

Taunton Deane Borough Council

Corporate Governance Committee – 9 December 2013

Corporate Anti-Fraud Approach

Report of the Strategic Director

(This matter is the responsibility of Executive Councillor Vivienne Stock-Williams)

1. Executive Summary

In the context of TDBC facing severe financial pressures and the need to make the most efficient and effective use of its resources, Corporate Governance Committee is asked to consider whether a corporate approach to anti-fraud, including the creation of a Corporate Anti-Fraud Team, would prove beneficial. Not only would such a move help to protect TDBC's resources, it would also play a part in improving the Council's reputation for making best use of those resources.

Should the Committee support this proposal, then up-front funding to support this will be requested from Executive and Full Council.

2. Background

2.1 Fraud against local government is committed against all types of local authority expenditure, including in relation to payroll and goods and services, as well as against the services and taxes and benefits administered at a local level.

2.2 According to CIPFA's Fraud Loss Profile Tool, the indicative estimate of potential fraud losses for TDBC is between £1.3m-£2.3m, as detailed below.

Type of Fraud	Lower Estimate	Upper Estimate
Council Tax Fraud	£240k	£410k
Housing Tenancy Fraud	£800k	£1.4m
Procurement Fraud	£290k	£480k
Payroll Fraud	£10k	£20k
TOTAL	£1.34m	£2.31m

Source: CIPFA's Fraud Loss Profile Tool:

http://www.tisonline.net/riskmanagement/content/fraud_loss_profile_secure.xls

2.3 Although TDBC has very effective anti-fraud and investigation policies and measures within Revenues and Benefits, with 24 cases of Housing Benefit and Council Tax Benefit Fraud with a value of almost £120k being detected in 2012/13, TDBC's approach to anti-fraud measures in other areas is less formalised.

- 2.4 The design of a Corporate Anti-Fraud Team, aligned to a new corporate approach to anti-fraud, would give weight to the assertion that TDBC has a zero tolerance approach to fraud in all of its forms, and could be used as a basis for a media campaign to highlight this.

3. Corporate Anti-Fraud Approach

National Context

- 3.1 According to the National Fraud Authority (NFA), the UK suffered fraud losses of £73 billion in 2012, of which over £20 billion related to the public sector, and over £2 billion in local government alone.
- 3.2 In recent years, a large number of Councils (albeit larger organisations than TDBC) have created corporate anti-fraud teams, which have been responsible for detecting and preventing fraud to the value of £millions.

Types of Fraud

- 3.3 The Metropolitan Police Service (MPS) has identified six fraud risk categories, broken down further into 43 types of fraud risk. Although some of these are specific to MPS (or other Police Forces), the majority are also relevant to local government, and are shown in Appendix A. Alongside these, there will also be a number of local government-specific fraud types, such as those related to housing claims and entitlements, and those related to other benefits administered by local government.

Current Situation at TDBC

- 3.4 TDBC's Revenues and Benefits section already has a zero tolerance approach to fraud. In other parts of the Council the approach is less formalised and generally corporate knowledge about fraud in these other areas could be improved, which would in turn improve the effectiveness of corporate action in addressing the related problems. A recent Internal Audit report has supported this view.
- 3.5 Revenues and Benefits has its own Anti-Fraud and Error Policy (approved by TDBC's Corporate Governance Committee in 2011) and its own Investigations Team, the members of whom are PinS (Professionalism in Security) accredited. There are currently three members of staff in the Investigations Team. All staff within Revenues & Benefits receive annual Fraud Awareness training to assist them in identifying possible fraudulent claims.
- 3.6 TDBC does have corporate policies for Whistleblowing and Anti-Bribery, but does not currently have a Corporate Anti-Fraud Policy. This is an area that needs to be progressed, with sufficient priority required to be given to ensuring that this is embedded within the organisation.

Developing a Corporate Anti-Fraud Policy

- 3.7 In order to develop a Corporate Anti-Fraud Policy, CIPFA's Better Governance Forum recommends undertaking the following four stages. If Members approve the development of such a policy, and a related Corporate

Anti-Fraud “function” within the redesigned TDBC/WSC officer organisation, it is likely that this methodology will be followed:

- Identifying and understanding the fraud risks and potential exposure to fraud loss – this will include understanding which parts of the organisation will be most vulnerable to which types of fraud
- Assessing the current resilience to fraud – once the risks and potential exposure have been identified and understood, the next stage is to understand how resilient the organisation is to these risks and exposure
- Evaluating the ability to respond to potential or identified fraud – as well as being able to conduct investigations, the organisation should also be in the position to undertake proactive anti-fraud work, such as data-matching, sample verification procedures and targeting resources at high risk areas
- Developing a Corporate Anti-Fraud Strategy – this will include identifying the benefits of the Strategy, the actions and resources required for a successful implementation, and the performance measures that will be monitored to evaluate progress.

Potential Areas of Fraud

3.8 The main areas of fraud of which TDBC could be at risk are as follows:

- Revenues and Benefits – failure to advise of true (or a change in) circumstances, such as living together as partners, undeclared capital or undeclared income
- Housing – sub-letting, key selling, no entitlement, false declarations, Right to Buy illegal succession;
- Payroll – timesheet fraud, absenteeism, ‘presenteeism’ (i.e. being in the office but not working), expense claim fraud
- Procurement – over-billing/invoicing, under-delivery, payments to individuals/ businesses where no goods/services have been provided
- Grants to individuals – false declarations of health issues and circumstances
- Income – not billing for goods/services provided, inappropriate and/or unapproved debt write-offs

Corporate Anti-Fraud Function

3.9 The current Anti-Fraud team in Revenues & Benefits comprises one Fraud Manager (the Investigations, Overpayments & Support Services Team Leader) and two Investigators. The two Investigators are due to transfer to the Single Fraud Investigation Service (SFIS) when SFIS is eventually rolled out in this area, which is expected to be in 2015. The Investigations, Overpayments & Support Services Team Leader will remain with TDBC and holds the PinS Management qualification. The team currently share a clerical support resource with the Revenues & Benefits Team.

3.10 A new Corporate Anti-Fraud function will require additional capacity, and this will be designed during the upcoming organisational changes, with funding plans prepared accordingly. Initial planning on this suggests that the function could cost an additional £60k above existing resource levels, plus a non-staffing budget of around £10k. With the level of organisational change ahead,

it would make sense to plan this function into the new structures being designed, in order to support both Taunton Deane and West Somerset Councils. It is expected that TDBC's Housing Revenue Account would be expected to fund part of this function.

- 3.11 The ambition would be for this function to be effectively self-financing within the first year of operation due to the additional income gathered as a result of the function's anti-fraud activities and measures.
- 3.12 The new Corporate Anti-Fraud Team would be responsible for detecting and preventing fraudulent activity in the following areas:
- Local Taxation including Council Tax Discounts and Support, and Non-Domestic Rates Relief and Discounts,
 - Right to Buy fraud,
 - All Housing Tenancy-related fraud,
 - Grant applications.
 - Procurement
 - Income

Internal staff investigations should continue to be undertaken by HR and the Council's Solicitor.

Funding Options

- 3.13 There are a number of options as to how the required £70,000 can be resourced, and it would make sense for this to be progressed as a priority as services are restructured over the coming months. In addition, the possibility of obtaining funding from key partners who would benefit from this activity (such as Somerset County Council, Avon & Somerset Police, Devon & Somerset Fire & Rescue) should be explored.

3.14 Next Steps

- To design and recruit to a new Corporate Anti-Fraud function considering existing expertise in this field.
- To prepare and agree a Corporate Anti-Fraud Policy and Corporate Anti-Fraud Strategy. Although the preparation of these important documents is already underway, the development of a Corporate Anti-Fraud function would allow this function to own and develop the Policy and Strategy on behalf of the whole organisation.
- To roll-out a similar verification framework as used within Revenues & Benefits to Housing and Grants. This would include retaining proof of ID and residence in all cases. Retaining photographic ID on file would facilitate easy identification of housing tenants, for example.

4. Finance Comments

- 4.1 Annual expenditure on Housing and Council Tax Benefit in 2012/2013 was in excess of £37m. The Council has a duty to protect the public purse and the Anti-Fraud and Error Policy assists in minimising potential loss to the Council.

- 4.2 The government provides Administrative Subsidy to the Council for the Benefits service, some of which is intended to be used to offset the cost of anti-fraud measures. However, the current level of funding is at risk through the Government's continued strategy of reducing funding for local authorities.
- 4.3 In Somerset, the cost of Council Tax collection and fraud investigation is borne by District Councils. The County Council receives a larger share of the Council Tax and would therefore receive the greatest part of the additional income that arises from identifying single person discount fraud. However, the County does not contribute financially to the cost of identifying any fraud.
- 4.4 Any income raised from Single Person Discount Fraud **penalties** would be kept by Taunton Deane Borough Council. The cost of prosecutions under the Fraud Act is borne by Taunton Deane Borough Council and as such, prosecutions should only be taken where it is financially viable to do so.
- 4.5 It is well-reported that the Council faces significant and increasing financial challenges for the foreseeable future. It is advisable that any proposals to support this initiative are affordable and do not add to the existing Budget Gap. From a financial perspective it would therefore be best if this is supported by re-focussing existing resources and budgets, or through additional funding through. As a key objective is to save money, there should be targets for the team to at least 'pay for itself' through savings achieved, but ideally also contribute ongoing savings in addition to costs involved.

5. Legal Comments

The legislation concerning matters within the Revenues & Benefits Service's Anti-Fraud and Error Policy is mainly contained in:

- Social Security Administration Act 1992
- The Fraud Act 2006
- Regulation of Investigatory Powers Act 2000
- Local Government Finance Act 1992
- Police and Criminal Evidence (PACE) Act 1984 and the Criminal Procedure and Investigations Act 1996
- Theft Act 1968

The new Council Tax legislation is supported by the 'Detection of Fraud and Enforcement (England) Regulations 2013

6. Links to Corporate Aims

Achieve financial sustainability by protecting the Council's overall financial exposure and risk.

Transform the way we work by creating effective risk management processes that are developed and applied throughout the organisation to ensure good governance and internal control.

7. Environmental and Community Safety Implications

Environmental and community safety implications have been considered, and there are not expected to be any specific implications relating to this report.

8. Equalities Impact

During an investigation, legislation is fully complied with, and therefore no-one is disadvantaged within TDBC's current prescribed processes.

Should any equalities implications be identified as part of the Corporate Anti-Fraud Policy, these will be considered as part of that report, which is expected to be brought to Corporate Governance Committee in the early part of 2014.

9. Risk Management

There is always a risk that fraud (and error) will occur, but this risk is and will be managed through the controls and policies that TDBC puts into place.

Currently fraud referrals are risk-assessed and intelligence-graded in relation to the level of risk involved before being accepted for investigation/rejection.

The risk to TDBC in not introducing and implementing an effective anti-fraud strategy would be both reputational and financial.

10. Partnership Implications

Partnership implications have been considered, and there are not expected to be any specific implications relating to this report.

11. Recommendations

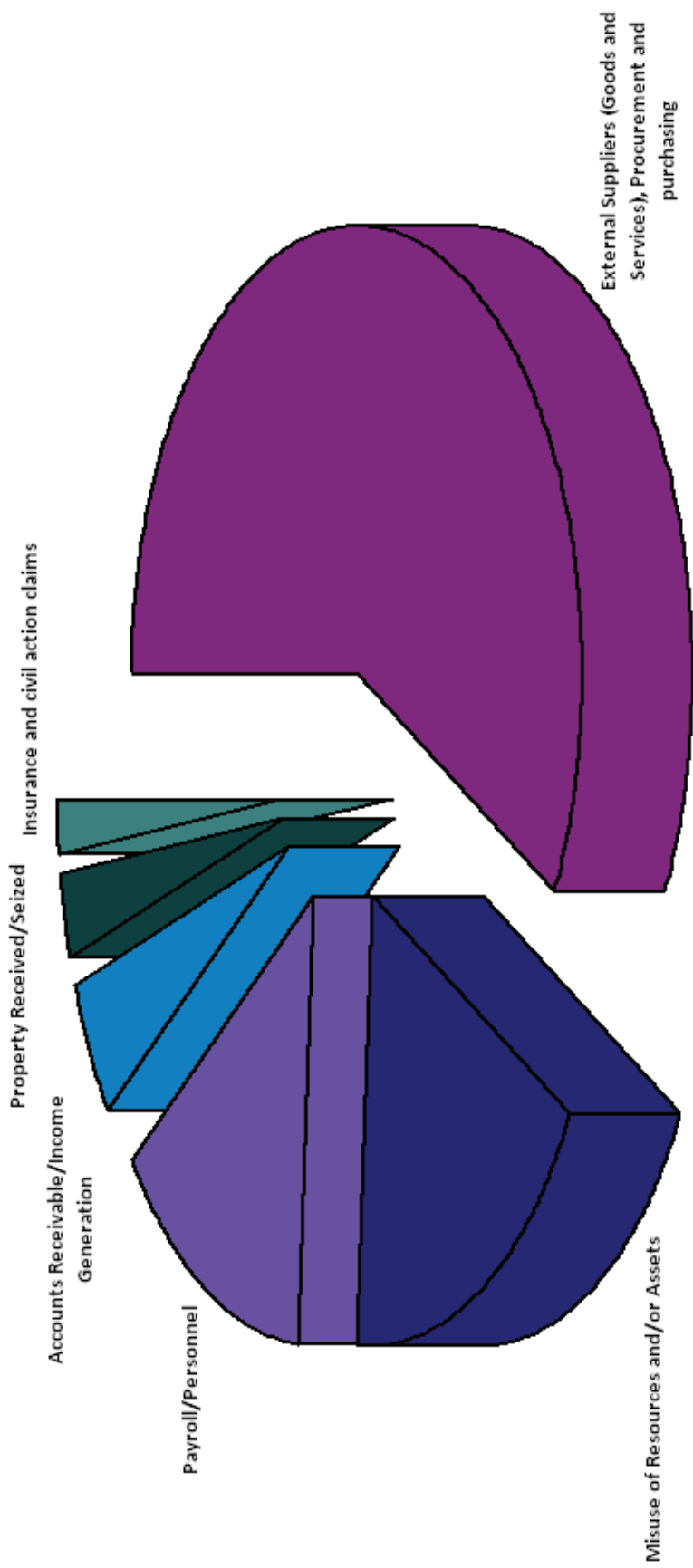
- To form a Corporate Anti-Fraud function to cover all elements of potential fraud risks already identified and any others that may arise in the future.
- This function will lead or advise on any investigations into fraudulent activity within Taunton Deane Borough Council, and will be responsible for producing and updating the Corporate Anti-Fraud Policy and Strategy, and for owning and leading on the corporate approach to anti-fraud.
- To request that this function is designed into the restructure plans for the Council over the coming months. If one-off funding is required to fund the function in year 1, then officers should review the options and request approval to fund from Reserves, if necessary.
- To update Corporate Governance Committee on the progress of the above recommendations in six months' time.

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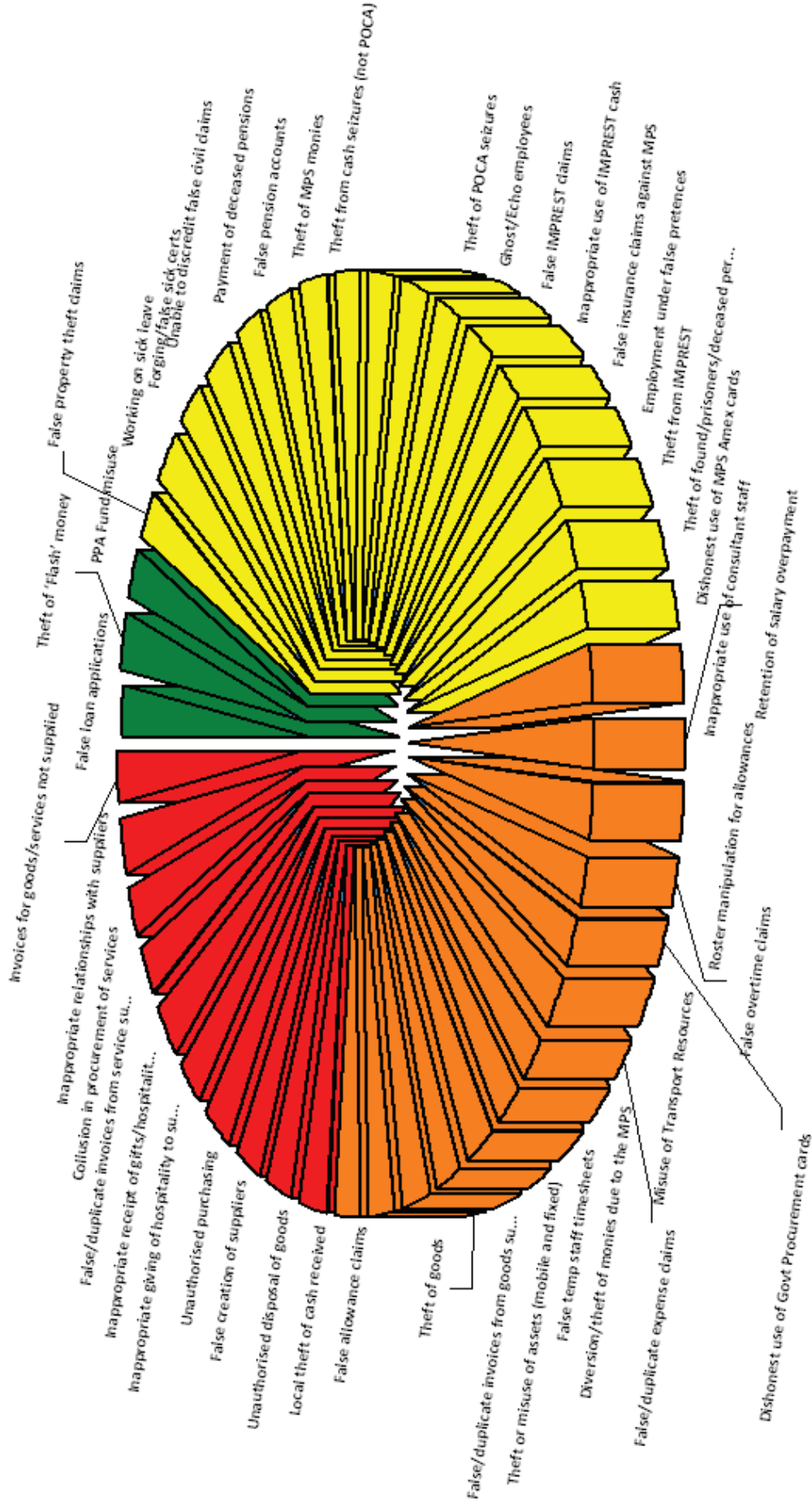
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Fraud Risk Categories



FRAUD RISK IDENTIFICATION



Risk Category	Risk	Risk Category	Risk	
External Suppliers (Goods and Services), Procurement and Purchasing	False/duplicate invoices from goods suppliers		False loan applications	
	Invoices for goods not supplied		Payment of deceased pensions	
	Inappropriate giving of hospitality to suppliers		False pension accounts	
	Inappropriate receipt of gifts/hospitality from suppliers		Roster manipulation for allowances	
	Inappropriate relationships with suppliers		False overtime claims	
	Inappropriate use of consultant staff		False/duplicate expense claims	
	False temp staff timesheets		False allowance claims	
	Inappropriate giving of hospitality to suppliers		Working on sick leave	
	Inappropriate receipt of gifts/hospitality from suppliers		Forging/false sick certs	
	False/duplicate invoices from service suppliers		Ghost/Echo employees	
	Inappropriate relationships with suppliers		Employment under false pretences	
	Invoices for services not supplied		Retention of salary overpayment	
	Unauthorised purchasing		Theft of 'Flash' money	
	Collusion in procurement of services		PPA Fund misuse	
	False creation of suppliers		Theft from cash seizures (not POCA)	
	Misuse of Resources and/or Assets		Theft of MPS monies	Payroll/Personnel
False IMPREST claims		Theft of found/prisoners/deceased property		
Inappropriate use of IMPREST cash		False property theft claims		
Theft from IMPREST		Unable to discredit false civil claims		
Dishonest use of MPS Amex cards		False insurance claims against the MPS		
Inability to explain and/or itemise expenditure on assets		Diversion/theft of monies due to the MPS		
Dishonest use of Govt Procurement cards		Local theft of cash received		
Misuse of Transport Resources		Accounts Receivable/Income Generation		
Theft or misuse of assets (mobile and fixed)				
Theft of goods				
Unauthorised disposal of goods				