

National Fraud Initiative

National Report
June 2014



The Audit Commission's role is to protect the public purse.

We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.

We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.

We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.

Contents

Summary	2
Recommendations.....	5
What the Audit Commission will do.....	6
What the Cabinet Office will do.....	6
Chapter 1: Introduction	7
Chapter 2: The NFI.....	8
Chapter 3: The NFI across the UK.....	12
Chapter 4: Results of the NFI in England.....	15
Chapter 5: How can organisations make better use of the NFI?.....	29
Chapter 6: Looking to the future	33
Councils' capacity to progress fraud investigations.....	33
Developing batch data matching.....	34
Increased emphasis on preventing fraud	34
Extending the NFI's scope.....	35
Transition arrangements.....	36
Appendix 1 Report calculations - England	39
Appendix 2 Examples of the data matches undertaken by the NFI	41
References	42

Summary

This report focuses on the outcomes from the National Fraud Initiative (NFI), the Audit Commission's data matching exercise to help prevent and detect fraud, overpayment and error.

Working in partnership is vital to the success of the NFI.

- The NFI involves the public audit agencies in all parts of the UK – the Audit Commission in England works with Audit Scotland, the Auditor General for Wales and the Northern Ireland Audit Office.
- The NFI matches data provided by some 1,300 participating organisations from across the public and private sectors against data provided by other participants, and key data sets provided by government departments and other national agencies, to help prevent and detect fraud.
- The organisations that participate in the NFI are responsible for following up and investigating the matches, and identifying fraud, overpayment and error.

The NFI plays an important role in the fight against fraud.

- Since the last report in May 2012 the NFI in England has identified £203 million of fraud, overpayment and error.^{i ii} This is made up of £144 million for 2012/13 and £59 million of outcomes not previously reported from earlier exercises.ⁱⁱⁱ
- The NFI has also identified £26 million of fraud, overpayment and error in Scotland, Wales and Northern Ireland, bringing total outcomes since the last report to £229 million.
- For nearly two decades, the NFI has enabled the participants to detect fraud, overpayment and error totalling £1.17 billion. This includes £152 million detected in Scotland, Wales and Northern Ireland.

ⁱ The figures used throughout this report for detection of fraud, overpayment and error include outcomes already delivered and estimates. Estimates are included where it is reasonable to assume that the fraud, overpayment and error would have continued undetected without the NFI data matching. A more detailed explanation is included in Appendix 1.

ⁱⁱ Where applicable, amounts included in this report have been rounded to an integer, 0.5 and above were rounded up and below 0.5 rounded down.

ⁱⁱⁱ For national reporting purposes, outcomes are collated at two yearly intervals as at 31 March. Outcomes submitted by participants after this date are included in subsequent reports.

The main categories of fraud identified by the NFI in England relate to: pensions, council tax single person discounts and housing benefit.

Since the last report the NFI has found:

- £74 million of pension fraud, overpayment and error;
- £39 million of fraudulently or wrongly received council tax single person discount; and
- £33 million of housing benefit fraud, overpayment and error.

The exercise has also produced significant results in England:

- 86 properties have been recovered for social housing;
- 120 people employed without the right to work in the UK were identified and as a result were dismissed or asked to resign;
- 571 people have been prosecuted;
- 2,394 false applications have been removed from housing waiting lists; and
- 21,396 blue badges and 78,443 concessionary travel passes, identified as invalid, were cancelled.

Most public bodies have sound arrangements in place for managing their participation in the NFI and for investigating data matches, but there is scope for improvement.

- Some participants do not make best use of the tools within the web application to help them identify high-risk matches linked to local risks.
- Some participants could make better use of matches that involve more than one department and use staff resources more efficiently.
- Not all participants review the quality of the data submitted to the NFI and do not identify where it can be improved.

The Government has a strong focus on tackling fraud, but central government is not fully sharing in the benefits of the NFI.

- Although the Audit Commission's audited bodies must participate in the NFI, central government bodies can choose whether to do so.
- The Commission are pleased to report that 13 central government departments or arm's length bodies ⁱ participated in the NFI 2012/13. However, some of these 13 bodies chose to submit only some of the possible datasets, or a sample.
- The limited engagement in the NFI to date by central government restricts the opportunity to develop the NFI to target their specific fraud risks.

ⁱ The NFI Participants include: Cabinet Office, Home Office, Department for Communities and Local Government, Highways Agency, Department for Health, HM Revenue and Customs and Department for Work and Pensions.

Few housing associations are using the NFI to tackle the problem of tenancy fraud.

- Fewer than 3 per cent of registered housing associations currently take part in the NFI despite clear evidence the NFI is a powerful tool for detecting tenancy fraud.

The Commission has continued to develop the NFI function to address emerging fraud risks and fraud prevention in advance of the transfer of the NFI to the Cabinet Office in April 2015.

- The NFI Flexible Data Matching Service was launched in September 2012, allowing participants greater flexibility around 'when' to carry out data matching outside of the timetabled two yearly programme but still using the NFI's proven technology. For example, this service has already been used to offer data matching to address an emerging fraud risk against personal budget direct payments.
- The Audit Commission worked with the Department for Communities and Local Government and the Cabinet Office on a further extension to the data matching purposes, permitted under the Local Audit and Accountability Act 2014, to include the prevention and detection of errors and inaccuracies.

Recommendations

All public audited bodies should ensure they maximise the benefits of their participation in the NFI. ⁱ In particular, they should:

- consider whether it is possible to make better use of matches, after reviewing the suggestions presented in Table 4, page 31; and
- use the NFI matches in conjunction with alternative matching services from other providers.

Local authorities should take steps to retain sufficient capability in the short and long term, to investigate non-housing benefit fraud and relevant NFI matches after the introduction of the Single Fraud Investigation Service.

The Government should encourage all central government departments and their arm's length bodies to work with the NFI to:

- participate fully in the initiative;
- develop its capability to target the specific fraud risks they face; and
- identify how data they hold can help better tackle fraud against all NFI participants.

The Department for Work and Pensions should:

- ensure that the remit of the Single Fraud Investigation Service includes effective follow up of the NFI housing benefit matches; and
- agree a protocol to ensure participants can maximise the benefits of the injury pension matches so that fraud, overpayment and error do not go unchecked.

The Department for Communities and Local Government should:

- encourage all housing associations to take part in the NFI;
- review funding arrangements for housing associations so that they have a greater incentive to tackle tenancy fraud; and
- encourage councils to retain sufficient capability, in the short and long term, to investigate non-housing benefit fraud and relevant NFI matches.

ⁱ Councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public bodies in England specified in Schedule 2 of the Audit Commission Act 1998.

What the Audit Commission will do

The Audit Commission will:

- continue to develop the NFI to include a flexible range of data matching services to tackle emerging fraud threats and meet the needs of participants;
- work with councils, the NHS and housing associations to ensure the benefits of taking part in the NFI are maximised;
- work with the Cabinet Office to ensure a smooth transfer of the NFI to the Cabinet Office, expected on 1 April 2015;
- work with the Cabinet Office to further improve participation by central government departments in the NFI 2014/15;
- work with the Cabinet Office to ensure the additional data matching purposes are enacted at the earliest opportunity;
- work with organisations such as Audit Scotland, the Northern Ireland Audit Office, the Auditor General for Wales, the Fighting Fraud Locally Board, the Department for Work and Pensions and other key stakeholders to publicise the benefits of the NFI and extend its use; and
- identify and engage with agencies that may be able to advise on how the NFI can be developed to help encourage increased participation in the NFI among housing associations.

What the Cabinet Office will do

The Cabinet Office will:

- put in place governance arrangements to support the NFI;
- work with the Audit Commission to ensure there is a smooth transfer of the NFI;
- work with the Audit Commission to ensure the additional data matching purposes are enacted at the earliest opportunity;
- work with the Audit Commission to continue to engage with mandatory and other participants to develop, extend and enhance the use of the NFI; and
- support the Audit Commission's work to improve central government departments' involvement with the NFI.

Chapter 1: Introduction

This chapter explains the Audit Commission's role in helping local public bodies to prevent and detect fraud.

- 1** The NFI data matching plays an important role in protecting the public purse against fraud. For nearly two decades, the Commission has run the NFI exercise every two years to help detect and prevent fraud.
- 2** Fraud is a serious and costly problem. It drains resources and harms public services. In the National Fraud Authority 2013 Annual Fraud Indicator ⁱ, losses from fraud against the public sector were estimated to be £20.6 billion each year (Ref. 1).
- 3** It is vital that organisations have strong anti-fraud cultures and effective counter-fraud policies and procedures that emphasise that fraud is unacceptable. Organisations also need to regularly check their arrangements for preventing and detecting fraud to ensure they remain effective.
- 4** This report on the NFI will be of particular interest to elected members, non-executives and senior officers at the Commission's audited bodies. Government departments, other national organisations and the private sector may also find it useful. Alongside this report, the Commission is also publishing a selection of additional case studies of successful outcomes at www.audit-commission.gov.uk/nfi.
- 5** The Audit Commission also publishes the results of its national annual survey of detected fraud in local government in a series of reports entitled *Protecting the Public Purse*. The [Protecting the Public Purse 2013: Fighting fraud against local government](#) report includes guidance on best practice in tackling current fraud threats (Ref. 2).

The National Fraud Authority estimates annual losses from fraud against the public sector at £20.6bn

This costs £420 for every adult living in the UK

ⁱ The Home Secretary formally closed the National Fraud Authority on 31 March 2014 following an announcement on 2 December 2013.

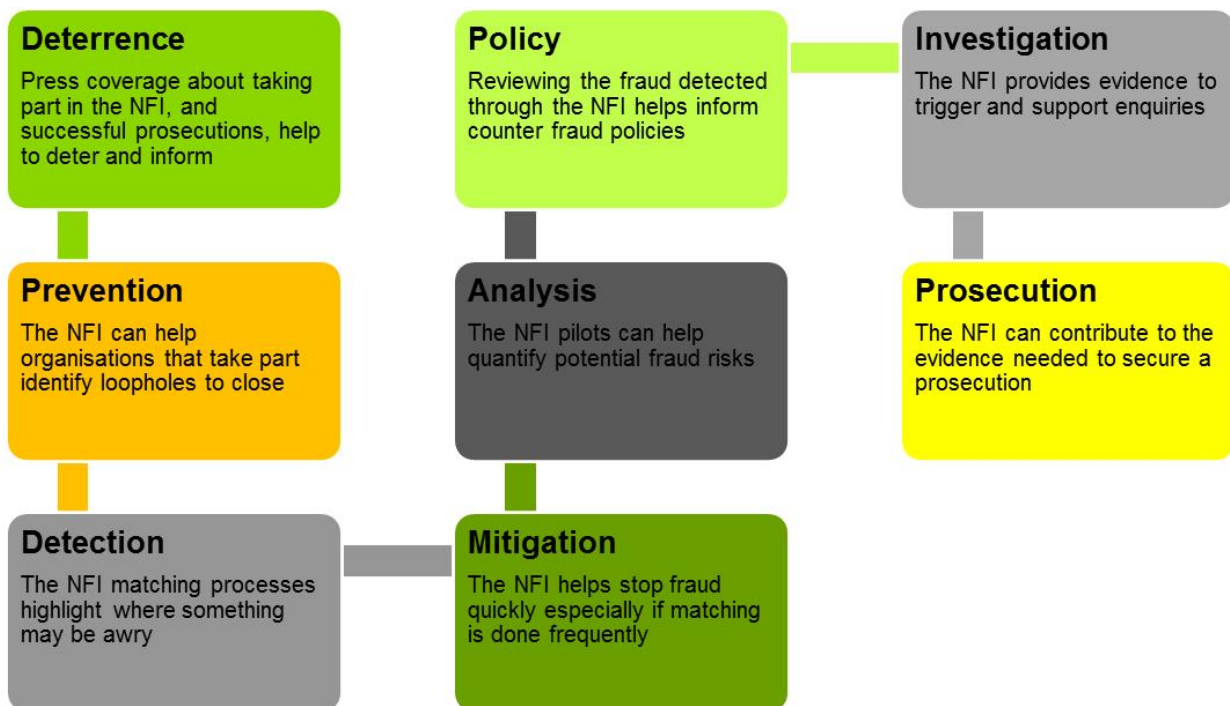
Chapter 2: The NFI

This chapter describes the NFI and how it helps protect the public purse.

6 The NFI brings together a wide range of organisations to tackle fraud. Fraud can happen anywhere and fraudsters often target different organisations at the same time, using the same fraudulent details or identities. The NFI can help tackle this by comparing information held by organisations to identify potential fraud and overpayment.

7 Figure 1 highlights how the NFI can assist participants at all stages of the counter fraud management life cycle.

Figure 1: How the NFI contributes to the counter fraud management life cycle



Source: Audit Commission (2014)

8 The Audit Commission provides organisations that take part in the NFI with secure access to their matches, so they can investigate them.

9 An example of what a data match may identify is a person listed as working while also receiving benefits and not declaring any income. The relevant body will investigate and, if appropriate, amend or stop benefit payments. Payroll matches can identify employees who have no right to work in the UK. They can also identify employees who may be committing

benefit fraud against the NFI's other participants. Appendix 2 includes more examples of the data matches undertaken and why.

10 A match does not automatically mean fraud. Often, there may be an explanation for a data match that prompts bodies to update their records and to improve their systems.

11 Data matching showing little or no fraud and error can provide bodies with assurances about the effectiveness of their control arrangements. It also strengthens the evidence for the body's annual governance statement.

12 The NFI data matching systems and processes comply with all relevant government information security standards and work within a strong legal framework, including the Data Protection Act 1998, which protects individuals' personal data.

13 The Commission conduct data matching exercises under statutory powers in Part IIA of the Audit Commission Act 1998 ⁱ (Ref. 3), which contains important safeguards on the use and disclosure of data, including the requirement for a statutory Code of Data Matching Practice ⁱⁱ (Ref. 4).

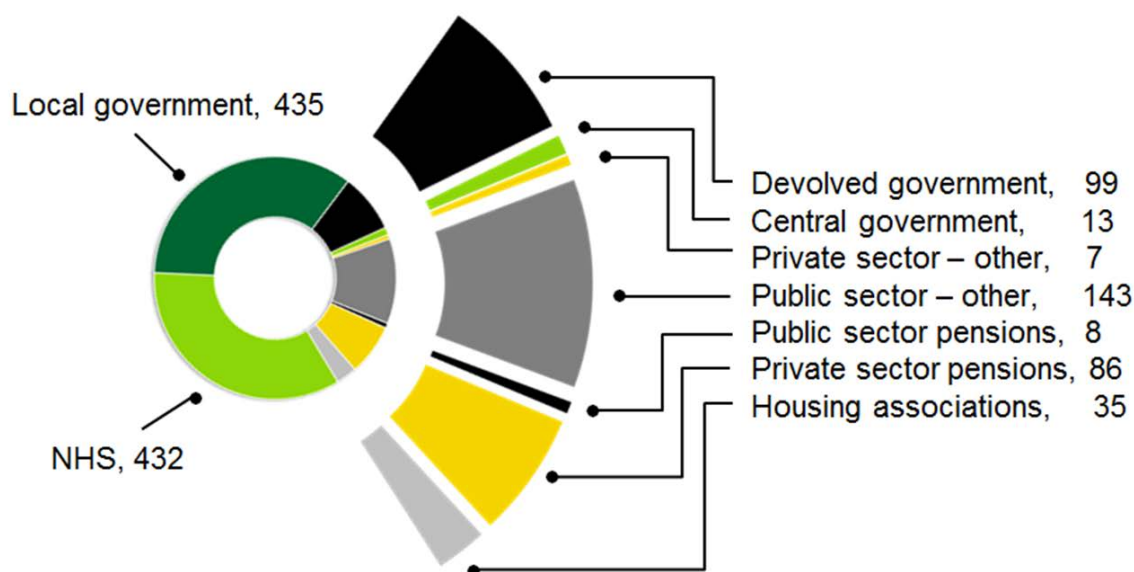
14 The Code helps ensure that all those involved in the NFI exercises comply with the law, especially with the provisions of the Data Protection Act 1998. It sets out the expected data security and privacy standards that the Commission has always considered essential to the effectiveness of the NFI.

15 The latest NFI exercise started in October 2012 and processed nearly 8,000 datasets from some 1,300 organisations, including 93 from the private sector (Figure 2). All the firms providing audit services to the Commission included their employee data in the NFI exercise.

ⁱ This provision has been carried forward to Section 33 and Schedule 9 of the Local Audit and Accountability Act 2014.

ⁱⁱ The first such Code was laid before Parliament in July 2008, after extensive consultation, including with the Information Commissioner. The Code is available at www.audit-commission.gov.uk/datamatchingcode

Figure 2: Types of organisation taking part in the NFI



Source: Audit Commission (2014)

16 The NFI produced 4.7 million data matches in 2012/13 – an average of 3,818 for each organisation. The matches considered to represent a higher risk of potential fraud were signposted, so that participants could identify them quickly. Matches were investigated during 2013 and early 2014, but complex investigations leading to prosecution may extend to late 2014 and beyond.

17 The NFI presents potential frauds in a secure web application that is easy to use and provides full case management functionality. It is then up to investigators to use this information to prevent and detect fraud. The web application provides:

- prioritised reports that highlight data matches indicating a high probability of fraud;
- guidance and briefings;
- online training on the functionality available to assist investigators; and
- good practice examples of successful follow-up approaches – for example, a step-by-step guide to investigating council tax single person discount matches, including proforma letters to send to those appearing in a match.

18 The NFI achieves economies of scale while seeking to secure maximum benefits. The Commission recovers the costs of running the NFI by charging a proportionate fee to those who take part. For example, a London borough council pays £4,150 and a mid-sized district council pays £2,200. The total fees payable by participants for the NFI 2012/13 were £2.8 million.

19 The overall financial benefit resulting from the outcomes reported of £229 million is 82 times greater than the total fees paid by participants. Table 1 shows the fee compared to average outcomes for each type of mandatory body.

Table 1: **Comparison of NFI 2012/13 fee and average financial outcomes as reported**

Type of mandatory body	Number of bodies (across UK)	2012/2013 fee	Average financial outcomes this reporting period
London borough council	33	£4,150	£1,534,167
Metropolitan borough council	36	£4,000	£559,391
Unitary authority	76	£3,650	£489,781
County council and fire authority	62	£3,750	£376,443
District council	228	£2,100 - £2,300	£94,238
Police body	53	£1,000	£53,792
NHS organisation	441	£1,000	£15,598
Other local government bodies	65	£1,000	£4,639

Source: Audit Commission (2014)

i These amounts exclude outcomes that do not have an actual or estimated financial benefit.

Chapter 3: The NFI across the UK

This chapter describes how all the public audit agencies work in partnership to provide the NFI across the UK.

20 The Audit Commission runs the NFI in partnership with Audit Scotland, the Auditor General for Wales and the Northern Ireland Audit Office.

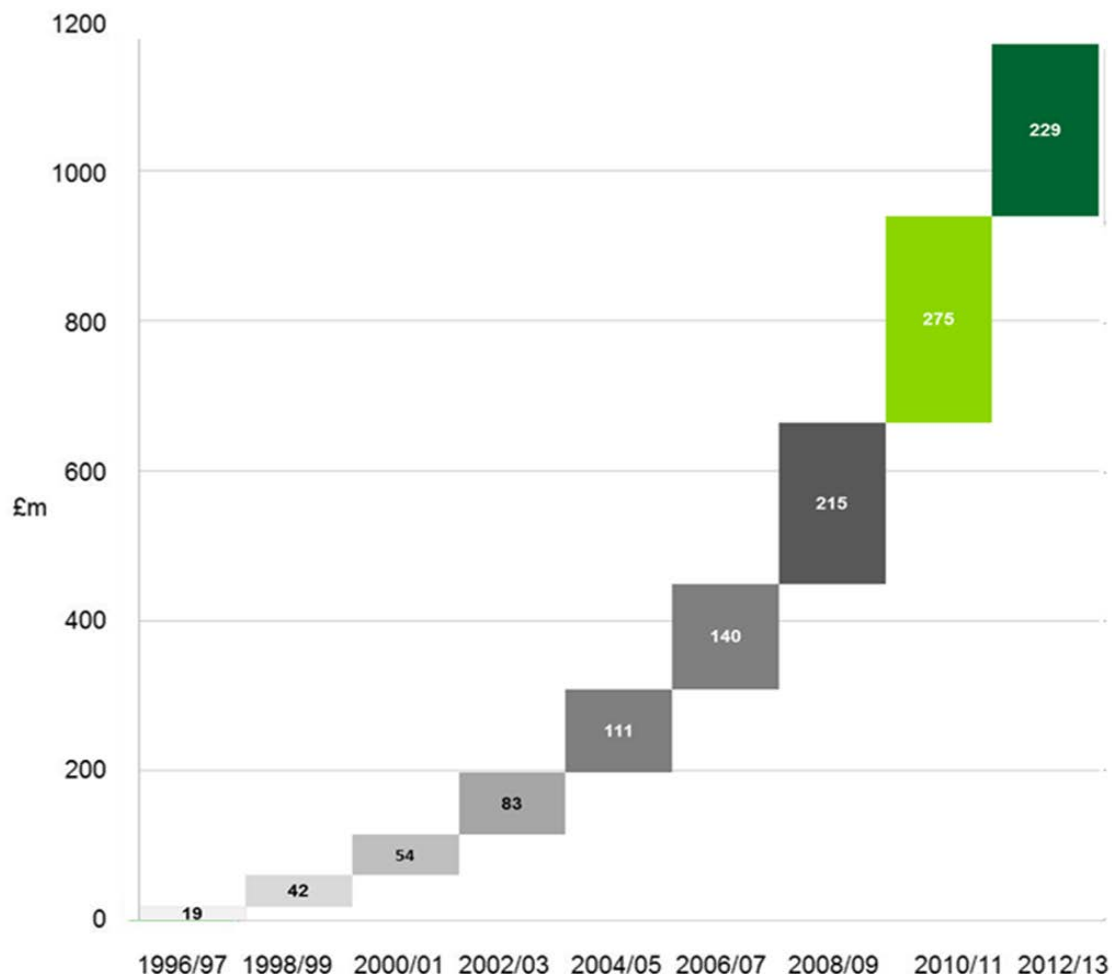
21 Each agency carries out data matching under its own powers, but uses the Commission's systems, processes and expertise. Similar arrangements will be made after 1 April 2015, when the NFI has transferred to the Cabinet Office. This delivers economies of scale thus reducing the cost for organisations taking part and enables cross-border matching.

22 The involvement of the public audit agencies, other national bodies and government departments is key to the success of the NFI and serves the public interest in the fight against fraud.

23 The total value due to fraud, overpayment and error detected across the UK since the NFI began amounts to over £1.17 billion (Figure 3).

The involvement of the public audit agencies, other national bodies and government departments is key to the success of the NFI

Figure 3: **Cumulative outcomes total over period of the NFI (1996-2014) £1.17 billion**



Source: Audit Commission (2014)

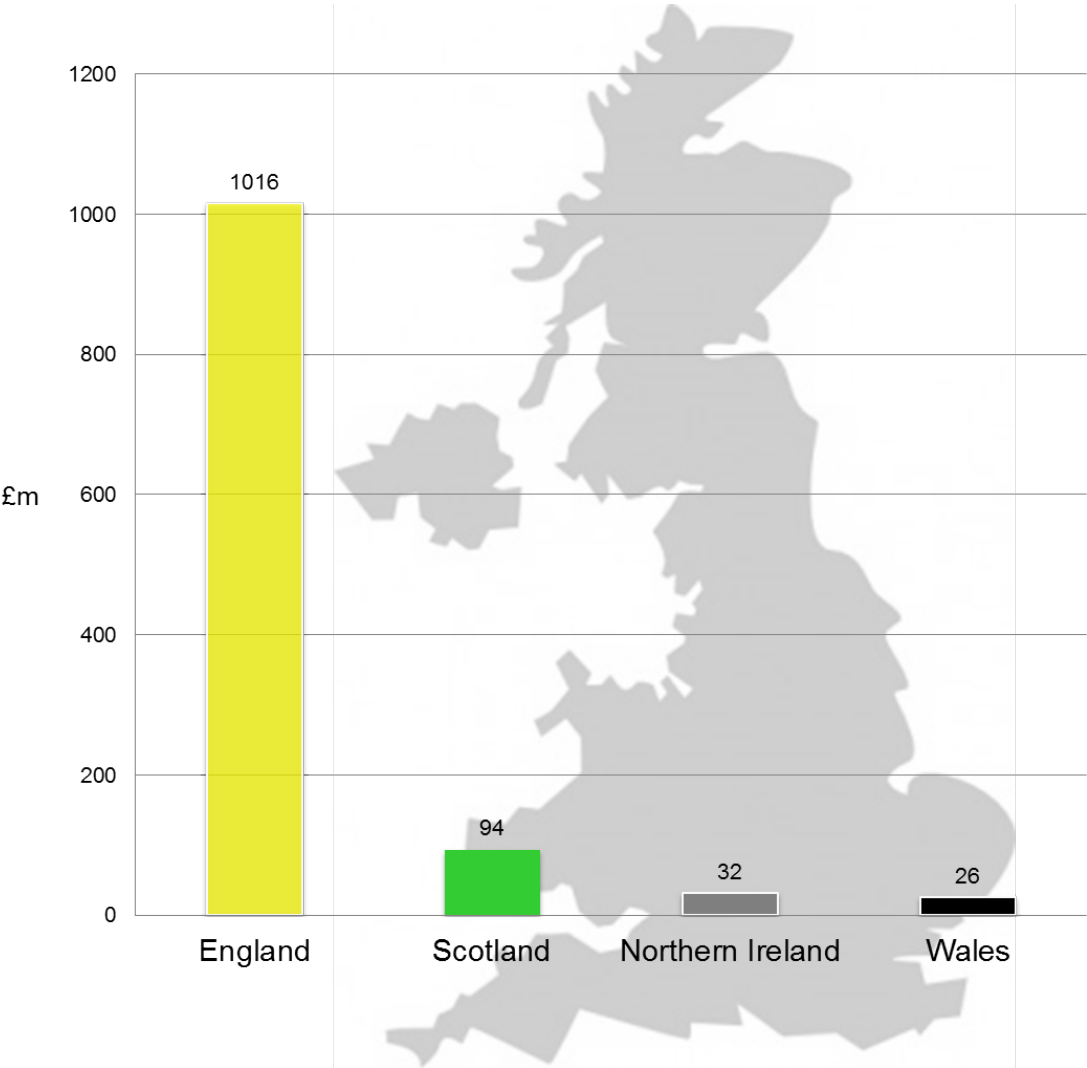
24 The aggregate value of fraud, overpayment and error found from the investigation of the NFI data matches in Scotland, Wales and Northern Ireland since they first started to run the NFI is £152 million (Figure 4). This comprises :

- Scotland - £94 million;
- Northern Ireland - £32 million; and
- Wales - £26 million.

25 Each national audit agency reports on the NFI separately for their geographical area ⁱ. The remaining chapters in this report focus on the NFI in England.

ⁱ The NFI results in Scotland will be available at www.audit-scotland.gov.uk in Wales, at www.wao.gov.uk and in Northern Ireland, at www.niauditoffice.gov.uk.

Figure 4: Cumulative outcomes of the NFI identified across the UK (1996 – 2014) £1.17 billion



Source: Audit Commission (2014)

Chapter 4: Results of the NFI in England

This chapter sets out the results of the NFI in England. It highlights the successes in tackling key risks (Table 2) and why organisations should take part in the NFI.

26 Since the last report in May 2012, the NFI has identified further fraud, overpayment and error in England totalling just over £203 million.

27 The total comprises outcomes already delivered of £63 million and estimated outcomes of £140 million (Appendix 1). These estimated outcomes represent expenditure that would have been incurred in future years had the fraud or error gone undetected.

28 The level of fraud, overpayment and error reported may have reduced by 11 per cent on the previous reporting period ⁱ (£229 million), but compared to the pattern of outcomes over time shown in Figure 3, £203 million is still a significant outcome.

29 The number of cases of fraud, overpayment and error detected, as reported by participants (Table 3), has increased by 19.4 per cent. Although no firm conclusion can be drawn about the reasons for this, the fall in the value of fraud, overpayment and error reported by participants, combined with an increase in the number of cases of fraud and error detected, may indicate that participants are becoming more effective at detecting fraud and error. The benefits of undertaking more regular data matching, for example using the NFI Flexible Data Matching Service to detect fraud earlier, may also have affected the results.

30 In contrast to this, a number of the NFI contacts at audited bodies have raised concerns that reductions in counter fraud and benefit fraud investigators will, and in some cases have already started to, impact on the effectiveness of the follow-up arrangements for the NFI matches.

31 The rest of this chapter reviews the outcomes, for each dataset, in greater detail.

The NFI has identified further fraud, overpayment and error in England totalling over £203 million

ⁱ For national reporting purposes outcomes are collated at two yearly intervals as at 31 March. Outcomes submitted by participants after this date are included in subsequent reports.

Table 2: **A comparison of NFI outcomes by risk area**

Dataset	Activity	2014 £ million
Pensions	Individuals obtaining the pension payments of a dead person, injury pension overpayment and overpayment to pensioners who have returned to work and not told the pension scheme.	76
Council tax single person discount	Individuals who did not qualify for the council tax single person discount because they are living with other countable adults.	39
Housing benefit	Individuals claiming housing benefit who failed to declare an income or change of circumstances.	33
Social housing/ Right to Buy	Social housing tenants that are illegally subletting their home; who are not entitled to social housing because of their immigration status in the UK; have multiple tenancies unlawfully; or ineligible applicants for social housing that have been removed from the waiting list.	27
Blue badges	Potential misuse of blue badge parking passes belonging to someone who has died	11
Payroll	Employees working for one organisation despite being on long-term sick leave at another or those in employment while not entitled to work in the UK	10
Creditor payments	Traders who, intentionally or unintentionally, submit duplicate invoices for payment.	5
Payments to private residential care homes	Payments to private care homes by a local authority for the care of a resident who has died.	2
Other	Other outcomes linked with matching immigration data to student loan and licence data.	1
Total		203

Source: Audit Commission (2014)

Table 3: **Key results in England**

Activity	Number of cases in 2014
Pensions	
Pension payments stopped	2,990
Council tax single person discount	
Council tax single person discount claims stopped	41,029
Social housing/Right to Buy	
Properties recovered	86
Right to Buy wrongly awarded	21
Applicant removed from housing waiting list	2,394
Housing benefit fraud, error and overpayment relating to:	
Local government employees	2,378
Central government pensioners	2,128
Students	1,632
Individuals receiving a local government pension	1,508
NHS employers	774
Other	663
Immigration	61
Blue badges	
Blue badges cancelled	21,396
Residents in private residential care homes	
Residents in private care homes	182
Payroll	
Total employees dismissed or resigned	158
Creditor payments	
Duplicate creditor payments	6,410
Other	
Concessionary travel passes cancelled	78,443
Total	162,253ⁱ

Source: Audit Commission (2014)

ⁱ The equivalent total for the reporting period to 31 March 2012 was 135,862 cases.

Pensions

32 The NFI matches pension information to data about deceased people, which is provided by the Department for Work and Pensions and the Disclosure of Death Registration Information from the General Registrar's Office. This is known as 'mortality screening'.

33 Fraud and overpayment of pension occurs most often when pensioners die but relatives fail to tell the pension schemes about the death and continue to receive the payments.

34 Mortality screening has been part of the NFI for many years, yet the NFI continues to identify consistently high levels of fraud cases, indicating that new pension frauds and overpayments are starting frequently.

35 During this exercise, the NFI identified 2,990 cases where pensioners had died, but payment had continued. Of these cases, 136 were identified for private sector pension schemes. These payments were stopped and actual and estimated overpayment totalling £74 million was detected and prevented (Appendix 1).

36 While these outcomes are significant, and there is an increase in the number of cases of around 2.8 per cent, there is a 24.5 per cent reduction in the associated overpayment.

37 In November 2011, the NFI started offering annual mortality screening against the Department for Work and Pensions data about deceased people. In response to demand for this service, the frequency was increased to every six months in June 2013. Schemes can also match to the Disclosure of Death Information Register at the same time or at a time that suits them.

38 More regular mortality screening helps schemes identify fraud and overpayment sooner, thereby reducing potential losses and amounts to be recovered. More frequent screening may also have impacted on the levels of fraud identified in this reporting period, that is, fraud was identified earlier. If pension schemes had decided to wait until NFI 2012/13 or the forthcoming 2014 NFI exercise, the overpayment would have been larger as it would have run on for longer. The NFI will continue to develop the mortality screening services it provides in order to move towards even earlier detection of fraud and overpayment.

39 The NFI also enables pension schemes to identify pensioners who have returned to work and may have wrongfully avoided pension decreases, by not telling the pension scheme administrators. In 2012/13 there were 121 such cases, involving overpayment totalling £1 million.

40 Pension data also enables councils to identify housing benefit fraud, where a pension (local and central government) is not declared on a benefits claim. The NFI in 2012/13 identified 3,636 cases of overpaid benefit amounting to £7 million.

More regular mortality screening helps pension schemes identify fraud and overpayment sooner

Injury pensions

41 Retired police officers and firefighters can receive incapacity benefit or industrial injury and disablement benefit when they are injured at work. They may also be entitled to an enhanced occupational pension because of work-related injuries. Reductions in payment may be required when incapacity benefit, industrial injury, disablement benefit and enhanced occupational pension are received for the same injury.

42 Since the report in 2012, 87 new cases have been identified with overpayment totalling £0.8 million.

43 These outcomes could have been higher but many police and fire authorities had difficulties securing the information from the Department for Work and Pensions that they need to investigate these matches. Despite this also being an issue in the previous NFI, the Department for Work and Pensions have yet to agree a protocol on exchange of information for injury pension match investigations.

44 The Commission very much hopes that the Department for Work and Pensions will prioritise this work to ensure an agreed protocol is in place before the NFI 2014/15 commences. Without this, organisations will not be able to maximise the benefits of these matches, and fraud and error is likely to go unchecked.

Council tax single person discount

45 Residents with no other countableⁱ adults in the household are eligible for a 25 per cent single person discount applied to their council tax bill. This applies to about 34 per cent of households in England and the discounts are worth around £2.2 billion a year (Ref.5). The NFI matches council tax records to the latest electoral register to identify discounts incorrectly awarded as a result of fraud or error.

46 Single person discount matching continues to yield significant results, with £39 million of incorrectly awarded discounts being identified since the matches were released in February 2012. The £39 million comprises of historic underpayments of council tax due to inappropriate discounts being awarded, amounting to £14 million and £25 million of estimated future underpayments that have been prevented by cancelling the discount. Since the NFI's match was introduced in 2008 the aggregate outcomes are nearly £152 million. Action is being taken to recover 76 per cent of the £14 million historic council tax underpayments.

47 Some councils use private sector data matching exercises instead of following up the NFI matches. The matching undertaken by the NFI and private sector organisations use different data sources and therefore produce different matches. Both can be useful. However, uniquely only the NFI matches identify where there is an associated housing benefit claim that

Single person discount matching continues to yield significant results with £39 million of incorrectly awarded discounts being identified

ⁱ For the NFI's data matching, individuals recorded as qualifying for council tax single person discount on the basis that they live with other disregarded adults are excluded.

may also be affected. It is therefore recommended for councils using private sector matching services to also follow up the NFI matches available to them.

48 The Government's introduction of individual electoral registration led to the 2013 Electoral Registers being published from mid-February 2014, two months later than in previous years. Consequently, to minimise delays to the NFI's latest single person discount exercise, undertaken in early 2014, the matches were released through the NFI Flexible Data Matching Service.

49 Delivering this mandatory match through the NFI Flexible Data Matching Service allows bodies to submit their data when they are ready and receive any resulting matches instantly.

Housing benefit

50 The NFI matches housing benefit records against data sources that councils do not readily have access to, including NHS payroll, local government payroll, central government payroll (where provided), central government pensions, student loans and tenants in social housing.

51 The matches may identify where a person is claiming a benefit that they are not entitled to. For example, matches can identify individuals that are employed but who are saying they have no employment income. Case study 1 provides an example of a fraud case identified by the NFI.

Case study 1: housing benefit

A benefits cheat who claimed he was too ill to work was found working as a taxi driver, following the joint investigation of a NFI match by Hammersmith and Fulham Council and the Department for Work and Pensions.

The match showed that the claimant held a taxi driver's licence, but was receiving both housing and council tax benefits. He pleaded guilty to having fraudulently claimed more than £54,000 between November 2008 and December 2011.

Source: Audit Commission (2014)

52 In May 2013, the Department for Work and Pensions reported that, in 2012/13, councils across Great Britain paid out over £23.7 billion in housing and council tax benefit. The equivalent fraud losses are about £320 million, or 1.3 per cent, each year (Ref.6).

53 Housing benefit accounts for a significant proportion of the total fraud identified through the NFI. During the 2012/13 exercise, the NFI has helped to uncover benefit fraud, overpayment and error worth £33 million, 16 per cent of the NFI's total outcomes in England. Councils are taking recovery action in about 69 per cent of all cases identified during this reporting period.

54 Action taken against benefit fraudsters included 543 prosecutions, 605 administrative penalties and 804 cautions.

55 In December 2013, the Audit Commission gave councils in England another opportunity to submit their current housing benefit claimant data to match against refreshed data from the Student Loans Company. This refresh included the latest intake of students for the new academic year.

56 This match has consistently identified high levels of housing benefit fraud and error, specifically cases where students have claimed housing benefit despite not meeting the qualifying criteria. For 2012/13 this equates to 27 per cent of all housing benefit overpayment.

57 The matching was carried out using the NFI Flexible Data Matching Service with matches released within minutes of a data upload. So far only 25 per cent of councils have taken up this offer.

Social housing

58 The National Fraud Authority states in the 2013 annual fraud indicator that the cost of housing tenancy fraud to local authorities is estimated to be £845 million per year and the [Protecting the Public Purse 2013: Fighting Fraud Against Local Government](#) report (Ref.7) estimated that 98,000 social homes in England are subject to unlawful subletting. This is the second largest area of fraud loss in local government.

59 In 2013, the Department for Communities and Local Government reported that nearly 1.7 million families were waiting for social housing (Ref.8). Identifying unlawful subletting would free up properties for those on the social housing waiting list. Tenancy fraud should therefore be a key priority for councils and housing associations. The NFI helps fight this fraud by undertaking data matching to identify:

- properties that are sublet unlawfully; and
- false housing applications before tenancies are awarded.

60 Since the last NFI report, in May 2012, social landlords were able to recover 86 properties from those in unlawful occupation and reallocate the properties to tenants in genuine need of them. Case study 2 provides an example of a housing tenancy fraud by a council employee identified through NFI data matching.

61 The Prevention of Social Housing Fraud Act (Ref.15) came into force in October 2013, making tenancy fraud a criminal offence. As a result, the follow up of the NFI 2012/13 matches has already resulted in three tenants being prosecuted. More tenancy fraud related prosecutions are expected to result from the NFI's future exercises. Alongside this new legislation, the Government made £9.5 million available to councils to tackle social housing fraud.

62 Despite the new legislation and additional funding, a fall has been noted in the number of properties recovered through the NFI matches compared to the previous exercise. This is not in line with the findings in other reports including the Commission's own [Protecting the Public Purse 2013: Fighting](#)

In 2013, the Department for Communities and Local Government reported that nearly 1.7 million families were waiting for social housing

[Fraud Against Local Government](#) report, which established that councils had substantially increased the number of properties recovered from tenancy fraudsters in 2012/13, compared with the previous year.

63 Over 50 per cent of social housing in England is managed by housing associations, so it is disappointing that only 35 out of 1,589 (Ref.9) of these private registered providers of social housing chose to take part in the NFI 2012/13. The National Fraud Authority has also undertaken work to try and quantify the cost to the public purse of housing tenancy fraud against housing associations and estimates, based on the total cost of housing tenancy fraud, that it might cost £919 million per year (Ref. 1). Given the scale of the potential fraud loss to the public purse, it is vital that housing associations play their part in tackling tenancy fraud.

64 More encouragingly though, and in line with the NFI strategy to target more preventative data matching, the NFI introduced pilot data matching focusing on false housing applications in the NFI 2012/13. By undertaking data matching on social housing waiting lists, the NFI was able to identify a significant number of people who were ineligible for social housing or had misrepresented their circumstances on waiting list applications. People not entitled can then be removed from the list and so prevented from accessing social housing. The data matching can identify:

- an undisclosed social housing tenancy;
- an undisclosed change in circumstances; or
- an applicant that is not entitled to social housing, for example, due to their immigration status.

65 To date, 2,394 applicants have been removed from housing waiting lists and the financial benefit of their removal is estimated to be £18.7 million. The estimated financial benefit relates to the cost of providing eligible applicants on the housing waiting list with costly temporary accommodation. Removing applicants that are ineligible to be on the housing waiting list could reduce the length of time the eligible applicants stay in temporary accommodation, thus generating a further saving. The housing waiting list match is now available through the NFI Flexible Data Matching Service.

66 The Commission has also successfully piloted and rolled-out mortality screening of housing waiting lists through the NFI Flexible Data Matching Service, with one council removing 80 applicants.

Case study 2: social housing

Southwark Council, acting on information from the NFI Operation Amberhill Pilot, identified and prosecuted a case where fake documentation had been used to secure a property. The Council then launched an initiative to clamp down on this type of fraud. Through this project the Council has recovered 32 social housing properties from tenancy fraudsters and prosecuted 24 individuals. This means that the Council has been able to reallocate these properties to those with a genuine need.

One successful prosecution brought seven fraudsters to justice. They were responsible for one of the largest housing fraud cases uncovered in the country in recent years. Over three years, a former homelessness caseworker, and his six co-defendants, fraudulently obtained council houses for themselves, and for others, conning the Council and those in genuine need of council housing out of much needed properties.

The seven initially pleaded not guilty at Woolwich Crown Court, but changed their pleas having heard the council's prosecution case. The caseworker received a four year prison sentence, whilst the other six received suspended prison sentences of up to eight months after admitting theft and obtaining property by deception.

Source: Audit Commission (2014)

Right to Buy

67 The NFI matches data relating to tenants that have bought, or are in the process of buying, their council property at a discount as part of the Right to Buy scheme. The match to housing benefit and other tenancy records enables councils to identify potential cases where they may have been acting on false information provided in support of the Right to Buy application. It also identifies change of circumstances such as a former tenant selling a property within the discount period. This means that some, or all, of the discount amount could be owed to the council.

68 In April 2012, the Government significantly increased the Right to Buy discount in England, to a maximum of £100,000 in London and £75,000 elsewhere. The [Protecting the Public Purse 2013: Fighting Fraud Against Local Government](#) report highlighted Right to Buy fraud as an area of increased risk as a result of these changes and expressed concerns about the increased financial incentive to commit fraud. This was based on the results of the Commission's 2013 annual survey of detected fraud in local government which indicated a 168 per cent increase in detected Right to Buy cases.

69 The NFI outcomes support the concerns raised in [Protecting the Public Purse 2013: Fighting Fraud Against Local Government](#) report, as the number of cases identified where Right to Buy applications had been wrongly awarded in this NFI reporting period has risen to 35 compared to only 7 in the previous report. In addition, councils stopped 21 applications

that were in progress, compared to only 10 in the previous report. This equates to £1.3 million of the NFI's outcomes.

70 Case study 3 provides an example of Right to Buy fraud identified through the NFI data matching.

Case study 3: Right to Buy

A Right to Buy to housing tenancy match highlighted a case where a person had lodged a Right to Buy application with a London borough council despite them also holding a tenancy in Yorkshire. The investigation found that the tenant was also claiming housing benefit at the Yorkshire address.

The tenancy fraud officer confirmed with the tenant that they did indeed hold two tenancies. The tenant had not felt they had done anything wrong providing they paid the rent. They have since ended their tenancy with the London borough as they were not actually residing there, their son was. The Right to Buy application has also been revoked. A prosecution is being considered.

Source: Audit Commission (2014)

Blue badges

71 Single tier and county councils are responsible for awarding blue badges, which provide a range of parking concessions for people with severe mobility problems, who have difficulty using public transport. In London, this concession extends to the congestion charge.

72 In 2013 the Department for Transport estimated there were 2.58 million blue badges in circulation (Ref.10). The National Fraud Authority estimates that 20 per cent of blue badges are abused (Ref.1).

73 Fraudsters are exploiting the scheme by forging badges and stealing badges from cars. Abuse also occurs when badges remain in use, or are renewed by someone, after a badge holder has died. Case study 4 provides an example of how the NFI blue badge matching has helped a council tackle fraud using technology.

74 [Protecting the Public Purse 2013: Fighting Fraud Against Local Government](#) reported a 40 per cent decrease during 2012/13 in the detection of blue badge fraud.

75 During this reporting period, 21,396 badges were reported as having been cancelled, a 33 per cent decrease on the number of badges cancelled in the NFI's previous reporting period.

76 The number of badges cancelled could have been affected by the following factors:

- there was a 16 per cent reduction in the number of blue badge matches released in 2012/13 compared to 2010/11; and

- the new Blue Badge Improvement Service, now in its second year, introduced anti-fraud measures (Ref. 11) such as:
 - improvements to the badge design to make it harder to falsify or modify;
 - automated checks at the application stage to prevent multiple and fraudulent applications; and
 - quick and easy enforcement checks by officers anywhere in the country on badges issued by any local authority, using a desktop computer, handheld device or 'smart' mobile telephone.

Case study 4: Blue badge

Southampton City Council identified a new way to use their NFI matches to prevent and detect fraud. The details of the NFI blue badge to deceased matches were uploaded to the handheld computers carried by enforcement officers on the street. Using this intelligence, the officers were able to identify whether a badge should or should not have been in use. This is already producing results. Officers are currently working towards their first prosecution using evidence collected in this way.

Source: Audit Commission (2014)

Immigration

77 Most people who come to the UK from overseas adhere to the conditions of their stay, but some access benefits or employment unlawfully ⁱ.

78 The NFI matches immigration data from the Home Office against data, such as housing benefit claims, employee payroll records and social housing tenants.

79 Aggregate outcomes across the NFI datasets for this reporting period amount to £12.2 million and include:

- the dismissal or resignation of 120 employees from 64 organisations, including local authorities, NHS hospitals and NHS foundation trusts;
- councils identifying 61 housing benefit overpayments amounting to £1.1 million;
- the recovery of 11 social housing properties;
- the removal of 28 individuals from the UK; and
- employers identifying £9 million of salary payments to illegal workers.

80 Case study 5 provides an example of how the NFI matches discovered two employees working illegally.

81 The Home Office immigration data is now available through the NFI Flexible Data Matching Service. This data is updated every three months.

ⁱ Employers have a statutory duty to satisfy themselves that a potential employee is entitled to work in the UK. Employers are liable for a penalty of up to £10,000 if they employ an illegal worker.

Therefore, participants can match more frequently to this data to identify immigration fraud earlier, for example to reduce the length of time they employ an illegal worker.

Case study 5: immigration

A payroll to in-country immigration match led to the dismissal and removal of two health trust employees who had used false identities to gain employment. The first man was identified by a NFI match. The second had claimed to be his brother.

Investigations identified that the first had over stayed and was working with no right to do so. The second man had used false documents and was not related to the first man at all. Both men were dismissed and detained on site by the Home Office and measures were put in place to secure their removal from the UK.

This would not have been possible without the close joint working between immigration officers from South West Immigration Compliance and Engagement Team, Immigration Enforcement Directorate and Gloucestershire Local NHS Counter Fraud Specialists.

The total salaries paid while the two 'brothers' were working illegally were in excess of £206,000.

The NHS Counter Fraud Department also secured a recovery of funds from HM Revenue and Customs in excess of £55,000 for National Insurance and Income Tax paid by the Trust in respect of the 'brothers'.

Source: Audit Commission (2014)

82 As demonstrated in Case study 5, individuals wishing to remain illegally in the UK commonly produce false documentation to access employment, housing and benefits. In response, the Home Office has produced an online training package which helps organisations spot such false documentation. This e-learning also provided a helpful self-assessment tool so that users could evaluate their understanding after completing the training. To assist participants to follow up of the NFI immigration matches, access to this training product was integrated into the NFI web application.

Payroll

83 The NFI matches payroll data to help identify employees who are potentially committing fraud. The matching may show someone working for two employers, when the individual is on long term sick leave for one of the jobs and is not entitled to work elsewhere at the same time.

84 Employee fraud poses a serious risk to organisations. Exposure needs to be minimised through adequate internal checks and controls and anti-

fraud initiatives. Employers should regularly raise awareness of the severity of the action they will take if an employee is found to be committing fraud.

85 [Protecting the Public Purse 2013: Fighting Fraud Against Local Government](#) reported that, although the proportion of internal fraud was just one per cent of all detected fraud found, it accounted for a high proportion of the value of all detected frauds at nine per cent (£16.5 million) in 2012/13.

86 Investigations into the NFI payroll matches (excluding immigration cases) have enabled employers to dismiss or seek resignation from 54 employees. Employers have recovered approaching £0.6 million of associated overpayment.

Creditor payments

87 The main objective of the NFI creditor matching is to identify duplicate payments to trade creditors and wrongly calculated VAT. The results of investigations may also identify internal controls that need to be strengthened.

88 The NFI 2012/13 matches have resulted in nearly 200 organisations identifying duplicate payments totalling over £5.4 million. This is an increase of nearly 14 per cent on the figure reported in 2012.

89 Over 76 per cent of the overpayments have been, or are being, recovered.

Personal budgets

90 A personal budget is a sum of money that a council allocates to an adult (user) to meet their assessed needs for care and support. The user can choose how their budget is paid and how money is used. Personal budgets can be managed by the council, which commissions services for the user, or given to the applicant or the carer as a direct (cash) payment so they can buy their own care and support services.

91 Responses to the Commission's annual survey of detected fraud 2013 (Ref. 2) suggested that personal budget direct payments represent one of the biggest new fraud risks to councils.

92 Personal budget fraud may occur when individuals have made duplicate claims across multiple councils, or payments have continued to be paid after the budget holder has died and a recipient has deliberately not informed the council.

93 In response to this emerging risk, in February 2013, the NFI launched a personal budget fraud pilot match. In total, 21 councils provided personal budget data for the pilot and received just over 10,000 matches. At this point around 25 per cent of these cases are under investigation. Those investigations have been encouraging and more results are expected over time. Following this success the pilot was made available to all councils in England, through the NFI Flexible Data Matching Service, in December 2013. So far a further 26 councils have taken this up.

94 Overall outcomes from the 27 cases completed so far are just over £187,000, of which over 85 per cent is being recovered.

Chapter 5: How can organisations make better use of the NFI?

This chapter looks at how organisations can get the most out of the NFI and considers how the NFI is used at an operational level.

95 The total of £203 million fraud, overpayment and error in England and the £1.02 billion identified since the NFI began is significant, but bodies could get even better results with relatively small improvements.

96 In this chapter the Commission:

- comments on the challenges currently facing the organisations taking part in the NFI;
- reports how well public bodies perform operationally in supplying data for matching and investigating data matches;
- looks at specific areas where improvements could be made, such as supplying all the required data on time and undertaking appropriate follow up investigations of the matches promptly and thoroughly; and
- looks at how the NFI has been developed to further assist those taking part.

Capacity for investigating fraud

97 The Commission's report, [*Tough Times 2013: Council's Responses to Financial Challenges from 2010/11 to 2013/14*](#) (Ref. 12) examines the financial resilience of English councils against the backdrop of a significant reduction in central government funding to councils as part of the Government's overall deficit reduction programme.

98 The report finds that English councils demonstrated a high degree of financial resilience from 2010/11 to 2013/14, despite a 20 per cent reduction in funding from government and a number of other financial challenges. A small minority of councils, however, found it harder to cope than others as funding levels have reduced. From 2010/11 to 2013/14, planned service spending by single-tier and county councils reduced by 9.4 per cent on average, while service spending by district councils reduced by 16.6 per cent.

99 This context enhances the importance of maximising resources by reducing fraud. This could help protect frontline services.

100 However, [*Protecting the Public Purse 2013: Fighting Fraud Against Local Government*](#), reported that the Commission's annual fraud survey 2013 showed that 22 per cent of all councils reported decreasing investigative capacity compared with just 6 per cent that increased capacity.

101 These survey findings accord with research by the Local Authority Investigating Officers Group, which found that the total number of specialist fraud investigators across all English local authorities has reduced by a fifth since 2010 (Ref.13).

102 Similarly in the course of its regular visits to bodies, the Commission's NFI team has learnt that counter fraud and benefit fraud investigation budgets and staffing numbers are being reduced. The NFI contacts at audited bodies have raised concerns that these reductions will, and in some cases have already, started to impact on the effectiveness of the follow-up arrangements for the NFI matches. These concerns mirror the Commission's [*Protecting the Public Purse 2013: Fighting Fraud Against Local Government*](#) report conclusion that these reductions, coupled with the major structural changes in counter-fraud responsibilities, mean that councils face a significant risk that they will be unable to detect fraud as effectively as they could in past years.

The effectiveness of follow up arrangements

103 The Audit Commission asked the external auditors of the NFI's mandatory participants to risk assess the arrangements in place for taking part in the NFI and for following up data matches. The Commission's NFI Team used the output from this risk assessment to prompt them to follow up where it appeared that work had not progressed as quickly or thoroughly as expected. Support and advice was provided to organisations where it was needed and they have since taken action to address the weaknesses initially identified.

104 Against this background, it is disappointing that North Norfolk District Council failed to provide personal alcohol licence data.

Specific opportunities to improve

105 It is pleasing to see that many organisations have found ways to improve the benefits they realise from the NFI matches by working more efficiently. This enables them to focus their limited resources effectively. But, the Commission remains concerned that some could and should do more. The types of improvement that can be made are listed in Table 4.

Table 4: **How organisations taking part could work more effectively**

Concerns	How to work more efficiently
Many participants are not using the latest time-saving enhancements to the NFI software.	Ensure staff within the organisations that take part in the NFI keep up to date with new features of the web application and good practice by reading the guidance notes and watching the online training modules before they begin work on the matches.
Matches that are time critical and could identify an overpayment are not acted on first.	Key contacts should schedule staff resources so that time-critical matches, such as housing benefit to students and payroll to immigration can be dealt with as soon as they are received.
Investigations across internal departments are not coordinated resulting in duplication of effort or delays in identifying overpayments.	Key contacts should coordinate investigations across internal departments and, for example, organise joint investigation of single person discount matches involving housing benefit, to ensure all relevant issues are actioned.
Disproportionate time is spent looking into every match in every report.	Use the tools within the web application, such as the filter and sort options or data analysis software, to help prioritise matches that are the highest risk. This will save time and free up staff for the most important investigations.
Enquiries from other organisations that take part in the NFI are not always responded to promptly.	Prioritise responses to enquiries from other organisations so investigations can be progressed.
Data quality issues that are highlighted within the web application are not addressed before the next NFI exercise.	Review the quality of the data supplied before the next exercise as external providers normally have to phase in changes to extraction processes. Better data quality will improve the quality of resulting matches.

Source: *Audit Commission (2014)*

106 It is important, particularly when fraud investigation budgets and staffing numbers are being reduced, that all organisations adopt this good practice to ensure they use the valuable resources they invest in the NFI more effectively.

107 Equally, with new participants regularly joining the NFI, it is vital that these organisations adopt a good practice approach from the outset.

108 As many of the messages in Table 4 were highlighted in the NFI report back in May 2012, the NFI team will look for new ways to communicate these messages more clearly to help participants maximise the benefits from the NFI. For example, regarding data quality this includes:

- working with participants to improve NFI data submissions that were of poor quality compared to national and sector averages; and
- identifying improvements to the data specifications to assist the organisations taking part to more effectively progress the NFI matches. For example, following discussions with councils, two new fields were introduced to the right to buy data specifications that fed additional information into the resulting matches giving investigators a way to prioritise them more easily.

109 In addition, the Commission is always looking for ways to enhance the NFI and further improve the benefits of taking part. For example, September 2012 saw the launch of a flexible data matching service to complement the usual two yearly data match. Additional files of any of the NFI datasets can be submitted for matching at any time. This allows the organisation to be in control of what it matches and when, so the service can be responsive to operational needs and organisational risks.

110 This more flexible service allows the NFI team to introduce new data matches, including offering mortality screening matching every six months in response to requests from participants. It also provides an improved mechanism for trialing new data matches.

111 The ability of the NFI to assist those that take part to quickly and effectively target new and emerging fraud risks has been crucial. For example, the NFI 2012/13 successful pilots have included both housing waiting lists and personal budgets.

112 As well as trialing new data matches, the NFI team also looks at what other techniques are being used to identify fraud to see if they can enhance the NFI. This identified that additional information not previously collected by the NFI, such as telephone numbers and email accounts, were being widely used to prevent and detect fraud.

113 Developing the NFI in this way remains vital to the NFI's long term strategy. It is hoped that participants will assist by continuing to identify and inform the NFI Team about emerging risks and engaging in pilots to help evaluate how the NFI can assist both now and after the transfer to the Cabinet Office in April 2015.

Chapter 6: Looking to the future

This chapter looks at the challenges for the future development of the NFI over the next two years, and how work with the Cabinet Office on the transitional arrangements is progressing.

Councils' capacity to progress fraud investigations

114 The introduction of the Single Fraud Investigation Service (SFIS) is a significant change for housing benefit services. It also potentially has major implications for many local authority non-benefit fraud investigations.

115 SFIS, introduced as part of the Welfare Reform Act 2012, will begin in 2014 to investigate welfare fraud across all benefits administered by the Department for Work and Pensions, HM Revenue and Customs and local authorities. Adopting a phased launch over the period October 2014 to March 2016, SFIS will gradually take over responsibility for investigating housing benefit fraud from councils. At the same time, housing benefit investigators will transfer to the SFIS and become Department for Work and Pensions employees.

116 In advance of this transfer of responsibility to SFIS, the Commission has received feedback from some councils that investigating housing benefit fraud is being given less priority than previously. Instead fraud investigators are focusing more on other areas such as social housing fraud. This change in focus has been the reason given by some councils for not participating in the additional NFI housing benefit to student loans data match launched in December 2013.

117 The Commission is committed to working with Department for Work and Pensions to ensure SFIS gives appropriate priority to investigating NFI housing benefit matches. This includes discussing how SFIS will engage with the NFI, for example how they will access and follow up the matches, and identifying any resulting enhancements that may need to be made to the NFI web application.

118 Additionally, some councils use housing benefit investigators to investigate other frauds. At these councils there is a risk that the transfer of these staff to SFIS and Department for Work and Pensions employment will impact on the ability to investigate non-housing benefit fraud. The Government has acknowledged this and in December 2013 announced an additional £16.6 million funding for local government over the next two years.

119 It is vital that this funding is distributed, and used, effectively to help ensure that councils retain sufficient capability, both in the short and long term, to investigate non housing benefit fraud, including relevant NFI matches. The low take up of the additional housing benefit to student loan matching offered in December 2013 has already demonstrated that despite the fee to take part being subsidised, local authorities are starting to change fraud investigation resource focus to non-housing benefit work in preparation for the transfer to SFIS.

Developing batch data matching

120 Having successfully implemented the NFI Flexible Data Matching Service the focus is now on further developing this service to maximise the potential benefits for all participants.

121 The Commission will work with the Fighting Fraud Locally Board, councils and others to ensure the NFI supports the implementation of the Local Government Fraud Strategy (Ref.14). The NFI team will also continue to work with other key stakeholders in the public and private sectors.

122 The NFI team will continue to develop the NFI to meet new fraud risks and will listen to the concerns raised by organisations about emerging challenges facing them. For example, in their responses to the Audit Commission's annual survey of detected fraud in local government, councils reported significant new fraud risks from the move to personal budgets in social services (Ref.1). Following on from a successful personal budgets pilot data match in NFI 2012/13, this will be a mandatory data match for the NFI 2014/15.

Increased emphasis on preventing fraud

123 Providing the real-time service alongside the batch data matching services means that the NFI now has complementary tools that target both fraud prevention and detection.

124 The Commission will continue to work with stakeholders to ensure that the real-time service is developed to align with their fraud prevention and detection strategies. The proposed approach could help participants identify potential fraud in a wide range of areas.

125 The Commission plans to improve the flexibility of the NFI Real-Time Data Matching Service by extending the range of methodologies through which the organisations that take part can access the service. While the current service, which involves automated electronic transfer of information at the point of application, works in sectors where systems are designed to transfer data in this way, for example the financial sector, there are many areas where systems cannot easily be developed to interact this way. For such systems, which include many currently operated in the public sector, alternative approaches are being developed.

Extending the NFI's scope

Central government

126 Although the Audit Commission's audited bodies are required to participate in the NFI, central government departments can choose whether or not to do so.

127 The Commission welcomes the support that some government departments give to the NFI by providing data about housing benefit claimants, deceased people and immigration status.

128 The Audit Commission also welcomes support from the Minister for the Cabinet Office who, in his role as the Chair of the Government's Fraud, Debt and Error Taskforce, wrote to all government departments and significant arm's length bodies urging them to participate in the NFI 2012/13. The Commission worked closely with them and ensured barriers to participation were removed.

129 The Commission is pleased to report that 13 central government departments or significant arm's length bodies participated in NFI 2012/13, including the Cabinet Office, Department for Communities and Local Government, Highways Agency, Department for Health, HM Revenue and Customs and Department for Work and Pensions. However, some chose not to submit all the possible datasets or only submitted a sample of a dataset.

130 Working with the Cabinet Office it is hoped to build on this by persuading other departments and arm's length bodies to join the NFI 2014/15 exercise.

131 The key to the NFI's success is its ability to work with participating bodies to ensure it targets their specific fraud risks. The limited engagement in the NFI by central government so far means there has not yet been an opportunity to develop the NFI in this way for them. It is the aim to begin this process through discussions with departments as part of the NFI 2014/15 cycle.

132 It is hoped that these discussions will identify opportunities to utilise data held by central government to help further prevent and detect fraud against existing NFI participants.

Housing associations

133 It is not mandatory for housing associations to take part in the NFI and despite considerable efforts, and a greater focus on preventing and detecting fraud by social housing providers, it is frustrating that increases in the level of participation have not been seen. In fact, participation levels have fallen slightly with fewer than three per cent of the 1,589 housing associations registered (Ref.9) currently electing to take part.

134 This lack of engagement also negatively impacts local authorities as the exclusion of the housing association housing tenants data reduces the ability of the NFI to assist the detection of social housing fraud.

135 The [*Protecting the Public Purse 2013: Fighting Fraud Against Local Government*](#) report highlighted the advantages of local authorities and housing associations developing closer partnership working to maximise the benefit of the Prevention of Social Housing Fraud Act (Ref. 15). Such partnership working has already led to a number of discussions with groups of local authorities and housing associations about how the NFI, specifically the NFI Flexible Data Matching Service, can be used to help them prevent and detect fraud.

136 [*Protecting the Public Purse 2013: Fighting Fraud Against Local Government*](#) also recognised that current funding arrangements meant there were few, if any, financial incentives for housing associations to tackle tenancy fraud. Although some housing associations are working successfully with councils to tackle tenancy fraud, this is not yet widespread. However, to reduce the current pressures on social housing it is important that everyone plays their part. All housing associations should show their commitment to tackling tenancy fraud by taking part in future NFI exercises.

137 The Commission will continue to work with groups of local authorities and housing associations to understand how the NFI can develop to help them better tackle tenancy fraud. The Commission also aims to get a better understanding of why the NFI is not more widely used by this sector. The appetite for tackling tenancy fraud appears to be increasing, but this is not reflected in the levels of participation.

138 The Commission will continue to encourage housing associations to take part in the NFI and will invite the Department for Communities and Local Government and relevant national agencies to join in promoting the benefits of the NFI to the sector.

The private sector

139 Both the NFI batch and the NFI Flexible Data Matching Service offer real benefits for companies. They can, for example, provide mortality screening services or identify employees whose immigration status means they have no right to work in the UK. The NFI team will continue to work with existing private sector participants and encourage others to take part.

Transition arrangements

140 The future transfer of the Commission's data matching powers, and therefore the NFI, to the Cabinet Office was secured when the Local Audit and Accountability Act received Royal Assent on 31 January 2014.

141 The transfer of the data matching powers and the Commission's NFI team is expected to take place on 1 April 2015.

142 In the short term the main objective is to make the transition as smooth as possible. The fact that the NFI web application is delivered by a third

party under a contract, which will also transfer to the Cabinet Office, will help ensure that the day to day experience of taking part in the NFI is unaffected by this transition.

143 To assist this process, all key decisions about NFI 2014/15, which will launch later this month, have been made in consultation with the Cabinet Office. For example, the finalised work programme for NFI 2014/15, consulted upon earlier this year, will be delivered in two parts:

- The work scheduled prior to April 2015 will be delivered by the Audit Commission. This will include the main results release in January 2015.
- The work scheduled for beyond March 2015, for example the council tax single person discount matching in early 2016 will be delivered by the Cabinet Office.

144 Discussions are also on-going about the longer term strategy for the NFI. These will focus on ensuring the NFI team:

- continue to develop the successful batch data matches through two yearly matching and the flexible data matching service to offer more flexibility and respond quickly to new risks;
- continue to work on fraud prevention matching through the development of real-time and flexible data matching services;
- extend the data matching purposes at the earliest opportunity to enable the NFI to offer services to a broader range of organisations and sectors; and
- maximise the opportunities presented by the transfer to the Cabinet Office. For example, better integration of central government departments and their data, and understanding how the NFI can contribute to, and benefit from, the Counter Fraud Checking Service currently being developed by the Cabinet Office.

145 The Commission will continue to seek to extend the remit of the NFI to allow data matching for purposes other than the detection and prevention of fraud. The Local Audit and Accountability Act 2014 (Ref.16) states that a relevant Ministerⁱ can by regulation add to the purposes for which data matching may be conducted. The purposes which may be added are to assist in the:

- prevention and detection of crime (other than fraud);
- apprehension and prosecution of offenders;
- prevention and detection of errors and inaccuracies; and
- recovery of debt owing to public bodies.

146 Clearly these additional purposes align with the fraud, error and debt mandate of the Cabinet Office. For example, matching to assist in the recovery of debt owing to public bodies would enable information on absconders to be matched to data already captured for the NFI. This could provide details on whereabouts and income from earnings allowing debt recovery action.

ⁱ Relevant minister means the Secretary of State or the Minister for the Cabinet Office.

147 There is common agreement that the NFI should seek to enact these additional purposes as soon as possible and preparatory work is already underway.

Links to auditors and audited bodies

148 From 1 April 2015 the NFI will lose the direct relationship with auditors it had under the Commission. This will mean that the NFI will not be able to require auditors to assess the arrangements audited bodies have in place for taking part in the NFI and will not benefit from the support auditors provide where a body is not performing effectively. As the Local Audit and Accountability Act 2014 does not allow this arrangement to be replicated, the Audit Commission and the Cabinet Office will seek to find an alternative approach that helps ensure mandatory participants use the NFI to its greatest effect.

149 Similarly, the transfer of *Protecting the Public Purse* to the Chartered Institute of Public Finance and Accountancy will take place in April 2015. The Audit Commission, Department for Communities and Local Government and Cabinet Office are working with the Chartered Institute of Public Finance and Accountancy to support the effective continuation of this valuable work and links to the NFI.

Appendix 1 Report calculations - England

The figures used throughout this report for detection of fraud, overpayment and error include outcomes already delivered (actual amounts recorded by participants) and estimates. Estimates are included where it is reasonable to assume that the fraud, overpayment and error would have continued undetected without the NFI data matching. An explanation of how the estimates used in the report were calculated is shown in the following table.

Table 5: **Report calculations**

Data match	Already delivered (£ million)	Estimated (£ million)	Total (£ million)	Basis of calculation of estimated outcomes
Other public sector pensions	5.7	52.9	58.6	Cabinet Office formula: annual pension multiplied by the number of years until the pensioner would have reached the age of 90.
Council tax single person discount	13.8	24.8	38.6	Annual value of the discount cancelled multiplied by two years.
Housing benefit	26.6	6.0	32.6	Weekly benefit reduction multiplied by 13 weeks.
Housing waiting list	0	18.7	18.7	Recorded by participants
Local government pensions	1.4	13.2	14.6	Same as other public sector pensions above.
Blue badges	0	10.8	10.8	Number of badges confirmed as deceased multiplied by £500 to reflect lost parking and congestion charge revenue.
Payroll	7.6	2.1	9.7	£5,000 per case (£10,000 for immigration cases) and £50,000 for a removal from the UK.
Tenancy fraud	0	6.5	6.5	£75,000 per property recovered based on average three year fraudulent tenancy. Includes: temporary accommodation for genuine applicants; legal costs to recover property; re-let cost; and rent foregone during the void period between tenancies.

Data match	Already delivered (£ million)	Estimated (£ million)	Total (£ million)	Basis of calculation of estimated outcomes
Trade creditors	5.4	0	5.4	
Private sector pensions	0.3	2.5	2.8	Same as other public sector pensions above.
Private residential care homes ⁱ	0.9	1.3	2.2	£7,000 per case based on average weekly cost of residential care multiplied by 13 weeks.
Right to Buy ⁱⁱ	0.2	1.1	1.3	£26,000 per application withdrawn to reflect average value of discount.
Other immigration	0.9	0.1	1.0	£50,000 for a removal from the UK.
Total ⁱⁱⁱ	62.8	140.0	202.8	

Source: Audit Commission (2014)

ⁱ Following a review, in September 2013, of the NFI estimates methodology this estimate was increased from £5,000 to £7,000 to align with current care home costs.

ⁱⁱ In September 2013, following a review this estimate was increased from £26,000 per case to £52,000 per case as a result of changes, on 2 April 2012, to the right to buy discount scales.

ⁱⁱⁱ The amounts included in this table relate to England results only and are subject to rounding.

Appendix 2 Examples of the data matches undertaken by the NFI

Data match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a dead person.
Housing benefit payments to payroll records.	Failing to declare an income while claiming housing benefit.
Payroll records to immigration ⁱ records.	Obtaining employment while not entitled to work in the UK.
Blue badge records to records of deceased people.	A blue badge being used by someone who is not the badge holder.
Housing benefit payments to records of housing tenancy.	Claiming housing benefit despite having a housing tenancy elsewhere.
Council tax records to electoral register.	A council tax payer gets council tax single person discount but the person is living with other countable adults, and so does not qualify for a discount.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

Source: Audit Commission (2014)

ⁱ This includes data about refused and expired visas, visas where there is no right to work and failed asylum applications.

References

- 1 National Fraud Authority, [Annual Fraud Indicator](#), National Fraud Authority, June 2013.
- 2 Audit Commission, [Protecting the Public Purse 2013: fighting fraud against local government](#), Audit Commission, November 2013.
- 3 HM Government, [The Audit Commission Act 1998](#), The Stationery Office Limited, June 1998.
- 4 Audit Commission, [Code of Data Matching Practice](#), Audit Commission, July 2008.
- 5 Council Tax base 2012 in England, [Table 2: dwellings, exemptions and discounts by valuation band as at 10 September 2012](#), Department for Communities and Local Government, September 2012.
- 6 Department for Work and Pensions, [Fraud and Error in the Benefit System: 2012/13 Estimates \(Great Britain\)](#), Department for Work and Pensions, January 2014.
- 7 Audit Commission, [Protecting the Public Purse 2012](#), Audit Commission, November 2012.
- 8 Department for Communities and Local Government, [Statistical data set - Table 600: numbers of households on local authorities' housing waiting lists by district: England 1997 to 2013](#), Department for Communities and Local Government, 19 December 2013.
- 9 Homes and Communities Agency, [Register of Providers information](#), Homes and Communities Agency, April 2014.
- 10 Department for Transport, [Blue Badge Scheme Statistics: England 2012/13](#), Department for Transport, 17 December 2013.
- 11 Department for Transport, Section 8.4, [The Blue badge Scheme Local Authority Guidance \(England\)](#), Department for transport, February 2012.
- 12 Audit Commission, [Tough Times 2013: Council's Responses to Financial Challenges from 2010/11 to 2013/14](#), Audit Commission, November 2013.
- 13 Local Authority Investigating Officers Group, Research Paper 2: The Reducing Counter Fraud Capability in Local Government, Local Authority Investigating Officers Group, 2013.
- 14 National Fraud Authority, [Fighting Fraud Locally: The Local Government Fraud Strategy](#), NFA, 2 April 2011.
- 15 HM Government, [Prevention of Social Housing Fraud Act 2013](#), The Stationery Office Limited, 31 January 2013.
- 16 HM Government, [Local Audit and Accountability Act 2014](#), The Stationery Office Limited, 30 January 2014.

Audit Commission
3rd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 0303 444 8300
www.audit-commission.gov.uk

