



**CABINET**

**16<sup>TH</sup> FEBRUARY 2017**

**AGENDA ITEM (12)**

**COUNTER FRAUD UNIT BUSINESS CASE**

<b>Accountable Members</b>	Councillor C Hancock Cabinet Member for Enterprise and Partnerships
<b>Accountable Officer</b>	Jenny Poole Group Manager for GOSS 01285 623313 <a href="mailto:Jenny.Poole@cotswold.gov.uk">Jenny.Poole@cotswold.gov.uk</a>

<b>Purpose of Report</b>	This report seeks the authority to establish the Counter Fraud Unit permanently and to enter in to the necessary legal agreements and governance arrangements to do so.
<b>Recommendation(s)</b>	<b>(a) That the establishment of the Counter Fraud Unit be approved;</b> <b>(b) that the Group Manager GO Shared Services be given delegated authority to enter into the legal agreements, in consultation with the Cabinet Member for Enterprise and Partnerships, the Group Manager (Land, Legal and Property Services) and the Shared Strategic Director and Head of Paid Service.</b>
<b>Reason(s) for Recommendation(s)</b>	To provide the Cabinet with the views of the Audit Committee when considering the business case.

<b>Ward(s) Affected</b>	All.
<b>Key Decision</b>	Yes, because of the financial implications for the gross expenditure budget for the service. The MTFs and Budget Report 2017/18 includes the budgetary implications and will be subject to approval by Council.
<b>Recommendation to Council</b>	Not specifically - budgetary implications will be considered as part of the MTFs and Budget 2017/18 report.

<b>Financial Implications</b>	The decision to establish the Counter Fraud Unit will increase costs by £365,000. These costs will largely be offset by income from local authorities and Registered Social Landlords. The net cost to Cotswold District Council is £53,813. Of this cost, the Council has existing budgetary provision of £15,000 and the balance of £38,813 is expected to be funded by increasing income from services such as Council Tax and Retained Business Rates. Overall, the unit is expected to be self-financing.
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<b>Legal and Human Rights Implications</b>	The legal implications are set out in detail in the Business Case at <b>Appendix A</b>
<b>Environmental and Sustainability Implications</b>	There will a minimal impact as Officers will be required to travel as part of their investigator roles.
<b>Human Resource Implications</b>	Human Resources processes will be followed to appoint Officers to the new Unit.
<b>Key Risks</b>	<p>Risks are set out in detail within the Business Case. The key risks relate to:</p> <ul style="list-style-type: none"> <li>• Recruitment of Officers to the Unit to deliver the service from 1<sup>st</sup> April;</li> <li>• Impact upon support services to support the establishment of the new unit given competing priorities from the 2020 Programme;</li> <li>• Risk of demand being greater than resourcing levels can support;</li> <li>• Risk of partners withdrawing from the shared service.</li> </ul> <p>The mitigation for each of these risks is set out in the Business Case and the risks are all considered by Management to be minimal.</p>
<b>Equalities Impact Assessment</b>	Not Required.
<b>Related Decisions</b>	<p>Audit Committee 28<sup>th</sup> June 2016 - supported the original business case.</p> <p>Audit Committee 24<sup>th</sup> January 2017 - recommended the establishment of the unit to Cabinet.</p>
<b>Background Documents</b>	None.
<b>Appendices</b>	<b>Appendix A</b> - Final Business Case for the Counter Fraud Unit
<b>Performance Management Follow Up</b>	<p>Regular updates are provided by the Counter Fraud Team Leader to the Corporate Management Team and bi-annual reports in relation to counter fraud work will be made to the Audit Committee.</p> <p>Policy documentation will be presented when required.</p>
<b>Options for Joint Working</b>	Subject of the report.

### Background Information

1. In 2011/2012 Cotswold District Council, West Oxfordshire District Council and Cheltenham Borough Council started to informally work together to collate and apply a more consistent approach to counter fraud work through the Internal Audit Partnership; Audit Cotswolds.
2. In 2013/2014, the government announced that Local Authority responsibility for the investigation of benefit fraud was to be transferred, with the counter fraud investigation staff, to the Department for Work and Pensions. A successful counter fraud pilot project was initiated through the Cheltenham partner targeting tenancy fraud with Cheltenham Borough Homes; an arm's-length management organisation (ALMO). This enabled the partner Council's to assess the effectiveness of specialist counter fraud staff within other enforcement areas and consider retaining the resource within the organisation.

3. In February 2015, building on this pilot work, Cotswold District Council successfully bid for £403,000 funding from the Department of Communities and Local Government (DCLG) on behalf of the Local Authorities in Gloucestershire and West Oxfordshire District Council to accelerate the development of a dedicated Counter Fraud Unit (the unit) within the partner organisations.
4. The bid set out a phased approach. The unit's first objective was to counter fraud through better intelligence and enhanced proactive partnership working in Gloucestershire and West Oxfordshire District Council with the aspiration to create a 'Gloucestershire Hub'. It built on the existing three authority partnership and introduced other partners namely: Gloucestershire County, Forest of Dean, Stroud, Tewkesbury and Gloucester City Council, plus Cheltenham Borough Homes Ltd and in time other registered social landlords would be approached.
5. This business case translates the DCLG funded project into a permanent service model that is fully self-sufficient whilst continuing to manage and utilise the DCLG fund to set up the unit.
6. The business case sets out the roles and responsibilities of the new service and the financial strategy to ensure it is sustainable. It reflects upon the most effective and efficient use of resources and necessary governance structure to ensure it continues to deliver on service objectives.
7. The S.151 Officers form a significant role in terms of the unit's objectives, rationale and financial strategy but they also have a responsibility in the enabling of counter fraud activity within their own organisations.
8. The Audit Committees, as the body charged with governance, at each of the partner Local Authorities, will be required to ensure Member level engagement is achieved and be a means for reporting of counter fraud activity. This will enable the Committee to confidently sign the annual declaration for the External Auditor in support of the accounts. It also provides a route for the unit to publicise activity, benefits and outcomes such as savings achieved and prosecution results.
9. The Counter Fraud Unit requires data matching and sharing, along with partner collaboration, to occur in an effective and efficient manner. Therefore the business case covers operational and strategic elements.
10. The business case is designed to describe the delivery of a fully self-sufficient service that counters fraud in Gloucestershire and West Oxfordshire from April 2017. It also ensures that the unit can engage with similar counter fraud departments such as Oxford City and Birmingham City.
11. This business case argues that the benefits of a counter fraud unit outweigh the costs of setting up and operating the unit. This is evidenced within the results shown in the feasibility study section. In addition, the benefits are summarised within this document and this business case recommends a Counter Fraud Unit that is resourced and embedded into the host organisations. The unit will be capable of delivering a full range of counter fraud and error detection services.
12. The original business case explored three possible options for a counter fraud function within the organisations detailing the services which could be provided, benefits and dis-benefits and financial implications. These options were:
  - **Option 1** - The provision of the minimum statutory requirements with no dedicated Counter Fraud Unit.
  - **Option 2** - Counter Fraud Unit for the provision of an enhanced service to four partner Councils.
  - **Option 3** - Counter Fraud Unit for the provision of an enhanced service to Gloucestershire District / Borough Councils, West Oxfordshire District Council and Gloucestershire County Council with the ability to work for third party organisations such as Registered Social Landlords.

13. Consultation with all of the interested parties is now largely complete and the Business Case has been updated with results of the consultation to enable Cotswold District Council to take a decision on establishing the Unit.

14. Feedback from each of the parties is as follows:

**Cheltenham Borough Council**

Cabinet Decision 6 December 2016 – supported the Authority's participation in the establishment of a permanent Counter Fraud Unit and recommended the preferred option 3 and associated financial, governance and employment arrangements.

Investigation Officer Days: 210 (maximum)

**Cheltenham Borough Homes**

Agreement received from the Head of Finance and Reporting for the continued procurement of counter fraud services from 1 April 2017 at a charge of £16,500 per annum.

Investigation Officer Days: 70

**Cotswold District Council**

Audit Committee Decision 28 June 2016 – Supported that the Authority be the host partner, that the Authority participate in the establishment of a permanent Counter Fraud Unit and recommended the preferred option 3 and associated financial, governance and employment arrangements. Final business case presented 24<sup>th</sup> January 2017 and confirmed support for establishment of the unit.

Investigation Officer Days: 210 (maximum)

**Forest of Dean District Council**

Cabinet Decision 15 December 2016 – Approved the Authority's participation in the establishment of a permanent Counter Fraud Unit and recommended the preferred option 3 and associated financial, governance and employment arrangements.

Investigation Officer Days: (maximum – subject to budget restrictions)

**Gloucester City Council**

Proposal by the Head of Audit Risk Assurance and Insurance Services for the procurement of counter fraud services via the Shared Internal Audit Service from 1 April 2017 at a charge of £235 per day. This is still subject to agreement by Corporate Management.

Investigation Officer Days: 40

**Gloucester City Homes**

Agreement received from the Anti-Social Behaviour Manager for the continued procurement of counter fraud services from 1 April 2017 at a charge of £235 per day.

Investigation Officer Days: 10

**Gloucestershire County Council**

Agreement received from the Head of Audit Risk Assurance and Insurance Services for the procurement of counter fraud services from 1 April 2017 at a charge of £16,500 per annum.

Investigation Officer Days: 70

### **Stroud District Council**

Proposal for the procurement of counter fraud services from 1 April 2017 at a charge of £235 per day. This is still subject to agreement by Corporate Management.

Investigation Officer Days: 100

### **Tewkesbury Borough Council**

Council Decision 24 January 2017 – Approved the Authority's participation in the establishment of a permanent Counter Fraud Unit and recommended the preferred option 3 and associated financial, governance and employment arrangements.

Investigation Officer Days: 210 (maximum)

### **Trading Standards**

Memorandum of Understanding and charging model to be finalised with the Counter Fraud Unit. The agreement will allow the provision of Financial Investigators to introduce Proceeds of Crime Act activities at partner organisations.

Exploration of shared intelligence database relating to regulatory functions.

### **UBICO Ltd**

Agreement received from the Commercial Director for the continued procurement of counter fraud services from 1 April 2017 at a charge of £235 per day.

Investigation Officer Days: As required

### **West Oxfordshire District Council**

Cabinet Decision 11 January 2017 – Approved the Authority's participation in the establishment of a permanent Counter Fraud Unit and recommended the preferred option 3 and associated financial, governance and employment arrangements.

Investigation Officer Days: 210 (maximum)

15. The result of the consultation is that there is unanimous support for option 3, the establishment of a permanent enhanced and flexible service with the ability for third party work.

### **Governance and Legal Implications**

16. It is recommended that Cotswold District Council would be the employing authority for reasons of project continuity, knowledge and existing financial accountability to DCLG for the one-off grant. Officers carrying out Counter Fraud work must be Local Authority employees to ensure that their relevant statutory powers remain intact.

17. Initially, from April 2017, Counter Fraud Unit employees will be seconded to each partner as set out in the provisions of Section 113 Local Government Act 1972, which enables the employing Council to make its Officers available to other Councils. For the purpose of the secondment, the secondee becomes an Officer of the Council to whom he or she is seconded.

18. The governance and reporting arrangement for this team would be via partner Corporate Management / Senior Leadership Teams, individual partner Audit Committees / Cabinet as appropriate. It is also recommended that the Client Officers (all S151 Officers) receive updates and assurance at agreed intervals and support the governance arrangements.

19. Policy and corporate strategy will be determined by each partner individually and the Counter Fraud Unit will report bi-annually to each partner Audit Committee.

20. Goods and services contracts with appropriate professional indemnity insurance may be used to undertake work for third parties. In time, services may be provided through the medium of a Local Authority trading company.

### **2020 Partnership**

21. If the Counter Fraud Unit is subsequently transferred to one of the 2020 Partnership companies, these arrangements may change and each partner will be consulted on the revised governance arrangements at the appropriate time.

### **Procurement**

22. Each partner will need to agree to waiver local Contract/Procurement Rules to enter into this shared service.

### **Work Planning**

23. An annual plan will be agreed with each partner. This will include areas of high risk relating to that individual partner considering demographic, economic and cultural differences. Core financial functions and policy work will form part of the annual plan as will support for internal disciplinary investigations. Flexibility will be built in to accommodate extraordinary fraud investigations and specialist support provision to enforcement teams.

24. The Audit Committee was asked to consider the update to the Business Case and to provide comments for the Cabinet to consider in February 2017; and the Committee unanimously supported the establishment of a permanent Counter Fraud Unit.

(END)