London Counter Fraud Hub Business Case
Tower Hamlets

Summary
Based on the results from the pilot, by signing up to the London Counter Fraud Hub the council will
achieve:

- 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

Introduction
The London Counter Fraud Hub is one of the London Ventures projects. After an EU tender and two
year pilot phase the project is ready to roll out across London.
Councils and third parties share their data in 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 data, the more effective the hub is
at finding fraud. The hub also learns from the results and gets better at finding fraud.
Testing was carried out by the 4 pilot authorities, Camden, Ealing, Islington, and Croydon. The results
of three separate testing exercises were used to extrapolate the full year impact that the hub would
have if all 33 authorities in London were onboarded. 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 1,500 council homes that are currently illegally sub-let. The fraud types the hub
looks for are council tax, business rates, and housing. This range will expand once the hub is up and
running.
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 a £75k one-off joining fee plus an annual subscription of £90k for large
authorities (Tier 1) and £70k for small authorities (Tier 2). 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.
The investment in technology was financed with private sector risk capital, and almost certainly could
not have been achieved if councils had been asked to provide the capital themselves in the current
financial climate. However, to make the arrangement work commercially 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.
The project has a profile with Cabinet Office and MHCLG and is an opportunity to demonstrate that
London is delivering on data sharing and collaboration.

Business Case
Set out on the following page are the anticipated revenues and costs for your borough based on the pilot:

Tower Hamlets

LCFH - breakdown by fraud type	Year 1 £	Year 1 Valid Alerts	Year 2 £	Year 2 Valid Alerts	Total over Contract Life £
Council Tax SPD	-339,683	1,061	-169,842	531	-1,358,733
Housing	-409,867	60	-204,934	30	-1,639,468
Business Rates Charity Rel.	-109,026	5	-54,513	3	-436,105
Business Rates SBRR	-132,936	51	-66,468	25	-531,745
B. Rates – not in rating	N/K	N/K	N/K	N/K	N/K
Total Savings	**-991,513**		**-495,756**		**-3,966,051**
GLA share of council tax	78,059		39,030		312,238
GLA share of business rates	89,526		44,763		358,104
Savings after GLA	**-823,927**		**-411,964**		**-3,295,709**
Costs					
Sign on fee	75,000		0		75,000
Annual Subscription	90,000		90,000		630,000
Discount – no housing	0		0		0
Total CIPFA Cost	**165,000**		**90,000**		**705,000**
Additional investigators	0		0		0
Other internal costs	0		0		0
Total Cost	**165,000**		**90,000**		**705,000**
Net Benefit	**-658,927**		**-321,964**		**-2,590,709**
ROI					**367%**

Notes	
Tier 1 or Tier 2?	1
GLA % Share of council tax?	23%
GLA % Share of business rates?	37%
Discount for no housing?	0%

Sensitivity Analysis

79%	Percentage by which savings can drop and the contract still breaks even

£2,590,708.90	Amount internal costs can reach and the contract still breaks even

Assumptions

Work connected with receiving and investigating alerts is absorbed as business as usual.

Work connected with providing data extracts to the hub is absorbed as business as usual.

Effects of collection fund accounting are ignored.

GLA contributes directly towards the cost of the hub through a separate subscription.

All pilot councils already had counter fraud measures in place including data matching – pilot results are additional.

The projected savings are calculated as follows:

· Business Rates – Not in Rating: although the LCFH identified cases of hereditaments not in rating in the pilot, no savings have been calculated as it is not possible to say what the rateable value would be. However, it should be noted that savings will be achieved in this fraud type.

· Council Tax SPD: the Band D annual value of the SPD in your borough times the number of SPD removals forecast for your borough based on the average proportion identified for removal by the pilot authorities.

· Council tax GLA proportion: the percentage of your borough's Band D council tax that represents the precept collected on behalf of the GLA, based on the most recent published information.

· Business Rates Charity Relief: the average charity relief awarded to a ratepayer in your borough in the most recent published information times the number of Charity Relief removals forecast for your borough based on the average proportion identified for removal by the pilot authorities.

· Business Rates SBRR: the average SBRR awarded to a ratepayer in your borough in the most recent published information times the number of SBRR removals forecast for your borough based on the average proportion identified for removal by the pilot authorities.

· Business Rates GLA proportion: 37% as defined in the business rates devolution pilot for London.

· Housing: the average annual net General Fund cost of a household in temporary accommodation in your borough based on the most recent published information times the number of housing fraud cases forecast for your borough based on the average proportion identified by the pilot authorities. No account has been taken of any internal costs to the council's Housing Revenue Account (e.g. void, redecoration, re-letting).

· Forecast alert numbers: these are based on the sample testing carried out by the 4 pilot authorities using live data during the pilot. Sample sizes were selected to provide a 95% confidence level and a 5% margin for error. The total number of alerts was extrapolated from the tested sample. There were three tests carried out for each fraud type. The averaged results across the three tests were then averaged across all four boroughs to give a composite result that could be used to extrapolate the results for boroughs not participating in the pilot.

· Year 2 alerts are forecast at 50% of year 1 because any historical cases will have been identified, although the hub will continue to improve its detection rates.