

Southend-on-Sea City Council

Report of the Deputy Chief Executive and Executive
Director (Finance and Resources)

To

Audit Committee

On

27 April 2022

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Investigations Manager

Agenda
Item No.

9

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 delivering the Counter Fraud Strategy and Work Programme for 2021/22.

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 CFIT continues to be very busy with an active steady caseload of approximately 100 investigations and prosecutions alongside a portfolio of proactive initiatives.
- 3.2 The team's most notable achievements this quarter include:
- One officer is now trained as an Accredited Financial Investigator and is building a caseload of financial investigations. This is a substantial increase in the team's reach and capabilities and enables us to pursue offenders to deny them the proceeds of their crimes. Once this officer is established in her role, this is a service we will be able to offer to other teams in the Council, such as Trading Standards, and potentially to other local authorities. A second officer is currently waiting for course availability to commence this training.
 - CFIT officers continue to engage with Internal Audit colleagues to provide a perspective and suggestions on the fraud risks for internal audits. It is anticipated that identified improvements in counter fraud controls and processes will be incorporated into Internal Audit's recommendations.

- A Blue Badge enforcement training update for APCOA¹ Civil Enforcement Officers has been written and is waiting for a suitable opportunity to be delivered. This will be followed by a further joint CFIT / APCOA Blue Badge fraud detection and deterrence exercise in the coming year.
- CFIT is engaging with the Council's Workforce Development Team to develop and deliver an Anti-Money Laundering eLearning course. This may be followed by an additional course for key Council areas to develop skills in spotting the signs of money laundering.
- A benchmarking exercise has been conducted surveying local authorities with a similar profile to Southend-on-Sea City Council. The findings suggest that CFIT are in the higher bracket in terms of funding and are comparable with the best of those reviewed in terms of staffing and capability. The report can be found at **Appendix 3**.
- CFIT now have Information Sharing Agreements with 17 teams across the Council. This encourages closer and joint working and has increased the team's access to information relevant to our investigations.
- CFIT chaired a meeting with Legal Services, Business Rates and Trading Standards to discuss the options for dealing with 'pop up' shops in the High Street. These typically use techniques to evade the payment of Business Rates and levies for which there is little recourse in law. As a result, CFIT are currently developing a 'High-Risk Commercial Premises Protocol' to coordinate joint working aimed at limiting the operational window of such enterprises. Once completed and agreed, this approach will be trialled for a year.
- CFIT have agreed a trial approach with the Council's Benefits Team to increase enforcement of Council Tax Reduction Scheme (CTRS) frauds without recourse to the DWP. This is the result of the challenges involved in amending the Council's CTRS policy. If the trial approach fails, we will have a body of evidence to support a change in the policy.
- A proactive social housing fraud detection and deterrence exercise was conducted in January with 133 properties visited over 2 days, some on several occasions. This has resulted in four investigations.
- A proactive audit of empty commercial premises was conducted in March with approximately 305 premises visited and 83 records updated. Initial results of this exercise indicate that several undeclared occupants have been identified and other businesses that have been reminded of their obligation to register for Business Rates².

3.3 The Council's Counter Fraud & Corruption Policy and Strategy, Counter Money Laundering Policy and Strategy, and Whistleblowing Policy and Procedure are currently being reviewed and revised to support the new Corporate Plan later this year.

¹ APCOA are the Council's traffic management and enforcement partners.

² The results of this exercise are still being collated and assessed. Once these have been assessed by the Business Rates team, they will return those that require further investigation.

- 3.4 CFIT officers continue to spend one day a month working with South Essex Homes' Tenancy Support Officers to encourage closer working and an understanding of each other's roles. The feedback suggests that this is useful and productive.
- 3.5 CFIT have made funding bids for the following:
- *To recruit and train a Counter Fraud Investigator Apprentice*: the caseload and activity of the team is currently at capacity and the introduction of financial investigators will inevitably impact on the resource available to conduct conventional investigations. Furthermore, the team's ambitions to extend its capabilities, for example through data matching and mining technology, will be challenging without increasing its operational capacity. An apprentice is a cost-effective way to increase the team's capacity and resilience and, once fully operational, is likely to pay for itself (see 6.10 below).
 - *To join CIFAS³*, which would provide access to a wide range of cross-industry counter fraud expertise, current fraud intelligence updates and on future risks, discounted counter fraud training, access to the National Fraud Database and Enhanced Internal Fraud Database, and access to advance investigation and data matching tools. This would also enable the Council to perform enhanced vetting of prospective employees to identify those that have an undeclared history of dishonesty in employment or inaccurate CVs.
- 3.6 CFIT continue to publish a monthly fraud update newsletter to staff and residents. This reaches a wide audience of over 700 primary recipients who are encouraged to share it and is well received.

4 The threat from fraud

- 4.1 Fraud has grown rapidly in recent years and now accounts for 39% of all crime in England and Wales. Estimates by the National Crime Survey show that there were 4.6 million fraud offences committed in the year ending March 2021. This is equal to the total theft and violent crime offences combined⁴.

However, the police have only 1,618 officers dedicated to fraud investigation - this is less than 1% of their workforce⁵. A 2019 inspection of the police's response to fraud found that these offences are generally not considered to be a priority⁶.

Although the national response to the threat from fraud is improving, the scale of the threat is beyond the resources of our law enforcement agencies to tackle it alone. A significant focus of this response is focused on enabling businesses, individuals, and local authorities to protect themselves.

³ The Credit Industry Fraud Alert System.

⁴ Victims Commissioner, 2021

⁵ Institute for Government, 2021

⁶ Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services, 2019

- 4.2 An indication of the increasing threat to the Council is demonstrated by a 2013 estimate⁷ suggesting that fraud may be costing UK local authorities £2.1bn a year, compared to a 2017 estimate⁸ that the total annual loss to local authorities from fraud may be as high as £7.8bn.

This is a rise of £1.4bn a year and if the estimates are accurate, and the trend continues, the figure may be as high as £14.8bn in UK local authority loss from fraud by 2022.

- 4.3 A third of all crime in the UK is now fraud related⁹.
- 4.4 The national fraud guidance for local authorities¹⁰ is placing an increased emphasis on proactive fraud prevention initiatives and our current and future Work Plans have been guided by this (**Appendices 1 and 5**).

5 Counter Fraud Work Plan 2021/22

- 5.1 An ambitious programme of work was planned for 2021/22 (**Appendix 1**) with 17 areas of activity and 7 proactive fraud detection and deterrence exercises.

- 5.2 Only two areas of activity were not achieved to some degree:

- A joint working agreement with the DWP was unachievable due to their lack of operational capacity and willingness to engage. This will be revisited in the coming year.
- A review of the South Essex Homes' Tenancy Terms and Conditions did not take place and therefore CFIT was unable to participate.

- 5.3 Three areas of activity were partially achieved:

- Three social housing fraud detection and deterrence exercises were planned but only two took place. This was due to a delay in obtaining a list of the City's social tenants, making the second exercise late by three months. The two exercises that went ahead resulted in 203 tenancies being visited and 12 investigations.
- Three Blue Badge fraud detection and deterrence exercises were planned but only two took place. This was due to an opportunity to conduct a Business Rates exercise arising and this was chosen over the Blue Badge exercise to widen the variety of exercises conducted in the year.
- A research project was planned to determine best practice and effective methods of combatting Business Rates fraud. This was not achieved due to operational workload pressures and has been 'rolled over' into the 2022/23 Work Plan. However, the 'high-risk commercial premises protocol' is a result of this area of activity.

- 5.4 All other areas of activity were achieved.

⁷ National Fraud Office 2013

⁸ Centre for Counter Fraud Studies, University of Portsmouth, 2017

⁹ Government Economic Crime Plan 2019

¹⁰ *Fighting Fraud and Corruption Locally: A strategy for the 2020s*, Local Government Association, 2020

5.5 Work has commenced on drafting the Work Plan 2022/23 (**Appendix 5**) and this is being reviewed to consider how the team can widen its proactive activity to other areas of the Council's business. This will be complete and in action before CFIT publishes its Annual Report.

6 Investigations

6.1 Since 1 April 2021, CFIT have dealt with, or are investigating, 416 cases (94 of these cases started prior to that date). This is an increase of 89 cases (27%) on the 2020/21 year (328 cases).

6.2 Since April 2021, we have received 323 new cases of which 107 were received since the last report to the Committee.

6.3 Of the total 416 investigations:

- 322 have been concluded
- 94 investigations are active:
 - 66 are currently being investigated
 - 7 are with Legal Services for prosecution
 - 21 are waiting assignment to an investigator.

6.4 A breakdown of these investigations can be found in **Appendix 2**.

As requested by the Audit Committee, the Revenues and Benefits fraud figures have now been divided into the separate categories of *Council Tax* (which includes Council Tax Reduction Scheme offences¹¹), *Business Rates*, and *Covid-19 related grants*.

6.5 Our current prosecutions relate to:

- 2 offences concerning procurement fraud
- 2 offences relating to Business Rates Small Business Rates Relief fraud
- 2 offences relating to grant fraud (non-covid)
- 1 offence relating to Blue Badge fraud.

6.6 Highlights this period include:

- The recovery of £34,988 in fraudulent or incorrectly awarded grant funds
- £11,420 in recouped Business Rates Small Business Rates Relief
- £6,970 in recouped Council Tax discounts and exemptions with £280 in penalties imposed by the Revenues Team as a result
- £408 gained from agreeing Council Tax Reduction Scheme Administrative Penalties
- Reports and evidence provided to South Essex Homes to support the recovery of 3 properties, saving the Council £63,000¹² over the coming year

¹¹ This is because CTRS offences often also involve Council tax offences.

¹² This is measured by the cost of keeping a family in temporary accommodation, estimated to be £23,000 a year.

- One Right to Buy application withdrawn as the result of an investigation, saving the Council £57,000 in Right to Buy discount
- 4 cautions issued for Blue Badge misuse
- 8 intelligence reports issued to national agencies concerning organised criminal activity
- 13 reports issued to the DWP concerning benefits fraud
- 2 intelligence reports issued to Essex Police concerning money laundering activity
- Meeting 68 Data protection Act requests for information from other agencies
- Performing due diligence checks on 9 Right to Buy applications, 2 of which required further investigation.

6.7 Our results for 2021/22 are:

- Three successful prosecutions of:
 - One company for environmental offences (parking vehicles for sale) resulting in a £4,000 fine and £145 in costs awarded to the Council
 - One individual for fraud offences (using an altered parking permit) resulting in a 12 month community order, 80 hours unpaid work and £350 in costs to the Council
 - One individual for fraud and forgery offences (using an altered parking permit) resulting in a 12 month community order, 80 hours unpaid work and £350 in costs to the Council.
- Council Tax Reduction Scheme Administrative Penalties¹³ agreed to the value of £3,079
- £19,452 of fraudulently obtained Council Tax reductions and discounts recovered¹⁴
- £16,150 in Business Rates recouped with an added income to the Council of approximately £15,500¹⁵ for the coming year
- Assisting the prevention of £152,746 in fraudulent covid-19 related grant applications being awarded
- £75,888 of fraudulent or incorrectly awarded covid-19 related grant payments recovered
- Assisting in the recovery of eight social housing properties, saving the Council £178,000 in future temporary accommodation costs¹⁶
- £172,985 in savings generated by the National Fraud Initiative (NFI, see section 8).

¹³ The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013 allow the Authority to offer offenders an Administrative Penalty of between £100 and £1,000 as an alternative to prosecution.

¹⁴ This is mainly the recovery of fraudulently obtained Single Person Discount and Council Tax Reduction.

¹⁵ This is due to the removal of Small Business Rates Relief.

¹⁶ It is estimated that the fraudulent occupation of a social housing property costs the Council £23,000 a year; this is the cost of keeping a family in temporary accommodation for that time. Other estimates put this cost a lot higher by factoring in the cost of investigation, enforcing statutory obligations, anti-social behaviour etc.

- Four employees referred to Human Resources for misconduct issues
- One individual removed from the social housing waiting list for failing to declare assets
- Assessing 41 Right to Buy applications on behalf of South Essex Homes, 7 of which required further enquiries
- One Right to Buy application withdrawn following an investigation, saving the Council £57,000 in Right to Buy discount
- Nine individuals cautioned for Blue Badge misuse and two badges confiscated, saving the Council £1,150¹⁷ of lost parking revenue in the coming year
- 52 referrals to other agencies
- Meeting 203 Data Protection Act requests for information from other agencies.

This totals **£692,794** (£519,809 discounting the NFI figures) benefit to the Council from CFIT's activities since 1 April 2021.

6.8 The number of cases CFIT have received this year has increased 27% on 2020/21. There could be several reasons for this:

- Increasing staff confidence in CFIT's work, professionalism, communication, and results
- Increased staff fraud awareness because of training and newsletters
- Increased visibility of CFIT and a constant striving for increased joint working
- An increase in fraud perpetrated against the Council
- An increase in the number of investigations resulting from the NFI
- The relaxation of pandemic restrictions; although much of the Council was continuing 'business as normal' albeit in a different way, many reports to us result from direct interactions with residents.

In reality, it is likely to be a combination of all the above and other factors. It is also possible that the growing 'cost of living crisis' in the UK may encourage an increase in attempted fraud against the Council over the coming year.

6.9 This year's results are impressive:

- The total benefit (£692,793) is a **128% increase** on 2020/21 (£330,427).
- The benefit directly attributable to the team (£519,808) is a **68% increase** on 2020/21 (£310,003).
- The NFI result (£172,984) is a **229% increase** on 2020/21 (£52,605).

The team's 2020/21 results should be considered in the context of staffing turbulence early in that year, extensive pandemic restrictions, and that the NFI exercise was not fully engaged with by the fraud service prior to the introduction of CFIT.

¹⁷ Blue Badge fraud is estimated to cost the Council £575 per badge per year in lost revenue.

- 6.10 However, this year's total benefit equates to £138,558 per Counter Fraud & Investigation officer and thus represents exceptional value for money. The benefit directly attributable to the team is 2.4 times its budget.
- 6.11 CFIT's successes would not be possible without the dedication, skills and professionalism of its investigators and the credit for this lies largely with them. CFIT would also find it difficult to operate without the support, vigilance, willingness to work together, and expertise of many staff and teams across the Council which we value and appreciate greatly. These people are the 'front line' in the Council's fight against fraud.

7 Fraud prevention

- 7.1 CFIT's Fraud prevention strategy is comprised of:
- Raising the awareness of the risk of fraud in all staff
 - Maintaining adequate controls in policies and procedures
 - Highlighting new frauds and information sharing
 - Deterrence by publicising our results
 - Deterrence by having a high visibility in the community by conducting proactive detection and deterrence exercises.
- 7.2 The Fighting Fraud in Local Government Course, written by CFIT, has been completed by 684 officers and is rated 4.5 out of 5 stars by those having completed it. The Monthly Fraud Update is a newsletter for staff and the public highlighting current risks of fraud and providing advice as to how people can protect themselves. This reaches over 700 individuals.
- 7.3 CFIT are currently developing a Money Laundering Awareness Course targeted at those areas of the business most at risk of being used to launder criminal proceeds, but will be available to all staff.
- 7.3 The successful prosecutions mentioned above were publicised through the local press and this will continue to be done with future cases.
- 7.4 As mentioned above, CFIT will be engaging with Internal Audit's work to provide a fraud risk assessment and recommendations to strengthen any identified vulnerabilities.
- 7.4 CFIT issued 40 fraud alerts to various teams within the Council during the year highlighting current and emerging fraud threats that affect their areas of the Council's business. Some of these, such as covid-19 related grant fraud alerts, have been instrumental in preventing organised criminal fraud attempts against the Council.
- 7.5 CFIT has issued 8 intelligence reports concerning organised criminal activity with the national authorities tasked with cross-border grant fraud.

- 7.6 Membership of CIFAS entails publishing Fair Processing Notices where there is an intention to search the National Fraud Databases for indications of previous dishonest conduct. This will deter corrupt suppliers and prospective employees from engaging with the Council to commit further offences. Furthermore, those found guilty of fraud, or those dismissed due to dishonest conduct, can be added to the databases to inform other members and prevent offenders from moving on and continuing their behaviour elsewhere.

8 The National Fraud Initiative (NFI)

- 8.1 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.
- 8.2 An example of this is matching household non-dependents who have turned 18 with households in receipt of Council Tax Single Person Discount (SPD) (the non-dependent ceases to be such when they reach this age and SPD can no longer be claimed).
- 8.3 CFIT operates as the local coordinator and key contact for the NFI at Southend-on-Sea City Council: centrally organising the training of staff, the upload of data and the processing of returns.
- 8.4 The current cycle is now at the stage where results are being returned for local review and assessment and the savings resulting from the exercise totals **£172,985**. The specific results from the NFI can be found in **Appendix 4**. It should be noted that the Revenues Team were not able to review all their reported matches due to pressures resulting from the pandemic and the administration of grant funds on behalf of central government. These results may be available in the coming year.
- 8.5 42 fraud investigations have resulted from the NFI this year.
- 8.6 It should be noted that while CFIT coordinates NFI activity, ensures that there is commitment to the exercise and trains staff, it cannot be done without the support and hard work of many teams across the Council. Their efforts are very much appreciated and have proved to be both professional and worthwhile.

9 Corporate implications

Contribution to the Southend 2050 Road Map

- 9.1 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 the Council Ambition and the delivery of all Southend 2050 outcomes. It does this by protecting and recovering the assets and funds that the council holds.
- 9.2 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.

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

Financial Implications

- 9.4 The work of the Counter Fraud and Investigation Team 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.

As noted at paragraph 4.6 the Counter Fraud and Investigation team has delivered £692,794 benefit to the Council through its activities.

- 9.5 The work of the Counter Fraud and Investigation Team 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.

As noted at paragraph 4.6 the Counter Fraud and Investigation team has delivered £692,794 benefit to the Council through its activities.

Legal implications

- 9.6 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.”*

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

- 9.8 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.

People implications

- 9.9 People issues that are relevant to delivering individual investigations, or the Workplan, will be considered as part of each piece of work, and Human Resources consulted as appropriate.

Property implications

- 9.10 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.

Consultation

- 9.11 The progress with investigations and delivery of the Workplan are periodically discussed through monthly meetings with key stakeholders and with Directors before being reported to Corporate Management Team and the Audit Committee.

Equalities Impact Assessment

- 9.12 The relevance of equality and diversity issues is considered during the initial planning stage of each investigation and piece of development work delivered, with Human Resources consulted as appropriate

Risk assessment

- 9.13 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.
- 9.14 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.

Value for money

- 9.15 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.

Community Safety Implications

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

Environmental Impact

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

Appendices

Appendix 1 – Counter Fraud Work Plan 2021/22

Appendix 2 – Breakdown of CFIT investigations

Appendix 3 – Benchmarking Report

Appendix 4 – NFI Results 2021/22

Appendix 5 – DRAFT Counter Fraud Work Plan 2022/23