SUBJECT:	**FRAUD AND ERROR ANNUAL REPORT (2018/19)**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**JOHN SCOTT, AUDIT MANAGER**

1. Purpose of Report

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

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

For context, we include below details of the CIPFA Fraud and Corruption tracker report. 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.

1.3. 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

2. Executive Summary

2.1 This report:

- Provides an update on CoLC activity
- 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

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	3	CTR reductions as a result of a HB investigation - £3,187.61.	CTR reductions as a result of a HB investigation - £2,294.33.
Council Tax SPD (Single Person Discount)	-	566*		566 SPD removals
Business rates	N/A	N/A	Avoidance	Ongoing avoidance work
Housing benefit	16	9	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.	The total administrative penalties issued was 8, totalling £35,922.23 in overpayments. Total prosecuted and found

				guilty was 1, totalling £11,630.85 in overpayments.
Housing sub letting	2	1		
Housing other			24 Notice to quit /non occupation	17 notices to quit/non occupation
Other				

3.   Areas of CoIC Progress in 2018/19 included:

- Counter Fraud Strategy updated (Dec 18)
- Updated Money Laundering policy (Dec 18)
- Achieved a high proportion (70%) of fraud e-learning by employees and also rolled out to members
- Updated the fraud risk register
- Obtained tenancy fraud matching data and commenced review (April 19)
- Continued to tackle housing fraud cases (sub-letting and non-occupation)
- Submitted data and started work on NFI (National Fraud Initiative) matches
- Undertaken the successful Council Tax SPD project for CoIC/NKDC (566 removals for CoIC)
- Continued to work with DWP (SFIS) on HB fraud referrals
- Updated the Benefit/CTS fraud, sanctions and prosecutions policy
- Implemented the new Verification of Earnings and Pensions (VEP) system which replaced the Right Benefit Initiative (RBI)
- Started work with LCFP on the next Council Tax SPD and CTS fraud project
- Started work on a possible data matching service for Small Business rates relief
- In partnership with the County Council managed the whistleblowing referrals
- Made the City of Lincoln Council a "friends against scams" organisation

3.1   Other CoIC Specific Priorities for 2019/20

- Tenancy Fraud – work with Housing to complete matches
- NFI – work with teams to complete matches
- Fraud training (residual and new staff. members)
- Identity fraud – work with teams on best practice
- Scam busters / friends against scams – publicise and roll out
- Money laundering - risk assessment
- Update Counter Fraud risk register
- Health check – assessment against good practice
- Fraud policy updates – anti-bribery
- Whistleblowing/fraud reporting best practice and publicity
- CIPFA fraud return

- Possible data matching service for Small Business rates relief
- Lincolnshire Resilience Forum/MHCLG Cyber Resilience Group and related exercises

4.   Lincolnshire Counter Fraud Partnership (LCFP)

4.1   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 2020. The group includes 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.

4.2   **Areas of Progress in 2018/19 included:**

- The Partnership continues to improve fraud resilience and fraud proofing across Lincolnshire by improving fraud intelligence: co-ordinating targeted fraud awareness campaigns: sharing fraud intelligence, best practice and expertise.
- Delivering revenue savings. The SPD Managed Service Review is estimated to have delivered additional net Council Tax revenue of £1.061m including penalties of £28,630 and 3057 removals. Such schemes support Lincolnshire Local Authority's to increase Council Tax revenue collection through reduced fraud losses. (See Section 5.7 which provides more details on the savings for Lincoln).
- One of the areas of focus in 2018/19 has been to develop the business proposal to generate additional council tax revenue from tackling fraud / error for Single Person Discounts on a rolling basis. The proposal will be progressed in 2019/20.
- The partnership helped to raise fraud awareness by delivering free identity fraud training via Lincolnshire Police. For CoLC training outcomes were captured and are being cascaded to relevant sections within the Council to help identify any gaps – this work will continue into 2019/20.
- Delivering workshops with members and completion of the Fraud Awareness e-learning which continues to be well received (at Lincoln, Audit Committee members received the e-learning and a shorter version was 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 which includes CoLC.
- Sharing best practice e.g. work focussing on procurement fraud risks has been shared across the Lincolnshire LA's. These have been shared.
- Performing Fraud Health Checks - providing assurance that counter fraud arrangements continue to improve. A health check will be completed during 2019 at CoLC.
- Supporting pro-active blue badge reviews.
- Assurance Lincolnshire manages the Confidential Reporting Line on behalf of the Partnership and acts as a central point of contact. An

analysis of district related referrals made to the Reporting Line in 2018/19 identified that 102 referrals were received (105 in 2017/18). The type of referral in 2018/19 is slightly different compared to the previous year with referrals covering business rates and staff issues - whistleblowing traffic is an indicator that fraud awareness is reaching a wider audience. Further details are provide later in the report.

Partnership Priorities for 19/20

- In 2019/20, key pro-active work will focus on: business rates (potential area for increasing revenue by pursuing avoidance) and housing tenancy fraud (identified within the counter fraud profession as a high risk fraud area).
- Lincolnshire Councils are looking to commence continuous rolling SPD reviews from October 2020, rather than the bulk reviews undertaken currently. April 2020 will be the last bulk SPD review. Alongside the continuous rolling SPD there may be other fraud referrals linked to Council Tax Support claims. The proposed continuous rolling review strategy combined with fraud referrals is estimated to deliver £10.58m (gross) of additional council tax revenue over a 5 year period. This is circa £5.2m (gross) more than the current biennial approach is estimated to deliver over the same period. The approach will help strengthen the anti-fraud culture, proactively manage fraud risk and improve fraud resilience across Lincolnshire LA's.

5. **CoLC Activity**

5.1 **Housing Benefit**

For 2018/19 the total number of referrals to SFIS was 154. The total administrative penalties issued was 8, totalling £35,922.23 in overpayments. Total prosecuted and found guilty was 1, totalling £11,630.85 in overpayments. CTR reductions as a result of a housing benefit investigation were £2,294.33 (3 cases).

In comparison for 2017/18 the Council was involved with 155 benefit referrals to and from SFIS. The total administrative penalties issued was 11, which had a value of £11,483.90 in overpayments. Total prosecuted and found guilty – 5 totalling £19,509.53 in overpayments. CTR reductions as a result of a HB investigation - £3,187.61.

The Benefit/CTS fraud, sanctions and prosecutions policy has recently been reviewed and agreed by Executive (CoLC and NKDC) in July 2018.

SFIS investigation thresholds are now higher, more caseload is going to universal credit and VEP (Verification of Earnings and Pensions) is picking up more errors.

There are still some delays and communication issues with DWP, particularly around compliance. Working relationships with SFIS are good and performance improving.

5.2   Verification of Earnings and Pensions (VEP)

VEP replaced the Right Benefit Initiative (RBI) 2018/19. Under this initiative Authorities are asked to focus purely on changes to earnings and Pensions that occur on a daily basis. Information is fed through to the system via a link with HMRC.

There are 1.5 staff working across the shared service in this area.

5.3   Council Tax Support

Lincoln will be part of the continuous rolling Single Person Discount (SPD) reviews from October 2020. April 2020 will be the last bulk SPD review. Alongside the continuous rolling SPD contract there may be other fraud referrals linked to Council Tax Support claims.

5.4   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)

For 2018/19 there was 1 sub-letting case and 17 notices to quit (including non-occupation/abandonment). (Abandoned = 11; Non-occupation = 6)

The current work on the tenancy verification service project will inform both the fraud risk assessment and the tenancy fraud policy refresh.

Tenancy Fraud – Tenancy Verification Service

The data matching exercise across the Council's housing stock has been completed and officers are starting to work through reported matches. The service aims to identify housing fraud such as sub-letting.

A further update will be reported with the 19/20 six month update report.

Housing staff are currently undertaking a range of tenancy fraud training and this will continue into 19/20

5.5   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. Officers within the Revenues Team have continued to build upon the work. The NDR team continue with proactive checks on planning lists and utilising the Visiting Officer capacity within the team.

5.6 There are regular reviews of reliefs including Small Business Rate relief (bi-annual) Charity relief (mandatory - annual). Other discretionary relief – (annual).

Some areas of avoidance may include:

- Leases – new lease and the lease holder goes immediately into liquidation
- Empty properties – let out to 'charities' who don't use it and claim that when it is next used it will be for charitable use and therefore it is exempt - this is a legislation loop hole
- Short periods of occupation of just over 6 weeks – this is rates avoidance but again this is a legislation loop hole

For 19/20 the Council is considering a possible data matching service for Small Business rates relief nationally and possible other work around avoidance.

5.7 Council Tax (SPD)

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. The next bulk review is April 2020.

Total records screened	10,563
Accounts targeted	2,440 (23.1%)
Total removals	566
Removal rate	5.4%
Estimated Revenue Generated	174,325* CoLC share is 16%

5.8 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).
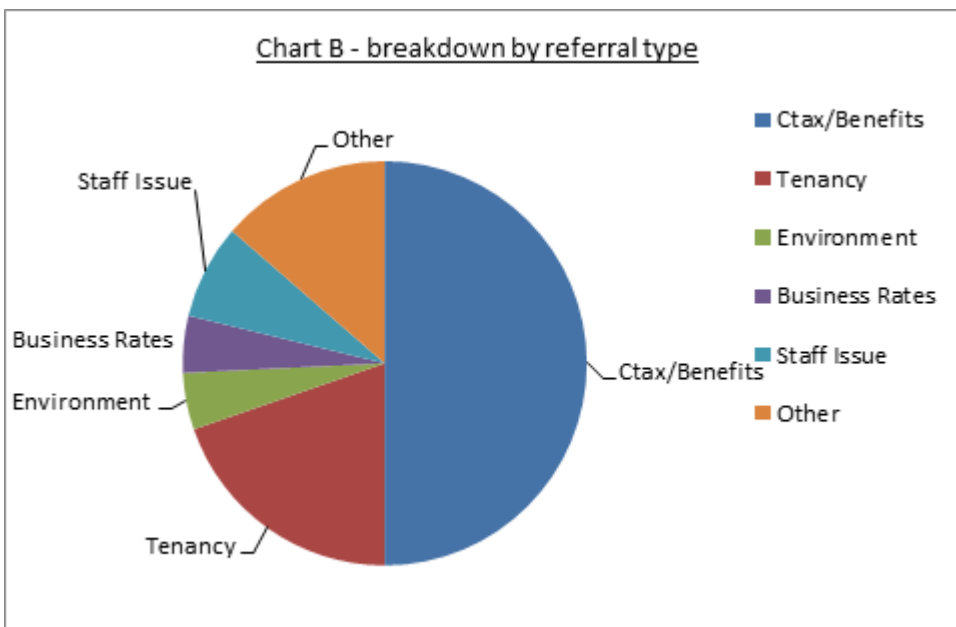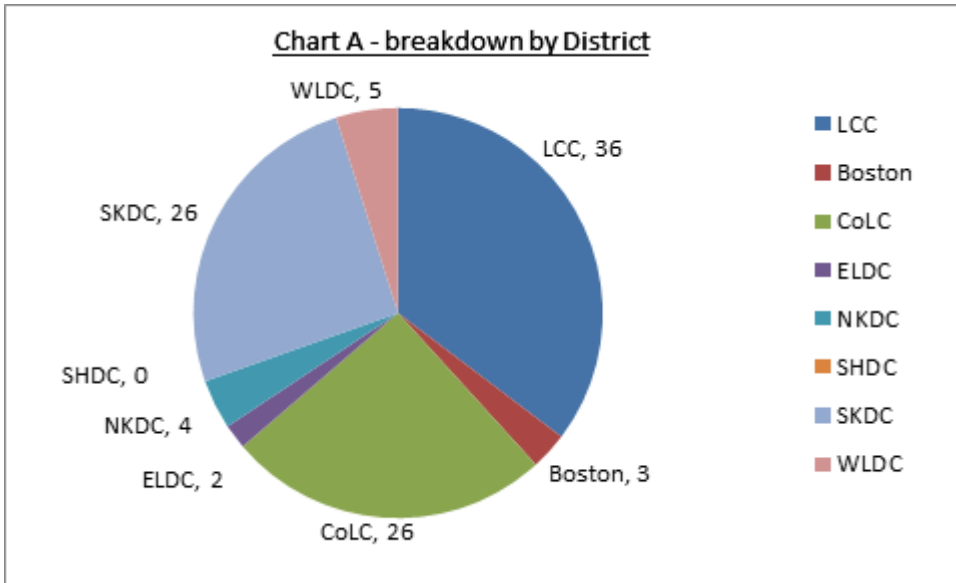
5.9 During 2017/18, we have had 16 whistleblowing reports, in comparison to 3 in 2016/17, these were in relation to;

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

For 2018/19 we had 26 whistleblowing reports

- 9 x HB
- 1 x Fraud/Other
- 6 x Council Tax
- 1 x Business rates
- 1 x Debt/recovery
- 7 x Housing
- 1 x Health and safety

The following charts provide an overview across Lincolnshire

Chart A - breakdown by District

WLDC, 5
LCC, 36
SKDC, 26
SHDC, 0
NKDC, 4
ELDC, 2
Boston, 3
CoLC, 26

LCC
Boston
CoLC
ELDC
NKDC
SHDC
SKDC
WLDC

Chart B - breakdown by referral type

Other
Staff Issue
Business Rates
Environment
Ctax/Benefits
Tenancy

Ctax/Benefits
Tenancy
Environment
Business Rates
Staff Issue
Other

5.10 **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 finalised during 2018/19 – substantial assurance.

In 2017/18, an IT Disaster recovery internal audit and application audits were completed. Some actions are still being progressed. IT DR is now also a significant issue on the AGS (Annual Governance Statement).

LCFP Group may look to develop cyber-crime projects during 2019/20.

CoLC is now part of an LRF (Lincolnshire Resilience Forum/MHCLG) Cyber Resilience Group. The LRF/MHCLG have developed a cyber-resilience plan and the Council has access to a range of resources including training materials and documentation. The Council is planning to undertake some of the exercises as part of BCP/IT DR planning/testing.

5.11   Other Fraud

The City of Lincoln Council is now a "friends against scams" organisation (www.friendsagainstscams.org.uk) to help protect the city's residents and staff from becoming victims of scams. Two "scamchampions" have been nominated so far. Here are some key facts about scams in the UK:

- Scams cost the UK economy £5-£10 Billion a year
- Scams are a crime
- 53% of people over 65 have been targeted by scams
- Only 5% of scams are reported
- Statistics indicate that the average scam victim has lost over £3,000

The partnership with a National Trading Standards body, involves encouraging staff and others to take part in scam awareness and advice training.

The Council already has a high level of awareness regarding scams, particularly where it may impact on our customers, and this initiative further helps with awareness across our staff and stakeholders.

6.   National Fraud Initiative and other Matching Services

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 are being 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.

The matching results are:

- 1699 matches to review, 203 high risk

- To date 245 processed, 17 errors with a value of £21,614

Other Matching

- HMBS - housing benefit matching service results
- VEP's - Verification of Earnings and Pensions (VEP)
- Bulk Council Tax SPD reviews
- Tenancy fraud – verification service

7. **Fraud Strategy and Fraud Policies**

Fraud Policies and Fraud Risk

A revised Money Laundering Policy was updated in December 2018. The Counter Fraud Policy / Strategy was also updated, taking account of new CIPFA and DCLG Government guidance and again was reviewed in December 2018. A money laundering risk assessment is currently being completed. The Fraud Strategy action plan is attached at Annex A.

The Council's Anti-Bribery Policy was reviewed in February 2017 and will be reviewed again in 2019. The Whistleblowing Policy was updated and presented to the Audit Committee in December 2017 and will be reviewed again in 2019.

The Council's fraud risk register was updated and a revised risk register presented to Audit Committee in December 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 19/20 a health check review will be undertaken with LCFP to ensure arrangements are robust and focused on pro-active work correctly.

7.1 **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

7.2 **Table A**

Area	Comments
Delivery of pro-active counter fraud work (work plan) Achieving counter fraud best practice	The Council's strategy is based on CIPFA and Government best practice and has been updated in line with new guidance. 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 31/3/2020.
High levels of fraud awareness	On-line counter fraud training commenced and was rolled out in 2018-19. So far we have trained 450 (70%) staff, and members. Further training will be undertaken in 2019/20 The Council's website has clear sections on fraud and fraud reporting. There were communications around the 2018 SPD review.
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 was updated in December 2018. Controls exist to mitigate fraud and additional actions are complete or partially complete.
Successfully engagement with partners (including National Fraud Initiative, HBMS, LCFP and others)	ColC 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 Council works closely with Department for Work and Pensions/Single Fraud Investigation Service. Verification of Earnings and Pensions (VEP)

	HBMS
Zero tolerance to fraud (number of referrals/ensuring suspicions reported and action taken)	Council policy This is part of the communication issued to all staff and members Matters reported by the public, or through whistleblowing are all followed up
Reduced losses Low incidence of fraud	The Council aims to have a relatively low incidence of reported fraud / loss generally. Further benchmarking will take place in 19/20

8.   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 and reviewed by the Audit Committee.

8.1   Key CoLC (Amber) fraud risk areas are:

- IT/Data
- Insurance
- Council Tax
- HB/CTS
- Housing
- Elections
- Partnerships and outside bodies

Key mitigation actions in the register:	
• To agree the level/type of additional creditor duplicate payment checks	• Existing process sufficient to identify duplicates together with NFI checks
• Purchase order project	• Continues
• Money Laundering policy update	• Completed • Current risks assessment underway
• Completion of Council inventory	• Ongoing – first part complete
• Implementation of (IT security)	• Partial completion

audit recommendations	
• ICT LGA Stocktake (actions to be agreed)	• Partial completion
• IT DR review	• Further work in this area is needed AGS issue)
• Single Person Discount review 2018 (completed)	• Completed
• Reviewing rolling SPD reviews and fraud referrals with LCFP	This project proposes an alternative approach to a bulk SPD review October 2020
• Undertake a tenancy fraud risk assessment / produce an updated fraud strategy/action plan, aligned to a refresh of the fraud policy.	• Matching completed and will inform risk assessment/strategy
• Undertake pro-active fraud work during 2018/19 (using a tenant verification service).	• As above
• Tenant ID verification	• Extended to July 19
• Further training for officers and members that sit on outside bodies	• Completed

9. Organisational Impacts

9.1 Finance (including whole life costs where applicable)

There are no direct financial implications arising from this report

9.2 Legal Implications including Procurement Rules

There are no direct legal implications arising from this report

10. Recommendation

10.1 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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