

Cheltenham Borough Council
Cabinet – 10th February 2015
Counter Fraud Unit – An Evolutionary Approach

Accountable member	Cllr Jon Walklett
Accountable officer	Mark Sheldon – Director of Resources
Ward(s) affected	All
Key Decision	No
Executive summary	<p>In April 2012 the Government outlined the Fighting Fraud Locally Strategy and with it came the Local Government Fraud Strategy, which recognised that fraud cost the UK in the region of £73 billion per year. The strategy outlined that Local Government needed to “Acknowledge, Prevent and Pursue” fraud which in itself accounted for £2.2 billion.</p> <p>Since then the Government has established other initiatives to combat fraud. These included the Department of Work and Pensions (DWP) Single Fraud Investigation Service (SFIS) which would take on the benefit fraud investigation work that was originally done by Local Government.</p> <p>This report looks at the impact of SFIS and the possible requirements for changes to Cheltenham Borough Council’s structure to continue “Acknowledging, Preventing and Pursuing” fraud in all its guises post SIFS in April.</p>
Recommendations	<p>a) That Cabinet approves an evolutionary approach for the establishment of a Counter Fraud Unit to be managed by the internal audit provider Audit Cotswolds, as outlined in this report, which includes the creation of the new Counter Fraud Officer post as part of Phase 1</p> <p>b) That Cabinet authorises to the Director of Resources to enter into such documentation as is necessary (including an agreement with Cotswold District Council as host authority for Audit Cotswolds) to enable the establishment of the Counter Fraud Unit</p>

Financial implications	<p>The 1 FTE will be funded by contributions from Cheltenham Borough Homes Ltd and some of the residual benefits administration grant. The post is therefore only fully funded for 2015/16. This will therefore require review during 2015/16 for any subsequent extension.</p> <p>Contact officer: Mark Sheldon, mark.sheldon@cheltenham.gov.uk, 01242 264123</p>
Legal implications	<p>The governance arrangements for the new Counter Fraud Unit will be carefully considered as the initiative evolves through each Phase described in the report and legal documentation will be produced as necessary. For Phase I, employment issues relating to the appointment of the new 1 FTE post will be addressed and it is likely that the management of this new post by Audit Cotswolds will be in accordance with s113 of the Local Government Act 1972.</p> <p>Contact officer: peter.lewis@teWKesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>GOSS HR team will work with the Council to advise on recruitment process including the drafting of any secondment agreement.</p> <p>Contact officer: Julie McCarthy , julie.mccarthy@cheltenham.gov.uk, 01242 264355</p>
Key risks	<p>That the authority becomes vulnerable to fraud and the inevitable consequences e.g. reputational damage, loss of income,</p>
Corporate and community plan Implications	<p>This links to all aspects of the authority's objectives where a fraudster could adversely impact on the delivery of that objective e.g. housing is adversely impacted by tenancy fraud.</p>
Environmental and climate change implications	<p>N/A</p>
Property/Asset Implications	<p>Contact officer: David Roberts@cheltenham.gov.uk</p>

1. Background

- 1.1 The requirement for a dedicated Counter Fraud Unit has come about through various key drivers:
 - 1.1.1 Recognition from Central Government – Fighting Fraud Locally Strategy (see table 1 below), the National Fraud Initiative (NFI), CIPFA and Audit Commission that there is a risk of various types of fraud to impact on a Local Authority
 - 1.1.2 Changes to the Benefit Fraud Investigation requirements – Department of Work and Pensions (DWP) Single Fraud Investigation Service (SFIS). The officers currently providing a benefit fraud function have well-honed skills in PACE interviewing and investigations for criminal level prosecution – level of evidence is to: “Beyond reasonable doubt”. However, DWP are looking to reduce benefit administration grant in 2015/16 by circa £17k, and in 2016/17 by an additional £54k. This in effect removes all revenue funding for existing benefit fraud staff who are due to TUPE to DWP on 1st April 2015.
 - 1.1.3 There remains an expectation from DWP SFIS that Local Authorities will provide information to them to aid their investigations. This information is beyond a simple administrative role.
 - 1.1.4 Existing Internal Audit functions do not currently have all the capacity, tools or skills to deliver a Counter Fraud function that safeguards the organisations against all external fraud risk, for example, Council Tax fraud (single person discount). They do have the skills to tackle corporate fraud and other internal probity matters, which are normally dealt with through disciplinary procedures with a lower level of evidence required “Balance of Probability”. The risk of the current circumstances is that there will be a demand for internal audit to tackle all counter fraud issues. This risks delivery of internal audit planned activity. However, the Head of Internal Audit is still required to report on all fraud matters as directed through both the CIPFA Annual Governance Statement requirements and the Audit code of practice.
 - 1.1.5 New legislation Prevention of Social Housing Fraud Act 2013 and that only Local Authorities have these powers and still have powers under Council Tax Reduction Schemes and other legislation.
 - 1.1.6 Direction from DCLG, DWP and other key bodies to the investigation of non-benefit fraud areas.
 - 1.1.7 The new Transparency Code October 2014 requires reporting on Counter Fraud activity as does the annual letter from the Chair of the Audit Committee to the external auditors regarding the measures in place to counter fraud.
 - 1.1.8 There is also a new code of practice from CIPFA
 - 1.1.9 Table 1 ~ Fighting Fraud Locally



2. Reasons for recommendations

2.1 Innovation, Partnership Working and Sustainability

2.1.1 New innovative tools and processes can be introduced to the CFU partners. This enables effective intelligence led investigations into non-benefit fraud to be delivered through data matching across all systems in the authority and other partners.

2.1.2 The use of existing partnerships and formation of new partnerships will enable the service to counter fraud and maximise revenue across Gloucestershire and Oxfordshire.

2.1.3 The CFU has been modelled on an award winning self-financing counter fraud unit.

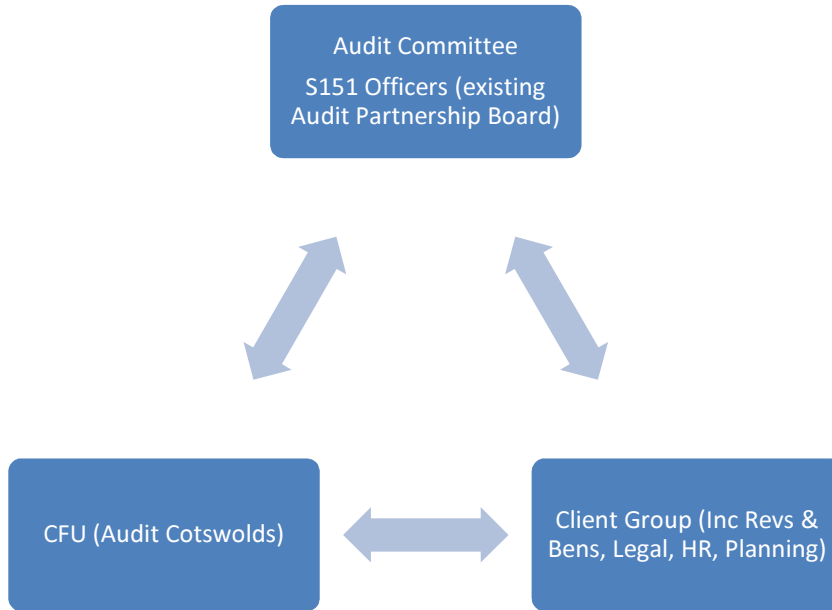
2.2 Counter Fraud Unit – An Evolutionary Approach

2.2.1 To ensure that the new service has minimal transitional impact, recognises existing change programmes and demands on partners, but still has opportunity to be successful in meeting expectation – the service should be introduced in a phased approach, starting with the existing Audit Cotswolds partners as set out below:

2.2.2 Phase 1 – secure the initial team – 2014/15 by March 2015

- Use Audit Cotswolds framework of reporting (S151s and Audit Committees) across partners and clients (see chart 1 below)
- Build the team (4 officers including a manager across the Audit Cotswolds partnership)
- For CBC - Create, evaluate and recruit staff to investigator positions x 1 and make available for Audit Cotswolds
- Set criteria for success for year 1, 2 and 3 and growth rate with partners and clients
- Seek funding/support from County regarding areas where greater benefit is received by County compared to Districts
- Seek funding from DCLG – initial bid submitted 5th September 2014 (decision now expected end of January 2015)
- Seek appropriate approvals from Boards / Cabinets, etc
- Set initial investment levels – linked to expectations – for CBC this is 1FTE for 2015/16. This is derived by revenue from the HRA account via Cheltenham Borough Homes Ltd to investigate tenancy fraud related matters (circa £16.5k) and some of the residual benefit administration grant. The funding for 2016/17 will need to bridge the gap cause by the removal of the remaining administration grant by DWP.
- Apply appropriate governance agreements e.g. secondments, Memorandum of Understanding, S101 agreements / amendments etc and seek appropriate authority for these agreements as necessary.

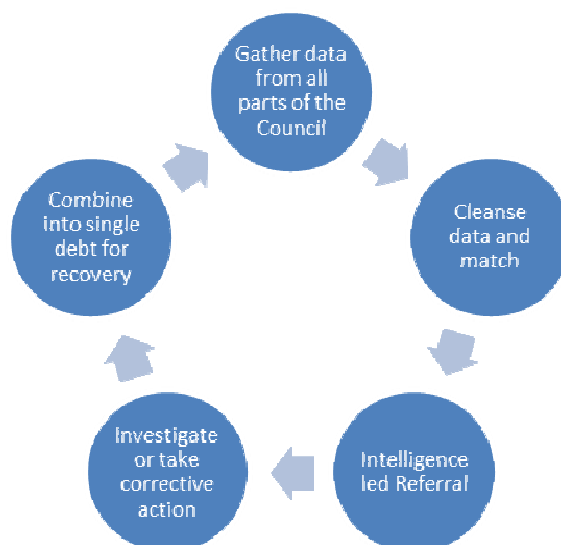
Chart 1 ~ reporting framework



2.2.3 Phase 2 – develop the tools – 2015/16– subject to business case / funding

- Create, evaluate and recruit a data analyst
- Procure and develop the data warehouse/matching software – estimated £2k per partner/client for a license (see chart 2 below)
- Engage with heads of service to secure data sets
- Engage with ICT – develop project
- Introduce a Project manager and framework

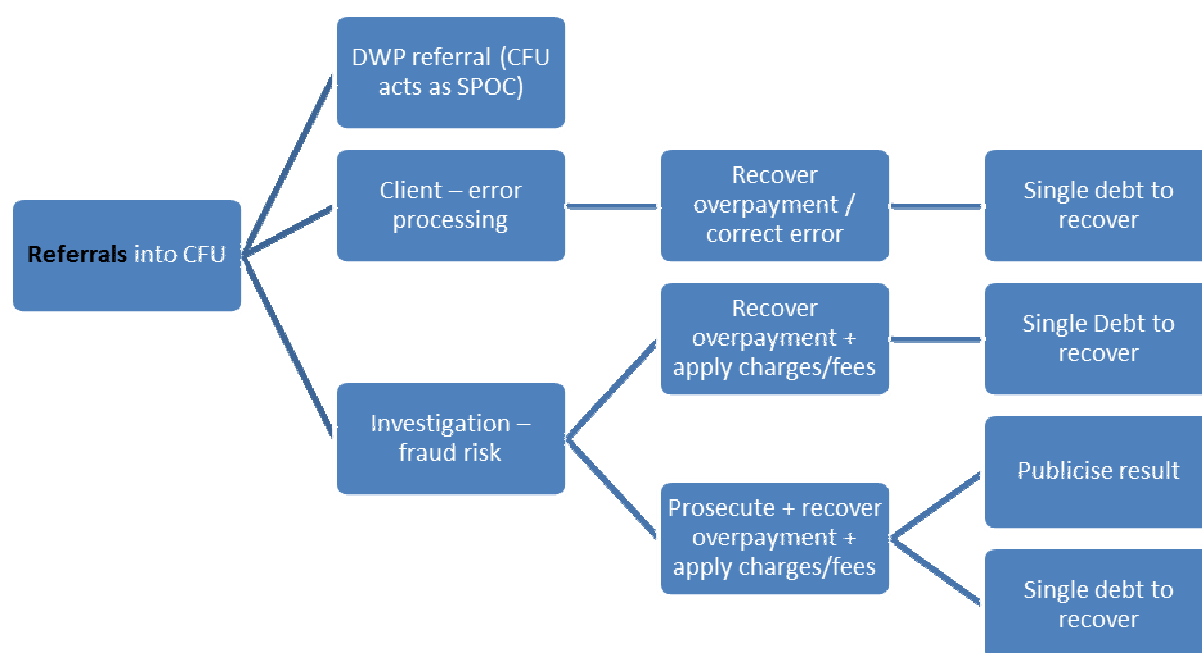
Chart 2 ~ Data Warehouse/Matching



2.2.4 Phase 3 – full CFU service – 2016/17

- Potential TUPE in all staff to a new formal governance framework – may be a hosted arrangement
- S101 or suitable longer term governance
- Full data matching service in operation including referral management (see chart 3 below)
- Intelligence led investigations
- Introduce apprentice/trainee post
- Introduce new partners/clients – workloads permitting

Chart 3 ~ Referral Management



2.2.5 Phase 4 – Full Hub service – 2017/18

- Engage all partners in Gloucestershire – the Hub is live
- Develop link to Oxfordshire hub.

2.3 Costs of service

2.3.1 Each phase of the process provides an opportunity for the S151 to determine the level of resource they are prepared to commit to Counter Fraud Unit activity in line with the three principles set out in table 1. This is a local decision. For phase 1 the commitment is the 1 FTE and the use of Audit Cotswolds management.

2.4 Summary

2.4.1 The CFU service would be generating year on year savings through the prevention, detection and

investigations of non-benefit fraud for an annual investment. These annual savings can be reinvested to move through each CFU phase. It will use data matching, partnership working and case study based processes to deliver a service to; initially provide counter fraud awareness and investigations, then to progress to full data matching and more proactive operations. Therefore the risks are minimised in terms of initial investment.

3. Alternative options considered

3.1 The alternatives to the development of a Counter Fraud Unit are:

- 3.1.1 Do nothing – allow benefit fraud staff to transfer to DWP and accept the reduction in counter fraud resources. The risk of this option is twofold; 1) the risk of fraud increases as less resources in place to prevent; 2) the risk of cost to the authority through fraud increasing as the resources to pursue reduce.
- 3.1.2 By in resource when necessary – when a fraud is identified the authority ‘buys-in’ the resource to investigate. The risk of this option is twofold: 1) through the benefit fraud team there is a route to report all fraud known as the referral process. Without the CFU to pick this work stream up the authority will lose the ability to acknowledge fraud; 2) there would be no clear means to prevent fraud as the authority would only react to the frauds as they arise.

4. Consultation and feedback

4.1 The Audit Committee is the primary consultee for the Counter Fraud Unit as this is the committee with responsibility to sign off the Cheltenham Borough Council’s letter to the external auditor regarding the counter fraud measures in place, thus helping to mitigate the chance of material misstatement in the final accounts due to fraud. On the 14th January 2015 the Audit Committee supported the creation of a CFU and the reporting framework as set out in this report.

5. Performance management –monitoring and review

- 5.1 The Audit Committee already receives an annual counter fraud report from the Head of Internal Audit. It is anticipated that this mechanism will be enhanced to help this committee monitor the work of the CFU.
- 5.2 As outlined above, the S151 Officer (Director of Resources) as a member of the Audit Partnership Board will monitor the work of the CFU delivered by Audit Cotswolds.

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Appendices	1. Risk Assessment 2.
Background information	1. http://www.audit-commission.gov.uk/2014/10/protecting-the-public-purse-2014/ Hard copy available for Members 2.

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1	The authority suffers material losses due to fraud	MS	11/12/14	4	4	16	Reduce	Introduce a Counter Fraud Unit to reduce the likelihood of the risk materialising and also to help recover losses, thus reducing the impact.	31 st March 2015	MS	

Explanatory notes

Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)

Likelihood – how likely is it that the risk will occur on a scale of 1-6
 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)

Control - Either: Reduce / Accept / Transfer to 3rd party / Close