

# **Audit & Anti-Fraud Service Annual Fraud and Irregularity Report 2020/21**

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

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June 2021



**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 2020/21 the teams received 787 referrals and enquiries in relation to fraud and irregularity.
- 1.2 This reporting year has been particularly challenging for the Investigation Service, as it has been for all other Council services. Safety measures that have necessarily been in place throughout the year have prevented some investigation actions from going ahead, in particular, work inside residential addresses. In addition, the cyber attack that was committed against the Council in October 2020 has limited our access to some information that was previously available to inform our enquiries.
- 1.3 The service has responded to these difficulties by undertaking new lines of work that have been able to deliver tangible results (in particular, providing preventative fraud checks of Covid 19 Business Grants). Most of the Audit & Anti-Fraud Division have also been redeployed at various times through the year to support the Council's response to the pandemic. These arrangements have largely come to an end (for the time being) and we are optimistic that there will be a progressive return toward more regular business in the near term.

## 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 are briefed on the Council's approach and are 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. This facility is also available to Hackney Education and has been 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 2021.

### 3. Anti-Fraud & Corruption Activity during 2020/21

- 3.1 Investigation work is undertaken by teams which specialise in the following operational areas:
- The Audit Investigation Team (AIT) investigates 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	2020/21	2019/20	2018/19	2017/18	2016/17
AIT referrals	57	42	44	41	42
Parking (Blue Badge)	119	220	198	243	196
Tenancy Fraud	120	266	388	461	394
No Recourse to Public Funds (NRPF)	66	89	75	104	130
Fraud enquiries	426	1042	1105	1,237	1,283
<b>Total</b>	<b>788</b>	<b>1659</b>	<b>1810</b>	<b>2,019</b>	<b>2,010</b>

Table1

- 3.3 A summary of the cases dealt with by AIT during 2020/21, broken down by directorate and referral type, is shown in tables 2 and 3 below.

**Breakdown of Referrals by Directorate**

Directorate	Brought Forward from 2019/20	Referral received in 2020/21	Case completed during 2020/21	Cases ongoing at 1 April 2021
Chief Executive's Directorate	1	1	1	1
Children, Adults & Community Health (excluding NR)	10	1	3	8
Hackney Education	4	3	4	3
Finance & Resources	9	1	4	6
Business Grants	0	40	3	37
Neighbourhoods & Housing	3	11	11	3
Hackney Homes	4	0	0	4
<b>Total</b>	<b>31</b>	<b>57</b>	<b>26</b>	<b>62</b>

Table 2

**Breakdown of Referrals by Type**

Description	Neighbourhoods & Housing	Children, Adults & Community Health		Finance & Resources	Chief Executives	Total
		CACH	HLT			
Theft	1	0	0	0	0	1
Cheque/Credit card fraud	0	0	0	0	0	0
Immigration/ID issues	1	0	1	0	0	2
Employee issues	5	0	0	0	0	5
Payments, contracts, procurement	0	1	1	40	1	42
Housing irregularities	3	0	0	0	0	3
Staff parking	0	0	0	0	0	0
Other	1	0	1	1	0	3
<b>Total</b>	<b>11</b>	<b>1</b>	<b>3</b>	<b>41</b>	<b>1</b>	<b>57</b>

Table 3

3.4 An analysis of the principal outcomes arising from AIT investigations during 2020/21 is shown in Table 4 below.

Analysis of Outcomes	2020/21	2019/20	2018/19	2017/18	2016/17	2015/16
Dismissal	2	1	7	2	7	7
Resigned/Left under investigation	2	10	8	3	5	11
Other Disciplinary	0	2	1	3	1	8
Referral to other agency (e.g. Police, UK Border Agency)	3	12	12	13	22	11
Council service or discount cancelled (excl NRPF)	26	2	8	10	3	5
Reports Issued	5	10	19	12	14	19

Table 4

3.5 AIT also dealt with 788 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. The large majority of these cases arise 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 is responsible for investigating Blue Badge fraud and other parking dispensation irregularities. 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. These enquiries have continued during 2020/21, the decline in the number of cases has been influenced by reduced levels of travel, particularly during lockdown periods. A total of 54 misused permits were recovered during the year, 46 parking tickets were issued and 31 vehicles were removed following misuse.

4.2 A renewed emphasis on pursuing more severe sanctions for the most serious types of offending (including the use of stolen and forged blue badges) has resulted in the prosecution of 5 motorists for permit misuse during the year. Other cases that are suitable for prosecution have been identified and are being prepared for court. Court sanctions resulting from these cases amounted to £6,867.

4.3 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 (including the prosecution outcomes) was £21,457.

### Blue Badge and Other Parking Investigations

	2020/21	2019/20	2018/19	2017/18	2016/17
Number of referrals (including cases identified through proactive measures)	119	220	203	243	196
Number of PCNs/removals	46/31	71/38	29/2	60/44	49/40
Number of prosecutions	5	1	0	0	1
Number of Blue Badges and other misused parking permits recovered	54	41	41	100	95
Number of misuse warnings issued	20	19	19	28	50

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 work costs that arise from Children Act cases.

**NRPF Investigations 202/21**

	2020/21	2019/20	2018/19	2017/18
No. Claims cancelled	71	87	71	95
Weekly Cost	£27,477	£40,455	£33,015	£36,765
Annual cost	£1,432,729	£2,109,439	£1,721,496	£1,917,032

\* Cost estimated on the basis of an average weekly support package of £387 (previously £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 may be 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 2021.

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 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 20/21 value of the discount was £112,800; 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 Outcomes from tenancy fraud enquiries have been particularly impeded during the year because entry to residential dwellings is usually a key part of the investigation process, this has not been possible during 2020/21. Furthermore, court schedules have been impacted by the pandemic and some housing legal remedies were suspended to limit evictions in all but the most serious cases. Large volumes of cases have continued to be investigated by the other means that have remained available, and many more cases have been prepared for legal action. Only 11 properties were recovered as a direct result of investigations undertaken by the TFT (see Table 7). Many housing applications have been identified where the current circumstances suggest that they should be cancelled, this is dependent on a return of council data sources following the cyber attack and a final review by the waiting list team. 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). One Right to Buy claim was also denied following investigation, preventing the award of a discount of £112,800, in addition to stopping the sale of a home to someone who was not eligible to purchase it.

### Tenancy Fraud Investigations

	2020/21	2019/20	2018/19	2017/18	2016/17
Number of referrals (tenancy fraud)	120	266	214	306	304
Number of tenancies recovered	11	85	63	66	103
<b>Estimated value of recovered properties*</b>	<b>£198,000</b>	<b>£1,530,000</b>	<b>£1,134,000</b>	<b>£1,188,000</b>	<b>£1,854,000</b>
Number of referrals (housing application)	208	54	80	52	55
Number of housing applications cancelled	Pending**	42	42	40	49



<b>Estimated value of cancelled applications</b>	<b>£0</b>	<b>£168,000</b>	<b>£168,000</b>	<b>£160,000</b>	<b>£196,000</b>
Number of referrals (Right to Buy)	4	30	34	36	34
Number of RTBs cancelled or withdrawn	1	15	13	14	17
<b>Estimated value of RTBs prevented</b>	<b>£112,800</b>	<b>£1,657,500</b>	<b>£1,404,000</b>	<b>£1,512,000</b>	<b>£1,783,300</b>
<b>Total value all housing investigations</b>	<b>£310,800</b>	<b>£3,355,500</b>	<b>£2,706,000</b>	<b>£2,860,000</b>	<b>£3,833,300</b>

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

\*\*Housing applications await cancellation when systems can be fully reviewed and updated

**Table 7**

## **7. Covid Business Grants**

- 7.1 Audit & Anti-Fraud officers were redeployed to various Council services to support the pandemic response, including the Business Grants teams to assist with administration of grant applications. In addition, the Audit Investigation Team were re-tasked to carry out preventative fraud checks on applications that passed the initial assessment process. This involved data-matching applications to identify potential irregularity and led to the review of 714 applications by the fraud team within the year.
- 7.2 These reviews were carried out quickly to minimise delaying payments to legitimate applicants, and resulted in the identification of 31 payments that have been withheld because they do not appear to meet the eligibility criteria. The value of these claims currently stands at £353,672.

## **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 The following impacts have arisen from this transfer:
- 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. 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 HB 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 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. Greater emphasis has been placed upon reviewing NFI match data throughout 2020/21 as some other areas of investigation activity have been hampered by the impact of the pandemic.
- 9.3 Match data was most recently received in January 2021. It should be noted that the information that Hackney was able to provide following the cyber attack was significantly reduced, which has in turn influenced the volume of matches available to review. Data will be provided for matching at a future date wherever possible.

**NFI 2018 Outcomes**

Type of Match	Total Matches (Recommended)	Number Matches Cleared	Investigation in progress	Value of fraud or error identified	Outcomes NFI 2016
Payroll	145	82	3	3 frauds	1 fraud
Housing Benefit	3,376	128	6	0	0
Housing tenants	1,443	73	19	54,000	18,000
Right to Buy	55	10	0	0	0
Housing waiting list	2,614	120	339	Pending	98,940
Concessionary travel / parking	203	187	0	104 permits cancelled	46 permits cancelled
Creditors	6,428	Sample	0	0	0
Pensions	217	208	8	0	0
Council Tax	22,608	9628	291	319,205	33,765
Council Tax Reduction Scheme	2,453	185	29	116,578	0
Covid 19 business grants	14,211	714	37	353,672	n/a
Other	23	15	3	0	0
<b>Total</b>	<b>49,390</b>	<b>3,493</b>	<b>7,390</b>	<b>843,455*</b>	<b>150,705</b>

Table 8

\*The benefit attributable to investigations completed in 2020/21 was £613,460

**10. Other activity**

10.1 AAF have provided fraud awareness support to the following teams and external partners during 2020/21: -

- Officers with procurement responsibilities
- Housing Neighbourhood offices and Registered Providers
- Children and Young People's Services
- 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 2020/21. 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 2020/21	Outcomes	Number Authorised 2019/20	Number Authorised 2018/19	Number Authorised 2017/18
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).

### **13. Future Developments**

- 13.1 The tangible benefits arising from the Council's counter-fraud work reduced from £5,698,149 in 2019/20 to £2,378,446 in 2020/21 due to the exceptional circumstances arising from the pandemic and the cyber attack. The current year benefits are nevertheless significant.
- 13.2 The absolute priority for the service through 2021/22 will be to resume areas of work that were paused during the last year to deliver benefits more in keeping with those achieved over previous periods.
- 13.3 There is reason to be optimistic that this will happen. Officers have returned from redeployments and the final arrangements are being completed to enable a wider range of duties to be resumed. In addition, preparatory work has allowed some investigation cases to progress to a point short of delivering a beneficial outcome - these will be ready to move ahead at pace.
- 13.4 It is also reasonable to expect that the volumes of some classes of investigation will increase as Council officers resume their full range of duties and are better placed to identify potential irregularity, with particular reference to tenancy fraud and blue badge misuse.
- 13.5 Fraud prevention checks will continue to be available in the event of further business grant support being required, and cases already identified as being suspect will be followed up and sanctions sought where appropriate.
- 13.6 Proactive work including Blue Badge and NRPF investigations and the ongoing review of NFI 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 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.