

BUSINESS ASSURANCE

Counter Fraud Progress Report to Audit Committee:

2020/21 Quarters 1 & 2

1st October 2020



HILLINGDON
LONDON

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Contents

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1. Introduction

1.1 The Role of the Business Assurance Counter Fraud Team

- 1.1.1 The Business Assurance Counter Fraud Team (BACFT) supports the Council in meeting its statutory responsibility under section 151 of the Local Government Act 1972 for the prevention and detection of fraud and corruption. The work of the BACFT underpins the Council's commitment to a zero tolerance approach to fraud, bribery, corruption and other irregularities, including any money laundering activity.
- 1.1.2 As well as counter fraud activity, there is also a range of preventative work that the team is responsible for carrying out. This includes fraud awareness training and ensuring the Council have up-to-date and appropriate investigation policies and procedures.

1.2 The Purpose of the Counter Fraud Progress Report

- 1.2.1 The Counter Fraud Progress Report provides the Council's Corporate Management Team (CMT) and Audit Committee with summary information on all counter fraud work carried out during the Quarter 1 and Quarter 2 periods (1st April to 30th September 2020). In addition, it provides an opportunity for the Head of Counter Fraud (HCF) and the Deputy Director of Exchequer Services & Business Assurances (DDESBA) to highlight any significant issues arising from the counter fraud work in Quarters 1 and 2.
- 1.2.2 The progress report also highlights to CMT, the Audit Committee and other key stakeholders, the performance of the BACFT in meeting its strategic and operational objectives (as set out in the Counter Fraud Strategic Plan), which provides an opportunity for the HCF and DDESBA to be held to account in this respect.

2. Executive Summary

- 2.1 Whilst Counter Fraud is a statutory council function, the timing and scope of the work is not always time critical. As a result, following the Government's national lockdown announcement in March 2020, BACFT were redeployed for c3 months. Along with other colleagues from Business Assurance, the Counter Fraud Team took on the **responsibility for helping create and deliver the Council's Food Delivery Service**; a bespoke shopping and delivery service for LBH residents. The BACFT also worked with other Council colleagues and the Hillingdon 4 All (H4A) Charity, to carry out the Emergency Food Parcel and prescription collection and delivery service for residents who were shielding.
- 2.2 The BACFT was also redeployed to carry out work in Exchequer Services in the administration of the Government's **Business Grants scheme**. In addition, the team carried out **pre and post payment verification of grants** to determine eligibility. Where payment had been wrongly made due to fraud or error, the BACFT also provided help with recovering payments from the relevant businesses.
- 2.3 During the period of redeployment the BACFT continued to carry out essential counter fraud work activities, including monitoring of the counter fraud inbox and fraud hotline using a risk-based approach. In Quarters 1 and 2, **251 referrals for investigation** were received from internal and external sources. Despite the team's redeployment, the BACFT has achieved **loss prevention savings totalling £328,032** as at the end of Q2.
- 2.4 The loss prevention savings have been achieved across a range of service areas including Housing, Social Care and Exchequer Services. The positive results include **6 council properties that have been recovered** and **9 notices served by the BACFT seeking possession for suspected housing fraud**. One sub-letting fraud case is currently in the courts process for **criminal proceedings**. The team has also issued **one simple caution and financial penalty** related to an instance of Blue Badge misuse.

- 2.5 As at 30th September 2020, there are **102** ongoing investigations and approximately **60%** of these relate to different aspects of housing and tenancy fraud. It has been agreed with senior management that the BACFT will have a loss prevention savings **target of £1m for the 2020/21 year**. The reduction in target from £2m in 2019/20 is to take account not only of the team's redeployment, but also the significant challenges presented by the Covid-19 pandemic to counter fraud work in general.
- 2.6 Fraud risk is highly sensitive to environmental factors with new challenges in preventing or detecting fraud emerging frequently. It is especially prevalent during circumstances of local or national crisis or emergency, which, given the current global pandemic, means new and previously unrecorded fraud risks for the Council to respond to. An updated assessment of LBH's current fraud risks is set out within the Council's 'fraud universe' which underpins the **Counter Fraud Strategic Plan for 2020/21**.
- 2.7 In Quarter 2 the BACFT began a **major restructure of the service** alongside a major restructure of the Business Assurance Internal Audit team. This is in response to the changing risk profile of the Council and the appetite for increased assurance in key risk areas. Whilst the planned restructure of Counter Fraud proposes to reduce the team size in terms of staff numbers, the new structure will have a stronger skills-mix and therefore should improve the efficiency of the BACFT. As at the 30th September, the restructure is well progressed and recruitment into the new roles is underway.

3. Analysis of Counter Fraud Activity in Quarters 1 & 2

3.1 Housing Fraud

- 3.1.1 The main area of work for the BACFT continues to be the prevention and detection of housing fraud. The Council is exposed to several housing fraud risks, as detailed in the Counter Fraud Strategy for 2020/21.
- 3.1.2 The **Covid-19 pandemic** has created a pressure on the performance of the BACFT in recovering properties where the reason for recovery is sub-letting, Right to Buy fraud or false succession. This is because of the government's **moratorium on possession cases** in the civil courts which lasted until the 20th of September 2020. Following this an **extended notice period of 6 months** was brought in for all but "serious cases", which includes cases where a tenancy has been obtained by fraud but does not include cases of sub-letting. The courts have indicated that they will be prioritising the most serious cases, meaning that the new measures will likely have an impact on the BACFT's ability to recover properties for the Council in 2020/21.
- 3.1.3 Per **Table 1** below, in Quarters 1 and 2 the BACFT has successfully **recovered 6 Council properties**. There are **60** ongoing investigations into suspected tenancy fraud and the team are actively pursuing **9** cases for eviction.

Table 1 ~ Housing Tenancy Fraud Cases

| Housing Tenancy Fraud Cases | 2020/21* | | 2019/20 | | 2018/19 | |
|--------------------------------------|----------|------------|---------|----------|---------|----------|
| | Cases | £k/value** | Cases | £k/value | Cases | £k/value |
| Total number of properties recovered | 6 | £108k | 28 | £504k | 19 | £342k |
| Total number of ongoing cases | 60 | £1.08m | - | - | - | - |

* As at 30th September 2020.

**** In 2014, the Audit Commission reported the national average temporary accommodation costs to Local Authorities for one family as £18k per property. We continue to use this prudent estimate for reporting purposes, although across London a number of authorities are reporting that the true cost of each tenancy fraud case is more accurately estimated as £94k per property and some as high as £150k per property as a representation of property replacement costs.**

- 3.1.4 It is anticipated that despite the modest start to the year, the performance in Quarters 3 and 4 will improve, but this is likely to be impacted by the courts service approach to prioritisation of cases, which is currently not favourable to housing fraud cases.
- 3.1.5 The BACFT Key Performance Indicator (KPI) 4 (refer **Table 4** in **Appendix A**) targets an outcome of a Council property to be recovered for 20% of tenancy fraud referrals received. In 2020/21 to date the team achieved an average of **42%** which is reflective of the low number of referrals received in this period and where keys were returned to the Council voluntarily during the lockdown period in relation to ongoing cases started prior to lockdown.
- 3.1.6 In addition to tenancy fraud work, the team carry out investigations into cases of suspected **fraudulent Right to Buy (RTB)** applications. Under the statutory RTB scheme Council tenants can apply to buy their council property at a significant discount from its market value. The scheme operates under strict conditions that must be met by the applicant if they are to qualify for the discount. Fraud is normally committed by applicants who misrepresent their circumstances in order to qualify. The BACFT has so far this year stopped **1 fraudulent RTB application**. This equates to a loss prevention of **£103,900** in discount to the purchase price that would have been given to the buyer. Currently there are **7 cases of suspected RTB fraud** being investigated by the BACFT.
- 3.1.7 As part of the BACFT's **fraud prevention work** it proactively carries out verifications work on existing Council tenancies and other housing service areas. The BACFT uses the information gathered to conduct necessary checks, including announced (and unannounced) visits. The team also works with a variety of social landlords and statutory agencies to help detect fraud where information sharing protocols are in place. This is to ensure that the people residing in Council properties are genuinely entitled to do so.
- 3.1.8 Per **Table 2** below, in the 2020/21 year to date, the BACFT has successfully identified **242** housing register applications that should be rejected for a variety of different reasons.

Table 2 ~ Housing Tenancy Verification Cases

| Housing Tenancy Verification Cases | 2020/21* | 2019/20 |
|--|------------|------------|
| Total number of cases reviewed | 866 | 2,295 |
| Total number verified as accurate | 624 | 1,697 |
| Total number rejected | 242 | 598 |
| % identified by BACFT for rejection | 28% | 26% |

* As at 30th September 2020.

- 3.1.9 Of the **242** cases that have been rejected, **9** individuals' applications have been completely closed down. This was due to a range of reasons, such as they do not have 10 years borough residency, they have no immigration status, they own a property elsewhere or they have over £30k in savings or assets. Without the BACFT's enhanced verifications checks, these applicants may have been successful in obtaining a Council property that they were not entitled to.
- 3.1.10 The BACFT Key Performance Indicator (KPI) 2a (refer **Table 4** in **Appendix A**) targets a 90% outcome of Housing allocations verifications to be completed within the target date set by the Housing department. In 2020/21 to date the team achieved an average of **97%** which is an excellent result under the circumstances.

3.1.11 The BACFT cover a wide range of work streams, providing assurance over expenditure of residents' grants for property purchasing and high value expenditure on temporary accommodation. The main areas of verification are:

- **First Time Buyer Scheme** - eligibility based grant scheme helping residents who aspire to property ownership to buy their first home;
- **Right to Buy** - formal verification of every RTB application to identify suspected fraud and ineligibility;
- **Bed & Breakfast Accommodation** - residency check of all Bed & Breakfast accommodation as part of a proactive project;
- **Section 17 Applications** - Initial eligibility checks on applicants who approach the Council's Social Care team for assistance with accommodation;
- **Section 17 Accommodation** - residency check of all Section 17 accommodation as part of a proactive project;
- **Social Housing Allocations** - formal verification of all social housing applicants that are actively seeking accommodation to identify suspected fraud or ineligibility;
- **Mutual Exchange** - Desk checks and unannounced visits to ensure tenants meet the criteria required to exchange; and
- **Succession & Assignment** - Desk checks and unannounced visits, where appropriate, to ensure the applicants meet the relevant eligibility criteria.

3.1.12 As part of counter fraud work within Housing, the BACFT carries out investigations into suspected fraud within the **Disabled Facilities Grant scheme** (DFG). The DFG scheme operates within strict eligibility criteria which must be met if applicants are to receive a grant. In Quarter 2 the team has **prevented two DFGs** from being paid due to irregularities in the application, resulting in **loss prevention of £19,500**.

3.2 National Fraud Initiative & Internal Data Matching

3.2.1 The National Fraud Initiative (NFI) is a data matching exercise co-ordinated by the Cabinet Office and is conducted every 2 years. The NFI matches data from over 1,300 organisations, including councils, the Police, hospitals and almost 100 private companies to identify potential fraud and error. The latest **data for the next NFI matching exercise is currently in the process of being uploaded** and the next set of matches for Hillingdon will be received at the start of Quarter 4.

3.2.2 At the start of Quarter 1 the **NFI provided new matches utilising data provided by Disclosure of Death Registrations**, which was matched with tenancy data to help identify suspected tenancy fraud. The team have been working through 124 matches since then which has so far resulted in the **recovery of 2 Council properties**, with a further 2 investigations ongoing.

3.3 New Homes Bonus Empty Properties Project

3.3.1 The New Homes Bonus (NHB) is a grant paid by central government to the Council to incentivise local housing growth. It is based on the extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use.

3.3.2 During Quarter 2 the BACFT has worked to identify properties that were classified as long-term empty and are now occupied. Following initial checks and information gathering the **BACFT conducted 1,142 unannounced visits** to properties where it was determined that a visit is required. As a result of this work, **399 properties were identified as now occupied**. This work carried out jointly with Exchequer Services directly increases the amount of grant, as each long-term empty property that is identified as now occupied subsequently attracts additional grant funding for the Hillingdon taxpayers.

3.4 Revenues Inspections

- 3.4.1 The **Business Rates & Council Tax inspections** operational processes are now fully integrated into the BACFT following the team taking on responsibility for this work in early 2019/20. As part of the restructuring of the team, the new **Revenues Investigations Unit (RIU)** will be responsible for this area of work. With a newly created **Counter Fraud Investigator role** within the RIU, the unit will be taking a more investigative approach to revenues work. The unit will be focussing on Business Rates avoidance, ensuring revenue maximisation for new build properties and Council Tax exemptions and discounts.
- 3.4.2 Per **Table 3** below, the RIU carried out **1,771 inspections** in the year to date, with **552 (32%) completed within the 10 day target**. The lockdown and then redeployment of the BACFT in Quarter 1 created a major backlog of inspections. This has gradually been addressed in Quarter 2 by the RIU, with performance set to move positively towards the **new 95% KPI** in Quarter 3.

Table 3 ~ Revenues Inspections Performance 2020/21

| Revenues Inspections | Q1 | Q2 | 2020/21* | 2019/20 |
|---------------------------------------|-----|-------|----------|---------|
| Total number of inspections completed | 340 | 1,431 | 1,771 | 5,592 |
| Percentage within 10 day target | 34% | 30% | 32% | 63% |

* As at 30th September 2020.

- 3.4.3 In Quarter 2, proactive project work has been carried out to identify '**Beds in Sheds**' within the borough to increase Council Tax revenue. 'Beds in Sheds' is the term used to describe buildings or annexes on private properties that have erected without the Valuation Office being made aware and that can be considered habitable and should therefore be charged Council Tax. So far the team has in Q2 brought **8 unregistered residential dwellings** into rates, creating **increased revenue of £14,579**. Results for the remainder of the project will be reported in Quarter 3.

3.5 Immigration Enforcement Officer

- 3.5.1 The BACFT has had a Home Office Immigration Enforcement Officer (IEO) working as part of the team since April 2018, providing enhanced access to Home Office data for the purpose of assessing cases involving immigration issues and for assisting in a range of counter fraud work. In March 2020 the services of the IEO were temporarily suspended amid the Covid-19 pandemic lockdown measures. The service was resumed on the 1st July 2020 once a Covid-19 risk assessment had been put in place and the Home Office had approved the Hillingdon response. We understand that to date Hillingdon is the only London Borough where full IEO service has been resumed.
- 3.5.2 Since returning, the IEO continues to provide invaluable assistance in counter fraud work and many other Council service areas, such as Social Care and Housing. As a result, the IEO's financial loss prevention work across the Council in Quarters 1 and 2 is prudently estimated at **£47,299**. These loss savings are related to the prevention of Homelessness Applications where the applicant was identified by the IEO to have no recourse to public funds. Please refer to **Table 5** in **Appendix B** for a detailed breakdown of the identified loss prevention savings to date.

3.6 Other Counter Fraud Activities

- 3.6.1 During Quarter 1 and into Quarter 2, officers from the BACFT were tasked with assisting in the **verification of the business grants scheme** put forward by the government in response to the Covid-19 pandemic lockdown and the subsequent negative impact on businesses. Several different grants were verified including the Small Business Relief (SBR), Retail, Hospitality and Leisure Grant (RHLG) and the Discretionary Grant (DG).

- 3.6.2 As part of this work stream, the BACFT carried out the **verification of 3,415 administered grants payments and applications**. Of these verifications, 147 were not able to be verified, and a further 21 are currently under further investigation. In the year to date, the BACFT has also assisted Exchequer Services in the identification of £2.3m in wrongful payments, of which £1.2m has been so far recovered - refer to **Table 6** at **Appendix C**.
- 3.6.3 Despite there being no work undertaken within the area of **Blue Badge** in Quarters 1 and 2, because of the lockdown and social distancing requirements, the team issued **one simple caution and financial penalty** for Blue Badge misuse. This related to an instance that had occurred prior to lockdown.

4. Analysis of the Counter Fraud Team's Performance in Quarters 1 & 2

- 4.1 In 2018/19 the BACFT agreed and implemented a set of KPIs for to allow effective measurement of team performance and enable the team, the HCF and the DDESBA to be better held to account by CMT and Audit Committee. **A new KPI (7) in the area of Revenues Inspections has been introduced** to ensure appropriate accountability for this new area of work.
- 4.2 Attached at **Appendix A** is **Table 4**, which sets out the performance by the BACFT against the seven KPIs in the year to date. **5 of the 9 KPIs are at or above targeted performance whilst 3 are red**, although the below required performance can be explained by the team's redeployment during the Quarter 4 lockdown. In addition, operational restrictions on counter fraud activities due to the pandemic have contributed to this drop in performance i.e. visits/inspections, face to face interviews, capacity of the courts to progress cases, has all been severely hampered.
- 4.3 **Table 5** at **Appendix B** provides an overview of the financial performance of the team in 2020/21 to date within each of the main areas of counter fraud activity.

5. Forward Look

- 5.1 Looking ahead to Quarter 3, the BACFT will **complete the restructuring of the service** into the three units arranged by key fraud risk; a **Revenues Investigation Unit, Housing Investigation Unit** and **Special Investigations Unit**. Each unit will be headed up by a professionally qualified and experienced Counter Fraud Manager, reporting into the HCF and cases will be dealt with from cradle to grave within each unit. This pioneering approach will provide a more efficient service with greater clarity and accountability on all investigations. This change will also enable the stronger skills-mix created from the ongoing restructure to be fully embraced to deal with the increase in more complex fraud cases.
- 5.2 Several **Tenancy Fraud proactive projects** are being planned for Quarter 3, including residency checks in high risk tenancies and a data analysis review of key fob data to detect fraud and illegal sub-letting. These will continue the team's proactive and risk-based approach to tenancy fraud and aims to significantly contribute to the number of properties recovered in 2020/21.
- 5.3 In Quarter 3 the BACFT will also deliver a further proactive project in the area of **Beds in Sheds**. This project will be intelligence led and target hotspots for this activity within the borough, increasing revenue by bringing in these unregistered residential dwellings into Council Tax.
- 5.4 In addition, in Quarter 3 the BACFT will deliver an ongoing review of expenditure and accommodation of **Unaccompanied Asylum Seeking Children (UASC)** using the embedded Immigration Enforcement Officer. Periodic checks by the BACFT will identify UASC who no longer require funding from the Council, therefore saving expenditure in this area.

- 5.5 The BACFT would like to take this opportunity to formally record its thanks for the co-operation and support it has received from the management and staff of the Council during Quarters 1 and 2. There are no other counter fraud matters that the DDESBA needs to bring to the attention of CMT or the Audit Committee at this time.

Muir Laurie FCCA CMIIA
Deputy Director of Exchequer Services & Business Assurance

1st October 2020

APPENDIX A**Table 4 ~ BACFT Quarters 1 & 2 KPIs and Actual Performance**

| BACFT KPIs | Target | Q1 | Q2 | 20/21** | 19/20 |
|---|--------|------|------|---------|-------|
| 1. Percentage of fraud referrals risk assessed within 3 working days | 95% | 43% | 100% | 71% | 98% |
| 2. Verification work timescales for completion: | | | | | |
| a. Housing Allocations completion within the target date set by Housing. | 95% | 95% | 99% | 97% | 95% |
| b. First Time Buyer completion within 5 working days | 95% | 100% | N/A* | 100% | 100% |
| c. Right to Buy case completion within 28 working days | 95% | N/A* | 100% | 100% | 81% |
| 3. Investigation plan completion within 5 working days of case allocation | 95% | 46% | 86% | 66% | 94% |
| 4. Tenancy fraud referrals received resulting in property recovery | 20% | 50% | 34% | 42% | 28% |
| 5. Investigations resulting in sanction (prosecution/penalty/caution) | 10% | N/A* | 6% | 6% | 3% |
| 6. Investigations resulting in loss prevention/financial saving outcome | 25% | 50% | 24% | 37% | 33% |
| 7. Revenues inspections completed within 10 days of raising | 95% | 34% | 30% | 32% | 63% |

* N/A indicates where no work was carried out in the quarter due to no new cases or that the team did not carry out any work due to redeployment.

** As at 30th September 2020.

APPENDIX B**Table 5 ~ BACFT Quarters 1 & 2 2020/21 ~ Financial Performance**

| Work Area | Description | Quarter 1 | Quarter 2 | 2020/21* |
|----------------------------|--------------------------------------|-----------------|-----------------|-----------------|
| Housing | Right to Buy discounts | £103,900 | £0 | £103,900 |
| | Property Recovery (notional savings) | £36,000 | £72,000 | £108,000 |
| | Other savings/loss prevention | £0 | £24,885 | £24,885 |
| | Prosecution costs | £0 | £0 | £0 |
| Social Services | Loss Prevention | £0 | £0 | £0 |
| Revenues | Council Tax Reduction | £1,487 | £1,425 | £2,913 |
| | Single Person Discount | £8,157 | £1,900 | £10,056 |
| | Council Tax Arrears | £3,180 | £1,185 | £4,366 |
| | Council Tax Exemptions | £0 | £0 | £0 |
| | Beds in Sheds | £0 | £14,579 | £14,579 |
| | Housing Benefit Overpayments | £2,934 | £9,000 | £11,934 |
| Blue Badge | Simple Caution & Financial Penalty | £0 | £100 | £100 |
| | Prosecution Costs Received | £0 | £0 | £0 |
| Immigration Officer | Housing First Time Buyer scheme # | £0 | £0 | £0 |
| | Housing Homelessness Applications** | £0 | £47,299 | £47,299 |
| | Asylum Seeking Children Expense*** | £0 | £0 | £0 |
| | Social Services Section 17 Expense** | £0 | £0 | £0 |
| | IEO Sub Total | £0 | £47,299 | £47,299 |
| Totals | Loss Prevention | £103,900 | £66,799 | £170,699 |
| | Notional Savings | £38,934 | £81,000 | £119,934 |
| | Cashable Savings | £12,824 | £24,474 | £37,299 |
| | Costs awarded and penalties | £0 | £100 | £100 |
| | Total | £155,659 | £172,393 | £328,032 |

* As at 30th September 2020.

First time buyers - Average grant given per person based on 2018/19.

** Average weekly cost against average length of support. This figure fluctuates but has been provided by the Council's business performance team.

*** Cost of accommodation and subsistence per week for one year. This figure is a prudent estimate as the Council can and does often support asylum seeking children until they are 25 years old.

APPENDIX C**Table 6 ~ BACFT Grants Verifications Work 2020/21 to date***

| Grant Type | Description | Number |
|---|-----------------------------|-------------------|
| Small, Business Rates Grants | Grants administered | 2,121 |
| | Cases verified | 2,046 |
| | Cases not verified | 57 |
| | Under further investigation | 18 |
| | Identified for recovery | 57 - £570k |
| | Recovered ¹ | 24 - £240k |
| Retail, Hospitality & Leisure Grants | Grants administered | 1,081 |
| | Cases verified | 993 |
| | Cases not verified | 87 |
| | Under further investigation | 1 |
| | Identified for recovery | 87 - £1.7m |
| | Recovered ¹ | 52 - £1m |
| Discretionary Grants | Grants administered | 213 |
| | Cases verified | 208 |
| | Cases not verified | 3 |
| | Under further investigation | 2 |
| | Identified for recovery | 3 - £30k |
| | Recovered ¹ | 0 - £0 |

* As at 30th September 2020.

¹ Recovery figures are related to joint work between the BACFT and the Debtors team within Exchequer Services. Due to the way that recovery is recorded within the Debtors system, the figures given are as at 10th November 2020.