

Update on Counter Fraud Activities to 30 June 2018

SUMMARY

- 1.1 This report provides an update on the counter fraud activities, including the National Fraud Initiative, being undertaken within the Council in the period 1 January 2018 to 30 June 2018.
- 1.2 It also provides an update on any notifications/investigations that have taken place under the following legislation:
 - The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017)
 - Bribery Act 2010
 - Public Interest Disclosure Act 1998
 - Regulation of Investigatory Powers Act 2000

RECOMMENDATION

- 2.1 To note the actions taken and the progress being made on counter fraud activities across the Council.

REASONS FOR RECOMMENDATION

- 3.1 The Audit and Accounts Committee is responsible for providing assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment.

National Fraud Initiative (NFI)

- 4.1 The NFI is run on a biannual basis and brings together a wide range of organisations from across the UK to tackle fraud. By using data matching/analytics to compare different datasets across these organisations, the NFI is able to identify potentially fraudulent claims and overpayments. For example, the matching may identify that a person is listed as working while also receiving benefits and not declaring any income. The relevant organisation should then investigate and, if appropriate, amend or stop benefit payments.
- 4.2. High levels of fraud detection through the NFI data matching exercise are likely to indicate weaknesses in underlying controls within an organisation that need to be investigated and strengthened. In contrast, data matching showing little or no fraud and error, provides assurance about the effectiveness of controls. It is important to note that a match does not automatically mean fraud. There may be an explanation for a data match that prompts the organisation to update their records and/or improve their systems.

2016/17 Exercise

- 4.3 The key figures from the NFI 2016/17 exercise are given below:

Total Number of Matches	Number of Matches Recommended to investigate	Number of Matches Closed as at 30 June	Number of Matches in Progress as at 30 June	Number of matches resulting in a Fraud	Number of Matches resulting in an error	Financial Outcome
8027	1873	5839	17	1	204	£5359.08

The financial value of the error/fraud identified has not changed since the last update report to Committee in January 2018. The NFI National Matches have resulted in a low financial return despite the considerable staff resource required to complete the matches to date. However the Counter Fraud Team has taken a decision to focus efforts on the NFI 801 and 803 Council Tax reports which are proving far more lucrative (see paragraphs 4.4 and 4.5). In addition the Counter Fraud Team have committed to prioritising completion of matches expected to be received from the NFI NNDR pilot in September 2018 (see paragraphs 4.6 and 4.7).

- 4.4 The Corporate Fraud Team has focused its resources on what the NFI exercise refers to as “ReChecks”. A ReCheck refresh was done in December 2017 when the Council submitted Council Tax and Electoral Registration data and the Cabinet Office issued updated ReCheck matches. These are 3 reports that match Council Tax data against Electoral Register, Rising 18s and other sources (e.g. blue badge, Housing Benefit, Housing Tenants, and Payroll). These figures are not included in the table in paragraph 4.3 above.
- 4.5. At the January meeting of this Committee it was reported that there were 19,827 ReCheck matches of which 1,017 have been processed. This had generated savings of £18,481.34 in Single Person Discount (SPD). Over the past 6 month period a further 622 ReCheck matches have been processed, generating a further £58,388.40 in savings of SPD.

NNDR / Business Rates Pilot

- 4.6 A new initiative was announced by the Cabinet Office in February 2018 whereby an NFI data matching pilot exercise for Business Rates data is being launched. Derby City Council is taking part in one of the pilots in conjunction with several other East Midlands Councils. The East Midlands pilot is being led by Nottingham City Council. The data will be matched to other data sets - Personal Alcohol Licences, Creditors Standing Data and Residential Care Homes.
- 4.7 The Business Rates data will need to be submitted to the NFI team by 31 July 2018 and resultant matches are anticipated to be **released** by 29 September 2018. The NFI Team expect that the evaluation of outcomes will be completed by 31 December 2018

2018/19 Exercise

- 4.8 The 2018/19 NFI exercise is underway. The final data specifications were due to be published on 10 July 2018. All participants will be required to extract and submit all data sets on 8 October 2018. It is expected that the matches will then be available to all participants from 31 January 2019.

Corporate Fraud Team

- 4.9 The Counter Fraud Team consisting of 3 full time equivalent staff and based within Revenues, Benefits and Exchequer Services continues to focus on the following streams;
- Raising fraud awareness,
 - Preventing fraud,
 - Detecting and investigating fraud,
 - Understanding emerging fraud risks.

Raising Fraud Awareness

- 4.10 The highlights for this stream include;
- (a) Press release, Intouch and newsroom articles,
 - (b) Awareness briefings for managers and teams,
 - (c) Initiating the East Midlands Fraud group. Quarterly meetings held to share best practice and identify emerging fraud risks. Attendance invited from local partners and agencies,
 - (d) Tailored training to staff through fraud awareness sessions.
 - (e) Cascading modern slavery awareness training to colleagues in Revenues, Benefits & Exchequer Services

The outcome has been an increase in referrals and highlighting emerging fraud risks.

Preventing Fraud

4.11 The highlights of this stream include;

- (a) Working with the Right to Buy team and providing additional checks within the Right to Buy process.
- (b) Working with Adult Social Care to prevent fraud following safeguarding concerns involving Supported Accommodation providers,
- (c) Working with the No Recourse to Public Funds service, who had raised concerns about the assessment process, resulting in a fraud risk being identified,
- (d) Working with other departments to identify where the use of identity checking software will strengthen verification and identity checking.

Detecting and Investigating Fraud

4.12 The highlights of this stream include;

- (a) 7 Derby Homes properties recovered, 6 housing applications refused,
- (b) Around £610,000 savings delivered, consisting of £123,000 recoverable and £487,000 value for money savings. Value for money (VFM) savings includes preventing unnecessary expenditure and loss of future income (Appendix 2)
- (c) Pro-active check of Council Tax Class F exemptions yielded recoverable revenue of £51,000. (Included in figures above)
- (d) 2 cases prosecuted. 2 more referred to legal to consider prosecution.
- (e) Providing intelligence information to support tackling Modern Slavery and Organised Crime Groups and to support the Rogue Landlord initiative.

Understanding Emerging Fraud Risks

4.13 In addition to investigating fraud the team are working with the following service areas to minimise their exposure to fraud risks;

- (a) No recourse to public funds,
- (b) Social care and direct payments,
- (c) Children missing from education.

Public Interest Disclosure Act 1998

4.14 There have been 7 disclosures made under the Council's Whistleblowing policy in the first half of 2018.

4.15 The table below summarises the progress on the 7 disclosures:

Case Number	Description	Progress/Outcome
1	Allegations of bullying and harassment.	Department requested to carry out investigation. This has been completed. Awaiting investigation report to decide on whether further action is required.
2	Potential falsification of timesheets, purchasing stock for non-Council contracts.	Internal Audit carried out an investigation into the issues raised. A systems weakness report and investigation report are currently being drafted.
3	Not following policy on affordability in respect of senior managers being granted "redundancy"	Strategic Director of Corporate Resources investigated the issues raised. Conclusion – no need for a formal investigation.
4	Allegations of bullying and victimisation by a Manager.	Referred to Service Director to review the issues raised and to take the appropriate management action on the issues/grievances.
5	Number of issues raised, including safeguarding issues involving behaviour/practices at a Council establishment	Head of Service asked to investigate the issues raised and to take the appropriate action to mitigate the risks/weaknesses identified.
6	Query regarding what guidance/policy exists relating to Managers holding meetings (e.g.1:1's) outside of the workplace in coffee shops or at their home	Currently fact finding.
7	Door to a secure room being jammed open at weekends in the daytime	Initial fact finding completed. There is no conclusive evidence to support the allegation.

- 4.16 The Interim Monitoring Officer and the Head of Internal Audit are currently reviewing the Council's Whistleblowing processes. A report will be brought to a future meeting of this Committee to detail the changes made to the processes and seek approval of any changes made to the Policy.

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017)

- 4.17 There has been one report of potential Money Laundering made under the Council's Anti-Money Laundering Policy in the first half of 2018.

- 4.18 This resulted in a referral being made to the National Crime Agency using an online Suspicious Activity Report.

Bribery Act 2010

- 4.19 There have been no reports of suspicions of bribery made under the Council's Anti-Bribery Policy in the first half of 2018.

Regulation of Investigatory Powers Act 2000

- 4.20 The Council has a statutory obligation to provide a quarterly update to Elected Members in respect of its use of covert surveillance. During quarter 4 of 2017/18, there was one application for use of directed surveillance.
- 4.21 There have also been changes to the appointments and designations of those tasked with RIPA responsibilities within the Council, which were approved at Full Council on 12 July 2018. The Senior Responsible Officer (SRO) role was confirmed as designated to the holder of the statutory Monitoring Officer post. Additionally, following internal restructures and post re-designations, it was confirmed that the role of 'authorising officer' (RIPA Part II) and 'designated person' (RIPA Part I) is delegated to the holders of the posts of Director of Public Protection and Streetpride and Director of Adult Social Care Services

OTHER OPTIONS CONSIDERED

- 5.1 N/A

This report has been approved by the following officers:

Legal officer	N/A
Financial officer	Don McLure, Strategic Director of Corporate Resources
Human Resources officer	N/A
Estates/Property officer	N/A
Service Director(s)	N/A
Other(s)	N/A

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Background papers:	None
List of appendices:	Appendix 1 – Implications Appendix 2 – Counter Fraud team Savings breakdown

IMPLICATIONS

Financial and Value for Money

- 1.1 The charge for Unitary Councils participating in the National Fraud Initiative 2016/17 was £3,650. The fees were the same as for the previous NFI exercise. The cost of using ReCheck is £600.
- 1.2 The Cabinet Office has proposed to fund approved pilot initiatives from existing resources.
- 1.3 The proposed scale of fees for mandatory participants for the 2108/19 NFI exercise remains unchanged from NFI 2016/17.
- 1.4 The Counter Fraud team was set up on the basis that it would be self-financing. The recoverable savings of £123k for the half year to 30 June 2018 shown in appendix 2 will cover the annual cost of the 3 fraud officers.

Legal

- 2.1 The Cabinet Office, as the 'relevant minister' responsible for data matching exercises, conducts the NFI under its statutory data matching powers set out in Part 6 of the Local Audit and Accountability Act (LAAA) 2014.
- 2.2 The legislation provides safeguards on the use and disclosure of data, including the requirement for a statutory Code of Data Matching Practice which helps ensure that all those involved in the NFI exercises comply with the law, especially the provisions of the Data Protection Act 1998. It sets out the expected data security and privacy standards appropriate to the NFI.

Personnel

- 3.1 None directly arising

IT

- 4.1 None directly arising

Equalities Impact

- 5.1 None directly arising

Health and Safety

- 6.1 None directly arising

Environmental Sustainability

- 7.1 None directly arising

Property and Asset Management

8.1 None directly arising

Risk Management

9.1 None directly arising

Corporate objectives and priorities for change

10.1 The functions of the Committee have been established to support delivery of corporate objectives by enhancing scrutiny of various aspects of the Council's controls and governance arrangements.

Counter Fraud Team
Savings Breakdown 01/01/2018 to 30/06/2018

Description	Number	VFM Saving* £	Actual Saving/Income £
Council Tax/ NNDR			
Council Tax single person discounts removed	119	58388.40	35349.69
NFI			
Non-NFI	31	12915.80	6091.12
Local Council Tax Support	15	5271.42 (Weekly amount x21)	4030.99
General change in liability Class F exemption project.	31		51371.68
Housing Benefit			
Housing Benefit cancelled / reduced	28	65974.86 (Weekly amount x 21)	13182.89
Housing			
Illegal succession, sublet, breach of tenancy	7	325500** (7 x £46,500)	
Housing applications withdrawn	6	19680* (6 x £3280)	
Social Care			
Adult	1		10500
Sanctions			
Prosecutions	2		Costs awarded 1500
Civil Penalties	15		1050.00
TOTAL	255	£487,730.48	£123,076.37

*VFM savings based on guidelines for calculating value associated with fraud according to the Cabinet Office calculations.

** The Cabinet Office calculates tenancy fraud at £93k per property recovered based on a four year average fraud indicated by previous results. Results at Derby indicate the average length of fraud to be two years therefore we have used a prudent value of £46,500 per property recovered.