet Office in the 'Innovation' category of its *Fighting Fraud Awards 2013*. The Audit Commission have also used HDC as an example of 'Good Practice' in its annual report- *Protecting the Public Purse 2013*- for the work the Fraud Team undertake around tenancy fraud and data-matching. In 2013 HDC were runners up in the *Geo-Place Annual Exemplar Awards* for the partnership work between the Councils LLPG & Fraud Teams and the work to create a Data-Warehouse using NLPG 'Unique Property Reference Numbers'.

8 REASONS FOR THE RECOMMENDED DECISIONS

- 8.1 This report shows that there is benefit from a proactive fraud presence and the activity of the Team delivers a, cost neutral, deterrence effect.
- 8.2. Reports from DCLG, Cabinet Office and private sector have all been scrutinised by HDC's Fraud and Audit Teams. As a result a 'Fraud Working Group' composed of Elected Members and Officers has been established and this group reviews new threats and risks as they emerge and determines the focus of the Fraud Teams work.
- 8.3 In the Audit Commissions 'Fraud Briefing 2013' issued to HDCs external auditors in Dec 2013 comparison is drawn between HDC and the 4 other (unnamed) LA's in Cambridgeshire for 2012/2013. The table below shows the performance of the Fraud Team at HDC compared to other LA's in the County in the 4 areas of direct comparison.

Measure 2012/2013	HDC	LA 2	LA 3	LA 4	LA 5	Average for County
Detected cases of fraud	165	65	42	40	38	70
Value of Fraud Identified in year	£288k	£190k	£140k	£50k	£320k	£200k
Detected benefit fraud as % of caseload	1.2%	1.0%	0.5%	0.6%	0.3%	0.7%
Value of CTax discount fraud	£6k	nil	nil	nil	nil	£1.2k

9. LIST OF APPENDICES INCLUDED

1. 2013/2014 performance against targets/aims.

BACKGROUND INFORMATION

Protecting The Public Purse- *Audit Commission Reports 2012 & 2013*
The Local Government Fraud Strategy- *Fighting Fraud Locally Board 2012*
Tackling Fraud and Error in Government 2012- *Report of the Fraud, Error and Debt Taskforce (Cabinet Office)*
Social Housing Fraud Consultation 2011. *DCLG*
Eliminating Public Sector Fraud 2012- *National Fraud Authority.*

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Fraud Team Business Plan 2013/2014
HDC: Anti-Fraud and Corruption Strategy
Fraud Prosecution Policy 2013

CONTACT OFFICER

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Appendix 1:

Fraud Team Performance against Targets and Aims 2013/2014

Area of Work	Strand	Reason	Target	Achieved in year	Notes
Publicity	<i>Deterrence</i>	Publicising the work of the Fraud Team acts as a deterrent and positive message that HDC takes fraud seriously	To publicise prosecutions and activity of Fraud Team	21 press releases were issued through the Councils News Team.	This included general activity reports and outcomes of court cases.
Use of WestMAP (In-House Data-matching)	<i>Prevention</i>	Central government and the Private/Banking Sector acknowledge that data-matching is one of the most effective fraud tools.	Increased use of data-matching	The Team now has access 30 datasets across HDC, and a number externally, which has allowed improved data-matching.	Payroll, Benefits, Debtors, Electoral Roll, Council Tax, Environmental Health and Licensing records are all included.
Weakness in Systems	<i>Prevention</i>	Responding to weaknesses that are exposed helps to prevent fraud occurring in the future.	When investigations revealed weakness in control- report to Service Manager	Matters continue to be reported to the Service Managers where they are identified.	
Fraud Awareness Training.	<i>Prevention</i>	Having well trained staff who are able to spot fraud and report it is an effective and proactive method to dealing with fraud.	To deliver training to Staff and Members	Fraud awareness training has been delivered to all new starters in the Benefit Section and Customer Services.	
30 Investigations per 1,000 Benefit caseload (as at 31.3.2013)	<i>Investigation</i>	HDC have maintained these targets for the DWP guidance on fraud	300 cases investigated	330 Investigations were concluded	30 more than the annual target
Number of days to 'Sift' reported matters.	<i>Investigation</i>	Dealing with reports expeditiously means that fraud can be investigated quickly and ensure that we comply with legislation	5 days from report to case being opened	8.71 days	This figure was missed due to a vacancy on the team.
Investigation success (a successful outcome is any where a fraud/theft/misappropriation is identified regardless of value)	<i>Investigation</i>	Having a high success rate reflects the quality of reported fraud, the way these are sifted and then investigated.	60% of cases investigated	51% (166 from 330 cases)	The target of 60%, based on 300 cases, would have been 180 cases. So this target has only just been missed.
Sanction cases (Cases where a penalty, caution, fine or prosecution results from an investigation)	<i>Prosecutions/Deterrence</i>	Use of sanctions including prosecutions works as a punishment for offenders and a warning to potential fraudsters. Use of these sparingly ensure that we only penalise the most serious cases and then using the most effective methods.	66	62	28 Prosecutions. 11 Cautions. 10 Administrative Penalties. 13 Council Tax penalties.

Percentage of successful prosecutions	<i>Prosecutions/ Deterrence</i>	High prosecutions rates reflect the quality and clarity of fraud prosecutions. (Fraud cases are notorious for their complexity and court cases often fail due to the quality of the case rather than an innocent defendant)	95%	90%	Of 31 cases selected for prosecution- 23 pleaded guilty- of the 8 cases that proceeded to trial 5 resulted in guilty verdicts.
HB Debt Reduction	<i>Recovery</i>	Fraud recovery is essential to punish the offender and recover the value of loss from the public purse.	32% recovery of all HB debt.	These figures are not yet available	Report to DWP with recorded recovery rates is outstanding.
To make the Team Cost Effective. (Cost neutral requirement based on Spend v Fraud & Ongoing Savings)	<i>Recovery</i>	The Fraud Team is required to deliver a cost neutral service to HDC.	Cost Neutrality	Spend £235k. Direct Income £218k. Future Revenue £328k.	See Section 6.1 for Fraud Team income /spend/ revenue
Regulation of Investigatory Powers Provision (RIPA) (Managing the Councils use of surveillance and Interception Communications)	<i>Corporate Service</i>	HDC as a public body is required by law to comply with the Regulation of Investigatory powers Act 2000. This includes the use of covert surveillance and acquisition of communications data.	Maintain compliance with RIPA across all HDC enforcement services	HDC was inspected in December 2013 and received a very positive review from the Office of the Interception of Communications Commissioner (IOCCO- Home Office).	