



Cabinet Office

National Fraud Initiative

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Foreword



Chris Skidmore MP Parliamentary Secretary (Minister for the Constitution)



Marcus Jones MP Parliamentary Under Secretary of State (Minister for Local Government)

Every time the Government spends money or provides benefits and services, it is vulnerable to fraud and error. Estimates show the combined losses from central and local government to be between £20 billion and £49 billion every year.

We are combating this in a number of ways, including: HMRC's work on tackling everything from tax evasion to non-compliance; the Department for Work and Pensions' innovative use of data to identify fraud and error in benefits in real time; the Student Loan Company's use of new techniques to spot fraudulent applications; and the Department of Health's proactive campaign to deal with a range of fraud in prescriptions, dental treatment and health tourism.

In March, the Government also published the sector-produced [Local Government Counter Fraud and Corruption Strategy](#). This document sets out a series of recommendations, which we would encourage all councils to follow, to enhance their capability to tackle fraud.

This is a start; but just a start. We are not complacent; we need to do more right across government and beyond.

Cabinet Office Ministers, taking a lead, established a centre of expertise within the Cabinet Office; the Fraud, Error and Debt team (FEDs). This centre of expertise leads on a number of innovative policies and initiatives across Government, including working with individual departments to reduce fraud loss, increase capability through standard setting and improve access to quality data and data analytics.

Recognising the National Fraud Initiative (NFI) is a vital tool in cracking down on fraud, it was brought into the FEDs remit specifically to bolster its capabilities and use even further. The NFI is highly successful at what it does, matching an extensive range of data from almost 1,300 organisations from across the UK to help prevent and detect fraud. Over the years it has enabled participants to identify fraud and overpayments totalling in excess of £1.39 billion.

Local government remains a key stakeholder in the NFI and we urge councils across the country to take full advantage of the information it provides by prioritising and following up the matches quickly. Using the NFI effectively will enable local government to identify fraudulent individuals, safeguard public funds and protect vital public services. The information is there to be used, in order to ensure value for money we strongly encourage you make full use of it.

This isn't just about saving money. The report has been expanded and now includes two new data requirements on social housing waiting lists and the council tax reduction scheme. This will help councils spot and prevent fraudulent tenancies before they occur, ensuring that only those families which are entitled and in need are provided homes.

This year, the NFI launched a new fraud prevention tool, AppCheck, to allow the data it holds to be used, supporting fraud prevention efforts. It also has FraudHub software that provides flexibility, allowing smaller groups to use this product to better target their local fraud risks. Offering a flexible range of options for customers aligns with our published commitment to identifying ways to reduce losses in all public services.

The report identifies around £200 million of potential fraud, overpayments and error in England, over a range of different types of fraud. This is the just the tip of the iceberg and should serve as a wake-up call to the entire public sector to support us to do much more to ensure taxpayers' money is spent wisely and carefully. We ask public and private organisations to engage with us and help us spread the word and develop the tools of the future.

[Chris Skidmore MP, Parliamentary Secretary \(Minister for the Constitution\)](#)

[Marcus Jones MP, Parliamentary Under Secretary of State \(Minister for Local Government\)](#)

[4 November 2016](#)

Introduction

Summary

This report focuses on the outcomes from the National Fraud Initiative (NFI) data matching exercise to help prevent and detect fraud, overpayments and errors.

Data for the NFI is provided by some 1,300 participating organisations from across the public and private sectors. The data is cross matched and also compared to key data sets provided by other participants, including government departments. The NFI also works with public audit agencies in all parts of the UK and key data sets provided by government departments to prevent and detect fraud.

The organisations¹ that participate in the NFI are responsible for following up and investigating the matches, and identifying frauds and overpayments.

This report sets out the results of the NFI in the period 1 April 2014 to 31 March 2016 and follows on from our last report published in June 2014².

In England, fraud, overpayments and errors^{3 4} amounting to £198 million have been identified and prevented. The NFI also identified £24 million of fraud, overpayments and error in Scotland, Wales and Northern Ireland, bringing total outcomes since the last report to £222 million. This represents a slight fall from the £229 million reported for the period 1 April 2012 to 31 March 2014, although changes to some of the estimation methodologies mean this is not a true like for like comparison.

Since it began, the NFI has enabled the participants to detect and prevent fraud, overpayments and errors totalling £1.39 billion.

The main categories of fraud identified by the NFI in England relate to:

- £85 million of pension fraud and overpayments;
- £37 million of fraudulent or wrongly received, council tax single person discount (SPD) payments; and
- £39 million of welfare benefit fraud⁵ and overpayments.

The exercise also produced the following significant results in England:

- 54 properties were recovered for social housing;

¹ Mandatory organisations for the 2014/15 exercise included councils, NHS bodies, local police bodies and other local public bodies in England, as specified in Schedule 2 of the Audit Commission Act 1998. Other voluntary organisations that took part included NHS foundation trusts, government departments, private sector pension schemes and housing associations.

² Reporting outcomes recorded during the period 1 April 2012 to 31 March 2014.

³ The figures used throughout this report for fraud, overpayments and recoveries include fraud and error detected plus estimated future losses prevented. Estimates are included where it is reasonable to assume that fraud, overpayments and error would have continued undetected without the NFI data matching. A more detailed explanation is included in [Appendix 1](#).

⁴ Where applicable, amounts included in this report have been rounded to an integer, 0.5 and above were rounded up and under 0.5 rounded down.

⁵ This includes housing benefit, state benefit and council tax reduction scheme overpayments.

- 52 employees were dismissed or asked to resign because they had no right to work in the UK;
- 535 people were prosecuted;
- 726 false applications were removed from housing waiting lists following a second pilot exercise; and
- 23,063 blue badges and 97,064 concessionary travel passes were cancelled.

Most public bodies have sound arrangements in place for managing their participation in the NFI, but the NFI and public bodies should work together to understand how the matching can be used to maximise the amount of fraud and error overpayments found.

- Some participants do not make best use of the matches and or the tools within the web application to help them identify high-risk matches linked to local risks.
- Results from traditional housing related matches have been disappointing, so the NFI team will work in partnership with housing providers to understand the reasons for this, as well as monitoring new housing policies as they are implemented and researching new matching techniques.

The NFI has continued to develop the NFI data matching function to address emerging fraud risks and fraud prevention and will continue to do so.

- NFI tackled personal budget fraud for the first time.
- The NFI product range has been extended to incorporate more flexible options such as FraudHub and AppCheck, a preventative tool for point of application checking.
- The AppCheck preventative service helps organisations to stop fraudulent applications from being successful. This is valuable at any point in time, but it is particularly important in a period when local authorities report to the NFI that overall capacity to tackle fraud and error has been falling.
- AppCheck and the flexible NFI tools are designed to allow integration into existing systems' internal controls to facilitate more efficient and unified ways of working.

Recommendations

All public sector participants should ensure they maximise the benefits of their participation in the NFI. In particular, they should:

- consider whether it is possible to make better use of matches, after reviewing the suggestions presented in Table 4, page 36;
- use the NFI matches in conjunction with alternative matching services from other providers; and
- consider integrating the NFI prevention tool (AppCheck) into existing systems' internal controls to help better prevent fraudulent applications being successful.

The Cabinet Office will look to maintain or increase the benefits of the NFI by working with public sector participants to ensure it continues to meet their needs. This will include work with:

- participants to evaluate the value of integrating the NFI preventative and flexible tools into internal controls to improve fraud prevention and detection;
- Department for Work and Pensions and local authorities to agree the arrangements for effective follow up of subsequent housing benefit matches released through the NFI;
- Department for Communities and Local Government to ensure local government bodies utilise the NFI fraud prevention data matching to support delivery of their anti-fraud strategies and maximise the benefits the NFI matches offer; and
- housing providers, including housing associations, to understand why the levels of housing fraud detected through the NFI are minimal yet tenancy fraud is estimated to be the second largest area of fraud loss in local government.

We will also publish, following consultation, an NFI strategy for the period 2016 to 2020. The strategy will outline our commitment to embracing new technology, seeking to embed the NFI into internal controls, developing performance metrics to better inform our continuous improvement strategy and undertaking a full review of the NFI. The latter will include a review of:

- right to buy fraud, in conjunction with external parties, that will consider implementation of relevant new policies, seek to understand any associated fraud risks with the aim of identifying how the NFI matching can better assist housing providers; and
- immigration fraud to determine why there has been a reduction in the number of illegal working cases found through the NFI.

Details of our future plans are set out in [Chapter 6](#) of this report.

Chapter 1 - Introduction

This chapter explains the NFI's role in helping local public and private sector organisations to prevent and detect fraud.

1. The National Fraud Authority⁶ issued their final [Annual Fraud Indicator](#) report in 2013, estimating annual losses from public sector fraud to be £20.6 billion.
2. Putting in place effective controls and initiatives as part of an anti-fraud strategy to prevent and detect fraud is key to tackling the risk of fraud. Doing this prevents losses and allows the funds to go to those that are entitled.
3. The NFI data matching plays an important role in protecting the public purse against fraud risks by helping organisations to identify potential cases of fraud. For nearly two decades it was operated by the Audit Commission but, recognising the importance of this work in the prevention and detection of fraud, the Cabinet Office elected to take ownership of this service, rather than let the NFI cease when the Audit Commission closed in March 2015.
4. The use of data matching services, such as the NFI, is only one element of an effective counter-fraud strategy. It must be underpinned by a thorough understanding of the fraud risks that an organisation faces, to ensure effort is focused in the right places. This should be accompanied by access to capability to both react to issues of fraud and counter the threat by improving the control framework to ensure effective prevention and detection. It is also important to have strong anti-fraud cultures and fraud policies and procedures that emphasise that fraud is unacceptable.
5. The integration of the NFI into the Fraud, Error, Debt and Grants team in Cabinet Office allows us to better link in central government departments, thus increasing the benefits that the NFI can realise from the collaborative efforts of public and private sector organisations to fight fraud. Integration in this way also aligns the NFI with the wider work of the Cabinet Office team on building capability across central Government and improving access to data and analytical products.
6. The Fraud and Error part of the Fraud, Error, Debt and Grants team is working with departments and other public bodies to identify and reduce fraud and error across central Government. It also supports activity at a Local Government level, working with the Department for Communities and Local Government, and through the direct provision of the NFI. This focuses on the following:
 - working with fraud specialists across Government to set and support the adoption of standards for fraud activity;
 - working across Government to develop professional capability standards and help public bodies get access to counter-fraud capability
 - developing a Government Counter-Fraud Profession
 - increase Government understanding of the fraud risks that it faces and the potential loss as a result;
 - developing the data sharing landscape across Government for the detection and prevention of fraud and error;

⁶ The National Fraud Authority closed on 31 March 2014.

- testing new technologies for data sharing and analytics.
 - working with public bodies to develop and provide access to data sharing and analytics products to prevent and detect fraud and error (including the NFI);
7. NFI is an important part of the Cabinet Office's work to develop and provide access to data sharing, data matching and analytical products to help those working to counter fraud across Government to identify and reduce loss. Since the NFI became the responsibility of the Cabinet Office, it has sought to build on the valuable work done in this area by the Audit Commission.
 8. NFI has been working with central government to increase usage of the product and has added a fraud prevention tool (AppCheck) to the established NFI fraud detection product. This preventative service helps organisations to stop fraud at the point of application, thereby reducing administration and future investigation costs.
 9. The ability to prevent fraud should be particularly valuable to local authorities that are considering how they can most efficiently tackle the risk of fraud and error. With AppCheck now available, the focus will be to work with organisations to understand how this can be integrated alongside their existing internal controls to help better target fraud risks at the point of application.
 10. This report on the NFI is primarily intended for senior officers, elected members across the public sector and anyone with a focus on fraud prevention and detection. It outlines the results of the NFI across the UK over the last two years, with particular focus on England, as well as outlining our approach for taking the NFI forward.

Chapter 2 - The NFI

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

11. The NFI brings together a wide range of organisations from across the UK to tackle fraud. By using data matching/analytics to compare different datasets across these organisations, the NFI is able to identify potentially fraudulent claims and overpayments.
12. For example, the matching may identify that a person is listed as working while also receiving benefits and not declaring any income. The relevant organisation should then investigate and, if appropriate, amend or stop benefit payments. [Appendix 2](#) includes more examples of the data matches undertaken and why. [Chapter 4](#) provides more information on the levels of fraud detected through the NFI.
13. High levels of fraud detection through the NFI data matching are likely to indicate weaknesses in underlying controls that need to be investigated and strengthened. In contrast, data matching showing little or no fraud and error provides assurance about the effectiveness of controls.
14. It is important to note that a match does not automatically mean fraud. There may be an explanation for a data match that prompts the organisation to update their records and/or improve their systems.
15. Traditionally the NFI has used data on existing claimants, tenants, etc. to detect live fraud in those systems. In the last two years we have extended the NFI so the same principles can now be applied to undertake checks for fraudulent statements on applications. Doing so allows the NFI to help organisations prevent fraud from entering their systems.
16. Delivering all aspects of the NFI services through web applications provides a secure, fast, effective and user friendly mechanism for users while protecting individuals' personal data.
17. The NFI is conducted under statutory powers set out in the [Local Audit and Accountability Act 2014](#)⁷. The legislation provides safeguards on the use and disclosure of data, including the requirement for a statutory [Code of Data Matching Practice](#) which helps ensure that all those involved in the NFI exercises comply with the law, especially the provisions of the Data Protection Act 1998. It sets out the expected data security and privacy standards appropriate to the NFI.

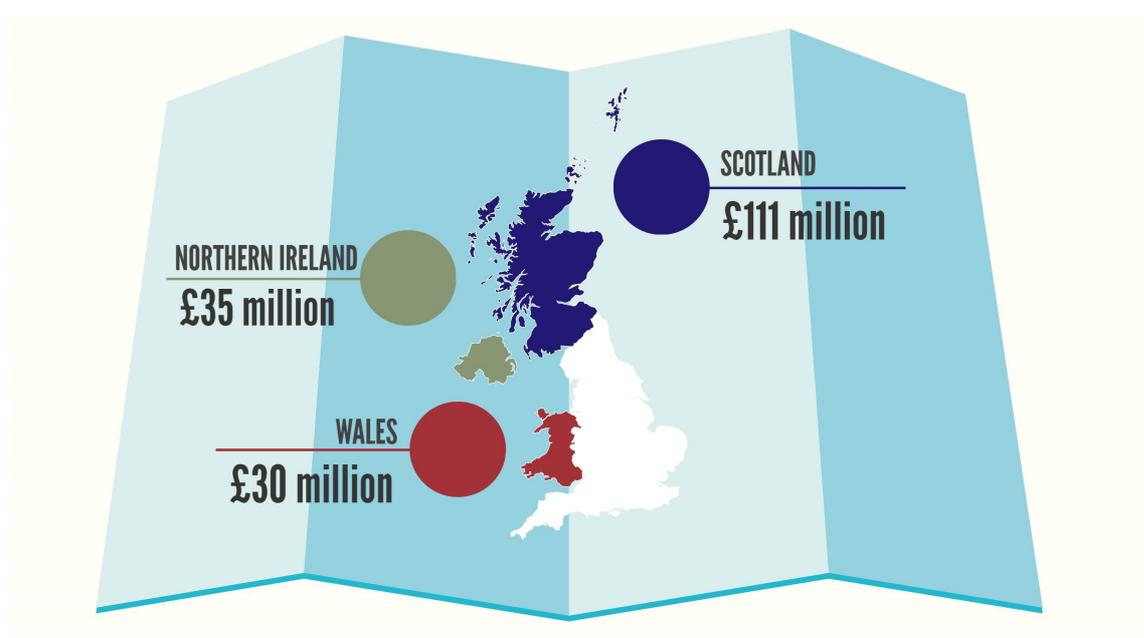
⁷ Local Audit and Accountability Act 2014 Part 6, Schedule 9

Chapter 3 - The NFI UK picture

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

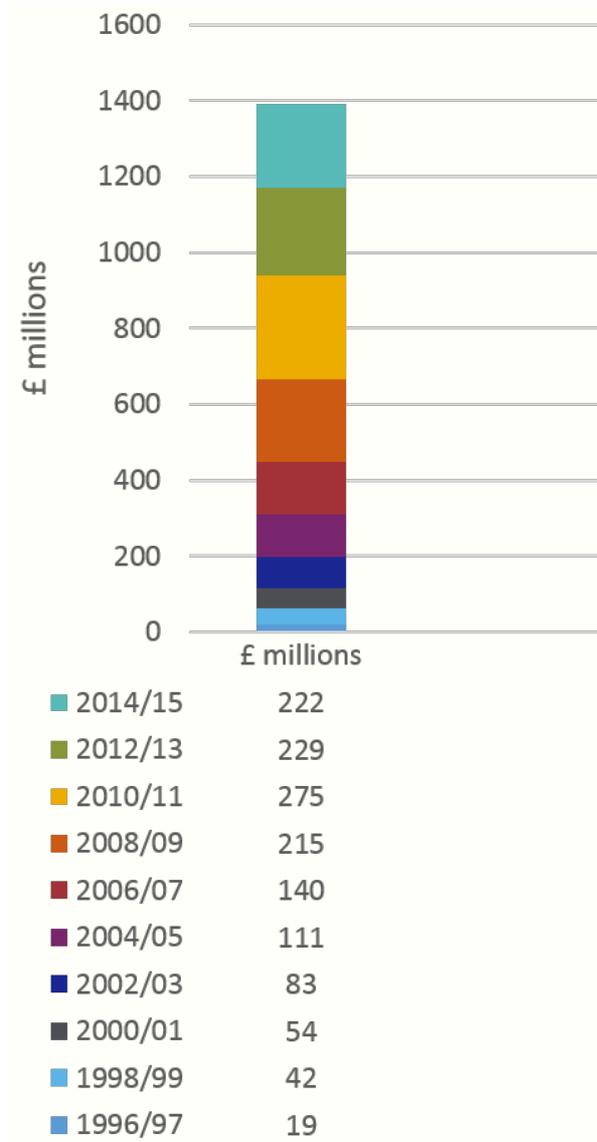
18. The involvement of the public audit agencies in Scotland, Wales and Northern Ireland is a key factor in the success of the NFI. Each national audit agency carries out data matching under its own powers, but uses the NFI's systems, processes and expertise.
19. This enables cross-border matching while also delivering economies of scale, reducing the cost for organisations taking part. Each agency reports on the NFI separately for their geographical area⁸.
20. In the period 1 April 2014 to 31 March 2016, £24 million of fraud, overpayment and error has been identified by the NFI in Scotland, Wales and Northern Ireland, in addition to £198 million in England. The aggregate amount of fraud and overpayments found since the NFI first started outside England is £176 million (Figure 1). This comprises:
 - Scotland - £111 million;
 - Northern Ireland - £35 million; and
 - Wales - £30 million.
21. The total fraud, overpayments and errors detected across the UK since the NFI began in 1996 amounts to £1.39 billion (Figure 2).

Figure 1- Cumulative total for the period 1996 - 2016 outside of England (£176 million)



⁸ The NFI results in Scotland are available at www.audit-scotland.gov.uk in Wales, at www.wao.gov.uk and in Northern Ireland, at www.niauditoffice.gov.uk.

Figure 2 - Cumulative outcomes identified across the UK (1996-2016) £1.39 billion



Chapter 4 - The NFI in England

This chapter sets out the results of the NFI in England and the successes in tackling key risks (Table 1).

22. Between 1 April 2014 and 31 March 2016 the NFI has identified further fraud, overpayments and errors in England totalling £198 million.
23. The total comprises £65 million of actual fraud and error detected, as well as estimated fraud and error detected and future losses prevented of £133 million ([Appendix 1](#)). Estimates are included where it is reasonable to assume that the fraud and error would have continued undetected without the NFI data matching. The estimate of £133 million comprises of £11 million estimated fraud and error detected and future losses prevented of £122 million. These estimated losses prevented represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.
24. When £44 million of the £65 million of detected fraud and error being recovered (68 per cent), is combined with future losses prevented (£122 million), the monetary saving to the public purse of the NFI over the last two years is estimated at £166 million (84 per cent of the £198 million total).
25. Table 1 summarises, by dataset, the significant financial success in England. Where there are instances of a decrease in the amount of fraud and error reported, this is explored in the relevant section later in this chapter. Table 2 sets out other notable results for each dataset. The rest of this chapter then reviews these outcomes in more detail.

Table 1 - NFI outcomes by risk area

Dataset	Example activity area	2016 £million	2014 £million
Pensions	Individuals obtaining the pension payments of a dead person	85.1	75.9
Council Tax single person discount	Individuals who did not qualify for the Council Tax single person discount because they were living with other countable adults	37.4	38.7
Welfare Benefit	Individuals claiming housing benefit who failed to declare an income or change of circumstances	39.2	32.6
Social Housing/Right to Buy	Social housing tenants/waiting list applicants who were subletting, were not entitled to social housing because of their status in the UK, or had multiple tenancies unlawfully	6.3	26.7
Blue Badges	Potential misuse of blue badge parking passes belonging to someone who had died	13.2	10.7
Payroll	Employees working for one organisation while being on long-term sick leave at another or obtaining employment while not entitled to work in the UK	5.0	10.0
Creditor Payments	Traders who intentionally or unintentionally submitted duplicate invoices for payment	4.5	5.2
Payments to private residential care homes	Payments to private care homes by the local authority for the care of a resident where the resident had died	3.5	2.2
Concessionary Travel	Potential misuse of concessionary travel passes belonging to someone who has died	2.2	0
Other	Other immigration outcomes linked to student loans and licences	1.3	0.9
Personal budgets	Individuals claiming a personal budget who failed to declare an income or change of circumstances or were deceased	0.5	0.2
	Total	198.2	203.1

Source: National Fraud Initiative 2016

Table 2: Key results in England

	2016 Number of cases	2014 Number of cases
Pensions		
Pension payments stopped	3,592	2,990
Council tax single person discount		
Council tax single person discount claims stopped	37,825	41,029
Social Housing/Right to Buy		
Properties recovered	54	86
Right to Buy wrongly awarded	4	21
Applicants removed from a housing waiting list	726	2,394
Housing benefit fraud, error and overpayments relating to:		
Local government employees	1,417	2,378
Central government pensioners	922	2,128
Individuals receiving a local government pension	876	1,508
Students	1,944	1,632
NHS employees	516	774
Other	864	663
Immigration	67	61
Blue Badges		
Blue badges cancelled	23,063	21,278
Social Care		
Residents in private care homes	263	182
Personal budgets	113	30
Payroll		
Total employees dismissed or resigned	109	158
Creditor Payments		
Duplicate creditor payments	3,488	6,410
Other		
Concessionary travel passes cancelled	97,064	78,443
Total	172,907	162,164

Source: National Fraud Initiative 2016

Outcomes across England

26. The levels of fraud, overpayments and errors reported has reduced by two per cent on the previous reporting period, down from £202m to £198 million. However, it should be noted that the figures are not totally like for like and therefore do not provide a true reflection of variances between these reporting periods. The reasons for the reductions are set out in sections 27 to 30.

Revised pension estimate

27. One reason is that we have reviewed, and adjusted, the methodologies applied to estimated future losses prevented during this reporting period. For example, the pension future losses prevented calculation is now based on the annual pension multiplied by the number of years until the pensioner would have reached the age of 85, whereas it was previously up to the age 90. We estimate that this change has reduced outcomes by as much as £13 million. While all the current methodologies are outlined in [Appendix 1](#) we have not carried out a full analysis to quantify the impact and to produce a retrospective comparison.

Social housing waiting list estimate

28. In addition, and as Table 1 highlights, another significant factor in the fall is the reduced social housing outcomes, specifically a pilot of social housing waiting lists. This reduction (£18 million) is linked to different methodologies for future losses prevented being applied, but in this case the changes have been made by the reporting organisations themselves not the NFI. During this pilot we have allowed individual local authorities to attempt to estimate the fraudulent losses prevented from the pilot themselves.
29. In the previous reporting period one London council removed 1,482 applicants from the social housing waiting list and estimated fraudulent losses prevented at £18 million (£12,000 per case - the estimated financial benefit relates to the reduced temporary accommodation costs). In this reporting period the pilot was expanded and 726 housing waiting list applicants were reported as being removed. However, very few reported an estimate of losses prevented. The overall total prevented was £1 million. This has resulted in a potential under reporting of up to £8 million, when compared to the £12,000 per case applied by the London council in the previous reporting period.
30. We have recently elected, following consultation, to make this match mandatory for the next NFI exercise. As part of this process we will evaluate all the evidence and establish an NFI estimation for future losses prevented for persons removed from the social housing waiting list. This will then be applied to all future outcomes for this match.

Recovery rate/impact on the public purse

31. The estimated future losses prevented, £122 million, are savings to the public purse. They are monies that we estimate would have been lost to fraud without the intervention of the NFI.
32. In addition to this £122 million, participants are in the process of recovering £44 million of the £65 million (68 per cent) of fraud and error losses that have been

detected. Table 3 provides further analysis of recovery rates for specific dataset areas.

Table 3 - Recovery rates by dataset area

Dataset	Fraud Detected (actual not estimated) £m	Amount in recovery £m	Recovery Rate
Pensions	11.4	7.5	65%
Council Tax single person discount	13.7	11.2	82%
Welfare Benefits	29.8	20	67%
Social Housing/Right to Buy	0	0	n/a
Blue Badges	0	0	n/a
Payroll	2.4	0.4	14%
Creditor Payments	4.5	3.0	67%
Payments to private residential care homes	1.7	1.7	100%
Personal Budgets	0.38	0.37	99%
Other	1.3	0.2	15%
Total	65.2	44.3	68%

Source: National Fraud Initiative 2016

33. Combined the losses recovered and the estimated losses prevented total £166 million, 84 per cent of the £198 million.

Pensions

34. The NFI matches pension information to data about deceased people, which is provided by DWP and the Disclosure of Death Registration Information (DDRI) from the General Registrar's Office. This is referred to as 'mortality screening'.
35. Frauds and overpayments of pension occur most often when pensioners die but relatives fail to tell the pension scheme about the death and knowingly continue to receive the payments.
36. Mortality screening has been part of the NFI for many years, yet we continue to identify consistently high levels of fraud cases, indicating that new pension frauds and overpayments are regularly being initiated.
37. During this exercise, the NFI identified 3,410 cases where pensioners had died, but payments were continuing. The majority, 98 per cent, of these cases were identified by public sector pension schemes. Actual overpayments detected (£11.4 million) and estimated future losses prevented total £85 million ([Appendix 1](#)).
38. Twice a year the NFI offers organisations pension schemes an additional opportunity to screen against DWP data about deceased people. Schemes can also match to the Disclosure of Death Information Register at a time to suit them rather than waiting for the two yearly national exercise. Some of the UK's largest public sector pension schemes utilise this more regular mortality screening and evidence suggests that this has reduced the average value of overpayments, as a result of them being identified

sooner. This has also meant that the total amount of fraudulent and erroneous overpayments made, and therefore needing to be recovered, by these schemes has been significantly reduced.

39. Case study 1 provides an example of how regular mortality screening is helping to reduce fraud losses.

Case study 1: Pensions

NHS Business Services Authority (NHSBSA) began undertaking six monthly mortality screening with NFI from November 2013. Although the number of deceased pensioner cases have remained very similar across both the 2012/13 and 2014/15 exercises, the average overpayment value has decreased by 38 per cent from £3,033 per case in 2012/13 to £1,868 per case in 2014/15. This indicates that NFI has assisted NHSBSA in identifying deceased cases sooner, thereby reducing the amounts needing to be recovered.

Source: National Fraud Initiative 2016

40. Although the overall recovery rate for the £11.4 million of overpayments in the reporting period stands at 65 per cent, it is encouraging that the recovery rate from the most recent matches, NFI 2014/15, has risen to 80 per cent. We will continue to work with participants to ensure they maximise the recovery of these overpayments. At the same time we will encourage other schemes to adopt more regular data matching to minimise the overpayments that need recovering.

Council tax single person discount

41. Over the last two years the NFI match to tackle council tax single person discount (SPD) abuse has once again provided substantial returns for councils. Over 37,000 SPDs have been cancelled and £11 million of underpayments of council tax (82 per cent) have been/are being recovered. In addition the impact of the changes to the annual council tax base in England are estimated to have increased revenues to councils by around £24 million.
42. However, despite this success there are still nearly 44 per cent of councils in England that are not maximising the benefits the NFI matches offer. We acknowledge that some of these councils are using other matching initiatives. However, the NFI and private sector organisations use different data sources and therefore both produce different matches. Both can be useful. We therefore encourage, and have spent time helping, councils undertaking alternative data matching to identify and review the additional matches that NFI identifies.
43. In the last two years, following consultation, the council tax SPD module has become an annual data match which is aligned with the annual publication of the electoral register. Doing this allows fraudulent and erroneous claims to be spotted quicker. It also allows councils to manage their resources more efficiently by spreading the investigations more evenly rather than having a peak every two years. Early evidence suggests that the additional matches released in the first of these annual exercises has significantly contributed to the rise in overall outcomes.
44. Given the continued levels of fraud and error detected in council tax single person discounts, we have recently released the results of a pilot exercise which involved

matching SPD against a wider range of datasets that the NFI already has access to, for example social housing and payroll. The results of this pilot will be evaluated and if, as expected, they help councils identify further fraudulent and erroneous claims, we will integrate this matching into the annual exercise.

45. In order to help councils follow up the annual NFI matches efficiently, we have developed and launched a sophisticated but easy-to-use mail merge tool. This tool helps councils produce letters from the information provided in the data match to print and send locally to charge payers in receipt of single person discount, enquiring if they have a change of circumstance to declare.

Housing benefit

46. In November 2015, the DWP reported that in 2014/15 councils across Great Britain paid out over £24.3 billion in housing benefit. The equivalent fraud losses are about £590 million, or 2.4 per cent, each year⁹.
47. The NFI matches housing benefit records against multiple data sources, including student loans data, immigration data, payroll data, housing tenancy data and data that can indicate earnings such as taxi driver licence holder data. The matches may identify where a person is claiming a benefit that they are not entitled to.
48. Housing benefit overpayments account for a significant proportion of the total fraudulent overpayments identified through the NFI. During this exercise, the NFI has helped to uncover benefit frauds and overpayments worth £36.7 million, 20 per cent of total NFI outcomes in England. Across the reporting period, action has been/is being taken to recover 67 per cent of the £27.6 million actual overpayments. Further analysis of this recovery rate shows that, while it is as low as 54 per cent for the NFI 2012/13 matches, it has risen to 73 per cent for the NFI 2014/15 matches. Going forward, we will continue to work with participants to help ensure recovery action is taken wherever reasonable.
49. Action taken against benefit fraudsters, as a result of the NFI matches, included 392 prosecutions, 697 administrative penalties and 234 cautions. Case study 2 provides an example of a fraud case identified by the NFI.

⁹ Department for Work and Pensions, [Fraud and Error in the Benefit System: 2014/15 Estimates \(Great Britain\)](#), Department for Work and Pensions, November 2015.

Case study 2: Housing benefit

The investigation of a NFI housing benefit to pension match identified a claimant who originally denied being in receipt of a civil service occupational pension at formal interview. She later pleaded guilty to failing to declare that same pension when making her claim to housing benefits.

She also denied holding the bank account into which her pension was paid, despite several discussions about the matter during the course of the interview. The claimant has been overpaid Housing benefit, Council tax benefit and Council tax reduction. A total loss to the public purse of over £10,000.

These overpayments are now being recovered and the court imposed a fine of £110, a victim surcharge of £20 and costs of £350.

Source: National Fraud Initiative 2016

50. In addition to the NFI 2014/15 matches released in January 2015, the DWP provided refreshed housing benefit data for an additional match to refreshed data for student loan, immigration and deceased persons. The matches were released in December 2015 and the outcomes of investigations are beginning to be reported, with the majority expected in the next 12 months.
51. During this reporting period there have been some significant changes to the arrangements for detecting housing benefit fraud. These changes have been led by the DWP, most notably the:
- Single Fraud Investigation Service (SFIS) project which transferred the responsibility for investigating housing benefit fraud from local authorities to the DWP Fraud and Error Services (FES). Local authority staff transferred to DWP as part of a phased roll out between July 2014 and March 2016; and
 - use of HM Revenue and Customs (HMRC) Real Time Information (RTI) to match benefits, including housing benefit, to identify under declared earnings and non-state pension. Under this initiative, DWP regularly issued referrals to local authorities from October 2014.
52. The above changes have impacted on the NFI housing benefit outcomes over the reporting period and are expected to continue to do so as the new arrangements become embedded. The transition to DWP FES appears to have resulted in many of the NFI matches being investigated by local authorities or referred to DWP for investigation later in the period. To date DWP have reported, from the NFI matches referred to SFIS, overpayments of £2.1 million across 407 individual cases, with a further 997 overpayment cases currently under investigation. We would therefore expect significant outcomes from the existing NFI matches to continue to be reported throughout 2016, as these investigations are concluded. Based on the figures provided to date, realised by SFIS, these outcomes could exceed £6 million.
53. RTI should help local authorities and DWP identify fraud and error earlier, and indeed that appears evident from the NFI outcomes which have shown a sharp decline in the number of outcomes from earnings based matches. For example the housing benefit to pension matches outcomes have seen a 51 per cent reduction in the number of cases, and a 29 per cent reduction in associated overpayments. However, despite RTI, there are still £9.7 million of NFI overpayments across 3,794 cases from

earnings based matches (payroll and pension data). More work needs to be undertaken to fully understand why these may not have been identified by RTI at an earlier stage and to ensure duplication of effort is minimised whilst maximising fraud detection.

54. Now the transfer of responsibility for investigating housing benefit fraud from local authorities to the DWP FES is complete, we will work with both DWP and local authorities to ensure the arrangements for the next NFI are aligned correctly with the new environment.

State benefits

55. We have been working closely with the DWP over the last two years to understand how the NFI could assist more widely in their fight against fraud, specifically in pursuing individuals that deliberately withhold information. As a result of this collaboration, and for the first time, the NFI undertook data matching to state benefits on behalf of DWP. This included matching the NFI data to income support, job seekers allowance, employment support allowance and pension credit. The approach adopted mirrored the successful housing benefit matching. Following a limited pilot and subsequent evaluations, initial matches were released in January 2015 with a further release in December 2015. Together these matches identified overpayments for 2014/15 totalling £2.2 million.
56. Building on this success, we are already working with the DWP on plans to undertake a pilot data match using Universal Credit data in 2016/17.

Social housing

57. In 2015, the Department for Communities and Local Government (DCLG) reported that over 1.2 million families were waiting for social housing¹⁰. Identifying unlawful subletting would free up properties for those on the waiting list. Tenancy fraud should therefore be a key priority for councils and housing associations. The NFI helps to fight this fraud by undertaking data matching to:
- identify properties that are potentially being sublet unlawfully;
 - identify tenancies gained by deception; and
 - help social landlords verify their tenants' immigration status and identity.
58. The National Fraud Authority stated in the 2013 Annual Fraud Indicator¹¹ that the cost of housing tenancy fraud to local authorities is estimated to be £845 million per year. This was estimated to be the second largest area of fraud loss in local government. To address this, funding was made available to councils to tackle social housing fraud alongside the [Prevention of Social Housing Fraud Act 2013](#) which came into force in October 2013 and made tenancy fraud a criminal offence.
59. The NFI matches have enabled social landlords to recover 54 properties from those in unlawful occupation, and reallocate the properties to tenants in genuine need of

¹⁰ 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 2015, [Department for Communities and Local Government](#), 21 January 2016.

¹¹ National Fraud Authority, [Annual Fraud Indicator](#), National Fraud Authority, June 2013.

them. In addition, two of the tenants were prosecuted. Case study 3 provides an example of housing tenancy fraud identified through the NFI data matching.

Case study 3: Housing tenancy

A housing tenancy to immigration match highlighted a case where a tenant had provided false immigration papers to obtain a tenancy with the council when he had never had the right to remain in the UK.

The investigation also revealed that a false passport had been provided to the Department for Work and Pensions when the claimant applied for job seekers allowance which also enabled him to claim housing and council tax benefit. Overpayments in this area total over £28,000. The tenant has been evicted and arrested, allowing the council to reallocate the property to someone in genuine need. The case is due to be heard in court.

Source: National Fraud Initiative 2016

60. However, in this context it is disappointing that, since our report in June 2014, there has been a decrease of 37 per cent and a continuation of the position we reported last time. This decrease, when compared to our previous reporting period of 86 properties, continues to be a trend (235 properties were recovered in 2010/11). It should be noted however, that the decrease in properties recovered goes beyond the NFI. The TEICAFF [Protecting the English Public Purse 2015](#) report outlined a 1.2 per cent decrease in the number of social homes recovered from tenancy fraudsters in 2014/15 in the UK, with London councils recovering 10.5 per cent fewer.
61. We will work with our key stakeholders in this area to better understand the reasons behind the decrease in properties recovered so we can enhance our data matching to better help tackle tenancy fraud.

Housing associations

62. Over 50 per cent of social housing in England is managed by housing associations, so it is disappointing that only 32 out of 1,582 of these private registered providers of social housing chose to take part in the NFI 2014/15. These 32 recovered six properties that were in unlawful occupation.
63. The National Fraud Authority, Annual Fraud Indicator 2013 estimated that, based on the total cost of housing tenancy fraud, the cost to the public purse of housing tenancy fraud against housing associations costs £919 million per year. 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. There are potential emerging considerations for housing associations including the extension of the Right to Buy (RTB) scheme to assured tenants of housing associations on a voluntary basis. No implementation date has yet been announced for the extension of the RTB scheme, although a pilot scheme with five associations is underway.
65. In addition, as a result of a consultation exercise in 2012, social landlords in England were given the discretion to charge market or near market rents to tenants with an income of £60,000 or more a year. It was agreed that high income families should not

be paying social rents when they could afford to pay more. The scheme, known as 'pay to stay', was announced as part of the Summer Budget 2015. The Chancellor set out that this discretionary 'pay to stay' scheme would be made compulsory (in England) and measures to introduce a mandatory pay to stay scheme for local authorities are included in the [Housing and Planning Act 2016](#)¹². The scheme will remain discretionary for housing associations.

66. We will continue to monitor the implementation of these new policies and seek to understand any associated fraud risks for housing associations and how our data matching can be enhanced to better help them mitigate any risks.

Housing waiting lists

67. As stated above, DCLG reported¹³ that, as of 1 April 2014, the number of households on local authority social housing waiting lists was 1.2 million. Removing applicants from the housing waiting list who are not eligible for social housing will therefore enable local authorities to allocate social housing to those in genuine need.

68. To help, and in line with the NFI strategy to target more preventative data matching (in this case stopping someone obtaining social housing from the outset), a pilot data match was introduced in 2012/13 to target this fraud risk. The match was refined as a result of the 2012/13 pilot and offered again in 2014/15. 61 local authorities across the country provided housing waiting list data for this second pilot match.

69. The data matching is able to identify people who are not eligible for social housing or have misrepresented their circumstances on housing waiting list applications. Those not entitled can then be removed from the housing waiting list and prevented from accessing social housing. The data matching helps identify:

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

70. As a result of the further pilot, over 700 applications have been removed from housing waiting lists bringing the total outcomes for the pilot since it began to over 3,000 removals. Local authorities themselves have estimated that this has prevented losses of almost £20 million. As a result, and following consultation, we have added housing waiting list data as a mandatory requirement in the NFI 2016/17.

Right to buy

71. The NFI matches data relating to housing tenants that have bought, or are in the process of buying, their council property at a discount as part of the Right to Buy (RTB) scheme. The match, to housing benefit and other tenancy records, enables councils to identify potential cases where the applicant may have provided false

¹² <http://services.parliament.uk/bills/2015-16/housingandplanning.html>

¹³ 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 2015, Department for Communities and Local Government, 21 January 2016.

information in support of the RTB application. It also identifies changes of circumstances, such as the former tenant selling the property within the discount period. This means that some, or all, of the discount amount could be repaid to the council.

72. In April 2012, in an effort to increase the opportunity for council tenants to own their own home, the government significantly increased the RTB discount in England to a maximum of £75,000.
73. In March 2013, the maximum discount for London increased to £100,000, and in July 2014 the maximum percentage discount for a house was increased further to 70 per cent; the maximum cash cap now increases in April every year in line with inflation. The maximum discounts are currently £77,900 across England and £103,900 in London. Eligibility rules also changed to allow people who have spent three years as a public sector tenant, instead of the previous five years, to exercise their Right to Buy.
74. The Audit Commission's [Protecting the Public Purse 2014](#) report recommended that councils should be alert to the risks as a result of these changes.
75. However, the NFI outcomes do not reflect an increased fraud risk in RTB, as councils have only reported stopping four applications that were in progress, compared to 21 in the previous reporting period.
76. This may indicate that the fraud risk is not as big as other indicators suggest or that NFI is not currently an effective tool to identify RTB fraud. We will work with councils to establish the underlying reasons and whether improvements are necessary.

Concessionary travel

77. Since 2008 the English National Concessionary Travel Scheme (ENCTS) has enabled eligible older people¹⁴ and disabled people to access free off peak travel on local bus services anywhere in England. In London, the statutory concession for London residents covers the whole London Local Transport Network, including the London underground and trams.
78. ENCTS is administered locally by Travel Concession Authorities (TCAs). These include County Councils, Unitary Authorities, Passenger Transport Executives and London Boroughs. In 2014/15 there were 9.8 million concessionary pass holders in England, and one billion concessionary journeys were made during the financial year¹⁵. In 2014/15 TCAs in England spent a total of £1.2 billion¹⁶ on the concessionary travel scheme.
79. Each concessionary travel pass is usually valid for up to five years, so the opportunity for fraud can therefore be significant. Outside London, the Department for Transport estimates that, up to £55 million a year could be saved in England by tackling fraudulent use of concessionary travel cards¹⁷. Similarly, the South Yorkshire

¹⁴ Eligibility for a pass for both men and women is based on the State Pension age for women.

¹⁵ Department for Transport, [Concessionary Travel Statistics: England](#), 29 September 2015.

¹⁶ This includes all aspects of the scheme for both the statutory and discretionary elements, including reimbursement to bus operators' administration, pass production costs and employee costs.

¹⁷ ITSO, [ITSO News](#), February 2014, page 1.

Passenger Transport Executive carried out research that estimated concessionary travel pass fraud was costing them an estimated £750,000 per year¹⁷.

80. The NFI data match targets this fraud risk by identifying cases where the holder of a concessionary travel pass is identified as deceased. In this exercise the number of concessionary passes either updated, cancelled or hot-listed (the act of stopping/deactivating the deceased matched cards) is 97,064. This is a 24 per cent increase on the 78,443 reported last time.
81. We estimate the value of fraud detected and prevented associated with each pass is £24. As a result the total associated value of fraud and error detected and prevented for 2014/15 stands at £2.2 million.
82. The 24 per cent increase in passes cancelled, updated or hot listed may be linked to the roll out of smart ticketing systems across the UK which have meant some ENCTS operators have been able to introduce new technology to help hot-list invalid passes using data sources such as NFI. ENCTS operators can now hot-list passes centrally, and then flag them in the smart ticketing system which then enables drivers to confiscate passes directly at the point of travel. This then prevents invalid or fraudulent travel far more easily than would have been the case previously. This has meant there is also an increased incentive for ENCTS operators to utilise the NFI concessionary travel matches.

Blue badges

83. Unitary authorities 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.
84. Fraudsters exploit 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. The NFI data match identifies cases where a Blue Badge is in circulation but the owner of the badge is identified as deceased. It also identifies holders of more than one badge, which is not allowed under the scheme.
85. In this reporting period, the 23,063 Blue Badges cancelled represents an eight per cent increase on the 21,278 cancelled in the previous reporting period. This has reversed the decrease in the number of badges cancelled in the previous two reporting periods, suggesting that the NFI matches still provide a valuable, additional tool to the Blue Badge Improvement Service¹⁸ in the fight to prevent and detect fraud.
86. The estimated value of cancelling a blue badge, which represents an estimation of the fraud to date plus future losses prevented, has been increased from £500 to £575. Therefore the total monetary value associated with cancelling these Blue Badges is £13.2 million for this reporting period.

Immigration

¹⁸ <https://www.gov.uk/government/speeches/blue-badge-improvement-service>

87. The NFI matches data from the Home Office on immigration offenders and expired visas against data from other participants such as housing benefit claims, employee payroll records and social housing tenants.
88. Aggregate outcomes across the NFI datasets for this reporting period amount to £7 million and include:
- the dismissal or resignation of 52 employees from 139 organisations, including local authorities, NHS hospitals and NHS Foundation Trusts;
 - councils and the DWP identifying 149 housing benefit overpayments amounting to £2.6 million;
 - the recovery of 13 social housing properties; and
 - employers identifying £3 million of salary payments to illegal workers.
89. Case study 4 provides an example of how the NFI matches discovered someone working illegally.

Case study 4 - Immigration

A payroll to immigration match identified an employee of a council who had managed to gain employment in 2009 as an assessor in Adult and Community Services. However, investigations carried out as a result of an NFI match showed that the employee did not have permission to work in the UK and had used forged identity documents to secure employment. The employee was immediately suspended and then subsequently resigned. When the employee was asked to attend an interview under caution they failed to attend due to illness and stress, on three separate occasions.

The Council is now seeking to prosecute the former employee. Over six years the employee was paid in excess of £160,000. The Council now uses the latest identity authentication software in all recruitment cases to ensure that any attempts made by persons seeking employment when using false identity documents are identified at the outset.

Source: National Fraud Initiative 2016

90. The Home Office have utilised the results of the NFI data match to investigate immigration and asylum support cases, and have identified a number of individuals who have left the UK, post-NFI matching. Through the use of the NFI mortality screening service they have also closed over 130 cases.

Payroll

91. 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.
92. The NFI matches payroll data to help identify employees who are potentially committing fraud. The matching may be linked to immigration, as set out above. Alternatively, it might show someone working for two employers, for example, 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. Case study 5 provides an example of a fraud case identified by the NFI.

93. We have seen a decrease of £5 million in reported payroll related outcomes. This is contrary to the increases we have seen in the previous two exercises (where outcomes increased by £2 million for each exercise). The decrease appears to be linked to a fall in the number of immigration cases reported by participants and the associated cumulative salary payments to the illegal workers. One reason for this could be that bodies have been able to put in place effective mechanisms to identify illegal working, such as identifying fraudulent documents at the point of employment, using identity authentication software packages. Going forward, we will monitor outcomes and undertake a review to establish whether this is a trend that we need to respond to.

Case study 5 - Payroll

A payroll to payroll match helped to identify a 58 year old woman who had been working for two health based trusts simultaneously by working in one post while suspended from the other. As a result, the woman was dismissed from her substantive post in July 2015, and also removed from the nurse bank at the other trust. Investigations revealed she had failed to declare her secondary employment, and had also failed to declare a previous conviction.

Source: National Fraud Initiative 2016

94. Payroll matches also identify fraud through undeclared conflicts of interest. This is done by matching payroll to creditor payments data. Whilst there are some encouraging results for this relatively new match, we expect these to be even better in future exercises now the NFI has secured access to Companies House data.
95. Investigations into the NFI payroll matches (excluding immigration cases) have enabled employers to dismiss or seek resignation from 42 employees.

Creditor payments

96. Creditor payments matches continue to produce significant outcomes with over £4.4 million of wrongly paid duplicate invoices identified across more than 200 organisations. This is a 16 per cent reduction from the previous exercise. Case study 6 provides an example of a case identified by the NFI.

Case study 6 – Creditor payments

An NFI match helped one government department identify a duplicate payment in excess of £300,000. This duplicate invoice was raised by a supplier in error and was not identified by the invoice approval process. Once identified, through the NFI, the supplier was contacted and the payment was refunded immediately.

Source: National Fraud Initiative 2016

97. Much of this reduction is thought to be due to many creditor systems now having integrated validation routines that will prevent many duplicate invoices entering the system prior to payment. This is supported by a more detailed analysis of the NFI reports containing duplicate invoices that have certain features that are more difficult to detect by system validation software, for example, where apparently different suppliers seem to be submitting identical invoices. These NFI matches have delivered £1.3 million of the NFI outcomes, with an average success rate around ten times higher than that of the standard duplicate invoice matches involving the same supplier. Consequently, for future exercises, we are aiming to focus our attention on those matches that are less likely to be prevented through the existing local arrangements.
98. As well as helping to identify duplicate payments, we are also aware that some organisations have utilised the duplicate creditor matches to carry out housekeeping exercises on their supplier databases. This is particularly useful when migrating to new systems but at all times reduces the risk of accidental or fraudulent payments being made to spurious suppliers.

Payments to private residential care homes

99. The cost of social care is rising and demands on social care services are growing. This is partly linked to the ageing population, with ONS figures showing that the number of people aged over 85 increased by 30 per cent between 2005 and 2014¹⁹ so it is key that funding in these areas is not lost to fraud.
100. According to Prestige Nursing + Care research²⁰, the average annual cost for a room in a care home now exceeds £29,000, which is more than double the average pensioner's income of £14,300. Where councils agree that a resident needs to move into a residential care home, they may pay part or all of the care home's fees.
101. The NFI matches information about private residential care home payments to deceased persons' records to identify where payments are continuing for people who have died. These overpayments can carry on undetected for some time, diverting council resources away from genuine causes.
102. The NFI match helped identify 263 such cases amounting to £1.6 million. The overpayment has been, or is being, recovered in 99.8 per cent of cases which is an improvement on the previous reporting period where 71 per cent of overpayments were recorded as being recovered.

Personal budgets - direct payments

103. 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

¹⁹ http://www.ageuk.org.uk/Documents/EN-GB/Campaigns/CIC/Care_in_Crisis_report_2014.pdf?epslanguage=en-GB?dtrk%3Dtrue

²⁰ <http://www.prestige-nursing.co.uk/news/care-home-price-hikes-overtake-pensioner-income-growth/>

carer as a direct (cash) payment so they can buy their own care and support services.

104. In 2014 the Health and Social Care Commission reported 153,000 people were in receipt of direct payments (this was up from seven per cent from 2012/13)²¹. In 2014/15 total expenditure on personal budget direct payments amounted to £1 billion²².
105. The NFI match helps councils to identify where:
- a recipient is deceased and a relative, family member, or carer has failed to notify the council;
 - there has been a duplicate registration either within or between authorities;
 - a person has failed to disclose some income sources such as a pension; or
 - a fraudulent identity has been used by someone to apply for a personal budget.
106. Personal budget direct payments data was included as a mandatory match for councils in the 2014/15 exercise, as a result of a successful pilot carried out in 2012/13. In total, across 113 cases, £377,000 in overpayments were identified by the NFI, as well as £124,000 of estimated future savings. 99 per cent of the overpayments are being recovered by the administering organisations.
107. Case study 7 provides an example of a fraud case identified by the NFI.

Case study 7: Personal budgets

The new personal budget to deceased data match helped one local authority identify a payment where the recipient had already deceased. Payments had continued for over 16 months without the death being detected. The authority are seeking a prosecution and are aiming to recover in excess of £16,000 using the [Proceeds of Crime Act 2002](#).

Source: National Fraud Initiative 2016

108. In response to suggestions from participants, we also carried out further pilot work on personal health budgets, administered by clinical commissioning groups (CCGs). Adults eligible for NHS Continuing Healthcare have had a legal right to have a personal health budget since October 2014. In total, fourteen CCGs participated in this work and there were only limited outcomes as caseloads are still quite low (currently estimated to be 4,000 cases)²³. The NHS expect this to be a growing area of work and the number and value of cases will increase. There is a mandate in place, which means that by 2020 between 50,000 to 100,000 people will be in receipt of a personal health budget or integrated personal budget²⁴. We will therefore

²¹ Health and Social Care Information Centre, Community Care Statistics, Social Services Activity, England - 2013-14, Provisional release, July 08, 2014.

²² Health and Social Care Information Centre, Personal Social Services: Expenditure and Unit Costs England 2014-15, Provisional release, September 2015, page 6.

²³ Department of Health, The Government's mandate to NHS England for 2016-17, January 2016, page 13 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/494485/NHSE_mandate_16-17_22_Jan.pdf

²⁴ Department of Health, The Government's mandate to NHS England for 2016-17, January 2016, page 13 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/494485/NHSE_mandate_16-17_22_Jan.pdf

continue to monitor this area and revisit at an appropriate time in the future, should the fraud risk increase.

Fraudulent identity data

109. Operation Amberhill is an initiative led by the Metropolitan Police Service. The team collate and distribute data on false identities and share it with counter crime partners, including the NFI, to help detect fraud. This data consists of approximately 100,000 records²⁵ mainly of counterfeit and forged passports, national identity cards and driving licences which are manufactured or obtained by organised criminal gangs. The Amberhill data also includes fraudulently obtained genuine UK driving licences.
110. The resulting data matches differ from those traditionally identified by the NFI and, as such, require a different follow up approach. Identity documentation checks are required as part of the investigation process to be able to determine whether a fraudulent identity has been used. This is particularly important given the possibility that the matched person may be a victim of the identify fraud rather than a fraudster.
111. Data matches helped identify one case where the person was prosecuted using the Fraud Act 2006. A further eight cases of victim ID theft were identified and one police caution for use of a fraudulent identity. A further case was identified where an employee had gained employment using a fraudulent identity. The salary paid to this person totalled £369,000. More details on this can be seen in case study 8. One housing tenant was also removed from their social housing and payments to the recipient of a residential care home place were stopped as a consequence of the data matching.

Case study 8: Amberhill false identity

A payroll to the Met Police Amberhill false identity data match identified a 47 year old employee of Transport for London who had gained employment in 2007 after producing a genuine UK passport which had previously been fraudulently obtained using a fraudulent birth certificate.

The match led to investigations in which the Amberhill team confirmed the employee's identity as genuine but the passport as being a fraudulently obtained genuine document. The employee had no right still to be in the UK, having overstayed his student visa, or to work in the UK.

The employee pleaded guilty in court to the two fraud offences he was charged with (obtaining the passport by deception and fraud by false representation) and was sentenced to six months imprisonment suspended for two years and was also ordered to pay a court charge of £180 and a victim surcharge of £80. Transport for London dismissed the employee and are now looking to recover monies paid into the pension fund. His status in the UK is being reviewed by the authorities.

Source: National Fraud Initiative 2016

²⁵ <http://news.met.police.uk/news/100-000th-fraudulent-document-recovered-126134>

112. [*Sir Eric Pickles' independent review into electoral fraud \(August 2016\)*](#) highlighted the links between electoral fraud/identity fraud to other benefit and financial fraud. In their evidence to the review, the National Police Chief's Council noted that analysis from Operation Amberhill had linked false electoral registrations with fraudulent applications for credit, benefits and other financial products; the fraudulent electoral roll entry was the means of creating a false identity footprint. Evidence to the review by the London Electoral Management Board (representing London returning officers) also warned that phantom registrations are made to facilitate fraudulent access to credit, services and benefits, as the electoral register becomes de facto evidence of residence. The Government is now carefully considering the recommendations of the review on tackling electoral fraud.

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.

113. The total of £198 million fraud, overpayment and error in England and the £1.2 billion identified since the NFI began is significant, but there are still opportunities for participants to achieve better results by making small improvements.
114. In this chapter we :
- comment on the challenges the organisations taking part in the NFI have faced in the past two years;
 - report how effective organisations have been at following up the data matches;
 - look again at specific areas where improvements could be made; and
 - comment on the possibility that significant levels of fraud and error go unreported or undetected.

Participants' capacity and capability for investigating fraud

115. As part of our proactive engagement with the organisations that participate in NFI, such as our NFI User Advisory Group, local authorities have reported that their counter fraud resourcing capacity continues to reduce, and that a divergence in the capability of participants to combat fraud is emerging. The view is that this appears to have arisen from the transfer of investigation resource to the DWP Fraud and Error Services, where all benefit fraud is now investigated in one place, alongside the challenge of delivering budget reductions whilst maintaining front line services. Participants have stated that this has impacted on the effectiveness of the follow-up arrangements for the NFI matches.
116. Some participants have explained how they sought innovative ways to resource their counter fraud work, including consortium and shared partnership arrangements, or by increasing the fraud awareness of general employees. The NFI Team has also observed that participating organisations are increasingly integrating data matching techniques into their operational systems, for example duplicate creditor payment checks and deceased persons matching. There also appears to be increasing interest in the better use and sharing of data both internally and externally. For local authorities, this aligns with the vision set out in [The Local Government Counter Fraud and Corruption Strategy 2016-2019](#) that “local authorities will be sharing information more effectively and by using advanced data technology will prevent and detect losses”.
117. These approaches align with recent extensions to the NFI product range to incorporate fraud hub functionality (NFI FraudHub) and a point of application tool (NFI AppCheck), which can be integrated into existing internal controls. We are therefore now working closely with participants to understand how these services can

be embedded in their systems as anti-fraud controls to reduce fraud while not stretching counter fraud investigative capacity further.

The effectiveness of follow up arrangements

118. For the NFI 2012/13 we were able to ask external auditors of mandatory NFI participants to assess the arrangements in place for taking part in the NFI and for following up data matches. For the NFI 2014/15, following the closure of the Audit Commission, we no longer have the same direct working relationship with the external auditors. Therefore we developed our own multi-criteria based risk assessment to review the progress that organisations were making with investigating their data matches to identify any that appeared not to be engaging effectively with the exercise.
119. The risk assessment looked at factors such as organisations not:
- opening all or many of the NFI reports;
 - reviewing guidance and training materials;
 - investigating data matches flagged as high risk;
 - following up issues promptly; and
 - meeting suggested milestones.
120. We followed up the risk assessments and gave support to organisations where it was needed. Many of these organisations have since taken action to address the weaknesses. Only one organisation is deemed to have failed to engage effectively by not reviewing any of their matches:
- NHS West Lancashire CCG.
121. In addition, the following organisations failed to provide the data required under statute without reasonable excuse:
- CTSPD 2013/14**
- North Norfolk District Council failed to provide Electoral Register data²⁶.
- NFI 2014/15**
- Bassetlaw District Council failed to provide Housing Tenants and Right to Buy data;
 - Isle of Wight Council failed to provide Personal Budgets and Private Residential Care Homes data;
 - Mendip District Council failed to provide Residents Parking Permit data; and
 - West Hertfordshire Hospitals NHS Trust failed to provide Trade Creditors History and Trade Creditors Standing data.
- CTSPD 2015/16**
- Mendip District Council failed to provide Electoral Register and Council Tax.

²⁶ Data was provided for the subsequent CTSPD 2015/16.

Specific opportunities to improve

122. The NFI Team continue to encourage organisations to review and investigate the matches efficiently and effectively. This enables them to make better use of their limited resources. However, we remain concerned that some could and should do more. The types of improvement that can be made are listed in Table 4.

Table 4 - **How can organisations taking part work more effectively?**

How do I ensure ...	Responses
..... that I am using the NFI software efficiently?	Ensure you and the staff within your organisation that are working on the NFI matches 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.
..... that I act upon the matches that are time critical so I identify overpayments at an early stage?	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 coordinated to avoid 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.
..... I only spend time looking at matches that meet local fraud risks?	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.
..... that enquiries from other organisations that take part in the NFI are responded to promptly?	The web application shows the number of shared comments which require a response. These responses should be prioritised if they relate to an ongoing investigation so that it can be progressed promptly.
.... data quality issues that are highlighted within the web application are 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.
..... I prioritise employee fraud recovery and the use of civil sanctions?	Develop capability and capacity to punish fraudsters, ensuring that investigations are not abandoned if the individual resigns, leaves the property etc. Seek, through collaborating with law enforcement and the courts, the recovery of defrauded funds.
Source: National Fraud Initiative 2016	

123. [The Local Government Counter Fraud and Corruption Strategy 2016-2019](#) (page 15) states that "*Many local authority practitioners reported that the capacity to tackle fraud and corruption was likely to be reduced, or had already been reduced, as a result of austerity-related local authority funding reductions*". It is important therefore that all organisations adopt this good practice to ensure they use the valuable resources they invest in the NFI more effectively. Equally, with new participants regularly joining the NFI, it is vital that these organisations adopt good practice from the outset.
124. As many of the messages have been highlighted previously, the NFI team will continue to look for new ways to communicate these messages more clearly to help participants maximise the benefits from the NFI.
125. As well as piloting new data matches through our pilot programme, we will also look at what other techniques are being used to identify fraud to see if they can enhance the NFI, for example reducing the false positive rate of the NFI matches. This will include evaluating and applying, if appropriate, recent advancements in data matching techniques from academic research.

Under reported/identified fraud

126. The National Audit Office (NAO) [Fraud Landscape Review 2016](#) noted that the exact scale of fraud within the government is unknown. It also reported that there could be significant²⁷ fraud and error that is unreported or undetected and losses that are not being adequately addressed. The NAO report that this is in part because of: large gaps in knowledge about fraud losses; methods to measure fraud accurately are still developing; and because fraud reported to investigative authorities is only a small proportion of the fraud detected.
127. The National Fraud Initiative is a tool that can be used by organisations, both central and local Government, as part of an overall strategy to proactively look for fraud. By its nature, fraud can be a hidden crime, which means the use of proactive tools and techniques to detect fraud is an important part of a cohesive response to fraud. We will therefore work with public sector bodies to ensure that the tool provides them with the maximum assistance.

²⁷ The UK figure of 0.02% of expenditure compares with estimates of 3% to 5% in the European Union and United States. (National Audit Office).

Chapter 6 - Looking to the future

This chapter looks at the future development of the NFI and what its focus will be.

128. The next 18 months represents a key time for the NFI. We will deliver the next biennial batch data matching, NFI 2016/17, and at the same time we will look to maximise the benefits of the recent investment in the NFI product range and the move to the Cabinet Office, through growth in a number of key areas.
129. Specifically we will focus on:
- fraud prevention through utilisation of the AppCheck product;
 - new emerging risks;
 - providing links to key third party datasets;
 - strong engagement from key government departments;
 - product development, seeking to embed links to the NFI in key suppliers software so there are multiple entry points to relevant NFI services;
 - extension of our legislative powers;
 - publication of a NFI strategy for 2016 - 2020
130. We will also continue to work with the DWP and councils to ensure the benefits of the NFI are maximised now the DWP SFIS is fully operational.

Increased focus on fraud prevention

131. We have invested significant resource in developing the AppCheck product to facilitate point of application checking. This preventative service complements the traditional detection tools and allows us to support organisations to stop fraudulent applications from being successful. Stopping them at the point of application reduces administration and future investigation costs.
132. Following a series of pilots, we launched the full service in 2015/16 and now have a number of early adopters utilising this service, including all local authorities in Wales, following support from the Welsh Government. We are working with these organisations to ensure they maximise the benefits of participation, including rolling it out across all relevant internal departments. Alongside this, we will work more widely across all stakeholders to evaluate how AppCheck could support delivery of their fraud prevention and detection strategies.

Emerging risks

133. Following successful pilots, we have extended the remit of the NFI 2016/17 to include social housing waiting list data and council tax reduction scheme (CTRS) data.
134. Social housing waiting list data has been piloted over NFI 2012/13 and NFI 2014/15. In total across the pilots, 3,000 applicants have been removed from a social housing waiting list. The local authorities removing these applicants have estimated savings at almost £20 million. This data match is designed to prevent fraudulent tenancies before they occur, potentially reducing the number of future cases and subsequent

cost of tenancy fraud. Mandating this data aligns with the NFI work in fraud prevention.

135. Following the replacement of council tax benefits by locally administered council tax reduction schemes in April 2013, CTRS data matching was piloted in NFI 2014/15 to capture fraud in this area. 51 local authorities took part in the CTRS pilot as part of the NFI 2014/15, with matches released in July 2015. With work still on-going, fraudulent and erroneous overpayments prevented and detected stand at £250,000. Based on these figures, it is estimated that mandating this dataset for NFI 2016/17 would prevent and detect fraudulent and erroneous CTRS overpayments worth around £1.5 million.
136. We will continue to develop the NFI to meet new fraud risks by:
- listening to the concerns raised by organisations about emerging challenges facing them;
 - working with key stakeholders in the public and private sectors;
 - working with the Fighting Fraud and Corruption Locally Board, local authorities and others to ensure the NFI supports the implementation of [The Local Government Counter Fraud and Corruption Strategy 2016 -2019](#); and
 - encouraging suggestions on emerging fraud risks that NFI could assist to tackle.

Third party data

137. We continue to seek to identify third party datasets that will add benefits to NFI participants. We are:
- piloting the use of data from Companies House and Cifas²⁸;
 - evaluating the benefits that financial and insurance sector data offers; and
 - in discussions with credit reference agencies (CRA's) about allowing NFI participants, on a voluntary case by case basis, to make a call out from the NFI web application to check the data submitted against the CRA data. The results could be integrated back into the NFI web application. Providing the potential to combine referral results in this way would offer another more unified option to organisations in their fight against fraud.
138. As always we welcome feedback from anyone who feels they can suggest datasets that would improve the NFI.

Government department engagement

139. Central Government departments can choose whether to engage with the NFI on a voluntary basis. We are pleased to say that the engagement of these departments improved in NFI 2014/15.

²⁸ <https://www.cifas.org.uk/>

140. In addition to the continued support that some government departments give by providing data about housing benefit claimants, deceased persons, student loans and immigration status, other engagement included:
- DWP: undertook data matching on state benefits data following the successful housing benefit matching logic. As well as identifying fraud and error for the DWP, this data is now available to help prevent and detect fraud for other participants. In addition, we are delivering a Household Composition pilot for DWP, which aims to identify fraud where there are undeclared persons living at the claimant's address, by matching a wide range of data from across the public and private sectors. Going forward we also have a pilot on Universal Credit scheduled for autumn 2016.
 - Pension Fraud: key government schemes submit pension records for deceased checks and abatement checks, leading to £3.2m of fraud and error being prevented and detected.
 - Student Loans Company: supply student loans information which led to over £10 million of housing benefit fraud being detected and also student loan fraud prevented and detected by checking immigration status of claimants.
 - Legal Aid: as well as submitting payroll and creditor information Legal Aid are piloting the AppCheck product.
 - Land Registry: a pilot to target property fraud is underway.
 - HMRC: providing data to feed into a pilot targeting living together fraud in benefits.
 - Charity Commission: agreement to undertake a pilot.
 - Department for Health: a pilot is underway to establish the benefits NFI can offer in helping reduce fraud and error in European Health Insurance Cards.
141. As the NFI forms part of the Cabinet Office Fraud, Error, Debt and Grants team portfolio, it is now aligned with the wider government strategy for fraud and error. This strategy includes liaising with key departments to explore how the NFI can be developed to best assist them to effectively target their specific fraud risks, as well as exploring whether they have data which could be used to better target fraud against other public sector organisations.

NFI product development

142. Over the last two years we have invested significant resources on our product range to ensure we offer flexible products suited to both fraud prevention (AppCheck) and detection (ReCheck).
143. We are now focused on providing more flexible access to the NFI product range. This will include engaging with relevant third party system suppliers to seek to integrate AppCheck into their systems. The aim is to enable participants to automatically access AppCheck through external systems they are already using, for example, existing case management systems. We are also seeking to integrate all the NFI products so they can all be accessed through one single portal.

Legislative powers extension

144. The Local Audit and Accountability Act 2014 (LAAA) allows for the Cabinet Office to seek to extend the permitted purposes of data matching 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 sector organisations.

These amendments to the purposes can be secured by regulation following consultation, as set out in LAAA 2014, Schedule 9, section 8 (1).

145. During the next two years we intend to commence this consultation.

NFI Strategy

146. We will publish, following consultation with participants and stakeholders, a strategy for the NFI for the period 2016 to 2020. In this we will outline our plans for developing the NFI products and performance metrics to better inform our continuous improvement, widening the range of data, and embracing new technology to ensure that the NFI continues to develop to meet the needs of participants. The strategy also includes undertaking a review of the NFI, which will include a review of:
- right to buy fraud, in conjunction with external parties, that will consider implementation of relevant new policies, seek to understand any associated fraud risks with the aim of identifying how the NFI matching can better assist housing providers; and
 - immigration fraud to determine why there has been a reduction in the number of illegal working cases found through the NFI.
147. This strategy will shape the requirements for our procurement, in 2017/18, of the specialist IT resources required to deliver the NFI.

Appendix 1 - Report calculations (England)

An explanation of how we calculate the figures for frauds, overpayments and outcomes used in the report is shown in the following table. These estimated losses prevented represent expenditure that would have been incurred in future years had the fraud or errors gone undetected.

Table 5: Report calculations

Data Match	Fraud Detected (£million)	Estimated (£ million)	Total (£million)	Basis of calculation of estimated outcomes
Pensions	11.4	73.6	85.1	Annual pension multiplied by the number of years until the pensioner would have reached the age of 85 ²⁹
Council tax SPD	13.7	23.7	37.4	Annual value of the discount cancelled multiplied by two years
Welfare benefits ³⁰	29.8	9.4	39.2	Weekly benefit reduction multiplied by 21 weeks ³¹
Housing Waiting List	0.0	1.0	1.0	Recorded by participants
Blue badges	0.0	13.2	13.2	Number of badges confirmed as deceased multiplied by £575 to reflect lost parking and congestion charge revenue ³²
Payroll	2.8	2.2	5.0	£5,000 per case (£10,000 for immigration cases) and £50,000 for a removal from the UK
Tenancy fraud	0.0	6.0	6.0	£93,000 per property recovered based on average four 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 ³³ £53,000 per property recovered in Northern Ireland ³⁴

²⁹ Following a review in February 2016, the 'pensioner age', for outcomes from NFI 2014/15, has been reduced from 90 to 85, to align with the latest average life expectancy for pensioners at age 65.

³⁰ This includes housing benefit, state benefit and council tax reduction scheme.

³¹ Following a review in February 2016, the estimated duration of overpayments, for outcomes from NFI 2014/15, has increased from 13 weeks to 21 weeks to align with the methodology used by DWP to calculate future overpayments prevented from detecting and stopping fraud and error.

³² Following a review in February 2016, for outcomes from NFI 2014/15, this estimate has increased from £500 to £575 to reflect research and statistics relating to blue badge fraud.

³³ Following a review in February 2016, for outcomes from NFI 2014/15, this estimate has increased from £75,000 to £93,000 to reflect statistics relating to tenancy fraud.

³⁴ Based on the same tenancy fraud methodology for non NI authorities, with parts of the calculation aligned with regional statistics.

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Data Match	Fraud Detected (£million)	Estimated (£ million)	Total (£million)	Basis of calculation of estimated outcomes
Trade creditors	4.5	0.0	4.5	
Private residential care homes	1.7	1.8	3.5	£7,000 per case based on average weekly cost of residential care multiplied by 13 weeks
Right to buy	0.0	0.3	0.3	£65,000 per application withdrawn based on average house prices and the minimum right to buy discount available ³⁵ This estimate has the following regional variations: <ul style="list-style-type: none"> London: £104,000 per application withdrawn to reflect the maximum value of Right to Buy discount available for London properties³⁶ Northern Ireland: £31,000 per application withdrawn based on average house prices and minimum right to buy discounts in Northern Ireland³⁷
Concessionary travel	0.0	2.2	2.2	Number of passes cancelled multiplied by £24, based on the cost of reimbursement to bus operators for journeys made under the concessionary pass scheme
Personal Budgets	0.4	0.1	0.5	Monthly reduction in personal budget payment multiplied by three months
Other immigration	0.9	0.4	1.3	£50,000 for a removal from the UK
Total³⁸	65.2	132.9	198.2	
Source: National Fraud Initiative 2016				

³⁵ Following a review in February 2016, this estimate has increased from £52,000 per case, for the outcomes from NFI 2014/15, to reflect changes to the Right to Buy policy and increases in average house prices.

³⁶ Maximum Right to Buy value applied for London to reflect the London property market.

³⁷ Estimate calculation reflects Right to Buy policy and average house prices in Northern Ireland.

³⁸ The amounts included in this table relate to England results only and are subject to rounding.

Appendix 2 - Examples of the data matches the NFI undertakes

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 records of failed asylum seekers and records of expired visas.	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: National Fraud Initiative 2016

References

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