

**Agenda Item No:** 4  
**Report To:** **AUDIT COMMITTEE**



**Date:** **5 MARCH 2013**

**Report Title:** **Future of the Fraud Investigation Team**

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**Summary:** Following on from previous reports to the Committee various options for the future of the fraud investigation team have now been considered. The need to consider options is brought about by welfare reform changes, and connected with these is the government's intention that a new 'single fraud investigation service' operated by the Department for Work and Pensions (possibly fully from 2015) will investigate social security benefits, tax credits and Universal Credit (when commenced). Housing benefit is being abolished and a new housing cost element will be included in Universal Credit. Local authorities will therefore lose responsibility for housing benefit investigations. Councils will retain responsibility for investigating council tax, including council tax support, and will retain responsibility for other types of fraud investigations (such as housing tenancy fraud). In parallel with a review by the Mid Kent Audit Partnership, our own review has been carried out, and the conclusions are now reported. The preferred option for the future is for the council to retain a fraud investigation service, and for this to stand alone as a service within the council so that its scope can widen to other service areas. This is supported by the management team. The proposal, if supported by the Committee, and the Cabinet as this is also a service structure and budget issue, will need more work on the scope and the financial issues, as indicative only, but reasonable assumptions are made in the attached report.

**Key Decision:** Not relevant at this time.

**Affected Wards:** None specifically

**Recommendations:** **The Audit Committee is asked to:-**

1. consider the conclusions from the options review into the future of the Fraud Investigation Team, and support the preferred option for the council to retain a corporate fraud investigation service with the intention of making the change from April 2014.

2. subject to the above, agree that officers prepare a final proposal to include the scope in more detail, along with a further assessment of the financial impacts for consideration by this committee, before consideration by the Cabinet in due course(as the proposal has structural and financial implications).

**Policy Overview:** The Government is establishing a single fraud investigation service to handle the investigation of social security, tax credits and Universal Credit claims. The new service will take over responsibility from local authorities for their investigations into housing benefit claims. The council has a well performing investigation service with scope, and the need, to broaden its activity. Hence the need now to consider the future role of the team.

**Financial Implications:** This report is not seeking a decision over the financial impacts at this stage. These need more consideration as news of the government's transition to Universal Credit and its grant impacts becomes clearer. At present, and excluding internal recharges about 88% of the team's direct costs are funded from within the total housing benefit administration grant paid by DWP. This will reduce over time. The report makes assumptions about funding from 2014/2015, and makes the assumption that there is greater potential to achieve cost and reputation savings to the council corporately by retaining a fraud investigation service. If agreed in principle these assumptions will be further tested during the coming year, particularly drawing on experience of the new council tax support scheme. For this the principle of support for dedicated fraud investigation is agreed by the major precepting authorities; the details and funding support are to be finalised.

**Risk Assessment** The report highlights the risks to the council if the fraud investigation service is diluted when the single fraud investigation service is fully established.

**Other Material Implications:** There are no material staffing implications, unless the council decides not to expand the scope of activity and risk dilution of resources when the single fraud investigation service is fully established.

**Background Papers:** None

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## **Report Title: The Future of the Fraud Investigation and Visiting Team**

### **Background**

1. This report follows consideration of options for the future of the Fraud Investigation & Visiting Team, currently part of the Revenues and Benefits service, in the light of growing demand coupled with the potential loss of responsibility for housing benefit fraud work when this is transferred to the government's Single Investigation Fraud Service. This report should be read in conjunction with the Fraud Annual Report 2011/12 that was put to Audit Committee on 25<sup>th</sup> June 2012, and the Fraud Investigation Team update that was put to Audit Committee on 27<sup>th</sup> September 2012.
2. The main reasons to review the team and why now are: -
  - The introduction of The Single Fraud Investigation Service (SFIS) which was originally due to go live from April 2013, however put back and currently operating within 4 pilot authorities from 5<sup>th</sup> November 2012 for a minimum of 1 year. There is expectation within the DWP that this will be rolled out to all LA's from April 2014, but some recent correspondence may suggest an even later date. SFIS is an amalgamation of fraud teams within DWP, HMRC and LA's to investigate all welfare benefits.
  - The investigation part of the team has naturally evolved over the recent years to incorporate other areas of investigation, not just Benefit Fraud. A large area of our work is on Tenancy Fraud and this has the potential to expand further – indeed a bid in response to the government's social housing fraud programme has been made, which if successful could expand resources by two staff. Further our expertise is used council-wide on a more regular basis for criminal investigation work.
  - The MKIP Audit Partnership review – MKIP is currently reviewing the partnership and part of this is to consider whether counter fraud work should be brought within an Audit and Fraud partnership across the four authorities. Following some initial analysis, it became apparent that there are differences between Ashford and the MKIP Councils in terms of the emphasis for anti-fraud work, principally arising from Ashford being the only one of the four to have a housing stock. The MKIP senior management steering board is aware of Ashford's intentions to consider the option of an expanded stand-alone counter fraud team, though there would still remain a good business case for the other three councils to work in partnership on counter fraud activity. The Internal Audit team at Ashford will continue to have a positive working relationship with the Fraud Team.

## SWOT analysis on options

Option	Strengths	Weaknesses	Opportunities	Threats
<b>a) Devote more resources to tenancy fraud (including with RSLs) and other fraud investigation work such as council tax and business rates related</b>	<ul style="list-style-type: none"> <li>• Specialised Investigators</li> <li>• Reduction in Bed &amp; Breakfast costs</li> <li>• Reduction in Housing waiting list</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced opportunities for career progression within ABC</li> </ul>	<ul style="list-style-type: none"> <li>• Maximise revenue for Ashford Borough Council and Kent County Council</li> </ul>	<ul style="list-style-type: none"> <li>• SFIS = Reduced staffing, threatening increased exposure to fraud. No capacity to deal with ad-hoc, high priority investigations.</li> </ul>
<b>b) Combine the Fraud team with another or other councils' fraud teams</b>	<ul style="list-style-type: none"> <li>• Specialist Investigators</li> <li>• Potential long term resilience within staffing – after training</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction in Management time</li> <li>• Less focus on Ashford Borough Council's priorities</li> <li>• No link to the visiting officers</li> </ul>	<ul style="list-style-type: none"> <li>• Learning opportunities</li> <li>• ABC income increased or outgoings reduced due to shared management</li> <li>• Shared criminal legal advisors (all depends on which LA combining with)</li> </ul>	<ul style="list-style-type: none"> <li>• Initial affect on performance and output</li> <li>• Increased cost if Manager unable to undertake court work due to lack of skill or time</li> <li>• Excessive time managing different priorities</li> <li>• Loss of focus on prevention for ABC = more focus on stats</li> </ul>
<b>c) As b above, but as part of the Mid-Kent Partnership</b>	<ul style="list-style-type: none"> <li>• Specialist Investigators</li> <li>• Potential long term resilience within staffing – after training</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction in Management time</li> <li>• Less focus on Ashford Borough Council's priorities</li> <li>• Managing 4 different focuses, budgets,</li> </ul>	<ul style="list-style-type: none"> <li>• Learning opportunities</li> <li>• ABC income increased or outgoings reduced due to shared management</li> <li>• Shared criminal legal advisors (all depends</li> </ul>	<ul style="list-style-type: none"> <li>• Initial affect on performance and output</li> <li>• Increased cost if Manager unable to undertake court work due to lack of skill or time</li> <li>• Excessive time managing</li> </ul>

		<p>expectations and political commitments</p> <ul style="list-style-type: none"> <li>• Resilience – a lot of hidden cost due to different employee contracts</li> <li>• No link to the visiting officers</li> </ul>	<p>on which LA combining with)</p>	<p>different priorities</p> <ul style="list-style-type: none"> <li>• Loss of generic approach</li> <li>• Loss of focus on prevention for ABC = more focus on stats</li> <li>• Does Fraud naturally sit within Audit?</li> <li>• (eg: a London Borough Fraud &amp; Audit Team were congratulated and criticised for the same investigation. An large fraud committed over a long period of time was uncovered by an investigator and on evaluation it was noted that there were areas of weakness that should have been picked up on a recent audit)</li> </ul>
<p><b>d) To become a stand alone team within the Council and consider creating an arms-length staff mutual or company style arrangement to permit the development of an even wider focus</b></p>	<ul style="list-style-type: none"> <li>• Specialist Investigators</li> <li>• Ashford Borough Council priorities remain high</li> <li>• High staff morale</li> <li>• Skills in place should the need for a high risk, speedy investigation arise</li> <li>• Investigation areas currently active to be maintained</li> </ul>	<ul style="list-style-type: none"> <li>• Initial time investment by Management</li> </ul>	<ul style="list-style-type: none"> <li>• Work with the private sector, starting with Housing Associations</li> <li>• Potential for income generation from external contracts</li> <li>• Flexibility to investigate all areas of Fraud, where necessary</li> <li>• Increase staffing with increased income</li> </ul>	<ul style="list-style-type: none"> <li>• Risk to staff? Believe this has now been minimised?</li> </ul>

			<ul style="list-style-type: none"> <li>• Increased knowledge, ability and training in other areas of investigation</li> </ul>	
<p><b>e) See a transfer of resource to the Single Fraud Investigation Service and downsize the team and its work accordingly</b></p>	<ul style="list-style-type: none"> <li>• Financial savings to ABC as loss of staff</li> </ul>	<ul style="list-style-type: none"> <li>• Vulnerability and exposure to fraud</li> <li>• Loss of income to ABC and KCC</li> <li>• No resilience</li> <li>• Tenancy Fraud not investigated resulting in increased costs for B&amp;B &amp; Housing</li> </ul>	<ul style="list-style-type: none"> <li>• <i>None for ABC or the staff</i></li> </ul>	<ul style="list-style-type: none"> <li>• High risk and potential high costs if fraud not investigated correctly</li> <li>• Criticism for removing a resource where the savings outweigh the cost – Tenancy Fraud</li> <li>• High costs to employ temps as and when required</li> </ul>

## Summary & Recommendation

3. Concluding on the options, based on the above and the details provided in the previous two reports it is recommended that during the financial year 2013-2014 the Investigation Team moves from being part of the Revenues & Benefits operational team to a corporate, stand-alone, Investigation Team, but maintaining reporting lines to the S151 Officer (the DCx). At a point in the future, once the new team's role is firmly established (also at a point when the team may have established itself as a provider of counter fraud work to registered social landlords) a review of the feasibility and viability of a creating an arms-length staff mutual or company could be considered to expand the reach of the service.
4. This option would see the Visiting Officers remain within Revenues and Benefits to deal with Council Tax, NNDR and Benefits matters. A close working relationship would continue.
5. This option enables the council to have its needs met from an investigation perspective, in particular maximising income from Council Tax, NNDR and reducing costs in Housing. It also very importantly mitigates future risk in this area by having specialist investigators available, whilst also providing the option to maximise income in the future.
6. This option ensures that Ashford are keeping staff that they have invested in and in turn have created an anti-fraud culture across the organisation, mitigated risks and pro-actively provided a number of successes. The team want to remain employees of Ashford Borough Council and I believe it would be a great loss to ABC if the staff were to be lost to SFIS. The impact of not having a fraud team would prove a great risk, with increased loss of direct income into the Council, also affecting the ability of the Section 151 Officer to fulfil all of his duties.
7. The options of working with MKIP or another Council have some strengths however following on from experience after a trial period working with Canterbury City Council the weaknesses and risks certainly outweigh any potential strengths or opportunities. The only strength, I believe, would be an initial reduction in salaries if it were a shared manager approach. (MKIP are currently undertaking some work in this area with a report to be produced at the end of Jan 13).
8. Ashford does stand alone when it comes to Fraud Investigation within Kent, even though we sit within Revenues & Benefits we have always been proactive and taken into account the affect on Ashford Borough Council as a whole with our decision making. This was shown, along with our forward thinking when Tenancy Fraud was highlighted as an issue by the Audit Commission and by the public within the borough. We worked hard on a Tenancy Fraud pilot with the Housing Department, building on working relationships, increasing our knowledge on legislation and gaining properties from fraudulent tenants to put to very good use. Each property would ordinarily have cost around 110k each to build. The team were also on hand to deal effectively and efficiently with a somewhat time bound investigation for Electoral Services.

9. Please note that the team is submitting a bid to CLG under its social housing counter fraud initiative. Funds totalling £..m are available nationally. With the team's expertise in this area the council should have good prospects of its bid being approved. The bid is made in partnership with four registered social landlord with about 2,000 properties locally. The bid is for £180,000 and would permit an expansion of housing tenancy counter fraud activity for a two-year period.
10. Members and Management Team have always supported the teams approach to prevention:- with it proven that prevention is not only better than detection but much more cost effective overall. The way the government record the statistics when comparing Local Authority Fraud Team's is on the number of cases investigated and those proven from detection. The team work very hard on prevention knowing that morally and economically for Ashford Borough Council and the taxpayer this is the correct way. I would urge everyone involved in the decision making on where the Investigation Team should sit to look at the bigger picture, to read the reports mentioned in my first paragraph in conjunction with any other reports and stats on options that are put forward.
11. The team should be a corporate fraud team, sit separately from any services to which they provide work for so as not to be influenced and stay neutral at all times. It should also be noted that the current service, Revenues and Benefits have been extremely flexible and at times have absorbed extra costs when the team have provided work for other services. As the administration grant reduces over the coming years, if the Investigation Team remain within Revenues & Benefits this will directly affect staffing levels, purely because the team take a corporate stance. The cost should be absorbed fairly across the Services.
12. The income and savings detailed below are a direct result of the team focusing on the needs and desires of Ashford Borough Council, a concentration on the overall impact for the borough. If there was a shift in direction by joining forces with other fraud teams this focus may well be lost and have a direct impact for Ashford with a loss of notional savings and in turn costing the Council more money.

## **Team costs and Income**

- 2013/14 – funded by Administration Grant through Revenues and Benefits
- 20k annual income from Housing for Tenancy Fraud Investigations
- Additional 20k income from Housing for a specific Tenancy Fraud data matching project – temporary member of staff in post



Proposed 2014/15 (not including the social housing counter fraud bid to CLG)

**Total cost for the Investigation Team  
(including oncosts, cars and recharges at 25%)** **£157,270**

Estimated income from Council Tax Support Grant	+ £ 60,000
Estimated income from Housing Benefit Grant	+ £ 40,000
Proposed increased income from Housing (currently re-active work, to include continuous Pro-active work in prevention)	+ £ 40,000
<b>Total income</b>	<b>+ £140,000</b>

Shortfall in income	- £17,270
Notional Savings (based on year 2011/2012)	+£200,729
<b>Total income/notional savings from the team (conservative figures used)</b>	<b>+£183,459</b>

13. Over the years 2014 to 2020 Housing Benefit notional savings will reduce as the caseload moves over to Universal Credit. During this period Council Tax Support savings will increase and due to the changes to NNDR from 01.04.13, (detailed at point 24 on Fraud Annual Report 25 June 2012) investigation in this area will have a direct impact not only maximising income but also increasing savings.
14. The above has not taken into account the work the team has provided to Electoral Services, the Community Safety Unit and other guidance on criminal investigations and I would propose that the shortfall in income, if still applicable in April 2014, be made up with direct recharges across the Council in line with the necessity to have the skills in place for prevention against Fraud and to deal with all detection when required or consideration for increased charges where notional savings are high, in particular Housing.
15. In addition to this the team will investigate working with Housing Associations and the private sector to maximise income and reduce costs where possible. The team are also well placed to provide training, guidance and investigate on behalf of other neighbouring authorities in Tenancy Fraud, Electoral Registration Fraud and other criminal investigations. This area will be explored.

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