

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 9
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TITLE OF REPORT: PROPOSED SHARED ANTI-FRAUD SERVICE PARTNERSHIP

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY AND GOVERNANCE

This report is in draft format and will be presented to Cabinet on 16 December 2014

1. SUMMARY

- 1.1 In April 2015, the roll out of the DWP's Single Fraud Service (SFIS) will commence in Hertfordshire and by June 2015, North Hertfordshire's Benefit Fraud Investigation Team will transfer and the authority will lose the in-house expertise to carry out fraud investigation work.
- 1.2 The Government has recognised that corporate fraud will remain an issue for local authorities and DCLG has made funding available for authorities to set up counter fraud initiatives. An application for funding has been made by Hertfordshire authorities.
- 1.3 Hertfordshire Chief Finance Officers have discussed the potential impact of the introduction of SFIS and all districts agreed to work together to investigate the potential for a shared service. A business case has been developed and authorities are being asked for an "in principle" agreement to participate in a shared service so that work can continue on developing the detailed implementation phases with a view to a service going live in March 2015.
- 1.4 The Shared Anti-Fraud Service Project Board, comprised of Hertfordshire Chief Financial Officers (CFOs), has reviewed the Business Case for a shared anti-fraud service to replace the various fraud investigation teams and recommends the creation of a Shared Anti-Fraud Service. This report seeks approval for the participation in and establishment of a Shared Anti-Fraud Service for non-welfare benefit and corporate fraud by means of a partnership between:
 - Broxbourne Borough Council
 - East Herts District Council
 - Hertfordshire County Council
 - Hertsmere Borough Council
 - North Hertfordshire District Council
 - Stevenage Borough Council
- 1.5 The Strategic Director, Finance Policy and Governance has reviewed the Business Case on behalf of North Hertfordshire District Council and recommends that the Council becomes a partner. This report provides the rationale for this recommendation.

2. RECOMMENDATIONS

2.1 It is recommended that Cabinet:

- a) Approves the proposal that North Hertfordshire District Council becomes a partner in the Shared Anti-Fraud Service for non-welfare benefit and corporate fraud between the Councils identified at 1.1 above
- b) Authorises the Strategic Director, Finance Policy and Governance to make the detailed arrangements to establish the Shared Anti-Fraud Service.

2.2 That Cabinet notes that 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

2.3 That Cabinet notes that it is anticipated that the new service will go live on 2 March 2015, and be in place in its original form in terms of staffing structure and numbers for a period of five years, subject to review during this period.

3. REASONS FOR RECOMMENDATIONS

3.1 To enable work to continue on the setting up of a Shared Anti-Fraud service in advance of the April 2015 roll out of SFIS.

3.2 To enable Hertfordshire Authorities to tackle in a more structured way the many forms of fraud faced by Local Authorities as identified by Audit Commission and National Audit Office reports e.g. Single Occupancy Discounts, Tenancy Fraud, Business Rate Fraud, Grants Fraud, Payroll Fraud, Blue Badge Fraud, etc.

3.3 To ensure that there is a strong message to any potential fraudsters that fraud will not be tolerated and that there will remain adequate and professional capacity to investigate fraudulent activity.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 To not participate in a shared anti fraud service and allow the investigation expertise to be lost.

5. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS

5.1 Informal consultation on the principles was carried out at the November budget workshops.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 1st November 2014.

7. BACKGROUND

- 7.1 A number of Hertfordshire 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 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.
- 7.2 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-welfare 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.
- 7.3 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 roll 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.
- 7.4 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.
- 7.5 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 the final pages of Appendix 1.
- 7.6 The proposal in this report supports the Priority of "Living within our means". It is one of the project streams arising from the Senior Management Team project of "New ways of working and office accommodation".

8. ISSUES

- 8.1 Whilst all ten districts and the County have participated in the discussions to date, not all are prepared to become founding members of a Shared Anti-Fraud service (SAFS). This is for a variety of reasons ranging from having services contracted out, services in trusts or simply wishing to have longer to consider the options. All are, however, supportive of the concept.
- 8.2 This was a similar experience when SIAS was created by 5 Districts and the County and the founding authorities agreed to proceed and allow others to join at a later date and there are now 8 out of the 11 authorities in SIAS although those joining later pay a higher rate than the founding authorities. Due to the timescales involved in seeking to have the new service go live before the first transfer to SFIS, it is not possible to go at the speed of the slowest and having reached a position where six authorities are prepared to take the new shared service forward, the draft report attached as Appendix 1 has been prepared as background to take to the relevant decision making body in each authority.

9. LEGAL IMPLICATIONS

- 9.1 The terms of reference for Cabinet state that they are to approve those major service developments or reductions which also constitute Key Decisions. Cabinet also have power to promote and develop external partnerships to meet strategic objectives.
- 9.2 Depending on the final proposals which may emerge from exploration of the shared service opportunity outlined above, there will be a number of employment, procurement and corporate implications which will require thorough examination.
- 9.3 Under the legislation, something is a key decision if it is an executive decision likely to result in expenditure or savings that is significant having regard to the local authority's budget for the service or function to which the decision relates. The Council also views something as a key decision if the expenditure or savings exceed £50K.
- 9.4 The Strategic Director, Finance Policy and Governance is delegated the functions of investigation of benefit fraud, operational management and support for external partnership arrangements, risk management and management of financial resources. The Finance Audit and Risk Committee have within their terms of reference to monitor the effective development and operation of risk management and to monitor and input into the development of council policies including the anti-fraud and anti-corruption strategy.

10. FINANCIAL IMPLICATIONS

- 10.1 North Hertfordshire already makes a budget provision of £110K towards the costs of the Benefits Fraud team, an element which is subsidised by DWP through the Benefit Administration Subsidy. The exact amount of this funding is not known as it is rolled up into the whole Benefit Administration Subsidy.
- 10.2 When Housing Benefit Fraud transfers to SFIS in June 2015, it is expected that this element of the Benefit Administration Subsidy will be lost and the Subsidy will be reduced. DCLG has promised that funding for the detection and prevention of Council Tax Support Fraud will be made available but this is likely to be substantially less than the Subsidy received from DWP for Housing Benefit Fraud.

- 10.3 It is therefore impossible at this stage to determine what additional cost may be incurred by the Council in participating in SAFS and this will not be known until the Subsidy arrangements for 2015/2016 are published. The Government is currently undecided on which formula to use for distribution of the Benefit Administration Subsidy for 2015/2016 and a worse case scenario is that this Council's Subsidy could reduce by around £100K (14%) even before the adjustment is made for the loss of the Fraud Team. Any costs will of course be offset by additional income to the authority through the detection of additional fraud. The report at Appendix 1 indicates the potential areas where fraud may be occurring and the amounts that could be currently uncollected as a result of fraudulent activity and shows that there is potential for SAFS to recover more than it costs.
- 10.4 A bid for start-up funding has been submitted to DCLG. Initial indications were that authorities would hear by 31 October 2014 if their bid had been successful. At the time of writing this report, information is still awaited.
- 10.5 Whilst it is difficult to provide a firm estimate of the on-going financial benefit to the authority of undertaking anti-fraud work, it is clear that the authority has a duty to the local tax-payer to safeguard public funds and minimise the loss to fraud so that it can spend the maximum possible on delivering local services i.e. can we afford not to do it. An example of how North Hertfordshire has benefited from one-off targeted anti-fraud investigations in the past would be the 2012 Council tax single person discount exercise which identified cases of incorrectly claimed single person discount with a value of £225K.

11. RISK IMPLICATIONS

- 11.1 There is a risk that the levels of fraud indicated in the report at Appendix 1 will not be found resulting in partners having to fund the service to higher levels than originally envisaged or the need to restructure the service to save costs and this will be mitigated by a review of the continuing effectiveness of the Shared Anti-Fraud Service.
- 11.2 There is a risk that the application to Central Government for funding for the "data hub" will be unsuccessful and should that be the case, a review of the proposed service will be undertaken prior to establishment.
- 11.3 If one of the authorities withdraws from the proposed SAFS service this could increase costs for the remaining councils. This would be mitigated by a review of the resources required for the new service.
- 11.4 There is a risk that if a substantial and/or complicated fraud is discovered in one of the participating councils that this would use a significant level of resources in the new service leaving minimum levels of support being available to investigate other fraud. This would be mitigated by prioritising of work and where deemed appropriate the potential use of external expertise. It is essential to the success of the service that agreement is reached on how resources will be utilised, how much each authority will contribute to the service and how the gains will be distributed throughout the partnership and Chief Finance officers are confident of finding an equitable recharge methodology.
- 11.5 As a result of a failure to recruit a suitable level of competent staff for the service there is a risk that it is unable to function at the required level. This will be mitigated by a competitive recruitment process and a continual review of the workload and resource levels.
- 11.6 Further risks are identified in section 10 of the report attached at Appendix 1.

12. EQUALITIES IMPLICATIONS

- 12.1 The Equality Act 2010 came into force on the 1st October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5th April 2011. There is a General duty, described in 12.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.
- 12.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.3 There are not considered to be any direct equality issues arising from this report although the prevention of fraudulent claims in themselves could be seen to ensure that the funding available to local authorities remains available to the district's most vulnerable residents who do meet the necessary criteria.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 As the recommendations made in this report do not constitute a public service contract, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section at paragraphs 12.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 Investigations staff at North Hertfordshire will transfer to SFIS with effect from 1st June 2015 in accordance with the DWP roll-out plans.
- 14.2 Should a Shared Anti-Fraud service be created, there would be an opportunity to retain fraud investigation skills within Hertfordshire.
- 14.3 A Shared Anti-Fraud Service would be created under the umbrella of SIAS and posts created would be filled by a competitive recruitment process.
- 14.4 There will be no redundancy implications for the Council as staff that are not successful or choose not to apply for a post within the SAFS Team will automatically transfer to SFIS. Relevant HR policies will be applied with support from the HR team.

15. APPENDICES

- 15.1 Appendix 1 - Anti-Fraud Service report.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

Shared Anti-Fraud Service Business Case version 26 issued to SAFS Project Board 24.11.2014

DRAFT CABINET REPORT – PROPOSED SHARED ANTI-FRAUD SERVICE PARTNERSHIP

1. Purpose of the Report

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

2. Summary

- 2.1 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 Strategic Director, Finance Policy and Governance has the Business Case on behalf of North Hertfordshire District Council and recommends that the Council becomes a partner. This report provides the rationale for this recommendation.

3. Recommendations

- 3.1 It is recommended that Cabinet:
- c) Approves the proposal that North Hertfordshire District Council becomes a partner in the Shared Anti-Fraud Service for non-benefit and corporate fraud between the Councils identified at 1.1 above
 - d) Authorises the Strategic Director, Finance Policy and Governance to make the detailed arrangements to establish the Shared Anti-Fraud Service.
- 3.2 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
- 3.3 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.

4. Background

- 4.1 A number of Hertfordshire 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 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.

- 4.2 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.
- 4.3 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 roll 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.
- 4.4 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.
- 4.5 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 Appendix A.

- 4.6 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 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.

- 4.7 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.

5. Drivers for the Shared Anti-Fraud Service

5.1 Fraud has a significant cost to the public purse. The latest estimate of fraud against local government is £2.1 billion annually¹. 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 2012/13², 2.7% of the estimated figure.

5.2 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 Administration 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.

5.3 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.

¹ National Fraud Authority Annual Fraud Indicator 2013

² Audit Commission 'Protecting the Public Purse' 2013

6. Objectives of the Shared Anti-Fraud Service

6.1 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.

7. Benefits of the Shared Anti-Fraud Service

7.1 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.

8. Current and Potential Performance Analysis

8.1 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.

8.3 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 Single Persons Discount exercise undertaken by Hertfordshire authorities in 2012/13 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		2012/13		2013/14	
	National results		Hertfordshire results ³		Hertfordshire results ⁴	
	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 ⁵	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

8.4 Having taken a view of current performance, the size of the opportunity for a fraud service focussed on non- welfare 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:

³ Returns for this table supplied by BBC, EHC, HBC, HCC, NHDC, WHBC

⁴ Returns for this table supplied by BBC, EHC, HBC, HCC, NHDC, WHBC

⁵ Quantifying Housing Tenancy Fraud is not straightforward. The National Fraud Authority suggests each case represents a loss to the public purse of £18,000

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

- 8.5 Then a view on the impact that a counter-fraud team could make, using actual data wherever possible or upper quartile performance levels⁶ 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.

8.6 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.

9 Cost / Benefit analysis

9.1 Existing Cost, Funding and the Impact of SFIS

Table 3 reflects:

- Funding for fraud work from authorities' own resources, available for re-direction into non-benefit and corporate anti-fraud work

⁶ As described by the Audit Commission in 'Protecting the Public Purse' 2013

- 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 existing⁷ services	234,304	175,379	51,300	129,480	168,170	758,633

9.2 Cost of the Proposed 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. 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

9.3 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	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'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 percent 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.

⁷ 2013/14 budget

9.4 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	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)

9.5 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	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Ongoing Costs	43	602	631	631	631
In Scope Authority Share ⁸	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 authority⁹	7.2	1	(55.2)	(55.2)	(55.2)

9.6 Table 7 assumes, for illustrative purposes, that the costs and level of return would be distributed equally between partners. However in reality whilst 80 percent of the costs would be equally distributed, 20 percent 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.

9.7 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.

⁸ Assumes that costs are distributed equally

⁹ For illustrative purposes; in reality the return would not fall equally between partners

10. Risks and Mitigations

10.1 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	Possible	High	Severe	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	Possible	High	Severe	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	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
4	Different approaches to dealing with fraud outcomes in each local authority affect the ability of the service to achieve its objectives	Possible	Medium	Severe	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	Likely	High	Very Severe	1. Address in service design, ensuring there is a transition phase and contingency plans are in place

11. Conclusion and Recommendations

11.1 It is recommended that North Hertfordshire District Council becomes a partner in the Shared Anti-Fraud Service between the Councils identified at 1.1 above.

11.2 It is recommended that the Strategic Director, Finance Policy and Governance is authorised to make the detailed arrangements to establish the Shared Anti-Fraud Service.

Supporting Papers

Shared Anti-Fraud Service Business Case version 26 issued to SAFS Project Board 03.10.2014

**Appendix A
Options Analysis**

	Proposed Service Delivery Options	Key considerations, risks and issues	
		<p>Advantages</p> <ul style="list-style-type: none"> • Minimal disruption • Local control retained 	<p>Disadvantages</p> <ul style="list-style-type: none"> • 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
		<p>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</p>	
		<p>Advantages</p> <ul style="list-style-type: none"> • Local control retained • Does not require formal governance structures to be established • Will allow sharing of intelligence and knowledge 	<p>Disadvantages</p> <ul style="list-style-type: none"> • 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
		<p>Conclusion – Discount – may go some way to addressing the impact of SFIS but informal collaboration unlikely to deliver economy of scale or resilience</p>	

	Proposed Service Delivery Options	Key considerations, risks and issues	
3	<p>Council 'hub' or shared service option hosted by HCC using existing SIAS vehicle</p> <p>This approach would have the following characteristics:-</p> <ul style="list-style-type: none"> ▪ 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 	<p>Advantages</p> <p><u>Financial</u></p> <ul style="list-style-type: none"> • Generation of efficiencies through economies of scale <p><u>Non-financial</u></p> <ul style="list-style-type: none"> • 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 	<p>Disadvantages</p> <ul style="list-style-type: none"> • HR terms and condition will need to be resolved • May divert SIAS management team focus from internal audit service delivery
<p>Conclusion – Preferred option – most likely to deliver resilience, economy of scale and location within SIAS builds on established 'brand'</p>			

	Proposed Service Delivery Options	Key considerations, risks and issues	
4	Council 'hub' or shared service option hosted by a District Council	<p>Advantages</p> <p><u>Financial</u></p> <ul style="list-style-type: none"> • Generation of efficiencies through economies of scale <p><u>Non- financial</u></p> <ul style="list-style-type: none"> • 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 	<p>Disadvantages</p> <p><u>Financial</u></p> <ul style="list-style-type: none"> • Duplication of resource in establishing new governance arrangements, loss of economy of scale <p><u>Non- financial</u></p> <ul style="list-style-type: none"> • 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	
		<p>Advantages</p> <ul style="list-style-type: none"> • This offers the opportunity for a commercial arrangement with local, regional and national benchmarked providers 	<p>Disadvantages</p> <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> Enhanced degree of local council control 	Disadvantages <ul style="list-style-type: none"> 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	

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