

# **AUDIT COMMITTEE**

## **Counter Fraud – Annual Report 2016/17**

**13 September 2017**

### **Report of the Corporate Fraud Manager**

#### **PURPOSE OF REPORT**

To inform the Committee of the extent and outcome of counter fraud work during the 2016/17 financial year.

**This report is public**

#### **RECOMMENDATIONS**

**1. That the report be noted.**

##### **1.0 Introduction**

**1.1** Local Authorities have a statutory duty under section 151 of the Local Government Finance Act 1972 to make arrangements for the proper administration of their financial affairs. In addition, there is a duty to have effective controls and procedures in place to prevent, detect and investigate fraud and error.

**1.2** As responsibility for Housing Benefit fraud investigation transferred to the Department for Work and Pensions on 1 June 2015, the Council made a decision to form a Corporate Fraud Team, shared between Preston, Lancaster and Fylde Councils.

**1.3** This report details performance and counter fraud activity undertaken by the Corporate Fraud Team during 2016/17.

## **2.0 Report**

**2.1** Early in 2015, a funding bid was made to the Department for Communities and Local Government (DCLG) to set up a shared Corporate Enquiry Team, between Lancaster City Council, Preston City Council and Fylde Borough Council. The bid was successful and £125,750 was awarded towards the cost.

**2.2** At the same time, the Corporate Enquiry Team was established and consists of five staff, including a Manager, two Investigators and two Administrative Officers. The team are employed by Preston City Council as part of a shared service arrangement. Resources are shared between the three authorities, giving Lancaster full time equivalent staff of Manager (0.4 fte), Investigator (0.8 fte) and Administrative Officer (0.8 fte).

**2.3** The objectives of the Corporate Enquiry Team are to:-

- Protect public funds
- Undertake fraud prevention measures
- Detect and stop fraud
- Increase fraud awareness
- Implement sanctions in accordance with Council prosecution policies
- Ensure that investigations comply with the regulatory environment
- Recover properties from fraudsters to enable re-housing of those identified as most in need of social housing
- Encourage a strong culture of good performance in relation to cost
- Promote the principles of fairness, equality of opportunity, social inclusion and poverty reduction through service provision
- Embrace partnership working to enable the delivery of an excellent service, whilst achieving savings based on economies of scale, reductions in duplication and financial savings to the authority

**2.4** The Corporate Enquiry Team strives to prevent and detect as much Council Tax Support fraud as possible, working with outside agencies such as the Department for Work and Pensions (DWP), HM Revenues & Customs (HMRC), Police and Home Office when appropriate. Currently no joint working arrangements are in place with the DWP due to their national policies. However, this may change in the next twelve months as some pilot exercises are underway to explore the possibility of this being re-introduced.

**2.5** The team acts as Single Point of Contact (SPOC) for providing information on Housing Benefit investigations to DWP. This is work which would otherwise have been allocated to the Benefit Assessment team.

**2.6** The team has an excellent working relationship with Lancashire Police and continues to participate in Operation Genga, a Home Office led multi-agency operation to help tackle serious and organised crime. This demonstrates our commitment to tackle fraud on a larger scale and other related crimes in partnership with external agencies.

**2.7** The Corporate Enquiry Team are active members of NAFN (National Anti Fraud Network). NAFN's key services include:

- Acquiring data legally, efficiently and effectively from a wide range of information providers;
- Acting as the hub for the collection, collation and circulation of intelligence alerts;

- Providing best practice examples of process, forms and procedures.

**2.8** The team are also members of the Institute for Revenues, Rating and Valuation (IRRV) and Local Authorities Investigation Officers Group (LAIOG) in order to share best practice and receive information on up and coming initiatives. They work closely with all Lancashire Authorities, meeting regularly to discuss common problems and best practice.

### **3.0 Performance**

Performance data for Lancaster is detailed as below:

	Year	Target	Achieved
Overpayments	2016/17	N/A	£199,198.28

**3.1** In addition to the overpayments identified the team recovered two Council Housing properties from tenants who were not using them as their principal homes. The team now conducts checks on right to buy applications for Council Housing properties and one right to buy with a discount value of £77,900 was recently withdrawn as a result of this work.

### **4.0 Surveillance**

**4.1** Surveillance is only authorised in appropriate cases where considered necessary and proportionate, in line with the Regulation of Investigatory Powers Act (RIPA). No surveillance has been undertaken in 2016/17. However, both training and authorisations are up to date and action will be taken if deemed necessary.

### **5.0 Business Plan**

**5.1** The CET business plan for 2017/18 is attached for information as **AppendixA**.

### **6.0 Details of Consultation**

**6.1** No specific consultation has been undertaken in compiling this report.

### **5.0 Options and Options Analysis (including risk assessment)**

**5.1** None – the report is for noting.

### **6.0 Conclusion**

**6.1** The report provides an overview of the work of the Corporate Enquiry Team during financial year 2016/17. The attached business plan provides a platform for the ongoing effectiveness and improvement of the Council's counter fraud work.

**CONCLUSION OF IMPACT ASSESSMENT**

**(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)**

This report has no direct impact on these areas.

**FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report. However, the Corporate Enquiry Team has generated savings for the Council from their Corporate Fraud Shared Service work, and delivers value for money in this new area.

**SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has been consulted and has no further comments.

**LEGAL IMPLICATIONS**

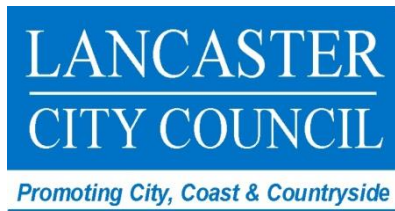
None arising from this report

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

**Contact Officer:** Andrew Taylor  
**Telephone:** 01772 906013  
**E-mail:** a.taylor@preston.gov.uk  
**Ref:**



**BUSINESS PLAN  
2017/18**

**CORPORATE ENQUIRY TEAM  
SHARED SERVICE**

**LANCASTER CITY COUNCIL,  
PRESTON CITY COUNCIL & FYLDE  
BOROUGH COUNCIL**

**(This Plan will be refreshed annually)**

## **INDEX**

	<b>Page</b>
<b>Vision Statement</b>	<b>2</b>
<b>Statement of Purpose</b>	<b>2</b>
<b>Service Overview</b>	<b>2</b>
<b>Customers &amp; Stakeholders</b>	<b>3</b>
<b>Contribution to Council Priorities</b>	<b>3</b>
<b>Key Service Objectives</b>	<b>4</b>
<b>Other Major Responsibilities</b>	<b>5</b>
<b>Key Projects</b>	<b>6</b>
<b>Financial appraisal</b>	<b>7</b>
<b>Equality Impact Assessments</b>	<b>8</b>
<b>Performance</b>	<b>8</b>
<b>Risk Analysis</b>	<b>8</b>
<b>Future Development</b>	<b>9</b>
<b>Three year Horizon</b>	<b>10</b>

### **VISION STATEMENT:**

***To use available resources to enforce a zero tolerance approach to fraud against the Councils and their partner organisations.***

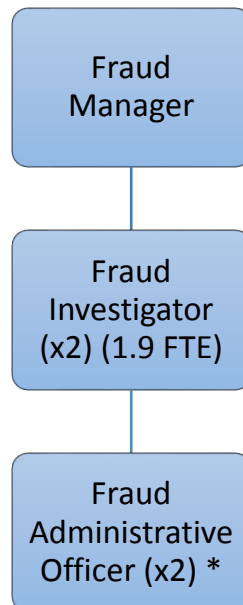
## STATEMENT OF PURPOSE:

The Corporate Enquiry Team will:

- Prevent, detect and deter fraud against the respective Council and its partners;
- Investigate appropriate allegations of fraud to a criminal prosecution standard;
- Work with the Police and other agencies to protect the public purse;
- Act as single point of contact for data enquiries from the Police, the Department for Work and Pensions and other law enforcement agencies.

## SERVICE OVERVIEW:

The shared Corporate Enquiry Team was created on 1 June 2015 and operates over three sites on behalf of Fylde, Lancaster and Preston Councils. In practice, it currently sits as part of the Customer Services Directorate within Preston City Council and the structure of the team is as follows:



\* One post of the two Admin officer posts covers DWP liaison for both Lancaster & Preston and is therefore funded from the Revenues/Benefits Shared Service budget.

The early years of this partnership arrangement has seen a period of development and enhancement in the field of corporate anti-fraud activity. The Corporate Enquiry Team has focussed its attention on anti-fraud and error across the three authorities and work involves involve promotion of anti-fraud and error, training, education as well as prevention, detection and investigative work. During 2016/17 both investigators undertook the Chartered Institute of Public Finance and Accountancy (CIPFA) accredited counter fraud specialist course and are now fully qualified accredited counter fraud investigators.

Local authorities have a duty to safeguard public funds and to ensure that any public money is used appropriately and it is no co-incidence that all three Councils have a zero tolerance approach to fraud and error.

Fraud is often an opportunistic crime, committed by those who perceive the likelihood of being caught and punished as minimal. The Corporate Enquiry Team will use all legal powers available to work with our partners to reduce both the risk of fraud and the losses caused by it. This will be done by taking firm action against offenders and publicising positive outcomes to create a deterrent effect.

This Business Plan has been produced to document the work of the Corporate Enquiry team and outline the responsibilities and key objectives for the team in coming years. It provides financial and performance information and provides a risk analysis of possible events that may adversely affect the service in the future.

### **CUSTOMERS & STAKEHOLDERS:**

We continue to develop excellent working relationships with our customers and stakeholders, which include:

- All residents of the three districts;
- The business community;
- Benefit/Council Tax Reduction Scheme customers;
- Elected representatives.
- Other Council services;
- Department for Work and Pensions;
- Pensions Service;
- Jobcentre Plus;
- Valuation Office Agency;
- Rent Service;
- Registered Social Landlords;
- Private Landlords/Agents;
- HM Revenues and Customs;
- UK Border Agency;
- National Fraud Authority;
- HM Courts and Tribunals Service;
- The Home Office;
- The National Crime Agency
- Advice Agencies – CAB & Welfare Rights Service;
- Department for Communities & Local Government;
- Enforcement Agents;
- Solicitors;
- Other local authorities;
- Police.

### **CONTRIBUTION TO COUNCIL PRIORITIES:**

This Business Plan is shaped by corporate priorities and we continue to contribute towards these priorities in our day to day work; by achieving our key service objectives. Our processes alongside new systems will support the revised ways of partnership working and help ensure that Council priorities can be achieved.

Local Authorities have a duty to protect the public purse. The Government's austerity programme has led to a substantial reduction in funding and this means that we must strive to do more for less. It is vital that we ensure our limited funds are directed towards the provision of essential services and that we minimise our losses to fraud.

The Corporate Enquiry Team will proactively work with all services within each council to offer a counter fraud and error service and to identify and investigate any fraudulent activity.

### **KEY SERVICE OBJECTIVES:**

In preparing the objectives for this plan, the Shared Service management team has reviewed all of the known influences on the service. These include customer needs, staff needs/issues, the overall environment, performance issues and the various changes associated with improving service provision.

### **Key Service Objectives for the Shared Service for 2017/18 are:**

- To create and promote a robust "anti-fraud" culture across the three authorities, highlighting the Council's zero tolerance of fraud, bribery and corruption.
- To review supporting policies and procedures to strengthen governance and improve resilience to fraud and corruption.



- To embrace partnership working to enable excellent service delivery, whilst achieving financial savings to the partner authority.
- To ensure that investigations comply with the regulatory environment such as Criminal Procedures and Investigations Act 1996 (CPIA), Police and Criminal Evidence Act 1984 (PACE), Regulation of investigatory Powers Act 2000 (RIPA), Human Rights Act 1998 (HRA), Data Protection Act 1998 (DPA) and Freedom of Information Act 2000 (FOI).
- To work with social housing providers to recover properties from fraudsters enabling those identified as being most in need of social housing to be re-housed.
- To encourage a strong culture of good performance in relation to cost and develop relevant performance measures;
- To promote the principles of fairness, equality of opportunity, social inclusion and poverty reduction through service provision;

## **OTHER MAJOR RESPONSIBILITIES:**

### **Local Council Tax Support (LCTS) Scheme Fraud**

The LCTS Scheme replaced Council Tax Benefit and as such, responsibility for investigating related fraud lies with the Council. The DWP Single Fraud Investigation Service has no powers to investigate these issues. It should be noted that the DWP have indicated in circular F1 2017 that they are considering introducing joint working with local authorities for DWP social security and LA non-social security benefit fraud cases. There are no time scales included in the circular, but there is a possibility that this may roll out during 2017/18.

- Investigate allegations of fraud against the LCTS systems administered across the three partner Councils;
- Undertake pro-active exercises in areas considered of being at a high risk of fraud;
- To consider appropriate sanction action against fraudsters, in line with all three Council's LCTS scheme sanction policies;
- To use the authorised officer powers contained within the Council Tax Reduction Scheme (Detection of Fraud and Enforcement) (England) Regulations 2013 in a fair, consistent and legal manner;
- To minimise financial losses as a result of fraud.

### **Business Rates/Council Tax Fraud**

To deal with an area of fraud where Council's may lose significant revenue through abuse of the discount and exemption rules and to:

- Investigate allegations of fraud across Business Rates and Council Tax systems administered by the three partnering Councils;
- Participate in National Fraud Initiative Data matching to identify irregularities;
- Work with Business Rates, Council Tax teams and visiting officers to help identify and deal with high risk areas of fraud.

## **Housing Tenancy Fraud**

Lancaster City Council has retained its housing stock, which may be at risk of frauds such as subletting, key swapping, non-residency and right to buy fraud.

New criminal offences were introduced by the Prevention of Social Housing Fraud Act 2013. This includes powers for local authorities to require information and the use of unlawful profit orders. Only local authorities have the powers to prosecute these offences, which include all social housing, not just properties owned by the authority.

The Corporate Enquiry Team will work with the Housing team at Lancaster and other Registered Social Landlords to detect and punish tenancy fraud. This will create a deterrent and help to recover properties that are being misused, to be utilised to house those deemed to be most in need of the resource. This should help reduce temporary accommodation costs which are estimated to be around £18,000 per year for a homeless family. The Team will:

- Work closely with Lancaster City Council's Housing team, to encourage staff and residents to report fraud and allow us to deal with it effectively.
- Encourage partnership working with our Registered Social Landlords to ensure that the properties they manage are not subject to fraud. This will free properties for some of our residents who are in genuine need.

## **Staff/Employee Fraud**

The Team will assist Audit, Human Resources (HR) and other services deal with investigations of employee fraud. These may include:

- Bribery and Corruption
- Abuse of financial systems, including payroll
- Abuse of personal data for criminal reasons
- Abuse of working time/flexi scheme arrangements
- False expenses claims
- Abuse of the absence and sickness procedure
- Recruitment fraud

## **KEY PROJECTS**

Specific projects for 2017/18 include:

- The introduction of member approved corporate fraud sanctions policies for all three Councils that enable an approach to the punishment of fraud that is legal, fair and consistent and enforces a zero tolerance policy.
- Publicising the new team in order to raise awareness of fraud and our response to it. This will include use of social media to raise awareness and encourage referrals from members of the public.
- Continue to participate in Operation GENGA, a multi agency project to help tackle serious and organised crime.
- Participate in the National Fraud Initiative data matching exercises.

## **FINANCIAL APPRAISAL**

The 2017/18 proposed budget for the Corporate Enquiry Team Shared Service is £149k. This is an £11k increase over the original budget of £138k due to several factors:

- A reduced contribution from the Counter Fraud DCLG Funding Reserve: The initial setup costs of the shared service were higher than anticipated for both training requirements and ICT software costs. This has resulted in the reserve being used earlier than expected leading to a lower level of subsidy in the remaining years. Impact £3k in 2017/18.
- ICT Software costs: The Intec software used by the team has a licence cost of £7k a year, up from an estimated £4k. The difference is due to the original assumption that the Intec licences would still partly be required by the Revenues and Benefits Shared Service, however this will now not be the case. £3k impact in 2017/18.
- Employee costs: The majority of the increase is due to a change in National Insurance contributions. The remainder is due to salary and pension changes.

During 2015/16 the operating cost of the Corporate Enquiry Team Shared Service was met by a Counter Fraud funding grant. From 2016/17 onwards it has been agreed that the operating cost is met from partner resources on a monthly basis, based on the annual budget. Contributions from partner Councils were originally split:

- Preston City Council: 40%.
- Lancaster City Council: 40%
- Fylde Borough Council: 20%

At this stage the contribution set from Fylde is limited to £27k, subject to standard increases for salary and pensions.

In addition to Preston City Council's contribution of 40%, the Council also absorbs the overheads relating to the Corporate Enquiry Team Shared Service team e.g. HR, Finance, and ICT.

The Shared Service has no capital expenditure.

## **EQUALITY IMPACT ASSESSMENT**

The outputs / outcomes detailed within this Business Plan could affect service users, employees. How different groups are impacted by the function will depend on those referrals identified as sufficiently high risk to require investigation. However, processes are in place to ensure those affected are treated equitably. e.g. interpreter facilities for those whose first language is not English.

The outcomes of our fraud work can affect some individuals, for example employees who are dismissed following a disciplinary hearing. However, where a disciplinary is held, the outcome lies with the individual manager concerned, as each case will be considered on its own merits.

## **PERFORMANCE**

Performance management is an important component of the shared service arrangement and is a key measure in terms of:

- Developing a sustainable operation;
- Maintaining positive and pro-active partnerships;
- Develop new partnerships where it is beneficial for our residents

Senior managers work with peers and stakeholders in each Council and with external bodies, to measure and maintain performance levels.

The team will seek to find levels of fraud at least the equivalent of the cost of the service. However, it should also be noted that we expect “soft” benefits to accrue.

From 1<sup>st</sup> April 2017 the team has introduced an additional methodology to identify counter fraud performance. When a claim for an allowance, discount, reduction or exemption ends or reduces as a result of an intervention by the Corporate Enquiry Team the value of the intervention is not just the amount of any overpayment that has occurred. It is recognised that there is also a “future” saving made by preventing further incorrect payments being made. In these cases the weekly amount of reduced entitlement to an allowance, discount, reduction or exemption that is applied following fraud intervention should be multiplied by 52. It is reasonable to believe that the award would have continued unchanged for an average of a full year had no intervention taken place. This was agreed as an appropriate performance measure by the Lancashire and Greater Manchester Fraud Investigators Group. These will be reported as a separate figure from overpayments.

For social housing fraud the team will use the nationally accepted figure of £18,000 for every property recovered. This figure is based on estimated temporary accommodation costs. Again, this will be reported separately from actual overpayments.

In addition to this targets have been set to identify actual overpayments during 2017/18:

Preston £100,000  
Lancaster £100,000  
Fylde £35,000

No target for “future” savings has been set for 2017/18 but this will be considered for 2018/19.

## **RISK ANALYSIS**

Risks are possible events that may happen at some time in the future that may adversely affect the direction of the Corporate Enquiry team in the delivery of any desired benefits.

Risk management aims to keep the shared service programmes exposure to risk at an acceptable level. The Corporate Fraud Manager maintains a risk log on Preston City Council’s corporate risk register.

## **FUTURE DEVELOPMENT**

### **• Corporate Fraud Awareness**

To work with Audit teams to identify areas of high fraud risk at all three Councils and to help staff recognise and refer potential discrepancies. The team will also assist services in developing systems that reduce the risk of fraud.

### **• New areas of investigation**

Other than the areas dealt with to date, it is recognised that Local Authorities risk fraud in the following areas:

- Grants
- Insurance
- Procurement
- Mandate

- **Joint work with DWP**

In some cases there is an investigation that involves national benefits, such as Universal Credit, that can only be investigated by the Department for Work and Pensions. Circular F1 2017 suggests that joint working between the Department and local authorities is to be reintroduced. Potential areas for joint working include Council Tax Support and Housing Tenancy Fraud, this will create a significant impact on the workload of the Corporate Enquiry team.

- **Tenancy Fraud Amnesty for Lancaster CC Housing Stock**

The Corporate Enquiry Team will develop a proposal to undertake a tenancy fraud amnesty on Lancaster City Council's housing stock. This would allow anyone sub-letting a council house, or not using it as their main residence to surrender the tenancy without fear of facing prosecution for offences under the Prevention of Social Housing Fraud Act 2013, unless they were already under investigation. The benefits of this will be twofold as it will raise awareness of the issue of tenancy fraud in the district and may lead to the recovery of properties to alleviate pressure on the housing waiting list. Should this prove successful future amnesties may be considered in partnership with social housing organisations across the three authorities.

### **THREE YEAR HORIZON**

- To maintain cost effective partnership working between the three partner Councils;
- To publicise positive results and sanction action taken against fraudsters, creating a deterrent against those seeking to defraud the Council and its partners;
- To participate in joint working with the Department for Work and Pensions where our investigations correlate.
- To ensure that staffing structures and resources are fit for purpose in our ever changing environment, shifting resources to areas of greatest need to achieve optimum results.
- To ensure compliance with the Government's proposed counter fraud standards