SUBJECT:	**FRAUD AND ERROR UPDATE REPORT (2018/19) 6 MONTHS**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**AUDIT MANAGER**

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 **LCFP 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

Areas of Progress in 2018/19 Include:

- raising fraud awareness by delivering free identity fraud training via Lincolnshire Police: – for Lincoln the training outcomes (November 18) will be captured and cascaded to relevant sections within the Council to help identify any gaps
- delivering workshops with members and completion of the Fraud Awareness e-learning which continues to be well received (at Lincoln Audit Committee members have received the e-learning and a shorter version will be rolled out to all members in December 18 with some follow up training in March 19)
- regular liaison and sharing of information on scams, alerts and fraud cases
- delivering revenue savings. The SPD Managed Service Review is estimated to deliver additional net Council Tax revenue of £1.3m (3693 removals). Such schemes support Lincolnshire LA's to increase Council Tax revenue collection through reduced fraud losses. (See Section 4.7 which provides more details on the savings for Lincoln)
- reviewing the exit arrangements for the Fraud Awareness e-learning as the current licence arrangements expire on 31 March 2019.
- sharing best practice e.g. pro-active work focussing on procurement fraud risks has been shared across the Lincolnshire LA's as a possible approach
- performing a follow up Fraud Health Check (North Kesteven District Council) - providing assurance that counter fraud arrangements continue to improve
- supporting pro-active blue badge reviews being performed

Partnership Priorities for the Remainder of the Year Include:

- developing a business case for dealing with Single Person Discounts which delivers additional financial benefits and a stronger response to Council Tax fraud/error compared to the current approach. The proposal estimates that the revised arrangements will deliver additional council tax revenue over a 5 year period of £10.5m (gross). This is £5.25m more than the current biennial review strategy is estimated to deliver over the same period.
- developing understanding of the Cyber Fraud threat - a rapidly evolving risk where we wish to develop an effective response.
- updating the Counter Fraud leaflet and promotional items. Continuing to use varied and extensive communication channels to promote fraud awareness among a wide audience.

3.3 **CIPFA Fraud and Corruption Tracker (2018)**

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:

3.4 Key Findings:

CIPFA has estimated that for local authorities in the UK, the total value of fraud detected or prevented in 2017/18 is £302m, which is less than the £336m estimated in 2016/17. The average value per fraud has also reduced from £4,500 in 2016/17 to £3,600 in 2017/18.

The 2017/18 CFaCT survey indicates that there are four main types of fraud (by volume) that affect local authorities:

1. council tax
2. housing
3 disabled parking (Blue Badge)
4. business rates.

Estimated value of fraud detected/prevented:

Housing fraud 71.4%
Business rates 3.4%
Council tax fraud 8.7%
Other types of fraud 14%
Disabled parking concession 2.4%

Other types of fraud:

Fraud covers a substantial number of areas and within organisations these can vary in importance. This part of the report looks at specific areas of fraud that did not appear as major types of fraud within the national picture but are important to individual organisations. These include the following fraud types:

- adult social care
- insurance
- procurement
- no recourse to public funds/welfare assistance
- payroll, recruitment, expenses and pension
- economic and voluntary sector support and debt
- mandate fraud and manipulation of data.

We have reviewed the report and benchmarked to our City of Lincoln Council (CoLC) fraud risk register.

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 has been updated

4.2   **Right Benefit Initiative (RBI)**

RBI has been replaced.

4.3   **Council Tax Support**

CTS reduction is still being discussed between officers. This is in relation to rolling SPD reviews and SMART referrals which could take place from April 2019.

There is a significant resourcing issue across the district, as well as the SMART referrals requiring a fraud investigation resource. A further update will be provided at the 12 month report.

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)

2018/19 figures are "to follow"

It was agreed as part of the 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).

These should be implemented during by 31st March 2019.

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 to build upon the work that was started. The NDR team continue with the work as part of their day-to-day – ensuring proactive checks are undertaken on the planning lists and utilising the Visiting Officer capacity within the team.

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. With regards to the joint

NFI funding bid, we received confirmation on 1 June 2018 that we hadn't been selected to take part in the pilot.

4.7   **Council Tax**

A Council Tax single person discount exercise took place during 2018 across Lincolnshire completed by the end of August in readiness for the tax base calculation in September 2018.

A tender process was undertaken in Spring 2018. The SPD review began in Summer 2018. The outcomes of the review are as follows for City of Lincoln :

Total records screened	10,563	
Accounts targeted	2,440 (23.1%)	Target specification as per tender
Total removals	722	This may reduce due to potential reinstatements – customer may not have responded to initial canvas/reminder and so SPD is removed. If customer can prove SPD entitlement, it is re-instated by the Shared Service Council Tax Admin team – currently there have been 300 enquiries to the team
Removal rate	6.8%	
Estimated Revenue Generated	**£218,724**	
Estimated collectable revenue based on 17/18 outturn collection	£212,534 (97.17%)	
Average removal	£273	
Largest Removal value	£1,467	
Oldest removal date	September 2013	
Band Removal relates to	Band A	

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
For the first six months of 2018/19 we had 20 whistleblowing reports

6 x HB
1 x Fraud
6 x Council Tax
1 x Debt/recovery
5 x Housing
1 X health and safety

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 is currently being finalised during 2018/19.

In 2017/18, an IT Disaster recovery internal audit and Application audits were completed. Actions are still being progressed.

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

No reports during 2018-19.

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.

During 2017/18 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 were submitted in October 2018 and data matches will be assessed from January 2019 onwards. The outcomes from data matching will be risk assessed in more detail for 2018/19 as many of the match types did not identify any fraud or error. This may influence the level/quantity of testing in 2019.

4.13 **Fraud Strategy and Fraud Policies**

Fraud Policies and Fraud Risk

A revised Money Laundering Policy was last reviewed in September 2016 and will be reviewed again in December 2018. The Counter Fraud Policy / 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 December 2018.

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 was approved by the Executive in 2018; Audit Committee also received a copy.

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 has commenced and planned for full roll out before 31st December 2018 Other parts of the organisation particularly Housing benefits and Council Tax have had effective publicity and campaigns. The updated fraud risk register will help to raise awareness further and we have issued some communications around this. The Council's website fraud pages have been refreshed and made clearer. A future survey will help to gauge awareness
Successful prosecutions, other sanctions and recovery of losses	An updated sanctions and prosecutions policy was agreed in 2018. Sanctions/prosecutions are outlined above
Reducing the risk of fraud	A fraud risk register is in place and has been updated in 2017/18 and again in 2018/19 The counter fraud action plan and risk mitigation actions should help to reduce risk further.
Successfully engagement with partners (including National Fraud Initiative, HBMS, LCFP and others)	CoIC complies with NFI requirements and participates in reviewing and reporting on data/outcomes. The Council engages as a partner within the Lincolnshire Counter Fraud Partnership. The Police are a new partner from 17/18. The Council works closely with Department for Work and Pensions/Single Fraud Investigation Service. DWP RBI scheme
Zero tolerance to fraud (number of referrals/ensuring suspicions reported	This is part of the reminders issued to all staff and there has been additional publicity around reporting fraud within City Hall public areas. Referrals are received from the public (service areas and customer services)

| and action taken) | The Council has a relatively low incidence of reported fraud / loss generally.

Further benchmarking across Lincolnshire would be useful. |
|---|---|
| Reduced losses

Low incidence of fraud | The Council has a relatively low incidence of reported fraud / loss generally.

Further benchmarking would be useful, which the LCFP may action in 18/19 |

4.16 **Insurance**

The table below sets out the number of insurance claims and incidents during 2016/17, 2017/18 and 2018/19 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	Number	Total Cost of Ins Claim
2017/18		
	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**

CAUSE	Number	Total Cost of Ins Claim
2018/19		
	Insurance Claims & Incidents	(Paid & Outstanding)
Arson - Perpetrator Unknown	3	1000
Break In - No Theft	2	0
Malicious Damage	10	0
Theft - Forcible Entry	0	0
Theft	3	0
Vandalism	11	0
	Total	**£1,000**

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 and again in December 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 additional creditor duplicate payment checks
- Purchase order project
- Money Laundering policy update
- Completion of Council inventory
- Implementation of (IT security) audit recommendations

- ICT LGA Stocktake (actions to be agreed)
- IT DR review completion
- Single Person Discount review 2018 (completed)
- Reviewing rolling SPD reviews and SMART referrals with LCFP
- Undertake a tenancy fraud risk assessment / produce an updated fraud strategy/action plan, aligned to a refresh of the fraud policy.
- Undertake pro-active fraud work during 2018/19 (using a tenant verification service).
- Tenant ID verification
- IT asset check
- Further training for officers and members that sit on outside bodies, particularly where there is a financial aspect / role involves financial decision making

4.21 **Fraud Case Summary 18/19 and 17-18 Comparison**

	Fraud cases 17/18	Fraud cases 18/19	Comments 2017/18	Comments 2018/19
Council Tax Support	7		CTR reductions as a result of a HB investigation - £3,187.61.	To follow
Business rates	0	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.	Ongoing avoidance work
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	To follow
Housing sub letting	2			To follow
Housing other			24 Notice to quit /non occupation	To follow

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 No
categories apply?

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

How many appendices does
the report contain?

List of Background Papers: None

Lead Officer: John Scott, Audit Manager
                                         Telephone (01522) 873321