

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 January 2014

Report of the Director of Finance & Transformation

Part 1- Public

Delegated

1 PROTECTING THE PUBLIC PURSE 2013

Summary

This report informs Members of the findings of the Audit Commission annual survey and report on “Protecting the Public Purse”

1.1 Introduction

- 1.1.1 The National Fraud Authority (NFA) estimates fraud committed against local government is in excess of £2 billion each year. It is the duty of each and every local authority to protect the public purse and to fight fraud in their area whilst assisting other authorities to do the same. Failure to do so results in the authority’s reputation being damaged and undermines trust in public services and the political process.
- 1.1.2 Fraud against local government is often perceived by members of the public as a victimless crime; however the consequences of fraud are very serious to the local economy. Every pound lost through fraud is money that cannot be spent on local services such as education, social care, social housing etc.
- 1.1.3 Fraudulently subletting council homes denies people on the housing waiting list the chance of a home; some of whom may be living in squalid overcrowded conditions and in desperate need.
- 1.1.4 The 2010 Spending Review announced a 28 per cent fall in grant income to local government up to 2014-15 plus a further 10 per cent decrease for 2015-16. Therefore, in times of austerity the prevention and detection of fraud is ever more important to limit the impact these cuts have on Council services and staff numbers.
- 1.1.5 The Audit Commission produces an annual report called “Protecting the Public Purse – Fighting Fraud against Local Government”. The 2013 report concludes that –

- local government as a whole detected 14 per cent fewer frauds in 2012-13, excluding tenancy frauds, than in the previous year, however the monetary value of these frauds is only one per cent lower than in 2011-12, which shows that the financial level of individual frauds increased by 15 per cent;
- London Boroughs detected 36 per cent more fraud in 2012-13, whilst other regions showed a decline of between 6 per cent and 46 per cent;
- Housing and Council Tax Benefits accounted for 44 per cent of all frauds detected but equated to two-thirds of the total loss value of £178M;
- 76 per cent of all detected non-benefit fraud were found by only 25 per cent of councils, 79 district councils reported no non-benefit fraud;
- local authorities recovered 2,600 homes from housing tenancy fraud; an increase of 51 per cent since 2011-12, of which 58 per cent were recovered by London authorities despite only accounting for one quarter of all council housing in England;
- councils outside London doubled the number of tenancy frauds detected demonstrating their commitment to and success in tackling this fraud;
- more councils in 2013 reduced their investigative capacity than increased it, London councils have done more than other regions to refocus their counter-fraud resources towards non-benefit fraud;
- all councils need to maintain their capacity to investigate non-benefit fraud in light of the introduction of the Single Fraud Investigation Service (SFIS) and follow the lead of London and consider how to prioritise resources and re-focus towards non-benefit frauds that directly affect their revenue; and
- Councillors should play a crucial role in supporting the right approach to deter and detect fraud.

1.1.6 The complete document is available on the Audit Commission website:-

<http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Protecting-the-public-purse-2013-Fighting-fraud-against-local-government.pdf>

1.1.7 Within the document is a fighting fraud governance checklist designed to identify the areas within the report that are being addressed. It is suggested that checklist should be completed by the Audit Committee. A copy of the checklist is attached. **[Annex 1]**

1.2 Non-Benefit Fraud

1.2.1 Non-benefit frauds, such as council tax discounts and housing directly cause a financial loss to the Council, whilst benefit fraud represents a loss to the national Treasury. However, 15 per cent of annual fraud losses arise from housing benefit fraud but in 2012-13 it accounted for 67 per cent of the total value detected.

1.2.2 Although Tonbridge & Malling do not have housing stock there are losses involved with fraudulent housing applications and potential costs of providing bed and breakfast accommodation for those who remain homeless longer.

1.2.3 The report concludes that since councils bear the main loss from non-benefit fraud they should re-focus their attention towards this type of fraud.

1.3 Council Tax Discount & Exemption

1.3.1 Fraudulently claimed discounts and exemptions directly reduce council tax income for the authority, thereby placing increased financial pressure on the council's services to the public.

1.3.2 The most common types of fraudulently obtained discounts and exemptions are –

- Single Persons Discount,
- Student exemption, and
- Empty Property exemption,

of which the most common fraudulently claimed is single persons discount fraud where a 25% discount is claimed for sole occupiers, which rises to 100% if the person is a full time student

1.3.3 In 2013-14 the Council took part in the National Fraud Initiative exercise which matched Single Person Discounts to Electoral Register data. This identified over £12,000 in incorrect single person discounts. This exercise is due to take place again in 2014.

1.3.4 As well as adjusting the council tax bill to remove the single person's discount the council may also apply a financial penalty of £70 to the bill.

1.3.5 This one-off exercise shows that by redirecting investigative resources to this area of fraud on an on-going basis there is significant additional sums of council tax to be collected.

1.3.6 The Audit Commission states that 4-6% of single person discount claims are fraudulent, which means there is the potential to recover between approx. £272,466 and £408,699 (this is based on the Tonbridge & Malling's average SPD of £450pa, and is also based on the total Council Tax charge – including Council Tax for the major preceptors) Although monies lost to this type of fraud is recovered via the council tax bill, the Audit Commission further recommend that such fraud is treated as a criminal offence to act as a deterrent.

1.3.7 This increased liability would mean additional income for Tonbridge & Malling between approximately £32,695 and 49,043.

1.4 Council Tax Reduction Scheme

- 1.4.1 The replacement of council tax benefit, which was a social security benefit, with a council tax reduction means that this is now classified as “non-benefit” fraud.
- 1.4.2 The detection of council tax reduction fraud has the same affect as discounts and exemptions fraud in that the council tax bill is adjusted and a financial penalty may be applied to the bill.
- 1.4.3 The first year of council tax reduction is still incomplete and as yet no figures for council tax reduction fraud is available, however as instances of benefit fraud have always been significant in number there is no reason to assume it will be any less because it is administered as a local scheme.

1.5 Non-domestic Rates

- 1.5.1 Non-domestic rates fraud includes –
- false claims for mandatory or discretionary rate relief or empty property exemptions,
 - failure to declare occupancy of a property
 - false claims of insolvency status to evade payments, and
 - failing to disclose relevant information to gain rate relief
- 1.5.2 Historically there has been little incentive for local councils to investigate instances of non-domestic rates fraud as all monies collected were passed directly to central government. However, since April 2013, councils have kept a percentage of the non-domestic rates collected under the Business Rates Retention Scheme. This provides a financial incentive for Tonbridge & Malling to be more proactive in this area of fraud risk.
- 1.5.3 The Audit Commission states that councils have reported significant increases in applications for rate relief and incentive schemes, such as charitable and empty property relief.
- 1.5.4 While the majority of businesses applying for rate relief are genuine, it is an area that could be exploited by fraudsters, presenting a potential for significant financial losses.
- 1.5.5 Non-domestic rates fraud detected in 2012-13 had a total value of £7.2 million from 149 cases nationally, 5 million of which was linked to one case, which demonstrates the potential financial impact.
- 1.5.6 Investigation of suspected fraudulent claims for exemptions and relief could generate significant increases in the level of rates to be collected and in turn raise the level of revenue collected for Tonbridge & Malling.

1.6 Tackling Fraud in Tonbridge & Malling 2014-15

1.6.1 Based on the Audit Commissions recommendations, the following actions are proposed for tackling fraud in Tonbridge & Malling in 2014-15 and beyond -

- building on Tonbridge & Malling's Anti-fraud and Corruption Strategy to develop a clear strategic plan for the prevention and detection of non-benefit fraud and continuing to ensure that working with Single Fraud Investigation Service (SFIS) to tackle benefit fraud,
- extend communication and partnership working with other local authorities, relevant departments within Tonbridge & Malling council, housing associations, the Charity Commission, local voluntary groups etc, this list is not exhaustive,
- prepare for the introduction of SFIS by –
 - re-focusing the priorities of the council's fraud resource to investigate areas of non benefit fraud, such as council tax, non-domestic rates and housing tenancy,
 - revise job descriptions and roles within the fraud team to increase the number of investigators and associated intelligence roles,
 - extend fraud awareness training to include non-benefit fraud matters and deliver to a wider staff audience to include members,
- as a means to improving use of data resources to measure performance, explore the potential for the acquisition of a secure web-based Fraud Management System to –
 - comply with the requirements of the Criminal Procedures and Investigation Act 1996,
 - target fraud more effectively,
 - control the investigation process, and
 - improve the likelihood of a successful prosecution

1.6.2 The Secretary of State for Communities and Local Government has announced that the Department for Communities and Local Government and the Department for Work and Pensions will be investing in local government's capacity to tackle non-benefit fraud, which will include extra funding in 2014-15 and 2015-16. A copy of the letter to council leaders can be found as **[Annex 2]**.

- 1.6.3 A follow-up report to members will be presented at the Committee meeting in September detailing progress made against the actions outlined in Section 1.6.1 above

1.7 Other Fraud Considerations

- 1.7.1 CIPFA have recently published "Audit Committees – Practical Guidance for Local Authorities and Police 2013 Edition". This document is reported upon elsewhere within this agenda.
- 1.7.2 Within this document there has been an additional core function added in respect of Audit Committees which is for the Committee to ensure "Effectiveness of the control environment, including arrangements for value for money and countering fraud".
- 1.7.3 The Department for Work and Pensions have announced that despite the delays in the introduction of the Universal Credit they are to press ahead and start to introduce the Single Fraud Investigation Service from April 2014.
- 1.7.4 It is still not clear how this team will work with local authorities but it is clear that they will investigate all benefit related fraud. However, they have stated that Council Tax Reduction Scheme is a discount and not a benefit and therefore they will not include this or single person discount fraud in any investigation.
- 1.7.5 This means that local authorities will still require sufficient fraud resources to investigate these frauds as well as any other non-benefit related frauds. Consideration is taking place by Kent County Council on how support funding could be given to districts as the County is the main beneficiary of any Council Tax savings.
- 1.7.6 The Council will also still have a responsibility to ensure the quality of data being used to process new claims is accurate. A failure to do so could result in SFIS investigating at a later stage and imposing large overpayments on the Council for fraud cases resolved. In a majority of joint working cases the Housing Benefit exceeds the Job Centre Plus benefit.

1.8 Legal Implications

- 1.8.1 There are no financial implications arising from this report.

1.9 Financial and Value for Money Considerations

- 1.9.1 The successful prevention and detection of fraud prevents losses to the Council and enables resources to be used elsewhere.

1.10 Risk Assessment

- 1.10.1 The failure to adequately control fraud will lead to an escalation in lost resources to the Council.

1.11 Equality Impact Assessment

1.11.1 No issues identified.

1.12 Recommendations

1.12.1 It is **recommended** that Members of the Audit Committee complete the checklist contained within the report and report back the responses to the next Audit Committee meeting.

Background papers:

contact: David Buckley

Protecting the Public Purse Audit Commission
Audit Committees – Guidance CIPFA

Sharon Shelton
Director of Finance and Transformation.

Screening for equality impacts:		
Question	Answer	Explanation of impacts
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?	No	Recommendation is to complete checklist which has no equality impact.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	Recommendation is to complete checklist which has no equality impact.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		

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.