

Meeting: Audit Committee
Date: 25 October 2023
Classification: Part 1
Key Decision: No
Title of Report: Counter Fraud & Investigation Team: Quarterly performance report

Executive Director: Joe Chesterton: Executive Director (Finance and Resources)
Report Author: Shaun Dutton: Counter Fraud & Investigation Manager
Executive Councillor: Cllr Cox: Leader (Cabinet Member for Special Educational Needs & Disability)

1. Executive Summary

1.1 The purpose of this report is 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.

2. Recommendations

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

3. Background

3.1 The Counter Fraud & Investigation Team was formed in October 2019 and 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.

4. Summary of work this quarter

4.1 CFIT continue to work in challenging circumstances with a continuing high volume of internal investigations and one Fraud Investigator post vacant.

4.2 The volume of internal investigations requires a substantial amount of the team's operational resources which impacts on our other core functions of protecting the Council from fraud and recovering losses. Nevertheless, allegations of criminal activity by officers must be investigated as a priority.

4.3 However, the recruitment exercise for a new Fraud Investigator is now complete and the post has been offered to the successful candidate. It is expected that the new officer will be joining the team within a matter of weeks.

Although there will be a period of induction and training, the officer is fully qualified and very experienced, and it is expected that he will be fully operational and productive in a relatively short period of time.

4.4 CFIT conducted two proactive fraud detection and deterrence exercises during this period:

- a tenancy fraud exercise focused on the vicinity of London Southend Airport. This operation was limited in scope due to the team's workload and available resources. Sixty tenancies were visited which resulted in one investigation.
- a blue badge fraud exercise focused on the vicinity of Southend High Street during the Southend City Jam. It is estimated that around 300 blue badges were inspected during the day which resulted in seven investigations, one of which has been approved for prosecution. Four blue badge misuse warnings have been issued and one individual was referred to the DWP.

4.5 As a result of the internal investigations currently underway, CFIT has been active in proposing amendments to the Council's policies and procedures to close loopholes and increase the Council's protection from internal and external fraud. These include:

- Expenses policy and p-card use
- The social housing mutual exchange process
- Driving at work policy
- Road transport policy
- Time recording by officers
- Parking permit process and declarations
- Disclosure of Interest process and improved training

4.6 Due to the challenging financial environment the Council is facing, the team's approach to investigation and prosecution has been revised to increase our emphasis on the recovery of losses to the Council. It is likely that the team will be conducting fewer prosecutions, and this sanction will be reserved for the most serious cases¹. The prosecution of offenders is expensive and usually results in a net loss to the Council. Alternatives are being explored to recover the losses from minor offences in a cost-effective manner. This approach has the added benefit of allowing cases to be resolved quicker.

¹ The seriousness of an offence is relative for example, blue badge fraud is a relatively minor offence but may still be prosecuted where there are aggravating factors. It will still be necessary to conduct some prosecutions as the only appropriate sanction and to deter others.

5. The threat from fraud

- 5.1 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 combined².

However, the police have only 2% of their resources dedicated to fraud investigation, despite it making up more than 40% of all crime³. A 2019 inspection of the police's response to fraud found that these offences are generally not considered to be a priority⁴.

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.

- 5.2 An indication of the increasing threat to the Council is demonstrated by a 2013 estimate⁵ suggesting that fraud may be costing UK local authorities £2.1bn a year. This compares to a 2017 estimate⁶ 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.

- 5.3 The national fraud guidance for local authorities⁷ is placing an increased emphasis on proactive fraud prevention initiatives and our Work Plans are guided by this.

- 5.4 Progress on the Counter Fraud Work Plan 2023/24 (**Appendix 1**) has been challenging for the reasons cited in 4.2 above. A tenancy fraud detection and deterrence exercise planned for September 2023 has been postponed due to resource and workload issues and may be conducted in October if resource availability allows.

- 5.5 Consideration may be given to cancelling a blue badge exercise this month due to an existing large caseload of blue badge investigations and the time restriction for completing these investigations. APCOA Civil Enforcement Officers were trained in blue badge fraud by CFIT earlier in the year and this has proved more successful than anticipated, and as a result the team has a high volume of blue badge investigations currently running⁸.

² Victims Commissioner, 2021

³ House of Commons Justice Committee, 2022

⁴ Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services, 2019

⁵ National Fraud Office 2013

⁶ Centre for Counter Fraud Studies, University of Portsmouth, 2017

⁷ *Fighting Fraud and Corruption Locally: A strategy for the 2020s*, Local Government Association, 2020

⁸ Blue badge offences have a time limit for prosecution of 6 months from the detection of the offence.

5.6 Furthermore, there are some activities that were allocated to the officer who left the team and need to be reassigned, which is challenging when much of the team's resources are dedicated to internal investigations.

6. Investigations

6.1 Since 1 April 2023, CFIT have dealt with, or are investigating, 301 cases (107 of these cases started prior to that date).

6.2 Of the total 301 investigations:

- 201 have been concluded
- 100 investigations are active:
 - 56 are currently being investigated
 - 6 are with Legal Services for prosecution
 - 38 are waiting assignment to an investigator.

6.3 A breakdown of these investigations can be found at **Appendix 2**.

6.4 Our current prosecutions relate to:

- 2 concerning procurement fraud
- 2 concerning covid grant fraud
- 1 concerning council tax single person discount fraud
- 1 concerning unlawful use of a blue badge.

6.5 We also have an outstanding prosecution for non-covid grant fraud where the defendant has absconded. A warrant has been issued for their arrest and this case has been closed pending locating the defendant.

6.6 Results this period⁹ include:

- A conviction for unlawful use of a blue badge resulting in £80 fine, £575 costs and £34 victim surcharge
- A conviction for unlawful use of a blue badge resulting in £220 fine, £300 costs and £88 victim surcharge
- One social housing property recovered, saving the Council £43,000¹⁰
- £21,463 in recovered Business Rates
- £16,382 in recovered Council Tax
- £4,540 in recovered Council Tax reduction
- £66,792 in savings from the NFI
- 6 expired blue badges being taken out of circulation, saving the Council £3,450¹¹

Investigations into these offences therefore requires prompt attention, drawing resources away from more serious investigations.

⁹ 03/07/2023 to 11/10/2023

¹⁰ 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.

¹¹ Blue Badges are valued at £575 which is a national standard valuation of the lost revenue from

- 9 warnings issued for blue badge misuse
- 2 residents' parking permits being cancelled
- 5 Right to Buy applications being assessed
- 10 referrals to the DWP
- 53 Data Protection Act requests answered.

The total benefit to the Council from CFIT's activities this quarter is **£156,505** and the total benefit since 1 April 2023 is **£387,085**.

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 having a high visibility in the community by conducting proactive detection and deterrence exercises.

7.2 The *Fighting Fraud in Local Government* and *Money Laundering Awareness* courses, both written by CFIT are available to all staff and are mandatory for managers.

7.3 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.

7.4 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, and contributes to audits on areas where their vulnerability to fraud is perceived to be high.

7.5 CFIT regularly issues fraud alerts to various teams across the Council to highlight current and emerging frauds that affect their areas of the Council's business. We issued one of these this quarter.

7.6 CFIT regularly issues intelligence reports concerning organised criminal activity to the National Crime Agency. We issued one of these this quarter.

7.7 CFIT has information exchange agreements with Essex Police and HMRC and these channels are very active.

7.8 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.

7.9 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.

7.10 CFIT is very active in promoting policy and procedure changes to strengthen the Council's defences against external fraud and internal corruption.

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 upload of data and the processing of returns. The team investigates data matches that suggest fraud may have been committed.

8.4 The total savings from the NFI this quarter are **£66,792.45** and the total savings since 1 April 2023 is **£158,603.43**.

9. Reason for decision

9.1 Knowledge and understanding of the Council's pro-active approach to the prevention, detection and response to fraudulent and other inappropriate activity perpetrated against the Council provides the Committee with assurance that the Council is taking the risk of such activity seriously and addressing this in an appropriate and cost-effective manner.

10. Other options

10.1 To continue to operate in the way the team was this time last year is not an option. CFIT does not have the resources to do all we would like to do, and the financial environment demands that we provide the best value possible from our service.

10.2 The team currently has the capacity to actively investigate two thirds of our caseload and the remaining cases are waiting longer for attention. While the recruitment of a new investigator will ease this somewhat, the current trend in internal investigations is not showing any signs of easing.

10.3 The creation of further investigator posts, a dedicated financial investigator post, and an intelligence officer post within the team would both ease the investigatory burden and allow the team space to work proactively and increase our activities in fraud prevention and strengthening the Council's defences against fraud.

11. Financial implications

11.1 The financial implications of recruiting more officers are not insignificant, particularly when the Council is being challenged about its spending. However, CFIT has consistently proved that it benefits the Council more than it costs. With the volume of fraud that the team is dealing with, it is likely that employing more fraud investigators would increase the team's returns to the Council proportionately. At the midpoint of this financial year, CFIT's activities have benefitted the Council approximately 150% of its budget.

12. Policy context

12.1 This report is made in the context of the following policies:

- Counter fraud and corruption policy and strategy
- Counter money laundering policy and strategy
- Whistleblowing policy and procedure.

13. Consultation

13.1 No consultation has been required.

14. Contribution to the Council's aims and objectives

14.1 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 aims and objectives.

14.2 It does this by recovering assets that are properly the Council's and protecting the assets and funds that the council holds.

14.3 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.

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

15. Legal implications

15.1 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.”*

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

15.3 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.

16. Carbon impact

16.1 The Counter Fraud & Investigation Team operates in the community and therefore some travel is necessary. This is usually performed in private vehicles due to the requirement to visit multiple sites over a geographic spread during a day.

16.2 However, the Counter Fraud & Investigation Team reduces its carbon footprint by:

- Operating an electronic case management system minimising the use of paper and printing. All documentary evidence is scanned electronically and, except where circumstances prevent it, the original is destroyed. This minimises physical storage requirements.
- Travelling by public transport wherever possible such as for court appearances or external training.
- Conducting meetings with external stakeholders remotely, minimising unnecessary travel.
- All CFIT officers have undergone Carbon Literacy training.
- Planning operational activity to minimise private vehicle use i.e., combining all necessary journeys on one day.

17. Equalities

17.1 The Counter Fraud & Investigation Team are committed to treating everyone equally and with respect.

17.2 All CFIT officers have undergone Equality and Diversity training. Our operational and daily activities comply with the Equality Act 2010, the Human Rights Act 1998, and the European Convention on Human Rights. We also comply with the relevant legislation to ensure a fair and objective investigation and prosecution such as the Police and Criminal Evidence Act 1984, the Regulation of Investigatory Powers Act 2000, the Investigatory Powers Act 2016, and the Criminal Procedure and Investigations Act 1996.

18. Risk assessment

18.1 Failure to operate a strong anti-fraud and corruption culture puts the Council at risk of increased financial loss from criminal activity. Enhancing and embedding such a culture is driven by the leadership and support of the Corporate Leadership Team.

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

19. Value for money

19.1 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.

20. Appendices

20.1 **Appendix 1:** Counter Fraud Work Plan 2023/24

20.2 **Appendix 2:** Breakdown of CFIT investigations