

Combating Fraud – Council Tax & Business Rates Business Case

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1. Business summary.

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

The proposal includes:

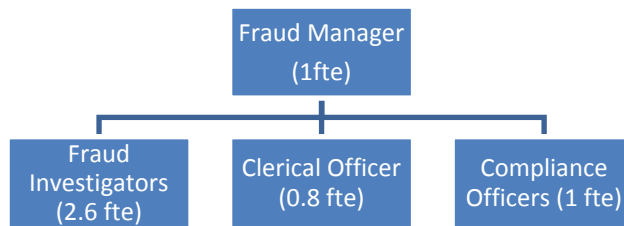
- Joint funding for a dedicated team of fraud investigators;
- A programme of proactive exercises to identify and detect fraud;
- A responsive service to investigate reported allegations of fraud; and
- Fraud awareness training for front line staff.

2. Background

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 DWP, Single Fraud Investigation Service (SFIS) in March 2016.

The transfer of housing benefit fraud investigation to DWP allows for the current investigation team (5.42FTE) transferring to DWP but would mean the councils losing the specialists skills and capacity to protect the councils and preceptors, against fraud and error within the wider system.

The team currently consists of 6.42 FTE (reducing to 5.42 FTE January 2016) and operates at an annual cost of £237,000 (£310,000 including corporate recharges). That cost has until this point been met through an administration grant from DWP, which is to end on the transfer to SFIS.



The focus of the team has until this point been fraud and error within the housing benefit and council tax support scheme, with reductions to the public purse of £891,500 during 2014/2015.

Prior to the introduction of the rates retention scheme in April 2013 there was no direct incentive for authorities to investigate any 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 councils. Now that part of this income makes up our budgets and as this proportion is likely to increase over future years councils will need to monitor the award of these exemptions and reliefs, which for the 3 councils total £24.8 million.

This proposal concerns the maintenance of a counter fraud team principally focussed on revenues and benefits. This is to keep consistency with current provision and directly address the scope of DWP SFIS and potential funding from precepting bodies. However, following publication of the *CIPFA Counter Fraud Code* in October 2014 the Council is considering its wider fraud response (that is, non-revenues and benefits fraud, referred to as corporate counter fraud). The Councils' proposals for tackling corporate counter fraud will come forward separately later in the year, but whatever approach is decided in that field, the Councils' ability to combat fraud of any type will be enhanced by the retention of skilled and experienced counter fraud staff proposed in this business case.

3. Financial summary.

The councils currently award discounts and exemptions totalling £72.7million. By targeting the skills and experience of the fraud team to the wider risk of fraud within the tax base, the councils expect to deliver reductions in the award of Council Tax exemptions and discounts in the region of £600,000 per year. This will increase the amount of council tax that is collectable. The reduction has been based on a removal rate of 2-3%. In recent Single Person Discount (SPD) reviews there has been a removal rate of between 4% and 7%. The councils have been cautious in their predictions because it is acknowledged that when reviews are carried out on a frequent basis the removal rate will diminish.

	Maidstone	Swale	Tunbridge Wells	Total	Predicted reduction in CTS/exemptions
Council Tax	£	£	£	£	£
Empty property discounts	115,429	225,439	49,178	390,046	-
Exemptions	1,477,814	1,285,706	851,135	3,614,655	72,000
Disregards	362,515	307,154	210,012	879,681	-
Disabled reductions	71,628	48,560	59,785	179,973	-
Single person discounts	7,465,260	5,674,531	5,594,662	18,734,453	562,000
Council tax support	8,971,396	9,778,758	5,384,667	24,134,821	482,700
Business Rates	£	£	£	£	£
Exemptions	2,384,635	1,570,644	999,010	4,954,289	99,000
Small Business Rates relief	2,475,263	3,287,636	2,366,767	8,129,666	162,000
Mandatory & Discretionary relief	4,113,540	3,373,611	4,239,254	11,726,405	234,000
	27,437,480	25,552,039	19,754,470	72,743,989	1,654,000

The increases in Council Tax and Business Rates from the removal of awards of Council Tax Support, Council Tax and Business Rates exemptions will be retained by the billing authority to which they relate, with KCC, Fire and Police to receive their share based on the level of their precept. The cost of the service is apportioned based on the projected level of collectable council tax and Business Rates to be achieved by each organisation.

Authority and precept charge	KCC, Police & Fire (75%)	Maidstone BC (10%)	Tunbridge Wells BC (7%)	Swale BC (8%)	Total
Costs	155,250	19,519	14,053	18,178	207,000

Benefit	511,923	64,362	46,339	59,939	682,563
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4. Current Position

The councils currently focus fraud investigation on the payment of housing benefit and council tax support, reflecting the level of spend, risk of fraud and central funding from DWP. The service operates at two levels with “compliance activity” through home visits and more formal investigations potentially leading onto a sanction in the form of prosecution, administrative penalty and formal caution.

Due to the up and coming change over to SFIS the councils saw an opportunity for the fraud team to become involved with council tax and business rates. This has started with the review of single person discounts, specifically matches through the National Fraud Initiative.

5. Proposed Service

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.

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.

SFIS also creates an opportunity in releasing a team of experienced specialist staff, with good local knowledge, to both manage the ongoing risk within council tax support and deliver capacity to expand their work into other areas both within the council tax and business rates system.

The value of discounts and exemptions (see point 3) 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 drive further savings within the council tax base.

An example of the service plan for the next 2 years if funding is secured could be as follows.

Year 2016/2017	Type of Review	
Council Tax	Council Tax Support – review of cases that are high risk	Annual review programme using risk profiling software to identify for high risk cases.
Council Tax	Single Person discount review	Annual review of entitlements, predominantly through the use of an online review facility with discrepancies investigated.
Business Rates	NNDR Small Business Rate Relief	Review of cases carried out with further fuller investigation of a sample of cases.
Council Tax	Review of other Council Tax disregards / exemptions.	Continuous rolling review of all discounts
2017/18	Type of Review	
Council Tax	Council Tax Support – review of cases that are high risk	Annual review programme using risk profiling software to identify high risk cases.
Council Tax	Single Person discount review	Bi-annual risk based review through the use of data matching. High risk cases investigated where customer claims continued entitlement.
Business Rates	Mandatory/discretionary relief	Review that premises are occupied and used for charitable purposes.
Council Tax	Review of disabled bandings	Review which will include

		visiting the property and checking any blue badge awards.
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6. Key outcomes.

This project will deliver a number of key outcomes:

- Investigation and recovery of losses through fraud
- Visible deterrent to reduce fraud
- Programmed reviews to identify the level of risk and actions to mitigate that risk
- Awareness created of the risk of fraud and implementing measures implemented to mitigate that risk.

7. Recommendation.

That the changes outlined in point 5 are approved for a two year period with the cost met through financial contribution from each of the councils, including preceptors KCC, Police and Fire & Rescue.

That the arrangement is reviewed in 18 months time to determine whether the service has proved to represent value for money, before a decision is made to extend, reuse or cease the arrangement.

Financial Summary

The annual saving to the public purse reflects the fact that the service will review the range of discounts and exemptions through a 2 year rolling programme, with 50% of the additional business rates generated retained by central government.

	Maidstone Discounts and Exemptions	Estimated Reduction	Swale Discount and Exemptions	Estimated Reduction	Tunbridge Wells Discounts and Exemptions	Estimated Reduction	Total value of Discounts and Exemptions	Total Estimated Reduction	Assumed Reduction
Council Tax									
Empty property discounts	115,429		225,439		49,178		390,046	-	Nil
Exemptions	1,477,814	29,556	1,285,706	25,714	851,135	17,023	3,614,655	72,293	2%
Disregards	362,515	-	307,154	-	210,012	-	879,681	-	Nil
Disabled reductions	71,628	-	48,560	-	59,785	-	179,973	-	Nil
Single person discounts	7,465,260	223,958	5,674,531	170,236	5,594,662	167,840	18,734,453	562,034	3%
Council tax support	8,971,396	179,428	9,778,758	195,575	5,384,667	107,693	24,134,821	482,696	2%
	18,464,042	432,942	17,320,148	391,525	12,149,439	292,556	47,933,629	1,117,023	
Business Rates									
Exemptions	2,384,635	47,693	1,570,644	31,413	999,010	19,980	4,954,289	99,086	2%
Small Business Rates relief	2,475,263	49,505	3,287,636	65,753	2,366,767	47,335	8,129,666	162,593	2%
Mandatory & Discretionary relief	4,113,540	82,271	3,373,611	67,472	4,239,254	84,785	11,726,405	234,528	2%
	8,973,438	179,469	8,231,891	164,638	7,605,031	152,101	24,810,360	496,207	
	27,437,480	612,411	25,552,039	556,163	19,754,470	444,657	72,743,989	1,613,230	
Costs and Benefit									
	Maidstone		Swale		Tunbridge Wells		Kent County		
Costs	£19,519		£18,178		£14,053		£155,250		207,000
Benefit	£64,362		£59,939		£46,339		£511,922		682,563

Risk Register

Mid Kent Counter Fraud Risk Register (27 July 2015)

Service	Ref	Risk (short title)	Risk (full description)	Risk Owner	Key Existing Controls	Inherent rating			Treat?	Controls planned	Effective Date	Mitigated rating			Further Action
						Impact	L'hood	Grade				Impact	L'hood	Grade	
Mid Kent Counter Fraud	MKCF1	Withdrawal from partnership	One of more authorities chooses to withdraw from the counter fraud partnership	Steve McGinnes	None at present	3	3		Y	- Collaboration agreement to be agreed, setting out period of operation & sharing of costs	31/12/2015	3	1		Review at effective date
Mid Kent Counter Fraud	MKCF2	Insufficient savings	Failure to achieve target reduction in discounts, potentially leading to dissolution of team	Steve McGinnes	- Regular review of performance levels	4	4		Y	- Ongoing review of NNDR in particular (untested area)	31/12/2015	3	3		Review at effective date
Mid Kent Counter Fraud	MKCF3	Customer complaints	Counter fraud activity resulting in complaints received from those under investigation, harming council reputation	Steve McGinnes	- Well organised initiatives - Clear communication with residents and businesses	2	2		N						Annual review
Mid Kent Counter Fraud	MKCF4	Legislative change	Having insufficient skills in the team to meet the needs of authorities & the service	Steve McGinnes	- Comprehensive/flexible planning - Information on LA plans - Maintaining info on training opportunities	4	1		N						Annual review