

Meeting: Audit Committee
Date: 27 January 2025
Classification: Part 1
Key Decision: No
Title of Report: Counter Fraud & Investigation Team: Quarterly Performance Report January 2025 and proposed updates to Council policies
Executive Director: Joe Chesterton: Executive Director (Finance and Resources)
Report Author: Shaun Dutton: Counter Fraud & Investigation Manager

1. Executive Summary

- 1.1 The purpose of this report is to inform the Audit Committee on the work done by the Counter Fraud & Investigation Team (CFIT) in delivering the Counter Fraud Strategy and Work Programme for 2024/25.

2 Recommendations

- 2.1 That the Audit Committee notes the performance of the Counter Fraud & Investigation Team over the last three months.
- 2.2 That the Audit Committee recommends the Counter Fraud and Corruption Policy and Strategy to Cabinet for approval.
- 2.3 That the Audit Committee recommends the Counter Money Laundering Policy and Strategy to Cabinet for approval.
- 2.4 That the Audit Committee recommends the Fraud Response Plan to Cabinet for approval.

3 Background

- 3.1 The Counter Fraud & Investigation 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.

4 Summary of work last quarter

- 4.1 CFIT's Counter Fraud Investigator Apprentice has now graduated and taken up a permanent role as a Fraud Investigator in the team. This recruitment has been exceptionally successful, and the team and the Council will benefit from the work of someone who has proved to be a competent and knowledgeable investigator. This brings the team back to its full complement.
- 4.2 Furthermore, utilising a payroll underspend from the investigator vacancy in the first half of this year, we have been able to recruit a further fraud investigator on a fixed term contract to the end of this financial year. This officer is expected to take up their new role at the start of the new year. The officer has worked in CFIT before and is expected to begin work at full capacity with minimal induction and training. It is anticipated that funding will be made available for 2025/26 to make this position permanent.
- 4.3 This represents a significant expansion in resource and capability for the team which, with a slight decline in the volume of internal cases the team is dealing with, will increase the team's effectiveness and productivity.
- 4.4 The Counter Fraud and Investigation Manager has completed a Certificate in Fraud Risk Management. This will enable the team to conduct fraud risk assessments on the areas of the Council's business that are at the highest risk of fraud. This project is expected to commence in the new year and its progress and findings will be reported in a separate section in future quarterly progress reports.
- 4.5 The Council's Fraud Awareness eLearning, which is mandatory for all Council employees, has been re-developed in partnership with Learning and Development and has now replaced the previous course. The new course is more directly relevant to the work of the Council and replaces an 'off the shelf' course that required a subscription, which the Council will no longer have to pay.
- 4.6 A Whistleblowing information eLearning course, to be available for all staff, is currently in development.
- 4.7 Presentations have been delivered to Adult Social Care managers and staff to raise their awareness of social care fraud. These frauds typically involve large losses to the Council and referrals to CFIT are relatively low compared to the nationally reported volume of such frauds.
- 4.8 CFIT were instrumental in identifying a scam concerning parking payment machines in the city where visitors were directed to a suspected fraudulent payment website. Prompt action was taken by the Council to warn residents and visitors of the scam and the city's parking machines were inspected for interference.
- 4.9 A Views on Sea blog was published to all staff in the Council to raise their awareness of the threat of fraud as part of International Fraud Awareness Week.

- 4.10 CFIT achieved four successful prosecutions this period, including the ex-manager of the Pier for fraud by abuse of position and an individual who fraudulently applied for covid assistance grant payments.
- 4.11 The proactive tenancy fraud detection and deterrence exercise planned for September did not take place due to an extended period of short notice annual leave by the organising officer. This exercise has been postponed to early 2025.

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 combined¹.
- 5.2 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.
- 5.3 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 on enabling businesses, individuals, and local authorities to protect themselves.
- 5.4 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.
- 5.5 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.

6 Policies and strategies

- 6.1 The Council's Counter Fraud and Corruption Policy and Strategy and Counter Money Laundering Policy and Strategy were last formally reviewed in 2018.

¹ Victims Commissioner, 2021

² House of Commons Justice Committee, 2022

³ Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services, 2019

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

- 6.2 These documents have been revised and updated to make them fit for purpose for today's Council.

The Counter Fraud and Corruption Policy and Strategy

- 6.3 The Counter Fraud and Corruption Policy and Strategy is now closely aligned with Fighting Fraud and Corruption Locally⁷; the national gold standard for local authorities' response to the threat from fraud and corruption.

- 6.4 This, alongside functional standards from the Government on the management of counter fraud and corruption⁸, places a strong emphasis on fraud risk management and the development of effective controls. The new strategy reflects this and CFIT will start work on fraud risk assessments across the Council in 2025.

- 6.5 The strategy also provides some guidance on measures the Council should take to ensure that it has reasonable procedures in place to protect it from prosecution for failure to prevent bribery and fraud offences.

- 6.6 The draft updated Counter Fraud and Corruption Policy and Strategy can be found at **Appendix 3**.

The Counter Money Laundering Policy and Strategy

- 6.7 The Counter Money Laundering Policy and Strategy has been revised to reflect the current guidance and best practice and to be clearer and easier to understand. It also expands on the actions of the Counter Fraud & Investigation Team to reflect their current capabilities.

- 6.8 The draft updated Counter Money Laundering Policy and Strategy can be found at **Appendix 4**.

The Fraud Response Plan

- 6.9 The Fraud Response Plan is a new document for the Council but is an established publication for many local authorities and large organisations. It defines roles and responsibilities, actions, reporting channels, and supporting resources to guide Members, Officers, and the public if fraud or corruption is suspected and how the Council will respond.

⁷ *Fighting Fraud and Corruption Locally: A strategy for the 2020s*, CFAS et al, 2020

⁸ *Government Functional Standard GovS 013: Counter Fraud*, HM Government 2021

6.10 It aims to:

- Minimise the risk of inappropriate action or disclosure taking place which would compromise an investigation
- Ensure that there is a clear understanding of the roles and responsibilities so that the correct teams and Officers are involved as appropriate
- Define reporting lines so that appropriate action is taken promptly
- Prevent further losses to funds or assets where fraud has been identified
- Enable the prompt collection and securing of evidence to support investigation, disciplinary, civil, and / or criminal action and the recovery of losses
- Ensure that appropriate action is taken against those responsible for proven fraud and corruption
- Minimise adverse publicity and reputational damage to the Council
- Prevent a chaotic response to incidents of fraud and corruption.

6.11 The draft Fraud Response Plan can be found at **Appendix 5**.

6.12 The Committee is invited to review and recommend these documents to Cabinet for their approval.

7 Fraud risk assessments

7.1 A comprehensive, Council-wide fraud risk assessment has been an ambition of the Counter Fraud & Investigation Team since it was formed. It has long been recognised that understanding the fraud risks the Council faces is key to its protection; you cannot mitigate or treat risks until you know what they are. This has not been achievable to date due to the capacity and training available in the team. However, with the anticipated expansion of the team and recent training, work on this project is now feasible and will be a beneficial activity to protect the Council from fraud, and to provide assurance that effective controls are in place and functioning effectively.

7.2 Initial enquiries suggest that the Council is relatively immature in its understanding of fraud risks. For example only two fraud risks appear across the Departmental Risk Registers; both of which resulted from findings of the Fraud Team.

7.3 There is no doubt that there are Teams in the Council that are alive to the risk of fraud and have controls in place to mitigate them, but there are undoubtedly other teams that have not sufficiently considered these risks.

7.4 It is worth noting that, because of our initial enquiries, a generic fraud risk will be added to all Departmental Risk Registers to encourage thinking about the fraud risks the Council may be exposed to, which is an early success for the project.

7.5 It is recognised that developing a comprehensive, Council-wide Fraud Risk Register is an enormous task that will take a significant amount of time and resource to complete. Therefore, the proposal is that this work starts on a relatively small scale; targeting the teams and service areas that are identified to be at the highest risk from fraud. This will provide the most benefit to the Council most quickly.

- 7.6 Operational fraud risk assessments can then inform Service Area level fraud risk registers which will inform Departmental level fraud risk registers.
- 7.7 Fraud Risk Assessments will describe some risks that will be within the Council's appetite or tolerance of risk and therefore a potential vulnerability as well as the controls in place to treat risks that are not within the Council's appetite or tolerance of risk. Therefore, these fraud risk assessments and registers sit alongside traditional risk registers, rather than encompassed within them, to avoid them being exposed to persons who do not need to know about them, or the vulnerabilities being publicised.
- 7.8 This project is currently in the planning stage and will not be possible without the support of the Corporate Leadership Team and the Audit Committee. The work on assessing fraud risks is expected to commence in 2025.
- 7.9 The results of this work will be reported to Operational Management, the Head of Internal Audit and Counter Fraud, the Corporate Leadership Team, and the Audit Committee.
- 7.10 Progress on this project will be reported to the Audit Committee through CFIT's quarterly update reports.

8 Investigations

- 8.1 Since 1 April 2024, CFIT have dealt with, or are investigating, 352 cases (120 of these cases started prior to that date).
- 8.2 Since 1 April 2024, CFIT has received 232 new cases.
- 8.3 Of the total 352 investigations:
- 249 have been concluded
 - 103 are active:
 - 48 are currently being investigated
 - 10 are being prosecuted
 - 45 are waiting for assignment to an investigator

8.4 17 of the active cases concern Council employees. 16 of these are being actively investigated and 1 is being prosecuted. This represents 16.5% of the total active caseload; 2% lower than the previous report. Several of these cases are expected to be concluded soon. A breakdown of these investigations can be found at **Appendix 2**.

8.5 CFIT's current prosecutions relate to:

- 2 concerning procurement fraud (due to be sentenced)
- 1 concerning covid grant fraud (this has been convicted and sentenced but the award of compensation and costs has been delayed)
- 1 concerning Adult Social Care fraud
- 1 concerning an ex-employee for expenses fraud
- 3 concerning blue badge fraud (one of these was convicted but has appealed)
- 1 concerning benefits and Council Tax Reduction fraud (this is a joint investigation with the DWP and the prosecution is being conducted by the CPS)
- 1 concerning school admission fraud.

8.6 Results this period include⁹:

- The successful prosecution of the ex-manager of the Pier for fraud by abuse of position: 200 hours unpaid work, £2,000 costs, and £2,595 compensation
- A successful prosecution for covid grant fraud: 20 months' custody suspended for 18 months, 35 days' rehabilitation activity, and 3 months' curfew. Costs and compensation will be decided at a later date
- A successful prosecution for blue badge fraud: £400 fine, £1,478 costs, and £160 victim surcharge
- A successful prosecution for blue badge fraud following a trial: £200 fine, £1,200 costs, and £80 victim surcharge. The conviction is currently being appealed
- The recovery of one property following identification of a fraudulent application for succession, saving £42,000¹⁰. The applicant could not be pursued as they live abroad
- Two fraudulent Right to Buy (RTB) applications prevented, saving £176,000¹¹ in RTB discounts
- One fraudulent selective school application prevented, saving £6,000¹²
- One fraudulent blue badge taken out of circulation, saving £575¹³ in lost parking revenue

⁹ 04/09/2024 to 27/11/2024

¹⁰ Using local and national guideline valuations, a property recovered as the result of fraud saves £42,000 and a property recovered (non-fraud) saves £23,000.

¹¹ For both properties, had the RTB application been successful, they would have been offered an £88,000 discount from the market value.

¹² This is the cost of the secondary education of a child for a year. If a child outside of the city fraudulently obtains a school place that should have been awarded to a child resident in the city, that child would still need to be educated.

¹³ National guideline valuations estimate that the recovery of a Blue Badge saves the Council £575 of lost parking

- Three blue badge warnings issued
 - One warning issued to prevent an unauthorised mutual exchange of Council properties
 - One safeguarding referral issued to Adult Social Care
 - 27 Right to Buy applications assessed¹⁴
 - 3 Social Housing rent accounts in credit over £1,000 reviewed¹⁵
- 8.7 CFIT are also providing financial investigation support to the Council's Trading Standards Team and Suffolk County Council's Trading Standards Team.
- 8.8 It is also worth noting that one of the blue badge convictions mentioned above was the result of the first trial that CFIT has given evidence in; all the previous convictions to date have been the result of guilty pleas. The main witness in this case was the team's apprentice, which is significant achievement for her so early in her career.
- 8.9 The total benefit to the Council from CFIT's activities this period is **£232,997.50** which brings the total benefit since 1 April 2024 to **£323,294.60**.

9 Work plan 2024/25

- 9.1 Of the 15 actions defined in the 2024/25 Work Plan, 9 are either ongoing or completed and 2 are progressing:
- The team is now at full complement and a temporary investigator has been recruited. It is anticipated that this role will be made permanent in April 2025
 - The risk assessment project is progressing as described above.
- 9.2 Of the remaining 4 actions:
- The September tenancy fraud exercise did not go ahead due to an extended short notice leave taken by the organising officer; this has now been postponed to early 2025
 - The March tenancy fraud exercise will still go ahead
 - Training for APCOA Civil Enforcement Officers in blue badge fraud is planned to take place in early 2025, this has been agreed with APCOA
 - Refresh training for South Essex Homes' Tenancy Officers in housing fraud remains in the planning stage.
- 9.3 The revision of the Council's Counter Fraud training course and the development of a Whistleblowing information course are not listed on the Work Plan as the opportunity to do this work was presented after it had been published.
- 9.4 The Work Plan for 2024/25 can be found at **Appendix 1**.

revenue a year, this saving has also been applied to the two blue badge convictions this period

¹⁴ CFIT assess all RTB applications on behalf of South Essex Homes

¹⁵ Social Housing rent accounts with a large credit balance are a possible indicator of subletting or money laundering. CFIT review the circumstances of rent accounts that are in credit of more than £1,000 as part of our proactive fraud detection measures.

10 Fraud prevention

- 10.1 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..
- 10.2 The *Fraud Awareness* and *Money Laundering Awareness* courses, both written by CFIT, are available and are now mandatory for all Council staff.
- 10.3 The Monthly Fraud Update is a newsletter published by CFIT for staff and the public highlighting current risks of fraud and providing advice as to how people can protect themselves. This now has over 2,000 subscribers, some of which represent groups; enquiries with subscribers suggest that the newsletter reaches approximately 2,500 residents and staff.
- 10.4 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.
- 10.5 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 have issued 24 of these since 1 April 2024.
- 10.6 CFIT has information exchange agreements with Essex Police and HMRC and these channels are very active.
- 10.7 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.
- 10.8 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.
- 10.9 CFIT is very active in promoting policy and procedure changes to strengthen the Council's defences against external fraud and internal corruption, as mentioned above.

11 The National Fraud Initiative (NFI)

- 11.1 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.

- 11.2 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).
- 11.3 CFIT operates as the local coordinator and key contact for the NFI at the Council: centrally organising the upload of data and the processing of returns. The team investigates data matches that suggest fraud may have been committed.
- 11.4 The Council's data submissions were collated and uploaded in accordance with the NFI timetable at the end of September.
- 11.5 The data matches resulting from the exercise will be released in January 2025. The results be reported as the matches are processed.

12 Reasons for decisions

- 12.1 The Counter Fraud package of policies, strategies and procedures have been reviewed and revised as they had not been formally updated since 2018. These will now be reviewed every two years.

13 Other options

- 13.1 Not applicable.

14 Financial implications

- 14.1 As included in the report at para 8.9.

15 Policy context

- 15.1 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.

16 Consultation

- 16.1 Consultation has not been required.

17 Contribution to the Council's aims and objectives

- 17.1 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.
- 17.2 It does this by protecting and recovering the assets and funds that the council holds.

17.3 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.

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

18 Legal implications

18.1 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.”

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

18.3 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.

19 Carbon impact

19.1 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.

19.2 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, for example.
- 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.

20 Equalities

- 20.1 The Counter Fraud & Investigation Team are committed to treating everyone equally and with respect.
- 20.2 All CFIT officers have undergone Equality and Diversity training. Our operational activity complies with the Equality Act 2010, the Human Rights Act 1998, the European Convention on Human Rights, and 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.

21 Risk assessment

- 21.1 Failure to operate a strong anti-fraud and corruption culture puts the Council at risk of increased financial loss from criminal activity. Such a culture should be led and supported by the Corporate Leadership Team.
- 21.2 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.

22 Value for money

- 22.1 An effective Counter Fraud and Investigation Team will 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.
 - Generating 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.

23 Appendices

Appendix 1: Counter Fraud Work Plan 2024-25

Appendix 2: Breakdown of CFIT investigations since 1 April 2024

Appendix 3: Draft Counter Fraud and Corruption Policy and Strategy

Appendix 4: Draft Counter Money Laundering Policy and Strategy

Appendix 5: Draft Fraud Response Plan