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Maximising the Impact of the UK's Net-Zero Strategy — Making Every Pound Count and Counting Every Pound

In an article for Risk & Compliance magazine, FTI Consulting's Andrew Durant and Piers Rake discuss the emerging threat of green fraud.

The whole economy transition needed to keep the planet below a 1.5 degree increase in temperature is a massive undertaking. While exact figures vary, the UK government's Committee on Climate Change estimates that £50-60bn per annum of public and private sector investment is required in the coming years if the UK is to meet its net-zero targets. This level of investment and change is unprecedented and the operational, execution and fraud risks cannot be overestimated.

In our recent 'Emerging danger — a new net zero industry?'¹ report, we estimate that green fraud across public and private sector spending could amount to £3.5bn per annum, and up to £50bn by 2050.

It is in everyone's interest to ensure fraud on taxpayer money is kept as low as possible and that the money allocated to executing on the UK's Net Zero Strategy is deployed efficiently and effectively.

The time to address public sector fraud is now

The Bank of England has recently announced that it expects British households to see their post-tax disposable income fall by 2 percent in 2022², thus causing the biggest fall in

standards of living since comparable records began three decades ago. Any reduction in fraud on taxpayer money must be seen as a priority and may also give the government more options. For example, HMRC calculates that a 1 percent increase in the basic rate of income tax would raise £5.5bn in 2022/23.³ If avoidable fraud levels are reduced, it could provide government with the opportunity to reduce the basic rate of income tax by 1 percent or more, and thereby help UK households meet the increasing costs of living.

Barn doors — stopping the fraudsters before they strike

As a starting point, stopping taxpayers' money from being stolen by fraudsters is far cheaper and more efficient than trying to recover cash that has already been misappropriated. Current estimates are that around £10bn of taxpayers' money has been lost to fraud and error in relation to the Bounce Back Loan and Furlough Schemes, alone. Details relating to the losses associated with coronavirus (COVID-19)-related PPE contracts are only just coming to light. We do know that significant amounts of the money lost to COVID-19-related fraud was siphoned overseas by criminals and organised crime gangs. With

1. <https://live.fticonsulting.com/greenfraud>

2. <https://www.ft.com/content/ad06489e-0e72-4181-921f-a037488213b2>

3. <https://committees.parliament.uk/publications/4865/documents/50796/default/>

the passage of time, and the complications and costs of pursuing perpetrators into and through other jurisdictions, it is very unlikely that these funds will ever be recovered.

As reported in The Telegraph in March 2020, the National Crime Agency (NCA) estimates that less than 20 percent of fraud is reported, and of the fraud reported, only a fraction of the cases result in prosecution by the police. So, it is very difficult to determine how much money stolen by fraudsters is successfully recovered. The Office for National Statistics (ONS) estimates that there were approximately 5.1 million fraud offences in the year ending September 2021, and prior research has estimated total losses resulting from fraud across both public and private sectors in the UK at anywhere between £137bn and £190bn per annum.⁴

The City of London Police, the UK's national lead police force for fraud, produces annual reports providing a summary of the proceeds of fraud that it has been able to recover. In its annual report for the year 2019/20⁵, it states that £5.5m in assets were confiscated, with £1.1m in compensation returned to victims of fraud. In the most recent report for the year 2020/21⁶, total funds confiscated was £3.4m, with £2.3m being returned in compensation to victims of fraud. Of course, this is not the whole picture and does not include the impact of disruption work or where fraud is litigated privately, but it does give an indication of the challenge of recovering the proceeds of fraud.

What steps should be taken now and how much could be saved with better counter-fraud controls?

Fundamentally, there are a range of things government should and could do, including (but not limited to) conducting fraud and operational risk assessments of all planned green investments and schemes, implementing robust fraud risk controls (including a well-publicised whistleblower hotline), undertaking counter-party due diligence, centralising data collection, analysis and oversight, and implementing artificial intelligence (AI)-based threat monitoring.

But further steps are needed. We have seen public-private partnerships (PPPs) established to combat terrorist financing and money laundering through the UK's

Inaction — at what price?

According to the National Audit Office⁷, £47bn of 'bounce back' loans were issued by banks in 2021. The National Audit Office has estimated that the taxpayer faces losses of £4.9bn because of fraud in this area. In other words, 11 percent of loans under this one scheme were fraudulent.

According to HM Revenue & Customs⁸, £60bn was paid out under the Coronavirus Job Retention Scheme, or 'Furlough Scheme'. HMRC has estimated that £5.2bn under this scheme was lost to fraud and error. In other words, 8.7 percent of funds distributed under the Furlough Scheme were lost to fraud and error. Total taxpayer losses across these schemes alone is £10.1bn.

In 2017, it was estimated that the total cost of fraud to the UK was around £190bn per annum⁹. More recent research by the University of Portsmouth¹⁰ estimates that the total cost of fraud losses to the UK (applying a global average loss rate to GDP) is around £137bn per annum.

Fraud is estimated to account for 40 percent of all crime committed across the UK. Fraud and error in public spending are estimated to cost the taxpayer up to £51.8bn every year, around £25bn of which is outside the tax and benefits system¹¹.

financial institutions. Is it time for a new counter-fraud compact, between the public sector and a wider range of businesses and stakeholders in the private sector, where resources, capabilities and expertise from across these organisations and businesses are pooled?

There are also models and learning that can be leveraged from other countries. In the fallout from the 2008 economic crisis, the US government established an economic stimulus programme under the American Recovery and Reinvestment Act 2009 (ARRA). Critically, the ARRA also created a Recovery Accountability and Transparency Board (the Recovery Board), whose remit was to provide transparency in relation to the use of

4. https://f.datasrvr.com/fr1/521/90994/0031_Financial_Cost_of_Fraud_2021_v5.pdf and <https://www.experian.co.uk/assets/identity-and-fraud/annual-fraud-indicator-report-2017.pdf>

5. <https://www.cityoflondon.police.uk/SysSiteAssets/media/downloads/city-of-london/about-us/annual-report-2019-final.pdf>

6. <https://www.cityoflondon.police.uk/SysSiteAssets/media/downloads/city-of-london/about-us/annual-report-2021.pdf>

7. <https://www.nao.org.uk/wp-content/uploads/2021/12/The-Bounce-Back-Loan-Scheme-an-update.pdf>

8. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1035552/HMRC_Annual_Report_and_Accounts_2020_to_2021_Web.pdf

9. <https://www.experian.co.uk/assets/identity-and-fraud/annual-fraud-indicator-report-2017.pdf>

10. https://f.datasrvr.com/fr1/521/90994/0031_Financial_Cost_of_Fraud_2021_v5.pdf

11. <https://committees.parliament.uk/publications/6469/documents/70574/default/>

recovery-related funds, and to leverage expertise from a wide range of public and private sector organisations and cutting-edge technology. The Recovery Board set up a data analytics centre, which maintained a real-time database on recovery-related contracts and grants. Other external data sets were used, deploying predictive analytics and counter-fraud risk analysis tools to detect possible fraud, waste and mismanagement, resulting in referrals to other agencies for further investigation. Under the Recovery Board's management and coordination, \$787bn was disbursed, and while prior levels of fraud, waste and abuse meant that some expected around \$55bn of this would be lost to fraud (equating to 7 percent of total funds), the measures taken by the Board meant that fraud losses were kept below 1 percent.

The ARRA and its independent Recovery Board demonstrated that if governments design and put in place effective fraud and operational risk control strategies at the outset, governments can dramatically reduce fraud and error levels. Key to the ARRA's success was to make the stimulus spend data available to the public on a website, allowing people to interrogate local spend and report any concerns back to the Recovery Board. The actual fraud and error losses under the ARRA were marginal compared to what was expected, with auditors questioning only \$5.1bn of funds disbursed (or 0.6 percent of total funds). By applying effective fraud and operational risk controls, the US government reduced its fraud and loss levels by 6.4 percent (as against expected).

Had the UK government implemented a similar approach to mitigating fraud and error prior to distributing COVID-19 stimulus funds, it is possible that the taxpayers' losses

may have been reduced from the £10bn (or 9.4 percent of total spent on bounce back loan and furlough schemes) to something closer to £1bn (or 1 percent of total spent), a saving of around £9bn. Perhaps more telling, the Office for Budget Responsibility (OBR) estimates that in 2021-22, public spending will amount to £1.045bn¹², and, applying the same logic, it is possible that annual public sector fraud and error losses could drop from around £50bn to £10bn, an annual saving of around £40bn.

Unlike in the US, where there is legislation that has required public sector agencies to publish statistically valid estimates of the extent of fraud and error for over a decade, there is no such requirement in the UK. Unless you can measure fraud and error levels, it is very hard — if not impossible — to effectively manage the associated fraud and operational risks or to have any material impact on minimising the resulting losses to the taxpayer.

A catalyst for change

The funds allocated to key green investment pathways under the UK government's Net Zero Strategy need to be deployed with maximum impact, which means minimising fraud, waste and mismanagement. There are options and, as the US Recovery Board showed, it is possible to leverage data, technology and centralised oversight and transparency to good effect. This may be an opportunity for the UK to set the gold standard for the deployment of green capital in the race to meet our net-zero targets. Could this be a catalyst to reset the way in which the country combats what some have described as the UK's fraud epidemic?

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12. https://obr.uk/docs/dlm_uploads/BriefGuide-AB21-1.pdf

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