LONDON BOROUGH OF NEWHAM

CABINET

<table>
<thead>
<tr>
<th>Report title</th>
<th>London Counter Fraud Hub</th>
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</thead>
<tbody>
<tr>
<td>Date of Meeting</td>
<td>7 May 2019</td>
</tr>
<tr>
<td>Lead Officer and contact details</td>
<td>Jeremy Welburn, Head of Assurance, <a href="mailto:Jeremy.welburn@onesource.co.uk">Jeremy.welburn@onesource.co.uk</a></td>
</tr>
<tr>
<td>Director</td>
<td>Ian O'Donnell, Interim Executive Director of Financial Sustainability</td>
</tr>
<tr>
<td>Lead Member</td>
<td>Cllr Terry Paul</td>
</tr>
<tr>
<td>Key Decision?</td>
<td>Yes</td>
</tr>
<tr>
<td>Reasons:</td>
<td>Contract over £500,000</td>
</tr>
<tr>
<td>Exempt information &amp; Grounds</td>
<td>No</td>
</tr>
<tr>
<td>Wards Affected</td>
<td>All</td>
</tr>
<tr>
<td>Appendices (if any)</td>
<td>1. LCFH Business Case</td>
</tr>
<tr>
<td></td>
<td>2. Pilot Report</td>
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1 Executive Summary

This seeks approval for Newham Council to join the London Counter Fraud Hub. It sets out details concerning the development of the London Counter Fraud Hub and highlights the potential benefits to Newham Council of joining this pan-London 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 initially focussed on identifying fraudulent activity in relation to council tax single person discount fraud, business rates fraud, and housing tenancy fraud.

2 Recommendations

2.1 For the reasons set out in the report and its appendices, Cabinet is recommended to agree:

2.1.1 Approves in principle Newham Council joining the London Counter Fraud Hub.

2.1.2 Delegates authority to the Interim Executive Director of Financial Sustainability to enter into the contract following consultation with the Lead Member and the Director of Law and Governance.
3 Background

3.1 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.

3.2 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.

3.3 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. The forecast savings for Newham Council are set out in the attached business case.

3.4 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 (Newham is a large authority and the annual charge is £90k). 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.

3.5 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.

3.6 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 Newham signed a Memorandum of Understanding, signed by all London local authorities, making a non-binding commitment to the project.

3.7 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.

3.8 The pilot commenced March 2017 and has now concluded with all minimum contract standards achieved. The pilot evaluation report is attached in Appendix B.
3.9 It should be noted that although the significant financial cost of the contract should be more than offset by the expected savings, there is no guarantee that those savings will be achieved. However, fraudsters should be pursued for the benefit of all people in Newham and across London as a whole, and the social benefits of this project should be considered alongside any financial risks.

4 Key Considerations & Proposals

Fraud risks addressed by the hub

4.1 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.

4.2 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.

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

4.4 The hub’s capabilities will be expanded over time to address a range of further fraud risks including procurement fraud and blue badge fraud.

Pilot results

4.5 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):

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

**LCFH - breakdown of extrapolated savings by fraud type (worst case) 33 Authorities**

<table>
<thead>
<tr>
<th></th>
<th>Year 1 Savings</th>
<th>Year 1 Valid Alerts</th>
<th>Year 2</th>
<th>Year 2 Valid Alerts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council Tax SPD</td>
<td>£4,015,730</td>
<td>11,862</td>
<td>£2,007,865</td>
<td>5,931</td>
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<tr>
<td>Housing</td>
<td>£6,479,207</td>
<td>1,532</td>
<td>£3,239,603</td>
<td>766</td>
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<tr>
<td>Business Rates</td>
<td>£4,884,930</td>
<td>1,035</td>
<td>£2,442,465</td>
<td>518</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£15,379,867</strong></td>
<td></td>
<td><strong>£7,689,933</strong></td>
<td></td>
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</tbody>
</table>

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.

Contract arrangements

4.6 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.

4.7 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. Newham has the opportunity to be represented on that board.

4.8 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. Performance
failure is managed through the application of service credits, and persistent failure through loss of exclusivity. Termination rights can be exercised if the level of performance of the supplier during the service period is significantly and persistently below standard.

4.9 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 now no obligation on councils to action cases promptly, enabling them to manage the caseload in line with resource levels.

5 Policy Implications & Corporate Priorities

5.1 Joining the hub enables the council to implement the recommendations of Fighting Fraud and Corruption Locally, the national counter fraud strategy for councils. This is an important part of the council’s drive to implement exemplary financial management throughout the organisation.

5.2 Ensuring that losses to fraudsters are minimised helps the council to maximise the funding available for services.

6 Alternatives considered

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

6.2 Newham could decide not to join the hub. If it did so it would not benefit from the additional savings predicted by the business case. Also, it would undermine the likelihood that the hub would proceed because 26 authorities are needed.

7 Consultation

7.1 Name of Lead Member consulted: Cllr Terry Paul
Position: Cabinet Member for Finance and Corporate Services
Date: 15/4/2019

8 Implications

8.1 Financial Implications

8.1.1 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)

8.1.2 The contract length is 7 years with effect from 1 June 2019, which makes the total financial commitment £705,000.

8.1.3 New fraud type development funding arises accrues if more than 28 authorities join the hub or the contractor's hub revenues exceed
8.1.4 At the start of the project, input will be required from the ICT team as well as the council tax, business rates and fraud teams within the council or in OneSource. Experience from the pilot authorities suggests that this can be mostly be contained within business as usual. However, it is expected that 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.

8.1.5 For council tax single person discount fraud the aim is to achieve a level of accuracy that allows processing of the alerts to be automated (i.e. the generation of Single Person Discount letters). There would also be economies of scale across the Shared Service as Havering Council have agreed to join the hub.

8.1.6 The summary of the costs over the contract period can be seen in Table 1 below. The fees will be paid from general fund reserves, which will then be topped up as the savings accrue within the collection fund and general fund budget.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Year 1 £000s</th>
<th>Year 2 – 7 £000s</th>
<th>Total Contract Period £000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs per annum</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CIPFA – joining fee</td>
<td>75</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>Annual subscriptions</td>
<td>90</td>
<td>540</td>
<td>630</td>
</tr>
<tr>
<td>X1 Fraud investigator</td>
<td>49</td>
<td>*</td>
<td>49</td>
</tr>
<tr>
<td>* Review the requirements after Year 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs</td>
<td>214</td>
<td>540</td>
<td>754</td>
</tr>
</tbody>
</table>

8.1.7 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 expected that this will be subsumed within existing resources

8.1.8 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 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.

8.1.9 Appendix A, page 3, estimates that the net benefit to Newham over the 7 year life of the contract could be as high as £1.4m (without additional resources options outlined above). However, this would be offset by the resource requirements discussed above.

8.1.10 The mechanism for funding the costs will be to draw down from general fund reserves to make the payments to the hub and then top up the reserve from the collection fund surplus that results from the increased collections. The HRA will also bear a share of the cost of the hub and this will be drawn down from HRA reserves.

8.1.11 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 alerts required to identify fraud. The testing undertaken has not been in a live environment. It is too early to know how many of the alerts identified by the pilots will lead to successful case outcomes. However, the business case shows that savings would have to fall by almost 50% from the forecast level over the life of the contract for the business case not to stack up.

8.1.12 Appendix A, page 3, estimates that the net benefit to Newham over the 7 year life of the contract could be as high as £1.4m (without additional resources options outlined above). However, this would be offset by the resource requirements discussed above. The CIPFA analysis using modelled data indicates savings could be

- A net saving of £366,389 in the first full year of operation
- A net saving of £1,420,556 over the life of the contract
- An overall Return on Investment of 201%
- Homes recovered from fraudsters over the life of the contract: 325

The actual savings generated will depend on the level of fraud, the quality of data and the ability of the Council to act on the information generated.

8.2 **Legal Implications**

8.2.1 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.

8.2.2 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.

8.2.3 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.

8.2.4 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.

8.2.5 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.

8.2.6 In addition to signing a Deed of Assurance the Council will also need to sign up to a data processing agreement with all participating authorities and the supplier. This agreement is ancillary to the 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 data processing agreement is compliant with the 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.

8.3 Equalities Implications

8.3.1 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:

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

8.3.3 the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
8.3.4 foster good relations between those who have protected characteristics and those who do not.
8.3.5 Note: ‘Protected characteristics’ are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.
8.3.6 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 Newham residents in respect of socio-economics and health determinants.

8.3.7

8.4 Other Implications relevant to this report:
8.4.1 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.

9 Background Information used in the preparation of this report
9.1 Statutory requirement to list
9.2 When related to procurement – Checkpoint Panel Response to [procurement title]

Reason for Urgency – This item was not published on the forward plan for the required timescale as the council has only just received the final documents that enable it to make the decision to join. The window for joining the contract is April / May 2019