

# Governance, Audit, Risk Management and Standards Committee **AGENDA**

**DATE:** Tuesday 8 December 2015

**TIME:** 7.30 pm

**VENUE:** Committee Room 5  
Harrow Civic Centre

## **MEMBERSHIP** (Quorum 3)

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**Chair:** Councillor Antonio Weiss

### **Councillors:**

Ghazanfar Ali  
Ms Pamela Fitzpatrick  
Nitin Parekh

Barry Macleod-Cullinane (VC)  
Amir Moshenson  
Bharat Thakker

### **Reserve Members:**

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- |                           |                  |
|---------------------------|------------------|
| 1. Adam Swersky           | 1. Kanti Rabadia |
| 2. Jeff Anderson          | 2. Pritesh Patel |
| 3. Kairul Kareema Marikar | 3. Chris Mote    |
| 4. Barry Kendler          |                  |

**Contact:** Alison Atherton, Senior Professional - Democratic Services  
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# AGENDA - PART I

## 1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

- (i) to take the place of an ordinary Member for whom they are a reserve;
- (ii) where the ordinary Member will be absent for the whole of the meeting; and
- (iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
- (iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

## 2. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Committee;
- (b) all other Members present.

## 3. MINUTES (Pages 5 - 8)

That the minutes of the meeting held on 10 September 2015 be taken as read and signed as a correct record.

## 4. PUBLIC QUESTIONS \*

To receive any public questions received in accordance with Committee Procedure Rule 17 (Part 4B of the Constitution).

Questions will be asked in the order notice of them was received and there be a time limit of 15 minutes.

**[The deadline for receipt of public questions is 3.00 pm, <DATE>. Questions should be sent to [publicquestions@harrow.gov.uk](mailto:publicquestions@harrow.gov.uk)**

**No person may submit more than one question].**

## 5. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

## 6. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

**7. REFERENCES FROM COUNCIL AND OTHER COMMITTEES/PANELS**

To receive references from Council and any other Committees or Panels (if any).

**8. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY: MID-YEAR REVIEW 2015-16 (Pages 9 - 22)**

Report of the Director of Finance

**9. MINIMUM REVENUE PROVISION POLICY STATEMENT - REVISION (Pages 23 - 30)**

Report of the Director of Finance

**10. INFORMATION REPORT - BUSINESS CONTINUITY/IT DISASTER RECOVERY AND IT DATA CENTRE AUDIT REPORT UPDATE (Pages 31 - 34)**

Report of the Corporate Director Resources and Commercial

**11. INFORMATION REPORT - ANNUAL AUDIT LETTER (Pages 35 - 48)**

Report of the Director of Finance

**12. INFORMATION REPORT - INTERNAL AUDIT AND CORPORATE ANTI-FRAUD UPDATE (Pages 49 - 158)**

Report of the Corporate Director Resources and Commercial

**13. ANY OTHER URGENT BUSINESS**

Which cannot otherwise be dealt with.

**AGENDA - PART II**

**14. INFORMATION REPORT - BUSINESS CONTINUITY/IT DISASTER RECOVERY AND IT DATA CENTRE AUDIT REPORT UPDATE (Pages 159 - 228)**

Appendices to the report of the Corporate Director Resources and Commercial

**\* DATA PROTECTION ACT NOTICE**

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:** The questions and answers will not be reproduced in the minutes.]

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# GOVERNANCE, AUDIT, RISK MANAGEMENT AND STANDARDS COMMITTEE MINUTES

## 10 SEPTEMBER 2015

**Chair:** \* Councillor Antonio Weiss

**Councillors:** \* Ms Pamela Fitzpatrick \* Amir Moshenson  
\* Barry Macleod-Cullinane \* Nitin Parekh  
\* Kairul Kareema Marikar (3) \* Bharat Thakker

\* Denotes Member present  
(3) Denotes category of Reserve Member

### 70. Attendance by Reserve Members

**RESOLVED:** To note the attendance at this meeting of the following duly appointed Reserve Member:-

Ordinary Member

Reserve Member

Councillor Ghazanfar Ali

Councillor Kairul Kareema Marikar

### 71. Declarations of Interest

**RESOLVED:** To note that the following interests were declared:

Agenda Item 8 – Statement of Accounts 2014/15

Councillor Barry Macleod-Cullinane declared a non-pecuniary interest in that he had previously been a member of the Council's pension scheme and also London Councils pension scheme. He would remain in the room whilst the matter was considered and voted upon.

**72. Minutes**

**RESOLVED:** That the minutes of the meeting held on 22 July 2015 be taken as read and signed as a correct record.

**73. Public Questions**

**RESOLVED:** To note that no public questions were received.

**74. Petitions**

**RESOLVED:** To note that no petitions had been received.

**75. Deputations**

**RESOLVED:** To note that no deputations were received at the meeting under the provisions of Committee Procedure Rule 16.

**76. References from Council and other Committees/Panels**

**RESOLVED:** To note that no references were received.

**RESOLVED ITEMS**

**77. Statement of Accounts 2014-15**

The Committee received a report of the Director of Finance which presented the audited Statement of Accounts for 2014/15.

The Chair welcomed four representatives of the Council's auditors, Deloitte, to the meeting. The Director of Finance reported that Members were being presented with the final Statement of Accounts which had remained unchanged since the draft version submitted to the July meeting. The Pension Fund Committee would be requested to approve the Pension Fund Annual report later in the year.

The auditor outlined the content of the Pension Fund Annual report. Members were advised that detailed testing had been undertaken in each of the identified areas and that the overall picture was a 'clean' audit on the pension fund.

In response to a Member's question in relation to the speed of response to issues raised by the auditors, an officer advised that there had been a quick response in terms of the risk register but that it was a work in progress. Another Member expressed the view that due to the terminology in the report it might not be clear to the beneficiaries of the fund. The Director of Finance undertook to provide an explanatory note in the covering report that would be submitted to the Pension Fund Committee.

In terms of cash flow in relation to the pension fund, an officer advised that there had been a surplus in the previous financial year but that he would provide further information on this aspect of the fund to Members.

In response to Members' questions, the auditor advised that in terms of valuation of risks Harrow's position was not unusual for a local authority. Similarly, there was nothing within the letter of representation that was unusual for a local authority.

The auditor outlined the content of the audit report, reminding Members that they had received the audit plan in April 2015 which had detailed the significant risks at that time. He reported that his opinion of the financial statements would be unmodified and he sought the views of the Committee.

The auditors, during their presentation, reported that Harrow's reserves were low compared to Councils across London as was the spend per head. The Director of Finance reported that the reserves were £10m and that this was a slight increase. She advised that Harrow was a low funded authority. There were significant savings built into this year's budget and the estimated budget gap was £53m. The Administration had given a clear steer that the Council should be working towards a balanced budget and a budget for consultation would be submitted to Cabinet in December. The auditor clarified that his opinion related to the process but that did not give an absolute assurance.

Members were advised that issues in terms of timing need to be borne in mind as when the planning document had been prepared only draft figures had been available and therefore the risk assessment could not be finalised. The auditor confirmed that the reserves position differed from the previous year. Some Members challenged the level of reserves.

The Chair thanked the auditors for their report, presentation and work.

**RESOLVED:** That

- (1) the audited Statement of Accounts 2014/15 be approved and the Pension Fund Annual Report 2014/15 be noted and that the signing thereof by the Chair be authorised;
- (2) the Director of Finance, following consultation with the Chair, be authorised to make any final amendments to the Accounts and Pension Fund Annual Report arising from the external audit prior to the signing of the accounts by the auditor; and
- (3) the Summary Statement of Accounts 2014/15 be noted.

## **78. Annual Governance Statement 2014/15**

The Committee received a report of the Corporate Director of Resources which set out the Council's Annual Governance Statement (AGS) for 2014/15 and the Head of Internal Audit's Opinion.

The Head of Internal Audit outlined the content of the report which had been updated since the previous meeting when Members had considered the draft. She drew Members attention to the main changes/updates in the report.

Members expressed concern in relation to the significant governance gap reported but were assured by the officer that there was an action plan in place for the Business Continuity/IT Disaster Recovery element of the risk and that an action plan was currently being developed for the IT Data Centre element and that some actions were already underway. The Corporate Director of Resources stated that the risks were being taken seriously and suggested that a report/action plan be submitted to the next meeting of the Committee in order to provide an update on progress. He asked that Members note that this was likely to be a Part II item. The Head of Internal Audit undertook to provide Members of the Committee with the current versions of the action plans.

In response to a Member's comment that staff as well as Members should complete social media training in order to prevent corporate misuse, the Corporate Director stated that he would give this issue consideration.

**RESOLVED:** That

- (1) the Annual Governance Statement for 2014/15 be approved;
- (2) the Head of Internal Audit's Overall Opinion be noted.

## **79. Annual Health and Safety Report**

The Committee received a report of the Corporate Director of Environment and Enterprise which summarised the Council's health and safety performance for the year 1 April 2014 to 31 March 2015. The report provided an update of activities and gave information on outcome measures, training, audits and accidents.

In response to Members questions, the officer advised that it was not possible to prosecute all offenders in relation to violence to staff but stated that he would review whether a breakdown in terms of physical assaults on staff by children with SEN could be included in future reports. He advised that training was provided to school staff in order to assist them in preventing/ dealing with assaults.

The officer undertook to provide details of the fatality reported to Members separately.

**RESOLVED:** That the report be noted.

(Note: The meeting, having commenced at 7.30 pm, closed at 9.27 pm).

(Signed) COUNCILLOR ANTONIO WEISS  
Chair



**REPORT FOR: GOVERNANCE, AUDIT,  
RISK MANAGEMENT  
AND STANDARDS  
COMMITTEE**

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<b>Date of Meeting:</b>	8 December 2015
<b>Subject:</b>	Treasury Management Strategy Statement and Annual Investment Strategy: Mid-year review 2015-16
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance
<b>Exempt:</b>	No
<b>Wards affected:</b>	All
<b>Enclosure:</b>	Appendix A – Economic and Interest Rates update

## **Section 1 – Summary and Recommendations**

### **Summary**

This report sets out the mid-year review of treasury management activities for 2015/16.

### **Recommendation**

To note the Treasury Management Mid-Year Report for 2015/16.

## Section 2 – Report

### INTRODUCTION

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

*“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*

The Council has adopted this definition.

2. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.
3. The first main function of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. In line with the Treasury Management Strategy Statement surplus monies are invested in low risk counterparties or instruments commensurate with the Council’s low risk appetite, providing adequate liquidity initially before considering investment return.
4. The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.
5. The Local Government Act 2003 and supporting regulations require the Council to ‘have regard to’ the CIPFA Prudential Code and Treasury Management Code of Practice to set Treasury and Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable.
6. The CIPFA Code of Practice on Treasury Management (revised 2011) has been adopted by the Council.
7. The primary requirements of the Code are as follows:
  - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
  - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
  - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
  - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Governance, Audit, Risk Management and Standards Committee.
8. The purpose of this report is specifically to meet one of the above requirements, namely the mid year report of treasury management activities for financial year 2015/16. The report covers the following:
- Treasury Position as at 30 September 2015;
  - An economic update and Interest Rates;
  - Compliance with Prudential Indicators.

## TREASURY POSITION AS AT 30 SEPTEMBER 2015

9. The Council's borrowings and investment (cash balances) position as at 30 September 2015 is detailed below:

**Table 1: Outstanding Borrowings and Investments**

	As at 30 September 2015			As at 31 March 2015		
	Principal £m	Average Rate %	Average Life	Principal £m	Average Rate %	Average Life
<b>Total Investments</b>	<b>109.1</b>	<b>0.9</b>	<b>145 days</b>	<b>119.1</b>	<b>1.0</b>	<b>214 days</b>
<b>Total Borrowing</b>						
Public Works Loan Board	218.5	4.09	35.7 yrs	218.5	4.09	36.2 yrs
Market Loans	115.8	4.53	36.5 yrs	115.8	4.53	37.0 yrs
<b>Total</b>	<b>334.3</b>	<b>4.24</b>	<b>36.0 yrs</b>	<b>334.3</b>	<b>4.24</b>	<b>36.5 yrs</b>

The above analysis assumes loans structured as LOBOs mature at the end of the contractual period. If the first date at which the lender can reset interest rates was used as the maturity date, the average life for market loans would be 1.3 years and for the whole debt portfolio 23.7 years

## Review of Investment Portfolio

10. The Council remains a cautious investor placing security and liquidity considerations ahead of income generation. With Bank Rate remaining at

0.5% it is impossible to invest at interest rates commonly seen in previous decades. During the first half of the year the rate on offer for instant access investments has been 0.25%, for investments of three months broadly in the range of 0.45% to 0.55% and for investments of over one year period just over 1%.

11. The Council held £109.1m of investments as at 30 September 2015 (£119.1m at 31 March 2015) and the investment portfolio yield for the first six months of the year is 0.9% against the three months LIBOR of 0.58%. The reduction in investments is due primarily to the substantial expenditure undertaken on schools building projects. The Council's investment income budget is £1.588m and the forecast outturn is a favourable balance of £0.1m.
12. The only counterparties actively in use during the period have been Lloyds, Royal Bank of Scotland Group, Enhanced Money Market Funds and Svenska Handelsbanken.
13. The performance of the investment portfolio is benchmarked on a quarterly basis by the Treasury Management Adviser both against their risk adjusted model and the returns from other local authorities. As at 30 September 2015, the average yield on the portfolio of 0.9% was in line with the model return and was in the top quartile of all Local Authorities.
14. In addition to the investment of cash balances, the Council, at its meeting in July 2013, approved a loan of £15m to West London Waste Authority to finance the cost of a new energy from waste plant. The term of the loan is 25 years at an interest rate of 7.604% on a reducing balance. The drawdown as at September 2015 is £11.3m and the remaining facility of £3.7m is predicted to be drawn by June 2016. For the financial year 2015/16, the outturn forecast on the interest accrued is £0.9m which is included as part of the investment income budget of £1.558m.
15. The table below sets out the counter-party position as at 30 September 2015.

**Table 2: Investment Balances**

	2014/15				2015/16	
	Sep-14		Mar-15		Sep-15	
	£m	%	£m	%	£m	%
<b>Specified Investments</b>						
Banks & Building Societies	15.2	10.2	5.3	4.5	14.3	13.1
Money Market Funds	1.6	1.1	1.6	1.3	1.6	1.5
Local Authority	0.0	0.0	5.0	4.2	0.0	0.0
<b>Non –Specified Investments</b>						
Banks & Building Societies	111.6	75.2	101.1	84.9	93.1	85.3
Enhanced Money Market Funds	20.1	13.5	6.1	5.1	0.1	0.1
<b>Total</b>	<b>148.5</b>	<b>100</b>	<b>119.1</b>	<b>100</b>	<b>109.1</b>	<b>100.00</b>

16. During the half year, on one occasion due to an external banking error by Lloyds the counterparty limit of 50% investments with RBS was breached by 4% over one weekend.

17. On 20 May Capita advised the Council that Fitch, the rating agency, had concluded that many of the west European banks had a reduced likelihood of sovereign support and had therefore downgraded this aspect of their rating from 1 (the highest level) to 5 (the lowest level). The Council's minimum credit criterion for these banks was level 1. Of the significant counterparties this affected Lloyds and RBS and the Council had several fixed term loans outstanding with these banks. The Council did not seek immediate recovery of these investments since this would have potentially been in breach of contract and would certainly have been expensive and administratively difficult. Capita also advised that this ".....is not indicative of deteriorating credit quality in the institution concerned. Instead it is reflective of underlying methodology changes by the agencies in light of regulatory changes." The Council has since revised its policy.
18. At its meeting in November 2014 the Council approved HB Public Law Ltd. which is wholly owned by the Council to be added to the counter party list. The Council has approved a start-up loan of £100,000 for three years. To date there has been a drawdown of £40,000 in April 2015.

## Review of Borrowing Portfolio

19. The table below analyses the maturity profile of borrowing.

**Table 3: Borrowing Maturity Profile**

	upper limit %	lower limit %	LOBO final maturity		LOBO interest reset date	
			£m	%	£m	%
under 12 months	30	0	0.0	0.00%	83.80	25.07%
12 months and within 24 months	20	0	10.0	2.99%	10.00	2.99%
24 months and within 5 years	30	0	22.0	6.58%	22.00	6.58%
5 years and within 10 years	40	0	5.0	1.50%	5.00	1.50%
10 years and above	90	30	297.3	88.93%	213.50	63.86%
<b>Total</b>			<b>334.3</b>	<b>100.00%</b>	<b>334.3</b>	<b>100.00%</b>

20. The Council held £334.3m of borrowing as at 30 September 2015 (£334.3m at 31 March 2015) and the average borrowing rate is 4.24%. The forecast outturn on borrowing cost is in line with the budget of £7.834m.
21. Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. A detailed review of the possibilities was discussed with the Treasury Management Adviser in July who advised that in a period of such low interest rates there are no financial advantages available which could be recommended for acceptance. Hence, no debt rescheduling was undertaken during the first six months of the year.

## ECONOMIC UPDATE AND INTEREST RATES

22. An Economic update for the first part of the 2015/16 financial year along with the interest rate forecast and commentary provided by Capita as at 30<sup>th</sup> September 2015 is included as Appendix A.

## COMPLIANCE WITH PRUDENTIAL INDICATORS

### Capital Expenditure and Funding

23. The Council's capital expenditure plans are the key drivers of treasury management activity. The output of the capital expenditure plans is reflected in the statutory prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans. The table below summarises the capital expenditure and funding for the current financial year:

**Table 4: Capital Expenditure**

	2014/15	2015/16	2015/16
	Actual	Estimate	Forecast
	£'000	£'000	£'000
<b>Expenditure</b>			
Non - HRA	57,927	57,061	100,230
HRA	4,443	21,656	16,037
<b>TOTAL</b>	<b>62,370</b>	<b>78,717</b>	<b>116,267</b>
<b>Funding:-</b>			
Grants	27,779	29,142	56,943
Capital receipts	179	9,359	3,741
Revenue financing	5,534	9,638	52,439
Section 106 / Section 20	553	923	1,408
<b>TOTAL</b>	<b>34,045</b>	<b>49,062</b>	<b>114,531</b>
<b>Net financing need for the year</b>	<b>28,325</b>	<b>29,655</b>	<b>1,736</b>

24. The increase in the expenditure on the capital programme is due primarily to the carry forward of slippage from 2014/15. This will have an impact on the annual change in capital financing requirement and net borrowing requirement as detailed in tables below.

### Capital Financing Requirement (CFR)

25. The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any new capital expenditure, which has not immediately been paid for, will increase the CFR.

**Table 5: Capital Financing Requirement**

	2014/15	2015/16	2015/16
	Actual	Estimate	Forecast
	£'000	£'000	Outturn
	£'000	£'000	£'000
<b>CFR as at 31 March</b>			
Non – HRA	256,390	270,118	287,692
HRA	149,526	151,214	151,232
<b>TOTAL</b>	<b>405,916</b>	<b>421,332</b>	<b>438,924</b>
<b>Annual change in CFR</b>			
Non – HRA	12,175	13,728	31,302
HRA	- 12	1,688	1,706
<b>TOTAL</b>	<b>12,163</b>	<b>15,416</b>	<b>33,008</b>

26. Debt outstanding, including that arising from PFI and leasing schemes, should not normally exceed the Capital financing requirement. As the Council has funded a substantial amount of capital expenditure from revenue resources, as shown in table 6 below current gross debt of £353m is well below the CFR of £439m.

**Table 6: Changes to Gross Debt**

	2014/15	2015/16	2015/16
	Actual	Estimate	Forecast
	£'000	£'000	Outturn
	£'000	£'000	£'000
Borrowing 1st April	350,358	334,293	334,261
Change in Borrowing	-10,065	0	0
Other long term liabilities (OLTL) 1st April	23,923	20,306	20,306
Expected change in OLTL	-2,082	-1,534	-1,534
<b>Actual gross debt at 31st March</b>	<b>362,134</b>	<b>353,065</b>	<b>353,033</b>
<b>CFR 31st March</b>	<b>405,916</b>	<b>421,332</b>	<b>438,924</b>
<b>Under / (over) borrowing</b>	<b>43,782</b>	<b>68,267</b>	<b>85,891</b>

27. The table below shows the net borrowing after investment balances are taken into account.

**Table 7: Net Borrowing**

	2014/15	2015/16	2015/16
	Actual	Estimate	Forecast
	£'000	£'000	Outturn
	£'000	£'000	£'000
brought forward 1 April	230,942	269,107	239,258
carried forward 31 March	239,258	282,736	279,261
<b>Change in net borrowing</b>	<b>8,316</b>	<b>13,629</b>	<b>40,003</b>

The estimated balance at 31 March 2016 is made up of outstanding borrowing of £334.3m and estimated other long term liabilities of £19.0m partly offset by estimated investment balances of £80.0m.

## Operational Boundary and Authorised Limit

28. Operational Boundary – This limit is based on the Council's plans for capital expenditure, capital financing requirement and cash flow requirements for the year.

29. Authorised Limit – This represents a limit beyond which external debt is prohibited. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

**Table 8: Boundaries**

	2014/15	2015/16	2015/16
		Original	Revised
	£m	£m	£m
<b>Authorised Limit for external debt</b>			
Borrowing and other long term liabilities	406	421	439
<b>Operational Boundary for external debt</b>			
Borrowing	334	334	334
Other long term liabilities	20	19	19
<b>Total</b>	<b>354</b>	<b>353</b>	<b>353</b>
<b>Upper limit for fixed interest rate exposure</b>			
Net principal re fixed rate borrowing	334	334	334
<b>Upper limit for variable rate exposure</b>			
Net principal re variable rate borrowing	0	0	0
Upper limit for principal sums invested over 364 days	28	40.5	40.5

## Affordability Indicators

30. **Ratio of Financing Costs to Revenue Streams** – This indicator identifies the trend in the cost of capital (borrowing, depreciation, impairment and other long term obligation costs net of investment income) against the net revenue stream. Table 9 below shows the current position

**Table 9: Ratio of Financing Costs to Net Revenue Streams**

	2014/15	2015/16	2015/16
	Actual	Estimate	Forecast Outturn
	%	%	%
Non - HRA	14	13	12
HRA	48	41	41

31. **Incremental impact of Capital Investment Decisions on Council Tax and Housing Rents** – This indicator identifies the revenue costs associated with proposed changes to the capital programme and the impact on Council Tax and Housing Rents

32. The table below identifies the revenue costs associated with the proposed capital programme and the impact on Council Tax and housing rents.

**Table 10: Incremental Impact of Capital Investment Decisions**

	2014/15	2015/16	2015/16
	Actual	Estimate	Forecast Outturn
	£	£	£
Increase in Council Tax (band D) per annum	33.32	42.49	46.78
Increase in average housing rent per week	0.11	1.34	-2.97



## Local HRA indicators

33. The ratio of gross revenue stream to debt shows a consistent pattern which is affordable by the HRA. As the number of dwellings reduces over the period, the debt outstanding per dwelling is estimated to increase. However, the annual increases are only marginal and the ratio compared to the average value of each dwelling is low enough for the measure to raise no concern.

**Table 11: Local HRA Indicators**

	2014/15	2015/16	2015/16
	Actual	Estimate	Forecast Outturn
Debt (CFR) (£m)	149.5	151.2	151.2
Gross Revenue Stream (£m)	31.8	32.2	32.2
<b>Ratio of Gross Revenue Stream to Debt (%)</b>	<b>21</b>	<b>21</b>	<b>21</b>
Average Number of Dwellings	4892	4877	4867
<b>Debt outstanding per dwelling (£)</b>	<b>30,565</b>	<b>31,005</b>	<b>31,069</b>

34. HRA Debt Limit is shown in the table below

**Table 12: HRA Debt**

	2014/15	2015/16	2015/16
	Actual	Estimate	Forecast Outturn
	£'000	£'000	£'000
HRA Debt Limit	149,648	151,337	151,337
HRA CFR	149,526	151,213	151,213
Headroom	122	124	124

## Financial Implications

35. In addition to supporting the Council's revenue and Capital programmes the Treasury Management net budget of £6.3m (Interest payable £7.9m; Interest receivable £1.6m) discussed in paragraphs 11 and 20 is an important part of the General fund budget. Any saving achieved, or overspends incurred have a direct impact on the achievements of the budgetary policy.

## Risk Management Implications

36. The identification, monitoring and control of risk are central to the achievement of the Treasury objectives. Potential risks are included in the directorate risk register and are identified, mitigated and monitored in accordance with Treasury Practice notes approved by the Treasury Management Group.

## Equalities Implications

37. There are no equalities implications arising from this report.

## Corporate Priorities

38. This report deals with the Treasury Management activity which plays a significant part in supporting the delivery of all the Council's corporate priorities.

## Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 25 November 2015		
Name: Caroline Eccles	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 24 November 2015		
<b>Ward Councillors notified:</b>		N/A

## Section 4 - Contact Details and Background Papers

**Contact: Ian Talbot** (Treasury and Pension Fund Manager)  
Tel: 020-8424-1450 / Email: [ian.talbot@harrow.gov.uk](mailto:ian.talbot@harrow.gov.uk)

**Background Papers:** None.

Provided by Capita Asset Services at 30 September 2015

### Economic update

**UK.** UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget. Despite these headwinds, the Bank of England August Inflation Report had included a forecast for growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth. However, since the report was issued, the Purchasing Manager's Index, (PMI), for services on 5 October would indicate a further decline in the growth rate to only +0.3% in Q4, which would be the lowest rate since the end of 2012. In addition, worldwide economic statistics and UK consumer and business confidence have distinctly weakened so it would therefore not be a surprise if the next Inflation Report in November were to cut those forecasts in August.

The August Bank of England Inflation Report forecast was notably subdued in respect of inflation which was forecast to barely get back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

There are therefore considerable risks around whether inflation will rise in the near future as strongly as had previously been expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as was being forecast until recently, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

**USA.** The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about Chinese and Japanese growth and the knock on impact on emerging countries that are major suppliers of commodities, was cited as the main reason for the Fed's decision to pull back from making that start. The nonfarm payrolls figures for September and revised August, issued on 2 October, were disappointingly weak and confirmed concerns that US growth is likely to weaken. This has pushed back expectations of a first rate increase from 2015 into 2016.

**EZ.** In the Eurozone, the ECB fired its big bazooka in January 2015 in unleashing a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

## Interest rate forecasts

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

Capita Asset Services undertook its last review of interest rate forecasts on 11 August shortly after the quarterly Bank of England Inflation Report. Later in August, fears around the slowdown in China and Japan caused major volatility in equities and bonds and sparked a flight from equities into safe havens like gilts and so caused PWLB rates to fall below the above forecasts for quarter 4 2015. However, there is much volatility in rates as news ebbs and flows in negative or positive ways and news in September in respect of Volkswagen, and other corporates, has compounded downward pressure on equity prices. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

Despite market turbulence since late August causing a sharp downturn in PWLB rates, the overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The disappointing US nonfarm payrolls figures and UK PMI services figures at the beginning of October have served to reinforce a trend of increasing concerns that growth is likely to be significantly weaker than had previously been expected. This, therefore, has markedly increased concerns, both in the US and UK, that growth is only being achieved by monetary policy being highly aggressive with central rates at near zero and huge QE in place. In turn, this is also causing an increasing debate as to how realistic it will be for central banks to start on reversing such aggressive monetary policy until such time as strong growth rates are more firmly established and confidence increases that inflation is going to get back to around 2% within a 2-3 year time horizon. Market expectations in October for the first Bank Rate increase have therefore shifted back sharply into the second half of 2016.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The ECB severely disappointing financial markets with a programme of asset purchases which proves insufficient to significantly stimulate growth in the EZ.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

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**REPORT FOR: GOVERNANCE, AUDIT,  
RISK MANAGEMENT  
AND STANDARDS  
COMMITTEE**

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<b>Date of Meeting:</b>	8 December 2015
<b>Subject:</b>	Minimum Revenue Provision Policy Statement - Revision
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance
<b>Exempt:</b>	No
<b>Wards affected:</b>	All
<b>Enclosure:</b>	Appendix 1 – Minimum Revenue Provision (Before 01/04/08)

**Summary and Recommendations**

This report sets out proposals for the revision of the Minimum Revenue Provision Policy in respect of capital expenditure incurred before 1 April 2008 and invites the Committee to comment. The revision will be subject to consideration by Cabinet and approval by Council.

**Recommendation**

The Committee are invited to comment on the proposals for the revision of the Minimum Revenue Provision Policy in respect of capital expenditure incurred before 1 April 2008.

## Section 2 – Report

### Background

1. Capital expenditure is generally defined as expenditure on assets that have a life expectancy of more than one year e.g. land, buildings, vehicles, machinery etc. The accounting approach is to spread the costs of acquisition over the period during which such assets are used to provide services. The mechanism for spreading these costs is through an annual Minimum Revenue Provision (MRP). The MRP is the means by which capital expenditure which is financed by borrowing or credit arrangements is funded by the revenue account over its useful life.
2. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 require the Council to determine for the current financial year an amount of minimum revenue provision which it considers to be prudent. This involves allowing the debt to be repaid over a period reasonably commensurate with that over which the capital expenditure provides benefit.
3. On 26 February 2015, within a report entitled “Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2015-16” the Council confirmed the existing Minimum Revenue Provision Policy as follows:
  - *For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be the ‘Regulatory Method’ (option 1) outlined in CLG guidance on MRP. This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.*
  - *For all capital expenditure financed from unsupported (prudential) borrowing (including PFI and finance leases), MRP will be based upon an asset life method in accordance with Option 3 of the guidance.*
  - *In some cases where a scheme is financed by prudential borrowing it may be appropriate to vary the profile of the MRP charge to reflect the future income streams associated with the asset, whilst retaining the principle that the full amount of borrowing will be charged as MRP over the asset’s estimated useful life.*
  - *A voluntary MRP may be made from either revenue or voluntarily set aside capital receipts.*
  - *Estimated life periods and amortisation methodologies will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.*



- *Freehold land cannot properly have a life attributed to it, so for the purposes of Asset Life method it will be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate will be used for the land.*
  - *As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.*
  - *Repayments included in annual PFI or finance leases are applied as MRP.*
  - *Where borrowing is undertaken for the construction of new assets, MRP will only become chargeable once such assets are completed and operational.*
  - *Under Treasury management best practice the Council may decide to defer borrowing up to the capital financing requirement (CFR) and use internal resources instead. Where internal borrowing has been used, the amount chargeable as MRP may be adjusted to reflect the deferral of actual borrowing.*
4. Under this Policy the total charge to the General Fund budget in 2015-16, excluding PFI and finance leases is expected to be approximately £12.8m of which a significant element (£5.2m) is in relation to debt incurred prior to 1 April 2008 calculated in accordance with the first “bullet” point in paragraph 3.

## **Proposal**

5. Officers regularly review all treasury management practices and, in relation to the debt incurred prior to 1 April 2008, have identified an opportunity to make the Council’s provision more prudent. This will also make capacity in the General Fund in the current year of approximately £2.6m with substantial but reducing capacity for the following 16 years.
6. The Council currently has outstanding debt on expenditure incurred prior to 1 April 2008 of £129m hence, based on current policy ie 4% per year on a reducing balance, the charge in 2015-16 is £5.2m. The outstanding debt gradually reduces over time but the methodology is such that it will never be fully provided for.
7. Whilst the current policy is one of the options set out in Government guidance, the guidance makes clear that it is not mandatory for local authorities to follow one of its suggested options. It is for the Council to determine its own methodology as long as it is prudent for local circumstances.

8. Whilst it has never been possible to allocate the Council's outstanding debt to specific assets it is likely that most of the pre-1 April 2008 debt has arisen from expenditure on land and buildings most of which, even today, are likely to have an outstanding life of at least 50 years.
9. Officers have reviewed the methodology and concluded that charging for the pre-1 April 2008 debt by the use of 2% straight line method, whereby the debt would be divided into 50 with an equal charge made in each year over the next 50 years, would be beneficial. It would have the dual benefits of ensuring that the whole debt was covered within a reasonable timescale and that savings would be realised over the first 17 years. The exact profile of provision under the current and proposed methodologies is shown in Appendix 1
10. It is therefore recommended that in respect of capital expenditure incurred before 1 April 2008, the Minimum Revenue Provision Policy be revised to read:

*For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be the equal annual reduction of 2% of the outstanding debt at 1 April 2015 for the subsequent 50 years*

## **Risk Management Implications**

11. The identification, monitoring and control of risk are central to the achievement of treasury management objectives. Potential risks are included in the Directorate risk register and are identified, mitigated and monitored in accordance with treasury management practice notes.

## **Financial Implications**

12. Appendix 1 shows that using the proposed methodology with equal repayment instalments of £2.6m per year for 50 years the total debt will be fully covered by 2064-65 whilst under the existing methodology at that date £16.7m will remain outstanding. Capacity over the next 17 years will range from £2.6m in 2015-16 to £0.1m in 2031-32. After 2031-32 costs will gradually increase but using net present value calculations (with a discount rate of 3% as included in Treasury guidance) the maximum increase in 2064-65 will equate to £0.4m. A prudent approach would be to start setting aside the capacity after it reached below £1m (2024/25) to create a provision to support the position from 2032/33.

## **Equalities implications**

13. Officers have considered possible equalities implications and consider that there is no adverse equalities impact.

## Council Priorities

14. This report recommends a policy change which will realise savings to assist in the delivery of the Council's vision and corporate priorities.

## Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 26 November 2015		
Name: Caroline Eccles	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 26 November 2015		

<b>Ward Councillors notified:</b>	N/A
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## Section 4 - Contact Details and Background Papers

**Contact: Ian Talbot** (Treasury and Pension Fund Manager)  
Tel: 020-8424-1450 / Email: [ian.talbot@harrow.gov.uk](mailto:ian.talbot@harrow.gov.uk)

**Background Papers: None**

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## APPENDIX 1

### MINIMUM REVENUE PROVISION IN RESPECT OF CAPITAL EXPENDITURE INCURRED BEFORE 1 APRIL 2008

	Balance at beginning of year using reducing balance method	4% Reducing balance MRP	Straight line MRP over 50 years	Annual savings
	£	£	£	£
2015/16	128,825,539	5,153,022	2,576,511	2,576,511
2016/17	123,672,517	4,946,901	2,576,511	2,370,390
2017/18	118,725,617	4,749,025	2,576,511	2,172,514
2018/19	113,976,592	4,559,064	2,576,511	1,982,553
2019/20	109,417,528	4,376,701	2,576,511	1,800,190
2020/21	105,040,827	4,201,633	2,576,511	1,625,122
2021/22	100,839,194	4,033,568	2,576,511	1,457,057
2022/23	96,805,626	3,872,225	2,576,511	1,295,714
2023/24	92,933,401	3,717,336	2,576,511	1,140,825
2024/25	89,216,065	3,568,643	2,576,511	992,132
2025/26	85,647,423	3,425,897	2,576,511	849,386
2026/27	82,221,526	3,288,861	2,576,511	712,350
2027/28	78,932,665	3,157,307	2,576,511	580,796
2028/29	75,775,358	3,031,014	2,576,511	454,504
2029/30	72,744,344	2,909,774	2,576,511	333,263
2030/31	69,834,570	2,793,383	2,576,511	216,872
2031/32	67,041,187	2,681,647	2,576,511	105,137
2032/33	64,359,540	2,574,382	2,576,511	- 2,129
2033/34	61,785,158	2,471,406	2,576,511	- 105,104
2034/35	59,313,752	2,372,550	2,576,511	- 203,961
2035/36	56,941,202	2,277,648	2,576,511	- 298,863
2036/37	54,663,554	2,186,542	2,576,511	- 389,969
2037/38	52,477,012	2,099,080	2,576,511	- 477,430
2038/39	50,377,931	2,015,117	2,576,511	- 561,394
2039/40	48,362,814	1,934,513	2,576,511	- 641,998
2040/41	46,428,301	1,857,132	2,576,511	- 719,379
2041/42	44,571,169	1,782,847	2,576,511	- 793,664
2042/43	42,788,322	1,711,533	2,576,511	- 864,978
2043/44	41,076,790	1,643,072	2,576,511	- 933,439
2044/45	39,433,718	1,577,349	2,576,511	- 999,162
2045/46	37,856,369	1,514,255	2,576,511	- 1,062,256
2046/47	36,342,115	1,453,685	2,576,511	- 1,122,826
2047/48	34,888,430	1,395,537	2,576,511	- 1,180,974
2048/49	33,492,893	1,339,716	2,576,511	- 1,236,795
2049/50	32,153,177	1,286,127	2,576,511	- 1,290,384
2050/51	30,867,050	1,234,682	2,576,511	- 1,341,829
2051/52	29,632,368	1,185,295	2,576,511	- 1,391,216
2052/53	28,447,073	1,137,883	2,576,511	- 1,438,628
2053/54	27,309,190	1,092,368	2,576,511	- 1,484,143
2054/55	26,216,823	1,048,673	2,576,511	- 1,527,838
2055/56	25,168,150	1,006,726	2,576,511	- 1,569,785
2056/57	24,161,424	966,457	2,576,511	- 1,610,054
2057/58	23,194,967	927,799	2,576,511	- 1,648,712
2058/59	22,267,168	890,687	2,576,511	- 1,685,824

	<b>Balance at beginning of year using reducing balance method</b>	<b>4% Reducing balance MRP</b>	<b>Straight line MRP over 50 years</b>	<b>Annual savings</b>
2059/60	21,376,481	855,059	2,576,511 -	1,721,452
2060/61	20,521,422	820,857	2,576,511 -	1,755,654
2061/62	19,700,565	788,023	2,576,511 -	1,788,488
2062/63	18,912,543	756,502	2,576,511 -	1,820,009
2063/64	18,156,041	726,242	2,576,511 -	1,850,269
2064/65	17,429,799	697,192	2,576,511 -	1,879,319
2065/66	16,732,607			
<b>TOTAL COVERED</b>		<b>112,092,932</b>	<b>128,825,539</b>	

**REPORT FOR: GOVERNANCE, AUDIT,  
RISK MANAGEMENT  
AND STANDARDS  
COMMITTEE**

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<b>Date of Meeting:</b>	8 December 2015
<b>Subject:</b>	<b>INFORMATION REPORT – BUSINESS CONTINUITY/IT DISASTER RECOVERY AND IT DATA CENTRE AUDIT REPORT UPDATE</b>
<b>Responsible Officer:</b>	Tom Whiting – Corporate Director Resources and Commercial
<b>Exempt:</b>	Public (with Exempt Appendices 1,2 and 3 – these items are exempt from publication under paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended) as they contain information relating to the financial or business affairs of any particular person (including the authority holding that information)).
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Appendix 1 – Business Continuity/IT Disaster Recovery Audit Report (exempt) Appendix 2 – IT Data Centre Audit Report (exempt) Appendix 3 – BC/IT DR Management update (exempt)

## **Section 1 – Summary**

This report sets out the updated position of the red/amber and red assurance audit reviews that together were reported as a 'significant governance gap' in the 2014/15 Annual Governance Statement.

**FOR INFORMATION**

## **Section 2 – Report**

### **Introduction**

- 2.1 As part of the 2014/15 annual Internal Audit Plan a review was undertaken on the Council's Business Continuity/IT Disaster Recovery arrangements and on the Council's IT Data Centre concentrating on landlord risks.
- 2.2 The combined impact of these two reviews were reflected in the Head of Internal Audit's overall audit opinion for the Council's control environment for 2014/15 as follows 'two reviews identified significant weaknesses in the Council's arrangements for Business Continuity/IT Disaster Recovery and the Council's IT Data Centre which could potentially have a major detrimental impact on the Council control environment if not improved. A detailed action plan is already in place for Business Continuity/IT Disaster Recovery and management are currently considering the IT Data Centre report'. They were also identified as a 'significant governance gap' in the Council's Annual Governance Statement 2014/15. It was noted that 'Whilst the likelihood of an IT disaster occurring is considered unlikely the impact could be significant given the control weaknesses identified.'

### **Business Continuity/IT Disaster Recovery**

- 2.3 The Business Continuity/IT Disaster Recovery final report (Appendix 1) was issued in on 22/06/15 with a red/amber assurance rating: 20% of the expected controls were found to be in place and operating effectively, 48% were substantially operating, 30% were partially in place with a further 2% not operating. 23 recommendations were made to address the weaknesses identified, 19 of which were rated as high risk which resulted in the assurance rating being downgraded from amber to red/amber. A key issue identified was the need for a greater level of communication/ co-ordination between the IT client and the Emergency Planning and Business Continuity (EP&BC) teams to establish a more detailed understanding of how the BC Plans of the services and IT DR arrangements inter-relate in practice and a deeper understanding by services of how the IT DR arrangements impact on the individual Service BC Plans and how these plans operate together. It was highlighted that in relation to Framework I it is particularly important that there is a common detailed understanding of the invocation arrangements and confirmation of the testing of the DR arrangements.
- 2.4 All of the recommendations were agreed for implementation by management. However to fit in with the cycle of transition to the new IT contract and the first completed year of the contract as well as the period of the next review of Service Business Continuity Plans some of



the agreed actions are over an extended period i.e. longer than would normally be expected in response to a red/amber assurance report.

- 2.5 Following the publication of the audit report a working group consisting of the IT Security & Compliance Manager and the Business Continuity Officer, was set up to meet weekly, and work through the recommendations, updating the Progress on Actions work plan as they went along. A strategy board consisting of the Director of Customer Services & Business Transformation, Divisional Director of Strategic Commissioning, Head of Business Transformation Partnership and the Head of Civil Contingencies was also set up to meet once per month to go through the Progress on Actions work plan to provide strategic oversight, guidance, and direction, as necessary.
- 2.6 The Progress on Actions work plan spread sheet is attached and shows that good progress is reported as being made on the implementation of the agreed actions.

### **IT Data Centre – Landlord Risks**

- 2.7 The IT Data Centre – Landlord Risks final report (Appendix 2) was finalised on 02/11/15 with a red assurance rating: Overall 7% of the expected controls were found to be in place and operating effectively, 46% were partially in place with a further 47% not operating. 8 recommendations were made to address the weaknesses identified (consists of 26 “sub-recommendations”), 6 were rated as high risk and 2 were rated as medium risk. The most significant weaknesses relate to the management of the datacentre’s capacity, including power (business as usual and emergency) and air-conditioning and the management of facility protection measures. A number of these areas are the contractual responsibility of the Outsourcer.
- 2.8 Seven of the eight recommendations made have been fully agreed for implementation and one has been substantially agreed – see management’s response and the Audit Comment against 3.1 c) in the attached report.
- 2.9 As a new Outsourcer will be in place from 31/10/15 many of the agreed actions will be implemented from this date.

## **Section 3 – Further Information**

- 3.1 Follow-up of red and red/amber assurance reviews by Internal Audit would normally take place 3 months after the final report is issued. However in the case of the Business Continuity/IT Disaster Recovery review this was not considered appropriate given the implementation dates agreed for the agreed actions and the robust governance process introduced by management to oversee the implementation. Follow-up will therefore be undertaken by Internal Audit in December 2015 (six month after the issue of the final report) to independently verify and evidence the progress made by management to implement the agreed actions.

- 3.2 Follow-up of the IT Data Centre review will be undertaken at the end of January 2016 in line with the normal practice of being undertaken 3 months after the issue of the final report.
- 3.3 After each follow-up the assurance level will be re-assessed and re-issued along with details of any outstanding issues and this will be reported to the GARMS Committee and CSB.
- 3.4 In addition a Contract Management Review of the new IT Outsource arrangements will be considered for inclusion in the 2016/17 Internal Audit Plan.

## **Section 4 – Financial Implications**

- 4.1 There are no financial implications.

## **Section 5 - Equalities implications**

- 5.1 Was an Equality Impact Assessment carried out? No – Not applicable

## **Section 6 – Council Priorities**

- 6.1 Improving controls to mitigate risks in the Council’s systems helps to ensure that system objectives are met which feed into the administration’s priorities and the achievement of the Council’s vision.

Name: Dawn Calvert	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 25/11/15		

<b>Ward Councillors notified:</b>	N/A.
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## **Section 7 - Contact Details and Background Papers**

**Contact:** Susan Dixson, Head of Internal Audit, 02084241420

**Background Papers:** Annual Governance Statement 2014/15

**REPORT FOR: GOVERNANCE, AUDIT,  
RISK MANAGEMENT AND  
STANDARDS COMMITTEE**

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**Date of Meeting:** 8 December 2015

**Subject:** INFORMATION REPORT  
Annual Audit Letter

**Responsible Officer:** Dawn Calvert, Director of Finance

**Exempt:** No

**Wards affected:** All

**Enclosures:** Annual Audit Letter

**Section 1 – Summary and Recommendations**

This report provides the Committee with an opportunity to consider the Annual Audit Letter from the Council's external auditors

**Recommendation**

That the report be noted.

**Reason**

The Accounts and Audit (England) Regulations 2011 requires the committee to consider the Annual Audit Letter

## Section 2 – Report

### Background

- 1 The Council's External Auditor (Deloitte LLP) writes to the Council annually in an Audit Letter summarising the important findings from his audit work.
- 2 The 2014/15 Annual Audit Letter is attached as an appendix to this report and covers the following matters:
  - Accounts and Governance
  - Value for Money
  - Grants
  - Audit Fees
- 3 The key conclusions emerging from the Auditor's work were:
  - The Council received an unqualified audit opinion and value for money conclusion.
  - The summarised recommendations on page 3 were considered by the Committee at its meeting in September 2015 and these are being implemented during the financial year 2015/16.
  - The Council had continued to demonstrate strong financial resilience and has robust systems and processes to manage financial risks and opportunities and prioritise its resources within tighter budgets.

### Financial Implications

- 4 There are no direct financial implications arising from this report.

### Risk Management Implications

- 5 The risks of not implementing the recommendations are not included in the corporate risk register. However the review of such recommendations is included as a separate task within the closure of accounts timetable for officers to ensure action has been taken. The new external auditors (KPMG) will as part of their audit work, check that the Council has implemented the recommendations from the previous years annual audit letter.

### Equalities implications

- 6 There are no equalities implications.

### Council Priorities

- 7 The Annual Audit Letter provides assurance that the Council has managed its finances and delivered value for money in accordance with Council's corporate vision and priorities.

## Section 3 - Statutory Officer Clearance

Name: Dawn Calvert



Chief Financial Officer

Date: 25th November 2015

**Ward Councillors notified:**

n/a

## **Section 4 - Contact Details and Background Papers**

**Contact: Paul Gower** (Interim Technical Accounting Manager) Tel: 020-8424-1335 /  
Email: paul.gower@harrow.gov.uk

**Background Papers:**

[http://www.harrow.gov.uk/download/downloads/id/7533/annual\\_audit\\_letter\\_2015](http://www.harrow.gov.uk/download/downloads/id/7533/annual_audit_letter_2015)

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London Borough of Harrow

Annual Audit Letter to the  
Members of the Council for the  
year ended 31 March 2015

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# Executive summary

We are required to provide an annual audit letter which reports our conclusions from the audit of the London Borough of Harrow ("the Council") for the year ended 31 March 2015. This executive summary highlights the most significant matters which we would like to bring to your attention; it should therefore be read in conjunction with the following sections of the letter:

<b>Financial statements</b>	<p>We issued an unqualified opinion on the Council's accounts for the year ended 31 March 2015.</p> <p>We have not yet issued our audit certificate as an objection to the accounts has been lodged by a member of the public. Once this objection has been finalised we expect to be able to issue our audit certificate.</p>
<b>The Council's local government pension scheme annual report</b>	<p>We issued an unqualified opinion on information in the Council's pension scheme annual report for the year ended 31 March 2015.</p>
<b>Value for money conclusion</b>	<p>We issued an unqualified conclusion on the Council's arrangements for securing value for money during the year ended 31 March 2015.</p>
<b>Whole of Government Accounts consolidation return</b>	<p>We have completed our work and issued our assurance statement, which was unqualified.</p>
<b>Grants</b>	<p>We undertake work on grant claims and other returns on behalf of the Audit Commission and provide certificates to grant funders on compliance with aspects of the terms on which funds have been claimed. We will provide a separate, detailed letter to the Council on the outcome of this work, but at this point there are no matters which we consider need to be brought to your attention.</p>

There are no individually significant recommendations which we wish to bring to Members' attention here.

# 1. Introduction

## **The purpose of this letter**

The purpose of this Annual Audit Letter ("Letter") is to summarise the key issues arising from the work that we have carried out during the year.

We have addressed this Letter to the Members of the Council as it is the responsibility of the Members to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money.

The Letter will be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and should also be posted on the Council's website.

## **Responsibilities of the Appointed Auditor and the Council and scope of our work**

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England, including local authorities. As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice ("the Code"). Under the Code, we review and report on:

- the Council's financial statements;
- the Council's local government pension scheme annual report; and
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion).

We also provide an assurance report to the National Audit Office on the financial information prepared by the Council for consolidation into the Whole of Government Accounts.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

As an additional responsibility to those set out in the Code, we also undertake grant certification work on behalf of the Audit Commission.

## 2. Financial reporting

### **Key issues arising from the audit of the accounts**

We have issued a separate report for the year ended 31 March 2015, which details the findings from our audit of the financial statements and the Council's value for money arrangements.

In that report we explained how we focused our work on areas which involved more complex accounting judgements and estimation including:

- accounting for grant income;
- management override of control;
- valuation of property; and
- valuation of the local government pension fund liability.

We did not identify any significant issues in the course of our testing of these areas.

Our report to the Governance, Audit, Risk Management and Standards Committee also includes some recommendations to assist with future financial control and reporting. These recommendations are in respect of: procedural improvements in relation to property valuations based on best practice seen elsewhere; ensuring that infrastructure assets are suitably identified on records retained by both the operational and finance departments; ensuring appropriate accounting for intangible assets; and review of controls in place over access rights to IT systems.

### **Key issues arising from the audit of the pension scheme accounts within the pension scheme annual report**

We have reported separately to the Governance, Audit and Risk Management Committee in respect of the work we performed on the pension scheme. We have issued an unqualified opinion on the pension scheme accounts within the pension scheme annual report.

### **Whole of Government Accounts**

Whole of Government Accounts (WGA) are commercial-style accounts covering all the public sector and include some 1,700 separate bodies. Auditors appointed by the Audit Commission have a statutory duty under the Code of Audit Practice 2010 to review and report on the whole of government accounts return. Our report is used by the National Audit Office ("NAO") for the purposes of their audit of the Whole of Government Accounts. We have issued our unqualified opinion in this regard.

### **Issue of audit certificate**

We have not yet issued our audit certificate for the year ended 31 March 2015 as an objection has been lodged by a member of the public.

# 3. Value for money conclusion

## The scope of our work

We are required to issue a conclusion on whether we are satisfied that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Our conclusion is given in relation to the following criteria specified by the Audit Commission:

Specified criteria for auditors' VFM conclusion	Focus of the criteria
<b>The organisation has proper arrangements in place for securing financial resilience.</b>	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
<b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b>	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Approach to our work

We draw sources of assurance relating to our VFM responsibilities from:

- the audited body's system of internal control as reported on in its Annual Governance Statement;
- the results of the work of the Commission, other inspectorates and review agencies to the extent that the results come to our attention and have an impact on our responsibilities;
- any work mandated by the Commission – of which there was none in 2014/15; and
- any other locally determined risk-based VFM work that auditors consider necessary to discharge our responsibilities.

## Risk assessment

We undertook a risk assessment to identify potential risks to the value for money conclusion. Based on this work, we considered that the following could be risks for VFM:

- low level of general reserves;
- future funding gaps.

We undertook further procedures in relation to these to ensure that the risks arising in these areas have been mitigated by the arrangements in place within the Authority.

## Overall conclusion

On the basis of the work performed in relation to the risks above, and having considered control weaknesses identified in the course of our audit, we issued an unqualified VFM conclusion having determined that the organisation has robust systems and processes in place to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

## 4. Grants

Under Section 28 of the Audit Commission Act 1998, the Commission is responsible for making arrangements for certifying claims and returns in respect of grants or subsidies made or paid by Central Government or a Public Authority to a Local Authority. The Commission, rather than its appointed auditors, has the responsibility for agreeing certification arrangements with the respective grant-giving bodies, principally government departments. The appointed auditor carries out work on individual claims as an agent of the Commission under these arrangements which comprise certification instructions which the auditor must follow.

Our programme is in progress at the time of writing. We will issue a separate Annual Audit Letter in respect of the grants programme, following the completion of the programme. At this point there are no matters which we consider need to be brought to your attention.

## 5. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" circulated to you previously and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the Council and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

*Deloitte LLP*

### **Deloitte LLP**

Chartered Accountants  
St Albans

30 October 2015

# Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in respect of the period 1 April 2014 to 31 March 2015 are as follows:

		2014/15 £'000	2013/14 £'000
Fees payable in respect of our work under the Code of Audit Practice	[1]	196	193
Fees payable in respect of our work under the Code of Audit Practice – procedures performed in relation to questions and objections from residents		5	8
Fees payable in respect of the WGA return		5	5
Fees payable in respect of the certification of grants	[2]	36	44
Fees payable in respect of our work under the Code of Audit Practice in respect of the Pension Fund		21	21
Fees payable in respect of non-audit work (VAT review)		6	-
<b>Audit services provided</b>		<u>269</u>	<u>271</u>

[1] As set by the Audit Commission

[2] The only grant remaining under the previous Audit Commission Contract is the Housing Benefit grant – other grants are certified under separate agreements from 2014/15 onwards.

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**REPORT FOR: GOVERNANCE, ALDO, RISK MANAGEMENT AND STANDARDS COMMITTEE**

---

**Date of Meeting:** 8 December 2015

**Subject:** **INFORMATION REPORT – INTERNAL AUDIT AND CORPORATE ANTI-FRAUD UPDATE**

**Responsible Officer:** Tom Whiting – Corporate Director Resources and Commercial

**Exempt:** No

**Wards affected:** All

**Enclosures:** Appendix 1 - Protecting the English Public Purse 2015 (PEPP)  
Appendix 2 - Protecting the London Public Purse 2015 (PLPP)  
Appendix 3 – Harrow Fraud Briefing 2015

## **Section 1 – Summary**

This report provides an update on progress made by Internal Audit and the Corporate Anti-Fraud Team in the current financial year.

**FOR INFORMATION**

## Section 2 – Report

### Introduction

- 2.1 Formal mid-year reports for both Internal Audit and the Corporate Anti-Fraud Team will be presented to GARMS at the next meeting. In the mean-time it was felt appropriate to provide a joint update report to reflect the new reporting arrangements and to keep members abreast of the progress being made in key areas.
- 2.2 The Corporate Anti-Fraud Team now report into the Head of Internal Audit who reports directly to the Corporate Director of Resources and Commercial. The Head of Internal Audit maintains close links to the Director of Finance (S151) via formal quarterly meetings (and many informal task specific meetings in-between).
- 2.3 The new arrangements provide an increased opportunity for the Internal Audit and Corporate Anti-Fraud Teams to work closer together and make best use of limited resources. This is already being demonstrated in the joint approach to the CIPFA Fraud Code self-assessment and in an on-going joint investigation.

### Internal Audit

- 2.4 Progress against the 2015/16 Internal Audit plan in the first half of the year has been slightly slower than usual. As at 30th September 2015 37% of the plan had been achieved, 8% lower than the target (45%) however:
  - two of the six Internal Audit posts (33%) were vacant due to maternity leave and a secondment;
  - IT reviews in the plan due to be undertaken by PwC (under the shared service framework) are yet to be started;
  - there have been a number of emerging risks e.g. the CIPFA Delivering Good Governance in Local Government consultation and suspected financial irregularities (examples can be provided verbally under part II);
  - there has been a higher than anticipated level of input required to finalise work undertaken under to 2014/15 plan, in particular reviews undertaken by PwC;
  - a change in reporting lines resulting in an increased workload for the Head of Internal Audit.

However:

- all of the Core Financial Systems work has been completed;
- the Annual Governance Review and Statement have been completed; and
- progress has been made with the new approach to the audit of schools.

- 2.5 The mid-year report to be presented at the next meeting will provide more detail and will show proposed changes to the plan for the second half of the year i.e. to take into account changes in resource levels, emerging risks, and the level of suspected financial irregularities/whistleblowing investigation, as it is likely to be even more challenging than the first.

## **Risk Management**

- 2.6 Following the deletion of the Risk Manager's post in 2014 responsibility for Corporate Risk Management was passed to Internal Audit and absorbed into the Head of Internal Audit's role with support from the Quality Auditor whose post was deleted in April 2015.
- 2.7 The update of the Corporate Risk Register has been decreased from quarterly to six monthly and would usually be undertaken in October/November however this is currently slightly behind schedule. In addition the plan identified a need to update the Corporate Risk Appetite Statement. An update on progress will be provided at the next GARMS meeting.

## **Corporate Governance**

- 2.8 Following the successful completion of the Annual Governance Review and Statement in the Corporate Governance Group responded to the revised Framework (consultation draft) developed by the CIPFA/SOLACE Joint working Group on Good Governance in Local Government which builds on the International Framework : Good Governance in the Public Sector (CIPFA/IFAC 2014). The International Framework places sustainable economic, societal and environmental outcomes as a key focus for governance processes and structures. It emphasises the importance of considering the longer term and the links between governance and public financial management – all key considerations for local authorities in today's climate.
- 2.9 The core principles and sub principles from the International Framework have been adapted for the local government context and translated into a series of expected behaviours and outcomes which are intended to demonstrate good governance in practice. The principles in the consultation draft aim to form a standard for good governance and a shared understanding of what constitutes good governance across local government.
- 2.10 The two key points made in the consultation response was the achievability of the proposed timing of the implementation of the new framework, which was for 2015/16 and the increased burden the new framework will place on the local authority at a time of decreasing resources.
- 2.11 CIPFA have now confirmed that, *'the Framework is now being redrafted to take account of respondents' views and a revised edition*

*together with a new guidance note will be published in early 2016. The revised Framework will apply from 2016/17'. This is good news and will enable us to review and update our Code of Corporate Governance in time for the new financial year.*

## **Corporate Anti-Fraud CIPFA Code of Managing the Risk of Fraud & Corruption update**

- 2.12 In April 2015 GARMS adopted the CIPFA Code and in July 2015, the committee were informed that the authority intended on undertaking a self assessment against the code which would then inform the development of an action plan to meet any of the gaps identified. The self- assessment exercise was dependent upon CIPFA releasing the self -assessment toolkit which at the time had not been published.
- 2.13 In October 2015 CIPFA published the self - assessment toolkit to supplement the actual Code. Since this time the Corporate Anti-Fraud Team and Internal Audit have commenced work against the self - assessment toolkit and have completed 60% of the assessment. The assessment covers the 5 principles of the Code and there are a number of statements to address within each of the principles:
- Acknowledge Responsibility (11 statements)
  - Identify Risks (13 statements)
  - Develop a Strategy (15 statements)
  - Provide Resources (10 statements)
  - Take Action (19 statements)
- 2.14 Early indications are that the authority has some work to do to bring it up to a standard that would indicate there is a good level of corporate resilience in place to manage fraud and corruption risks, e.g. in terms of measurement against Principle A - Acknowledging Responsibility, the authority has reached a compliance level of 41% with an overall summary that the organisation has reached a basic level of performance. In order that the authority improves its standing against this principle, Council wide leadership support needs to be demonstrated more regularly to help build an anti-fraud culture within the organisation.
- 2.15 In terms of actions required, once again early indications are that there will be some 'quick wins' that can be implemented in a reasonable time frame to make positive progress, combined with longer term actions that will form the basis of a more detailed piece of work requiring greater engagement with all directorates, a period of consultation and ownership transferred to the directorates.
- 2.16 The full results of the self-assessment will be reported back to GARMS and a subsequent action plan developed for implementation in 2016-17 and beyond.

## Protecting the English Public Purse 2015 (PEPP) (Appendix 1)

- 2.17 National Protecting the Public Purse (PPP) reports have played a vital role for local authority fraud detection, prevention and investigation over the past 25 years in terms of illustrating fraud trends, best practice and emerging fraud risks. These reports were produced by the Audit Commission. In March 2015, the Audit Commission was abolished and this important work was due to cease.
- 2.18 In response to this and other concerns, a number of stakeholders got together to form the European Institute for Combatting Corruption And Fraud (TEICCAF). TEICCAF includes the former counter-fraud team of the Audit Commission and they have agreed to continue the PPP series of reports, now called Protecting the English Public Purse (PEPP) and the annual detected fraud and corruption survey. In compiling this report almost 60% of councils in England responded to the fraud survey.

- 2.19 The first PEPP 2015 was published in July 2015 and is attached as Appendix 1. Highlights from the report include:-

- English Councils detected fewer cases of fraud in 2014/15 compared with the previous year, however their value increased by more than 11%;
- The numbers of detected cases fell by more than 18% to over 84,000, whilst their value increased by more than 11% to greater than £207 million;
- The number of detected non benefit (corporate fraud) cases fell by more than 8% to more than 57,000, whilst their value increased by greater than 63% to more than £97 million;
- 2,993 tenancy frauds were detected, a more than 1 % decrease on the previous year;
- London continues to detect more tenancy fraud than the rest of the country combined

In terms of areas of significant emerging fraud risk for councils, Right to Buy (RTB) and No Recourse to Public Funds (NRPF) have been identified as the fastest growing.

- RTB detected fraud cases more than doubled to 411, whilst their value increased by nearly 145% to more than £30 million. It is estimated that in London, RTB fraud rates are running at 3% of all applications.
- It is interesting that legislative proposals to extend the RTB to housing associations is likely to result in similar levels of RTB fraud of that experienced by councils, but in the main, housing associations do not have the counter fraud capacity or capability equivalent to councils to tackle such fraud
- NRPF is a new sub category of fraud and whilst relatively few councils pro-actively target this area of fraud, in 2014/15 there were still 444 cases detected with a value of more than £7 million.

- 2.20 Harrow Council has prioritised many of the areas identified through the PEPP report as being high risk to fraud and these areas form the basis of the annual fraud plan such as housing tenancy and RTB fraud,

housing application fraud, social care, blue badges, council tax discounts/support and some grants.

- 2.21 In terms of the emerging fraud risks of RTB, the Corporate Anti-Fraud Team working in partnership with housing now 'fraud check' 100% of all new RTB applications and this has already turned up some interesting results, e.g. one such case has identified that the tenant had financial links to other addresses in London and appeared to be subletting the council property. This RTB has been intercepted preventing the loss of an asset and the authority is now working towards regaining possession.
- 2.22 With regard to the other emerging risk of NRPF, the CAFT has recently made contact with Harrow's NRPF team and is already investigating one suspected case of fraud and is looking to assist the team improve their application validation process to prevent fraud entering the system.
- 2.23 The report also highlighted that authorities have been subject to significant funding reductions since 2010. PPP 2014 reported a near 20% reduction in counter fraud resources in councils between 2010 and 2014. It is therefore no surprise that that the survey highlighted Capacity (sufficient counter fraud resource) as the top risk facing councils tackling fraud.

### **Protecting the London Public Purse 2015 (PLPP) (Appendix 2)**

- 2.24 In addition to PEPP, TEICCAF also produced a bespoke report for London Councils following a request from the London Borough of Fraud Investigators Group (LBFIG) – Appendix 2. London achieved a 93.9% participation rate in the survey with the next best region in England achieving 67.9%. London councils continue to lead the way nationally in the fight against fraud.
- 2.25 In terms of the fraud detected by London Councils, whilst the number of cases dropped from 21,606 in 2013/14 to 19,513 in 2014/15, the value jumped significantly from £49,921,000 to £73,086,000 for the same period. This is the highest value of detected fraud in London since PPP began over 25 years ago. The results in the London report reflect broadly the fraud risks faced nationally, but given the socio economic factors in London, the values and risks are somewhat greater.
- 2.26 To support this report TEICCAF also produced an individually tailored comparative analysis for Harrow to compare its outcomes against other London Boroughs (Appendix 3). Harrow welcomes this opportunity to benchmark its performance across London and to drive improvement in areas where required.
- 2.27 In overall summary, Harrow detected the 9th most fraud cases in London and the 9th highest in value. In terms of Council Tax discount fraud numbers, Harrow detected the 8th most and the 6th highest in value.

- 2.28 Of those councils with housing stock, disappointingly Harrow featured 26th in terms of the numbers of properties recovered through fraud with a figure of 6 against a London average of 57. These figures however do not take into consideration the amount of housing stock. Harrow has one of the lowest in London and has a mature tenancy audit programme in place for a number of years. Harrow also did not identify any cases of RTB fraud in 2014/15 against a London average of 9, but has identified a number of cases in 2015/16 so activity has increased.
- 2.29 Harrow also had a nil return for the areas of Insurance fraud, procurement fraud, NRPF fraud, social care fraud and third sector fraud, but the London average for most of these areas was relatively low, being just 1 case.
- 2.30 However, whilst this data was provided, the tailored comparative analysis did not compare fraud resources across London, which may have explained some of the wide variations on outcomes. TEICCAF have been asked to provide a response to this query as it would appear to be a real opportunity missed to demonstrate variations across London.

### **Section 3 – Further Information**

- 3.1 None

### **Section 4 – Financial Implications**

- 4.1 There are no financial implications.

### **Section 5 - Equalities implications**

- 5.1 Was an Equality Impact Assessment carried out? No – Not applicable

### **Section 6 – Council Priorities**

- 6.1 Improving controls to mitigate risks in the Council's systems helps to ensure that system objectives are met which feed into the administration's priorities and the achievement of the Council's vision.

Name: Dawn Calvert



on behalf of the  
Chief Financial Officer

Date: 25/11/15

**Ward Councillors notified:**

*N/A.*

## **Section 7 - Contact Details and Background Papers**

**Contact:** Susan Dixon, Head of Internal Audit, 02084241420  
Justin Phillips, Service Manager Corporate Anti-Fraud,  
02084241609

**Background Papers:**



# Protecting the English Public Purse 2015

*Fighting fraud against English Councils*



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## SUMMARY AND RECOMMENDATIONS

This is the first Protecting the English Public Purse (*PEPP 2015*) report by The European Institute for Combatting Corruption And Fraud (TEICCAF).

*PEPP 2015*:

- has been developed by the former counter fraud team of the Audit Commission, now part of TEICCAF;
- continues the national series of reports previously published by the Audit Commission; and
- reports on **national, regional and local** fraud detection by English councils.

**In total, English councils detected fewer cases of fraud in 2014/15 compared with previous year. However, their value increased by more than 11 per cent. In particular:**

- the number of detected cases fell by more than 18 per cent to over 84,000 while their value increased by more than 11 per cent to greater than **£207 million**;
- the number of detected cases of **housing benefit and council tax benefit** fraud fell by more than half to just over 27,000 while their value fell by almost 17 per cent to nearly £23.5 million. This decline was expected; and
- the number of detected cases of non-benefit (corporate) fraud decreased by greater than 8 per cent to more than 57,000, while their value increased by greater than 63 per cent to more than £97 million.

---

**English Councils  
detected fewer cases of  
fraud in 2014/15, but the  
value increased**

---

**Councils detected fewer housing tenancy frauds in 2014/15. In particular:**

- 2,993 tenancy frauds were detected, a more than 1 per cent decrease on the previous year; and
- London continues to detect more tenancy fraud than the rest of the country combined.

**Regional and local fraud detection results suggest an emerging divergence in the capacity, capability and commitment of some councils to play an effective part in the fight against fraud. Using a series of proxy indicators we found that:**

- London achieved the highest participation rate (93.9 per cent) in our voluntary detected fraud survey, the highest proportion of corporate fraud teams (93.5 per cent) and proportionately detected the most fraud relative to council spend;
- two regions where fewer than half of all councils had corporate fraud teams both detected proportionately fewer frauds than their expenditure levels would suggest; and
- evidence that neighbouring councils with similar socio-economic and demographic characteristics are detecting markedly different levels of corporate fraud.

---

**London detected the most fraud... relative to council spend**

---

**Right to Buy (RTB) and No Recourse to Public Funds (NRPF) have emerged as significant areas of fraud risk for councils. In particular:**

- RTB detected fraud cases more than **doubled** to 411, while their value increased by nearly 145 per cent to more than £30 million;
- we estimate that at least **3 per cent** of RTB applications in London are fraudulent, at least **1.5 per cent** in the rest of the country;
- legislative proposals to extend RTB to housing associations is likely to result in similar levels of RTB fraud to that encountered by councils. However, with a few notable exceptions, housing associations **do not** have the counter-fraud capacity or capability equivalent to councils to tackle such fraud; and
- NRPF is a new sub-category of fraud. Relatively few councils pro-actively targeted this type of fraud in 2014/15 yet there were still **444 cases** detected with a value more than £7 million.

---

**RTB fraud detected was more than £30m, an increase of 145%**

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## Recommendations

### Councils should:

- use our checklist for councillors, senior officers and others responsible for audit and governance (Appendix 1) to review their counter-fraud arrangements;
- use our free, tailored benchmark comparative analysis (available from autumn 2015) to challenge poor performance;
- assess their own strategy in the context of the national *Fighting Fraud Locally 2015* strategy;
- give consideration to the social harm caused by fraud when determining their overall strategy to tackle corporate fraud;
- accelerate re-focusing of counter fraud activities towards non-benefit (corporate) frauds;
- record and report fraud as fraud;
- celebrate and promote their performance in detecting fraud and corruption; and
- assess their exposure to RTB and NRPF fraud risks.

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**Give consideration to  
the social harm caused  
by fraud**

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### Government should:

- work in partnership with TEICCAF to better understand the nature and scale of RTB and NRPF frauds; and
- acknowledge and address the fraud exposure of housing associations to proposed changes to RTB legislation.

## TEICCAF will:

- collate, assess and disseminate good practice in tackling fraud;
- highlight the innovative good practice in tackling fraud that councils develop as a result of the recent DCLG challenge funding;
- work with our partner organisation, the Institute of Revenues, Rating and Valuation (IRRV) and Local Authority Investigating Officers Group (LAIOG), to better understand the nature and scale of business rate fraud/avoidance;
- annually track changes in tenancy fraud detection by regions;
- work in partnership with councils across England to develop *PPP* style reports for all regions;
- work in partnership with national regulators and other key stakeholders to develop national *PPP* style reports for Scotland, Wales and Northern Ireland;
- work with metropolitan districts and unitary authorities to increase their participation rate in our annual detected fraud and corruption survey;
- work in partnership with councils to promote the importance of counter fraud activities in those regions where more can be done to strengthen fraud detection;
- work in partnership with key stakeholders to develop a greater understanding of the nature and scale of RTB and NRPF frauds;
- develop guidance and provide support to tackle fraud and corruption, drawing upon the knowledge of national experts;

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**Develop both regional and national PPP reports in partnership with key stakeholders**

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**Develop a greater understanding of the nature and scale of RTB and NRPF frauds**

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- work with partner organisations to develop new fraud prevention and deterrence tools;
- work with councils to support the development of corporate fraud teams;
- work with key stakeholders to develop a methodology to assess the financial impact of fraud prevention activities; and
- publish information and guidance to raise public awareness and understanding of good practice in tackling fraud.

## CHAPTER 1: INTRODUCTION

*This is the first Protecting the English Public Purse (PEPP) report by The European Institute for Combatting Corruption And Fraud (TEICCAF). The former counter-fraud team of the Audit Commission, the previous authors of the Protecting the Public Purse series of reports, have joined with TEICCAF to continue publishing information on fraud and corruption detection by English councils.*

1. National *Protecting the Public Purse (PPP)* reports have played an important role in the fight against local authority fraud over the last 25 years. Published by the Audit Commission, the last report was published in 2014. The Audit Commission was abolished in March 2015.
2. *PPP* reports identified trends in fraud detection, highlighted and disseminated good practice in tackling fraud and identified current and emerging fraud risks.
3. In November 2014 the Chartered Institute of Public Finance and Accountancy (CIPFA) withdrew from an agreement to continue the counter-fraud work of the Audit Commission, including *PPP*. This potentially left a gap in local authorities' knowledge of current and emerging fraud trends.
4. In response to this and other concerns, a number of stakeholder organisations came together to form, '*The European Institute for Combatting Corruption And Fraud*' (TEICCAF). This includes the former counter-fraud team of the Audit Commission. TEICCAF agreed to continue the *PPP* series of reports, now called *Protecting the English Public Purse (PEPP)*, and the annual detected fraud and corruption survey. Further information on TEICCAF can be found in Chapter 7.



5. This continuation of the Audit Commission's counter fraud work through TEICCAF has met with a significant amount of approval. For example:

*“As the last Controller of the Audit Commission, I can confirm that the Protecting the Public Purse report series and the annual detected fraud survey had a significant and beneficial impact for English councils in their fight against fraud. The Commission's counter-fraud work was award winning, and the counter-fraud team that led on it were rightly recognised as national authorities on the collection, analysis and dissemination of such information.*

*While it was unfortunate that the detected fraud survey and PPP reports finished with the Commission's closure in 2015, it is greatly encouraging that TEICCAF, which includes the former counter fraud team of the Audit Commission, have stepped in to continue this valuable work. I encourage all local authorities to support this initiative.”*

**- Marcine Waterman,**

Former Controller of the Audit Commission

6. In *PEPP 2015* our focus is to report year-on-year changes in cases and values of detected fraud, as well as highlighting longer term trends and regional developments. In future years we will focus on the identification and sharing of good practice.
7. *PEPP 2015* is for those with overall responsibility for tackling fraud and corruption at councils, including councillors. Above all, it aims to help local authorities understand the fraud risks they face and to assist the development of appropriate and proportionate counter-fraud arrangements at councils.

8. The National Policing Fraud Strategy<sup>i</sup> 2015 sets out a comprehensive framework through which fraud can be addressed. This strategy tackles the problem of fraud on a national, regional and local level. TEICCAF endorses this approach. *PEPP 2015* follows a similar structure. It provides:

- guidance on the interpretation of detected fraud and corruption data (Chapter 2);
- the amount of detected fraud reported **nationally** by local authorities in England in 2014/15 compared with 2013/14, including longer term trends (Chapter 3);
- data on **regional** trends in detected fraud (Chapter 4);
- data on **local** trends in fraud detection (Chapter 5);
- information on two significant emerging fraud threats, Right to Buy (RTB) and No Recourse to Public Funds (NRPF) (Chapter 6);
- outlines the support that TEICCAF will provide to assist the long-term development of robust and proportionate arrangements in the fight against fraud (Chapter 7); and
- contains a checklist for councils to assess their counter-fraud arrangements (Appendix 1).

9. Appendix 2 to this report summarises the fraud survey methodology and the information extrapolation approach we adopted to ensure comparability and continuity with Audit Commission trend data. Appendix 2 also provides information on our proxy indicator for RTB fraud.

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**The closure of NFA in March 2014 and the Audit Commission a year later created a significant gap...in the fight against fraud**

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### **A perfect storm for councils – the changing counter-fraud landscape**

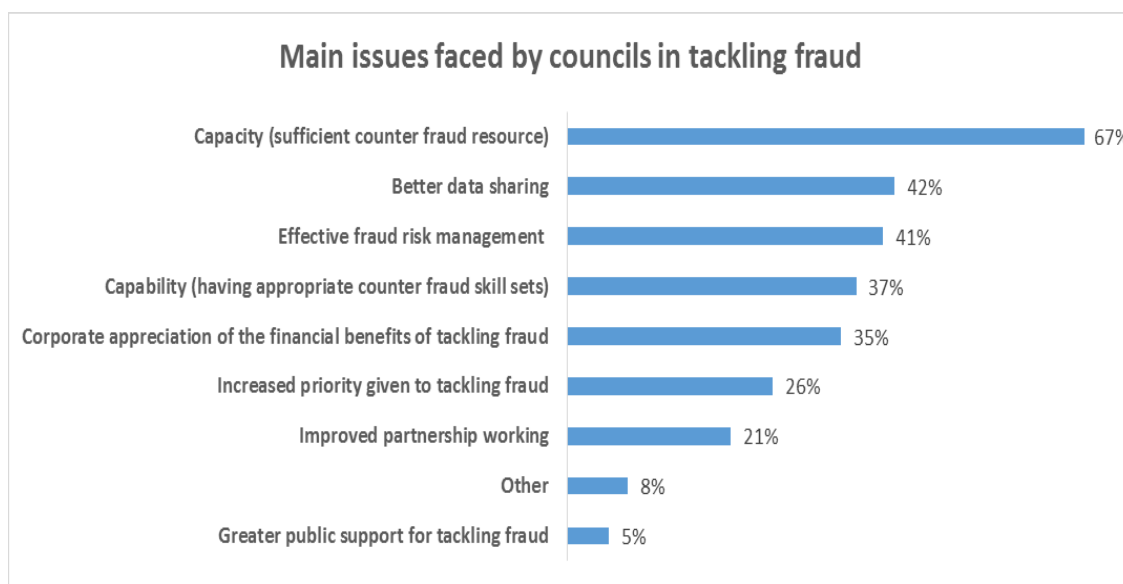
10. Recent years have witnessed significant changes in the counter-fraud landscape in local government. The closure of the National Fraud Authority in March 2014 and the Audit Commission a year later created a significant gap in the support, advice and leadership available to councils in the fight against fraud.

11. Local authorities have been subject to significant funding reductions since 2010, with more to come. *PPP 2014* reported a near 20 per cent reduction in counter-fraud investigators in councils in the four years up till March 2014.
12. Arguably the most important change for councils has been the transfer of most of their benefit fraud investigators to the Single Fraud Investigation Service (SFIS), which is managed by the Department for Works and Pensions. The transition to the SFIS began in July 2014 and will be complete in March 2016. In *PEPP 2015* we note the impact this change is beginning to have on local authority's fraud detection performance.
13. Longer term technological improvements in service delivery are also rapidly changing the fraud risk landscape, including the increasing adoption of digital technology by local authorities. The internet has transformed the ease with which fraudsters can operate across borders<sup>ii</sup>. TEICCAF will work with local authorities to better understand and mitigate the cyber related fraud risks that have arisen as a result.
14. There have also been positive developments. In November 2014 the Department for Communities and Local Government (DCLG) awarded £16 million to local authorities through a challenge fund. Councils that successfully bid received a share of this fund to support their efforts to re-focus their counter-fraud activities on non-benefit (corporate) frauds during the SFIS implementation. In future years we will highlight the innovative good practice that successful councils have developed using this fund.
15. In 2015, the new *Fighting Fraud Locally* strategy will be launched. This is a new three year national strategy to tackle local authority fraud. We encourage all councils to consider this strategy as part of their own arrangements to tackle fraud.

## The main issues councils face in tackling fraud

16. Our 2015 survey asked councils to identify the top three issues they face in tackling fraud. Two thirds of councils stated that the single most important factor is capacity (sufficient counter fraud resource) (Figure 1). Capacity was also the main issue last year. It is likely that the transfer of council counter fraud staff to SFIS is driving this continuing concern.

**Figure 1: Main issues faced by councils in tackling fraud**



17. However, SFIS also provides an opportunity for councils to focus resources away from housing benefit fraud and towards all the non-benefit (corporate) fraud risks they face.

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**Non-benefit (corporate) frauds have a far greater direct financial and harm impact on local people**

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18. Although tackling housing benefit fraud is important, non-benefit (corporate) frauds have a far greater direct financial and social harm impact on local people and local taxpayers. This re-focusing by councils towards frauds that have a significant and direct local impact is to be welcomed. Figure 2 provides more information on this long term trend.

19. Nationally, less than half (45.7%) of councils have a corporate counter fraud team tackling non-benefit fraud. However, this is not consistent across all regions. In London, 93.5 per cent of councils have a corporate fraud team. By comparison just 37.4 per cent of councils in the rest of the country have a corporate fraud team. We will continue to monitor this situation and work with councils to support development of corporate fraud teams.
20. Interpreted properly, detected fraud and corruption results can be instructive in identifying trends and emerging risks in fraud. Such data provide an important and robust evidence base for councils to inform their own proportionate and strategic response to fraud. However, there remains the risk that such information can be misunderstood and the wrong conclusions drawn. Chapter 2 provides a framework that councils can use to better understand and interpret detection trends.

## CHAPTER 2: INTERPRETING FRAUD DETECTION RESULTS

*Fraud detection results provide only part of the overall picture of how effective regions, and individual councils, are in tackling fraud. Detection results can be open to misinterpretation. Counter-intuitively, our experience shows that those councils that detect the most fraud are also often among the most effective at fraud prevention and deterrence. Generally, local authorities with particularly high levels of non-benefit fraud detection are typified by a strong corporate commitment to the fight against fraud.*

21. There are a number of factors that affect the level of fraud councils detect. These include:

- the level of fraud committed locally, often influenced by a number of socio-economic and demographic factors;
- the effectiveness of fraud prevention arrangements and deterrence strategies;
- correctly identifying fraud;
- capacity to fight fraud, measured by the resources devoted to identify and investigate it;
- the capability of the investigators employed, indicated by their levels of skills, knowledge and experience; and
- the effectiveness of methods of recording fraud.

22. As a result of these factors, care is needed when interpreting fraud detection results. They can be open to potential misinterpretation. Myths have developed over time which has acted as a barrier to effective counter-fraud activity. For example there is a myth that detecting little or no fraud provides assurance that little or no fraud is being committed. Some councils have used this 'myth' as justification to reduce their investigative capacity.

23. TEICCAF is uniquely positioned to challenge such myths. We are able to draw upon the knowledge and experience of the former counter-fraud team of the Audit Commission, now part of TEICCAF, and other expert partner organisations (see Chapter 7).

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**TEICCAF in uniquely positioned to challenge such myths**

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24. Based on our experience, we believe that:

- councils that look for fraud, and look in the right way, will find fraud;
- fraud affects every council, although socio-economic and demographic factors will impact on the type and level of fraud in different local authorities and regions;
- fraud will always be committed, but that prevention and deterrence strategies can reduce the harm caused;
- councils that report little or no detected corporate fraud are generally higher risk than those that detect significant levels of fraud; and
- fraud detection levels provide a useful indicator as to the level of commitment of individual local authorities to tackle fraud.

25. These are important factors when interpreting fraud detection results. In addition, different types of fraud will also require different fraud prevention, detection and deterrence strategies. This will depend on whether they are high volume/ low value frauds (such as disabled parking fraud) or low volume/ high value frauds (such as procurement).

26. In the next chapter we summarise English councils national fraud detection results for 2014/15.

## CHAPTER 3: NATIONAL FRAUD DETECTION BY COUNCILS

*Local authorities detected fewer cases of fraud in 2014/15 compared with previous year, continuing a trend first noted in PPP 2013. However, the value of losses from detected fraud has increased significantly.*

27. Previous *PPP* reports drew upon data collected by the Audit Commission's annual detected fraud and corruption survey for local government bodies. This survey was mandatory. TEICCAF is a not-for-profit organisation and does not have equivalent powers, thus participation in our detected fraud survey 2014/15 was voluntary. We outline our survey collection and extrapolation methodology in Appendix 2.

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**Fewer cases of fraud detected, however the value of losses increased significantly**

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28. The survey results:

- map the volume and value of different types of detected fraud;
- provide information about emerging and changing fraud risks; and
- help to identify good practice in tackling fraud.

29. Nearly six in ten English councils (59.5 per cent) participated in our survey. As TEICCAF was only formed in early 2015, this is a remarkable and highly encouraging response rate by councils. We thank all those councils who voluntarily participated. By drawing upon our unique knowledge and understanding of over six years of survey and fraud intelligence submissions provided by every local government body in England, we have been able to extrapolate from the survey responses the total value amount of fraud detected by every council in England (see Appendix 2 to explain our methodology).

30. Local authorities detected fewer frauds in 2014/15 (nearly 85,000) compared to the previous year (just over 104,000) (Table 1). The value of fraud detected in 2014/15 increased over the previous year, rising from £188 million to £207 million. This is the highest annual value of detected fraud since the data collection process began in 1991.



**Table 1: Cases and values of detected fraud, excluding tenancy fraud –  
Changes between 2013/14 and 2014/15**

Type of fraud	Detected fraud in 2014/15 (excluding tenancy fraud)	Detected fraud in 2013/14 (excluding tenancy fraud)	Change in detected fraud 2013/14 to 2014/15 (%)
<b>Total Fraud</b>			
Total value	£207,078,000	£186,382,000 <sup>1</sup>	11.1
Number of detected cases	84,608	103,743	-18.4
Average value per case	£2,447	£1,797	36.2
<b>Housing and council tax benefit</b>			
Total value	£109,707,000	£126,736,000	-13.4
Number of detected cases	27,323	41,369	-33.0
Average value per case	£4,015	£3,064	-31.0
<b>Council tax discounts<sup>2</sup></b>			
Total value	£18,624,000	£19,133,000	-2.7
Number of detected cases	48,160	54,749	-12.0
Average value per case	£387	£349	10.9
<b>Other frauds</b>			
Total value	£78,746,000	£40,513,000	94.4
Number of detected cases	9,125	7,625	19.7
Average value per case	£8,630	£5,313	62.4
<b>Source: PPP 2014 and TEICCAF</b>			

31. The 18.4 per cent reduction in total overall detected fraud cases is driven by the one-third reduction in detected cases of housing benefit (HB) and

<sup>1</sup> Detected fraud and corruption values and cases for 2013/14 have been adjusted to omit organisations such as police, fire and emergency services data previously included in Audit Commission Protecting the Public Purse reports. This adjustments ensures like-for-like comparisons between years.

<sup>2</sup> In PPP 2014 detected cases and value of Council Tax Reduction (CTR), the scheme that replaced Council Tax Benefit, were included in Housing and council tax benefit figures. However, for PEPP 2015, and in future years, CTR is included in Council tax discounts. The 2013/14 figures for both Housing and council tax benefit and Council tax discount in Table 1 have been adjusted accordingly.

council tax benefit (CTB) fraud. This fall continues a trend first noted in *PPP 2014*, with many councils starting to re-focus resources towards non-benefit frauds. We expect this trend to accelerate as councils complete the transfer of benefit fraud investigators to SFIS by March 2016.

32. The 12 per cent reduction in detected cases of council tax discount fraud is at first sight worrying, as council tax discount fraud is a direct loss to council coffers. However, interpreting council tax discount fraud results can be problematic. As a high volume/low value type of fraud, councils sometimes adopt strategies that place greater emphasis on tackling such fraud in different years. This is a reasonable approach designed to maximise the value for money benefits to the council concerned.

33. Previous *PPP* reports encouraged councils to do more to tackle non-benefit (corporate) frauds. Councils have responded well. Cases of 'Other' frauds increased by 19.7 per cent, while their value increased by 94.4 per cent. TEICCAF will work with local authorities to support this trend towards greater focus on corporate frauds.

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**Councils have responded well. Cases of "Other" frauds increased by 19.7 % (Value increase 94.4%)**

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34. We consider regional trends in more detail in Chapter 4.

## Loss and harm caused by fraud

35. Table 2 shows the estimate of annual loss undertaken by the National Fraud Authority (NFA) before it was abolished in 2014. Although a useful starting point to understand the scale of financial loss to fraud against local government, it excludes the two most important areas of council spend - social care and education - and one of the main areas of income generation (business rates). Major areas of emerging fraud risk are also excluded from this analysis, such as RTB and NRPF frauds (see Chapter 6).

**Table 2: Estimated annual loss to fraud in local government**

Category	Annual loss (million)	Fraud level (%)
Procurement	£876	1% of spend
Housing tenancy	£845	4% of London housing stock, 2% non-London stock, multiplied by £18,000
Housing benefit <sup>3</sup>	£350	0.7% (in 2013 – see footnote). Subsequently updated by Department of Works & Pensions
Payroll	£154	Not disclosed by NFA
Council tax discount	£133	4% on discounts and reliefs claimed
Blue badges	£46	20% of badges misused
Grants	£35	1% of spend
Pensions	£7.1	NFA – based on NFI detection levels

*Source: NFA Annual Fraud Indicator 2013*

36. We believe, because of the omissions highlighted above, that this measure of the scale of loss represents a significant underestimate of the true loss incurred annually by councils to fraud.

<sup>3</sup> £350 million was the housing benefit fraud estimate at the date the 2013 Annual Fraud Indicator was published by the National Fraud Authority. We recognise that subsequent measurement exercises have resulted in adjustments to the 2013 housing benefit fraud estimate.

37. Table 2 also excludes the social harm caused by fraud. For example, the local family in temporary accommodation who cannot be allocated a council home because of fraudsters' illegally sub-letting council homes for profit. This has been shown to have a long term detrimental effect on health, education and socio-economic opportunities for the families concerned<sup>iii</sup>.

38. Fraud also diminishes public trust in local authorities.

The abuse of the blue badge (disabled parking) concessions by fraudsters is a good example of this. Not only does such fraud prevent those in genuine need and entitlement from accessing required parking facilities, but it also reduces the public's confidence in the blue badge system.

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**Fraud also diminishes  
public trust in local  
authorities**

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39. Councils should give consideration to the social harm caused by fraud when determining their overall strategy to tackle corporate fraud.

## Non- benefit (corporate) fraud

40. Table 3 highlights the main fraud types in the 'Other' group in Table 1. These account for almost £71.5 million of the more than £207 million detected by councils in 2014/15.

**Table 3: Ten main 'Other' frauds against councils in 2013/14 and 2014/15**

Fraud type	Number of cases 2014/15	Value 2014/15	Number of cases 2013/14	Value 2013/14	Changes in case number 2013/14 to 2014/15	Change in case value 2013/14 to 2014/15
Right to Buy	411	£30,247,573	193	£12,361,858	113.0	144.7
Abuse of position	221	£9,747,682	341	£4,020,580	-35.2	142.4
Insurance	473	£9,172,614	226	£4,776,300	109.3	92.0
No Recourse to Public Funds	444	£7,115,446	N/A	N/A	N/A	N/A
Social Care	291	£4,286,767	438	£6,261,930	-33.6	-31.5
Debt fraud	1,083	£2,890,638	1,061	£1,789,365	2.1	61.5
Economic and third sector support	102	£2,392,773	36	£741,867	183.3	222.5
Procurement	86	£2,349,352	127	£4,437,965	-32.3	47.1
Disabled parking concessions (Blue Badge)	4,371	£2,185,500	4,055	£2,027,500	7.8	7.8
Business rates	171	£1,089,780	84	£1,220,802	103.6	-10.3

**Source: PPP2014<sup>4</sup> and TEICCAF**

41. Interpreting these results can be problematic, as annual percentage changes in results can be affected by a few costly frauds in either year. Procurement fraud is an example of this; detected cases decreased by 32.3 per cent, but detected value increase by 47.1 per cent.

<sup>4</sup> All prior year analysis and data published in this report is derived from publicly available information. This includes previous PPP reports as well as presentational material by the Audit Commission to national and regional conferences and forums.

42. In particular, we note:

- Right to Buy (RTB) fraud cases have more than doubled in the last year. This continues a trend first reported in *PPP 2013*. We will explore this in more detail in Chapter 6;
- insurance fraud continues to rise, with the value and number of cases nearly doubling. We suggest that this is probably as a result of greater attention given to such fraud in recent years by local authorities, rather than an increase in the amount of insurance fraud being committed;
- cases of economic and third sector fraud have increased by 183 per cent, with values increasing by over 220 per cent. Economic and third sector fraud involves the false payment of grants, loans or any financial support to any private individual or company, charity, or non-governmental organisation including, but not limited to: grants paid to landlords for property regeneration; donations to local sports clubs; and loans or grants made to a charity;
- business rate fraud cases have more than doubled, although the total value detected has dropped slightly. Fluctuations in value are to be expected, given some individual business rate frauds have been worth over £1 million. In part, the increase in cases may have resulted from greater national attention given to this risk in recent years. We will work with one of our partner organisation, the Institute of Revenues, Rating and Valuations - recognised national experts in business rates - to better understand such fraud; and
- emergence of 'No Recourse to Public Funds' (NRPF) as a major area of fraud detection. This is a relatively new fraud risk and 2014/15 is the first year it has been designated as a specific fraud type in our survey. Thus to already be the fifth largest of the 'Other' frauds detected is both remarkable and concerning. Most NRPF fraud has to date been detected by London boroughs<sup>iv</sup>. We will consider this in more detail in Chapter 6.

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**Right to Buy fraud cases  
have more than doubled in  
the last year**

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## Housing tenancy fraud

43. The number of social homes recovered from tenancy fraudsters decreased slightly, by 1.2 per cent in the last year (Table 4).

44. We define housing tenancy fraud as:

- subletting a property for profit to people not allowed to live there under the conditions of the tenancy;
- providing false information in the housing application to gain a tenancy;
- wrongful tenancy assignment and succession where the property is no longer occupied by the original tenant; or
- failing to use a property as the principal home, abandoning the property, or selling the key to a third party.

**Table 4: detected tenancy frauds by region**

Region	Number of properties in housing stock (% of national housing stock)	Number of properties recovered in 2014/15 (% of total properties recovered)	Number of properties recovered in 2013/14 (% of total properties recovered)	% changes in number of properties recovered 2013/14 to 2014/15
London	426,307 (27)	1,618 (54)	1,807 (60)	-10.5
West Midlands	200,714 (13)	475 (16)	425 (14)	11.8
Yorkshire & the Humber	226,901 (14)	208 (7)	140 (5)	48.6
East of England	132,918 (8)	174 (6)	187 (6)	-7.0
South East	159,248 (10)	160 (5)	129 (4)	24.0
East Midlands	145,069 (9)	115 (4)	136 (4)	-15.4
South West	90,292 (6)	106 (4)	111 (4)	-4.5
North East	102,455 (6)	99 (3)	59 (2)	67.8
North West	104,120 (7)	39 (1)	37 (1)	5.4
<b>TOTAL</b>	<b>1,588,023</b> (100)	<b>2,993</b> (100)	<b>3,030</b> (100)	-1.2

*Source: PPP 2014 and TEICCAF*

45. London, with 27 per cent of the nation's housing stock, continues to recover far more properties from fraudsters than the rest of the country (54%). However, in 2014/15 London detected 10.5 per cent fewer tenancy frauds than the previous year. This suggest tenancy fraud detection in the capital may have plateaued. We will track this development.



46. The North East (67.8%), Yorkshire and the Humber (48.6%), the South East (24.0%), the West Midlands (11.8) and the North West (5.4%) all recorded increases in the number of properties recovered. This is encouraging.
47. However, analysis of the data shows that these increases are, in the main, due to the performance of a few individual councils in each of those regions. There remain councils with housing stock that do not tackle tenancy fraud.
48. Of all councils with housing stock, nearly a third (31.3 per cent) did not recover a single property from a tenancy fraudster. However, the variation between council types is stark, with over half (54.5 per cent) of district councils recovering no properties, compared with a fifth (21.7 per cent) of metropolitan districts and unitary authorities, but only 3.4 per cent of London boroughs

### **Continuing the shift in focus from benefit to non-benefit (corporate) fraud**

49. *PPP 2014* noted the long term shift in councils' focus from benefit to non-benefit (corporate) fraud. Between 1991 and 2000, councils prioritised detecting benefit fraud. In 1991, only 2 per cent of cases of detected fraud related to non-benefit. When the *PPP* series re-started in 2009, that figure had increased to 39 per cent. By 2014/15, this has risen to 67.7% (Figure 2).

**Figure 2: Long term trend in benefit and non-benefit (corporate) frauds detected**



50. This trend is not unexpected. From the early 1990s financial incentives were introduced by the government encouraging councils to tackle benefit fraud. However, these financial incentives were gradually reduced and later phased out leaving councils with only administration grants<sup>5</sup>. Councils still committed significant, although reducing, proportions of their counter-fraud resources to tackle benefit fraud.

51. In this chapter we have considered national trends in fraud detection. In Chapter 4 we consider regional trends in more detail and explore the potential capacity, capability and commitment of some parts of the country to tackle fraud.

<sup>5</sup> The administration grant is paid to councils by central government to administer housing and council tax benefits. An element of this funding is intended to fund HB counter fraud activities.

## CHAPTER 4: REGIONAL TRENDS, TRANSPARENCY AND ACCOUNTABILITY

*English councils are more transparent and accountable in the fight against fraud than any part of the UK public, private or voluntary sectors. By turning an appropriate spotlight on the issue, local authorities have been able to better understand and challenge their own performance. However, indicators suggest an emerging divergence in the capacity, capability and commitment of some regions and councils to tackle fraud*

52. English councils were, until relatively recently, more transparent and accountable in the fight against fraud than any other part of the UK public, private and voluntary sectors. No other sector collected and published information for the entire sectors' national, regional and local levels of detected fraud.

53. This year we note in particular the commitment of London Boroughs in the fight against fraud. In 2015, as the result of a collaboration between London Borough Fraud Investigators Group (LBFIG) and TEICCAF, the first ever *PPP* style report highlighting the fraud detection benchmarking performance of just one region (London) was published.

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**English councils are more transparent and accountable in the fight against fraud than any part of the UK public, private or voluntary sectors**

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54. This report is called *Protecting the London Public Purse 2015 (PLPP 2015)*. We encourage all English regions to work in partnership with TEICCAF to publish similar regionally focused *PPP* style reports in the future. We believe similar reports would benefit other nations such as Scotland, Wales and Northern Ireland.

55. By publicising the success some councils have had in tackling fraud, other councils have sought to emulate them and in so doing raised the standard of counter fraud throughout the sector. TEICCAF is committed to working with councils to continue a high degree of transparency and accountability, through *PEPP* and similar public reports.

## The positive impact of transparency and accountability

56. Turning the spotlight on fraud in local government has had some spectacular results. For example, a three-fold increase in tenancy fraud detection in the four years after *PPP* first highlighted the issue in 2010<sup>v</sup>.

57. *PPP 2013* reported that 88 districts, London Boroughs metropolitan district and unitary authorities had not detected a single non-benefit fraud in 2012/13. However, by utilising comparative benchmark information supplied by the Audit Commission in 2013, councillors were able to challenge local detection performance. One year later and *PPP 2014* reported that those councils that reported detecting no non-benefit fraud had more than halved to just 39. This is a remarkable improvement and an encouraging trend.

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**Turning the spotlight on tenancy fraud in local government has led to a three-fold increase in detection.**

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## Regional fraud detection trends - capacity, capability and commitment to tackle fraud

58. In this chapter we will now consider whether regional capacity, capability and commitment to tackle fraud is consistent across the country.

59. To make this assessment we have used three proxy indicators of a region's (or council's) capacity, capability and commitment to effectively tackling fraud. They are:

- regional fraud detection levels compare to each regions percentage of total national spend;
- regional participation levels in our 2015 voluntary detected fraud and corruption survey; and
- proportion of councils in each region with a corporate fraud team.

60. We acknowledge that there are justifiable reasons why some regions and councils may not have addressed all, or some, of the indicators (Table 5). However, taken in totality we believe the balance of the argument suggests some form of association between the proxy indicators chosen and overall corporate capacity, capability and commitment to tackling fraud.

**Table 5: Detected frauds and losses 2014/15 by region compared to regional spend, survey participation levels and corporate fraud teams**

Region	Council spending by region as % of total spending	Regional % of total value of all fraud detected in 2014/15	Regional % of number of cases of all detected fraud 2014/15	% of councils in each region that participated in the voluntary survey	% of participating councils in each region with a corporate fraud team
East of England	10.3	10.6	12.1	67.9	65.7
East Midlands	7.7	5.1	7.0	54.5	29.2
London	18.2	35.3	23.1	93.9	93.5
North East	5.4	4.3	5.4	50.0	83.3
North West	13.6	10.3	8.1	56.1	34.8
South East	15.0	13.0	15.5	57.3	68.3
South West	9.1	6.5	7.9	61.0	52.0
West Midlands	10.8	8.0	9.9	51.5	29.4
Yorkshire & the Humber	10.1	6.9	10.9	31.8	57.1

*Source PPP 2014 and TEICCAF*

61. We caveat our interpretation by recognising that:

- our detected fraud and corruption survey was voluntary and councils in some regions would have justifiable local reasons not to participate. However, we would argue that response rate are effected by several factors, one of which is corporate commitment to tackling fraud;
- councils may be of such a relatively small size that it is not operationally efficient to have a corporate fraud team. However, it is the view of TEICCAF that such councils should be seeking to form local partnerships that act as a corporate counter-fraud resource. Encouragingly, some councils have already started to develop such partnerships; and
- there will always be some variation in the volume and value of frauds detected depending on the scope of activity of individual councils. However, within certain parameters, reasonable inferences between the proportions of council spend, detection results and corporate commitment to tackling fraud, remain valid.

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**The two regions with the highest survey participation level both detected more fraud by value and cases than their regional expenditure would have suggested likely**

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62. From our analysis we note that:

- London boroughs achieved the highest participation rate in the voluntary survey, have the highest proportion of councils with a corporate fraud team and disproportionately detect significantly more frauds (both by case and total value) than any other part of the country;
- the two regions with the highest survey participation level (London and East of England) both detected more fraud by value and cases than their regional expenditure would have suggested likely;
- the two regions where fewer than half of councils had corporate fraud teams (East Midlands and West Midlands) both detected proportionately fewer frauds (by both cases and total value) than their expenditure would suggest likely;

- the three regions with the lowest level of corporate fraud teams (East Midlands, West Midlands and North West) all detected proportionately fewer frauds (cases and total value) than their expenditure would suggest was likely; and
- Yorkshire and the Humber had the lowest survey participation rate of any region, detected proportionately fewer cases of fraud than overall regional expenditure would have suggested was likely, but by value detected more frauds than would have been proportionately expected.

63. Further research is needed to understand better the relationship between these three indicators.

64. Voluntary survey submissions rates analysed by authority type is also quite revealing (see Table 6).

**Table 6: Detected survey submission rates by authority type 2014/15**

Authority type	% participating in the voluntary fraud detection survey
London Boroughs	93.9
County Councils	66.7
District Councils	59.7
Metropolitan Districts and Unitary Authorities	44.6
<b>Total</b>	<b>59.5</b>

65. London boroughs achieved a near 94 per cent response rate. Using survey participation rates as a proxy indicator, this suggest that not only is London as a region arguably the most committed to tackling fraud but also as an authority type. We commend London Boroughs for this commitment, as we also do for County Councils (66.7 per cent) and District Councils (59.7 per cent). These authority types participated in the survey at a level above the national average (59.5 per cent).

66. Less than half of Metropolitan Districts and Unitary Authorities participated in the survey. We will work in partnership with these authorities to increase their participation rate in future surveys. It is

through a high participation rate that meaningful benchmark analysis is possible.

67. It is good practice for councils to maintain accurate information and data on its counter-fraud activity, including levels of detected fraud. Without this information:

- meaningful local fraud risk analysis and detection performance benchmarking is not possible;
- internal and external audit assurance is more limited; and
- councillors ability to provide strategic vision is impaired.

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**It is good practice for councils to maintain accurate information and data on counter-fraud activity**

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68. We do not advocate that information on fraud detection at individual councils is made public, as this only aids fraudsters. Even making public the number of fraud investigators a council employs speaks volumes to a fraudster about the likelihood of success and getting caught.

69. Rather we advocate as best practice that audit committees are kept fully informed of counter-fraud activity and take a strategic lead on tackling fraud.

70. Our analysis in this chapter suggests an emerging divergence in the capacity, capability and commitment of some regions to fight fraud. In the next chapter we will examine local trends in more detail.



## CHAPTER 5: LOCAL TRENDS

*National and regional trends can conceal significant variations in performance by similar, and often neighbouring, councils within individual regions. Councillors have a role to play to challenge where individual local performance is weak.*

71. Virtually every council in England has a counter-fraud policy that in general terms states:

- responsibility to prevent and detect fraud and corruption lies with all staff and councillors of the organisation; and
- the council has adopted a zero-tolerance approach to fraud and corruption.

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**Councillors have an increasingly important role to play in challenging their own authority's counter-fraud performance**

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72. Councillors have an increasingly important role to play in challenging their own authority's counter-fraud performance. However, from a statutory perspective the ultimate duty to prevent and detect fraud and corruption at individual English local authorities lies with the 'Section 151' officer. That duty is set out in Section 151 of the Local Government Act 1972<sup>vi</sup>.

73. TEICCAF is committed to supporting local councillors and 'Section 151' officers, traditionally the Director of Finance, in these important roles. Thus later this year we will provide free to every council that participated in our 2015 detected fraud and corruption survey, a benchmarked summary analysis of their own councils' individual performance. This is critical information to help inform local priorities.

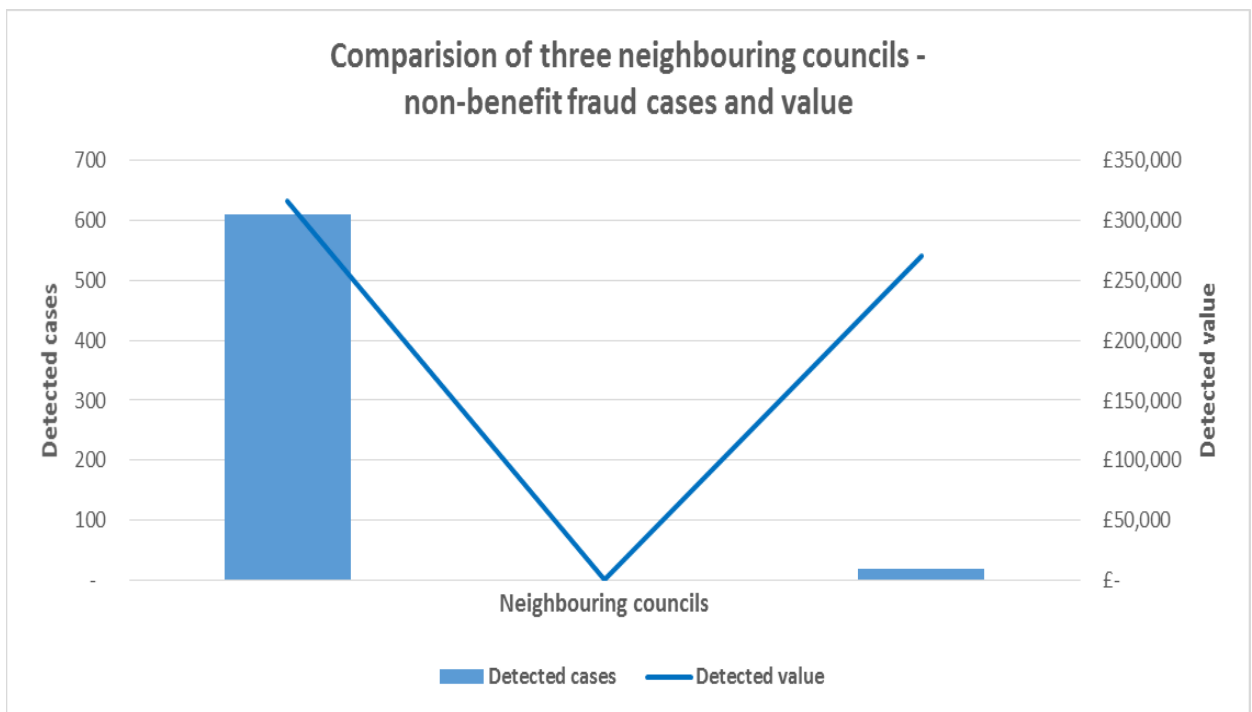
### Local variations in fraud detection

74. Our analysis indicates there are sometimes significant variations in the number of cases and values of fraud that councils across the country detect. This can be explained, in part, by several factors including the counter fraud priorities and plan of individual councils in specific years.

75. However, we have found that neighbouring councils similar in size, demographic make-up and activity can report markedly different levels of corporate fraud detection.

76. As an example, Figure 3 shows the analysis of total non-benefit (corporate) frauds detected by three neighbouring councils in 2014/15 with similar socio-economic and demographic characteristics.

**Figure 3: Comparison of three neighbouring councils' non-benefit fraud cases and total values**



77. The difference is quite marked. One council has detected over 600 cases of corporate fraud with a total value in excess of £300,000. That council is to be commended. One neighbouring council reported 19 corporate frauds detected with a value of £270,000. Of concern is that the third council reported no detected corporate frauds.

78. Based on our experience, it is highly unlikely that no fraud has been committed at this third council. More likely, that council has limited capacity or capability to tackle corporate fraud. Local councillors have a

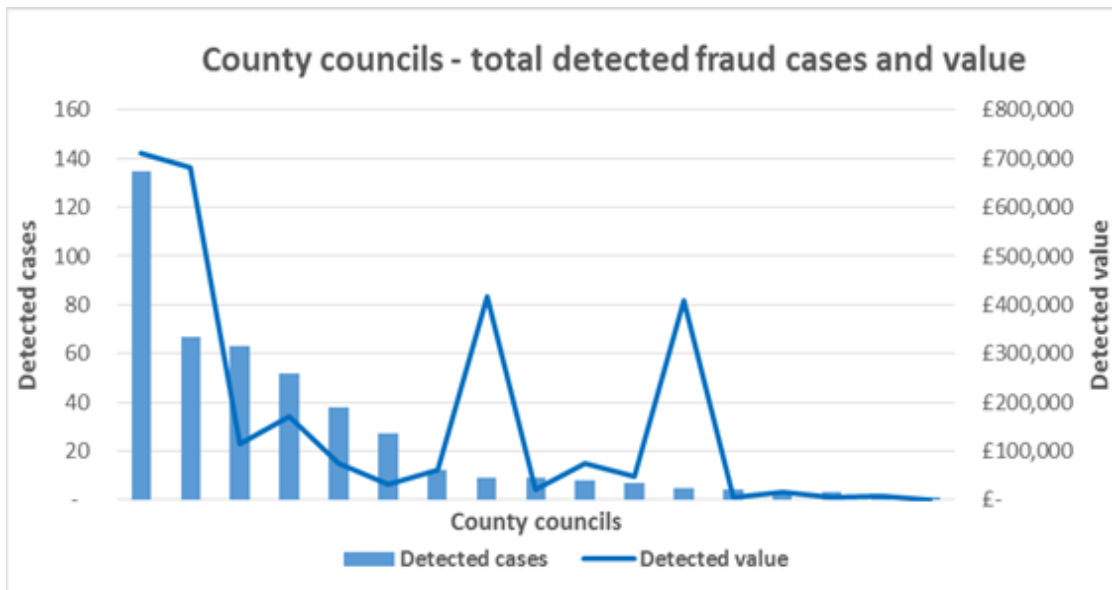
role to challenge local commitment and priorities at councils that are detecting little or no corporate fraud.

79. An analysis of the data nationally demonstrates that this is far from an isolated incident. TEICCAF will work with councils and regions to support local initiatives to address these issues.

## County Councils

80. Figure 4 shows county councils total detected fraud cases and their value.

**Figure 4: County councils - total detected fraud cases and value**



81. In Figure 4, one county detected 135 cases of fraud with a total value of £711,000. By contrast, we note that five county councils detected fewer than five cases of fraud in 2014/15. On average, those five counties detected £6,400 of fraud.

82. The variation observed in Figure 4 is not unexpected. Early identification of fraud can often result in smaller total values. This reflects the widely accepted view that, all other things being equal, the longer a fraud is in operation the greater the amount defrauded is likely to be. This is an important consideration when interpreting detected fraud results. Thus low total value of detected fraud may reflect early identification of the fraud rather than any lack of capacity, capability or commitment by the council.

83. We will now consider fraud detection performance in relation to just one type of corporate fraud, namely council tax discount fraud.

### Council tax discount fraud

84. Nationally a third of households claim single person discount on council tax, although this varies significantly between individual councils. Figure 5 shows levels of actual detected council tax (CTAX) discount fraud in just one English region in 2014/15, including single person discount. We provide this as an example of the variation in council tax discount fraud detection that occurs in some part of the country. Every bar in Figure 5 represents a district council in the region concerned.

**Figure 5: One region – council tax discount fraud detected cases and values**

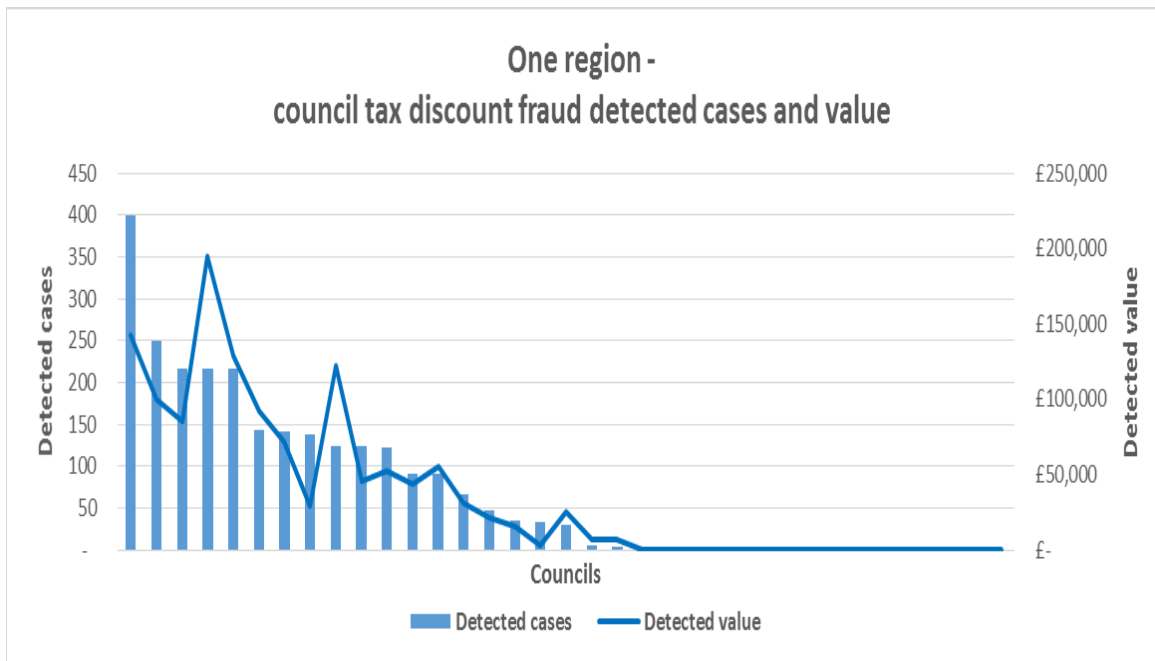


Figure 5 shows that some councils are effectively detecting CTAX discount fraud. One council in this region detected approximately 400 cases of such fraud in 2014/15. By comparison over a third of councils in this region report detecting no CTAX discount fraud. This pattern is replicated across the country.

85. It may be that the councils that reported no detected fraud cases instead incorrectly recorded them as something other than fraud, such as error. This is not good practice. Fraud should always be recorded as fraud.

86. Interpreting CTAX discount fraud results can be problematic. As a high volume/low value fraud, councils sometimes adopt strategies that place greater emphasis on tackling such fraud in different years. This is a reasonable approach designed to maximise the value for money benefits to the council concerned. This may explain why some councils did not detect many, if any, cases in 2014/15.

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**One council in this region detected approximately 400 cases of such fraud in 2014/15. By comparison over a third of councils in this region report detecting no CTAX discount fraud**

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87. This chapters provides just a few examples of the variation in fraud detection levels at individual councils across the country. Some of this variation can be explained by different local priorities in different years. However, our experience suggests that where little or no corporate fraud is being detected, then counter fraud capacity, capability and the commitment of the local authorities concerned may require greater scrutiny.

88. In the next chapter we focus on two emerging frauds that our survey indicates are likely to be increasingly significant in future years.

## CHAPTER 6: EMERGING FRAUD RISKS – RTB AND NRPF

*RTB and NRPF frauds account for much of the increase in the total value of fraud detected in 2014/15. However, these are relatively little known frauds. Our proxy indicator suggests at least 3 per cent of RTB applications in London, 1.5 per cent in the rest of the country, may be subject to such fraud. NRPF has emerged this year as a new area of risk, especially in London. Further research is needed to better understand these emerging risks.*

89. In Chapter 3 we identified RTB and NRPF as two emerging fraud risk categories deserving of further consideration.

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**RTB and NRPF frauds account for much of the increase in total value of fraud detected in 2014/15**

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### Right to Buy (RTB) fraud

90. In 2012, the government relaxed the qualifying rules and raised the discount threshold for Right to Buy (RTB) in relation to council homes. This encouraged greater opportunity for council house tenants to own their own home.
91. In *PPP 2014*, the Audit Commission highlighted the unintended consequences of these changes. The significant sums involved, and the relentless increases in property values, especially in London, had made RTB discount fraud highly attractive to fraudsters. In the three years immediately after the discount increase was implemented, there has been a near ten-fold increase in the number of RTB frauds detected.
92. There is no nationally accepted estimate of the scale of RTB fraud. This is a significant barrier to the development of a proportionate response by councils to this fraud risk.
93. To help social housing providers better understand the scale of the fraud risk, we have undertaken an analysis of existing publicly available information, matched to detected RTB frauds. We have used this to develop a proxy indicator of the likely scale of RTB fraud. We separately calculated the results for London and non-London councils. Further information on our data sources, caveats and methodology can be found in Appendix 2.

94. We have prudently interpreted the results and triangulated those findings with previous housing tenancy fraud research. On that basis we believe the evidence suggests that at least 3 per cent of London RTB council house applications may be subject to fraud<sup>vii</sup>. In the rest of the country RTB fraud may be at least 1.5 per cent of RTB applications.

95. These results are intended only to be indicative of the likely scale of RTB fraud. More detailed research is required to better estimate the scale of RTB fraud. We encourage authoritative stakeholders to work with TEICCAF in the future to better understand the nature and scale of RTB fraud.

96. In the 2015 Queen’s Speech, the government announced that, *“Legislation will be introduced to support home ownership and give housing association tenants the chance to own their own home”*.

97. We draw to the government’s attention the significant levels of fraud that councils have detected within the current RTB scheme for council housing stock. Housing associations, with a few notable exceptions, do not have either an equivalent capacity or capability to tackle RTB fraud.

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**We encourage the government to incorporate within the proposed legislative extension sufficient measures to protect housing associations against RTB fraud**

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98. We encourage the government to incorporate within the proposed legislative extension sufficient measures to protect housing associations against RTB fraud.

### **No Recourse to Public Funds (NRPF) fraud**

99. In recent months a number of councils, mainly London boroughs, approached TEICCAF to highlight an emerging fraud risk, namely, ‘No Recourse to Public Funds’ (NRPF). This fraud involves persons from abroad who are subject to certain immigration controls which prevents them from gaining access to specific welfare benefits or public housing.

100. However, families who have NRPF may still be able to seek assistance, housing and subsistence from their local authority whilst they are awaiting for or appealing a Home Office decision on their status<sup>viii</sup>. In some instances councils have been deceived into providing welfare and other state assistance where NRPF has been claimed fraudulently.

101. In some of these frauds this appears to have been achieved by fraudulently claiming family status with children who, on further investigation, may not be their own. NRPF is a locally administered scheme, thus creating the potential for multiple claims at different councils using the same alleged 'family'.
102. In London, applications for financial assistance from families with NRPF have started to rise quite dramatically in recent times<sup>ix</sup>. Leading commentators suggest that the average cost to the local taxpayer to support one NRPF family is approximately £25,000 per family per year.
103. In the first year of separately recording this category of fraud, councils detected in total 444 cases valued at more than £7 million. This already constitutes one of the larger value fraud types detected. Our analysis indicates many councils have yet to look for such fraud, suggesting that far more NRPF fraud could be detected.
104. London Boroughs<sup>x</sup> have been among the first to identify this emerging threat. However, councils across other regions of England have also started to report detecting NRPF fraud.
105. Pro-active preventative work in London suggests the scale of the problem that councils may be facing. At one London Borough, all new NRPF applicants are now subject to both identity document scans and credit checks. The Borough reports that on being informed that such checks will be undertaken, approximately 10 per cent of new claimants now withdraw their application. Not all of these will be fraudulent, but this does suggest the potential scale of such fraud.
106. TEICCAF urges the government to give greater priority to the fight against NRPF fraud. Further research is needed to better understand the nature and scale of this emerging fraud threat.



## Conclusions

107. Councils have to be ever vigilant to identify trends and emerging fraud threats. The fraud risk associated with RTB is only now starting to be better understood. NRPf fraud is less well known. Pro-active action by some councils suggest this is a growing threat that requires further consideration.
108. Appendix 1 provides a checklist for councils to self-assess their high level counter-fraud arrangements. We also encourage councils to use our benchmark summary analysis of individual fraud detection results for 2014/15 to satisfy themselves that they are playing their part in the fight against fraud (free to all councils who participated in our detected fraud survey, available autumn 2015).

## CHAPTER 7: LOOKING TO THE FUTURE - TEICCAF

*Fraud and corruption risks are constantly evolving. Local authorities need to remain vigilant to new fraud risks and respond quickly to the changing ways in which fraudsters target existing areas of vulnerability. Fraud prevention will become an increasingly important part of the overall strategic response by councils to fraud. TEICCAF is well placed to support this shift in focus.*

### The European Institute for Combatting Corruption And Fraud (TEICCAF)

109. TEICCAF is an independent, not-for-profit organisation. Founded in April 2015, TEICCAF is committed to working in partnership to help tackle public and voluntary sector fraud and corruption.
110. TEICCAF was established, in part, as a response to concerns from key stakeholders about the emerging gap in counter-fraud leadership that had developed by early 2015. The need for an independent, authoritative, not-for-profit voice able to influence national, regional and local responses to fraud is increasingly viewed as a priority by the wider counter-fraud community.
111. TEICCAF is committed to providing choice, innovation and value for money in the support and guidance we will provide. We will focus on those areas where we have acknowledged expertise, such as social housing fraud.
112. We will also focus on fraud risks where we are uniquely able to draw upon specialist knowledge from TEICCAF member organisations such as the Institute of Revenue, Rating and Valuations (IRRV) or the Local Authority Investigating Officers Group (LAI OG).
113. In *PEPP 2015* we have highlighted areas in which TEICCAF will work in partnership to help tackle fraud. This chapter expands on the priority issues to be addressed.

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**TEICCAF is committed to providing choice, innovation and value for money in the support and guidance we will provide**

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## Capacity, capability and risk

114. Local authorities have traditionally been quick to respond to emerging fraud risks. However, as capacity to tackle fraud continues to reduce across English local government, innovative new approaches are required to address both the main fraud risks as well as new, emerging frauds.
115. The National Crime Agency<sup>xi</sup> (NCA) and City of London Police<sup>xii</sup> have highlighted the increasing importance of technology, in particular internet and digital, on economic crime. Fraudsters have been quick to adapt and innovative. Councils must also continue to do so.
116. TEICCAF is able to draw upon the expertise of a wide variety of fraud fighters to assist and support the sector to stay one step ahead of the fraudsters. In particular we will seek to work in partnership to identify and promote good practice in tackling cyber enabled fraud.
117. The National Policing Fraud Strategy 2015 highlights the importance of prevention activities. Local authority counter-fraud specialists tell us the absence of a financial means to assess fraud prevention activities is a major hindrance to a national re-balancing of counter-fraud resources towards greater fraud prevention activities.
118. We will work with partners and stakeholders to promote an agreed understanding of the financial benefits of prevention activity. We will work in partnership with local authorities to develop an approach that allows prevention work to be accurately reported nationally, regionally and locally.
119. To support this approach, TEICCAF will collect, analyse, and promote good practice in tackling all types of public and voluntary sector fraud. This database of good practice will be available to all TEICCAF members.

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**TEICCAF will work with partners and stakeholders to promote an agreed understanding of the financial benefits of prevention activity**

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## **New approaches to tackling major fraud risks**

120. Our analysis of social housing fraud detection shows that sub-letting for profit remains one of the most common types of social housing fraud, especially in London<sup>xiii</sup>. New approaches to prevent and deter such fraud are required. TEICCAF will work with concerned stakeholders to develop new preventative tools to deter such fraud.
121. Managing the risk of fraud was one of the top priority areas councils highlighted to us this year (Chapter 1). Fraud detection data is a vital component of effective fraud risk management. While we recognise there may be justifiable local reason why approximately 40 per cent of councils did not participate in our voluntary fraud detection survey, one possible explanation is the absence of robust and complete detection data at some of those councils. We will work with councils to improve the recording of fraud detection results.
122. We noted that even among participating councils in the survey, there is sometimes a delay in providing the data. This suggest fraud detection data collection arrangements in some councils may require to be strengthened. We will work with partner organisations to improve the recording, collection, analysis and future dissemination of fraud detection information.
123. TEICCAF believes that the general public can make a significant contribution to the fight against fraud. We are committed to raising fraud awareness and wider public understanding of good practice in fighting fraud.
124. Chapters 5 and 6 highlighted an increasing divergence amongst some councils and regions in their capacity, capability and commitment to tackling fraud. We will work with individual councils and regions to address this.

## Contacting TEICCAF

125. You can learn more about TEICCAF from our web site and contact us through social media. Details are below

- [www.teiccaf.com](http://www.teiccaf.com)
- <https://www.facebook.com/pages/T-E-I-C-C-A-F-The-European-Institute-for-Combatting-Corruption-And-Fraud/372191179638143>
- <https://www.linkedin.com/groups/TEICCAF-8293282/about>
- <https://twitter.com/teiccaf>

## APPENDIX 1: CHECKLIST FOR THOSE RESPONSIBLE FOR COMBATting FRAUD AND CORRUPTION

	Yes	No	Comments
1. A) Do we have a zero tolerance policy towards fraud?			
1. B) Does our fraud and corruption detection results demonstrate that commitment to zero tolerance?			
2. Do we have a corporate fraud team?			
3. Does a councillor have portfolio responsibility for fighting fraud across the council?			
4. A) Have we assessed our council against the TEICCAF fraud detection benchmark analysis (available autumn 2015)			
4. B) Does that benchmark analysis of fraud detection identify any fraud types which we should give greater attention to?			
5. Are we confident we have sufficient counter-fraud capacity and capability to detect and prevent non-benefit (corporate) fraud, once SFIS has been fully implemented?			
6. Do we have appropriate and proportionate defences against the emerging fraud risks, in particular: <ul style="list-style-type: none"> <li>• Right to Buy fraud</li> <li>• No Recourse to Public Funds fraud.</li> </ul>			

## APPENDIX 2: DATA COLLECTION APPROACH AND EXTRAPOLATION METHODOLOGY

### Survey methodology

1. In previous years the Audit Commission used its powers to mandate all local government bodies in England to annually submit information and data on detected fraud and corruption (the survey). As a result the survey achieved a 100 per cent submission rate.
2. TEICCAF do not have similar powers. The 2014/15 detected fraud and corruption survey was voluntary. However, we are able to draw upon the extensive knowledge and experience of the (former) Audit Commission counter fraud team that had created and delivered the original national detected fraud survey and *PPP* reports.
3. This team are able to draw upon a unique understanding of over six years of survey and fraud intelligence submissions by every local government body in England. This has been used to put in place arrangements that ensures quality, validity, accuracy and robustness of the data submitted.
4. Information sources used include previous *PPP* reports, Audit Commission national publications and conference, seminar and fraud forum presentations and supporting analysis by the former counter-fraud team of the Audit Commission. These have all been placed in the public domain. We have extensively this information to inform longer term trends in the report as well as to assess the accuracy and completeness of individual data submissions.
5. In addition weighted extrapolation was undertaken to inform regional results where appropriate. Where a council has not participated in the survey, we have used weighted trend data to calculate their results.

### RTB fraud – proxy indicator methodology

6. We have used detected RTB frauds as a proportion of all successful RTB applications (combined with detected frauds) as an indicator of the likely scale of RTB fraud. Our information sources are:

- detected RTB frauds 2013/14 (source PPP 2014)
  - detected RTB frauds 2014/15 (source: TEICCAF)
  - successful RTB applications 2013/14 and 2014/15 (source: Department for Communities and Local Government, Housing Statistical Release June 2015).
7. Our approach analysed both London and non-London RTB activity. We triangulated those findings with housing tenancy fraud research, including London (Ref PPP 2012).
  8. On that basis we believe the evidence suggests that at least 3 per cent of London RTB council house applications are subject to fraud. In the rest of the country the evidence suggest RTB fraud to be at least 1.5 per cent.
  9. Our approach adopts a prudent interpretation of the results, to address acknowledge limitations in the methodology.
  10. We caveat our estimate by acknowledging that:
    - the findings are only indicative in nature; and
    - our analysis omits RTB applications which were unsuccessful for non-fraud reasons.



## REFERENCES

- <sup>i</sup> National Policing Fraud Strategy 2015, City of London Police.
- <sup>ii</sup> Serious and Organised Crime Strategy 2013, National Crime Agency
- <sup>iii</sup> Protecting the Public purse 2010, Audit Commission.
- <sup>iv</sup> Protecting the London Public Purse 2015, LBFIFG and TEICCAF
- <sup>v</sup> Protecting the Public Purse 2014, Audit Commission
- <sup>vi</sup> <http://www.legislation.gov.uk/ukpga/1972/70/section/151>
- <sup>vii</sup> Protecting the London Public Purse 2015, LBFIFG and TEICCAF
- <sup>viii</sup> Legislation includes Children's Act 1989, Children Leaving Care Act 2000 and National Assistance Act 1948.
- <sup>ix</sup> Protecting the London Public Purse 2015, LBFIFG and TEICCAF
- <sup>x</sup> Protecting the London Public Purse 2015, LBFIFG and TEICCAF
- <sup>xi</sup> Serious and Organised Crime Strategy 2013, National Crime Agency.
- <sup>xii</sup> National Policing Fraud Strategy 2015, City of London Police.
- <sup>xiii</sup> Protecting the London Public Purse 2015, LBFIFG and TEICCAF

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# Protecting the London Public Purse 2015

Fighting fraud against London Boroughs

The inaugural London based benchmarking report



# FOREWORD

## Protecting the London Public Purse 2015: fighting fraud against London boroughs

As the UK's capital and largest city, London is home to more than 8.6 million people living across its 33 boroughs. It is a vibrant, diverse and multicultural city, but it is also a magnet for fraud, with the boroughs and their residents suffering serious losses.

Over the past few years, local authorities across the country have had to absorb very significant cuts to public spending. These cuts mean that, more than ever before, London boroughs are expected to do more with less, with these trends set to continue for the foreseeable future. Reducing fraud is one way in which local authorities can make real savings, protect taxpayers' money and local services, and help those who are genuinely in need.

There have been other changes too. With the creation of the Single Fraud Investigation Service to tackle welfare fraud, local authorities have shifted focus away from housing benefit fraud towards non-benefit, corporate, risks. The Audit Commission is gone. So, too, has its annual national fraud survey and report which played an important role in fighting fraud locally.

At the same time, devolution means that local authorities have more power to make decisions about their local communities and how best to focus their resources. *Protecting the London Public Purse 2015* is a valuable tool to help London boroughs do this. By highlighting levels and types of detected fraud within the capital, it enables local authorities and councillors to better understand their fraud risks and target anti-fraud resources where they are most needed and can make the biggest difference to the lives of ordinary Londoners.

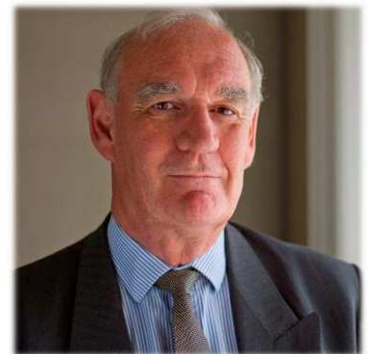
London boroughs seem to understand this well, with over 93% voluntarily responding to the survey. Good progress is being made, despite a reduced

investigative capacity. The future challenge is to continue this good work.

For many years the Fraud Advisory Panel has taken a keen interest in how fraud against the public purse is perceived and tackled. It is not a victimless crime and its impact is often felt most keenly by the vulnerable.

We commend the collaborative efforts of the London Boroughs Fraud Investigators Group and The European Institute for Combatting Corruption And Fraud, for picking up the mantle and building upon the foundations laid by the Audit Commission to identify trends in fraud detection, share best practice, and enable London authorities to benchmark against one another. We encourage other regions to follow suit.

David Kirk  
Chairman  
Fraud Advisory Panel



Kevin Campbell-Scott, Chair

### London Boroughs' Fraud Investigators' Group

"I am pleased to be able to present this regional benchmarking report, the first of its kind. The Fighting Fraud Locally review in 2012 had a vision, which said 'By 2015 Local Government will be better able to protect itself from fraud and corruption and will provide a more effective fraud response'. I believe that this report demonstrates how London borough fraud teams are stepping up to the plate and helping to achieve this vision."

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## SUMMARY AND RECOMMENDATIONS

*This is the first Protecting the Public Purse type report exclusively for London (PLPP 2015) and the first such regional report for any region of the country. London boroughs are encouraged to use this unique analysis to challenge their own commitment in the fight against fraud in London.*

### PLPP 2015:

- enhances the national series of reports previously published by the Audit Commission;
- was commissioned by the London Boroughs' Fraud Investigators' Group (LBFIG) who identified the need for a London centric report;
- is the result of a collaboration between LBFIG and The European Institute for Combating Corruption And Fraud (TEICCAF); and
- sets a baseline from which to compare future benchmarking reports.

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*Detected corporate fraud increased by 5.3 %, while value increased to almost £50 million*

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**Fraud committed against English councils continues to be a major issue. However, the evidence shows London to:**

- be the most **transparent** and **accountable** region in the country in fraud detection;
- be the most **proactive** region in re-balancing the focus of resources towards corporate fraud risks; and
- proportionately detect more fraud than any other region.

**In total, London boroughs' detected fraud value rose by 46 per cent with fewer cases of fraud in 2014/15 compared with the previous year. In particular:**

- London is to be commended for this proactive shift from benefit to non-benefit (corporate) fraud detection.
- the number of detected cases of non-benefit (**corporate**) fraud increased by 5.3 per cent to nearly 17,000, while their value increased by nearly 129 per cent to almost £50 million;
- the number of detected cases fell by nearly 10 per cent to just over 19,500 while their value increased by more than 46 per cent to £73 million; and
- the number of detected cases of **housing benefit and council tax benefit** fraud fell by more than half to nearly 2,700, while their value fell by almost 17 per cent to nearly £23.5 million. This decline was expected as boroughs prepare for the implementation of the Single Fraud Investigations Service (SFIS)<sup>1</sup> by shifting focus to corporate fraud risks;

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*Overall detected fraud value increased by more than 46% to £73 million*

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**Boroughs detected fewer housing tenancy frauds in 2014/15, but continue to disproportionately recover more council homes from tenancy fraudsters than the rest of the country. In particular:**

- 1,618 **tenancy frauds** were detected, a greater than 10 per cent decrease on the previous year;
- nearly two thirds of tenancy frauds in London **are illegal sub-letting** for profit, the reverse of the situation in the rest of the country; and

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<sup>1</sup> SFIS is a government initiative that will combine benefit fraud investigators from councils, the Department for Work and Pensions and Her Majesties Revenues and Customs into a single fraud investigation service. Council benefit fraud investigators began to transfer to SFIS on a council by council basis in April 2014 and the transfer will be complete in March 2016.

- five boroughs with housing stock each detected more than 100 tenancy frauds, while five boroughs with housing stock detected fewer than ten tenancy frauds.

**Right to Buy (RTB) and No Recourse to Public Funds (NRPF) have emerged as major areas of fraud risk for boroughs. In particular:**

- detected RTB fraud cases more than doubled to 300, while their value increased by more than 185 per cent to almost £26 million;
- at least **3 per cent** of RTB applications in London boroughs may be fraudulent, based on TEICCAF’s proxy indicators for such fraud;
- NRPF is a new sub-category of fraud. Relatively few London councils proactively targeted this type of fraud in 2014/15, yet there were still 432 cases detected in London with a value of over £7 million; and
- NRPF now constitutes one of the most significant types of fraud detected by London boroughs and is likely to increase significantly as more boroughs focus their attention on this issue.

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*London can have confidence in the actions taken and commitment shown by boroughs to tackle corporate fraud.*

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## RECOMMENDATIONS

**London boroughs should:**

- celebrate and promote their performance in detecting fraud and corruption;
- use the free, individually tailored benchmark comparative analysis (available from autumn 2015 to all participating boroughs) to inform local understanding of fraud detection performance; and
- assess their exposure to RTB and NRPF fraud risks.



## CHAPTER 1: INTRODUCTION

***This is the first Protecting the Public Purse (PPP) report solely focusing on London boroughs. It has been developed by The European Institute for Combatting Corruption And Fraud (TEICCAF), on behalf of the London Boroughs' Fraud Investigators' Group (LBFIG). This is the first such regional report for any region of the country. LBFIG encourages London boroughs to use this unique analysis to challenge their own commitment and performance in the fight against fraud in London.***

1. National *PPP* reports have played an important role in the fight against local authority fraud over the last 25 years. These reports identified trends in fraud detection, highlighted and disseminated good practice in tackling fraud and identified current and emerging fraud risks. Although regional trends in fraud detection were noted, no regional version of *PPP* was ever published.
2. The London Boroughs' Fraud Investigators' Group (LBFIG) commissioned the former counter-fraud team of the Audit Commission (now part of TEICCAF – The European Institute for Combatting Corruption And Fraud)<sup>2</sup> to conduct the annual detected fraud and corruption survey for London councils and publish the results.
3. Protecting the London Public Purse 2015 (*PLPP 2015*) is the product of that collaboration and sets a new benchmark against which London boroughs can make comparisons in fraud detection in future years.
4. *PLPP 2015* provides an analysis of fraud detected by London boroughs. The report identifies trends in current fraud risks, highlights emerging risks and places for the first time in the public domain comparative benchmark information for London councils.

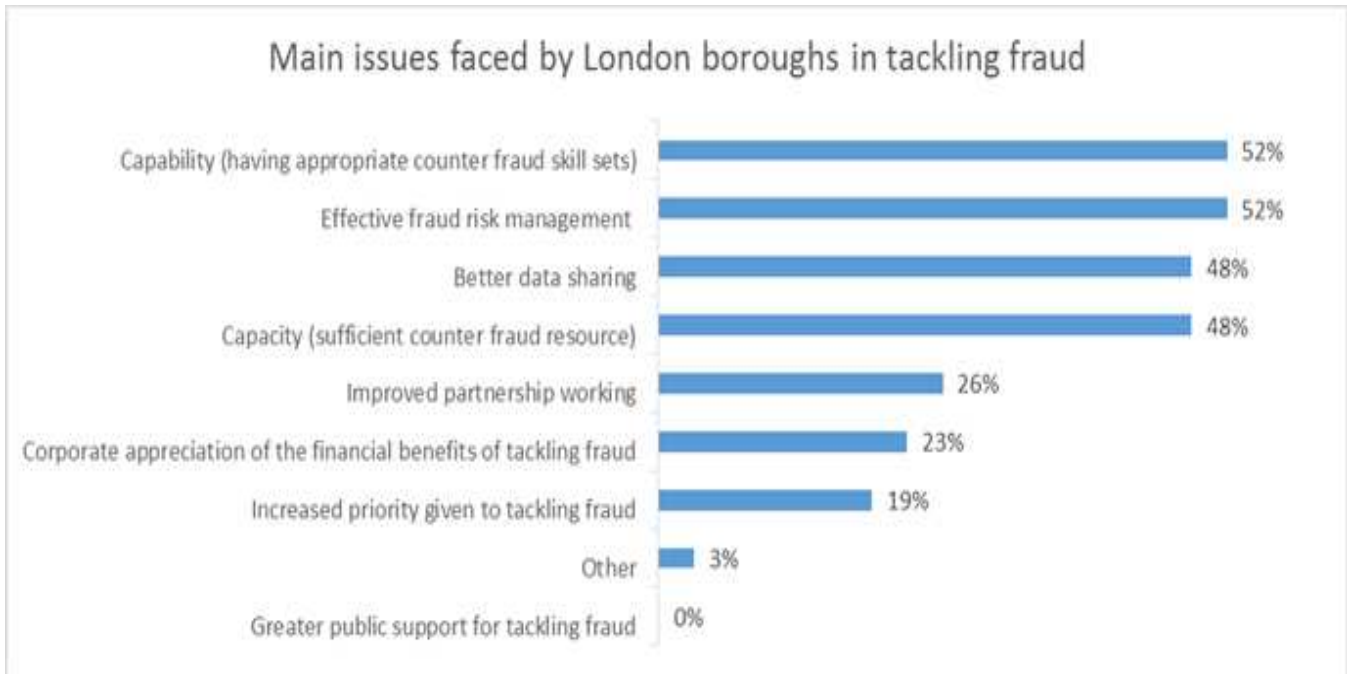
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<sup>2</sup> The European Institute for Combatting Corruption and Fraud (TEICCAF) is an independent, not for profit organisation working in partnership with public, private and voluntary sector organisations to support the fight against public and voluntary sector fraud.

5. This report will help to promote the fight against fraud and encourage locally elected members to recognise and celebrate the success of London boroughs that are playing their part protecting taxpayers' money and local services from fraud. *PLPP 2015* also provides information to help elected members effectively challenge the performance of those boroughs that can still do more.
  
6. Above all, *PLPP 2015* aims to help London boroughs better understand the fraud risks specific to the capital and provide a new London baseline comparison for future regional benchmarking activities. *PLPP 2015* provides:
  - key considerations fundamental to the successful interpretation of detected fraud and corruption data (Chapter 2);
  - a contextual national framework in which to compare London fraud detection performance with other English regions (Chapter 3);
  - the amount of detected fraud reported by London boroughs in 2014/15 compared with 2013/14 (Chapter 4);
  - an analysis of the performance of individual London boroughs in tackling specific fraud types (Chapter 5); and
  - an overview of two significant emerging fraud risks for London, Right to Buy and No Recourse to Public Funds (Chapter 6).
  
7. Appendix 1 to this report contains further information on the survey and extrapolation methodology. Appendix 2 provides a series of London fraud case studies.

## THE MAIN ISSUES BOROUGHES FACE IN TACKLING FRAUD

8. London boroughs are best placed to understand how effectively they overcome barriers to fighting fraud. In this year's survey we asked boroughs to identify the top three issues they face in tackling fraud (Figure 1).



**Figure 1: Main issues faced by London Boroughs' in tackling fraud**

9. The respondents on behalf of the London boroughs report that the two most significant potential issues to be addressed in order for them to effectively tackle the risk of fraud are capability and effective fraud risk management. In particular, *PLPP 2015* provides benchmark comparative information to help boroughs inform their own fraud risk strategies to address London-specific risks.

10. The results in *PLPP 2015* should be considered in the context of a significant national shift in local authority counter-fraud focus. The advent of the Single Fraud Investigation Service (SFIS) has been a positive driver and has required councils to focus resources away from housing benefit fraud and towards all the corporate (non-benefit) fraud risks they face. From a local taxpayer and local service user perspective this should be welcomed. This shift may represent concerns around capability in the immediate term as boroughs look to ensure that investigators have the necessary skillsets to tackle new fraud risk areas.

11. Although tackling housing benefit fraud is important, non-benefit frauds have a far greater financial impact on local people and local taxpayers. *PPP 2014*

concluded that London was the most proactive of all the regions in addressing this development<sup>i</sup>.

12. Our evidence suggests that London continues to lead the way. Almost 94 per cent of London boroughs now have a corporate fraud team, compared to just over 37 per cent outside London<sup>ii</sup>. This is a remarkable achievement by London and shows there is still significant capacity to counter fraud across London.

13. *PLPP 2015* explores other London-specific developments and trends in more detail. Chapter 2 provides contextual information to assist the interpretation of detected fraud and corruption information for London.

## CHAPTER 2: INTERPRETING FRAUD DETECTION RESULTS

*Fraud detection results provide only part of the overall picture of how effective regions, and individual councils, are in tackling fraud. Detection results can be open to misinterpretation. Counter-intuitively, our experience shows that those councils that detect the most fraud are often among the most effective at fraud prevention and deterrence. Generally, local authorities with particularly high levels of non-benefit fraud detection have a strong corporate commitment to the fight against fraud and are often the most proactive and innovative in their approach. London has specific socio-economic and demographic factors that suggest certain fraud risks may be more acute in the capital.*

14. There are a number of factors that affect the level of fraud councils detect. These include:

- the level of fraud committed locally, often influenced by a number of socio-economic and demographic factors;
- the effectiveness of fraud prevention arrangements and deterrence strategies;
- the resources applied to identify and investigate such fraud (capacity);
- the successful detection by councils as a result of the skills, knowledge and experience of investigators (capability) ; and
- improved methods of recording fraud.

15. Interpreting fraud detection results can be difficult and lead to misunderstanding. Myths have developed over time, that have acted as a barrier to effective counter-fraud activity. For example, the myth that little or no fraud detected implies that little or no fraud is being committed.

16. Based on the experience in tackling London-specific frauds it is believed that:

- boroughs that look for fraud, and look in the right way, will detect it;
- fraud affects every borough, although local socio-economic and demographic factors will impact on the type and level of fraud in different boroughs;
- fraud prevention and deterrence strategies can reduce the risk of fraud, but some fraud will always be committed;
- boroughs that report little or no detected non-benefit fraud are generally at higher risk of exposure than those that detect significant levels of fraud; and
- fraud detection levels provide a useful indicator as to the level of commitment to tackle fraud.

17. These are important factors when interpreting fraud detection results. In addition, different types of fraud will also require different fraud prevention, detection and deterrence strategies. This will depend in part on whether they are high volume/low value frauds such as blue badge or low volume/high value frauds such as procurement.

18. In this chapter we now consider some of the socio-economic and demographic factors specific to London and their implications for counter-fraud priorities in the capital.

## LONDON-SPECIFIC FACTORS AND HOW THEY AFFECT FRAUD RISKS

19. London's response to fraud is dependent on both national and local factors. In Table 1 we compare London to the rest of the country in relation to just a few socio-economic and demographic factors. We suggest the implications of these differences on the risks of fraud in the capital.

**Table 1: How London compares to the rest of England on a selection of demographic and socio-economic factors**

Category	London	England	Fraud risk implications
Number of households in temporary accommodation	47,020	61,970	London accounts for more than two thirds of all households in temporary accommodation. Specific fraud risk – <b>Tenancy</b>
Average cost of property in 2014	£470,000	£162,000	Suggests greater demand for social housing. Specific fraud risks – <b>Tenancy</b> and <b>Right to Buy</b>
Average weekly private sector rents in 2013/14	£281	£145	Suggest the difference between private and public sector rental levels is greatest in London. A financial incentive for sub-letting fraud. Specific fraud risk – <b>Tenancy</b>
Long term international migration. Turnover per 1,000 residents population in 2013	31.0	13.4	Higher turnover of London population. Potentially more transient. Suggest likely to have greater local public service requirements and access to public funds. Specific fraud risk area – <b>No Recourse to Public Funds</b>
Internal migration. Turnover per 1,000 resident population in 2013	53.3	3.8	Suggests higher public housing stock demand and turnover. Fraud risk areas – <b>Tenancy</b> and <b>Right to Buy</b>

20. Local priorities will of course determine individual boroughs' counter-fraud strategies. However, Figure 2 does in part explain the greater focus that London has on tenancy fraud and other developing areas of fraud such as Right to Buy (RTB) and No Recourse to Public Funds (NRPF). It is encouraging that London boroughs' fraud detection results align generally with the areas of greatest London-specific risk.

21. This chapter provided a framework against which readers can interpret and contextualise the fraud and corruption detection results in later chapters. In Chapter 3 we consider how London compares to the rest of the county.



## CHAPTER 3: LONDON COMPARED TO NATIONAL FRAUD DETECTION PERFORMANCE

***London is the most proactive region in England in tackling fraud. In recent years London has consistently detected proportionately more fraud than the rest of English local government.***

22. English local government is more transparent and accountable in fraud detection performance than any part of the UK public, private or voluntary sectors<sup>iii</sup>. London has continued this commitment by being the only region in England to publish a PPP style report this year. London region, and participating individual boroughs, are to be commended for this commitment.

### HOW LONDON COMPARES WITH THE REST OF THE COUNTRY

23. London consistently detects more fraud than most other regions of the country, proportionate to the council spend in those regions (Table 2, below).

**Table 2: Detected frauds, losses and spend 2014/15 and 2013/14 by region**

Regions	Spend by region as % of total council spend	% of total value of all detected frauds 2014/15	% of number of all cases of detected fraud 2014/15	% of total value of all detected frauds 2013/14	% of number of all cases of detected fraud 2013/14
London	18.2	35.3	23.1	27.1	20.8
East of England	10.3	10.6	12.1	9.9	10.3
East Midlands	7.7	5.1	7.0	6.4	8.6
North East	5.4	4.3	5.4	4.1	6.5
North West	13.6	10.3	8.1	10.9	8.3
South East	15.0	13.0	15.5	14.5	15.7
South West	9.1	6.5	7.9	9.0	9.6
West Midlands	10.8	8.0	9.9	9.8	12.5
Yorkshire and Humber	10.1	6.9	10.9	8.3	7.7

*Source: Audit Commission, TEICCAF and LBFIG<sup>3</sup>*

<sup>3</sup> Data sources for Table 2 are Audit Commission report Protecting the Public Purse 2014, LBFIFG detected fraud and corruption survey 2014/15 for London and TEICCAF detected fraud and corruption survey for English councils 2014/15

24. London accounts for 18.2 per cent of total local authority spend in England, yet in 2014/15 accounted for 23.1 per cent of fraud cases detected and 35.3 per cent by value detected. The disproportionately higher number of cases of fraud detected, and their associated values, reflects a trend first noted in PPP 2012. It suggests a level of commitment and investment in tackling fraud that other regions should seek to emulate.

## FRAUD DETECTION SURVEY PARTICIPATION RATE

25. In the TEICCAF report Protecting the English Public Purse 2015 (PEPP 2015), the participation rate of councils in the voluntary national detected fraud and corruption survey is used as a proxy indicator of the commitment of regions and individual councils to tackle fraud<sup>iv</sup>.

26. We acknowledge that there were many reasons why some boroughs may have chosen not to participate in the LBFIG detected fraud and corruption survey. LBFIG encourages councils to demonstrate their commitment to tackling fraud by taking part in future surveys.

27. We also believe that the benchmark data that the survey provides is beneficial to London boroughs, locally elected members and the wider public in understanding the effectiveness and commitment of their local authority to the fight against fraud and helps provide an evidence base to support the importance of continuing counter-fraud work.

28. We note that London region achieved a 93.9 per cent participation rate in the survey<sup>v</sup>. The next best region in England achieved 67.9 per cent<sup>vi</sup>. Nationally TEICCAF report that 59.5 per cent of all councils participated in the survey<sup>vii</sup>. This highlights London's strong regional commitment to tackling fraud. We would encourage the London boroughs that did not participate in the survey to do so in the future, so that they can benefit from the sharing of such information.

29. Based on fraud detection performance over several years, combined with participation levels in our detected fraud survey this year, London can reasonably

argue to be the most effective, transparent and accountable region tackling fraud in English local government.

30. In the next chapter we consider in detail the main types of fraud detected by London boroughs in 2014/15.

## CHAPTER 4: LONDON BOROUGHS' DETECTED FRAUD

***London boroughs detected fewer cases of fraud in 2014/15 compared with previous year. However, the value of losses from detected fraud has increased significantly.***

31. Previous *PPP* reports were able to draw upon data collected by the Audit Commission's annual detected fraud and corruption survey for local government bodies. This was a mandatory survey that achieved a 100 per cent response rate and each council's auditor validated its return.

32. In 2015 LBFIG commissioned the former counter-fraud team of the Audit Commission (now part of TEICCAF) to undertake a voluntary fraud and detection survey for London. TEICCAF, a not for profit organisation, does not have the powers to mandate the collection of such data. Thus *PLPP 2015* is based upon a voluntary self-completion survey, in which questionnaires were sent to each London borough. A full description of the methodology used is in Appendix 1.

33. Nearly all London boroughs (93.9 per cent) participated in the voluntary detected fraud and corruption survey this year. From these results, and drawing upon publicly available information sources on historical trends in fraud detection by London boroughs, we are able to extrapolate a comprehensive overview of detected fraud for all of London. These results:

- map the volume and value of different types of detected fraud
- provide information about emerging and changing fraud risks; and
- help to identify good practice in tackling fraud.

34. London boroughs detected fewer frauds in 2014/15 (19,513) compared to the previous year (21,606) (Table 3). However, the value of fraud detected in 2014/15 increased over the previous year, rising from £49,921,000 to £73,086,000. This is the highest value of detected fraud in London since the collection of detected fraud data began with the first *PPP* over 25 years ago.

**Table 3: London detected fraud and corruption 2014/15 and 2013/14 (excluding housing tenancy)**

Type of fraud	Detected fraud in 2014/15 (excluding tenancy fraud)	Detected fraud in 2013/14 (excluding tenancy fraud)	Change in detected fraud 2013/14 to 2014/15 (%)
<b>Total Fraud</b>			
Total value	£73,086,000	£49,921,000	46.4
Number of detected cases	19,513	21,606	-9.7
Average value per case	£3,745	£2,310	62.1
<b>Housing and council tax benefit</b>			
Total value	£23,472,000	£28,247,000	-16.9
Number of detected cases	2,795	5,734	-51.3
Average value per case	£8,398	£4,926	70.5
<b>Council tax discounts</b>			
Total value	£4,931,000	£3,686,000	33.8
Number of detected cases	13,144	12,502	5.1
Average value per case	£375	£295	27.1
<b>Other frauds</b>			
Total value	£44,683,000	£17,987,000	148.4
Number of detected cases	3,574	3,370	6.1
Average value per case	£12,502	£5,337	134.3
<i>Source: Audit Commission and LBFIG<sup>4</sup></i>			

<sup>4</sup> Source includes historical information published by the Audit Commission including public presentations and the series of Protecting the Public Purse national reports as well as the LBFIG 2014/15 detected fraud survey.

35. The near 10 per cent reduction in the total number of cases detected is largely driven by a fall of more than half in the number of detected cases of housing benefit (HB) and council tax benefit (CTB). This decline in cases of HB and CTB fraud detected in 2014/15 reflects a trend first reported in PPP 2013. This is likely to continue as the responsibility for investigating HB and CTB fraud migrates in stages from boroughs to the Department for Work and Pension's Single Fraud Investigation Service (SFIS). This will be completed by March 2016.
36. The increase in the average value of detected HB and CTB cases may also be an indication that those London boroughs still investigating HB and CTB fraud are focusing on higher value frauds. This is an understandable development, but may indicate that they are generally not investigating lower value HB frauds. This response to the SFIS transfer process was to be expected.
37. Over a number of years London boroughs have increasingly changed the focus of their counter-fraud activities towards non-benefit (corporate) frauds. Our analysis of the volume and value of national detected fraud levels suggests London is responding well to this shift in activity (see Chapter 5).

## NON- BENEFIT FRAUD

38. Table 4 highlights the nine main fraud types in the 'Other' group in Table 3<sup>5</sup>. Between them, they account for almost £40 million of the £73.1 million detected by London boroughs in 2014/15.

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<sup>5</sup> This excludes housing tenancy fraud, which is analysed separately.

**Table 4: Other frauds against London boroughs in 2013/14 and 2014/15**

Fraud type	Number of cases 2014/15	Value 2014/15 (£ million)	Number of cases 2013/14	Value 2014/15 (£million)	Change in number of cases 2013/14 to 2014/15 (%)	Change in value 2013/14 to 2014/15(%)
Right to Buy (RTB)	300	£26,462,530	131	£9,260,198	129.0	185.8
No Recourse to Public Funds	432	£7,040,264	N/A	N/A	N/A	N/A
Procurement	7	£1,816,576	29	£871,310	-75.9	108.5
Insurance	43	£1,374,692	41	£1,560,406	4.9	-11.9
Abuse of position	52	£714,160	53	£1,261,536	-1.9	-43.4
Social Care	31	£704,643	200	£1,483,844	-84.5	-52.5
Disabled parking concessions (Blue Badge)	1,078	£539,000	1,779	£889,500	-39.4	-39.4
Payroll and employee contract fulfilment fraud	35	£514,568	61	£384,858	-42.6	33.7
Economic and third sector support fraud	19	£501,860	11	£303,813	72.7	65.2

*Source: Audit Commission<sup>6</sup> and TEICCAF*

<sup>6</sup> This includes analysis of London specific counter fraud detection in 2013/14 put in the public domain by former Audit Commission employees at national and regional conferences and forums.

39. Interpreting these results can be problematic, as annual percentage changes in results can be affected by a few costly frauds in either year. Procurement fraud is an example of this. The number of such detected fraud cases fell by nearly 76 per cent, but their value increased by almost 110 per cent.

40. For all cases of non-benefit fraud, including those not included in Table 4, there has been a 5.3% rise since 2013/14, while the overall value has risen by 128.9 per cent. This is a large year-on-year increase in values from a small increase in cases. This suggests that London boroughs are seeking to use their counter-fraud resources to target frauds with the highest monetary risk.

41. RTB has shown the greatest increase in both detected cases and value. Of most interest is the advent of 'No Recourse to Public Funds' (NRPF) as a major fraud risk. The 2014/15 detected fraud survey is the first year we have specifically included NRPF as a separate fraud detection category. This was in response to London investigators who first alerted us to this issue. We will consider both RTB and NRPF in more detail in Chapter 6.

## HOUSING TENANCY FRAUD

42. London continues to lead the country in detecting housing tenancy fraud. We define housing tenancy fraud as:

- subletting a property for profit to people not allowed to live there under the conditions of the tenancy;
- providing false information in the housing application to gain a tenancy;
- wrongful tenancy assignment and succession where the property is no longer occupied by the original tenant; or
- failing to use a property as the principal home, abandoning the property, or selling the key to a third party.



43. London recovered 1,618 council homes from tenancy fraudsters in 2014/15, a decrease of 10.5 per cent (see Table 5). Within London most tenancy frauds are illegal sub-letting. This differs from the rest of the country, where abandonment and non-occupation as the principal home are the most common<sup>viii</sup>.

Subletting tenancy fraud properties recovered 2014/15	Subletting tenancy fraud properties recovered 2013/14	Percentage change 2013/14 to 2014/15 (%)
1,057	1,146	-7.8
Other tenancy fraud properties recovered 2014/15	Other tenancy fraud properties recovered 2013/14	Percentage change 2013/14 to 2014/15 (%)
561	661	-15.1
Total properties recovered 2014/15	Total properties recovered 2013/14	Percentage Change in Total properties recovered
1,618	1,807	-10.5
<i>Source: TEICCAF and PPP 2014</i>		

**Table 5: London boroughs tenancy fraud in 2014/15 and 2013/14**

44. Nationally, London accounts for more than half of all properties recovered in 2014/15<sup>ix</sup>. However, London only has just over a quarter (26.8%) of the council house stock of England. This disproportionately strong performance reflects in part that London boroughs have been more pro-active in adopting good practice in tackling such fraud.

45. This chapter summarises the main areas of fraud detection by London as a whole. The next chapter highlights how individual boroughs compare.

## CHAPTER 5: INDIVIDUAL LONDON BOROUGHS' FRAUD DETECTION PERFORMANCE

*While London as a region continues to take significant strides forward in the fight against fraud, some individual boroughs can still do more to tackle fraud and achieve the results of the best performing London councils.*

46. This chapter highlights how well individual London boroughs detected specific fraud types in 2014/15. Each borough will focus its scarce investigative resources on different fraud types from year to year, as befits a risk-based approach. This means, however, that the 'snapshot' of fraud detection in the capital we highlight in this chapter may change in the future. We encourage London boroughs, and especially their elected members, to consider longer term trends in fraud detection at their own councils.

47. In Figure 2 below, each bar represents an individual London boroughs' total detected fraud cases for the 2014/15 financial year. The line shows the total value of those frauds. One London borough detected 2,582 cases valued at £9,714,562. The average number of cases detected for the participating boroughs was 608. The average value was £2,125,180.

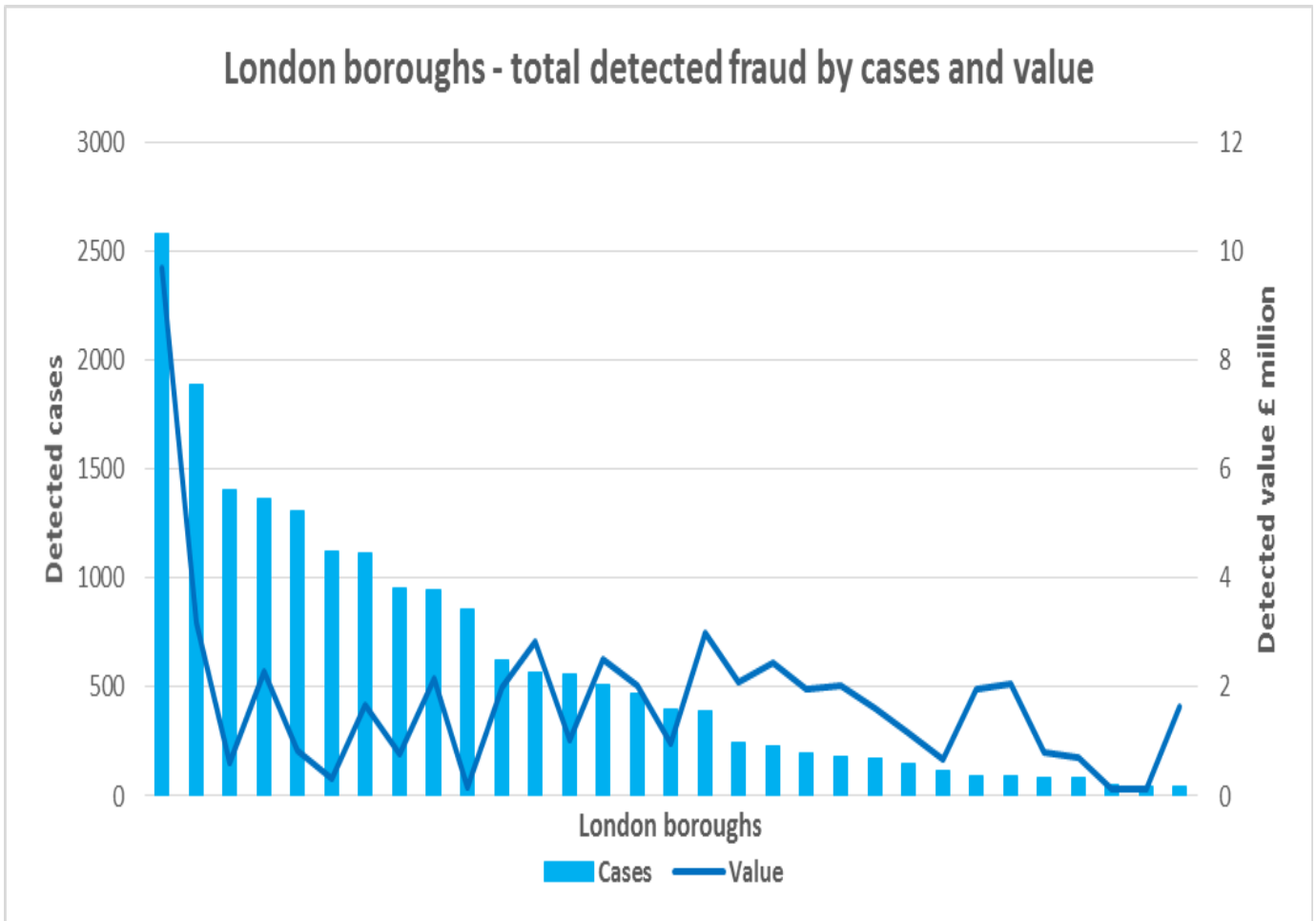


Figure 2: London boroughs: total detected fraud cases and value

48. In Figure 3 we show the detected cases and values of Housing benefit (HB) fraud for all London boroughs. London, like the rest of the country, is in a period of transition as the detection of HB fraud migrates from councils to SFIS (see Chapter 1).

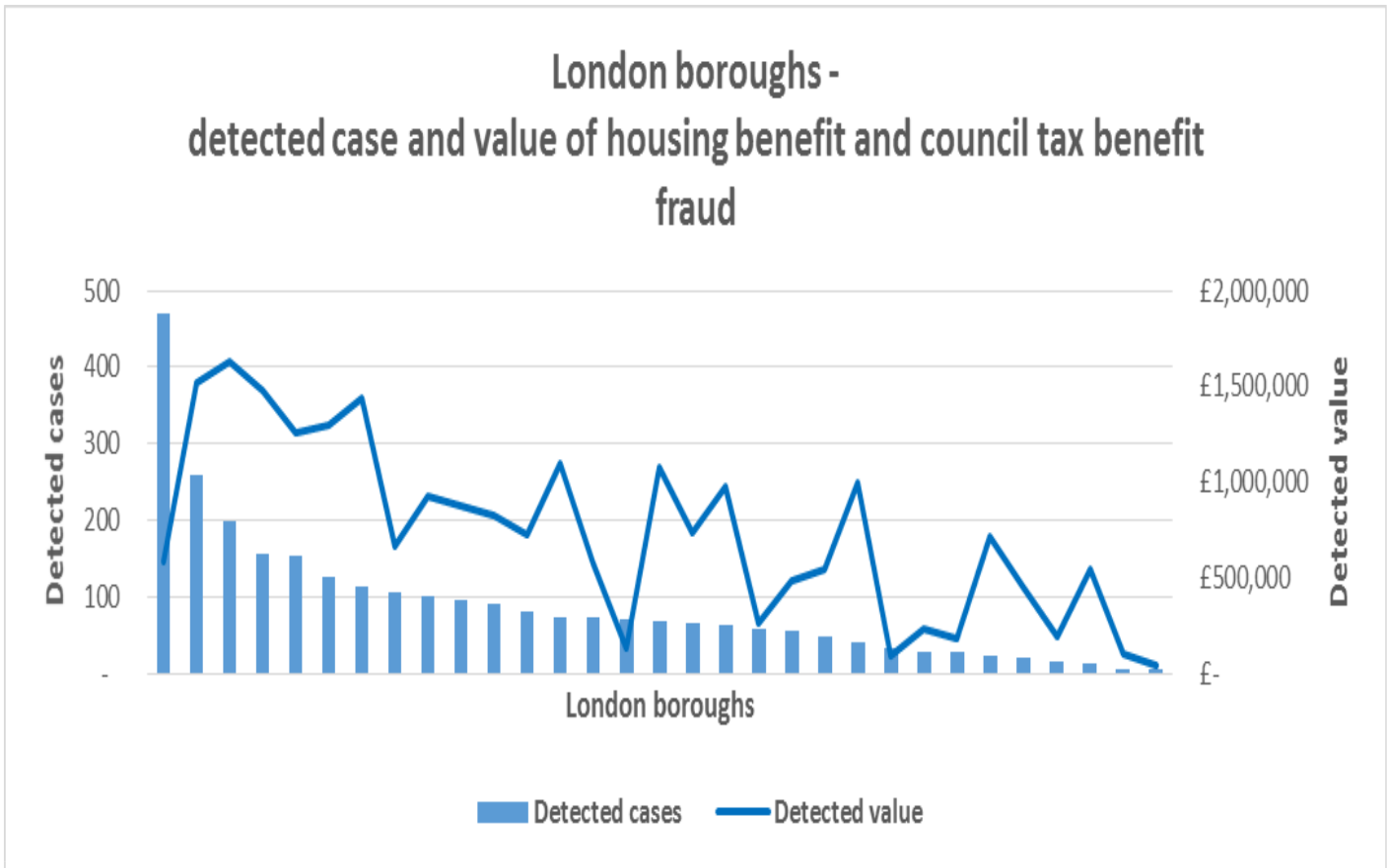
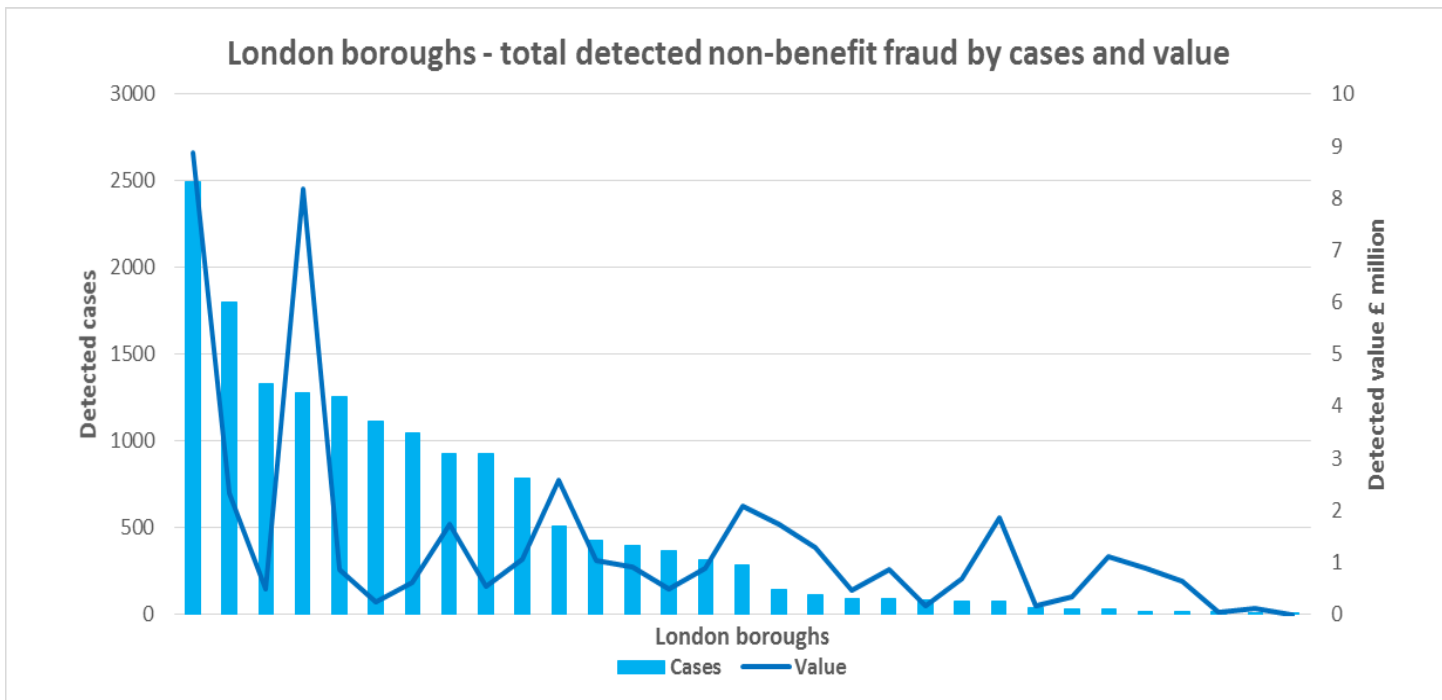


Figure 3: London boroughs – detected cases and value of housing benefit and council tax benefit fraud

49. Tackling HB fraud will no longer be the responsibility of London boroughs from early 2016. Thus, the remainder of this chapter will focus on the main areas of non-benefit (corporate) fraud. This is summarised in Figure 4.



**Figure 4: London boroughs – total non-benefit fraud by cases and value**

50. One London borough detected more than 2,400 cases of non-benefit frauds, worth £8.9 million. This is commendable. However, Figure 4 also shows wide variation in performance among councils, which suggests there is scope for improvement across the capital as a whole.

51. In particular, we note that five boroughs detected fewer than 20 cases of non-benefit fraud in 2014/15. Those boroughs should accelerate the re-focusing of their counter-fraud activities towards corporate fraud risks.

52. Council tax (CTAX) discount fraud directly impacts on the amount of tax some Londoners pay every year to their local borough. Between 4 per and 6 per cent of claims for the most common form of discount, Single Person Discount, are fraudulent<sup>x</sup>.

53. In Figure 5, each bar represents the number of CTAX discount frauds each London borough detected. Interpreting just one year of CTAX discount fraud results can be problematic. As a high volume/low value fraud risk area, boroughs sometimes adopt strategies that place greater emphasis on tackling such fraud in different years. This is a reasonable approach to adopt designed to maximise the value for the boroughs concerned.

54. We note that nine boroughs report detecting less than 10 cases of all types of CTAX discount fraud in 2014/15. By comparison six boroughs detected more than 1,000 cases. We encourage elected members to satisfy themselves that their individual borough has a proactive strategy to tackle CTAX discount fraud and are accurately recording such fraud as fraud.

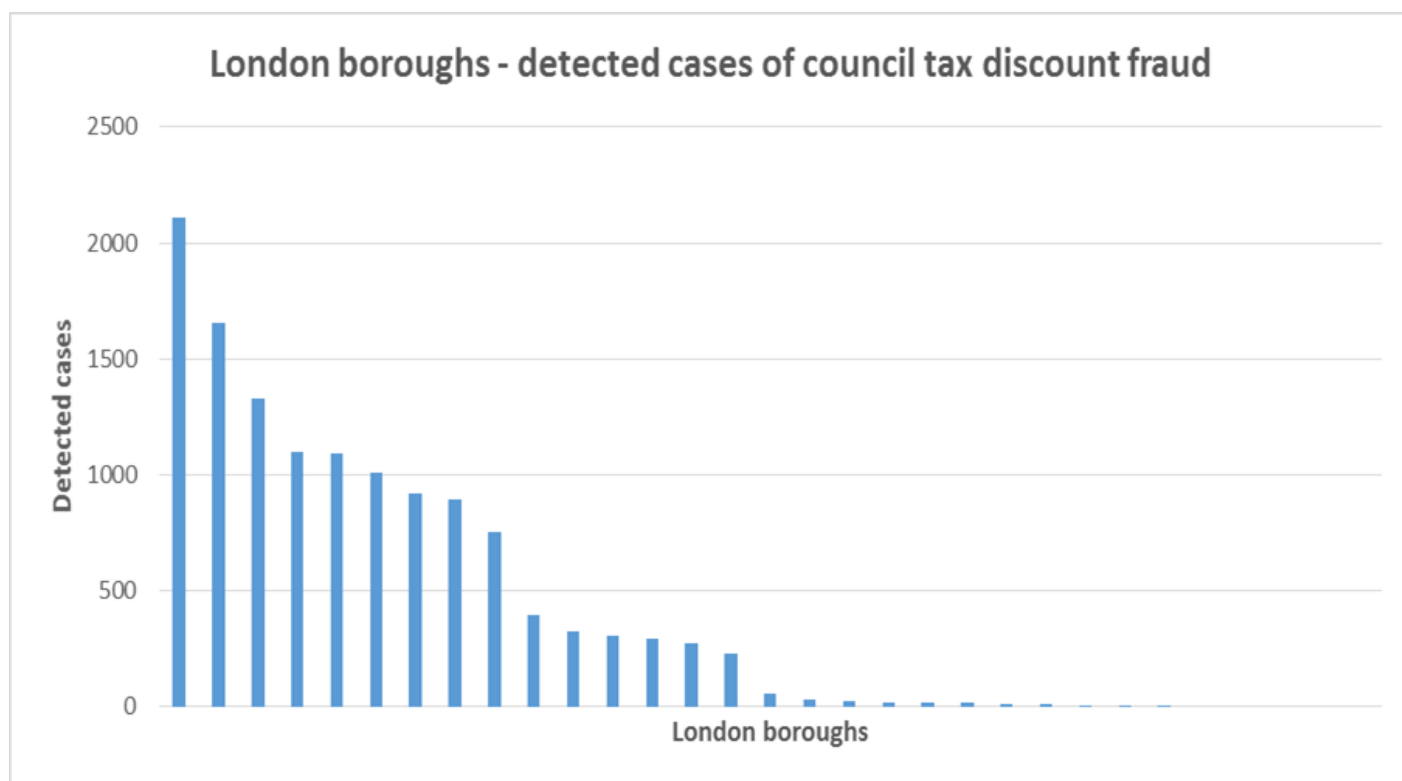
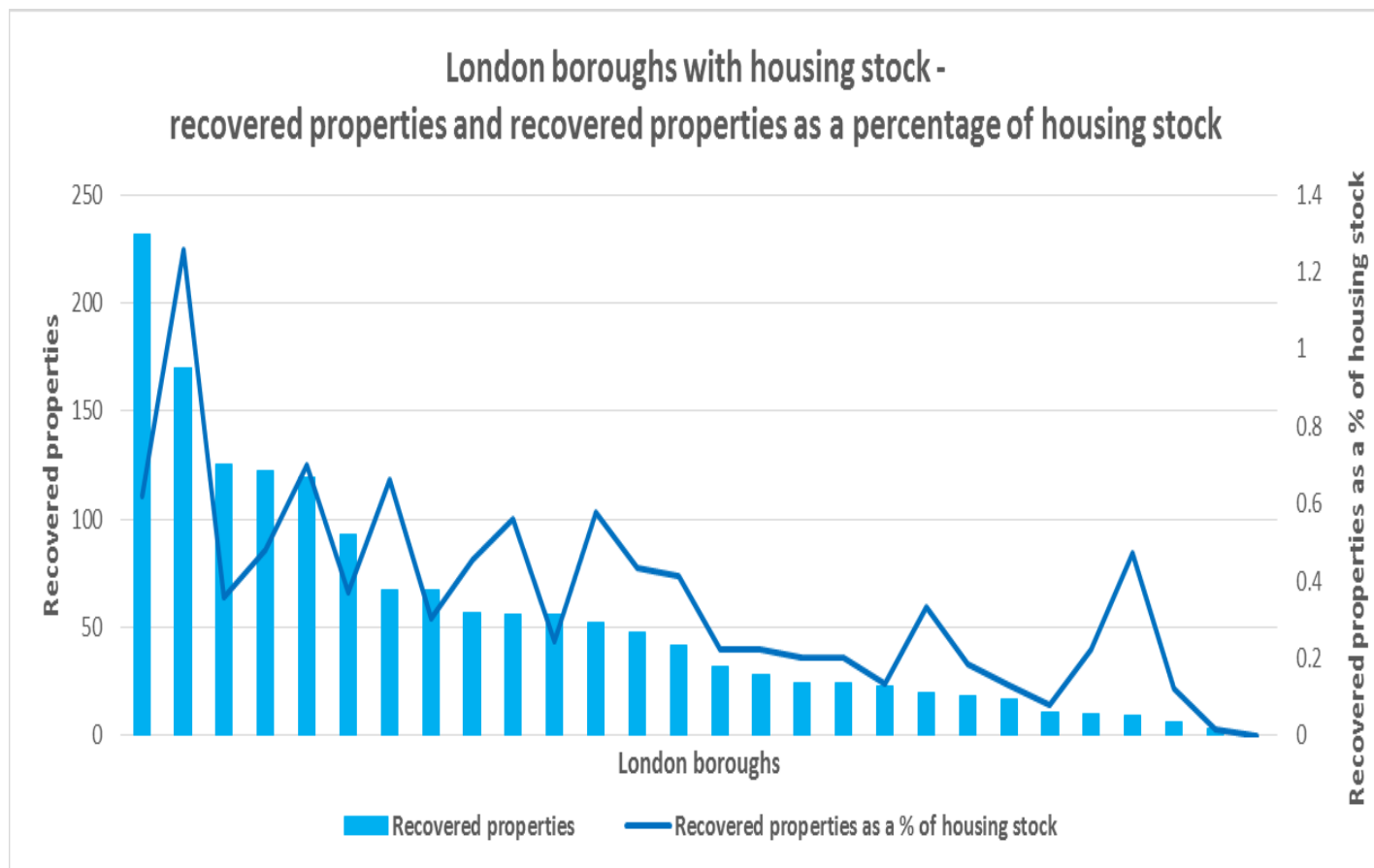


Figure 5: London boroughs – detected cases of council tax discount (CTAX) fraud

55. Chapter 2 identified social housing fraud as a major risk for London. Chapter 3 highlighted how well London as a region has performed in detecting such frauds. In Figure 6 below, we highlight how well individual boroughs have performed.



**Figure 6: London boroughs with housing stock – recovered properties and recovered properties as a percentage of housing stock**

56. In Figure 6 each bar represents the total number of council homes recovered from tenancy fraudsters by London boroughs with housing stock in 2014/15. The line shows the number of tenancy frauds detected as a proportion of housing stock at each council, providing contextual benchmark information.

57. If all boroughs commit the same amount of resource to tackle tenancy fraud proportionate to their housing stock, the connecting line should be horizontal. It is not. This suggests that there is variation in the performance of individual London boroughs.

58. We note that five boroughs with housing stock detected fewer than ten tenancy frauds. There may be local factors to explain this performance, but it suggests that more can be done at those councils to prioritise tackling tenancy fraud.

59. This is perhaps surprising as most London boroughs with housing stock received non-ring fenced funding by the Department of Communities and Local Government to tackle such fraud (£100,000 per borough covering the 2014/15 financial year). It is also notable that five boroughs with housing stock each detected more than 100 tenancy frauds.

60. We encourage London boroughs to use this information to better understand the fraud risks they face, to challenge fraud detection performance and to inform their own proportionate response to local fraud risks.

61. Above all we encourage elected members at those London boroughs that have detected significant levels of non-benefit fraud to celebrate those achievements and the contribution that fighting fraud makes to vital public services and local taxpayers. It is by recognising and rewarding good performance in fraud detection that public confidence in council stewardship of public funds can be enhanced. PLPP 2015 provides a robust and publicly available evidence base to strengthen public confidence in the counter fraud activities of London boroughs.



## RESPONSIBLE TRANSPARENCY IN FRAUD DETECTION

62. The charts included in this report do not specifically identify individual boroughs. We believe that would be irresponsible transparency as such information could be used by fraudsters to their advantage. However, we will provide an individually tailored comparative analysis to all participating boroughs later this year, to help inform their own understanding of local risks and to benchmark their performance against their neighbours.

63. This chapter has highlighted the fraud detection performance of individual London boroughs. In the next chapter, we consider emerging fraud risks and good practice.

## CHAPTER 6: EMERGING FRAUD RISKS FOR LONDON – RTB AND NRPF

*RTB and NRPF frauds account for most of the increase in the total value of fraud detected by London boroughs in 2014/15. However, these are relatively little known frauds. TEICCAF's proxy indicator of RTB fraud suggests that at least 3 per cent of London borough RTB applications are potentially fraudulent. NRPF has quickly emerged as a potentially significant fraud risk for London.*

64. In Chapter 4 we identified RTB and NRPF as two emerging fraud risk categories deserving of further consideration.

### RIGHT TO BUY (RTB) FRAUD

65. In 2012, the government relaxed the qualifying rules and raised the discount threshold for Right to Buy (RTB) in relation to council homes. This encouraged greater opportunity for council house tenants to own their own home.

66. The significant sums involved and the relentless increases in property values, especially in London, have made RTB discounts highly attractive, including to fraudsters<sup>xi</sup>. In the two years immediately after the discount increase was implemented, there was a near five-fold increase in the number of RTB frauds detected nationally.

67. There is currently no nationally accepted estimate of the scale of RTB fraud. To help address this gap in understanding, TEICCAF have developed a proxy indicator to estimate the potential level of RTB fraud. This uses known trends in detected RTB fraud levels combined with Department for Communities and Local

Government publicly available information sources. Further detailed information on the TEICCAF approach is published by in PEPP 2015 this year.

68. By interpreting the resulting analysis, both nationally and for London, and by triangulating those findings with housing tenancy fraud research specific to London, the evidence suggests that at least 3 per cent of London RTB discount applications are subject to fraud.

## NO RECOURSE TO PUBLIC FUNDS (NRPF) FRAUD

69. NRPF fraud involves people from abroad who are subject to specific immigration controls which prevent them from gaining access to specific welfare benefits or public housing.

70. However, families who have NRPF may still be able to seek assistance, housing and subsistence from their local authority whilst they are awaiting or appealing a Home Office decision on their status (Children's Act 1989, Children Leaving care Act 2000 and National Assistance Act 1948).

71. Individuals concerned have, on occasion, been able to deceive councils into providing welfare and other state assistance. In some cases this appears to have been done by claiming family status with children who, on further enquiry, may not be their own. NRPF is a locally administered scheme, thus creating the potential for multiple claims at different councils using the same alleged 'family'.

72. Boroughs tell us that applications for financial assistance from families with NRPF have started to rise quite dramatically in recent times. Five boroughs undertaking a pilot exercise in London estimate that the annual NRPF cost to them is approximately £22 million per year. Leading commentators suggest that the average cost to the local taxpayer to support one NRPF family is approximately £25,000 per family per year. Some boroughs report over 400 such NRPF cases.

73. In the first year of separately recording this category of fraud, London boroughs detected in total 432 cases valued at more than £7 million. This already constitutes one of the largest value fraud types detected in London. Our analysis indicates some boroughs have yet to look for such fraud, suggesting that far more such fraud could be detected.
74. Boroughs are at a relatively early stage in understanding the nature and scale of NRPF fraud. However, some early preventative work is enlightening. One borough, concerned about the potential fraud risk, changed the application process. All new NRPF applicants are now subject to both identity document scans and credit checks. The borough reports that on being informed that such checks will be undertaken, approximately 10 per cent of new claimants withdrew their application. Not all of these will be fraudulent, but this does suggest the potential scale of such fraud now confronting London.
75. TEICCAF and LBFIG urge the government to prioritise the fight against NRPF fraud. In particular to engage with and incentivise London boroughs to increasingly focus on this fraud risk and to undertake research to better understand the nature and scale of this emerging fraud.

## CONCLUSIONS

76. London can have confidence in the actions taken and commitment shown by boroughs to tackle corporate fraud. Compared to the rest of England, London is the most transparent, accountable, and (proportionate to annual spend) successful fraud detection region in the country. London has also been proactive in responding to the impact of SFIS and the need to re-focus resources towards corporate fraud risks.
77. However, some boroughs can still do more to achieve a proportionate response to current and emerging fraud threats. In particular, London boroughs should remain vigilant to emerging fraud threats such as RTB and NRPF frauds.

## APPENDIX 1: DATA COLLECTION APPROACH AND EXTRAPOLATION METHODOLOGY

1. In previous years the Audit Commission used its powers to mandate all local government bodies in England to submit information and data on detected fraud and corruption annually (the survey). As a result the survey achieved a 100 per cent submission rate.
2. TEICCAF and LBFIF do not have similar powers. The 2014/15 London boroughs detected fraud and corruption survey is voluntary. However, we are able to draw upon the extensive knowledge and experience of the (former) Audit Commission counter fraud team that had created and delivered the original national detected fraud survey and *PPP* reports.
3. This team are able to draw upon a unique understanding of over six years of survey and fraud intelligence submissions by every local government body in England. This has been used to put in place arrangements that ensures quality, validity, accuracy and robustness of the data submitted.
4. Information sources used include previous *Protecting the Public Purse* reports, other Audit Commission national publications and other conference, seminar and fraud forum presentations and supporting analysis by the former counter fraud team of the Audit Commission. All of these are available in the public domain. They have been extensively utilised to inform longer term trends in the report as well as to assess the accuracy and completeness of individual data submissions.
5. In addition weighted extrapolation was undertaken to inform regional results where appropriate. Where a council has not participated in the survey, we have used weighted trend data to calculate their results.

## APPENDIX 2: LONDON CASE STUDIES

### Case Study 1: Prevention of Right to Buy Fraud

A doctor attempted to obtain a social housing property from a London borough under the Right to Buy scheme by falsely claiming he lived at the property. The doctor instead had sub-let the property. The case was first brought to London borough fraud investigators' attention when it was suspected that the property was being sublet in breach of the tenancy agreement.

The investigation discovered that the doctor was living with his wife in Essex. His wife owned the Essex property, he was registered to vote there and used this address to register with the NHS. Had the Right to Buy application been successful the doctor would have received a £100,000 discount.

In court, the doctor pleaded guilty to failing to disclose he was not living at the London property. He was sentenced to 80 hours unpaid work, ordered to pay costs of £3,000 and a victim surcharge of £60. In addition, there was an additional £7,321 awarded to the borough. The court ordered that he should surrender his tenancy.

### Case Study 2: Right to Buy Fraud

A woman purchased her social housing property from a London borough in 2003, stating that the property was her only principal home. She received a £38,000 discount under the Right to Buy scheme. Over time she fell into council tax arrears and was being pursued by the borough for outstanding council tax debts. As a means of proving to the borough that she did not owe the money, she produced copies of tenancy agreements showing that she had rented out the property to tenants. Therefore she claimed it was her tenants who owed the council tax, not her.

However, the tenancy agreements she produced dated back to 2001. This showed that as a council tenant she had been unlawfully subletting her social housing property. Thus at the time she purchased the property from the council, she was not living there and therefore was not eligible for RTB discount.

London borough fraud investigators subsequently established that the woman had been living in Essex with her husband since 1994. In the Crown Court, she was found guilty of two offences under the Theft Act. The woman was sentenced to 18 months in prison.

### Case Study 3:

#### London borough and Housing Association working together to combat tenancy fraud

A man had been the tenant of a social housing property since 1996. A local housing association was the landlord, following the transfer of London borough housing stock to the association.

In 2014, the tenant unlawfully sublet the property, stating to his tenants that the property was actually privately owned. However, these new 'tenants' became aware that the property was in fact owned by a housing association. They contacted the housing association who in turn contacted the council and asked them to investigate the matter on their behalf. London borough fraud investigators gathered sufficient evidence to prosecute the man under the Prevention of Social Housing Fraud Act 2013.

The man was found guilty in his absence and fined £1,000 and £500 costs. The housing association is in the process of recovering the property under civil proceedings from the tenancy fraudster.

### Case Study 4:

#### No Recourse to Public Funds

A woman who, due to her immigration status, had no recourse to public funds used false identification to obtain a council social housing property and housing benefit from a London borough. Even after she had obtained British citizenship she continued with the deception to ensure she kept the property.

After finally being caught out, she pleaded guilty to a number of fraud related offences and was sentenced to 2 years in prison. The criminal benefit, that is the difference between paying rent on a social housing property and a similar property in the private sector, was £127,000. The council has recovered the property.

Currently there is a ten year housing waiting list for a similar property in the borough.

### Case Study 5:

#### Tenancy Fraud

A doctor applied to buy his social housing flat from a London borough under the Right to Buy scheme. Under the scheme the doctor was entitled to a £75,000 discount. However, during the valuation process London borough officers became suspicious that the doctor and his family were not using the flat as their main home. The matter was referred to the boroughs' fraud investigators. The subsequent investigation discovered that the flat had been unlawfully sublet and the doctor and his family instead lived in North Wales.

In court, the doctor argued that he had merely been trying to help the people he had sublet the flat too. However, the Judge in his sentencing described the doctor's actions as a "piece of thoroughly dishonest behaviour".

The fraudster was sentenced to 135 hours of unpaid work and had to pay £7,613 in costs. The council repossessed the flat.

### Case Study 6:

#### Schools Fraud and using the Proceeds of Crime Act (POCA)

Following a referral from a school, a London borough was able to show the effectiveness that a qualified Financial Investigator (FI) affords.

A school had identified an unknown withdrawal of £40,000 from their bank account. This was passed to the FI who had received specialist training to undertake financial investigations and recover monies lost through crime. FIs also have specific powers under the Proceeds of Crime Act 2002 (POCA) to trace transactions through financial institutions (such as banks).

The FI discovered that the £40,000 withdrawal had been made by a former employee at the school. This individual had managed to transfer the money directly into their personal bank account. Acting swiftly using their powers, the FI was able to freeze the suspect's bank account preventing a withdrawal of this money, pending completion of their work.

With the level of information ascertained by the FI, the support of the police was secured. When confronted with the information the FI held, the former employee fully confessed their crime. In court, the fraudster was sentenced to two years in prison. Using the proceeds of crime powers, the £40,000 could then be recovered and returned to the school.



## REFERENCES

- 
- <sup>i</sup> Protecting the Public Purse 2014, Audit Commission
- <sup>ii</sup> Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- <sup>iii</sup> Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- <sup>iv</sup> Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- <sup>v</sup> Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- <sup>vi</sup> Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- <sup>vii</sup> Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- <sup>viii</sup> Protecting the Public Purse 2012, Audit Commission
- <sup>ix</sup> Protecting the English Public Purse 2015, The European Institute for Combatting Corruption And Fraud (TEICCAF)
- <sup>x</sup> Protecting the Public Purse 2010, Audit Commission
- <sup>xi</sup> Protecting the Public Purse 2014, Audit Commission



# Protecting the London Public Purse Fraud Briefing 2015



# Purpose of Fraud Briefing

1. Provide an information source to support councillors in considering their council's fraud detection activities
2. Extend an opportunity for councillors to consider fraud detection performance, compared to similar local authorities
3. Give focus to discussing local and national fraud risks, reflect on local priorities and the proportionate responses needed
4. Be a catalyst for reviewing the council's current strategy, resources and capability for tackling fraud

# Understanding the bar charts

All data are drawn from council submissions for the TEICCAF annual fraud and corruption survey for 2014/15

Your council is compared with the other London boroughs taking part in the voluntary survey

*London boroughs submission rate: 93.9%*

*English councils surveyed submission rate: 59.5%*

*(County councils, district councils, metropolitan districts & unitary authorities and London boroughs)*

**Your council for detected cases is shown in Yellow**

**Your council for detected value is shown in Red**

All averages are 'mean' averages

In some cases, council report they have detected fraud and do not report the number of cases and/or the value - for the purposes of this fraud briefing these 'Not Recorded' records are shown as Nil

*NB it is always best practice to ensure counter fraud activity is accurately and comprehensively recorded, particularly for assessing fraud risk*

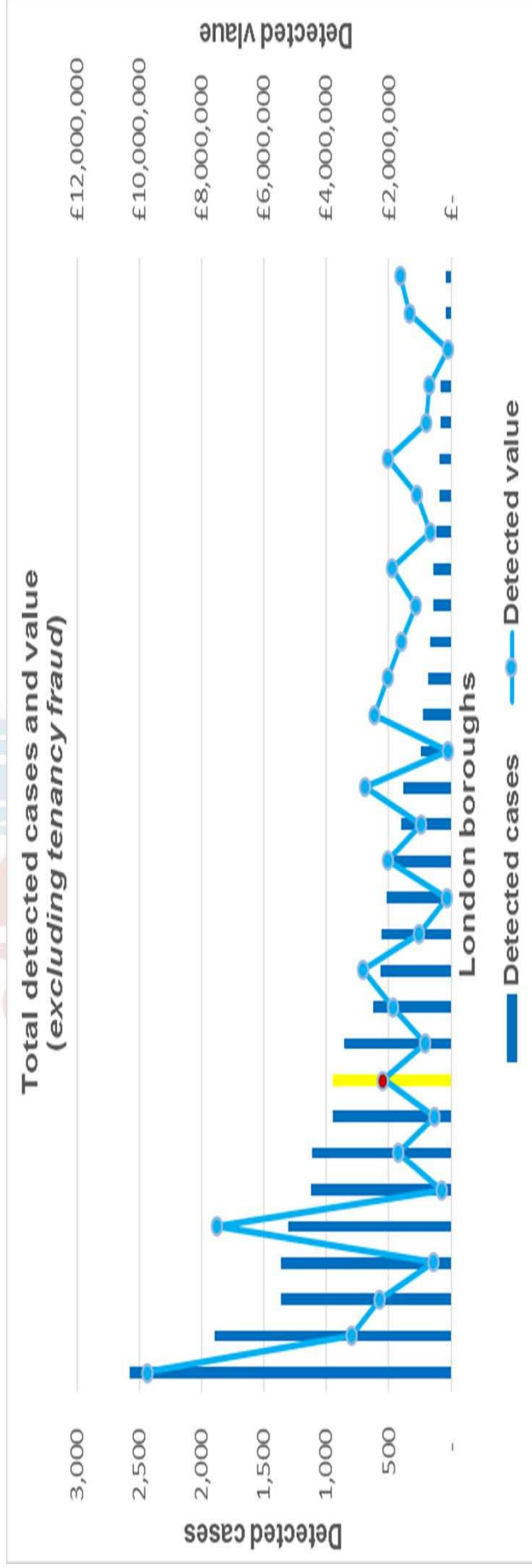
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# Total detected cases and value (excluding Tenancy fraud)



**Your council - Total number of detected cases: 949. Total detected value: £2,171,125.**

**London borough average per council – Detected cases: 604. Detected value: £1,876,446.**

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# Housing benefit (HB) and council tax benefit (CTB)

The investigation of benefit fraud is transferring from councils to the Department for Work and Pensions Single Fraud Investigation Service (SFIS)

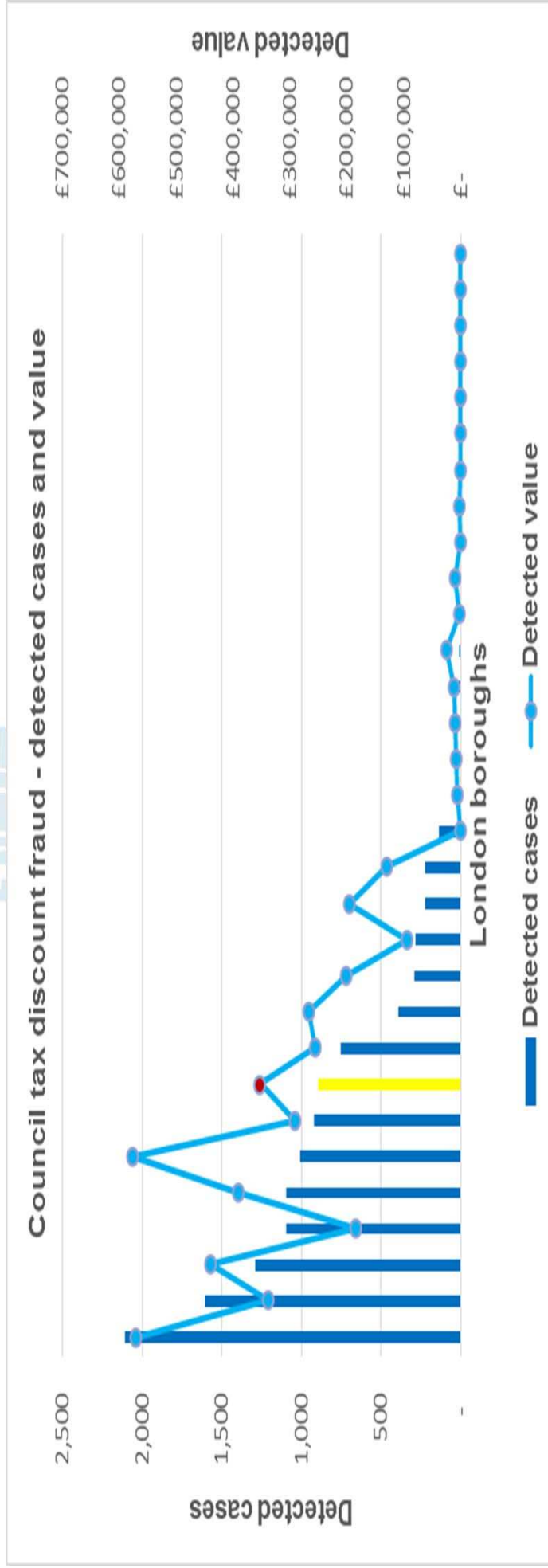
Some councils have already transferred their benefit fraud investigators to SFIS, the remaining councils should have done so by March 2016

This makes the comparison of HB/CTB of little value, as some council did not investigate HB/CTB in 2014/15, or others only a part of the year

However, you may wish to ask:

- Does my council have enough counter fraud resource to tackle non-benefit fraud post SFIS?
- Does my council's counter fraud resource have the skill sets to tackle the wide and varied range of non-benefit frauds?
- Is there a partnership working arrangement available that helps provide a counter fraud resource and value for money?

# Council tax discount fraud



**Your council - Total number of detected cases: 893. Total detected value: £352,625.**

**London borough average per council – Detected cases: 402. Detected value: £141,036.**

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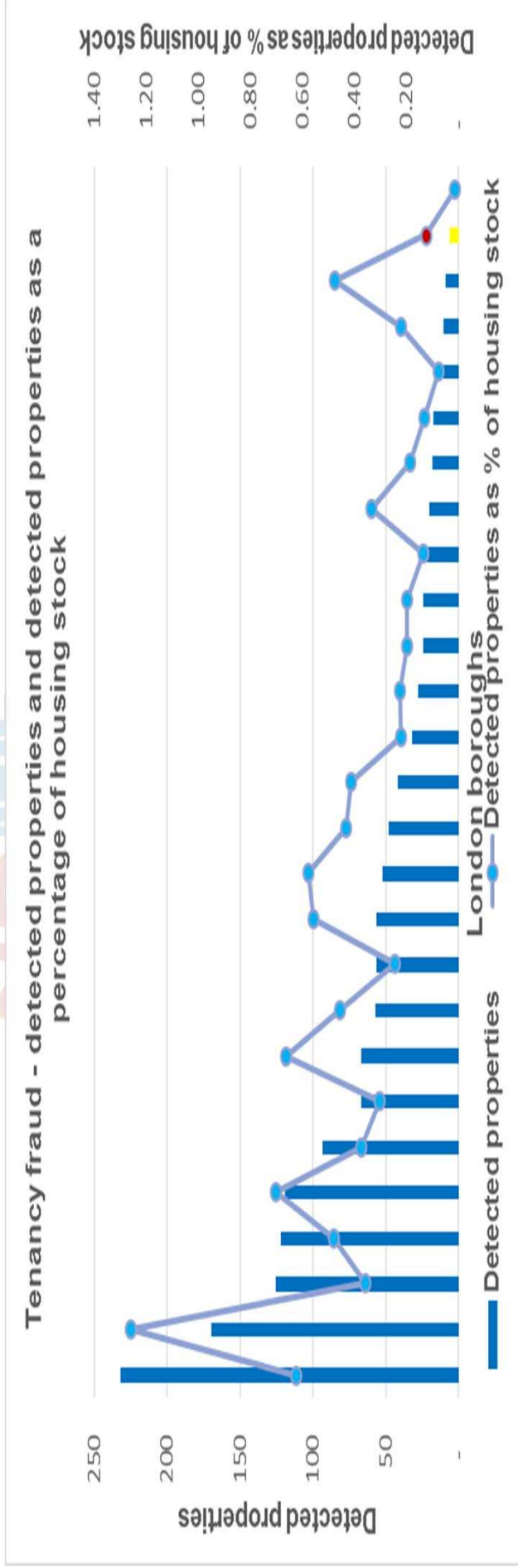
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# Tenancy fraud

(only councils with housing stock)



Your council - Total number of recovered properties: 6

London borough average per council – Recovered properties: 57

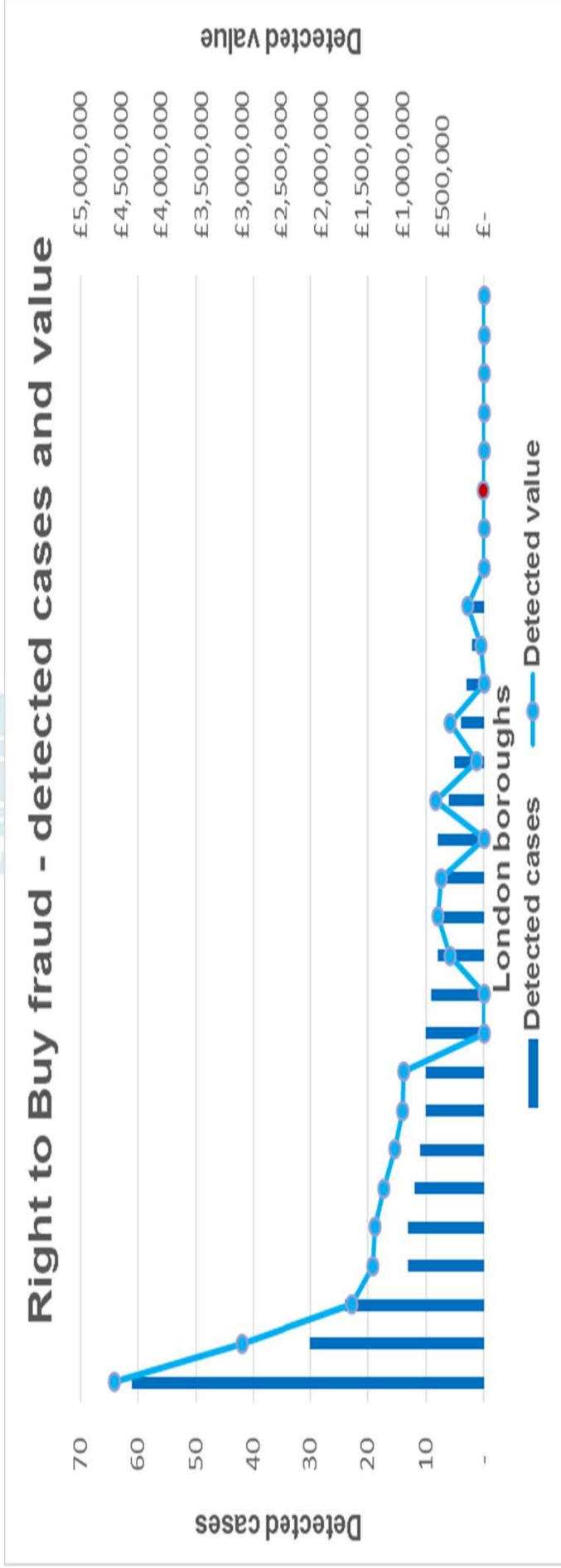
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# Right to Buy fraud



**Your council - Total number of detected cases: nil. Total detected value: nil.**

**London borough average per council – Detected cases: 9. Detected value: £658,012.**

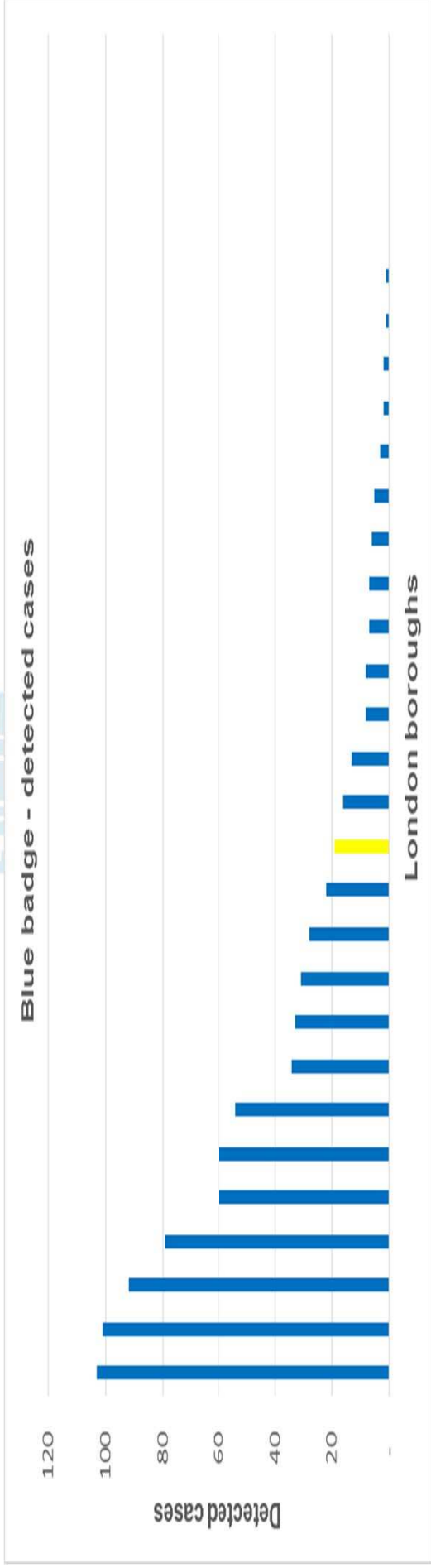
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# Disabled parking (Blue Badge) fraud



**Your council - Total number of detected cases: 19.**

**London borough average per council – Detected cases: 26.**

*NB It is difficult to calculate the value of Blue Badge fraud. However, fraud causes social, as well as financial, harm – particularly the undermining of public confidence in public services*

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# Other frauds

## **Procurement fraud**

Your council - Total number of detected cases: nil.  
London borough average per council – Detected cases: 1. Detected value: £40,694.

## **No recourse to public funds fraud**

Your council - Total number of detected cases: nil.  
London borough average per council – Detected cases: 14. Detected value: £227,105.

## **Social care fraud**

Your council - Total number of detected cases: nil.  
London borough average per council – Detected cases: 1. Detected value: £16,453

## **Insurance fraud**

Your council - Total number of detected cases: nil.  
London borough average per council – Detected cases: 1. Detected value: £20,453.

## **Economic and third sector fraud**

Your council - Total number of detected cases: nil.  
London borough average per council – Detected cases: 1. Detected value: £16,189.

## **Internal fraud**

Your council - Total number of detected cases: 2. Detected value: £2,380.  
London borough average per council – Detected cases: 9. Detected value: £59,500.

# Further information and support

The 'Protecting the English Public Purse 2015' (PEPP) report and the 'Protecting the London Public Purse 2015' (PLPP) report are available at [www.teiccaf.com](http://www.teiccaf.com)

These PEPP reports also contains a counter fraud checklist for councils to use – questions you may wish to ask:

- Are local priorities reflected in our approach to countering fraud?
- Have we considered counter-fraud partnership working?
- Are we satisfied that we will have access to comparative information and data to inform our counter-fraud decision making in the future?

If you have any questions concerning:

- this fraud briefing;
- LBFIG; or
- TEICCAF and the PEPP report, please contact Kevin Campbell-Scott, chair of LBFIG at [chair@lbfig.org](mailto:chair@lbfig.org), or Duncan Warmington, Secretary to the TEICCAF Board at [duncanw@teiccaf.com](mailto:duncanw@teiccaf.com)

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