

EAST RENFREWSHIRE COUNCILAUDIT AND SCRUTINY COMMITTEE29 September 2016Report by ClerkNATIONAL EXTERNAL AUDIT REPORTTHE NATIONAL FRAUD INITIATIVE IN SCOTLAND**PURPOSE OF REPORT**

1. To provide information on the Audit Scotland report *The National Fraud Initiative in Scotland*.

**RECOMMENDATION**

2. It is recommended that the Committee considers the report.

**BACKGROUND**

3. Copies of the Audit Scotland report *The National Fraud Initiative in Scotland*, published in June 2016, have already been circulated to all Audit and Scrutiny Committee Members. Under the Committee's specialisation arrangements, the Members who are leading the review of the report are Councillor Wallace and Councillor Grant. In accordance with arrangements established by the Committee for dealing with such reports, the Head of Business Change & Revenues and Revenues & Business Support Manager have provided comments on it. A copy of the feedback is attached (see Appendix 1).

**COUNCIL TAX SINGLE PERSON DISCOUNT**

4. During discussion at the last meeting on the Internal Audit Annual Report 2015/16, in response to Members, the Chief Auditor referred to the internal audit report prepared during the year on *Council Tax Reductions and Liability* and provided further clarification on an internal audit recommendation made about council tax staff checking that entitlement to the council tax single person discount remained valid annually. This recommendation had not been accepted by management on the basis of this being very resource intensive and because evidence indicated that the caseload of sole occupancy discounts tied in with census information. Some Members of the Committee indicated that they were not fully satisfied with the management response, commenting on the total financial scale of the discount, the possibility of checking a sample of cases annually or every case periodically such as every third year, and referring also to the importance of pursuing any allegations of fraud linked to the discount.

5. Ultimately it was agreed that it be drawn to management's attention that the Committee was not fully satisfied with the response received by the Chief Auditor to the recommendation. In response, the Head of Business Change & Revenues and Revenues & Business Support Manager have provided comments on the issue as part of the feedback attached to this report (Paragraphs 11-18 refer) which they hope will address the issue that was raised by Members.

## RECOMMENDATION

6. It is recommended that the Committee considers the report.

Local Government Access to Information Act 1985

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Background Papers:-

1. Audit Scotland Report *The National Fraud Initiative in Scotland*

## AUDIT SCOTLAND - THE NATIONAL FRAUD INITIATIVE IN SCOTLAND

### Comments by Head of Business Change & Revenues and Revenues & Business Support Manager

September 2016

#### **INTRODUCTION**

1. Audit Scotland, working closely with public bodies, external auditors and the Cabinet Office, has completed another major data sharing and matching exercise – the National Fraud Initiative (NFI). These exercises make a significant contribution to the security and transparency of public sector finances by confirming that services are provided to the correct people and by reducing fraud and error.

2. These exercises are undertaken every two years and are linked to the statutory audits of the participating bodies. The Audit Scotland report above outlines the early outcomes of the most recent exercise which took place in 2014/15.

#### **REPORT**

3. The success of the NFI comes primarily from the public bodies who:

- Investigate the NFI data matches
- Identify and stop fraud and errors
- Recover overpayments
- Hold fraudsters accountable
- Improve their systems.

4. The NFI in Scotland is now well established with this being the fifth biennial exercise since 2006/07. The NFI enables public bodies to take advantage of computer data matching techniques to detect fraud and error. It remains the largest national fraud detection and prevention scheme that can provide data matches within and between public bodies.

5. Cumulative NFI outcomes in Scotland are now £110.6m, with outcomes from the NFI in 2014/15 amounting to £16.8m. East Renfrewshire Council's contribution to this was £83,118, with recovery action taken in all highlighted cases. It should be noted that, nationally recovery rates are around 27%. Although full recovery of these debts can take a number of years the Council's Corporate Debt Recovery Team (CDRT) pursue these cases through either long term payment arrangements or by deductions direct through the Department of Work and Pensions – this was explained in the Debt Recovery Policy which was approved by Cabinet in June 2016. The main benefit from the NFI exercise is the reduction in ongoing fraud and the deterrent effect gained from regular data matching.

6. Within the Council 2,792 matches were reported in the 2014/15 NFI exercise and, after risk assessments, 966 of those were investigated resulting in identification of 28 frauds and 4 errors meaning £83,118 of housing benefit had been overpaid. The CDRT aims to recover at least 50% of all overpayments created in that financial year.

7. Nationally the main areas where overpayments were identified were council tax single persons discount 33% (£5.6m), pensions 27.5% (£4.6m), housing benefits 18% (£3m) and blue badges 14% (£2.4m).

8. There is a well-established and wide ranging number of datasets checked across the Council every two years as part of the NFI process. These include: Housing/Council Tax Benefit, Payroll, Insurance, Council Tenants, Blue Badges, Trade Creditor's payment history, Taxi and Market Trader licences. Since a restructure in 2015 which saw the Head of Revenues and Benefits Manager retire, Steven Skelly, Revenues and Business Support Manager is now the key contact point for NFI and has responsibility for ensuring others throughout the Council are aware of their responsibilities in this regard. In addition, Steven (and the Head of Business Change & Revenues) have also had responsibility for the Creditors section since earlier in 2016 so arrangements are being made to ensure that Creditors are compliant with NFI going forward.

9. Mitigating potential fraud across these areas is a matter for each service area and there are a number of roles across the Council that have specific remits to eradicate or reduce fraud taking place at source (such as Tenancy Enforcement Officers, Licensing Enforcement Officer, Internal Audit) and all employees are encouraged through the Code of Conduct and Anti-Fraud and Bribery Strategy to report suspicions of fraud.

10. The rest of this report will focus on action being taken by the Revenues service to mitigate fraud and error.

## Council Tax Single Person Discount

11. In 2016/17 the Council has 11,743 live Single Person Discounts (SPD) granted against a Council Tax base of 38,389 households (30%). In monetary terms this discount equates to £3.5m (excluding water and waste water).

12. As part of NFI, the Council Tax team reviewed the SPD caseload in September 2014 and again in late 2015. Recent years have seen significant changes to the Electoral Registers with a volume of new people registering to vote. All councils used the new version of the Electoral Register for data matching purposes and in particular to audit their SPD records.

13. The 2014/15 NFI data matching exercise highlighted 30 cases where SPD had been awarded and was no longer valid in East Renfrewshire Council. Of these cases 28 were thought to have been fraudulent claims. In all cases SPD was cancelled back to the appropriate date and retrospective Council Tax demands were issued and amounts recovered wherever possible.

14. In any given year there is a turnover of SPDs being granted and cancelled. The accuracy of SPDs is of critical importance to the service and this has mainly been achieved by:

- Maintaining robust administrative processes whereby we follow strict guidelines in awarding SPD, including asking for onward address details for someone who has left a property.
- Regular Data matching exercises such as NFI (every 2 years) and Electoral Register was also done as an additional one-off exercise due to large increase in electoral registrations.
- Establishing an internal framework for fraud referrals and in particular close working relationships with Benefits, Customer First and Housing teams. This will be simplified in the future by an ongoing project (through the Modern, Ambitious Programme, MAP) to align and join up customer records to create a 'single view of the customer'. The first areas to benefit from this will be Council Tax and Customer First through joining up of their systems.

- We also maintain a free telephone hotline for reporting benefit fraud and we also accept fraud referrals via e mail, online and by letter.

15. The self-appraisal checklist in Audit Scotland's NFI report has been a useful tool and provided a good benchmark to help develop the best working practices for the NFI for the 2016/17 exercise. We believe that it would be good practice to report more routinely to Cabinet on the outcomes of NFI and follow-up action being taken – this is an action we will now take forward.

## Other Related Initiatives

16. As well as NFI, Revenues also has a well-established electronic interface with HMRC called Real Time Information (RTI). Through this means, the Council is provided with employment and pension information for Benefit claimants and employees. Non-disclosure of pension or employment information could lead to a successful investigation, which would lead to a cancellation of Housing Benefit/Council Tax Reduction. This is dealt with in conjunction with the new Single Fraud Investigation Service (SFIS), created in the DWP last December (see below). This could create an overpayment and would require SFIS intervention or action by our Overpayments officer.

17. Revenues are in discussion with Experian who specialise in tracing and data matching debtors across financial sectors, such as systems showing credit card and hire purchase applications, mobile phone contracts and bank/mortgage/loan applications. Experian suggest a high success rate in mismatches between Council SPD caseloads and the records that they have access to. We have recently forwarded our data set of SPD to Experian and are currently awaiting their report.

18. Revenues has also recently entered into a trial period with Housing Services to establish a visiting officer post, with the particular purpose of checking empty and exempt properties and to highlight inaccuracies for SPD where these are evident.

## Single Fraud Investigation Service

19. Under national welfare reforms, the Department of Work and Pensions have now completed a process to set up a Single Fraud Investigation Service involving its own investigations teams and Council Counter Fraud Teams. East Renfrewshire's Counter Fraud Team was transferred under TUPE regulations to the DWP on 1 December 2015.

20. The DWP SFIS team continue to protect the Council's interests and to mitigate our risk against Housing Benefit fraud. The SFIS team investigations into HB fraud result in HB overpayments, the imposition of an Administration Penalty (i.e. half of the amount of the overpayment) and the potential for prosecution through the Procurator Fiscal for HB fraud.

21. Under these arrangements the DWP expects each council to nominate a single point of contact for referral of fraud cases for investigation to DWP. Our single point of contact also deals internally with our Benefits team to identify potential issues with Council Tax Reduction claims.

## **NEXT STEPS**

22. The Council is currently making arrangements for the next NFI exercise. This involves checking system contacts across the Council; ensuring that correct data sharing protocols are in place and extracting data from systems and uploading it to NFI in October. We expect to

receive data for investigation and development of a recovery plan in January 2017. As part of this process we plan to review all available options such as the new Flexible Matching Service facility and the App software, mentioned in Audit Scotland's report, and review the effectiveness of these initiatives. We believe that there would be merit in reporting to Cabinet more systematically on the outcomes of NFI and will undertake to do this in 2017.

23. In addition to NFI, as part of the Council's change programme arrangements are being made internally to link various databases and information systems for creation of an internal 'single view of the customer' or, as some call it, a 'golden record'. This will have benefits both in terms of better use of data and also detection of fraud.

24. As part of the wider restructure of Revenue Section later this year and in tandem with local service review information and Audit Scotland recommendations, it is recognised that improvement is required to the overall recovery level of Housing Benefit overpayments. Action plans have been drawn up to address this area and we are currently reviewing roles within our structure to deliver better outcomes in this area.

## **CONCLUSION**

25. East Renfrewshire Council fully participated in the most recent NFI exercise, investigating 966 matches and identifying 32 overpayments of Housing Benefit totalling £83,118. In 2015/16 overall recovery rate for all overpayments was 14%. The Council takes this area seriously and various arrangements are in place to mitigate fraud and error. We have plans to take forward action in a number of areas outlined here as a result.

Report authors: Steven Skelly, Revenues & Business Support Manager and Louise Pringle, Head of Business Change & Revenues

September 2016

## **Background papers**

- Collection of Council Revenues – Debt Recovery Policy, Cabinet 16 June 2016