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Date:	26 November 2014

Leader and Members
of the Executive

cc. All other recipients of the
Executive agenda

Dear Councillor

EXECUTIVE - 2 DECEMBER 2014: SUPPLEMENTARY AGENDA NO 1

Please find attached the following reports which were marked "to follow" on the agenda for the above meeting:

5. Issues Arising from Scrutiny (Pages 3 - 6)

8. Shared Anti-Fraud Service Partnership (Pages 7 - 100)

Please bring these papers with you to the meeting next Tuesday.

Yours faithfully

Martin Ibrahim
Democratic Services Team Leader
Democratic Services
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MEETING	:	EXECUTIVE
VENUE	:	COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE	:	TUESDAY 2 DECEMBER 2014
TIME	:	7.00 PM

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EAST HERTS COUNCIL

EXECUTIVE – 2 DECEMBER 2014

REPORT BY SCRUTINY COMMITTEE CHAIRMEN

ISSUES ARISING FROM SCRUTINY

WARD(S) AFFECTED: All

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Purpose/Summary of Report

- This report details the comments and recommendations made by the Scrutiny Committees since the last meeting of the Executive and should be read in conjunction with reports of the Executive Members found elsewhere on the agenda.

RECOMMENDATION FOR DECISION:
(A)   **That the report be received.**

1.0   Background

1.1   Scrutiny meetings have been held recently as follows:

      Environment Scrutiny Committee – 11 November 2014
      Community Scrutiny Committee – 18 November 2014
      Corporate Business Scrutiny Committee – 25 November 2014

2.0   Report

2.1   **Council Tax Reduction Scheme (Agenda Item 6)**

The Corporate Business Scrutiny Committee supported the proposed scheme for 2015/16.

3.0   Implications/Consultations

3.1   Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers
None

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IMPLICATIONS/CONSULTATION

Contribution to the Council's Corporate Priorities/ Objectives:	This report seeks to summarise scrutiny activities, which in general terms, support all of the Council's objectives.
Consultation:	This report assists the wider consultation process in reporting issues arising from scrutiny to the Executive.
Legal:	The Constitution provides for issues arising from Scrutiny to be reported to the Executive.
Financial:	None
Human Resource:	None
Risk Management:	None
Health & Wellbeing – issues and impacts:	None

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EAST HERTS COUNCIL

EXECUTIVE – 2 DECEMBER 2014

REPORT BY EXECUTIVE MEMBER FOR FINANCE

SHARED ANTI-FRAUD SERVICE PARTNERSHIP

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- To seek approval for the participation in and establishment of a Shared Anti-Fraud Service for non-benefit and corporate fraud by means of a partnership, subject to their own decisions, between:

  - Broxbourne Borough Council
  - East Herts District Council
  - Hertfordshire County Council
  - Hertsmere Borough Council
  - North Herts District Council
  - Stevenage Borough Council

RECOMMENDATIONS FOR EXECUTIVE: That:	
(A)	**East Herts Council becomes a partner in the Shared Anti-Fraud Service for non-benefit and corporate fraud between the Councils identified above;**
(B)	**the Director of Finance and Support Services be authorised to make the detailed arrangements to establish the Shared Anti-Fraud Service; and**
(C)	**funding arrangements will be finalised through a growth bid for 2015/16, following the outcome of the bid for set-up costs to the Department for Communities and Local Government.**

1.0 Background

1.1 A number of Hertfordshire Chief Finance Officers (CFO's) jointly worked to create a Shared Internal Audit Service (SIAS) which has been in operation since July 2011. SIAS was set up to ensure resilience in internal audit provision and has developed successfully under the oversight of the SIAS Board of CFOs. The development of a Shared Anti-Fraud Service is a natural extension of this collaborative working and a robust response to the national developments in the counter fraud landscape triggered by the creation of the Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions.

1.2 The vision is to develop a Shared Anti-Fraud Service for Hertfordshire which will provide a robust and resilient fraud prevention, detection and investigation service to partners, in non-benefit and corporate fraud. Creation of the new service will enable Section 151 holders and senior leaders to continue to meet their duties in relation to safeguarding of public funds, minimising the loss to fraud so that Councils can spend the maximum possible on delivering local services, and providing a return for the investment made.

1.3 A core component of the new service is to create a 'data hub' to share and analyse information sets. This is a key innovation that will allow the service to integrate current and historical data from multiple source systems, which could include property, benefits, electoral role and external data sources such as credit checking agencies and government databases. Data sharing agreements will need to be put in place and operate in accordance with the Information Commissioner's guidance on the use of data matching for the purpose of preventing and detecting fraud.

1.4 The Shared Anti-Fraud Service also offers the opportunity to develop a county-wide anti-fraud culture and deliver counter fraud initiatives which reach across Hertfordshire. Further, there are real opportunities to disseminate best practice to other authorities and develop service offerings that can generate fee income for partners.

1.5 A number of options were explored for delivery of the proposed new service:

Option 1	Services delivered locally
Option 2	Informal collaboration – informal partnership working
Option 3	Partnership approach – shared service model

Option 3 was selected as the preferred approach. More detail about the rationale for this can be found in **Essential Reference Paper C**.

1.6 In order to determine the size and cost of the preferred service, three different service delivery models were initially created and each assessed to determine how far they would deliver on the identified scope.

From this exercise, the recommended model comprises five investigators, two intelligence officers and a data-co-ordinator/analyst plus support and managerial roles equating to 11 FTE in total. It is envisaged that this size of establishment would be able to manage is a case load of 1200 per annum, although this figure is derived from current performance on benefit fraud, rather than non-benefit fraud activity. It is also considered that a team of this size would have capacity in relation to tenancy fraud, fraud prevention, shared learning and business development.

This is the preferred option in the sense of delivering sufficient capacity to work at upper quartile performance levels, allow specialisation and build new service offerings.

1.7 The other two models were rejected because they were considered either not to generate sufficient return on investment, or to have sufficient capacity to manage the envisaged investigation case load.

1.8 The Shared Anti-Fraud Service Project Board, comprised of Hertfordshire Chief Financial Officers (CFOs), has reviewed the Business Case and recommends the creation of a Shared Anti-Fraud Service. The Director of Finance and Support Services has the Business Case on behalf of East Herts Council and recommends that the Council becomes a partner. This report provides the rationale for this recommendation.

1.9 The key recommendations of the Business Case are:

- The set-up of a partnership approach to deliver a Shared Anti-Fraud Service, using common systems and standardised processes as far as possible.
- The establishment of the Shared Anti-Fraud Service as a separately distinguished team of counter fraud experts within the partnership framework currently in place for the Shared Internal Audit Service (SIAS)
- That the Shared Anti-Fraud Service be created on the basis of a

team which will deliver sufficient capacity to work at upper quartile performance levels, specialise and build new service offerings.

1.10 The full business case is attached as **Essential Reference Paper 'B'.**

1.11 It is anticipated that the new service will go live on 2 March 2015, and be in place in its original form for a period of five years, subject to review during this period.

2.0 <u>Report</u>

2.1 Drivers for the Shared Anti-Fraud Service

2.1.1 Fraud has a significant cost to the public purse. The latest estimate of fraud against local government is £2.1 billion annually (National Fraud Authority Annual Fraud Indicator 2013). This figure, which excludes Housing Benefit fraud, comprises:

- estimates of loss due to grants (£35 million), payroll (£154 million), pension fraud (£7.1 million) and procurement (£876 million)
- estimates of loss due to fraudulent council tax discounts and exemptions (£133 million), Blue Badge Scheme abuse (£46 million) and housing tenancy fraud (£845 million)

In contrast, **detected** non-benefit fraud in local government was as low as £58m in 2012/13 (Audit Commission 'Protecting the Public Purse' 2013), 2.7% of the estimated figure.

2.1.2 Against this background, there are a number of drivers behind the Business Case and the proposed shared service approach:

- The national counter-fraud landscape is changing, including the launch of a Single Fraud Investigation Service (SFIS) within the Department of Work and Pensions (DWP), and consequent reduction in the 'Housing Benefit Admin Grant' paid for this activity
- Councils need to retain a capability to investigate non-benefit related fraud, proportionate to the risk and which reflects local priorities
- Councils are being encouraged by central government to explore joint working with other councils, particularly smaller councils with limited investigative capacity

- There is the potential to realise the benefits of county councils and district councils working together to tackle frauds in which both have a common interest, such as blue badge fraud and business rates evasion
- Funding arrangements increasingly incentivise councils to tackle fraud in relation to Non-Domestic Rates and Council Tax.

2.1.3 The roll-out of SFIS in Hertfordshire is due to happen on a phased basis from April to June 2015 for the Councils involved in this project.

2.2 **Objectives of the Shared Anti-Fraud Service**

2.2.1 The key deliverables of the Shared Anti-Fraud Service are set out below and categorised between short and medium term objectives:

Short Term Objectives
- Create a single team to provide a fraud prevention, detection and investigation service to partners working in non-benefit and corporate fraud
- Build a team which can:
  - Create resilience
  - Provide economies of scale
  - Provide for access to specialist resources
  - Offer opportunities for career progression
- Develop partnership wide responses to fraud risk in areas such as business rates, council tax and housing tenancy fraud; providing capacity to address these areas and generating fee income for partners
- Develop a data analysis and data sharing service
- Work closely with the Shared Internal Audit Service, exploiting synergies between the teams.

Medium Term Objectives
- Continually develop to be in line with best practice, building a 'centre of excellence' approach
- Gain efficiencies in pro-active areas such as fraud policy and awareness-raising work – 'develop once; share many times'
- Share learning widely
- Exploit opportunities to expand coverage based on 'invest to save' approaches.

2.3   Benefits of the Shared Anti-Fraud Service

2.3.1   The benefits of a Shared Anti-Fraud Service partnership are:

- A strong and comprehensive fraud response enabling senior leaders to meet their duties and responsibilities in this area
- A solution which is available to all Hertfordshire councils
- The retention of specialist investigative skills within Hertfordshire councils
- The effective use of data and shared intelligence to target fraud activity
- A size of team which allows a balance of resources between pro-active and reactive work, flexing resources as necessary
- A size of team which allows for career progression for staff
- The development of economies of scale.

2.4   Current and Potential Performance Analysis

2.4.1   Judging the performance of fraud services in terms of the volume and value of fraud detected is problematic, not least because fraud is secretive in nature. Furthermore, detected fraud results only provide part of the overall picture of counter-fraud performance, and can therefore only be indicative and assumptions-based when assessing performance. Prevention and deterrence activities are also equally important.

2.4.2   Table 1 sets out the combined performance of partner councils in each of the fraud areas for the 2012/13 and 2013/14 financial years as reported to the Audit Commission. For context, the national results from 2012/13 are shown; 2013/14 national results are not yet available.

Table 1 demonstrates the following:

- The main focus of activity for councils contributing to this table to date has been in relation to housing benefit and council tax benefit fraud
- The councils contributing to this table may not categorise certain activity as fraudulent, for example the results of the 2012/13 Single Persons Discount exercise in Hertfordshire authorities are not reflected in the table
- In 2012/13 contributing authorities detected approximately 1 per cent by volume and value of the overall national result
- In 2012/13 contributing authorities reported only two cases of

non-benefit fraud and 18 cases in 2013/14.

Table 1

Audit Commission Fraud Category	2012/13 National results		2012/13 Hertfordshire results (1)		2013/14 Hertfordshire results (2)	
	Number of cases	Value of cases	Number of cases	Value of cases	Number of cases	Value of cases
Housing Benefit / Council Tax benefit fraud	47,000	£120m	1,116	£1.5m	1,007	£1.6m
Housing Tenancy Fraud	2,642	N/A (3)	0	£0	0	£0
Right to Buy Fraud	102	£5.9m	0	£0	0	£0
Council Tax Single Person Discount Fraud	54,000	£19.6m	0	£0	1	£1,700
Council Tax Reduction Fraud	N/A	N/A	N/A	N/A	3	£153
Non-Domestic Rates Fraud	149	£7.2m	0	£0	0	£0
Procurement	203	£1.9m	1	£0.3m	0	£0
Insurance	74	£3m	0	£0	0	£0
Social Care	200	£4m	0	£0	2	£98,430
Payroll, Pensions and Expenses Fraud	493	£3m	0	£0	2	£527
Abuse of Position	283	£4.5m	0	£0	0	0
Other	1,595	£7.4m	1	£0	9	£13,752
Blue Badges	2,901	£1.5m	0	£0	0	0
Recruitment			0	£0	1	0
Total	**107,000**	**£178m**	**1,118**	**£1.8m**	**1,025**	**£1.7m**

(1) Returns for this table supplied by BBC, EHC, HBC, HCC, NHDC, WHBC
(2) Returns for this table supplied by BBC, EHC, HBC, HCC, NHDC, WHBC
(3) Quantifying Housing Tenancy Fraud is not straightforward. The National Fraud Authority suggests each case represents a loss to the public purse of £18,000

2.4.3 Having taken a view of current performance, the size of the opportunity for a fraud service focussed on non-benefit fraud was gauged by considering the potential level of funds 'at risk' to fraud in participating councils, based on extrapolation of national information. Table 2 sets this out:

Table 2

Fraud Type	National 'at risk to fraud' estimate (and source)	Partners' 'at risk to fraud' estimate based on relevant income / expenditure data in 2013/14	Value of detected from 2013/14	Difference
		£	£	£
Council Tax Support	4% (Audit Commission)	235,202	138,846	96,356
Council Tax Single Person Discount	4% (Audit Commission)	991,365	8,582	982,783
Business Rates	1% (Project Team's own)	2,340,217	0	2,340,217
Insurance	6% (Local Authority Investigating Officers Group)	63,607	0	63,607
Procurement	1% (National Fraud Authority)	8,379,632	0	8,379,632
Blue Badges	20%	27,072	0	27,072
Social Care	1% (Project Team's own)	206,187	98,430	107,758
Grants	1% (Project Team's own)	25,005	0	25,005
Total		12,268,287	245,858	12,022,429

2.4.4 Then a view on the impact that a counter-fraud team could make, using actual data wherever possible or upper quartile performance levels (as described by the Audit Commission in 'Protecting the Public Purse 2013') was taken. The Project Team concluded that:

- The gap between estimated and detected levels of fraud for the six participants could be of the order of £12m.
- Applying upper quartile performance to in scope authorities suggests a detection rate of around 1200 cases per year could be achieved and a return of the order of £960k.

2.4.5 The assumptions made can be supplemented by actual evidence in relation to the success of previous counter-fraud initiatives taken by Hertfordshire Councils. For example, in 2012/13 HCFOs conducted a joint campaign on Council Tax Single Person

Discount (SPD). County-wide, the campaign identified £2,347k over two years with an average of 706 incorrect discounts per authority, an average of £332 per case.

2.5 **Cost / Benefit analysis**

2.5.1 <u>Existing Cost, Funding and the Impact of SFIS</u>

Table 3 reflects:

- Funding for fraud work from authorities' own resources, available for re-direction into non-benefit and corporate anti-fraud work.
- The amount of funding derived from 'administration grant' which will be deducted from 2016/17 and 'recycled' to the DWP to fund SFIS changes.

Table 3

	BBC	EHC & SBC	HCC	HBC	NHDC	Total
	£	£	£	£	£	£
Funded by council	190,807	71,300	51,300	82,928	110,006	**506,341**
Funded by admin grant	43,497	104,079	0	46,552	58,164	**252,292**
Gross cost of existing services (13/14 budget)	**234,304**	**175,379**	**51,300**	**129,480**	**168,170**	**758,633**

2.5.2 <u>Cost of the Proposed Shared Anti-Fraud Service</u>

The Shared Anti-Fraud Service has been costed at a level which will deliver sufficient capacity to work at upper quartile levels, develop specialisms and build new service offerings. Table 4 shows the cost of the proposed service:

Table 4

Ongoing Costs	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Salary Costs	40	479	479	479	479
Non-pay costs	3	40	65	65	65
Recharges		83	87	87	87
Total Cost including Recharges	**43**	**602**	**631**	**631**	**631**

2.5.3 Cost Per Authority

Table 5 reflects costs per in scope authority split between fixed and variable elements. The minimum requirement from each authority will be the fixed element, covering the data hub, review and investigation of matches arising from data hub, a pro-active programme of work plus 10 days of reactive activity in response to issues referred to the service by the authority.

Table 5

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Total ongoing costs of service	43	602	631	631	631
Fixed element	**7.2**	**80.16**	**84.08**	**84.08**	**84.08**
Variable element	**n/a**	**20.04**	**21.02**	**21.01**	**21.02**

HCFOs recognise that an element of utilisation of the service would be unpredictable and therefore propose to treat 20% of costs as variable on a 'pay as you use' basis so that the impact of any one large fraud does not have a distorting effect.

2.5.4 Return on Investment

Whilst recognising the speculative nature of figures, the project team consider that by 2016/17 the Shared Anti-Fraud Service could deliver returns of the order of £960k per annum based on research from neighbouring county areas and the experience of fraud exercises in Hertfordshire to date.

Table 6 sets out the anticipated return on investment.

Table 6

Total Costs	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Fraud 'at risk' estimate	12,268	12,268	12,268	12,268	12,268
Hertfordshire Detection	246	246	246	246	246
Potential Income Base	12,022	12,022	12,022	12,022	12,022
Estimated Detection Rate	0%	5%	8%	8%	8%
Potential Income	0	(601)	(962)	(962)	(962)

2.5.5 Combined cash flow

Based on Tables 4 to 6, Table 7 shows the projected five year cashflow statement for the Shared Anti-Fraud Service as a whole and the share for each partner authority

Table 7

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Ongoing Costs	43	602	631	631	631
In Scope Authority Share (assuming costs are distributed equally)	**7.2**	**100.2**	**105.1**	**105.1**	**105.1**
Potential Income	0	(601)	(962)	(962)	(962)
In Scope Authority Share	**0**	**(100.2)**	**(160.3)**	**(160.3)**	**(160.3)**
Net (Surplus)/Shortfall per authority (for illustrative purposes; in reality the return would not fall equally between partners)	**7.2**	**1**	**(55.2)**	**(55.2)**	**(55.2)**

2.5.6 Table 7 assumes, for illustrative purposes, that the costs and level of return would be distributed equally between partners. However in reality whilst 80% of the costs would be equally distributed, 20% would be distributed in accordance with uptake of investigation services as noted in paragraph 9.3. Similarly, returns are shown as shared equally but in reality will be unevenly distributed between partners according to where fraud is actually identified.   Both the level of charges and the level of returns will need to be carefully monitored initially and charging arrangements revisited if necessary.

2.5.7 A bid for £366k has been submitted to the Department for Communities and Local Government for funding to cover the set-up costs of the shared service. The five year cashflow statement shown in paragraph Table 7 is based on the assumption that this funding bid is successful. Should the bid not be successful, these figures would need to be revisited.

2.5.8 Future funding requirements for the Shared Anti-Fraud Service will be submitted through a growth bid for 2015/16.

2.6 **Risks and Mitigations**

2.6.1 Risks that the Council will need to consider and monitor in joining the service are set out below:

	Risk description	Likelihood	Impact	Risk score	Controls
1	Local knowledge and contacts are lost resulting in a lack of engagement in the local authorities, and an inability to pursue fraud cases	2	4	Contingency	1. Address in service design and development phase, ensuring close links into partner councils
2	Targets are unrealistic and not achieved, resulting in partners having to fund the service to higher levels than originally envisaged or the need to restructure the service to save costs	2	4	Contingency	1. Ensure targets are set prudently 2. Ensure structure of service is set prudently
3	Service cannot easily / efficiently identify the financial benefits it has delivered, resulting reputational damage for the service and customer dissatisfaction	2	3	Contingency	1. Ensure any targets that are set relate to income / savings streams that are significant and can be readily quantified, preferably based on information already collected by partners
4	Different approaches to dealing with fraud outcomes in each local authority affect the ability of the service to achieve its objectives	2	3	Contingency	1. Agree common fraud priorities and protocols at design stage 2. Allow for element of flexibility and sensitivity to local circumstances
5	A delay in the new shared service being ready prior to implementation of SFIS	3	4	Critical	1. Address in service design, ensuring there is a transition phase and contingency plans are in place
6	Potential partners may decide not to participate	2	4	Contingency	1. Review of business case and financial assumptions.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'.**

Background Papers
None

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IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives	*People* **– Fair and accessible services for those that use them and opportunities for everyone to contribute** This priority focuses on delivering strong services and seeking to enhance the quality of life, health and wellbeing, particularly for those who are vulnerable. *Place* **– Safe and Clean** This priority focuses on sustainability, the built environment and ensuring our towns and villages are safe and clean. *Prosperity* **– Improving the economic and social opportunities available to our communities** This priority focuses on safeguarding and enhancing our unique mix of rural and urban communities, promoting sustainable, economic opportunities and delivering cost effective services.
Consultation:	District Councils have been working in partnership with the County Council to ensure that appropriate corporate anti-fraud arrangements are put in place.
Legal:	There are no additional legal implications to those already contained in this report. Officers have been part of the working group overseeing the proposed shared service arrangements.
Financial:	There are no additional financial implications to those already contained in this report. Future funding arrangements will be through a growth bid for 2015/16.
Human Resource:	In the first instance, job opportunities in the new service will be offered only to District Anti-Fraud and HCC SIAS staff via open competition.
Risk Management:	There are no additional risk management implications to those already contained in this report

Health and wellbeing – issues and impacts:	There are no additional health and wellbeing implications to those already contained in this report.

Shared Anti-Fraud Service for Hertfordshire Authorities

Shared Anti - Fraud Service
Business Case

November 2014
Helen Maneuf

CONTENTS

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EXECUTIVE SUMMARY

Introduction

The purpose of this document is to establish whether there is a sufficient business case for exploring in more detail the setting up of a Shared Anti-Fraud Service partnership, and whether there is a particular way of sharing this service that is preferred.

The Business Case offers the Shared Anti-Fraud Service Project Board the opportunity to consider the merits of the proposal and the investment required before committing further resource.

For the purposes of clarity the costing, volume and return assumptions detailed in this Business Case are based on the six 'core' authorities who are currently 'in scope' for the proposed Shared Anti-Fraud Service.

A further three authorities have expressed an interest but are currently 'out of scope'. Should any of these three authorities decide to revisit their decision the financial workings set out in this document can be revisited. All nine councils including those which are currently 'out of scope' have been involved in this Business Case.

In Scope / Core Partners		Out of Scope / Expressed Interest	
Broxbourne Borough Council	BBC	Three Rivers District Council	TRDC
East Hertfordshire Council	EHC	Watford Borough Council	WBC
Hertfordshire County Council	HCC	Welwyn Hatfield Borough Council	WHBC
Hertsmere Borough Council	HBC		
North Hertfordshire District Council	NHDC		
Stevenage Borough Council	SBC		

Vision, Outcomes and Benefits

The vision is to develop a Shared Anti-Fraud Service for Hertfordshire which will provide a robust and resilient fraud prevention, detection and investigation service to partners, working in non-benefit and corporate fraud.

Creation of the new service will enable Section 151 Officers and senior leaders to continue to meet their duties in relation to the safeguarding of public funds, minimising the loss to fraud so that councils can spend the maximum on delivering services.

The background to the proposed new service is described in **Section 1**.

The strategic outcomes of a joint Shared Anti-Fraud Service are to:

- Ensure ongoing effectiveness and resilience of anti-fraud arrangements when the impact of the Single Fraud Investigation Service (SFIS) takes effect
- Deliver financial benefits in terms of cost savings or increased revenue
- Create a data hub for Hertfordshire
- Improve the reach into the areas of non-benefit and corporate fraud within the county
- Develop services which can be marketed to external bodies
- Create a recognised centre of excellence that is able to disseminate alerts and share best practice nationally

The benefits and objectives of the project are further described in **Section 2**.

High Level Recommendations

The preferred proposals recommended as a result of this Business Case are:

A) The set-up of a partnership approach to deliver a Shared Anti-Fraud Service, using common systems and standardised processes as far as possible.

The rationale for this recommendation is:

- This option best enables the strategic objectives and key benefits listed above to be met
- There is general support for a partnership approach, particularly to address issues of resourcing and consistency of service
- This option offers a means for future expansion (i.e. delivering services to other councils or charging for work for other bodies)

B) The establishment of the Shared Anti-Fraud Service as a separately distinguished team of counter fraud experts within the partnership framework currently in place for the Shared Internal Audit Service (SIAS).

The rationale for this recommendation is:

- This option builds on the well-understood and effective SIAS governance, oversight, management and operational arrangements in which eight Hertfordshire councils currently participate
- Although distinct and specialist areas, there is some synergy between functions
- This option makes use of the learning and experience gained in developing a shared service

C) That the Shared Anti-Fraud Service be created on the basis of a team which will deliver sufficient capacity to work at upper quartile level, specialise and build new service offerings.

The options that were analysed in deriving these recommendations are described in **Section 6,** and the scope of the proposed Service in **Section 7**.

Financial Summary

The level of fraud risk in local government is estimated by the National Fraud Authority as £2.1 billion annually. Estimating the level of fraud risk in Hertfordshire is not straightforward, but a level of £12 million is considered to be reasonable.

Table 1: Existing Cost, Funding and Impact of SFIS

Table 1 reflects the following:

- Funding for fraud work from authorities' own resources, available for re-direction into non-benefit and corporate anti-fraud work
- The amount of funding derived from 'administration grant' which will be deducted from 2016/17 and 'recycled' to the DWP to fund SFIS changes

	BBC	EHC & SBC	HCC	HBC	NHDC	Total
	£	£	£	£	£	£
Funded by council	190,807	71,300	51,300	82,928	110,006	**506,341**
Funded by admin grant	43,497	104,079	0	46,552	58,164	**252,292**
Gross cost of existing[1] services	**234,304**	**175,379**	**51,300**	**129,480**	**168,170**	**758,633**

Table 2: Proposed Cost of the Shared Anti-Fraud Service

The Shared Anti-Fraud Service has been costed at a level which will deliver sufficient capacity to work at upper quartile levels, develop specialisms and build new service offerings.

£366k has been requested from the Department for Communities and Local Government's Counter Fraud Fund to cover the set up costs of the Shared Anti-Fraud Service.

Ongoing Costs	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Salary Costs	40	479	479	479	479
Non-pay costs	3	40	65	65	65
Recharges		83	87	87	87
Total Cost including Recharges	**43**	**602**	**631**	**631**	**631**

Table 3: Cost per Authority

Table 3 reflects costs per in scope authority – shared equally – and the commitment therefore required from each of the in scope authorities.

Total Costs	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Ongoing Costs	43	602	631	631	631
In Scope Authority Share	**7.2**	**100.2**	**105.1**	**105.1**	**105.1**

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[1] 2013/14 budget

Table 4: Return on Investment

Whilst recognising the speculative nature of figures, the project team consider that by 2016/17 the Shared Anti-Fraud Service could deliver returns of the order of £960k per annum based on research from neighbouring county areas and the experience of fraud exercises in Hertfordshire to date.

Total Costs	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Fraud 'at risk' estimate	12,268	12,268	12,268	12,268	12,268
Hertfordshire Detection	246	246	246	246	246
Potential Income Base	12,022	12,022	12,022	12,022	12,022
Estimated Detection Rate	0%	5%	8%	8%	8%
Potential Income	0	(601)	(962)	(962)	(962)

Table 5: Five Year Cashflow

Table 5 shows the projected five year cashflow statement, on the assumption that the DCLG Counter-Fraud funding bid is successful. Should the bid not be successful, these figures would need to be revisited.

Total Costs	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Ongoing Costs	43	602	631	631	631
In Scope Authority Share	7.2	100.2	105.1	105.1	105.1
Potential Income	0	(601)	(962)	(962)	(962)
In Scope Authority Share	0	(100.2)	(160.3)	(160.3)	(160.3)
Net (Surplus)/Shortfall per authority[2]	7.2	1	(55.2)	(55.2)	(55.2)

Next Steps

The next phase of the project will include:

- Defining governance and oversight arrangements
- Developing a change management approach
- Designing the management and operating model for the Shared Anti-Fraud Service including processes, vision, structures, behaviours, location, Service Level Agreements, Key Performance Indicators
- Establishing targets for delivery
- Compiling an implementation plan including systems convergence, policy harmonisation

The next steps for the project are further described in **Section 9**.

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[2] For illustrative purposes; in reality the return would not fall equally between partners

Required Decisions

The Project Team is seeking the following from the Project Board:

1) **Agreement to the high level recommendations**
   A Shared Anti-Fraud Service to be established within the SIAS partnership framework

2) **Approval to progress to a Solution Design**
   That incorporates the governance arrangements, the operating model, charging arrangements, and the detailed implementation plan, by November 2014

3) **Commitment to this project**
   The nine Councils involved in this business case have agreed to share the initial project management costs of £25k.

   Delivery of the project requires:

   ▪ A commitment to fund set up costs for 2015/16 in the event of an unsuccessful bid to DCLG
   ▪ A commitment to cover staff costs in first 3 years of operation

4) **Recommend the Business Case to their Members**
   To review the Business Case and assess its merits against the local own baseline financial position, and to recommend to Members the adoption of a Shared Anti-Fraud Service, by a date to be agreed.

1   INTRODUCTION

1.1   National Background

Scale

Fraud has a significant cost to the public purse. The latest *estimate* of fraud against local government is £2.1 billion annually[3]. This figure, which excludes Housing Benefit fraud, comprises:

- estimates of loss due to **grants (£35 million)**, **payroll (£154 million)**, **pension fraud (£7.1 million)** and **procurement (£876 million)**

- supplemented by estimates of loss due to fraudulent **council tax discounts and exemptions (£133 million), Blue Badge Scheme abuse (£46 million) and housing tenancy fraud (£845 million)**

In contrast, *detected* non-benefit fraud in local government was as low as £58m in 2012/13[4], 2.7 percent of the estimated figure.

Changing Arrangements

The national counter-fraud landscape is changing. The Audit Commission's counter-fraud responsibilities are transferring to both Cabinet Office (in the case of the National Fraud Initiative), and to CIPFA which will create a Counter Fraud Centre for local government.

Of more immediacy, a Single Fraud Investigation Service (SFIS) will be launched as an organisation within the Department of Work and Pensions (DWP) and implementation will commence in 2014.

Under this, welfare benefit fraud investigation work currently undertaken in local district authorities will move to the DWP. Benefit fraud investigation officers will be able to transfer into SFIS. The 'Housing Benefit Admin Grant' to paid councils will be reduced to reflect this change in responsibility.

The Department for Communities and Local Government (DCLG) is making available up to £16 million to English principal local authorities over two years, 2014/15 and 2015/16, to boost capability and capacity to tackle non-benefit fraud.

This 'point of change' creates an opportunity for councils to re-consider and re-design their anti-fraud arrangements to meet new requirements and effectively tackle fraud risks.

The Audit Commission's annual fraud report 'Protecting the Public Purse 2013' encourages Councils to prepare by:

- Considering the impact that SFIS will have on their capacity to tackle non-benefit frauds if staff transfer into the DWP
- Retaining a capability to investigate non-benefit related fraud, proportionate to the risk

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[3] National Fraud Authority Annual Fraud Indicator 2013
[4] Audit Commission 'Protecting the Public Purse' 2013

- ▪ Working with SFIS to ensure the approach taken to tackling benefit fraud continues to reflect local priorities and risks

Guidance also encourages Councils to work in partnership to reduce fraud such as by:

- ▪ Closer partnership working with local housing associations
- ▪ Exploring joint working with other councils, particularly smaller councils with limited investigative capacity
- ▪ Realising the benefits of county councils and district councils working together to tackle frauds in which both have a common interest, such as blue badge fraud and business rates evasion

1.2 Local Background

All District Councils have traditionally been incentivised to focus on benefit fraud, which is typically low value and high frequency. District Councils often employ a number of benefit fraud investigators in a benefit fraud investigation team. A Fraud Baseline Survey conducted in February 2014 across Hertfordshire Councils (see **Appendix B**) indicated that for the six in scope councils, a total of 18 directly employed full time equivalent members of staff were working in fraud investigation units.

Fraud investigation teams may also carry out some non-benefit fraud investigation work and investigate internal allegations of fraud. The level of this non-benefit work carried out by investigation teams in scope from between zero to approximately forty per cent of team activity.

The SFIS roll-out in Hertfordshire is due to happen on a phased basis from April to December 2015 for the nine councils involved in this project.

The County Council's main fraud response service is provided by the Shared Internal Audit Service (SIAS) which employs two internal auditors who have the CIPFA fraud investigation qualification.

Local authorities have to make difficult choices in the current financial climate and, as with any service, the resources devoted to preventing and recovering money lost to fraud need to be proportionate and effectively targeted.

The Councils which are participating in the development of this Business Case are committed to zero tolerance of fraud, corruption, bribery and associated activities both within and against organisations, public money, partners, contractors and also the community in Hertfordshire. The partners recognise the current opportunity to take a new approach to investigating non-benefit and corporate fraud.

1.3 Purpose of the Business Case

The purpose of this document is to establish whether there is a sufficient business case for exploring in more detail the setting up of a Shared Anti-Fraud Service Partnership and whether there is a particular way of sharing this service that is preferred.

The business case will test how far the potential partner councils are prepared to work together towards common ends, informed by a high level analysis of whether a shared service model has sufficient cost and service benefits to proceed with the initiative.

The Business Case offers the Chief Financial Officers and members of the respective Councils the opportunity to consider the merits of the proposal and the investment required before committing further resource.

The Business Case document describes:

- Why the councils are considering sharing Anti-Fraud Services
- The objectives of the project
- The approach taken
- The options that were considered
- The recommendation that is being proposed with associated costs and timescales
- The major implications and risks of the project

If the proposal is accepted, the Business Case will be developed further into a Solution Design which will require approval before any potential implementation.

2   STRATEGIC CONTEXT

2.1   Why Consider Sharing Anti-Fraud Services

Councils across Hertfordshire work effectively in a wide range of partnerships in many service areas.

A number of Hertfordshire Chief Financial Officers (CFOs) jointly worked to create a shared internal audit service (SIAS) which has been in operation since July 2011. SIAS was set up to ensure resilience in internal audit provision and has developed successfully under the oversight of the SIAS Board of CFOs. The development of a Shared Anti-Fraud Service project is a natural extension of this collaborative working.

The drivers behind a Shared Anti-Fraud Service are:

- Government policy: DWP's creation of the Single Fraud Investigation Service
- The availability of grant funding targeted at partnerships to boost Councils' arrangements in respect of non-benefit and corporate fraud
- A requirement for effective and resilient counter fraud arrangements
- Funding distribution changes – business rate retention and localised council tax support provide increased incentives to tackle some types of fraud with financial benefits accruing to both the county and district councils
- The existing track record of effective two-tier working in the county and the recognition that fraud is a cross-boundary issue
- The desire to build on the strong service already provided by teams and to retain specialist counter fraud skills within partner councils
- The opportunity to explore new and innovative ways of working such as development of a data hub
- The wish to avoid duplication of improvement efforts

There is an opportunity to create a county-wide anti-fraud culture and deliver counter fraud initiatives which reach across Hertfordshire. By building a data hub and using this to match data-sets, partners can benefit from modern 'intelligence-led' approaches which recognise the reality that fraud does not stop at council boundaries. Further, there are real opportunities to disseminate best practice to other authorities and develop service offerings that can generate fee income for partners, such as a tenancy fraud offer for Housing Associations.

2.2   Project Vision, Objectives and Benefits

Vision

The vision is to develop a Shared Anti-Fraud Service for Hertfordshire which will provide a robust and resilient fraud prevention, detection and investigation service to partners, working in non-benefit and corporate fraud.

The vision is for a service which works to becoming self-funding, delivers efficiencies, and increase revenues and makes savings for partners.

A data hub to share and analyse information sets will be a core element.

The service will become a recognised centre of excellence that is able to disseminate alerts and share best practice nationally.

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Objectives

The key deliverables of the Shared Anti-Fraud Service are set out below and categorised between short and medium term objectives:

Short Term Objectives

- Create a single team to provide a fraud prevention, detection and investigation service to partners working in non-benefit and corporate fraud
- Build a team which can:
    - Create resilience
    - Provide economies of scale
    - Provide for access to specialist resources
    - Offer opportunities for career progression
- Develop partnership wide responses to fraud risk in areas such as business rates, council tax and housing tenancy fraud; providing capacity to address these areas and generating fee income for partners
- Develop a data analysis and data sharing service
- Work closely with the Shared Internal Audit Service, exploiting synergies between the teams.

Medium Term Objectives

- Continually develop to be in line with best practice, building a 'Centre of Excellence' approach
- Gain efficiencies in pro-active areas such as fraud policy and awareness-raising work – 'develop once; share many times'
- Share learning widely
- Exploit opportunities to expand coverage based on 'invest to save' approaches.

Benefits

The benefits of a Shared Anti-Fraud Service partnership are:

- A strong and comprehensive fraud response
- A solution which is available to all Hertfordshire councils
- The retention of specialist investigative skills within Hertfordshire councils
- The effective use of data and shared intelligence to target fraud activity
- A size of team which allows a balance of resources between pro-active and reactive work, flexing resources as necessary
- A size of team which allows for career progression
- The development of economies of scale.

3   APPROACH TO DEVELOPING THE BUSINESS CASE

3.1   Remit of the Project

In May 2014 the HCFOs considered an outline business case and project initiation document. HCFOs authorised the creation of a project to examine the Business Case for a Shared Anti-Fraud Service, committing to funding project management support to achieve this.

Subject to Business Case approval, the intention is to implement new structural arrangements in 2014/15 year followed by a three year period of service development as new ways of working are established. This timetable will ensure go-live of the service before the first Hertfordshire DWP transfer date.

For the purposes of clarity the costing, volume and return assumptions detailed in this Business Case are based on the six 'core' authorities who are currently 'in scope' for the proposed Shared Anti-Fraud Service.

A further three authorities have expressed an interest but are currently 'out of scope'. Should any of these three authorities decide to revisit their decision the financial workings set out in this document can be revisited. All nine councils including those which are currently 'out of scope' have been involved in this Business Case.

In Scope / Core Partners		Out of Scope / Expressed Interest	
Broxbourne Borough Council	BBC	Three Rivers District Council	TRDC
East Hertfordshire Council	EHC	Watford Borough Council	WBC
Hertfordshire County Council	HCC	Welwyn Hatfield Borough Council	WHBC
Hertsmere Borough Council	HBC		
North Hertfordshire District Council	NHDC		
Stevenage Borough Council	SBC		

3.2   Setting up the Project

Following the May 2014 meeting the project structure was agreed as set out below. Joint sponsors were identified alongside the Project Lead and work-streams were established. A Board, consisting of the Chief Financial Officer or their nominated deputy from each authority was also established and has responsibility for overseeing the project and guiding and supporting the work of the project teams.

Figure 1: **Project Team Structure**
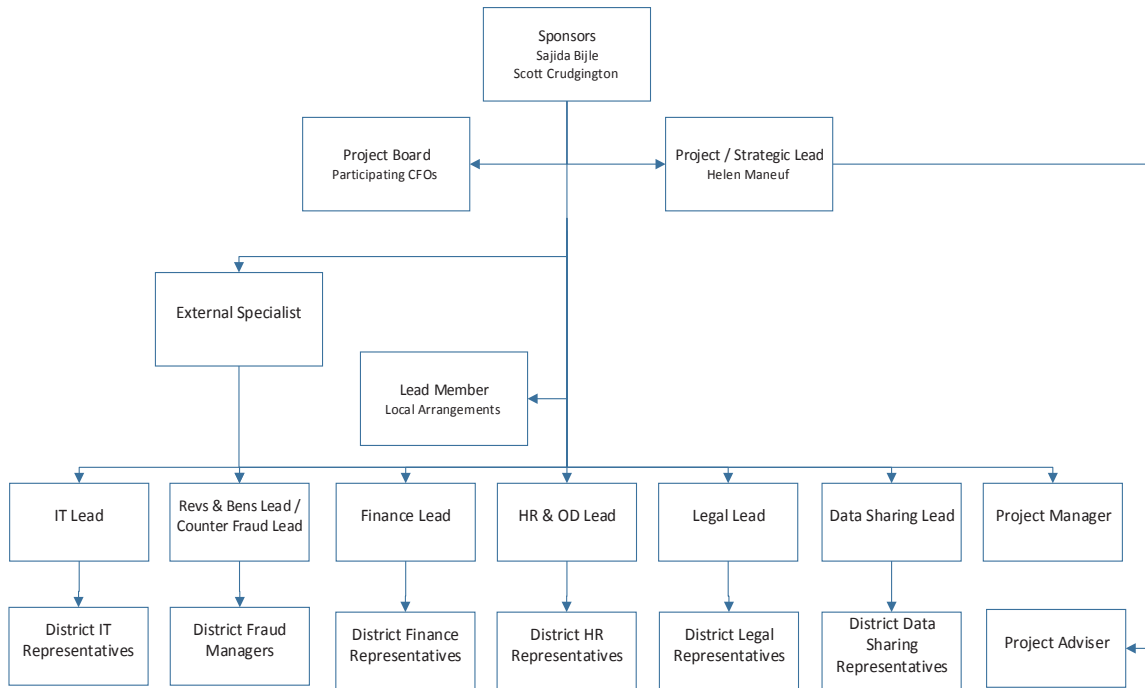
3.3   Stages in Developing the Business Case

Below are the key phases which make up the Business Case process:

Figure 2: **Business Case Development Stages**

Sections 4 to 8 of this document discuss in more detail each of these stages.

4 ESTABLISHING THE BASELINE

4.1 Current Cost of Fraud Services

To establish a baseline position for each fraud service area, each authority provided data on the current cost of their fraud service, performance, staffing numbers, grades, roles, and IT systems. Variations in service delivery, roles, and differences in accountancy practices, meant that this was not a straightforward task and a number of participating authorities do not distinguish between non-benefit / corporate fraud and benefit fraud.

Table 6: Budgeted Cost of Fraud Services 2013/14

The table below summarises the 2013/14 budgeted cost of fraud services in the participating authorities including benefit fraud activity.

	BBC	EHC & SBC	HCC	HBC	NHDC	Total
	£	£	£	£	£	£
Salary Budget	174,556	144,379	51,300	110,920	146,820	627,975
Other Costs	59,748	31,000	0	18,560	21,350	130,658
Gross Cost of Service	**234,304**	**175,379**	**51,300**	**129,480**	**168,170**	**758,633**
Income	-2,000	-2,300	0	-56,100	-1,940	-62,340
Net Cost of Service	**232,304**	**173,079**	**51,300**	**73,380**	**166,230**	**696,293**
Estimated time on Non Benefit Fraud activity	0%	0%	100%	25%	0%	-
Estimated Current Cost of Non Benefit Fraud activity	**0**	**0**	**51,300**	**18,345**	**0**	**69,645**

Table 7: Reduction in Housing Benefit Grant 2016/17

The Housing Benefit Admin Grant will be reduced on an ongoing basis to reflect the introduction of SFIS from 2016/17 for Hertfordshire Authorities. Table 7 below summarises the amounts forecast to be reduced.

BBC	EHC	HBC	NHDC	SBC	TOTAL
£	£	£	£	£	£
43,497	47,587	46,552	58,164	56,492	**252,292**

4.2   Current Performance of Services

Judging the performance of fraud services in terms of the volume and value of fraud detected is problematic, not least because fraud is secretive in nature.

Fraud detection statistics for local government reflect a number of variables including:

- the amount of fraud being committed against a council
- how well the council prevents and deters fraud
- the approach taken to classifying and measuring fraud
- the investigative capacity at the council to detect fraud
- how efficient and effective those investigative resources are

Detected fraud results only provide part of the overall picture of counter fraud performance, and can therefore only be indicative, rather than definitive, when assessing performance. Prevention and deterrence activities are also equally important.

Nonetheless, for the purpose of this Business Case it is useful to summarise the information currently available on fraud detection rates in Hertfordshire to give a baseline. This information is available through the Audit Commission's annual fraud survey in which all councils participate and which forms the basis of the annual 'Protecting the Public Purse' publication.

Table 8: Anti-Fraud Performance

Table 8 sets out the combined performance of partner councils in each of the fraud areas for the 2012/13 and 2013/14 financial years. For context, the national results from the 2012/13 are shown; 2013/14 national results are not yet available.

Nationally there is a wide variation in the number of non-benefit and corporate fraud cases reported to the Audit Commission. The 12/13 data showed that 79 District Councils did not report any non-benefit or corporate fraud. By contrast, on average the top quartile District Councils detected 234 cases each, and the top quartile county councils 37 cases each.

The caveat on this information is that fraud detection is always significantly lower than the estimated level of fraud and there has been a historic level of under reporting of fraud as a result of different approaches to categorisation.

Table 8 demonstrates the following:

- The main focus of activity for councils contributing to this table is in relation to housing benefit and council tax benefit fraud
- The Councils contributing to this table may not categorise certain activity as fraudulent, for example the results of the 2012/13 Single Persons Discount exercise are not reflected in the table
- In 2012/13 Contributing authorities detected approximately 1 per cent by volume and value of the overall national result
- In 2012/13 contributing authorities reported two cases of non-benefit fraud and 18 cases in 2013/14

Audit Commission Fraud Category	2012/13 National results		2012/13 Hertfordshire results[5]		2013/14 Hertfordshire results[6]	
	Number of cases	Value of cases	Number of cases	Value of cases	Number of cases	Value of cases
Housing Benefit / Council Tax benefit fraud	47,000	£120m	1,116	£1.5m	1,007	£1.6m
Housing Tenancy Fraud	2,642	N/A[7]	0	£0	0	£0
Right to Buy Fraud	102	£5.9m	0	£0	0	£0
Council Tax Single Person Discount Fraud	54,000	£19.6m	0	£0	1	£1,700
Council Tax Reduction Fraud	N/A	N/A	N/A	N/A	3	£153
Non-Domestic Rates Fraud	149	£7.2m	0	£0	0	£0
Procurement	203	£1.9m	1	£0.3m	0	£0
Insurance	74	£3m	0	£0	0	£0
Social Care	200	£4m	0	£0	2	£98,430
Payroll, Pensions and Expenses Fraud	493	£3m	0	£0	2	£527
Abuse of Position	283	£4.5m	0	£0	0	0
Other	1,595	£7.4m	1	£0	9	£13,752
Blue Badges	2,901	£1.5m	0	£0	0	0
Recruitment			0	£0	1	0
Total	**107,000**	**£178m**	**1,118**	**£1.8m**	**1,025**	**£1.7m**

4.3   Caseload

District Council Fraud Teams keep good data on levels of caseload and referrals. This shows that in 2012/13 18.4 full time equivalent (FTE) investigators dealt with 2840 cases, which we can assume were Housing Benefit or Council Tax Benefit. This equates to a case-load of 154 per FTE. This FTE figure does not include ancillary or managerial staff[8].

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[5] Returns for this table supplied by BBC, EHC, HBC, HCC, NHDC, WHBC
[6] Returns for this table supplied by BBC, EHC, HBC, HCC, NHDC, WHBC
[7] Quantifying Housing Tenancy Fraud is not straightforward. The National Fraud Authority suggests each case represents a loss to the public purse of £18,000
[8] Returns from BBC, EHC, HBC, NHDC, SBC, TRDC, WBC, WHBC

5 ESTABLISHING THE OPPORTUNITY

The size of the opportunity for a fraud service was gauged by considering the potential level of funds 'at risk' to fraud in Hertfordshire, and forming a view on the impact that a team could make using actual data if available, or upper quartile performance levels.

5.1 Level of funds 'at risk' and comparison with detection rates

The project team considered for each major fraud category (excluding Housing Benefit):

- Any national research **estimates** of the level or ratio of fraud in the category in question (insurance for example); where these were not available we used an 'at risk' level of one per cent
- How far, if Hertfordshire councils follow this trend, might be at risk locally, based on relevant expenditure and income figures returned by partners

The team then compared this with each Council's Annual Fraud Survey returns to the Audit Commission (see Table 7). These show the **detected** level of fraud in each category in Hertfordshire, indicating the potential gap area between detected fraud and estimated total fraud.

Table 9: Summary of Hertfordshire Estimated Fraud Risk Compared to Detection Rates

Fraud Type	National 'at risk to fraud' estimate and source	Herts Partners 'at risk to fraud' based on relevant expenditure / income data from 13/14	Value of detected fraud 2013/14	Difference
Council Tax Support	4% Protecting the Public Purse 2011 found 4-6% of SPD claims were fraudulent 2010/11	235,202	138,846	96,356
Council Tax Single Person Discount	4% Protecting the Public Purse 2011 found 4-6% of SPD claims were fraudulent 2010/11	991,365	8,582	982,783
Business Rates	1%	2,340,217	0	2,340,217
False Insurance Claims	6% LAOIG estimate	63,607	0	63,607
Procurement	1% NFA estimate	8,379,632	0	8,379,632
Blue Badges	20% Average across locations - varies from 4% to 70%	27,072	0	27,072
Pension	To confirm			0
Social Care	1%	206,187	98,430	107,758
Grant Fraud	1%	25,005	0	25,005
Total		12,268,287	245,858	12,022,429

Tenancy fraud has been excluded from Table 9 as it is difficult to place a value on this type of fraud. Nonetheless, the National Fraud Authority suggests each case represents a loss to the public purse of £18,000. The Prevention of Social Housing Fraud Act 2013 gives local authorities the right to bring prosecutions for tenancy fraud, with the aim of ensuring that social housing is made available for those who need it.

Whilst recognising the inherent difficulties in estimating the level of fraud and applying this to participating councils, Table 9 indicates that in Hertfordshire, as in all areas, there is a significant gap between detected and estimated fraud levels. This helped the Project Team understand the possible further scope for a fraud service in these activity areas and provided the high level context.

5.2 Potential Impact

The project team considered what sort of realistic impact in terms of enhancing performance in non-benefit and corporate fraud might be achievable. To do this the Project Team considered the detection rates of those authorities performing at the top quartile from Protecting the Public Purse 2013 and applied this to Hertfordshire authorities to form a view of the number of detected cases that could be achieved annually.

Table 10: Upper Quartile Detection Rates applied to In Scope Authorities

	Volume of activity if performing at upper quartile	Number of in scope authorities	Result
District Councils	234	5	1170 (5x234)
County Councils	37	1	37 (1x37)
Total			**1207**

The table indicates that, for the six Councils in scope, it can be reasonably assumed that a detection rate of approximately 1200 cases per annum could be achieved if these authorities are performing at upper quartile rates.

The team then reviewed other available information about the results of actual activity in this area.

i) Council Tax Discount fraud

In 2012/13 HCFOs conducted a joint campaign on Single Person Discount (SPD). County-wide, the campaign identified £2,347k over two years with an average of 706 incorrect discounts per authority, an average of £332 per case.

It seems reasonable to conclude for modelling purposes that such an exercise could be undertaken on a three year cycle with similar results.

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ii) **Using Data Hub technology to identify fraud leads**

A fact finding visit was made to a district authority in a neighbouring county. This council has established a data hub and is data matching internally within the authority, as well as conducting housing tenancy work for housing associations in the area. Additionally a data sharing agreement has been set up with other councils in the county area which has had Information Commissioner approval and is awaiting sign off by the councils themselves. When sign off is achieved a county wide data hub will be introduced.

An associated benefit of data hub is that it can help drive improvements in the quality of data held in council systems.

Based on past performance, the case study council is assuming the following levels of activity in 2015/16:

Table 11: **Levels of predicted activity for Case Study Council**

Areas of fraud risk	Number of cases to be investigated	Value £'000
Council Tax Support / Discounts	150	150
Housing/Homelessness	100	432
Other Fraud	8	-
Data-Matching	-	100
Total	**258**	**682**

5.3   Conclusion

The Project team concluded that:

- Attempts to establish the size of the opportunity have to be heavily caveated. However, the gap between estimated and detected levels of fraud in the county could be of the order of £12m

- Applying upper quartile performance to in scope authorities suggests a detection rate of around 1200 cases per year could be achieved

- A rural district council in a neighbouring county area is operating above this rate and targeting savings / income for its authority of £682k in 2015/16

Combining fraud investigation value / volume data based on the Hertfordshire SPD exercise, the district council example cited above, and the county performing as at upper quartile Audit Commission levels could therefore result in an impact level as described in Table 12 below:

Table 12: Potential Volume and Value of Fraud Investigations – In Scope Councils

Areas of fraud risk	Number of cases to be investigated	Value / Return £	Comments
Council Tax Support / Discounts	5x706 = 3530 Spread over three years = 1176 per annum	3530x332 = £1172k **£390k** per annum	• Income generation • Based on 2012/13 Hertfordshire Single Person Discount exercise
Other Fraud	40	-	
Data-Matching: Various systems such as NDR, Housing	-	**£600k** per annum	• Savings or income generation • Value based on experience of authority with data hub
County Council frauds	37	-	• Audit Commission upper quartile performance
Total		**£990k** per annum	

In the table above the 'value' figures are only provided where there is a degree of confidence that actual cash numbers can be attributed. This data is considered to be a prudent estimate of the value / volume of fraud investigation that a shared fraud service could deliver when fully established.

Having a proactive and visible fraud function will deter and prevent fraud and deliver further hidden savings in excess of the headline revenue/savings identified.

6   APPRAISAL OF OPTIONS FOR DELIVERY

In May 2014, the Project Board considered the following options for the delivery of a Shared Anti-Fraud Service partnership for Hertfordshire – these are:

Option 1   Services Delivered Locally
Option 2   Informal Collaboration – Informal Partnership Working
Option 3   Partnership Approach – 'Shared Service' Model

The outcome of the options appraisal is set out in section 6.2.

6.1   The Options Considered

Option 1   Services Delivered Locally

This option would mean all non-benefit and corporate fraud services remain as they are currently are with no joint working, and awaiting the introduction and impact of SFIS and Universal Credit.

Option 2   Informal Collaboration

This option would mean all non-benefit and corporate fraud services remain as they are currently, with joint working taking place in specific areas as appropriate for example joint procurement, shared training programmes, sharing expertise.

Option 3   Partnership Approach or 'Shared Service' Model

This option would see the formation of a joint team which would deliver non benefit and corporate anti-fraud services to the participating Councils according to scope set out in section 1.3 of this document.

The three options were assessed on the extent to which they would:

- Meet the strategic outcomes of better performance, improved resilience and lower cost/increased revenue (Table 13) **and**
- Be achievable in terms of the risk, stakeholder acceptance and affordability (Table 14)

The advantages and disadvantages of the options are described in **Appendix D**. A summary of the Project Team's analysis against the evaluation criteria is shown below.

Table 13: Options Analysis

Strategic Outcome	Options		
	Services Delivered Locally	**Informal Collaboration**	**Partnership Approach ('Shared Service' Model)**
Financial benefits: Lower Cost/Increased Revenue	Some opportunity to redirect resource into non-benefit / corporate fraud with possibly therefore of financial benefits	Some opportunity to collaborate on joint initiatives; this has already happened in the county	Yes; opportunity to gain delivery efficiencies; opportunity to organise joint approaches; cross authority data hub will deliver additional benefits
Create a data hub	Could establish local arrangements	Possibly; will need to identify capacity to deliver	Yes; is one of the envisaged strategic outcomes
Improve reach into non-benefit and corporate fraud	Some opportunity to redirect resource into non-benefit / corporate fraud	Some opportunity to collaborate on joint initiatives; this has already happened in the county	Yes; this will be the mainstay of the service, supported by the data hub
Develop marketable services	Unlikely – limited capacity	Possibly; will need to identify capacity to deliver	Yes; is one of the envisaged strategic outcomes
Ongoing effectiveness and resilience	Possible to sustain effectiveness; achieving resilience will be challenging.	Offers some opportunities to build resilience	Yes
Creation of centre of excellence	Unlikely – limited capacity	Possibly; will need to identify capacity to deliver	Yes; is one of the envisaged strategic outcomes

Table 14: Options Analysis: Achievability Considerations

Achievability considerations	Options		
	Services Delivered Locally	**Informal Collaboration**	**Partnership Approach ('Shared Service' Model)**
Key Risks & Mitigations	Risk of lack of resilience & insufficient capacity to deliver an effective service, mitigated by investment locally	Risk of lack of leadership, drive and direction; difficult to mitigate in informal setting	Risk of partnership breakdown; mitigate by partner engagement, joint design and ownership of the solution, and governance arrangements
Stakeholder Acceptance	No implications for stakeholder engagement Beyond local Council	Approach is incremental so unlikely to cause significant stakeholder objections	Engagement required for stakeholders to understand the key objectives and benefits History of joint working in the county indicates that there is likely to be a good level of stakeholder by in from interested councils
Affordability	May require partners to invest in staffing to ensure resilience; opportunity for return on investment	Does not require additional investment by partners; limited return	Partners need to invest in set up costs and staffing; opportunity for return on investment

The Project Team also considered the advantages and disadvantages of hosting the Shared Anti-Fraud Service within the SIAS partnership framework. The advantages were seen to be:

- Ability to flex the SIAS partnership arrangement to accommodate a Shared Anti-Fraud Service
- Well-understood and effective governance arrangements in which eight Hertfordshire councils participate
- Synergies between anti-fraud work and internal audit work
- Generation of efficiencies through economies of scale by sharing management arrangements
- Linkage with an established brand and service which is generally considered to be operating successfully
- Linkages into a management team experienced in shared service change management, service development and process design
- Opportunity to flex resources for example in drawing in SIAS staff with fraud qualifications / experience, whilst recognising that the Shared Fraud Service will demand specialist fraud investigators
- Work allocation and capacity management arrangements established and transferrable

It was recognised that establishing the service could divert SIAS management team focus from internal audit service delivery, hence the need to ensure appropriate project support if this is the agreed way forward.

It was also recognised that the Shared Anti-Fraud Service could equally be hosted by a district authority; in this case an authority prepared to host the service would need to be identified.

6.2   Conclusions of Options Appraisal – Preferred Option

The Project Team concluded that **Option 3 – Partnership Approach** ('Shared Service' Model) was the preferred option for delivery of a Shared Anti-Fraud Service for Hertfordshire and this was endorsed by participating HCFOs in May 2014. The rationale for this recommendation is:

- It enables the project objectives of better performance, improved resilience and lower cost/increased revenue to be met. The financial case is set out in more detail in section 8
- There is general support for a partnership approach, particularly to address issues of resourcing and consistency of service. Defining the service through Service Level Agreements (SLAs) is welcomed
- The Partnership Approach also offers a better for future expansion (e.g. delivering services to other councils or public sector bodies) compared to the other two options

It is recognised that this option will require the most investment as a move to common systems is a pre-requisite. It is also assumed that should there be potential costs related to the management and governance of a shared model, there is an opportunity to offset or spread these through a linkage with SIAS.

As with any large scale implementation, there will be risks involved in implementing a shared service, and there may be staff resistance. However, these risks will be mitigated through strong programme management and change management.

Councils which do not wish to participate in the Shared Service project may, of course, fall back onto Options 1 and / or 2.

The Project Team also concluded that linking a Shared Anti-Fraud Service to the existing SIAS partnership was preferred, building on arrangements already in place.

7   SCOPE OF SERVICES

The scope section of this Business Case seeks to clarify what the shared service could deliver, as well as boundaries of its activity and how these activities will interface with partner Councils.

The Project Team held two workshops with fraud practitioners to consider which responsibilities and functions within the fraud service could be shared across the participating Councils. If there were any areas which they thought could not be shared, the team needed to justify why this was the case.

The general outcomes of this exercise across the Councils were:

- a shared definition of the service and of its core elements (7.1)
- view about the main areas of fraud which the service would offer (7.2)
- a description of the main activities of the service (7.3)
- an understanding of the core fraud process, or the day to day activities that the service would carry out, the boundaries of these activities and their interface with partner councils, to be developed further in the solution design phase of the project (7.4)
- an understanding of the managerial and support requirements of the service, and the boundaries of these activities and interfaces with partner councils, to be developed further in the solution design phase of the project (7.4)

7.1   Overview

The new service is envisaged as a full counter fraud service which covers all types of non-benefit and corporate fraud[9]:

a) Non-benefit fraud

Here defined as all non-welfare (benefit) frauds which are committed against councils by external persons or bodies. This type of fraud includes: tenancy fraud, procurement fraud, council tax fraud, business rates fraud, grant fraud, blue badge fraud, social care fraud (direct payments) and pension fraud.

Corrupt practices such as bribing a council officer are also included.

b) Corporate fraud

Here defined as frauds committed by those within councils such as employees and members. This type of fraud includes payroll fraud, expenses fraud, procurement fraud, fraud within Local Authority maintained schools and client monies' fraud.

Corrupt practices such as accepting a bribe in order to influence a decision are also included.

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[9] Detail on the types of fraud referred to throughout this Business Case can be found in Appendix A.

7.2 Coverage of Fraud Risk Areas

As a minimum, the following[10] fraud risk areas would be included:

- Council tax discount schemes
- Tenancy fraud
- Business Rates
- Procurement
- Insurance
- Social Care
- Schools
- Blue Badges
- Internal / employee frauds

7.3 High Level Processes

Typically, counter fraud services operate across all aspects of the 'counter fraud' cycle:

Figure 3: **The Counter-Fraud Cycle**

The service would therefore offer:

- A proactive 'end to end' identification, detection and investigation operations
- A fraud response service, taking and investigating referrals from partners. activity to prevent and deter fraud, such as training, awareness raising, fraud reporting facilities, fraud risk assessment and counter fraud policy work
- Advice and support to partners on options for recovery of fraud lossesLearning from the full range of activity to ensure a strong counter fraud culture, and inform prevention, deterrence and investigation work

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[10] Discussed in greater detail in Appendix A.

The aim is to create a service which can generate a return for partners in terms of increasing revenue or identification of savings, as well as offering them assurance on the anti-fraud controls in their operations.

7.4   Service Elements

Core Fraud Process

The core fraud process that the business case examines is shown in Appendix I and described further below. The core process is considered to be common to all forms of fraud as discussed further below.

Receiving referrals and logging alerts

The service would develop and maintain systems for receiving referrals such as a single telephone hotline and web page.

The service would record and track all fraud referrals through to their eventual outcome in a case management system.

Identifying fraud

The service will systematically match data across all partners to identify fraud targets on 'theme' fraud risk areas selected annually.

This will be done via a 'data hub'[11] which will be established using one of the data matching solutions currently available, operating in accordance with Information Commissioner guidelines. It is envisaged that the chosen data matching solution will allow data matching across a wide range of fraud types.

The service will also be able to manage the co-ordination and investigation of National Fraud Initiative activity on behalf of partners.

Fraud investigation and recovery

The service will use trained fraud investigators to examine referrals from partners and targets from data matches. The fraud investigators will follow all steps required to determine whether or not a fraud has been committed, and prepare a case file to required evidential standards to support their work and further steps. The work will be documented in a case management system.

Recovery of losses

Partners will wish to recover, as far as possible, any losses resulting from fraud or corruption from those responsible. Recovery of losses and restitution can be a complex issue, and will often vary on a case by case basis; SAFS will support and advise in relation to options such as court orders, insurance claims, and recovery from pension contributions liaising with relevant client officers as necessary.
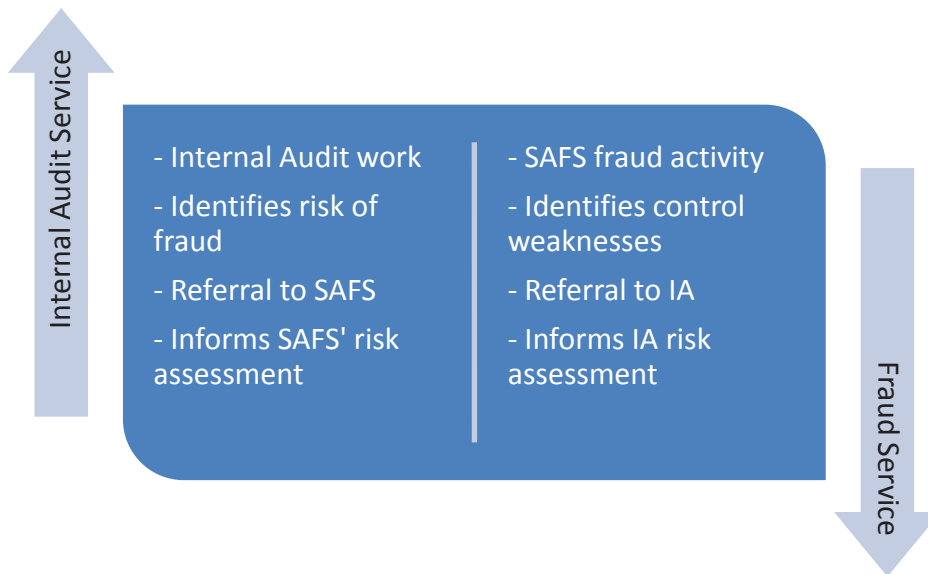
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[11] This is described in further detail in Appendix C.

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Fraud prevention

Prevention of fraud is seen as the most cost effective method for reducing its potential impact. Once fraud has occurred detection is not always certain, and reclamation of lost funds can in many cases be problematic and difficult.

The synergy with internal audit is clear in this area since prevention relies on strong internal controls.

Figure 4: Relationship Between Fraud and Internal Audit

Internal Audit Service

- Internal Audit work
- Identifies risk of fraud
- Referral to SAFS
- Informs SAFS' risk assessment

- SAFS fraud activity
- Identifies control weaknesses
- Referral to IA
- Informs IA risk assessment

Fraud Service

Working together SAFS and Internal Audit can build further their joint understanding of fraud risks and strength of mitigating controls aiming to ensure that perpetrating fraud is as difficult as possible and help the partners be confident the overall risk of fraud occurring is minimised.

Specific activities will include fraud awareness training, fraud risk assessment, and advice and guidance on counter fraud policies.

Sharing learning and creating a Centre of Excellence

The service will work to prevent fraud and share the learning coming out of its activity, building a 'centre of excellence' approach. The service would use this learning to develop future work and campaigns so as to improve the service, improve practice and re-evaluate the approach to tackling fraud.

Core Fraud Processes: Boundaries and Interfaces with Councils

A workshop was held with Fraud Managers and Project Team members to map out the main processes in relation to core fraud activity. The group wanted to understand whether different types of fraud activity had very different processes and hand-off points to partner councils which needed to be taken into account. Three different fraud types were therefore mapped out as shown in Appendix G: Business Rates, Council Tax Discount and Tenancy Fraud. Despite the different nature of the three fraud types, the group concluded that the core process was common to all.

The table below uses the workshop results to give a view, based on the mapping exercise, of which activities would be performed by the shared service, and which by council partners.

Table 15: Core Fraud Process: Boundaries and Interfaces with Councils

Step	Fraud Management Activities	
	Shared Service	**Councils**
Conduct Data Matching	• Collate data from districts • Run known reports • Obtain and analyse results • Produce alerts • Update reports using intel	• Provide data on demand or when scheduled
Log Alerts	• Collate alerts from data matching, web, social media, telephone, internal whistle-blowers	
Filter Alerts & Allocate	• Risk assess alerts using points scoring model • Assess cost v benefits • Allocate cases	• Support ad hoc data requests
Conduct Investigations	• Conduct research and collect background information • Manage ad hoc requests to third parties and LA's • Prep legal files is required	• Provide interview facilities • Provide local working facilities
Propose Recovery or Sanctions Approach	• Review investigations result and agree recovery or sanctions approach	• Agree recovery or sanctions approach
Learning Points	• Review monthly stats • Review trends • Identify themes/targets for further work • Regular feedback to LA's	• Feedback to SAFS any relevant intelligence
Conduct Fraud Avoidance Activities	• Develop fraud avoidance campaigns • Update web/social media presence	• Manage local Fraud Avoidance communications

Management Processes

Fraud risk assessment and work planning

The service would determine an annual work plan from a fraud risk assessment, setting out its proposals for covering fraud themes for the year via data matching, and

identifying resource for both fraud response work and pro-active counter fraud work such as awareness raising campaigns.

Work allocation

The service would set up systems to ensure that work is allocated to the appropriate level of officer and that resource is used efficiently.

Reporting

The service would report regularly on its activities to key stakeholders such as the governing Board, CFOs, and Audit Committees in a common format against agreed performance indicators.

This table, based largely on the SIAS experience, gives a view of the allocation of managerial tasks between a shared service and council partners:

Table 16: Management Processes: Boundaries and Interfaces with Councils

Task	Distribution	
	Shared Service	**Councils**
Fraud Risk Assessment	Maintain risk assessment of fraud activity & use this to inform work planning	Contribute information to the risk assessment
Work Planning	Formulate an annual plan of activity	Consider, influence and accept the annual plan
Work Allocation	Determine how resources to be allocated and when activity will occur	Agree the timing of activity and make available resources to support this
Reporting	Report on activity to Councils	Share reports with stakeholders

Business Management and Support Processes

The service will have business management needs as set out below:

Figure 5: Business Management and Support

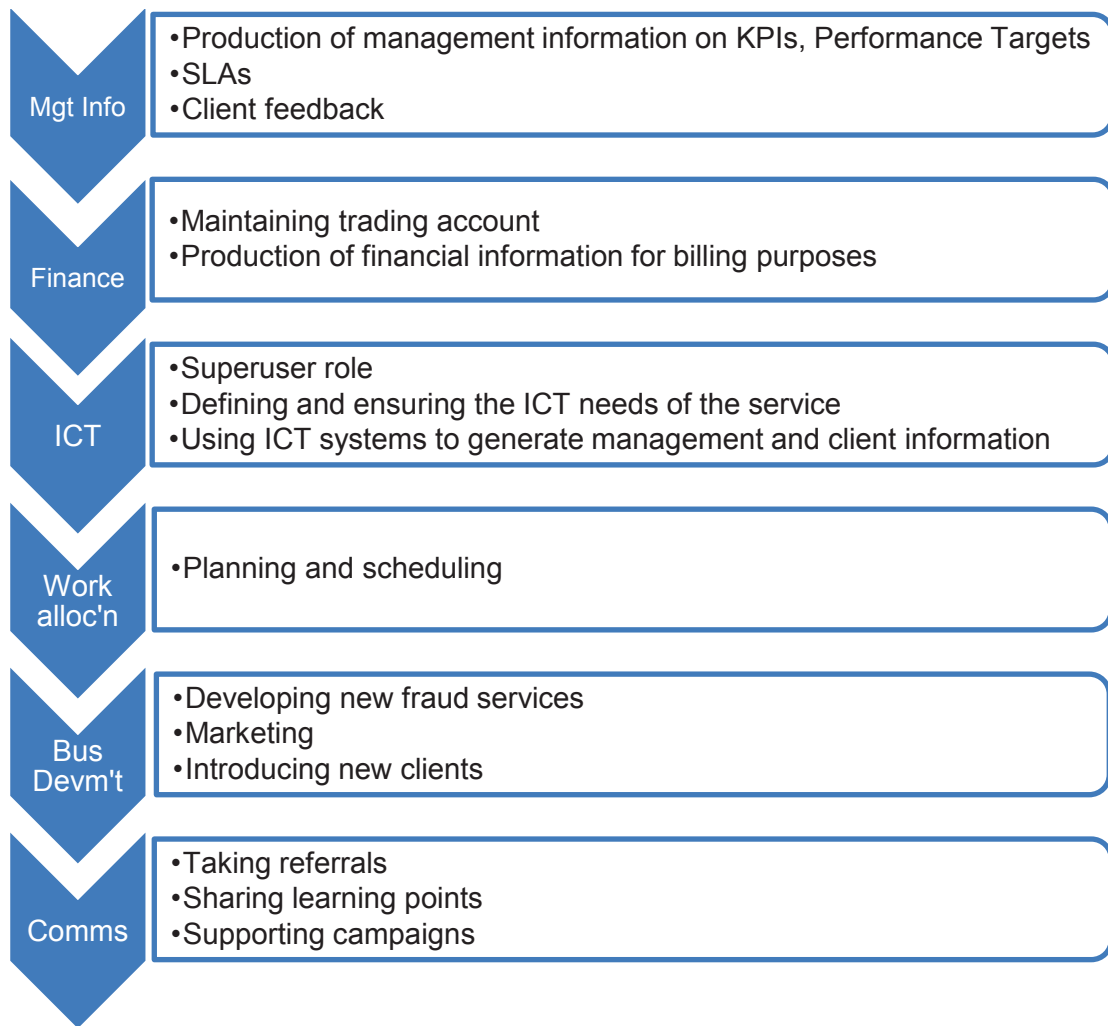| Stage	Details
Mgt Info	• Production of management information on KPIs, Performance Targets • SLAs • Client feedback
Finance	• Maintaining trading account • Production of financial information for billing purposes
ICT	• Superuser role • Defining and ensuring the ICT needs of the service • Using ICT systems to generate management and client information
Work alloc'n	• Planning and scheduling
Bus Devm't	• Developing new fraud services • Marketing • Introducing new clients
Comms	• Taking referrals • Sharing learning points • Supporting campaigns

Table 17: Business Management and Support: Boundaries and Interfaces with Councils

This table, based largely on the SIAS experience, gives a view of the allocation of business management and support tasks between a shared service and partner councils.

Task	Distribution	
	SAFS	**Councils**
Performance reporting	Generate performance reports according to agreed format and timetable	Monitor and review activity
Finance	Generate bills Maintain trading account	
ICT	Implement and maintain ICT systems	Provide access to local systems
Work allocation	Determine how resources to be allocated and when activity will occur	Agree the timing of activity and make available resources to support this

Task	Distribution	
	SAFS	**Councils**
Business Development	Identify and develop opportunities to grow the service	
Communications	Communicate the results of activity	Provide feedback on service performance Communicate the work of the service to stakeholders

Development of Chargeable Services

One of the strategic outcomes envisaged is that the service could develop chargeable activities in addition to its work for partners.

7.5   Exclusions

The following areas are excluded from the scope of this business case:

- Welfare benefit frauds, although there is a need to understand legacy arrangements and responsibilities and work with councils to provide support during any transitional period in relation to the establishment of SFIS

- Other areas in which Councils are active in investigating criminal offences, for example licensing of premises and scrap metal dealers, Trading Standards, Environmental Health, Hackney Carriage Licences and Planning Enforcement, although the data hub would offer useful intelligence to the 'enforcement community'

8 QUANTIFYING COSTS AND BENEFITS

8.1 Proposal

The Business Case proposal is to set up a Shared Service to deliver Anti-Fraud services across Hertfordshire.

8.2 Benefits

A shared services model will deliver financial and qualitative benefits that meet the project's objectives.

8.2.1 Savings and / or increased revenue from fraud

Section 5 of the Business Case indicates that sharing anti-fraud services could generate cross-county operational savings and / or increased revenue in the region of £990k per annum once the new arrangements are fully operational. This is felt to be a prudent estimate, only counting cashable savings or revenue increases.

Having a proactive and visible fraud function will deter and prevent fraud and deliver further hidden savings in excess of the headline revenue/savings identified.

Greater economy, efficiency and effectiveness in the use of resources savings may be achieved through rationalising processes across the councils, avoiding duplication, sharing resources and using improved systems and processes, but these are not the principal focus of this business case.

8.2.2 Ongoing effectiveness and increased resilience

The Project Team believes that by combining the staff resources of the participating Councils for the delivery of anti-fraud services, the overall capacity to deliver anti-fraud services will increase:

- Currently, each council has a small team to rely on to maintain service standards. This means that absence of even one key individual has a disproportionately large impact on service delivery. After the implementation of SFIS there is likely to be fewer resources available locally. In the shared model, a joint team offers an opportunity to respond to the changes in a shared way, better absorbing the impact on authorities
- A shared service can also be attractive from a staff perspective as it provides better career and development opportunities since they will be part of a larger team
- A joint team will have the critical mass to also allow peaks and troughs in business demand to be met more consistently

8.2.3 Improved reach into the areas of non-benefit and corporate fraud

Counter fraud activity within the partner councils is mainly focussed on benefit fraud currently: a number of the district councils involved in this partnership proposal reported a 'zero' return for non-benefit and corporate fraud as part of the Audit Commission's annual survey for 2012/13.

The partners invited Alan Bryce (the Audit Commission's Counter Fraud Led) to advise them in February 2014 and have since developed an understanding of the

significant opportunity in the non-benefit fraud area. Further, changes to funding arrangements such local retention of business rates encourage a renewed focus on non-benefit fraud.

Ultimately, improving performance across non-benefit and corporate fraud will assist in the drive to ensure that the lowest possible levels of public funds in Hertfordshire are lost to fraud and therefore withheld from front-line service delivery.

8.2.4   Create a data hub for Hertfordshire

A data hub[12] will integrate current and historical data from multiple source systems, enabling a central view across the partnership. For fraud management purposes these systems can include property, benefits, electoral role and external data sources such as credit checking agencies and government databases. This process can also identify issues with data quality which can be fed back to the source data organisation which can then seek to improve data collection processes and procedures.

The data warehouse provides an environment where investigations can be conducted looking at specific correlations of data i.e. Data Matching. Data Matching is the process of comparing multiple sets of collected data to identify anticipated correlations. For example, identifying multiple occupants in properties where a single person discount is being provided.

Data Mining describes the process of analysing data looking for previous un-anticipated matches. These new correlations can then be fed back to the partner organisations to improve intelligence regarding fraud management.

Operating a data hub for Hertfordshire will require significant effort to establish data sharing protocols which will need to be agreed at the highest level of organisations. It is possible that existing Hertfordshire-wide data sharing frameworks can be drawn upon.

The benefit of operating a hub across partners is that more data sets can be analysed and cross-border discrepancies highlighted.

As part of the DCLG funding round a number of partnerships have proposed the creation of data hubs, and there is a vision to link these at a national level.

8.2.5   Develop services which can be marketed to external bodies

One of the strategic outcomes envisaged is that the service could develop chargeable activities in addition to its work for partners. Over time this could help partners derive a greater return on their initial investment.

Particularly, the service could develop a chargeable offering in relation to tenancy related fraud which the National Fraud Authority estimated as the second largest loss are to local government in 2013 costing some £845 million. The project team saw a data matching product which is focussed on social housing and heard how in other areas local authority fraud teams are working closely with social housing providers on

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[12] Appendix C discusses the data hub in detail

this issue, marketing their services. Initial discussions with Housing Associations indicate that such an offer in Hertfordshire would be well received.

The DCLG funding bid included a proposal to pilot tenancy fraud activity at Welwyn Hatfield Community Housing Trust and at Stevenage Borough Council.

Another area of reach could be into the growing Academy sector where investigative or fraud awareness service could be marketed, potentially via a link-up with Herts for Learning which provides chargeable services to schools in the county.

8.2.6 Create a recognised centre of excellence that is able to disseminate alerts and share best practice nationally

The service will share the learning coming out of its activity both within the partnership and more broadly, building a 'centre of excellence' approach. This will drive a virtuous circle of learning from experience, using this to improve the understanding of fraud risk and develop future targeted work and campaigns so as to improve the service, improve practice and re-evaluate the approaches to tackling fraud.

8.3 Costs

8.3.1 Sizing the Team

In order to determine the costs of this proposal three different service delivery models were initially created and each assessed to determine how far they would deliver on the identified scope. Each model assumed the following authorities were in scope: BBC, EHC, HBC, HCC, NHDC, and SBC.

Option B (as described in Figure 6 below) comprises five investigators, two intelligence officers and a data-co-ordinator/analyst plus support and managerial roles equating to 11 FTE in total. This level of investigation establishment would be able to manage a case load of 1200 per annum, although this figure is derived from current performance on benefit fraud, rather than non-benefit fraud activity. It is also considered that a team of this size would have capacity in relation to tenancy fraud, fraud prevention, shared learning and business development. **This is the recommended model.**

Figure 6: Staffing Model
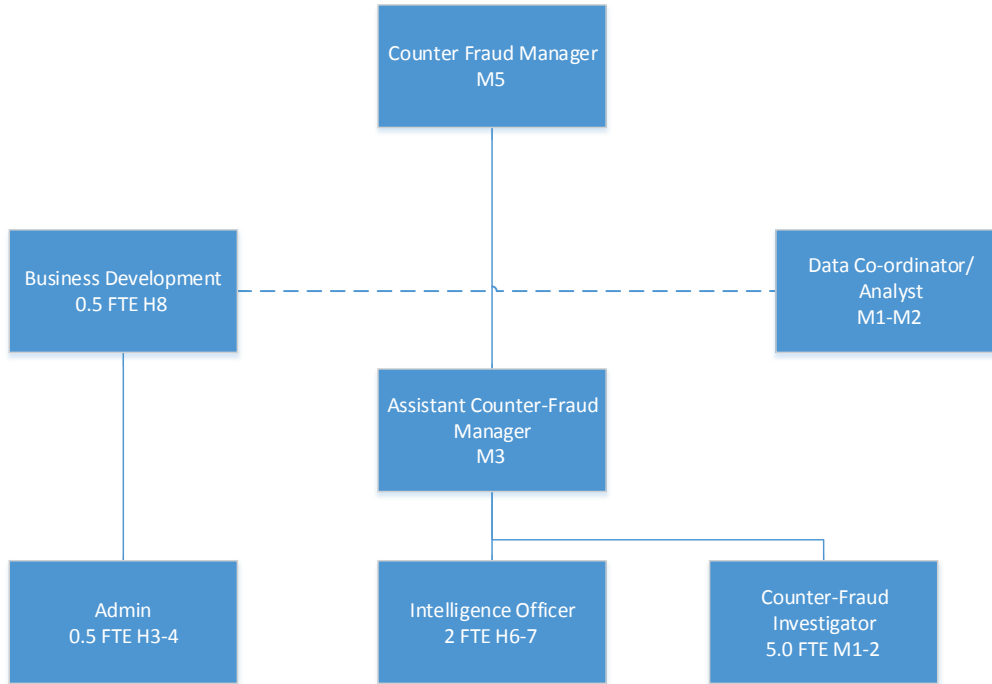
This is the preferred option in the sense of delivering sufficient capacity to work at upper quartile levels, allow specialisation and build new service offerings.

8.3.2 Rejected Options

Option A comprised four investigators, one intelligence officer and a data co-ordinator plus support and managerial roles equating to 8 FTE in total. However assuming a case load of 1200 per annum (see 5.2 above) and a rate per FTE of 154 cases it was considered that the level of investigative resource in this option was insufficient. **Option A was therefore rejected.**

Option C was an initial view based on an extrapolation of the level of resources at the district authority referred to in section 5 above. The model comprised 12 investigators, an intelligence officer, a data co-ordinator, and support and managerial roles equating to 18 FTE in total. However at the level of staffing costs associated with this model authorities were unlikely to get a significant return on investment. **Option C was therefore rejected.**

8.3.3 Ongoing Costs

The annual running costs of the preferred model are demonstrated in the table below:

Table 18: Ongoing Costs

Ongoing Costs	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Salary Costs	40	479	479	479	479
Non-pay costs	3	40	65	65	65
Recharges		83	87	87	87
Total Cost including Recharges	**43**	**602**	**631**	**631**	**631**

Should the data co-ordinator/analyst funding be awarded, this element of the annual costs will be picked up by the DCLG for 2014/15 and 2015/16 and the partner share of running costs be reduced accordingly.

8.3.4   Initial Set-up Costs

The table below shows the amount that the authorities have jointly bid for from the DCLG Counter Fraud fund.

Table 19: DCLG Set-up Costs Bid

Description of expenditure	2014/15 Funding requested	2015/16 Funding requested	Total funding requested
(expenditure category eg training)	£	£	£
Employee related: Lead officer time	20,000	20,000	40,000
Project team time	20,000	0	20,000
Project management	25,000	25,000	50,000
Data Co-ordinator	10,000	40,000	50,000
Legal advice & specialist consultancy	10,000	10,000	20,000
Data matching software	0	36,000	36,000
Who's Home housing data matching solution	0	90,000	90,000
Case management system	0	35,000	35,000
IT hardware	13,000	12,000	25,000
Total funding requested	**98,000**	**268,000**	**366,000**

Table 20: Set-up Costs in the Event of an Unsuccessful Bid

Should the DCLG bid be unsuccessful:

- Costs in 2014/15 and 2015/16 relating to lead officer time and project team time will be absorbed by partners and will not represent real-terms outlay

- The Who's Home solution will not be bought

The set-up costs therefore on partners in the event of an unsuccessful bid would be:

Description of expenditure	2014/15	2015/16	Total
	£	£	£
Project management	25,000*	25,000	50,000
Data matching software		36,000	36,000
Case management system		35,000	35,000
IT Hardware		25,000	25,000
	25,000	121,000	146,000
Cost per partner	*4,167	20,167	24,334

* *already committed*

ICT set up costs of £96k represent investment in ICT systems, and are based on:

- all purchase, migration, implementation, hosting, training and maintenance costs
- quotes obtained from a sample of data matching and fraud management systems suppliers
- modelling of the size of the new shared anti-fraud service with stakeholders

It may be possible to reduce the case management costs by using an existing system which will be explored further in the solution design phase.

8.4 Charging Arrangements

One of the key issues will be to determine how to share the costs and benefits of the service amongst partners. Ideally a charging mechanism should:

- be simple to manage and add minimal cost to the overall service provision charge
- be equitable between partners
- be straightforward to understand and easily supported by management information which allows the charge payer to agree the charge proposed
- ensure that the investment made by initial partners in setting up the service is recognised should any partners decide to join the service at a later date
- allow for the service to set a full cost based price for any services which are traded out to non-partners

The experience of SIAS is that, although it has a reasonably simple system it takes time, and expense, to manage both by the service and the constituent members.

Charging Options

There are three possible options in recovering the amounts from partners depending on the amount of risk that it is considered appropriate for the service to carry:

i. Recharge the full amount to partners based on a pro rata basis to be agreed
ii. Make a charge, "finder's fee", based on the amount gained (reduced costs or additional income) as a result of operations
iii. A combination of the two with the split to be confirmed

Looking at each of these options the following issues should be considered:

Table 21: Pros and Cons of Charging Options

Option	Risk to service	Methodology	Pros	Cons	Complexity
Full Recharge – partners take equal share of cost and retain any benefit locally	Low	All costs are recovered each year based budget set at beginning of year with adjustment to reflect actuals. The method of calculating the charge (pro rata to work done, budgets, population, previous year activity etc.) will need to be agreed.	Service fully funded. Easy to understand. Trading income, if netted off, shared in same proportions as spend. Costs to partners known in advance.	Each method will have winners and losers. If based on a budget the question of how variances are dealt with will need to be agreed.	Low
Results Based - Partners pay according to agreed %'age of benefits	High	Based on 'finder's fee' for income generated. Alternatively could be based on expenditure saved. Will need to have a protocol in place around when the share is paid over and how long it is paid for. Need to ensure fee is set at right level	Partners only pay for actual results gained. Partners have details of exactly what payment relates to.	• Does not reflect /incentivise prevention element • Difficult to budget for costs. • Does not take into account situations where there is a high resource requirement for small gains (and equally low resource input for high gains). • Difficult to quantify efficiency and similar non cash gains	High
Combined - Partners pay both fixed and variable elements according function being purchased Can also include 'finder's fee' approach	Depends on split	Still has the potential arguments around how the recharge should be calculated and how big the share of gain should be, and over what period, also adds the problem of how the split should be set.	Gives some security of funding to service. Enables partners to budget for part of expenditure. Could contain an element of 'smoothing' for variable elements	Still has the potential arguments around how the recharge should be calculated and how big the share of gain should be, and over what period, also adds the problem of how the split should be set. If set too much in favour of a recharge members could say that there is no incentive for fraud to be identified, if too much on results argument could be that only finding things to generate fee income.	Dependent on split between charge based on cost and that based on results.

In a combined charging scenario the fixed and variable elements could be as suggested in below, and commented on further in the supporting table:

Figure 7: Variable and Fixed Charges

Table 22: Variable and Fixed Charges

Service Type	Comments on Charging Approach
Fraud Response	Partners could agree and fund a contingency amount of days (and SIAS members could possibly have a combined pot); amounts over the contingency level would be chargeable at a daily rate Unlikely to be a significant element of service provision
Marketable Services	Charged at full cost basis; consider element of profit Unlikely to be a significant element of service provision for partners
Housing Related	Where partners have housing stock an additional fixed charge to reflect activity in this area Could be significant for partners with housing stock (SBC)
Data Hub & Investigation	Fixed fee for participating in data hub and for investigative activity. Most significant element of service provision. Brings risk of 'winners' and 'losers'. Could be mitigated by 'finders fee' or smoothing based on results
Fraud Prevention & Centre of Excellence	Fixed fee for participating in data hub and for investigative activity. Fairly significant element of service.

Conclusion

The lowest risk for the shared service would be to have fees based on a recharge set by reference to the overall budget, adjusted once actual costs are known and taking into account any trading income. This would ensure the service is fully funded and able to undertake preventive work, long running investigations and work covering two or more members without having to identify income generating projects.

For the purposes of the executive summary in the business case CFOs have been presented with a charge based on full cost recovery, shared equally among participants.

However CFO sponsors are keen to consider an element of 'finders fee' to incentivise the service, and there will need to be further discussion on this point.

8.5   Financial Implications

Table 23: Costs per Authority

Table 23 summarises costs per in scope authority – shared equally – and the commitment therefore required from each of the in scope authorities.

Total Costs	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Ongoing Costs	43	602	631	631	631
In Scope Authority Share	**7.2**	**100.2**	**105.1**	**105.1**	**105.1**

8.6   Affordability

Table 24: Overall Affordability

Table 24 demonstrates the shortfall or surplus which would arise assuming that authorities contribute their total budgeted expenditure for 2013/14. However, this does not make a distinction between the breakdown between each district after the HBA grant reduction is implemented, as shown on page 15 in Table 7.

In overall terms the removal of the admin grant in 2016/17 means authorities will need to invest funds in order to create the Shared Anti-Fraud Service.

	2014/15	2015/16	2016/17
	£	£	£
Funding available to cover costs[13]		758,633	758,633
Impact of HB Grant Reduction			252,293
Funding		758,633	506,340
(Surplus) / Shortfall		(63,933)	225,234

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[13] 13/14 budgeted expenditure

8.7   Return on Investment

Table 25: Return on Investment

Whilst recognising the speculative nature of figures, the project team consider that by 2016/17 the Shared Anti-Fraud Service could deliver returns of the order of £960k per annum based on research from neighbouring county areas and the experience of fraud exercises in Hertfordshire to date. This represents a rate of eight per cent of the 'at risk' value of fraud.

Total Costs	2014/15	2015/16	2016/17
	£'000	£'000	£'000
Fraud 'at risk' estimate	12,268	12,268	12,268
Hertfordshire Detection	246	246	246
Potential Income Base	12,022	12,022	12,022
Estimated Detection Rate	0%	5%	8%
Potential Income	0	601	962

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9 PROJECT MANAGEMENT DELIVERY AND NEXT STEPS

9.1 Project Constraints, Assumptions and Dependencies

Key **constraints** for consideration by the Project Board in supporting the Business Case:

- Work stream leads will not be dedicated to the project on a full time basis so capacity, particularly for key elements, will need to be kept under review
- Availability of stakeholders will affect the delivery of the project, for example fraud service staff participation in focus groups and scoping exercises

Key **assumptions** for consideration by the Project Board in supporting the Business Case:

- An experienced Fraud Manager is assigned to support the project
- The initial phase of the new service will be from implementation to go-live
- Go-live is planned before the first SFIS transfer in Hertfordshire

Key **dependencies** for consideration by the Project Board in supporting the Business Case:

- Harmonising systems
- The establishment of effective and workable governance arrangements
- The need to recognised the transitional period into SFIS and any requirements to support benefit fraud activity over this period
- The partnership continues for at least five years to ensure the opportunity to develop a sustainable solution. Reviews of the partnership would take place periodically.
- The provision of services which meet each organisation's needs and strategic objectives

9.2 Project Next Steps

It is proposed that the current governance arrangements continue into the next phase of the project i.e. that the Business Case is presented to the respective Cabinets, that senior Members are kept informed of progress through the usual channels, and all Members generally through joint communications where appropriate.

Governance arrangements and decision-making arrangements for the shared service operation will be explored in more detail in the next phase of the programme.

9.2.1 Formalising the Commitment of the Participating Councils

The Project Board agreed in June 2014 that after this Business Case has been approved, each potential partner will make its own assessment of the merits of the case in relation to its own position. Each Council will apply its own decision-making process and confirm the outcome to the Board.

It is r**ecommended** that each authority agrees to formally commit to participate in the shared service by a date to be agreed.

9.2.2 Resourcing the Project

At all levels of our organisations, working on this project is a rapid learning curve. The engagement of staff and the way they have worked together in the project teams has been positive, and needs to continue. Ensuring that staff in each Council at all levels of the project are able to continue to commit the necessary time and effort is critical to the success of the programme.

It is **recommended** that the programme continues to be resourced by the participating Councils to work alongside the Project Manager to prepare the Solution Design and start preparations for implementation. This resource is required to ensure that the project can be delivered in accordance with the proposed timetable.

9.2.3 Change Management

The proposed project will impact significantly on how anti-fraud services are provided, commissioned and managed throughout the participating Councils. This will affect not only those staff directly engaged in the provision of this service but also the Councils receiving the service.

A key success factor will be the ability of the participating Councils to communicate with a wide range of stakeholders and ensure that each is adequately informed and actively and positively engaged in the development and delivery of change.

It is vital that all stakeholders in all the participating Councils are kept appraised of the Boards decisions, the scope and aims of the project and of project progress. Stakeholder management and change management will be run as an integral part of the project management process in order to inform and improve the development of the project, identify potential resistance at an early stage, shorten delivery timescales and increase the likelihood of all potential project benefits being realised.

9.2.4 Implementation plan

The service will need to work to an agreed implementation plan post go-live to prioritise how each of these service elements will be brought on stream. It will be beneficial to have additional project support during the early stages of the new service to support this.

9.2.5 Shared Service Operation

Detailed work will need to be carried out on what the Shared Anti-Fraud Service model will look like (business process re-engineering), how it can most effectively operate (management and governance arrangements), where it will be accommodated and how each council can best monitor its operation (client function). Some consideration will also need to be given to branding and how the service is distinguished from the current SIAS operation.

9.2.6 Shared Service Performance

It will be necessary to define performance indicators and targets for the Shared Anti-Fraud Service. These will need to reflect the benefit delivered by the service to partners in terms of savings made or increased revenue, and ideally should incentivise the service to increase the volume and value of fraud it is identifying and resolving. The data required to produce performance information will need to be straightforward to obtain.

9.2.7 Systems Convergence

It is **recommended** that the participating Councils agree in principle to agree to adopt a single case management system in order to gain the benefits of moving to a common system.

9.2.8 Harmonising policies

Each Council has its own set of policies in relation to this area. Variance in key policies is potentially an area of diseconomy to a future shared services operation. It is **recommended** that policy harmonisation is progressed where it is straightforward to do so, for example in the areas of:

- Anti Fraud and Corruption Strategy
- Sanctions / prosecutions policy
- Money Laundering
- Anti-Bribery

Harmonisation will help achieve efficiency in terms of minimising any resource required to administer divergent policies, and reduced potential for errors in advice given.

9.3 Project Stakeholders

- Council staff
- Council senior managers and CFOs / S151 officers
- Relevant trade unions – in respect of arrangements for staffing the new structure
- Elected Members
- Internal and external auditors
- Residents of Hertfordshire

9.4 Project Issues and Risks

A detailed issue log and risk register will be developed by the project team. These registers will be monitored and maintained together with appropriate rating and controls. High impact issues and risks will be escalated by the Project Manager to the Project Lead and Sponsors as appropriate.

Key **issues** for consideration by the Project Board in supporting the business case:

- How to size the team given that size of the fraud issue in Hertfordshire is based on estimated rather than actual data
- Should the approach to developing the Shared Fraud Service be to run a pilot and then build incrementally allowing the team to develop its approaches, or should there be a more ambitious approach to ensure that skills and experience are not lost to the DWP
- How should any funding / charging model work

Key **risks** for consideration by the Project Board in supporting the business case:

- Difficulty in quantifying benefits to be delivered because of the hidden nature of fraud may make it difficult to achieve buy in for the proposal

- Partners may wish to retain some local anti-fraud activity
- Delay in the new shared service being ready leaving partners with a gap in services during any transitional period
- Over-ambitious target setting which means the service cannot meet its targets with an impact on its financial sustainability
- Lack of buy-in for the concept of the data hub
- Poor data quality meaning that the service is unable to effectively identify fraud
- Significant lead in times for the procurement of software

Appendix A: Fraud Overview

Type of Fraud	Definition	Scale	Approach to investigation / Legal / Sanctions	Comments on how this could work in SAFS
Council Tax discount schemes	Discount fraud relates to discounts and exemptions that are granted against someone's liability to pay council tax. For example sole occupants can receive a 25% discount off of their council tax bill. Other discounts are also available, including those for students or for empty properties. Discount fraud occurs where someone provides false information in order to obtain a discount/exemption that they are not entitled to	Council Tax fraud is estimated to cost councils and taxpayers £130m, of which £92m is undetected single person discount fraud according to the National Fraud Authority. This figure is based on earlier work by the Audit Commission which estimated that the rate of single person fraud totals 4% of council tax claims. Source (Guardian article July 2012)	Data matching In 2012/13 HCFOs conducted a joint campaign on Single Person Discount (SPD). County-wide, the campaign identified £2,347k over two years with an average of 706 incorrect discounts per authority, an average of £332 per case. Most Councils do not treat SPD as a fraudulent offence. Some just cancel the discount in the year they detect a fraud. Councils can recover funds lost in previous years and apply a penalty for fraudulently claimed discounts	SAFS could do local data matching via its hub It could also organise periodic campaigns on the model used in 12/13 There will need to be a hand-off point between Revs & Bens teams and SAFS The activity would help generate increased council tax revenue for authorities

Appendix A: Fraud Overview

Type of Fraud	Definition	Scale	Approach to investigation / Legal / Sanctions	Comments on how this could work in SAFS
Council Tax Reduction Scheme fraud	Reduction fraud relates to the new Council Tax Reduction (CTR) Scheme that was introduced in April 2013 to replace Council Tax Benefit. CTR is a reduction on the Council Tax Bill for people on low income or claiming benefits This fraud happens when someone provides false information in order receive Council Tax reduction, or when someone fails to report a change in circumstances that affects their entitlement to the reduction	No figures available.	This area is the subject of national discussion in relation to introduction of SFIS. The DWP have stated in an IRRV meeting that it is their intention to take back Council Tax Reduction schemes to a benefit and administer this from the DWP.	Area of uncertainty.

Appendix A: Fraud Overview

Type of Fraud	Definition	Scale	Approach to investigation / Legal / Sanctions	Comments on how this could work in SAFS
Tenancy fraud	This is where a tenant lets part, or all, of their home to somebody else contrary to the tenancy agreement	The NFA estimates that Housing Tenancy Fraud represents the second largest financial loss to fraud in local government, costing £845m. When combined with the loss to Tenancy Fraud suffered by Housing Associations, the total value in England is 1.8bn. At least 2 percent of stock outside London is thought to be subject to some form of tenancy fraud. (PPP 2013)	The Prevention of Social Housing Fraud Act came into law in November 2013 The act has seen tenancy fraud become a criminal matter – and local authorities will have the power to prosecute those who unlawfully sublet their social housing A recent judgement at Lewisham saw the judge award £20k under the Proceeds of Crime Act in a tenancy fraud case	The SAFS bid to DCLG contains a request for funds to support a pilot of tenancy fraud activity at Welwyn Hatfield Community Housing Trust and Stevenage Borough Council The bid envisages using the Who's Home solution, a data matching tool which risk-assesses each tenancy and identifies targets for tenancy fraud. The solution has other advantages for the Housing Provider such as a tool to help manage arrears. SAFS would pick up any tenancy fraud referrals Over time SAFS would seek to develop an offer to Housing Associations in this area and charge for the service. Initial discussions with Housing Associations indicate a level of interest in this

Appendix A: Fraud Overview

Type of Fraud	Definition	Scale	Approach to investigation / Legal / Sanctions	Comments on how this could work in SAFS
Right to Buy / Right to Acquire fraud	This includes cases where a tenant has applied for, or completed, the purchase of a socially rented home under the right to buy or right to acquire schemes, and has misrepresented their circumstances to either gain a discount they are not entitled to, or exercised the right to buy or acquire when they are not entitled to	As of April 2012 the discount available for tenants intending to buy their socially rented property was increased to up to £75,000 off the purchase price

Tenants who are not eligible for the right to buy discount scheme may still be able to access the right to acquire discounts when purchasing their property. These are typically between £9,000 and £16,000 depending on the location

Detection of fraudulent right to buy cases rose by 392 per cent between 2011/12 and 2012/13 | Increasingly Housing providers use data matching | As in the case of Tenancy Fraud, over time SAFS would seek to develop an offer to Housing Associations in this area and charge for the service |

Appendix A: Fraud Overview

Type of Fraud	Definition	Scale	Approach to investigation / Legal / Sanctions	Comments on how this could work in SAFS
Business Rates	This is any fraud linked to the evasion of paying Non Domestic Rates including, but not limited to, falsely claiming mandatory or discretionary relief, falsely using insolvency status, failure to declare occupation, and payment using false bank details.	There is no National Fraud Authority indicator for this type of Fraud. In Protecting the Public Purse 2013 £7.2M of detected business rate fraud was reported, with the figures skewed by a single case of £5m In April 2013 the Business Rates Retention Scheme was introduced allowing council to retain half the Business Rates income they collect, giving a greater incentive to prevent and tackle business rate fraud Given the scale of the business rate debit, even a very low percentage of fraud or error can result in significant sums. Taking Hertsmere as an example, the authority's Business Rate chargeable debit for 2013/14 is £48.6m; a one per cent fraud or error rate on this equates to £486k	Data matching HCFOs are currently considering a county wide data matching exercise on Business Rate fraud, generating matches for investigation Business Rates legislation does not allow for prosecution but cases could be brought under other Fraud Act legislation	Seen as an area with significant potential SAFS to do local data matching via its hub & investigate matches

Appendix A: Fraud Overview

Type of Fraud	Definition	Scale	Approach to investigation / Legal / Sanctions	Comments on how this could work in SAFS
Procurement	This is any fraud linked to the false procurement of goods and services for the organisation either by internal or external persons or companies including, but not limited to: violation of procedures; manipulation of accounts; records or methods of payment; failure to supply; failure to supply to contractual standard	Estimated at £855m across local government by NFA	Difficult to detect Traditional reliance on whistleblowing activity to detect issues	Ability to use analytical review tools to look at high volume / value suppliers Assist in fraud proofing of systems Awareness raising Fraud risk assessments on major procurement exercises
Insurance	This is any insurance claim against an organisation or its insurers that proves to be false.	Estimated by LAIOG as 6 percent of claims	Often picked up under NFI	Use of data matching & analytical review tools Assist in fraud proofing of systems
Social Care payments	Fraud linked to social services provision including, but not limited to: false payments to contractors for house modifications; personalised budgets for the purchase of care; failing to declare capital and assets; care provision by contractors or a non-governmental organisation which are not for the benefit of the person being cared for	Considered to be an emerging risk area as personal budgets gain prevalence (worth £1.3 billion in 2012/13). 200 cases valued at £4m were reported in Protecting the Public Purse 2013.		Use of data matching & analytical review tools Assist in fraud proofing of systems Awareness raising

Appendix A: Fraud Overview

Type of Fraud	Definition	Scale	Approach to investigation / Legal / Sanctions	Comments on how this could work in SAFS
Blue Badges	This includes abuse of badges; using a counterfeit badge, using a lost or stolen badge and using the badge of a deceased person. Also misuse of genuine badges; using the badge when the holder is not present.	Blue parking badges for the disabled are held by an 2.56 million people in England. The NFA estimates that 20% of all blue badges in circulation are abused. One in every 200 badges is stolen each year. Fewer than 3,000 blue badge frauds were detected in 2012-13 Detections on the ground by councils require effort, but a national exercise resulted in 32,633 blue badges being cancelled. County Councils have much the lowest numbers of detections	Use of a badge by an able-bodied person carries a fine of up to £1,000, The government is looking to give councils new powers to confiscate stolen or forged badges. Rochdale Council has explained the case for a central database of disabled blue parking badges in issue. Strikingly, the local authorities involved in the project with them (Manchester, Bolton, Sefton and Cumbria) believe that 50-70% of badges in use are fraudulent. The database will allow real time entitlement checks of the issuing authority's records to be made by enforcement officers anywhere in the country	Use of data matching & analytical review tools Assist in fraud proofing of systems
Internal / employee frauds	Frauds committed by workers used by the council Includes abuse of position and frauds relating to payroll, pensions and expenses	Protecting the Public Purse 2013 reported 1315 cases valued at £16.5m	Will be determined on a case by case basis	Use of data matching & analytical review tools Assist in fraud proofing of systems Awareness raising

Appendix B   Extract from Fraud Baseline Survey February 2014

Name of Authority	North Hertfordshire District Council	East Herts Council and Stevenage Borough Council	Broxbourne Borough Council	Hertsmere Borough Council	HCC
Scope of the counter fraud service / function	Managed from within the Revenues and Benefits area	No response	No response	Both benefit and non-benefit fraud	Non-benefit fraud only
Is there any definition of the roles and responsibilities of the service, e.g. in a service plan document	No response			Service plan document exists	None defined although IA leads on anti-fraud and corruption
Date of transfer to SFIS	1 June 2015	1 May 2015	1 April 2015	1 May 2015	N/A
Comments: (e.g. limitations / show-stoppers etc.)	None	None	None	None	None

Appendix B   Extract from Fraud Baseline Survey February 2014

Name of Authority	North Hertfordshire District Council	East Herts Council and Stevenage Borough Council	Broxbourne Borough Council	Hertsmere Borough Council	HCC
FTEs in service 13/14 Please supply	4 FTE Investigations manager Investigations assistant Investigations officer x 2	5 FTE Job title 1 x Assistant Manager Control & Fraud 2x Senior Control & Fraud Officers 2 x Customer Support officers	5.43 FTE Investigations Officer 0.81 FTE Fraud & Error Team Leader 1FTE Investigations Officer 2FTE Fraud & Error Officer 1.62 FTE	2.5 FTE 0.5 manager post 1 investigator post 1 vacancy	N/A – resourced from SIAS; approx. 1FTE
Provide information about breakdown of activity between benefit fraud and non-benefit fraud e.g. breakdown of cases; breakdown of hours spent on benefit / non-benefit Indicate whether this is based on actual information or estimates	Unconfirmed at present although can confirm that non-benefit fraud is investigated by the team	No response	All benefit fraud – we would like to do more non-benefit fraud and would hope that SFIS would provide this service as well	Approx. 25% of the team's activity is non-benefit fraud related	All non-benefit fraud. Includes NFI, proactive work; investigation work (not all of which necessarily involve fraud)

Appendix C   Data Hubs and IT for the Shared Service

This appendix describes the proposed IT solutions for the Shared Service.

Data Hubs, Data Warehousing and Data Matching

Data Hubs, Data Warehousing and Data Matching are elements of an IT/Systems infrastructure with the aim of gaining intelligence from previously disparate sets of data. In essence, a Data Hub is usually in the form of a hub and spoke architecture. It provides the systems infrastructure needed to either continuously or batch upload data from separate databases into controlled data environment i.e. the Data Warehouse.
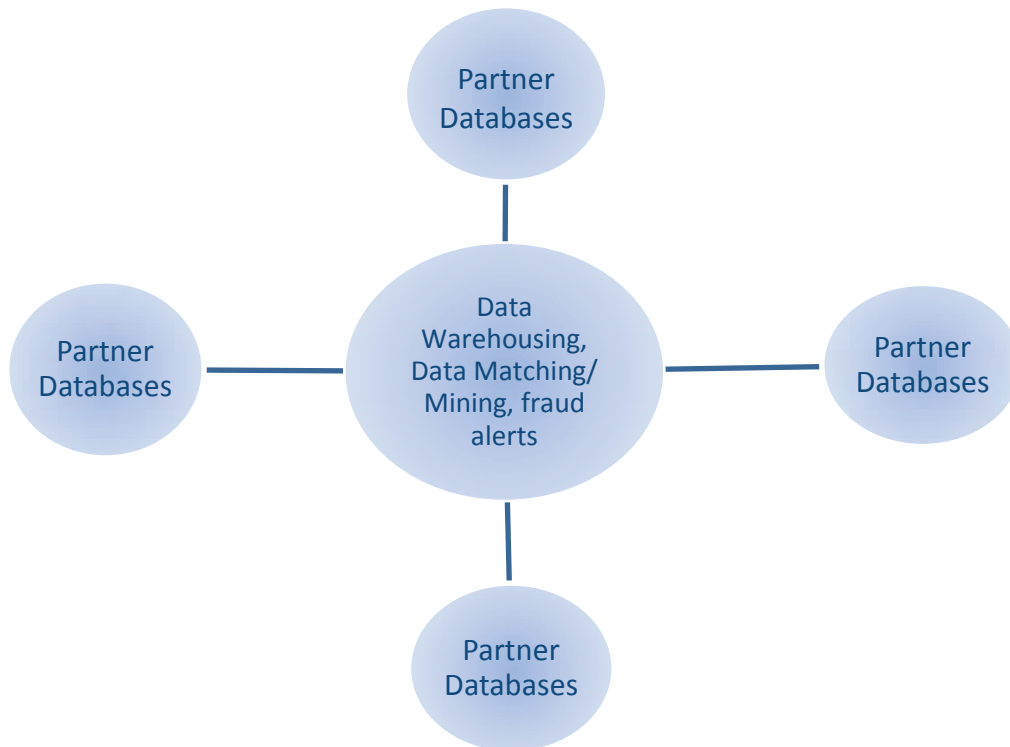
The Data Warehouse can integrate current and historical data from multiple source systems, enabling a central view across the partnership. For fraud management these databases can include property, benefits, electoral role and external data sources such as credit checking agencies and government databases. This process can also identify issues with data quality which can be fed back to the source data organisation which can then seek to improve data collection processes and procedures.

The data warehouse provides an environment where investigations can be conducted looking at specific correlations of data i.e. Data Matching. Data Matching is the process of comparing multiple sets of collected data to identify anticipated correlations. For example, identifying multiple occupants in properties where a single person discount is being provided. Data Mining describes the process of analysing data looking for previous un-anticipated matches. These new correlations can then be fed back to the partner organisations to improve intelligence regarding fraud management.

The project team has visited an authority which has set up a data hub and which is using this to generate matches for fraud team investigation.

The project team also saw a presentation of the 'Who's Home?' system which is a data matching tool that has been developed for the Housing Sector. In this approach a data matching report is bought from a private provider for a fee based on the size of the housing stock. In similar examples, HCFOs have commissioned external data matching reports in respect of Single Persons Discounts in Council Tax, and Business Rates.

Appendix C   Data Hubs and IT for the Shared Service

Data Hub, Data Warehousing and Data Matching Fraud Intelligence System

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                        ┌─────────────┐
                        │   Partner   │
                        │  Databases  │
                        └─────────────┘
                               │
        ┌─────────────┐  ┌──────────────┐  ┌─────────────┐
        │   Partner   │  │     Data     │  │   Partner   │
        │  Databases  │──│ Warehousing, │──│  Databases  │
        └─────────────┘  │Data Matching/│  └─────────────┘
                         │Mining, fraud │
                         │    alerts    │
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                        ┌─────────────┐
                        │   Partner   │
                        │  Databases  │
                        └─────────────┘
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Fraud Management Systems (FMS)

FMS are dedicated case management applications designed to support the fraud management process including fraud alert generation, the investigations process and preparation for any subsequent legal action.

Most FMS systems are modular in design and can be further enhanced by the addition of 'plug-in' module software dedicated to pursuing a particular fraud type such as tenancy or single person discount fraud.

Document Management/scanning

Fraud investigations can frequently generate considerable amounts of sensitive information in a wide range of formats such as emails, hardcopy documents, recording of interviews, videos etc. A dedicated management/scanning can help manage this information, restrict its access while enabling it to be easily reachable when required.

MS Sharepoint – Collaboration Software

MS Sharepoint is described as a collaboration solution. It is simple to adapt and deploy and runs in a simple web-browser. It supports the intelligence sharing functions by enabling key messages, fraud alerts and fraud avoidance activities to be quickly rolled out to key personnel in partner organisations. It can also provide an interface with members of the public to support whistle-blowing and feedback.

Appendix D   Advantages and Disadvantages of Options

	Proposed Service Delivery Options	**Key considerations, risks and issues**	
1	Fraud work delivered locally	*Advantages* • Minimal disruption • Local control retained	*Disadvantages* • Benefits of partnership working on fraud not achieved. Fraud response at individual councils weakened by loss of benefit investigators to DWP • Councils will have to deal individually with the upheaval created by the DWP transfer and any resulting gap in arrangements
		Conclusion – *Discount* – does not fully address the impact of SFIS ***Councils can still follow this route should they decide not to participate in the Shared Fraud Service***	
2	Collaboration or 'virtual services' option i.e. Joint Working In this approach Councils work together informally to achieve the benefits of collaborative working	*Advantages* • Local control retained • Does not require formal governance structures to be established • Will allow sharing of intelligence and knowledge	*Disadvantages* • Locally based teams will be smaller post DWP transfer and are unlikely to be resourced sufficiently to deliver joint working • Success will depend on how far individuals wish to engage with joint projects • No real economies of scale would arise • No increase of robustness of service
		Conclusion – *Discount* – may go some way to addressing the impact of SFIS but informal collaboration unlikely to deliver economy of scale or resilience	

Appendix D   Advantages and Disadvantages of Options

	Proposed Service Delivery Options	Key considerations, risks and issues	
3	Council 'hub' or shared service option hosted by HCC using existing SIAS vehicle This approach would have the following characteristics:- ▪ Staff would be employed by HCC ▪ The service would be set up as a specialist team ▪ The existing governance arrangements for SIAS would be extended ▪ Existing operational models would be adapted including access to external partner (currently PWC) if very specialist support is needed	*Advantages* *Financial* • Generation of efficiencies through economies of scale *Non-financial* • Most likely option to deliver best value in terms of coverage and retention of skilled staff • Able to flex resources to 'hotspots' • Opportunity to streamline the management function. • Linkage with an established brand and successful reputation • Well-understood and effective governance arrangements in which 8 Hertfordshire councils participate • Management team experienced in shared service change management, service development and process design • Natural synergy between anti-fraud work and internal audit work • Opportunity to flex resources for example in drawing in SIAS staff with fraud qualifications / experience • Work allocation and capacity management arrangements established and transferrable	*Disadvantages* • HR terms and condition will need to be resolved • May divert SIAS management team focus from internal audit service delivery
		Conclusion – *Preferred option* – most likely to deliver resilience, economy of scale and location within SIAS builds on established 'brand'	

Appendix D   Advantages and Disadvantages of Options

	Proposed Service Delivery Options	Key considerations, risks and issues	
4	Council 'hub' or shared service option hosted by a District Council	**Advantages** *Financial* • Generation of efficiencies through economies of scale *Non- financial* • There is experience of shared service change management, service development and process design within districts • There are governance models which could be adapted to a Shared Fraud Service • There would be opportunities for synergy with host authority Revs and Bens team	**Disadvantages** *Financial* • Duplication of resource in establishing new governance arrangements, loss of economy of scale *Non- financial* • Districts will need to evaluate which of them is best placed to take on the hosting role • HR terms and conditions will need to be resolved • Ongoing commitment required to deliver the project, including agreement of legal and governance framework and delivery of business case, and then maintain ongoing management responsibility and accountability
		Conclusion – *discount* – option is viable but diseconomy of scale in establishing new partnership arrangements; needs a district council to host	
5	Outsourced services option Purchase a service from an external provider	**Advantages** • This offers the opportunity for a commercial arrangement with local, regional and national benchmarked providers	**Disadvantages** • Accountancy firms offer some fraud services but at a premium rate and not a holistic offering • Loss of council control • Unclear at present about the type of service required
		Conclusion – *discount* – difficulty at present in specifying service requirements for an outsourced operation	

Appendix D   Advantages and Disadvantages of Options

	Proposed Service Delivery Options	Key considerations, risks and issues	
6	Outsourced services option Establish an independent joint venture company	***Advantages*** • Enhanced degree of local council control	***Disadvantages*** • Not considered to be currently feasible because of the uncertain nature of the environment
		Conclusion – *discount* – arrangements not sufficiently mature. **S*uch a step may be feasible in future but not at present***	

Appendix E   Key Assumptions

Financial Assumptions

Salary costs

Salary costs of staff required for SAFS team - calculated using HCC Financial Planning Template
Assumes SAFS implemented wef April 2015
Agreed at Board Meeting 23/9/14 to assume a start-up date of 1/3/15 - therefore 14/15 cost is 1/12th
Agreed at Board Meeting 23/9/14 that inflation would not be applied - therefore based on 2014/15 costs

It has been assumed that the Data Co-ordinator costs in 2015/16 are covered by the DCLG bid.

Non-pay costs

Non-pay costs - originally based on 2013/14 spend across District (HCC excluded for this purpose as only 1 wte)
(this results in an average of £7k per member of staff across all Districts for 2014/15)
Then based on 2013/14 budget - 2013/14 actual costs would be higher by 40%
It was thought that these figures are too high for the numbers of staff involved and that a more prudent estimate would be £40k
Agreed at Board Meeting 23/9/14 that inflation would not be applied - therefore based on 2014/15 costs
Agreed at Board Meeting 23/9/14 to assume a start-up date of 1/3/15 - therefore 14/15 cost is 1/12th

It has been assumed that on-going IT costs in 2015/16 are covered by the DCLG bid.

Recharges

Corporate recharges average percentage - 16%
Although these costs will not be shown in individual services they should still be taken into account for financial analysis purposes.
Not included for 2014/15 and only calculated against on-going costs and not any set-up costs (per H Maneuf)

Calculation of potential income

Fraud at risk estimate - based on figures provided in District responses and national estimates of spend at risk of fraud (taken from various benchmarking exercises undertaken). This is made up of estimates for fraud in relation to Council Tax Support and Single Person Discount, Business Rate Relief, insurance claims, procurement, the cost of issuing fraudulently obtained blue badges, social care direct payments and grants.It does not include payroll, pensions, recruitment or expenses fraud, right to buy or housing tenancy fraud or potential lost parking revenue as a result of fraudulent blue badge use.
Hertfordshire detection figures - based on fraud survey returns 2013/14 and data returned in August questionnaire to partners.
Assumes a potential income figure as the gap between national estimates and Hertfordshire actual fraud detection
The detection rate has been applied by Helen Maneuf and based on the assumption that there will be a higher detection rate in 16/17 which will remain the same in 17/18 and 18/19.
Potential income figure based on detection rate for the potential income base.

Appendix E   Key Assumptions

Additional Assumptions

Service Delivery Assumptions
- That the national changes (Single Fraud Investigation Service and changes to Universal Credit) will occur
- That the levels of fraud activity are higher than detection rates
- There is enough core function work to sustain the core team for the foreseeable future
- That the types, complexity and value of fraud will continue to change, generating further opportunities for the service
- That levels of fraud return are achievable
- That Partners agree to develop data hub
- That SAFS takes on responsibility for National Fraud Initiative

HR Assumptions
- Fraud investigations are prioritised based on risk rather than set quota for each type
- Staff work generically across the partnership
- Staff are co-located with the exception of compliance officers who operate remotely
- TUPE is not appropriate because non-benefit fraud investigation work is not being provided in the districts, or if it is it is not in any discernible way

IT Assumptions
- A common case management system will be adopted
- Authorities will provide local systems access

Appendix F   Risks and Issues

Risk number	Risk description	Likelihood	Impact	Risk score	Controls
1	No clear/agreed consensus on solution offered, meaning the loss of experienced and skilled investigation staff to the DWP	Possible	High	Severe	1. Timely agreement on the way forward and move towards implementation of new structures quickly 2. Period of service development 3. Agree approach to staff engagement and communication strategy as an early priority
2	Difficulty accurately predicting savings/efficiencies to be made	Likely	High	Very Severe	1. Draw on Audit Commission data 2. Take a realistic view when describing benefits, particularly any cashable ones
3	Any partners wishing to continue with some local anti-fraud activities	Possible	Very high	Very Severe	1. Discuss and agree approach at Board 2. Model range of scenarios 3. Address early in service design, taking into account local needs 4. Work to achieve stakeholder buy in, particularly with Revs and Bens teams
4	Local knowledge and contacts are lost resulting in a lack of engagement in the local authorities, and an inability to pursue fraud cases	Possible	High	Severe	1. Address in service design and development phase, ensuring close links into partner councils
5	SIAS team resources may be diverted into a major fraud investigation with consequent failure of SIAS to meets its own targets	Possible	Medium	Severe	1. Ensure the charging mechanism is designed to deal with this issue; potential to flex staff
6	Charging arrangements are inequitable and complex, resulting in a failure to cover costs and customer	Possible	High	Severe	1. Ensure the charging mechanism is designed to deal with this issue 2. Ensure the charging mechanism is simple, equitable and straightforward to operate

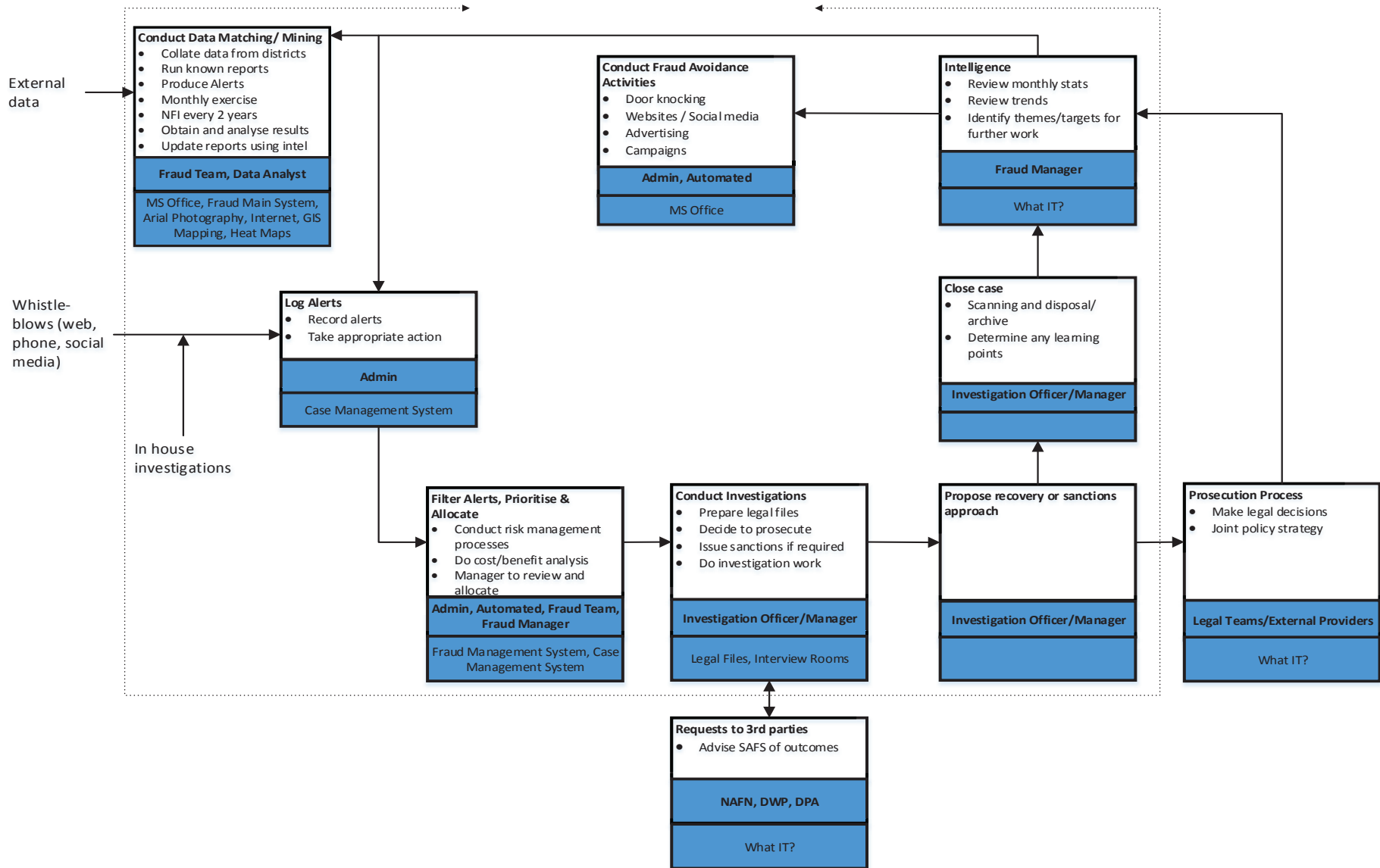| Risk number	Risk description	Likelihood	Impact	Risk score	Controls
	dissatisfaction				
7	Targets are unrealistic and not achieved, resulting in partners having to fund the service to higher levels than originally envisaged or the need to restructure the service to save costs	Possible	High	Severe	1. Ensure targets are set prudently 2. Ensure structure of service is set prudently
8	Service cannot easily / efficiently identify the financial benefits it has delivered, resulting reputational damage for the service and customer dissatisfaction	Possible	Medium	Severe	1. Ensure any targets that are set relate to income / savings streams that are significant and can be readily quantified, preferably based on information already collected by partners
9	Different approaches to dealing with fraud outcomes in each local authority	Possible	Medium	Severe	1. Agree common fraud priorities and protocols at design stage 2. Allow for element of flexibility and sensitivity to local circumstances
10	A delay in the new shared service being ready in time	Likely	High	Very Severe	1. Address in service design, ensuring there is a transition phase and contingency plans are in place
11	The service inherits liabilities or has set up costs in excess of original expectations	Possible	Medium	Severe	1. Ensure set up cost assumptions challenged by Accountancy 2. Ensure workstreams are briefed to cover this area in business case and solution design phases 3. Collect data from districts to capture as much known information as possible

Appendix F   Risks and Issues

Risk number	Risk description	Likelihood	Impact	Risk score	Controls
12	Failure to comply with the terms and conditions of the Counter Fraud Fund grant so that funding may not be available	Possible	High	Severe	1. Ensure terms and conditions are understood and addressed in business planning 2. Understand what is core and what is additional in the grant and show the impact of an unsuccessful bid on costs
13	Staff have insufficient or the wrong skill sets so the service cannot effectively investigate fraud	Possible	High	Severe	1. Ensure the proposed staff structure has the right number and right levels of staff 2. Ensure job descriptions and person specifications contain the right requirements 3. Ensure the selection process can robustly test applicants against role requirements
14	Inefficient or ineffective processes so the service is unable to produce financial outcomes and/or prosecutions from investigations	Possible	High	Severe	1. Ensure processes are designed in consultation with fraud experts and are fit for purpose
15	Not being in a position to recruit to the new service in time and key staff are transferred to the DWP	Possible	High	Severe	1. Ensure timetable allows the service to offer jobs ahead of the DWP transfer date
16	Poor data quality means that the service is unable to effectively identify fraud	Possible	High	Severe	1. Ensure the project is supported by someone who understands the technical details of data warehouse management 2. Ensure the technical specifications of any software procured are fit for purpose
17	Significant lead in times for the procurement of software	Likely	High	Very Severe	1. Ensure sponsors are aware of any procurement timelines and resulting impact on service delivery 2. Engage Strategic Procurement Group

Appendix F   Risks and Issues

Risk number	Risk description	Likelihood	Impact	Risk score	Controls
18	Poor quality of data matching software means individuals are prosecuted/pursued for redress incorrectly/illegally	Possible	Medium	Severe	1. Ensure the project is supported by someone who understands the technical details of data sharing 2. Ensure the technical specifications of any software procured are fit for purpose 3. Ensure there are safeguards in place to ensure that any legal action is appropriate

Appendix G   Process Mapping

Fraud Core Process Draft

Conduct Data Matching/ Mining
- Collate data from districts
- Run known reports
- Produce Alerts
- Monthly exercise
- NFI every 2 years
- Obtain and analyse results
- Update reports using intel

Fraud Team, Data Analyst

MS Office, Fraud Main System, Arial Photography, Internet, GIS Mapping, Heat Maps

External data

Whistle-blows (web, phone, social media)

In house investigations

Conduct Fraud Avoidance Activities
- Door knocking
- Websites / Social media
- Advertising
- Campaigns

Admin, Automated

MS Office

Intelligence
- Review monthly stats
- Review trends
- Identify themes/targets for further work

Fraud Manager

What IT?

Log Alerts
- Record alerts
- Take appropriate action

Admin

Case Management System

Close case
- Scanning and disposal/ archive
- Determine any learning points

Investigation Officer/Manager

Filter Alerts, Prioritise & Allocate
- Conduct risk management processes
- Do cost/benefit analysis
- Manager to review and allocate

Admin, Automated, Fraud Team, Fraud Manager

Fraud Management System, Case Management System

Conduct Investigations
- Prepare legal files
- Decide to prosecute
- Issue sanctions if required
- Do investigation work

Investigation Officer/Manager

Legal Files, Interview Rooms

Propose recovery or sanctions approach

Investigation Officer/Manager

Prosecution Process
- Make legal decisions
- Joint policy strategy

Legal Teams/External Providers

What IT?

Requests to 3rd parties
- Advise SAFS of outcomes

NAFN, DWP, DPA

What IT?

Appendix H   List of Tables and Figures

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Essential Reference Paper 'C'
Options Analysis

	Proposed Service Delivery Options	Key considerations, risks and issues	
1	Fraud work delivered locally	**Advantages** • Minimal disruption • Local control retained	**Disadvantages** • Benefits of partnership working on fraud not achieved. Fraud response at individual councils weakened by loss of benefit investigators to DWP • Councils will have to deal individually with the upheaval created by the DWP transfer and any resulting gap in arrangements
		Conclusion – *Discount* – does not fully address the impact of SFIS ***Councils can still follow this route should they decide not to participate in the Shared Fraud Service***	
2	Collaboration or 'virtual services' option i.e. Joint Working In this approach Councils work together informally to achieve the benefits of collaborative working	**Advantages** • Local control retained • Does not require formal governance structures to be established • Will allow sharing of intelligence and knowledge	**Disadvantages** • Locally based teams will be smaller post DWP transfer and are unlikely to be resourced sufficiently to deliver joint working • Success will depend on how far individuals wish to engage with joint projects • No real economies of scale would arise • No increase of robustness of service
		Conclusion – *Discount* – may go some way to addressing the impact of SFIS but informal collaboration unlikely to deliver economy of scale or resilience	

	Proposed Service Delivery Options	**Key considerations, risks and issues**	
3	Council 'hub' or shared service option hosted by HCC using existing SIAS vehicle This approach would have the following characteristics:- ▪ Staff would be employed by HCC ▪ The service would be set up as a specialist team ▪ The existing governance arrangements for SIAS would be extended ▪ Existing operational models would be adapted including access to external partner (currently PWC) if very specialist support is needed	*Advantages* *Financial* • Generation of efficiencies through economies of scale *Non-financial* • Most likely option to deliver best value in terms of coverage and retention of skilled staff • Able to flex resources to 'hotspots' • Opportunity to streamline the management function. • Linkage with an established brand and successful reputation • Well-understood and effective governance arrangements in which 8 Hertfordshire councils participate • Management team experienced in shared service change management, service development and process design • Natural synergy between anti-fraud work and internal audit work • Opportunity to flex resources for example in drawing in SIAS staff with fraud qualifications / experience • Work allocation and capacity management arrangements established and transferrable	*Disadvantages* • HR terms and condition will need to be resolved • May divert SIAS management team focus from internal audit service delivery
		Conclusion – *Preferred option* – most likely to deliver resilience, economy of scale and location within SIAS builds on established 'brand'	

	Proposed Service Delivery Options	Key considerations, risks and issues	
4	Council 'hub' or shared service option hosted by a District Council	**Advantages** *Financial* • Generation of efficiencies through economies of scale *Non- financial* • There is experience of shared service change management, service development and process design within districts • There are governance models which could be adapted to a Shared Fraud Service • There would be opportunities for synergy with host authority Revs and Bens team	**Disadvantages** *Financial* • Duplication of resource in establishing new governance arrangements, loss of economy of scale *Non- financial* • Districts will need to evaluate which of them is best placed to take on the hosting role • HR terms and conditions will need to be resolved • Ongoing commitment required to deliver the project, including agreement of legal and governance framework and delivery of business case, and then maintain ongoing management responsibility and accountability
		Conclusion – *discount* – option is viable but diseconomy of scale in establishing new partnership arrangements; needs a district council to host	
5	Outsourced services option Purchase a service from an external provider	**Advantages** • This offers the opportunity for a commercial arrangement with local, regional and national benchmarked providers	**Disadvantages** • Accountancy firms offer some fraud services but at a premium rate and not a holistic offering • Loss of council control • Unclear at present about the type of service required
		Conclusion – *discount* – difficulty at present in specifying service requirements for an outsourced operation	

	Proposed Service Delivery Options	Key considerations, risks and issues	
6	Outsourced services option Establish an independent joint venture company	**Advantages** • Enhanced degree of local council control	**Disadvantages** • Not considered to be currently feasible because of the uncertain nature of the environment
		Conclusion – *discount* – arrangements not sufficiently mature. **Such a step may be feasible in future but not at present**	