

 Finance and Audit Scrutiny Committee 30th October 2018		Agenda Item No. 4
Title	National Fraud Initiative Update	
For further information about this report please contact	Ian Wilson, Senior Internal Auditor Tel: (01926) 456818 Email: ian.wilson@warwickdc.gov.uk	
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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?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	Finance and Audit Scrutiny Committee 31 st October 2017 (Minute 74)	
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 Impact Assessment Undertaken	No
Subject matter relates to mandatory participation under statute 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	11/10/2018	Chris Elliott
Head of Service	11/10/2018	Mike Snow
CMT	11/10/2018	CMT
Section 151 Officer	11/10/2018	Mike Snow
Monitoring Officer	11/10/2018	Graham Leach
Finance	11/10/2018	Mike Snow
Portfolio Holder(s)	11/10/2018	Councillor Whiting
Consultation & Community Engagement		
Not applicable		
Final Decision?	Yes	

1 **Summary**

- 1.1 The purpose of this report is to present to Members the final results of the Council's investigations into the data matches from the 2016-17 National Fraud Initiative (NFI) programme.

2 **Recommendation**

- 2.1 That the Finance and Audit Scrutiny Committee notes the final outcomes from the 2016-17 round of the NFI, along with relevant explanations.

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 final results from the 2016-17 NFI programme are discussed in Section 9 below.

4 **Policy Framework**

4.1 **Fit for the Future (FFF)**

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	Services	Money
External		
Health, Homes, Communities	Green, Clean, Safe	Infrastructure, Enterprise, Employment
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/productivity of local economy Increased employment and income levels
Impacts of Proposal None directly applicable		

FFF Strands		
People	Services	Money
Internal		
Effective Staff	Maintain or Improve Services	Firm Financial Footing over the Longer Term
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
Impacts of Proposal		
None directly applicable	None directly applicable	The report relates to ongoing processes that contribute to continued cost management by helping to minimise financial loss through fraud, error and failure in duties to report circumstances impacting on entitlement to Council benefits and liability reductions.

4.2 **Supporting Strategies**

Each strand of the FFF strategy has a number of supporting Strategies, but direct reference to them is not necessary in considering the subject matter of this report.

4.3 **Changes to Existing Policies**

This section is not applicable.

4.3 **Impact Assessments**

This section is not applicable.

5 **Budgetary Framework**

There are no direct budgetary impacts arising.

6 **Risks**

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

7 **Alternative Option(s) considered**

- 7.1 There are no alternative options to participating in the NFI as it is a statutory requirement.

8 **Background**

- 8.1 The National Fraud Initiative (NFI) is a national inter-organisational data matching service 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)
- 8.3 To meet its obligations under the NFI, Warwick District Council is required to:
- extract and supply data to the managing body (currently 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 (and currently under review 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 and contracted-in 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.

9 **NFI Outcomes**

- 9.1 The overall national outcomes from the 2016-17 round of the NFI have been recently published in the Cabinet Office's [NFI Report 2018](#). The local outcomes for Warwick District are summarised in the table below with the corresponding outcomes from the 2014-15 round for comparison. These are followed by explanatory notes as appropriate.

Match Type	Outcomes 2016-17				Outcomes 2014-15			
	No. of matches received	No. of matches processed	No. of cases of fraud/ error identified	Savings/ over-payments identified £	No. of matches received	No. of matches processed	No. of cases of fraud/ error identified	Savings/ over-payments identified £
Housing Benefit	488	163	1	181	757	513	3	1,721
Payroll	40	40	1	-	46	46	Nil	-
Housing Tenants	209	206	Nil	-	41	41	4	-
Right to Buy	13	13	Nil	-	7	7	1	-
Taxi Drivers	7	5	Nil	-	2	2	Nil	-
Creditors – duplicate suppliers	158	158	3	-	229	229	12	-
Creditors – duplicate payment transactions	44	44	2	9,596.91 (incl. VAT)	298	298	1	9,208 (incl. VAT)
Creditors – VAT overpaid	148	148	Nil	-	170	170	Nil	-
Council Tax Discount	5,406	403	2	1,865	1,919	1,919	271	139,720
Waiting List	98	51	6	-	336	333	12	-
Council Tax Reduction	552	472	1	247	886	772	3	1,112

9.2 While the matches in relation to payroll and creditors have been processed by the Key Contact, the remaining matches have been assigned to officers of the Council's fraud investigation partnership with Oxford City Council Investigation Service for review. The performance of the Partnership is due to be reported to Finance and Audit Scrutiny Committee in November.

9.3 It should be emphasised that there is no strict requirement under the NFI to examine all matches referred and it is expected that match groups will be prioritised on a risk basis, especially where there are large numbers. This is particularly so in the case of the Housing Benefit, Council Tax Discount and Council Tax Reduction categories.

9.4 Although investigation of housing benefit fraud is now the responsibility of the Single Fraud Investigation Service (Department for Work and Pensions), the Cabinet Office advised that the Council is expected to 'sift' all NFI housing benefit matches initially.

- 9.5 The low proportion of Housing Benefit matches processed is due to risk-based prioritisation which has concentrated primarily on:
- matches flagged as recommended priority by the NFI;
 - other new matches (i.e. matches not repeated from previous NFI cycles).
- 9.6 The substantial proliferation of Council Tax Discount matches, and low recorded outcomes arising, were explained in the previous year's report to this Committee. The updated figures should be viewed with some caution as a large proportion of the referrals added from the December 2017 matching are duplicates of prior-year referrals.
- 9.7 With the Council being overwhelmed by the volume of matches, an alternative approach to Single Person Discount review was agreed with the approval of the Head of Finance. This entailed commissioning the fraud investigation partners to undertake an independent risk-based matching exercise using their data intelligence solution which is geared towards producing better filtered and up to date matches. Single Person Discounts are now reviewed on all rolling basis. This should have the benefit of any matches being more current, and the related work being more spread throughout the year.
- 9.8 The commissioned matching exercise was undertaken in late 2017, but the processing of the referrals arising (approximately 1,200) has been significantly delayed due to staff resource issues and is ongoing at the time of this report. Progress at the time of writing is indicated by the following outcomes to date:
- | | |
|-----------------------------------|-------------------------|
| Number of matches processed | 338 |
| Penalties Charged | 63 |
| Penalty Income | £4,410 |
| Incorrectly claimed SPD recovered | £27,689.13 ¹ |
- 9.9 The amounts overpaid in both duplicate creditor cases have been recovered. One of these cases is of particular interest for two reasons:
- The second payment was raised on a document clearly marked 'reminder' when basic checks would have shown the related invoice to be already paid.
 - Recovery of the overpayment (£7,260) proved especially problematic with the payee (one of the Inns of Court) continually denying receipt of the overpayment. It required repeated correspondence, direct intervention by the former Head of Development Services and submission of BACS transaction trails before the overpayment was eventually acknowledged and refunded.
- 9.10 In the aftermath of this, instructions were circulated to all staff to reinforce procedures requiring payment on valid invoices only and checks to ensure that they are not already paid. Since then, the implementation of automated invoice matching has further strengthened controls to prevent duplicate payment.

¹ Based on Band D average at 25 per cent.