

<b>Meeting Date</b>	2 September 2015
<b>Report Title</b>	Combating Fraud – Council Tax & Business Rates
<b>Cabinet Member</b>	CIlr Duncan Dewar-Whalley, Cabinet Member for Finance
<b>SMT Lead</b>	Pete Raine
<b>Head of Service</b>	Amber Christou
<b>Lead Officer</b>	Zoe Kent
<b>Recommendations</b>	<ol style="list-style-type: none"><li>1. To approve, subject to the agreement of Kent County Council, Maidstone and Tunbridge Wells Borough Councils, the continuation of a counter fraud team to reduce the level of customer fraud and error in relation to council tax and business rates.</li><li>2. To authorise the Revenues and Benefits Manager to make the necessary operational arrangements as set out in this report.</li><li>3. To delegate authority to the Director of Regeneration to enter into a collaboration agreement with Kent County Council, Maidstone and Tunbridge Wells Borough Councils for the continued delivery of a counter fraud service for council tax and business rates.</li><li>4. That a review of the service is undertaken in 18 months with a further report to be provided detailing the impact of the service on fraud and error.</li></ol>

## **1 Purpose of Report and Executive Summary**

1.1 Maidstone, Swale and Tunbridge Wells Borough Councils (the councils) award council tax and business rates discounts/exemptions totalling £72.7 million per annum. This report and the supporting business case - appendix I outlines how the councils, Kent County Council, Kent Police and Kent and Medway Fire and Rescue services can work together to minimise losses through customer fraud and error and maximise the collection rate.

1.2 The proposal includes provision for joint funding for:

- a dedicated team of fraud investigators;
- a programme of proactive exercises to identify and detect fraud;
- a responsive service to investigate reported allegations of fraud; and
- fraud awareness training for frontline staff.

## **2 Background**

- 1.3 The councils entered into a shared service for the delivery of counter fraud services in 2014 recognising the future challenge of maintaining an effective service after the transfer of housing benefit fraud investigation to the Department for Work and Pensions (DWP), Single Fraud Investigation Service (SFIS) in March 2016.
- 1.4 The transfer of housing benefit fraud investigation to the DWP allows for 4 of the 6 investigation team (excluding 2 visiting/compliance officers) within the current investigation team to transfer to the DWP and would mean the councils losing the specialist skills and capacity to protect the councils and preceptors, against fraud and error within the wider system.
- 1.5 The team operates at a total annual cost of £237,000 (£310,000 inclusive of accommodation and service on-costs) with £93,003 of that cost being met by the Borough. The Borough has met that cost through an administration grant from the DWP, which is expected to end on the transfer to SFIS. The exact date and amount of reduction in grant is still to be confirmed.
- 1.6 With the function funded through the DWP the focus of the team has until this point been fraud and error within the housing benefit and council tax support scheme, with the team identifying benefit reductions of £891,500 during 2014/15.
- 1.7 Prior to the introduction of the business rates retention scheme in April 2013 there was little incentive for councils to investigate incorrectly claimed business rates exemptions or reliefs because the rates collected were handed over to central government and therefore had no effect on the income of the councils. Now that this income represents a significant amount of the councils' budget there is a direct implication and benefit in monitoring the award of these exemptions and reliefs, which for the 3 councils total £24.8 million. The cost of rate relief in Swale alone is £8.4 million.

### **3 Proposal**

- 1.8 The councils should retain the existing team of specialist investigators and widen the scope of their activity to include other areas of council tax and business rates administration. It is proposed that the cost of the service £207,000 is shared between the councils and preceptors based on the expected benefit to each organisation. That would represent a cost to the Borough of £18,200 and provide a projected income of £60,000.
- 1.9 The localisation of council tax support and business rates has changed the financial risk to the councils and preceptors, which to date has not been addressed within the resourcing or work plan for the councils' fraud team. Whilst there has been some activity to address the risk associated with single person discounts, the service has otherwise primarily focused its efforts on housing benefit and council tax support fraud.
- 1.10 The transfer of the housing benefit fraud function to SFIS creates both a risk and opportunity to the councils. With the administration of housing benefit and council

tax support being directly linked the councils have in effect been able to police the two systems at the same time. With the removal of housing benefit and potentially the investigation resource that was deployed with it, this will leave council tax support and therefore council tax exposed to fraud with no identified resource to investigate or deter fraud.

- 1.11 SFIS also creates an opportunity in realising a team of experienced specialist staff, with good local knowledge, to both manage the ongoing risk of council tax support and deliver capacity to expand their work into other areas both within the council tax and business rates system.
- 1.12 The value of discounts and exemptions (see appendix I) is significant and the risk of customer fraud and error high. As such it is incumbent on the councils to provide proper resources to address that risk. In maintaining and funding locally the continued operation of the councils' fraud team the councils would have the resources available to mitigate that risk and reduce the loss caused through fraud and error.
- 1.13 An example of the service plan for the next 2 years is provided within appendix I, along with estimated costs and benefits.

#### **4 Alternative Options**

- 1.14 The councils could allow for the transfer of fraud investigation staff to the DWP and in doing so lose the specialist skills within the counter fraud team.
- 1.15 It is expected that the reduction in the DWP grant will be equivalent to the cost of the staff employed and would therefore be neutral in terms of service budget. The council would however lack the capacity and skills to investigate customer fraud and error within the remaining council support function or other council tax and business rate discounts and exemptions.

#### **5 Consultation Undertaken or Proposed**

- 1.16 The councils have obtained agreement from Kent County Council (acting on behalf of Kent Police and Kent and Medway Fire and Rescue Services) to contribute to the cost of operating the service. Further details regarding the proportionate cost for each partner is provided within appendix I.
- 1.17 The Head of Revenues and Benefits – Shared Service based at Maidstone Borough Council where the fraud team are located has discussed the proposal with fraud investigation staff employed across the councils who have expressed a preference to remain employed by the councils rather than transfer to the DWP. A formal consultation process would however be undertaken regarding the proposed change to the function of the team.

#### **6 Implications**

<b>Issue</b>	<b>Implications</b>
Corporate Plan	BVPI 9 and 10 – effective operation and collection of council tax and business rates. A council to be proud of – reduction of fraud and error should improve revenue collection to provide services.
Financial, Resource and Property	<p>The proposals contained within this report will require funding of £18,200 + on costs. This represents a proportionate share of the total cost of £207,000 + on costs and is considered to represent value for money.</p> <p>The transfer of housing benefit fraud investigation function and proposed service represents a significant change to the terms and conditions of staff employed within the service. Formal consultation with trade unions and the staff affected is therefore planned.</p>
Legal and Statutory	The council has powers within the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013 and Theft Act 1978 to investigate and prosecute council tax and business rates fraud.
Crime and Disorder	No impact.
Sustainability	No impact.
Health and Wellbeing	No impact.
Risk Management and Health and Safety	Fraud in council tax support and business rates exemptions and discounts presents a risk to the Council in protecting its income streams, remaining a credible partner for precepting authorities and the wider public perception of the Council(s) as valuing good governance and pursuing those that would seek to fraudulently exploit its resources. Establishing and maintaining an effective counter fraud capability is a key control used to mitigate the likelihood of these risks becoming realised. Risks arising from the creation and operation of the team will be managed in line with the Council(s) risk management policies.
Equality and Diversity	No impact.

## **7 Appendices**

The following documents are to be published with this report and form part of the report

- Appendix I: *Combating fraud and error 2015*