

Southend-on-Sea City Council

Report of the Executive Director (Finance and Resources)

to

Audit Committee

on

19 July 2023

Report prepared by Shaun Dutton, Counter Fraud & Investigations Manager

Agenda
Item No.

Counter Fraud & Investigation Team: Annual Report and 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 2022/23 (Annual Report).
- 1.2 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 2023/24 (Quarterly Performance Report).

2 Recommendation

- 2.1 The Audit Committee notes the performance of the Counter Fraud & Investigation Team during 2022/23.
- 2.2 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 was formed in October 2019 following the dissolution of a shared fraud service agreement with Thurrock Council.
- 3.2 The team is dedicated to protecting the funds and assets of Southend-on-Sea City Council (the Council). We protect the Council from fraud, corruption, and losses resulting from criminal behaviour. We pursue those that commit crime against the Council and recover losses where possible.
- 3.3 The team is comprised of a manager, four highly trained and experienced criminal investigators, and an apprentice fraud investigator. The range of experience that these officers hold includes Local Authority, DWP, Police, and National Crime Agency investigations. The combined weight of experience in the team is over 100 years. One of our investigators is now an Accredited Financial Investigator.

- 3.4 When the team was initially formed, we reinvigorated the Council's engagement with the National Fraud Initiative (NFI), which had reduced during previous years. The NFI is a Cabinet Office exercise, run on a two-yearly cycle, that matches electronic data within and between public and private sector bodies to prevent and detect fraud.

CFIT provides training and oversight of the Council's contribution to this, managing the uploading of data sets and the assessment of the results. In 2021/22, this exercise provided £172,984 of benefit to the Council. The NFI cycle started again in 2022 and the results are currently being assessed by various teams across the Council. The resulting benefit from this round of activity will be fully known later in the year, as the NFI is now re-established at the Council, the returns from this round of activity are expected to exceed the previous one.

- 3.5 From its inception, CFIT has worked hard to rebuild trust in the service across the Council. This has involved an emphasis on communication and reporting, demonstrating a commitment to addressing fraud against the Council, advertising and promoting the service to staff at all levels and at every opportunity, and doing what we say we will do.

The success of this approach is evident in feedback we are given, the number of senior managers that now seek out our advice, our results, and the volume of referrals that are made to the team.

The increase in referrals to CFIT is demonstrated in **Appendix 3** which charts this increase since the team's formation.

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 combined¹.

However, the police have only 2% of their resources dedicated to fraud investigation, despite it making up more than 40% of all crime². A 2019 inspection of the police's response to fraud found that these offences are generally not considered to be a priority³.

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.

¹ Victims Commissioner, 2021

² House of Commons Justice Committee, 2022

³ 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 estimate⁴ suggesting that fraud may be costing UK local authorities £2.1bn a year. This compares to a 2017 estimate⁵ 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: although the increase is likely to be exponential, using this figure extrapolates to **£14.8bn** in UK local authority loss from fraud in 2022.

- 4.3 The national fraud guidance for local authorities⁶ is placing an increased emphasis on proactive fraud prevention initiatives and our Work Plans are guided by this.

Annual Report 2022/23

5 Introduction

- 5.1 The highlights from CFIT's work this year include:
- 5.2 All new starters at the Council now receive an information pack highlighting the work of the team and reminding them of their obligations in terms of expected behaviours, the Council's Values and Behaviours, and the need to make Declarations of Interest.
- 5.3 Following concerns highlighted by the NFI around staff Declarations of Interest, the City's maintained schools have now altered their policies to be in line with the Council's and have received Fraud Awareness Training. As a result, they have subscribed to the team's monthly Fraud Update newsletter.
- 5.4 CFIT secured funding and recruited a Counter Fraud Investigator Apprentice who is now established in the team and providing productive work. She is excelling in her studies and gradually increasing the range of work she can undertake, including conducting low-level investigations under the mentorship of fellow investigators.
- 5.5 One officer has completed her training with the National Crime Agency and is now an Accredited Financial Investigator. This represents a significant increase in the team's reach and capabilities, and we are now able to conduct money laundering investigations. As a result, we anticipate higher returns for the team in terms of compensation to the Council and recovery of our losses and benefit from confiscated proceeds of crime. As money laundering investigations have a long lead-in time and only produce results following conviction, results from this activity will not be evident for several months and are also dependent on court timescales.
- 5.6 Fraud awareness training has been delivered to all South Essex Homes' Tenancy Officers and support staff. Blue Badge enforcement training has been delivered to all APCOA's Civil Enforcement Officers.

⁴ National Fraud Office 2013

⁵ Centre for Counter Fraud Studies, University of Portsmouth, 2017

⁶ *Fighting Fraud and Corruption Locally: A strategy for the 2020s*, Local Government Association, 2020

- 5.7 CFIT commenced an assessment programme targeting tenants that have built up a significant credit balance (over £1,000) on their rent accounts. This is a 'red flag' for subletting or money laundering. There are consistently over 100 tenants in this situation. This programme runs alongside the officers' normal caseload.
- 5.8 CFIT have acquired specialist financial investigation software which substantially decreases the time investigators spend analysing financial material and increases the accuracy of analysis results. This enhances our financial investigation capabilities, making prosecutions for money laundering offences more likely to be successful, increasing recovery to the Council.
- 5.9 CFIT now have a joint working agreement with the DWP; this is something that we have been seeking since the team's inception and enables us to broaden the scope of what we investigate and make savings on prosecution costs in certain cases.
- 5.10 CFIT have delivered a Money Laundering Awareness eLearning course which is now available to all staff and is mandatory for all managers. The team did request for this, and our Fraud Awareness eLearning course, to be mandatory for all staff but this was rejected due to the volume of the current list of mandatory courses for all staff.
- 5.11 The team has delivered a presentation with supporting material to the Extended Corporate Leadership Team, including Heads of Service, to raise awareness of the signs and risks of timesheet fraud. This is on the increase across local authorities and was expected within the fraud community given the change in working practices since the pandemic and the current cost of living crisis.
- 5.12 CFIT conducted five proactive fraud detection and deterrence exercises during the year: three targeting tenancy fraud and two targeting blue badge fraud. 288 tenancies were visited and approximately 200 blue badges were inspected. These exercises generated 14 investigations, including one prosecution.
- 5.13 CFIT contributed to a review of South Essex Homes' Conditions of Tenancy and were able to make amendments that strengthened the fraud message and assisted our access to properties under investigation.

6 Investigations

- 6.1 During 2022/23, CFIT have dealt with, or are investigating, 440 cases (96 of these cases started prior to 1 April 2022). 344 referrals were made to the team during the year.
- 6.2 Of the total 440 investigations:
- 334 have been concluded
 - 106 remained active:
 - 71 are still being investigated
 - 8 are with Legal Services for prosecution
 - 27 are still awaiting assignment to an investigator

- 6.3 A breakdown of these investigations can be found at **Appendix 2**.
- 6.4 CFIT concluded 5 prosecutions during the year, all of which were successful, maintaining our 100% conviction record:
- Defrauding the Essential Living Fund grant scheme resulting in a 12-month suspended sentence, £250 compensation order and costs of £1,600
 - Blue badge misuse resulting in a £660 fine and £277.29 costs
 - Covid grant fraud resulting in 180 hours unpaid work and £379.67 costs
 - Blue badge misuse, theft and fraud resulting in a 2-year conditional discharge and £200 costs
 - Blue badge misuse resulting in £100 fine and £200 costs.

6.5 The 8 outstanding prosecutions relate to:

- Two individuals accused of a large-scale procurement fraud; these cases will be going to trial as a single prosecution
- Two individuals accused of fraudulently claiming Small Business Rates Relief fraud (one prosecution)
- One individual accused of defrauding the Essential Living Fund grant scheme, this individual has absconded and is the subject of an arrest warrant
- One individual accused of committing Covid grant fraud and money laundering offences; this case will be going to trial
- One individual accused of fraudulently claiming Council Tax Single Person Discount
- One individual accused of blue badge misuse and perverting the course of public justice
- One individual accused of blue badge misuse

The courts in England and Wales continue to address the consequences of the Covid-19 pandemic which created a substantial backlog of cases to hear. It currently takes around 6 months for a case to be heard in the Magistrates' Court and over 18 months for a case to reach trial.

6.6 Results this year include:

- £2,907 in compensation and costs awarded by the court
- £20,047 in recovered Council Tax
- £75,168 in recovered Business Rates
- £11,890 in recovered Council Tax Reduction and Administrative Penalties
- 8 social housing properties recovered, saving the Council £241,000
- One fraudulent Right to Buy prevented saving £87,200
- Two fraudulent housing application prevented saving £46,000
- £42,670 in fraudulent Covid grant applications prevented or recovered
- 3 fraudulent Blue Badges recovered saving £1,725

- The NFI has generated further savings of £60,661
- An unpaid alcohol licence fee of £2,080 has been recovered
- 18 Blue Badge misuse warnings issued
- 5 employees referred to HR for failing to make a Disclosure of Interest
- Other internal investigations involved 4 allegations of timesheet fraud and one of theft, 21 further internal investigations were conducted over the course of the year
- The team also responded to 229 requests for information under DPA, we assessed 32 Right to Buy applications and 38 tenants who had excessive credits on their rent account.

The total benefit to the Council from the team's activities in 2022/23 is **£523,696**.

- 6.7 This is somewhat lower than the 2021/22 figure mainly due to the NFI results still being assessed. As the NFI runs on a 2 year cycle, the team's results oscillate according to when the results are returned.

	2020/2021	2021/2022	2022/2023
CFIT's activities	£310,003	£519,808	£463,035
NFI	£20,424	£172,984	£60,661
Total	£330,427	£692,792	£523,696

- 6.8 Furthermore, the recruitment of an apprentice was expected to impact on the team's productivity in the short-term due to the substantial investment in up-front training and mentoring required. This is expected to be paid back by increasing productivity as the apprentice becomes more capable and proficient.
- 6.9 There was also a substantial increase in internal investigations this year which require immediate attention and absorb a lot of resources. In 2021/22 the team received 5 referrals concerning staff, in 2022/23 we received 18.

7 Work Plan 2022/23

- 7.1 The CFIT Work Plan 2022/23 can be found at **Appendix 1**.
- 7.2 Out of the 31 specified tasks in the plan, 5 have not been achieved, mainly due to the team's workload and the need to prioritise allegations of criminal behaviour. One of these was abandoned as it was not possible to secure funding. The rest have either been achieved or are ongoing tasks.
- 7.3 The tasks that were not achieved have been rolled over into the 2023/24 Work Plan (**Appendix 4**).
- 7.4 Most of the key results from the Work Plan are summarised in section 5 above.

8 Fraud prevention

8.1 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.

8.2 The Fighting Fraud in Local Government Course, written by CFIT, has been completed by over 684 officers and is rated 4.5 out of 5 stars. This is available to all staff and is now mandatory for all Council managers.

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 1,000 individuals.

8.3 The Money Laundering Awareness Course, also written by CFIT, is available to all staff. There are no metrics available on its uptake but it was made mandatory for key staff at its launch and is now mandatory for all Council managers.

8.4 CFIT engages with the Internal Audit team to provide fraud risk assessments and recommendations to strengthen any identified vulnerabilities in high-risk areas of the Council's business.

8.5 CFIT issued 17 fraud alerts to various teams across the Council over the year to highlight current and emerging fraud threats that affect their areas of the Council's business. CFIT has issued 8 intelligence reports concerning organised criminal activity with the national authorities tasked with cross-border grant fraud.

8.6 The team's proactive fraud detection and deterrence work has been publicised in the press. While deterrence is difficult to measure, we know anecdotally, for example, that the social housing population are aware of our tenancy fraud operations. This may go some way to deterring this activity and encouraging law-abiding tenants to report concerns to the team.

8.7 While not all our successful prosecutions are published in the press, we issue press releases for all of them, and most are taken up for publication. The publication of these results is an important deterrence tactic.

9 The National Fraud Initiative (NFI)

- 9.1 As mentioned above, by 31 March 2023, the data upload phase of the NFI had been completed and the data match results were starting to be processed by teams across the Council.
- 9.2 The results processed to this date have produced:
- £26,572 in Council Tax Single Person Discount savings
 - £16,957 in concessionary travel pass cancellation savings
 - £17,132 in Housing waiting list cancellation savings
- 9.3 The total benefit to the Council from the 2022/23 NFI exercise is **£60,661**.
- 9.4 Since 1 April 2023, further results have been assessed and these are detailed in the Quarterly Update Report below.
- 9.5 For more information on the NFI, their 2022 report can be found at **Appendix 6**.

Quarterly Update Report July 2023

10 Introduction

- 10.1 This quarter has been exceptionally busy for the team in terms of casework. Several large and complex high-priority investigations have been launched that have absorbed a substantial amount of manpower and resources and this, combined with one officer's extended leave of absence, has impacted on the team's ability to maintain business as usual.
- 10.2 As a result, we have developed a 'streamlined' process for resolving allegations of low-value fraud which still effectively provides savings for the organisation. If this process works as planned, it may be adopted as a permanent operating model for such cases to enable the team to direct more resources to higher value allegations of fraud.
- 10.3 Following a review of the Benefits Team's fraud referral process, this has been made simpler and more in-line with CFIT's operating procedure. The new process makes referrals easier and quicker to prepare and releases Benefits Officers' time to concentrate on their core business.
- 10.4 Unfortunately, one of our officers has provided his notice of leaving. This officer is extremely knowledgeable and competent and he will be missed by the team and our partners. His reason for leaving the team is due to personal circumstances and receiving an offer he could not refuse and which the Council could not match. The process to recruit his replacement has begun.
- 10.5 CFIT's Work Plan for 2023/24 has been finalised and can be found at **Appendix 4**. This is less ambitious than the previous year's plan (**Appendix 1**) due to the workload pressure the team is currently operating under, which is likely to continue for months to come, and the expected disruption of recruiting, inducting, and training a new investigation officer. Tasks that have been rolled over from the previous year are marked as such.

10.6 Our programme of proactive fraud detection and deterrence exercises will begin this month with an operation targeting tenancy fraud.

11 Investigations

11.1 Since 1 April 2023, CFIT have dealt with, or are investigating, 203 cases (107 of these cases started prior to that date). 96 referrals have been made to the team this quarter.

11.2 Of the total 203 investigations:

- 89 have been concluded
- 114 are active:
 - 62 are being investigated
 - 9 are with Legal Services for prosecution
 - 43 are still awaiting assignment to an investigator

11.3 A breakdown of these investigations can be found at **Appendix 5**.

11.4 CFIT have achieved three convictions this quarter:

- One individual was convicted of Blue Bage fraud and ordered to pay a £369 fine and £320 in costs
- One individual was convicted of Blue Badge misuse and ordered to pay £120 fine and £1,000 in costs
- One individual was convicted of Blue Badge misuse and ordered to pay £440 fine and £3,540 in costs

11.5 The 9 outstanding prosecutions relate to:

- Two individuals accused of a large-scale procurement fraud; this will be going to trial
- Two individuals accused of fraudulently claiming Small Business Rates Relief fraud (one prosecution)
- One individual accused of defrauding the Essential Living Fund grant scheme, this individual has absconded and is the subject of an arrest warrant
- One individual accused of committing Covid grant fraud and money laundering offences; this will be going to trial
- One individual accused of Covid grant fraud
- One individual accused of fraudulently claiming Council Tax Single Person Discount
- One individual accused of blue badge misuse and perverting the course of public justice
- One individual accused of blue badge misuse

CFIT are also currently preparing three further cases for prosecution.

11.6 Other results this quarter include:

- Two social housing properties recovered, saving £65,000⁷
- £19,394 in recovered Council Tax
- £4,342 in recovered Council Tax Reduction⁸
- The identification of a £40,000 outstanding debt that had been overlooked and not pursued and which is now being rectified
- The recovery of 9 Blue Badges that had remained in circulation following the holder's death, saving £5,175⁹
- 7 Blue Badge warnings being issued
- NFI results this quarter total £91,810 of savings.

11.7 The total benefit to the Council from CFIT's activities since 1 April 2023 is **£230,583**.

12 The National Fraud Initiative (NFI)

12.1 As mentioned above the NFI data matches from the current exercise have now been returned and are being assessed. In many cases, these result in adjustments based on information the Council was not aware of or errors identified.

An example is a match between dependents in a household turning 18 in a household that is in receipt of Single Person Discount. As this person is now an adult, the household no longer qualifies for the discount and it is removed from the date of the dependent's birthday. Another is identifying Blue Badge holders who are deceased but the badge has not been returned.

12.2 Since 1 April 2023, 19 cases have been referred to CFIT for investigation as a result of NFI matches.

12.3 The reported savings to the Council since 1 April 2023 are:

- Council Tax: £28,980
- Others: £62,829.96¹⁰

The total NFI savings to the Council for this period is **£91,810.98**.

⁷ A property recovered from non-fraud circumstances is valued at £23,000 which is the cost of keeping a family in temporary accommodation for a year, a property recovered due to fraud is valued at £42,000 which is a national standard valuation, including the above plus other costs associated with the crime.

⁸ This includes the issue of Administrative Penalties as an alternative to prosecution, the maximum penalty is £1,000.

⁹ Blue Badges are valued at £575 which is a national standard valuation of the lost revenue from parking from Blue Badge misuse in a non-metropolitan area.

¹⁰ These matches referred to Blue Badges, the housing waiting list, and Council Tax Reduction.

13 Corporate implications

Contribution to the Corporate Plan and Southend 2050 Road Map

- 13.1 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 all the council's priorities, aims and objectives.
- 13.2 It does this by protecting and recovering the assets and funds that the council holds.
- 13.3 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.
- 13.4 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

- 13.5 The financial results of the work of the Counter Fraud and Investigation Team are set out in the report, and the work of the 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

Legal implications

- 13.6 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."*
- 13.7 The work of the Counter Fraud & Investigation Team contributes to the delivery of this requirement.
- 13.8 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

- 13.9 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

- 13.10 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

- 13.11 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.

Risk assessment

- 13.12 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.
- 13.13 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.

Equalities Impact Assessment

- 13.14 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.

Value for money

- 13.15 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.

Appendices

Appendix 1: Counter Fraud Work Plan 2022/23

Appendix 2: Breakdown of CFIT investigations 2022/23

Appendix 3: Referrals to CFIT by quarter

Appendix 4: Counter Fraud Work Plan 2023/24

Appendix 5: Breakdown of CFIT investigations July 2023

Appendix 6: National Fraud Initiative Report 2022