

**Report of: Executive Member for Finance, Performance and Community Safety**

Meeting of:	Date	Ward(s)
Executive	19 January 2017	All

Delete as appropriate	Exempt	Non Exempt
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## **APPENDIX 2 TO THIS REPORT IS EXEMPT FROM PUBLICATION**

## **SUBJECT: Procurement Strategy - Contract [London Counter Fraud Hub]**

### **1. Synopsis**

- 1.1 This report seeks pre-tender approval for the procurement strategy in respect of the London Counter Fraud Hub in accordance with Rule 2.5 of the Council's Procurement Rules.
- 1.2 This report seeks approval to join the London Counter Fraud Hub as a 'Participating Authority' and award a contract to the provider of the hub.
- 1.3 This report is coming to Executive as Islington will be, as a 'Participating Authority', entering into a collaborative contract let by the London Borough of Ealing and awarding a contract to CIPFA Business Ltd. There is potentially significant expenditure over the proposed nine year term of the contract; albeit on a payment by results basis.
- 1.4 The contract will be for a period of nine years, but will include a 'contract review' following an initial proof of concept phase which is expected to last six months

### **2. Recommendations**

- 2.1 To agree to join the London Counter Fraud Hub as a 'Participating Authority',
- 2.2 To note the procurement process undertaken by the London Borough of Ealing on behalf of the 'Participating Authorities' to procure a contract with a third party provider to design, build and run the pan London Counter Fraud Hub;

- 2.3 To award a contract to CIPFA Business Ltd to deliver the London Counter Fraud Hub for a term of 9 years];
- 2.4 To authorise the Head of Internal Audit to provide data to the London Counter fraud Hub for the purposes of preventing and detecting fraudulent or erroneous activity subject , where necessary and appropriate to conducting privacy impact assessments on a case by case basis.
- 2.5 To delegate authority to the Corporate Director Finance and Resources to implement arrangements for Islington's participation in the London Counter Fraud Hub.

### **3. Background**

- 3.1 The London Borough of Ealing has developed the concept of a counter fraud hub that uses data provided by local authorities and from other sources and advanced analytics to increase the detection and prevention of fraud across London.
- 3.2 It is estimated that, at a national level, fraud costs local authorities £2.1bn a year. 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.
- 3.3 The project has been adopted by London Councils as part of its London Ventures programme, which is overseen by the Capital Ambition Board. The funding for the procurement of the hub came from a grant awarded to the London Borough of Ealing by the Department for Communities and Local Government (£430,400).
- 3.4 Islington has previously signed a Memorandum of Understanding which all of the other 32 London boroughs and the City of London have also signed which demonstrates everyone's commitment to using the Hub.
- 3.5 A stakeholder board was established which comprised of council finance directors from across London, as well as representatives of the London Borough Fraud Investigators Group and London Auditors Group. It was chaired and hosted by London Councils and met on a quarterly basis to consider the procurement and wider programme. It acted as a vehicle for conversation to support designing and procuring a solution that would work across London, and be supported by all boroughs. A programme of communication with councils and key stakeholders was followed throughout the project.
- 3.6 The London Borough of Ealing 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.
- 3.7 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.
- 3.8 The outcome of the evaluation is set out in confidential Appendix B – Tender Report.
- 3.9 The bid from CIPFA Business Ltd was ranked first in the evaluation, based on both the scores for quality and commercial elements.
- 3.10 A brief description of how the hub will work is as follows: data is input to the Hub by authorities and, after analytics, output will be produced and categorised as either 'simple cases' or complex cases. 'Automated recovery' applies to simple cases only - these are, for example, a single instance of fraud against a participating authority or a single fraud type – e.g. a single person discount where there is the

potential to suspend the service/discount.

3.11 A complex case is a case of fraud that is complex in nature and/or involves a number of different fraud types committed against a participating authority (or number of participating authorities). A complex case is likely to require further investigation (by the supplier or by a participating authority), which will require a sufficient evidential standard to support the pursuit of legal proceedings against the relevant individuals/organisations. For these, a skeleton case plan will be produced by the Hub and advised to the Local Authority, who then have 14 days to determine if they will investigate or if they would like the hub to investigate and pursue recovery, pricing then being determined accordingly. For the proof of concept stage and ongoing, each type of fraud will have an agreed case plan for the Hub to meet to trigger payment (agreed with the support of an expert panel).

3.12 The payment by results element will operate (in summary) as follows:

- service charges will be calculated according to an applicable unit price which will be payable where an 'invoicing trigger point' is achieved. The relevant service charges shall be invoiced and payable after the end of a service period (probably three months), and
- The invoice trigger points for each case type are detailed in the contract.
- The proof of concept process will clarify the treatment of cases identified by the hub which may have already been identified by e.g. National Fraud Initiative reports or Islington's internal systems.

### 3.13 **Timetable**

The six month pilot exercise will begin once Ealing have finalised the contract which is anticipated to happen in January 2017.

### 3.14 **Options appraisal**

Members can approve the pilot period at Islington whereby we will assess the value of this initiative over a six month period or alternatively decline the opportunity.

### 3.15 **Key Considerations**

Social value and provision of apprentice schemes have been considered in the procurement exercise by Ealing

- London Living Wage will apply;
- A contract monitoring function based in Ealing will monitor the performance of the contractor to ensure best value and continuous improvements are delivered, and
- There are no TUPE, Pensions or Staffing implications.

### 3.16 **Evaluation**

The London Borough of Ealing 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.

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.

The outcome of the evaluation is set out in confidential Appendix B – Tender Report.

The bid from CIPFA Business Ltd was ranked first in the evaluation, based on both the scores for quality and commercial elements.

### 3.17 Business Risks

There are no up-front costs to the council joining the Hub. Payment only becomes due to the provider when fraud is successfully detected or prevented. The payment-by-results commercial model transfers the commercial risk to the provider and away from the council, whilst also incentivising the provider to innovate, develop new methods of detection and prevention of fraud. It is anticipated that this will ensure sustainable results for the council and the other local authorities throughout the life of the contract.

There is a low level of risk to the council as there are no costs of entry and the contract is based on a payment by results approach. The benefit of the Hub increases with the number of boroughs who are feeding their data into the Hub.

A schematic showing how the Hub will operate is included at Appendix A.

Privacy Impact Assessments (PIAs) will almost certainly be needed to assess specific data risks when each data set is considered against a specific fraud risk. These are being prepared for the initial set of five fraud risk areas.

Data security risks have been assessed and addressed during procurement and include a firewalled hub and a secure, hosted data store. These will be fully tested during the proof of concept stage.

To further mitigate risks the Executive Member for Finance will be involved in the proof of concept stage in reviewing the pilot and deciding whether to continue with our involvement.

### Contract Termination

If any of the pilot boroughs is unhappy at the end of the proof of concept stage that will be considered a 'fail' and the project will be re-evaluated. The contract does not allow for a participating authority to withdraw unilaterally at the end of the pilot phase. If the pilot meets the agreed success criteria then there are no grounds for terminating the arrangement.

However, all of the pilot sites will have a say in whether the pilot has met the agreed minimum standards, and therefore will have the opportunity to raise any issues that they feel may warrant termination at that point.

The contract will not progress from the pilot phase to the operational phase unless the pilot sites all agree the minimum standards as set out in the contract have been met.

Once the contract has progressed into the operational phase, breaches by the contractor (including failure to perform) can lead to participating authorities deciding to terminate.

- 3.18 The following relevant information is required to be specifically approved by the Executive in accordance with rule 2.6 of the Procurement Rules:

Relevant information	Information/section in report
1 Nature of the service	Participation in the London Counter Fraud Hub  See paragraph 1.1-1.2 ]

2 Estimated value	The estimated value per year is £180,000 on a payment by results basis.  The agreement is proposed to run for a period of nine years.
3 Timetable	N/A
4 Options appraisal for tender procedure including consideration of collaboration opportunities	N/A
5 Consideration of: Social benefit clauses; London Living Wage; Best value; TUPE, pensions and other staffing implications	N/A as undertaken by LB Ealing as the lead borough.
6 Evaluation criteria	N/A as undertaken by LB Ealing as the lead borough.
7 Any business risks associated with entering the contract	The business risks are as stated at paragraph 3.20. These will be explored as part of the proof of concept stage as well as any other emerging risks identified as part of the process.
8 Any other relevant financial, legal or other considerations.	N/A

#### 4. Implications

##### 4.1 Financial implications:

4.2 There are no initial costs of entry to the contract for the council. The contract has been designed so that payments to the provider are triggered by fraud detection and prevention ensuring that costs are covered by recoveries and therefore no additional budget is required.

4.3 The contract management team will be hosted by Ealing but the cost of the team will be covered by a top slice of contract proceeds across all Participating Authorities which will be collected and paid over to Ealing. The team is estimated to cost annually in the region of £250,000.

4.4 Based on forecasts provided by the tenderers, the net level of savings generated is expected to be in the region of £1.31m per council per year as shown in the following table:

Fraud Type	Estimated Annual Saving per Individual Council	Estimated Annual Cost per Individual Council
Council Tax SPD	£0.13m	£0.02m
Freedom passes	£0.12m	£0.01m
Taxi card	£0.02m	£0.001m
Housing tenancy	£0.19m	£0.03m
Business rates	£0.27m	£0.04m
Blue Badge	£0.07m	£0.01m
Right to buy	£0.51m	£0.06m
<b>TOTAL</b>	<b>£1.31m</b>	<b>£0.18m</b>

SPD = Single Person Discount

#### 4.5 Legal Implications:

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.

Regulation 38 of the PCR 2015 permits contracting authorities such as the London Borough of Ealing to jointly procure services in its own right and on behalf of other named contracting authorities. The Council was one of those named parties.

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 will enter into an agreement with the provider through a Deed of Adherence.

In order to comply with the Council's obligations under the Data Protection Act 1998, privacy impact assessments will be undertaken in relation to any datasets to be shared with the Hub. Whilst PIAs are not in themselves a legal requirement they help to provide an audit trail in demonstrating why the data sharing is legitimate and in identifying any mitigating measures the Council should put in place. As part of this work, it will be necessary for the Council to update its privacy notices to ensure people are aware that their data may be shared with the Hub for the purposes of fraud prevention.

#### 4.3 Environmental Implications

There are no environmental implications of this initiative

#### 4.4 Resident Impact Assessment:

The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

In order to comply with the Council's obligations under the Data Protection Act 1998, privacy impact assessments will be undertaken in relation to any datasets to be shared with the Hub. Whilst PIAs are not in themselves a legal requirement they help to provide an audit trail in demonstrating why the data sharing is legitimate and in identifying any mitigating measures the Council should put in place. As part

of this work, it will be necessary for the Council to update its privacy notices to ensure people are aware that their data may be shared with the Hub for the purposes of fraud prevention.

A PIA has not yet been conducted for this initiative. It is likely however that one will need to be conducted for each individual data set that is matched as each will need to be considered separately.

## 5. Reason for recommendations

We are proposing that Islington opts to be one of the pilots for the initiative. A decision is required as Camden will be, as a Participating Authority, entering into a collaborative contract let by the London Borough of Ealing and awarding a contract to CIPFA Business Ltd. There is potentially significant expenditure over the proposed nine year term of the contract albeit on a payment by results basis. This report is necessary as there is a potential annual expenditure of circa £180,000 per annum to the contractor, albeit on a payment by results basis, over a nine year period. This will extrapolate to £1.62m depending on results.

## Appendices

Appendix A – London Counter Fraud Hub Overview Schematic

Appendix B – Ealing Council Tender Report; EXEMPT FROM PUBLICATION

Final report clearance:

### Signed by:



Executive Member for Finance, Performance and  
Community Safety

10 January 2017

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