

 Finance and Audit Scrutiny Committee 29th September 2015		Agenda Item No. 4
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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?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	30th September 2014 (Minute 59)	
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	10/9/2015	Andy Jones
Head of Service	11/9/2015	Mike Snow
CMT		
Section 151 Officer	11/9/2015	Mike Snow
Monitoring Officer		
Finance	11/9/2015	Mike Snow
Portfolio Holder(s)	11/9/2015	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 progress on 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 the progress and outcomes to date 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 of 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 2014 (this replaces Part IIa of the now repealed Audit Commission Act 1998). Commitment to the NFI also forms part of the Council-wide counter-fraud framework embodied in the Anti-Fraud and Corruption Policy.
- 4.2 This 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. Other areas targeted include:
- employment
 - social housing tenancies
 - right to buy
 - student loans
 - trade creditors
 - licensing (taxi and alcohol)
 - resident parking permits
 - 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 issued 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.

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 has 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 Employment Committee gave approval in September 2014 to recruit a Corporate Fraud Officer reporting to the Benefits and Fraud Manager. This would help to address the resource issue and establish a central focus for counter-fraud generally within the Council.
- 9.4 Recruitment difficulties have, however, delayed appointment to the post and the eventual appointee has only recently taken up his duties at the time of this report.

- 9.5 As a consequence of the 'localisation' of council tax support, the NFI has instituted a pilot scheme for separate matching of council tax reduction under the respective authorities' schemes. Warwick District Council is participating in the pilot and the resultant matches were released in July 2015.
- 9.6 The processing of these matches is a priority for the new Corporate Fraud Officer, as is the sifting of the aforementioned housing benefit matches. It is aimed to have these completed by the end of October.
- 9.7 A further pilot scheme in which the Council has chosen to participate is the matching of social housing waiting lists. The resultant matches were released in early April 2015 and these are being processed by Housing Strategy and Support Services.
- 9.8 Council tax discount matching is now performed annually in December. Since the previous year's report to Members, work has continued on processing matches released in March 2014 and a further tranche released in December 2014. The results summarised in the table below represent the aggregate of March 2014 matches processed since the previous report and the December 2014 matches processed to date (adjusted for duplicate matches between the two sets).
- 9.9 The results to date of the 2014-15 NFI matches are summarised in the table below. It should be emphasised that a risk-based approach is expected on the part of participating authorities in processing NFI matches, therefore not all matches will necessarily be checked especially where there is a large number of them.

Match Type	No. of matches received	No. of matches processed	No. of cases of fraud/ error identified	Over-payments identified £
Housing Benefit	757	74	-	-
Payroll	46	46	-	-
Housing Tenants	28	28	4 ⁽¹⁾	-
Right to Buy	7	7	1 ⁽²⁾	-
Resident Parking Permits	3	3	2 ⁽³⁾	-
Insurance Claims	9	9	-	-
Taxi Drivers	2	2	-	-
Personal Alcohol Licence Holders	-	-	-	-
Creditors – duplicate suppliers	229	229	12 ⁽⁴⁾	-
Creditors – Duplicate Payment Transactions	298	298	1 ⁽⁵⁾	7,675 (excluding VAT)
Creditors – VAT overpaid	170	170	-	⁽⁶⁾
Council Tax Discount	1,798	1,778	374 ⁽⁷⁾	148,585
Waiting List (Pilot)	336	26	-	-
Council Tax Reduction (Pilot)	886	52	-	-

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.

Recovery of the overpayment is still being pursued at the time of this report.
- (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. All cases were classified as 'error' (i.e. no proven intent to defraud) and the overpayment amount represents the re-debits made to the applicable accounts. This does not include the standard £70 penalties imposed under the Local Government Finance Act 2012 (Section 14C(1)) as the NFI system is not yet designed for recording them. The total amount of penalties imposed for the NFI match cases is estimated at around £15,000.

10 Future Developments

- 10.1 The next NFI match of housing benefit data is currently expected to take place in 2017, by which point the landscape is likely to have changed considerably under the Welfare Reform agenda. Any changes to, or impacts on, the role and expectations of the Council in respect of future housing benefit matches will be reviewed nearer the time, although arrangements are already in place to recruit a support officer to deal with future matches.
- 10.2 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.
- 10.3 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. 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.
- 10.4 The service carries a charge based on the level of usage up to a maximum of £1,850 per annum.

- 10.5 At the time of this report, the relevant service managers are being consulted on the principle of incorporating the Application Checker into their respective processes. From a recent canvass of Midlands local authorities, none reported having adopted the facility.