

Finance and Audit Scrutiny Committee
30 September 2020

Title: Corporate Fraud Investigation Performance Report 2019/20

Lead Officer: Richard Barr

Portfolio Holders: Councillor Hales

Public report / Confidential report: No

Wards of the District directly affected: Not applicable

Contrary to the policy framework: No

Contrary to the budgetary framework: No

Key Decision: No

Included within the Forward Plan: Yes

Equality Impact Assessment Undertaken: Not applicable

Consultation & Community Engagement: Consultation with line management and SMT. None with community.

Final Decision: Yes.

Officer/Councillor Approval

Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	7 Sept 2020	Chris Elliott/Andrew Jones
Head of Service	7 Sept 2020	Mike Snow
CMT	7 Sept 2020	Chris Elliott/Andrew Jones/Bill Hunt
Section 151 Officer	7 Sept 2020	Mike Snow
Monitoring Officer	7 Sept 2020	Andrew Jones
Finance	7 Sept 2020	Mike Snow
Portfolio Holder(s)	15 Sept 2020	Councillor Hales

1 **Summary**

- 1.1 Report provides details of performance by Corporate Fraud Investigation team for 2019/20.

2 **Recommendations**

- 2.1 That the report, including its appendices, be noted and, where appropriate, approved.

3 **Reasons for the Recommendations**

- 3.1 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. Counter-fraud measures form a key part of each of those elements and so Members of an audit committee require assurance on anti-fraud and corruption activity.

4 **Policy Framework**

4.1 **Fit for the Future (FFF)**

- 4.1.1 The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects.
- 4.1.2 The FFF Strategy has 3 strands, People, Services and Money, and each has an external and internal element to it, the details of which can be found [on the Council's website](#). The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

4.2 **FFF Strands**

4.2.1 **External impacts of proposal(s)**

People - Health, Homes, Communities

To ensure that services which the public can access such as social housing, council tax reduction and any discounts, are not obtained fraudulently. This contributes to ensuring these services are available for residents and businesses in most need.

Services - Green, Clean, Safe

The work of the Fraud Team helps to ensure that the resources of the Council are properly used in the provision of Council services.

Money- Infrastructure, Enterprise, Employment

The work of the Fraud Team helps to ensure that the resources of the Council are properly used in the provision of Council services.

4.2.2 **Internal impacts of the proposal(s)**

People - Effective Staff

Although there are no impacts all staff have been given the opportunity to attend training sessions to assist them in recognising suspicious activity which potentially could be fraudulent.

Services - Maintain or Improve Services

The provision of our fraud service assists in ensuring that only those people who are entitled, receive the services thereby ensuring we focus on customers' needs.

Money - Firm Financial Footing over the Longer Term

The work of the fraud team is crucial in ensuring public funds are protected.

4.3 **Supporting Strategies**

4.3.1 Each strand of the FFF Strategy has several supporting strategies but direct reference to them is not necessary in considering the subject matter of this report.

4.4 **Changes to Existing Policies**

4.4.1 This section is not applicable.

4.5 **Impact Assessments**

4.5.1 This section is not applicable.

5 **Budgetary Framework**

5.1 Although there are no direct budgetary implications arising from this report, an effective control framework helps the Authority manage its resources economically, efficiently and effectively.

6 **Risks**

6.1 Effective fraud investigation should reduce and deter the risk of inappropriate use of public resources.

7 **Alternative Options Considered**

7.1 This section is not applicable as the report is not concerned with presenting alternative options for consideration.

8 **Background**

8.1 All references to fraud within this document include any type of fraud-related offence. Whilst the Fraud Act (2006) (the 'Act') does not provide a single definition of fraud, it may be described as 'theft by deception'. The key

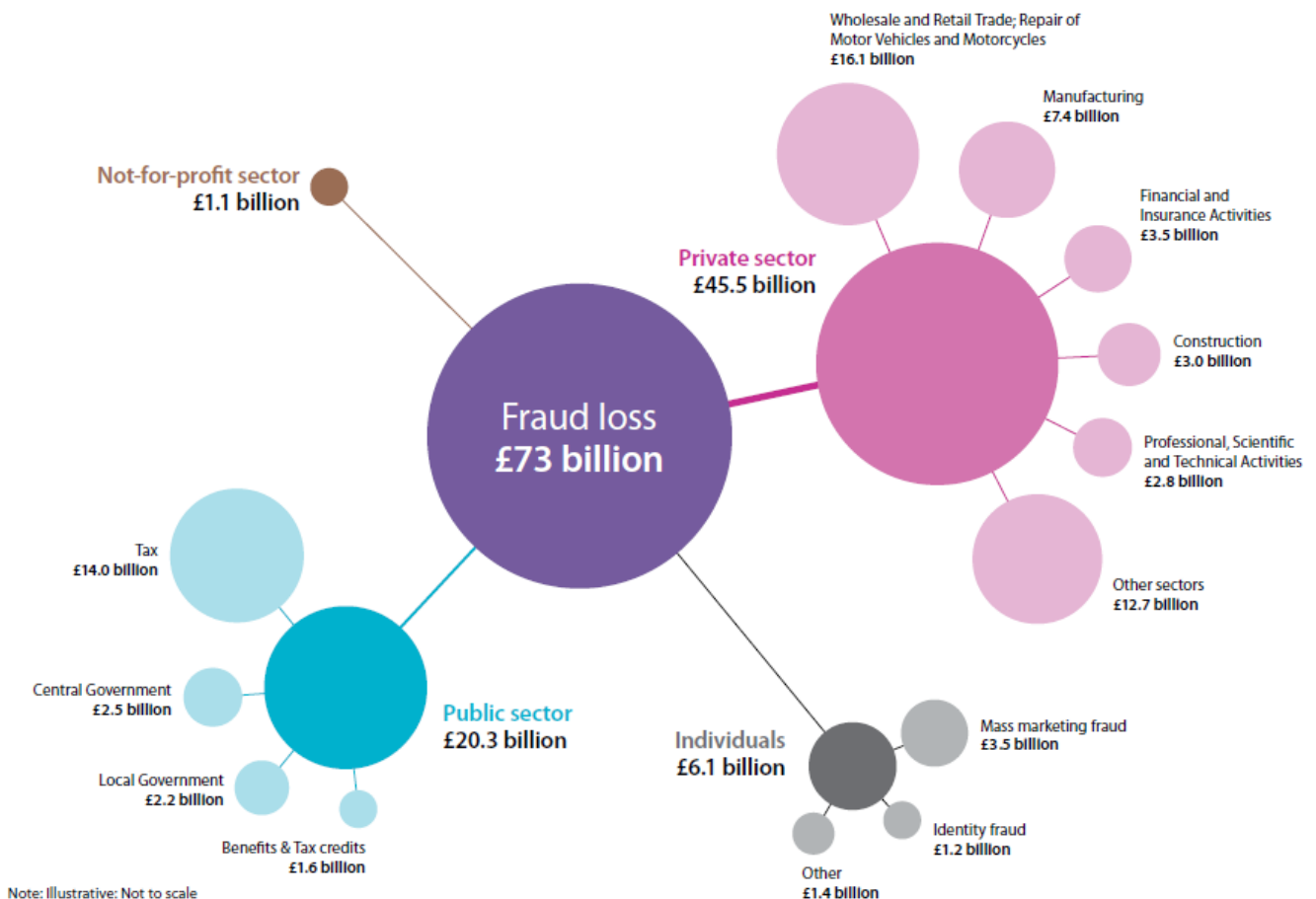
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characteristics of fraud include an individual acting dishonestly and with the expectation of either making a gain for themselves or another person, or, causing loss to a third party.

8.2 The Act identifies fraud as a single offence that can be committed in three separate ways:

- Fraud by false representation – A person dishonestly makes a false representation, intending to make a gain for himself or another, or to cause loss another or to expose another to a risk of loss. The legal definition of 'representation' is broad and includes written, verbal and non-verbal communication.
- Fraud by failing to disclose information – A person dishonestly fails to disclose to another person information which they are under a legal duty to disclose, and intends, by failing to disclose the information to make a gain for himself or another, to cause loss to another or to expose another to a risk of loss.
- Fraud by abuse of position – A person abuses their position, intending to make a gain for themselves or another or to cause loss to another.

8.3 In 2012 the government set up a body to examine fraud in local government. It culminated in the production of a paper entitled "Fighting Fraud Locally: The Local Government Strategy". The diagram below, contained in that paper, depicts the estimate of loss to fraud in the UK across all sectors:



To comply with SCULPT readability requirements, the key points from this diagram are set out below.

- 8.4 Of the total sum lost each year to fraud, around 30 per cent occurs in the public sector, with estimated losses of around £20 billion a year. Although the majority of this loss is the result of fraud against the tax system, about £6 billion is estimated to be in areas such as payroll, procurement, grants and pensions. Fraud in local government accounts for around 11% of total public sector fraud, costing taxpayers about £2.2 billion a year. The table below provides a breakdown of this figure.

Fraud Type	Fraud Loss
Housing Tenancy fraud	£900 million
Procurement fraud	£890 million
Payroll fraud	£153 million
Council Tax fraud	£131 million
Grant fraud	£41 million
Pension fraud	£5.9 million

- 8.5 Estimates of the value of fraud perpetrated in the UK vary from year to year but in recent years have been heading towards £100 billion per year. The estimated annual loss to fraud in councils is still in excess of £2 billion.
- 8.6 In February 2015, the Housing Benefit fraud investigation function transferred to the Department for Work and Pensions under the auspices of the Single Fraud Investigation Service (SFIS). Following several unsuccessful attempts to recruit suitably-qualified investigation staff, alternative options for providing the service were considered. In February 2016 arrangements were agreed with Oxford City Council to provide a Corporate Fraud Service for Warwick District Council. The Fraud Unit at Oxford City Council had been, and still are, providing a fraud investigation service for a number of other councils including Oxfordshire County Council. The team at Oxford were the Institute of Rating Revenues and Valuation (IRRV) winners for Excellence in Corporate Fraud in 2016.
- 8.7 Warwick District Council pays for one full time equivalent employee from Oxford City Council. This is achieved through a number of individuals (usually two or three) employed by Oxford. This enables a range of skills and expertise to be provided.
- 8.8 Most of the investigations undertaken by the team are 'reactive' investigations. These involve the search for and the gathering of evidence following an allegation or fraud referral, or the discovery of a set of circumstances which amount to an offence. In these cases, the offence is usually already being committed. An example would be where a member of the public contacts a council to inform them that one of their council tenants is unlawfully sub-letting their council property.
- 8.9 One source of referral is the National Fraud Initiative (NFI). The NFI, coordinated by the Cabinet Office, matches electronic data within and between public and private sector bodies to help prevent and detect fraud. These bodies include police authorities, local probation boards, fire and

rescue authorities as well as local councils and a number of private sector bodies. Participation in the NFI is mandatory for councils who are required to submit data to the National Fraud Initiative on a regular basis. The Council has always sought to investigate the majority of matches received via the NFI. This is resource-intensive, however, and usually delivers very little in the way of results. In addition to the normal matches, NFI provided an additional single person discount (SPD) report that matches data to other external sources such as blue badge and concessionary travel data. However, due to the timing of when data is collected and the length of time before the matches were received, a view was taken that only the high-risk cases would be checked and the team would undertake a separate SPD review. The Team have access to a data matching system and, using this technology to review single person discount cases, will ensure that any data submitted is matched and returned daily. An SPD pilot was established and an officer appointed within the Revenues team to identify single person discount matches. The review was completed but a decision was made to not proceed so matches were not investigated.

- 8.10 As part of the contract, the team from Oxford also provide fraud awareness training sessions to staff across the Council, and this has now been incorporated into the corporate induction training. More recently, as part of their fraud prevention work, the team have been providing additional assistance to staff in the housing advice team, to assist with their investigative interviewing skills when interviewing customers who present as homeless. Further guidance has also been provided to help them interpret information obtained through the national anti-fraud network.

9 **Types of Fraud Investigated by Corporate Fraud Team**

9.1 **Council Tax Fraud**

This can be broken down into two main areas - Discount and Exemption fraud and Council Tax Support fraud.

9.1.1 **Discount and Exemption fraud**

The owner leaseholder or tenant of a property is responsible for paying Council Tax. The amount paid is based on the banding of the property. The full liability is based on two or more adults being at the property and a full bill is paid unless an exemption or discount is granted. Fraud can occur when an individual intentionally gives incorrect or misleading information in order to pay less or no council tax. Examples include someone stating that they live alone when another adult also lives there or someone claiming to be a student when they aren't or claiming Empty property exemption when the property is occupied.

9.1.2 **Council Tax Support fraud**

The Department of Work and Pensions (DWP) is responsible for the investigation of Housing Benefit (means tested help with paying rent) fraud however Council Tax Support (means tested help with paying Council Tax) fraud is often associated with Housing Benefit fraud and it is the Council's job

to investigate this. Examples of Council Tax Support fraud include making a false statement about one's household, income or capital and failing to report a change of circumstances.

9.2 **Social Housing Fraud**

The unlawful misuse of social housing can be broken down into two main areas – Housing Tenancy fraud and Right to Buy fraud.

9.2.1 **Housing tenancy fraud** includes offences such as unlawful subletting, false homeless applications, non-residency and unauthorised tenancy succession.

9.2.2 **Right to Buy fraud** includes fraudulent applications under the right to buy/acquire schemes.

Unlawful occupation of social housing 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.

9.3 **Housing Benefit fraud**

9.3.1 Housing Benefit and Council Tax Benefit, where they are still paid, are administered by the Council on behalf of the Government. They are paid to people who are liable to pay rent and/or Council Tax and who have a low income, whether they are working or not. Benefit fraud is defined as someone obtaining state benefit they are not entitled to or deliberately failing to report a change in their personal circumstances e.g. failure to disclose financial assets and/or changes to employment or individual(s) residing at a property.

9.3.2 Since the introduction of Universal Credit in 2013, to help with housing costs, the majority of eligible residents receive Universal Credit payments from DWP rather than Housing Benefit from their local authority. For some claimants, however, Housing Benefit can still be claimed from the local authority. This includes people on low incomes who are pensioners (both members of a couple must be pensioners), live in supported (specified) accommodation, or are in receipt of a severe disability premium (and who are not claiming Universal Credit). (It only applies to rent; it is not available for mortgage repayments.)

9.3.3 At the same time, Council Tax Benefit also ceased to exist and was replaced by Local Council Tax Support.

9.3.4 DWP have the responsibility of investigating all HB fraud and will joint work with local authorities where Local Council Tax Support is also claimed. Although councils are no longer responsible for the investigation of this fraud, as administrators of this benefit there is a responsibility to try to prevent fraud and to notify the Department of Work and Pensions (DWP) of any suspected fraudulent activity including false applications and failures to declare changes in circumstances.

9.3.5 Discretionary Housing Payment (DHP) is a discretionary scheme where the local authority can provide extra money to help a claimant meet their housing costs such as providing assistance with a rent shortfall, a rent deposit and rent in advance. DHPs are only for extra help towards Housing Costs and are not for help with Council Tax. When investigating a Housing Benefit fraud, if it is discovered that the customer has received DHP an attempt would be made to recover it. It is not covered in the same legislation as HB or CTR overpayments, however, and therefore cannot be included as part of any sanction.

9.4 **National Non-Domestic Rates fraud**

9.4.1 National Non-Domestic Rates (NNDR), more commonly referred to as Business Rates, is paid by all businesses unless they qualify for a relief or an exemption. Examples of NNDR fraud include:

- A business falsely claiming that a property is unoccupied to obtain an empty property exemption.
- A charity or not for profit organisation registered as the occupier of a property to claim mandatory and discretionary rates relief whilst the property is actually being used by a profit-making organisation.
- A business falsely claiming insolvency with the intent to avoid paying rates.

9.4.2 NNDR frauds would be investigated by the Fraud team but no referrals were received during the year.

10 **Sanctions**

10.1 Investigations where fraud is proven are punishable either by issuing a formal caution or an administrative penalty (known as "ad-pen") is an agreement with the claimant that in addition to the repayment of the debt they will pay a further amount. This amount is determined by legislation and is calculated as a percentage of the debt. The level of the percentage differs depending on the period in which the overpayment occurred. Neither of these sanctions results in a criminal record. In more severe cases, a claimant will be prosecuted. Sanctions are increasingly less common since DWP took over HB investigations – we can still offer an administrative penalties and cautions but only do so on very rare occasions. Joint cases with the DWP, on the other hand, will often result in ad-pens or prosecutions. We can offer a civil penalty in respect of council tax and this is £70 penalty added to the account following an investigation but due to COVID-19 the Revenues team have not been issuing these so as not to put anyone under added financial pressure.

11 **Corporate Fraud identified during 2019/20 at Warwick District Council**

11.1 The total amounts of savings to Warwick District council identified by the Corporate Fraud Investigation team for 2019/20 is £270,699.57. This includes cash and non-cash savings. Of this total, £224,620.97 represents cash savings. The remainder is non-cash savings based on predictions. The

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predictions usually relate to estimates, from experience, of perpetuation of the fraud if it had not been discovered. Of this total, the majority - £165,600 - is based on the identification of two fraudulent Right to Buys.

- 11.2 An analysis of the savings identified by the Corporate Fraud Investigation team for 2019/20 is set out as Appendix 1 to this report.
- 11.3 An explanation of each of these types of savings together, in the case of non-cash savings, with an explanation of how they have been calculated is set out as Appendix 2.