	Audit And Standards Advisory Committee 20 March 2019
	Report from the Chief Finance Officer

London Counter Fraud Hub – Proposal to enter into contract

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	None
Background Papers:	None
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1.0   Purpose of the Report

1.1   To brief the Audit and Standards Advisory Committee on the "London Counter Fraud Hub" and to note that, subject to comments made, the Council is considering entry into the contract as a Participating Authority and award a contract to the provider of the Hub, which would be by way of the an individual Cabinet Member decision.

2.0   Recommendations

2.1   The Audit and Standards Advisory Committee note the information provided and that, subject to comments from the Committee, the deputy Leader (and Lead Member for Finance) proposes to make the following decisions

2.2   The council joins the London Counter Fraud Hub as a participating authority through the collaborative contract let by the London Borough of Ealing and awarded to CIPFA Business Ltd ("the Agreement.")

2.3   The council authorises the provision to the Hub of council data to CIPFA for the purposes of preventing and detecting fraudulent or erroneous activity.

2.4   The council notes that the contract will be for a period of seven years without break clauses.

3.0   Reason for Decision and Options Considered

3.1   The London Counter Fraud Hub is a data sharing collaboration across London local authorities to prevent and detect fraud. It consists of a data analytics engine in which data from the local authorities and from third parties is processed. Cases that are identified as potentially fraudulent are notified to the local authorities for investigation through a web-based case management system. The intention is to create a state of the art data analytics tool to identify potential fraud for investigation. This should provide real-time updates to fraud investigators and, on the face of it, could provide an effective means of fighting fraud.

3.2   The existing (biennial) data matching tool most similar to this is the National Fraud Initiative. Participation in this remains a statutory requirement. For the Hub to work successfully, local authorities in London will export data into the Hub which will be checked against other easily available data sets. The Hub will then return prioritised lists of apparent anomalies such as someone claiming single person discount at an address at which more than one adult is registered.

3.3   Data quality is therefore key to the success of the Hub and it is recognised that, as with all data matching exercises, this will be a potential limitation to the success of the project. However, the feedback provided should enable the council to improve its own data quality and so, in turn, lead to more accurate identification of potentially fraudulent activity as well as ancillary improvements to other services.

3.4   Another critical success factor will be the reliability of the potential leads provided. It will always be the case that some, apparently anomalous, activity that may be fraudulent will, on investigation, prove to have a perfectly reasonable explanation. For the concept to work successfully the Hub will need to be able to meet defined standards of reliability for the hits provided, and to be capable of refinement over time so that, as operational knowledge is fed back to the system, it becomes more accurate.

3.5   To test these, and other important criteria, the Hub has been piloted with four London local authorities: Camden, Islington, Croydon, and Ealing. The pilot included three fraud types: council tax, housing and business rates fraud. It is planned that the Hub will be expanded to cover a wider range of fraud risks such as Blue Badge, Taxi Card and Freedom Passes.

3.6   The pilot suggests that the Hub will generate substantial revenue streams through the recovery of monies lost to fraudsters. In a full year of operation, if all expected boroughs participated, CIPFA, in conjunction with the pilot authorities, estimate that the Hub will generate London-wide savings of between £15m (worst case) and £32m (best case) in total across council tax, business rates, and housing fraud types. The same estimate applied to Brent would produce a gross saving of between £0.4m and £0.9m but, for the reasons set out in this report, officers' recommend that much lower figures are used in the cost/benefit analysis for Brent. As with existing measures for the cost of fraud, this will not translate directly into cashable savings on a pound for pound basis, but there will clearly be an element of the cost of the fraud identified that

can be cashed in this way. The final number of participating councils is not confirmed at the time of writing.

3.7   The Hub serves to increase the local tax base by removing fraudulently claimed discounts and reliefs (e.g. single person discount on council tax, small business rate relief), and, for business rates, additionally identifying property not yet in rating. As single person discount is invariably low in value per transaction the only economic way to follow up potential matches is through automatic processes such as standard system-generated letters (which is what happens at the moment for potential cases that are identified). For the LCFH to work effectively it will therefore need to demonstrate that it can interface with the council tax system and that a high proportion of the potential matches it identifies are indeed those where SPD is being claimed wrongly. Otherwise, the automatic letter generating process may create substantial casework from people wrongly identified as incorrectly claiming SPD, rather than an acceptable minimum of residents being inconvenienced in this way. This has been tested carefully as part of the pilot evaluation.

3.8   The pilot has shown that, at each of the four pilot authorities, an interface was built successfully between the LCFH and the council tax system. Three of the four pilots operate the same council tax system (Northgate) as Brent. Although they will be using slightly different instances of the software there is therefore a reasonable basis to assume that this could also be achieved at Brent, although risk assessment measures will be required to identify possible incompatibility with our systems. Northgate will remain as Brent's council tax system once the service returns in house from April 2019.

3.9   The pilot has claimed that, on average, 36% of potentially fraudulent matches identified for SPD were, in fact, fraudulent. This means that for every 100 letters automatically generated by the system 97 will go to residents with valid and genuine claims for SPD. The wording of the letter will therefore need to be drafted sensitively, balancing the need to take a robust line on potential fraud without creating upset for genuine claimants. Experience shows that most residents do not object to properly worded communications like this, and there will need to be a simple process to enable residents with valid entitlements to ensure that their claims can continue uninterrupted.

3.10   The exact timing of going live with this aspect of the system would need careful consideration, given the plan to in-source the service provision from May 2019. Most probably a go live date in around January 2020 would be the most sensible way to mitigate possible risk.

3.11   The Hub will help to identify council housing that is potentially being fraudulently sub-let, making it unavailable for homeless families. Based on the pilot results in a full year of operation the Hub will potentially identify between 1,532 homes (worst case) or 2,553 homes (best case), or around 50-77 homes per council. Brent recovered 73 council houses in 2015-16, 52 in 2016-17 and 42 in 2017-18. The council expects 39 fraudulent tenancy recoveries in 2018-19, from unlawful sub-letting, non-residence and abandonment.   At this stage it is not clear as to what extent the 50-77 figure implied by the pilot is additional to these or inclusive of them. In order to ensure that this evaluation is not unreasonably optimistic the lower (i.e. the inclusive) figure has been assumed. Using the recovery rate of the last two years, this means that the hub, based on the pilot results, would identify between eight and 22 additional cases of illegal sub-

letting each year. (NB the pilot results assumed 33 councils – we are informed that it will be a maximum of 29 at time of writing.)

3.12   As the Hub expands its activities to cover more fraud types, it will have the potential to generate more revenues. In addition, the Hub has been designed so that its performance should improve over time as it ingests more data and improves its algorithms for finding fraud. It is important to note that the effectiveness of the Hub depends in part on the participation of as many London boroughs as possible, in order to improve its potential for data matching and fraud investigation.

3.13   The council currently delivers counter fraud work in relation to these areas through the work of a dedicated counter fraud and investigations function comprising a Fraud Manager, six investigators and an admin/intelligence officer. SPD is investigated via NFI data and separate proactive exercises. Housing tenancy fraud is a large part of the team's workload. Business rates has not been a priority fraud category; some proactive and reactive work has substantiated this approach, although arguably this indicates that the new approach provided by the LCFH will be a useful addition to the tools available to the Investigation unit.

3.14   These arrangements have successfully helped the authority to identify substantial amounts of fraud, as set out in quarterly reports to the Committee. The expectation is that the Hub, once the concept has been proven, will provide a further source of leads to follow up, leading in turn to the identification of more fraud. It will be critical that the Hub can provide an effective and prioritised list of potential leads. If it cannot, there is a risk that resources will be spent pursuing cases that do not contain any fraud.

4.0   Background

4.1   It is estimated that, at a national level, fraud costs local authorities £2.1bn a year. Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. Taking a tougher stance against fraudsters includes using technology to tackle cross boundary and organised fraud and corruption attempts, as well as addressing new risks.

4.2   The project has been adopted by London Councils as part of its London Ventures programme, which is overseen by the Capital Ambition Board. The funding for the procurement of the Hub came from a grant awarded to the London Borough of Ealing (the lead authority) by the (then) Department for Communities and Local Government (£430,400).

4.3   In 2015, Brent signed a Memorandum of Understanding, as did all London local authorities, making a non-binding commitment to the project.

4.4   The London Borough of Ealing followed the Competitive Dialogue procurement route. The project commenced in 2014, and in July, 2015 the procurement process was launched. By October, 2015 following assessment of preliminary submissions, three tenderers were selected to proceed. The first round of competitive dialogue took place in January 2016 after initial tender submissions were received. Tenderers were then asked to submit detailed solutions, and this led to a second round of dialogue, following which two bidders were

shortlisted and invited to submit their final offers. A final round of competitive dialogue was held, leading to submission of best and final offers in June 2016.

4.5 The evaluation of the bids was carried out by a panel consisting of subject matter experts in areas including fraud, ICT, commercial issues and data management including council officers.

4.6 The bid from CIPFA Business Ltd was ranked first in the evaluation, based on both the scores for quality and commercial elements.

4.7 The pilot commenced March 2017 and has now successfully concluded with all minimum contract standards achieved.

5.0 Contract Arrangements

5.1 The London Borough of Ealing hosts the contract management team which is funded through a contract mechanism that top-slices revenues from the contractor's charges.

5.2 Governance arrangements exist, and an Oversight Board which currently consists of Finance Directors from the four pilot authorities has been established with the purpose of reporting on the effectiveness of the Hub and providing a joined-up approach between Ealing and other local authority stakeholders, and the wider stakeholder pool affected by the implementation of the LCFH.

5.3 Joining the LCFH is through a Deed of Adherence, which is also signed by CIPFA and the Lead Authority. Once the Deed of Adherence has been entered into, the council becomes a party to the Agreement.

5.4 Termination rights can be exercised if the level of performance of the supplier during the service period is below in respect of any Key Performance Indicators, although no detail of these KPIs have been communicated at the time of writing.

5.5 The contact length will be seven years with no break clause or option to extend.

6.0 Financial Implications

6.1 The contract is a fixed price model. There will be a one-off joining fee of £75,000 and a two tier annual subscription fee based upon an authority's net revenues budget: upper tier £90,000 and lower tier £70, 000. Brent qualifies as an upper tier authority and therefore the total cost in the first year will be £165,000 and £90,000 p.a. thereafter. Also, it would be prudent to add an estimated one off cost of £100,000 for the IT interface and associated project management. Therefore, the potential total contract cost over the seven year life of the contract would be £705,000, or £805,000 including the in-house set up costs.

6.2 However, the model is predicated on identifying new fraud cases. It therefore follows that additional resource would be required to investigate these. It is hard to provide a precise estimate of the resource requirement. The working assumption is that the team would need to be expanded by two to three staff; as a minimum, an Intelligence Officer (to sift leads and provide prioritised information to the trained investigators) and an additional Counter Fraud

Officer. These staff, graded at around PO1/ PO2, would cost about £100,000 p.a. This brings the total cost of entering into the LCFH to £190,000 p.a., plus the £75,000 one-off joining fee and the £100,000 internal set-up costs. However, final additional staffing requirements are still in discussion. Additional staffing costs would be properly apportioned between the HRA and the GF to reflect the work done on housing tenancy fraud.

6.3 These costs depends on at least 26 London boroughs signing up to the proposal. In the event that fewer than 26 do so, then this approach will be reviewed.

6.4 It would, of course, be open to the council to choose to bear these additional costs as part of its budget. However, it has been assumed that the council should seek to enter into the arrangement only if there is a reasonable expectation that its costs will be covered. Successful identification of fraud brings wider societal benefits but also direct financial returns.

6.5 For the three fraud types in the initial model the direct financial returns for the council are as set out below.

6.6 For each case of fraudulent SPD identified the council saves, on average, 25% of a Band D council tax. This is a permanent ongoing saving, as once the fraud has been identified and the discount removed council tax will be payable at the full amount instead of the discounted amount. (Subsequent changes to occupation are ignored for these purposes). A Band D council tax in 2019/20 will be approximately £1,262 and so the saving is £315 per case.

6.7 The pilot shows that between 1% and 4.5% of SPD cases are found to be fraudulent, which in Brent would translate to approximately 350 to 1,500 cases per year. However, some of these would be identified by existing means anyway and so should not be taken into account in this evaluation. To avoid overstating the benefits of the LCFH the mid-point (2.75%) has been used for the number of cases identified, but this has then been discounted by an assumed 50% to avoid double counting with existing work. This produces a saving of c£114,000 p.a.

6.8 On housing, the council already uses, in its financial planning, an assumption of £2,000 as the annual saving for each family taken out of temporary accommodation. This is a reasonable proxy for the direct saving generated by each fraudulent sub-letting identified, and is prudent as it takes no account of the wider benefits. (For example, a previous Audit Commission study found the average saving to be £18,000 once all costs were considered, and many would argue that this understates the case). However, working with only the direct cashable saving of £2,000 p.a. is the right approach in this case in order to ensure that the financial benefits of the LCFH are not overstated.

6.9 The LCFH model suggests that 30-50 cases per annum would be identified in Brent. As Brent already identifies and investigates this fraud type with some success this figure has been discounted by 50% to ensure a prudent financial evaluation. This implies that 20 cases per year would be identified, generating a direct cashable financial saving of £40,000 p.a.

6.10 On business rates, the LCFH model shows that Brent would make annual savings of approximately c£151,000 from the removal of fraudulently claimed

small business rates and other reliefs. As above, this figure has been discounted by 50% to avoid producing an over optimistic financial evaluation, implying a saving of approximately £76,000 p.a.

6.11 On these assumptions, which are discounted by between 50% and 75% from those actually produced by the pilot exercise, Brent would generate cashable savings of £230,000 each year from entering the LCFH, slightly less than the annual cost of £190,000 of joining the model, and the one-off costs would be recovered in slightly more than four years.

6.12 Entering into a new arrangement is never without risk, and it could be that the actual cashable savings figure is lower, which would result in a financial pressure. Equally, if results are better than assumed then the arrangement will produce direct cashable financial benefits for the council. Given that the assumptions from the pilot exercise, which were tested across four councils, have been discounted by between 50% and 75% in this financial evaluation it would be reasonable to assume that it is unlikely that entering into the arrangement would result in a long-term financial pressure.

7.0 Legal Implications

7.1 A competitive dialogue procurement procedure was conducted by the London Borough of Ealing that complied with the Public Contracts Regulations 2015 (as amended) (PCR 2015) and Ealing's Contract Procedure Rules were followed.

7.2 Regulation 38 of the PCR 2015 permits contracting authorities such as the London Borough of Ealing to jointly procure services and on behalf of other named contracting authorities. The Council was one of those named parties.

7.3 The contract was let as a single contract, as opposed to a framework agreement (which would have been limited in its length), and the council can join the Agreement with the provider through a Deed of Adherence.

7.4 Contract length is for a period of seven years with no break clauses or options to extend.

7.5 The Hub has been set up and operated in a manner that is compliant with the General Data Protection Regulation 2018 and the Data Protection Act 2018.

7.6 An outstanding procurement risk element has been raised in the risk section below.

8.0 Risk Management

8.1 The planned approach has been for an incremental roll-out of the solution across all the London boroughs. This provides an opportunity to iron out any implementation issues before most boroughs join the hub. It will also serve to manage the capacity of the provider for on-boarding all the London Boroughs as effectively as possible.

8.2 The financial risk (risk of increased net cost) has been set out in full in the financial implications.

8.3 The testing by the pilot authorities provides some assurance that the LCFH product will meet the necessary performance standards as well as meeting data security requirements. However, a series of risks remain:

Risk Description	Probability (H/M/L)	Impact (H/M/L)	Mitigation
1. Due to changed behaviours caused by initial success the number/quality of referrals deteriorates leading to reduction in vfm for the duration of the contract.	M	M	Monitor quantity and quality of data matches against set targets. Engage effectively with contract oversight board.
2. The council's existing approach to mitigating fraud on single person discount SPD and Business rates (BR) may be adequate leading to inefficiency through pursuing hub data reducing vfm, and confidence in the hub. (The assessment of this risk is based on SPD only.)	M	M	Ensure that the SPD solution is fully automated. This may not only mitigate this risk but help to refine processes and reduce costs in the new in-house service
3. Due to uncertainty about the quality and quantity of referrals and therefore the need for increased capacity in the CF team, there may be inadequate/ surplus resource.	M	M	Effective assessment of work required and subsequent design of job descriptions for new staff (probably two) will build in resilience to address this risk. Effective management oversight and monitoring of trends and outcomes will also assist.
4. Increased focus on delivering the LCFH project may divert the CF team from conducting other CF work (e.g. NFI, fraud awareness training, Blue Badge initiatives) leading to increases in fraud in other areas.	L	H	Additional resource to address additional intelligence needs and workload alongside effective contract monitoring. Also the resilience that will be built in to new job descriptions.
5. Ineffective contract management of the Hub (by LB Ealing) may lead to poor performance not being properly addressed leading to loss and reputational damage.	M	M	Brent will seek to have an effective role in the Hub's oversight Board
6. The full benefits of the Hub model may not be fully understood by key stakeholders leading to sub-optimal impact on resident confidence and fraudulent activities.	L	M	A formal communication strategy and plan will be prepared as part of any implementation project to ensure the success of the increased counter fraud activity receive wide recognition – to instil public confidence and provide additional deterrent to would be fraudsters.
7. The change to the Hub's commercial model may produce	L	M	Maintain a watching brief including liaising with the lead borough to

Risk Description	Probability (H/M/L)	Impact (H/M/L)	Mitigation
a challenge from the unsuccessful bidders leading to instability in the supplier.			assess impact of any legal challenge.
8. The exclusivity requirement of the Hub may lead to a lack of agility in uptake of new initiatives leading to a reduction if effectiveness in deterring and detecting fraud.	L	M	Effective role in the oversight Board.
9. An insufficient number of boroughs sign up to the model leading to some relevant data not being uploaded and matched leading to a reduction in potential value.	M	M	Brent will not join until there is reasonable confidence that a sufficient number will be achieved - which may be slightly less than the 26 currently assumed to allow for some operational flexibility.
10. Due to system incompatibility, the LCFH model may not be able to be interfaced with Brent's instance of the council tax system leading to reduced benefit and vfm.	L	H	In the event of failure to successfully interface the LCFH model, SPD savings will continue to be cashed as existing methods will be used.
11. Lack of capacity and capability in the supplier means they are unable to on-board 20+ authorities in a timely and efficient manner leading to error and delay.	L	M	Brent will seek to have an effective role in the Hub's oversight Board. Peer liaison at CFO and HIA level will also allow monitoring of this risk.

9.0   Consultation with Ward Members and Stakeholders

9.1   Not applicable

10.0   Human Resources/Property Implications (if appropriate)

10.1   Not applicable

__Report sign off:__

CONRAD HALL
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