

Audit & Anti - Fraud Service Annual Fraud and Irregularity Report 2017/18

A status report and analysis of reported fraud and financial irregularity within the London Borough of Hackney

June 2018



**Finance and Corporate Resources Directorate
Audit and Anti-Fraud Division**

1. Introduction

- 1.1 This report provides a summary of the work undertaken in respect of anti-fraud activities carried out by the Council's Audit Investigation Team (AIT), Tenancy Fraud Team (TFT) and Pro-Active Anti-Fraud Team (PAFT) during the past year. During the financial year 2017/18 the teams received 2,019 referrals and enquiries in relation to fraud and irregularity, which is consistent with the workload from 2015/16 onward.

2. Background

- 2.1 The Council's position on fraud is embedded in a series of policy documents which enhance and reinforce the attention given to this particular aspect of the Council's processes and procedures, namely: -

The Constitution	The Council's Fraud Policies
<ul style="list-style-type: none"> • Members' Code of Conduct • Officers' Code of Conduct • Financial Procedure Rules • Standing Orders • Contract Standing Orders 	<ul style="list-style-type: none"> • Anti-Fraud & Corruption Policy • Whistleblowing Policy; and • Anti-Money Laundering Policy

- 2.2 Regular reviews of both Member and Officer compliance with the Council's policy in respect of corporate governance arrangements are undertaken and this informs the Annual Governance Statement which is required to be included as part of the final accounts process.
- 2.3 The Council's Anti-Fraud & Corruption Policy reinforces that managers, as 'owners' of the Council's systems and process, are responsible for ensuring that adequate systems of internal control are in place to prevent or detect fraudulent activity. The primary responsibility for the prevention and detection of fraud therefore rests with managers and staff. AAF's role is to undertake independent assessments of the key risks and associated controls within systems across the organisation. AIT has systems in place to receive, assess and react to potential fraud referrals from all stakeholders.
- 2.4 Managers are required to ensure that all staff receive training in fraud awareness. In addition, all new employees should be briefed on the Council's approach and be provided with a copy of the policy as part of the induction process. AAF offer advice and where necessary undertake training in key areas of activity.
- 2.5 The Council has procured an external provider, Expolink, to provide a confidential corporate whistleblowing hotline. This facility is available 24/7 to all Council workers. Nominated Officers within the Council have been identified to receive confidential reports. Following the integration of Hackney Learning Trust into the Council in 2014/15 this facility was rolled out to all schools. In addition, there are also a number of fraud hotlines (e.g. Tenancy and Blue Badge) which are maintained for members of the public. An annual whistleblowing report is provided to Committee separately, most recently in April 2018.

3. Anti-Fraud & Corruption Activity during 2017/18

3.1 Investigation work is undertaken by three teams which specialise in the following operational areas:

- The Audit Investigation Team (AIT) investigate allegations of fraud and irregularity involving staff, partner organisations and any concern that is not specific to one of the other fraud teams. In addition, the AIT is responsible for investigating allegations of Blue Badge and parking fraud (Section 4) and providing investigative support to the CACH Overstaying Families Intervention Team (OFIT) initiative (Section 5);
- The Tenancy Fraud Team (TFT) investigates allegations of subletting and other housing fraud committed against Council and Registered Providers' housing stock in the Borough (Section 6);
- The Pro-Active Anti-Fraud Team (PAFT) was established as a result of AIT enquiries into contracts that were formerly held and managed by Hackney Homes (Section 7).

3.2 Table 1 below provides a comparison of all enquiries received in the last year.

Yearly Comparison of Investigation Work

Investigation Type	2017/18	2016/17	2015/16	2014/15	2013/14
AIT and PAFT referrals	41	42	47	53	53
Parking (Blue Badge)	243	196	166	194	158
Tenancy Fraud	394	359	421	789	616
Overstaying Families (OFIT)	104	130	89	122	136
Fraud enquiries	1,237	1,283	1,402	539	155
Total	2,019	2,010	2,125	1,697	1,118

Table1

3.3 A breakdown of the cases dealt with by AIT and PAFT during 2017/18, broken down by directorate and referral type, is shown in tables 2 and 3 below.

Breakdown of Referrals by Directorate

Directorate	Brought Forward from 2016/17	Referrals received in 2017/18	Cases completed during 2017/18	Cases ongoing at 01/04/18
Chief Executive's Directorate	0	2	0	2
Children, Adults & Community Health (excluding OFIT)	4	5	6	3
Hackney Learning Trust	3	0	3	0
Finance & Resources	4	9	9	4
Neighbourhoods & Housing	4	12	12	4
Hackney Homes	17	13	4	26
Total	32	41	34	39

Table 2

Breakdown of Referrals by Type

Description	Neighbourhoods	Children, Adults & Community Health		Finance	Chief	Total
	& Housing	CACH	TLT	& Resources	Executives	
Theft	1	3	0	0	0	4
Cheque/Credit card fraud	0	0	0	4	0	4
Immigration/ID issues	1	1	0	0	0	2
Employee issues	18	1	0	3	2	24
Payments, contracts, procurement	2	0	0	0	0	2
Housing irregularities	2	0	0	0	0	2
Staff parking	0	0	0	0	0	0
Other	1	0	0	2	0	3
Total	25	5	0	9	2	41

Table 3

- 3.4 An analysis of the principal outcomes arising from AIT investigations during 2017/18 is shown in Table 4 below.

Analysis of Outcomes	2017/18	2016/17	2015/16	2014/15	2013/14
Dismissal	2	7	7	14	6
Resigned/Left under investigation	3	5	11	8	5
Other Disciplinary	3	1	8	2	3
Referral to other agency (e.g. Police, UK Border Agency)	13	22	11	12	25
Council service or discount cancelled	10	3	5	11	7
Reports Issued	12	14	19	19	16
No Further Action	14	12	11	8	13

Table 4

A small number of complex enquiries have accounted for a disproportionate amount of officer time during the year, this has impacted on the overall numbers of outcomes. Nevertheless, results are broadly in keeping with those achieved in previous years. The percentage of investigations which result in a 'not proven' outcome remain satisfactorily low, indicating that referrals are generally of good quality and internal investigation assessment processes are effective.

- 3.5 The AIT also dealt with 1,237 fraud enquiries from outside agencies (e.g. DWP, police, Home Office, other LA's, etc). These requests are largely related to providing information to other public bodies to assist with investigations and in most cases do not involve an investigation by Hackney. This represents a huge increase on the 155 equivalent enquiries undertaken in 2013/14 and is entirely due to consequences arising from the transfer of the Housing Benefit investigation function from LBH to DWP in December 2014 (see Section 8).

4. Blue Badge Fraud Team

- 4.1 AIT has been responsible for investigating Blue Badge fraud and other parking dispensation irregularities since August 2010. Investigations take place in response to allegations of misuse and are also proactively targeted at areas of known significant abuse. AIT officers regularly work with the Police and other enforcement agencies when investigating blue badge misuse. A total of 100 misused permits were recovered during the year, 60 parking tickets were issued and 44 vehicles were removed following misuse.
- 4.2 The Audit Commission estimated the cost of each fraudulently used Blue Badge to be £100 (which is only equivalent to the cost of on-street parking in the Hackney Central zone of less than 39 hours). Fees of £65 are also payable where a Penalty Charge Notice is issued as part of the enforcement process, or £265 if the vehicle is also removed. The financial value of this work during the year on these conservative measures was £22,700.

Blue Badge and Other Parking Investigations

	2017/18	2016/17	2015/16	2014/15	2013/14
Number of referrals (including cases identified through proactive measures)	243	196	167	194	158
Number of PCNs/removals	60/44	49/40	47/32	24/10	18/10
Number of prosecutions	0	1	4	19	12
Number of Blue Badges and other misused parking permits recovered	100	95	94	52	70
Number of misuse warnings issued	28	50	36	27	40

Table 5

5. Overstaying Families Intervention Team (OFIT)

- 5.1 OFIT is a Children & Young People's Service initiative. The team prevent false claims by families who are not entitled to public funds from central government due to their immigration status, but are nevertheless eligible to receive public money from Hackney tax payers because of local authority obligations under the Children Act 1989. A dedicated fraud investigator is attached to the team to assist with access to information and to provide additional scrutiny of suspect applications. The achievements reported here result from the work of the OFIT team as a whole.
- 5.2 The success of OFIT in preventing payments to those that are not in genuine need is a result of collaborative working by CYPS and AAF; one key element of this approach has been the investigator's ability to access information from Hackney records and external data sources that would not ordinarily be available to CYPS staff. Where evidence is identified to show that applicants have alternative means of support available to them, the Council may cease to provide financial assistance, or may prevent a claim being paid from the outset. Some claims have been withdrawn by the applicant or are not pursued by them when they become aware of the Council's verification process.

- 5.3 Table 6 summarises the savings arising from OFIT cases that were prevented or cancelled following the involvement of the AIT investigator in OFIT enquiries (additional cases were addressed without any input by the investigator). The figures are a conservative account of the financial benefit arising from the work because they assume the minimum accommodation cost and do not consider the additional social worker costs that arise from Children Act cases. These results were achieved against a backdrop of difficulty recruiting a suitably qualified investigator, resulting in the role being vacant for 3 months during the year.

OFIT Investigations 2017/18

	2017/18	2016/17	2015/16
No. Claims cancelled	95	108	78
Weekly Cost	£36,765	£41,796	£29,327.22
Annual cost	£1,917,032	£2,179,362	£1,525,015.44

* Cost estimated on the basis of an average 2017/18 weekly support package of £387 **Table 6**

- 5.4 Other teams and departments within CYPS have also benefited from direct access to an anti-fraud specialist embedded within the service. Assistance has also been provided where concerns have arisen such as child protection, child trafficking and exploitation, and absence from school.
- 5.5 Additional benefits that have arisen from OFIT enquiries are that:
- The Home Office have resolved long-standing immigration applications following Council enquiries so that applicants are granted UK immigration status that allows them to support themselves financially in the UK. This also results in a right to claim public funds from central government rather than LBH local funding under the Children Act.
 - There is a perception among neighbouring boroughs that Hackney is not seen as a destination of choice among potential clients, although this is difficult to quantify. This is significant because the OFIT client group is potentially more transient than the general population which means that in practice they have more discretion as to which Local Authority to approach to seek assistance.

6. Tenancy Fraud Team

- 6.1 AAF currently works with 12 Registered Providers (RPs, i.e. housing associations) to investigate tenancy fraud, with the Council receiving additional nomination rights for each unlawfully sublet tenancy that is recovered. Hackney's pioneering approach of working with our RP partners has previously been held up as best practice by the Audit Commission in their annual report *Protecting the Public Purse*, and has been further recognised by Alarm (the Association of Public Sector Risk Management). Some of the larger RPs have recently developed their own capacity to tackle tenancy fraud in their housing stock, and Council investigators also support these enquiries to ensure that tenancy fraud in Hackney is limited as far as is possible. This has contributed to a decline in the number of referrals to the LBH TFT in recent years, allowing the team to focus its resources on Council owned properties in 2017/18.
- 6.2 AAF started to investigate tenancy fraud in parts of the Council's housing stock in June 2012, and assumed borough-wide responsibility for this work in May 2013.

- 6.3 Investigations into the LBH housing waiting list and homelessness cases began in August 2013. These enquiries are important to prevent misuse of social housing from the outset, and they can reasonably be expected to reduce the number of time consuming and costly legal actions needed to recover an asset if it is wrongly allocated.
- 6.4 The team was previously part-funded by government grant, which expired in March 2015 and has not been renewed. LBH has continued to resource the team at the same level because of the financial and social benefits that continue to arise from successful investigations.
- 6.5 During 2017/18 a total of 66 RP and LBH properties were recovered as a direct result of investigations undertaken by the TFT and 40 housing applications were cancelled (see Table 7). This represents a reduction against previous years and results in part from an increased awareness of the Local Authority response among perpetrators. The hard work and dedication of the investigators in post have maintained Hackney's position as a leading authority when it comes to tackling this abuse within London and nationally. Independent estimates place the value of each recovered tenancy at £18,000 and each rejected housing waiting list claim at between £4,000 and £18,000 (the lower estimate is used in the calculations set out in table 7 below). Permanent recruitment to posts on the team was completed toward the end of the reporting year and this will contribute to our continuing robust response to tenancy fraud.
- 6.6 As of 31 March 2018 a further 98 tenancy cases were subject to a legal process that had not yet concluded. On the basis of past performance, the majority of these cases are likely to result in the recovery of a social housing tenancy, albeit that the legal process can be time consuming.
- 6.7 Following a proactive review of Right to Buy (RTB) applications where the tenant was in receipt of Housing Benefit in 2014, the TFT have worked with the RTB Team to investigate suspected fraudulent applications and to strengthen anti-fraud arrangements. This led to increased vetting of claims by the RTB team and referral to TFT where concerns were identified. Fourteen claims were denied or withdrawn in 2017/18 following investigation.

Legitimate purchases attract a discount on the market value of the property which increases each year. The current value of the discount is £108,000; in effect limited housing resources must be sold below the market rate, this adds to the long term limited availability of affordable housing resources, and increases cost pressures from efforts to maintain capacity. Investigations prevented the award of discounts totalling £1,512,000 in 2017/18, in addition to preventing the loss of 14 homes to applicants who were not eligible to purchase them.

Tenancy Fraud Investigations

	2017/18	2016/17	2015/16	2014/15	2013/14
Number of referrals (tenancy fraud)	306	304	305	494	445
Number of tenancies recovered	66	103	107	125	153
Estimated value of recovered properties*	£1,188,000	£1,854,000	£1,926,000	£2,250,000	£2,754,000
Number of referrals (housing application)	52	55	116	295	171
Number of housing applications cancelled	40	49	57	67	81
Estimated value of cancelled applications	£160,000	£196,000	£228,000	£268,000	£324,000
Number of referrals (Right to Buy)	36	34	35		
Number of RTBs cancelled or withdrawn	14	17	10	10	1
Estimated value of RTBs prevented	£1,512,000	£1,783,300	£1,049,000	£1,049,000	£104,900
Total value all housing investigations	£2,860,000	£3,833,300	£3,203,000	£3,567,000	£3,182,900

*This figure is based on the value of £18,000 per property as quoted by the Audit Commission

Table 7

7. Pro-Active Anti-Fraud Team (PAFT)

- 7.1 An investigation has run throughout 2017/18 concerning irregularities in the management of various legacy Hackney Homes contracts. The review is wide ranging and is high profile, having already gained media attention. One line of enquiry has resulted in a police investigation that is being fully supported by AAF.
- 7.2 Multiple work streams have either been reviewed or are in the process of being reviewed. Consequences to date include the retention of payments against one contractor and revisions to the contract management process.
- 7.3 PAFT has been increased from one to three officers, following a successful bid for DCLG counter-fraud funding and this level of resource has now been formalised as part of the AAF restructure. AAF has worked closely with LBH Procurement and Housing Directorate technical officers during these enquiries, and there is a consensus that further work streams and contracts should also be systematically reviewed.

8. Housing Benefit

- 8.1 The responsibility for Housing Benefit investigations was transferred from LBH to DWP on 1 December 2014 as part of the government's Single Fraud Investigation Service scheme. The responsibility for Housing Benefit administration remains with LBH for the time being.
- 8.2 LBH had already successfully realigned investigative resources away from HB to focus on other fraud threats, resulting in the achievements set out in this report.

Hackney was therefore better placed to deal with the consequences of SFIS than many other authorities, particularly those outside of London. However, the following impacts have arisen:

- DWP do not have direct access to LBH HB records. All HB investigations must proceed via an AAF officer who is employed specifically to receive and respond to data requests (the additional work referenced at Section 3.5 of this report). DWP have previously provided minimal funding for this work and have not yet communicated how or if they will resource this in 2018/19 (limited contingency exists at cost to LBH until September 2018 following the AAF restructure);
- While the AAF officer assigned to this work has been able to facilitate routine investigations, it has not been possible to review the 4,144 HB NFI matches received in 2016 (see Section 9). Previously, matches were sifted by the 6 officers who transferred to DWP as part of SFIS; DWP do not accept that the identification of fraud is their responsibility under the current arrangements. This impasse is an issue across all local authorities;
- LBH has less influence over the investigation process and how an enquiry should proceed, and there is inevitably less effective communication between the HB administrative and investigative functions;
- HB and other fraud enquiries (e.g. tenancy, right to buy) are no longer co-ordinated to the same degree due to differing organisational priorities. Further down the line, there are concerns about continued access to HB data to support other fraud enquiries;
- Investigation teams, particularly those outside London, have been severely diminished by the introduction of SFIS. This is likely to impact on future LBH investigations and the overall resilience of local government to fraud.

9. National Fraud Initiative (NFI)

- 9.1 The Cabinet Office (previously the Audit Commission) conducts a biennial data matching exercise, the NFI. AAF coordinates the provision of data, undertakes investigations in some areas and coordinates responses from other Council teams that are involved in verifying match data. The NFI matches are assessed for investigation according to local priorities and experience of previous NFI data quality. It is important to note that matches are often a result of data quality issues and do not necessarily indicate fraud.
- 9.2 Match data received in January 2017 was reviewed during 2017/18.
- 9.3 The value of fraud and error identified through the NFI is calculated according to Audit Commission methodologies. Details of the progress on matches received are shown below in Table 8.

Type of Match	Total Matches	Number Matches	Investigation in	Value of fraud or
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	(Recommended)	Cleared	progress	error identified
Payroll	119 (36)	58	5	£107,858
Housing Benefit	4,144 (366)	51	1	0
Housing tenants	1,368 (972)	55	25	0
Right to Buy	139 (49)	1	0	0
Housing waiting list	2,834 (2,733)	75	20	£54,340
Concessionary travel / parking	215 (190)	169	36	£4,600
Creditors	5,943 (721)	638	16	0
Pensions	172 (110)	171	1	£33,554
Council Tax	22,580 (601)	44	23	0
Council Tax Reduction Scheme	3,523 (137)	22	3	0
Other	88 (54)	29	0	0
Total	41,125 (5,969)	1,313	130	£200,353

Table 8

10. Other activity

10.1 AAF have provided fraud awareness support to the following teams and external partners during 2017/18: -

- Housing Needs
- Right to Buy
- Estate Management
- Children and Young People's Services
- Business Support (Blue Badge team)
- School finance officers
- Housing Directorate contracts & procurement

10.2 It should be noted that not all referrals to AAF result in an investigation. In some instances the allegation will relate to reported practices that are more appropriately dealt with by management action. Similarly there may be suspected irregularity that is more appropriately dealt with elsewhere within the Council and/or its' key partner organisations.

10.3 AAF have also assisted the police, other local authorities/public sector agencies and partner organisations where appropriate with enquiries and investigations in the interest of prevention, detection and deterrence of crime. Shared information is released in accordance with data protection legislation.

11. Regulation of Investigatory Powers Act (RIPA)

Document Number: 20190955

Document Name: Appendix 1 - Annual Fraud and Irregularity Report 2017/18

- 11.1 The Corporate Head of Audit, Anti-Fraud and Risk Management has the corporate responsibility for the Council's RIPA powers. The policy is available on the Council's intranet and has been publicised to all staff.
- 11.2 Use of RIPA by all local authorities was severely curtailed during 2012/13 following new legislation requiring local authorities to obtain approval from a Magistrates Court before surveillance can take place. Hackney has a process in place with local courts.
- 11.3 Update reports on the Council's use of RIPA are provided quarterly to the Audit Sub-Committee. No RIPA applications were made or authorised in 2017/18. This is partly a consequence of the legislative change, but is also reflective of a culture within Hackney that seeks to minimise intrusiveness where possible, while still accepting that surveillance remains a valid investigative technique in certain circumstances. A breakdown of the RIPA authorisations for the year are shown in Table 10 below.
- 11.4 The Council's RIPA arrangements were most recently reviewed in March 2017, the report commended the arrangements that are in place.

RIPA Authorisations

Type of Investigation	Number Authorised 2017/18	Outcomes	Number Authorised 2016/17	Number Authorised 2015/16	Number Authorised 2014/15
ASB	0	n/a	0	0	0
Trading Standards	0	n/a	0	0	0
Housing Benefit	0	n/a	0	0	0
Parking	0	n/a	0	0	0
Total Authorisations	0	n/a	0	0	0

Table 10

12. Money Laundering

- 12.1 Whilst legislation relating to money laundering does not specifically require the Council to implement formal detection and reporting procedures it is nevertheless considered that such procedures are best practice and were recommended by the Audit Commission.
- 12.2 A corporate policy outlining the Council's approach to money laundering is in place which introduces a requirement to identify any cash sums in excess of £9000 received by the Council, and to report any transaction where the funds involved are suspected to originate from criminal activity. Guidelines direct councils to report such occurrences to the National Crime Agency (NCA).
- 12.3 Training requirements for staff working in areas considered to be most at risk from this activity are considered, this has resulted in training being provided to key Right to Buy officers.
- 12.4 During 2017/18, 2 referrals were received by AAF, one concerned the source of funds for a proposed Right to Buy, the other concerned a large cash payment. Following internal review both matters were notified to the NCA in line with our corporate procedures.

13. Future Developments

- 13.1 AAF was restructured during 2016/17, following this several key posts were filled toward the end of 2017 – 2 tenancy fraud investigators, one OFIT investigator and one PAFT investigator. There is now a much higher level of permanent staffing across the investigation teams which should result in greater service resilience through 2018/19.
- 13.2 Considerable advances have been achieved in the last six years to tackle tenancy, parking, OFIT and staff fraud, and to address known concerns in specific contract arrangements. This work will continue through 2017/18 and maintaining current performance will in itself be a challenging target for the year ahead. A risk based assessment will be undertaken to ensure that the Service focusses resources where most beneficial to the Council.
- 13.3 Links between the Tenancy Fraud Team and Housing are being strengthened as the Housing restructure progresses. This will include building stronger relationships with managers and officers in the housing teams that support our counter-tenancy fraud activity.
- 13.4 There is no reason to think that the high level of reactive casework received in 2017/18 will abate and this will limit the capacity to pro-actively tackle some fraud. The existing level of referrals is likely to be influenced by the level of organisational change and the consequences of this on the control environment. The links between the Anti-Fraud teams and Internal Audit will continue to be important.
- 13.5 Proactive work including Blue Badge and OFIT investigations and the ongoing review of prioritised NFI2016 matches will continue. Hackney has recently participated in a new NFI workstream which matches additional private sector data to certain council records. The results of this work will be reported to future Committee meetings and are expected to deliver results in the tenancy and council tax discount arena during the year.
- 13.6 Our key counter fraud partners, including legal teams, the Police and the Home Office, will continue to face resource challenges in the year ahead. These are likely to impact on the options available to the Council to tackle certain fraud types, but the service will continue to innovate and respond flexibly to these issues.