

## AGENDA ITEM NO. 3

CABINET  
28TH JULY 2015

AUDIT MANAGER  
REPORT NO. AUD1503

### PREVENTION AND DETECTION OF FRAUD – NEW APPROACH

#### 1. INTRODUCTION

- 1.1 For many years the Council has operated an effective service to investigate and tackle benefit fraud and other related issues. The work is wide ranging and continues to develop. In the last couple of years extensive guidance and legislation have brought a number of changes to the type of work and the way it is carried out. In particular, the formation of the Single Fraud Investigation Services (SFIS) will impact on the operation of local authorities in this area of work.
- 1.2 This Report sets out the outcomes of a review of the Council's work and the options for providing the service in the future. It recommends that the Council should continue to provide the service in house through its own resources.

#### 2. BACKGROUND

- 2.1 An integral part of the Council's Revenues and Benefits Service has been the Investigations Team which has provided effective support to the Service in preventing and detecting fraud. The Team has been recognised for the work it has done and has also developed a range of other corporate work. Recently, the economic situation and changes in public services have resulted in new demands on the Team backed by legislation, including the Prevention of Social Housing Fraud Act 2013, Council Tax Reduction Scheme (Detection of Fraud and Enforcement) (England) Regulations 2013 and the Transparency Code 2014. Guidance has also been issued by the Audit Commission on 'Protecting the Public Purse'. Details of the guidance and legislation are set out in Appendix A.
- 2.2 The current approach to anti-fraud and related work to protect the public purse is through the use of resources within a number of service areas, as follows:
- **Internal Audit** - 1.2 full-time equivalents plus limited contract auditor days to complete statutory audits.
  - **Investigations Team** - 3 full-time equivalents (with one post currently vacant).
  - **Indirect Resources** - Fraud can also be identified as a by-product of day-to-day work in areas such as Licensing, Planning and Financial Services.

2.3 In addition to the traditional work around benefit fraud, other areas of activity include Single Person's Council Tax Fraud, multi-faceted fraud and corruption and anti-fraud and corruption awareness.

### 3. **CHANGES TO KEY SYSTEMS**

3.1 There have been a number of recent changes which are now impacting on the service and there is also a significant change which will commence on 1st October, 2015 with the introduction of the Department of Work and Pensions (DWP) Single Fraud Investigation Service (SFIS). Investigation of Housing Benefit fraud will transfer to the new SFIS, which means that this work will no longer be carried out by the Council's Investigations Team. This will impact on the way that the Team will work and their responsibilities. However, there are further areas of work which the Council now has responsibility for, in particular:

- **Council Tax Reduction Scheme** - The Council Tax Reduction scheme is a direct cost to the Council and not reimbursed by central government. Rushmoor's scheme currently has 5,700 active claims costing £4.3million per annum. It is essential that the system is controlled and any possible fraud identified and investigated.
- **Business Rates Retention Scheme** - The Council now retains a proportion of business rates collected. Currently the Council has 2,498 business properties with a rateable value of £108 million. Any loss due to fraud directly effects Rushmoor's income and the public purse.

Tax avoidance has become an issue of increasing concern and currently Rushmoor has 119 business properties receiving some form of exemption totalling £1.5 million. To ensure the Council and other public bodies receive all income due, anti-fraud work is required in this area.

### 4. **OPTIONS FOR RUSHMOOR POST SFIS**

4.1 As a result of the changes, a review has been carried out of the way the Council provides the service. This has looked at the existing resources and the current and predicted workload. As a result, a number of options have been considered together with the potential implications for the Council and the wider public sector. The options considered are as follows:

#### 4.2 **Option 1 – Retain 2 officers and delete vacant post**

This option enables the Council to cover:

- all statutory anti-fraud and corruption work.
- all internal audit and external audit requirements.
- an enhanced service, through utilising specialist skills in prosecutions and interviews under caution.

The financial impact of this option is a net saving to Rushmoor of £87,840 and the wider Public Purse (Police, Fire and County) of £233,460.

#### 4.3 **Option 2 – Retain 1 officer, transfer 1 officer to SFIS and delete vacant post**

This option would enable the Council to cover:

- liaison work with the DWP relating to housing benefit investigations.
- statutory internal audit reviews.
- limited anti-fraud and corruption work.
- limited anti-fraud work on the Council Tax Support Scheme and the Business Rate Retention Scheme.

Work that would not be covered under this option includes:

- internal investigations.
- National Fraud Initiative.
- joint working with the Police, and the Immigration Service.
- proactive anti-fraud work, including a corporate response and social tenancy fraud.

This work is statutory or an audit requirement, so a net saving to Rushmoor of £4,140. However, this saving would be lost due to the cost of buying the additional resources to complete the work. There would also be a loss to the wider Public Purse (Police, Fire and County) of £149,640.

#### 4.4 **Option 3 – Retain no officers and delete vacant post**

This option would enable the Council to cover:

- liaison work with the DWP relating to housing benefit investigations.
- statutory internal audit reviews.
- limited anti-fraud and corruption work.

Work that would not be covered under this option includes:

- anti-fraud work on Council Tax Support Scheme and Business Rate Retention Scheme.
- internal investigations.
- National Fraud Initiative.
- joint working with the Police and the Immigration Service.
- proactive anti-fraud work including a corporate response and social tenancy fraud.

In a similar way to Option 2, a saving to Rushmoor of £11,697 would be lost due to the cost of buying the additional resources to complete the work. There would also be a loss to the wider Public Purse (Police, Fire and County) of £233,460.

#### 4.5 A table showing the financial and service impacts of the options is set out in Appendix B.

4.6 The options have been assessed in terms of risk to the Council, ability to meet legislative and service requirements and cost implications. It is proposed that the Council should proceed on the basis of Option 1, involving the retention of the two existing posts within the Investigations Team but with the deletion of the vacant post.

## **5. COMPARISONS TO OTHER LOCAL AUTHORITIES**

5.1 Feedback has been sought from other authorities in the area who have already moved to the SFIS arrangements. They have indicated that the amount of benefit fraud liaison work retained by local authorities is significantly higher than expected. These authorities have reported that one full-time post continues to be fully employed solely on benefit fraud work.

5.2 Other councils across Hampshire and Surrey preparing for the new SFIS arrangements have also provided data on their planned resources. Options 2 and 3 have been adopted by few other councils and are perceived to be high risk.

5.3 Option 1 above, still places Rushmoor at the lower end of resources for 'Protecting the Public Purse', but the risk is reduced and judged to be at a medium level.

## **6. CONCLUSIONS**

6.1 Rushmoor has been successful over many years in preventing and investigating fraud cases which has supported effective service provision and saved the Council considerable resources. In view of the changes identified in this Report, it is important that the Council retains a corporate fraud and investigation function and the proposal to retain two officers to carry out this work provides the best balance at this time between completing the work, cost and risk.

6.2 However, there are still uncertainties about the impact of the changes, so it is the intention to carry out a review in eighteen months to two years to make sure the arrangements are fit for purpose. The Cabinet Member for Corporate Services will be advised of the outcomes of the review and, if necessary, a further report will be brought back to the Cabinet.

## **7. RECOMMENDATIONS**

7.1 The Cabinet is recommended to approve the retention of two officers to provide the services set out in this Report (Option 1) and agree that the vacant post be deleted from the establishment.

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## PROTECING THE PUBLIC PURSE REQUIREMENTS

### Guidance

- The Audit Commission published the Protecting Public Purse report in November 2013 that recommended Councils to *'actively promote a vigorous counter fraud culture'*. This recommendation is grounded in the Commission's assertion that *'professional fraud investigators believe the prospect of detection is the most powerful deterrent to committing fraud. This supports the need for Councils to maintain adequate investigative capacity in a period of financial restraint'*.
- CIPFA produced a revised code of practice called 'Managing the Risk of Fraud' in 2014 stating *'Leaders of public sector organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations'*.
- The Local Government Fraud Strategy produced jointly by a range of bodies, including IRRV and the LGA, suggests that *'Local government is under pressure to make savings and tackling fraud can contribute to that agenda.'*

### Legislation

- The Head of Finance has a statutory duty under Section 151 of the Local Government Act 1972 to ensure the proper arrangements for the administration of the Council's financial affairs. This includes ensuring rigorous anti-fraud and corruption arrangements.
- The Audit Commission recommends local authorities undertake anti-fraud and corruption work in partnership with housing associations to maximise benefits from the Prevention of Social Housing Fraud Act 2013. This gives Councils the powers to investigate and prosecute on properties owned by themselves and PRP to counteract social housing fraud.
- The Council Tax Reduction scheme (Detection of Fraud and Enforcement) (England) Regulations 2013 require billing authorities to authorise individuals to undertake investigations and request information from individuals and organisations.
- The Transparency Code 2014 places requirements on local authorities to publish data on counter fraud staff employed, and provide an overview of the work they undertake and outcomes.

## **External Auditor Expectations**

- The External Auditor statutory duties include ensuring that the Council has adequate arrangements for the prevention and detection of fraud and corruption. Their annual checks cover the areas set out above.
- The Audit Manager is now required to provide an annual written opinion on the risk of fraud at the Authority.
- Inadequate arrangements could lead to a qualified annual report.

## OPTIONS OVERVIEW

	<u>OPTION 1</u> RETAIN 2 OFFICERS DELETE VACANT POST	<u>OPTION 2</u> RETAIN 1 OFFICER TRANSFER 1 OFFICER DELETE VACANT POST	<u>OPTION 3</u> TRANSFER 2 OFFICERS DELETE VACANT POST
STATUTORY WORK	YES	VERY LIMITED	NO
AUDIT REQUIREMENTS	YES	PARTIAL	PARTIAL
ENHANCED SERVICE	YES	NO	NO
LOSS/(SAVING) FOR RUSHMOOR	(£87,840)	(£4,140)	(£11,697)
LOSS/(SAVING) FOR PUBLIC PURSE	(£233,460)	£149,640	£233,460