

Subject:	Annual Fraud Report 15/16	Status:	For Publication
Report to:	Audit and Accounts Committee	Date:	27 th September 2016
Report of:	Fraud & Compliance Officer	Portfolio Holder:	Customer Services and Health
Key Decision:	<input type="checkbox"/> Forward Plan <input type="checkbox"/>	General Exception <input type="checkbox"/>	Special Urgency <input type="checkbox"/>
Equality Impact Assessment:	Required:	No	Attached: N/A
Biodiversity Impact Assessment	Required:	No	Attached: N/A
Contact Officer:	Andrew McGhee	Telephone:	01706 252582
Email:	Andrewwmcghee@rossendalebc.gov.uk		

1.	RECOMMENDATION(S)
1.1	The Audit and Accounts Committee is asked to note the report

2. PURPOSE OF REPORT

2.1 The purpose of this report is to:

- Outline the Council's responsibilities towards tackling fraud that has been perpetrated against it
- Provide details of the Fraud & Compliance Officer's performance during the period 29th June 2015 to 31st March 2016.
- Provide details of the outcomes of action that was taken over this period
- Outline the plans for 2016/17.

3. CORPORATE PRIORITIES

3.1 The matters discussed in this report impact directly on the following corporate priorities:

- **Regenerating Rossendale:** This priority focuses on regeneration in its broadest sense, so it means supporting communities that get on well together, attracting sustainable investment, promoting Rossendale, as well as working as an enabler to promote the physical regeneration of Rossendale.
- **Responsive Value for Money Services:** This priority is about the Council working collaboratively, being a provider, procurer and a commissioner of services that are efficient and that meet the needs of local people.
- **Clean Green Rossendale:** This priority focuses on clean streets and town centres and well managed open spaces, whilst recognising that the Council has to work with communities and as a partner to deliver this ambition.

4. RISK ASSESSMENT IMPLICATIONS

4.1.1 No local authority is immune from fraud. Acknowledging this fact is the most important part in developing an appropriate and effective anti-fraud response. Recognising fraud must also incorporate a thorough understanding and knowledge about what the fraud problem is, where it is likely to occur, and the scale of potential losses.

4.1.2 This report, summarising the work of the Fraud and Compliance Officer, provides a key source of assurance for the council on the adequacy and effectiveness of its counter fraud arrangements.

5. BACKGROUND

Responsibilities and Approach to dealing with Fraud.

5.1 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. This obligation includes a duty to have effective controls and procedures in place to prevent, detect and investigate fraud and error in Housing & Council Tax Benefit, Council Tax Support and Council Tax.

- 5.1.1 Preliminary statistics from the Department for Work and Pensions (DWP) estimate that during the period from April 2015 – March 2016, the rate of fraud overpayments across the country increased sharply, from 2.4% to 3.0%, the highest recorded rate.
- 5.1.2 Again, country wide, failure to declare earnings and employment continues to be the main cause of fraud, accounting for £580m of overpayments, an increase of £18m since last year. (Source: DWP report - *Fraud & Error in the Benefits System – Published May 2016 – Updated July 2016*)

5.2 Internal control arrangements

- 5.2.1 The Council has a dedicated Fraud and Compliance Officer who seeks to address and tackle the problem of fraud in various ways. Currently this post is fixed term with the Officer's contract expiring at the end of June 2017. The Director of Business is currently reviewing arrangements for June 2017 onwards.
- 5.2.2 A key element of the council's arrangements to prevent fraud and corruption activity is the development and maintenance of an anti-fraud culture within the council. This culture is developed and nurtured throughout the Council in a number of ways, including but not exclusively;
- 5.2.3 **The Council Tax and Council Tax Support Penalty and Prosecution Policy** is a public document setting out the council's stance on fraud and provides an outline of its arrangements to penalise fraud.
- 5.2.4 **The Whistleblowing Policy** is intended to be used by council employees, Members and contractors, consultants or partners working with or for the council to support the disclosure of concerns and suspicions.
- 5.2.5 **Inductions** are in place for new members of staff. This includes, amongst other things, the Council's **Code of Conduct** and the suite of policies used including the **Anti-Fraud and Corruption Policy**.
- 5.2.6 A review of the council's web pages relating to fraud has been undertaken this year. The content has been refreshed and updated. They now include correct email addresses and phone numbers for the general public to refer information to, following the transfer of Housing Benefit fraud investigations to the Single Fraud Investigation Service (SFIS) on the 1st May 2015.
- 5.2.7 The council proactively takes part in the National Fraud Initiative (NFI) co-ordinated by the Cabinet Office. This is a nationwide data matching exercise, comparing computer records held by the council against other computer records held by councils and other bodies, allowing potentially fraudulent claims and payments to be identified. Where a match is found it does not necessarily indicate fraud in all instances; it does however highlight an inconsistency in the information held which requires further investigation and could be attributed to either fraud or error.
- 5.2.8 The exercise runs bi-annually, matching data relating to housing benefit, council tax support claims and taxi licensing information held by the council. Data matching for council tax single persons discount (SPD) occurs in alternate years.

5.3 Investigating Fraud

- 5.3.1 The Fraud and Compliance Officer is responsible for investigating all allegations of fraud, whether this is through internal fraud, external stakeholders or customers.
- 5.3.2 The following sections give a basic overview of each area followed by a breakdown of performance and the results of investigations concluded from June 2015 – March 2016.

5.4 Council Tax

- 5.4.1 Council Tax is an area where the council is exposed to loss. This is largely where residents obtain illegitimate discounts or exemptions such as the single persons discount (SPD) that provides council tax payers with a 25% reduction in their council tax charge or the Class E exemption which entitles the tax payer to a full reduction if they have vacated and left the property empty to go into care, to name two examples.

5.5 Council Tax Support

- 5.5.1 The abolition of Council Tax Benefit and the introduction of localised Council Tax Support (CTS) Schemes now mean that there is a new form of rebate that is subject to fraudulent applications.
- 5.5.2 The locally run CTS scheme represents a cost to the Council. The funding received from Central Government for CTS has now been merged into the main local authority funding and is therefore subject to cuts in line with the Government's austerity measures. The projected cost of the Local CTS Scheme for 2016/2017 to Rossendale Borough Council is circa £700,000.00.

5.6 Housing Benefit

- 5.6.1 Allegations of benefit fraud are received from a number of sources. Referrals received via data matching are sifted to confirm that there is a discrepancy that requires investigation while allegations received from other sources, such as members of the public or benefit staff, are referred straight to the Single Fraud Investigation Service (SFIS).
- 5.6.2 SFIS came into effect in Rossendale on 1st May 2015. This is the date that all Housing Benefit investigations were transferred to the Department for Work and Pensions (DWP).

5.7 Business Rates

- 5.7.1 Currently there is no legislation which allows us to take action against a company which we believe is acting fraudulently. As it is so difficult to prove beyond all reasonable doubt it is unlikely that this will change in the foreseeable future. It is widely known that avoidance and/or evasion are the biggest issues we are faced with when it comes to the collection of Business Rates, usually through the likes of phantom tenants, or businesses that do not exist.

5.8 Performance

- 5.8.1 During the ten months up to 31st March 2016, 103 cases were investigated by the Fraud and Compliance Officer; this does not include the cases dealt with by the Single Fraud Investigation Service (SFIS). Below is a table detailing the cases:

Type of case	No. of cases
Council Tax (i.e. a discount or exemption)	33
Council Tax Support	30
Housing Benefit only	14
Housing Benefit and Council Tax Support	14
Council Tax Benefit and Council Tax Support	8
Housing Benefit, Council Tax Benefit and Council Tax Support	4

5.8.2 The table below details the amount of debt written onto the system for each of these areas, of which repayment and recovery will take place:

Type of case	Debt written on
Council Tax (i.e. a discount or exemption)	£32,520.89
Council Tax Support	£19,680.02
Housing Benefit only	£9633.21
Housing Benefit and Council Tax Support	£52,255.96
Council Tax Benefit and Council Tax Support	£20,538.88
Housing Benefit, Council Tax Benefit and Council Tax Support	£41,133.89
Total	£175,762.85

5.9 Council Tax

5.9.1 An exercise has been introduced whereby land registry documents are gained for each property in receipt of specified exemptions which are then checked against the Council Tax's liable party name/s. The exemptions we focus on for this exercise are explained in the table below:

Exemption	Description
Class D	When the property is unoccupied and the person who would normally be liable has been detained elsewhere by Order of a UK Court or similar body.
Class E	When the property is unoccupied and the owner is now permanently resident in hospital or a care/nursing home or similar residence.
Class F	When the property is unoccupied after the death of the owner who would normally be liable for Council Tax. The exemption is for up to 6 months after the date of death or the date of grant of probate

5.9.2 One of the most common occurrences is that properties have been signed over to the liable parties' children or family members, which renders the tax payer ineligible for an exemption and as a consequence of this a bill is produced for the rightful owner of the property.

5.9.3 Of the 33 cases investigated 22 of them were raised through this exercise. This exercise is to be run twice a year from now on. Exemptions are awarded on a daily basis therefore there will always be new cases to look in to especially given the six month gap between each exercise.

5.10 Council Tax Support

5.10.1 During the ten months up to 31st March 2016, 56 of the investigations conducted by the Fraud and Compliance Officer were connected to Council Tax Support.

5.10.2 These claims showed evidence of fraud or error, whereby individuals had failed to declare changes in their circumstances that affected their entitlement.

5.10.3 The Council Tax and Council Tax Support Penalty and Prosecution Policy was written and passed at Cabinet in March 2016. This gives the Fraud and Compliance Officer more power to take action against fraudulent claims, be that for Council Tax Support or Council Tax in general i.e. discounts and exemptions.

5.11 Housing Benefit

5.11.1 During the ten months up to 31st March 2016, 121 cases were referred to the Single Fraud Investigation Service (SFIS) for investigation. The status of these cases is as follows:

Current status of referral	Number of cases
Fraud Team	50
Compliance Team	32
Closed at initial point of referral	19
Unallocated	20

**Cases are regularly passed from Fraud to Compliance so these figures are correct as at 28th June 2016*

5.11.2 As of 28th June 2016, 89 of the 121 cases have been closed, 19 of these at the initial point of referral as per the above table, and 70 through investigation, either from the Fraud team or the Compliance team.

5.11.3 Of the cases that have been closed, five people have accepted administration penalties totalling £3515.59.

5.11.4 The cases detailed in 5.8.1 in relation to Housing Benefit were not necessarily fraud investigations. Part of the Fraud and Compliance Officers role is to cut down on the amount of error in the system, therefore these are cases that have been looked into and have had overpayments created which can be seen in 5.8.2.

5.12 Business Rates

5.12.1 Although we are unable to take action against businesses this has not stopped work being carried out to ensure the ratings list is complete and as up to date as possible. The purchase of Analyse Local, which is a package from a company called Inform CPI, has benefited the Council a great deal.

5.12.2 Inform CPI has access to a wide variety of data sources, such as planning information, building control information, aerial photography etc.; which facilities detailed analysis of potential shortfalls in rateable values. Rossendale Council recognises that there may be historical gaps in its inspection regime which may have resulted in properties/part of properties' not being in rating.

5.12.3 Using the various data sources available to them they offer a service where they identify properties missing from the ratings list or properties which are undervalued.

5.12.4 Analyse Local was introduced in December 2015 and up to the end of the financial year for 2015/16 had resulted in seventeen cases being raised to us. These seventeen cases have come back from the Valuation Office with increased rateable values.

5.12.5 Business Rates bills are calculated based on the rateable value of the premises. Usually every five years there is a revaluation of all business properties, because of this we could only back date a bill to 1st April 2010 if applicable. Many of the cases which we referred to the Valuation Office following the work from Analyse Local included back dated amounts.

- 5.12.6 The amount of backdated Business Rates for the seventeen accounts totals £136,308.97. It should be noted that this is purely backdated rates up to 31st March 2015.
- 5.12.7 Whilst this figure is purely the backdated rates up to and including 31st March 2015, it is pertinent to look at the amount of rates this will generate on a yearly basis going forward.
- 5.12.8 For 2016 the rates for these seventeen accounts is £129,078.80. This figure should not be viewed as a one off amount, this is the amount that will be billed over the seventeen accounts every year and therefore demonstrates over a ten year period, over £1,200,000.00 in increased rates.
- 5.12.9 It is also important to remember that by the end of the current parliament, local authorities will be able to keep 100% of the business rates they raise as appose to the cut we currently receive. Therefore this £129,078.80 extrapolated over the ten years following this change means an additional £1,200,000.00+ payable directly to Rossendale Borough Council.

5.13 Risk Management Issues

5.13.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
No action taken if fraud suspected or detected	High	Low	Positive action taken to detect and pursue fraud; and results of successful cases publicised to further deter would be fraudsters.
Out of date policies	High	High	Policies are to be reviewed on an annual basis
Lack of awareness of the impact of fraud	High	Low	Induction for new starters, as well as the on-going Find the Fraudster campaign.

- 5.13.2 In December 2011 the NFA launched *Fighting Fraud Together*, a national fraud strategy encompassing public and private sector, not for profit organisations and law enforcement bodies.
- 5.13.3 In April 2012 the NFA launched *Fighting Fraud Locally* as the first sector-led local government counter-fraud strategy. *Fighting Fraud Locally* sets out a three tiered approach for local authorities to follow- to Acknowledge, Prevent and Pursue fraud.
- 5.13.4 In early 2016 the Local Government Counter Fraud and Corruption Strategy was updated to produce a forward look for 2016-2019. This extends the earlier requirement to transform counter fraud and corruption performance over the next three years and introduces the six C's;
- Culture – creating a culture in which beating fraud and corruption is part of daily business
 - Capability – ensuring that the range of counter fraud measures deployed is appropriate to the range of fraud risks
 - Capacity – deploying the right level of resources to deal with the level of fraud risk
 - Competence – having the right skills and standards
 - Communication – raising awareness, deterring fraudsters, sharing information, celebrating successes

- Collaboration – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

5.13.5 Work carried out by the Fraud and Compliance Officer ensures that we work in line with the six C's and therefore are in keeping with government guidelines.

COMMENTS FROM STATUTORY OFFICERS:

6. SECTION 151 OFFICER

6.1 Financial implications are noted in the report.

7. MONITORING OFFICER

7.1 All legal implications are covered within the body of the report. It is important that Council maintains robust policies and procedures that are reviewed regularly particularly in light of any new legislation.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Policy implications are covered within the body of the report.

9. CONCLUSION

9.1.1 To assist in creating an anti-fraud culture, and also maximise deterrence of fraud the council will:

- Ensure it has the right resources, policies and procedures in place to support counter fraud work and that these are widely published, promoted and enforced.
- Undertake reactive investigations where fraud is reported and ensure that the maximum possible is recovered for the council.
- Ensure proven cases are publicised. This acts as a deterrent to fraudsters and helps reinforce the message that fraud is unacceptable. This also encourages members of the public to inform the authority of persons they believe may be defrauding the system.
- Participate in the National Fraud Initiative (NFI), which allows comparison of a range of data against other data sources.
- Continue to participate in the Department for Work and Pensions (DWP) Housing Benefit Matching Service. Under the scheme individual claims are checked with those from other authorities and agencies to identify fraudulent or duplicate/multiple claims.
- Keep a thorough record all fraud referrals received
- Undertake all and any investigation(s) with due consideration to relevant legislation, with particular regard to the Human Rights Act 1998, the Data Protection Act 1998, Freedom of Information Act 2004 and in particular race equality issues.
- Act with honesty, professionalism and integrity when dealing with all the Council's Members and Officers and with all claimants, whether fraudulent or not.
- Maintain an overview of the changing fraud landscape to ensure that the council continues to maintain effective but proportionate response to fraud risk.

9.1.2 It is the aim of the Fraud and Compliance Officer to roll out a Fraud Awareness Survey to all members of staff *and councillors* within the next financial year, 2016/2017. This will help determine if there is a greater need for future fraud training on an internal basis.

9.1.3 In relation to Business Rates, the council intends to continue its work to ensure the ratings

list is accurate also maximise the business rates base in preparation of the changes to how business rates is administered by 2019/2020.

Background Papers	
Document	Place of Inspection
Fighting fraud and corruption locally: the local government counter fraud and corruption strategy 2016 to 2019.	https://www.gov.uk/government/publications/fighting-fraud-and-corruption-locally-2016-to-2019
The Council Tax and Council Tax Support Penalty and Prosecution Policy	http://www.rossendale.gov.uk/meetings/meeting/959/cabinet (Item C3)