

Taunton Deane Borough Council

Corporate Governance Committee 6 December 2016

Update on Corporate Counter Fraud arrangements

This matter is the responsibility of Councillor Richard Parrish

Report Author: Paul Fitzgerald, Assistant Director, Resources

1 Executive Summary

- 1.1 This report provides Corporate Governance Committee with information on our existing arrangements with the South West Counter Fraud Partnership.
- 1.2 The Corporate Governance Committee is requested to give consideration on future arrangements for Corporate Counter Fraud activities.

2 Recommendations

- 2.1 The Corporate Governance Committee is asked to note the information provided in this report and support a proposal to pursue an alternative Corporate Counter Fraud function that is largely self-funding from 1 April 2017.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
Financial and reputational risk in not having an effective Anti-Fraud function	3	4	12
<i>Design and implement an effective Corporate Anti-Fraud function.</i>	2	4	8
Insufficient capacity, finance or expertise to adequately deliver an effective Anti-Fraud function	5	4	20
<i>Work in partnership with other Councils</i>	2	4	8

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic

		Impact
Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background

- 4.1 On 9 December 2013 the Corporate Governance Committee approved the formation of a Corporate Anti-Fraud function to lead and advise on any investigations into fraudulent activity within Taunton Deane Borough Council.
- 4.2 On 2 July 2014, the DCLG invited local authorities to submit bids for funding over 2014-2015 and 2015-2016 to deliver financial savings in tackling non-welfare fraud. The DCLG specified that bidding proposals, should seek to achieve efficiencies and transformation through partnership working between local authorities and/or with other public and private sector partners.
- 4.3 On 22 September 2014 the Corporate Governance Committee supported the submission of a joint bid from Taunton Deane, West Somerset and South Somerset Councils to the DCLG and recommended that Executive and Full Council approve necessary match funding of up to £20,000 to develop a cost-effective Corporate Anti-Fraud function.
- 4.4 Taunton Deane Borough Council, West Somerset Council and South Somerset District Council worked with the South West Audit Partnership Ltd (SWAP) to submit a successful bid for funding of £110,000 with initial match funding totalling £40,000 being provided by the three Councils. As shown in section 9 below, the total amount invested by the three Councils in 2015/16 and 2016/17 including Government funding totals £188,000.
- 4.5 Progress in developing our counter-fraud function was affected by a number of factors such as Government announcements, the JMASS project and developments in the creation of the DWP's Single Fraud Investigation Service (SFIS). Further work was needed to develop the business case, and select the preferred delivery model either through SWAP, a Local Authority Partnership or a combination of a SWAP/Local Authority Partnership arrangement. In addition, discussions were held with other local authorities to confirm their commitment, or otherwise, in joining a partnership from the outset.
- 4.6 By May 2015, work had progressed in the formation of a Corporate Anti-Fraud service, with SWAP managing and operating a full counter-fraud function for the partner authorities. SWAP recruited staff to detect and investigate fraud and to ensure fraud prevention controls were improved to safeguard the partner authorities appropriately against fraud. These staff were brought together within the South West Counter Fraud Partnership (SWCFP) that has been operational since 1 July 2015. The ambition was that over time, SWCFP would

be effectively self-financing due to the additional income gathered as a result of anti-fraud activities and measures.

- 4.7 There is no budgetary provision for funding the SWCFP, or any Corporate Anti-Fraud function, from 1 April 2017 onwards.

5 Progress to date

- 5.1 During late 2015/early 2016 SWCFP organised and delivered fraud awareness training to officers and Members of the three Councils.

- 5.2 SWCFP have reported the following financial savings achieved for the three Councils as a result of investigations up to 30 September 2016:

	£
Taunton Deane Borough Council	2,888
West Somerset Council	0
South Somerset District Council	1,006

- 5.3 In the same period, there have been 28 fraud referrals for Taunton Deane Borough Council, with just one case of fraud being established. The remaining cases have been investigated with no fraud proven.

- 5.4 Recent data matching undertaken by SWCFP for potential fraud of Single Person Discount has identified 106 instances where further work is on-going within the Revenues & Benefits Team to establish the validity of the award.

- 5.5 From 1 July 2016 SWAP agreed to a reduction in the cost of SWCFP until 31 March 2017 as Sedgemoor District Council have temporarily joined the counter fraud partnership arrangement for part of this year.

6 Next Steps

- 6.1 Taunton Deane Borough Council faces significant and increasing financial challenges for the foreseeable future. Therefore it is vital that we consider options from 1 April 2017 that are affordable and that do not add to budget pressures.

- 6.2 The Council needs to decide to:

- a) continue with the current arrangements with the SWCFP and if so, agree an appropriate budget for such activities; or
- b) cease Corporate Counter Fraud activities and accept both the potential financial and reputational risk in not having an effective Anti-Fraud function; or
- c) consider provision of an alternative Corporate Counter Fraud function that is largely self-funding from 1 April 2017.

- 6.3 In anticipation Members may wish to give consideration to option c) outlined above, officers have approached other Councils with Corporate Anti-Fraud teams that may be in a position to provide services predominantly on a risk and reward basis. As an example, one such Council established a Corporate Anti-

Fraud Team on 1 April 2015 utilising software that cross-matches a wide range of Local Authority data against credit reference files. During 2015/16 this team achieved financial savings of over £200,000.

- 6.4 If Taunton Deane Borough Council wish to pursue any agreement with the provider referred to above, they have proposed a partnership agreement for 3 years. Such an agreement would have built in opt outs if the services provided do not generate agreed performance measures. The provider would charge of 33% of actual income and penalties due to Taunton Deane Borough Council as a result of investigative activity. Such a fee would reflect we would only receive income based on a percentage of Council Tax or Business Rates. For example if we are able to bill for additional Council Tax income of £10,384 through investigation activities, only £1,000 would be income due to Taunton Deane Borough Council based on its precepting share of 9.63% in 2016/17. This would result in a payment of £333 to the provider.

7 National Fraud Initiative 2014-2016

- 7.1 This report also provides a good opportunity to brief the Committee on the outcomes from the last National Fraud Initiative (NFI) work undertaken by this Council. 'NFI 2014' covers the period 2014 to 2016. The requirement to participate in the NFI process is mandatory.
- 7.2 The main NFI 2014 site contains 91 reports relevant for this Council, of which 14 are identified as high priority "key reports". This covers areas such as housing benefit, housing rent, payroll, creditors, licensing, etc. The reports match a range of data sets and highlight potential anomalies for investigation. Investigating the matches can be resource intensive, therefore we adopt a prioritisation approach where a sample of matches are tested, and if this highlights risks or issues with a set of matches then further testing is undertaken.
- 7.3 The following table summarises the outcome for this Council:

Total Matches Identified	3,151
Of which, Total Recommended Matches for review	718
Total Matches Processed (reviewed)	909
Number of frauds	1
Number of errors	1
Outcome of NFI investigation in fraud losses	£4,780

- 7.4 The table shows that of the 909 matches reviewed only one fraud case was identified, at a cost of £4,780.
- 7.5 In addition to the main NFI site there is the Flexible Matching Service NFI site, which contains 2 reports providing matches between Council Tax and Electoral Register data sets and council tax rising 18s information.

Total Matches Identified	2,081
Total Matches Processed	1,109
Number of frauds	0
Number of errors	0
Outcome of NFI investigation in fraud losses	£0

7.6 The above information indicates that the overall level of losses identified is very low. This is reassuring as it indicates the core business controls in operation are effective in preventing fraud and error.

8 Links to Corporate Aims / Priorities

8.1 This report links to Key Theme 4 - An Efficient & Modern Council as it reviews how services are delivered, by whom and to what standard in order to best allocate our resources.

9 Finance / Resource Implications

9.1 Expenditure and funding of the SWCFP from 1 July 2015 to 31 March 2017 is as follows:

	TDBC	WSC	SSDC	Total
SWCFP services 1 July 2015 - 30 June 2015	£56,000.00	£14,000.00	£42,000.00	£112,000.00
SWCFP services 1 July 2016 - 31 March 2017	£33,112.50	£9,933.75	£26,178.75	£69,225.00
Accredited Counter Fraud Specialist training for SWCFP	£3,600.00	£900.00	£2,700.00	£7,200.00
Total expenditure	£92,712.50	£24,833.75	£70,878.75	£188,425.00

	TDBC	WSC	SSDC	Total
DCLG funding	£55,000.00	£13,750.00	£41,250.00	£110,000.00
Match Funding 1 July 2016 - 31 March 2017	£37,712.50	£11,083.75	£29,628.75	£78,425.00
Total Funding	£92,712.50	£24,833.75	£70,878.75	£188,425.00

9.2 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 fraud in Council Tax. Somerset County Council have committed funding to the Revenues & Benefits Service for Taunton Deane Borough Council of £65,349.92 in 2016/17 and 2017/18. This funding is intended to meet the costs of additional staff in undertaking activities to reduce Council Tax discounts, reductions and exemptions by 5% and so increase the net Council Tax collected. Given the funding already provided by Somerset County Council, it is unlikely extra funding will be available for additional activities to prevent and detect Council Tax fraud.

- 9.3 In instances where a fraudulent application has been made for Council Tax Support (CTS), Taunton Deane Borough Council could offer a person the opportunity to pay a financial penalty as an alternative to prosecution. The penalty is 50% of the excess CTS applied subject to a minimum of £100 and a maximum of £1,000. In cases where an offence has been committed but the fraud has been discovered before any CTS has been paid, the penalty is £100. Income raised from penalties applied to Council Tax accounts would be retained by Taunton Deane Borough Council, so effective investigations in this area could assist in funding a Corporate Counter Fraud function in the future. 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.

10 Legal Implications

- 10.1 The legislation concerning matters on Anti-Fraud are mainly contained in:

- The Fraud Act 2006
- Theft Act 1968
- Bribery Act 2010
- Local Government Finance Act 1992
- Regulation of Investigatory Powers Act 2000
- Social Security Administration Act 1992
- Police and Criminal Evidence (PACE) Act 1984 and the Criminal Procedure and Investigations Act 1996
- Prevention of Social Housing Fraud Act 2013
- The Detection of Fraud and Enforcement (England) Regulations 2013.

11 Environmental Impact Implications

- 11.1 There are no environmental implications associated with this report.

12 Safeguarding and/or Community Safety Implications

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

13 Equality and Diversity Implications

- 13.1 Members need to demonstrate they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process. The three aims the authority must have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

- 13.2 An Equality Impact Assessment (EIA) was prepared to support the Corporate Anti-Fraud Policy presented to the Corporate Governance Committee on 21

March 2016.

14 Social Value Implications

14.1 There are no social value implications associated with this report.

15 Partnership Implications

15.1 Partnership implications have been considered, and are discussed in the main body of this report. Should the Council decide to pursue alternative options this has the potential that the South West Counter Fraud Partnership would not exist in its current form, and may be discontinued unless new partners join.

15.2 This possibility has been discussed with SWAP management and they have arrangements on standby to transfer the three staff from the fraud team to the core internal audit team therefore no staff are “at risk”. Similarly there are no implications for the core internal audit plan as a result of any changes to counter-fraud arrangements.

16 Health and Wellbeing Implications

16.1 There are no Health and Wellbeing implications associated with this report.

17 Asset Management Implications

17.1 There are no asset management implications associated with this report.

18 Consultation Implications

18.1 There are no Consultation implications associated with this report.

Democratic Path:

- **Corporate Governance Committee – Yes**
- **Executive – No**

Reporting Frequency: **Ad-hoc**

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