

Audit & Anti-Fraud Service Annual Fraud and Irregularity Report 2022/23

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

June 2023



**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 2022/23 the teams received 806 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"> ● 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 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 offers advice and where necessary undertake training in key areas of activity.
- 2.5 The Council has procured an external provider, Navex, 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 grant maintained 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 2023.

3. Anti-Fraud & Corruption Activity during 2021/22

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 Children's & Education directorate No Recourse to Public Funds Team (NRPF) initiative (Section 5).
- The Tenancy Fraud Team (TFT) investigates allegations of subletting and other housing fraud committed against the Council and most 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	2022/23	2021/22	2020/21	2019/20	2018/19
AIT referrals	39	22	57	42	44
Parking (incl Blue Badge)	199	157	119	220	198
Tenancy Fraud	276	232	120	266	388
No Recourse to Public Funds (NRPF)	104	44	66	89	75
Fraud enquiries	188	492	426	1042	1105
Total	806	947	788	1659	1810

Table1

3.3 A summary of the cases dealt with by AIT during 2021/22, broken down by directorate and referral type, is shown in tables 2 and 3 below.

Breakdown of Referrals by Directorate

Directorate	Brought Forward from 2021/22	Referral received in 2022/23	Case completed during 2022/23	Cases ongoing at 1 April 2023
Chief Executive's Directorate	0	1	1	0
Adults, Health & Integration	1	2	1	2
Children's & Education	0	9	5	4
Finance & Resources	2	5	3	4
Business Grants	8	4	8	4
Climate Homes and Economy	12	18	13	17
Total	23	39	31	31

Table 2

Breakdown of Referrals by Type

Description	Climate, Homes & Economy	Adults, Health & Integration	Children's & Education, & Schools	Finance & Corporate Resources	Chief Executives	Total
Theft	0	0	0	0	0	0
Immigration/ID issues	0	0	0	0	0	0
Employee issues	8	2	4	4	1	19
Payments, contracts, procurement	2	0	3	4	0	9
Housing irregularities	2	0	0	1	0	3
Staff parking	4	0	2	0	0	6
Other	2	0	0	0	0	2
Total	18	2	9	9	1	39

Table 3

3.4 An analysis of the principal outcomes arising from AIT investigations during 2021/22 is shown in Table 4 below.

Analysis of Outcomes	2022/23	2021/22	2020/21	2019/20	2018/19
Dismissal	1	1	2	1	7
Resigned/Left under investigation	2	2	2	10	8
Other Disciplinary	0	1	0	2	1
Referral to other agency (e.g. Police, UK Border Agency)	3	7	3	12	12
Council service or discount cancelled (excl NRPF)	0	0	26	2	8
Reports Issued	7	8	5	10	19

Table 4

3.5 AIT also dealt with 188 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 previously arose 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 2022/23, the number of referrals increased on the peak pandemic period as levels of travel increased. A total of 108 misused parking permits were recovered during the year, 106 penalty charge notices were issued and 62 vehicles were removed following misuse. These outcomes represent a significant increase not just on the pandemic period but also on pre-2020 outcomes.

- 4.2 We remain committed to pursuing more severe sanctions for the most serious types of offending (including the use of stolen and forged blue badges) even though delays in the legal system outside Hackney have delayed the progression of some cases recently.
- 4.3 The Audit Commission estimated the cost of each fraudulently used Blue Badge to be £100 (which is equivalent to less than 31 hours parking in an LBH car park for the cheapest petrol vehicle rate). Fees of £65 are also payable where a Penalty Charge Notice is issued as part of the enforcement process, with an additional charge of £200 if the vehicle is also removed. The financial value of this work during the year on these conservative measures was £30,090.

Blue Badge and Other Parking Investigations

	2022/23	2021/22	2020/21	2019/20	2018/19
Number of referrals (including cases identified through proactive measures)	199	157	119	220	203
Number of PCNs/removals	106/62	108/82	46/31	71/38	29/2
Number of prosecutions	4	0	5	1	0
Number of Blue Badges and other misused parking permits recovered	108	101	54	41	41
Number of misuse warnings issued	63	23	20	19	19

Table 5

5. No Recourse to Public Funds (NRPF)

- 5.1 NRPF is a Children's & Education directorate 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 the Children's & Education directorate 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 NRPF 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. It is also important to recognise that in our experience the NRPF client group is not affluent and in those cases where circumstances are misrepresented to the Council this is more likely to be motivated by need, not greed.

NRPF Investigations 202/21

	2022/23	2021/22	2020/21	2019/20	2018/19
No. Claims cancelled	75	37	71	87	71
Weekly Cost	£29,025	£14,319	£27,477	£40,455	£33,015
Annual cost	£1,513,446	£746,633	£1,432,729	£2,109,439	£1,721,496

* Cost estimated on the basis of an average weekly support package of £387 (previously £465)

Table 6

- 5.4 Other teams and departments within the Children's and Education directorate have also benefited from direct access to an anti-fraud specialist embedded within the service. Assistance has 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 has resolved some 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 external 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 1,000 sublet or misused properties up to 31 March 2023.
- 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 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 22/23 value of the discount was £116,200; 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 arising from efforts to maintain capacity.

- 6.6 Outcomes from tenancy fraud enquiries are recovering as the pandemic has ended and Council information systems have continued to build back following the cyber attack. Entry to residential dwellings has resumed along with face to face interviews to support enquiries. Court schedules are congested which increases the time to resolve some cases. Nevertheless, forty nine properties were recovered as a direct result of investigations undertaken by the TFT (see Table 7).
- 6.7 The benchmarking data used to determine the cost of tenancy fraud to the public purse was updated in 2021/22 by partners including the Tenancy Fraud Forum and the Cabinet Office, and Hackney data was included in this assessment. The cost of each sublet is now estimated at £42,000 (previously £18,000) which emphasises the need to tackle this type of offending on purely financial grounds, to say nothing of the social consequences for those who are deprived of access to secure and affordable housing. Independent estimates also place the value of 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). Eleven Right to Buy claims were also denied following investigation, preventing the award of discounts. The financial benefit that has arisen from tenancy investigations during the financial year is estimated at £3,344,200.

Tenancy Fraud Investigations

	2022/23	2021/22	2020/21	2019/20	2018/19
Number of referrals (tenancy fraud)	238	206	120	266	214
Number of tenancies recovered	49	34	11	85	63
Estimated value of recovered properties*	£2,058,000	£1,428,000	£462,000	£3,570,000	£2,646,000
Number of referrals (housing application)	13	9	208	54	80
Number of housing applications cancelled	2	5	0**	42	42
Estimated value of cancelled applications	£8,000	£20,000	£0	£168,000	£168,000
Number of referrals (Right to Buy)	25	17	4	30	34
Number of RTBs cancelled or withdrawn	11	3	1	15	13
Estimated value of RTBs prevented	£1,278,200	£338,400	£112,800	£1,657,500	£1,404,000
Total value all housing investigations	£3,344,200	£1,786,400	£572,800	£5,395,500	£4,218,000

*This figure is based on the value of £42,000 per property

**Additional housing applications may be cancelled when systems can be fully reviewed and updated

Table 7

7. Covid Business Grants

- 7.1 Audit & Anti-Fraud officers were redeployed during 2020/21 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 carried out preventative fraud checks on applications that passed the initial assessment process, this work continued into 2021/22. This involved data-matching 117 applications to identify potential irregularity, the outcomes of which were followed up by investigators.
- 7.2 Twenty nine investigations that were started in 2021/22 were concluded during the year. Four remain active and further legal action is under consideration.

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 (SFIS) scheme. The responsibility for Housing Benefit administration remains with LBH for the time being.
- 8.2 AAF continued to support the investigation process because DWP did not have direct access to LBH HB records. All HB investigations had to proceed via an AAF officer who was employed specifically to receive and respond to data requests. DWP provided minimal funding for this work so that AAF part-funded the resource to support this activity. From September 2022 we have enabled the DWP to directly access the records that are necessary to support their investigations which should allow for a more streamlined process and which has also removed the investigative cost that LBH continued to bear.

While the AAF officer previously assigned to this work was able to facilitate routine investigations, it was not possible to review the large number of HB NFI matches received (see Section 9). Direct DWP access to the records allows for the removal of this barrier to these investigations.

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 2020 NFI cycle are also provided for comparison.

9.3 Match data was most recently received in January 2023. It should be noted that the information that Hackney was able to provide following the cyber attack was limited but still represented a significant improvement on the data that could be submitted as part of the previous 2020 exercise.

NFI 2022 Outcomes to date

Type of Match	Total Matches	Number Matches Cleared	Investigation in progress	Value of fraud or error identified	Outcomes NFI 2018
Payroll	68	19	14	0	0
Housing Benefit	1008	0	0	0	0
Housing tenants	1151	506	51	0	0
Right to Buy	506	65	0	0	0
Housing waiting list	n/a	n/a	n/a	n/a	0
Concessionary travel / parking	801	509	3	3 permits cancelled	72 permits cancelled
Creditors	7206	41	1	0	0
Pensions	268	134	33	0	0
Council Tax	13134	1528	859	0	n/a
Council Tax Reduction Scheme	n/a	n/a	n/a	n/a	n/a
Covid 19 business grants	n/a	n/a	n/a	n/a	423,672
Other	0	0	0	0	0
Total	24142	2802	961	3 permits	£423,672

Table 8

10. Other activity

10.1 AAF have provided fraud awareness support to the following teams and external partners during 2022/23: -

- 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.

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 2022/23. This is partly a consequence of the legislative change, but more significantly it is 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 2022/23	Outcomes	Number Authorised 2021/22	Number Authorised 2020/21	Number Authorised 2019/20
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 they 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 increased from £3,187,384 in 2021/22 to £4,907,736 in 2022/23. This represents a considerable recovery toward the pre-pandemic/cyber attack benefits that were achieved in 2019/20 (£5,698,149).

13.2 A restructure of the Audit and Anti-Fraud service was completed in November 2022. The expected benefits of the restructure are starting to be realised, and include the following:

- The reallocation of staffing resources has resulted in recent appointments to increase tenancy fraud investigation capacity and maintain AIT resources.
- Management capacity has been developed through internal promotions to provide staff with development opportunities across all teams. This follows the departure of senior team members during the pandemic period.
- There is a renewed emphasis on the proactive element of our counter-fraud work to provide assurance and identify any concerns within service areas that may be at higher risk of fraud or error. A proactive counter-fraud plan is being implemented to deliver the following benefits, as was previously reported to the Audit Committee:

Fraud awareness training	Training will be provided to other Council services (housing, parking and NRPF) to enhance fraud detection, ensure that quality fraud referrals result from these concerns, and ensure that all staff are aware of processes and what help is available.
National Fraud Initiative	Existing matches will continue to be reviewed and investigated where appropriate. We will also explore additional data matching options, and if these are viable we will use them to target new areas of concern.
Targeted reviews	Reviews will focus on the following areas: <ol style="list-style-type: none"> 1. Entitlements to specific new grant programmes; 2. The allocation of certain parking permits; 3. Compliance with leave arrangements; 4. Action to update specific housing records; and 5. Verification work to confirm that service users who are placed out of Borough continue to meet the requirements for Council support.

13.3 Officers from the divisions' Investigation and Risk Management teams have successfully completed a course of training and now hold the Certificate in Fraud Risk Management. This will better enable fraud risks to be identified through the risk management framework, to inform future Investigation and Audit work.

13.4 Existing proactive work including Blue Badge and NRPF investigations 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.

- 13.5 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 work with our partners, innovate and respond flexibly to these issues.