

Decision Taker: Strategic Director (Resources)

Portfolio Area: Resources

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SHARED ANTI-FRAUD SERVICE PARTNERSHIP

KEY DECISION

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1 PURPOSE

1.1 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 between:

- Broxbourne Borough Council
- East Herts District Council
- Hertfordshire County Council
- Hertsmere Borough Council
- North Herts District Council
- Stevenage Borough Council

2. SUMMARY

2.1 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 Strategic Director (Resources) has the Business Case on behalf of Stevenage Borough Council and recommends that the Council becomes a partner. This report provides the rationale for this recommendation.

3. RECOMMENDATIONS

3.1 It is recommended that:

- a) Stevenage Borough Council becomes a partner in the Shared Anti-Fraud Service for non-benefit and corporate fraud between the Councils identified at 1.1 above.

- b) For the avoidance of doubt, the Director of Resources be given the authority to settle the partnership agreement between the authorities and decisions pertaining to the arrangements of the partnership.
- c) The following Business Case principles are supported:
- 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
 - That the financial benefits (both tangible and in-tangible) are difficult to predict with any accuracy at this stage due to the nature of anti-fraud work
- d) 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 after 2 years.
- e) That pump priming financial support is underwritten up to **£7,200 in 2014/15, £27,918 in 2015/16 and £95,830 in 2016/17** (excluding any income received from successful fraud identification and recovery).

4. BACKGROUND

- 4.1** A number of Hertfordshire CFOs 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.
- 4.2** 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 151¹ 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.
- 4.3** 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

¹ **Section 151** - An officer appointed under section 151 of the Local Government Act 1972 which requires every local authority to appoint a suitably qualified officer responsible for the proper administration of its affairs.

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.

4.4 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.

4.5 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 **Appendix A**.

4.6 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.

4.7 From this exercise, the recommended model comprises:

- Five investigators
- Two intelligence officers
- A data-co-ordinator/analyst
- Plus support and managerial roles

These equate to 11 FTE in total across all partners. It is envisaged that this size of establishment would be able to manage a case load of 1,200 investigations 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.

4.8 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.

5. Drivers for the Shared Anti-Fraud Service

5.1 Fraud has a significant cost to the public purse. The latest estimate of fraud against local government is £2.1 billion annually². 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 2012/13³, 2.7% of the estimated figure.

5.2 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.

5.3 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.

6. Objectives of the Shared Anti-Fraud Service

6.1 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

² National Fraud Authority Annual Fraud Indicator 2013

³ Audit Commission 'Protecting the Public Purse' 2013

- 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 beyond Hertfordshire and provide a commercial offering
- Exploit opportunities to expand coverage based on 'invest to save' approaches.

7. Benefits of the Shared Anti-Fraud Service

7.1 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.

8. Current and Potential Performance Analysis

8.1 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.

8.2 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 ⁴		Hertfordshire results ⁵	
	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 ⁶	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

8.3 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:

⁴ Returns for this table supplied by BBC, EHC&SBC, HBC, HCC, NHDC, WHBC

⁵ Returns for this table supplied by BBC, EHC&SBC, HBC, HCC, NHDC, WHBC

⁶ Quantifying Housing Tenancy Fraud is not straightforward. The National Fraud Authority suggests each case represents a loss to the public purse of £18,000

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

8.4 Then a view on the impact that a counter-fraud team could make, using actual data wherever possible or upper quartile performance levels⁷ 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

⁷ As described by the Audit Commission in 'Protecting the Public Purse' 2013

- Applying upper quartile performance to in scope authorities suggests a detection rate of around 1,200 investigations per year and a return of the order of £960,000 could be achieved .

8.5 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 £2.3 million over two years with an average of 706 incorrect discounts per authority, an average tax loss of £332 per case.

9 Cost / Benefit analysis

9.1 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 existing⁸ services	234,304	175,379	51,300	129,480	168,170	758,633

9.2 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	359	422	422	422
Non-pay costs	3	40	65	65	65
Recharges		83	87	87	87
Total Cost including Recharges	43	482	575	575	575

⁸ 2013/14 budget

9.3 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	482	575	575	575
Total per partner	7.2	80.3	95.83	95.83	95.83
Fixed element	7.2	64.24	76.66	76.66	76.66
Variable element	n/a	16.06	19.17	19.17	19.17

HCFOs recognise that an element of utilisation of the service would be unpredictable and therefore propose to treat 20 percent 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.

DCLG grant money will contribute towards costs in 2015/16.

9.4 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)

9.5 **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	482	575	575	575
In Scope Authority Share⁹	7.2	80.3	95.83	95.83	95.83
Potential Income	0	(601)	(962)	(962)	(962)
In Scope Authority Share	0	(100.2)	(160.3)	(160.3)	(160.3)
Net (Surplus)/Shortfall per authority¹⁰	7.2	(19.9)	(64.47)	(64.47)	(64.47)

9.6 Table 7 assumes, for illustrative purposes, that the costs and level of return would be distributed equally between partners. However in reality whilst 80 percent of the costs would be equally distributed, 20 percent 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.

9.7 A bid for £366k to the Department for Communities and Local Government for funding towards initial costs of the shared service has recently been successful, including funding for data matching and case management systems.

10. Risks and Mitigations

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

⁹ Assumes that costs are distributed equally

¹⁰ For illustrative purposes; in reality the return would not fall equally between partners

	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	Possible	High	Severe	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	Possible	High	Severe	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	Possible	Medium	Severe	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	Possible	Medium	Severe	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	Likely	High	Very Severe	1. Address in service design, ensuring there is a transition phase and contingency plans are in place

11 IMPLICATIONS

11.1 Financial Implications

11.1.1 The Strategic Director (Resources) and Assistant Director (Finance) are of the view that the Council must maintain a strong anti-fraud presence beyond the creation of the Government's Single Fraud Investigation Service (SIFS). There are a number of areas of operation performed by the Council from tax collection to housing tenancies that are all vulnerable to fraud and we have a responsibility to the taxpayer to minimise the mis-use of resources. The Shared Anti-Fraud Service (SAFS) is seen as the best model through partnership working to deliver this local response.

11.1.2 The construction of a sound business case has been difficult, as by its very nature fraud is hidden and therefore it is difficult to forecast the financial benefit from investigations we have not yet undertaken. However, historical trends can be used, which when combined with national fraud recovery data would indicate that SAFS will become self-financing by the end of Year 2.

11.1.3 Therefore, SBC would need to commit to pump priming funding up to 31 March 2017 excluding any income received from successful fraud identification and recovery of £7,200 in 2014/15, £80,300 in 2015/16 and £95,830 in 2016/17. The funding required would be a General Fund cost at this stage, but would be mitigated to some degree by the difference in the Revenue and Benefits Shared Service anti-fraud team budget and the loss in Benefit Administration Subsidy following the creation of SIFS. This difference is expected to be £52,382 in 2015/16. Therefore the net pump priming requiring approval is as follows:

	2014/15	2015/16	2016/17
SAFS Projected Cost	£7,200	£80,300	£95,830
Net Benefit Admin. Grant position post SIFS	-	(£52,382)	-
Net Pump Priming Funding	£7,200	£27,918	£95,830

11.2 Legal Implications

11.2.1 Due to the impending roll out of SFIS in Hertfordshire the timetable for implementation is tight. The preferred option would be to add the SAFS onto the existing SIAS audit partnership agreement using the audit template as far as possible as there are provisions in the audit partnership agreement for extending the existing service. However Broxbourne are not parties to that agreement and Welwyn who are parties to the audit arrangement do not appear to be intending to join SAFS. Partner authorities need to agree and notice given to them by County of the proposed change. Other elements of the existing agreement including in relation to staff, set up cost, withdrawal, termination, indemnities etc will need to be reviewed.

11.2.2 Staffing issues will need to be dealt with appropriately and with clarity. It needs to be emphasised that TUPE will not apply to the recruitment of staff to SAFS. Although DWP have said TUPE will not apply to staff transferring to the government service it has been confirmed that similar protection will be provided to terms and conditions and pensions of transferring staff. While staff applying for posts at the new SAFS service will have some protection unlike audit staff who were TUPEd over to County they will not TUPE back to their authorities in the event that the new venture is wound up. This needs to be made clear to those seeking to apply to the new posts.

11.2.3 A detailed description of the service and the charging and recovery arrangements is required. It is noted these will be monitored and revisited. A mechanism is needed to decide priorities as between authorities in terms of which particular cases to pursue and how cost and recovery will be distributed depending on the decisions reached.

11.2.4 Some of SAFS cases may be very complex and involve a number of agencies and large amounts of money. There may be scope to use the Proceeds of Crime legislation which is very specialist work. In the existing audit partnership agreement support services including legal and accounting services are provided by the County. It needs to be considered whether there is sufficient resource to fund this work if it is undertaken or what the other options are in relation to this given the limited legal resources of the districts.

11.2.5 The partnership agreement can be adapted within the proposed timetable provided Chief Finance Officers agree the terms of the service and the charging/costs/recovery provisions and provided parties to the existing agreement agree with the changes.

11.3 Equalities and Diversity Implications

11.3.1 An Equality Impact Assessment (EqIA) has been undertaken by Hertfordshire County Council as the proposed lead body for this partnership and is attached in **Appendix B**. The key points are that any member of the public and/or any employee and / or stakeholder of one of the partner councils could commit fraud. Any member of the public and/or any of the partner councils could be impacted negatively by fraudulent activity. Similarly, any member of the public and/or any of the partner councils could benefit from the Shared Anti-Fraud Service's detection, investigation and prevention of fraud. Therefore the potential impact on the councils' service users, communities and partners is widespread.

11.3.2 The equalities issues arising from the new fraud service are most likely to be in relation to communicating with individuals being investigated, and ensuring appropriate facilities are made available during the investigation process. In particular, the core areas of potential fraud which the new service will investigate are:

- Council Tax discounts/support fraud
- Business Rates fraud
- Tenancy fraud.

Therefore there will be a need to consider:

- Reasonable adjustments in terms of communications individuals are sent/ access to online services/access to buildings
- Providing communications in alternative languages.

11.3.3 Diversity data on fraud investigations and their outcomes will be analysed and any appropriate initiatives put in place to ensure all service users have equal and fair consideration.

11.3.4 A separate 'workforce' EqIA will be carried out to assess any impact on the pool of potential applicants for the roles in the service.

Background Document

Shared Anti-Fraud Service Business Case version 26 issued to SAFS Project Board
03.10.2014