

Southend-on-Sea Borough Council

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

to

Audit Committee

on

23 November 2022

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Investigations Manager

Agenda
Item No.

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 2022/23.

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 This month marks the three year anniversary of the current Counter Fraud Service and is a useful moment to consider the progress the team have made:
- In 2019/20 the team was operational for six months and dealt with **198** cases, providing a benefit to the Council of **£172,156**. This was despite staffing turbulence and the advent of the Covid-19 pandemic.
 - In 2020/21 the team dealt with **328** cases, providing a benefit to the Council of **£330,427**. Of course, the Covid-19 pandemic continued to provide challenges during this year.
 - In 2021/22 the team dealt with **416** cases, providing a benefit to the Council of **£692,793**.
- 3.2 The team has developed from having just two officers in early 2020 to now having four full-time investigators, a fraud investigator apprentice, and a manager. Also, one officer is now an Accredited Financial Investigator with another officer on this training pathway.

- 3.3 As mentioned above, the team has welcomed a Counter Fraud Investigator Apprentice this month. While there is likely to be an impact on the team's productivity in the short term due to training and mentoring activities, this is an investment that is expected to produce a significant boost to the team's productivity in the medium term. Should the Apprentice perform well and pass her course, funding has been agreed to offer her a two year fixed term contract as a Junior Investigator to provide her with experience for her future career and the Council with a return on the training.
- 3.4 Since the last report to the Committee, CFIT have:
- Conducted a proactive Blue Badge fraud detection and deterrence exercise in Leigh and Southend. Approximately 50 badges were inspected, and three investigations have been launched as a result.
 - Conducted a proactive Tenancy fraud detection and deterrence exercise on a tower block in Leigh, identified by South Essex Homes (SEH) as having a high level of anti-social behaviour and low interaction. 59 tenancies were visited, one investigation has been launched as a result so far with enquiries outstanding on a further 19 tenancies.
 - Provided fraud awareness training to SEH tenancy and support officers.
 - Provided blue badge fraud awareness training to all APCOA Civil Enforcement Officers.
 - Gained agreement from Workforce Development that all new starters at the Council will be provided with an introduction to the work of CFIT, a reminder of the standards of behaviour expected from the Council's employees, and instructions on how to make a Declaration of Interest.
 - Renewed the Council's information sharing Memorandum of Understanding with HM Revenues and Customs.
 - Commenced an assessment programme targeting tenants that have built up a significant credit balance on their rent accounts. This is a 'red flag' for subletting or money laundering. Currently there are 129 tenants with a rent account credit more than £1,000. This programme is running alongside the officers' normal caseload.
 - Successfully prosecuted two individuals for fraud offences (see below).
- 3.5 Furthermore, CFIT have been granted funding to acquire specialist financial investigation software which is expected to substantially decrease the time investigators spend analysing financial material and to increase the accuracy of analysis results. This will enhance our financial investigation capabilities, make prosecutions for money laundering offences more likely to be successful, and increase returns to the Council. Procurement have approved this purchase and the most appropriate implementation is currently being considered by ICT.
- 3.6 CFIT are also in the early stages of formulating a Council-wide fraud risk assessment, the aim of which is to identify all the fraud risks the Council faces and the actions to mitigate or protect against them. This is a substantial undertaking and will be a long-term project, the first stage of which is to identify all the areas of the Council's business that are likely to be vulnerable to fraud.

3.7 The team has been extremely busy over this quarter and have been working to reduce a persistent backlog of cases awaiting investigation. To cope with the increased demand we have been experiencing, steps have been taken to free officers' time to concentrate on their investigations:

- To postpone a planned tenancy fraud exercise from October 2022 to March 2023 (the Work Plan has been amended to reflect this).
- To pause the assessment of tenants with large rent credits for two months.

It is expected that, as our Apprentice can independently adopt more tasks, this will result in investigators having more time to focus on investigations and the backlog of cases will reduce and the tenancy assessments can resume.

4. The threat from fraud

4.1 Fraud has grown rapidly in recent years and now accounts for more than 40% 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.

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 current Work Plan has been guided by this (**Appendix 1**).

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

5. Investigations

- 5.1 Since 1 April 2022, CFIT have dealt with, or are investigating, 306 cases (94 of these cases started prior to that date).
- 5.2 Since the last report to the Committee⁷, we have received 141 new cases.
- 5.3 Of the total 306 investigations:
- 213 have been concluded.
 - 93 investigations are active:
 - 52 are currently being investigated.
 - 7 are with Legal Services for prosecution.
 - 34 are waiting assignment to an investigator.
- 5.4 A breakdown of these investigations can be found at **Appendix 2**.
- 5.5 Our current prosecutions relate to:
- 2 offences concerning procurement fraud,
 - 2 offences relating to Business Rates Small Business Rates Relief fraud,
 - 1 offence relating to grant fraud (non-covid), and
 - 2 offences relating to Blue Badge fraud.
- 5.6 Results this period⁸ include:
- A successful prosecution for Covid grant fraud resulting in a sentence of 180 hours unpaid work and the award of £379.69 in costs. The £20,193 of fraudulently obtained grant funding will also be recovered.
 - A successful prosecution for blue badge fraud resulting in a £660 fine and the award of £27.29 costs.
 - £4,781.75 of recovered Council Tax Single Person Discount.
 - £38,474.21 of recovered Business Rates Small Business Rates relief.
 - £40,193 of recovered Covid grant funds.
 - £6,670 of fraudulently applied for Covid grant funds prevented.
 - A fraudulent application for a Right to Buy (RTB) refused and the individual is unable to be party to a RTB application in the future. This has saved £87,200 in RTB discount. A further two RTB applications have been refused following an assessment by CFIT. A total of 21 RTB applications have been assessed during this period.
 - Two properties recovered, saving the Council £43,000.

⁷ The figures for that report were compiled on 29/06/2022.

⁸ 26/09/2022 to 07/11/2022

- Three employees referred to HR for misconduct and a further three referred for failing to make a Disclosure of Interest. One employee has been dismissed for employment application fraud.
- Seven individuals have been cautioned over blue badge misuse and two misused badges have been seized, saving the Council £1,150.
- 14 referrals were made to the DWP and a further 6 referrals were made to other agencies, including the Police.
- 52 Data Protection Act requests for information from outside agencies were responded to.

6. Fraud prevention

6.1 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.

6.2 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. 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.

6.2 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.

6.3 The successful prosecutions mentioned above were publicised through the local press and this will continue to be done with vigour.

6.4 As mentioned above, CFIT will be engaging in Internal Audit's work to provide a fraud risk assessment and recommendations to strengthen any identified vulnerabilities.

6.5 CFIT have issued 15 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.

7. The National Fraud Initiative (NFI)

- 7.1 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.
- 7.2 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).
- 7.2 CFIT operates as the local coordinator and key contact for the NFI at Southend Borough Council: centrally organising the upload of data and the processing of returns.
- 7.3 CFIT have reinvigorated the Council's engagement with this exercise since its formation and this year's cycle is expected to produce increased returns on the results of previous exercises.
- 7.4 The previous NFI cycle has now closed and the next cycle has commenced. We are currently coordinating the data gathering and upload processes. We have identified staff members to process the data matches when they are received and their training will commence once the upload has completed.
- 7.5 The results of the current data matching exercise will be released to the Council in January 2023, and we expect to start receiving reports of suspected fraud once these have been processed.

8. Corporate implications

Contribution to the Southend 2050 Road Map

- 8.1 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.
- 8.2 It does this by protecting and recovering the assets and funds that the council holds.
- 8.3 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.
- 8.4 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

- 8.5 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 3.1 the Counter Fraud and Investigation team has delivered £692,793 benefit to the Council through its activities.

Legal implications

- 8.6 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.”*

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

- 8.8 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

- 8.9 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

- 8.10 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

- 8.11 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

- 8.12 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

- 8.13 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.
- 8.14 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

- 8.15 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

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

Environmental Impact

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

Appendices

Appendix 1 – Counter Fraud Work Plan 2022/23

Appendix 2 – Breakdown of CFIT investigations