

Non-Executive Report of the: Audit Committee 8 th November 2016	 TOWER HAMLETS
Report of: Zena Cooke - Corporate Director - Resources	Classification: Unrestricted
National Fraud Initiative Progress 2016/17	

Originating Officer(s)	Sue Oakley
Wards affected	All wards

1. Summary

1.1 This report provides details of the background and evolution of the National Fraud Initiative, and the National Fraud Initiative (NFI) 2014 exercise. This is a bi-annual data matching exercise whereby all Local Authorities and some other government agencies match their data to prevent and detect fraud and error in their systems.

2. Recommendations

2.1 The Audit Committee is asked to note this report.

3. Background

3.1 The NFI compares different sets of data, for example payroll and benefit records against other records held by the same or another organisation, bringing to light potentially fraudulent claims and payments. Where a match is found it may mean that further investigation is required.

3.2 The NFI has been running since 1994, and was originally managed by the Audit Commission. The Commission processed the NFI data under its statutory powers under part 2A of the Audit Commission Act (1998) these powers put the matching on a statutory footing for local government and NHS bodies

3.3 The Serious Crime Act 2007 (SCA) gave the Commission new powers to enable the benefit of NFI to be extended to Central Government and the private sector. The SCA inserted a new paragraph into the 1998 Audit Commission Act.

3.4 The SCA imposed a new regulatory regime alongside existing fair processing and other compliance requirements of the Data Protection Act 1998. Any person or body conducting or participating in the exercise must by law, have regard to a statutory Code of Data Matching Practice.

3.5 Over time the exercise has evolved to extend its partners to all Local Authorities in England, Wales, Scotland and Northern Ireland, and now includes pension details from the Police, Health Service and Fire Service. To date over £1 billion has been identified in fraud and overpayments over the various exercises across the country.

3.6 The 2014 exercise is now managed by the Cabinet Office following the dissolution of the Audit Commission.

4. The 2014 (Current) Exercise

4.1 As mentioned previously, the main NFI matching exercise takes place bi-annually, with the current exercise commencing in October 2014 when the data was supplied. This exercise has run for a two year period and is now drawing to a close.

4.2 Below is a list of the 16 data sets provided to NFI for the current matching exercise:

LBTH Pensions	Transport Passes /Residents Permits
LBTH Payroll	Blue Badge Holders
Housing Benefits	Right to Buy Applicants
Housing Tenants (THH)	Personal Budget Holders
Insurance Claimants	Private Supported Care Home Residents
Market Traders	Creditors Standing
Alcohol Licence Holders	Creditors Payments
Electoral Register	Council Tax Account Holders

4.3 On 29th January 2015 the matches for the main exercise were released and for this Authority totalled 18,188 individual matches. These are presented in reports collated by type of match and subject matter.

4.4 The matched data is contained on a secure website and access is granted to selected officers from each relevant service so that they can examine their own particular output and evaluate each match for the likelihood of fraud or error.

4.5 The majority of the matches are erroneous, and arise because the data held is not completely up to date, has been inaccurately input, or simply that the matching criteria is not as well targeted as it might be. However, ideally, each one needs to be examined to eliminate the non-problem matches.

4.6 Because of the sheer volume and spread of matched output there are invariably some reports that are not fully examined. The NFI system has its own inbuilt risk assessment system and this is used as a guideline to prioritise those matches which need attention as a priority. Also, experience and knowledge of previous years' exercises dictates which reports yield results, and which involve less accurate data and therefore contain largely inaccurate matches. This also helps us to prioritise the progress of the exercise.

4.7 The Risk Management Section oversees the exercise, and aims to guide each service to completing its batch of NFI reports. Some reports are dealt with entirely by investigators within the Risk Management Section, since investigators specialising in these areas are based within the team.

4.8 Where fraud or error is identified on a particular match the details are recorded on the NFI system, and in most cases recovery of the monies is sought. Where a system weakness is identified, the service in question should seek to resolve the issue by strengthening their controls to prevent recurrence. Similarly matches arising from data errors should prompt the service to improve the quality of its data.

5. Progress on the 2014 Exercise

5.1 To date 2,509 matches have been processed, and a further 177 are still in progress. One hundred and nine cases of fraud have been discovered and a further 122 cases of 'error' have been recorded. Matches cleared with no issue amount to 2,278.

5.2 The total monetary value of the fraud and error identified to date amounts to £1,470,535.60

5.3 A breakdown is shown below:

Subject	Monetary value	Number of cases	Recovery action
Housing Benefit related, including overpaid DWP benefits	£1,252,453.80	107 (fraud) 5 (error)	Yes, recovery ongoing
LBTH Pensions	£14,819.17	8	Yes, recovery ongoing
Blue Badge	Not valued	1 (fraud) 100 (error)	Yes, badges stopped or recovered
Housing Tenancy	1 Social Housing property recovered	1 (fraud)	Yes, 1 property recovered
Duplicate creditor payments	£122,297.49	7	Yes, recovery ongoing
Payroll	£80,965.33 (estimated value)	2	No

5.4 The majority of the monetary value identified relates to Housing Benefit irregularities, where a specific value of benefit is identified as having been overpaid as a result of an investigation. Recovery is usually sought in addition to potential criminal prosecution action, or other sanction such as a Caution, or an Administration Penalty (a fine). However, in February 2016 the Housing Benefit Investigations Team transferred to the Department of Work

and Pensions, so action taken in terms of prosecutions or sanctions is no longer part of the Local Authorities remit.

5.5 The LBTH Pensions value arose where the matches highlighted pensioners who had died, unknown to the authority. On these cases recovery is sought by the Pensions Section via their liaison with the deceased's family.

5.6 One Social Housing Property has been recovered arising from this exercise.

5.7 101 Blue Badges have been recovered or stopped due to the recipient being deceased, unbeknown to the authority. At present no further action beyond recovery of the badge or preventing further issue has been taken on these. However one case in particular is being considered for prosecution after parking investigators identified the blue badge of a deceased person still in use after their death.

5.8 A small number of duplicate creditor payments have been identified and are in the process of being recovered. The Finance Department have their own internal controls and have found that on many of the matches the error was already identified and rectified prior to the matches being received.

6. NFI 2016-18

6.1 A new exercise is about to commence with the Council's data being supplied to the Cabinet Office this month (October 2016). The resulting matches are due to be released in late January 2017.

6.2 The Council Tax and Electoral Register data, which is designed to highlight discrepancies in Single Person Discounts awarded on Council Tax, will be matched at a slightly later time due to the Electoral Register's changes to compiling the register, because the completed register is not available until 1st December. These matches will also be available in January 2017.

7. Comments of the Chief Finance Officer

7.1 This report provides an update on progress with the National Fraud Initiative work as part of the 2014-16 Programme. To date the Council has identified notional and actual savings of £1,470,000 from its participation in the exercise and details are provided in 5.3 above.

7.2 During this period there were approximately 15.5 staff directly deployed on fraud prevention activity at an estimated cost of approximately £930k per annum, 9 dealing with Housing Benefit Fraud, 5 dealing with Tenancy Fraud and 1.5 dealing with Parking related Fraud. Funding for these posts were through a combination of DWP admin subsidy grants, Parking income and HRA funding.

7.3 85% of the value of fraud detected related to Housing Benefit Fraud and during the period 2014-16 there was a dedicated team of 9 staff dealing with

Housing Benefit Fraud at a cost of £569k per annum, funded through Housing Benefit Admin Subsidy from the DWP. In 2016/17 these resources transferred to the DWP and future Housing Benefit Fraud investigation work needs to be referred to the DWP to investigate. The Council will need to give further consideration to what additional Council resources may be required to manage any future NFI work.

8. Legal Comments

8.1 The Serious Crime Act 2007 gave the Audit Commission new statutory powers to conduct data matching exercises by inserting a new Part IIA into the Audit Commission Act 1998 ('the 1998 Act'). Although Audit Commission was abolished by the Local Audit and Accountability Act 2014 ('the 2014 Act'), the National Fraud Initiative (NFI) was moved to the cabinet office in advance of its abolition.

8.2 Statutory Guidance released pursuant to section 32(g) of the 1998 Act 'The Code of Data Matching Practice' was published in 2008 and most recently updated on 20/3/15. The statutory basis for this code is now set out in schedule 9 of the 2014 Act. The purpose of this code is to help ensure that the NFI and everyone involved in NFI data matching exercises comply with the law, especially regarding the provisions of the Data protection Act 1998. It also promotes good practice for the matching, such as

- The notification process for letting individuals know why their data is being matched
- The standards that apply
- Where to find further information

8.3 Additionally, unless certain exemptions within the Data Protection Act 1998 apply, the Council is required to provide Fair Processing information which complies with the Fair Processing Statutory Guidance released on 20/3/15.

8.4 Under regulation 3 of the Accounts and Audit Regulations 2015, the Council is required to ensure that it has a sound system of internal control that facilitates the effective exercise of the Council's functions. The consideration of this report is consistent with the Council's obligations and is within the Committee's functions.

9. One Tower Hamlets

9.1 There are no specific one Tower Hamlets considerations.

9.2 There are no specific Anti-Poverty issues arising from this report

10. Best Value Implications

10.1. This report highlights areas where internal control, governance and risk management can be improved to meet the Best Value Duty of the Council.

11. Risk Management Implications

11.1. This report highlights risks arising from weaknesses in controls that may expose the Council to unnecessary risk. The risks highlighted in this report require management responsible for the systems of control to take steps so that effective governance can be put in place to manage the authority's exposure to risk.

12. Sustainable Action for a Greener Environment (SAGE)

12.1. There are no specific SAGE implications.

13. Crime and Disorder Reduction Implications

13.1. By having sound systems of controls, the Council can safeguard against the risk of fraud and abuse of financial resources and assets.