

	<p><b>Policy &amp; Resources Committee</b></p> <p><b>17<sup>th</sup> June 2019</b></p>
<p style="text-align: right;"><b>Title</b></p>	<p><b>London Counter Fraud Hub (LCFH)</b></p>
<p style="text-align: right;"><b>Report of</b></p>	<p>Councillor Daniel Thomas</p>
<p style="text-align: right;"><b>Wards</b></p>	<p>All</p>
<p style="text-align: right;"><b>Status</b></p>	<p>Public with Exempt Report – Schedule 12 Local Government Act 1972 information in respect of legal professional privilege</p>
<p style="text-align: right;"><b>Urgent</b></p>	<p>No</p>
<p style="text-align: right;"><b>Key</b></p>	<p>Yes</p>
<p style="text-align: right;"><b>Enclosures</b></p>	<p>None</p>
<p style="text-align: right;"><b>Officer Contact Details</b></p>	<p>Anisa Darr – Section 151 Officer  <a href="mailto:anisa.darr@barnet.gov.uk">anisa.darr@barnet.gov.uk</a></p> <p>Claire Green – Direction of Assurance  <a href="mailto:claire.green@barnet.gov.uk">claire.green@barnet.gov.uk</a></p> <p>Paul Clarke – Deputy Section 151 Officer  <a href="mailto:paul.clarke@barnet.gov.uk">paul.clarke@barnet.gov.uk</a></p>

## Summary

This report outlines a summary of the London Counter Fraud Hub's proposed operations and purpose, as well as all relevant implications with a recommendation for Barnet to join the Hub.

## Officers Recommendations

1. The Committee note the content of the report;
2. The Committee approve, in principle, decision to join London Counter Fraud Hub;

**3. The Committee delegate authority to the Director of Finance, in consultation with the Chairman of P&R, to enter into the contract.**

## **1. Background and context**

- 1.1. The London Counter Fraud Hub (LCFH) 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. The hub is supplied by CIPFA, in partnership with BAE Systems. The original contract was based on payment by results but has now evolved into a subscription-based model. Testing was carried out by 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.
- 1.2. Councils and third parties share their data in a hub where it is analysed for fraud using advanced data analytics. The councils then get alerts, delivered through a cloud-based case management system so that they can be investigated. It is anticipated that the more councils put in data, the more effective the hub could be at identifying fraud. The fraud types the hub looks for are council tax, business rates, and housing. We have been told that this range will expand in the future.
- 1.3. The standard 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). CIPFA has confirmed that Barnet will receive a 20% discount on the annual subscription in recognition of the fact that Barnet has an exclusivity contract with Capita relating to council tax SPD fraud.
- 1.4. The contract length is 7 years, with exclusivity clauses. This was deemed to be necessary by CIPFA due to the very large investment which the contractor has to recoup. Under the new subscription based approach the performance regime deals with issue(s). If the contractor fails to perform this can lead to loss of exclusivity, allowing an authority to procure the solution from elsewhere. The project has a profile with Cabinet Office and MHCLG and is an opportunity to demonstrate that London is delivering data sharing and collaboration.
- 1.5. The LCFH contract sets out a number of expected outcomes to be delivered by CIPFA. These include:
  - Using council and third party data to detect fraud and error;
  - Maximising the detection of fraud and error by applying cutting edge analytics in addition to data matching;
  - Delivering two-way integration between the Hub and existing council software applications in order to:
    - a) Deliver efficiencies by automating council processes (i.e. automation of recovery of revenues);
    - b) Transfer data efficiently and securely between participating councils and the Hub;

- c) Provide preventative risk scoring against property addresses and individuals at point of delivery.
- Using council and third party data to develop methods of preventing fraud and error. By sharing this data for the first time, councils will detect cross-borough and more organised fraud;
- Providing councils with the opportunity to use the Hub to cleanse their data;
- Producing management information for councils in order to:
  - a) Inform on volumes, values and other performance metrics for the purposes of contract management and payment;
  - b) Allow councils to meet their obligations in line with data-related legislation;
  - c) Inform of risks and trends in relation to fraud and error;
  - d) Assist with the pursuit and monitoring of ongoing cases by providing information updates as and when additional information about a case becomes known;
  - e) Allow councils to monitor the impact of fraud prevention measures introduced by the Hub or the council.
- Provide, if required, and at additional cost an investigation and recoveries service to pursue multi-borough and complex cases providing additional capacity for councils.

1.6. Indicative onboarding timeline is presented below. The onboarding process to go live will take approximately five months after any decision is made to join the London Counter Fraud Hub. The 'Go Live' date will therefore be no earlier than mid-November 2019.

Tasks	Est Time	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Appropriate approval sought from Policy and Resources Committee	20 Days	█					
Contract Documentation send for consideration and review	5 Days		█				
Barnet requests to join LCFH and provides relevant documentation	5 Days		█				
Project Established	10 Days		█				
Interface between CIPFA and Barnet Established	7 Days		█				
Barnet provides data in line with specification	5 Days		█				
CIPFA review data files	10 Days		█	█			
Data ingested into test system and Networks created	40 Days			█	█	█	
Barnet Training	2 Days					█	
Barnet Resting	10 Days					█	
Barnet Automation	16 Days					█	
Barnet Process Changes Implimented	10 Days				█	█	
New data request for go live	5 Days						█
Onboarding Councils set up on live system	5 Days						█
Go Live	2 Days						█

## 2. REASONS FOR RECOMMENDATIONS

2.1 These recommendations are to enable the council to join the LCFH.

### **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

- 3.1 While there are other individual providers in the market, there isn't anything pan-London and therefore no other options have been considered.

### **4 POST DECISION IMPLEMENTATION**

- 4.1 The contract will need to be signed and entered into once the decision has been made. After that the onboarding process will commence.

### **5 IMPLICATIONS OF DECISION**

#### **5.1 Corporate Priorities and Performance**

- 5.1.1 This report provides a summarised overview of the London Counter Fraud Hub's activities.
- 5.1.2 Detecting, preventing and dealing with fraud is essential to ensure that there is adequate and appropriately directed insight and resources to support delivery and achievement of council priorities and targets as set out in the Corporate Plan.
- 5.1.3 Relevant council strategies and policies include the following:
- Corporate Plan 2015-2020
  - Corporate Plan - 2016/17, 2017/18 and 2018/19 Addendums
  - Performance and Risk Management Frameworks

#### **5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

##### Procurement Implications

- 5.2.1 In 2016 CIPFA were successful in tendering for a contract to deliver a new initiative that brings together London Boroughs with counter fraud specialists and the latest technologies, to help tackle fraud and corruption. At the centre of the London Counter Fraud Hub is an analytics solution that helps prevent, detect and recover losses from fraud. The Hub also offers a range of services that ensures teams have the optimal level of resources, knowhow and support.
- 5.2.2 CIPFA is a private sector partner selected pursuant to a competitive dialogue procedure. Thirteen pre-qualification questionnaires were received, followed by five initial outline solutions which were reduced to two final bids through dialogue and final offers were based on 60% quality and 40% commercials. The evaluation panel was made up of subject matter experts from across London and the most economically advantageous offer was received from CIPFA.
- 5.2.3 CIPFA were awarded a nine-year contract to deliver the LCFH that was signed in November 2016. Whilst CIPFA are responsible for the delivery of the solution, the contract is managed by Ealing Council as the lead authority on behalf of the London Council's. Ealing is a participating authority to the contract and was one of the participants in the

Proof of Concept (POC) along with Camden, Islington and Croydon.

5.2.4 The initial contract was awarded using an EU/OJEU compliant route to market – with an OJEU notice being issued by the Lead Authority on 18<sup>th</sup> September 2015 specifying a list of authorities who can participate. The contract complies with the lead authority's (Ealing Council) contract standing orders, and the contract deliverables are defined and measurable.

#### Audit Implications

5.2.7 The London Audit Group, which includes representation from Barnet, has been engaging with CIPFA on an on-going basis regarding the London Council's Fraud Hub. The key area of discussion has concerned the 7 year length of the contract, the exclusivity clauses therein and the absence of an overt break clause – with councils understandably wanting to safeguard against being irrevocably obliged to exclusively use the LCFH product for their key fraud detection activities should the hub not perform as expected.

5.2.8 The concerns are alleviated by inclusion of tough performance management arrangements in the contract that can lead to termination in an individual borough for poor performance at any time in the contract. These are set out in the Services Agreement, and summarised below:

- Application of service credits - if the level of performance of the Supplier is below the Service Credit Threshold in respect of a KPI then Service Credits accrue;
- Performance failure triggers a requirement for the Supplier to provide and execute a Rectification Plan. If the Rectification Plan fails to remedy the issue within the specified timeframe then this can lead to one of the following
  - Loss of exclusivity - if the level of performance of the Supplier is below the Loss of Exclusivity Threshold in respect of any KPI then the Lead Authority can issue an instruction on behalf a Participating Authority that the Supplier immediately loses its Right of Exclusivity. The Participating Authority concerned gets a pro-rata refund on its subscription, and can procure the service elsewhere
  - Partial or Full Termination - if the level of performance of the Supplier is below the Termination Threshold in respect of any KPI then the Lead Authority can terminate the Agreement in whole or in part. This provides Participating Authorities with the ability (through the Lead Authority) to terminate a part of their contract or the whole of their contract for poor performance without affecting the other Participating Authorities. Partial Termination in relation to a particular fraud type results in a reduction in the subscription of 20%.
  - The contract also provides the Lead Authority, in the event of universal performance failure, with the power to terminate part of the contract for all Participating Authorities (e.g. where a particular fraud type isn't working) or terminate the contract entirely for all Participating Authorities.

5.2.9 It is to be noted that there will be an ongoing internal cost throughout the life of the project generated by audit and governance of project outcomes.

#### Insurance Implications

5.2.30 The Supplier has capped liability for Data Breach up to a maximum of £30,000,000 per Subscription Year across all Participating Authorities. However, under the new guidance,

there are two levels of fines based on the GDPR. The first is up to €10 million or 2% of the company's global annual turnover of the previous financial year, whichever is higher. The second is up to €20 million or 4% of the company's global annual turnover of the previous financial year, whichever is higher.

- Third Party Public and Products liability Insurance is capped at £5million pounds in respect of any one occurrence, and in the aggregate per annum;
- Professional Indemnity Insurance is £2million in respect of any one claim and in the aggregate per annum;
- Data Loss insurance – please see above.

#### Operational Implications

5.2.31 Barnet will need to commit some effort from teams within the council in order to mobilise and monitor the contract, therefore joining the LCFH will require an operational, as well as financial, commitment. A non-exhaustive list of potential teams and their interactions is below;

- ICT (liaison with supplier to facilitate implementation of ICT interfaces)
- Council Tax and Business rates (provision of datasets, actions related to fraud alerts)
- Corporate Anti-Fraud Team (provision of datasets, actions related to fraud alerts)
- Information Governance (monitoring of Data Processor Agreement)
- Procurement (monitoring of contract performance)
- Internal Audit (provision of independent assurance that risk management, governance and internal control processes in relation to the LCFH are operating effectively)

5.2.32 It is envisaged that initially the cost of this will be absorbed through existing teams and resources and this will be kept under review through the budget planning cycle.

#### Cost Implications

5.2.33 The initial one-off joining fee will be funded by reserves. The ongoing subscription fee will be met by a call on contingency funds, and will be kept under regular review as part of the budget planning process, especially if the Hub succeeds in generating significant cashable savings.

5.2.34 The Business case submitted by the LCFH was based on broad assumptions based on average working practices and cost/income drivers across the 33 London Boroughs. After review of the underlying detail, it was felt that this – although a good early indicator – needed revision to more accurately calculate Barnet's specific financial forecast.

5.2.35 Detail analysis has therefore taken place in consultation with subject matter experts to ensure that the assumptions in terms of cost, valid alerts and timings are relevant to Barnet. This work therefore overwrites the Business case submitted by the LCFH.

5.2.36 A summarised table showing the revised cost implications of joining the London Counter Fraud Hub is shown below, with detailed analysis of each key income line appearing after this summarised view:

Operational costs / (savings) excluding additional resourcing cost	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
	£	£	£	£	£	£	£	£
Council Tax SPD	0	0	0	0	0	0	0	0
Housing	(1,447)	(20,066)	(10,395)	(10,395)	(10,395)	(10,395)	(10,395)	(9,671)
Housing non cashable saving	(18,000)	(81,000)	(117,000)	(153,000)	(189,000)	(225,000)	(261,000)	(288,000)
Business rates - charity relief	0	(59,289)	(29,645)	(29,645)	(29,645)	(29,645)	(29,645)	(29,645)
Business rates - SBRR	(0)	(0)	(0)	(0)	(0)	(0)	(0)	0
B. Rates - not in rating	N/K	N/K	N/K	N/K	N/K	N/K	N/K	N/K
<b>Total operational costs / (savings)</b>	<b>(19,447)</b>	<b>(160,355)</b>	<b>(157,039)</b>	<b>(193,039)</b>	<b>(229,039)</b>	<b>(265,039)</b>	<b>(301,039)</b>	<b>(327,316)</b>
<b>CIPFA Costs</b>								
Sign-on fee	75,000							
Annual Subscription	70,000	70,000	70,000	70,000	70,000	70,000	70,000	
<b>Total CIPFA Cost</b>	<b>145,000</b>	<b>70,000</b>	<b>70,000</b>	<b>70,000</b>	<b>70,000</b>	<b>70,000</b>	<b>70,000</b>	<b>0</b>
<b>Net Benefit</b>	<b>125,553</b>	<b>(90,355)</b>	<b>(87,039)</b>	<b>(123,039)</b>	<b>(159,039)</b>	<b>(195,039)</b>	<b>(231,039)</b>	<b>(327,316)</b>
<b>Cumulative Benefit</b>	<b>125,553</b>	<b>35,197</b>	<b>(51,842)</b>	<b>(174,882)</b>	<b>(333,921)</b>	<b>(528,961)</b>	<b>(760,000)</b>	<b>(1,087,316)</b>

5.2.37 It should be noted that no staffing costs have been included in respect of Business rates due to the low volume of valid alerts and it is envisaged that the initial cost of the internal staffing commitment related to the housing alerts will be absorbed in the existing team, however this will be kept under review as part of the annual business cycle.

5.2.38 In the modelling:

- Although the contact length itself is 7 years, a longer timeline is shown to reflect the fact that a valid alert generated by the Fraud Hub marks the start of the process required to generate associated savings, with savings therefore being recoupable in arrears.
- Year 1 will represent a net cost of £126k to the authority (excluding additional resourcing costs), as the delay in receipt of savings will result in no offset in that year to the up-front costs of the sign-on fee.
- Non-cashable savings associated with the detection and prevention of Housing Fraud have been included in the above summary. These amount to £1,332k over the lifetime of the LCFH contract, making the total (Cashable and non-cashable) benefit £1,087k.
- All income and costs reflect the LCFH's assertion that the valid alerts picked up by their system will be in addition to the alerts picked up by normal business operations within Barnet - their assumption is that councils already have counter-fraud measures in place including data matching.
- There is potential for the scope of LCFH fraud detection to be expanded during the life of the contact, which – if realised - would represent an increase to the financial benefits stated above.

### 5.3 Social Value

5.3.1 None in the context of this report.

## **5.4 Legal and Constitutional References**

5.4.1 Article 7 of the council's constitution sets out the terms of reference of the Policy and Resources Committee which include responsibility for;

- Strategic policy, finance and corporate risk management including recommending: Capital and Revenue Budget; Medium Term Financial Strategy; and Corporate Plan to Full Council
- Strategic partnerships

5.4.2 Under Article 10, Decision Making, Table 1 – 'Acceptance process and Documentation' a Thematic Committee report or Policy and Resources Committee report is required.

5.4.3 Exempt.

## **5.5 Risk Management**

5.5.2 The council has an established approach to risk management, which is set out in the Risk Management Framework. Risks are reviewed quarterly (as a minimum) and any high level (scoring 15+) risks are reported to the relevant Theme Committee and Policy and Resources Committee.

## **5.6 Equalities and Diversity**

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

## **5.7 Corporate Parenting**

5.7.1 In line with Children and Social Work Act 2017, the council has a duty to consider Corporate Parenting Principles in decision-making across the council. There is potential that the detection of Housing Fraud could increase the supply of housing available to the council and hence the availability of accommodation for looked after children and care leavers.

## **5.8 Consultation and Engagement**

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

## **5.9 Insight**

5.9.1 None in the context of this report.

## **6 BACKGROUND PAPERS**

6.1.1 None.