



AUDIT AND GOVERNANCE COMMITTEE

Monday 29 July 2019

CORPORATE FRAUD ANNUAL REPORT 2018/19

EXECUTIVE SUMMARY

1. This report provides a summary of the performance of the Corporate Fraud Service covering Suffolk Coastal and Waveney District Councils for the period 1 April 2018 to 31 March 2019.
2. This report is presented to the Audit and Governance Committee in compliance with its terms of reference to 'Review the assessment of fraud risks and potential harm to the Council from fraud and corruption. Monitor the counter-fraud strategy, activity and resources'.

Is the report Open or Exempt?	Open
Wards Affected:	All
Cabinet Member:	Councillor Steve Gallant, Leader of the Council and Cabinet Member with responsibility for Resources Councillor Richard Kerry, Cabinet Member with responsibility for Housing
Supporting Officer:	Mrs Siobhan Martin Head of Internal Audit 01394 444254 siobhan.martin@eastsoffolk.gov.uk

1 INTRODUCTION

- 1.1 This report provides a summary of the performance of the Corporate Fraud Service covering Suffolk Coastal and Waveney District Councils for the period 1 April 2018 to 31 March 2019.

2 BACKGROUND

- 2.1 Since 1 May 2015 the Councils have a dedicated Corporate Fraud Service. Housing Benefit Fraud Investigations transferred to the Department for Work and Pensions (DWP), which has statutory responsibility for investigating Housing Benefit Fraud under the national Single Fraud Investigation Service (SFIS).
- 2.2 Suffolk Coastal and Waveney District Councils (now East Suffolk Council) have a zero tolerance approach to fraud and corruption. A comprehensive programme of proactive and reactive anti-fraud work has been undertaken in 2018/19.
- 2.3 The Corporate Fraud Service will investigate any aspects of the corporate fraud activity relating to the Councils and their services, taking into account the risk of loss to the Councils and reputational damage this may cause.
- 2.4 Since 1 April 2013, Local Authorities' powers have increased via the introduction of the Local Council Tax Reduction Scheme (LCTRS) Regulations (replacing Council Tax Benefit). These powers are no longer under the guidance of the DWP and not classed as benefit. Currently most Single Person Discount and Local Council Tax Reduction checks are performed by the Anglia Revenues Partnership (ARP), including the NFI results (National Fraud Initiative Exercise) allocated to them - see Appendix A for their declared results (a mixture of error and fraud and proactive exercises).
- 2.5 A continued focus during 2018/19 has been to maintain good working relationships across service areas within the Council, and particularly to widen the scope of the Corporate Fraud Service (and Internal Audit) input within the Housing Team, Community Services, Gateway to Home Choice, Environmental Health Service, Planning, Procurement, Business Rates and Human Resources (recruitment) etc, as well as other services which may benefit from fraud awareness training and closer liaison to understand how fraud could permeate their areas of work.

3 RESOURCES

- 3.1 The Corporate Fraud Service consists of one full time Manager and two full time Investigation Officers and a part time Intelligence Officer which worked across Suffolk Coastal and Waveney District Councils (now East Suffolk Council), and sits within Internal Audit Services under the direction of the Head of Internal Audit. The Head of Service is an Accredited Senior Appropriate Officer by the National Crime Agency (NCA) and one officer is an Accredited Financial Investigator by the NCA which provides the Council with an opportunity to recoup financial losses as a result of fraudulent activity.
- 3.2 The Internal Audit and Corporate Fraud Services have a contract with Ipswich Borough Council. This provides additional resources if required, as well as the services of three further Accredited Financial Investigators and one Financial Intelligence Officer.
- 3.3 Each year the Corporate Fraud Service expects to recover at least two times the cost of the Service from preventing fraudulent cases or identifying fraudulent payments for recovery. The Service cost £156,694 in 2018/19. The value of anti-fraud work is a combination of qualitative value, i.e. the value placed upon deterrent activity, plus financial values of the opportunity costs saved, and this equated to £1,823,485.

4 PERFORMANCE / OUTTURN

4.1 The Head of Internal Audit directs and monitors the overall performance of the Corporate Fraud Service. The day to day management of the Service resides with the Corporate Fraud Manager. This report represents the performance/outputs of the Corporate Fraud Service across the Partnership between Suffolk Coastal and Waveney District Councils during 2018/19. It is acknowledged that Waveney District Council has retained its social housing stock, and as in previous years a significant amount of the year's work has taken place in this area under the Prevention of Social Housing Fraud Act 2013 and the Right to Buy (RTB) regulations. These cases usually have an element of other irregularities too – Council Tax Single Person Discount (SPD), LCTRS, RTB (non entitled) succession rights etc which are all dealt with by this Team.

4.2 The Corporate Fraud Service investigates a variety of frauds which the Councils are vulnerable to, including:

- Right To Buy
- Social Housing Fraud
- Gateway to Home Choice applications
- Council Tax Reduction Scheme (referred to ARP)
- Single Person Discount / Empty Properties
- Grants
- Business Rates
- False identity documents (Internal & external)
- Blue Badges
- National Fraud Initiative (NFI Government led-exercises)
- Internal investigation cases (disciplinarians etc)
- Housing Benefits (referred to the DWP (SFIS) for investigation)

4.3 Right to Buy (RTB)

4.3.1 A continuing vital area of work undertaken by the Corporate Fraud Service this last year has been operating a robust “due diligence” reference check on all “Right to Buy” (RTB) application forms submitted to Waveney District Council (now known as East Suffolk Council) in accordance with the Proceeds of Crime Act 2002 and the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017.

4.3.2 The Corporate Fraud Service undertakes checks on the following for each RTB case referred by Tenancy Services:

- Tenant's legal right to buy the property
- Tenant's residence at the property
- Source of funding, including funds from third parties
- Interviews
- Identity verification

4.3.3 Figure 1 provides details of all referrals made to the Corporate Fraud Service in 2018/19 and the results of each case.

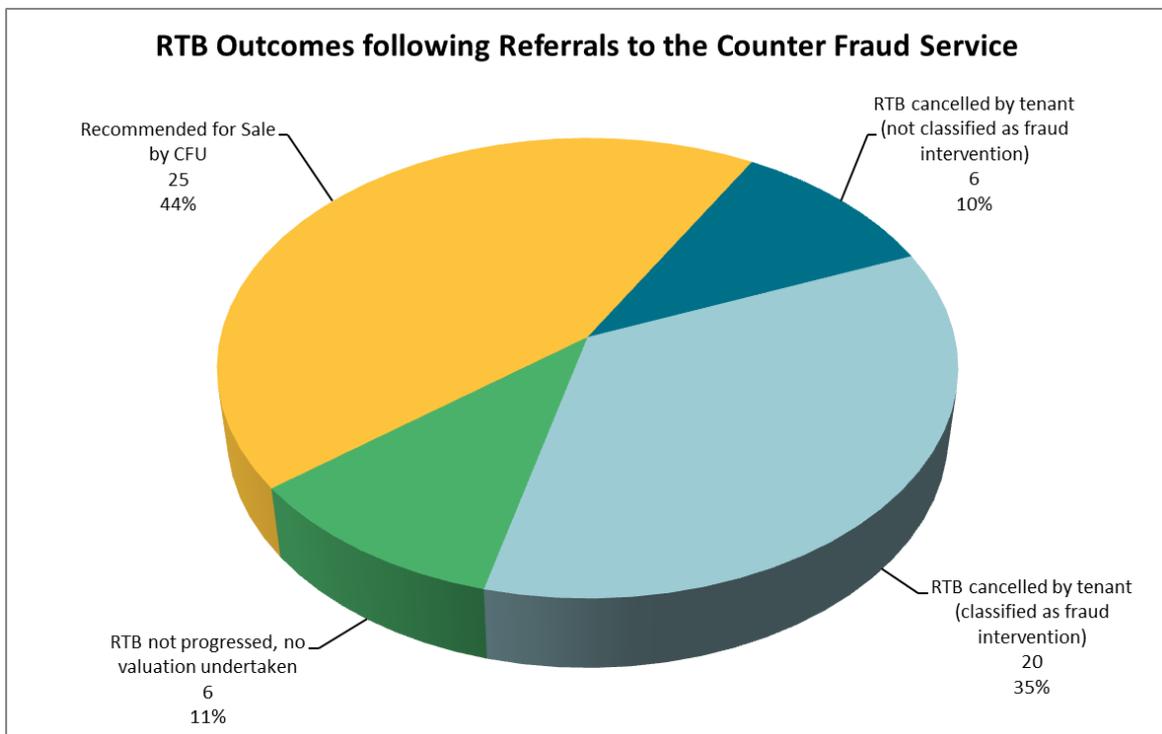


Figure 1: Outcomes of Right to Buy cases following their referral to the Corporate Fraud Service

4.3.4 As shown in Figure 1, a number of RTB applications during 2018/19 did not progress following referral to the Corporate Fraud Service. These have been classified into two areas: those cancelled as a direct result of fraud intervention and those cancelled by the tenant for varying reasons (such as lack of funds) that have not undergone additional verification by CFU:

- (1) Twenty RTB applications have been classified as cancelled following fraud intervention. As a result these properties, with a market value of £2,821,500, remain part of the Council's tenancy portfolio. The intervention of Corporate Fraud Services has financially benefited the Council by £1,256,025, which is the expected value of the discount that would have been awarded had the sales progressed.
- (2) Six RTB applications have been cancelled without fraud intervention. These properties had a market value of £811,000, and if progressed could have resulted in sale income of approximately £440,000.

4.3.5 During the year 2018/19 the Corporate Fraud Service recommended 25 properties could proceed for sale. The combined market value of these 25 properties was £3,521,000. Following the application of relevant discounts totalling £1,680,105, plus a rebate of £19,120 due to previously awarded discounts, the income due to the Council from these agreed sales is £1,860,515.

4.3.6 Figure 2 below shows the impact of RTB applications where the Corporate Fraud Service recommended the sale could proceed, breaking down the agreed price and discount applied per geographical area

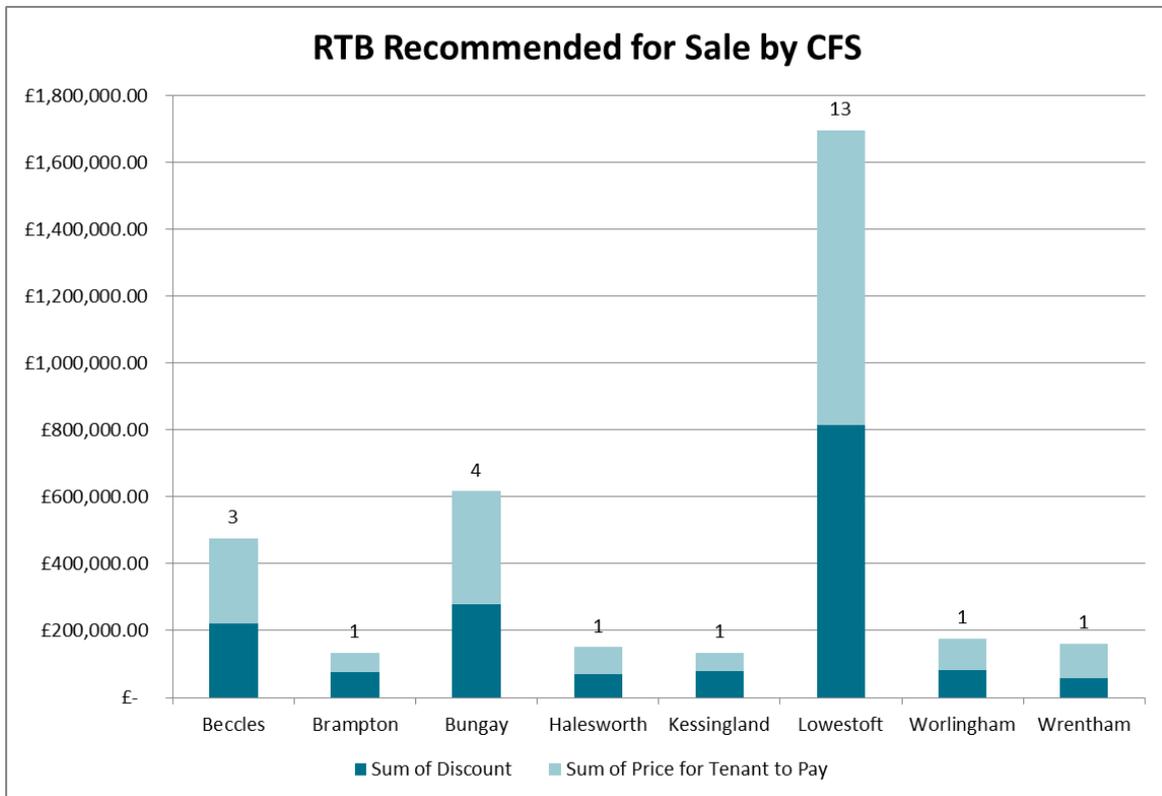


Figure 2: Sale price by geographic area, broken down by discount and sale price due to the Council

4.3.7 Due to the continued success and joint working relationship between the Corporate Fraud Service and Housing Tenancy Service, this proves to be a high interest area of fraud prevention work.

4.4 Social Housing Fraud (Tenancy Fraud)

- 4.4.1 Social housing fraud deprives legitimate tenants of access to affordable homes and has a direct impact on local people, their families and communities.
- 4.4.2 The Prevention of Social Housing Fraud Act 2013 (POSHFA) – has two criminal offences that apply to social housing tenants. Firstly, where the tenant sublets or parts with possession of a property or ceases to occupy knowing that it is a breach of tenancy. The second, more serious offence is where a tenant dishonestly, in breach of tenancy, sublets without consent and ceases to occupy the property as their only or principal home.
- 4.4.3 The first offence only requires knowledge that the tenant sublet their home in breach of their tenancy agreement, the second offence requires proof this was done dishonestly.
- 4.4.4 The proven criminal offence of social housing fraud may result in a fine of up to £5,000 for a first offence. A second offence under this Act (POSHFA) could lead to a jail term of up to two years or an unlimited fine.
- 4.4.5 The Corporate Fraud Service has received 24 case referrals in the area of suspected Tenancy Fraud which have been / are currently being investigated. The Service has received referrals from other Social Housing Associations as the Councils have been granted additional powers under POSHFA to make enquiries to prevent fraudulent activity which currently Social Landlords do not have.
- 4.4.6 The Cabinet Office (November 2018) detailed the use of a notional value of at least £93,000 per property as a benchmark for the average cost per annum of tenancy fraud. This figure is a consideration of many factors e.g. cost of temporary accommodation costs, legal costs to recover the property; re-let costs; and rent forgone during the void period between tenancies.
- 4.4.7 Of the 17 cases reviewed (some ongoing), five properties were returned to WDC usage. The prevention of potential financial loss to WDC per property recovered is calculated using the National Fraud Initiative figures.

Tenancy recovered	No	Value
2 bed Bungalow	2	£186,000
2 bed Flat	3	£279,000
Total		£465,000

4.5 Fraud Hotline referral – (Business Rates)

- 4.5.1 The Corporate Fraud Service received a fraud referral in respect of a local business (claiming small business rate relief “SBRR”). This resulted in the backdated removal of SBRR entitlement.

Business Rates	No	Value
SBRR irregularity identified	2 accounts	£58,678
Total		£58,678

4.6 Disabled Facility Grants

4.6.1 Two fraud referrals were applications for disabled facility grants. In one case a builder subcontracted the work the grant was funding, but was unable to provide satisfactory invoices from the subcontractor; in the second case the grant recipient was found to be ineligible. Details of both cases have been provided to Internal Audit in order to inform the 2019/20 Internal Audit Plan of work.

Disabled Facility Grants	No	Value
DFG irregularity identified	2	£35,000
Total		£35,000

4.7 Council Tax - Single Person Discount

4.7.1 The Corporate Fraud Service has received twenty case referrals in the area of Single Person Discount; to date this has resulted in the removal of SPD entitlement as follows:

SPD	No	Value
Single Person Discount	5 cases	£8,782
Total		£8,782

4.8 National Fraud Initiative

- 4.8.1 The Corporate Fraud Service continues to participate in the 2018/19 Cabinet Office National Fraud Initiative (NFI) data matching exercise and investigates all matches apart from CTAX/SPD/LCTR matches which are passed to the Anglia Revenues Partnership to investigate (see Appendix A for results).

5 EMBEDDING AN ANTI-FRAUD CULTURE

- 5.1 Through the strategic lead of the Head of Internal Audit, the Corporate Fraud Service (Suffolk Coastal District Council, Waveney District Council and Ipswich Borough Council) have co-operated in the development of common processes, policies and training. The Anti-Fraud and Corruption Strategy has been reviewed, along with the Regulation of Investigatory Powers Act Policy and the Whistleblowing Policy. Additional partnership arrangements are currently being addressed.
- 5.2 The training opportunities offered by the Partnerships continue to be developed. In the last year there was joint training on subject matters as "Housing Masterclass", Regulation of Investigatory Powers Act 2000 (RIPA) (59 Enforcement staff) and Criminal Procedure and Investigations Act 1996 (CPIA) in-house training etc., with more to follow in 2019/20.
- 5.3 Taking a wider corporate view as outlined in the Corporate Anti-Fraud Business Plan, the Service has forged stronger links with other services across the Councils to raise awareness of anti-fraud activity, e.g. Human Resources in relation to recruitment and Tenants meeting held off site to facilitate awareness of the Service.
- 5.4 The Corporate Fraud Service procured specialist Identity Fraud Training delivered by the Eastern Region Special Operations Unit (ERSOU) Counter Terrorism Policing Command. This was in order to raise fraud awareness for key customer facing staff and others dealing with identity issues.
- 5.5 Identification training will also be extended to external partnership representatives in order to widen the understanding of the fraud element in all businesses in respect of job applicants.
- 5.6 In order to negate the fraud risks for recruitment purposes (such as allowing someone to be employed based on false documentation), there is a proposal for an ongoing programme of fraud awareness training for Recruiting Managers throughout this year (2019/20). Enhanced financial checks will be undertaken by the Corporate Fraud Service going forward for selected Council jobs, which will be clearly described on the job application.
- 5.7 The Corporate Fraud Service recognises the need to promote their corporate services to enhance better quality corporate fraud referrals, or interception at the earliest stage. Briefing the Communications Managers on successful cases is recognised as good practice.
- 5.8 Corporate Fraud Officers are members of the National Anti Fraud Network and the Local Authorities Intelligence Officers Group.
- 5.9 The Corporate Fraud Service participated again in the International Fraud Awareness Week in November 2018 at East Suffolk House, Riverside and the Rotterdam Road Housing Depot. This resulted in 11 referrals for potential tenancy fraud, which are being investigated.
- 5.10 The work of the Corporate Fraud Service was promoted in the WDC tenants "Key Amnesty" valid from 1st October 2018 to 30th November 2018 which was advertised in

the Waveney Tenants Magazine dated “Summer” 2018. This allowed tenants to hand back their house keys if they were illegally subletting or not occupying their Council property as an alternative to being prosecuted as it is a criminal offence for a social tenant to sublet, not use the property as their main and principal home, or to receive rent payments from a third party to live there. The **Fraud Hotline: 01394 444444** and email **fraud@eastsoffolk.gov.uk** was also promoted.

- 5.11 The Corporate Fraud Service was also promoted in “Coastline” dated “Spring” 2019. *‘Working together to combat fraudulent activity; by investigating suspicious activity and preventing fraud, the Councils are ensuring public money is used for its proper purpose – to provide essential services’.*
- 5.12 The Corporate Fraud Service also participated with the Internal Audit Team in promoting fraud training in line with the new General Data Protection Regulations introduced in May 2018. Fraud training was given to 83 WDC Operatives who regularly visit tenant’s homes and now understand fraud awareness and how to report to the Corporate Fraud Service.
- 5.13 The Corporate Fraud Manager and Head of Internal Audit undertook some additional “Whistleblowing” training to Partnership organisations. This fraud awareness programme is due to be delivered to the newly elected Members for East Suffolk Council in 2019/20 and will also cover identity fraud and cyber fraud.
- 5.14 The Corporate Fraud Investigators authorised under the Proceeds of Crime Act 2002 and the Serious Crime Act 2015 previously provided training to various teams across the Councils on the legal powers available to recover money obtained fraudulently by criminal acts. This programme will continue to be rolled out in 2019/20.
- 5.15 National fraud alerts provided by the National Anti-Fraud Network are regularly disseminated to the relevant teams across the Councils for fraud awareness in accordance with their distribution policy.

6 CONCLUSION

- 6.1 The work of the Corporate Fraud Service, supported by Housing and Legal Services, has resulted in financial benefits to the Council both in preventing, and identifying/recovering fraudulent payments as follows:

Fraud Area	Financial Benefit of CFS Intervention
Right to Buy	£1,256,025
Tenancy Fraud	£465,000
Business Rates	£58,678
DFG Grants	£35,000
Council Tax SPD	£8,782
Total	£1,823,485

7 HOW DOES THIS RELATE TO THE EAST SUFFOLK BUSINESS PLAN?

- 7.1 This report represents the work of the Corporate Fraud Service which supports the delivery of all services across the Councils as described in the East Suffolk Business Plan.

8 FINANCIAL AND GOVERNANCE IMPLICATIONS

- 8.1 The Corporate Fraud Service has been delivered within the approved budget for 2018/19.
- 8.2 The Corporate Fraud Service conducts investigations in accordance with the Police and Criminal Evidence Act 1984, Criminal Procedures and Investigations Act 1996, Data Protection Act 2018, General Data Protection Regulations, Human Rights Act 1998, Regulation of Investigatory Powers Act 2000, Criminal Justice Act 2003, Social Security Administration (Fraud) Act 2001, Council Tax Reduction Scheme (Regulations) 2012, Bribery Act 2010, Prevention of Social Housing Fraud Act 2013, Proceeds of Crime Act 2002 and Money Laundering Regulations 2017 and the Criminal Finance Act etc.

9 OTHER KEY ISSUES

- 9.1 Every investigation consider Human Rights laws, including equality issues, which supports the case whether an employment investigation, civil or criminal law investigation. This report has not required an individual equality impact assessment.

10 CONSULTATION

- 10.1 Consultees – Cabinet Members with responsibility for Housing and Resources, Chief Executive, S151 Officer and External Auditor – Ernst and Young.

11 REASON FOR RECOMMENDATION

- 11.1 To ensure the Committee is apprised of the Corporate Fraud work and performance over the last year (2018-19), and to fulfil its terms of reference.

RECOMMENDATIONS

That the performance of the Corporate Fraud Service for the year 2018/19 be commented upon.

APPENDICES

Appendix A	National Fraud Initiative Results 2018/19 – Anglia Revenues Partnership
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BACKGROUND PAPERS

Please note that copies of background papers have not been published on the Council's website www.eastsuffolk.gov.uk but copies of the background papers listed below are available for public inspection free of charge by contacting the relevant Council Department.

Date	Type	Available From
March 2018	Corporate Fraud Business Plan 2018/19	Head of Internal Audit



Appendix A

National Fraud Initiative Results 2018/19 Anglia Revenues Partnership

The below tables show the results of the work undertaken by the Council's shared service partner, the Anglia Revenues Partnership, on the 2018/19 National Fraud Initiative exercise. These results include both financial **error** and fraud.

	Totals	
	Suffolk Coastal District Council	Waveney District Council
Council Tax – LCTS Reduction Scheme	£20,773.50	£17,165.04
Council Tax – Single Person Discount	£211,921.11	£160,108.70
Council Tax – Other	£5,508.04	£25,867.73
NNDR	£142,704.81	£18,712.50
Total	£380,907.46	£221,853.97