


<p><b>Cabinet</b></p> <p>22 May 2019</p>	
<p><b>Report of:</b> Neville Murton, Corporate Director, Resources</p>	<p><b>Classification:</b> Unrestricted</p>
<p><b>London Counter Fraud Hub – Contract Award</b></p>	

<b>Lead Member</b>	<b>Councillor Ronald, Cabinet Member for Resources</b>
<b>Originating Officer(s)</b>	Steven Tinkler, Head of Audit & Risk
<b>Wards affected</b>	All
<b>Key Decision?</b>	Yes
<b>Forward Plan Notice Published</b>	23 April 2019
<b>Reason for Key Decision</b>	Financial Threshold
<b>Strategic Plan Priority / Outcome</b>	<b>A dynamic outcomes-based Council using digital innovation and partnership working to respond to the changing needs of our borough.</b>

### Executive Summary

This report sets out the background to the London Council's 'London Ventures' project relating to the creation of the London Counter Fraud Hub (the 'Hub'). The report outlines that following the completion of a successful two year pilot phase, the project is now ready to roll out across London.

With the continued rise in public sector losses due to more sophisticated fraud attacks, The 'Hub' which uses technology to share data, is seen as a key technique on tackling public sector fraud risks and the report seeks approval from the Mayor to enter into a contract to participate in the 'Hub'.

### Recommendations:

The Mayor in Cabinet is recommended to:

1. Note the business case for participating in the London Counter Fraud Hub.
2. Approve the proposal to join 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").
3. Authorise the provision of council data extracts to CIPFA for the purposes of preventing and detecting fraudulent or erroneous activity.
4. Note that the contract will be for a period of seven years.

## **1 REASONS FOR THE DECISIONS**

- 1.1 The London Counter Fraud Hub is one of the London Councils 'London Ventures' projects. After an EU tender and two-year pilot phase the project is ready to roll out across London.
- 1.2 Councils and third parties supply their data into a hub where it is analysed for fraud using advanced data analytics. The councils then get fraud alerts, delivered through a cloud-based case management system so that they can be investigated. The more councils put in their data, the more effective the hub is at finding fraud. The hub also learns from the results and gets better at finding fraud.
- 1.3 Testing was carried out by the 4 pilot authorities, Camden, Ealing, Islington, and Croydon. The results suggest that if all 33 boroughs were to sign up, in the first year of operation London would save a net £15m (worst case) to £30m (best case) and recover circa. 1,500 council homes that are currently illegally sub-let. The fraud types the hub looks for are council tax single person discount, business rates, and housing. This range will expand once the hub is up and running.
- 1.4 The hub is supplied by CIPFA, in partnership with BAE Systems. The original contract was based on payment by results, but after listening to the pilots and other councils the hub is now subscription based. The fees are £75k one-off joining fee plus an annual subscription of £90k for large authorities and £70k for small authorities. The GLA also contributes to support the council tax and business rates elements of the hub. The contract length is 7 years, and this is necessary because of the very large investment the contractor has to recoup.
- 1.5 The investment in technology was financed with private sector risk capital, and almost certainly could never have been achieved if councils had been asked to provide the capital themselves. However, to make the arrangement commercially viable 26 of the 33 local authorities in London need to join. It is anticipated that the hub will expand over time to include authorities bordering London, housing associations, and other public sector bodies.
- 1.6 The project has a profile with Cabinet Office and MHCLG and is an opportunity to demonstrate that London is delivering data sharing and collaboration.
- 1.7 The business case for joining the hub is set out in Appendix [A]. It demonstrates that the council will benefit from significant net savings over the life of the contract, as set out in the financial section below.

## **2 ALTERNATIVE OPTIONS**

- 2.1 **Participation in the National Anti-Fraud Initiative** - The Council currently participates in the National Anti-Fraud Initiative which is a national data

sharing exercise undertaken by the Cabinet Office on a bi-annual basis. Whilst this is a well-established national data sharing exercise, it is limited in that it is completed bi-annually rather on a more real-time basis. Due to the statutory requirements the Council will continue to participate in this exercise.

- 2.2 Whilst there are opportunities to use matching services from organisations such as Call Credit and Experian, these are more discrete matching services. There are no other Pan-London specific data sharing arrangements in place comparable to what will be delivered by the 'Hub' and therefore at this time there are limited alternative options available.

### **3 DETAILS OF THE REPORT**

- 3.1 The national strategy for councils on fighting fraud, 'Fighting Fraud and Corruption Locally' recommends the use of data analytics as a tool for detecting and preventing fraud. Councils are vulnerable to fraudsters claiming discounts on services and local taxation that they are not entitled to, and it is estimated that the cost of fraud to local government is in the region of £2.1bn each year. 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. The hub has been developed to provide a response to the current and future threat of losses from fraud. The pilot focussed on three types of fraud perpetrated against councils: council tax single person discount fraud, business rates fraud, and council housing fraud.
- 3.2 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.
- 3.3 For authorities with housing, the hub will help to identify council housing that is potentially being fraudulently sub-let, making it available for homeless families. Based on the pilot results, in a full year of operation with all 33 boroughs the hub will potentially identify between 1,532 homes (worst case) or 2553 homes (best case). In comparison, in 2017/18 the NFI reported the recovery of 57 homes through its national data matching activity.
- 3.4 The council already successfully delivers counter fraud work in relation to these areas. These arrangements have successfully helped the authority to identify substantial amounts of fraud, as set out in quarterly reports to the Audit Committee. The hub will provide a further source of leads to follow up, leading in turn to the identification of more fraud.

### 3.5 Pilot results

3.6 The pilot, which was completed by Ealing, Croydon, Camden, and Islington, indicated the following results would be achieved for London:

<b>LCFH - breakdown of extrapolated savings by fraud type (best case) 33 Authorities</b>	<b>Year 1 Savings</b>	<b>Year 1 Valid Alerts</b>	<b>Year 2</b>	<b>Year 2 Valid Alerts</b>
Council Tax SPD	£16,398,550	48,437	£8,199,275	24,219
Housing	£10,798,678	2,553	£5,399,339	1277
Business Rates	£4,884,930	1,035	£2,442,465	518
<b>Total</b>	<b>£32,082,158</b>		<b>£16,041,079</b>	

<b>LCFH - breakdown of extrapolated savings by fraud type (worst case) 33 Authorities</b>	<b>Year 1 Savings</b>	<b>Year 1 Valid Alerts</b>	<b>Year 2</b>	<b>Year 2 Valid Alerts</b>
Council Tax SPD	£4,015,730	11,862	£2,007,865	5,931
Housing	£6,479,207	1,532	£3,239,603	766
Business Rates	£4,884,930	1,035	£2,442,465	518
<b>Total</b>	<b>£15,379,867</b>		<b>£7,689,933</b>	

Notes:

1. Assumes all 33 London local authorities join.
2. All historic cases assumed to be identified in year 1, so year 2 activity is projected at 50% of year 1.
3. Best case and worst case extrapolated from 3 different test exercises – except for business rates where only one set of test results was available.
4. The pilot results came from processing live data, so fraud cases identified are additional to any counter fraud work already carried out by the pilot boroughs, although there was some overlap where fraud cases had been identified by the boroughs but not actioned.
5. Ignores effects of collection fund accounting.

### 3.7 Project history

3.8 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).

3.9 In 2015 Tower Hamlets signed a Memorandum of Understanding, signed by all London local authorities, making a non-binding commitment to the project.

- 3.10 The lead authority 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.
- 3.11 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. The bid from CIPFA Business Ltd was ranked first in the evaluation, based on both the scores for quality and commercial elements.
- 3.12 The pilot commenced March 2017 and has now successfully concluded with all minimum contract standards achieved. The pilot evaluation report is attached in Appendix [B].
- 3.13 **Contract arrangements**
- 3.14 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.
- 3.15 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 the lead authority and other local authority stakeholders, and the wider stakeholder pool affected by the implementation of the LCFH.
- 3.16 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.
- 3.17 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.
- 3.18 Onboarding process is outlined below:

TASKS	Est. Time	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
		Pre Onboarding Tasks			Onboarding		
PA express an interest in joining LCFH	0 Days						
PA Seeks appropriate approval to join LCFH	20 days	█					
Contract Documentation sent for consideration & Review	5 days		█				
PA requests to join LCFH and provides relevant documents	5 days		█				
PA Project Established	10 days		█				
Interface between CIPFA and PA Established	7 days		█				
PA Provides Data in line with Specification	5 days		█				
CIPFA Review Data Files	10 days		█				
Data Ingested into Test System & Networks created	40 days		█	█	█	█	█
PA Training	2 days					█	
PA Testing	10 days					█	█
PA Automation	16 days					█	█
PA Process Changes Implemented	10 days				█	█	█
New Data Request for Go Live	5 days						█
Onboarding Councils set up on Live system	5 days						█
Go Live	2 days						█

Green line indicates go/no go checkpoint for participation in onboarding window

Red line indicates start of BAE tasks. This is dependent on receipt of data that has been validated to be in the correct format by CIPFA operations team and PA team

Automation preparation tasks can begin prior to end of data ingestion task however test data cannot be created or transferred until all BAE work complete and test build delivered

Pre-Onboarding tasks should start a minimum of 3 months prior to the scheduled onboarding window to make sure PA can meet Onboarding deadline

### 3.19 **Subscription based commercial model**

3.20 The contract originally contained a payment by results commercial model. After listening to councils, this has now been changed to a subscription model.

3.21 The subscription charges will be:

Joining fee (one off, to be paid on signing up) £75,000

Annual Subscription fee based on size: £90,000 (Tier 1 size), £70,000 (Tier 2 size). LBTH are defined as a Tier 1 sized authority.

Discount for authorities with no housing (quantum to be confirmed)

3.22 The GLA makes a direct contribution to paying for the hub in relation to council tax and business rates.

3.23 There is no allowance in the model for new fraud type development funding. Any development will be subject to further agreement with the contractor and additional charges.

3.24 Under the payment by results model, councils had an obligation to process cases promptly. This was a cause of concern for some authorities, and as a result under the subscription model there is no obligation on councils to action cases promptly.

## 4 **EQUALITIES IMPLICATIONS**

4.1 Following completion of an initial equalities impact assessment no impact has been identified. A full Equality Impact Assessment (EIA) is therefore not required.

## 5 **OTHER STATUTORY IMPLICATIONS**

5.1 Risk Management

5.2 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.

5.3 Data quality is a key factor in 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 will enable councils to improve their own data quality, and so in turn will lead to more accurate identification of potentially fraudulent activity as well as ancillary improvements to other services.

- 5.4 It will be critical that the hub can provide an effective and prioritised list of potential leads. If it cannot then considerable resources will be spent following up cases that do not contain any fraud, and whilst an element of this is inevitable with any data matching tool their success depends on getting this prioritisation right.
- 5.5 There is a low level of risk to the council as the product has been tested by the pilot authorities and demonstrated to meet the necessary performance standards as well as meeting data security requirements.
- 5.6 The report sets out that currently the focus of the 'Hub' is limited to three fraud types, and that the current subscription fee does not include any allowance for new fraud type development funding. To remain as 'fit for purpose' solution during the life of the contract, it is expecting that the 'Hub' will require ongoing development, which will come at additional cost to the participating authorities. As yet the mechanism and cost of this development is not defined. It is however fully anticipated that the benefits received from such development will be significantly greater than the costs of development.

## **6 COMMENTS OF THE CHIEF FINANCE OFFICER**

- 6.1 The costs of participation in the hub are based on the subscription model requiring a one-off fee of £75,000 with a subsequent annual fee of £90,000 over the 7 years of the proposed contract. Savings from single person discounts and in relation to business rates issues are cashable although these benefits are achieved through the operation of the Collection Fund. The recovery of tenancies from fraudulently sub-let properties are non-cashable although have a positive impact on the allocation of properties from the Councils waiting list. A notional value adopted by the government to determine the value of such activities has been applied to value this benefit.
- 6.2 Based on the business case for Tower Hamlets, the scheme can be considered as an invest to save opportunity that recovers its costs through cashable savings in each year of the contract duration. No addition budget provision is therefore required or proposed. There is however a risk that the benefits (both cashable and non-cashable) may not be as great as estimated although they are based on the experience of pilot authorities and do recognise the risk of referrals dropping off after the initial period.
- 6.3 Staff engaged in counter fraud work will be deployed to at on referrals made and no additional staffing resources are envisaged at this stage.
- 6.4 Based on the results of the Pilot scheme the potential benefits for Tower Hamlets Council are estimated to be:
- A net saving of £ 658,927 in the first full year of operation
  - A net saving of £ 2,590,709 over the life of the contract
  - An overall Return on Investment of 367%
  - Homes recovered from fraudsters over the life of the contract: 241

## **7 COMMENTS OF LEGAL SERVICES**

- 7.1 A competitive dialogue procurement procedure was conducted by the London Borough of Ealing that complied with the Public Contracts Regulations 2015 (PCR 2015) and Ealing's Contract Procedure Rules.
- 7.2 Regulation 38 of the PCR 2015 permits contracting authorities such as the London Borough of Ealing to jointly procure services on behalf of other named contracting authorities. The London Borough Of Tower Hamlets is clearly identified in the advert placed by the London Borough of Ealing as a user of the subsequent contract. Therefore, the procurement run by Ealing satisfies this Council's legal duty to procure generally and regulation 38 specifically.
- 7.3 This contract will also satisfy this Council's legal Best Value Duty. The award to the contractor was based upon an evaluation of most economically advantageous criteria. Also, as a participant of the hub this Council will have a significant role in the monitoring of outcomes from the contract which will ensure that the objectives of the contract are met.
- 7.4 This contract is not a Framework for the purposes of the PCR 2015 and therefore it is allowable for the contract period to exceed 4 years without exceptional circumstances.
- 7.5 The hub has been set up and is operated in a manner that is compliant with the General Data Protection Regulation 2018 and the Data Protection Act 2018.
- 7.6 There are no immediate legal equalities law issues arising from the decision to join the hub.

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- NONE

#### **Appendices**

- Appendix A – Business case for joining the hub
- Appendix B – Pilot evaluation report
- Appendix C – London Counter Fraud Hub overview schematic

#### **Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012**

- NONE

#### **Officer contact details for documents:**

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