

Measures to Combat Housing Benefit Fraud



This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

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Comptroller and Auditor General

National Audit Office
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Executive summary

Housing Benefit and Housing Benefit fraud

1 Currently some 4.8 million claimants in Great Britain get help with their rent through Housing Benefit. Of these, 1.9 million got Housing Benefit to help them meet the costs of private sector rented accommodation – rent allowance. Another 2.9 million people in council homes had Housing Benefit credited to their rent accounts – rent rebate.

2 The Department of Social Security set the policy and regulations for the benefit, and with other central government departments subsidise the costs. Local authorities administer the benefit. The Benefits Agency administer Income Support, and Jobseeker's Allowance, in conjunction with the Employment Service. These two benefits, for people whose income is below a certain level and who are not working for 16 hours or more a week, are closely linked to Housing Benefit.

3 £11.1 billion was spent on Housing Benefit in 1996-97, about 12 per cent of the total spend on social security of £90 billion, and about 4 per cent of total government expenditure in that year.

4 £905 million may be lost to fraud each year. The amount of fraud is necessarily difficult to estimate. The £905 million figure is from the most comprehensive survey yet of Housing Benefit fraud, the Department of Social Security's Housing Benefit Review published in 1996.

Report scope

5 The Department of Social Security have implemented and are developing a wide range of measures to combat Housing Benefit fraud. This report examines the success of the Department's measures. The study involved joint working with the Audit Commission for Local Authorities and the National Health Service in England and Wales. The scope of the audit fieldwork was restricted, therefore, to the administration of Housing Benefit in England and Wales. The methodology employed is outlined at Appendix 1. The Commission are publishing a National Report "Fraud and Lodging: Tackling Fraud and Error in Housing Benefit", supplemented by a more detailed Management Handbook, "Countering Benefit Fraud", (which will follow later in the year), to help local authorities tackle fraud.

6 Part 1 of this report examines how Housing Benefit works, and the level of fraud within it. Part 2 examines the success of established measures for combating fraud. Part 3 looks at anti-fraud measures under development. Part 4 considers what else can be done in local authorities to combat fraud.

Main findings and recommendations

7 The Department of Social Security have implemented a number of anti-fraud measures which have had real and demonstrable success in combating Housing Benefit Fraud. The amount of fraud detected has increased dramatically; all the local authorities visited by the National Audit Office and the Audit Commission showed high levels of fraud awareness - they fully appreciated that fraud was a problem and understood their obligations to tackle it; and the number of local authority staff employed in tackling fraud has risen significantly since the Comptroller and Auditor General's report on Housing Benefit in 1989 (Bibliography 1).

8 There are opportunities to build on the successes achieved, through action addressing the key conditions which allow fraud to occur and which compromise anti-fraud effort, as set out below.

Complexity of the benefit

9 Means tested benefits such as Housing Benefit have to reflect a variety of different household arrangements and claimant circumstances. Housing Benefit is particularly complex, and this complexity of the benefit can lead to error by and confusion in those claiming the benefit and those processing claims, and offers opportunities for dishonest claimants.

Recommendation 1

10 The Department regularly review benefits policy. They should explore, through this review and through opportunities available in their Change Programme, simplification of Housing Benefit, with particular attention to the plethora of allowances, premiums and disregards associated with the benefit. Simplification might go hand in hand with the Department's review of the scope for streamlining the regulations and procedures for Income Support, a benefit closely linked to Housing Benefit.

Reliance on the claimant

11 The Department and local authorities rely on the claimant to report changes in his/her circumstances which affect the amount of benefit payable. For Housing Benefit, local authorities have developed different means of making this obligation known to claimants, with varying degrees of success.

Recommendation 2

12 Local authorities should uphold the statutory obligation on claimants to report changes in circumstances to them, but make this obligation clearer to claimants through:

- more specific, unambiguous instructions at the time of claiming;
- regular challenging letters to claimants making their obligations and the penalties for non-compliance clear, and asking claimants to provide verification of their existing circumstances; and
- the use of a simple change in circumstances form, sent to every claimant on the start of their benefit and periodically thereafter.

13 This work should be supplemented by:

- very much more frequent visits to claimants than local authorities undertake at present. Analysis by local authorities suggests that the returns on employing a visiting officer at a cost of some £15,000 to £20,000 a year would be in the range of 6:1 and 20:1; and
- regular matching of claimants' Housing Benefit data against data held for other benefits, to check for anomalies warranting investigation. The Department's capacity to do this is likely to be enhanced once their dedicated Housing Benefit Matching Service is fully rolled out.

14 The Department plan to introduce a standard claims verification framework for Housing Benefit from autumn 1997. Local authorities choosing to adopt the framework will be required to remind claimants regularly of their obligations to report changes in circumstances, and will be required to visit high-risk claimants frequently. The Department should seek widespread adoption of the framework to secure these improvements in administration as far as possible.

Variable standards of benefits administration and fraud investigation

15 There are highly variable standards of benefit administration by over 400 local authorities who autonomously manage Housing Benefit, and variable standards of fraud investigation.

Recommendation 3

16 The Department should encourage minimum standards in Housing Benefit administration based on the work done already on the standard claims verification framework, as soon as possible. The Benefit Fraud Inspectorate, established to examine and report to the Secretary of State on standards of counter-fraud and security performance in the administration of all social security benefits, will exercise new powers introduced in the Social Security Administration (Fraud) Act 1997, to examine and report on how local authorities administer Housing Benefit, with particular reference to the prevention and detection of benefit fraud. The Inspectorate's role will be important in driving up standards of benefits administration in local authorities and the Benefits Agency. This should be supplemented by:

- independent audit of local authorities' implementation of the verification framework with a view to certifying compliance to acceptable standards - in the manner of those certificates issued by the British Standards Institute for quality procedures;
- regular audit thereafter to check for consistent application of verification procedures;
- rewards for local authority compliance to prescribed standards in administration, paid by the Department using funds currently allocated to encourage fraud detection - keeping fraud out of the system in the first place is far more economic and effective than chasing it once it is in the system. The Department are currently examining the most appropriate financial framework to encourage local authorities to participate in the verification framework initiative, which specifies minimum standards of good practice in Housing Benefit administration;
- codes of conduct for fraud investigators, and a revamped fraud investigation manual, tailored to local authority requirements and experience and drawing on best practices observed at local authorities;

- more frequent and extensive internal and external quality assurance of local authority fraud investigators' work, backed up by active external audit working to a revised audit certificate which makes significant reference to the review of anti-fraud systems and to the levels and effectiveness of anti-fraud work in local authorities;
- the use of good practices, described in the forthcoming Audit Commission Management Handbook, by local authority benefit administrators and fraud investigators; and the use of the Handbook as a benchmark by auditors and inspectors to judge local authority performance;
- consideration by the Department of private sector anti-fraud techniques described in Part 4 of this report.

Administration of Income Support

17 The Benefits Agency assess a claimant's entitlement to Income Support and income-related Jobseeker's Allowance. The assessment includes an examination of the claimant's resources in terms of income and capital. There is fraud and error in Income Support (and Jobseeker's Allowance), which may derive from claimant misstatement of their resources. This has a knock-on effect to Housing Benefit, since receipt of Income Support or Jobseeker's Allowance means that local authorities do not have to consider the resources of a claimant receiving those two benefits when assessing their claim for Housing Benefit. This makes it more likely that the claimant will be awarded Housing Benefit.

Recommendation 4

18 The Benefits Agency are revising their procedures for the review of Income Support cases currently in payment. The Department should supplement this by introducing a verification framework setting out minimum controls and standards for the administration of Income Support and Job Seekers Allowance along the lines of that being developed for Housing Benefit. Alongside this, the Department and the Agency should:

- pursue tighter control over Income Support and Job Seeker's Allowance through simplification of the Income Support and Job Seeker's Allowance benefit conditions and processing procedures. The Department maintain that such simplification would result either in additional programme costs or losses to individuals;

- implement more frequent review of Income Support and Job Seeker's Allowance claims. Such review can be very effective in stopping expenditure on fraudulent claims. A targeted review programme run by the Agency in 1996-97 at a cost of £24.5 million generated £177.2 million in reported savings;
- review Income Support and Job Seeker's Allowance cases by reference to the original claim made and to original file records. Although the current procedures in place for reviews include the requirement to refer to the computer system and clerical documents as appropriate, this is not prescriptive.
- improve the quality assurance of Income Support and Job Seeker's Allowance determinations and the validation of Agency fraud investigators' work.

Barriers to effective co-operation between local authorities and the Benefits Agency

19 Because of the link between Income Support, Jobseeker's Allowance and Housing Benefit, the current arrangements for the administration of these benefits require the transfer of information between local authorities and the Benefits Agency. At present there is insufficient exchange of necessary information and generally poor working relations between the two parties, although examples of good liaison do exist.

Recommendation 5

20 The Department should phase out the present "finders-keepers" arrangements on savings arising from fraud detected. Although these arrangements focus local authority and Benefits Agency attention on fraud and savings arising from detecting fraud, they also work against co-operation in anti-fraud activity by the two parties. The Department are currently considering ways of improving the situation. This consideration should cover measures to:

- encourage and sponsor more joint working to exploit fully the expertise and specialist knowledge of both parties, through, for example, concerted proactive anti-fraud drives on particular postal areas within authorities, and on particular types of property such as houses in multiple occupation and houses with high rent levels;

- encourage and sponsor far greater local authority involvement in the planning and execution of the “Spotlight” anti-fraud drives;
- reduce the need for the (currently highly ineffective) transfer of masses of information between local authorities and the Benefits Agency by extending local authorities’ direct access to Benefits Agency benefits data via remote access terminals. Such access should be subject to safeguards against the misuse of information including effective sanctions against misuse; and
- issue a revised model service level agreement reflecting these changes, and monitor progress in securing more effective co-operation.

21 Measures such as these would make the most of scarce anti-fraud resources by pooling expertise and knowledge. They would also, by streamlining benefit administration more generally, assist the Benefits Agency’s achievement of their vision of paying the right money, to the right person, at the right time; every time.

The current incentives for detecting fraud are subject to abuse, and do little for fraud prevention and deterrence

22 The Department’s main anti-fraud measure which rewards local authorities for fraud detected, creates undesirable incentives and has adverse side effects. And it holds limited incentives for local authorities to prevent and deter fraud, or to detect complex fraud.

Recommendation 6

23 The Department should consider reform, as soon as possible, of the incentives for fraud detection. There will always be a need for local fraud investigation work, as most fraud arises from failure to report changes in circumstances during the life of the Housing Benefit claim. The current incentives encourage local authorities only to detect fraud, and the Department should consider allocating resources to rewarding authorities’ efforts to prevent and deter fraud, such as compliance with acceptable standards of benefits administration. An effective fraud prevention system will show and should record how many and what kind of frauds have been attempted against it - these records, once audited, should provide a basis for rewards for local authorities. In addition to new measures they have set in train which will impact on fraud prevention, such as the verification framework and the Benefits Fraud Inspectorate, the Department should also consider:

- rewarding prosecutions by local authorities, with local authorities making use of the Department's solicitors if this can be arranged;
- sponsoring innovative approaches to fraud deterrence;
- whether the target times for processing Housing Benefit and Income Support claims could be slackened to accommodate effective fraud prevention and deterrence procedures. Detailed examination of applications takes time, and there may be scope for greater emphasis on accuracy rather than speed of processing;
- encouraging local authorities to assess the risks they face from fraud. Risk assessment would enable authorities to marshal their anti-fraud resources effectively by identifying high-risk claimant groups, areas and addresses, and any seasonal factors. Such risk assessments should be built on local analysis of the incidence and patterns of fraud, and of the strengths and weaknesses of benefits administration and anti-fraud procedures;
- taking a more pro-active approach, involving authorities, in assessing risks associated with new ways of administering benefits as they emerge. For example, the introduction of Data Image Processing can lead to the loss of original documents which may be important evidence in confirming frauds. And awarding contracts to external service providers for benefits administration must incorporate obligations to prevent fraud which fully protect the public purse; and
- encouraging authorities to devise strategies to prevent fraud within their own housing stock. Although the amount of Housing Benefit spent on rent rebate and rent allowance is much the same, most local authority anti-fraud work is targeted at private sector housing - rent allowance fraud. But the Housing Benefit Review estimated that £229 million of fraud related to rent rebate fraud by council tenants - about 31 per cent of total Housing Benefit Fraud. By comparison, the rent rebate fraud detected by local authorities, in 1995-96, was just 10 per cent of total fraud detected. This imbalance needs attention.

**Measures to combat
Housing Benefit fraud:
Summary of key
recommendations**

1. Simplify the benefit – complexity provides scope for error and fraud.
2. Stress obligations on claimants to report changes in their circumstances and visit more claimants – visiting officers can save over 6 times their salary each year.
3. Raise local authority standards of administration, by promoting and monitoring good practices in administration and benchmarking against the best local authority practice.
4. Improve claim verification and review on Income Support and Jobseeker's Allowance – fraud and error in these benefits have a knock-on effect on Housing Benefit.
5. Remove barriers to co-operation between local authorities and the Benefits Agency.
6. Reward effective fraud prevention systems in local authorities.

Part 1: Housing Benefit and Fraud

Key findings

- 4.8 million claimants in Great Britain receive Housing Benefit, at a cost in 1996-97 of £11.1 billion - 4 per cent of total government expenditure.
- Expenditure on Housing Benefit has increased by 50 per cent in real terms between 1991-92 and 1995-96.
- Over 400 local authorities administer Housing Benefit in Great Britain. There is no standard system for the administration of the benefit by local authorities.
- Housing Benefit is complex, and the regulations governing it voluminous. There are some 67 different allowances, premiums, deductions, disregards etc attached to the benefit. This complexity increases the risk of claimant confusion and error, and of official error in claims processing.
- Complexity, similarly, provides opportunities for dishonest claimants, particularly in terms of claimant failure to report changes in their financial circumstances which would affect their benefit.
- Some 66 per cent of Housing Benefit claimants are also in receipt of Income Support. The rigour of Income Support administration and anti-fraud measures affects the level of fraud in Housing Benefit.
- The best estimate yet puts fraud in Housing Benefit at £905 million a year - about 8 per cent of total Housing Benefit expenditure.
- The Social Security Committee have published a substantial report on Housing Benefit fraud which contains numerous recommendations aimed at ensuring that counter-fraud work is given sufficient emphasis.

Part 1: Housing Benefit and Fraud

Introduction

1.1 Currently, some 4.8 million claimants in Great Britain receive Housing Benefit. In 1996-97, this cost £11.1 billion. Housing Benefit provides means-tested financial help to tenants with the costs of their rent and to boarders and hostel dwellers with their accommodation charges. Home owners are excluded from the scheme.

Responsibilities of the Department of Social Security and local authorities in England and Wales

1.2 The Department are responsible for:

- Housing Benefit policy, regulations, and rates of benefit;
- guidance to the local authorities who assess claimants' entitlement to Housing Benefit, and pay the benefit;
- directly subsidising 95 per cent of most local authority expenditure on Housing Benefit awarded to private sector tenants (rent allowance) in response to claims submitted by authorities. Expenditure on awards to local authority tenants (rent rebates) is subsidised by the Department of the Environment, Transport and the Regions and the Welsh Office;
- providing a further subsidy contribution of 5.5 per cent of estimated rent allowance expenditure through the Revenue Support Grant;
- funding with the Department of Environment, Transport and the Regions and the Welsh Office part of local authorities' costs of administering the benefit through a specific administration grant and through Revenue Support Grant;
- developing and promulgating measures to combat housing benefit fraud.

1.3 Under powers in the Social Security Act 1992, local authorities are responsible for administering Housing Benefit. Their responsibilities include:

- designing and issuing claim forms;

- procuring suitable software systems for Housing Benefit information technology;
- handling claims from applicants including checks on entitlement, determining the amount of benefit to be paid and notifying and paying claimants;
- requiring repeat claims of Housing Benefit, at a maximum interval of 60 weeks;
- dealing with claimant complaints and managing appeals by claimants against determinations of benefit;
- claiming subsidy for benefits paid;
- maintaining Housing Benefit data and providing management information to the Department of Social Security; and
- responding to Departmental anti-fraud measures.

Administration of Housing Benefit

1.4 The basic steps in the administration of a Housing Benefit claim are shown at Appendix 2, which also shows how the various parties involved in Housing Benefit interact. Each authority, however, operates their own unique and separate administrative procedures within the basic procedures. For example, there are estimated to be some 130 different Housing Benefit information technology systems in local authorities, bought from 35 different suppliers. And 92 local authorities have developed their system in-house. There are other variations. A majority of Council tenants receive Housing Benefit, some local authorities have thus decentralised Housing Benefit administration to local housing offices, so that benefits staff are in close proximity to colleagues collecting council rents. Elsewhere, as most people receiving Housing Benefit also receive Council Tax Benefit, authorities are seeking to integrate their administration of benefits and the Council Tax. All authorities have some discretion in exercising their responsibilities, for example in the design and issue of claim forms and in the extent and nature of checks on entitlement. There are, for example, nearly as many different claim forms for Housing Benefit as there are local authorities.

1.5 Eleven authorities have contracted-out their administration of Housing Benefit to private sector companies. Many more are preparing to expose their administration of Housing Benefit and Council Tax Benefit to competition following changes to the Department of the Environment, Transport and the Regions' Compulsory Competitive Tendering requirements. These arrangements are, however, currently under review and changes may result from new regulations later in the year.

1.6 This part of the report examines the administration and costs of Housing Benefit and levels of fraud, drawing on statistics for Great Britain collected by the Department. The remaining parts of the report concentrate on the success of the Department's measures to tackle fraud as implemented by local authorities in England and Wales, drawing on the results of joint working by the National Audit Office and the Audit Commission who are responsible for the external audit of local authorities in England and Wales. The results may nevertheless be relevant to local authorities in Scotland.

Numbers getting Housing Benefit

1.7 Of the 4.8 million people receiving Housing Benefit, 2.9 million are local authority tenants, and 1.9 million are in private sector accommodation.

Costs of Housing Benefit

1.8 The £11.1 billion spent on Housing Benefit in 1996-97 represents about 12 per cent of total social security spend in that year of £90 billion and about 4 per cent of total government expenditure.

1.9 Expenditure on Housing Benefit has risen dramatically in recent years, and increased by 50 per cent in real terms between 1991-92 and 1995-96 (Figure 2).

1.10 The steep rise in Housing Benefit is explained largely by rises in the average amount of benefit awarded (Figure 3) linked with greatly increased numbers of private sector tenants (Figure 1).

1.11 The increase in private sector tenancy, and, therefore, of Housing Benefit costs, can be explained by:

- de-regulation of the rented housing market since the 1988 Housing Act;

Numbers getting Housing Benefit

Figure 1

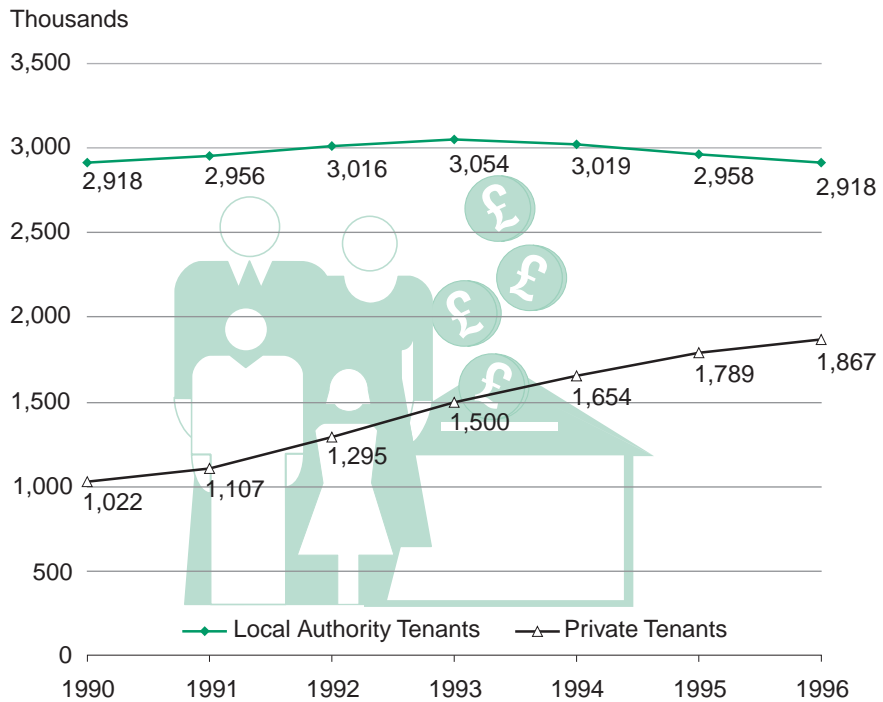


Figure 1 shows that the number of council tenants in receipt of benefit has remained very stable at around three million in recent years, while the number of private sector tenants has increased by 83 per cent since 1990.

Source: Social Security Statistics 1996

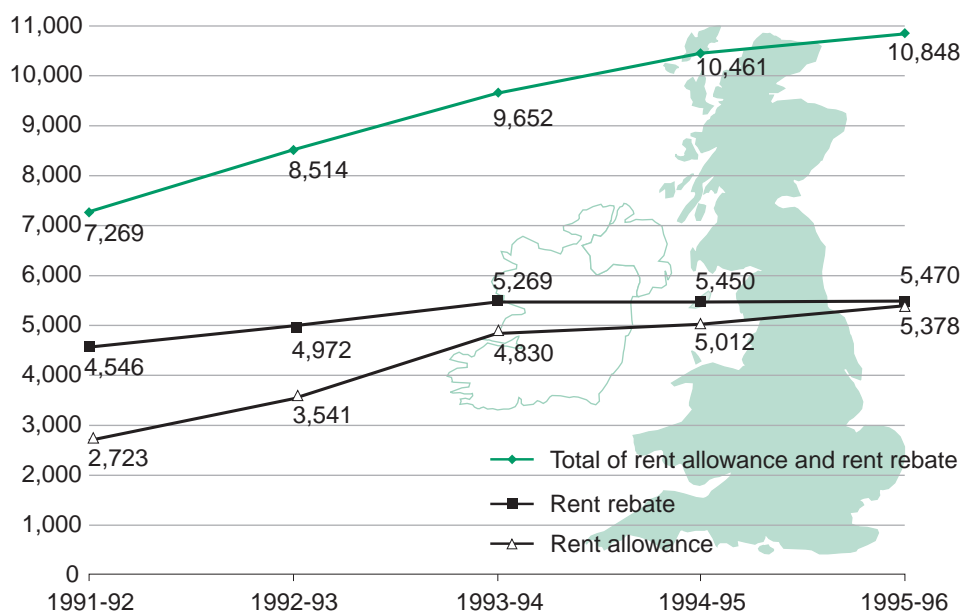
- a general and steep increase in private sector and housing association rents in real terms;
- increases in the numbers of people on low incomes which have increased demand for Housing Benefit to help pay for private sector accommodation, while the supply of council accommodation has remained relatively stable; and
- large scale voluntary transfer of former council stock from local authorities to housing associations.

1.12 The rise in rent allowance expenditure has implications for local authorities which receive direct subsidy on most rent allowance cases at the 95 per cent rate. The remaining 5 per cent is provided through the Revenue Support Grant. Since this Grant is subject to top slicing, increases in rent allowance spending often result in increased actual costs for local authorities. Authorities meet those extra costs through their General Funds, which can in turn be subject to capping.

Housing Benefit expenditure in Great Britain

Figure 2

£ millions, 1995-96 prices



Source:
Social Security Statistics 1996

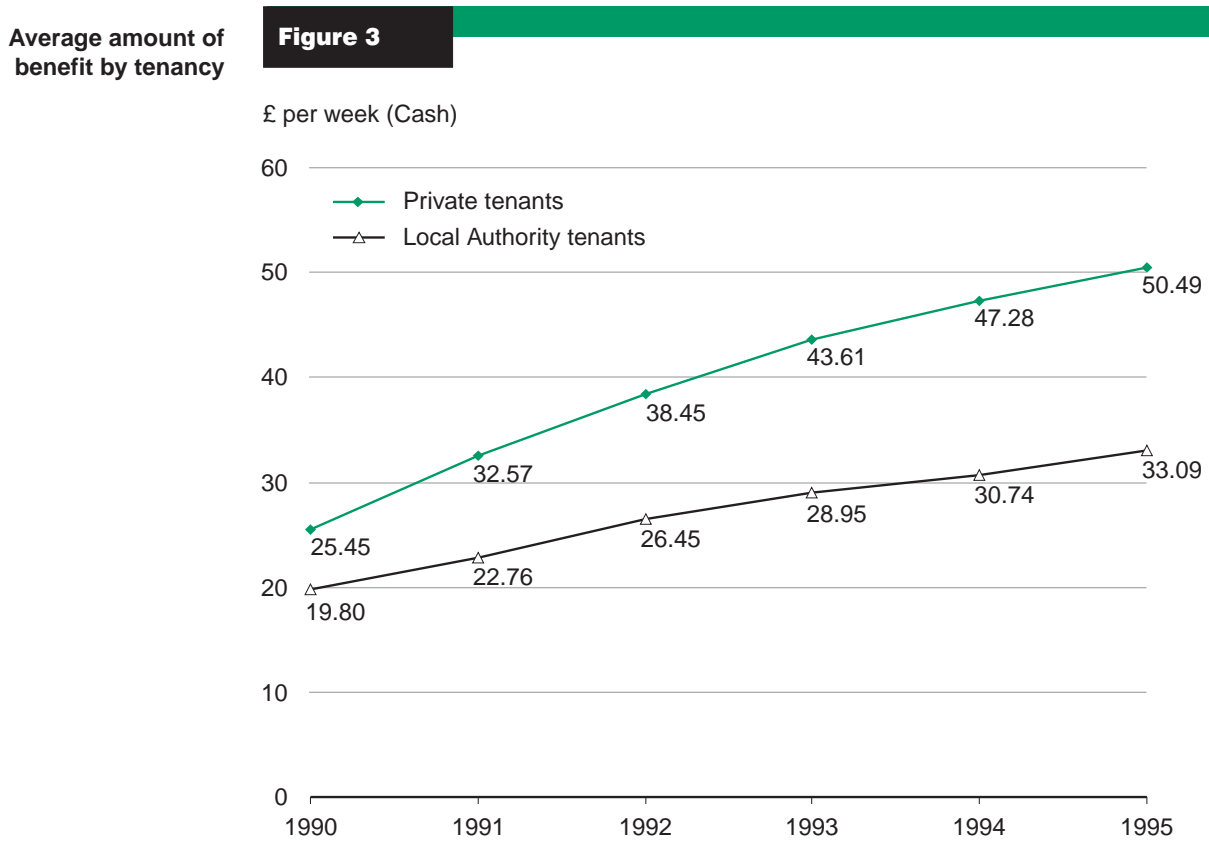
Figure 2 shows the steep rise in expenditure on Housing Benefit since 1991-92,

Eligibility for Housing Benefit

1.13 Tenants on low incomes who need help with their rent can apply direct to local authorities for Housing Benefit.

1.14 When people are awarded Income Support or income-related Jobseeker's Allowance there are implications for the calculation of Housing Benefit. Income Support is a benefit for those on low incomes who work less than 16 hours a week. Jobseeker's Allowance is paid to unemployed people who have made National Insurance contributions, or have a low income. People whose incomes are above the thresholds for Income Support or Jobseeker's Allowance may also be entitled to Housing Benefit.

1.15 Housing Benefit is paid to meet "eligible rent", which covers a reasonable level of rent itself and the costs of certain accommodation related services such as some caretaker services. Eligible rent does not include charges related to personal



Source: Social Security Statistics 1996

Figure 3 shows that the average award of rent allowance to private tenants doubled between 1990 and 1995.

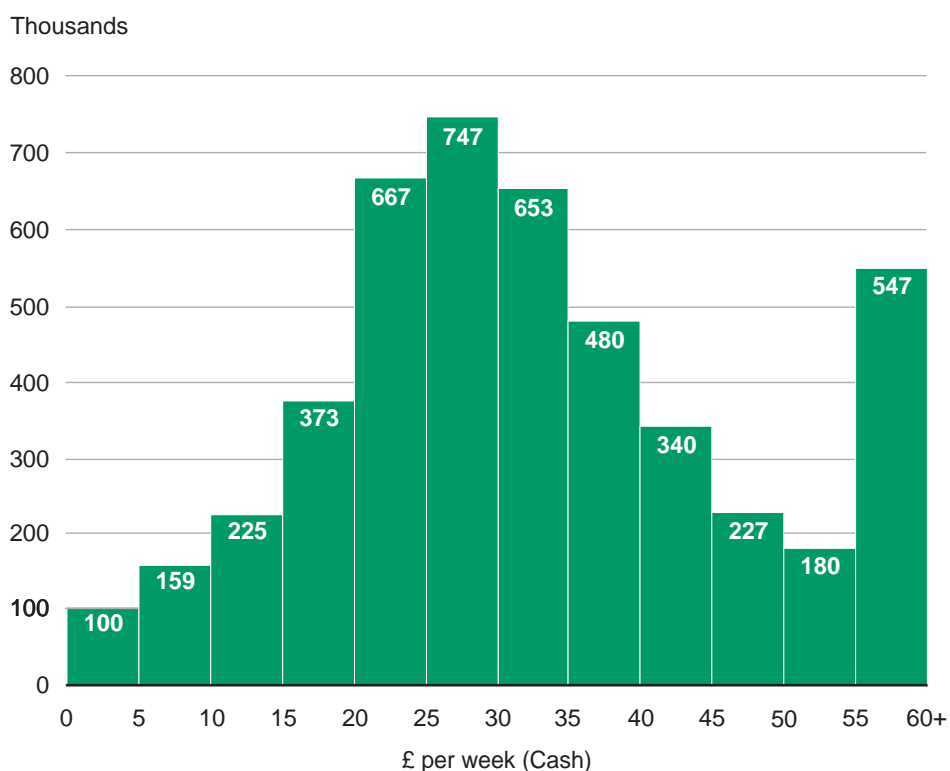
needs such as fuel and meals. The eligible rent, and, therefore, the amount of Housing Benefit paid, may be reduced if it is unreasonably high or the accommodation overlarge for the claimant’s reasonable needs.

1.16 Entitlement to the benefit and the level of benefit payable is dependent on many factors including residency and the liability to pay rent, the claimant’s and his or her partner’s income, their savings and other capital, number of children and their age. In all, there are more than 60 different allowances, premiums, deductions and disregards attached to the benefit. These are listed at Appendix 3.

1.17 A large number of other regulations deal with the many different circumstances that can affect a claim such as shared tenancies, absences from home and the definitions of “eligible rent”. These regulations are necessary because there is no national fixed level of Housing Benefit. The amount paid to claimants varies widely because of the wide range of rent liabilities individual claimants face. Figure 4 illustrates the wide variation in amounts paid.

**Housing Benefit recipients
at May 1995:
by amount of benefit**

Figure 4



Source:
Social Security Statistics 1996

Figure 4 shows the wide variation in the size of weekly housing benefit payments.

1.18 The determinants of benefit can vary from week to week as the circumstances of a benefit claimant can change frequently. It is highly unlikely that the claimant's circumstances will stay the same as they were when benefit was first claimed and entitlement calculated. To ensure that benefit payments continue to be made at the correct rate, claimants are required to report changes in their circumstances. The Department have identified failure to report changes in circumstances as the major source of fraud (Figure 6). The usual period for which Housing Benefit is put in payment is 52 weeks. Some authorities review claims within this 52 week period for known higher risk groups of claimants.

Payment of Housing Benefit

1.19 **Rent rebates** to local authority tenants are paid through the benefit recipient's rent account, to reduce the amount of rent payable or to extinguish liability altogether. In England and Wales local authority expenditure on rent rebate on properties within the Housing Revenue Account is subsidised by the

Department of the Environment, Transport and the Regions and the Welsh Office. **Rent allowance** is paid to eligible tenants of private landlords and of housing associations. It is usually paid through cheque or bank transfer to the tenant, although Housing Benefit regulations allow the benefit to be paid directly to private sector landlords. The Department of Social Security subsidise local authority expenditure on rent allowance.

Housing Benefit and other benefits

1.20 Some 66 per cent of claimants on Housing Benefit are also in receipt of Income Support or income-related Jobseeker's Allowance – this has implications for the calculation of Housing Benefit. The means-test for the three benefits is essentially the same. When a claimant receives Income Support from the Benefits Agency, it is deemed unnecessary for local authorities to calculate his or her “applicable” amount of income when assessing entitlement to Housing Benefit, and authorities are under no obligation to do so.

1.21 The level of error and fraud in Housing Benefit is thus crucially dependent on the rigour of administration and anti-fraud controls in Income Support. And if a claimant is committing fraud on Income Support it is highly likely that he/she is committing fraud on Housing Benefit as well. The importance of the rigour of Income Support administration is underlined by Figure 5.

1.22 In most cases those entitled to Housing Benefit will also have a liability for council tax, and so will usually have an entitlement to Council Tax benefit. Thus, error and fraud in Housing Benefit may lead to further errors and fraud in Council Tax benefit.

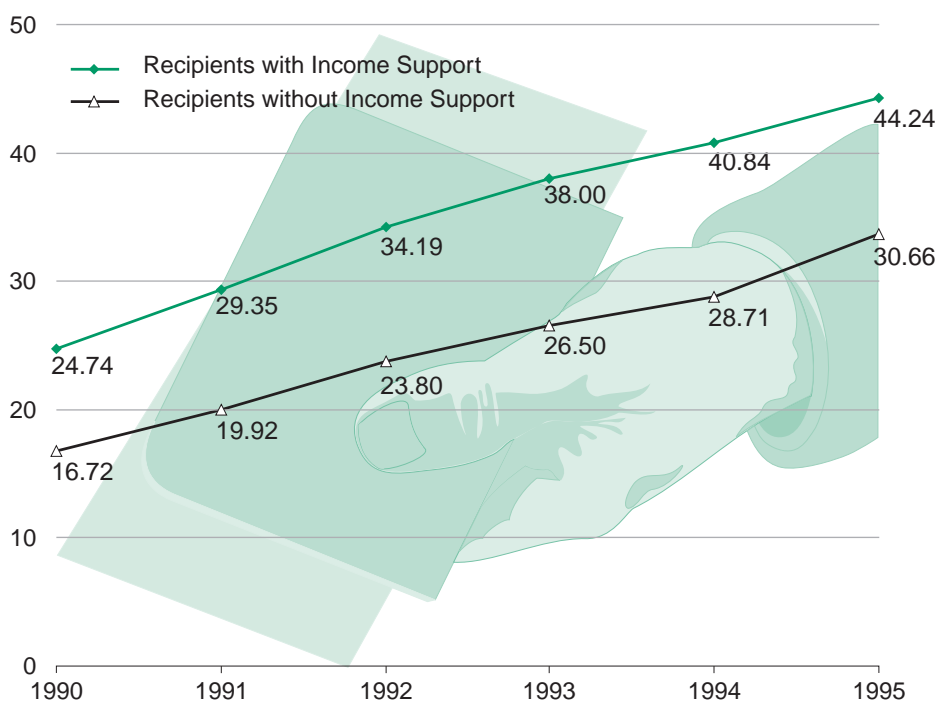
Risks of error and fraud

1.23 One standard text providing guidelines on the interpretation of the Housing Benefit regulations runs to nearly 500 pages. The complexity of the regulations increases the risk of confusion and error on the part of claimants and on the part of benefit assessors when determining claimants' entitlement. The complexity, similarly, provides considerable scope for deception by dishonest claimants, and the reliance placed on timely reporting by claimants of changes in their circumstances creates the conditions for opportunistic fraud. Appendix 4 illustrates how the structure of the benefit creates occasions for fraud.

Average amount of Housing Benefit by recipients with or without Income Support

Figure 5

£ per week (Cash)



Source:
Social Security Statistics 1996

Figure 5 shows that claimants in receipt of Income Support get significantly more Housing Benefit than those who are not.

1.24 The absence of national standards of administration, the wide diversity in administrative systems, the complexity of the benefit itself and the many changes in benefit regulations over the years all contribute to the high risk of inconsistent administration. This in turn has implications for the capability of local authorities individually and collectively to pay the right amount of Housing Benefit and to guard against fraudulent claims upon the system.

1.25 The close link between Housing Benefit and Income Support further complicates the picture. Minimising the risk of fraud and error in Housing Benefit depends to a large extent on effective co-operation between local authorities and the Benefits Agency, who administer Income Support. Keeping error and fraud out of the Income Support system is important also, because two common types of fraud against Income Support, claiming separately while living together as husband and wife and claiming while working - are normally accompanied by Housing Benefit fraud, when the Income Support claimant rents his or her home.

1.26 The Agency's administration of Income Support is, however, error-prone. The Comptroller and Auditor General has qualified the Department's accounts covering Income Support for the past eight years on the grounds of material error. In his report on the 1995-96 accounts, (Bibliography 2) the Comptroller and Auditor General reported that his staff had found an overall error rate by value of 4 per cent. He qualified the accounts also on the grounds of material fraud of £1.4 billion equivalent to 8.5 per cent of total Income Support expenditure.

1.27 This means that local authorities may be facing error and fraud already embedded in the wider benefits system beyond Housing Benefit itself.

Nature and levels of fraud against Housing Benefit

1.28 Appendix 5 provides a comprehensive list of the kinds of fraud against Housing Benefit. The most common are:

- claiming benefit for a particular address while not resident there;
- claiming while working; and
- understating income and capital.

1.29 The vast majority of fraud, 70 per cent according to the Department, arises not from fraudulent initial claims on Housing Benefit, but from claimant failure to report a change in circumstances that could affect entitlement to benefit.

1.30 Inevitably, the amount of fraud is difficult to quantify, as fraud is a deliberately concealed act. The Audit Commission (Bibliography 3) report that the amount of Housing Benefit fraud detected has increased fourfold during the 1990s, to £55 million in 1995-96. This figure represents the actual cost of frauds from their commencement to discovery. The £55 million may be less than the true cost because, when local authorities identify a fraud they may not be certain when it began and they cannot calculate the loss fully.

The Department of Social Security's Housing Benefit Review

1.31 In 1995 the Department and the Benefits Agency launched a series of "Benefit Reviews". These are attempts to measure the level of fraud at a point in time in all the major benefits, a task essential to the effective control and protection of public expenditure. The Reviews are based on the examination by document

and interview of a random, statistically valid sample of customers in receipt of an individual benefit. The aim is to use the Reviews to establish a baseline estimate of the level of fraud, and to enable changes in that level to be measured over time.

1.32 The first Review, published in July 1995, was of Income Support and Unemployment Benefit (Bibliography 4). It revealed that frauds against Income Support cost the taxpayer £1.4 billion a year, equivalent to 8.5 per cent of total expenditure on the benefit, and that 1 in 10 claims were fraudulent. The second Review, published in January 1996, was of Housing Benefit (Bibliography 5). This concluded that Housing Benefit fraud could be in the region of £905 million, equating to some 8 per cent of total Housing Benefit expenditure. The main findings of the Housing Benefit Review are set out in Figure 6 below.

**Department of Social
Security Housing Benefit
Review – main findings**

Figure 6

- The annual loss to fraud is estimated to be £727 million - about 8 per cent of total Housing Benefit expenditure.
- The estimated knock-on effects of fraudulent claims for Income Support could add a further £178 million, giving £905 million fraud against Housing Benefit in total.
- Of the £727 million, £498 million relates to private sector tenants - rent allowance. £229 million relates to council tenants - rent rebate. The incidence of fraud in both private and public sector accommodation is, however, roughly the same.
- 300,000 claimants, about 6 per cent of the total number of Housing Benefit claimants, appear to be fraudsters.
- Housing Benefit claimants also in receipt of Income Support account for 74 per cent of fraud: £537 million.
- 70 per cent of the frauds appear to be opportunistic. They involve failure by claimants to report a change in their circumstances which would reduce the amount of Housing Benefit payable - for example a change in income. Fraudulent initial claiming - pre-meditated fraud - is comparatively rare.
- 30 per cent of frauds involved false declaration of earnings (the amount of Housing Benefit payable is income-related).
- 24 per cent of frauds involved "non-residency" - the claimant was not resident at the address given on the claim form (liability to pay rent for the sole or main residence is a prerequisite for entitlement to Housing Benefit).
- 50 per cent of frauds in rent allowance cases where Income Support was also in payment involved non-residence.

Source: Department of Social Security: Housing Benefit Review, Main Stage Report, January 1996

1.33 The Department acknowledge that the methodology employed in the review had some limitations. In particular the “confidence limits” - the range within which the estimated figure for fraud could lie, were wide. The Department calculated the range at between £500 million and £1,300 million. This range reflected a 95 per cent confidence limit, which means that there is a 19 in 20 chance that the actual figure is within the range.

1.34 The Department also acknowledge that the Review could not establish the actual level of fraud in Housing Benefit since some claimants would succeed in concealing their true circumstances. The figures of £727 million, and £905 million when the Income Support knock-on effect is allowed for, are, therefore, very much an estimate.

1.35 Despite the limitations, the Housing Benefit Review is the most comprehensive attempt yet made to estimate the level of Housing Benefit Fraud. The National Audit Office found no evidence in their separate examination of local authority procedures and of some 385 fraud cases to suggest that the Department’s figure is an under-estimate.

1.36 The Department and the Agency are currently developing ways to measure the extent of fraud in individual benefits in greater detail and with more accuracy than the benefit reviews for Income Support and Housing Benefit have allowed. For Housing Benefit, the Department are moving towards ways of measuring the level of fraud in particular geographical areas.

Landlord fraud

1.37 The debate about how much Housing Benefit is lost to fraud has tended to revolve around estimates of the level of landlord fraud. This fraud is necessarily more difficult to detect than opportunistic fraud by individuals, such as failure to report a change in income which would affect entitlement. The Department estimate that up to £150 million of the £905 million fraud estimate is lost through fraud by landlords.

1.38 Under Housing Benefit regulations, local authorities may pay a claimant’s benefit in rent allowance direct to a landlord, if the claimant asks or agrees that this should happen, or if the local authority thinks this is in the claimant’s best interests. Direct payment must be made where an amount of Income Support is already being paid direct to the landlord, or if the claimant has rent arrears

equivalent to eight weeks' rent. The arrangement should be reviewed once the original reason for direct payments – for example, the level of rent arrears – changes.

1.39 Direct payments to landlords can make it easier for unscrupulous landlords to defraud Housing Benefit, by, most commonly:

- creating fictitious tenancies;
- maintaining that a tenant is resident even though the tenant has left the property;
- claiming for empty properties.

1.40 All these frauds perpetrated by landlords involve, in effect, non-residency by the tenant, fictitious or otherwise.

1.41 In estimating the level of landlord fraud at up to £150 million the Department identified the cases in the Housing Benefit Review where there was a non-residency fraud and where the Housing Benefit was paid direct to the landlord. The Department acknowledge that there is wide uncertainty surrounding those figures.

1.42 In their 1996 report on Housing Benefit Fraud (Bibliography 6) the Social Security Committee were concerned that the Department's £905 million estimate of fraud under-estimated the scale of landlord fraud, and recorded that "it is possible that the true total [of Housing Benefit fraud] is £2 billion, perhaps even greater". The Committee attributed the £1 billion difference between the Housing Benefit figure and their worst case figure of £2 billion to the Housing Benefit Review's "almost complete absence of evidence on organised or collusive frauds".

1.43 In their reply (Bibliography 7) to the Social Security Committee's Report the government expressed scepticism that Housing Benefit fraud could amount to £2 billion, and noted that no supporting evidence was provided to support the figure.

1.44 Addressing the Committee's suggestion that the Housing Benefit Review failed to take account of fraud perpetrated by landlords, and therefore seriously underestimated the true level of fraud, the government said that:

“the survey methodology, involving unannounced visits by expert fraud investigators, is particularly effective at uncovering that kind of fraud. Housing Benefit by a landlord must normally involve either a fictitious property or a fictitious or non-resident tenant. Unannounced visits establish beyond any doubt whether the property exists, and whether it is occupied by the claimed tenant. On a broad view of landlord fraud, the Department of Social Security total included perhaps £150 million”.

1.45 In their visits to local authorities the National Audit Office found that frauds identified by local investigation teams rarely related to landlord fraud. The levels of landlord fraud and other organised fraud identified will however depend on how authorities target their investigations, and on the extent to which they analyse possible links between claims.

1.46 The National Audit Office identified a number of factors which suggest it is unlikely that landlord or organised fraud amounts to as much as £1 billion:

- the London Borough Fraud Investigators Group, in evidence to the Social Security Committee said that, on the basis of the work of those investigating organised managing agent and landlord fraud, up to £40 million a year might be lost to fraud in the London area alone. If the incidence of landlord fraud reported in London were repeated elsewhere, some £200 million might be lost to landlord fraud in Great Britain;
- fraud investigators interviewed by the National Audit Office and the Audit Commission maintain that landlord fraud usually involves either the collusion of single claimants, without children, or the misrepresentation of such claimants by landlords as fictitious tenancies. If this holds true across the country as a whole, then all of the 366,000 single people under 60 without children in receipt of Housing Benefit rent allowance would have to be involved in organised fraud to reach a level of £1 billion in landlord or organised fraud;

- in 1995-96, some £1.9 billion was paid directly to private sector landlords. For the level of landlord fraud to reach £1 billion, half of the money received by landlords would have had to have been obtained fraudulently. This seems unlikely.

1.47 To reduce the risk of fraud, including landlord fraud, the Department are considering ways of tightening rules on evidence and direct payment of Housing Benefit to landlords. The aims are to:

- seek more information from claimants where there is suspicion that a claimant is not entitled to benefit; and
- enable a local authority to refuse to make direct payments of Housing Benefit to a landlord who, in the opinion of the authority, is not “fit and proper” to handle public funds.

Social Security Committee report on Housing Benefit Fraud

1.48 In May 1996 the Social Security Committee published their substantial report on Housing Benefit Fraud (Bibliography 6). As well as debating the extent of fraud, the Committee made nearly 40 recommendations aimed to ensure that “countering fraud is given equal weight with the control of public expenditure”.

1.49 Among the recommendations made by the Committee which the government accepted are:

- the formation of a central fraud squad with responsibility for countering fraud in all social security benefits. (The Government have set up a Ministerial Group on Countering Benefit Fraud, supported by a Counter-Fraud Co-ordination Unit in the Department);
- a task force to establish the extent and nature of National Insurance number fraud ... to secure the National Insurance number system. (The Government have in place a National Insurance Number Security Project);
- the development of data-matching for all social security benefits, including Housing Benefit, and measures to ensure that the Data Protection Act does not constitute a barrier to counter-fraud work. (The Government have developed a computerised Housing Benefit Matching Service, and have taken new powers under the Social Security Administration (Fraud) Act of

March 1997 to match data across local authorities, and between authorities and some other government departments (but only via the Department of Social Security));

- information held by Royal Mail about re-directions of mail should be made available to benefit fraud investigators. (The “Fraud Act” of 1997 allows “social security authorities”, including local authorities, powers to obtain details of postal re-directions and to require that post relating to benefits which might otherwise be re-directed is returned to them).
- local authorities should be encouraged to become better at preventing and deterring fraud. (The Department of Social Security and local authorities are developing a “verification framework” to codify best practice in establishing the reliability of a claim on Housing Benefit at the outset, to prevent fraudulent claims getting into the system);
- a policy of prosecution and appropriate sanctions for serious Housing Benefit fraud should be implemented. (Under the “Fraud Act”, a new offence of dishonestly reporting circumstances or failing to report a change in circumstances to obtain benefit has been created; and a financial civil penalty for those admitting obtaining benefit fraudulently has been introduced).

Part 2: Measures in place to combat Housing Benefit Fraud

Key findings

- The Department have designed strategies and security programmes to establish the extent of fraud and to reduce fraud across all benefits.
- The Department have devised a Housing Benefit Security Strategy, based on the premise that the local authorities which administer Housing Benefit have a duty to combat fraud.
- The strategy consists of a number of established and new measures.
- The main established measure, an Incentives and Penalties scheme designed to encourage local authorities to tackle fraud by financially rewarding fraud detection has been successful in:
 - detecting increasing amounts of fraud
 - encouraging fraud awareness and an anti-fraud culture in local authorities
 - increasing the numbers of staff tackling fraud.
- The Incentives and Penalties scheme is failing in that:
 - the amount of fraud it detects (£253 million Housing Benefit weekly benefit savings in 1996-97 (provisional) out of a total of £306 million reported by Councils in 1996/97 in Great Britain (including other benefits)) falls well short of the estimates of fraud in the Housing Benefit system (£905 million);
 - there is doubt about the accuracy of the amount of fraud the scheme in Great Britain (including other benefits) detects because:
 - there are high levels of error and abuse in claiming that fraud has been detected;

- the method used to calculate the amount of each fraud is flawed and distorts the estimated level of Housing Benefit fraud.
- There are, currently, no incentives for local authorities to prevent fraud, to deter fraud, or to detect complex fraud. The current arrangements tend to encourage only the detection of individual opportunistic fraud.
- The Department have been successful in increasing the number and value of overpayments identified by local authorities as fraudulent, by way of a financial rewards system.
- The arrangements by which local authorities are rewarded for overpayments identified are open to abuse.
- The Benefits Agency have targets for the amount of fraud to be detected. In 1996-97, the Agency reduced their figures for achievement against this target to help ensure that their performance is accurately reported.
- There is no incentive for the Benefits Agency and local authorities to co-operate. As a consequence, co-operation between the Benefits Agency and local authorities is in many areas quite poor.
- Although the Benefits Agency's "Spotlight" campaigns, local drives against fraud, have produced a high level of detected fraud there has been little local authority involvement in these exercises.

Part 2: Measures in place to combat Housing Benefit Fraud

The Department's Anti-fraud Strategy

2.1 The Department of Social Security have pursued an anti-fraud strategy for all benefits through the Benefits Agency, their administrative arm.

2.2 The Benefits Agency Security Strategy aims to establish the extent of fraud and reduce the amount of fraud across all benefits. The strategy is based on making the benefit pipeline secure, from an initial claim on the system, through the calculation, determination and payment of a claim and its periodic review, to claim termination, and where necessary, overpayment recovery.

2.3 The strategy is under-pinned by a Security and Control Programme, which aims to achieve a demonstrable and sustained reduction in the levels of fraud and error over the five years 1995-96 to 1999-2000. The Secretary of State for Social Security announced in July 1995 that the target is to reduce the level of fraud by 70 per cent over the five year period.

2.4 The Security and Control Programme has been funded on a spend to save basis. Some £525 million will be spent over five years, with a target to save £3.5 billion over the same period by avoiding payment on fraudulent claims. £106.5 million was spent in 1995-96, the first year of the programme, and the Department have announced that savings of some £506 million resulted - a four to one payback on money spent. The Programme consists of over 40 anti-fraud projects, covering a wide range of administrative, fact-finding and proactive measures.

The Department's Housing Benefit Security Strategy

2.5 The Benefits Agency Security Strategy does not cover benefits administered by local authorities. The Housing Benefit Security Strategy supplements the Department's Anti-fraud Strategy and the Agency's Security Strategy. Its starting point is that local authorities administering Housing Benefit have a statutory duty, under Section 151 of the Local Government Act 1972, to "make arrangements for the proper administration of their financial affairs". The Department recognise the responsibility of local authorities for the propriety and regularity of Housing

Benefit awards to claimants, including the prevention and detection of fraudulent claims. The anti-fraud measures that make up the strategy encourage or require local authorities to exercise their duty to combat fraud.

2.6 Before the introduction of the Department's first main anti-fraud measure in 1993, local authorities did not place great emphasis on anti-fraud work. A report on Housing Benefit (Bibliography 1) by the Comptroller and Auditor General in 1989 recorded that:

- 36 out of 73 local authorities surveyed did not devote any resources to fraud investigation;
- average staff effort devoted to fraud investigation in 1987-88 was 0.52 man years;
- information on the nature and extent of fraud was limited, and relatively little fraud was actually detected.

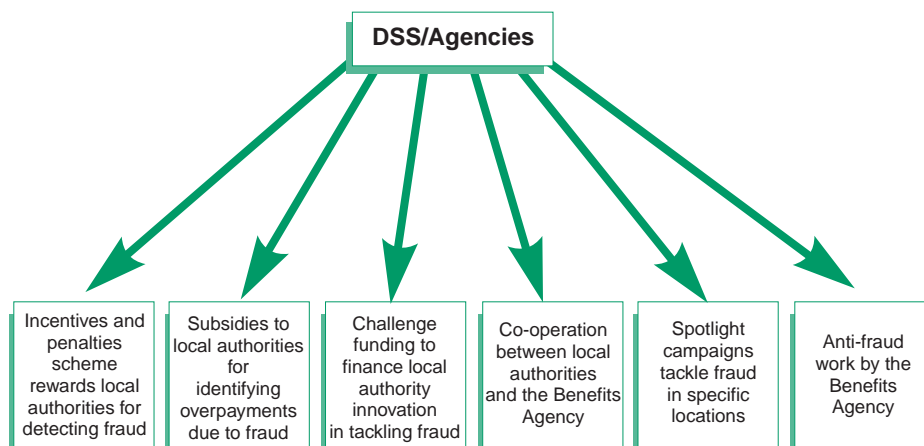
2.7 The report concluded that "there was scope for further improving safeguards against fraud and abuse". In 1993, the Audit Commission reported in "Remote Control" (Bibliography 8) that "perhaps only a third of authorities largely administer benefits properly, efficiently and effectively. Many other authorities manage the system efficiently but do so at the expense of adhering to some of the (admittedly complex) regulations. For a significant minority of authorities the position causes even greater concern; in some, large backlogs have developed causing a spiral of unopened mail, unprocessed claims, and unanswered queries". The Commission added that some authorities were "reluctant to invest the necessary resources to prevent fraud", and suggested that changes were needed to the subsidy scheme.

2.8 Against this background of unsatisfactory benefits administration and neglect of fraud as an issue, the Department introduced a range of anti-fraud measures designed to enable and encourage local authorities to investigate fraud in Housing Benefit. The Department's approach is based on a range of established and new measures. Part 3 of this report deals with the new measures. This part of the report deals with the measures already in place, as shown in Figure 7.

Department of
Social Security
measures to combat
Housing Benefit fraud

Figure 7

The DSS and its agencies have a range of established measures:



Source:
National Audit Office

Figure 7 shows the range of established measures to combat Housing Benefit Fraud.

The Incentives and Penalties Scheme

2.9 Before 1993, there were disincentives in the Housing Benefit scheme which discouraged local authorities from identifying overpayments made as a result of error and fraud. Local authorities' expenditure on Housing Benefit rent allowance was directly subsidised by central government at a rate of 95 per cent, but most overpayments of benefit, that is money lost to fraud and error, were subsidised at 25 per cent. This meant that a local authority would be better off claiming that all payments made were regular and there was an incentive to ignore any evidence of fraud and error. From April 1993, this subsidy disincentive for fraud was removed, and local authorities were allowed to receive the full 95 per cent subsidy for overpayments caused by fraud. To further offset disincentives to address fraud, the Department also introduced a scheme to encourage local authority commitment to anti-fraud activity, by allowing local authorities to share in savings made by detecting Housing Benefit fraud. This scheme did not lead to immediate or unanimous efforts by local authorities to tackle fraud, and in April 1994 penalties were introduced to stimulate further anti-fraud work by local authorities.

Weekly benefit savings

2.10 Weekly benefit savings are used as an indicator of the amount of benefit expenditure saved as a result of fraud detection work, and to indicate prevailing levels of fraud. A weekly benefit saving is the weekly amount of benefit being claimed wrongfully when action by fraud staff puts a stop to the fraud. Each amount is multiplied by a factor of 32, which represents the average number of weeks a fraudulent claim might have continued undetected.

2.11 The Department set an overall weekly benefit savings threshold for the Incentives and Penalties scheme. Thresholds for individual local authorities were allocated (in 1996-97) according to each authority's share of Housing Benefit expenditure, weighted to reflect the make up of its case load and the type of area it covers - whether rural or metropolitan, for example. This allocation gives each authority a "baseline" threshold for weekly benefit savings which the Department expect them to achieve.

Subsidy for detecting fraud

2.12 The incentives and penalties are built around the threshold and actual level of weekly benefits savings achieved as shown in Figure 8.

Incentives and penalties
for fraud detection,
1996-97

Figure 8

<i>Proportion of baseline threshold weekly benefit savings achieved by the authority</i>	<i>Percentage subsidy paid by the Department on claimed Weekly Benefit Savings</i>
More than 100%	25%
75-100%	10%
50-75%	none
less than 50%	£ for £ reductions in subsidy for Housing Benefit expenditure

Source: Department of Social Security

Figure 8 shows details of the incentives and penalties scheme for 1996-97.

2.13 Payments of subsidy are made quarterly on account by the Department. There are no restrictions on how much local authorities may earn under the scheme.

2.14 Local authorities can only claim a weekly benefit saving if they meet all the following four criteria:

- a) a fraudulent overpayment of benefit would have continued or, if payment has not yet been made, a fraudulent overpayment would have arisen; and
- b) as a result of enquiries, benefit is withdrawn or reduced or, in the case of attempted fraud, is disallowed or awarded at a reduced rate establishing that;
- c) a fraud must have occurred or, in the case of attempted fraud, was intended; and
- d) designated fraud staff must have intervened.

2.15 Local authorities can claim weekly benefit savings for Council Tax Benefit, Income Support and Jobseeker's Allowance as well as for Housing Benefit. To claim Income Support and Jobseeker's Allowance weekly benefit savings, local authorities must get written confirmation from the Benefits Agency of the amount and that the award of these benefits was referred, reduced or stopped because of the local authority's investigation.

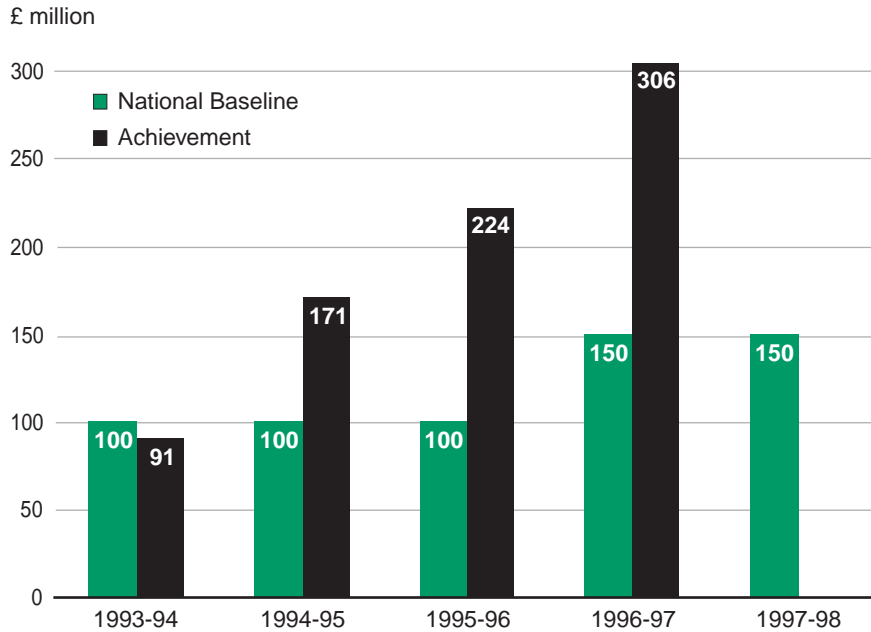
Successes of the Incentives and Penalties scheme in local authorities

2.16 Figure 9 shows that the Incentives and Penalties scheme has been successful in that authorities collectively have exceeded the overall weekly benefit threshold set by the Department in all but the first year of the scheme.

2.17 The achievement across all the authorities is variable, as Figure 10 shows.

Gross weekly benefit savings achieved by local authorities against the annual national baselines set by the Department

Figure 9



Note: The £306 million figure for 1996-97 is provisional – it is based on unaudited returns. The achievement columns include weekly benefit savings for Housing Benefit and other benefits. In 1995-96, for example, £186 million of the £224 million achieved was Housing Benefit savings, the rest, £38 million, was mainly Income Support and Council Tax Benefit savings.

Source: Department of Social Security

Figure 9 shows a strong collective performance by local authorities in exceeding the national baselines set for weekly benefit savings.

Range of local authorities' performance

Figure 10

Gross weekly benefit savings in 1996-97
£

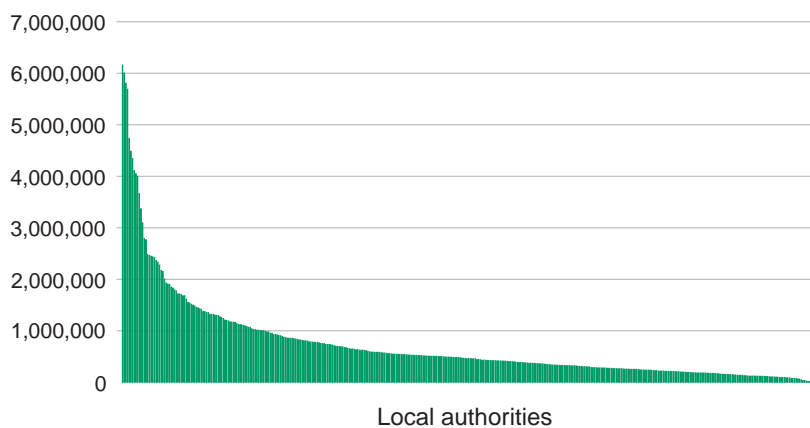


Figure 10 illustrates the wide range of local authority performance in 1996-97. The amount of a local authority's Housing Benefit expenditure is an important factor in its capacity to generate weekly benefit savings.

Source: Department of Social Security

2.18 In 1996-97, the Department of Social Security made subsidy payments of £43.6 million to local authorities, taking account of their achievement against thresholds set and the percentage rates of subsidy then applying.

2.19 The Incentives and Penalties scheme has also been generally successful in that it has encouraged the great majority of local authorities to detect fraud. In 1996-97, as Figure 11 shows, only eight local authorities, two per cent, detected so little fraud that they fell within the scheme's penalty zone and four incurred the penalty £ for £ reduction in Housing benefit subsidy. The other four authorities' shortfalls against their thresholds were considered de-minimis, therefore they did not incur a penalty.

**Position of local
authorities in subsidy
bands, 1996-97**

Figure 11

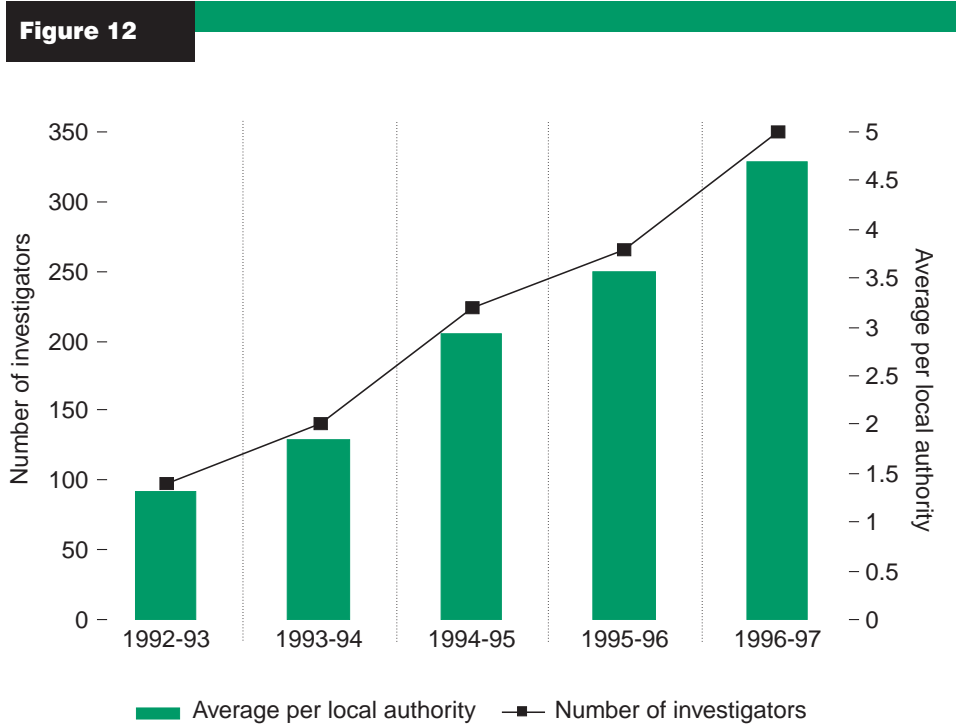
Proportion of baseline weekly benefit savings achieved	Number of local authorities
greater than 100% (25% subsidy)	380
75 - 100% (10% subsidy)	12
50 - 75% (no subsidy)	15
less than 50% (penalty)	8
Total	415

Source: Department of
Social Security

Figure 11 shows that most local authorities in Great Britain achieved their weekly benefit savings thresholds in 1996-97

2.20 Another, less tangible success of the Incentives and Penalties scheme has been to increase local authorities' understanding that fraud against Housing Benefit is extensive and pervasive. This, in turn, has led to local authorities moving towards an anti-fraud culture and to their employing increasing numbers of fraud investigators, often paid for by subsidy earned from the scheme. Figure 12 illustrates this.

Number of fraud investigators employed in 65 English local authorities surveyed the National Audit Office



Note: Figures provided for all 5 years by 65 authorities in England responding to the National Audit Office questionnaire. Data from authorities in Wales surveyed are excluded from this figure because their reorganisation in 1996 made comparisons over time unreliable.

Source: National Audit Office questionnaire, 1996

Figure 12 shows that the average number of investigators in 65 local authorities in England rose from 1.4 to 5 in the five years 1992 to 1996-97.

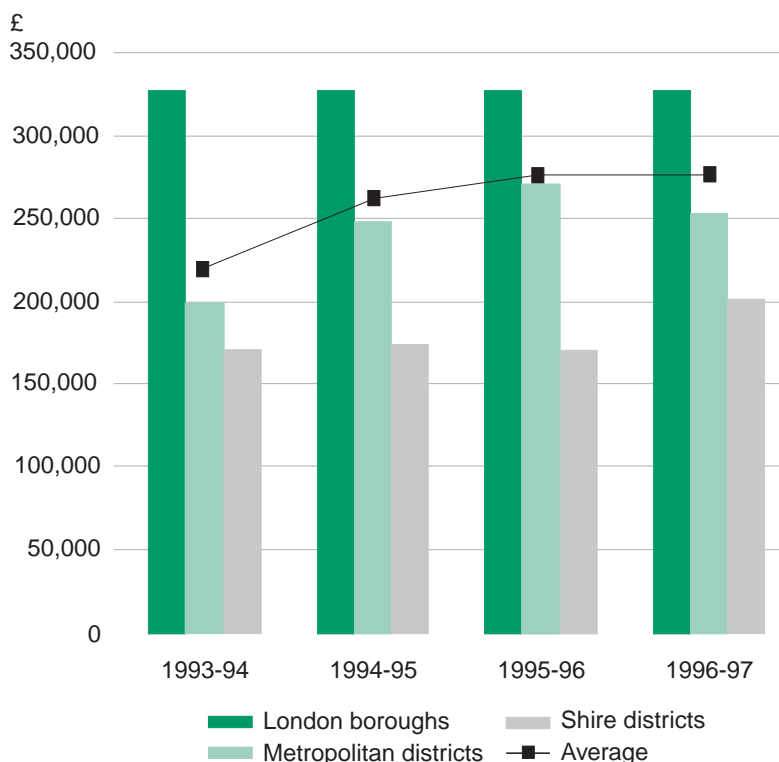
2.21 The increase in weekly benefit savings achieved per investigator has slowed over the years, however, and this suggests that the returns associated with fraud investigation work are levelling off. Figure 13 illustrates this.

Shortcomings of the Incentives and Penalties scheme

2.22 In their 1993 report, “Protecting the Public Purse” (Bibliography 9) the Audit Commission reported that Housing Benefit fraud was “undoubtedly the major probity issue facing local government”. The Incentives and Penalties scheme has been successful in focusing local authority effort on fraud, and in the detection of significant amounts of fraud. There are, however, some perverse incentives and adverse side-effects of the scheme which are beginning to compromise its success. These are examined at a) to d) below.

Average amounts of weekly benefit savings per investigator (1995-96 prices)

Figure 13



Source:
National Audit Office
questionnaire 1996
and Departmental data

Figure 13 shows that returns of weekly benefit savings per investigator are levelling off. It also shows that returns in the London Boroughs have remained relatively constant, while increasing considerably in the Shire Districts.

a) Shortfall of fraud detected against estimates of Housing Benefit fraud

2.23 The January 1996 Housing Benefit review (paragraphs 1.30 to 1.35) estimated that the amount of undetected Housing Benefit fraud in 1995-96 was around £905 million. This is additional to the detected fraud in that year. In 1995-96, local authorities detected £186 million of Housing Benefit weekly benefit savings under the Incentives and Penalties scheme - (£224 million for all benefits - Figure 9). Taking account of the Benefits Agency's reported Housing Benefit weekly benefit savings of £193 million in 1995-96, some £379 million of Housing Benefit fraud was detected. The Incentive and Penalties scheme does not represent, therefore, a complete assault on detectable fraud.

b) Error in, and possible abuse of weekly benefit savings

2.24 The National Audit Office and Audit Commission examination of a random sample of cases where weekly benefits savings had been claimed in each of 14 local authorities visited, and a special exercise based on a random sample of a further 88 weekly benefit savings cases at one London Borough, gave grave cause for concern. Whilst there were some authorities who took the criteria for claiming weekly benefit savings (paragraph 2.14) seriously, Figure 14 indicates that a number of cases claimed did not meet these conditions.

Results of an examination of 385 weekly benefit savings cases at 14 local authorities

Figure 14

	Number	per cent	Value (£)
cases examined	385	100	876,934
valid claims	269	70	654,376
cases where there were doubts on the validity of the claim	116	30	222,558
of which: cases where Housing Benefit was reinstated, but weekly benefit savings still claimed, +	15	4	40,761
cases where claims for weekly benefit savings have now been withdrawn	23	6	44,592

Source:

National Audit Office/
Audit Commission fieldwork

Figure 14 records doubts about the validity of weekly benefit savings claimed in 30 per cent of all cases examined. See also Appendix 6.

“All fraud is weekly benefit savings, not all weekly benefit savings are fraud”

Malcolm Gardner, Head of the Anti-fraud Unit at Reading Borough Council.

“Practitioners feel that there is a big question mark over the validity of [weekly benefit savings] statistics.”

Local Authority Investigation Officers Group.

2.25 The study team questioned 14 local authorities on the validity of 30 per cent of claims based on the conditions required to claim weekly benefit savings. A parallel exercise by the Audit Commission and Benefits Agency Internal Audit involved a similar approach and their results show a higher rate of questionable claims. These results suggest, at best, high levels of error when claiming weekly benefit savings and at worst, sharp practice by local authority staff. Whatever the cause, it was evident from the visits that quality assurance of fraud investigators’ work in tackling fraud and of subsequent claims for weekly benefit savings was frequently so poor as to be virtually non-existent. Of the 14 local authorities visited, just two had procedures for independent review of fraud work. The effect of the errors/sharp practice is that weekly benefit savings claimed are not an accurate reflection of the actual levels of fraud detected, as has been recognised more widely among local authorities.

2.26 Examples of cases where the National Audit Office had doubts about the validity of cases where weekly benefit savings had been claimed are shown below, with further examples at Appendix 6.

During a visit by a local authority investigator about an aspect of a Housing Benefit claim, on which there was no irregularity, the claimant volunteered that she would be moving in a few weeks' time. The investigator then claimed a weekly benefit saving, on grounds of fraud.

The Benefits Agency informed the local authority that a claimant was about to move. Despite this information the authority undertook a fraud investigation and claimed weekly benefit savings.

A saving was claimed after a fraud investigation based on data-matching identified a student claiming housing benefit. The authority was later told by the Benefits Agency that this student was eligible for Income Support and, therefore, for Housing Benefit. The authority failed to cancel the claim for weekly benefit savings.

c) Deficiencies in the multiplier

2.27 The purposes of weekly benefit savings are to:

- provide an internal performance indicator which underpins estimates of the amount saved to the public purse by stopping fraud. Additional “savings” arise from recovering overpayments;
- indicate the level of detected Housing Benefit fraud; and
- provide a basis for rewarding authorities that detect fraud.

2.28 Weekly benefit savings are the amount of weekly benefit in payment at the time fraud was detected multiplied by 32. The multiplier is based on the Department's estimate of the length of time, 32 weeks, that a fraudulent payment would on average have continued had it not been detected. The 32 weeks is not specifically tailored to Housing Benefit - it was calculated across all benefits, but is based mainly on Income Support figures. It has been used since 1992 with the agreement of HM Treasury.

2.29 The Department and HM Treasury doubt the validity of a 32 week multiplier applied equally to all social security benefits and it is currently under review. As 32 weeks is itself an average figure, and as the multiplier is currently applied to claims for housing benefit savings, and as Housing Benefit is usually awarded for a maximum of 52 weeks, opportunities for under and overstatements of the saving to the public purse can be expected, see Figure 15.

Examples of the multiplier misstating the level of housing benefit saved

Figure 15

Overstatements

- for any Housing Benefit claim which is found to be fraudulent, and which has been in payment for more than 20 weeks, the multiplier will result in an overstatement of the level of savings, if it is assumed that the fraud will be detected at the end of the benefit period. This is because the 32 weeks on which the multiplier is based will be greater than the number of weeks (less than 32) remaining in the 52 week benefit period usually employed by local authorities.
- the Housing Benefit review identified the average length of time Housing Benefit was in payment at 26 weeks. In this case, the 32 week multiplier represents a 6 week overstatement of saving. Again, this assumes that the fraud will be detected at the end of the benefit period.

Understatements

- NAO work in 7 authorities where it was possible to identify the length of time benefit was in payment before fraud was detected and benefit stopped showed that payment had been made, on average, for 15 weeks. In this case, there is a 5 week understatement, because on average claims could have run for another 37 weeks, but the multiplier only allows for 32 weeks.
- In cases where local authorities prevent a claim entering payment, there is a 20 week understatement because the claim could have run for a full 52 weeks, but the multiplier only allows for 32 weeks.

Source: Housing Benefit Review and National Audit Office/Audit Commission fieldwork

Figure 15 illustrates examples of the impact of the use of the 32 week multiplier

2.30 While the multiplier has the virtue of simplicity, it is possible to derive a more realistic estimate of the saving to the public purse than the multiplier allows. As Housing Benefit is usually awarded by local authorities for a maximum period of 52 weeks before a new claim is required, authorities can calculate the amount which would then have been paid from the week the benefit was stopped until the next date of review, assuming that in most cases the fraud will be detected at the

end of the benefit period. In these circumstances, where actual figures for the amount of fraud can be calculated, the use of a notional 32 week multiplier is questionable.

2.31 The present use of the multiplier does little to encourage local authorities to prevent fraud. Using an incentive system based on more realistic estimated savings would encourage prevention and early detection of fraud. By preventing a claim entering payment or detecting a fraudulent claim early the rewards for authorities would be higher.

d) Heavy-handed conduct of fraud investigations

2.32 In briefing to Parliament during the passage of the Social Security Administration (Fraud) Act the National Association of Citizen's Advice Bureaux said that while all fraud results in overpayments, not all overpayments are a consequence of fraud. They pointed out that they had evidence suggesting that innocent people who have been overpaid benefits may be suffering as a result of over-zealous anti-fraud strategies. The distinction between committed effective fraud investigation and insensitive behaviour is a fine one. The Department have issued guidance to local authorities which stresses the importance of interviewing suspects tactfully and sensitively. The Association provided the National Audit Office with information on concerns about the conduct of fraud investigations, as set out overleaf. This included examples where they regard investigators as showing insufficient sensitivity. The National Audit Office were not able to examine the local authorities' version of the cases quoted.

2.33 The National Audit Office followed up the Association's report by visits to three Citizen's Advice Bureaux who provided anecdotal evidence of cases where claimants had said they found fraud investigators to be intimidating, and some innocent claimants had suffered unduly. The most frequently noted complaint that the Bureaux dealt with was that benefit had been stopped without notification during a fraud investigation and, in some cases, this had led to tenants being evicted because they could no longer pay the rent.

2.34 During visits to 14 local authorities the National Audit Office found three fraud investigation arrangements and teams which were particularly aggressive in their pursuit of fraud and where there was evidence of complaints from Housing Benefit claimants. And there was a lot of variation in terms of the approaches taken in the others.

Delays in completing fraud investigations

- the time taken by local authorities to establish a case can disadvantage the claimant. Under the Housing Act 1996 private tenants can now be evicted after eight weeks' rent arrears, so it is important that local authorities carry out their investigations within that period otherwise people who may be found not to be fraudulently claiming could be evicted. The Association gave examples of this, including the case of a man who had allegations of fraud made against him by a local authority and had his Housing Benefit suspended for three months whilst investigations were carried out. As a result of this, he and his family became homeless. The allegations were subsequently found to be without foundation.

Lack of evidence of fraud

- local authorities are unable, sometimes, to demonstrate to claimants and to Citizen's Advice Bureaux acting on claimants' behalf that fraud investigators have evidence of fraud before action is taken. For example, a woman received notification that her Housing Benefit and Council Tax Benefit had been withdrawn. The notification indicated that she had told them, by telephone, that she had started work. This led to the authority undertaking a fraud investigation and claiming that a fraud had been committed. According to the Association, the woman involved is 71 years old, is housebound, and does not have a telephone, and she suffered considerable distress and financial hardship because the local authority had failed to check the facts.

Lack of information given to claimants

- local authorities do not always provide full information to claimants. The Association cited an example of a woman whose benefit was stopped due to a suspected fraudulent claim, but who was never notified of a decision arising from the fraud investigation.

Poor conduct of investigations

- fraud investigators' conduct of interviews with those suspected of fraud is variable. The Association said that on occasions guidelines for interview are not followed with regard to the recording of the interview, the location of the interview, and providing the interviewee with a copy of their signed statement; and
- members of certain vulnerable groups - single parents, black women and the elderly were mentioned in particular by the Association - have been harassed by fraud investigation officers, and in some cases this has led to people who are entitled to benefit withdrawing their claims. For example, the Association reported that an elderly man's home had been watched for a week, and a fraud investigator used a torch to check occupancy after dark, and checked dustbins daily. The investigator concluded that the man was cohabiting with a woman a few doors away. According to the Association the house was empty because the man was on holiday during the time of the fraud investigation.

Source: National Association of Citizen's Advice Bureaux

2.35 The Association told the National Audit Office that “it is particularly worrying that the current subsidy arrangements can result in individual local authorities and officers feeling pressured to achieve their targets”. There is no question that fraudsters should be pursued actively - the issue raised is the conduct of fraud investigations. None of the authorities visited had a code of conduct for their fraud investigators. A code would help improve the consistency and overall conduct of investigation across authorities.

The Incentives and Penalties scheme offers little incentive to prevent fraud

2.36 Although the Incentives and Penalties scheme does provide rewards to local authorities for detecting fraud before a payment is made, it tends to encourage local authorities to concentrate on detecting fraud where benefit is already in payment. Local authority staff told the National Audit Office and the Audit Commission that the scheme does little to promote the prevention of fraud.

2.37 In discussions with the Department on the proposed 1997-98 arrangements for the Incentives and Penalties scheme the Association of London Government expressed concern that the subsidy arrangements did not take account of those authorities who invested in fraud prevention - these authorities would not have access to subsidies for detection available to authorities which had less effective administrative systems. For example, if an authority deterred a fraud and no Housing Benefit claim was subsequently made, no subsidy could be claimed. An authority detecting an attempted fraud once a claim has been made can, however, claim a subsidy even though no benefit has been paid.

2.38 Effective fraud prevention depends on the quality of benefits administration - the front line controls which lead to a rigorous assessment of incoming claims for Housing Benefit, thereby minimising the chances of fraud getting into the system. There is a sense in which the Incentives and Penalties scheme encourages, or at least leads to the toleration of, weak benefits administration. This is because local authorities can get subsidy from the Department for detecting fraudulent claims which enter the system because of poor administration. Preventative work is liable to reduce the scope for earnings from weekly benefit savings.

2.39 One London Borough visited by the National Audit Office and the Audit Commission, and subsequently subject to a special exercise by District Audit to review the management of weekly benefit savings and overpayments due to fraud, had very poor benefits administration indeed. The quality of administration

offered little protection against fraudulent claims entering payment and against duplicate payments being made. There were also backlogs of Housing Benefit claims which led to delays in processing changes of claimants' circumstances, which in turn will have led to overpayments. In order to draw a random sample of 88 weekly benefit savings cases, District Audit had to make 163 requests for case files. In other words, 75 files (46 per cent) could not be found or were unobtainable. In 1995-96 the borough reported very high levels of weekly benefit savings and received one of the highest amounts of subsidy in that year.

The Incentives and Penalties scheme offers no incentive to deter fraud

2.40 The Incentives and Penalties scheme also seems likely to discourage fraud deterrence. 12 of the 14 local authorities visited said that prosecuting fraudsters is time - consuming and interrupts the gathering of subsidy from detecting fraud. There are opportunity costs in terms of lost subsidy when efforts are diverted to prosecutions.

2.41 Some local authority officers told the National Audit Office that other reasons for not prosecuting were:

- low penalties for the convicted - the penalty for being caught usually amounts to little more than the ending of the benefit itself;
- there is often limited or no access to legal expertise within the authority for prosecutions, so if a prosecution is sought, the usual route is to transfer papers to the Police, who may themselves have limited resources and higher priorities; and
- some council members may not want the publicity that a prosecution case brings in the local press - the press may portray the authority as a soft touch and incompetent, or as a draconian authority pursuing the disadvantaged.

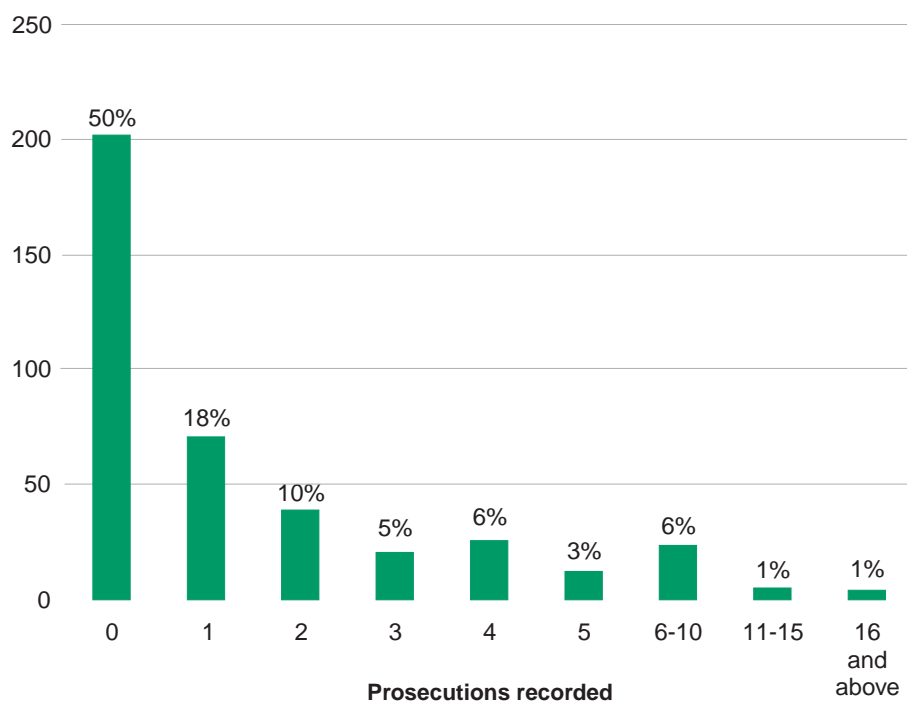
2.42 The number of successful prosecutions by local authorities in 1995-96 is shown in Figure 16. No data is available for other years.

2.43 Only a minority of the Councils visited prosecuted regularly.

Number of prosecutions for Housing Benefit and Council Tax Benefit fraud recorded in 1995-96 England and Wales

Figure 16

Number and percentage of local authorities



Source:
Department of Social Security
Annual Administration Return
1995-96

Figure 16 shows that about half of local authorities have not prosecuted Housing Benefit fraudsters.

The Incentives and Penalties scheme offers no incentive to tackle “landlord” fraud

2.44 The Department of Social Security estimate that up to £150 million of the £905 million estimate of Housing Benefit fraud may be attributable to landlord fraud.

2.45 Nine of the local authorities visited said that, although they had indications of landlord fraud, they did not pursue it because, as for fraud deterrence, there is an opportunity cost associated with tackling landlord fraud. Diverting their fraud investigators to complex fraud cases, where the returns in terms of subsidy may be uncertain and far off, was not seen as economically viable. The Incentives and Penalties scheme encourages, rather, the pursuit of “easy pickings” - the detection of opportunistic individual fraud rather than organised fraud. The prevailing view was that landlord fraud was for the Benefits Agency to pursue, through their specialised organised fraud teams.

Local authority views on the Incentives and Penalties scheme

2.46 Local authority associations have said in discussions with the Department that there is no stability over time in the Incentives and Penalties arrangements. Although the total baseline for all authorities has only changed once in four years since 1993, individual councils' baselines and the subsidy rates and bands have changed every year. The local authority associations argue that these frequent changes make it very difficult to plan ahead and to allocate resources. The Association of District Councils maintained in discussions on the 1997-98 weekly benefit savings arrangements that increases in local authorities' baselines for fraud detection, and changes in subsidy bands "must be sensitive to authorities' needs to budget, recruit and train additional staff".

2.47 Associations have also expressed concern that short notice is given of new subsidy bands and baselines before their due date of implementation. Some local authorities also find it difficult to understand how their particular threshold has been derived. Some local authorities told the National Audit Office that the individual thresholds they are allocated do not appear to bear much relation to their own understanding of perceived local levels of fraud. The Department told the National Audit Office, however, that the results of the Housing Benefit Review suggested that fraud was evenly spread across the country.

2.48 The most frequently expressed local authority grievance is that the Department do not meet their costs of administering Housing Benefit in full, and that local authorities therefore bear the full marginal cost of any increases in expenditure to improve administration. Local Authority Associations told the Social Security Committee that it cost local authorities £416 million to administer the benefit in 1995-96. The overall central government subsidy to local authorities for administration of benefits in that year was £305 million. These concerns may well encourage local authorities to look upon the subsidies available under the Incentives and Penalties scheme as a means of offsetting their administrative costs, and help explain some of the more cavalier behaviour in pursuit of weekly benefit savings noted at some of the local authorities visited.

2.49 As the Department meet 95 per cent of Housing Benefit Rent Allowance paid out by local authorities (paragraph 1.12), irrespective of whether fraud is detected, authorities have little incentive to improve Housing Benefit administration systems, even when such improvements would deliver significant savings to the public purse.

Conclusions on the Incentives and Penalties scheme

2.50 The scheme has led to significantly greater efforts in combating Housing Benefit fraud. In particular, increasing amounts of fraud have been detected, the scheme has focussed local authorities' attention on the scale of fraud and the need to tackle it, and the number of those fighting fraud has increased over time.

2.51 The scheme has developed some perverse incentives and adverse side effects since its inception in 1993, however, and, as with many incentive schemes, may have a finite life. Its shortcomings are:

- it has not yet produced results that approach the estimated level of fraud;
- there is error in and abuse of weekly benefit savings claimed. Apart from being undesirable in themselves, these effects may artificially inflate the levels of fraud detected and may compromise a true understanding of underlying fraud levels;
- the multiplier at the heart of weekly benefit savings may also distort reported levels of fraud detected, and it does not reflect the actual savings to the public purse achieved by fraud detection;
- the scheme offers few incentives to prevent or deter fraud, or to detect complex fraud; and
- local authority concerns about funding and the operation of the scheme may compromise its effectiveness.

2.52 The National Audit Office conclude that because of these shortcomings the Incentives and Penalties scheme is reaching the end of its useful life. Raising the incentives and penalties in the future may well serve simply to reinforce the shortcomings. Phasing out or abolishing the scheme would release some £43.6 million a year which may be better spent on stopping fraud getting into the system in the first place by introducing incentives for fraud prevention. There will always be a need for local fraud investigation work, however, particularly as most fraud arises from failures to notify changes in circumstances.

Subsidies for identifying overpayments due to fraud

2.53 Further encouragement for local authorities to detect fraud is given through Departmental subsidy on fraudulent overpayments identified by local authorities - that is the total amount of benefit that has actually been paid on a fraudulent claim, as opposed to the notional amount of savings achieved represented by weekly benefit savings. The two are inevitably very different, as, for example, some fraudulent claims may have been in payment for a few weeks, others for years.

2.54 Under the provisions of the Social Security Act 1992, authorities are entitled to claim subsidy on fraudulent overpayments they discover. In 1995-96 the Department paid out over £90 million on subsidies on overpayments, of which £43.2 million was on overpayments due to fraud. Local authorities have to classify overpayments according to their source, and the classification determines which rates of subsidy apply as shown in Figure 17.

Rates of subsidy paid for overpayments

Figure 17

Overpayment due to:	Subsidy paid by the Department
fraud	95%
claimant error	25%
local authority error	0%

Source: Department of Social Security

Figure 17 illustrates the rates of subsidy applied for different types of overpayment

2.55 As well as earning 95 per cent subsidy on overpayments classified as due to fraud, local authorities can keep the actual amounts recovered from the fraudster - a double incentive. There is therefore, significant financial advantage to be had where overpayments are classified as due to claimant fraud (however, see paragraph 2.57 (below)).

2.56 95 per cent subsidy can only be claimed on overpayments due to fraud if the local authority can establish that, on a “balance of probabilities”, the claimant has:

- falsely represented his or her circumstances for the purposes of obtaining benefit, or has;
- knowingly failed to report a relevant change of circumstances, with intent to obtain or retain benefit for themselves or some other person; and

- an overpayment due to claimant fraud has been established; and
- the overpayment has been classified as due to claimant fraud by an officer designated to so do by the local authority.

Successes of the subsidies on overpayments

2.57 The Department’s arrangements to encourage local authorities to identify overpayments have proved to be successful, measured by the increasing amounts of subsidy earned by local authorities, as shown in Figure 18. But as Figure 18 also shows the proportion of overpayments classified as due to fraud increased significantly in 1994-95.

Overpayments of rent allowance claimed by all local authorities, 1993-94 to 1995-96



Source:
Audited local authority
Housing Benefit subsidy claims

Figure 18 shows that local authorities classified an increasing proportion of overpayments of rent allowance as due to fraud, thereby earning more subsidy at the maximum rate of 95 per cent.

Shortcomings of the subsidies for overpayments

2.58 Auditors appointed by the Audit Commission are tasked to audit local authorities' subsidy claims, including those for overpayments and weekly benefit savings. Appointed auditors have recorded problems with some local authorities' treatment of overpayments. These auditors qualified 31 local authority subsidy claims in 1995-96 because of uncertainty about the true level of overpayments and the subsidies claimed on them.

2.59 Of the 385 claims for weekly benefit savings examined by the National Audit Office and the Audit Commission, overpayments had been identified in 164 cases, with a total value of £89,609. Of this sum, £16,465 had been recovered by the authorities, (Figure 19).

2.60 Following a visit to one London Borough which gave cause for concern about standards of benefits administration and fraud investigation, a special exercise was undertaken by District Audit to examine 88 cases where weekly benefit savings had been claimed by fraud investigators.

2.61 District Audit used the same work programme as that used by the National Audit Office and the Audit Commission on their initial visit. The results of both sets of work are also set out in Figure 19.

2.62 Overpayment recovery in the local authorities visited by the study team was attempted in only 38 per cent of cases in our sample of weekly benefit savings claims where an overpayment was identified (62 out of 164 such cases). In addition, only one of the 14 local authorities visited maintained a central record of the status of housing benefit overpayments. This compromises the use of an overpayment recovery system as a way of deterring fraud.

Conclusions on subsidies for identifying overpayments due to fraud

2.63 Together, this evidence calls into question:

- whether the original assessment of Housing Benefit cases as fraudulent is invariably correct, given that local authorities raise few overpayments on cases where weekly benefit savings have been claimed, and attempt so little overpayment recovery;

Overpayments case studies

Figure 19

Cases examined	District Audit Examination		National Audit Office Examination	
	Number	Value (£)	Number	Value (£)
Random sample of weekly benefit savings cases	88	205,220	385	876,934
Cases where overpayment identified and subsidy claimed	23	9,641	164	89,609
Overpayment recovery complete/underway	4	315	62	16,465
Number of prosecutions	0	0	5	Data not available
Recovery not attempted/recovery status unknown	16	9,326	102	73,144
Claim for overpayment subsidy withdrawn	3	Data not available	0	0

Source: District Audit and National Audit Office examination

Figure 19 shows that local authorities do not calculate overpayments in all corresponding weekly benefit savings cases, and fail to recover some or all of the sums owed in the majority of cases.

- whether the current subsidy arrangements encourage local authorities to classify overpayments as due to fraud in order to generate maximum subsidy;
- whether the £43 million paid out by the Department in subsidy for overpayments due to fraud in 1995-96 is justified and has been earned; and
- whether there is adequate quality assurance of authorities' classification of overpayments and subsidy claims.

2.64 The National Audit Office believe that the current overpayment subsidy arrangements are open to abuse. They detected particular problems at a minority of authorities. This points to a need for reform or abolition of the system. Money released by either route could be better employed preventing fraud.

Anti-fraud work by the Benefits Agency

2.65 The Benefits Agency seek to detect fraud across all benefits, including Housing Benefit. Several of the measures within their Security and Control Programme lead to weekly benefit savings.

Benefits Agency targets for weekly benefit savings

2.66 The Benefits Agency are set annual targets for weekly benefits savings and are accountable to the Secretary of State for their performance against this and other targets, for example, for claims clearance times, claims accuracy levels and customer satisfaction.

2.67 A bonus element of the Agency Chief Executive's pay is dependent upon the number of targets the Agency achieves. There are incentives attached to the targets for others also. The Agency's weekly benefits savings target is distributed amongst the Fraud Area Manager commands and from there allocated to individual teams within the Benefit Fraud Investigation Service commands. The team target is shared among the individual members all of whom are expected to make a contribution towards the achievement of the local target. Staff have key work objectives for each year and pay can, in part, be based on achievements of these individual targets.

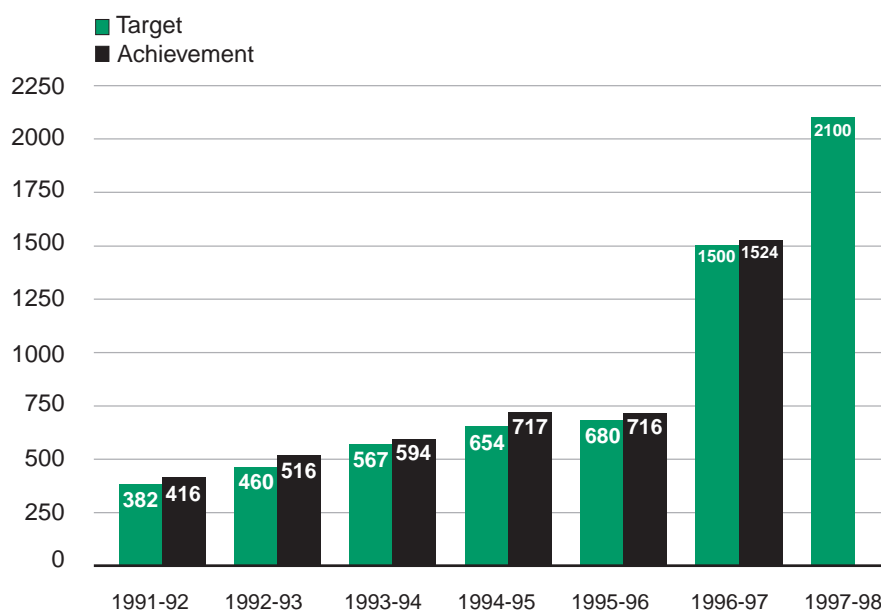
2.68 The Agency have consistently reported achievement of the targets for weekly benefit savings set by the Secretary of State. Figure 20 opposite indicates these significant achievements by the Benefits Agency in tackling fraud.

2.69 The bulk of the £716 million weekly benefit savings achieved in 1995-96, £451 million, resulted from the detection of Income Support fraud. The Agency can also claim Housing Benefit weekly benefit savings when they find in their investigative work on Income Support that Housing Benefit is also in payment and also fraudulently obtained. In 1995-96, the Agency claimed £193 million Housing Benefit weekly benefit savings, compared to the total of £186 million achieved by all 400 plus local authorities in the same year (Figure 9).

Weekly benefit savings achieved by the Benefits Agency against Secretary of State targets

Figure 20

£ Million (in cash terms)
Weekly benefit savings



Source: Benefits Agency
Annual Report 1995-96

Note: From 1996-97 the Secretary of State security savings target has also included savings from the Security and Control Programme, launched in July 1995.

2.70 It appears surprising that the Agency's Housing Benefit savings should be 5 per cent higher than that claimed by the local authorities, given that:

- local authorities administer the benefit, not the Benefits Agency, and employ over a thousand fraud investigators specifically to combat Housing Benefit fraud; and
- local authority weekly benefit savings may themselves be inflated.

2.71 However, the 1996 Housing Benefit Review estimated that Housing Benefit claimants also in receipt of Income Support accounted for £537 million fraud, and that a further £178 million of Housing Benefit fraud arose from fraudulent Income Support cases, giving £715 million of the total of £905 million attributable to combined Housing Benefit and Income Support cases. As the Benefits Agency fraud investigators concentrate on Income Support fraud, they can pick up substantial amounts of Housing Benefit fraud also. Also, the Benefits Agency have five times as many fraud investigators as the local authorities.

2.72 Another factor relevant to the closeness of the Agency and authority savings figures is that when claiming Housing Benefit weekly benefit savings, there is no obligation on the Agency to check with local authorities whether Housing Benefit is indeed in payment. The Benefits Agency, at the request of local authorities, also use average rates of Housing Benefit, when claiming Housing Benefit weekly benefit savings. The rationale for using average amounts to calculate weekly Housing Benefit savings is to:

- overcome difficulties in obtaining actual rates from local authorities;
- provide consistency in Benefits Agency's savings claims;
- provide an audit trail; and
- reduce paperflows between local authorities and the Agency.

Validation of Benefits Agency weekly benefits savings

2.73 In December 1995 the Benefits Agency's Internal Audit concluded, following a review of weekly benefits savings across all benefits, including Housing Benefit, that there were questions over the effectiveness of the validation process and over the amount of reliance that could be placed on the weekly benefit savings claimed.

2.74 The main results of the review were:

- 77 of the 320 cases examined (24 per cent) gave rise to queries by Internal Audit about the weekly benefit savings claimed. In twenty-one of these cases the savings were agreed as invalid. Queries on a further fifty-six cases were taken up with Benefits Agency local offices of which sixteen were subsequently agreed as in error and that the savings were invalid. While Internal Audit had reservations over some aspects of the savings claimed in the remaining forty cases these were not agreed by the Benefits Agency Office concerned.
- the 320 cases were a relatively small non-statistical sample. Internal Audit maintain, however, that extrapolated nationally, the error rate observed in the sample shows a potential overstatement of £25.8 million in 1995-96;

- the £25.8 million overstatement is based solely on twenty-one cases where Internal Audit were certain that weekly benefit savings were invalid. It does not take account of the further fifty-six cases where weekly benefit savings were in doubt or there was insufficient evidence to claim weekly benefit savings; and
- Internal Audit expressed concern that their sample of cases was taken from those that had already been examined by Agency validation officers, “who had apparently failed to detect the errors or deficiencies. This brings into question the amount of reliance that can be placed on the WBS claimed.”

2.75 The Agency then set in hand a programme to improve the standard of benefit savings recording and asked for a further audit. This second Internal Audit review in 1996 on the 1995-96 benefit savings attributed to the Agency’s Security and Control programme also concluded that there was a significant problem with the accuracy of reported weekly benefit savings and a question over the validity of some of the savings being attributed.

2.76 Internal Audit reported, among other things, significant levels of error in weekly benefit savings in the two anti-fraud projects reported as most successful in terms of savings by the Benefits Agency: new claim visits and targeted reviews, see Figure 21. On new claims visits Benefits Agency staff visit new Income Support claimants before benefit is awarded, to confirm identify and the claimant’s financial and household circumstances. Targeted reviews focus on claims already in payment. Benefits Agency staff contact claimants in certain high risk categories to verify claimants’ current financial and household circumstances, by visit, telephone or in writing. These visits and reviews cover Income Support cases, but Housing Benefit weekly benefit savings may be claimed because of the close link between the two benefits.

2.77 In response, the Agency issued further guidance on savings recording and asked Internal Audit to review the matter later in 1996-97.

2.78 This third Internal Audit report, in January 1997 recorded that audit testing highlighted a significant improvement in the accuracy of weekly benefit savings figures. The report, however, also recorded “a significant level of inaccuracy”(errors of 16 per cent and 21 per cent) in benefit fraud investigation results and new claims visits and targeted reviews. As part of their overall testing Internal Audit also examined cases where weekly benefit savings had been validated by the Benefits Agency, and found that “a considerable improvement in

Invalid weekly benefit savings calculated by Benefits Agency Internal Audit, 1995-96

Figure 21

Project	Weekly Benefit Savings target £ million	Weekly Benefit Savings Claimed £ million	Invalid Weekly Benefit Savings £ million	Percentage Error
New Claim Visits	122	162	27	17
Targeted Reviews	66	79	24	30
TOTAL	188	241	51	21

Source: Benefits Agency Internal Audit Report, 1996

Figure 21 shows the level of error in reported weekly benefit savings claims for New Claims Visits and Targeted Reviews.

validation standards is needed before senior management can place any reliance on the savings figures which are claimed”. Internal Audit found errors in 61 per cent of these cases.

2.79 Internal Audit concluded that these errors “will have resulted in substantial overstatement” of the achievement of the Secretary of State target for Agency weekly benefit savings. They said, however, that the Benefits Agency surpassed their weekly benefit savings target to such an extent that the Agency’s overstatement of savings made no difference, as the level of overachievement exceeded the level of overstatement

Conclusions on the Benefits Agency’s anti-fraud work

2.80 Benefits Agency senior managers have themselves been concerned about the levels of overstatement of weekly benefit savings claimed by the Agency’s investigators. Internal Audit have, on three separate occasions, given advice on this issue. For Housing Benefit, the weekly benefit savings recorded by the Agency are higher than those achieved by the local authorities who administer the benefit. Failure to confirm Housing Benefit is in payment also suggests that the Benefits Agency’s weekly benefit savings for Housing Benefit may include inappropriate savings.

2.81 For weekly benefit savings to be a credible measure of anti-fraud achievement, the Benefits Agency plan to exercise greater control over claimed savings, and to implement rigorous independent validation of savings. The Agency have recognised that independent validation is especially important when pay is linked to the achievement of anti-fraud targets. The Benefits Agency have regularly

issued guidance to staff on the importance of compliance with the rules on weekly benefit savings and they are striving to improve the accuracy of their scoring of weekly benefit savings, and are confident that things will improve. In 1996-97 the Agency reduced their figures for achievement of weekly benefit savings against target from £1,870 million to £1,524 million to help ensure that their performance is accurately reported. Weekly benefit savings, accurately stated, are an important component of public expenditure planning. The Agency's Chief Executive is insisting on validated savings.

Co-operation between local authorities and the Benefits Agency

2.32 The Department of Social Security fully intend that local authorities and the Benefits Agency should co-operate to combat Housing Benefit fraud.

Service level agreements

2.33 In 1992 the Benefits Agency Chief Executive and Local Authority Association Secretaries agreed to set up service level agreements on general liaison arrangements between Benefits Agency local offices and their corresponding local authorities. A model national agreement was formally signed at this level, and provided to Benefits Agency local managers and to local authorities to use in drawing up local agreements. By April 1993, 99 per cent of local service level agreements were signed.

2.34 Subsequently a fraud-specific national service level agreement was agreed, and local versions negotiated, and 92 per cent of the 520 possible are in place. (There are more agreements than local authorities because some authorities liaise with more than one Benefits Agency Office).

2.35 The general service level agreements set out baseline expectations, processes and obligations for both sides to ensure an acceptable standard of liaison on Housing Benefit administration. Fraud-specific agreements include arrangements and targets for the exchange of information, and state which party investigates fraud, and which can claim weekly benefit savings in Housing Benefit fraud and Income Support/Housing Benefit fraud cases. Appendix 7 summarises the model fraud service level agreement and illustrates the main features of a typical agreement between a Benefits Agency local office and a local authority.

2.36 The main intention of the fraud agreement is to ensure the full and timely exchange of information, so that anti-fraud work is efficient. For example, the Benefits Agency need to know what cases/claimants the local authorities are investigating, and local authorities need an adjudication from the Benefits Agency that Income Support is in payment on cases they have classified as fraudulent, so that they may claim weekly benefit savings on the Income Support payments as well as the Housing Benefit. The agreements also provide for regular meetings to discuss fraud matters and feedback on cases referred to the other organisation. The various information flows and the forms used are summarised in Figure 22.

Information flows between local authorities and the Benefits Agency

Figure 22

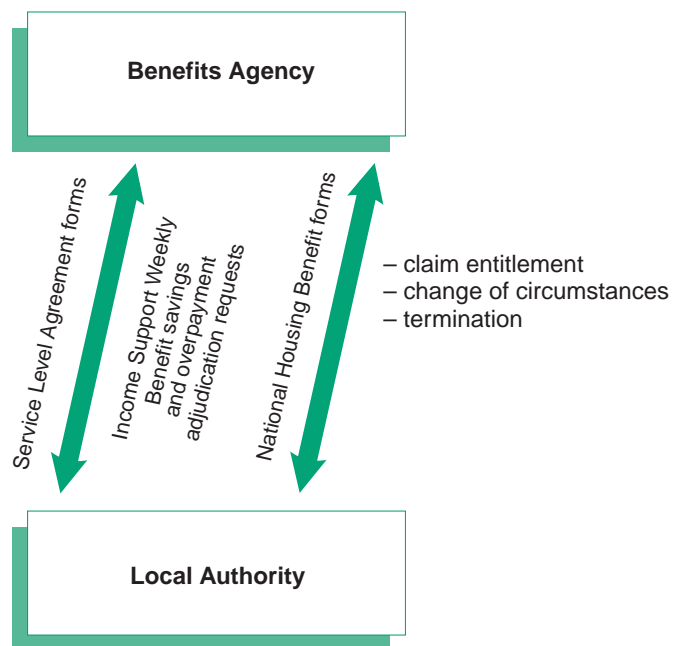


Figure 22 shows the key information flows between the local authority and the Benefits Agency. Full and timely information flows are critical to effective anti-fraud efforts.

For detail on forms, see Appendix 2.

2.37 The National Audit Office found that all 14 local authorities and their “partner” Benefits Agency offices had general and fraud service level agreements, and these followed the national model agreements promulgated by the Department. Eight of the 14 Benefits Agency offices visited had a designated

liaison officer tasked with communicating with local authorities. These are useful achievements, providing a sensible environment for co-operation in combating fraud.

2.88 There are, however, serious problems in practice. Replies from 79 local authorities to a National Audit Office questionnaire seeking local authority staff's perceptions of their business links with the Benefits Agency clearly indicated that respondents felt that their arrangements with the Benefits Agency were poor on benefits administration and on anti-fraud work. Summarised results are shown in Figure 23.

2.89 Visits to local authorities and Benefit Agency offices reinforced these findings. Eight of the 14 local authorities visited said their working relationships with the Benefits Agency were poor. All but one Benefits Agency office reciprocated this view. Service level agreements were widely regarded by both parties as irrelevant to everyday needs, and were felt to be a token gesture - something to be kept on the shelf but not followed in practice. Both parties reported that there were no strong incentives to meet the requirements of the agreements, particularly the deadlines set for exchanging key pieces of information.

2.90 The National Audit Office concluded from their questionnaire results and visits to local authorities and Benefits Agency offices that the service level agreements have fallen into almost total disrepute, and were ineffectual in securing co-operation in the fight against fraud.

2.91 The critical effects of not following the service level agreements are:

- poor day to day exchange of information, which may lead to overpayments of Housing Benefit;
- inflation of weekly benefit savings claims; and
- obstacles to local authority attempts to recover overpayments.

Under current arrangements the Agency is permitted to claim a weekly benefit saving without confirmation from a local authority, and does not normally, therefore, seek such confirmation. Local authorities, however, are required to obtain such written confirmation (though fieldwork showed that some did not always do so). Such confirmation may be crucial in establishing the existence of fraud and the amount involved.

**Local authority opinions
on service level
agreements**

Figure 23

<i>Question</i>	<i>Benefits Managers</i>		<i>Investigations Managers</i>	
	Agreed	Disagreed	Agreed	Disagreed
SLA has improved liaison between Benefits Agency and Local authority	27	33	32	28
Benefits Agency fraud offices respond to local authority enquiries promptly (in line with the service level agreement)	15	46	28	37
Benefits Agency benefit offices respond to enquiries promptly (in line with the agreement)	22	42	30	38
Benefits Agency respond promptly to requests involving adjudication	12	52	16	53
Benefits Agency benefit offices notify Local Authorities promptly when Income Support is terminated	16	55	16	54
Benefits Agency provide backdated adjudications which allow the Local Authority to raise overpayments	10	46	17	48
Relationships have improved because disagreement procedures as set out in the service level agreement with the Benefits Agency are followed	13	42	17	33

Note: Some authorities did not respond to all questions

Source: Responses by 79 local authorities in England and Wales to the National Audit Office questionnaire

Figure 23 shows that, in the opinion of the majority of local authorities responding to the National Audit Office questionnaire, service level agreements are not working as intended.

2.92 In their examination of 67 individual cases where weekly benefit savings involving Income Support had been claimed, the National Audit Office found 12 cases (18 per cent) where the local authority had claimed Income Support savings without necessary evidence from the Agency. A further effect of ineffectual service level agreements is that duplication of effort may occur where fraud investigators fail to inform each other of current investigations. This can lead to the Agency and a local authority claiming the same weekly benefit saving. In other cases, investigations may not lead to a claim for a fraud saving but may cast doubts on the honesty of claimants or cause unwarranted stress to claimants through repeated visits from different officials.

2.93 Effective co-operation depends on the timely exchange of comprehensive information. The Department have estimated that between 22 million and 30 million Housing Benefit forms pass between Benefits Agency offices and local authorities each year. In all but one of the authorities and Benefits Agency offices visited, the National Audit Office found that there was no established or comprehensive system to record the paper flows between local authority and Benefits Agency offices. The key forms necessary to effective benefit administration and anti-fraud work (Appendix 2) often went astray, or if received were not retained on file; reminders were often sent on requests for information, but no replies arrived. The management of paper was often chaotic and claimant files were frequently incomplete in both local authorities and the Benefits Agency. In this environment of poor documentation fraud is difficult to detect and difficult to prove.

2.94 In cases where Income Support and Housing Benefit are paid, the Agency have a key role in the process of recovering Housing Benefit overpaid due to fraud. Unless the Agency adjudicate that Income Support is withdrawn for the same duration as the suspected overpaid Housing Benefit, a local authority has no legal basis to raise and recover an overpayment in these cases where the suspected overpayment arises from mis-statement by the claimant of his/her income and capital. Local authorities rely on the Agency to provide a quick response to requests for this confirmation.

2.95 The Agency have a backlog of cases involving overpaid benefit and are currently attempting to reduce their backlog. Local benefit offices visited by the study team confirmed that there is no system for identifying local authority confirmations concerning overpaid Income Support and Housing Benefit. Requests for confirmation by local authorities are treated similarly to all other overpayment cases by the Agency and add to the existing backlog. The Agency confirmed that the current project to reduce the backlog is unable to do so. They acknowledge that any future increases in overpayments arising from more

Targeted Review cases will increase the backlog problem. The Agency are aware of the difficulties associated with overpayments and are seeking to manage backlogs better and to identify constraints and weaknesses within the existing systems.

The “Finders-Keepers” arrangement for claiming weekly benefit savings

2.96 Finders-keepers is the name given to the arrangement whereby if a local authority discovers a fraud which involves Income Support as well as Housing Benefit before the Benefits Agency does, they will be able to claim weekly benefit savings in respect of both benefits. Under the finders-keepers arrangement the Benefits Agency undertook to determine the Income Support element of fraudulent cases, and to notify the local authority to enable them to claim a weekly benefit saving on Income Support as well as Housing Benefit. These arrangements were duly enshrined in the fraud service level agreements agreed locally.

2.97 The National Audit Office survey of local authorities indicated that most benefit managers and investigation managers felt that the finders-keepers arrangements did not improve relationships with the Benefits Agency or help the combined fight against fraud, see Figure 24.

Local authority opinions on co-operation with the Benefits Agency on finders keepers arrangements

Figure 24

Question	Benefits Managers		Investigations Managers	
	Agree	Disagree	Agree	Disagree
DSS anti-fraud incentive scheme encourages Local Authorities to cooperate with the Benefits Agency to prevent fraud	26	39	23	40
Finders-keepers provides an incentive for us to fight fraud with Benefits Agency fraud offices	6	57	10	56
Relationships with Benefits Agency offices are improved by the finders-keepers rule	14	48	17	45

Figure 24 shows that the perception of the majority of local authorities responding to the National Audit Office’s questionnaire is that, finders-keepers does not lead to cooperation with the Benefits Agency.

Source: National Audit Office questionnaire, 1996

2.98 A major factor in the poor levels of co-operation appears to be that the finders-keepers arrangements have introduced significant competition between the Benefits Agency and local authorities in pursuit of weekly benefit savings. Individual Benefits Agency investigators have their own performance related pay targets to meet partly based on weekly benefit savings, while local authorities need to meet their baselines for weekly benefit savings to avoid penalty and earn subsidy, and some of their investigators have personal savings targets also. Although the weekly benefit savings regime has been effective in increasing Benefits Agency and local Authority anti-fraud effort, the result of competition is that:

- information is not shared;
- there is little joint anti-fraud effort; and
- local authorities are very critical, in particular, of the Benefits Agency's reluctance to determine the Income Support element of fraud cases discovered by the local authority, so denying them Income Support weekly benefit savings. Figure 25 shows varying levels of income support weekly benefits savings claimed by local authorities visited.

Very limited co-operation on pro-active fraud work

2.99 In addition to the poor co-operation on individual fraud cases, the National Audit Office found also a complete absence of any joint working on proactive fraud work such as co-ordinated drives on particular high-risk areas such as homes in multiple occupation, hostels, building sites etc. And co-operation between Benefits Agency and local authorities on the "Spotlight" local anti-fraud drives (paragraphs 2.119 to 2.126) has been limited.

Ways to improve co-operation between local authorities and the Benefits Agency

Remote access terminals

2.100 Local authorities and the Benefits Agency exchange information confirming payment of Income Support or Jobseeker's Allowance to Housing Benefit claimants or notifying changes of circumstances. At present these exchanges are paper-based and poorly managed. Important information can go astray causing confusion about entitlement to Housing Benefit with the potential for overpayment and fraud to occur.

Figure 25 Income Support Weekly Benefit Savings claimed by the Authorities visited by the study team

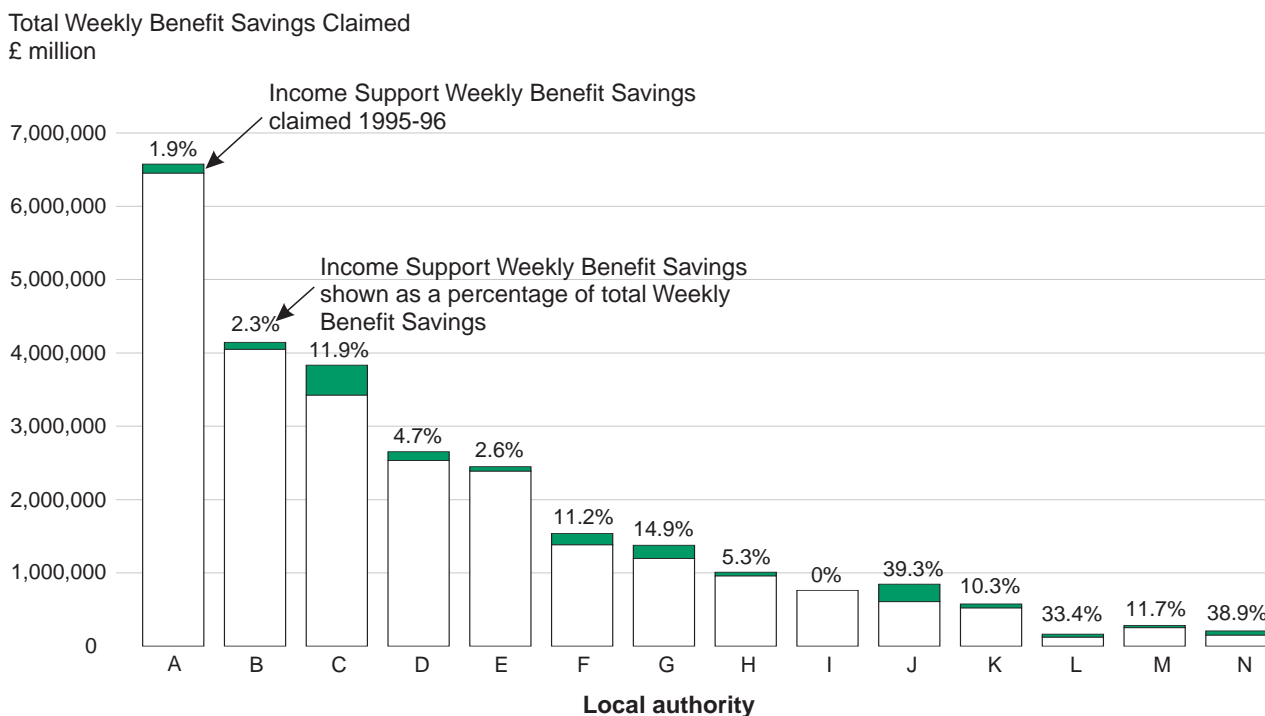


Figure 25 shows that the levels of Income Support weekly benefit savings claimed varied from 0 per cent to 39.3 per cent of total weekly benefits savings in the 14 local authorities visited by the study team. This compares with the national average of 11.2 per cent in 1995-96.

2.101 The Departmental Central Index holds details on all benefits claimants, including which benefit they are on and at what rate, as well as full name, address, date of birth and National Insurance number details. At present, virtually all local authorities pursuing Income Support fraud linked to Housing Benefit are totally reliant on the Agency to supply them with details wholly relevant to their investigation of fraud, such as current address, National Insurance number, whether Income Support is in payment, or what income is being declared.

2.102 In 1993-94, the Department piloted the use of direct access to the Income Support Computer System by seven local authorities. Through “remote access terminals” these authorities were able to by-pass the usual cumbersome and unreliable paperflows by accessing the information they needed by direct electronic means. The Department’s evaluation of the pilot concluded that terminals:

- improved liaison;

- produced minimal quantifiable savings;
- allowed authorities instant access to information; and
- reduced the amount of post the Agency received.

The use of remote access terminals

Case study

One authority visited by the National Audit Office said that its terminal was of enormous benefit:

- it speeded up fraud investigation work significantly;
- decisions on what weekly benefit savings to claim, including any for Income Support, were clear cut;
- bureaucracy was massively reduced, while
- reliability of decision-making in anti-fraud work improved; and
- the terminal gave assurance all required information was now available and up to date.

2.103 It was clear from the authority visited that the remote access terminal was an effective shortcut around paperflows and improved the quality of decision making. The Benefits Agency office which had dealt with the authority before it had the terminal said that things had now improved immeasurably - paperwork and the cost associated with it was cut, and working relations between the Agency and the authority had dramatically improved.

2.104 Although only a few terminals have been installed since the pilot, local authorities are keen to have access through a terminal. Over 90 per cent of managers who responded to the National Audit Office questionnaire indicated that a terminal would help to combat fraud.

2.105 The National Audit Office consider that wider use of remote access terminals would confer significant benefits in terms of better benefits administration and better anti-fraud work. Following the Social Security Administration (Fraud) Act of March 1997 which came into force on 1 July 1997 (paragraph 3.2) local authority staff will be able to have access to relevant data in departmental systems, and the Department are now examining how to promote

the wider use of remote access terminals. Such access should be subject to safeguards against the misuse of information, including effective sanctions against misuse.

Joint working and staff exchanges

2.106 The National Audit Office consider that the dearth of joint working by the Benefits Agency and local authorities represents a wasted opportunity. Joint strategic and tactical planning of anti-fraud work and combined operations are necessary to make the most of anti-fraud resources, including local knowledge and expertise.

2.107 On visits to local authorities and the Benefits Agency the National Audit Office found that ignorance of each other's roles, responsibilities and working methods was widespread, and is an important contributory factor to distrust. A programme of short and long term secondments, staff exchanges, shared training and work-shadowing may well help to overcome these difficulties, especially if backed up by periodic meetings to discuss items of mutual interest. Such meetings are often written into service level agreements, but as those have fallen into disuse, so the meetings have dwindled.

2.108 The Department launched in 1996 a joint Benefits Agency/Audit Commission study of local authority and Benefits Agency liaison. The report on the study's findings and recommendations is expected to be available soon.

Challenge Funding

2.109 In April 1996, the Department of Social Security issued a Housing Benefit circular to local authorities announcing a challenge fund of £8 million for anti-fraud initiatives against individual and organised fraud. The fund offered local authorities the opportunity to expand their anti-fraud work and increase the subsidies earned on weekly benefit savings through the Incentives and Penalties scheme. The aim of the funding was to foster initiatives which offered substantial in-year returns, with a payback required by HM Treasury of at least £3.50 in weekly benefit savings to £1 challenge funding.

2.110 The Department's other main requirements were that:

- the proposals should have additionality - that is they would not have gone ahead without challenge funding;

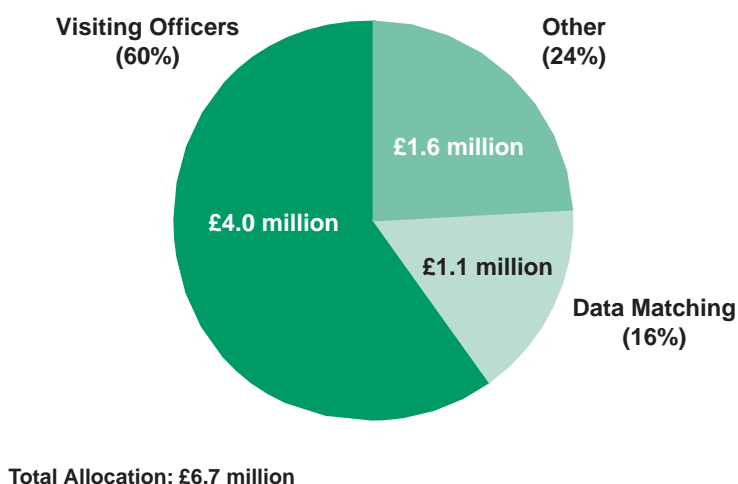
- bidders should have a stake in their schemes by meeting some of the costs; and
- bidders should be prepared to share any good practice or lessons learnt from the scheme.

2.111 The £8 million funding was contentious to local authorities, as it was largely financed by ring-fencing £5 million for specific anti-fraud initiatives within the administration subsidy paid annually by the Department for local authorities' costs of administering Housing Benefit. The Local Authority Associations argued that under-funding the administration of Housing Benefit was likely to give more scope for fraud; thereby relaying a message to local authorities that they should effectively cut back on fraud prevention, while stepping up efforts on detection.

2.112 Local authorities also appeared to be put off by the requirement that bids be innovative, and proposals to the scheme were initially very slow. In the face of few proposals, the Department relaxed the requirement for innovation. Eventually, 315 bids were received, of which 292 were successful and £6.7 million of the £8 million set aside for the fund was spent. The Department later concluded that only one of the 292 successful bids had been truly innovative - a proposal to combat cheque fraud - and that by far the majority of bids were to fund staff costs for fraud investigation and for visits to new or high-risk Housing Benefit claimants, as shown in Figure 26.

Department of Social Security spend on Challenge Funding 1996-97

Figure 26



Source: Department of Social Security data

Figure 26 shows that 60 per cent of the Challenge Fund in 1996-97 was spent on visiting officers.

2.113 The largest single individual allocation of funds, £318,750, was for the matching of individual local authorities' Housing Benefit data to their own payroll, student awards data, and to other authorities' data. As students do not normally qualify for Housing Benefit the aim is to try to detect people who have claimed for both Benefit and award within an authority or who have claimed for either Benefit or award or both in more than one local authority. This "data-matching" is being done by the Audit Commission through its operational arm, District Audit, on behalf of the 330 local authorities taking part. The exercise revealed £15 million of weekly benefit savings as at the end of March 1997.

2.114 The Department expect the payback from the funding of individual schemes and from the £8 million as a whole to exceed the 3.5 to 1 ratio required. The Department are keen to continue the progress made, and for 1997-98, £8 million will be available for general schemes and £8 million for targeted visiting schemes. This is to be funded by £11 million in new money and £5 million from within the benefit administration subsidy, as in 1996-97.

2.115 The Department require local authorities to submit quarterly reports on their schemes, including an assessment of payback, and require also that the appointed auditors review the performance and financial probity of the outturn of the scheme against the agreed bid, and report this to the Department.

Conclusions on Challenge Funding

2.116 Challenge Funding is likely to be successful. The Department expect a final weekly benefit savings total of over £50 million, from £6.7 million of funding - a return of over 7 to 1, well above the HM Treasury requirement of 3.5 to 1.

Spotlight campaigns

2.117 In April 1996, the Benefits Agency began a series of month long anti-fraud drives in particular areas based on the operational boundaries of their local offices. The areas were chosen because they are compact, and geographically spread, not because they are more prone to fraud than other places. The aims of these "Spotlight on Benefit Cheats" campaigns are:

- to encourage those who have drifted into abusing the benefit system to report any changes in circumstances and put their claims right;
- to detect and deter fraud; and

- to pursue the recovery of overpayments of benefit.

2.118 These campaigns cover all benefits. Once a decision on which area to spotlight has been made, the established procedure is set out in Figure 27 below:

Spotlight campaigns - Typical procedures

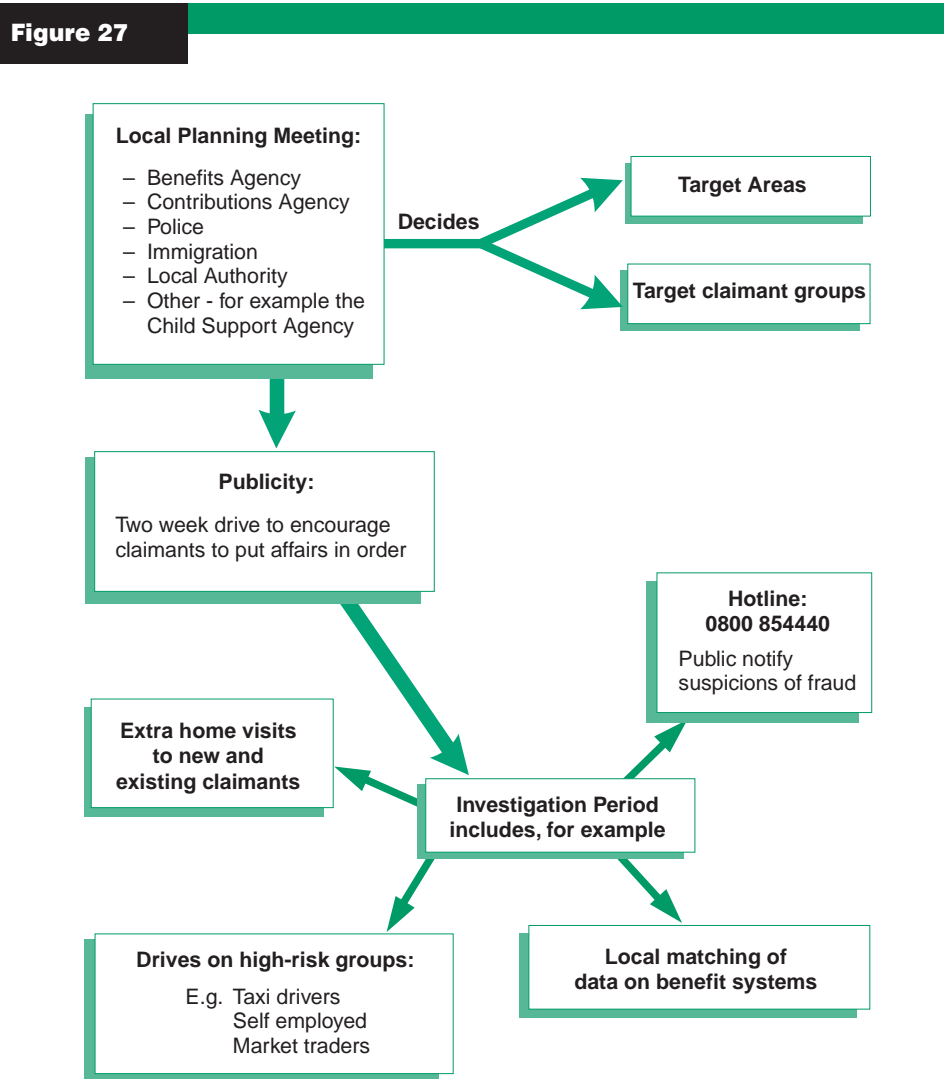


Figure 27 shows typical procedures for a spotlight Campaign.

2.119 The results of these campaigns are assessed in terms of their reported weekly benefit savings. The total weekly benefit savings reported for the first year of the campaign were £101 million. This was generated from 42 separate spotlight campaigns, an average of about £2.4 million per area for a month's proactive

work. The cost to the Department and Benefits Agency of running the campaigns in the same period was £8.7 million, giving a payback of £12 weekly benefit savings for each £1 spent.

2.120 Some examples of individual successes from the Spotlight campaigns which are likely to have had a Housing Benefit element are:

- an investigation into local building contractors in Brighton revealed 77 people who were working while claiming benefits. Benefit savings amounted to more than £200,000 and nine people were prosecuted;
- during a visit by Benefits Agency staff in Croydon to review a claimant's Income Support entitlement, a claimant was asked whether he was doing any work at the moment. He replied "Yes, I've been working for twelve years";
- a man in Edinburgh claiming incapacity benefit in respect of himself and two children was discovered delivering pizzas every evening from 5pm until midnight;
- an early morning raid on an abattoir in Lancashire resulted in eight people signing off benefit from a work force of 20; and
- an investigation into an organisation's cleaners found that 50 of the 70 cleaners were making fraudulent claims for benefit.

2.121 More generally the extensive media coverage usually associated with the Spotlight campaigns will have raised people's awareness of fraud and changed their attitude to fraud. The campaigns will allow the Agency to improve anti-fraud practices, by developing better risk assessment criteria - knowing which areas and types of claimants to focus on.

2.122 The National Audit Office noted, however, that:

- local authority involvement varied considerably. Only a small number were able to dedicate significant resources to Spotlight activities, others carried out a more limited number of fraud drives in support of Spotlight, and some, for a variety of reasons, took no specific part in the campaign;

- the Agency do not have the means to measure all the effects of the campaigns. For example they do not distinguish between weekly benefit savings earned by claimants coming forward in response to publicity to put their claims in order, (the first objective of the campaign) and benefit savings resulting from detecting fraud by those who were unmoved by the publicity. Nor can the Agency assess the deterrent effect of the campaigns. And they cannot fully assess the additionality of campaigns - what extra they got from any campaign in terms of weekly benefit savings compared to what they might have got through normal anti-fraud activity. They consider, however, that people's fraud awareness had increased significantly following campaigns.

Conclusions on the Spotlight campaigns

2.123 Although the Agency have not measured the precise effects of Spotlight, the campaigns appear to be successful in terms of reported weekly benefit savings, increased fraud awareness, anti-fraud publicity, disseminating best practice, and developing new anti-fraud methods.

2.124 It is disappointing, however, that there has been so little local authority involvement in the campaigns. The Agency should consider ways of exploiting local authorities' local knowledge in the next round of Spotlight campaigns (about 50 are planned for 1997-98, providing funding is forthcoming). This might involve suspending "finders-keepers" arrangements for the duration of the campaign, and the pooling of weekly benefit savings generated before their distribution across participants.

Part 3: New measures to combat housing benefit fraud

Key findings

- The Fraud Act is a major step forward, enhancing Departmental and authority powers to detect fraud, and, more importantly, to prevent and deter it.
- The Department's work on setting out minimum standards and steps in administering a claim is crucial to preventing fraud and is a vital development given the absence of effective preventive measures at present and the variation in local authority performance in administering the benefit.
- Subsidising the implementation of preventive measures in authorities may well prove to be more cost-effective than rewarding fraud detection.
- A fraud Hotline is proving successful in raising public awareness of fraud and in increasing fraud detection.
- The Audit Commission and the Department are electronically matching Housing Benefit claimants' data with other data sources.
- A team focusing on detecting organised fraud in London has been set up.
- A major computing strategy under consideration is designed to link and standardise local authority and Departmental Housing Benefit information technology. A robust business case will be needed. The Department will need to assess critically the benefits and viability of the more ambitious and expensive options identified by the strategy.

Part 3: New measures to combat housing benefit fraud

Introduction

3.1 The established measures examined in Part 2 concentrate on detecting fraud. The new measures in train, including a Fraud Act, should significantly increase the Department's armoury in the battle against fraud, by placing much-needed emphasis on fraud prevention and fraud deterrence, while building on fraud detection. The new measures demonstrate the Department's continuing commitment to tackle fraud.

The Social Security Administration (Fraud) Act

3.2 The Fraud Act which received Royal Assent in March 1997 has implications for all social security benefits, but many of the key measures focus particularly on Housing Benefit. These measures are:

for fraud detection

- a provision to enable a local authority to exchange data relating to housing benefit and council tax benefit with that held by any other local authority;
- provisions to allow the Secretary of State to pass on to local authorities any relevant information, including any obtained from certain other government departments (for example, the Inland Revenue, HM Customs and Excise and the Home Office), which is required by an authority for the purposes of preventing and detecting Housing Benefit and Council Tax Benefit fraud;
- a power which can be used to give local authorities access to Departmental computer systems, including the Departmental Central Index of all benefit claimants and the Income Support Computer System;
- a strengthening of the Secretary of State's powers to adjust the subsidy paid to local authorities depending on their success or failure in preventing and detecting benefit fraud. Also new powers enable her to encourage further

local authorities to enhance their anti-fraud activities by inviting applications for additional subsidy and, where she considers it appropriate, paying one-off amounts of additional subsidy for specific initiatives;

- enhancing the powers of local authority fraud investigators to put them on the same footing as Benefits Agency fraud staff, so that they have certain powers of entry to business premises and powers to make enquiries;
- introducing a power to permit local authorities to obtain information from landlords, their agents or anyone acting on their behalf.

for fraud deterrence

- the introduction of a new criminal offence of dishonestly reporting circumstances or failing to report a change of circumstances to obtain benefit and an extension of the existing offence of false representation for obtaining benefit;
- the introduction of a financial civil penalty as an alternative to the initiation of criminal proceedings, where individuals admit that benefit has been obtained fraudulently. The aim of this is to increase recoveries whilst limiting the number of criminal proceedings which have to be undertaken;
- enabling a Housing Benefit overpayment determination to serve as proof of debt in the courts;
- allowing authorities to recover overpayments of Housing Benefit, paid to a landlord or his/her agent in respect of a tenant, by adjusting housing benefit paid to him/her in respect of another tenant;
- giving “social security authorities”, which include local authorities, rights to obtain details of postal redirections and to require the Post Office or other operators of postal services to return to sender post relating to benefits which would otherwise be redirected. (This is also helpful for fraud detection and fraud prevention).

for fraud prevention

- giving the Secretary of State powers to authorise persons to examine and report to her on how local authorities administer Housing Benefit, with particular reference to the prevention and detection of fraud. The Benefit Fraud Inspectorate will be authorised to exercise these new powers, in addition to any examination and reporting on the Department's Agencies; and
- the reports of the Inspectorate can include recommendations for improvements in a local authority's benefits administration, particularly concerning the prevention and detection of fraud. The Secretary of State is given powers to invite a local authority to consider such reports and to submit proposals for improving performance and remedying any failings identified by a report. The Secretary of State is also given powers to make directions about standards to be attained, with associated timescales.

3.3 The Act is a major step forward and considerably enhances Departmental and local authority powers to detect fraud, and, more importantly, to prevent and deter it.

The verification framework

3.4 In consultation with local authority representatives and the Audit and Accounts Commissions, the Department of Social Security are currently developing a framework prescribing a minimum level of evidence and information an authority should have when processing a Housing Benefit claim. The objective of this set of controls, the "Verification and Benefit Administration Framework", is to reduce the opportunity for claimants to make a fraudulent claim which is then put into payment. The framework represents the Department's most important attempt to prevent fraud by minimising and eliminating initial opportunities for fraud.

3.5 The verification framework project began in earnest in May 1996 when the Department convened a working group to identify the main risk areas within Housing Benefit, and the checks and controls which might be applied to minimise risk.

3.6 The first draft of the verification framework was produced in July 1996. It addresses each of the risk areas in turn, setting out what information a Housing Benefit application form should require of a claimant, and stipulating what evidence the claimant should provide in support of the declarations made on the application form.

The framework places great stress on evidence of claimant entitlement to benefit, and requires that local authorities see evidence of:

- claimant identity;
- residency, and rent being paid;
- household composition - family, dependants etc;
- earnings - for both employed earners and the self-employed;
- other benefits being received;
- other income; and
- capital and savings.

3.7 As well as covering minimum standards of evidence for new claims, the framework sets out a series of checks for verifying claimant circumstances during the benefit period, after a claim has been put in payment. This is especially important given the high incidence of fraud arising from failures by claimants to report changes in their circumstances. The verification framework also sets out the frequency at which high risk groups of claimants might be visited to confirm entitlement of benefit.

3.8 The Department have been testing some elements of the draft verification framework with a small number of local authorities, and are using the test results to analyse its practical application and value. No estimates of the cost of implementing the framework have been made yet. Local Authority Associations strongly support the framework and have told the Department that their costs should be met by the Department, and that these costs will be more than offset by savings. The Department hope to make available a final version of the verification framework from autumn 1997.

3.9 Given the likely additional costs at least in the short term, the Department are examining what incentives might be given to local authorities to adopt the more rigorous controls in the framework. They will also need to consider the possible conflicts facing authorities given the current availability of financial incentives for detecting fraud, as well as how they will monitor local authorities' implementation of and adherence to the framework over time.

3.10 The National Audit Office believe that the verification framework is a major step forward. It is a comprehensive and well thought out measure that is likely to be effective in preventing fraud entering the Housing Benefit system as well as improving the detection of unreported changes of circumstances. Expenditure on subsidising its implementation in local authorities may well prove a more cost-effective use of resources than continuing to reward fraud detection through the Incentives and Penalties scheme. The National Audit Office commend the framework and look to the prompt implementation of this crucial measure.

3.11 Given the strong links Housing Benefit has with Income Support, the Benefits Agency should consider introducing a similar system for that benefit. The Housing Benefit verification framework, for example, has detailed sections on evidence needed to support income, capital and savings which could usefully be developed for Income Support. Under the current plans for the verification framework local authorities dealing with people claiming Housing Benefit because of their entitlement to Income Support or Jobseeker's Allowance will assume that the Benefits Agency have verified income and capital. While the full verification in the framework will apply therefore, only to the remaining third of Housing Benefit cases, local authorities will be expected to verify residency, rents and other factors for high risk groups of claimants, and claimants with Income Support and Jobseeker's Allowance will fall into these groups. Achieving major reductions in the overall levels of fraud in Housing Benefit will depend on achieving reductions in the levels of fraud in Income Support by wide application of verification.

The National Benefit Fraud Hotline

3.12 The National Benefit Fraud Hotline was set up by the Benefits Agency in August 1996. The freephone Hotline number, 0800 854 440, is open from 08.30 to 18.30 Monday to Friday. The Hotline centre has 55 call lines and 35 full time staff who receive calls from members of the public who wish to pass on information they have about suspected fraud against any social security benefit, not just Housing Benefit.

3.13 The aims of the Hotline are to:

- raise public awareness of fraud and the measures in place to catch fraudsters;
- produce good quality referrals for investigation by training staff on how to take calls; and
- increase the savings to the public purse, by tapping into information otherwise unavailable.

3.14 Its achievements are set out in Figure 28 below:

The Fraud Hotline's achievements to date

Figure 28

Calls as at 24 January 1997	144,256 calls
Average per day	1,200 calls
Referrals to Benefits Agency Fraud Investigation	87,783 cases
Investigations in progress or completed	33,835 cases
Referrals to be actioned	53,948 cases
Reported Weekly Benefit savings on completed investigation	£18.2 million
Expected Weekly Benefit Savings as investigations completed	£12.8 million
Total	£31.0 million
Costs 1996-97	£1.3 million

Figure 28 shows that the Hotline has had a substantial impact in terms of calls and reported weekly benefits savings.

Source: Benefits Agency

3.15 The Agency are seeking to improve the effectiveness of the Hotline by:

- having telephone operators check the information they receive against the Department's central index of benefit claimants before referring details to investigators; and
- despatch of Housing Benefit referrals direct to local authority investigators. At present, all referrals go direct to the Agency.

3.16 First indications are that these enhancements are effective - the proportion of calls resulting in benefit being stopped or reduced has risen from 17 per cent in the first few months of the Hotline to 33 per cent at January 1997. The Agency expect the enhancements, together with work in hand to evaluate the scheme in more detail, to secure the Hotline's future in their security strategy.

Data-matching

3.17 The Department are rolling out a Housing Benefit Matching Service to compare Housing Benefit data within and between local authorities, and to compare local authority data with Benefits Agency data, for example that on Income Support and Family Credit. Such comparisons identify anomalies and inconsistencies in data which will be referred to local authorities for investigation of possible frauds or incorrectness.

3.18 The Service allows a range of possible frauds and incorrect payments/claims to be detected, including;

- multiple claims by individuals;
- claims on more than one authority;
- claims by individuals using false identities, or "borrowed" identities, through, for instance, use of a dead person's national insurance number;
- non-residency fraud - for example people claiming for Housing Benefit at one address while living elsewhere; and
- false declarations in circumstances.

3.19 In October 1996, following pilot work in six London Boroughs, the Department assessed the initial results as encouraging. 656 data matches had been referred to the boroughs by the end of October of which results for 384 had been reported. Of these local authority fraud investigators reported that 196 (51%) gave positive results, generating:

- £261,956 in weekly benefit savings; and
- £176,705 in identified recoverable overpayments.

3.20 The business case for the Service anticipates that discrepancies will be found in 1.7 per cent of usable live case records and that 30 per cent of these would prove fraudulent. The business case forecasts the following costs and payback:

Costs and payback of the Housing Benefit Matching Service

Figure 29

£ million	1996-97	1997-98	1998-99	1999-2000	2000-2001	Totals
Costs	1.99	2.61	2.53	1.40	1.38	9.91
Weekly benefit savings	0.6	8.01	20.44	27.63	27.63	84.31
Payback	0.3:1	3:1	8:1	20:1	20:1	8.5:1

Source: Department of Social Security

Figure 29 shows that the Business case forecasts increasing returns for the Housing Benefit Matching Service

3.21 The Department are committed to reviewing the business case once sufficient results from live operations are available.

3.22 The Department recognise that as funds for the Service are limited the Service will need to be carefully targeted to ensure the expected weekly benefit savings yield. The Department also recognise that the voluntary nature of the Service - local authorities do not have to participate - and the variable quality of local authorities' Housing Benefit data, could mean that the Service will not address all of the potential frauds that could be identified by data-matching.

3.23 The Service has local authority support. The Local Authority Associations, for example, have written to the Department fully supporting the development, and expressing their wish to see the Service operational nationwide as soon as possible. At February 1997, 83 authorities had committed themselves to taking part. The

Associations said also that “the full potential of the Service will only be maximised if all authorities are linked to it. The Department should therefore be willing to meet any significant costs which are incurred by local authorities”.

3.24 The Audit Commission, through its operational arm, District Audit, have also been running a data-matching exercise called the “National Fraud Initiative 96”. It is financed by Challenge Funding. Challenge Funding met the Audit Commission’s costs of £319,000 and many of the participating local authorities received Challenge Funding to meet bills they faced from the Audit Commission – £1,850 each. For 1996-97, the Department are, in effect, funding both the Audit Commission and Housing Benefit Matching Service data-matching exercises. This is because the roll out of the Matching Service would only just be starting by the time the National Fraud Initiative exercise was conducted, so there would be minimal overlap between the two. The Department will be giving careful consideration to potential overlaps between the two systems during the next round of Challenge Funding. The two exercises are compared in Figure 30.

**Comparison between
Audit Commission
data-matching and the
Housing Benefit
Matching Service**

Figure 30

Audit Commission

The main areas matched annually are:

1. Housing Benefit to Housing Benefit (within and between authorities).
2. Housing Benefit to Further Education Awards (within and between authorities)
3. Housing Benefit to payroll (within individual authorities)
4. Covers England and Wales only

Costs:	£
Costs, 1996-97	
Local authorities' costs:	425,500
Audit Commission costs:	318,750
Total	744,250

The total costs of £744,250 provide 230 local authorities with one matching exercise in the year.

Housing Benefit Matching Service

Matches are undertaken quarterly. The main areas matched for local authorities initially joining the service are:

1. Housing Benefit to Housing Benefit (within and between authorities)
2. Housing Benefit to Income Support (between authorities and the Department)
3. Housing Benefit to Family Credit (between authorities and the Department)
4. Covers Great Britain

Costs:	£
Costs, 1996-97 to 2000-01	
Estimates, for a 5 year programme:	9,900,000
Cost per year (average)	1,980,000

The £9.9 million costs will provide up to 415 local authorities with four matching exercises a year for each of the five years.

Figure 30 shows the differing scope and costs of the two data-matching services funded by the Department.

Source: National Audit Office

3.25 The main difference between the two data matching exercises is that the Housing Benefit Matching Service has access to Departmental data, which the Audit Commission exercise does not.

London Organised Fraud Investigation Team

3.26 The Department's Housing Benefit Review estimated that landlord fraud could be as much as £150 million a year - about a sixth of the total estimated fraud. The consensus is that landlord fraud is greatest in London, which accounts for a fifth of private sector rented accommodation. In evidence to the Social Security Committee, the London Boroughs Fraud Investigators Group said that landlord fraud in London might account for lost public funds of some £40 million a year.

3.27 In May 1996 Social Security Ministers announced the formation of a special organised fraud team. The London Organised Fraud Investigation Team will focus on:

- organised Housing Benefit fraud conducted across more than one London Borough;
- liaison with the Benefits Agency, Police, Crown Prosecution Service and other relevant organisations;
- landlord surveillance;
- advice to fraud investigation officers in individual authorities; and
- promotion of good practice in preventing and detecting fraud.

3.28 The fraud team of 18 investigation officers started operations in December 1996. Projected funding for 1997-98 is £1 million.

3.29 The Team will, in effect, form a pilot study, from which the Department expect to:

- determine the impact and effectiveness of a dedicated local authority team to investigate organised Housing Benefit Fraud with given resources;

- provide a reliable indication of what could be expected in return for continued investment. Such an assessment would take account of savings achieved, prosecutions, and the number of investigations; and
- understand the deterrence value of such teams.

3.30 The National Audit Office visited the team and found high levels of dedication and commitment amongst the staff appointed. The team's initial operations comprise 12 investigations focusing on landlords, letting agents and cross-borough frauds. To date one investigation has yielded around £50,000 in weekly benefits savings and identified £80,000 in overpayments. This early impact is expected to increase as further investigations are completed. In the meantime, the team has successfully established protocols and liaison arrangements with other organisations combating fraud, notably the London Boroughs, the police and Benefits Agency organised fraud teams. The team are developing their capabilities further, including for example an organised fraud investigation system to provide both an investigation tool and a source of management information.

The Housing Benefit/Council Tax Benefit Computing Strategy Study

3.31 In March 1996 the Secretary of State announced plans for a study of how local authority Housing Benefit and Council Tax Benefit systems can be linked, to share information with each other and with the Department's computer systems. The Department's systems are themselves being developed as part of a corporate information systems and technology strategy. Within that overall strategy, the Housing Benefit/Council Tax Benefit Computing Strategy Study aims to achieve substantial reductions in fraud, error and overpayment by sharing common data.

3.32 The study identified three options. They are not regarded as mutually exclusive, though remote access terminals may only be needed as an interim measure. The options are:

- “look-up” – the use of remote access terminals to allow local authorities read-only access to some existing Departmental systems;
- “link-up” – linking local authorities' Housing Benefit/Council Tax Benefit computer systems to the Department's systems being developed under the corporate strategy. This would allow local authorities and the Department to build a common set of personal details about benefit claimants; and

- “join-up” – providing means within the corporate strategy to support all stages of local authority Housing Benefit/Council Tax Benefit administration, including a common set of personal details about benefit claimants.

3.33 Between August 1996 and January 1997, the Housing Benefit Computing Strategy has produced three main pieces of work:

- the construction of a Housing Benefit and Council Tax Benefit “process map” showing key working relationships, processing actions and information flows. This map will form the basis of the statement of service requirements for the development of the system, should it go ahead;
- a survey of local authority computer systems and business needs for Housing Benefit and Council Tax Benefit business. This survey showed that the vast majority of the 200 respondents (80 per cent) wanted on-line access to the Department’s benefit information systems.
- a preliminary financial analysis of the costs and benefits of the three options outlined above. This early estimate suggested that the latter two options particularly, “link-up” and “join-up”, could deliver long-term substantial savings in the order of hundreds of millions of pounds. The costs and benefits will need careful attention in view of the potential scale, size and timespan, and a robust business case will be needed.

3.34 At a meeting on 31 January 1997 the Department’s Management Board approved further work on the strategy. This will involve further assessment of the risks associated with the “link-up” and “join-up” options, and of the affordability and manageability of the options.

3.35 In taking their work forward, the Department should learn from central government’s generally poor record of developing computer projects and the substantial risks to value for money identified by the Public Accounts Committee in their report on the Proper Conduct of Public Business (8th Report, Session 1993-94, HC 154). The Committee found that failures to provide value for money had occurred when:

“Embarking on ambitious computer projects on the basis of inadequate appraisal, and failing to ensure that the system delivers what is required”, and when there was “inadequate re-appraisal of computer projects in response to changing circumstances and requirements”.

Part 4: What else can be done in local authorities to combat fraud

Key findings

- Although the quality and rigour of Housing Benefit administration and anti-fraud work varies widely across local authorities, there are many good practices in use which could be adopted more widely.
- The Audit Commission's Management Handbook, "Fighting Benefit Fraud", will identify examples of good practice and advise on others which local authorities might adopt.
- External audit have an important role to play in closely monitoring local authority anti-fraud activity and claims for weekly benefit savings.
- The private sector employs a number of anti-fraud practices and techniques which could be considered for the prevention and detection of fraud in the local authority environment. A model organisation capable of minimising fraud is described, based on work done by Deloitte and Touche.

Part 4: What else can be done in local authorities to combat fraud

4.1 During their visits to local authorities the National Audit Office and the Audit Commission identified a number of good practices in benefits administration and anti-fraud work which should be more widely disseminated. The Audit Commission has collected these good practices and promulgated them in summary form in a report for local authority members and chief executives, and in detail in a Management Handbook: “Countering Benefit Fraud”, aimed at local authority practitioners. The latter will be published later this year.

4.2 The Handbook will contain practical advice on techniques for combating fraud in local authorities by setting out the components of an effective anti-fraud strategy as shown in Figure 31 opposite:

External audit of local authorities

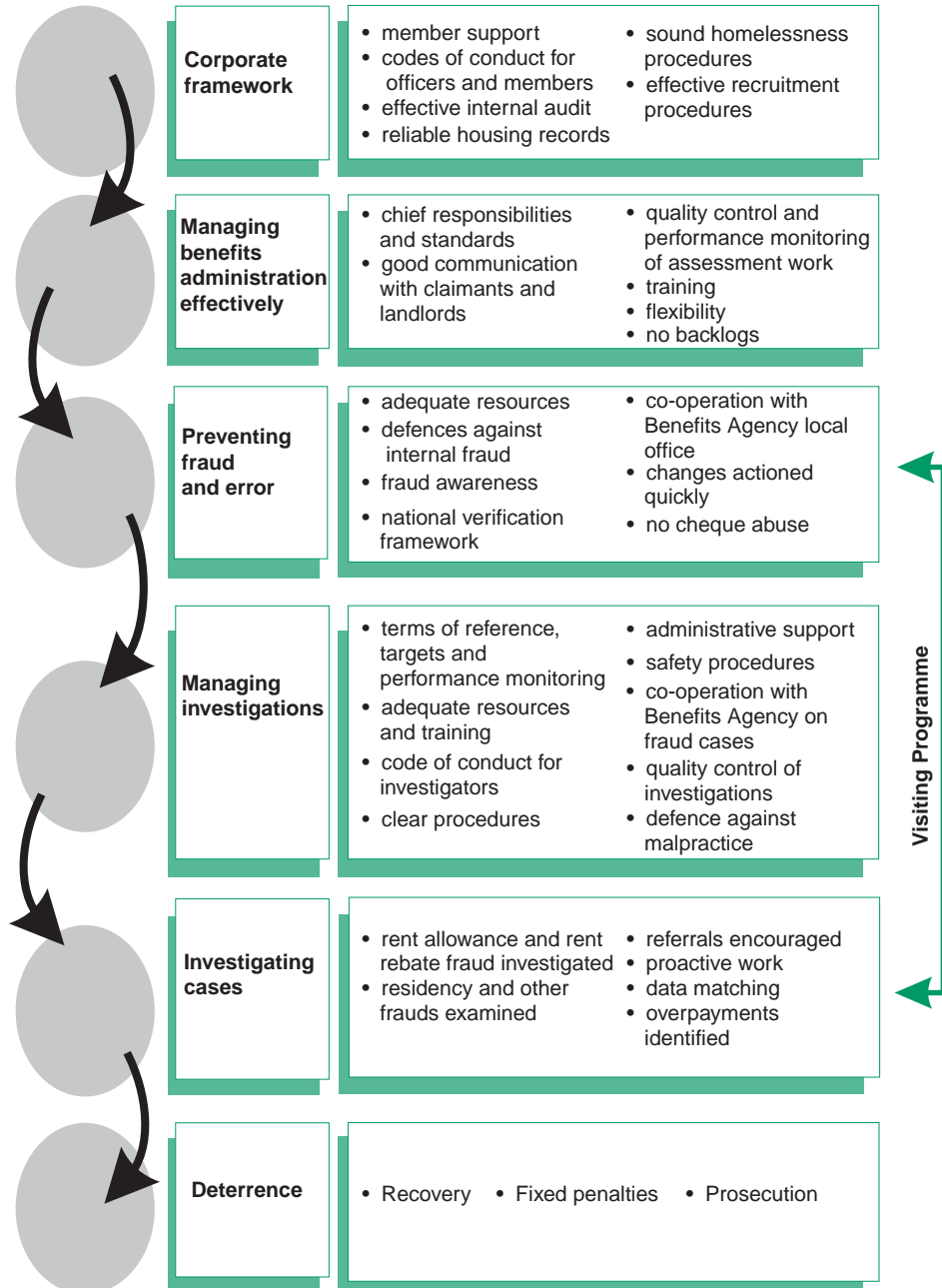
4.3 The Department seek to obtain assurance on the accuracy and reliability of English and Welsh local authorities’ claims for subsidy and weekly benefit savings from the work of auditors appointed by the Audit Commission. For Scottish authorities, the Department relies on the work of the Accounts Commission.

4.4 The external auditors’ normal duties include examining whether the local authority’s systems for determining benefits are being operated in accordance with the regulations and hence benefit entitlement correctly calculated. For Housing Benefit fraud matters in particular, the Audit Commission’s instructions to auditors for 1995-96, the last financial year for which auditors have certified grant claims, expected the auditors to test, amongst other things, that the conditions for claiming weekly benefit savings had been satisfied, and that weekly benefit savings had been correctly calculated and summarised.

An effective counter-fraud strategy

Figure 31

An effective strategy requires support from across the council and involves prevention, investigation and deterrence.



Source: Audit Commission

4.5 In December 1996 the Commission supplemented these instructions by issuing further guidance to appointed auditors, which advised that auditors may wish to review:

- local authority liaison arrangements with the Benefits Agency, including the implementation of service level agreements;
- the extent to which the audited authority employed investigators and the scope of their investigations;
- whether authorities were accurately classifying overpayments as fraudulent or as a result of claimant error when claiming weekly benefit savings; and
- the authority's approach to prosecutions.

4.6 The Department need to be clear what level of assurance they receive from those auditing local authorities, and how that assurance might be obtained. At present, the external audit certificate on local authority subsidy claims does not refer specifically to the adequacy of authority systems for preventing and detecting fraud, nor to the adequacy of local authorities benefits administration, which is a vital factor in keeping fraud out of the system. The Department and the Audit and Accounts Commissions are considering whether references to fraud and benefit administration might be appropriate in the certificate, to ensure that external auditors' attention is focused on weekly benefit savings and subsidies claimed - problematic areas where there is some error and abuse by local authorities - as well as on the quality of administrative systems.

Application of private sector anti-fraud measures

4.7 The National Audit Office commissioned Deloitte & Touche to examine the viability of applying commercially available anti-fraud measures to the administration of Housing Benefit. A summary of their report is in Appendix 8. It describes key features of organisations that are effective in combating fraud, and compiles a profile of a model organisation capable of minimising fraud.

4.8 The National Audit Office has not sought at this stage to evaluate how far the Deloitte and Touche proposals would be applicable to benefit administration work. But whilst recognising the differences in scale, nature and statutory framework for benefit administration compared to private sector situations, the Department and local authorities might consider the lessons that emerge from

comparisons with standards of best commercial practice outlined in Appendix 8, and what further action is feasible in the short and longer term in seeking to apply such standards in tackling Housing Benefit fraud.

Appendix 1

Study methodology

The study involved joint working with the Audit Commission

1 The National Audit Office audit central government, the Audit Commission audit local government in England and Wales. The two national audit bodies worked together on the examination of measures to combat Housing Benefit Fraud.

2 Joint working enabled a detailed examination of how the Department of Social Security's Housing Benefit policies and anti-fraud measures impact on the local authorities who administer the benefit and who are in the front line in the battle against fraud.

3 The examination resulted in three main outputs - this report by the Comptroller and Auditor General and a report and a more detailed management handbook by the Audit Commission, "Countering Benefit Fraud" (to follow later in the year), which offer practical advice on how local authorities might further improve their arrangements for countering fraud.

Work done by the joint team

Work consisted of:

- research within the Department of Social Security and the Benefits Agency to examine the design, objectives and assessment of anti-fraud measures;
- preliminary scoping visits to Brighton, Camden, Croydon, Haringey, Reading, Tower Hamlets, Wealden and Wychavon Councils;
- visits to 14 local authorities to examine what they do in response to the Department's measures, how they liaise with the Benefits Agency local offices, how they tackle fraud, and how they record their achievements;
- work by external auditors at two other councils (Havant District Council and Fareham District Council);

- examination at each of the authorities visited of about 30 randomly selected Housing Benefit cases classified by the local authority as fraudulent, and where weekly benefit savings had been claimed;
- a special exercise at a London Borough to examine a further 88 fraud cases;
- some 385 cases were examined in all. Their examination included validation of the reasons for classifying the case as fraudulent, the amount lost, the weekly benefit savings claimed, how long the fraudulent claims had been in payment, whether overpayment recovery was attempted, and what liaison there had been with the Benefits Agency;
- visits to the 12 Benefits Agency offices, with whom the local authorities selected have established liaison arrangements. The visits were to examine Agency local offices' anti-fraud practices, their liaison with local authorities, their recording of their anti-fraud achievements, and the extent and nature of their co-operation with local offices in the 400 cases; and
- short visits to other councils to supplement the team's understanding of arrangements where benefits administration has been outsourced (the London Borough of Bromley, the London Borough of Wandsworth, the Royal Borough of Kingston-upon-Thames). Thanet District Council was visited to extend the team's understanding of problems in seaside resorts with "DSS hotels".

Local authorities and Benefits Agency offices visited

Authority	Benefits Agency
London Borough of Haringey	Glasgow
London Borough of Southwark	Bankside and Makerfield
Stroud District Council	Gloucestershire
Bradford City Council	Bradford West, East and South
Rhondda-Cynon – Taff County Borough Council	South Wales Valleys and Aberdare
London Borough of Croydon	North Surrey, Croydon, and
Makerfield	
Bristol City Council	Bristol South and Quayside
Eastbourne Borough Council	East Sussex and Eastbourne
Manchester City Council	Manchester Central
Pendle District Council	Burnley, Pendle and Rossendale
Middlesbrough Borough Council	South Tees

London Borough of Brent
 Solihull Metropolitan Borough Council
 South Holland District Council

The visits covered high, medium and low performing authorities in terms of frauds detected and weekly benefit savings subsidy claimed; and different types such as inner city, urban, rural and seaside authorities. The selection also covered authorities which had contracted out their benefits administration (Brent and Croydon).

- distribution of a questionnaire to a sample of local authorities in England and Wales, seeking information on their fraud investigation arrangements and resources. The questionnaire also asked benefit managers and fraud investigators to give views on the effectiveness of the Department’s anti-fraud measures. The questionnaires were distributed as follows:

	<i>sent (sample)</i>	<i>total (population)</i>	<i>average (per cent)</i>
London boroughs	29	32	91
Metropolitan councils	32	36	89
Welsh authorities	21	22	95
District councils	50	294	17
Total	132	384	34

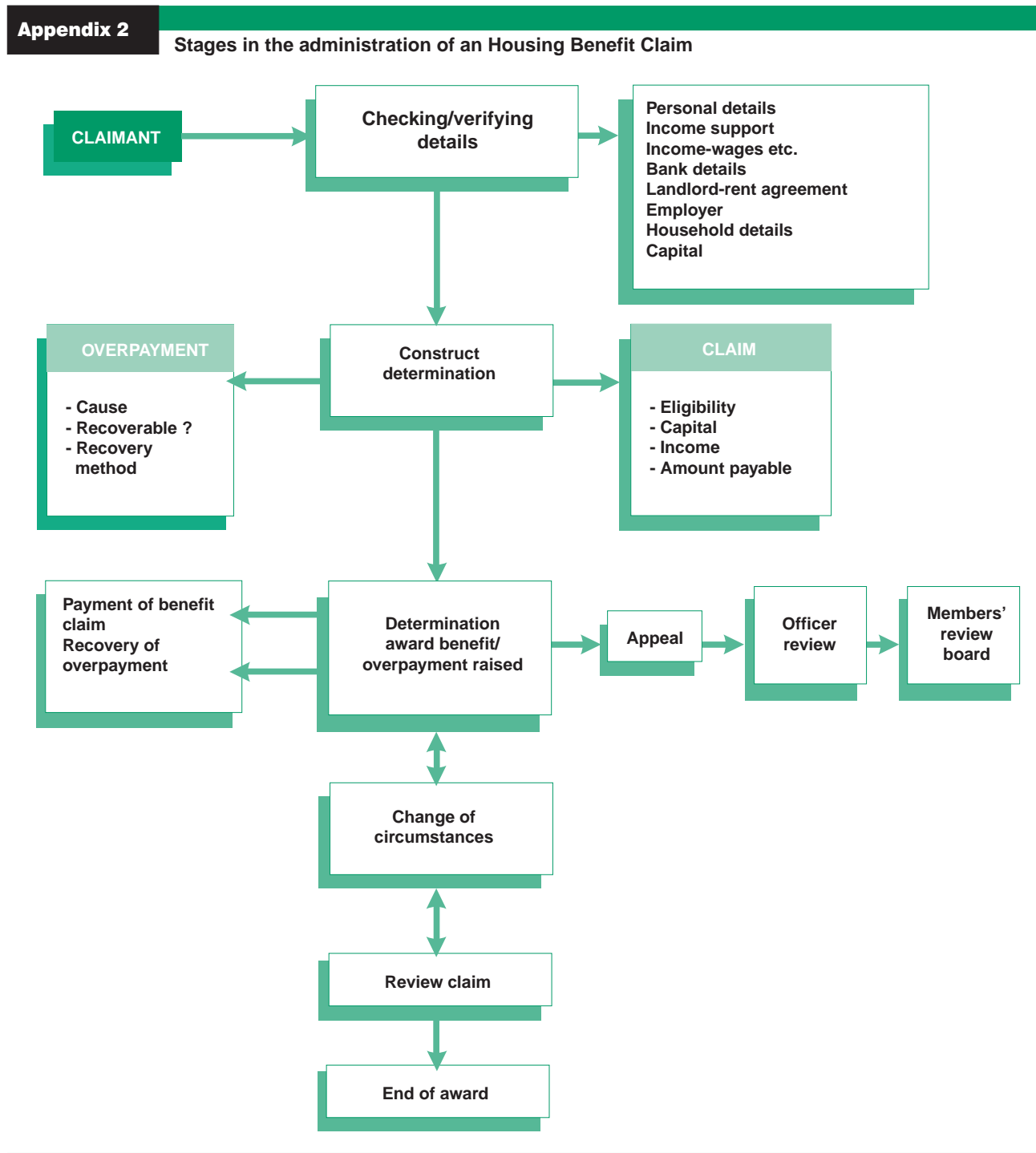
79 questionnaires were returned - a 60 per cent response rate;

- visits to three Citizen’s Advice Bureaux, in Eastbourne, Willesden and Basingstoke; and commissioning a paper from the National Association of Citizen’s Advice Bureaux, for an understanding of how Housing Benefit administration and fraud investigation impacts on benefit claimants;
- visits to other parties concerned with fraud:
 - the London Team Against Fraud, who co-ordinate the data-matching of London boroughs’ Housing Benefit and student awards data;

- ❑ the London Organised Fraud Investigation Team, set up in December 1996 to investigate landlord and other organised fraud in the London Boroughs. The team is funded by Government - £1 million for 1997;
- ❑ the Local Authority Investigation Officers Group (UK), which was set up in 1991 to represent the rights, interest and profession of investigators in local authorities, and, in particular, to promote and encourage the active investigation of benefit fraud within local authorities;
- commissioning a report from Deloitte & Touche on private sector anti-fraud measures that might be relevant and affordable to local authorities;
- discussions with a study Advisory Group convened to provide advice on the scope and methodology of the study, handling of fieldwork, and on the emerging findings, conclusions and recommendations. Membership of the Group was:

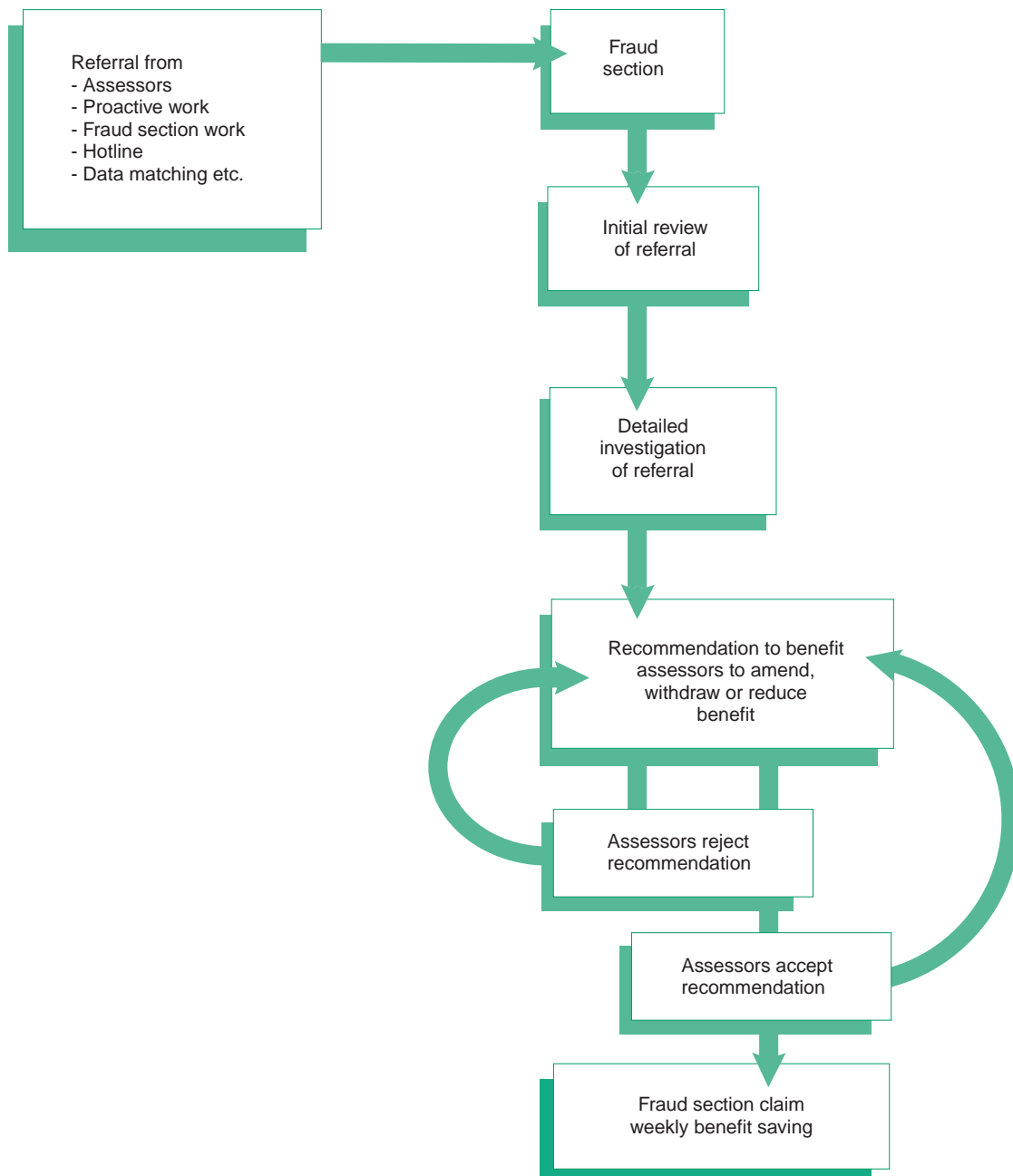
Ian Baker	Chief Benefits Officer, Westminster City Council
Margaret Constable	National Association of Citizens Advice Bureaux
Roger Dent	Section Head, Benefits Agency Field Communications and Support Group
Rod Elliott of	Housing Benefit Investigation Manager, London Borough of Southwark; (appointed to manage the new London Organised Fraud Investigation Team during the course of the study)
Chris Evans	Head of Housing Benefit Security Branch, Department of Social Security
Donald Graham	Head of Revenues and Benefits, Liverpool City Council
Bernie Keay	Assistant Branch Head, Benefits Agency Security Branch
Sarah Luke	Housing Benefit Investigations Supervisor, Southampton City Council
Dennis Marden	Head of Revenue Services, Exeter City Council

Appendix 2



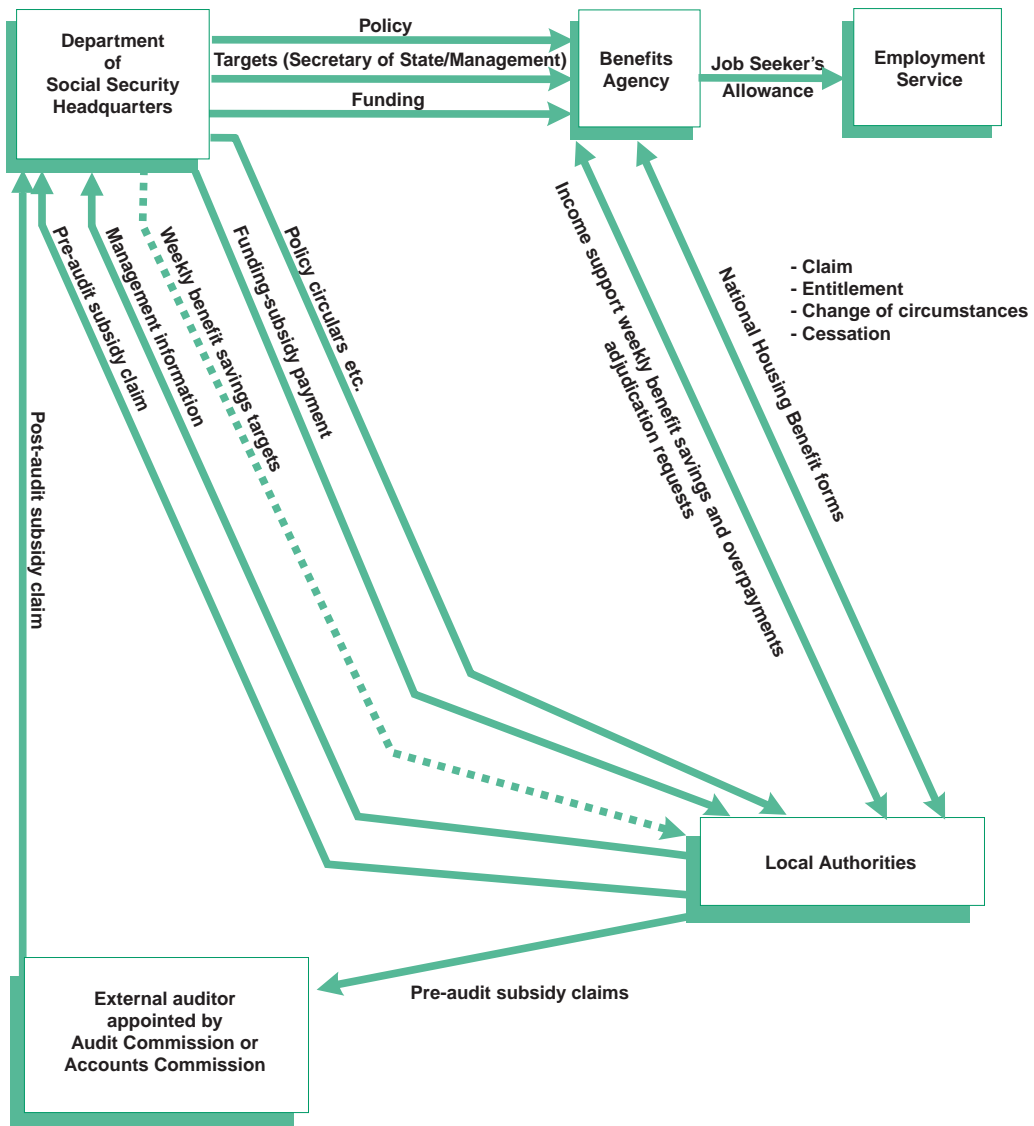
Appendix 2
Continued

Model stages in a fraud investigation



Appendix 2
Continued

Interaction of organisations involved in the administration of housing benefit



Further details on paper exchanges follow

Paper flows

Appendix 2:

Continued

Paper going between the Department of Social Security and Local Authorities Policy

Housing Benefit and Fraud Circulars.
Management information statistics (claimant count, etc).

Funding

Annual Subsidy Claims (MPF 720a) – for benefit payments, administration and weekly benefit savings. Certified by external auditors appointed by the Audit Commission or Accounts Commission.

Challenge Funding – quarterly progress reports. Annual claims are certified by external auditors appointed by the Audit Commission or Accounts Commission.

Paper going between Local Authorities and the Benefits Agency Income Support Processing (NHB forms)

NHB1	Claim form for Housing Benefit and Council Tax Benefit (submitted to Benefits Agency with Income Support or Jobseeker's Allowance claim form).
NHB 1A	Claim form for Housing Benefit and Council Tax Benefit on change of address.
NHB 5	Local authority form to ask Benefits Agency if Income Support or Jobseeker's Allowance (income based) is in payment. (This form is often redesigned locally, and may be used to ask for a wider range of information).
NHB 7	Local authority form to inform Benefits Agency of change of circumstances.
NHB 9	Local authority form to inform Benefits Agency of cessation of Housing Benefit.
NHB (IS)	Computer generated notification produced by the Income Support Computer System (ISCS). There are various types: Entitlement Notice; Change of circumstances; and End of Income Support Entitlement.
NHB (IS) Clerical	Clerical equivalent of NHB (IS).
NHB (JSA)	Computer generated notification produced by the Jobseeker's Allowance Payment System (JSAPS). Equivalent to NHB (IS).
NHB (JSA) Clerical	Clerical equivalent of the NHB (JSA).

Fraud Investigation

SLA 1	Local Authority notification to the Benefits Agency of Fraud investigation.
SLA 2	Reply to SLA 1.
SLA 3	Local authority request for weekly benefit savings adjudication (tear-off slip).
SLA 3	The Benefits Agency returns the Local Authority's request for adjudication.
QB 64	The Benefits Agency notification to the Local Authority of prosecution and request for Housing Benefit overpayment calculation.
QB 65	The Benefits Agency notification to Local Authority of fraud investigation.

Note on benefit processing information flows

No notification goes from the Benefits Agency to Local Authority when weekly benefit savings is claimed by the Benefits Agency nor is there any notification by the Benefits Agency to Local Authority of their New Claims Visits. Local authorities do not notify the Benefits Agency of a Housing Benefit claimant's change of address.

The current volume of around 22 million paper items would need to be **increased** to make communication comprehensive.

Appendix 3

Housing Benefit allowances, premiums, disregards etc applying in 1997

Weekly rates unless otherwise shown	£
<i>Personal allowances - single person</i>	
Aged 16 to 24	38.90
25 or over	49.15
<i>Personal allowances - lone parent</i>	
Aged under 18	38.90
18 or over	49.15
<i>Personal allowances - couple</i>	
Both under 18	58.70
One or both over 18	77.15
<i>Personal allowances - dependent children</i>	
Birth to September following 11th birthday	16.90
From September following 11th birthday to September following 16th birthday	24.75
From September following 16th birthday to day before 19th birthday	29.60
<i>Personal allowances - dependent children with protected rates</i>	
Age 11 before 1st to 7th April 1997	24.75
Age 16 before 1st to 7th April 1997	29.60
Age 18 before 1st to 7th April 1997	38.90
<i>Premiums</i>	
Family	10.80
Family (lone parent rate)	22.05
Pensioner - single	19.65
Pensioner - couple	29.56
Pensioner (enhanced) - single	21.85
Pensioner (enhanced) - couple	32.75

continued ...

**Housing Benefit
allowances, premiums,
disregards etc applying in
1997 continued**

Weekly rates unless otherwise shown

£

Pensioner (higher) - single	26.55
Pensioner (higher) - couple	38.00
Disability - single	20.95
Disability - couple	29.90
Severe disability - single	37.15
Severe disability - couple (one qualifies)	37.15
Severe disability - couple (both qualify)	74.30
Disabled child	20.95
Carer	13.35

Allowance for personal expenses for claimants in hospital

Higher rate	15.60
Lower rate	12.50

Non-dependent deductions, rent rebates and rent allowances

Aged 25 or over, in receipt of Income Support or income based Job seeker's Allowances	
Aged 18 or over, not in remunerative work or gross income less than £78	7.00
Aged 18 or over and in remunerative work:	
gross income less than £78.00	7.00
gross income £78 to 115.99	13.00
gross income £116 to £151.99	17.00
gross income £152 to £199.99	33.00
gross income £200 to £249.99	36.00
gross income £250 and over	39.00

Service charges for fuel

Heating	9.25
Hot water	1.15
Lighting	0.80
Cooking	1.15

continued ...

Housing Benefit allowances, premiums, disregards etc applying in 1997 continued

Weekly rates unless otherwise shown	£
<i>Amount ineligible for meals</i>	
Three or more meals a day:	
single claimant	17.55
each person in family aged 16 or over	17.55
each child under 16	8.85
Less than three meals a day:	
single claimant	11.65
each person in family aged 16 or over	11.65
each child under 16	5.85
Breakfast only - claimant and each member of family	2.10
<i>Capital</i>	
Upper limit	16,000
Amount disregarded	3,000
Child's limit	3,000
Tariff income: £1 for every complete £250 or part thereof between amount of capital disregarded and capital upper limit	
<i>Earnings disregards</i>	
Where disability premium awarded	15.00
various specified employments	15.00
lone parent	25.00
where the claimant has a partner	10.00
single claimant	5.00
where carer premium awarded	15.00
child care charges	60.00
<i>Other income disregards</i>	
maintenance disregard	15.00
war disablement pension and war widow's pension	10.00
certain voluntary and charitable payments	20.00
student loan	10.00
student's covenanted income	5.00
income from boarders: disregard the fixed amount (£20) plus:	20.00
50 per cent of the balance of the charge	

continued ...

**Housing Benefit
allowances, premiums,
disregards etc applying in
1997 continued**

Weekly rates unless otherwise shown

£

30 hour Adult Allowance in Disability Working Allowance

10.55

30 hour Adult Credit in Family Credit

10.55

Expenses for subtenants

furnished or unfurnished

4.00

where heating is included, additional

9.25

Source: Written Answers,
Hansard, 26 November 1996,
columns 212 and 213

Appendix 4

The structure of Housing Benefit and occasions for fraud

Determinant of benefit	Occasion
<i>Claimant income</i>	<ul style="list-style-type: none"> ■ not declaring earned income ■ under-declaring earned income ■ claiming while working ■ not declaring or under-declaring other income from shares, interest etc.
<i>Partner's income</i>	<ul style="list-style-type: none"> ■ as above ■ not declaring the partner's existence
<i>Claimant's capital</i>	<ul style="list-style-type: none"> ■ not declaring or under-declaring savings, share holdings etc
<i>Partner's capital</i>	<ul style="list-style-type: none"> ■ as above
<i>Ages of claimant and partner</i>	<ul style="list-style-type: none"> ■ misreporting ages
<i>Children</i>	<ul style="list-style-type: none"> ■ claiming there are children when there are not ■ misreporting children's ages
<i>Adults</i>	<ul style="list-style-type: none"> ■ not declaring or misreporting the number of adults in the household ■ misreporting the income of the adults
<i>Liability to pay rent</i>	<ul style="list-style-type: none"> ■ claiming as a rent-paying tenant when living free with family or friends; moving away but continuing to receive Housing Benefit

Sources: Audit Commission Report - Countering Benefit Fraud, and Appendix 4

Appendix 5

Types of Housing Benefit fraud

Property based fraud

Residence

- claimant not resident at given address
- failure to report change of address
- claimant only resident long enough to set up claim (may involve re-direction of mail)
- sub letting and moving on (may have claims at other properties)

Rent/tenancy

- overstating rent payable (may be collusive with the landlord)
- fictitious sub-tenancy
- landlord is fictitious
- homeowner purporting to be a tenant
- landlord is close relative

Other

- multiple claims at different or the same property
- collusion with a third party - for example a new tenant in the same building
- owner-occupier becomes tenant at same or another address

Landlord fraud

- fictitious tenancy - that is no tenancy exists
- landlord confirms residence after the claimant has left the property
- landlord creates a false impression of continuing tenancy, by forging letters for example
- claims for empty properties

Large-scale fraud

- This may occur where a family or firm may own many properties and move “tenants” in and out with such regularity that tracing becomes impossible. Properties may be registered under different names. Tenants can sometimes be family members or employees who actually remain in the family home but are claiming for residency elsewhere also.

Income based fraud

Working

- working whilst stating unemployment
- working whilst declaring sickness or incapacity
- having two jobs but declaring only one

Declarations

- understating earnings
- stating basic pay but not overtime
- not declaring bonuses
- declaring shorter working hours than are actually worked
- giving up working or going on sick leave temporarily to obtain benefit

- failing to declare partner's earnings

Collusion

- wages staff issue false pay slips or declarations
- partner understating their earnings to claimant
- employer understating working hours or pay rates

Possessions

- understating or not declaring investments and capital
- maintaining a false bank account or two bank accounts, only that with the smaller balance being declared
- false accounts - self-employed
- failing to disclose other property
- rental income from undisclosed property

Circumstance based fraud

Personal

- multiple identities
- multiple tenancies

Marital

- living together as husband and wife and failing to declare relationship
- creating an impression of no relationship
- duplicate claims from a partnership

- fictitious desertion - for example pretending to go back to parents or moving elsewhere

Declarations

- failure to declare non-dependants, lodgers, sub-tenants, family members
- declaring fictitious children
- over/understating age
- not declaring relationship with landlord

Instrument of payment fraud

False encashment of benefit

- falsely stating that the benefit cheque has been lost, cashing the duplicate and the original
- altering or amending the cheque
- colluding with a third party to give the impression that a cheque has been lost
- false statement of non-receipt
- interception of mail
- impersonation

Forgery

- amending payee, amount or date on cheques
- using false identity to cash the instrument of payment
- claimant's cheque cashed by landlord or vice versa

Internal fraud

- false claims created by staff
- claim created to reduce rent liability
- theft of blank instruments of payment
- multiple false claims
- failure to declare claimant left - where employee is landlord
- manipulation of claims for third parties
- false telephone calls/proofs of entitlement recorded
- manipulation of computer to create false Housing Benefit

Source: Based on evidence given by the Local Authority Investigation Officers Group (UK) to the Social Security Committee

Appendix 6: Part 1

Analysis of testing results on a sample of local authority weekly benefit savings claims

Authority	Savings claims		Cases in doubt (1)		Withdrawn by authority		
	Examined	Value £	Number	Value £	Number	Value £	Per cent
<i>A</i>	19	51,575	4	10,295	0	0	0
<i>B</i>	30	54,152	13	21,863	2	3,872	7
<i>C</i>	30	47,697	16	26,389	9	14,149	30
<i>D</i>	30	54,143	8	15,064	0	0	0
<i>E</i>	30	44,612	8	14,245	2	2,236	5
<i>F</i>	30	75,400	2	4,744	2	4,744	6
<i>G</i>	30	69,953	25	57,855	-	-	-
<i>H</i>	16	26,678	0	0	0	0	0
<i>I</i>	30	80,387	4	11,050	1	1,760	2
<i>J</i>	29	110,22	8	16,293	2	8,190	7
<i>K</i>	30	63,673	10	18,552	5	9,641	15
<i>L</i>	18	25,546	3	4,889	0	0	0
<i>M</i>	30	120800	1	2,373	0	0	0
<i>N</i>	33	52,096	14	18,946	-	-	-
<i>Total</i>	385	876,934	116	222,558	23	44,592	5

Notes: 1. Cases where the National Audit Office and the Audit Commission had doubts about the validity of the claim for weekly benefit savings. There were doubts identified on 116 cases representing 30 per cent of cases in the sample, and 25 per cent by value of the sample. These figures represent a worst-case scenario, and are subject to the proviso that agreement could not always be reached with the authorities, and in other cases authorities have yet to respond on the queries.

2. Weekly benefit savings results are likely to be subject to further testing by external auditors in due course.

3. The results are not intended to achieve statistically valid results. Rather they are illustrative of the uncertainties surrounding the level of weekly benefit savings claimed by local authorities.

Appendix 6: Part 2

Results of case studies by Authority

<i>Authority</i>	<i>Weekly benefit savings claimed in cases examined £</i>	<i>Result</i>
A	292,000(1)	External audit work carried out by the joint team identified an error rate of 67 per cent on rent rebate cases and 23 per cent on rent allowance cases. The authority's 1995-96 housing benefit grant claim was subsequently qualified by the external auditor on the basis of overstatement of weekly benefit savings.
B	21,863	The study team questioned the validity of 13 weekly benefit savings claims. The authority agreed that two claims worth £3872 were invalid. After the study team's work the authority's external audit qualified the 1995-96 housing benefit grant claim on the basis that 23 per cent of the Weekly Benefit Savings claims they examined (£14,118 out of £61,156) were incorrectly classified.
C	26,389	The study team questioned the validity of 16 claims valued at £26,389. The authority accepted that 9 valued at £14,149 were invalid and would be withdrawn. This level of error represented 30 per cent of the value of claims the team examined. The authority's external auditor qualified the 1995-96 housing benefit grant claim on other grounds.
D	15,064	The study team questioned 8 claims. External audit qualified the 1995-96 housing benefit grant claim for other reasons.
E	14,245	The study team questioned 8 weekly benefit savings claims. The authority accepted that 2 worth £2,236 were invalid. This represents an error rate of 5 per cent, by value, of the study team's sample.
F	4,744	The study team queried 2 claims which the authority accepted were invalid.

continued ...

Results of case studies by Authority continued

<i>Authority</i>	<i>Weekly benefit savings claimed for cases examined £</i>	<i>Result</i>
G	57,855	The study team questioned 25 claims. Following advice from the study team external audit qualified the 1995-96 housing benefit grant claim on the grounds that the authority over-claimed savings by £85,371. The grant claim was reduced by £17,084.
H	0	The study team raised no queries.
I	11,050	The study team queried 4 claims of which one worth £1760 was withdrawn. After advice from the study team the authority's external auditor qualified the 1995-96 housing benefit grant claim on the basis of incorrect classification of expenditure and insufficient accounting records.
J	16,293	The study team queried 8 claims and recommended that 2 worth £8190 be withdrawn. After advice from the study team the authority's external auditor qualified the 1995-96 housing benefit grant claim on the grounds that the authority was mis-classifying fraudulent overpayments. The auditor also drew the authority's treatment of overpayment classification to the Department's attention.
K	18,552	The study team queried 10 claims. The authority accepted the invalidity of 5 worth £9,641.
L	4,889	The study team queried 3 claims.
M	2,373	The study team queried 1 claim.
N	18,946	The study team queried 14 claims.
Total	504,263	
Note 1:	This figure is greater than the value shown in Part 1 of the Appendix (£10,295), because it includes the results of follow-up work by District Audit.	

Appendix 6: Part 3

The National Audit Office and Audit Commission examined 385 cases where the local authorities visited had claimed weekly benefit savings. They had doubts about the validity of 116 of these 385 - 30 per cent by number, 25 per cent by value. Some examples of doubtful claims follow.

Examples of doubtful claims for weekly benefit savings

<i>Authority</i>	<i>Weekly benefit savings claimed £</i>	<i>Reason claimed</i>	<i>Savings withdrawn</i>
B	2,657	The local authority claimed a weekly benefit saving when they could not find the claimant at the property for which Housing Benefit was being claimed. This is unsurprising as the authority had not acted upon information previously received from the Benefits Agency which indicated that the claimant had moved. There had not been a fraud.	Authority accepts the claim was invalid.
C	2,080	A claimant informed the authority of a change of address. But fraud investigators claimed a weekly benefit saving as a result of separate residency checks at the old address, made after the claimant had notified the authority of his move.	Authority accepts the claim was invalid.
D	2,400	A local authority stopped a claimant's Housing Benefit and informed the Benefits Agency. The Agency did not stop Income Support however, and the authority reinstated Housing Benefit. Fraud investigators were	Authority reconsidered the validity of the claimed saving.

continued ...

Unjustifiable claims for weekly benefit savings continued

<i>Authority</i>	<i>Weekly benefit savings claimed £</i>	<i>Reason claimed</i>	<i>Savings withdrawn</i>
D continued		not informed that Housing Benefit had been reinstated, and claimed weekly benefit savings on the grounds that Housing Benefit had been stopped originally. Although there had been no fraud, weekly benefit saving was not withdrawn.	
E	1,440	This authority had a practice of asking an applicant to submit a second application form when making an appeal against a previous refusal by the authority to award benefit. In this case a claimant applied for benefit in February and March 1996 while the appeal against the refusal of the February claim was being considered. The authority finally judged that both claims were fraudulent, and claimed two weekly benefit savings.	Authority accepts the second claim was invalid and also revised working practices so that a second application on appeal is not required.
F	2,504	A saving was claimed after a fraud investigation matching identified a student claiming Housing Benefit. The authority was later told by the Benefits Agency that this student was eligible for Income Support and, therefore, for Housing Benefit. The authority failed to cancel the claim for weekly benefit savings.	Authority accepts the claim was invalid.
G	3,880	There were two parts to this claim for weekly benefit savings. The authority's investigators claimed £1280 after a claimant had moved, although there are doubts about the reliability of the	External audit followed study team advice and excluded £2600 from the 1995-96 housing benefit grant claim.

continued ...

Unjustifiable claims for weekly benefit savings continued

<i>Authority</i>	<i>Weekly benefit savings claimed £</i>	<i>Reason claimed</i>	<i>Savings withdrawn</i>
G continued		date on which the claimant left and whether benefit was stopped appropriately. The authority also claimed weekly benefit savings on an uncrossed cheque, valued at £2,600. They had tried to deliver this relatively large sum as the first payment of rent allowance, and claimed the saving because they had not found the claimant resident. The payment appears to cover more than the maximum benefit period of 64 weeks.	
H	1,760	Benefit administrators did not act on a fraud investigator's recommendation to stop Housing Benefit. Nevertheless, a weekly benefit saving was claimed. When benefit remains in payment an authority cannot claim weekly benefit savings.	Authority accepts the claim was invalid and removed it from the housing benefit grant claim.
J	3,139	The Benefits Agency informed the local authority that a claimant was about to move. Despite this information the authority undertook a fraud investigation and claimed weekly benefit savings.	Authority is re-considering the validity of this claim.
K	1,920	A weekly benefit savings claim was made on the basis that a claimant was not resident. Investigators had failed to establish however that the claimant was in fact in permanent residence and therefore entitled to Housing Benefit.	Authority accepts the claim was invalid.

continued ...

Unjustifiable claims for weekly benefit savings continued

<i>Authority</i>	<i>Weekly benefit savings claimed £</i>	<i>Reason claimed</i>	<i>Savings withdrawn</i>
L	1,720	During a visit by a local authority investigator about an aspect of a Housing Benefit claim, on which it transpired that there was no irregularity, the claimant volunteered the information that she would be moving in a few weeks' time. The investigator then claimed a weekly benefit saving.	No action by the authority to withdraw this claim.
N	1,334	A claimant told the authority she would not move into a council property. Despite this a fraud investigation was undertaken. A weekly benefit saving was claimed on the grounds that the claimant was not resident at the council property.	Authority is reconsidering the validity of the claim.
Total	24,834		14,961

Appendix 7

Service level agreements

Fraud service level agreements

The national model service level agreement between local authorities and the Benefits Agency is divided into six parts:

- a) responsibility for investigation
- b) exchange of information
- c) prosecution policy and case closure
- d) publicity
- e) monitoring
- f) practical framework for local cooperation

The general provisions of each are discussed below:

a) responsibility for investigation

This section details action to be taken and by whom when a fraud is suspected.

Key provisions are that:

- fraud cases in which a combination of Housing Benefit and Income Support is in payment will be investigated by whoever first receives information or discovers fraud.
- if Housing Benefit/Income Support cases are unlikely to be investigated (for example due to lack of resources) they should be referred to the other organisation to take that investigation forward.

b) exchange of information

This section refers to the setting up of regular liaison meetings. The model agreement envisages local authority and Benefits Agency investigators will meet at 6 monthly intervals.

c) prosecution policy and case closure

This section sets out the factors to be considered before prosecuting a claimant, for example, the amount of money obtained and the duration of the offence, the suspect's physical and mental condition, how clear-cut the evidence is, and any failure in benefit administration, including delay.

d) publicity

This section provides guidelines on how to deal with any publicity arising from a fraud investigation. It is stated that the Benefits Agency are to deal with local publicity within their local management structures and notify the local authority if Housing Benefit is involved. Local Agency managers are to inform Agency central branches of cases which may attract national publicity.

Local authorities are individually responsible for their own publicity, and for ensuring the Benefits Agency are told if income support is included in the publicity.

e) monitoring

This section outlines ways of effectively measuring the performance and monitoring commitment to the service level agreement by the Benefits Agency Benefit Fraud Investigation Service and local authorities.

It provides for the local authority and the Investigation Service to refer cases to each other within 10 days of discovery, to provide regular feedback, and for three monthly progress reports on cases accepted for investigation. Weekly benefit savings claim adjudication requests from the local authority to the Benefits Agency are to be turned round in 10 days.

f) practical framework for local cooperation

This section gathers together in one place all the activities which both local authorities and the Investigations Service need to undertake to ensure effective liaison. It includes such matters as local contact points, regular liaison meetings, exchange visits, and cross-benefit training for local authority and Benefits Agency investigation staff.

Other issues covered by the model fraud service level agreement

Any disagreements arising are to be resolved at the lowest level of management.

Signatories should be the local Benefits Agency Fraud Area Manager and his local authority counterpart.

Service level agreements are subject to annual review.

There is a separate agreement covering general liaison between local authority Housing Benefit and Income Support Sections (see below).

Local Variations

The model national fraud service level agreement is often varied by local agreements. These typically replicate the national agreement, but may amend timescales to reflect local circumstances.

For example one fraud service level agreement adheres to the national agreement, except that it allows 15 days for turnaround on adjudication, does not give three monthly feed back on cases and exchange visits are to occur on an “as and when basis”.

Income support / housing benefit processing service level agreements

The study team visited 12 Benefits Agency local offices and obtained copies of the local service level agreements in place.

The service level agreements typically cover:

a) Actions

The Benefits Agency will issue a Housing Benefit claim form with Income Support claim forms, and on notification of a claimant's change of address;

The Benefits Agency will notify the local authority confirming Income Support entitlement, changes of circumstances and cessation of payments when Housing Benefit/Council Tax Benefit is claimed.

Quarterly liaison meetings will take place between Benefits Agency Customer Services and the Benefits Manager. Local joint projects will be discussed.

The Local authority will:

- notify the Benefits Agency of changes of circumstances affecting Income Support;
- attend quarterly liaison meetings; and
- discuss local joint projects.

b) Quantifiable Performance targets

The Benefits Agency will:

- forward returned Housing Benefit/ Council Tax Benefit claim forms to the Council within 2 days;
- answer 90% of written enquiries within 5 days;
- answer 90% of essential telephone call enquiries within 2 working days;
- respond to all telephone and fax enquiries for urgent cases within one working day;
- handle requests for direct payments to the Council of Housing Benefit overpayments within 7 days;

- provide telephone access time within specified hours; and
- clear accurate forms on the day of printing.

The Housing Benefit section of the Council will:

- notify the Benefits Agency within five days of overpayments arising; and
- provide telephone access time within specified hours.

c) Unquantifiable Performance Measures

The Benefits Agency office will:

- link Housing Benefit and Income Support decision notices prior to despatch to the Council;
- provide awareness training to Income Support processing staff on Housing Benefit and Council Tax Benefit;
- provide management commitment to liaison;
- ensure attendance at liaison meetings.

The Council will:

- provide the Benefits Agency office with the National Insurance Number in correspondence;
- ensure enquiries are not requests for information already held;
- provide awareness training for Housing Benefit/Council Tax Benefit staff on Income Support issues;
- provide management commitment to liaison with an annual meeting at a senior level;
- ensure attendance every 2-3 months at liaison meetings.

d) Other matters

The service level agreement is subject to annual review.

Disagreements are to be resolved at the lowest practicable level of management.

Appendix 8

Summary of Deloitte & Touche's examination of applying commercially available anti-fraud measures to the administration of Housing Benefit

General observations

In a report for the European Commission Secretariat General titled "Fraud Without Frontiers" Deloitte & Touche summarised the views of 203 individuals responsible for fighting fraud throughout Europe. They also drew attention to the existence of 'model organisations' which embodied the most powerful and effective responses to fraud.

They concluded that the response of those companies who are perceived to be leaders in the field of fraud prevention was remarkably uniform. There were a limited number of initiatives that they have pursued vigorously, and which are known, or strongly believed, to have worked. From that research, and from studies undertaken by other professional firms and academics, Deloitte & Touche identified nine key organisational features of those organisations which have, or are believed to have, significantly reduced their losses from fraud. The nine features of these effective organisations form the target at which local authorities could aim if they wish to be able to reduce fraud against their payments of Housing Benefit.

What is conspicuous in these features is that the emphasis is on cultural controls and not on increasing the volume of detailed systematic or supervisory controls. It is also clear that the most effective companies are not passively waiting for fraud before they react to it, but are actively, and continuously, reviewing their operations for susceptibility to fraud.

Key features of organisations effective in combating fraud

i) Effective organisations state their intentions

- they have publicly stated that they do not tolerate fraud;
- they back this message up with targeted action and 'test cases'; and
- they have internal anti-fraud policies to which their staff subscribe.

ii) Effective organisations have assigned roles

- they make one person ultimately responsible for the reduction in total fraud costs;
- they designate one person to be a fraud liaison officer at every location; and
- they insist that management report fraud, and that those reports go to a central collection point for action.

iii) Effective organisations learn more about the fraudsters

- they actively seek information from outside sources on fraudsters;
- they compile profiles of the types of people most likely to defraud them;
- they have rigorous screening of candidates, both pre-employment and whenever staff change roles; and
- they encourage staff and managers to challenge controls and systems in order to reveal vulnerabilities to fraud before others can exploit them.

iv) Effective organisations assess the risks

- they actively seek information from outside sources on fraud risks;
- they compile an assessment of the potential fraud attacks on their financial, physical and information assets at least once a year; and
- they consider fraud risk whenever an operation changes.

v) Effective organisations assign priorities for action

- they make judgements on their 'tolerance' of fraud at a high level;
- they institute effective monitoring of both direct and indirect loss through fraud;
- they assign clear timetables for action to tackle unacceptable areas; and

- they hold all levels of management responsible for reducing the total cost of fraud in their areas of control.

vi) Effective organisations make the best use of staff

- they have an Internal Audit function which makes fraud reduction a priority; and
- they train all staff, especially those who have contact with contractors, customers and suppliers, to recognise fraud warning signs.

vii) Effective organisations make the best use of information

- they have gathered large amounts of information on transactions and can analyse them effectively so as to identify fraud; and
- they subscribe to external data sources.

viii) Effective organisations make the best use of financial assets

- they do not tolerate bad debt, and have a good record of recovery, by civil or criminal prosecution, of all fraud losses; and
- they install financial systems that can monitor the costs of prevention, deterrence and investigation of fraud.

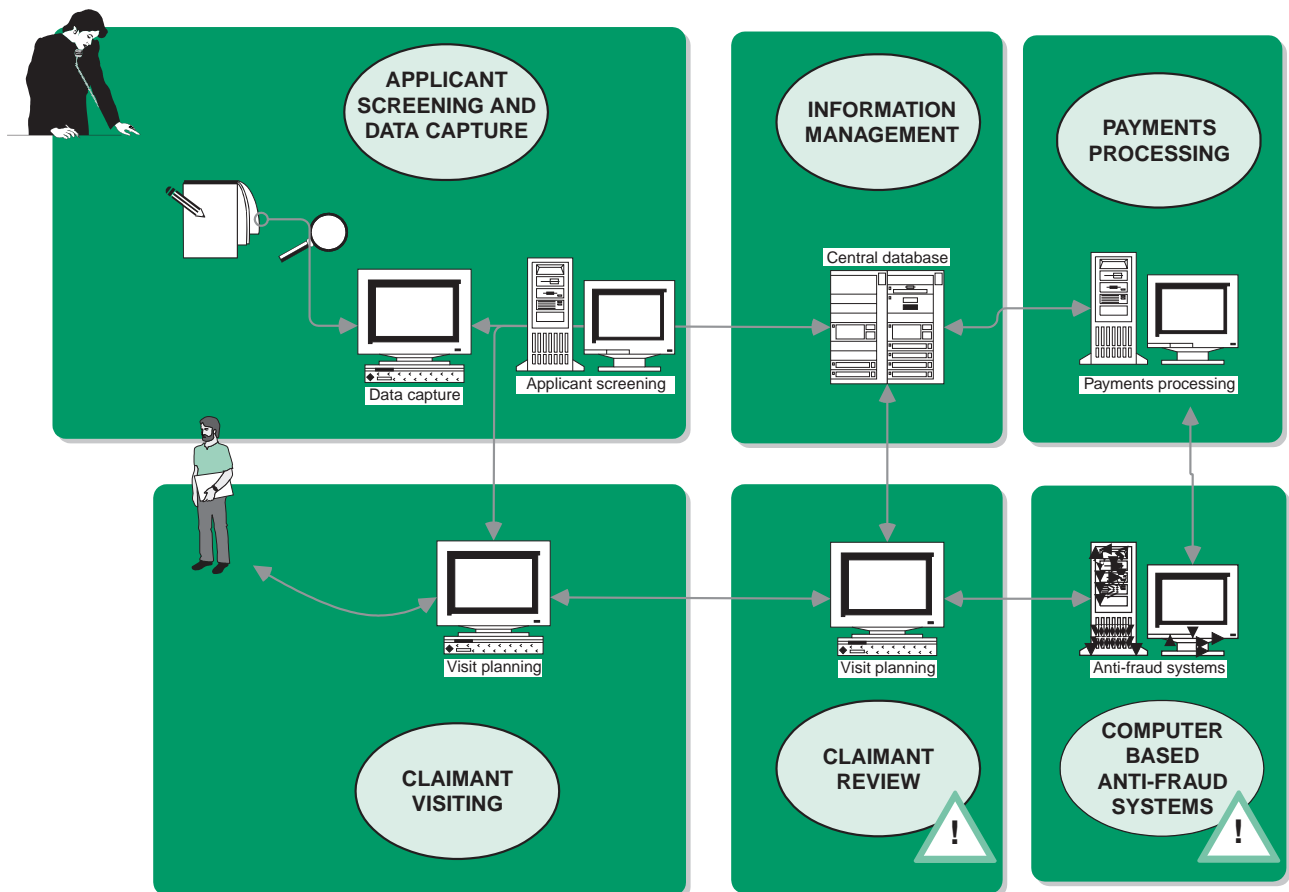
ix) Effective organisations motivate all areas to fight fraud

- they have clear internal and external policies to appropriately reward those who effectively prevent, detect and prosecute fraud; and
- they remove internal mechanisms that might discourage reporting fraud.

The model organisation

Taking the objectives of benefits payment as being “to pay the right money, to the right person, at the right time, every time” and the nine features identified above, Deloitte & Touche compiled a profile of a model organisation which is designed from the outset to minimise the risk of fraud against the payments stream.

In compiling the model organisation they started with a clean sheet of paper and assumed that the organisation is based on the “best of class” practices that operate in the private sector. Set out below are the key features of a model fraud prevention and detection system.



i) Applicant screening and data capture

- tightly integrated with other systems;
- applicant data obtained in, or immediately transferred to, electronic form; and
- applicant data screened during input by comparing with standing databases.

ii) Information management

- effective archive of original paperwork and records;
- calculation of correct amount of benefit; and
- data available through one common system to all other systems.

iii) Payment processing

- payment made by electronic transfer direct to applicant or landlord bank account.

iv) Claimant visiting

- timing of initial visit set by applicant screening;
- subsequent visits set by screening and data profiling; and
- visits to applicants, landlords and linked parties, such as previous and potential employers.

v) Claimant review

- dedicated team; and
- review of claims in payment prompted by data profiling and neural network.

vi) Computer based anti-fraud systems

- data-matching of client data against standing databases as initial step;
- data profiling developed to look for patterns known to be associated with a higher incidence of fraud; and
- neural networks developed to look for new patterns associated with a higher incidence of fraud.

Schedule of improvements

It is apparent that the model organisation cannot be imposed on the present administration of Housing Benefit for a number of reasons. Nevertheless, it is possible for local authorities to take initiatives to move towards the ideal that it represents. In developing a plan which might achieve this the actions have been divided into short, medium and long term objectives according to the following criteria:

- **Short Term** actions are those which might be introduced within 12 months and which would utilise existing staffing and information technology in a cost effective manner and should yield immediate savings;
- **Medium Term** actions are those which might be introduced within 12 to 36 months and which would utilise existing information technology in a cost effective manner, would require a moderate degree of investment in training, reallocation of assignments or capital investment, and are likely to yield savings within a further 12 months; and
- **Long Term** actions are those which might be introduced within 36 to 60 months and which would require considerable capital expenditure, staffing changes or technological development, even though they would yield positive savings in future years.

	Short Term	Medium Term	Long Term
1 Applicant Screening and Data Capture	Improve processing effectiveness and standardise paperwork	Use external data in screening and capture all data direct to computer	Move to transaction centre model, all documents being imaged and archived
2 Information Management	Improve data storage	Improve archiving	Integrated document management system
3 Payment Processing	—	—	Make payments by electronic transfer
4 Claimant Visiting	Target visits based on existing information	Use fraud profiles in visit management to determine nature and frequency of visits	Consider using a shared contractor with other visiting agents
5 Claimant Review	Review known high risk cases	Use initial computer model of fraud profiles to drive reviews	Develop expert systems which predict likely fraud and manage review policy
6 Computer Based Anti-Fraud Systems	Reactively match claimants against pooled data	Develop expert systems proactively	Develop advanced detection software, perhaps using neural network

People issues

Good systems need highly skilled and highly motivated people to implement them. Indeed, it is noticeable that the statements set out above apply as much to the organisation as a whole as the process followed by it.

Conclusions

The most significant conclusion from Deloitte & Touche's examination of the prevention of fraud in the private sector is that investment in fraud prevention is cost-effective, and that savings from prevention, detection and prosecution of fraud can, to a large extent, be obtained through improved administrative and operational practices. The actions listed above propose major changes to the information systems currently in use and to the methods of motivating staff to prevent fraud. Whilst, at first sight, the effort required to make these changes may seem significant, they have already been introduced in the private sector as necessities in the fight against fraud.

Set out below are other detailed recommendations from Deloitte & Touche's report for the Department's consideration in the long term. Deloitte & Touche's report is available from the National Audit Office.

Recommendations

Work should be done to review the non-systematic fraud types.

The establishment of a common standard for electronic information exchange on fraud should be made a priority throughout the Housing Benefit payment system.

The decision to invest in improvements to fraud detection, prevention and deterrence should be considered over the longer term, say five years, and include consideration of indirect losses.

The screening process should take account of all publicly available information on every applicant, and that the relevance of any item of information is regularly re-assessed.

Standardised, completed and well-filled documentation should be placed at the top of a list of practical and effective measures which will lead to a reduction in fraud. Without it, other measures are very likely to fail.

Claimant visits should be contracted in some or all cases to an organisation that is capable of performing this task. There may be significant cost savings available from sharing the burden of visiting new tenants with the utility companies and other agencies who also wish to obtain information, provided that the information is correctly screened and apportioned.

The transaction centre model should be adopted as the method of customer contact for the payment of Housing Benefit.

The IT infrastructure of the payment of Housing Benefit should be improved to the level where it allows the introduction of neural net technology to detect fraud in all transactions.

Personnel issues should be addressed as part of the overall response to Housing Benefit fraud.

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