



Audit and Risk Management Committee

Supplementary Agenda

Date: TUESDAY, 15 JANUARY 2019
Time: 1.45 pm
Venue: COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

AGENDA

8. **LONDON COUNTER FRAUD HUB UPDATE**

Report of the Chamberlain.

For Decision
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Agenda Item 8

Committee(s)	Dated:
Audit & Risk Management Committee Finance Committee	15 January 2019 22 January 2019
Subject: London Counter Fraud Hub	Public
Report of: The Chamberlain	For Information – Audit & Risk Management Committee For Decision – Finance Committee
Report author: Chris Keesing – Anti-Fraud Manager	

Summary

The London Counter Fraud Hub (LCFH) is a pan-London data-matching solution that uses data provided by local authorities and from other sources, along with advanced analytics to increase the detection and prevention of fraud across London, and to create opportunities for cross-boundary co-operation to reduce fraud. London Authorities will onboard to the LCFH via a Deed of Adherence with the LB Ealing.

On 6 November 2018, Members of the Audit & Risk Management Committee signified their support for the LCFH and granted The Chamberlain delegated authority to progress. Enrolment to the London Counter Fraud Hub will be completed by 31 March 2019, via a Deed of Adherence with LB Ealing, subject to funding approval from the Finance Committee.

The cost of the LCFH is £70,000 per annum over a contract period of seven years, plus a one-off joining fee of £75,000.

The LCFH joining fee of £75,000 is requested from the Finance Committee contingency fund

A request for funding for the LCFH annual subscription, over the seven-year contract period, has been prepared and will form part of the papers to the Resource Allocation Sub-Committee as part of the budget setting process for ratification by Court of Common Council in March 2019.

Whilst recoveries from increased detection of Council Tax Single Person Discount Fraud, and Business Rates Fraud, as a direct result of the City's participation in the LCFH, along with recoveries from our financial investigations under the Proceeds of Crime Act are anticipated to support the cost of the LCFH, these cannot be easily quantified at this stage.

The City's participation in the LCFH will support London and aligns to a primary objective in the City of London's Corporate Plan - to contribute to a flourishing society by tackling terrorism, violent and acquisitive crime, **fraud**, cyber-crime and anti-social behaviour and facilitate justice.

The LCFH is designed to complement, not replace, current methods for detecting and preventing fraud, or to replace the City's participation in the National Fraud Initiative exercise.

Recommendation(s)

Members of the Finance Committee are asked to approve funding of £75,000 from the Finance Committee contingency fund to cover the London Counter Fraud Hub joining fee.

Members are asked to note that following Member support for the London Counter Fraud Hub at Audit & Risk Management Committee on 06 November 2018, and the delegated authority given to the Chamberlain to progress, enrolment to the London Counter Fraud Hub will be completed by 31 March 2019, via a Deed of Adherence with LB Ealing, subject to funding approval as part of the budget setting process.

Main Report

Background

1. The London Counter Fraud Hub (LCFH), is a pan-London data-matching solution that uses data provided by local authorities and from other sources, along with advanced analytics to increase the detection and prevention of fraud across London, and to create opportunities for cross-boundary co-operation to reduce fraud.
2. In October 2015, the City of London signed a Memorandum of Understanding, along with the 32 London Boroughs, demonstrating London's commitment to using the Hub.
3. The London Borough of Ealing are the lead authority for the LCFH and in 2015 launched a competitive dialogue procurement procedure in accordance with the Public Contracts Regulations 2015 (as amended) (PCR 2015).
4. Regulation 38 of the PCR 2015 permits contracting authorities such as Ealing Council to jointly procure services in its own right and on behalf of other named contracting authorities, who would then be able to join the LCFH through a Deed of Adherence.
5. Following the conclusion of a competitive dialogue procurement procedure in 2016, CIPFA Business Ltd were awarded a contract to develop and provide the LCFH data-matching solution, along with their partner, BAE Systems.
6. The initial datasets that the City will be required to provide to the LCFH are Council Tax, Business Rates and Housing Tenancy; it is expected that further datasets will be added as the LCFH matures.
7. The LCFH contract documents have been reviewed by the Comptroller & City Solicitors Department with only minor clarifications on data retention periods and insurance indemnities identified; these are currently being resolved and

do not impact on the City Corporation signing the Deed of Adherence to onboard to the LCFH and becoming a participating authority to the Services Agreement between the London Borough of Ealing and CIPFA Business Limited.

8. Updates on the progress of the LCFH have been delivered to the Audit & Risk Management Committee periodically, with Members signifying support for the LCFH and granting delegated authority to The Chamberlain on 6 November 2018, to sign a Deed of Adherence to onboard to the LCFH.

Current Position

9. The LCFH was initially intended to operate on a payment by results model, whereby authorities would only pay for those matches that were identified for investigation, in addition to this, any investigations that the authority did not have the capacity to investigate would have been investigated by the Hub, at an additional cost; this model, however, did not provide any certainty as to expenditure for London authorities and following feedback from stakeholders across London it has been decided to change to a subscription based model, thereby providing far greater clarity over the cost of the LCFH to London authorities. In addition to this, investigations by the Hub will now be discretionary.
10. The LCFH is designed to complement, not replace, current methods for detecting and preventing fraud, or to replace the City's participation in the National Fraud Initiative exercise.
11. Following Member support for the London Counter Fraud Hub at Audit & Risk Management Committee on 6 November 2018, and the delegated authority given to the Chamberlain to progress, enrolment to the London Counter Fraud Hub will be completed by 31 March 2019, via a Deed of Adherence with LB Ealing, subject to funding approval from the Finance Committee.
12. The City's participation in the LCFH will support London and aligns to a primary objective in the City of London's Corporate Plan - to contribute to a flourishing society by tackling terrorism, violent and acquisitive crime, **fraud**, cyber-crime and anti-social behaviour and facilitate justice.

Cost Implications

13. Onboarding to the LCFH will be for a term of seven years, with the costs as set out below:

Joining Fee	£75,000
Annual subscription	£70,000

14. The LCFH joining fee of £75,000 is requested from the Finance Committee contingency fund.
15. A request for funding for the LCFH annual subscription, over the seven-year contract period has been prepared and will form part of the papers to the

Resource Allocation Sub-Committee as part of the budget setting process for ratification by Court of Common Council in March 2019.

Anticipated returns

16. The current arrangements for detecting fraud across the City Corporation are effective and do lead, in certain cases, to recovery of losses, which include recent successes in using the Proceeds of Crime Act to recover £92,000 from two investigations in the past year, along with a current application in the Crown court for the recovery of £35,000, under the same legislation.
17. Such recoveries cannot be guaranteed on an ongoing basis, however, and in many cases, such as in the majority of housing tenancy fraud investigations, the recovery of a tenancy fraudulently obtained, or illegally occupied, is primarily a social benefit, enabling the City Corporation to provide housing to those in greater need.
18. The LCFH have provided cost benefit calculators that indicate the potential for the City Corporation to detect the following levels of fraud during a full year cycle of the LCFH in Council tax and business rates based on London-wide expectations, although these cannot be guaranteed and may vary owing to the unique nature of the City Corporation and its primarily compliant:
 - Council tax single person discount - £20,536
 - Business rates charitable relief - £61,942

Resource Implications

19. Resources will be reviewed periodically as the City's participation in the LCFH develops, and whilst we anticipate that in so far as possible any additional fraud identified by the LCFH can be absorbed, appropriate steps will be taken to ensure that effective resources are available as necessary.
20. On-going liaison between the Internal Audit team, Revenues Division, Housing Department, and the Litigation and Information teams in the Comptroller and City Solicitors department will continue in order to ensure an effective response to the investment made in the LCFH.

Conclusion

21. The LCFH will provide an additional tool in the fight against fraud across London by providing a sophisticated data-matching tool to the City of London and other London Borough's, which is designed to identify in-boundary, and cross-boundary fraud that may otherwise go undetected by current and traditional anti-fraud and investigation activities. Furthermore, the LCFH aligns to a primary objective in the City of London's Corporate Plan - to contribute to a flourishing society by tackling terrorism, violent and acquisitive crime, **fraud**, cyber-crime and anti-social behaviour and facilitate justice.
22. Following Member support for the LCFH at Audit & Risk Management Committee on 06 November 2018, where delegated authority was given to

The Chamberlain to progress, enrolment to the London Counter Fraud Hub will be completed by 31 March 2019, via a Deed of Adherence with LB Ealing, subject to funding approval from the Finance Committee.

23. The City Corporation will need to pay an onboarding fee and an annual subscription to become a subscriber to the LCFH over a seven-year contract period.
24. The LCFH joining fee of £75,000 is requested from the Finance Committee contingency fund, whilst a request for funding for the LCFH annual subscription, over the seven-year contract period, has been prepared and will form part of the papers to the Resource Allocation Sub-Committee as part of the budget setting process for ratification by Court of Common Council in March 2019
25. The City Corporation will pay an onboarding fee and annual subscription to become a subscriber to the LCFH over a seven-year contract period.
26. It is anticipated that recoveries from the additional fraud identified by the LCFH, along with recoveries from our financial investigations under the Proceeds of Crime Act will support the cost of the LCFH for the City Corporation.
27. Whilst we anticipate that in so far as possible any additional fraud identified by the LCFH can be absorbed by current resources, appropriate steps will be taken to ensure that effective resources are available as necessary, should there be significant increases in work generated from the City's participation in the LCFH.
28. Internal consultation continues with the Revenues, Housing, Insurance and Legal Teams, to ensure that the City is ready for on-boarding to the LCFH.
29. The LCFH contract documents have been reviewed by the Comptroller & City Solicitors Department with only minor clarifications on data retention periods and insurance indemnities identified; these are currently being resolved and do not impact on the City Corporation signing the Deed of Adherence to onboard to the LCFH and becoming a participating authority.

Background Papers

- LCFH report to Audit & Risk Management Committee on 6 November 2018.

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Committee(s)	Dated:
Audit and Risk Management Committee	06/11/2018
Subject: London Counter Fraud Hub - Onboarding	Public
Report of: The Chamberlain	For Decision

Summary

The London Counter Fraud Hub (LCFH) is a pan-London data-matching solution that uses data provided by local authorities and from other sources, along with advanced analytics to increase the detection and prevention of fraud across London, and to create opportunities for cross-boundary co-operation to reduce fraud.

The current cost model upon which the LCFH primarily works is on a payment by results basis; however, we understand that CIPFA are currently considering implementing a subscription model as an alternative, which is being monitored by Internal Audit.

The upfront costs of onboarding to the hub are expected to be limited to internal system developments for data extraction and automation to deal with referrals as appropriate.

The LCFH is designed to complement, not replace, current methods for detecting and preventing fraud, or to replace the City's participation in the National Fraud Initiative exercise.

The Comptroller and City Solicitor has advised that there is no major legal impediment to the City of London signing the Deed of Adherence and becoming a "Participating Authority" to the Services Agreement between the London Borough of Ealing and CIPFA Business Limited.

On-going internal consultation with the Revenues, Housing, Insurance and Legal teams continues to ensure that the City is fully prepared for the LCFH.

The City of London is aiming to on-board to the LCFH in January 2019, subject to the proof of concept phase being completed and signed-off.

Recommendation(s)

- It is recommended that Members delegate authority to the Chamberlain to sign the Deed of Adherence with the London Borough of Ealing for the City of London to onboard to the London Counter Fraud Hub.

Main Report

Background

1. The London Counter Fraud Hub (LCFH), is a pan-London data-matching solution that uses data provided by local authorities and from other sources, along with advanced analytics to increase the detection and prevention of

fraud across London, and to create opportunities for cross-boundary co-operation to reduce fraud.

2. In October 2015, the City of London signed a Memorandum of Understanding, along with the 32 London Boroughs, demonstrating London's commitment to using the Hub.
3. Members were advised of the City's progress in preparing for the LCFH in our Anti-Fraud & Investigations Annual report to this Committee on 29^h May 2018.
4. The London Borough of Ealing are the lead authority for the LCFH and in 2015 launched a competitive dialogue procurement procedure in accordance with the Public Contracts Regulations 2015 (as amended) (PCR 2015).
5. Regulation 38 of the PCR 2015 permits contracting authorities such as Ealing Council to jointly procure services in its own right and on behalf of other named contracting authorities.
6. Following the conclusion of a competitive dialogue procurement procedure in 2016, CIPFA Business Ltd were awarded a contract to develop and provide the LCFH data-matching solution, along with their partner, BAE Systems.
7. The initial datasets that the City would be expected to provide to the LCFH are Council Tax, Business Rates and Housing Tenancy; it is expected that further datasets will be added as the LCFH matures.

Current Position

8. Four pilot authorities, the London Boroughs of Ealing, Croydon, Camden and Islington have been working with CIPFA over the past 18 months to test the LCFH and develop the proof of concept. The proof of concept phase is nearing completion when we expect the results to be shared with the City of London and other London Boroughs.
9. CIPFA are currently developing a timeframe for London Boroughs to on-board to the LCFH. At this point, the City is aiming to on-board to the LCFH, subject to the proof of concept phase being completed and signed-off, in January 2019.
10. On-boarding to the LCFH is undertaken via a Deed of Adherence with the London Borough of Ealing.
11. As part of our preparations for on-boarding to the LCFH, we are working with colleagues in the Revenues and Housing teams to ensure that data in the specified format can be extracted from our internal data-bases and provided to CIPFA for the purposes of data-matching. Likewise, we have been consulting with colleagues in the Information Team, Insurance Team, and the Comptroller and City Solicitors Department.
12. Resources will be reviewed periodically as the City's participation in the LCFH develops, and appropriate steps will be taken as necessary.

13. The LCFH is designed to complement, not replace, current methods for detecting and preventing fraud, or to replace the City's participation in the National Fraud Initiative exercise.

Cost Implications

14. The current cost model upon which the LCFH primarily works is on a payment by results basis; however, we understand that this model is currently under review by CIPFA, and that consideration is being given to implementing a subscription model as an alternative, this will be monitored by Internal Audit and cost implications reviewed.
15. Some up-front on-boarding costs are likely to be necessary to develop, for example, in-house systems to enable the City to provide data in the required format, and to develop automation where appropriate.

Data Protection & Legal Position

16. A data privacy impact assessment has been completed and agreed with the City's Information Team; likewise, the LCFH has been listed on our Record of Processing Activities.
17. The contract documents for the LCFH have been reviewed by the Comptroller & City Solicitor, who advise that there is no major legal impediment to the City of London signing the Deed of Adherence and becoming a "Participating Authority" to the Services Agreement between the London Borough of Ealing and CIPFA Business Limited.
18. A small number of queries surrounding insurance indemnities and data retention periods are being worked on with the City's Insurance Team and the London Borough of Ealing respectively. We expect these to be resolved prior to the City on-boarding to the LCFH.

Proposal

19. It is proposed that the Chamberlain is given delegated authority to sign the Deed of Adherence on behalf of the City of London, enabling the City to on-board to the LCFH in January 2019, subject to the proof of concept phase being completed and signed-off.
20. The LCFH has been designed to be a sophisticated tool to assist in the prevention and detection of fraud and is expected identify fraud in local Government across London, whilst also enabling authorities to prevent fraud at point of access by verifying application data. The success of the LCFH is dependent on London Borough's and the City of London on-boarding to the Hub.
21. Should the City not sign-up to the LCFH, we risk not identifying fraud that may otherwise have been identified through participation in the LCFH.

Corporate & Strategic Implications

22. The City of London is committed to tackling fraud across the services that it provides as set-out in its Anti-Fraud & Corruption Strategy. It is anticipated that the LCFH will be a valuable tool in detecting fraud that may otherwise have gone undetected.
23. Participation in the LCFH to tackle pan-London fraud aligns to a primary objective in the City of London's Corporate Plan - to contribute to a flourishing society by tackling terrorism, violent and acquisitive crime, **fraud**, cyber-crime and anti-social behaviour and facilitate justice.

Conclusion

24. The LCFH will provide an additional tool in the fight against fraud across London by providing a sophisticated data-matching tool to the City of London and other London Borough's, which is designed to identify in-boundary, and cross-boundary fraud that may otherwise go undetected by current and traditional anti-fraud and investigation activities.
25. The current cost model upon which the LCFH primarily works is on a payment by results basis, however we understand that CIPFA are currently considering implementing a subscription model as an alternative; this is being monitored by Internal Audit.
26. Internal consultation continues with the Revenues, Housing, Insurance and Legal Teams, to ensure that the City is ready for on-boarding in January 2019, subject to the proof of concept phase being completed and signed-off.
27. The Comptroller & City Solicitor has advised that there is no major legal impediment to the City of London signing the Deed of Adherence to join the LCFH.

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