

# Southend-on-Sea Borough Council

Report of the Executive Director (Finance and Resources)

to

**Audit Committee**

on

**12 August 2020**

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Agenda  
Item No.

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## **Counter Fraud & Investigation Team: Quarterly Performance Report**

### ***A Part 1 Public Agenda Item***

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#### **1. Purpose of report**

- 1.1 To update the Audit Committee on the progress made by the Counter Fraud & Investigation Team (CFIT) in delivering the Counter Fraud Strategy and Work Programme for 2019/20 and to introduce the Work Plan for 2020/21.

#### **2. Recommendation**

- 2.1 **The Audit Committee notes the performance of the Counter Fraud & Investigation Team over the period since the last meeting.**

#### **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 Although the team made a good start with maintaining its core functions, renewed relationships across the Council and achieved an increase in referrals, it has also experienced significant challenges from the loss of staff and the Covid-19 pandemic.
- 3.3 As a result, the team has not been able to fully meet its aspirations detailed in the previous year's Work Plan and has struggled to get many of its current cases to a satisfactory resolution due to Government restrictions on interviewing suspects during the Covid-19 pandemic.
- 3.4 However, two experienced investigators have now been recruited and joined the team which goes some way to meeting the team's human resource deficit. This influx of staff makes the team better equipped to perform its core functions and to start a programme of proactive fraud detection and Council fraud protection / prevention initiatives.

- 3.5 Furthermore, the recent downgrading of the Government's virus threat level and the relaxation of restrictions presents an opportunity to commence the operational work that is vital to bring many of our cases to resolution.
- 3.6 This work, in the form of visiting properties and members of the public, has now been started following the completion of detailed risk assessments and consultation with the Council's Health and Safety representatives. At the time of writing, work is underway to identify an appropriate location to conduct suspect interviews in a safe way.
- 3.7 A further consequence of the Covid-19 pandemic and lack of human resource is that the concentration on the team's active workload that the team in place was focussed upon has meant that less activity than was planned has been undertaken to develop the team's capabilities and joint working potential with other agencies.
- 3.8 However, steps have been taken to increase our engagement with our key stakeholders: South Essex Homes (SEH) and the Revenue and Benefits Teams. We now provide reports to SEH's Executive Management Team and their Audit and Risk Committee, as well as monthly reports to their operational managers. Once the new investigators have been established, both these stakeholders will be assigned a Single Point of Contact within the team. A joint working agreement has been developed with SEH to mirror what is in place with the Revenue and Benefits Teams.
- 3.9 A Work Plan for 2020/21 (Appendix 1) has been drafted to detail the proactive and prevention / protection initiatives that the team intend to undertake. This plan is currently tentative and will be reviewed and revised as the team evolves within the new working environment, the strengths and weaknesses of the new team members becomes clearer and the active investigation workload develops.

#### **4. Fighting Fraud and Corruption Locally; A strategy for the 2020s**

- 4.1 In April 2020, the updated counter fraud and corruption strategy for local government was published: *Fighting Fraud and Corruption Locally: A strategy for the 2020s* (FFCL - Appendix 2).
- 4.2 This builds on the successes and lessons learned from previous strategies and is the blueprint for a counter fraud and corruption strategy for all local authorities.
- 4.3 The scale of fraud and corruption is estimated through several reports:
- The Government Economic Crime Plan 2019 estimates that fraud constitutes a third of all crime in the UK
  - The National Fraud Office estimated in 2013 that fraud may be costing the UK £52bn a year and £2.1bn to local authorities specifically
  - The Annual Fraud Indicator 2017 estimated the loss to the public sector to be £40.4bn with the loss to local authorities totalling £7.8bn, £4.3bn of which may be procurement fraud.
- 4.4 The key principles of the strategy are presented in four 'pillars':
- **Govern:** having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation
  - **Acknowledge:** accessing and understanding fraud risks; committing the right support and tackling fraud and corruption; demonstrating a robust anti-fraud response and communicating the risks to those charged with Governance

- **Prevent:** making the best use of information and technology; enhancing fraud controls and processes; developing a more effective anti-fraud culture and communicating activity and successes
  - **Pursue:** prioritise fraud recovery and the use of civil sanctions; developing the capability and capacity to punish offenders; collaboration across geographical and sectoral boundaries and learning lessons and closing the gaps.
- 4.5 These pillars are realised through six ‘themes’:
- **Culture:** create a culture where fraud and corruption are unacceptable in a way that is measurable
  - **Capability:** assess the full range of fraud risks and ensure that the range of counter fraud measures deployed is appropriate
  - **Capacity:** deploy the right level of resources to deal with the level of fraud risk that is monitored by those charged with governance
  - **Competence:** having the right skills and standards commensurate with the full range of counter fraud and corruption activity
  - **Communication:** raising awareness internally and externally; deterring fraudsters, sharing information, celebrating success
  - **Collaboration:** working together across internal and external boundaries with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.
- 4.6 The document also provides a Delivery Plan recommending the steps a local authority should take in realising the strategy.
- 4.7 While Southend Borough Council’s Counter Fraud and Corruption Policy and the Counter Fraud and Investigation Team’s Counter Fraud Strategy are relatively advanced in terms of the recommendations of FFCL, there remains more to do. This is particularly evident in the areas of understanding our specific fraud risks and prevention activities. The new Work Plan has been developed to address some of these shortcomings.
- 4.8 The script of a Fraud Awareness training package has been completed despite the challenges presented to the team described above. We are currently in discussion with SBC’s Workforce Development Team about the best way to deliver this across the organisation. It is likely that this will be delivered as an online learning session and support will be sought to make this mandatory for all staff and new starters. The target date for this to be delivered is now September 2020.
- 4.9 The monthly fraud update continues to reach an increasing audience; this details the current threats from fraud and recipients are encouraged to share the information as widely as possible. Feedback from this initiative has been positive and, while it is aimed at helping staff and their families and friends to better protect themselves from fraud, it has the added benefit of raising the awareness of fraud and how to spot and stop it thus reinforcing a counter fraud culture and protecting the Council.
- 4.10 The Work Plan also includes an intention to systematically risk assess and analyse those areas of the Council at the highest risk of fraud. This should result in ‘target hardening’ measures to make fraud more difficult and bespoke training for teams to be made aware of the unique risks their area is exposed to.

4.11 A recent success story is the Council's response to a widespread Covid-19 Business Grant fraud where timely sharing of intelligence with the team administering the grants enabled the Council to thwart several attempts to acquire Business Rates account numbers. These results are a testament to the vigilance of the staff involved.

## 5. Investigations

5.1 As reported in the previous report to Audit Committee in April, CFIT had dealt with, or were investigating, 198 cases.

5.2 Since that report was compiled, we have received 54 new cases, making a total of 252 cases since the team was formed in October 2019.

5.3 Of this total:

- 163 investigations have been concluded.
- 89 investigations are active:
  - 54 cases are currently being investigated.
  - 3 cases are with Legal Services for prosecution.
  - 32 cases are awaiting assignment to an investigator or being assessed.

5.4 A breakdown of these investigations by category is detailed in Appendix 3.

5.5 There has been a marked reduction in the number of referrals received this quarter and that may, in some part, be a result of the current crisis.

5.6 There has been an increase in the number of cases awaiting assignment to an investigator and this is a result of the lack of human resource available to the team throughout the quarter. This should ease significantly with the introduction of the two new investigators once they are settled in and operating to deliver a full caseload.

5.7 The success highlights for the team since October 2019 include<sup>1</sup>:

- Recovering, or assisting the recovery of through the service of notices, 6 properties creating a saving of £138,000 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 4 employee cases to Human Resources for disciplinary action
- Referring 9 cases to the DWP
- Referring 9 cases to other Local Authorities or departments for action
- Assisted in the prevention of £55,000 in fraudulent Business Grant payments.

5.8 As part of a locally agreed arrangement with Essex Police, the team has met 110 Data Protection Act requests made for the prevention or detection of crime; 50 of these have been made since the last report to Committee.

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<sup>1</sup> note that '*recoupmen*t' 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.

## 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. This process runs on a 2-year cycle with the Council's next data submission expected at the end of this year.
- 6.2 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.
- 6.3 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.
- 6.4 During the Covid-19 pandemic, little work has been done on the NFI as Council teams necessarily focused on their core business and the Council's crisis response.
- 6.5 Therefore, the key results from this exercise are unchanged (savings not calculated):
- The NFI report matching Council Tax Single Persons Discount (SPD) to Electoral Register produced 16 accounts which had their SPD removed producing a recoupment of around £8,020
  - The NFI report matching Council Tax rising 18s produced 40 SPD removals resulting in a recoupment of £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
  - 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 to the Council produced by this exercise so far is **£52,605.48**. 15 referrals were made to CFIT for further investigation.

- 6.6 One of the cases referred to CFIT resulting from 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 process will be complete once CFIT restarts its suspect interview activity.
- 6.7 Such administrative penalties are an area of development for CFIT, having been somewhat neglected in previous years, and provide a cost-effective resolution to these offences, an appropriate punishment without the costs of a prosecution and which recoups the cost of the investigation. These cases are considered on a case-by-case basis and prosecution would still be pursued in cases where it is in the public interest to do so.

## **7. The counter fraud work plan 2020/21**

- 7.1 The Counter Fraud Work Plan for 2020/21 (Appendix 1) reflects some of the recommendations and guidance in FFCL in areas that we need to address. It also details an initial programme of proactive activity to detect fraud.
- 7.2 This plan will be conducted in parallel to CFIT's core functions of investigating allegations of fraud and corruption, pursuing and punishing offenders and seeking to recover losses to the Council.
- 7.3 The plan also includes activities to develop CFIT's capabilities and reach through, for example, an increased focus on joint working with key teams and agencies.
- 7.4 Much of this planned activity is dependent upon several factors including the further easing of Covid-19 restrictions, the availability of other teams and agencies, the developing capability of the team as the new investigators settle in and how the active workload is progressed and managed.
- 7.5 However, the emphasis on fraud protection and prevention and staff awareness initiatives has been increased, in recognition of this important area of focus for the team's activity.

## **8. Reasons for Recommendations**

- 8.1 **The Counter Fraud & Investigation team assist the Audit Committee to effectively discharge its responsibilities, as per the Terms of Reference, by preventing and detecting instances for fraud and corruption and ensuring that the exposure of the risks of fraud and corruption are managed.**

## **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. Development and reinforcement of 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; thus 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 2020/21
- Appendix 2: *Fighting Fraud and Corruption Locally; A strategy for the 2020s*
- Appendix 3: Breakdown of CFIT investigations