

Southend-on-Sea Borough Council

Agenda
Item No.

Report of the Executive Director (Finance and
Resources)

to

Audit Committee

on

15 January 2020

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Counter Fraud & Investigation Team: Quarterly Performance Report

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit committee on the progress made by the Counter Fraud & Investigation Team (CFIT) in the formation of a new team and delivering the Counter Fraud Strategy and Work Programme for 2019/20.

2. Recommendation

- 2.1 The Audit Committee notes the performance of the Counter Fraud & Investigation Team over the last three months.**

3. Introduction

- 3.1 The shared counter fraud service agreement with Thurrock Council (the Counter Fraud & Investigation Directorate) ended on 4 October 2019.
- 3.2 As a result 4 Southend Borough Council (SBC) staff were withdrawn from the shared unit to form a counter fraud team dedicated to countering fraud, corruption, bribery and financial impropriety against SBC. This team is comprised of 3 investigators and an intelligence analyst and is currently called the Counter Fraud & Investigation Team.
- 3.3 As Thurrock Council controlled the management and structure of the previous team, much of the work to date has concentrated on developing the structure, processes and capabilities of the new team to ensure counter fraud work continues on a 'business as usual' basis and laying the foundations for developing the team into an effective and value for money service for the Council.
- 3.4 A Development Plan has been drafted (Appendix 2) to define the tasks necessary to achieve these objectives and which is currently on track for its first milestone (3 months) this month.

- 3.5 The key achievements to date include:
- A continuity of the counter fraud service to SBC
 - The establishment of the Development Plan
 - Development of processes and Standard Operating Procedures to guide investigators' work
 - The maintenance of fraud reporting mechanisms and the process of assessing referrals to the team
 - The establishment of an oversight and accountability system for criminal investigations
 - The acquisition of the investigatory tools and equipment necessary for investigators to be effective
 - A reinvigoration of the relationships between the team and key SBC departments
 - Contact and initial arrangements have been established with key partners such as Essex Police and the DWP
 - A re-engagement with the National Fraud Initiative
 - A review of SBC's revised Counter Fraud & Corruption, Bribery and Money Laundering Policies to reflect the new counter fraud arrangements and the team's capabilities.
- 3.6 Also 2 criminal trials have been supported by an officer in the team, as part of an obligation resulting from previous casework, which required attendance at the Crown Court and resulted in four convictions totalling 10 years imprisonment.

4. The threat from fraud

- 4.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre published its Fraud and Corruption Tracker Summary Report in November 2019.
- 4.2 In it, they estimate that the total value of fraud detected or prevented by local authorities in 2018/19 to be approximately £253m. This is a reduction on the previous year and is largely attributed to work done by local authorities in tackling housing fraud (mainly unlawful subletting and fraudulent Right-to-Buy applications).
- 4.3 The areas identified to be at the highest risk of fraud were procurement, council tax single person discount and adult social care. The primary issue identified by local authorities in combatting fraud was insufficient counter fraud capacity and resource. However there is an upward trend in the number of counter fraud specialists employed by local authorities.
- 4.4 The four main fraud areas by volume that local authorities are tackling are:
- Council tax: this is a high volume/low value fraud estimated to cost local authorities £30.6m in 2018/19
 - Disabled parking (Blue Badge fraud): the average value of this fraud has increased from £499 to £657 in 2018/19. This has been identified as an area of increasing risk and prominence

- Housing and tenancy fraud: the detection/prevention of such frauds shows a downward trend attributed to local authorities efforts to combat it. SBC uses a value of £23k/year to value unlawful subletting (the estimated cost of temporary accommodation for a family during this time)
 - Business rates: these frauds represent a small percentage of the overall number of prevention/detections in 2018/19 while being widely cited as a high risk area.
- 4.5 Other significant areas of fraud highlighted by CIPFA are (2018/19 figures quoted):
- Adult social care (£13.7m in 2018/19)
 - Insurance (£12.6m)
 - Procurement (£20.3m)
 - No recourse to public funds/welfare assistance (not well known/reported)
 - Economic and voluntary sector support (grant frauds average £4k) and debt (£495k)
 - Payroll, recruitment, expenses and pension (£9.42m)
 - Mandate fraud and manipulation of data (356 cases reported).
- 4.6 CIPFA's recommendations include:
- Local authorities to remain vigilant in identifying and preventing fraud throughout their procurement processes
 - Fraud prevention should be embedded in 'business as usual' across the organisation
 - All staff should receive fraud awareness training
 - Local authorities should ensure that they have a strong counter fraud leadership and fraud teams should be supported in presenting business cases for adequate resources
 - Local authorities should maximise opportunities to share data including with law enforcement and third party experts
 - The importance of the fraud team's work should be built into both internal and external communication plans in line with the Fighting Fraud and Corruption Locally (FFCL) Strategy 2016-2019
 - The FFCL Strategy 2016-2019 is the definitive guide for local authority leaders, chief executives, finance directors and all those with governance responsibilities.

5. Investigations

- 5.1 On the conclusion of the shared service agreement the team inherited 62 SBC-specific investigations and referrals.
- 5.2 Since the commencement of the new team 34 new referrals have been received.

5.3 Of these 96 cases:

- 45 investigations have been concluded
- 29 cases are active investigations
- 2 cases are with Legal Services for prosecution
- 3 cases are waiting for assignment to an investigator
- 17 allegations of suspected fraud are being assessed.

5.4 These investigations concern:

- 16 transport cases (Blue Badge, parking permits etc.)
- 2 schools/early years cases (fraudulent school applications etc.)
- 24 Council Tax or Business Rates cases
- 2 cybercrime cases (mandate frauds etc.)
- 3 cases referred to the DWP
- 1 grant fraud
- 33 housing cases (unlawful subletting, Right to Buy fraud etc.)
- 4 money laundering cases
- 3 procurement cases
- 6 social care cases (Direct Payment fraud etc.)
- 2 employee cases.

5.5 Also, progress has been made in responding to the workload:

- 6 intelligence reports have been disseminated (Essex Police, Castle Point Borough Council, SBC Early Years team, DWP and SBC Social Services)
- 3 information reports have been disseminated to other service areas
- 2 properties have been recovered
- 24 Data Protection Act (DPA) requests from Essex Police have been met.

5.6 The provision of an investigation report to support the Council's defence in a civil action and allegation against an employee.

5.7 The intelligence reports disseminated included referrals about child safeguarding concerns, drug use, money laundering and fraud outside of this team's jurisdiction.

5.8 The processing of DPA requests from Essex Police is part of a locally agreed arrangement which provides the team with intelligence and the capability to execute search warrants on suspect addresses if necessary.

6. The National Fraud Initiative (NFI)

- 6.1 The NFI is a central government exercise that matches electronic data within and between public sector bodies, to prevent and detect fraud. These bodies upload their data to a central service which then produces data matching reports. These matches are graded as High, Medium and Low risk with recommendations of matches to be focussed upon within these categories.
- 6.2 SBC will normally focus on processing the recommended matches on high level reports, however some individual departments will process additional matches according to the nature of the report.
- 6.3 Some of these matches indicate fraud while others can highlight errors in data that should be corrected. Where a department reviews a match and find that it indicates fraud it will be referred to the Counter Fraud & Investigation Team for investigation.
- 6.4 The Counter Fraud & Investigation Team became the key contact for the NFI in October. Work has progressed to reinvigorate the Council's engagement with the initiative. CFIT acts as a central point of contact for the NFI at SBC and coordinates the council departments' responses to NFI reports.
- 6.5 The NFI exercise in 2018/19 provided SBC with 1,438 recommended matches in 34 High Risk reports. These reports require review and action by the relevant departments. Of these matches:
- 7 High Risk reports (328 recommended matches) have been fully processed and are now complete.
 - 5 High Risk reports have been commenced but are incomplete
 - 22 High Risk reports are yet to be commenced (493 recommended matches). This is 65% of all the recommended matches provided.
 - The estimated saving to the Council from work undertaken on this exercise is currently £28,633.60.
- 6.6 The Council also review Council Tax Single Person Discount (SPD) reports from the NFI. The two reports from the 2018/19 exercise are:
- 'SPD to Electoral Roll' which has produced 1,148 matches
 - 'SPD to over 18s' which has produced 135 matches.
- 6.7 A summary of the recommended matches by report and SBC's progress in processing these matches is provided at Appendix 3.

7. Counter Fraud Work Plan

- 7.1 The Counter Fraud Work Plan (Appendix 1) has been revised to reflect the team's Development Plan (Appendix 2). This work plan supports the development of the team and details the projects that will be undertaken over the course of the year.

7.2 The two plans together form the strategy for developing the team's capability and effectiveness, strengthening the Council's defence against fraud and corruption and improving the detection and pursuit of offenders.

8. Corporate Implications

8.1 Contribution to the Southend 2050 Road Map

The team's work to reduce fraud, protect the council from fraud and corruption, to pursue offenders and to recoup properties and money from the convicted contribute to the delivery of all of the council's aims and objectives.

It does this by protecting and recovering the assets and funds that the council holds.

8.2 Financial Implications

Proactive fraud and corruption work, alongside the reactive prosecution of offenders, acts as a deterrent for such activities and assists in the identification of financial loss and loss of assets.

Such proactive counter fraud work can result in reduced costs to the Council by protecting it against potential loss and civil or insurance claims.

8.3 Legal implications

The Accounts and Audit Regulations 2015 section 3 states that:

"The relevant authority must ensure that it has a sound system of internal control which:

- *Facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- *Ensures that the financial and operational management of the authority is effective*
- *Includes effective arrangements for the management of risk."*

The work of the Counter Fraud & Investigation Team contributes to the delivery of this.

Where fraud or corruption is proved the Council will:

- Take the appropriate action which could include disciplinary proceedings, civil action and criminal prosecution
- Seek to recover losses using criminal and civil law
- Seek compensation and costs as appropriate

8.4 People implications

Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings and prosecution
- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

8.5 Property implications

Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as the proceeds of crime. Such action will benefit the Council by returning social housing stock for the use of those in most need, recovering the assets of those who seek to profit from criminal behaviour and deterring others from considering such activity.

8.6 Consultation

Changes to the counter fraud team and the approach being taken by the new team has been discussed with key stakeholders.

8.7 Equalities and Diversity Implications

None identified.

8.8 Risk assessment

Failure to operate a strong anti-fraud and corruption culture puts the Council at risk of increased financial loss from criminal activity. Such a culture should be led and supported by the Senior Management Team.

While risk cannot be eliminated from the Council's activities, implementing counter fraud and corruption policies and culture will contribute to managing this more effectively.

8.9 Value for money

An effective Counter Fraud and Investigation Team should save the Council money by:

- Reducing the opportunities to perpetrate fraud; this is reducing potential losses to future budgets.
- Detecting fraud promptly and applying relevant sanctions where it is proved; this limits the losses to fraud and corruption.
- Pursuing perpetrators to recover losses and to seek compensation; this limits the losses to fraud and corruption.
- Recovering properties; this reduces the strain on the social housing stock and reduces the cost of temporary accommodation to future budgets.
- Limiting the cost of investigation and pursuit of offenders by the application of alternate sanctions where appropriate; this provides a cost-effective service.
- Generate an income for the Council through the provision of counter fraud awareness training to the Council's partners and service providers and the provision of an investigation/prosecution service to appropriate partners.

Appendices

- Appendix 1: Counter Fraud Work Plan 2020/21
- Appendix 2: Counter Fraud Development Plan
- Appendix 3: NFI 2018/19 matches and progress

Background papers

- CIPFA Fraud and Corruption Tracker Summary Report November 2019
- Fighting Fraud and Corruption Locally Strategy 2016-2019