

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 22 July 2019

Report of: Head of Finance and Audit

Subject: ANNUAL COUNTER FRAUD REPORT

SUMMARY

This report updates the Committee on the counter fraud work carried out in the last 12 months including the numbers and outcomes of fraud cases.

The Audit and Governance Committee's areas of responsibility for Counter Fraud include:
a) to review the assessment of fraud risks and potential harm to the council from fraud and corruption; and b) to monitor the counter-fraud strategy, actions and resources.

RECOMMENDATIONS

It is recommended that the Audit and Governance Committee note the contents of the report.

INTRODUCTION

1. This report provides an update of any actions taken in the last 12 months in support of our Anti-Fraud and Corruption Policy. It also includes details of the cases of fraud that have been investigated.

ACTIVITY SINCE THE LAST REPORT

Strategic Actions

2. **Joint working with the DWP:** The Government has re-introduced joint working of fraud between Local Authorities and the Department for Work & Pensions (DWP). This was rolled out in stages during the year and Fareham went live in October 2018. The purpose of joint working is to re-align some of the processes by sharing intelligence gathering, thus investigating cases more quickly and interviewing a customer under caution by one joint interview rather than 2 separate interviews.
3. This enables the Council Tax Support offences to be included in the DWP prosecution cases as the whole of a fraud is considered. Previously the Local Authority had to instead offer a Civil Penalty if the fraud overpayment did not meet the Authority's own prosecution value of £2,000. The new joint working rules do not allow the Local Authority to prosecute DWP offences, which include Housing Benefit, this must still all be undertaken by the Crown Prosecution Service on behalf of DWP.
4. As at the end of 2018/19 we had 8 cases we had been working jointly with the DWP. Four of these have since been closed for no further action.
5. **Changes to Investigatory Powers:** The Investigatory Powers Act brings some changes in May 2019 to surveillance and how we obtain communications data. The biggest change for us is the removal of judiciary authorisation for Communications data and this is now authorised via a process through NAFN. Surveillance authorisation remains unchanged and Senior Officers only (Head of Service and above) provide initial authorisation with the final authorisation via the Magistrates Court. Surveillance is currently used during the investigation of Tenancy fraud and Council Tax Support cases and this year helped to recover 2 social housing properties.
6. **Database Cleansing:** Students were employed over the summer weeks to carry out a series of data cleansing tasks on our council tax, business rates, housing and sundry debtors' databases. Although not the primary reason for the data cleanse, this work is helping improve the quality of matches and reduce the number of false matches in data matching exercises undertaken including the NFI.

Specific Areas of Fraud

7. **Business Rates (NDR) Business Match:** A detailed exercise was undertaken in the year using a facility provided by an external company who had access to an independent database of businesses in our borough, which is regularly updated from several sources. This was matched to our Business Rates database to identify any businesses that we may not currently be billing. 188 matches have been returned to us which we are currently reviewing as to their potential to include them as a rateable business. The majority are likely to be sole traders using their residential address as a point of contact. There were also 50 businesses highlighted as possibly no longer trading. The review of these has been completed and no issues were found.

8. **Business Rates (NDR) Reliefs:** Last year we reported that Hampshire had been unsuccessful in its bid to be part of a discretionary proactive exercise into NDR relief fraud organised by the Cabinet Office who lead on the National Fraud Initiative.
9. The Hampshire Fraud Group have therefore undertaken their own local exercise comparing databases for properties in receipt of Small Business Rates Relief (SBRR). This relief can only be claimed for a single property under a certain rateable value. This exercise identified 2 cases of abuse for Fareham in respect of one business inappropriately claiming SBRR and another failing to declare an empty property. These 2 cases resulted in additional business rates payments of **£8,300** which have already been received.
10. **Tenancy Fraud:** A data matching exercise was carried out this year using a new tool (IDIS) which allows us to carry out matching of data sets in-house without the need to pay a third party to do this for us. This exercise involved matching our list of current tenants with credit agency data to identify if any of them had a mortgage, which would indicate they were a property owner. No cases were found.
11. **Council Tax Single Residents Discount (SRD) Review:** The Hampshire Chief Finance Officers have now engaged a third-party company to undertake a review of all SRDs in addition to the 2-yearly review carried out by the Revenues team. The company will operate on a no win no fee basis; where an inappropriate discount is found the fee charged will be less than the amount of Council Tax recovered by the Council.
12. Fareham BC has now signed up to take part in this review in 2019/20. The company will be given our SRD data and send out a letter for each one. They will then carry out a data matching exercise with all the returned letters to test the accuracy of the declaration. Fareham will decide what action to take with those accounts where letters have not been returned once numbers are known.
13. **Insurance Fraud:** The internal audit team carried out a data match of the last 5 years of insurance data and matched it to fraud case subjects to see if there is any indication of the insurance claim system being targeted by potential fraudsters. Four claims were found which had been made by parties who had been investigated for other types for fraud. However, no payments had been made on any of these claims indicating that the insurance claim process is being effective in repudiating claims with insufficient evidence of the Council being at fault.

INVESTIGATION REFERRALS AND OUTCOMES

14. The information provided in Appendix C shows the number of fraud and irregularity cases received and investigated in the last financial year, and the information required to be published on our website in accordance with the Transparency Code. There was a total of 1,865 cases investigated, leading to **126** cases of fraud or irregularity being found. These amounted to a total value of **£300,336**. The largest area of fraud found by value was for housing benefit and council tax support payments (£220,212); half of this (£110,688) was found as a result of FBC investigations into council tax support cases.

Whistleblowing

15. There were no cases of serious concern raised by an employee in the last 12 months and no employee has felt it necessary to raise concerns outside the organisation.

Sanctions

16. There have been no criminal sanctions following any investigation where Fareham Borough Council was the lead investigating party. However, 25 civil penalties have been applied, totalling **£1,710**.
17. With the introduction of joint working with DWP, it is anticipated that some cases of overpaid Council Tax Support will now be taken through the criminal justice system.
18. 3 properties were recovered during this financial year, one of these belonged to a Housing Association and the other 2 properties belong to Fareham Borough Council. In all 3 cases, the tenants were found to be residing elsewhere.

Interesting Cases

19. **Housing Fraud - Vulnerable Tenant:** A Neighbourhood Officer had received complaints from other residents that a young man wasn't living in his council-owned flat but instead was letting other people stay there. CCTV showed that this was possibly the case as unknown males were seen entering and leaving the flat.
20. An alternative address was found for where the tenant was staying, a few streets away, at a friend's house. A brief conversation with him revealed that he hadn't stayed there for some time, but this was for various reasons, so an appointment was made for the following day. During the appointment it was apparent that the tenant had some learning difficulties as he could not read or write and was only 19 years old. He had been targeted by older men to use his flat to stay and for drug taking and he didn't know what to do. He had also not been paying any bills as he had not received any benefits for some time as he had failed to turn up for an appointment at the Job Centre.
21. He had been given money by those using his flat and was using it to buy junk food and cigarettes. It was decided that although the tenant had breached his tenancy by not living there and had allowed others to stay there, he was a vulnerable young man and clearly needed help and support from professional organisations. The occupants of his flat were told to leave immediately, and the locks were changed so that no one but the tenant could gain entry to the flat. A referral form was sent to Two Saints charity to assist with getting benefits back in payment and support given so that bills could be paid, and debt repayment plans set up. He was also provided with a food bank voucher and a bag of food to help in the immediate time.
22. **Housing Fraud – Non-Residency of Council House:** An investigation was raised in February 2018 following the non-return of a Single Occupancy discount review form, which was highlighted as unusual as the tenant was living in an FBC owned flat and was receiving several Social Security Benefits as well as full Housing Benefit.
23. It was known that the tenant's mother lived in Portchester and perhaps the tenant was spending a lot of his time there. As part of our enquiries, the tenant's bank statements were requested which showed that although all his Benefits were being paid into his bank account, there was no expenditure coming out of it. It also revealed that because of this the amount of capital he held in this account exceeded £16,000, which is the capital threshold limit to be able to claim the Benefits he was receiving.
24. Enquiries were also made with the utility company, who confirmed that usage of electricity was also minimal which would indicate no one was living in the flat. The Responsive Repairs team also confirmed that they had been unable to contact the

tenant in order to carry out a smoke detection test. CCTV in the block of flats revealed that no one was seen entering or leaving the flat between the period 4th March to 6 April 2018. It was therefore decided to call the tenant into the offices for a formal interview to question him about his residency.

25. The tenant failed to attend 2 appointments that were sent to him. The third appointment letter was hand delivered to him at his mother's house in Portchester. He attended the appointment and admitted during the interview that he had been living at his mother's house for the past 2 years and had no intention of living in his flat as his main or principle home because he was caring for his mother. He was issued with a Notice to Quit which had an expiry date of 4th June; however, he returned his flat keys to the council on 21 May 2018.

Offences:

Non-residency in Council Flat

Housing Benefit overpayment	£2,801
Council Tax Support overpayment	£818
Total Overpayments	£3,619

Sanctions and Redress:

Council Flat recovered
Overpayments being recovered
Civil Penalty of £70 issued

26. **Housing Fraud – Non-Residency of Housing Association Property:** An anonymous referral was received from a neighbour, concerned because the property, a 3-bedroomed house which belonged to a Housing Association, was not being lived in by the tenant but instead a relative was staying there.
27. Enquiries indicated that this relative could be the tenant's mother and the tenant's partner who had been credit linked to the address was also linked to an address in Portsmouth. Requests for car details and bank statements were made and the bank statements showed that the tenant's daily spending centred around Portsmouth, particularly within a 2-mile radius of her partner's known address. Due to other evidence received it was decided that surveillance was necessary to establish the tenant's true residence. After a small period, it was becoming doubtful that the man in Portsmouth was the tenant's partner.
28. Further enquiries revealed an address in Havant and it was at this address that the tenant's car was seen and during the period of the surveillance it was clear that her property in Fareham was not being lived in as her main or principle home, but she was living in Havant with her partner. This was all denied when the tenant was interviewed under caution. However, using all the evidence gathered during the investigation, the Housing Association issued a Notice to Quit and the Benefits Team decided that Housing Benefit and Council Tax support should not have been paid for this address.

Offences:

Non-residency in Housing Association Property

Housing Benefit overpayment	£3,264
Council Tax Support overpayment	£110
Total Overpayments	£3,374

Sanctions and Redress:

Housing Association property recovered
Overpayments being recovered
Civil Penalty of £70 issued

29. **Payroll Fraud – Officer impersonation:** There has been an increase in a new type of bank mandate fraud over the current years, in which a fraudster pretends to be a senior officer at a council to create a payment in the system.
30. One such fraud was attempted in 2019 during which the payroll team received an email that looked to come from the Chief Executive Officer asking them to change the bank account details for his salary payment.
31. The officer dealing with the email immediately challenged its validity thus preventing any diversion of the payment due in the next salary run which would have taken place in the following 2 weeks.

NATIONAL FRAUD INITIATIVE

32. The National Fraud Initiative (NFI) is a mandatory data matching exercise organised by the Cabinet Office. All data sets requested since the last report have been submitted on time. There have been 4 releases of new matches since the last report which fall into the 2018/19 financial year, resulting in an additional 3,291 matches to review.
33. The table below shows the progress made on clearing all matches since the last report. During the year the teams have managed to clear **1,598 (20%)** of the old and new matches leaving 6,198 still to review.

Progress Made on Clearance of NFI Matches

Date of Matches	Subject of match	Number of matches received to review	Number of matches still to clear - last report	Number of matches still to clear - current
2018/19 Matches	Council Tax	1,943	NEW	1,700
Dec 2017	Council Tax	3,577	3,549	2,871
2018/19 2-yearly main exercise (Received Jan 2019)	Benefits	385	NEW	303
	Council Tax Reduction	376	NEW	324
	Housing Tenants	184	NEW	116
	Waiting List	91	NEW	33
	Payroll	15	NEW	7
	Procurement	1	NEW	1
	Residents Parking	2	NEW	0
	Creditors	294	NEW	294
	Total	1,348		1,078
2017/18 Extra matches (Received May 2017 and Feb 2018)	Benefits	16	11	0
	Council Tax Reduction	6	5	0
	Housing Tenants	21	20	20
	Total	43	36	20
2016/17 2-yearly main exercise (Received Jan 2017)	Benefits	463	88	0
	Council Tax Reduction	493	303	0
	Housing Tenants	194	163	163
	Waiting List	117	117	117
	Right to Buy	4	2	2
	Payroll	13	0	0
	Creditors	339	247	247
	Total	1,624	920	529
Grand Total		8,535	4,505	6,198

34. The table below shows the number and value of fraud cases arising from the clearance of NFI matches in the last 12 months. More detail of how much fraud and error has been identified from each NFI exercise is provided in Appendix A. Any frauds that were being pursued by FBC will have been included in the overall statistics in Appendix C.

Fraud Cases Identified from NFI

Data Set	Nature of Fraud	Date of Committee Report					
		July 2019		July 2018		Sept 2017	
		Number	Value	Number	Value	Number	Value
Housing Benefits and CTR	Undeclared earnings of adult at the property.					1	£382
Council Tax	Undeclared second adult living at property	35	£30,716	16	£17,580	6	£2,192
TOTAL		35	£30,716	16	£17,580	7	£2,574

USE OF LEGAL POWERS

35. Key powers available to investigators for the detection and prevention of fraud are:
- Powers of Surveillance, using a Covert Human Intelligence Source, or obtaining Communications data designated by the Regulation of Investigatory Powers Act 2000 (RIPA) and the Investigatory Powers Act 2016.
 - Authorised Officer powers to obtain information from specified parties including employers, utilities companies and banks under the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013 Regulations and the Prevention of Social Housing Fraud (Power to require Information) (England) regulations 2014
36. There are several safeguards in the Council processes to make sure that investigation powers are only used when legal, proportionate and necessary. These include:
- a) All RIPA applications are required to be authorised by a trained designated officer in the Council.
 - b) All RIPA authorisations, other than communications data, are presented to a magistrate for approval.
 - c) All RIPA applications for communications data are submitted to the National Anti-Fraud Network (NAFN) where they are reviewed and authorised by a NAFN officer before the request for information is issued.
 - d) All approved RIPA authorisations are logged on a central register which flags up when they expire. A formal cancellation form is completed for every application.
 - e) The Council is required to complete annual returns on the use of the RIPA powers and is subject to an inspection every 3 years from the Investigatory Powers Commissioner's Office (IPCO). The last inspection in 2018 concluded that 'our usage and standards are an example to all'.
 - f) The National Anti-Fraud Network (NAFN) is subject to an annual inspection from the Investigatory Powers Commissioner's Office (IPCO), which may cover applications made by Fareham Borough Council depending on the sample they select to test.
 - g) Most Authorised Officer powers are also executed via application to the National Anti-Fraud Network (NAFN). They are reviewed and authorised by a NAFN officer before the request for information is issued.
37. We also report every year to this committee how many times we use these powers, as follows, and publish the frequency of our use of authorised officer powers as part of our Transparency data.

Usage in 2018/19

38. There have been 3 authorisations granted under the Regulation of Investigatory Powers Act 2000 (RIPA) between 1 April 2018 and 31 March 2019 as summarised in Appendix B.
39. There have been 386 uses of Authorised Officer powers during investigations in the last 12 months, as detailed in the table below. This compares to 154 last year.

Authorised Officer powers used 1 April 2018 and 31 March 2019	
Prevention of Social Housing Fraud Act	Council Tax Reduction Regulations & Data Protection Act exemptions
20	366

RISK ASSESSMENT

40. There are no significant risk considerations in relation to this report.

Appendices:

Appendix A – Cumulative Findings from National Fraud Initiative Exercises

Appendix B - Authorisations for use of RIPA

Appendix C - Annual Fraud Case Figures 2018/19

Background Papers: None

Reference Papers: None

Enquiries: For further information on this report please contact Elaine Hammell (Ext 4344) or Andrea Kingston (Ext 4618).

Cumulative Findings from National Fraud Initiative Exercises

Year of Exercise*	Type	No. of Matches	No. of Fraud Cases found	Value of Fraud cases	No. of Errors found	Value of Errors
2018/19	Council Tax	1,943	19	£13,250	8	0
2018/19	Full Exercise	1,348	-	-	12	£37,634
2017/18	Council Tax	3,577	16	£17,466	8	0
2016/17 & 2017/18	Full Exercise & Extra matches	1,624	1	£382	8	£3,181
2016/17	Council Tax	669	25	£23,509	32	£667
2015/16	Waiting List	42	0	0	7	£0
2014/15+2015/16	Full Exercise	994	13	£15,901	12	£0
2014/15+2015/16	Council Tax	1,054	6	£3,149	0	0
2014/15	Student Loans	19	1	£1,258	0	0
2013/14	Council Tax	553	34	£13,774	4	£1,334
2012/13	Full Exercise	1,333	13	£34,838	14	£14,724
2011/12	Council Tax	484	21	£12,264	2	£770
2010/11	Full Exercise	1,760	335[#]	£26,356	13	Not split out
2009/10	Council Tax	1,424	43	£18,648		
2008/09	Full Exercise	1,779	212[#]	£54,978	3	Not split out
2008/09	Council Tax	747	130	£87,920	3	Not split out

*Compilation of the results of NFI started to be compiled in this way in 2008/09. Those exercises in bold have been completed so there will be no further findings.

Included match of concessionary travel permits against deceased database with no monetary value used.

Authorisations for use of RIPA (April 18 to March 19)

Ref No	Date Authorised Internally	Authorising Officer	Suspected Offence	Investigation power used	Date Authorised by a Magistrate	Duration of authorisation (in days)	Outcome for the Investigation
1	25/04/18	Head of Housing and Benefits	Housing Benefit Fraud Council Tax Benefit Fraud Council Tax Support Fraud Council Tax Single Resident Discount Fraud On the basis of an undeclared partner living at the claimant's address.	Surveillance	24/04/18	30	Evidence obtained that crime or disorder IS NOT occurring
2	06/06/18	Head of Housing and Benefits	Housing Benefit Fraud Council Tax Support Fraud Council Tax Single Resident Discount Fraud On the basis of an undeclared partner living at the claimant's address.	Surveillance	13/06/18	43	Evidence obtained that crime or Disorder MAY BE occurring
3	21/03/19	Head of Housing and Benefits	Tenancy Fraud (Managed lease property) Housing Benefit Fraud Council Tax Support Fraud Council Tax Single Resident Discount Fraud On the basis of non-residency at claimant property and undeclared partner living together at true residence.	Surveillance	28/03/19	Still open	Investigation still in progress

Annual Fraud Case Figures 2018/19

	2018/19				2017/18		
	Number of Fraud Cases				Number of Fraud Cases		
Type of Fraud	Investigated	Fraud Concluded	Value		Investigated	Fraud Concluded	Value
Housing Benefit and Council Tax Benefit	259	34	£220,212		341	67	£240,416
Council Tax Support	449	35	£34,129		171	63	£36,273
Council Tax	934	38	£31,967		86	21	£20,413
Business Rates	3	2	£8,274		-	-	-
Housing	201	4	-		32	3	-
Procurement - Payments	-	-	-		41	1	-
Permits and Passes	-	-	-		-	-	-
Other	2	-	-		5	3	-
SUB-TOTAL	1,848	113	£294,581		676	158	£297,102
Other Irregularity	Investigated	Irreg Concluded	Value		Investigated	Irreg Concluded	Value
Employee and Payroll	11	10	£5,733		12	11	-
Finance and Insurance	5	2	£22		1	1	£20
Other e.g. abuse of position	1	1	-		5	2	-
SUB-TOTAL	17	13	£5,755		18	14	£20
TOTAL	1,865	126	£300,336		694	172	£297,122
Sanctions and Redress							
Administrative Penalties levied			£5,554				£10,887
Council Tax Civil Penalties			£1,710				£4,130
Housing Benefit recovered			£64,164				£42,906
Counterfeit note intercepted			£20				£20
Compensation and other awards							£4,500
POCA Confiscation							£1,411
Total			£71,448				£63,854
Housing properties recovered / prevented		3				2	
Non FBC Fraud found (DWP benefits)		6	£53,689			13	£118,451