

**AUDIT AND GOVERNANCE COMMITTEE**

Tuesday, 24 July 2018

**CORPORATE FRAUD - ANNUAL REPORT 2017-18 (AG 13/18)**

<p><b>Executive Summary</b></p> <p>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 2017 to 31 March 2018.</p> <p>2. This report is presented to the Audit and Governance Committee in compliance with its terms of reference to <i>'Review the assessment of fraud risks and potential harm to the Council from fraud and corruption. Monitor the counter-fraud strategy, activity and resources'</i>.</p>
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Is the report Open or Exempt?	Open
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<b>Wards Affected:</b>	All
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<b>Cabinet Members:</b>	<p>Councillor Richard Kerry, Cabinet Member with Responsibility for Housing</p> <p>Councillor Stuart Lawson, Cabinet Member with Responsibility for Resources</p>
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<b>Supporting Officer:</b>	<p>Mrs Siobhan Martin</p> <p>Head of Internal Audit</p> <p>01394 444254</p> <p><a href="mailto:siobhan.martin@eastsoffolk.gov.uk">siobhan.martin@eastsoffolk.gov.uk</a></p>
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## **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 2017 to 31 March 2018.

## **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 have a zero tolerance approach to fraud and corruption. A comprehensive programme of proactive and reactive anti-fraud work has been detailed in the Corporate Anti-Fraud Business Plan 2017-18, which was presented to the Council's Audit & Governance Committee in March 2017.

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. These powers are no longer under the guidance of the DWP and not classed as benefit. Currently Single Person Discount checks are performed by the Anglia Revenues Partnership (ARP).

2.5 A continued focus during 2017-18 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, Procurement, Business Rates and Human Resources (recruitment) etc, as well as other services which may benefit from fraud awareness training and closer liaison.

## **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 working across Suffolk Coastal and Waveney District Councils, which sits within Internal Audit Services under the direction of the Head of Internal Audit. Both officers are Accredited Financial Investigators, and provide the councils 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 two further Accredited Financial Investigators.

3.3 A Corporate Fraud Service target set for the year 2017-18, taking into account the new areas of work, equated to at least two times the cost of the Service. The Service cost £150,000 in 2017-18. The value of anti-fraud work is a combination of qualitative value, ie the value

placed upon deterrent activity, plus financial values of the opportunity costs saved, and this equated to over £3,651,940 million.

#### 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. It is acknowledged that Waveney District Council has retained its Council house stock, and as in previous years a significant amount of the year's work has taken place in this area.

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

- Housing Benefits (referred to the DWP (SFIS) for investigation)
- Council Tax Reduction Scheme (referred to ARP)
- Single Person Discount / Empty Properties
- False identity documents (Internal & external)
- Right To Buy
- Social Housing Fraud\*
- Gateway to Home Choice application forms
- Blue Badges
- National Fraud Initiative
- Internal investigation cases

\*Social housing fraud includes (but is not limited to) false housing applications, subletting, and successions.

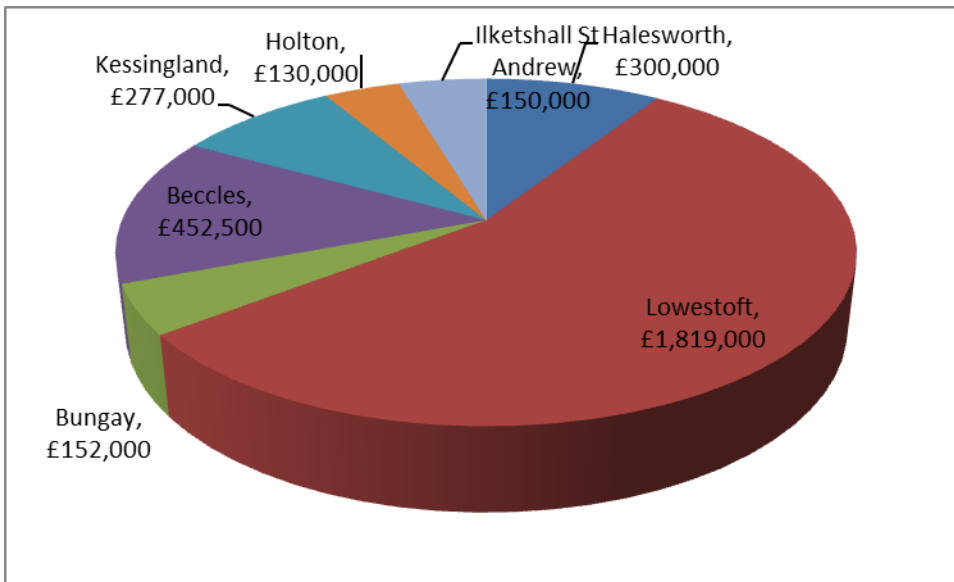
#### 4.3 **Right to Buy**

4.3.1 A 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 WDC. As required under the Proceeds of Crime Act 2002 and the Money Laundering & Terrorist Financing and Transfer of Funds Regulations Act 2017, financial checks have to be undertaken to ensure that social housing is not being purchased under the RTB legislation with criminal assets, and that the tenant applying for social housing has a legal right to apply to buy the property, residing in it as their main and principal home. All RTB applicants (and any third party providing the funds) are interviewed, with a verification form being completed and signed and evidence provided of their identification and source of the funds.

4.3.2 All RTB applicants are advised by letter that they will be interviewed by the Corporate Fraud Service and be required to produce valid identity and documentary evidence of their source of funds in order fulfil the RTB.

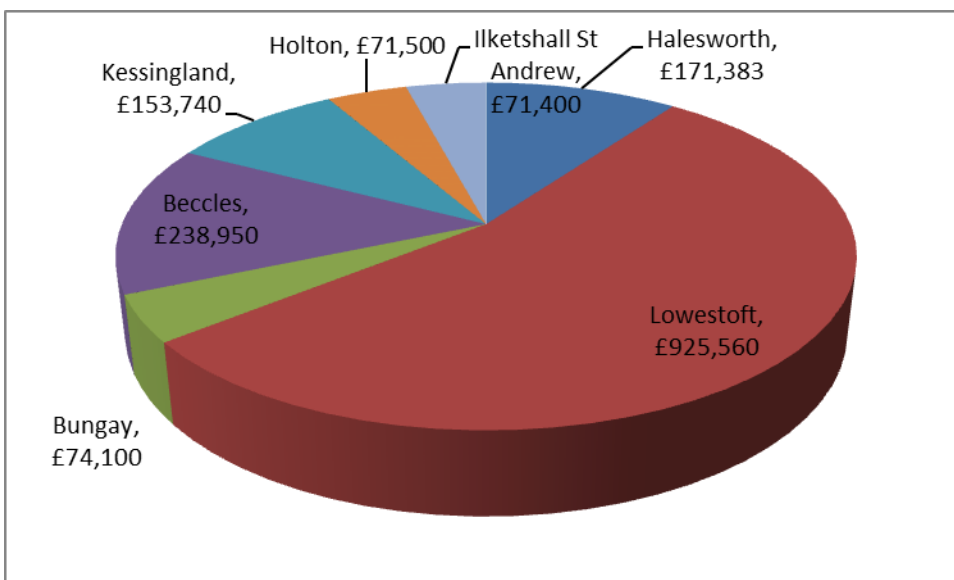
4.3.3 During 2017/18 - 26 properties were sold under the Right to Buy with an actual market value of £3,280,500. The actual government discount allowed, ranged between 30-70%, was £1,573,867, and agreed value properties sold for £1,706,633 as shown below.

Chart shows geographical areas and actual market value of properties sold:



Halesworth	£300,000
Lowestoft	£1,819,000
Bungay	£152,000
Beccles	£452,500
Kessingland	£277,000
Holton	£130,000
Ilketshall St Andrew	£150,000
Totals	£3,280,500

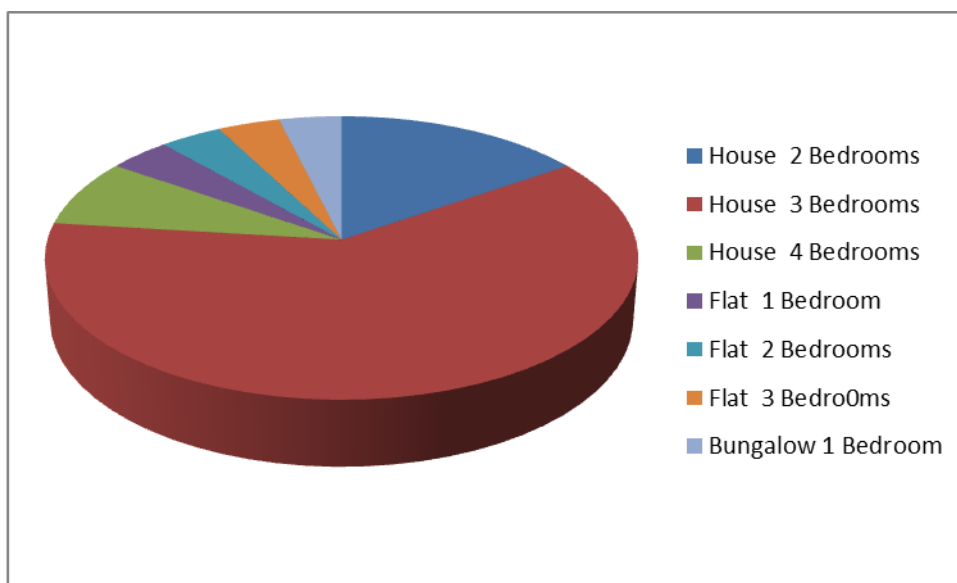
This chart shows the prices agreed for the sale of the properties by location and the exact discount granted.



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Area	Discount	No of properties
Halesworth	£171,383	2
Lowestoft	£925,560	16
Bungay	£74,100	1
Beccles	£238,950	3
Kessingland	£153,740	2
Holton	£71,500	1
Ilketshall St Andrew	£71,400	1
Totals	£1,706,633	26

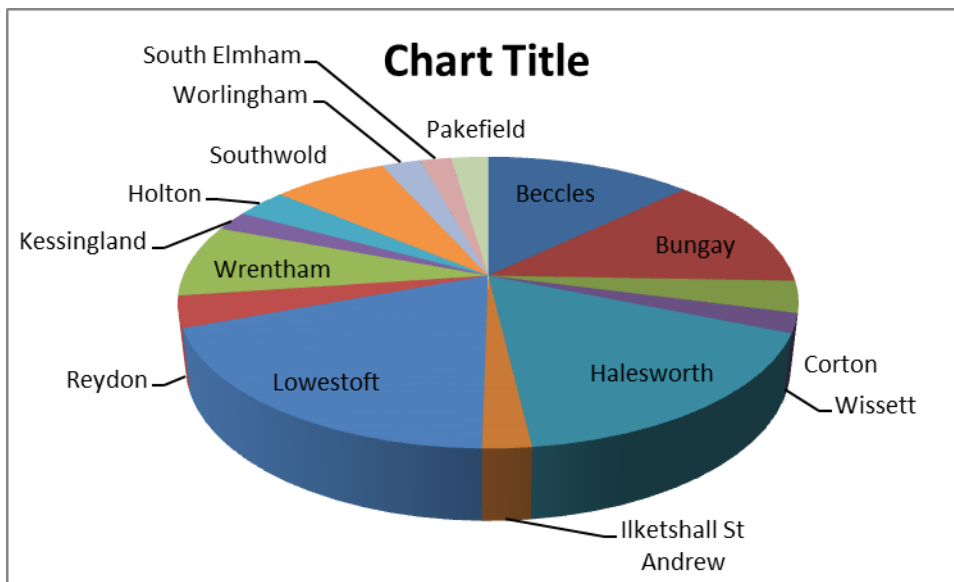
This chart represents the composition of the properties agreed for sale



House	2 Bedrooms	4
House	3 Bedrooms	16
House	4 Bedrooms	2
Flat	1 Bedroom	1
Flat	2 Bedrooms	1
Flat	3 Bedrooms	1
Bungalow	1 Bedroom	1
	Totals	26

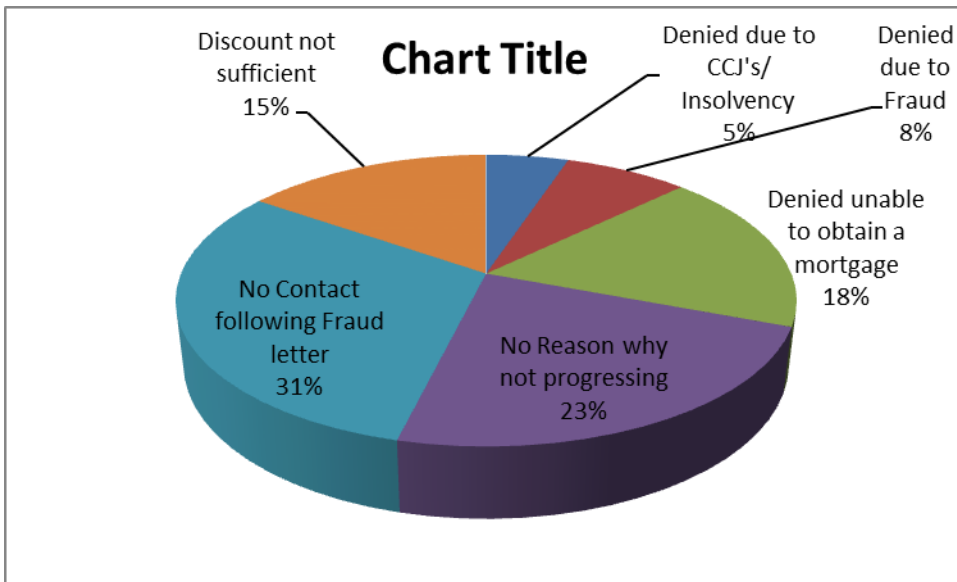
4.3.4 In 2017/18, the Corporate Fraud Service prevented 39 RTB applications for properties to be sold under the Right to Buy with an actual market value of £5,623,500. The value of these properties if they were sold (subject to discount given) would have been in the region of £3,372,940 as shown below.

4.3.5 The chart below shows the values of the properties, after discounts that were not agreed/cancelled/withdrawn after referral to the Corporate Fraud Service for their checks.

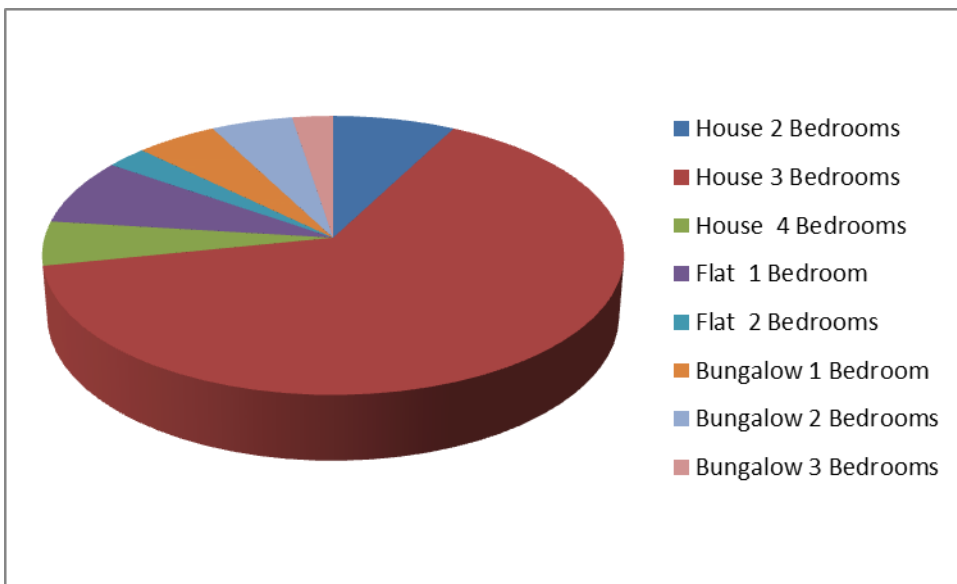


Area	Value post discount	No of properties
Beccles	£434,630	5
Bungay	£428,400	5
Corton	£118,830	3
Wissett	£72,100	1
Halesworth	£569,100	5
Ilketshall St Andrew	£72,100	1
Lowestoft	£642,150	9
Reydon	£117,180	1
Wrentham	£269,950	3
Kessingland	£73,150	1
Holton	£108,800	1
Southwold	£241,400	1
Worlingham	£82,650	1
South Elmham	£65,000	1
Pakefield	£77,500	1
Totals	£3,372,940	39

4.3.6 The RTB applications were prevented for a variety of reasons – denied due to CCJ's, denied due to fraud, denied unable to obtain mortgage, no reason why not progressing and no further contact following Fraud letter and due diligence checks.



This chart represents the composition of the properties not agreed for sale



House	2 Bedrooms	3
House	3 Bedrooms	25
House	4 Bedrooms	2
Flat	1 Bedroom	3
Flat	2 Bedrooms	1
Bungalow	1 Bedroom	2
Bungalow	2 Bedrooms	2
Bungalow	3 Bedrooms	1
Totals		39

4.3.7 Due to the continued success and joint working relationship between the Corporate Fraud Service and WDC Housing Tenancy Service, the discounts saved in 2017/18 on the Right to Buy applications prevented were £3,372,940 and 39 properties.

#### 4.4 Social Housing Fraud (Tenancy Fraud)

4.4.1 The Corporate Fraud Service has received 21 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 the Prevention of Social Housing Fraud Act 2013 to make enquiries to prevent fraudulent activity which currently Social Landlords do not have. The Cabinet Office (October 2017) reported the average annual notional cost of £93,000+ to house a family or individual in temporary accommodation. Currently WDC has 741 people registered on the Gateway to Home Choice housing waiting list for accommodation for Bands A-C, and SCDC has 582 people registered on the waiting list for accommodation for Bands A-C.

Of the 21 cases reviewed, 3 properties were returned to WDC usage. The potential financial loss to WDC per property recovered is £279,000 (3 properties x £93,000).

Type of property	No	Value
1 bed Bungalow recovered	1	£93,000
2 bed Flat recovered	2	£186,000
Total		£279,000

4.4.2 Social housing fraud could deprive legitimate and deserving tenants of access to affordable homes and have a direct impact on local people, their families and communities.

#### 4.5 Gateway to Home Choice (GTH) Application forms

4.5.1 Due diligence reference checks were undertaken on 12 Gateway to Home Choice application forms submitted to WDC and SCDC as part of the Gateway to Home Choice scheme, resulting in the following outcomes:

	2017/2018
Number Investigated	12
Outcomes	2 warning letters issued in addition to 1 application being withdrawn

#### 4.6 National Fraud Initiative

4.6.1 The Corporate Fraud Service continues to participate in the 2017/18 National Fraud Initiative (NFI) data matching exercise.

### 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.

5.2 The opportunities offered by the Partnership between Suffolk Coastal and Waveney District Councils continue to be developed. Joint cost sharing over training and publications has enabled efficiencies. There are also additional partnership arrangements currently being addressed for further work.



- 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, and in particular Human Resources and recruitment.
- 5.4 Corporate Fraud Services facilitated 83 staff members to undertake Identity Fraud Training by a trainer employed by the Eastern Region Special Operations Unit (ERSOU) Counter Terrorism Policing Command. This was in order to raise fraud awareness for human resources staff and any staff dealing with identity issues.
- 5.5 This was also to negate the fraud risks for recruitment purposes (allowing someone to be employed based on false documentation). There is a programme of ongoing fraud awareness training. All recruiting managers will be attending this training during the next year (2018/19). There will also be additional enhanced financial checks undertaken by the Corporate Fraud Service going forward in this respect of selected Council jobs, which will be advised on the job application.
- 5.6 Suffolk County Council Staff were also included within this fraud awareness training programme.
- 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 The Corporate Fraud Service are members of the National Anti Fraud Network and Local Authorities Intelligence Officers Group.
- 5.9 The Corporate Fraud Service promoted the International Fraud Awareness Week in 2017/18 at East Suffolk House, Riverside and the Rotterdam Road Housing Depot.
- 5.10 A further WDC tenants “key amnesty” pro-active exercise is being considered in the near future. This will be to promote the corporate fraud hotline of 01394 444456 and email of [fraud@eastsoffolk.gov.uk](mailto:fraud@eastsoffolk.gov.uk) and the fact that 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.
- 5.11 The Prevention of Social Housing Fraud Act 2013 created a new criminal offence of social housing fraud with a fine of up to £5,000 for a first offence. A second offence could lead to a jail term of up to two years or an unlimited fine. The Service currently have one case pending in civil court under this legislation.
- 5.12 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 2018/19. A repeat of the fraud awareness training will be provided to newly elected Members for East Suffolk Council in 2018/19 and will cover identity fraud and cyber fraud.
- 5.13 National fraud alerts provided by national networks are regularly disseminated to the relevant teams across the Councils for fraud awareness.

## **6. FINANCIAL AND GOVERNANCE IMPLICATIONS**

- 6.1 The Corporate Fraud Service has been delivered within the approved budget.
- 6.2 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 Regulation, 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.

## **7. RELATIONSHIP 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. CONSULTATION**

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

## **9. CONCLUSION**

- 9.1 The work of the Corporate Fraud Service, supported by Housing and Legal Services, has resulted in costs saved of:

- Right to Buy: £3,372,940
- Tenancy Fraud: £279,000

**Total                      £3,651,940**

## **10. REASON FOR RECOMMENDATION**

- 10.1 To ensure the Committee is apprised of the Corporate Fraud work and performance over the last year (2017-18), and to fulfil its terms of reference.

### **RECOMMENDATION**

That the Audit and Governance Committee comments upon the performance of the Corporate Fraud Service for the year 2017-18.

**APPENDICES: None**

<b>BACKGROUND PAPERS</b>		
<b>Date</b>	<b>Type</b>	<b>Available From</b>
March 2017	Corporate Fraud Business Plan	Head of Internal Audit