



## CABINET

**Subject Heading:**

**London Counter Fraud Hub**

**Cabinet Member:**

Councillor Roger Ramsey, Cabinet Member for Finance and Property

**SLT Lead:**

Jane West, Chief Financial Officer

**Report Author and contact details:**

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**Policy context:**

Preventing Fraud

**Financial summary:**

Total cost of the London Counter Fraud Hub will be £615,000 over the life of the 7 year contract

Net potential benefits will be between £900,000 - £1,538m

**Is this a Key Decision?**

Yes - Expenditure or saving of £500,000 or more

**When should this matter be reviewed?**

1 April 2020

**Reviewing OSC:**

Overview and Scrutiny

**The subject matter of this report deals with the following Council Objectives**

Communities making Havering  
Places making Havering  
Opportunities making Havering  
Connections making Havering

[x]

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[x]

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## **SUMMARY**

This report details the development of the London Counter Fraud Hub and highlights the potential benefits to Havering Council of joining this initiative. The hub is supplied by CIPFA, in partnership with BAE systems, with Councils and third parties providing their data to be analysed for fraud using advanced data analytics. The hub is focussed on identifying fraudulent activity in relation to council tax single person discount fraud; business rates fraud; and, housing tenancy fraud.

## **RECOMMENDATIONS**

That Cabinet:

1. Approves in principle Havering Council joining the London Counter Fraud Hub.
2. Delegates authority to the Council's Chief Financial Officer to enter into the contract following consultation with the Director of Law and Governance.

## **REPORT DETAIL**

### **1. Background**

- 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 being rolled 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.
- 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, and will be subject to additional costs.

- 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 (Havering is a small authority and the annual charge is £70k). The GLA also contributes directly 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 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. The Society of London Treasurers has acted as a sponsor for the project since inception. In 2015 Havering signed a Memorandum of Understanding, signed by all London local authorities, making a non-binding commitment to the project.
- 1.7 The business case for joining the hub, as drafted by Ealing as lead authority, is set out in Appendix A. It demonstrates that the council will potentially benefit from significant net savings over the life of the contract.
- 1.8 The pilot commenced March 2017 and has now concluded with all minimum contract standards achieved. The pilot evaluation report is attached in Appendix B.
- 1.9 It should be noted that although the LCFH imposes a significant financial cost on the Council, fraudsters should be pursued for the benefit of all residents within Havering and across London as a whole. The social benefit to this project should be considered alongside the financial risks.

## **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. 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. Any savings are cashable to the Council and the GLA. The GLA have agreed to contribute towards both the set up costs and the ongoing costs of the hub.

2.3 The hub will help to identify council housing that is potentially being fraudulently sub-let, making it available for homeless families and therefore delivering cashable savings by reducing the temporary accommodation costs to the Council.

### **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 (based on all 33 Boroughs joining):

<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.*

#### **4. Contract arrangements**

- 4.1 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.
- 4.2 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.
- 4.3 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. 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.
- 4.4 The contract originally contained a payment by results commercial model, where councils had an obligation to process cases promptly. This was a cause of concern for some authorities and this has been changed to a subscription model. There is no obligation on councils to action cases promptly.

<b>REASONS AND OPTIONS</b>
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#### **5 Reasons for the decision:**

- 5.1 The London Counter Fraud Hub will provide greater opportunities for Havering Council to identify fraudulent activity, specifically in the areas of single person discount, business rates and tenancy fraud. The ability to match data with other London Boroughs will give the Council greater opportunity to identify those individuals committing fraud in multiple Boroughs.

## **6 Other options considered:**

- 6.1 Havering could wait to join until other Councils have embedded the system so that its benefits can be evaluated. However, the hub needs Councils to join to make it a success, so if Havering were to take this approach it would not benefit the wider London authorities. It is also likely that late joiners will have higher costs charged.

## **IMPLICATIONS AND RISKS**

## **7 Financial implications and risks:**

- 7.1 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, Havering falls into this category)
- Discount for authorities with no housing (quantum to be confirmed)

- 7.2 There is no allowance in the model for new fraud type development funding. Any development will be subject to the consideration of the business case by the London Boroughs and proceeding will require further agreement with the contractor and additional charges – ie any future data matching services will be subject to additional cost.

- 7.3 At least at the start of the project, additional resources will be required to support the LCFH within the fraud team and triage the matches received. As this is a developing system, it is likely that there will be significant support required initially to embed the system and challenge the initial results. It is difficult to quantify the level of support that will be required going forward.

- 7.4 However, the aim is to achieve a level of accuracy that allows processing of the alerts to be fully automated (eg the generation of Single Person Discount letters). There would also be economies of scale if Newham also joined the hub. But it is clear that, particularly in the first year, additional support will be required in the Fraud Investigation Team to implement the hub and the new ways of working. Therefore, it is proposed to budget for one additional fraud investigator for the first year and then reassess the situation. Sufficient savings may be being generated by then to support the business case for permanent additional support. The additional cost of this option would be a one-off £49k in the first year of membership. The summary of the costs over the contract period can be seen in Table 1 below. The joining fee and additional fraud officer will initially be funded from corporate earmarked reserve. The ongoing membership costs will be funded from an existing s151 Officer revenue budget.

<b>Table 1</b>	<b>Year 1</b>	<b>Years 2 to 7</b>	<b>Total contract period</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Costs per annum</b>			
CIPFA - joining fee	75		75
annual subscriptions	70	70	490
1 X Fraud Investigator	49	*	49
* review the requirements going forward after year 1.			
<b>Costs</b>	194	70	614

7.5 Additional management time will also be required to manage the relationship with CIPFA, although it is not possible to quantify the impact of this at this stage , and it is hoped that this will be subsumed within the existing resources

7.6 There will also be additional resource demands within the Council to provide and cleanse data sources. However, this is an area of immediate priority already identified by the Business Intelligence Board as the data held by the Council needs to be improved to better support decision making and service delivery. The outputs from the hub would enhance and accelerate this process of data cleansing.

7.7 Appendix A, page 3, estimates that the net benefit to Havering over the 7 year life of the contract could be £1,587k (without additional resources options outlined above). However, this would be offset by the resource requirements discussed above,

7.8 The returns through additional fraudulent activity in Appendix A are CIPFA estimates, calculated based on the results from the pilot authorities. There is a risk that the hub does not generate the quality of matches required to identify fraud. The testing undertaken has not been in a live environment. It is too early to know how many of the matches identified by the pilots will lead to successful case outcomes.

## **8. Legal implications and risks:**

8.1 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.

8.2 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.

8.3 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.

8.4 It is understood that the desired length of the Contract is for a period of 7 years effective with no options to extend. However, the principal contract does not specify this period and allows only the lead contractor London Borough of Ealing to terminate. Further work is being undertaken with Ealing Borough Council to resolve this issue before the contract is entered into.

8.5 The Council will be required to enter into a Deed of Adherence which will then give the Council the status of a participating authority under the main contract. It should be noted that the contract provides for little flexibility in terms of early termination and at the same time it gives the supplier a number of due diligence requirements which if complied with provide little leeway for them to subsequently increase the contract price during the term of the contract.

8.6 In addition to signing a Deed of Assurance the Council will also need to sign a data processing agreement with all participating authorities and the supplier. This agreement is ancillary to the main agreement and seeks to ensure that all parties comply with the Authorities obligations under the Data Protection Act and Human Rights Act 1998. Further assurance work is being undertaken to ensure that the agreement is compliant with the new General Data Protection Regulation 2018 and the Data Protection Act 2018 which came into effect after the contract was originally entered into by Ealing Borough Council.

## **9. Human Resources implications and risks:**

9.1 HR implications would be the creation of the fixed term post initially for a 12 month period to enable the submission of the data and 'triage' of cases that come back as a result. These posts can be covered by employees on fixed term contracts or agency workers.

## **10 Equalities implications and risks:**

10.1 The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;



- (ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

<b>BACKGROUND PAPERS</b>
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None