

SUBJECT: FRAUD AND ERROR SIX MONTH REPORT (2019/20)

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.

2. Executive Summary

2.1 This report:

- Provides an update on City OF Lincoln Council (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 17/18 – 18/19 and 19/20 (6 Month Data)

	Fraud cases 17/18	Fraud cases 18/19	Comments 2018/19	Fraud Cases 19/20 (6 mths)
Council Tax Support	7	3	CTR reductions as a result of a HB investigation - £2,294.33.	CTR reductions as a result of a HB investigation - £1,298.35
Council Tax SPD (Single Person Discount)	-	566*	566 SPD removals	Next exercise being planned
Business rates	N/A	N/A	Ongoing avoidance work	
Housing benefit	16	9	The total administrative penalties issued was 8, totalling	There was 1 administrative penalty issued totalling £4309.51

			£35,922.23 in overpayments. Total prosecuted and found guilty was 1, totalling £11,630.85 in overpayments.	and 1 case prosecuted totalling £3,501.30 in overpayments.
Housing sub letting	2	1		5
Housing other	24*	17*		3
Other				

2.2 Areas of CoLC Progress in 2018/19 included:

- 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)
- Started work on NFI (National Fraud Initiative) matches
- Undertaken the successful Council Tax SPD project for ColC/North Kesteven District Council (NKDC) (566 removals for ColC)
- Continued to work with DWP Single Fraud Investigation Service (SFIS) on HB fraud referrals
- 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 Single Person Discount (SPD) and Council Tax Support (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

2.3 CoLC Specific Priorities for 19/20 and Progress

- Tenancy Fraud – work underway with Housing to complete matches
- NFI – working with teams to complete matches (see NFI section)
- Fraud training (residual and new staff members) – in progress
- Identity fraud – work with teams on best practice – quarter 4
- Scam busters / friends against scams – ongoing publicity
- Money laundering - risk assessment – in progress
- Update Counter Fraud risk register – completed
- Health check – assessment against good practice – quarter 4
- Fraud policy updates – anti-bribery / whistleblowing - completed
- Whistleblowing/fraud reporting best practice and publicity quarter 4
- CIPFA fraud return - completed
- Possible data matching service for Small Business rates relief – to commence 20/21
- Lincolnshire Resilience Forum/MHCLG Cyber Resilience Group and related exercises.

3. Background

3.1 CIPFA Fraud and Corruption Tracker (2019)

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.

3.2 Key findings:

- CIPFA has estimated that for local authorities in the UK, the total value of fraud detected or prevented in 2018/19 is 253m, averaging roughly £3,600 per fraud case. 2017/18 is £302m.
- Councils reported that approximately 71,000 instances of fraud had been detected or prevented in 2018/19, which is lower than the approximate 80,000 reported by CIPFA in 2017/18.
- Council tax fraud represents 78% of these identified instances of fraud with an estimated value of £30.6m followed by disabled parking concession (Blue Badge scheme) and housing frauds representing 10% and 5% of the total cases of UK public sector fraud, respectively.
- Business rates were 2% and other types of fraud were 4.2%

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 CoLC fraud risk register.

4. Lincolnshire Counter Fraud Partnership (LCFP)

- 4.1 The Lincolnshire Counter Fraud Partnership involves all Lincolnshire Councils, and includes representatives from the Police and Crime Commissioner for Lincolnshire and Lincolnshire Police, and is currently in place until 31st March 2020. 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 Partnership Priorities for 19/20

- To develop the business proposal to generate additional Council Tax revenue by tackling fraud and error on Single Person Discounts on a rolling basis – the revised arrangements could deliver additional council tax revenue of £5.2m over a 5 year period.
- Improve fraud resilience and fraud proofing across Lincolnshire
- Improving fraud intelligence
- Sharing fraud intelligence, best practice and expertise
- Media release relating to Single Person Discount review

5. City of Lincoln Council Specific Activity

5.1 Housing Benefit and CTR

For the first six months of 2019/20 the total number of referrals to SFIS was 11. There was 1 administrative penalty issued totalling £4309.51 and 1 case prosecuted totalling £3,501.30 in overpayments. CTR reductions as a result of a housing benefit investigation was £1,298.35 (admin penalty case).

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).

The reduction in referrals is due to more pro-active work – around NFI and verification of earnings and Pensions (VEP) – see below. SFIS investigation thresholds are also now higher, more caseload is going to universal credit.

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

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

See 5.1

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)

For the first six months of 2019/20 there were 5 sub-letting cases and 3 notices to quit (including non-occupation/abandonment).

Note there has been a rise on sub-letting cases being identified in 2019/20.

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.

As well as potential fraud the data matching has highlighted some data errors and these are being corrected.

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 20/21, we are looking to review Small Business Rates Relief (SBRR) – through a third party, we would be able to cross check against other authorities whether a business is in receipt of SBRR. SBRR regulations allow for small single businesses, not multiple.

5.7 **Council Tax (Single Person Discount - 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%

In respect of SPD, it was agreed that we would undertake a bi-annual SPD review, so no review has been undertaken in 19/20. The next bulk review is April – August 2020 and then a rolling review from October 2020 onwards (pending successful tender process)

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 will continue to be rolled out during 2019/20.

5.9 During 2019/20, we have had 8 whistleblowing reports

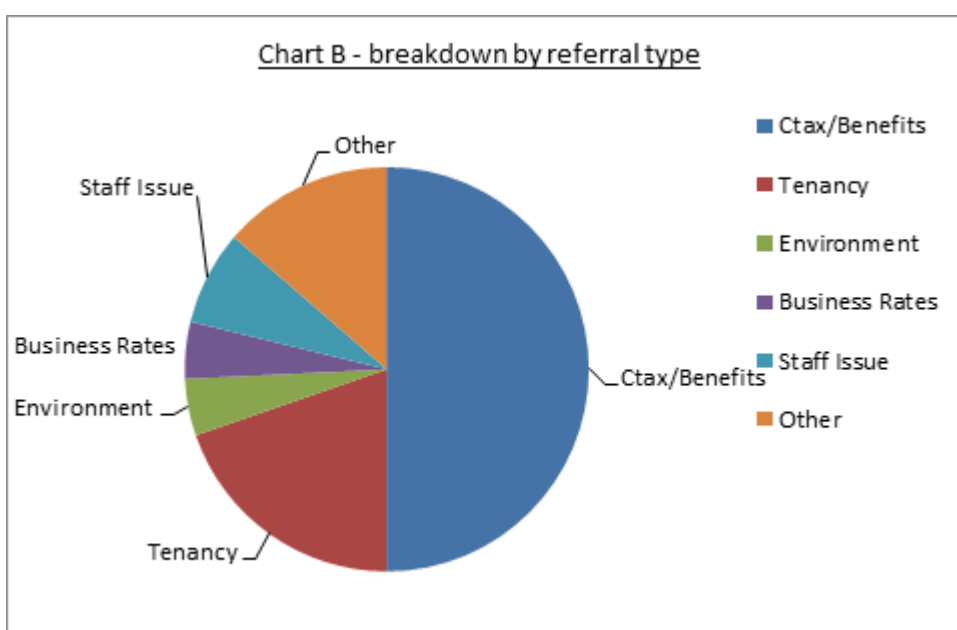
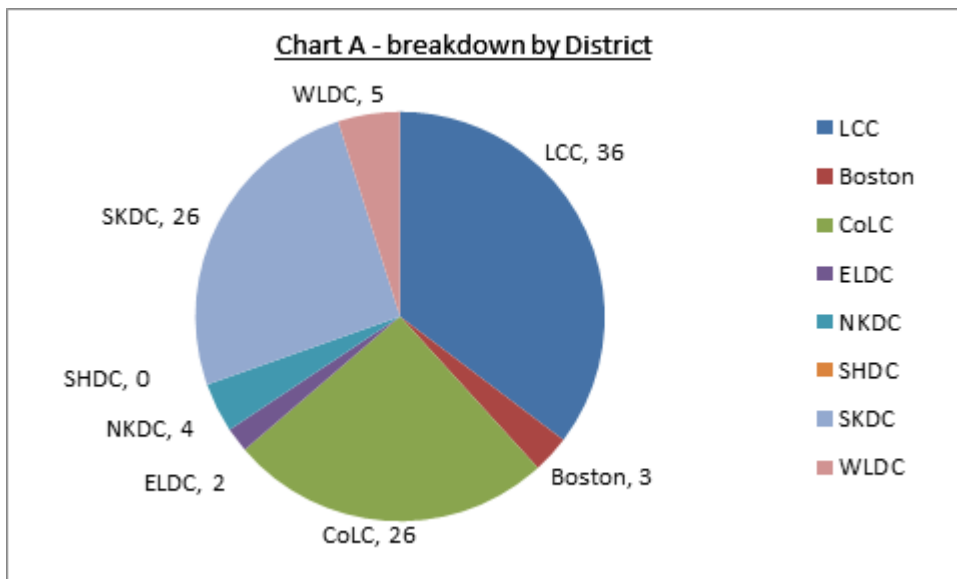
These were in relation to:

- 4 x HB
- 1 x Council Tax
- 3 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 chart provided an overview across Lincolnshire in 18/19



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 is currently underway for 2019/20.

IT Disaster recovery is a significant issue on the AGS (Annual Governance Statement) and this is being monitored through Audit Committee.

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

Reminders to staff are sent periodically around cyber fraud and cyber-crime. Phishing and malware activity is closely monitored and trends identified and acted upon. Information is shared between regional and national cyber security teams. This allows us to build our knowledge of the cyber fraud threat.

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.

We have included a scam section on the Council’s website and monitor scam incidents with other partners. Where appropriate we will communicate externally.

6. National Fraud Initiative and other Matching Services

6.1 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 in 2017/18 were risk assessed for the 2019/20 exercise as many of the match types did not identify any fraud or error. This has influenced the level/quantity of testing in 2019.

The matching results are (as at 1st December 2019):

- 1941 matches to review

To date 1108 processed, 50 errors with a value of £63,352 - £34,772 CTR and £28,579 HB

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

7.1 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 and again in December 2019.

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.

7.2 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

Table A

Area	Comments
<p>Delivery of pro-active counter fraud work (work plan)</p> <p>Achieving counter fraud best practice</p>	<p>The Council's strategy is based on CIPFA and Government best practice and has been updated in line with new guidance.</p> <p>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.</p>
<p>High levels of fraud awareness</p>	<p>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</p> <p>The Council's website has clear sections on fraud and fraud reporting.</p> <p>There were communications around the 2018 SPD review.</p>
<p>Successful prosecutions, other sanctions and recovery of losses</p>	<p>An updated sanctions and prosecutions policy was agreed in 2018.</p> <p>Sanctions/prosecutions are outlined above</p>
<p>Reducing the risk of fraud</p>	<p>A fraud risk register is in place and was updated in December 2019.</p> <p>Controls exist to mitigate fraud and additional actions are complete or partially complete.</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.</p> <p>The Council works closely with Department for Work and Pensions/Single Fraud Investigation Service.</p> <p>Verification of Earnings and Pensions (VEP)</p> <p>HBMS</p>

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

8. Fraud Risk Register

8.1 The Corporate fraud risk register has been developed with officers, which has been effective from 2014. This was updated in December 2019. Attached at Annex B.

Locally our key fraud risk areas are:

- Council tax (SPD)
- Housing
- IT/Data/Cyber
- HB/CTR

These are similar to the national picture. Appropriate mitigation is in place, but in many areas there is further work in progress.

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?

Two

List of Background Papers:

None

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