

# **Audit & Anti-Fraud Service Annual Fraud and Irregularity Report 2019/20**

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

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June 2020



**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) and Tenancy Fraud Team (TFT) during the past year. During the financial year 2019/20 the teams received 1,659 referrals and enquiries in relation to fraud and irregularity.

## 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"> <li>● Members' Code of Conduct</li> <li>● Officers' Code of Conduct</li> <li>● Financial Procedure Rules</li> <li>● Standing Orders</li> <li>● Contract Standing Orders</li> </ul>	<ul style="list-style-type: none"> <li>● Anti-Fraud &amp; Corruption Policy</li> <li>● Whistleblowing Policy; and</li> <li>● Anti-Money Laundering Policy</li> </ul>

- 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 processes, 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 the Committee separately, most recently in April 2020.

## 3. Anti-Fraud & Corruption Activity during 2019/20

- 3.1 Investigation work is undertaken by 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 non-tenancy concern. In addition, the AIT is responsible for investigating allegations of Blue Badge and parking fraud (Section 4) and providing investigative support to the CACH No Recourse to Public Funds Team (NRPF) initiative (Section 5). The team also provides a liaison role between the Council and DWP to facilitate the investigation of Housing Benefit fraud by the DWP (section 8).
- The Tenancy Fraud Team (TFT) investigates allegations of subletting and other housing fraud committed against Council and Registered Provider housing stock in the Borough (Section 6);

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

#### Yearly Comparison of Investigation Work

Investigation Type	2019/20	2018/19	2017/18	2016/17	2015/16
AIT referrals	42	44	41	42	47
Parking (Blue Badge)	220	198	243	196	166
Tenancy Fraud	266	388	461	394	359
Overstaying Families (NRPF)	89	75	104	130	89
Fraud enquiries	1042	1105	1,237	1,283	1,402
<b>Total</b>	<b>1659</b>	<b>1810</b>	<b>2,019</b>	<b>2,010</b>	<b>2,125</b>

Table1

3.3 A summary of the cases dealt with by AIT during 2019/20, broken down by directorate and referral type, is shown in tables 2 and 3 below.

#### Breakdown of Referrals by Directorate

Directorate	Brought Forward from 2018/19	Referral received in 2019/20	Case completed during 2019/20	Cases ongoing at 1 April 2020
Chief Executive's Directorate	4	1	4	1
Children, Adults & Community Health (excluding NR)	5	10	5	10
Hackney Learning Trust	4	4	4	4
Finance & Resources	5	11	7	9
Neighbourhoods & Housing	2	7	6	3
Hackney Homes	8	9	13	4
<b>Total</b>	<b>28</b>	<b>42</b>	<b>39</b>	<b>31</b>

Table 2

#### Breakdown of Referrals by Type

	Neighbourhoods	Children, Adults & Community Health	Finance	Chief	Total

Description	& Housing	CACH	HLT	& Resources	Executive s	
Theft	1	2	1	0	0	4
Cheque/Credit card fraud	0	0	0	2	0	2
Immigration/ID issues	0	0	0	0	0	0
Employee issues	8	4	2	2	0	16
Payments, contracts, procurement	4	0	0	0	1	5
Housing irregularities	0	0	0	3	0	3
Staff parking	1	1	0	0	0	2
Other	2	3	1	4	0	10
<b>Total</b>	<b>16</b>	<b>10</b>	<b>4</b>	<b>11</b>	<b>1</b>	<b>42</b>

Table 3

- 3.4 An analysis of the principal outcomes arising from AIT investigations during 2019/20 is shown in Table 4 below.

Analysis of Outcomes	2019/20	2018/19	2017/18	2016/17	2015/16	2014/15
Dismissal	1	7	2	7	7	14
Resigned/Left under investigation	10	8	3	5	11	8
Other Disciplinary	2	1	3	1	8	2
Referral to other agency (e.g. Police, UK Border Agency)	12	12	13	22	11	12
Council service or discount cancelled (excl NRPF)	2	8	10	3	5	11
Reports Issued	10	19	12	14	19	19

Table 4

- 3.5 AIT also dealt with 1,042 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 41 misused permits were recovered during the year, 71 parking tickets were issued and 38 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 £12,215.
- 4.3 Following the introduction of new arrangements for the removal of vehicles for more serious parking offences and a review of enforcement options, the first prosecution for a blue badge offence since 2016/17 was achieved during the year, resulting in a financial charge of £1,014 to the driver. Other cases that are suitable for prosecution have been identified and are being prepared for court.

#### Blue Badge and Other Parking Investigations

	2019/20	2018/19	2017/18	2016/17	2015/16
Number of referrals (including cases identified through proactive measures)	220	203	243	196	167
Number of PCNs/removals	71/38	29/2	60/44	49/40	47/32
Number of prosecutions	1	0	0	1	4
Number of Blue Badges and other misused parking permits recovered	41	41	100	95	94
Number of misuse warnings issued	19	19	28	50	36

Table 5

## 5. No Recourse to Public Funds (NRPF)

- 5.1 NRPF is a Children & Young People's Service initiative. The team prevents 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 taxpayers 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 NRPF team as a whole.
- 5.2 The success of the NRPF team 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 NRPF cases that were prevented or cancelled following the involvement of the AIT investigator in NRPF 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.

#### NRPF Investigations 2019/20

	2019/20	2018/19	2017/18	2016/17
No. Claims cancelled	87	71	95	108
Weekly Cost	£40,455	£33,015	£36,765	£41,796
Annual cost	£2,109,439	£1,721,496	£1,917,032	£2,179,362

\* Cost estimated on the basis of an average 2018/19 weekly support package of £465 **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 NRPF 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 NRPF 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 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.

- 6.2 AAF started to investigate tenancy fraud in RP stock in 2010/11, and in the Council's housing stock in June 2012. This has resulted in the recovery of more than 900 sublet or misused properties up to 31 March 2020.
- 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. This work has resulted in the cancellation of 365 housing applications to the end of the 19/20 financial year.
- 6.4 TFT have worked with the RTB Team since 2014 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.
- 6.5 The work of Council investigators, Housing Officers and Legal staff helps to make sure that limited, valuable resources are allocated to those in genuine need, in addition to protecting Council budgets by reducing housing needs costs and preventing social housing being sold at discount to those who do not qualify for Right to Buy. Each Right to Buy purchase attracts a discount on the market value of the property which increases each year. The 19/20 value of the discount was £110,500; 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.
- 6.6 During 2019/20 a total of 85 RP and LBH properties were recovered as a direct result of investigations undertaken by the TFT (see Table 7). This represents a significant increase of 34% on the previous year's results. The hard work and dedication of the investigators in post have maintained Hackney's position as a top 3 authority when it comes to tackling this abuse within London and nationally. In addition, 42 housing applications were cancelled following investigation. 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). Fifteen Right to Buy claims were also denied or withdrawn in 2019/20 following investigation, preventing the award of discounts totalling £1,657,500, in addition to stopping the sale of 15 homes to applicants who were not eligible to purchase them.
- 6.7 As of 31 March 2020 a further 105 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.

### Tenancy Fraud Investigations

	2019/20	2018/19	2017/18	2016/17	2015/16
Number of referrals (tenancy fraud)	266	214	306	304	305
Number of tenancies recovered	85	63	66	103	107
<b>Estimated value of recovered properties*</b>	<b>£1,530,000</b>	<b>£1,134,000</b>	<b>£1,188,000</b>	<b>£1,854,000</b>	<b>£1,926,000</b>

Number of referrals (housing application)	54	80	52	55	116
Number of housing applications cancelled	42	42	40	49	57
<b>Estimated value of cancelled applications</b>	<b>£168,000</b>	<b>£168,000</b>	<b>£160,000</b>	<b>£196,000</b>	<b>£228,000</b>
Number of referrals (Right to Buy)	30	34	36	34	35
Number of RTBs cancelled or withdrawn	15	13	14	17	10
<b>Estimated value of RTBs prevented</b>	<b>£1,657,500</b>	<b>£1,404,000</b>	<b>£1,512,000</b>	<b>£1,783,300</b>	<b>£1,049,000</b>
<b>Total value all housing investigations</b>	<b>£3,355,500</b>	<b>£2,706,000</b>	<b>£2,860,000</b>	<b>£3,833,300</b>	<b>£3,203,000</b>

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

Table 7

## 7. Hackney Homes Legacy Contracts

- 7.1 The review of these legacy contracts has ended following the conclusion of investigations of testable work and a contractor entering administration and subsequently liquidation. The investigation identified that some fire safety work was defective, this was then re-performed at cost to the contractor so that it met the job specification. Money was also retained by the Council against claims for payment in respect of other work by the same contractor.
- 7.2 Arrangements with existing contractors have been reviewed and revised processes have been introduced to provide additional assurance that control arrangements are appropriate.

## 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 provide minimal funding for this work so that LBH part-funds the resource to support this activity. Progress has been made during the year toward providing DWP staff with direct access to LBH HB records, which could reduce the burden on AAF.



- While the AAF officer assigned to this work has been able to facilitate routine investigations, it has not been possible to review the 3,376 HB NFI matches received in 2019 (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;

## 9. National Fraud Initiative (NFI)

9.1 The Cabinet Office 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 2019 is currently being reviewed.

9.3 The value of fraud and error identified through the NFI is calculated according to Cabinet Office methodologies. Details of the progress on matches received are shown below in Table 8. Outcomes for the previous 2016 NFI cycle are also provided for comparison.

### NFI 2018 Outcomes to Date

Type of Match	Total Matches (Recommended)	Number Matches Cleared	Investigation in progress	Value of fraud or error identified	Outcomes NFI 2016
Payroll	145	81	4	3 frauds	1 fraud
Housing Benefit	3,376	128	6	0	0
Housing tenants	1,443	32	13	54,000	18,000
Right to Buy	55	10	0	0	0
Housing waiting list	2,614	38	1	32,400	98,940

Concessionary travel / parking	203	187	0	104 permits cancelled	46 permits cancelled
Creditors	6,428	0	0	0	0
Pensions	217	207	9	0	0
Council Tax	22,608	2,617	7,302	304,674	33,765
Council Tax Reduction Scheme	2,453	143	52	3,437	0
Other	72	50	3	0	0
<b>Total</b>	<b>39,614</b>	<b>3,493</b>	<b>7,390</b>	<b>394,511</b>	<b>150,705</b>

Table 8

## 10. Other activity

10.1 AAF have provided fraud awareness support to the following teams and external partners during 2019/20: -

- Housing Needs
- Right to Buy
- Housing Neighbourhood offices and Registered Providers
- Children and Young People's Services
- Adult Social Care
- Business Support (Blue Badge team)
- School finance officers

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 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)

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 Committee. No RIPA applications were made or authorised in 2019/20. 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 recent years are shown in Table 10 below.
- 11.4 The Council's RIPA arrangements were most recently reviewed in April 2020, the report commended the arrangements that are in place.

#### RIPA Authorisations

Type of Investigation	Number Authorised 2019/20	Outcomes	Number Authorised 2018/19	Number Authorised 2017/18	Number Authorised 2016/17
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
<b>Total Authorisations</b>	<b>0</b>	<b>n/a</b>	<b>0</b>	<b>0</b>	<b>0</b>

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 2019/20, 2 referrals were received by AAF, both concerned the source of funds for proposed Right to Buys. Following internal review both matters were notified to the NCA in line with our corporate procedures.

## 13. Future Developments

- 13.1 The Council, like the country as a whole, is rapidly changing the way in which it does business as a result of the Covid19 pandemic and the ensuing lockdown.

There is heightened demand for many existing services and new measures to assist residents and businesses in the borough have been introduced, these changes have happened quickly. While our governance arrangements have effectively responded to the crisis despite the huge disruption, it is reasonable to expect that attempts to exploit the situation will be made. AAF will investigate any concerns arising from the pandemic as we would any other fraud concern, although there have not yet been any such confirmed cases in Hackney.

- 13.2 Some aspects of the anti-fraud process which require engagement with investigation subjects and witnesses have been limited because of the pandemic, and this may remain the case for some time yet. There have also been changes to legislation to extend the time taken for legal action to resolve tenancy matters, including action to end a tenancy (including where fraud is identified). It is likely that the timescale to achieve an outcome from many investigations will be increased for the foreseeable future.
- 13.3 The pandemic has also resulted in some AAF staff being redeployed to assist those services facing an increased demand. So far this has involved working with the Revenues team to help evaluate some incoming grant applications, and opportunities to assist other Council teams are being evaluated, particularly where it appears that the investigator skill set might add value.
- 13.4 Against this background, it will be a considerable achievement for the year ahead to maintain the current level of performance as set out in this report. Major advances have been achieved in recent years to tackle tenancy, parking, NRPF and staff fraud, and to address known concerns in specific contract arrangements. It is pleasing to note that outcomes from tenancy fraud work increased significantly during the year and other anti-fraud investigations continued to deliver sustained levels of success.
- 13.5 There is no reason to think that the high level of reactive casework received in 2019/20 will abate and this will impact the capacity for proactive anti-fraud work. 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.
- 13.6 Proactive work including Blue Badge and NRPF investigations and the ongoing review of prioritised NFI2018 matches will continue. Where the need for greater counter-fraud involvement is identified through our reactive work, we will endeavour to carry out proactive enquiries where feasible.
- 13.7 Hackney is closely monitoring the development of the London Counter Fraud Hub initiative as a way to identify irregularities in key service areas and as a further way to prevent fraud entering the system in the first place. As of the date of this report there remain some issues to resolve before our participation can be confirmed, but this is a development that Hackney is broadly supportive of.
- 13.8 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.

