Fraud and Lodging
Progress in Tackling Fraud and Error in Housing Benefit

Housing benefit (HB) is a major means of support from the public purse to those on low incomes, but the system carries a high risk of fraud and error.

- over four million households in England and Wales receive HB to help pay their rent
- since 1990, the cost of HB has doubled to £11 billion per annum
- detected fraud reached £78 million in 1998, but research suggests that around £840 million is haemorrhaging from public funds due to both fraud and error
- around 10 per cent of payments are likely to be incorrect because of claimant or administrative error; some vulnerable clients are not receiving the HB due to them

In 1997, the Commission’s report, Fraud and Lodging, recommended that local authorities pursue a three-pronged strategy.

- they can prevent fraud if they assess entitlement to benefit correctly at the outset
- they should try to detect all cases of attempted and actual fraud
- they can deter fraud by recovering overpayments and prosecuting fraudsters

During 1998, auditors found encouraging signs of progress...

- councils’ corporate anti-fraud strategies are becoming common
- investigation units are increasing in size
- overpayment recovery teams have had significant successes
- more authorities have adopted and applied prosecution policies
- best value represents the way forward for a modern HB service

...but no room for complacency.

- HB administration is poor in 44 per cent of councils
- speed, not quality, continues to be the sole target for the assessment of many claims
- too many councils are experiencing fraud perpetrated by officers or members
- overpayment recovery is unsatisfactory in one-third of councils
- prosecutions are still rare

The Government has put in place a number of new measures to tackle fraud.

- the Social Security Administration (Fraud) Act 1997 strengthens authorities’ powers to investigate and punish fraudsters
- tighter claim verification arrangements are being promoted; over 20 per cent of councils have new, more robust systems in place
- the DSS has clarified the conditions for claiming the financial incentives available to councils when they detect fraud and overpayment
- efforts are being made to improve liaison between councils and the Benefits Agency

Fraud may never be entirely eliminated from the benefit system but, working together, government and local authorities can do much to reduce its incidence.
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The Problem of Housing Benefit Fraud

1. Housing benefit (HB) is a major pillar of support from the public purse to those on low incomes. It has existed in one form or another for much of this century and is a vital form of financial help for some of the most vulnerable members of society. HB is significant for a number of reasons:
   - large numbers of people are dependent on it to pay their rent;
   - substantial sums of money are involved, with the total growing rapidly over recent years; and
   - the system carries a high risk of fraud and error.

2. Over four million low-income households in England and Wales rely on HB to help to pay their rent for council-owned property, other social housing or privately rented accommodation. Since 1990, the cost of HB in England and Wales has doubled to around £11 billion per annum; a principal driver behind this increase was the deregulation of the private housing market in 1989, which led to significant rises in rent levels. The Department of Social Security (DSS) funds housing benefit, but the system is administered by local authorities. The DSS subsidises the costs incurred by councils in administration, and provides financial incentives for them to identify error and tackle fraud. HB administration is now one of the most important financial activities undertaken by local authorities.

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1 When a council's enquiries result in benefit entitlement being refused, reduced or stopped as a result of either fraud or non-residency being identified, it claims Weekly Benefit Savings (WBS) - 32 times the weekly sum being claimed wrongfully. Councils can earn additional subsidy if the WBS that they claim exceeds an annual threshold set by the DSS.
3. Known – that is, detected – losses to fraud had risen to £78 million by 1997/98 [EXHIBIT 1]. But there are many more cases where fraud could be proven or where suspicion of fraud exists. In 1998, the national HB Accuracy Review estimated that fraud which can be proven occurs in just under 2 per cent of cases, with a likely annual loss of £180 million; in a larger number of cases, there is a strong suspicion of fraud estimated at £430 million; and a final group where a mild suspicion of fraud exists that may be costing the taxpayer £90 million a year. Provable landlord fraud was put at £30 million, with a strong suspicion of fraud amounting to an estimated £80 million (Ref. 1). In addition to fraud, just over 10 per cent of payments are inaccurate because of claimant or administrative error, with an estimated net loss (overpayments minus underpayments) to the taxpayer of £260 million.

4. Against this background of rising expenditure and significant losses, the Audit Commission and the National Audit Office (NAO) conducted a joint study, publishing their findings in July 1997. The Audit Commission report, Fraud and Lodging and accompanying management handbook (Refs. 2 and 3) concentrated on the action required by local authorities to improve their anti-fraud arrangements. The report recognised that authorities have acted positively in recent years to counter benefits fraud, but identified scope for improvement in many authorities, particularly in respect of fraud prevention [BOX A].

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EXHIBIT 1

Levels of detected benefit fraud, 1990/91 to 1997/98

The value of detected benefit fraud has risen year by year.

Source: Audit Commission

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I Estimates are derived from investigations into a sample of 4,700 cases across 96 local authorities in England, Scotland and Wales.

II The individual components of fraud and error were estimated separately and it is not statistically valid simply to add them together; the Review gives a figure of £840 million as the best available estimate of the combined sum lost due to both fraud and error.
BOX A

Key messages from *Fraud and Lodging*

In *Fraud and Lodging*, the Audit Commission advised local authorities to...

- provide a framework within which counter-fraud arrangements can flourish, including promoting an anti-fraud culture across the whole authority to underpin defences against internal and external abuse;
- prioritise fraud prevention, through rigorous verification and efficient administration, which also reduce errors and avoidable delays;
- manage and conduct fraud investigations more effectively and professionally since, even with improved prevention, investigation will continue to have a key role; and
- deter fraud by recovering overpayments, applying the administrative penalty and/or prosecuting fraudsters.

*Source: Fraud and Lodging (Ref. 2)*

5. The NAO's report, *Measures to Combat Housing Benefit Fraud*, (Ref. 4) focused on the effectiveness of the DSS' measures to encourage local authorities to combat benefit fraud. It concluded that the anti-fraud measures implemented in recent years by the DSS, in particular the refinement of subsidy incentives and penalties, have had demonstrable success in combating housing benefit fraud. Two measures, the creation of the Benefits Fraud Inspectorate (BFI)\(^1\) which strengthened powers for investigators, and guidance on tighter verification of initial claim information, were recognised to have enhanced the ability of the DSS and local authorities to tackle fraud. Nonetheless, the report contained a number of recommendations for further improvement.

6. The findings from these two studies were reported to the Committee of Public Accounts in November 1997, and commitments were made at that time to monitor the impact of their recommendations at both national and local level. The NAO has now reported, in *Progress on Measures to Combat Housing Benefit Fraud* (Ref. 5), on how the DSS and Benefits Agency have responded to the Committee's recommendations [BOX B, overleaf]. Its report also reflects further government initiatives to tackle fraud across the welfare benefits system, including those set out in the Green Paper, *Beating Fraud is Everyone’s Business* (Ref. 6). This proposes to improve the administration of benefits to make fraud more difficult to commit, and to create a cross-departmental, professional approach to combating fraud. The NAO has concluded that the DSS has introduced a number of positive counter-fraud measures but needs to press ahead with plans to obtain regular and up-to-date information on the level of fraud; to simplify the benefit; and to emphasise prevention further in the way that it funds local authorities.

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\(^1\) The BFI was launched in late 1997 to review standards of counter-fraud and security performance in local authorities and Benefits Agency offices.
The NAO report identifies recent progress in responding to the concerns of the Committee of Public Accounts. The DSS has introduced a number of measures that should have a positive effect. However, it is important that it presses ahead with work to develop more detailed plans to:

- obtain regular and up-to-date information on the levels of fraud;
- simplify housing benefit; and
- place greater emphasis on prevention in the way that it funds local authorities.

The NAO's report recommends that the DSS should:

- define how it intends to monitor the effectiveness of the many different changes and interventions that it is making on HB and to its anti-fraud measures;
- ensure that the work in hand to improve the measurement of levels of HB fraud is carried out so that fraud and error can be measured on a consistent basis, and allow comparison over time and with the level of fraud in other benefits;
- monitor closely the take-up of funding of £100 million for the Verification Framework by the remaining local authorities that have been invited to apply for funding for 1999/2000, and consider ways of encouraging any local authority that does not intend to comply with the framework to participate;
- study the full impact of proposed new regulations to ensure that they are viable; and
- review the extent to which the Benefits Agency and local authorities are meeting agreed standards within the new service level agreements, and consider ways in which they can encourage the smooth working of the agreements.

7. Throughout 1998, local auditors undertook detailed reviews of councils’ efforts to prevent, detect and deter fraud, and promoted the Commission's recommendations; this Update summarises those audit findings. Although good practice was often encountered, many of the weaknesses identified in Fraud and Lodging remain common, reinforcing the need to guard against complacency. The Update focuses on three key areas of activity:

- the corporate framework for counter-fraud activity;
- putting preventive measures in place; and
- action to detect and deter fraud.

1 A number of audits were still in progress when this Update was prepared; the findings summarised here are based upon analysis of 140 completed audit reports (around 50 per cent of the total).
Council-wide Approaches to Counter Housing Benefit Fraud

8. HB staff – whether they are involved in assessing the initial claims of tenants or investigating possible fraud – require support from across the authority and recognition that the system is vulnerable to fraud. Members and senior officers should ensure that there is a corporate framework that emphasises the value of fraud prevention but does not shrink from investigation and prosecution where appropriate. Such a framework is in place in only half of the authorities visited – 50 per cent of authorities now have anti-fraud strategies, while others have established working groups to formulate strategies. Such measures do not guarantee protection against fraud, but they promote a culture that supports anti-fraud work.

9. Internal audit sections have an important role to play in checking internal control systems and compliance with anti-fraud strategies. Lapses in controls can have damaging consequences [BOX C], and the Commission recommended that assessment should be included in annual internal audit plans. But internal audit coverage of HB assessment and investigation is often minimal. In only 46 per cent of the authorities were external auditors satisfied with the coverage of internal audit work. This finding resonates with criticisms from the Benefits Fraud Inspectorate (BFI) that authorities do not pay sufficient attention to HB in their internal audit programmes (Ref. 7).

BOX C

Lapses in internal controls can lead to fraud

An experienced assessor in a city council was not subject to the same controls and checks as his less experienced colleagues. Lack of separation of duties meant that all assessors could put claims into payment without involving another assessor, while other weaknesses in controls made discovery less likely. These weaknesses had previously been identified by internal audit but no action had been taken.

The assessor took advantage of his position to create a number of false claims, netting approximately £10,000. The claims were created for non-existent addresses and post was sent to these addresses as usual. The post was subsequently returned undelivered but then thrown away because there was no corresponding claim file.

The assessor left the authority to work as an assessor in another part of the country. The fraudulent claims came to light by chance when the authority investigated problems of non-receipt of benefit by a genuine claimant. The assessor was subsequently arrested and has served a custodial sentence.

Source: Audit examination and report
10. The need to pay close attention to internal arrangements is underlined by reports from auditors that member or officer frauds have been detected recently in 25 per cent of authorities visited. Officer frauds are more likely to be systematic and high value, whereas member fraud typically entails claims as a recipient of HB. But both undermine public confidence in the council’s integrity. In most instances of detected fraud, appropriate action had been taken – auditors were satisfied with the authorities’ response in two-thirds of cases. For example, at one authority, assessors identified a councillor whose income tax code indicated a higher income than the allowances and benefits he had declared. When it was determined that the councillor had acted fraudulently, an overpayment was raised and monies were subsequently recovered.

11. But other authorities send out mixed messages on fraud prevention by a failure to act robustly when internal abuse is uncovered. In one London borough, a councillor failed to declare his attendance allowances, resulting in an overpayment of benefits. The overpayment was identified, but the councillor was not challenged and the overpayment was written off. Indeed, the ethos in that authority to cover up member fraud was so pervasive that the offender had not been confronted and was unaware that he had been classified as a fraudster. A number of cases have come to light in which members failed to declare their allowances when claiming HB. Their defence is often that their authorities should have known about the allowances and have automatically taken them into account. Authorities could usefully include specific advice to members on this matter in their codes of conduct.

Internal co-ordination of HB work

12. In some authorities, internal co-ordination and liaison continues to be poor. Problems can arise irrespective of whether different strands of HB work are managed together in one department or separated. Some councils administer rent allowances and council tax rebates for private sector tenants in the finance department, while rent rebates for council tenants are dealt with by the housing department. This split sometimes results in different policies and practices being applied by the two departments, despite the similar nature of their underlying work and the importance of consistency. Conversely, where benefits are entirely under the remit of the finance section, the housing department may be reluctant to provide information that reflects on its own performance. One housing officer was recently disciplined for manipulating his performance targets in respect of levels of void properties and arrears; he had not told the benefit section when a tenant had vacated a property. Councils need to put appropriate procedures and mechanisms for communication in place, irrespective of their organisational approach to managing activities.

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I It is important to keep these occurrences in context: out of 233,000 detected fraud cases in 1997/98, only 638 were committed by council employees or elected members.

II Local authority council members are not paid salaries but can claim attendance allowance, typically for attending official meetings, and appropriate expenses.
13. Poor internal liaison was also evident at several authorities where there were no coherent approaches to overpayment recovery – different departments in the authority recovered debts from the same people independently, rather than co-ordinating their recovery of the total debt.

14. Good practice does exist, however, at both national and local level. Wrexham County Borough Council has an Anti-Fraud Liaison Group, comprising staff from housing, finance, council tax and anti-fraud units, to discuss problems, projects and ideas. Investigators from Wrexham are members of the Welsh Benefits Group, a forum for the exchange of ideas and practices. These groupings are becoming more common – the Manchester authorities meet regularly at a variety of levels to exchange good practice and ideas. The Local Government Association, supported by specialist consultants, is currently carrying out a benchmarking exercise on all aspects of benefits administration, while the National Anti-Fraud Network (NAFN) acts as a conduit for information [BOX D].

**BOX D**

*The work of the National Anti-Fraud Network*

The National Anti-Fraud network:
- circulates information from one local authority to all subscribing local authorities;
- offers access to services and databases;
- passes on information relating to fraud from external agencies;
- collates fraud intelligence from local authorities and external agencies;
- provides bulletins on fraud cases;
- maintains a national fraud database; and
- obtains intelligence to assist with serious fraud investigations.
Prevention is Better than Cure

15. Thorough verification of initial and ongoing entitlement to benefit is the key defence against HB fraud – prevention is better than detection after the fact. Thus, benefit administration sections are the first line of defence against fraud, and it is crucial that this role is accorded sufficient priority. Are administrative procedures sufficiently robust to stop fraud at source? Auditors examined:
   • overall arrangements for administering benefits;
   • verification of claims – both newly submitted claims and those which have been in payment for some time;
   • quality assurance and quality control mechanisms; and
   • liaison between councils and the Benefits Agency.

HB administration

16. Good management and sound administration are the bedrock of fraud prevention. All authorities need to ensure that the HB team is properly staffed and managed, with clear performance standards and quality assurance. Auditors were satisfied with overall administration arrangements at 56 per cent of authorities visited – which means that they were not satisfied with arrangements in almost one council in two.

17. HB claimants are often vulnerable individuals who find the system difficult to understand – they may, for example, have a poor grasp of English or have a learning disability. It is, therefore, encouraging that local authorities are making increasing efforts to improve the ‘user friendliness’ of their arrangements. Trafford, for example, sends questionnaires to claimants seeking their views of the way in which claims have been dealt with and possible improvements [CASE STUDY 1]. Thanet and Great Yarmouth have extended the relatively common idea of landlord forums and advice packs to provide similar levels of advice to all claimants. Great Yarmouth and Mansfield councils also have benefit advisory panels, including representatives from welfare rights groups, charities and others, to discuss take-up campaigns, visiting claimants and claim form design. Carrick has a claimants group to give the authority their perspective on the design of forms and leaflets. The claimants group also advises on the likely effect of take-up campaigns, fraud drives and other benefit issues.
CASE STUDY 1

Claimant questionnaires

Trafford Metropolitan Borough Council distributed a simple questionnaire to 2,500 benefit claimants in early 1998. The questionnaire asked about the clarity of documents and correspondence and the way in which officers dealt with queries. It also asked if there were any ways in which the benefit service could be improved and whether recent service improvements were yielding the anticipated results. The response rate was high for a survey of this kind and the comments were almost entirely positive.

Source: Trafford Metropolitan Borough Council

18. Trafford has also improved its customer service by producing benefit cheques daily, instead of the more usual fortnightly cheque run. Trafford cites three main advantages of this procedure, which outweigh the slight increase in administration time:
   • increased achievement of performance targets for paying claimants;
   • claimant enquiries/complaints are reduced because cheques arrive promptly; and
   • few manual cheques are needed to make urgent payments.

Claim verification

19. Verifying new claims is a key part of councils' counter-fraud strategies, together with rigorous checks on information provided for claim renewal: have the claimant's circumstances changed materially in ways which affect the amount of benefit that should be paid? Checks to confirm continued entitlement (for example, visiting claimants at their home address) also reduce the risk of fraud. The DSS' new Verification Framework is designed to address these issues; it specifies the core checks that councils should undertake when processing claims and recommends a greater use of visits to claimants, based upon risk analyses of those whose circumstances are most likely to change. Full implementation of the Framework would require more resources than have so far been applied to verification in most areas. Initially, 84 authorities took up the Verification Framework. The DSS has made additional funding available and has invited all authorities to sign up, offering financial incentives to do so; it is expected that this will significantly increase the number of authorities using the Framework.

20. Those authorities that are planning to implement the Framework already carry out a large proportion of the required checks, but they will have to make some changes to their procedures. In particular, they will need to check the identity of claimants and enhance current visiting programmes. One district council has estimated that it will need to double its number of visiting officers to six to cover its largely rural area – the cost of these officers is a significant element in its bid for pilot funding. It also expects to employ additional administrative officers to manage the work of the visiting officers and to provide support to assessors.
Quality assurance procedures

21. Certain aspects of benefit administration tend to be given high priority; most authorities pay particular attention to the speedy processing of applications, due in large part to the DSS target that applications should be processed within 14 days of receipt. But auditors found that this rapid turnaround was often at the expense of quality and that some assessors, keen to achieve the target, were not taking the time needed to verify claims properly. Almost three-quarters of authorities had no quality targets to assure accurate assessment – indeed, one city council had abandoned quality checking altogether. Such practices open HB administration to a high risk of error and allow fraud to flourish.

22. It is possible to achieve both speed and quality; a minority of authorities, including Cheltenham and Barrow, have balanced the two. They apply quality controls to a large proportion of their caseload, often using a dedicated team, yet still meet the 14-day target on the majority of their cases [CASE STUDY 2].

CASE STUDY 2

Quality control
Cheltenham Borough Council has recently expanded its monitoring team to provide dedicated, ongoing quality control. The two-person team examines, on a weekly basis, one in five new claims, one in six amended claims and one in nine 'changes in circumstances'. The sample is selected at random by computer.

The results are fed into annual staff appraisals, used to identify training needs and also to assess whether training has been effective. All files are marked to show that they have recently been examined; a review sheet indicates any errors found and the action taken to rectify them. All review sheets are signed off by senior officers to indicate that action has been taken.

The monitoring team also examines investigators' work and records their weekly benefit savings (WBS). Its remit is to be expanded to include overpayment monitoring.
23. Income Support, administered by the Benefits Agency (BA), is often a ‘gateway’ to HB, as is jobseeker’s allowance, which is administered by the Employment Agency. Effective liaison between the BA and local authorities is therefore an important aspect of fraud prevention, and recent initiatives by the DSS demonstrate a commitment at the national level to improve collaboration. Of particular importance is the growth in the use of remote access terminals; these link council HB sections and BA offices and enable claimant records to be checked swiftly and accurately.

24. Nonetheless, the picture is a variable one and poor liaison continues to be a widespread problem – auditors were not satisfied with the quality of liaison in 44 per cent of authorities. In some cases, the problem lies within the BA and in others council employees are not playing their part – liaison is a two-way process. There is good practice to commend; Lincoln is one of a number of councils using a BA secondee as cover for maternity leave. East Lindsey was so concerned with its level of outstanding referrals that the benefit manager visited the local BA office to deal with the queries herself. She cleared the backlog of queries and explained to the BA officers what the authority needed and why. Since then, liaison has improved significantly and the council tends to receive a prompt response to queries.
25. Arrangements for preventing fraud, no matter how robust, will be circumvented by determined fraudsters; authorities can minimise this risk but not eliminate it totally. Once fraud has entered the system, the second line of defence – detection – comes into play. Detection is the role of local authority investigation units, which vary considerably in size and in the scope of their work. Some units are small and investigate HB fraud alone, while others employ more than 20 staff in a corporate team, tackling all types of fraud and corruption throughout the authority. Auditors considered three elements of investigation work:

- **management** – are investigations directed and controlled?
- **scope/targeting of work** – are all types of frauds investigated?
- **data-matching** – is full use being made of this tool?

26. The introduction in 1993 of weekly benefit savings (WBS) – the DSS’ financial incentive for local authority action to root out fraud – greatly increased the degree of investigation work carried out by local authorities. Prior to this date, many councils had no dedicated benefit fraud staff. *Fraud and Lodging* (Ref. 2) recommended that authorities assess the number of investigators employed, as there was strong evidence that the cost of investigation staff was recouped many times over in the resulting WBS and recovery of overpayments. The average number of investigative staff has risen from 1.6 officers (full-time equivalent) per authority in 1993 to 4.1 in 1998, but the figures vary markedly. Some authorities have yet to develop the management of their investigative function; this remains a low priority, and is unsatisfactory in around half the authorities visited. In particular, systems for checking the results of investigations, and to ensure that investigators were carrying out visits as specified, are weak.

27. The Audit Commission also suggested that councils draw up a specific code of conduct for investigators so that they understand how to behave when dealing with claimants, landlords and others. In practice, fewer than one-third of authorities have such a code in place, although some have begun to draft guidance or include relevant information in other documents. An alternative is to draw upon the Fraud Investigators’ Manual produced by the DSS, which was updated recently to include, for example, codes of practice in respect of the Criminal Procedures and Investigations Act, 1996.
28. Cheltenham has documented core activities and standards of work for its assessors and investigators, including the service objectives for each unit and a list of their prescribed activities, and sets clear standards to meet. The guidance for the investigators includes details on when to visit and how many visits to carry out for different types of claimant; claimant categories identified as high risk are visited more often. Carrick District Council has produced a good practice guide for fraud prevention, detection and investigation. This provides guidance for assessors and investigators on matters such as validating the information given on the claim form, checking houses in multiple occupation, verifying claims, gathering the evidence required to prove a fraud and prosecution, and cautioning policies.

29. Fraud and Lodging highlighted problems with claims for WBS, which is in effect a financial reward for identifying cases of overpayment of benefit. Although the legal basis for WBS claims is set out in the relevant Subsidy Order from the DSS, audit examination revealed persistent problems with the interpretation of WBS. The subsidy level claimed by a number of authorities has subsequently been reduced by auditors. Further clarification by the DSS was set out in the 1998 Subsidy Order and accompanying detailed guidance. WBS claims now fall into two categories – identification of non-residency and benefit fraud. Cases of fraud are rewarded at a higher rate to reflect the level of detective work required. The clearer definition of what constitutes a claim for WBS is welcome.

30. In many authorities, particularly in urban areas, investigators pay special attention to frauds committed by tenants in the deregulated private sector (rent allowance frauds). This is partly because rent allowance payments entail money changing hands, whereas rent rebates in respect of council tenants are a book-keeping transaction. Also, some investigators are reluctant to pursue rent rebate cases since they involve the council’s tenants and affect the council’s own rent income. But, although rent allowances are a particularly fruitful area for investigative work, it is vital that other types of abuse are not neglected.

31. Several investigators told auditors that they were reluctant to examine some areas of potential fraud because of the complexity of the rules. One example is the assessment of whether or not two people are deemed to be living together; proof is often difficult to obtain without treading on sensitive ground. Training to equip investigators with appropriate techniques is important; worryingly, auditors report that training is inadequate in around 60 per cent of authorities.
32. The recent Fraud Act permits investigators to carry warrants that allow them to enter business premises and to require information about claimants. Investigators had been pressing for such power for some time, and yet auditors found no evidence of it being used. One explanation given to auditors was that investigators were reluctant to exercise their powers because insufficient training meant that they lacked professional confidence. There is also a question of timing – the audit examinations started shortly after the new powers became available, and the picture may well have changed more recently.

**Data-matching**

33. Data-matching is the automated comparison of records that are held for different purposes or by different bodies to identify discrepancies and anomalies. It is a powerful way of uncovering fraud, and authorities’ willingness to take part in the Commission’s National Fraud Initiative (NFI) has contributed to the number of frauds detected. Similar exercises are run by the DSS, and the first two years of national data-matching have resulted in the detection of over £30 million of HB-related fraud. New areas offered in the Commission’s NFI include matching HB claimant data against:

- taxi licensing records;
- market traders’ registers;
- renovation grant applications;
- life certificates (relating to local authority pension schemes);
- housing association records; and
- asylum-seekers’ records.

These new areas have been piloted with fruitful results. For example, investigations into life certificates have revealed that payments have been made in the name of deceased pensioners.

34. Data-matching does, however, require careful preparation and management if investigators are not to be overwhelmed by the output. Some authorities were presented with so much data by the NFI that managing it proved time-consuming. Such authorities tended to express disillusion with the process of data-matching and were often reluctant to continue their involvement. But by early 1998, problems of ‘data swamping’ had reduced and authorities today are generally more satisfied with the quality of matches being achieved.
Deterring fraud

35. The final link in the anti-fraud chain is effective deterrence – recovering sums lost to fraud, prosecuting fraudsters when it is appropriate to do so and publicising such actions to discourage those who might be tempted into fraud. The Commission’s study found that councils did not always attempt to identify the sums lost, and when they raised overpayments, they did not always manage recovery effectively. Prosecutions were rare. Auditors thus focused on two areas:

• overpayment recovery – are debts vigorously pursued?
• prosecutions and administrative penalties – are tough messages being sent out?

Recovering overpayments

36. Effective overpayment recovery, particularly where a prosecution or the administrative penalty is not appropriate, conveys the message that the authority will not tolerate fraud. Moreover, effective recovery brings financial benefits. Councils gain subsidy at 80 per cent – reduced from 95 per cent from 1998/99 – when they identify a fraudulent (non-housing revenue account) overpayment and they usually retain all of the money that they subsequently recover. But recovery arrangements were unsatisfactory in two-thirds of the authorities audited; these authorities need to review their procedures.

37. Elsewhere, authorities have already moved towards the Commission’s recommended model. For example, Bristol created a dedicated landlord overpayment recovery team in its investigation section in summer 1997. The team of three recovery officers and a clerical assistant has been considerably more successful than anticipated, recovering over £830,000 in 12 months against a target of £422,000 – a pay back ratio of around 8:1 for the investment in extra staff. Chelmsford and Epping Forest councils have recently set up dedicated recovery teams, in benefits and investigations sections respectively; other authorities have started to develop policies on overpayment recovery.

38. Auditors confirmed that many overpayments are incorrectly classified, with officers tending to assign them to claimant error rather than fraud. Authorities receive 25 per cent subsidy for non-housing revenue account overpayments classified as claimant error, but 80 per cent subsidy if the overpayment is due to fraud, so this tendency to misclassify claims results in a significant loss of subsidy to the authority. At one metropolitan authority, the auditor identified that such a misclassification had cost the council £25,000 in unclaimed subsidy from a sample of just 30 cases. The authority is carrying out an extensive review of its files and expects to identify many more (potentially substantial) misclassifications.
Attitudes towards prosecution are changing

Prosecuting fraudsters and using the administrative penalty

39. In 1997, the number of prosecutions was negligible and showed no sign of increasing. (At the time of the national study, the administrative penalty was not in place; this is an alternative to prosecution whereby the claimant can pay a penalty equal to 30 per cent of the overpayment.) One year on, less than one-third of authorities have adopted prosecution policies, even though a clear policy, and publicising prosecution cases, are powerful deterrents to potential fraudsters.

40. Auditors found that authorities tend to take one of two approaches to prosecution; some are robust and generally take a number of cases to court every year, while others do not prosecute at all. Auditors found examples where, disillusioned with the efforts of the police to prosecute, councils are pursuing their own prosecutions [CASE STUDY 3].

41. Attitudes towards prosecution are changing. Councillors at one authority, who had previously refused to countenance prosecution, were reconsidering their approach following the discovery of a benefit fraud totalling £16,000. The auditor at this authority had helped officers in their representations to councillors and in drawing up a prosecution policy. Another authority is considering a prosecution following discovery of a fraud totalling at least £30,000. In this case, an owner-occupier intermittently claimed Income Support, HB and council tax benefit over five or six years, despite the fact that he worked, was a landlord of two other houses and had undeclared capital. The fraud was identified when an assessor recognised the landlord’s signature on a rent book from a benefit claim form.

CASE STUDY 3

The deterrent effect of prosecutions

Mansfield Borough Council has prosecuted three claimants in the past year, interviewing them under caution and using its own legal officers. The prosecutions, and the work of the investigation unit, received extensive publicity in the local press. In another recent case, East Lindsey’s Principal Revenues Manager acted as prosecutor, in a pilot exercise to minimise administrative and legal costs. The case received good press coverage and the experiment was deemed successful; other prosecutions are expected to follow.
Conclusion

42. The abuse of HB detailed in *Fraud and Lodging* almost two years ago remains one of the major probity issues for central and local government. But over the past year, many councils have embarked upon a range of initiatives to address the problem [EXHIBIT 2]. Enabling legislation and accompanying guidance mean that the provisions of the Fraud Act, which help to help prevent fraud and increase investigators’ powers, can now be deployed. The DSS has issued the final version of the Verification Framework and made £100 million available over the next three years to encourage all authorities to sign up. The second review by the DSS of the level and types of fraud and error in HB gives authorities a better indication of high risk areas, and thus where best to direct their investigative effort.

EXHIBIT 2

Summary of auditors’ findings
A majority of councils respond satisfactorily to internal fraud but only a tiny minority are using the administrative penalty or setting quality targets for claim assessment.

Source: audit reports on HB fraud measures in 140 authorities
43. Local auditors have found some encouraging signs of change. Some authorities already had a significant degree of good practice in place and others are gradually implementing changes to bring themselves to the standard of the best. Many have made strenuous efforts to prevent, detect and deter fraud, and have sharpened their administration of benefits to prevent fraud getting into the system. They have assessed and improved the ways in which they investigate fraud, and deter it through recovering more overpayments and starting to prosecute offenders.

44. However, auditors reported that too many authorities remain unwilling to make any serious effort to tackle fraud. Some investigation units are still under-resourced or are regarded as profit-making enterprises and thus encouraged to pursue subsidy, not fraud. Other authorities are failing to investigate fraud in the ill-informed belief that there is none in their area. In all of these authorities it is important that awareness is raised and that counter-fraud measures gain momentum. The Audit Commission will keep housing benefit fraud high on its audit agenda and encourage authorities to strengthen their defences against it; Protecting the Public Purse (the Commission’s annual report on fraud) will provide further updates. Too much is at stake – for the reputation of local authorities and the potential loss of public funds – for any degree of complacency to be tolerated.
Summary of Findings from Audit Examinations

Corporate framework – is there a council-wide commitment to tackle fraud?

1. Only 48 per cent of authorities have comprehensive anti-fraud strategies.
2. Internal audit coverage of HB administration and assessment is satisfactory in just 46 per cent of councils.
3. Member and/or officer frauds have been detected recently in 25 per cent of authorities audited.

Benefits administration – are procedures sufficiently robust to stop fraud at source?

4. Auditors are satisfied with HB administration arrangements in 56 per cent of authorities – the rest have considerable room for improvement.
5. Authorities are getting better at processing HB applications swiftly, but sometimes at the expense of accuracy – only one council in four has timeliness and quality targets, which both improve the service provided to claimants.
6. Liaison with the Benefits Agency is problematic in just under half of all authorities.
7. Internal co-ordination, especially between housing and finance departments, can be improved.
8. The DSS Verification Framework offers a rigorous check on claimant entitlement, but so far fewer than 90 authorities have signed up to try and implement it.
9. Good practice in HB administration includes user panels, landlord forums and producing benefit cheques daily rather than relying on a fortnightly run.
10. Authorities are still experiencing problems in the interpretation of WBS rules, and as a result may be overstating the incidence of fraudulent claims.
Summary of Findings from Audit Examinations

Are investigations well managed and targeted to high-risk areas?

11 The number of investigators varies markedly, even in similar-sized authorities.

12 Managing investigation units is a low priority task; often, there is little or no checking of the investigation outcome.

13 Fewer than one-third of councils have a code of conduct for investigation and two-thirds provide no detailed guidance on how to carry out investigations.

14 Training of investigators is under-resourced; auditors classed training as adequate in only 40 per cent of authorities.

15 There is a concentration on rent allowance (private sector) claims, sometimes to the virtual exclusion of investigations of council tenants.

16 Data-matching continues to deliver powerful results.

Are deterrence mechanisms sufficiently robust?

17 One-third of councils do not follow up error or fraud by trying to recover the overpayment, even though effective recovery procedures can bring significant financial gains.

18 Prosecutions remain rare as a proportion of detected fraud cases; only one council in three has adopted a prosecutions policy.
References


7. Benefits Fraud Inspectorate – published reports on inspections of individual authorities are available from the BFI offices in Kingsway, London WC1 or from the relevant internet site.
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