



Fraud in local authorities: past, present and future

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Introduction

The local authority landscape has changed dramatically over the last few years. The financial crisis, decentralisation of government, rising unemployment and new austerity measures mean that more than ever before, local authorities are being expected to do more with less. Reducing fraud and error is one way in which local authorities can make real savings and protect front-line services.

In 2008 the Fraud Advisory Panel convened a round table to consider the nature and extent of fraud against local authorities in England and Wales.¹ This round table was subsequently repeated in mid-2011 to gauge changes in perception and actual practice, and to consider what the future may hold for local authorities in this important area.

The local authority environment

There are currently 433 local authorities in England (comprising 353 councils) from unitary authorities to district councils to single purpose authorities. These authorities are responsible for the provision of a broad range of services including (but not limited to) education, highways, roads and transport, social care, housing, environmental services, planning and development, and protective services (fire and rescue, police, and so on).² There are a further 22 unitary authorities in Wales.³

Over the last few years the local authority environment has changed dramatically due to a number of factors:

- From late 2008 onwards the recession and financial crisis began to bite, characterised by higher unemployment, lower consumer confidence, and rising inflation, resulting in an increased demand for certain services provided by local authorities.⁴
- New austerity measures were introduced by the Government which included a reduction in central funding for local authorities, resulting in cost-cutting measures being introduced or at least being considered by many local authorities.⁵

¹ Benefit fraud relating to income support, unemployment or sickness was excluded from the remit of the project.

² Department for Communities and Local Government, 2011. *Local government financial statistics England no. 21 2011*. London: DCLG. Available at www.communities.gov.uk/publications/corporate/statistics/financialstatistics212011. Department for Communities and Local Government, 2011. *Local government*. Available at www.communities.gov.uk/newsroom/factsandfigures/local/facts/localgovernment/.

³ Welsh Government, 2011. *Unitary authorities*. Available at www.wales.gov.uk/topics/localgovernment/localauthorities/?lang=en.

⁴ Elliott, L, 2011. Unemployment rises above 2.5m milestone. *The Guardian*, 14 September. Available at www.guardian.co.uk/business/2011/sep/14/unemployment-rises-2-5-million. BBC News, 2011. UK unemployment total rises sharply to 2.51 million. *BBC*, 14 September. Available at www.bbc.co.uk/news/business-14912236. Hamilton, S, 2011. UK consumer confidence declines to lowest reading since 2009. *Bloomberg*, 27 October. Available at www.bloomberg.com/news/2011-10-27/u-k-consumer-confidence-falls-to-2-1-2-year-low-as-recession-signs-mount.html. Lowery, A, 2011. Britain's consumer confidence close to all-time low as pressure grows on household budgets. *This is Money*, 21 October. Available at www.thisismoney.co.uk/money/news/article-2051761/Nationwide-Consumer-confidence-UK-close-time-low.html. BBC News, 2011. UK CPI inflation rate rises to 5.2% in September. *BBC*, 18 October. Available at www.bbc.co.uk/news/business-15344297.

⁵ Pinlott, D. and Giles, C, 2010. UK unveils dramatic austerity measures. *FT.com*, 20 October. Available at www.ft.com/cms/s/0/53fe06e2-dc98-11df-84f5-00144feabdc0.html#axzz1eQ6J1umQ. Accountancy Magazine, 2011. Fears for public sector budgets. *Accountancy Magazine*, March. BBC News, 2010. Councils facing 9.9% core funding cut. *BBC*, 13 December. Available at www.bbc.co.uk/news/uk-11980367.

- It was announced that the Audit Commission would be abolished after 2012 and new audit arrangements would be established for local authorities in England. The Audit Commission's other statutory functions and responsibility for the National Fraud Initiative (NFI) will also cease at that time (although the NFI itself will continue in some form).⁶
- There has been a move towards decentralisation as part of the government's drive to build a 'Big Society', resulting in more power being transferred to 'local authorities and the local communities and individuals they represent'. As part of the efforts to improve accountability and transparency local authorities are now also expected to publish online the details of any spending in excess of £500.⁷

The continuing impact of the financial crisis has resulted in an increased demand for certain services provided by local authorities at a time of funding cuts, reduced staffing levels and uncertainty about the future of the National Fraud Initiative (NFI). These, coupled with changes to traditional delivery mechanisms (such as a greater reliance on third parties) and greater motivations (and sometimes opportunities) for beneficiaries, staff and contractors to commit fraud are likely to have increased the risks arising from fraud for many local authorities.

The nature and extent of fraud

Official statistics estimate the overall cost of fraud to local government at £2.1 billion (up from £684 million reported in 2010), with the biggest losses arising from housing tenancy fraud (£900 million), procurement fraud (£855 million), and payroll and recruitment fraud (£152 million). Fraud losses attributed to council tax, the blue badge scheme, grants and pensions are also significant.⁸

The biennial National Fraud Initiative (NFI) – a public sector anti-fraud tool developed by the Audit Commission – provides one of the most comprehensive measures of detected fraud, overpayments and error in local government. It matches electronic data within and between public and private bodies, including local authorities, to prevent and detect fraud.⁹ Since it began in 1996, the NFI has identified an estimated £664 million in fraud, error and overpayments across the UK.¹⁰

⁶ Department for Communities and Local Government, 2010. Eric Pickles to disband Audit Commission in new era of town hall transparency (press release) 13 August. Available at www.communities.gov.uk/news/corporate/1688109. Audit Commission, 2011. *Future of the Audit Commission*. Available at: <http://www.audit-commission.gov.uk/aboutus/future/Pages/default.aspx>. Department for Communities and Local Government, 2011. *Future of local public audit*. DCLG: London. Available at www.communities.gov.uk/publications/localgovernment/localpublicauditconsult. See paragraph 1.30. Also see Localism Act 2011. Available from www.legislation.gov.uk/all?title=localism%20act.

⁷ Department for Communities and Local Government, 2011. *About local government*. Available at www.communities.gov.uk/corporate/about/whatwedo/localgovernment. Department for Communities and Local Government, 2011. *Local government expenditure*. Available at www.communities.gov.uk/localgovernment/transparency/localgovernmentexpenditure/.

⁸ National Fraud Authority, 2011. *Annual fraud indicator*. NFA: London. Also see National Fraud Authority, 2010. *Annual fraud indicator*. London: NFA. Both available at www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/annual-fraud-indicator/.

⁹ Wales Audit Office, 2011. *National fraud initiative (NFI)*. Available at www.wao.gov.uk/whatwedo/1252.asp. Audit Commission, 2011. *National fraud initiative (NFI)*. Available at www.audit-commission.gov.uk/nfi/pages/default.aspx.

¹⁰ *Ibid.*

Table 1: Summary of fraud, overpayments and error detected by the National Fraud Initiative¹¹

Country	2006/07	2008/09	Cumulative total (1996 – 2009)
Audit Commission (UK-wide)	£140 million 328 successful prosecutions	£215 million –	£664 million
Audit Commission (England only)	£125.8 million 252 successful prosecutions	£183.3 million 269 successful prosecutions	£584 million
Wales Audit Office (Wales only)	£4.47 million 26 successful prosecutions	£4.48 million 28 successful prosecutions	£16 million

In England, these statistics are supplemented by the findings of the Audit Commission's annual fraud survey (reported in 'Protecting the Public Purse') which provides more information about the nature and extent of detected fraud in local government as well as identifying examples of good practice. The results of its 2010/11 survey (which had a 99% response rate) found that councils and related bodies had detected approximately 121,000 frauds valued at £185 million. Most of these were housing and council tax benefit cases (£110 million), and council tax discount frauds (£22 million). Other types of fraud cost £53 million, most significantly arising from payroll, pensions and expenses, false insurance claims, procurement, abuse of position, disabled parking concessions, and social care-related fraud.¹²

In line with official statistics, council tax, housing and procurement frauds are currently perceived as having the largest impact on the provision of local services and to cost local authorities the most in lost revenue (see Table 2).

¹¹ Wales Audit Office, 2010. *National fraud initiative in Wales 2008-09: ensuring the proper use of public funds*. Cardiff: Wales Audit Office. Available at www.wao.gov.uk/assets/englishdocuments/NFI_08-09_eng.pdf. Wales Audit Office, 2008. *National fraud initiative in Wales 2006/2007: summary of findings*. Cardiff: Wales Audit Office. Available at www.wao.gov.uk/assets/englishdocuments/NFI_2006-07_eng.pdf. Audit Commission, 2010. *The national fraud initiative 2008/09*. London: Audit Commission. Available at www.audit-commission.gov.uk/fraud/nfi/reports/pages/default.aspx. Audit Commission, 2008. *National fraud initiative 2006/07*. London: Audit Commission. Available at www.audit-commission.gov.uk/fraud/nfi/reports/pages/default.aspx.

¹² Audit Commission, 2011. *Protecting the public purse 2011: fighting fraud against local government*. London: Audit Commission. Available at www.audit-commission.gov.uk/fraud/protecting-the-public-purse/Pages/ppp2011.aspx.

Table 2: Round-table participants' perceptions of the impact of fraud on local authorities¹³

Question	2008	2011
What type of fraud costs the most in lost revenue?	Council tax Housing Internal (employee)	Council tax Housing Procurement
What type of fraud has the largest impact on services provided to local communities?	Benefits-related Housing Corruption	Council tax Housing Procurement

The victims

Fraud against local government is not a victimless crime and its impact is often felt much more widely than the purely financial, resulting in social and emotional harm to the most vulnerable and genuinely in need members of society. In fact, fraud against local authorities 'often has the sort of direct, negative impact on human life that is not found elsewhere.'¹⁴

For example, misuse of disabled parking concessions (blue badges) is estimated to cost local authorities approximately £46 million, yet the cost to an individual deprived of a disabled parking bay may extend well beyond the financial to direct physical and emotional harm.

Ultimately, everyone is affected – either directly or indirectly – by local authority fraud. Victims include:

- **Central Government:** Reduction of funds available from the public purse; impact on national economy and spending power.
- **The local authority:** Impact on staff morale; loss of public confidence; loss of revenue and/or ability to fund certain services or staff positions; reputational damage to council and/or elected members.
- **Local taxpayers:** Reduction and/or loss of public services.
- **Beneficiaries:** Reduction and/or loss of services; inability to access necessary services and support (financial, physical and emotional); difficulty meeting basic standards of living.

¹³ This survey was designed to provide a snapshot of current perceptions about fraud in local authorities. It is not scientific and had a small sample size (2008: 17; 2011: 13). Reported findings are the top three responses only.

¹⁴ Gee, J, Button, M, and Cook, I R, 2011. *The resilience to fraud of the UK public sector*. London: PKF (UK) LLP and University of Portsmouth. Available at www.pkf.co.uk/pkf/publications/the_uk_public_sector_fraud_resilience_report&goto=4. See page 1.

Managing the risk of fraud

Since 2010 the Government has begun to take a more proactive approach to tackling fraud against the public purse with the establishment of its counter-fraud task force and plans for a local government counter-fraud strategy (see Box 2).¹⁵

As part of this, in early 2011 the Department for Local Government and Communities (DLGC) in conjunction with the National Fraud Authority (NFA) published a 10-point action plan covering prevention, detection and investigation, to help local authorities effectively combat fraud (see Box 3).

However, some concerns have been expressed about the possible impact that proposals to amalgamate benefit investigators into a single fraud investigation service may have upon individual local authority's investigative capacity (particularly smaller ones which may end up with no capacity to investigate fraud at all)¹⁶ as well as the knock-on effect arising from reductions to local policing numbers and the low priority typically given to fraud offences.

Box 1: Six principles to managing risks in government

The National Audit Office (NAO) has identified six principles that underpin and support the use of risk management to improve decision-making. Although not aimed specifically at local authorities, these principles provide a framework for good risk-management decision-making in organisations of all types.

1. An engaged Board focuses the business on managing things that matter.
2. The response to risk is most proportionate when the tolerance of risk is clearly defined and articulated.
3. Risk management is most effective when ownership of and accountability for risks is clear.
4. Effective decision-making is underpinned by good quality information.
5. Decision-making is informed by a considered and rigorous evaluation and costing of risk.
6. Future outcomes are improved by implementing lessons learnt.

Source: National Audit Office, 2011. *Good practice: managing risks in government*. London: NAO. Available at www.nao.org.uk/publications/1012/managing_risks_in_government.aspx.

¹⁵ Cabinet Office and National Fraud Authority, 2011. *Eliminating public sector fraud: the counter fraud taskforce interim report*. London: Cabinet Office. Available at www.cabinetoffice.gov.uk/resource-library/eliminating-public-sector-fraud-counter-fraud-taskforce-interim-report. Also see National Fraud Authority, 2011. *Fraud Focus*, 12, p7. London: NFA. Available at www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/fraud-focus-newsletter/.

¹⁶ See for example Williams, A, 2010. Welsh benefits investigation group (WBIG) and the single fraud investigation service (SFIS). *Opportunities*. Available at www.opportunities.co.uk/articles/welsh-benefits-investigation-group-wbig-and-the-single-fraud-investigation-service-sfis/.

Table 3: Round-table participants' perceptions of fraud risk management in local authorities¹⁷

Question	2008	2011	
Who is responsible for managing the risk of fraud within local authorities?	Head of fraud S151 officer Internal audit	Anti-fraud team S151 officer Internal audit Finance director	
Is fraud adequately measured in local authorities?	Yes: No: Not sure:	0% 88% 12%	0% 85% 15%

Responsibility for fraud risk management

Each local authority is responsible for the establishment of appropriate mechanisms (policies, systems and processes) to manage the risk of fraud within their organisation. This means that there can be considerable variation between local authorities in relation to how fraud is addressed dependent upon a range of factors including:

- the size of the authority and the resources available to it (eg. a small district authority v a London borough);
- its geographical location; and
- the types of fraud it has identified itself as being vulnerable to.

Although responsibility is usually delegated to the anti-fraud team, section 151 officer (a statutory role) and/or the internal audit department (see Table 3), there is a general perception (echoing the experience of other sectors) that good fraud risk management starts at the top with senior management and the establishment of a culture in which fraud is not condoned or tolerated.

Yet one recent survey has found that public sector bodies are better at undertaking reactive counter-fraud work (reporting, investigations and sanctions) than proactive work to prevent fraud. It found that a significant number of local authorities in particular do not monitor the development of anti-fraud cultures (43%), do not use analytical intelligence techniques to detect potential fraud (40%) or review the effectiveness of counter-fraud work (44%).¹⁸

The success of any fraud risk-management strategy is dependent upon how effectively it is embedded within the organisation and how well it is communicated that everyone has a role to play in tackling fraud. Garnering collective ownership and responsibility can be difficult and may require innovative methods to educate staff and obtain buy-in – particularly in areas outside of the internal audit and risk functions.

¹⁷ This survey was designed to provide a snapshot of current perceptions about fraud in local authorities. It is not scientific and had a small sample size (2008: 17; 2011: 13). Reported findings are the top three responses only.

¹⁸ Gee, J, Button, M, and Cook, I R, 2011. *The resilience to fraud of the UK public sector*. London: PKF (UK) LLP and University of Portsmouth. Available at www.pkf.co.uk/pkf/publications/the_uk_public_sector_fraud_resilience_report&goto=4. See page 3.

Box 2: The work of the National Fraud Authority (NFA)¹⁹

A significant development in the government's response to fraud was the establishment of the National Fraud Authority (NFA) in late 2008 to coordinate counter-fraud activity across the economy and criminal justice system and to obtain redress for victims.

In 2010 the NFA made tackling fraud against the public sector (including local authorities) a priority, introducing a range of initiatives to prevent and reduce fraud including the development of a new local government counter-fraud strategy 'Fighting Fraud Locally', published in December 2011.

Some of the initiatives aimed at reducing fraud in local authorities include:

- A fighting fraud toolkit including a Fraud and Corruption Manual for auditors and operational staff, good practice case studies, and an online discussion forum.
- A framework to standardise contracts with credit reference agencies including terms, conditions and rates.
- Encouraging regional counter-fraud partnerships to tackle fraud more effectively through the exchange of information and good practice.
- Establishing a specialist team to tackle high-risk areas such as single-person discount fraud, housing tenancy fraud, personal budgets, council tax exemptions and business rates frauds.

The NFA has also lobbied for the retention of the Audit Commission's counter-fraud tools such as the National Fraud Initiative (NFI), Fraud and Corruption Manual, and the Changing Organisational Cultures Toolkit.

Reporting and measuring fraud

Previous research suggests that most local authorities have arrangements in place for the prompt reporting of suspected fraud.²⁰ However, one of the biggest impediments to the effective reporting and measurement of fraud within local authorities appears to be definitional issues about what constitutes fraud. This may be particularly evident within certain internal departments where the identification of fraud is ancillary to the department's primary functions (such as human resources), for certain types of fraud (such as recruitment fraud), or where wider political influences are reluctant to criminalise certain types of behaviour (such as false declarations for school admissions). The action taken against a suspected fraudster may also have a bearing upon whether an action is officially recorded as a fraud or not (eg. dismissal v prosecution).

¹⁹ National Fraud Authority, 2011. *Fraud Focus*, 12, p7. London: NFA. Available at www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/fraud-focus-newsletter/fraud-focus-july11?view=Binary. Also see National Fraud Authority, 2011. *Fighting fraud together: the strategic plan to reduce fraud*. London: NFA. Available at www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/fighting-fraud-tog/. National Fraud Authority, 2011. *Achievements in 2010/11*. London: NFA. Available at www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/annual-reports/achievements-2010-11?view=Binary. National Fraud Authority, 2011. *Business plan 2011/12*. London: NFA. Available at www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/business-plans/. See page 14.

²⁰ Gee, J, Button, M, and Cook, I R, 2011. *The resilience to fraud of the UK public sector*. London: PKF (UK) LLP and University of Portsmouth. Available at www.pkf.co.uk/pkf/publications/the_uk_public_sector_fraud_resilience_report&goto=4. See page 14.

But definitions of fraud do exist. For example the Audit Commission defines fraud as 'any intentional false representation, including failure to declare information or abuse of position which is carried out to make gain, cause loss or expose another to the risk of loss' and includes 'cases where civil, criminal or management action such as disciplinary action has been taken'.²¹ The challenge lies in ensuring that such definitions are applied consistently within and across local authorities.

If a local authority is unclear about what fraud is, then its staff may not be properly equipped to identify and report it, resulting in fraud being inadequately measured and not being fed back into the development of internal fraud risk-management processes and wider national fraud estimates.

Box 3: 10-point counter-fraud blueprint for local government

1. Measure exposure to fraud risk.
2. More aggressively pursue a preventative strategy.
3. Make better use of data analytics and credit reference agency checks to prevent fraud.
4. Adopt tried and tested methods for tackling fraud in risk areas – such as blue badge scheme misuse.
5. Follow best practice to drive down housing tenancy and single-person discount fraud.
6. Pay particular attention to high-risk areas such as procurement fraud and grant awards.
7. Work in partnership with service providers to tackle organised fraud across local services.
8. Maintain specialist fraud investigation teams.
9. Vet staff to a high standard to stop organised criminals infiltrating key departments.
10. Implement national counter-fraud standards developed by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Source: Department for Communities and Local Government, 2011. *Eric Pickles: ten ways to tackle council fraud and recover £2bn a year*, (press release) 11 May. London: DCLG. Available at www.communities.gov.uk/news/newsroom/1899161.

²¹ Audit Commission, 2011. *Protecting the public purse 2011: fighting fraud against local government*. London: Audit Commission. Available at www.audit-commission.gov.uk/fraud/protecting-the-public-purse/pages/default.aspx. See page 5.

Public reporting of fraud

As part of statutory reporting requirements every council must publish an annual governance statement. This is seen by many as a useful tool for informing the public about what the local authority is doing to protect public services against fraud and error and to highlight recent improvements to internal control procedures to mitigate risk. The Audit Committee is perceived to be an important conduit for the reporting of fraud-related information to the public.

Some local authorities also voluntarily publicise details of convicted fraudsters both internally and to the local media to act as a deterrent to others and to publicly demonstrate that fraud is being taken seriously.

However it is clear that there is still some ambiguity about which official agencies (other than the Audit Commission) fraud should be reported to at a national level (see Table 4). This may be compounded once the Audit Commission is abolished.

Table 4: Round-table participants' perceptions of the external reporting of fraud incidents²²

Question	2008	2011
Where and to whom is fraud reported locally?	Police Within the local authority itself	Police Councillors
Where and to whom is fraud reported nationally?	Audit Commission Police Other (DWP, NFRC)	Audit Commission Action Fraud/NFA/NFIB SOCA
Should local authorities publicly report annual fraud losses (eg in their annual reports)?	Yes: 71% No: 0% Not sure: 29%	92% 0% 8%

²² This survey was designed to provide a snapshot of current perceptions about fraud in local authorities. It is not scientific and had a small sample size (2008: 17; 2011: 13). Reported findings are the top three responses only.

Recommendations for the future

Over the last three years the local government environment has seen enormous change. Whilst many of the developments are to be welcomed and are likely to support and improve the ability of local authorities to effectively combat fraud, others may have potentially more negative consequences and require further detailed consideration at Government level.

Recommendations for the future include:

- Encourage the increased use of partnership working to combat fraud – between local authorities, police and others (particularly housing associations) – and to share best practice.
- Educate senior management within local authorities about the critical role of ethics and culture in preventing fraud.
- Publish guidance for audit committees on the important function they fulfil in ensuring that local authorities are accountable to the community for fraud and take appropriate measures to prevent it.
- Secure the future of the National Fraud Initiative (NFI) beyond the abolition of the Audit Commission and consider statutory reporting requirements.
- Introduce a standard (common) definition of fraud that can be used by all local authorities to establish a more reliable and comprehensive picture of fraud across local government and to also assist individual authorities in the allocation of appropriate and proportionate anti-fraud resources.²³
- Examine the validity of concerns about the possible reduction in the investigative capacity of local authorities as a result of the establishment of the single fraud investigation service for benefit fraud and the reduction in police numbers.
- Ensure Government fully consults and engages with local authorities (and their affiliated associations) on proposals to combat fraud in local government.
- Encourage local authorities to assess the risk of fraud across all services and business areas and to include it on their risk register.

²³ Fraud Advisory Panel, 2010. *Fraud reporting: a shared responsibility*. London: FAP. Available at www.fraudadvisorypanel.org/new/publications.php?c_id=24.

Useful links

Audit Commission

www.audit-commission.gov.uk

Chartered Institute of Public Finance and Accountancy

www.cipfa.org.uk

Department for Communities and Local Government

www.communities.gov.uk

Fraud Advisory Panel

www.fraudadvisorypanel.org

National Audit Office

www.nao.gov.uk

National Fraud Authority

www.homeoffice.gov.uk/agencies-public-bodies/nfa/

Wales Audit Office

www.wao.gov.uk

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