

SUBJECT: FRAUD AND ERROR UPDATE REPORT (2017/18) 12 MONTHS

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

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1. Purpose of Report

1.1 This report provides an update to Committee on Counter Fraud arrangements.

2. Executive Summary

2.1 This report:

- Provides an update on the Lincolnshire Counter Fraud Partnership
- Provides a position statement on the National Fraud initiative
- Outlines fraud work within Housing benefits and other areas.
- Provides an update on counter fraud outcomes

3. Lincolnshire Counter Fraud Partnership (LCFP)

3.1 The Lincolnshire Counter Fraud Partnership involving all Lincolnshire Councils was created following the successful application for Government counter fraud funding. Partnership working across all Lincolnshire Councils has been extended to 31st March 2019. For 2018/19 the group has now been extended to include representatives from the Police and Crime Commissioner for Lincolnshire and Lincolnshire Police. All partners have made a small financial contribution to develop and deliver proactive exercises and investigate fraud. This is being project managed by Lincolnshire County Council. The partnership has been involved with a number of counter fraud projects and has a forward programme of work.

3.2 The work of the LCFP will help partners to:

- re-inforce and strengthen the anti-fraud culture
- provide a proactive response to fraud risk management
- provide greater resilience to fraud
- deliver savings from fraud and error
- make effective use of counter fraud resources
- improve fraud detection

3.3 The LCFP will contribute to managing the key risks arising from fraud:

- Financial loss
- Reputational damage
- Misuse of resources
- Impact on service delivery and / or service users.

3.4 **Key Messages 17/18**

The LCFP arrangement continues to make efficient use of the limited counter fraud resources within the Lincolnshire local authorities. Extensive and varied communication channels have been used to promote fraud awareness among a wide audience and increased whistleblowing traffic is evidence that this is working well. This is evident at City of Lincoln Council (CoLC). Project savings further support achievements made.

3.5 **Areas of Progress in 2017/18 include:**

- Development of e-learning, shared with district partners to enable training of employees. ColC is in the process of rolling out the training.
- Successful delivery of the Council Tax Support (CTS) exercise at Boston Borough Council which identified total revenue of around £500k from CTS fraud & error. The approach may be rolled out across the other districts in 2019/20 – the estimated net revenue gain is £724k (All Councils – see CTS section below).
- Delivery of housing tenancy fraud briefing to encourage districts with housing stock to participate in a housing tenancy fraud data check (see also housing tenancy section below).

In terms of background, national intelligence suggests that housing tenancy fraud is a high risk area. An initial data check was completed at two Lincolnshire Councils and identified possible fraud indicators; the results however did not suggest that this was a high risk area.

- SPD (Single Person Discount) 2018, procurement has been undertaken for this review, which is due to commence during June. The successful provider suggests net revenue gain around £1m across the County.

3.6 **Fraud Awareness**

Efforts to build understanding of fraud risks and indicators have continued in 2017/18. Better knowledge and awareness should have the long term benefit of making the Council more resilient to fraud. A counter fraud culture depends on stakeholders at all levels playing a part to prevent and detect fraud.

A key development in 2017/18 has been the development of a Fraud Awareness e-learning course. Roll out at ColC is during 2018/19. This package includes sections on understanding fraud as well as steps to prevent and detect fraud. The key issue that fraud prevention is everybody's responsibility is also covered.

- 3.7 The County Council have recently commenced a proactive exercise on procurement fraud – this remains the largest single area of fraud loss within local government. Information about the approach and findings will be shared with the Districts and will provide a starting point for our own pro-active work in this area.

3.8 **CIPFA Fraud and Corruption Tracker (2017)**

This report focuses on the local government sector. It provides a spread of results that

enabled CIPFA to estimate the total figures for fraud across English, Welsh and Scottish local authorities. The 2018 report has not yet been published.

3.9 Key findings:

- An estimated 75,000 frauds have been detected or prevented across local authorities in 2016/17 with a total value of £336.2m.
- The number of fraud cases investigated or prevented dropped in 2017.
- But the average value per fraud increased from £3,400 to £4,500.
- Procurement, adult social care and council tax single person discount are perceived as the three greatest fraud risk areas.
- Adult social care fraud has shown the largest growth in the past year, with an estimated £5.6m investigated compared with £3.0m in 2016.
- The highest number of investigations related to council tax fraud (76%) with a value of £25.5m.
- The highest value area of fraud is housing with an estimated total of £263.4m.
- 38% of organisations who responded have a dedicated counter fraud service.

In terms of the key risks around procurement, housing and Council tax (SPD); CoLC has action plans in place. See the respective sections below.

3.10 Counter Fraud Plan 2018 /19

The Partnership's plan for 2018/19 the plan is aligned to the CIPFA Counter Fraud Code of Practice on Managing the Risk of Fraud and Corruption, ensuring that it reflects key areas. The Code contains 5 key principles and these are reflected within the plan:

- Acknowledge the responsibility of the governing body for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption

3.11 Key Areas and Themes

During 2018/19 LCFP intend to:

- Continue raising awareness of fraud – delivering promotional campaigns, fraud clinics and encouraging completion of e-learning approach to fraud.
- Identify opportunities to generate revenue from pro-active work on fraud and error.
- Develop networks to facilitate sharing of fraud intelligence and best practice e.g. police and Trading Standards.
- Identify joint working / partnership opportunities to maximise fraud resources and improve fraud resilience.
- Share counter fraud best practice (aligned to the principles covered in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption).
- Inform pro-active fraud work by using County Council data
- Analytical expertise / external solutions – to identify trends and patterns within

transactions.

3.12 Key areas of counter fraud activity for the partnership will include:

- Procurement fraud
- Cyber security
- Blue badges
- Adult Care
- LCFP will work with a newly created Fraud sub-group of the Serious and Organised Crime multi-agency board, which is part of the Lincolnshire Community Safety Partnership. Key information will be shared with the Districts.

4. CoLC Activity

4.1 Housing Benefit

For 2017/18 the total number of referrals to SFIS was 155. The total administrative penalties issued was 11, totalling £19,197.57 in overpayments. Total prosecuted and found guilty was 5, totalling £19,509.53 in overpayments. CTR reductions as a result of a housing benefit investigation were £3187.61.

In comparison for 2016/17 the Council was involved with 184 benefit referrals to and from SFIS. The total administrative penalties issued was 19, which had a value of £27,368.74. The overpaid Housing Benefit value was £ £56,509.53.

The Benefit/CTS fraud, sanctions and prosecutions policy (last updated in January 16) is currently being reviewed; the revised policy is going to CoLC Policy Scrutiny in June and Executive (CoLC and NKDC) in July.

4.2 Right Benefit Initiative (RBI)

RBI replaced the Fraud and Error Reduction Incentive Scheme (FERIS) for 2017/18. Under this initiative Authorities are asked to focus purely on combating incorrect earnings and to process as many Optional Real Time Information (RTI) referrals as possible each month.

Of the 1418 cases reviewed in 17/18, housing benefit payments have been reduced and overpayments have been created on 1108 of them resulting in a total overpayment for the year 2017/18 of £478,663.37.

4.3 Council Tax Support

As set out in the LCFP update in section 3 above, Council Tax Reduction options are being discussed with LCFP officers. It has been agreed in principle that a project similar to that used at Boston Borough Council should be undertaken in 2019/20, with the other Districts, including CoLC. The estimated net revenue gain is £724k across the Districts involved.

4.4 Housing Tenancy

For 2016/17 there were no cases of sub-letting. During 2016/17 the Council served 9 notices to quit including non-occupation.

For 2017/18 there were 2 sub-letting cases and 24 notices to quit (including non-occupation) (Abandoned = 20; Non-occupation = 4)

It was agreed as part of the recent 17/18 Tenancy Internal Audit to:

- Undertake a tenancy fraud risk assessment and produce an updated fraud strategy/action plan, aligned to a refresh of the tenancy fraud policy.
- Update the tenancy fraud policy.
- Undertake some pro-active fraud work during 2018/19 (using a tenant verification service) making resources available as part of the new budget process.

These will be implemented during 2018/19.

4.5 **Business Rates**

The definition of fraud within business rates is difficult, avoidance is a serious issue and one which does impact all Districts including CoLC.

A specific Invest to Save project was undertaken from August 2016 to November 2017 focusing on BR fraud and avoidance. The project was successful in increasing the CoLC rateable values by 121,018 for the 2010 list and 153,146 for the 2017 list, equating to an additional £71,366 of Business Rate income. Following on from the success of this project, officers with the Revenues Team have continued build upon the work that was started.

4.6 LCFP have also submitted a joint NFI funding bid for a proposed funded business rate pilot. It looks to match business rate data together with existing NFI data such as residential care home data and premises data within and between bodies to identify potential business rate fraud. NFI asked groups of councils to make a unified bid. A bid covering all the Lincolnshire districts has been submitted. We are awaiting the outcome.

4.7 **Council Tax**

A Council Tax single person discount exercise is taking place during 2018 across Lincolnshire, this will commence during June and will be completed by the end of August in readiness for the tax base calculation in September 2018.

4.8 **Whistleblowing and Fraud Awareness**

The Council continues to use the LCC County wide hotline, which receives its own publicity. We have refreshed the Council Website counter fraud page, particularly around fraud/whistleblowing referrals. Communication to Managers and other employees has taken place around fraud risk, policies and reporting.

Fraud-e-learning is currently being rolled out during 2018/19 and commenced in 2017/18. It is also intended to roll out across members (Audit Committee members have already received the presentation/training).

4.9 During 2017/18, we have had 16 whistleblowing reports, in comparison to 3 in 2016/17,

these were in relation to;

6 x HB
2 x Fraud
4 x Council Tax
1 x Waste/refuse
1 x Contract
2 x Housing

4.10 **Cyber Fraud/Cyber Crime**

The Council continues to place high importance on cyber security. Security measures are applied, kept under review and audited regularly. The Authority is also subject to Central Government compliance initiatives.

An anti-malware internal audit was completed during 2016/17.

In 2017/18, an IT Disaster recovery internal audit and Application audits were completed.

LCFP Group is to develop cyber-crime projects during 2018/19.

4.11 **Other Fraud**

Credit card fraud - during 2016/17 we had one case of credit card fraud linked to refund fraud (no financial loss to the Council). Other Councils had been targeted and the matter was reported to the Police. Procedures have been reviewed again.

During 2017/18 one case of reported credit card fraud, but there was no impact the Council.

4.12 **National Fraud Initiative**

The Council continues to be engaged with the National Fraud Initiative (NFI) which involves national data matching using a range of Council data sources including payroll, benefits, creditors, housing, and licences, insurance. The purpose of the data matching is to highlight "potential" fraud and error cases which require investigation. Council data was submitted to the NFI for 2016/17 in October 2016.

The results of the work on matches are:

1953 matches and 1842 processed, this identified 1 fraud and 40 errors, recovering £26,250.51 (all HB/CTS)

New data sets will be submitted in October 2018 and data matches will be assessed from January 2019 onwards. The outcomes from data matching will be assessed with officers as many of the match types did not identify any fraud or error. This may influence the level of testing in 2019.

4.13 **Fraud Strategy and fraud policies**

Fraud Policies

A revised Money Laundering Policy was last reviewed in September 2016 and will be reviewed again in 2018/19. The Counter Fraud Strategy was also updated, taking account of new CIPFA and DCLG Government guidance and submitted to the Audit Committee September 2016. This will be reviewed in 2018/19.

The Council's Anti-Bribery Policy was reviewed in February 2017. The Whistleblowing Policy was updated and presented to the Audit Committee in December 2017. The Council's fraud risk assessment was updated and a revised risk register presented to Audit Committee in February 2018.

The Benefit / CTS fraud, sanctions and prosecutions policy is being revised and will be submitted to the Executive in June 18. During 18/19 a health check review will be undertaken with LCFP to ensure arrangements are robust and focused on pro-active work correctly.

4.14 **Outcomes from the Counter Fraud Strategy**

Operational outcomes to help evaluate effectiveness are included within the existing strategy. The outcomes are shown at Table A below.

- High levels of fraud awareness
- Zero tolerance to fraud (number of referrals / ensuring suspicions reported and action taken)
- Reduced losses (a low incidence of fraud)
- Delivery of pro-active counter fraud work (work plan)
- Reducing the risk of fraud
- Successful prosecutions, other sanctions and recovery of losses
- Successfully engagement with partners

4.15

Table A

Area	Comments
Delivery of pro-active counter fraud work (work plan)	The Council's strategy is based on CIPFA and Government best practice and has been updated in line with new guidance.
Achieving counter fraud best practice	The Lincolnshire Counter Fraud Partnership uses Counter fraud specialists to support delivery of a County wide action plan. Outcomes are included within this report above. This partnership will run until at least 31/3/2019.
High levels of fraud awareness	Reminders are issued to all staff at least annually related to Council fraud policies, whistleblowing etc. On-line fraud training planned for full roll out during 2018/2019 Other parts of the organisation particularly Housing benefits and Council Tax have had effective publicity

	<p>and campaigns.</p> <p>The updated fraud risk register will help to raise awareness further and we have issued some communications around this.</p> <p>The Council's website fraud pages have been refreshed and made clearer.</p> <p>A future survey will help to gauge awareness</p>
Successful prosecutions, other sanctions and recovery of losses	<p>An updated sanctions and prosecutions policy was agreed in January 2016. This is being updated again in 2018</p> <p>Sanctions/prosecutions are outlined above</p>
Reducing the risk of fraud	<p>A fraud risk register is in place and has been updated in 2017/18.</p> <p>The counter fraud action plan and risk mitigation actions should help to reduce risk further.</p>
<p>Successfully engagement with partners</p> <p>(including National Fraud Initiative, HBMS, LCFP and others)</p>	<p>CoIC complies with NFI requirements and participates in reviewing and reporting on data/outcomes.</p> <p>The Council engages as a partner within the Lincolnshire Counter Fraud Partnership. The Police are a new partner for 17/18.</p> <p>The Council works closely with Department for Work and Pensions/Single Fraud Investigation Service.</p> <p>DWP RBI scheme</p>
<p>Zero tolerance to fraud</p> <p>(number of referrals/ensuring suspicions reported and action taken)</p>	<p>This is part of the reminders issued to all staff and there has been additional publicity around reporting fraud within City Hall public areas.</p> <p>Referrals are received from the public (service areas and customer services)</p> <p>The Council has a relatively low incidence of reported fraud / loss generally.</p> <p>Further benchmarking across Lincolnshire would be useful.</p>
Reduced losses	The Council has a relatively low incidence of reported

Low incidence of fraud	fraud / loss generally. Further benchmarking would be useful, which the LCFP may action in 18/19
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4.16 Insurance

The table below sets out the number of insurance claims and incidents during 2016/17 and 2017/18 along with the total cost of claims.

4.17

CAUSE	2016/17	
	Number	Total Cost of Ins Claim
	Insurance Claims & Incidents	(Paid & Outstanding)
Arson - Perpetrator Unknown	6	£17,953.80
Break In - No Theft	3	£2,218.60
Malicious Damage	4	£508
Theft - Forcible Entry	1	2,708.39
Theft	6	£400
Vandalism	22	£6,282.36
	Total	£30,071.15

4.18

CAUSE	2017/18	
	Number	Total Cost of Ins Claim
	Insurance Claims & Incidents	(Paid & Outstanding)
Arson - Perpetrator Unknown	1	£3,172.72
Break In - No Theft	2	£0
Malicious Damage	1	£1,116.14

Theft - Forcible Entry	0	0
Theft	1	0
Vandalism	24	£11,326.34
	Total	£15,942.20

4.19 **Fraud Risk Register**

The Corporate fraud risk register has been developed with officers, which has been effective from 2014. This was updated in February 2018.

The register shows the main fraud risk types, fraud risk assessment and further actions that are proposed to mitigate the risks.

- Fraud Strategy
- Contracting /contract management
- Procurement
- Payments
- Income Collection
- Debt management
- Money laundering
- BACS /Cheque fraud
- Payroll / employees
- Treasury management / investment fraud
- Property / land/ equipment
- Grants - Housing and Economic Support / Third Sector
- False accounting
- IT / Data
- Insurance
- Council Tax
- Housing
- Business Rates
- Council Tax Support Scheme
- Housing Benefit
- Development Management
- Theft/Asset misuse
- Refund fraud
- Election fraud

4.20 Key CoLC (Amber) fraud risk areas are:

- IT/Data
- Insurance
- HB/CTS
- Housing
- Elections

Key mitigation actions in the register:

- To agree the level/type of duplicate payment checks needed Purchase order

- project
- Money Laundering policy to be updated again in 2018
- Single Person Discount review to be undertaken during 2018
- CTS fraud project 2019/20
- HB/CTS fraud policy requires update
- Revise/update tenancy fraud policy, strategy and action plan. Undertake some pro-active fraud work during 2018/19
- Completion of inventories

4.21 Fraud Case Summary (17/18)

	Fraud cases	Comments
Ctax CTR	7	CTR reductions as a result of a HB investigation - £3,187.61.
Business rates	0	Avoidance City of Lincoln RV for 2010 has increased by 121,018 and for 2017 by 153,146. For 2017/18, based on the multiplier of 0.466 this is an additional £71,366 of Business Rates income.
Housing benefit	16	The total administrative penalties issued was 11 totalling £19,197.57 in overpayments. Total prosecuted and found guilty – 5 totalling £19,509.53 in overpayments. £26,021.22 overpayment value
Housing sub letting	2	
Housing other		24 Notice to quit /non occupation

5. Organisational Impacts

5.1 Finance (including whole life costs where applicable)

There are no direct financial implications arising from this report.

5.2 Legal Implications including Procurement Rules

There are no direct legal implications arising from this report.

6. Recommendation

6.1 That Members consider and comment on the report.

Is this a key decision? No

Do the exempt information categories apply? No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply? No

How many appendices does the report contain?

List of Background Papers: None

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