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| Date | 26th November 2015 |

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| Ward(s) affected | The annual report covers the whole District |
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| Subject | ANNUAL COUNTER FRAUD REPORT |
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RECOMMENDATIONS

The Audit Committee is asked to

1. Note the Annual Report on counter fraud activity
2. Approve the Action Plan and
3. Consider the revised and updated Draft Anti Fraud and Anti Corruption Policy, Draft Prosecution & Sanction Policy and Draft Anti Fraud and Anti Corruption Strategy

ANNUAL COUNTER FRAUD REPORT

1. The Audit Committee’s terms of reference include the responsibility to “scrutinise the Council’s corporate counter fraud arrangements”. This is discharged by consideration of an annual report on counter fraud.
2. This report reviews the issues and developments in counter fraud in MVDC over the last year and explains the “next steps” in the Council’s counter fraud strategy in response to Government changes on benefit fraud. The review of the year includes the Fraud & Investigation Manager’s record of counter fraud activity over the past year (Annex A). Looking ahead, the Committee is invited to approve the Fraud & Investigation Team’s Action Plan for the year (Annex B).
3. The Council’s Anti Fraud & Anti Corruption Policy has been revised and updated to reflect the latest developments. The previous version was approved by the Committee in 2011. The draft revised version, at Annex C, is presented for the Committee’s approval with changes tracked for

ease of reference. Also presented are the draft Prosecution and Sanctions Policy (Annex D) and the draft Anti Fraud and Anti Corruption Strategy (Annex E). All three statements are presented for the Committee's consideration and comment at this stage. Following amendment as required, they will then be discussed at the Staff Consultative Forum before returning to the Audit Committee in the new year for final approval and then to Council.

Developments in counter fraud

4. The Committee was made aware, in the counter fraud report at its meeting of 13th March 2014, of the fact that the Council had a small team addressing Benefits counter fraud but no specific, separate resource for countering non-Benefits fraud. The Council has used some marginal capacity in the Benefits Fraud Team to counter corporate (non-Benefits) fraud, though the extent of this work has been limited. It was also reported to the Committee that the Government intended to "centralise" Benefits fraud resource under the umbrella of its Single Fraud Investigation Service (SFIS) and that this could potentially involve the transfer of those staff. There was a risk that this could leave the Council with no counter fraud resource.
5. The Committee expressed its concern at the time by referring the matter to the Executive and recommending that the function be "appropriately resourced" after the introduction of SFIS in November 2015. At the same time, an Internal Audit report on counter fraud also recommended that the Council find sufficient resources to retain a counter fraud capability after implementation of the SFIS. Additionally, the Internal Audit report recommended that a Fraud Risk Analysis be undertaken to identify the areas within the Council where fraud risk was highest.

Fraud Risk Analysis

6. A Fraud Risk Analysis was commissioned and carried out by a consultant ITS Ltd. The consultant presented his initial impressions and approach to the Committee at its meeting of 27 November 2014. His final report highlights key areas of risk in the Council. It also makes a firm recommendation that a counter fraud capability be retained by the Council and that its work plan be focused on the areas specified in his report.

Surrey Counter Fraud Partnership

7. The Government has stressed the importance of counter fraud work in non-Benefits areas in local authorities. In July 2014 the Department for Communities and Local Government (DCLG) announced that £16 million would be made available nationally to local authorities to tackle non-

Benefits fraud. Local authorities were invited to submit proposals for funding. The bids were required to show financial savings, and were encouraged to involve partnership working and an innovative approach. The Council has participated in the submission of a successful bid led by Surrey County Council. It involves MVDC and 6 other Surrey district councils in the formation of a Surrey Counter Fraud Partnership Board that will oversee activities, information sharing, allocation of resources, training of investigators, sharing of expertise, and organise Surrey wide fraud drives. The Council has to date received £60,000 funding towards this initiative.

The Council's Counter Fraud Response

8. In line with the concerns of the Audit Committee, the recommendations of the Internal Auditor and the Fraud Risk Consultant and the requirements of the Surrey Counter Fraud Partnership, the Council has retained the counter fraud capability that might otherwise have transferred to the SFIS. This comprises a Fraud & Investigations Manager and an Investigations Officer. Part of this resource would have been required to be retained in-house to provide a single point of contact with Government, but an additional resource is now available, post SFIS, to pursue corporate counter fraud priorities. A work plan has been drawn up in line with the Risk Assessment findings and is attached at Annex B. Progress will be reported to future Audit Committee meetings.

Financial Implications

9. The assessment of the financial implications of retaining the counter fraud capability is that, in the current year, the staffing costs will be contained within budget. It is expected that the Government will reduce the administrative support grant by around £26,000 in 2016/17, reflecting the SFIS arrangements, but this will be replaced in the Council by using a portion of the Partnership grant funding. The situation will be reviewed as part of the planning of the 2017/18 budget in the light of the grant notifications for that year and the development and success of the Surrey Counter Fraud Partnership over the next two years.

Counter Fraud Activity

10. The Fraud & Investigations Manager's report of counter fraud activity over the past year, from August 2014 to July 2015, is attached at Annex A. The work has primarily involved Benefits Fraud up until the SFIS transfer date at the beginning of November 2015. From that point on, the Fraud & Investigations Manager and Investigations Officer attend to the residual duties post-SFIS which will involve extensive liaison with the new centralised organisation. They have also begun to fulfil a wider brief on countering corporate fraud and tackling the workplan that has been drawn

up as a result of the Internal Audit's and Consultant's reports into fraud risks at the Council.

12. CORPORATE IMPLICATIONS

Monitoring Officer commentary – The Monitoring Officer confirms that there are no legal implications arising from this report.

S151 Officer commentary - The S151 Officer confirms that all financial implications have been taken into account.

Risk – the counter fraud activity is targeted at reducing the risk of fraud and corruption and protecting the Council's assets.

Equalities Implications – there are no equalities implications arising as a direct consequence of this report.

Employment Issues – The Council's HR Team has been fully involved in the staffing issues described in the report.

Sustainability Issues - None within the report.

Background Papers

Report of Consultant, ITS Ltd : "Corporate Fraud Risk Assessment"

Report of the Fraud & Investigation Manager

Fraud and Investigation Team (FIT) - Investigation Performance Report

12 month period August 2014 to July 2015

Background

The FIT is part of the Benefits Section and is managed by the Benefits Manager. The team is funded from the Benefits Section and has primarily been focused on investigating Housing Benefit and Council Tax Support fraud and discrepancies, and limited tenancy fraud investigations in partnership with Circle Housing Mole Valley (CHMV).

Housing Benefit is a means tested Benefit. The Council administers the Benefit on behalf of the Department for Work and Pensions (DWP). The vast majority of benefit payments made are funded by DWP grant. All Local Authorities are expected to take appropriate steps to ensure the correctness of claims, to include investigating discrepancies, identify high risk cases, and taking appropriate legal action where fraud is discovered.

Single Fraud Investigation Service (SFIS)

As part of the Governments Strategy to reduce fraud and error in the Benefits system, it has created a Single Fraud Investigation Service (SFIS). SFIS will investigate all fraud across national and locally administered benefits and Tax Credits. It will be run by the DWP. SFIS is being implemented on a rolling basis during Autumn 2014 to Spring 2016. MVDC and most other Surrey LA's will transfer benefit fraud investigation to SFIS on 01/11/2015. From that date the LA will no longer be responsible for, or have powers to, investigate Benefit Fraud.

Although SFIS will deal with the investigation of benefit fraud the responsibility to prevent and deter Housing Benefit fraud will remain with the LA. In particular DWP are targeting LA's to undertake activities to ensure Housing Benefit claimant's changes in circumstances are identified and reported promptly. The DWP still expect as SFIS rolls out, LA's continue to play their part in preventing, detecting, correcting and deterring fraud and error. Post SFIS the LA is still expected to ensure that the right benefit goes to the right people, and claims are kept right. The LA will also be expected to work closely with SFIS, to facilitate the provision of information, provide evidence to support legal action, formerly refer suspicions of HB fraud, manage data matching exercises, and make benefit decisions for fraud cases.

It is expected that a resource will still be required within the authority to ensure compliance with these benefit fraud residual responsibilities, and Council Tax Support.

Surrey Counter Fraud Partnership (SCFP)

In July 2014 the Department for Communities and Local Government (DCLG) announced that £16 million was being made available nationally to Local Authorities to tackle non-benefit fraud. This was in response to the risk of loss of fraud investigators from local authorities with the formation of the Single Fraud Investigation Service (SFIS). Local authorities were invited to submit proposals for funding. The bids were required to show financial savings, and encouraged to involve partnership working and an innovative approach.

MVDC has participated in the submission of a successful bid led by Surrey County Council (SCC). MVDC and 6 other Surrey district councils agreed to be partners in a proposal to form a Surrey Counter Fraud Partnership board that would oversee activities, information sharing, allocation of resources, training of investigators, sharing of expertise, and organise Surrey wide fraud drives. The proposal also includes the intention for SCC to act as a data matching hub for member LA's. This would involve the matching of numerous LA and County Council data to identify discrepancies, in the areas, of Council Tax, housing, internal / staff fraud, finance, procurement, blue badge fraud. The follow up and investigation of data matches would be undertaken by LA investigators.

Change in focus

Due to the impending SFIS transfer and the consequential termination in benefit fraud, and the funding made available from SCFP bid, the FIT have been refocusing priorities to non-benefit investigation over the past few months. Investigations are now being targeted to Housing Tenancy fraud, Right to Buy verification, Council Tax Support and Council Tax discount discrepancies. During the next year these areas will be more fully investigated, and a corporate fraud strategy developed to provide assurance against fraud.

Performance figures 01/08/2014 to 31/07/2015

Housing Benefit

During this period, 10 claimants were prosecuted for benefit fraud offences. This is higher than previous annual figures. One of the main reasons for this increase in legal action was that during September 2014 to March 2015, the DWP instigated a data matching exercise with Inland Revenue data, called Real Time Information (RTI). This matched Housing Benefit records against 2 years of employment and occupational pension records held by the Inland Revenue. This match identified a number of claimants that had failed to declare earnings or pension, or a significant increase in these.

Also during this period a further 11 were cautioned, and 5 were fined. In total Housing Benefit overpayments of £214,000 were identified as fraud or as a result of FIT activity.

It was estimated that projected savings of £126,000 were identified.

The LA receives little or no financial incentive to investigate benefit fraud as overpaid benefit only receives subsidy of 40%. The LA receive all of any money recovered from the debtor, however normally recovery arrangements for this type of debt can be at very low monthly rate, due to the financial circumstances of the individual, and can take a considerable period of time to recover. The LA does have a robust recovery process, and all debts actively pursued and monitored.

Council Tax Support

Council Tax Support is funded directly by the LA therefore any reduction of withdraw of claim can be viewed as a direct saving to the LA. Currently Council Tax Support (CTS) discrepancies are normally investigated in conjunction with a benefit fraud investigation, as both claims are linked by entitlement and qualifications. Post SFIS the FIT will continue to investigate CTS and target resources towards high risk cases that can provide direct savings.

During the period Council Tax Support excess of £33,000 was identified, which is being recovered.

Housing Fraud

Housing fraud arises when people occupy social housing, or attempt to obtain housing unlawfully and can include:

- Subletting a property for profit to people not allowed to live there under the conditions of the tenancy
- Providing false information in a Housing application to gain a tenancy
- Wrongful tenancy assignment and succession where the property is no longer occupied by the original tenant
- Failing to use a property as the principal home, abandoning the property, or selling the keys to a third party.
- False application for homelessness support
- False Right To Buy application

This type of fraud has a direct financial impact on local authorities because they are responsible for providing and paying for temporary accommodation for homeless people who could otherwise be housed in permanent social housing. Tackling housing tenancy fraud is one of the most cost-effective means of making social housing properties available for those in genuine need.

Previously the FIT have an arrangement with Mole Valley Housing Association (MVHA) to investigate allegations of tenancy fraud, on their behalf on a limited scale as resource has allowed, and normally when the investigation was linked to a HB fraud suspicion.

Due to the funding from SCFP the FIT have stepped up activities in this area over the past few months. Actions undertaken include

- Increased in number of investigations undertaken
- Participating in data matching exercise to identify Housing application frauds
- Awareness sessions with CHMV staff
- New investigation agreements and data matching sharing protocols agreed
- Verification of all new Right To Buy applications

Actions planned for next year, include data matching exercise using Housing allocation and CHMV tenancy records to identify cases with high risk of fraud, increase engagement with other Housing Providers in district, support homelessness and allocations service to further secure gateway to housing.

Figures for past year have been broken down into two periods, to reflect the increase in activity since April 2015

During the 8 month period: 01/08/2014 to 31/03/2015

7 cases of tenancy fraud, 4 allocations or homelessness fraud, and 1 false Right To Buy investigations were commenced. 6 cases were complete.
1 case of Housing Allocation fraud was identified, and the customer was removed from the allocation list.
A VFM saving of £18,000* recorded.

During 4 month period: 01/04/2015 to 31/07/2015

20 cases of tenancy fraud, 2 Housing Allocation or homelessness fraud, and 9 Right To Buy screening investigations were commenced. 16 cases were complete.
3 cases of tenancy fraud identified and properties recovered to be let out. A VFM saving of £54,000 recorded
2 cases of Housing Allocation fraud was identified, and the customer was removed from the allocation list, A VFM saving of £54,000 recorded

3 Right to Buy applications withdrawn or refused. VFM saving of £232,000 (1 discount of £78,000 and 2 at £77,000).

*The Audit Commission estimate the value of a returned property or removal from register as equivalent to the cost of temporary accommodation for a family for a 6 month period. Nationally this figure is estimated as £18,000 and is the recognised Value For Money saving for a case of tenancy fraud.

Housing Fraud prosecution

On 14/04/2015 the FIT successfully prosecuted a resident for Housing Allocation and Benefit Fraud. It was the first time that MVDC have taken this type of action against tenancy fraud, sending out a clear message that individuals who seek to jump the housing queue will not be tolerated. This was also the first time a Surrey LA had taken this type of action.

In this particular case the resident had obtained a property that she was not entitled to. The fraud was first suspected by Circle Housing Mole Valley following home settling-in visits once the resident had moved in to the property. Concerns were raised that the authorities had been misled when applying for housing and a fraud referral was made to MVDC.

Investigators established that the resident son, who had been declared as her responsibility on her original application, had in fact moved in with his father at the time of the allocation of the property. He lived and attended school in another part of the country. When interviewed by Investigators she admitted that false information had been provided when applying for Housing, and also when making a claim for benefit to help with rental payments.

In Court, the resident was given a Conditional Discharge for 2 years, was ordered to pay a contribution of £100 towards the Council's costs and a surcharge of £15.

The property has now been recovered by Circle Housing Mole Valley.

NFI 2014 Council Tax Discount / Electoral Register data match

The NFI is a national data matching exercise conducted formerly by the Audit Commission, but now administered by The Cabinet Office. This particular annual exercise matches Council Tax Discount records (ie Single Person Discount / Student and other exemptions), against information contained on the Electoral Register. Matches are flagged for further investigation, when the ER identifies other occupiers registered to vote at an address here a discount or exemption is payment.

This year 614 matches were identified. The FIT are reviewing the matches by checking against existing records, and making follow up enquiries, including contacting the liable person directly, where a discrepancy is identified. Discount or Exemptions are removed where sufficient evidence is obtained to show another eligible person resides at the address.

To date 332 have been completed, and discounts of £22,000 has been removed from liable persons and added to the Council Tax account to be recovered.

Summary of results

| Description | Number of positive | VFM Saving | Real Saving / Income to LA |
|-----------------------------------|--------------------|------------|----------------------------|
| Housing Benefit | | | |
| Prosecutions | 10 | N/A | N/A |
| Caution | 11 | N/A | N/A |
| Ad Pen Fine | 5 | N/A | £5796 |
| HB overpaid | N/A | £214,000 | N/A |
| Projected Saving | N/A | £120,000 | N/A |
| Council Tax Support | N/A | N/A | £33,000 |
| Council Tax Discount | N/A | N/A | £22,000 |
| Housing Fraud | | | |
| Tenancy Fraud | 3 | £54,000 | N/A |
| Housing allocation / Homelessness | 3 | £54,000 | N/A |
| Right To Buy | 3 | £232,00 | N/A |

Note

Due to the changes mentioned earlier in the report it is expected that subsequent performance reports will be based on different and new areas of investigation, and would no longer contain information relating the Housing Benefit Fraud.

ANNEX B

Investigation Team High Level action Plan June 2015

2015/16 and first 6 months 2016/17

The action plan is a broad description of planned activities for the Investigation Team, over the next 18 months.

It is designed to reflect the changes in the fraud and benefit landscape during this period, and to be a record of planned general travel of direction.

The High Level plan will be supported by more specific, work activity plans, once agreed. The overriding principle of team will be to undertake investigation and verification activities that provide value to the authority.

That value can be either in the form of

- Value for money saving
- Financial income
- Assurance

The plan is based upon the requirements created by the following key events

- SFIS Transfer of Benefit Fraud Investigation responsibility and continuation of post SFIS detection, verification and liaison.
- Recommended action from the Counter Fraud Audit 2014
- Provisional accepted recommendations from ITS conducted Fraud Risk Assessment 2015
- Participation in, and non-benefit investigations driven by, the Surrey Counter Fraud Partnership.

The following 9 High Level targeted areas of work have been identified

| Name | Description |
|---------------------------------|---|
| SFIS SPOC and Residual HB Fraud | Set up and maintain SPOC role for SFIS liaison |
| | Ensure HB payments are made correctly |
| | Contribute to FERIS scheme |
| | Cease sanction activity for sole HB fraud cases pre SFIS transfer |
| Tenancy / RTB fraud | Investigate all allegations of RSL tenancy fraud |
| | Work closely with main RSL stock provider to deter fraud |

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| | Provide enhanced checking of RTB applications and investigate discrepancies |
| HR | Review recruitment process with HR |
| | Implement staff vetting programme for new recruits and promotions |
| | Support HR in ensuring support and guidance re recruitment process is provided to recruiting officers |
| | Support HR in implementing Temporary Staff central record |
| | Support HR in process of rechecking and retaining of appropriate recruitment evidence |
| Housing Allocation / Homelessness | Review forms / processes used to ensure fraud proof and comply with best practice |
| | Investigate all allegation / suspicions of fraud |
| | |
| Council Tax Reduction and Discount | Monitor CTR claims at regular basis and investigate discrepancies |
| | Participate in all CTS data matching exercises |
| | Implement Civil penalties for CTR and CTS errors |
| Corporate / Non Benefit Fraud activities | Staff awareness |
| | Update relevant Policies / Strategies – Whistleblowing and Anti –Fraud Policy identified within Annual Governance Statement as requiring updating by November 2015 |
| | Support other sections non-benefit fraud investigations |
| | Increase Team Profile within LA |
| | Implement or support and monitor others in implementing all medium / high agreed action points from Fraud Risk Assessment report and Officer Information summary, and Audit Report May 2015. |
| Disabled Facilities Grant | Advise Internal audit and work closely with during the planned housing adaptations and DFG audit |
| | Actions could include test check sample of applications, and review process and identify weaknesses |
| | Advise on implementations from audit and action any high risk suspicions of fraud identified from audit. |
| Surrey Counter Fraud partnership | Actively participate in Board Meetings and actions |
| | Resource investigation activities |
| | Participate in all agreed data matching activities |
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| Enforcements Activity | Support Senior Manager's in developing potential investigation activity identified from the Council's Enforcement Strategy or direction, when decided |
| | Assist with or undertake investigations into serious enforcement breaches as directed by management. |

Note: This is not an exhaustive list of activities, and if new risks or opportunities are identified during next 18 months these will be explored and included in the plan as and when identified