

EAST HERTS COUNCIL

EXECUTIVE – 2 DECEMBER 2014

REPORT BY EXECUTIVE MEMBER FOR FINANCE

SHARED ANTI-FRAUD SERVICE PARTNERSHIP

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- To seek approval for the participation in and establishment of a Shared Anti-Fraud Service for non-benefit and corporate fraud by means of a partnership, subject to their own decisions, between:
 - Broxbourne Borough Council
 - East Herts District Council
 - Hertfordshire County Council
 - Hertsmere Borough Council
 - North Herts District Council
 - Stevenage Borough Council

RECOMMENDATIONS FOR EXECUTIVE: That:

(A)	East Herts Council becomes a partner in the Shared Anti-Fraud Service for non-benefit and corporate fraud between the Councils identified above;
(B)	the Director of Finance and Support Services be authorised to make the detailed arrangements to establish the Shared Anti-Fraud Service; and
(C)	funding arrangements will be finalised through a growth bid for 2015/16, following the outcome of the bid for set-up costs to the Department for Communities and Local Government.

1.0 Background

- 1.1 A number of Hertfordshire Chief Finance Officers (CFO's) jointly worked to create a Shared Internal Audit Service (SIAS) which has been in operation since July 2011. SIAS was set up to ensure resilience in internal audit provision and has developed successfully under the oversight of the SIAS Board of CFOs. The development of a Shared Anti-Fraud Service is a natural extension of this collaborative working and a robust response to the national developments in the counter fraud landscape triggered by the creation of the Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions.
- 1.2 The vision is to develop a Shared Anti-Fraud Service for Hertfordshire which will provide a robust and resilient fraud prevention, detection and investigation service to partners, in non-benefit and corporate fraud. Creation of the new service will enable Section 151 holders and senior leaders to continue to meet their duties in relation to safeguarding of public funds, minimising the loss to fraud so that Councils can spend the maximum possible on delivering local services, and providing a return for the investment made.
- 1.3 A core component of the new service is to create a 'data hub' to share and analyse information sets. This is a key innovation that will allow the service to integrate current and historical data from multiple source systems, which could include property, benefits, electoral role and external data sources such as credit checking agencies and government databases. Data sharing agreements will need to be put in place and operate in accordance with the Information Commissioner's guidance on the use of data matching for the purpose of preventing and detecting fraud.
- 1.4 The Shared Anti-Fraud Service also offers the opportunity to develop a county-wide anti-fraud culture and deliver counter fraud initiatives which reach across Hertfordshire. Further, there are real opportunities to disseminate best practice to other authorities and develop service offerings that can generate fee income for partners.
- 1.5 A number of options were explored for delivery of the proposed new service:
 - Option 1 Services delivered locally
 - Option 2 Informal collaboration – informal partnership working
 - Option 3 Partnership approach – shared service model

Option 3 was selected as the preferred approach. More detail about the rationale for this can be found in **Essential Reference Paper C**.

- 1.6 In order to determine the size and cost of the preferred service, three different service delivery models were initially created and each assessed to determine how far they would deliver on the identified scope.

From this exercise, the recommended model comprises five investigators, two intelligence officers and a data-co-ordinator/analyst plus support and managerial roles equating to 11 FTE in total. It is envisaged that this size of establishment would be able to manage a case load of 1200 per annum, although this figure is derived from current performance on benefit fraud, rather than non-benefit fraud activity. It is also considered that a team of this size would have capacity in relation to tenancy fraud, fraud prevention, shared learning and business development.

This is the preferred option in the sense of delivering sufficient capacity to work at upper quartile performance levels, allow specialisation and build new service offerings.

- 1.7 The other two models were rejected because they were considered either not to generate sufficient return on investment, or to have sufficient capacity to manage the envisaged investigation case load.
- 1.8 The Shared Anti-Fraud Service Project Board, comprised of Hertfordshire Chief Financial Officers (CFOs), has reviewed the Business Case and recommends the creation of a Shared Anti-Fraud Service. The Director of Finance and Support Services has the Business Case on behalf of East Herts Council and recommends that the Council becomes a partner. This report provides the rationale for this recommendation.

- 1.9 The key recommendations of the Business Case are:

- The set-up of a partnership approach to deliver a Shared Anti-Fraud Service, using common systems and standardised processes as far as possible.
- The establishment of the Shared Anti-Fraud Service as a separately distinguished team of counter fraud experts within the partnership framework currently in place for the Shared Internal Audit Service (SIAS)
- That the Shared Anti-Fraud Service be created on the basis of a

team which will deliver sufficient capacity to work at upper quartile performance levels, specialise and build new service offerings.

1.10 The full business case is attached as **Essential Reference Paper 'B'**.

1.11 It is anticipated that the new service will go live on 2 March 2015, and be in place in its original form for a period of five years, subject to review during this period.

2.0 Report

2.1 **Drivers for the Shared Anti-Fraud Service**

2.1.1 Fraud has a significant cost to the public purse. The latest estimate of fraud against local government is £2.1 billion annually (National Fraud Authority Annual Fraud Indicator 2013). This figure, which excludes Housing Benefit fraud, comprises:

- estimates of loss due to grants (£35 million), payroll (£154 million), pension fraud (£7.1 million) and procurement (£876 million)
- estimates of loss due to fraudulent council tax discounts and exemptions (£133 million), Blue Badge Scheme abuse (£46 million) and housing tenancy fraud (£845 million)

In contrast, **detected** non-benefit fraud in local government was as low as £58m in 2012/13 (Audit Commission 'Protecting the Public Purse' 2013), 2.7% of the estimated figure.

2.1.2 Against this background, there are a number of drivers behind the Business Case and the proposed shared service approach:

- The national counter-fraud landscape is changing, including the launch of a Single Fraud Investigation Service (SFIS) within the Department of Work and Pensions (DWP), and consequent reduction in the 'Housing Benefit Admin Grant' paid for this activity
- Councils need to retain a capability to investigate non-benefit related fraud, proportionate to the risk and which reflects local priorities
- Councils are being encouraged by central government to explore joint working with other councils, particularly smaller councils with limited investigative capacity

- There is the potential to realise the benefits of county councils and district councils working together to tackle frauds in which both have a common interest, such as blue badge fraud and business rates evasion
- Funding arrangements increasingly incentivise councils to tackle fraud in relation to Non-Domestic Rates and Council Tax.

2.1.3 The roll-out of SFIS in Hertfordshire is due to happen on a phased basis from April to June 2015 for the Councils involved in this project.

2.2 Objectives of the Shared Anti-Fraud Service

2.2.1 The key deliverables of the Shared Anti-Fraud Service are set out below and categorised between short and medium term objectives:

Short Term Objectives

- Create a single team to provide a fraud prevention, detection and investigation service to partners working in non-benefit and corporate fraud
- Build a team which can:
 - Create resilience
 - Provide economies of scale
 - Provide for access to specialist resources
 - Offer opportunities for career progression
- Develop partnership wide responses to fraud risk in areas such as business rates, council tax and housing tenancy fraud; providing capacity to address these areas and generating fee income for partners
- Develop a data analysis and data sharing service
- Work closely with the Shared Internal Audit Service, exploiting synergies between the teams.

Medium Term Objectives

- Continually develop to be in line with best practice, building a 'centre of excellence' approach
- Gain efficiencies in pro-active areas such as fraud policy and awareness-raising work – 'develop once; share many times'
- Share learning widely
- Exploit opportunities to expand coverage based on 'invest to save' approaches.

2.3 Benefits of the Shared Anti-Fraud Service

2.3.1 The benefits of a Shared Anti-Fraud Service partnership are:

- A strong and comprehensive fraud response enabling senior leaders to meet their duties and responsibilities in this area
- A solution which is available to all Hertfordshire councils
- The retention of specialist investigative skills within Hertfordshire councils
- The effective use of data and shared intelligence to target fraud activity
- A size of team which allows a balance of resources between pro-active and reactive work, flexing resources as necessary
- A size of team which allows for career progression for staff
- The development of economies of scale.

2.4 Current and Potential Performance Analysis

2.4.1 Judging the performance of fraud services in terms of the volume and value of fraud detected is problematic, not least because fraud is secretive in nature. Furthermore, detected fraud results only provide part of the overall picture of counter-fraud performance, and can therefore only be indicative and assumptions-based when assessing performance. Prevention and deterrence activities are also equally important.

2.4.2 Table 1 sets out the combined performance of partner councils in each of the fraud areas for the 2012/13 and 2013/14 financial years as reported to the Audit Commission. For context, the national results from 2012/13 are shown; 2013/14 national results are not yet available.

Table 1 demonstrates the following:

- The main focus of activity for councils contributing to this table to date has been in relation to housing benefit and council tax benefit fraud
- The councils contributing to this table may not categorise certain activity as fraudulent, for example the results of the 2012/13 Single Persons Discount exercise in Hertfordshire authorities are not reflected in the table
- In 2012/13 contributing authorities detected approximately 1 per cent by volume and value of the overall national result
- In 2012/13 contributing authorities reported only two cases of

non-benefit fraud and 18 cases in 2013/14.

Table 1

Audit Commission Fraud Category	2012/13		2012/13		2013/14	
	National results		Hertfordshire results (1)		Hertfordshire results (2)	
	Number of cases	Value of cases	Number of cases	Value of cases	Number of cases	Value of cases
Housing Benefit / Council Tax benefit fraud	47,000	£120m	1,116	£1.5m	1,007	£1.6m
Housing Tenancy Fraud	2,642	N/A (3)	0	£0	0	£0
Right to Buy Fraud	102	£5.9m	0	£0	0	£0
Council Tax Single Person Discount Fraud	54,000	£19.6m	0	£0	1	£1,700
Council Tax Reduction Fraud	N/A	N/A	N/A	N/A	3	£153
Non-Domestic Rates Fraud	149	£7.2m	0	£0	0	£0
Procurement	203	£1.9m	1	£0.3m	0	£0
Insurance	74	£3m	0	£0	0	£0
Social Care	200	£4m	0	£0	2	£98,430
Payroll, Pensions and Expenses Fraud	493	£3m	0	£0	2	£527
Abuse of Position	283	£4.5m	0	£0	0	0
Other	1,595	£7.4m	1	£0	9	£13,752
Blue Badges	2,901	£1.5m	0	£0	0	0
Recruitment			0	£0	1	0
Total	107,000	£178m	1,118	£1.8m	1,025	£1.7m

(1) Returns for this table supplied by BBC, EHC, HBC, HCC, NHDC, WHBC

(2) Returns for this table supplied by BBC, EHC, HBC, HCC, NHDC, WHBC

(3) Quantifying Housing Tenancy Fraud is not straightforward. The National Fraud Authority suggests each case represents a loss to the public purse of £18,000

2.4.3 Having taken a view of current performance, the size of the opportunity for a fraud service focussed on non-benefit fraud was gauged by considering the potential level of funds 'at risk' to fraud in participating councils, based on extrapolation of national information. Table 2 sets this out:

Table 2

Fraud Type	National 'at risk to fraud' estimate (and source)	Partners' 'at risk to fraud' estimate based on relevant income / expenditure data in 2013/14	Value of detected from 2013/14	Difference
		£	£	£
Council Tax Support	4% (Audit Commission)	235,202	138,846	96,356
Council Tax Single Person Discount	4% (Audit Commission)	991,365	8,582	982,783
Business Rates	1% (Project Team's own)	2,340,217	0	2,340,217
Insurance	6% (Local Authority Investigating Officers Group)	63,607	0	63,607
Procurement	1% (National Fraud Authority)	8,379,632	0	8,379,632
Blue Badges	20%	27,072	0	27,072
Social Care	1% (Project Team's own)	206,187	98,430	107,758
Grants	1% (Project Team's own)	25,005	0	25,005
Total		12,268,287	245,858	12,022,429

2.4.4 Then a view on the impact that a counter-fraud team could make, using actual data wherever possible or upper quartile performance levels (as described by the Audit Commission in 'Protecting the Public Purse 2013') was taken. The Project Team concluded that:

- The gap between estimated and detected levels of fraud for the six participants could be of the order of £12m.
- Applying upper quartile performance to in scope authorities suggests a detection rate of around 1200 cases per year could be achieved and a return of the order of £960k.

2.4.5 The assumptions made can be supplemented by actual evidence in relation to the success of previous counter-fraud initiatives taken by Hertfordshire Councils. For example, in 2012/13 HCFOs conducted a joint campaign on Council Tax Single Person

Discount (SPD). County-wide, the campaign identified £2,347k over two years with an average of 706 incorrect discounts per authority, an average of £332 per case.

2.5 Cost / Benefit analysis

2.5.1 Existing Cost, Funding and the Impact of SFIS

Table 3 reflects:

- Funding for fraud work from authorities' own resources, available for re-direction into non-benefit and corporate anti-fraud work.
- The amount of funding derived from 'administration grant' which will be deducted from 2016/17 and 'recycled' to the DWP to fund SFIS changes.

Table 3

	BBC	EHC & SBC	HCC	HBC	NHDC	Total
	£	£	£	£	£	£
Funded by council	190,807	71,300	51,300	82,928	110,006	506,341
Funded by admin grant	43,497	104,079	0	46,552	58,164	252,292
Gross cost of existing services (13/14 budget)	234,304	175,379	51,300	129,480	168,170	758,633

2.5.2 Cost of the Proposed Shared Anti-Fraud Service

The Shared Anti-Fraud Service has been costed at a level which will deliver sufficient capacity to work at upper quartile levels, develop specialisms and build new service offerings. Table 4 shows the cost of the proposed service:

Table 4

Ongoing Costs	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Salary Costs	40	479	479	479	479
Non-pay costs	3	40	65	65	65
Recharges		83	87	87	87
Total Cost including Recharges	43	602	631	631	631

2.5.3 Cost Per Authority

Table 5 reflects costs per in scope authority split between fixed and variable elements. The minimum requirement from each authority will be the fixed element, covering the data hub, review and investigation of matches arising from data hub, a pro-active programme of work plus 10 days of reactive activity in response to issues referred to the service by the authority.

Table 5

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Total ongoing costs of service	43	602	631	631	631
Fixed element	7.2	80.16	84.08	84.08	84.08
Variable element	n/a	20.04	21.02	21.01	21.02

HCFOs recognise that an element of utilisation of the service would be unpredictable and therefore propose to treat 20% of costs as variable on a 'pay as you use' basis so that the impact of any one large fraud does not have a distorting effect.

2.5.4 Return on Investment

Whilst recognising the speculative nature of figures, the project team consider that by 2016/17 the Shared Anti-Fraud Service could deliver returns of the order of £960k per annum based on research from neighbouring county areas and the experience of fraud exercises in Hertfordshire to date.

Table 6 sets out the anticipated return on investment.

Table 6

Total Costs	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Fraud 'at risk' estimate	12,268	12,268	12,268	12,268	12,268
Hertfordshire Detection	246	246	246	246	246
Potential Income Base	12,022	12,022	12,022	12,022	12,022
Estimated Detection Rate	0%	5%	8%	8%	8%
Potential Income	0	(601)	(962)	(962)	(962)

2.5.5 Combined cash flow

Based on Tables 4 to 6, Table 7 shows the projected five year cashflow statement for the Shared Anti-Fraud Service as a whole and the share for each partner authority

Table 7

	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Ongoing Costs	43	602	631	631	631
In Scope Authority Share (assuming costs are distributed equally)	7.2	100.2	105.1	105.1	105.1
Potential Income	0	(601)	(962)	(962)	(962)
In Scope Authority Share	0	(100.2)	(160.3)	(160.3)	(160.3)
Net (Surplus)/Shortfall per authority (for illustrative purposes; in reality the return would not fall equally between partners)	7.2	1	(55.2)	(55.2)	(55.2)

2.5.6 Table 7 assumes, for illustrative purposes, that the costs and level of return would be distributed equally between partners. However in reality whilst 80% of the costs would be equally distributed, 20% would be distributed in accordance with uptake of investigation services as noted in paragraph 9.3. Similarly, returns are shown as shared equally but in reality will be unevenly distributed between partners according to where fraud is actually identified. Both the level of charges and the level of returns will need to be carefully monitored initially and charging arrangements revisited if necessary.

2.5.7 A bid for £366k has been submitted to the Department for Communities and Local Government for funding to cover the set-up costs of the shared service. The five year cashflow statement shown in paragraph Table 7 is based on the assumption that this funding bid is successful. Should the bid not be successful, these figures would need to be revisited.

2.5.8 Future funding requirements for the Shared Anti-Fraud Service will be submitted through a growth bid for 2015/16.

2.6 Risks and Mitigations

2.6.1 Risks that the Council will need to consider and monitor in joining the service are set out below:

	Risk description	Likelihood	Impact	Risk score	Controls
1	Local knowledge and contacts are lost resulting in a lack of engagement in the local authorities, and an inability to pursue fraud cases	2	4	Contingency	1. Address in service design and development phase, ensuring close links into partner councils
2	Targets are unrealistic and not achieved, resulting in partners having to fund the service to higher levels than originally envisaged or the need to restructure the service to save costs	2	4	Contingency	1. Ensure targets are set prudently 2. Ensure structure of service is set prudently
3	Service cannot easily / efficiently identify the financial benefits it has delivered, resulting reputational damage for the service and customer dissatisfaction	2	3	Contingency	1. Ensure any targets that are set relate to income / savings streams that are significant and can be readily quantified, preferably based on information already collected by partners
4	Different approaches to dealing with fraud outcomes in each local authority affect the ability of the service to achieve its objectives	2	3	Contingency	1. Agree common fraud priorities and protocols at design stage 2. Allow for element of flexibility and sensitivity to local circumstances
5	A delay in the new shared service being ready prior to implementation of SFIS	3	4	Critical	1. Address in service design, ensuring there is a transition phase and contingency plans are in place
6	Potential partners may decide not to participate	2	4	Contingency	1. Review of business case and financial assumptions.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

None

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