

Fraud and the Coronavirus Job Retention Scheme

- **Furlough fraud and error set to cost between £3.5bn and £7bn**
- **5 known arrests for fraud so far concerning £5m in fraud**
- **No civil penalties have yet been issued for furlough fraud**
- **More investment required to tackle the scale of the problem**

Introduction

With millions of people unable to work due to the pandemic, the UK government introduced the Coronavirus Job Retention Scheme (CJRS), which subsidises 80 per cent of people's wages up to a maximum of £2,500 a month. Known as furlough, this scheme has saved millions from unemployment.

However, as with all covid related support schemes, there was an inevitable trade off that had to be made between the need to get money out the door quickly, and measures to protect these schemes from fraudsters.

It is thought that the most common way in which furlough fraud is committed is where an employer claims a grant for employees that are furloughed yet continue working. The employer may be putting pressure on employees to work when they shouldn't be, or even not informing them that a claim is being made on their behalf. There have been instances of individuals still registered as furloughed for jobs that they were no longer in.¹

¹ Furlough fraud: I'm still registered as furloughed for a job I quit', *BBC News*, 13 January 2021, <https://www.bbc.co.uk/news/business-55633773>

The scale of the problem

In September 2020 HMRC revealed to the Public Accounts Committee that their working estimate was that between five and 10 per cent of furlough money had been claimed either in error or fraudulently - £3.5bn at that time.²

With the scheme currently set to finish at the end of September 2021, it is estimated that the cost of furloughing UK workers will be around £70bn - putting the scope for error and fraud anywhere between £3.5bn and £7bn. This figure of £70bn comes from estimates from The Office for Budget Responsibility which put the cost of CJRS for the 2020-2021 financial year at £59bn,³ with a further £10.8bn predicted for 2021-2022.⁴ HMRC does not expect to have a complete assessment of the total fraud and error it needs to tackle until the end of 2021 at the earliest.⁵

According to HMRC, over the course of the pandemic, from March 2020 to April 2021, 11.5m jobs have been supported by the Coronavirus Job Retention Scheme.⁶ Given the department's working estimate of up to 10 per cent of claims being paid in fraud or error, there could be over 1m incorrect claims in the system.

2 Public Accounts Committee Oral Evidence, *House of Commons*, 07 September 2020, <https://committees.parliament.uk/oralevidence/978/default/>

3 In a March 2021 statement, 'The rising cost of the coronavirus policy response' (<https://obr.uk/box/the-rising-cost-of-the-coronavirus-policy-response-2/>), the previous November estimate (<https://obr.uk/efo/economic-and-fiscal-outlook-november-2020/>) for CJRS in 2020-2021 was revised down by £3.5bn, from £62.5bn to £59bn,

4 In the March 2021 'Economic and Fiscal Outlook', it was estimated that the April-September 2021 cost for CJRS would be £10.8bn (<https://obr.uk/efo/economic-and-fiscal-outlook-march-2021/>).

5 Implementing employment support schemes in response to the COVID-19 pandemic, NAO, 23 October 2020, <https://www.nao.org.uk/wp-content/uploads/2020/07/Implementing-employment-support-schemes-in-response-to-the-COVID-19-pandemic.pdf>

6 HMRC, Coronavirus Job Retention Scheme statistics: 6 May 2021, <https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-6-may-2021/coronavirus-job-retention-scheme-statistics-6-may-2021>

Payback

If a business has overclaimed a CJRS grant and have not repaid it, they must notify HMRC by the latest of these three dates or risk paying a penalty:

- 90 days after the date they received the grant you were not entitled to;
- 90 days after the date they received the grant that they were no longer entitled to keep because their circumstances changed; or
- 20 October 2020

Following a Freedom of Information request sent by TaxWatch, HMRC revealed to us that as of 18 February 2021, over 13,000 organisations had made over 15,000 repayments, at a total value of £446.5m. At the same time, 112,000 organisations had made over 145,000 “corrections”, for a total value of £262.2m.⁷ These repayments and corrections can arise for any reason, from mistakes being made on the claim form, through to potentially fraudulent claims where HMRC action may have encouraged an employer to return the money. In some cases companies have even voluntarily repaid legitimate claims after they felt that they could sustain the cost of paying wages during periods of reduced work themselves.

⁷ FOI response from HMRC to TaxWatch, 02 February 2021.

Arrests

In total, HMRC have announced the arrest of 5 individuals for fraud related to the Coronavirus Job Retention Scheme. The alleged frauds account for a total of £5m in overpayments.

HMRC made their first arrest in July 2020. However, the individual in question appears to have been already under investigation for money laundering and a multi-million pound tax fraud.⁸

Further arrests were announced in September 2020, with an accountant from Romford and a company director from Walthamstow arrested on suspicion of fraud by false representation in relation to the CJRS.⁹

In May 2021, the newly constituted Taxpayer Protection Taskforce announced 2 arrests in connection with a £3.4m CJRS fraud.¹⁰

Penalties

In addition to arrests and criminal prosecution, HMRC have the power to raise enquiries into claims and issue penalties resulting from overpayments.

HMRC Chief Executive Jim Harra told Parliament last September that the department was inquiring into 27,000 “high-risk” claims, and that they had received 8,000 calls to their furlough fraud hotline.¹¹

In April, the government said that it had opened 10,000 inquiries into possible instances of fraud in covid-related support payments.¹²

In February 2021 HMRC told us: “No penalties have been issued as our compliance activity has not yet reached the stage where such action is considered”. We followed up with HMRC in April, asking whether the situation had changed, the Department was unable to give us a response.

The return on compliance

In a National Audit Office report of October 2020, it was stated that HMRC estimates that post-payment compliance work – ie, staff working to recoup losses from fraud and error – would offer a

8 HMRC Press Release, West Midlands man arrested on suspicion of £495,000 furlough fraud, 9 July 2020, <https://www.mynewsdesk.com/uk/hm-revenue-customs-hmrc/pressreleases/west-midlands-man-arrested-on-suspicion-of-495000-pounds-furlough-fraud-3020956>

9 Imogen Tew, London pair arrested over suspected £70k furlough fraud, FT adviser, September 11 2020, <https://www.ftadviser.com/your-industry/2020/09/11/london-duo-arrested-in-70-000-furlough-fraud-case/>

10 BBC News, Furlough: Pair arrested over £3.4m job scheme fraud, <https://www.bbc.co.uk/news/uk-england-leeds-57027046>

11 Public Accounts Committee Oral Evidence, *House of Commons*, 07 September 2020, <https://committees.parliament.uk/oralevidence/978/default/>

12 James Baggott, 10,000 “Furlough fraud investigations now open as government funds special task force to tackle cases”, Car Dealer Magazine, <https://cardealermagazine.co.uk/publish/10000-furlough-fraud-investigations-now-open-as-government-funds-special-task-force-to-tackle-cases/220652>

return on investment of around 9:1. While the 9:1 ratio sounds a healthy return on investment, it should also be noted that any staff redeployed to furlough compliance will no longer be working on other areas within the department.

It was announced in October 2020 that HMRC were planning to deploy 500 full time staff, which they estimated would bring in around £275m.¹³ Using the 9:1 ratio, we estimate that meant expenditure on this staff of approximately £30.5m.

The 2020 Spending Review included an increase in HMRC's budget, which included "£20 million to fund additional resource to implement and ensure compliance with Covid-19 support schemes",¹⁴ taking the total to £50.5m, which would in theory recover £454m a year.

Expenditure on recouping money lost to CJRS fraud and error was increased yet again in the March 2021 Budget, which the Chancellor Rishi Sunak confirming the creation of a £100m "Taxpayer Protection Taskforce". This new taskforce is to be staffed with 1,265 HMRC officials, and will seek to recoup money wrongly claimed from pandemic support schemes, including (though not exclusively) furlough.¹⁵

This sounds like a substantial investment, but to put these numbers into context, the DWP estimates that £4.6bn per year is lost to benefits fraud and error. To tackle this, the Counter Fraud, Compliance and Debt (CFCD) Department of the DWP had approximately 8,000 staff in 2019. By comparison, the new Taxpayer Protection Taskforce sees 1,265 HMRC staff chasing a potential £5.25bn of money lost to fraud and error lost from CJRS, while also having to deal with issues arising from the multitude of other Covid-19 schemes.

If we assume a return on investment of 9:1, should this taskforce focus exclusively on CJRS – which it won't – it can expect to recoup £900m a year.

If we take the amount of furlough fraud and error to be £5.25bn (the mid point between the higher and lower estimates provided by HMRC), then it would take just shy of six years at an expenditure of £100m a year for HMRC to recover the total amount lost to furlough error and fraud. This does not take into account the fact that the marginal return on investment will decline as more cases are pursued.

However you cut the data, the conclusion is the same, in order to tackle furlough fraud, a lot more investment will be required.

13 Implementing employment support schemes in response to the COVID-19 pandemic, *NAO*, 23 October 2020, <https://www.nao.org.uk/wp-content/uploads/2020/07/Implementing-employment-support-schemes-in-response-to-the-COVID-19-pandemic.pdf>

14 Spending Review 2020, *HM Treasury*, Updated 15 December 2020, <https://www.gov.uk/government/publications/spending-review-2020-documents/spending-review-2020>

15 Budget 2021, Pg 50, *HM Treasury*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf

Increased workload – new staff?

It was reported in City Wire back in March of last year that HMRC wasn't planning on increasing its recruitment despite the new workload that had arisen out of the pandemic.¹⁶ HMRC confirmed this again in October, stating that it does not believe it can recruit additional staff to deal with furlough fraud and error due to the 18-month time-lag between starting recruitment and getting staff fully trained.¹⁷

The Budget announcement on the new Taxpayer Protection Taskforce stated that it will be staffed by "HMRC operatives" suggesting that staff are to be moved from elsewhere within HMRC.

So while this will allow for a dedicated body to tackle fraud and error arising out of covid schemes, it will likely detract from other areas of HMRC work which are already overstretched and having to deal with vast changes following Brexit.

Given the amount of money at stake, and the fact that we aren't likely to see the full picture until the end of this year, HMRC's reluctance to recruit is rather questionable. Had a decision been made when the Coronavirus Job Retention Scheme was first implemented, new staff would be recruited and fully trained by this summer.

16 Exclusive: HMRC won't hire more staff despite Covid-19 pressure, *City Wire*, 30 March 2020, <https://citywire.co.uk/new-model-adviser/news/exclusive-hmrc-wont-hire-more-staff-despite-covid-19-pressure/a1340960>

17 Implementing employment support schemes in response to the COVID-19 pandemic, *NAO*, 23 October 2020, <https://www.nao.org.uk/wp-content/uploads/2020/07/Implementing-employment-support-schemes-in-response-to-the-COVID-19-pandemic.pdf>