Title: London Counter Fraud Hub	
Report of the Cabinet Member for Finance, Performance and Core Services	
Open Report	**For Decision**
Wards Affected: None	**Key Decision:** No
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Accountable Director: Helen Seechurn, Director of Finance	
Accountable Strategic Leadership Director: Claire Symonds, Chief Operating Officer	

Summary

London Councils have a good record in investigating fraud and collaborating with others to enhance fraud prevention and detection but there is always the need to respond to technological developments. Innovation is important to fighting fraud, especially at a time of finite resources, and the use of smart analytics can improve the Council's ability to tackle fraudsters, thus prevent resources being taken away from delivering services to those who need them.

The principles for maximising collaborative and smarter working through data sharing are behind the creation of the London Counter Fraud Hub (LCFH). This hub is intended to provide a powerful fraud detection solution, combining advanced data matching with intelligent analytics and local government counter fraud expertise.

The hub has passed the initial proof of concept stage, with the involvement of four pilot authorities, and is being prepared for roll out to all London Councils. Unlike the National Fraud Initiative (NFI) it does not have a statutory basis that requires all authorities to provide their data, so a decision on whether to become a member of the hub is required from each Council.

This report outlines the fraud prevention and detection opportunities that fraud hub membership brings, and an indication of the additional resources needed to realise the benefits of being a member.

Recommendation(s)

The Cabinet is recommended to:

   (i)   Approve the Council's participation in 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, on the terms set out in the report;

(ii) Authorise the Chief Operating Officer, in consultation with Cabinet Member for Finance, Performance and Core Services and the Director of Law and Governance, to enter into the contract and all other necessary or ancillary agreements including any future project expansion arrangements; and

(iii) Authorise the provision of council data extracts to CIPFA for the purposes of preventing and detecting fraudulent or erroneous activity.

Reason(s)

To assist the Council in achieving its priority of "A New Kind of Council" through improved fraud detection arrangements.

1. Background and Options Considered

1.1 The London Counter Fraud Hub is one of the London Councils 'London Ventures' projects. After a compliant 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, 18 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. The contract is monitored and managed by LB Ealing as the lead borough.

2. Fraud Risks addressed by the Hub

2.1 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.

2.2 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.

2.3 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.

2.4 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 & Standards Committee. The hub will provide a further source of leads to follow up, leading in turn to the identification of more fraud.

3. Pilot results

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

LCFH - breakdown of extrapolated savings by fraud type (best case) 33 Authorities	Year 1 Savings	Year 1 Valid Alerts	Year 2	Year 2 Valid Alerts
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
Total	**£32,082,158**		**£16,041,079**	

LCFH - breakdown of extrapolated savings by fraud type (worst case) 33 Authorities	Year 1 Savings	Year 1 Valid Alerts	Year 2	Year 2 Valid Alerts
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
Total	**£15,379,867**		**£7,689,933**	

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.*

4. Project history

4.1 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).

4.2 In 2015 Barking & Dagenham signed a Memorandum of Understanding, signed by all London local authorities, making a non-binding commitment to the project.

4.3 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.

4.4 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.

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

5. Consultation

5.1 It is not considered that community consultation is required in this case. Consultation has been carried out with councils in London.

5.2 The proposals in this report were considered and endorsed by the Corporate Assurance Group at its meeting on 13 June 2019.

6. Financial Implications

Implications completed by: Katherine Heffernan, Group Manager, Service Finance

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

6.2 The subscription charges will be:
- Joining fee (one off, to be paid on signing up) £75,000
- Annual Subscription fee based on size: £70,000 for LBBD (Tier 2 size)
- Discount for authorities with no housing

The full basic charge over the lifetime of the contract is therefore £565,000 and is the same as other similar sized boroughs. Larger 'tier 1' boroughs pay a higher annual subscription.

6.3 The above charges are on the basis that at least 18 boroughs sign up to the Hub, which has been achieved. The GLA also makes a direct contribution to paying for the hub in relation to council tax and business rates.

6.4 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.

6.5 This will be an additional cost to the Council. This has been included as part of the service demand growth in the Council's new MTFS. Savings achieved will support the Council's overall budget position and contribute to other savings programmes such as the Core Transformation.

7. Legal Implications

Implications completed by: Kayleigh Eaton, Senior Contracts and Procurement Solicitor, Law & Governance

7.1 This report advises that 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 and signed up to an MOU to make its commitment to the project.

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 has been advised that it can join the Agreement with the provider through a Deed of Adherence.

7.4 Contract length is for a period of 7 years effective with no options to extend.

7.5 The client department is encouraged to work in partnership with the Council's information governance officer to ensure that 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.

8. Other Implications

8.1 **Risk Management -** 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 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.

8.3 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.

8.4 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.

8.5 **Contractual Issues –** Joining the London Counter Fraud Hub enters the Council into a seven year commitment subject to robust performance measures. 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.

8.6 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.

8.7 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. 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.

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

8.9 **Staffing Issues -** It is expected that existing council capacity for investigating cases of fraud will be adequate, but if not, the hub provides additional capacity. No significant implications have therefore been identified.

Public Background Papers Used in the Preparation of the Report:

None.

Appendices:

None.