

AUDIT AND PENSIONS COMMITTEE

22 September 2010

CONTRIBUTORS
Head of Fraud
Service
Chief Internal Auditor
Director of Finance

TITLE
**Corporate Anti Fraud Service
Q1 Fraud Report 2010-11**

WARDS
All

This is the first quarter report on the progress made in delivering the 2010-11 year service plans; key results of the work undertaken; and the performance achieved.

RECOMMENDATION:

To agree the contents of the report.

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Corporate Anti Fraud Service operational investigation files and performance reports	Ross Chesterton X1300	Corporate Anti Fraud Service, 4th Floor, Town Hall, Hammersmith



Hammersmith & Fulham Council

Corporate Anti Fraud Service

Fraud Report

The Council's 1st Quarter Fraud Report to 30th June 2010

Management Summary

1. This report details the counter fraud work undertaken during the first quarter of the year to 31st March 2011 by the Council's Corporate Anti Fraud Service (CAFS).
2. CAFS strategy for countering fraud is based around the following:
 - receiving and responding directly to fraud referrals in relation to benefit fraud, tenancy fraud, and fraud directed at the Council from employees or third parties from outside the Council;
 - complying with government guidelines and requests to undertake targeted work, particularly to reduce the suspected significant levels of tenancy fraud;
 - undertaking a range of special proactive exercises such as data matching across Council databases, checks on Housing Register applicants about to be offered property, directing and controlling participation in the NFI to ensure maximum rewards and returns, and a number of exercises targeted internally to reduce incidences of employee fraud or misconduct;
 - undertaking joint exercises with the police to identify and target prolific offenders with significant assets who have committed benefit or tenancy fraud;
 - raising fraud awareness across the Council and residents of the borough.
3. Performance is measured by output in numbers of sanctions (prosecutions, penalties, formal cautions or other action taken directly against proven fraudsters). CAFS has delivered 70 sanctions (including 4 prosecutions for Housing Benefit) in the first quarter, which includes 33 removals from the Housing Register that took place in March 2010 which were too late to be included in the year end outturn report and hence which have been included in this years report. Further, at the time of writing, July's performance to date has significantly increased the achievements to date in June, at 103 sanctions to date (including the 33 from the end of 2009/10).

5. Applying the Audit Commission's recommended values for property recoveries, as well as calculating the value of overpayments generated and penalties applied to offenders, the value of CAFS work to the council for quarter 1 stands at £3.9million, against an annual projected operating cost of £1.1million.
6. CAFS continues to deliver targeted project work aimed at reducing tenancy fraud, and retains 2 officers funded in part from central government to achieve this.
7. A new Head of Fraud Service has been recruited and will start later in the year once the relevant administration has been completed.
8. In summary, CAFS has made a successful start to the year, applying a sound strategic approach to the issue of fraud affecting the Council, and achieving results commensurate with the aims and goals of the service.

1. Introduction

- 1.1 The Council's counter fraud services are provided by the Corporate Anti Fraud Service (CAFS). CAFS investigates suspected fraudulent Housing Benefit and Council Tax Benefit claims; suspected fraudulent tenancies and the circumstances of tenancy related matters; and investigating allegations of fraud or irregularity committed within or against the Council. CAFS also has responsibility for raising fraud awareness across the Council; managing participation in the Audit Commission's National Fraud Initiative; providing advice and guidance in such areas as Money Laundering and Whistleblowing; and maintaining close working relationships with the police and other partnership organisations in order to protect the Council from fraud directed at it, whilst contributing to the reduction of crime overall.

2. Strategy

Benefit Fraud

- 2.1 The majority of the 500 or so benefit fraud cases that CAFS deals with on average each year arise from direct referrals, all referrals are risk scored in order to reject those of poor quality. Currently, the equivalent of 4 full time investigators is employed to deliver a targeted 58 "sanctions" against proven offenders. A sanction could be a case prosecuted in court, a formal caution, a penalty, or a reduction in benefit entitlement. The target represents a 32% success rate (against the expected total annual number of cases completed) however, performance over the last three years suggests CAFS should achieve a better performance than this by year end.

Tenancy Fraud

- 2.2 Tenancy fraud investigation is driven by two primary sources: direct referral of suspected fraudulent tenancies from H&F Homes; and targeted work into specific areas such as Housing Register applicants or

areas of concern flagged by central government. The Audit Commission's most recent National Fraud Initiative 2008/09 report produced in May 2010 calculated the average cost of a tenancy fraud as £75,000 over a three year period; and the average cost of a Right to Buy fraud as £26,000. CAFS strategy is to seek to recover properties and to prosecute offenders under the Fraud Act 2006 wherever possible to act as a deterrent. The equivalent of 4.5 full time officers is tasked with achieving 57 recoveries (and/or removals from the Housing Register) in this financial year.

Internal/Corporate Fraud

- 2.3 All of the investigations in this area arise from direct referral. The majority relate to incidences of staff misconduct, and CAFS policy is to assist HR in the collation of evidence to ensure appropriate disciplinary action is taken, and where the seriousness of the incident warrants it to effect prosecution. Currently the team is based on 4 officers, this is being reduced to two officers from 1 October 2010.

Proactive Exercises

- 2.4 CAFS also seek to identify fraud by undertaking proactive exercises of differing natures, for example: data mining using Council databases to identify potential frauds and areas of control weakness such as overtime claims. The service also undertakes "flesh tone" monitoring to ensure proper use of the Councils email system, plus manages the bi-annual National Fraud Initiative including instructing and educating respective departments on how to undertake the exercise effectively.

Joint working

- 2.5 In 2009/10 CAFS pioneered the secondment of a Council fraud officer to the local police. For 2010/11 the objective is to target prolific offenders where there is also suspected benefit fraud and identified significant hidden assets, freeze the assets of the offenders, prosecute in court and make use of the Proceeds of Crime Act to ensure restitution plus generate windfall income where possible for the Council and the police to put back into the fight against crime.

Fraud Awareness

- 2.6 Although raising fraud awareness is part of CAFS remit and part of its overall strategy, given the focus that has been given in this area over the past three years, our decision has been to concentrate on operational directives for this year ahead.

3. Performance

- 3.1 CAFS performance is measured on outputs which are the number of sanctions successfully applied and the number of fraudulent issues stopped or prevented. We also keep under review the value of fraud and error identified plus the amount of recovered and recoverable losses identified for the Council and the public purse.
- 3.2 CAFS has produced 70 sanctions, including 4 prosecutions for benefit fraud, against a targeted 45. This includes 33 Housing Register removals which were made in the final days of the 2009/10 year which were too late to have been recorded and hence have been counted here. Additionally, at the time this report was compiled, the results for July had just been collated and which showed the results had significantly increased to 103. **Figures 2 and 3** show the outturn for Quarter 1 for each type of fraud, and by sanction delivered.
- 3.3 The measurable financial value of CAFS work involves cash recoveries received from the application of penalties or court awards, Housing Benefit overpayments which become a debt owed to the Council plus a 40% 'bounty' on these overpayments which is paid to the Council from Government subsidy, the recovery of property or removals from the Housing Register, the prevention of fraudulent Right to Buy applications, and other overpaid benefits which are recoverable and while bringing no specific value to the Council do represent a saving made to the public purse. The analysis of the value of fraud identified and recovered is contained in the table at **Figure 4** in Appendix 1, and shows a calculated value to the public purse of £3.9million, including £108k recovered either directly by CAFS or by way of subsidy. **Figure 5** shows the projected overhead spend of the CAFS unit against its budget for

2010/11. The comparison of these figures to the value to the Council shows that the unit has already generated value in excess of its annual budget.

- 3.4 There has been some criticism of the generation of overpayments and actual recovery rates, questioning whether debts are raised and never recovered. Analysis of all fraudulent overpayments generated is shown at **Figure 6**. This shows that the debt raised over the last 6 years is in the process of being recovered. Given that much of the debt is levied at persons with whom slow repayment terms are agreed, the rate of recovery seems reasonable. However, the situation will continue to be monitored. As an aid to this, when debt repayment terms are agreed following the application of an Administrative Penalty, the Debt Management team are involved in the interview and agreement.

4. Service Review

- 4.1 The Corporate fraud team will be reduced from 1st October from 4 to 2 officers. This is based on improved case management plus a new strategy to refer straightforward disciplinary cases for line management to manage with support from HR and CAFS.
- 4.2 A new Head of Fraud Service has recently been appointed and is expected to take up post later in the year.
- 4.3 In order to maximise the potential benefit of the joint working arrangement with the police, a Memorandum of Understanding has been put in place between LBHF and the Metropolitan Police to formalise the arrangement and the split of any proceeds. A first significant case has just realised the confiscation of £123k of funds to be split between the police, CAFS, and CDRP.
- 4.4 In order to maximise the realisable benefits from work of this nature, two CAFS officers have commenced training to qualify as accredited Financial Investigation Officers which will give us the future option to apply to the courts to make restraints ourselves, rather than being dependant on the police. A third officer commences training later in the year.

Appendix 1

Fig. 1 Cases Opened, Rejected, and Closed 2010-11 (to Q1)

	1 st Quarter
Cases referred	529
Cases rejected due to poor quality	60
Cases rejected due to overload of case	31
Cases closed with a successful sanction/outturn	70
Total number of cases closed	417

Fig. 2 Performance by Outcome Achieved to Date (to Q1)

	Prosecutions Successfully Undertaken	Caution, Penalty, Recovery or Disciplinary Sanction	Positive Outcome / Action Achieved	Totals
Housing Benefit	4	12	3	19
Tenancy		11		11
Housing Projects		7		7
Housing Proj 09/10**		33		33
Corporate				0
Total	4	63	3	70

Fig.3 Performance Outturn against Target (to Q1)

	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Total
Benefits	19				19
Tenancy	11				11
Housing Projects	7				7
Housing Proj 09/10**	33				33
Corporate	0				0
Total All	70				70
Target 2010/11	45	45	45	45	180
<i>Previous Years' Comparatives</i>					
Total 2009/10	55	92	40	91	278
Total 2008/09	31	54	98	186	186
Total 2007/08	32	65	97	130	130
Total 2006/07	33	66	99	132	132

**33 Housing Register removals effected in March 2010 but not counted or reported in 2009/10 outturns, hence included here

Fig.4 Financial Value of Counter Fraud Work Undertaken 2010-11 (to Q1)

		Recovered		Recoverable		Additional value to the Council	Recoverable to public purse	Speculative Income
		Recovered by CAFS	Recovered to LBHF	Recoverable by CAFS	Recoverable by LBHF	Value of properties recovered or lets avoided	Recoverable	Value of Assets Currently Restrained
Benefits	Penalties	4,330						
	Costs, Compensation, POCA	3,671						
	HB Overpayments				44,835			
	40% Bounty on HB O/Ps		17,934					
Tenancy	Tenancies recovered					975,000 ¹		
	Housing Register removals					225,000 ¹		
	HR removals 2009/10**					2,475,000 ¹		
	Right to Buys prevented					52,000 ²		
Corporate	Corporate cases	41,275	41,275			41,275		
NFI*	HB Overpayments							
	40% Bounty on HB O/Ps							
	Pay & pensions							
	Creditors							
Income Support Overpayments								
Assets Restrained								2,378,695
Total		49,276	59,209	0	44,835	3,768,275	0	2,378,695
Total recovered		108,485						
Total balance recoverable				44,835				
Total overall recoverable value to the council				153,320				
Total value to council due to CAFS work				3,921,595				
Total value to the public purse						3,921,595		

*NFI is a bi-annual exercise. Results for the last exercise were published as part of the 2009-10 Annual Fraud Report. No results expected in this area until Q4 at the earliest.

**33 Housing Register removals effected in March 2010 but not counted or reported in 2009/10 outturns, hence included here

¹. Valued by the Audit Commission at £75k per council property recovered

². Valued by the Audit Commission at £26k per RTB stopped

Fig. 5 Projected Expenditure vs. Budget

	Annual Budget	Expenditure (Projected)
Cost of Staff	£781,200	£755,392
Operational Expenses	£27,800	£33,535
Legal Expenses	£64,900	£70,300
TOTAL – operational budget/ costs	£873,900	£859,227
Fixed	£244,700	£244,700
TOTAL – operational and overhead costs	£1,118,600	£1,103,927
Net underspend		£14,673
Income (POCA & Adpens)	£0	Nil

Fig. 6 Value of Outstanding Debt

Value of Outstanding Debt - Fraud Overpayments			
	Raised	Outstanding	% outstanding
2004/05	£316,175	£70,576	22.3%
2005/06	£1,032,426	£448,225	43.4%
2006/07	£678,610	£223,345	32.9%
2007/08	£376,326	£223,148	59.3%
2008/09	£255,660	£158,760	62.1%
2009/10	£375,439	£333,261	88.8%
2010/11 to date	£27,036	£27,036	100.0%
	£3,061,672	£1,484,351	48.5%

Appendix 2

Significant case developments

The following are reported for interest:

Subject 1

Subject 1 was employed by the council in 2000 as a Cleaning Supervisor, supervising 96 employees. When 2 members of staff left the council, he failed to inform the council's HR department of their resignation, and subsequently changed their bank details and home addresses on HR systems creating 'ghost employees' subsequently diverting salary payments for these employees to himself. He was arrested, charged and found guilty to all 9 indictments. He was sentenced to 16 months imprisonment to serve at least 8 months before being released on licence. At a subsequent confiscation hearing he was ordered to pay compensation to LBHF to the value of £123,823, where the original loss to the council through the fraud was £106k.

Subject 2

Subject 2 was formally employed as a part-time lecturer in Adult Education Services at London Borough of Hammersmith & Fulham between 2002 and 2009. She was dismissed for Gross Misconduct after it was ascertained she had used a blue badge in the name of her deceased husband and forged a letter in his name to evade a parking ticket issued by LBHF. Further enquiries established she had submitted fraudulent voter registration details in the name of her deceased husband at his (different) address. She was summonsed on 3 counts of Fraud by False Representation, and is due to attend Court in July.

Subject 3

An allegation was received that the subject had failed to declare he owned a property. Enquiries confirmed that the subject is a joint owner of a property with his mother. The property in question was the property where he was residing with his family and from where he made his housing application. The subject was interviewed under caution in which he denied the allegation of knowingly making a false statement. The findings were passed to H&F Advice in order for his application to be ended. The subject is further charged with offences under section 2 and 3 of the Fraud Act 2006 and the case will be heard at West London Magistrates Court in July.

Subject 4

This subject has made an application for social housing, and was in receipt of Housing Benefit between 2005 and 2009. The subject failed to declare ownership of property which was bought for £155,000. Enquiries have identified an undeclared partner earning £52,000 a year. The property was

sold for £233,000. The overpayment of Housing Benefit is in the region of £18,000. A joint operation is still progressing with the Department of Work & Pensions.

Subject 5

The subject made a Succession application claiming that she had resided with the deceased tenant at the council address for two years prior to his death. The subject was an employee of this authority and her records indicted she resided at a different address. After attending an Interview under Caution the subject chose to discontinue her succession claim and the property was recovered. The case is currently with Legal in preparation for presentation at court.

Subject 6

In a sub-letting case, the sub-tenant contacted H&F Homes to complain that the tenant was attempting to evict her from the property. Officers attended the property to investigate. Upon arrival they found the listed tenant with a locksmith attempting to get into the property. Photographs were taken in the presence of the sub-tenant to record evidence of subletting and the property was recovered.

Subject 7

The tenant was discovered as having two Housing Association tenancies whilst subletting a two-bedroom LBHF tenancy. The investigation also revealed that there was an arrest warrant outstanding for council tax arrears. The tenant has yet to be found, however, the property was recovered and as part of a central government funded project, CAFS are investigating the sublet of the two RSL properties on behalf of Notting Hill Housing Group

Subject 8

Whilst being investigated for benefit fraud, this subject admitted he was actually living in East London. Following the interview, CAFS recommended H&F Homes issue an NTQ. Soon after the subject contacted his Housing Officer and handed the keys to the property back.

Operation Alexis

A CAFS/police joint operation, this case concerns a subject who was arrested as part of an ongoing operation and discovered to be the owner of a car rental business. An overpayment of Housing Benefit has been calculated at £95,000 and the file is being prepared for prosecution.

Operation Aston

Referred to CAFS by the police as they discovered the claimant to be in receipt of benefits and owning property. DWP overpayments stand at £30,000 and HB overpayments at £62,600. Restraints have been placed on the assets which amount to three properties and several bank accounts. The individuals involved have been charged with 18 offences, 6 of which are under POCA. The trial is set for September.

Operation Tiamat

The subject was arrested by Police and officers from HMRC and was found to be in possession of a quantity of drugs. A search of the property by both the Police and CAFS identified evidence relating to benefit fraud. Arrests were made and a trial set for September.

Operation Vulcan

During a court hearing, the subject stood surety for another defendant. She was in receipt of benefit from LBHF and during the hearing it came to light that the subject held significant savings. The subject was arrested for benefit fraud and charged with 9 offences, 3 under POCA. The trial is set for August.

Other convictions for fraud

In April a man was sentenced to a Community Punishment Order and electronic tagging with full costs of £1107 awarded. A compensation order has been granted for the total over payment of £7691.

In May a woman was sentenced to 6 months suspended for two years, and was advised by the judge that she would have received a custodial sentence had she not had children.

In June a woman was sentenced to an 80 hour Community Punishment Order.