

Classification: Part 1 – Public

Key Decision: No

Gravesham Borough Council

Report to: Finance and Audit Committee

Date: 23rd June 2015

Reporting officer: James Larkin, Fraud Investigations Manager

Subject: Annual Fraud Report 2014-15

Purpose and summary of report:

To inform Members of the Finance & Audit Committee as to the counter fraud work undertaken by the council and the performance of the investigation team during the 2014-15 financial year.

Recommendations:

Members are requested to consider the content of the report and endorse the work undertaken by the council during 2014-15 in developing and maintaining the council's arrangements to prevent, detect and respond to fraud and corruption activity.

1. Introduction

1.1 Overview

1.1.1 In 2014-15, Gravesham Borough Council spent around £12 million (net) providing services to the 101,800 people that reside within Gravesend, Northfleet and the surrounding rural areas. These services range from the payment of housing benefit and council tax reduction to collection of household waste and control of development in the borough. To provide these services, the council employs over 500 staff that are responsible for conducting a significant number of administrative, operational and financial processes on behalf of the council.

1.1.2 In 2013 the National Fraud Authority (NFA) estimated that fraud was costing local government approximately £2.1 billion each year. Because the value of fraud against local government is difficult to quantify with precision it is thought that this may well be an underestimate.

1.1.3 The major areas of fraud within local government were named as:

- Housing tenancy fraud (estimated at £900million)
- Procurement fraud (£890million)
- Payroll fraud (£334 million)

- Housing & Council Tax Benefit fraud (£300million,)

1.1.4 In November 2014, the Audit Commission published its annual report 'Protecting the Public Purse', which is based on a survey of investigation activity conducted by all local authorities. This report stated that £188 million of fraud was detected by local government during 2013-14. As with the earlier 2013 report, it highlighted the areas of non-benefit fraud that were affecting local authorities. The areas of risk associated with Gravesham Borough Council are:

- Housing Tenancy Fraud (estimated 2% of Housing Stock)
- Right to Buy Fraud (estimated 2% in line with tenancy fraud)
- Council Tax Discount fraud (estimated 4-6% of all discounts)
- Business Rates (NNDR) Fraud (percentage estimates unknown)
- Internal Fraud (estimated 1% of all fraud cases within local authorities)

1.1.5 Gravesham Borough Council is opposed to all forms of fraud and corruption and recognises that such acts can undermine the standards of public service, which it promotes, and have a detrimental effect on the ability of the council to meet its own objectives. This, in turn, can impact on the service provided to the residents of Gravesham.

1.1.6 This report is intended to provide details of the council's activity in preventing and detecting fraud and corruption during the 2014-15 financial year and provides details of the performance of the investigation team in relation to matters that have been investigated. It also provides information about plans for the future work of the investigation team to further tackle frauds being committed against the council.

2. Prevention and detection of fraud and corruption

2.1 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 through a number of activities, as set out below.

2.2 Corporate Internal Control Arrangements

2.2.1 The council operates within a framework of policies and procedures intended to direct the activity of the council and ensure transparency in decision making. Responsible officers are expected to ensure that effective internal control arrangements are incorporated into the design and development of systems and procedures.

2.2.2 Assurance on internal control arrangements is primarily provided through the work of internal audit and external audit and assurance statements completed by managers at the end of each financial year. Service Managers also complete service risk registers to capture, monitor and manage risks to the delivery of their service and work will continue during 2015-16 to ensure that the risk of fraud is properly considered when developing service risk registers.

2.2.3 In addition to this, the fraud investigation team provide feedback on any procedural weaknesses identified through the course of any investigations with recommendations for 'fraud proofing' to try and prevent similar occurrences in the future.

2.3 Anti-Fraud & Corruption Policies

- 2.3.1 The Anti-Fraud & Corruption Strategy is a public document setting out the council's stance on fraud & corruption and providing an outline of its arrangements to prevent, detect and investigate fraud and corruption. The strategy underpins the council's corporate anti-fraud arrangements and supports other corporate documents.
- 2.3.2 The Housing & Council Tax Benefit Anti-Fraud Policy and Council Tax Reduction, Discount and Exemption Anti-Fraud policy are public documents that set out the councils approach specifically in relation to those areas of fraud.
- 2.3.3 During 2014-15 the council carried out the annual review of all its Anti-Fraud & Corruption Policies to ensure that they continue to reflect current legislation, recognise best practice and fully references the council's current arrangements in the prevention, detection and investigation of fraud and corruption. These reviews found that no amendments were necessary to existing policies.

2.4 Whistleblowing Policy

- 2.4.1 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 which cannot be raised through the channels set out in the council's Anti-Fraud & Corruption Strategy. The Whistleblowing Policy was also reviewed during the year and updated to ensure this remained timely and reflective of current arrangements.

2.5 Induction

- 2.5.1 The council has arrangements in place for inducting new members of staff. This includes a written Guide for Gravesham Borough Employees which, amongst other things, provides information on the Code of Conduct, the council's anti-fraud & corruption arrangements and whistle blowing.

2.6 Website

- 2.6.1 A review of the council's web pages relating to fraud are ongoing and work is taking place with the digital team on how to best present the information on the council's website. It is hoped that these pages and an updated reporting form will be finalised and updated during early 2015-16.

2.7 Publicity of successful prosecutions

- 2.7.1 The council is committed to publicising where it has been able to successfully pursue proven cases of fraud or corruption through to a successful prosecution. During the year the investigation team have issued press release information to the communications team in respect of 13 successful prosecutions. The publicity of such action provides public assurance that the council does and will deal with such cases effectively, acting as both a deterrent to those contemplating fraudulent activity and encouraging those with information to come forward and report this to the council.

2.8 Data Matching - National Fraud Initiative

- 2.8.1 The council proactively takes part in the Audit Commission National Fraud Initiative (NFI). 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.

- 2.8.2 The exercise runs bi-annually matching data relating to housing benefit, payroll, creditors, housing (including right-to-buy), insurance claims and taxi licensing information held by the council. Data matching for council tax single persons discount (SPD) occurs in alternate years.
- 2.8.3 The matches resulting from the 2013-14 Council Tax exercise were received in March 2014 and a total of 615 matches were received across 2 reports. The investigation team were responsible for checking the details received and establishing whether investigation was required.
- 2.8.4 At the end of the 2014-15 financial year all matches had been checked with 614 closed. Investigations relating to the last match remain ongoing. The completed investigations have led to the removal of SPD's from 234 accounts, 37 of which were awarded a student discount of 25% based on the correct circumstances. These changes created additional liability of £124,582.26.
- 2.8.5 37 people have been issued with civil penalties of £70 (total £2,590) as a result of the data match and a further 3 have received cautions for false statements or failing to report changes that affected their discount.
- 2.8.6 In October 2014 the council submitted data for the 2014-15 NFI exercise that matches council data from a number of sources. The results of this exercise were received by the council in January 2015 and 1782 matches were received across 72 reports relating to Benefit, Housing, Payroll and Finance. The Investigation Team is now assessing the matches to determine whether investigation is required and a number of investigations are already in progress.

3. Investigating Fraud

- 3.1 Whilst the council has put in place a range of internal control arrangements within its systems and processes to detect fraud and corruption activity, the council recognises that the detection of fraud and corruption is often as a result of the alertness of employees, Members, the general public and other stakeholders.
- 3.2 The Investigations Team is responsible for investigating all allegations of fraud and corruption, whether this is through internal fraud or external stakeholders or customers, as well as assisting with disciplinary investigations as and when required. The team consists of:
 - A Fraud Investigations Manager,
 - 2.5 Investigation Officers, and
 - An Administration Assistant.
- 3.3 The Investigations Team works closely with a number of external agencies including the Department for Work and Pension, Border Agency, Kent Police and NHS Fraud to progress investigations.

- 3.4 Since 1 December 2008 the council has been involved in a fraud management partnership with Tonbridge and Malling Borough Council. This involves the Fraud Investigations Manager from Gravesham jointly managing the Investigation Teams of both Gravesham Borough Council and Tonbridge & Malling Borough Council. The current manager, James Larkin, has been in post since August 2013.
- 3.5 During 2014-15, the investigation team received a total of 1175 referrals. Of these referrals, 715 were accepted for investigation. The remaining 460 referrals were either rejected on the basis of insufficient information or because the allegations received were more appropriate for investigation by other departments/agencies, such as the Department for Work and Pensions (DWP).
- 3.6 The following sections detail the performance of the investigation team in relation to the specific areas of fraud and the results of investigations concluded during 2014-15.
- 3.7 **Corporate Fraud & Irregularity**
- 3.7.1 To ensure the on-going effective use of the skills and resources available to it, the council has established a corporate approach to receive, evaluate and co-ordinate the investigation of allegations of fraud, corruption and misconduct where appropriate. Headed by the Assistant Director (Corporate Performance), the approach is intended to utilise officers from Internal Audit, Investigations and HR based on the nature of the allegation and the investigatory skills required.
- 3.7.2 During 2014-15 no referrals were made directly to the investigation team in respect of suspected fraud. However, ongoing investigations involving six employees were concluded. Three with no evidence of fraud and three referred to the HR team for consideration of disciplinary action.
- 3.7.3 The HR team were also able to utilise the skills and resource of the investigation team in relation to a disciplinary matter involving six additional employees.
- 3.7.4 The investigation team were able to analyse large quantities of data relating to mobile telephone usage, swipe card entry records, vehicle tracker information and internet usage and furnish the investigating manager with the resulting information in a concise format.
- 3.7.5 The cases referred for disciplinary following investigation resulted in three dismissals and a written warning for a fourth employee. In the other matter where the investigations team provided assistance, all six employees resigned prior to disciplinary hearings after being furnished with the evidence against them.

3.8 Housing Tenancy Fraud

- 3.8.1 Housing Tenancy Fraud has been an emerging area of fraud concern for a number of years. The strain on social housing stock has been well publicised in the media for some time and this has prompted greater public interest and an increase in the number of referrals received in relation to alleged fraud, particularly sub-letting. Historically this has been seen as a problem for London Boroughs and other large city councils but surveys show that it is a national problem affecting all councils.
- 3.8.2 During 2014-15 the Investigation Team concluded 28 investigations relating to tenancy fraud, the majority of these cases involving alleged non-residence/abandonment of the property.
- 3.8.3 Nine properties have been recovered as a direct result of investigation intervention and in one case a right to buy was also prevented where the tenant was found to not be in occupation of the tenancy address. Allocation of a property was also stopped after investigation revealed that the customer had lied on her housing application, effectively preventing a tenancy fraud occurring and representing a tenth recovery.
- 3.8.4 The Audit Commission estimates that nationally, an authority saves approximately £18,000 for every property recovered. This estimate is based on the fact that it costs an authority approximately £100,000 to build a new property, costs associated with the management of increased waiting lists and the costs of housing families in temporary accommodation.
- 3.8.5 Applying the same principle that each property recovery represents £18,000 as a saving, would mean that the ten properties recovered through investigation represent a saving to Gravesham of £180,000. The prevention of a fraudulent right to buy also represents a prevented loss of £75,000, which is the discount that would have been applied to the sale.

3.9 Council Tax Fraud

- 3.9.1 Council Tax is another area where the council is exposed to loss. This is largely where residents obtain illegitimate discounts such as the single person discount (SPD) that provides council tax payers with a 25% reduction in their council tax charge. Estimates from the Audit Commission in their 2013 'Protecting the Public Purse' report suggested that 4%-6% of single person discounts are fraudulent.
- 3.9.2 The abolition of Council Tax Benefit and introduction of localised Council Tax Reduction (CTR) Schemes now means that there is a new form of rebate that is subject to fraudulent applications.
- 3.9.3 During 2014-15, 247 of the investigations concluded by the team were connected to CTR fraud and 364 were connected to some form of fraudulent discount or exemption. Evidence of CTR fraud or error was found in 109 cases where individuals had failed to declare changes in their circumstances that affected their entitlement and evidence of CTAX fraud or error was found in 212 cases where customers had failed to declare changes in their household that affected their entitlement to discounts awarded.
- 3.9.4 As a result of these investigations, CTR awards were reduced by £1,258.81 per week leading to an increase of £64,458.12pa in the council tax base. The removal of discounts also increased the council tax base by £81,760.38 meaning a total increase of £147,218.50 in the council tax base for 2015-16.

3.9.5 The investigations also identified excess CTR awards totalling £44,296.66 and additional council tax of £129,093.75 for historic periods where residents were found not to have been entitled to the discounts applied. In all cases these sums will be recovered as council tax arrears.

3.9.6 Three people received cautions in relation to CTR offences and three people received cautions in relation to SPD offences. 38 fixed penalties of £70 were also applied in cases where customers were found to have negligently failed to report a change affecting their entitlement to a discount. The total of £2,660.00 is fully retained by Gravesham.

3.10 Benefit Fraud

3.10.1 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 risk assessed to determine which cases should be accepted for investigation. The assessment takes into account the type of allegation received, the quantity and quality of the information associated with it, the likelihood of an investigation being successful and resources available to deal with the case.

3.10.2 The team undertake as many investigations as possible and 326 investigations relating to allegations of benefit fraud were concluded during 2014-15. The results of these cases are shown in the table below:

Closure category	Number of cases
No Fraud	157
Incorrect Benefit**	132
Fraud Proven	37

**The Department for Work and Pensions state that a benefit case may only be classified as fraud proven where a sanction is applied. Other cases where overpayments or other changes to benefits are identified but sanction action is not taken must be classified as customer error.

3.10.3 As a result of these cases, housing benefit entitlement has been reduced by £8,944.70 per week (£465,124.40 per annum). They have also identified overpayments of housing and council tax benefit totalling £535,156.85.

3.10.4 Action was taken against a total of 32 people either through the courts or alternative sanction action. 12 people accepted cautions for their actions, seven people accepted administration penalties totalling £7,858.02 and 13 people were successfully convicted.

4. Summary

4.1 Members have previously been advised of the pending changes surrounding benefit fraud and the implementation of the DWP Single Fraud Investigation Service (SFIS). The implementation process has been running since October 2014 with local authority benefit fraud investigators transferring to the DWP and

Gravesham's month of transfer will be March 2016. As such, the council retains responsibility for the investigation of alleged benefit fraud until March 2016.

- 4.2 In addition to this change, Gravesham will be exploring the possibility of a fully shared Audit & Fraud partnership with Medway Borough Council and Members are being advised of these changes in detail in a separate report. While any changes would not take full effect until at least April 2016, Tonbridge & Malling have served notice on Gravesham to end the partnership arrangements for the post of Fraud Investigations Manager, which will end on 19th June 2015. This means that with effect from 22nd June 2015, James Larkin will be with Gravesham on a full time basis.
- 4.3 Welfare reform and issues around social housing have caused a large amount of media attention in the last 2-3 years and there have been a number of TV programmes focused on the UK benefits system as a whole as well as those aimed at highlighting the counter fraud work undertaken by local authorities and the positive results coming from it. This media attention continues to fuel public opinion and in doing so means that the volume of referrals being received continues to grow.
- 4.4 The results detailed in this report clearly demonstrates that the investigation team has reacted positively to all allegations received, continuing to take its responsibility for the investigation of benefit fraud seriously while also responding to the other fraud risks affecting the council. The table at appendix 2 shows a comparison of performance over the last five financial years and details the shift in the councils overall approach to tackling fraud in areas other than benefits.
- 4.5 This comparison shows increased performance in all areas over the last 2-3 years and the marked increase in areas such as the number of properties recovered due to tenancy fraud highlights that this is a real and considerable area of risk for the council not only at the present time but in the future.
- 4.6 In 2012-13 Gravesham was a pilot site for a data matching exercise offered by Fujitsu. Six of the eight properties recovered that year were as a result of the data matching exercise. This data match was fairly basic and mainly based upon credit referencing data but developments in recent years have led to a number of companies offering a data match service that is more in depth, producing more accurate results based on data from a number of sources.
- 4.7 19 properties have been recovered in the last two years and all the investigations associated with these recoveries have been the result of allegations received from the members of the public or suspicions raised by staff. This brings the total number of property recoveries to 27, representing a total saving for Gravesham of £486,000 based on the estimate of £18,000 per property provided by the Audit Commission.
- 4.8 These results show the potential for significant savings with investment into a data matching exercise. The exercise would be aimed at pro-actively seeking to identify properties that may be subject to some form of tenancy fraud rather than waiting for members of the public to notify the authority of their concerns.
- 4.9 In the forthcoming year, the risk of the council being subject to fraud and corruption activity is not likely to reduce. To ensure that the council maintains its currently strong counter fraud arrangements, our activities will include;
 - 4.9.1 The Fraud Investigations Manager will be liaising with other local authorities who have been successful with tenancy fraud amnesties, data matching exercises and

- investigations associated with right to buy fraud to identify areas of best practice that the authority could adopt to both enable better investigation for increased results and to strengthen areas of prevention.
- 4.9.2 The development of an anti-fraud policy relating specifically to tenancy fraud, ensuring that it is widely publicised, promoted and enforced.
 - 4.9.3 Further exploration into the costs of using a third party to undertake a data matching exercise to identify suspected fraud in order to present a cost and savings projection.
 - 4.9.4 Continuing to undertake thorough reactive investigations and taking action to ensure the maximum recoveries for the council.
 - 4.9.5 Continuing to ensure that proven cases are effectively publicised
 - 4.9.6 Using lessons learned from investigated cases, the investigation team will work closely with Internal Audit to ensure that recommendations for fraud proof of processes and procedures are fed back to relevant departments to try and reduce the potential for similar offences in the future.
 - 4.10 In November 2014, Kent County Council (KCC) were successful with a bid for DCLG funding to create a county wide data warehouse to enable data matching between the Kent authorities aimed at identifying fraud. The Kent Intelligence Network (KIN) is still in the early stages of its formation but it is hoped that this will be operational by the end of 2015. It is worth noting that it will be the responsibility of district authorities to investigate discrepancies and potential frauds identified through the KIN.
 - 4.11 The Fraud Investigations Manager will be working closely with the Audit & Assurance Manager to help shape the structure of the investigation function within any shared service, should that be the agreed way forward, to ensure that both Gravesham and a partner authority can respond adequately to their individual fraud risks post SFIS.

5. Background Papers

- 5.1 There are no background papers pertaining to this report.

IMPLICATIONS

APPENDIX 1

<p>Legal</p>	<p>The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them</p> <p>Section 151 of the Local Government Act 1972 requires the council to “make arrangements for the proper administration of their financial affairs”. Funding received via a Central Government Administration Grant requires Local Authorities to maintain arrangements to prevent fraud and error in the welfare benefits that they administer.</p>		
<p>Finance and Value for Money</p>	<p>An adequate and effective internal counter fraud function provides the council with assurance on the proper, economic, efficient and effective use of council resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the financial statements of the council.</p>		
<p>Risk Assessment</p>	<p>This report, summarising the work of the counter fraud function, provides a key source of assurance for the council on the adequacy and effectiveness of its counter fraud arrangements.</p>		
<p>Equality Impact Assessment</p>	<p>Screening for Equality Impacts</p>		
	<p>Question</p>	<p>Answer</p>	<p>Explanation</p>
	<p>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?</p>	<p>No</p>	
	<p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?</p>	<p>No</p>	
	<p>c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?</p>	<p>N/A</p>	<p>--</p>
<p><i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i></p>			
<p>Corporate Business Plan</p>	<p>The work of counter fraud contributes to the delivery of Area of Focus 17: Managing the council’s business</p>		
<p>Crime and Disorder</p>	<p>The counter fraud arrangements of the council acknowledge that the council can be exposed to fraud and are intended to, as far as possible, prevent fraud occurring</p>		

IMPLICATIONS**APPENDIX 1**

and pursue criminal action if needed when fraud is detected. Working with partners to combat crime and disorder has a positive contribution to community safety in its broadest sense.

APPENDIX 2

Year	2010-11	2011-12	2012-13	2013-14	2014-15
No. of Investigations Concluded	186	170	138	322	636
Weekly reduction in benefit entitlement (per year)	Not recorded	Not recorded	Not recorded	£6,826.25 (£354,965.00)	£8,944.70 (£465,124.40)
Total HB & CTB overpayments	£387,396.36	£293,555.48	£278,216.00	£540,778.63	£535,156.85
Weekly reduction in CTR awards (per year)	N/A	N/A	N/A	£1,176.72 (£61,189.44)	£1,258.81 (65,458.12)
Excess CTR	N/A	N/A	N/A	£21,680.23	£44,296.66
Value of SPD removals	Not recorded	Not recorded	£146,223.89*	£29,116.26	£129,093.75
*An internal data matching exercise occurred during 2012-13 to identify potential SPD fraud as well as the investigation of matches from the National Fraud Initiative exercise.					
Increase to CTAX base for future years through CTR changes & SPD removal	Not recorded	Not recorded	Not recorded	£61,189.44	£147,218.50
No. of Civil penalties (Total Value)	Not recorded	Not recorded	Not recorded	7 (£490)	38 (£2,660)
No. of Cautions	11	29	18	9	9
No. of Administration Penalties (Total Value)	28 (Not recorded)	10 (Not recorded)	7 (Not recorded)	6 (£5,219.01)	7 (£7,858.02)

No. of successful prosecutions	10	5	9	14	13
No. of people removed from the Housing Register	Not Recorded	Not recorded	Not recorded	0	1
No. of Right To Buy stopped (Total saving)	Not recorded	Not recorded	Not recorded	0	1 (£75,000)
No. of Properties recovered (Total estimated Saving)	Not recorded	Not recorded	8** (£144,000)	9 (£162,000)	10 (£180,000)
** Gravesham were a pilot site for a data matching exercise carried out by Fujitsu aimed at identifying possible tenancy fraud. 6 of the 8 properties recovered during 2012-13 were as a result of the exercise.					
No. of Internal Investigations concluded	5	6	2	2	6
Results of Internal Investigations	No Criminal action but evidence passed to HR for disciplinary action in all 5 cases	Not recorded	No fraud in either case	No Criminal action but evidence passed to HR for disciplinary action	3 closed with no evidence of misconduct or fraud 3 closed with no criminal action but passed to HR for disciplinary action
No. of disciplinary cases with investigation team assistance	Not recorded	Not recorded	Not recorded	1	10
Disciplinary results	Not recorded	Not recorded	Not recorded	1 employee dismissed	3 employees dismissed 6 resignations prior to disciplinary hearings 1 Written warning