

 WARWICK DISTRICT COUNCIL	Finance and Audit Scrutiny Committee 1st November 2016	Agenda Item No. 5
Title	National Fraud Initiative	
For further information about this report please contact	Ian Wilson, Senior Internal Auditor	
Wards of the District directly affected	None	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No	
Date and meeting when issue was last considered and relevant minute number	29th September 2015 (Minute 63)	
Background Papers	NFI Referrals Database (Cabinet Office) NFI Internal Working Papers (Internal Audit)	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality & Sustainability Impact Assessment Undertaken	No
Subject matter relates to mandatory participation in a long established national process overseen by the Cabinet Office (taken over from the former Audit Commission).	

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	20 October 2016	Andy Jones
Head of Service	20 October 2016	Mike Snow
CMT		
Section 151 Officer	20 October 2016	Mike Snow
Monitoring Officer		
Finance	20 October 2016	Mike Snow
Portfolio Holder(s)	20 October 2016	Councillor Whiting
Consultation & Community Engagement		
Not applicable		
Final Decision?	Yes	
Suggested next steps (if not final decision please set out below)		

1. **Summary**

- 1.1 The purpose of this report is to present to Members details of the final outcomes from the Council's investigations into the data matches from the 2014-15 National Fraud Initiative (NFI) programme.

2. **Recommendation**

- 2.1 That this Committee notes outcomes and relevant explanations from the 2014-15 round of the NFI.

3. **Reasons for the Recommendation**

- 3.1 Members have requested annual updates on NFI activities.
- 3.2 The NFI considers itself to be a major contributor to public sector counter-fraud activity and continually seeks to expand its influence in both the public and private sectors. From Warwick District Council's perspective the contribution of NFI to counter fraud activity has always been marginal overall, but offers significant value as a source of independent assurance on the effectiveness the Council's preventative controls and as a deterrent against fraud.
- 3.3 The results to date from the 2014-15 NFI programme are discussed in Section 9 below.

4. **Policy Framework**

- 4.1 Local authorities are required to participate in the NFI under Schedule 9 of the Local Audit and Accountability Act. Commitment to the NFI also forms part of the Council-wide counter-fraud framework embodied in the Anti-Fraud and Corruption Policy.
- 4.2 Participation in the NFI contributes to achievement of Fit for the Future targets by helping to eliminate wasteful dissipation of financial resources.

5. **Budgetary Framework**

- 5.1 There are no direct budgetary impacts arising.

6. **Risks**

- 6.1 Effective participation in the NFI reinforces the Council's measures for mitigating the risk of fraud.

7. **Alternative Options Considered**

- 7.1 Not applicable.

8. **Background**

- 8.1 The National Fraud Initiative (NFI) is a national inter-organisational data matching service developed by the Audit Commission but now managed by the Cabinet Office.

8.2 While the NFI has traditionally focused on housing benefit fraud as its main target area, recent years have seen pensions and council tax discount overtake housing benefits in terms of monetary value attributed to fraud and irregularities detected through its activities. Of the other areas targeted by NFI, those relevant to Warwick District Council are:

- council tax reduction (under local scheme)
- employment
- social housing tenancies
- right to buy
- social housing waiting lists
- trade creditors
- licensing (taxi and alcohol)
- insurance claims.

8.3 To meet its obligations under the NFI, Warwick District Council is required to:

- extract and supply data to the managing body (now the Cabinet Office);
- review and, where appropriate, investigate output referred back from the data matching processes and report the outcomes to the managing body.

8.4 To comply with law and best practice in handling and sharing personal information, the process is governed by a Code of Data Matching Practice adopted by the Cabinet Office.

8.5 The Responsible Financial Officer has overall management responsibility for the NFI at each local authority. NFI operations at Warwick District Council are overseen by a member of Internal Audit as designated 'Key Contact'.

8.6 Results of NFI data matches are processed through a secure web-based application system. Only a small number of Council staff have access to this system and they are required to observe special data handling instructions in addition to the Council's policies on information security.

8.7 The Cabinet Office's NFI Team has advised that they will not be issuing a briefing for Members as they had done in previous cycles. New methods of presenting performance statistics are being developed for release through the web system.

9 **NFI Outcomes**

9.1 Members are reminded that the Council's Benefit Fraud Team transferred to the Department for Work and Pensions' Single Fraud Investigation Service (SFIS) in February 2015. This coincided with the release of the latest tranche of housing benefit matches and has naturally had a major impact on staff resources available within the Council to process them.

9.2 Although investigation of housing benefit fraud is now the responsibility of the SFIS, the Cabinet Office advised that the Council is expected to 'sift' the NFI housing benefit matches initially (at least for the 2014-15 round). A protocol has been issued for referral of benefit matches selected for further investigation by the SFIS.

- 9.3 The resource gap was filled by recruitment of a Corporate Fraud Officer responsible to the Benefits and Fraud Manager. However, recruitment difficulties delayed appointment to the post with consequential delays in processing the housing benefit matches.
- 9.4 As a consequence of the 'localisation' of council tax support, the NFI instituted a pilot scheme for separate matching of council tax reduction under the respective authorities' schemes. Warwick District Council participated in the pilot and the resultant matches, released in July 2015, were assigned to the Corporate Fraud Officer along with the housing benefit matches. Unfortunately, the postholder left the Council's employment before work on these and the housing benefit matches could be completed and no replacement has been appointed to date. However, as these matches have been dealt with in priority order of risk, those not fully investigated are categorised as low risk.
- 9.5 Matching of housing waiting lists was also introduced as a pilot scheme with which the resultant matches released in early April 2015 and processed jointly by the Key Contact and Housing Strategy and Support Services.
- 9.6 Both the above pilot exercises have now been rolled out as mandatory matches for all participating authorities effective from this year.
- 9.7 Council tax discount matching is now performed annually in December. The results summarised in the table below represent the aggregated outcomes of the December 2014 and December 2015 matches.
- 9.8 The results to date of the 2014-15 NFI matches are summarised in the table below and compared with the equivalent outcomes from the 2012-13 round. NFI do not expect all matches to be checked, especially where there are large numbers. Participating authorities are expected to adopt a risk-based approach guided by built-in priority grouping and tagging of the referrals. Consequently, not all matches received are fully investigated.

Match Type	No. of matches received	No. of matches processed	Outcomes 2014/15		Outcomes 2012/13	
			No. of cases of fraud/ error identified	Over-payments identified £	No. of cases of fraud/ error identified	Over-payments identified £
Housing Benefit	757	513	3 (all classified as claimant error)	1,721	30	79,869
Payroll	46	46	Nil	-	Nil	-
Housing Tenants	41	41	4 ⁽¹⁾	-	Nil	-
Right to Buy	7	7	1 ⁽²⁾	-	Nil	-
Resident Parking Permits	3	3	2 ⁽³⁾	-	Nil	-

Match Type	No. of matches received	No. of matches processed	Outcomes 2014/15		Outcomes 2012/13	
			No. of cases of fraud/ error identified	Over-payments identified £	No. of cases of fraud/ error identified	Over-payments identified £
Insurance Claims	9	9	Nil	-	Nil	-
Taxi Drivers	2	2	Nil	-	Nil	-
Personal Alcohol Licence Holders	Nil	-	-	-	-	-
Creditors – duplicate suppliers	229	229	12 ⁽⁴⁾	-	20	-
Creditors – duplicate payment transactions	298	298	1 ⁽⁵⁾	9,208 (incl. VAT)	1	1,416 (incl. VAT)
Creditors – VAT overpaid	170	170	Nil ⁽⁶⁾	-	Nil	-
Council Tax Discount	1,919	1,919	271 ⁽⁷⁾	139,720	2	554
Waiting List (Pilot)	336	333	12 ⁽⁸⁾	-	Not applicable	Not applicable
Council Tax Reduction (Pilot)	886	772	3 (all classified as claimant error)	1,112	Not applicable	Not applicable

Notes to table above

- (1) Relates to records containing incorrect National Insurance numbers – referred to Housing and Property Services for correction.
- (2) Right to Buy application repudiated by Legal Services as a result of the match.
- (3) Permit holders shown as deceased referred to Warwickshire County Council. The match process straddled the transfer of on-street parking enforcement back to the County. Warwick District Council will have no further involvement with resident permit holder matches.
- (4) The vast majority of duplicate creditors appearing in the matches had already been de-activated in the system to prevent their re-use as a result of periodic internal review. A further 12 duplicate creditors were reported and these have now been de-activated or flagged for de-activation once recent orders raised against them are completed.

(5) The duplicate payment occurred in February 2013 and relates to asbestos removal at four housing properties. The cause is attributed to a combination of errors and a failure to institute basic checks. At the time in question, a temporary Asbestos Manager was employed as an agency placement prior to the same person being contracted in as an asbestos consultant. Issues in respect of this contract and working practices during its currency were reported to the Executive on 12th March 2014, by which time the contract had been terminated.

The overpayment has been recovered.

- (6) All 'VAT overpaid' matches related to invoices from the Council's bailiffs. These invariably include additional VAT relating to fees already received by them through deduction from recovered council tax arrears.
- (7) Relates to council tax accounts where single person discount was revoked as a result of the matching and the overpayment amount represents the re-debits made to the applicable accounts. 245 cases were classified as 'error' (i.e. no proven intent to defraud) and 26 cases as 'fraud'. This overpayment amount does not include the standard £70 penalties imposed under the Local Government Finance Act 2012 (Section 14C(1)) – records show that they were imposed in 84 'error' cases and 10 'fraud' cases.
- (8) All classified as 'error' - made up of:
- 7 deceased persons removed from joint applications;
 - 3 applications cancelled;
 - 2 NI number corrections.

10 Future Developments

- 10.1 Matching processes for the 2016-17 round of NFI are already under way. The next set of council tax discount matches is due to be released in December 2016 and the remainder at the end of January 2017.
- 10.2 It is envisaged that responsibility for initial checks on the housing benefit matches will remain with the local authorities, at least for the 2016-17 round. Only in cases where fraud is suspected based on evidence will referral be made to the SFIS for further investigation.
- 10.3 In line with a shift of emphasis from fraud detection to fraud prevention, the NFI has been promoting its 'Application Checker' service which was launched in April 2015. This allows details of applicants for social housing tenancies, housing benefits, council tax reduction, employment and relevant licences to be matched to the bulk accumulated NFI submissions database at the time of each individual application being processed.
- 10.4 In each case, the result should either provide greater positive assurance as to the applicant's identity and status (including residency, immigration and financial) or show indications of further investigation being warranted prior to acceptance. The service carries a charge based on the level of usage up to a maximum of £1,850 per annum.
- 10.5 Consultations with the relevant service managers on adopting the Application Checker are ongoing.