

Southend-on-Sea Borough Council

Report of the Strategic Director (Finance and Resources)

to

Audit Committee

on

29 April 2020

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Investigations Officer

**Agenda
Item No.**

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 in 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 Counter Fraud & Investigation Team (CFIT) was formed on 7 October 2019 following the dissolution of the previous shared service agreement with Thurrock Council.
- 3.2 This team has been tasked with countering fraud, corruption, bribery and financial impropriety against the Council. It was initially comprised of 3 investigators and an intelligence analyst.
- 3.3 A Development Plan was created (Appendix 2) to define the tasks and objectives necessary to create an effective and efficient counter fraud service for the Council.
- 3.4 Unfortunately, an investigator and an intelligence analyst have resigned since the last quarterly report, halving the team's complement and presenting a significant challenge to our work. These resignations are not a reflection on the team, or the Council, and the officers concerned left on good terms and in pursuit of higher pay and a more diverse range of working opportunities.
- 3.5 These resignations nevertheless have had a substantial impact on the operational effectiveness of the team and our work in the meantime has been focused on the highest priority and time critical cases. In effect, the team has been 'holding ground' during this time and has been unable to engage the proactive work defined in the Work Plan (Appendix 1) or the developmental progress defined in the Development Plan.

- 3.6 Also, as a direct result of reduced operational capability, a backlog of cases requiring attention has accrued as the team's focus has narrowed towards the higher priority or time critical investigations.
- 3.7 However, this situation is not without opportunity to progress the team's development and evolution. Proposals have been drafted to change the constitution of the team to introduce a management and oversight post and replace the intelligence analyst with an operational investigator. These proposals are supported by senior management.
- 3.8 Furthermore, South Essex Homes, one of the key stakeholders in CFIT's work, have offered funding for an additional investigator on the team. This is a huge vote of confidence in the work and potential of the team and will substantially increase our operational effectiveness.
- 3.9 The result of these changes will be a team of four investigators led by an operationally capable manager. This will enable a faster pace of development and proactive work while continuing to manage our workload of active investigations and referrals.
- 3.10 A recruitment exercise has taken place and posts have been offered to two experienced investigators. It is expected that they will join the team once the current covid-19 lockdown situation causing working restrictions have been lifted.
- 3.11 Once the restructure of the team is formally approved a second recruitment exercise will be conducted to find a manager with the skills necessary for the proper oversight, accountability and conduct of criminal investigations, strategy and planning, partnership development and risk assessment.
- 3.12 Other activities that have taken place since the last quarterly report include:
- Enquiries to review the Employee Code of Conduct have been instigated
 - Information sharing agreements with South Essex Homes and the Housing Solutions Team have been drafted and are currently being considered by the respective parties
 - Discussions are ongoing with the DWP towards a joint working agreement
 - A monthly fraud update for all staff in partnership with Essex Police has been established and is now being regularly provided to Staff Communications for dissemination
 - An agreement and operating policy with the Revenues and Benefits Teams to promote closer working has been reached; this is supported by monthly meetings with the respective team leaders
 - Amendments have been made to the Council Tax and Benefits systems to alert operators if an individual is under investigation, these will also provide any specific instructions to the operator to protect the integrity of an investigation
 - The counter fraud message on Council Tax bills and accompanying information has been reviewed and strengthened
 - A meeting with Trading Standards to explore opportunities for joint working has been agreed. A meeting with CFIT, Trading Standards and Legal Services is being arranged to discuss what means the Council has at its disposal to combat Non-Domestic Business Rates fraud

- Adjustments have been made to our interview room to strengthen Health and Safety considerations.

4. The coronavirus emergency

- 4.1 The ongoing national emergency has impacted the work of the team insofar as we are unable to visit premises, suspects or witnesses and cannot interview suspects in an evidential capacity ie. a recorded interview under caution. However, we are continuing to receive referrals and there is much investigative work that can be done, and that needs to be done, before we get to that point in an investigation. Remote working has not diminished our abilities in this respect. We have therefore re-focused our work to progress investigations as far as practicable within the restrictions we are all currently working under. We anticipate that there will be a substantial body of operational work waiting for execution once the restrictions have been lifted and the arrival of the new recruits will be a timely expansion of resources.
- 4.2 The arrangements to assist businesses and individuals through the emergency via the Council's administration of funds and goods presents many challenges in terms of fraud. Criminals see such arrangements, often instigated on an ad-hoc basis initially, as an enormous opportunity for fraud. This is demonstrated by the fact that Action Fraud reported a 400% increase in reports of coronavirus-related frauds in March 2020. The Council's need to respond rapidly to the emergency must be balanced by the need to protect funds and ensure that they get to the right people. The Counter Fraud & Investigation Team and the Internal Audit Team have been active in providing advice to teams involved in emergency relief administration and this will continue going forward.
- 4.3 It will not be possible to protect the Council against all fraud during this time, as is also the case during normal functioning, but we are working to ensure that sufficient evidence is collected at the point of application to assist the retrospective identification and pursuit of offenders. We expect that several such cases will be referred to us and, through the increased quota of investigators, we will be fit and ready to progress this work once it starts to be identified.

5. The threat from fraud

- 5.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre published its Fraud and Corruption Tracker Summary Report in November 2019.
- 5.2 In it, they estimate that the total value of fraud detected or prevented by local authorities in 2018/19 to be approximately £253m. This represents a fraction of all fraud actually perpetrated against local authorities.
- 5.3 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.
- 5.4 The four main fraud areas by volume that local authorities are tackling are council tax (£30.6m in 2018/19), disabled parking (Blue Badge fraud), housing and tenancy fraud (SBC uses £23k/year to put a value on unlawful subletting) and Business Rates.

- 5.5 Other significant areas of fraud highlighted by CIPFA (2018/19 figures quoted) are adult social care (£13.7m), insurance (£12.6m), procurement (£20.3m), no recourse to public funds / welfare assistance (not well known), economic and voluntary sector support and debt (£495k), payroll, recruitment, expenses and pension (£9.42m) and mandate fraud and manipulation of data (356 cases reported).
- 5.6 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.
- 5.7 CFIT is already working to deliver against these recommendations through the work contained in the Counter Fraud Workplan 2019/20 (Appendix 1) and the Counter Fraud Development Plan (Appendix 2)

6. Investigations

- 6.1 As reported in the previous report to Committee in January, CFIT had dealt with, or were investigating, 96 cases.
- 6.2 Since that report was compiled, we have received 102 new cases, making a total of 198 cases since the team was formed in October 2019.
- 6.3 Of this total:
- 135 investigations have been concluded.
 - 63 investigations are active:
 - 33 cases are currently being investigated.
 - 3 case are with Legal Services for prosecution.
 - 27 cases are awaiting assignment to an investigator.
- 6.4 A breakdown of these investigations by category is detailed in Appendix 3.

The success highlights for the team since October 2019 include ¹:

- Recovering, or assisting the recovery of through the service of notices, 5 properties creating a saving of £115,000 for the coming year
- Recouping a total of £2,187.57 from Council Tax fraud and creating a saving of £2,364.09 for the coming year
- Thwarting 4 fraudulent Right to Buy applications
- Referring 2 employee cases to Human Resources for disciplinary action
- Referring 7 cases to the DWP
- Referring 5 cases to other Local Authorities or departments for action.

6.5 As part of a locally agreed arrangement with Essex Police, the team has met 60 Data Protection Act requests made for the prevention or detection of crime; 36 of these have been made since the last report to Committee.

6.6 Of the 96 cases detailed in last quarter's report, 62 were investigations inherited from the precursor agency and 34 were direct referrals October to December 2019. The 102 direct referrals received January to March 2020 is a 200% increase on the previous quarter and is testament to the work of the team in raising the profile of fraud risk and an increasing confidence in what we can achieve.

7. The National Fraud Initiative (NFI)

7.1 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. This process runs on a 2 year cycle with the Council's next data submission expected at the end of this year.

7.2 Some of these data matches indicate fraud while others can highlight errors in the data that should be corrected. Where a department processes a match that indicates fraud it will be referred to CFIT for investigation.

7.3 CFIT became the key contact for the NFI in mid-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.

7.4 The key results from this exercise for this quarter are as follows:

- The NFI report matching Council Tax Single Persons Discount (SPD) to Electoral Register produced 16 accounts which had their SPD removed and recoups totalling around £8,020
- The NFI report matching Council Tax rising 18s produced 40 accounts which had their SPD removed and recoups totalling £11,264.29
- The NFI report matching Council Tax Reduction Scheme to HMRC Household Composition produced some referrals to CFIT and created an overpayment of £28,262.15 which has also been referred to DWP

¹ note that '*recoups*' denotes funds reimbursed to the Council or fines levied, and '*savings*' denotes anticipated expenses to the Council that would have been incurred had the offence gone undetected.

- The NFI report matching Council Tax Reduction Scheme to HMRC Earnings produced a referral to CFIT and a potential recoupment of £4,453.23
- The NFI report matching Duplicate records by invoice reference, invoice amount and creditor reference revealed errors of £605.81
- The NFI report matching Housing Benefit Claimants to HMRC Household Composition produced overpayments of £1,625.88.

The total recoverable (recoupment and savings) to the Council produced by this exercise so far is **£52,605.48**.

15 referrals were made to CFIT for further investigation.

- 7.5 One of the cases referred to CFIT as a result of the NFI has revealed a Council Tax Reduction Scheme overpayment of £4,427 which will be recouped alongside a £1,000 fine if the suspect accepts an administrative penalty as an alternative to prosecution. This investigation is still in progress.

8. The counter fraud work plan

- 8.1 The Counter Fraud Work Plan (Appendix 1) should reflect the team's Development Plan (Appendix 2) as well as detailing the projects that will be undertaken over the course of the year.
- 8.2 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.
- 8.3 As explained above, the team has suffered a significant, albeit temporary, reduction to its resource availability. As a result, it has been necessary to postpone several initiatives as there is insufficient manpower to conduct them safely and effectively and to focus the team's energy on the most pressing of our current investigations. The effected activities have been highlighted on the plan.

9. Corporate implications

9.1 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 the council's aims and objectives.

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

Furthermore, 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.

A strong counter fraud stance and function improves the Council's reputation for responsible stewardship of public funds.

9.2 Financial Implications

The Counter Fraud & Investigation Team's work will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

9.3 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 Crime and Disorder Act 1998 section 17 places a duty on the local authority to:

“...exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area.”

The work of CFIT contributes to the delivery of these obligations.

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

9.4 People Implications

People issues that are relevant to delivering individual investigations, or the Workplan, will be considered as part of each piece of work.

9.5 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.

9.6 Consultation

The progress with investigations and delivery of the Workplan are periodically discussed with Directors before being reported to Corporate Management Team and the Audit Committee.

9.7 Equalities and Diversity Implications

The relevance of equality and diversity is considered during the initial planning stage of the each investigation and piece of development work delivered.

9.8 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 Corporate 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.

9.9 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.

9.10 Community Safety Implications

These issues are only considered if relevant to a specific investigation, or piece of development work, undertaken.

9.11 Environmental Impact

These issues are only considered if relevant to a specific investigation or piece of development work.

Appendices

- Appendix 1: Counter Fraud Work Plan 2019/20
- Appendix 2: Counter Fraud Development Plan
- Appendix 3: Breakdown of CFIT investigations