

How to **manage the risk of fraud** in government grant making





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Executive Summary

Issuing grants is a crucial way for the government to help society and fulfil its policy objectives. Whether it be through a grant to schools to support children on free school meals or to a charity to tackle key issues such as homelessness, grants are widely used across most government departments and account for a significant slice of its spending (13% in 2019/20).¹

Yet, disbursing these grants effectively, while ensuring that due diligence checks are carried out consistently and thoroughly, can be a huge undertaking. Increasingly this is becoming the responsibility of local authorities who are tasked with disbursing grants to their communities.

The pandemic quickly launched government grant making into the public consciousness as the government created new schemes to support businesses, individuals and ultimately the economy. This landscape became fertile ground for fraudsters with HMRC stating that it had to build in a 5-10% fraud and error rate into the furlough scheme.²

Manual, labour intensive controls to mitigate against fraud are not cut-out for government grant making at pace and leave huge gaps for human error. At Capita we believe that technology can play a valuable part in complementing human expertise – helping to identify fraud and enabling steps to prevent it. This can reduce the burden on government grants makers, ensure better compliance and improve the user experience for claimants who increasingly apply for grants online.

We have extensive experience in helping government grant makers to automate the grant making process and use technology to identify patterns in claiming behaviour, spot anomalies and use insights to make informed decisions and take immediate action against fraudulent activity.



At Capita we believe that technology can play a huge part in complementing human expertise – helping to identify fraud and enabling steps to prevent it.”

Markus J Becker – Digital Growth Director, Capita Public Service

¹ [Government grants statistics 2019 to 2020 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/statistics/government-grants-statistics-2019-to-2020)

² [Up to £3.5bn furlough scheme cash may have been wrongly paid out | UK job furlough scheme | The Guardian](https://www.theguardian.com/uk-news/2020/jul/23/up-to-3-5bn-furlough-scheme-cash-may-have-been-wrongly-paid-out)



Introduction

Grants are an important tool for the government to fulfil a policy or public interest need. For many years they have been effectively disbursed to businesses, charities, communities and individuals. In 2019 to 2020 the government spent £118 billion on grants, which was 13% of total government spending.³ Then the pandemic struck, and government grant making was propelled into the public consciousness through new schemes such as the Self-Employment Income Support Scheme.⁴

With large sums on offer, government grant schemes do unfortunately attract fraud, and its often left to local grant makers, who are responsible for delivering grants from central government to their local communities, to spot and prevent it. This is no easy task and lengthy manual processes are often inadequate and time consuming.

In this paper we explore the scale of government grant making and the types of fraud that it can attract. We outline how technology and automation can complement human interaction to combat fraud and help teams to disburse grants efficiently and effectively.

In 2019 to 2020 the government spent £118 billion on grants, which was 13% of total government spending

³ [Government grants statistics 2019 to 2020 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/statistics/government-grants-statistics-2019-to-2020)

⁴ www.gov.uk/guidance/claim-a-grant-through-the-coronavirus-covid-19-self-employment-income-support-scheme

The scale of government grant making

“Government grant funding plays an important role domestically, in areas such as education, research, civil society and innovation, and abroad through international aid projects.” Government grants statistics 2019 to 2020


Grants are used by central and local government to support citizens and businesses, and improve lives, the economy and society. They are a crucial tool that the government uses to support public services and they account for a significant proportion of its spending.

In May this year, the government released a report that gave an overview of the number and types of grants it awarded.

It showed that in 2019/20 it gave out 190,600 grants through 1,915 different schemes.

Grant spending

 **£118 billion** in grant spending

 **13%** of total UK government expenditure

Grant schemes and awards

 comprised of **1,915** schemes with **190,600** awards⁵

Formula schemes and awards

183
formula schemes

£82.3 billion
total formula
scheme value

137,489
formula awards⁵

£21,000
median formula
award size^{5,6}

General schemes and awards

1,732
general schemes

£35.3 billion
total general
scheme value

53,111
general awards⁵

£43,000
median general
award size^{5,6}

⁵ The median award value and total award count only include awards going to organisations, excluding those going to individuals.

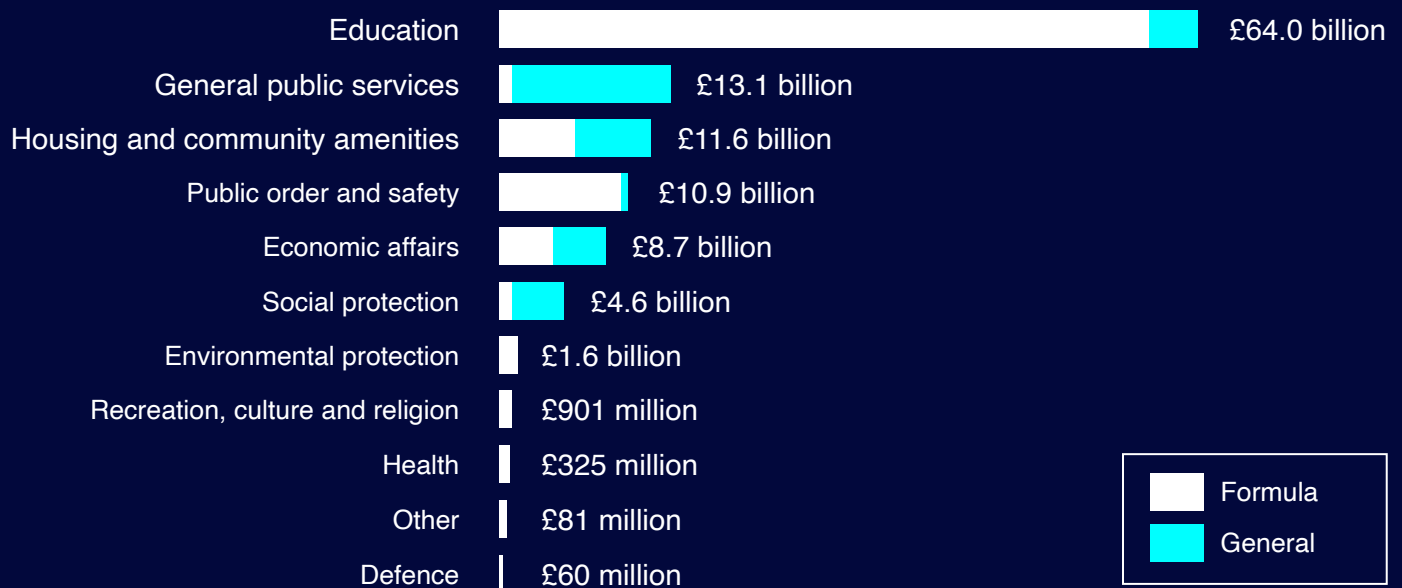
⁶ Value rounded to the nearest thousand.

Government grants fall into two categories:

Formula grants: These account for most government grants (70% in 2019/20) and are calculated with a formula. For example, a school may get a grant based on the number of pupils who receive free school meals.

General grants: These grants help to fulfil objectives that the government can't achieve on its own, such as innovation and research. They also help the charitable sector to tackle a broad range of societal issues.

Value of awards by economic classification (COFOG)



While most formula grants can be awarded using repeatable, rules-based, transactional processes, general government grants are mainly bespoke, and their administration can often cost more than 10% of a fund's value. Increasingly smaller grants are being introduced by the government to offer a short-term fix to challenges. Brexit is a good example of this: the government provided grants of up to £2,000 for small to medium sized businesses to ensure they could access training and professional advice on customs and trade requirements.⁷ For businesses to be eligible they had to have fewer than 500 employees and an annual turnover of less than £100 million. All of this needed to be checked to ensure that the money was awarded to bona-fide businesses with genuine need – a challenge when the grant was only being available for a limited period.

Increasingly local government departments are being asked to distribute grants from central government to their local communities. In 2019/20, the Ministry of Housing, Communities and Local Government paid out nearly £14bn in grants to local authorities. This means that councils become responsible for ensuring that grants are not claimed fraudulently and are safely disbursed to the business, organisation, charity or individuals they are meant for. All of this means councils need to spend more time and resources on compliance and reporting to mitigate the risk of fraud.

⁷ [Withdrawn] [Apply for a grant to help small and medium-sized businesses new to importing or exporting](https://www.gov.uk/government/consultations/apply-for-a-grant-to-help-small-and-medium-sized-businesses-new-to-importing-or-exporting) - GOV.UK (www.gov.uk)

Overcoming the challenge of fraud

The government wants and needs to get grants to the right recipients if they are to support society and ensure that public funds do not go to waste. Grant makers are under pressure to show that their funds have a positive impact and aren't being misused. The process of distributing grants effectively can be complicated and time consuming and mitigating against fraud adds another layer of complexity. However, it's a challenge that grant makers cannot afford to ignore.

The issue of grant fraud was highlighted repeatedly during the coronavirus pandemic. Hundreds of thousands of businesses and millions of households were thrown into financial turmoil. The UK Government announced new grant, loan and furlough schemes to ease the widespread alarm that this generated, to protect lives and the economy. However, it soon became clear that local councils did not have the resources to disburse emergency grants quickly while carrying out all the necessary due diligence checks. The scale of the grants and the speed that they were needed was unprecedented, putting immense pressure on local resources, something that was highlighted in our recent report with The Chartered Institute of Public Finance and Accountancy (CIPFA).⁸



Smaller, shorter duration and less flexible grants challenge the limited resources of many councils, particularly when they are competed.”

Andrew Burns, Associate Director, CIPFA

In April 2020, Cifas, a not-for-profit fraud prevention membership organisation warned that; “**Local authorities have limited or no capacity to investigate fraud and your chances of catching a scammer once they have taken the money are almost zero.**”⁹ Nick Downing, Chief Intelligence Officer, Cifas

Fraudulent activity in a digital world

The internet has made it easier for grant makers to gather and analyse data from applications. However, it has also opened new ways for fraudsters to access funds. These include:



False application: The applicant does not meet the criteria so falsely provides data to attempt to gain access to funds



Account takeover: A fraudster takes control of a genuine application to illicitly access funds



Altered/counterfeit: Fraudulent evidence is provided at claim stage to either inflate genuine expense or falsify data to meet requirements



Phishing: Applicants unwittingly provide access to fraudsters who then attempt to gain access to funds



Cyber-attack: Distributed denial of service attacks can help fraudsters to access funds.

⁸ CIPFA Capita white paper local government grants | CIPFA

⁹ Opportunistic fraudsters could steal £100m of Government's coronavirus emergency funding (telegraph.co.uk)

‘Phoenixing’ is another problem that can be hard to spot manually. This is when company directors trade successively through a series of businesses that become insolvent in turn. The insolvent company’s business, but not its debts, is transferred to a new, similar ‘phoenix’ company.¹⁰ Spotting such activity through manual checks is almost impossible, most certainly not feasible in terms of effort required.

Identifying and preventing fraud can be a huge challenge for local authorities, especially when grants are quickly created and urgently needed. These challenges can lead to inconsistencies in the way councils distribute grants to their communities.

During the pandemic, councils used a range of criteria to distribute grants to local businesses, some simply gave money to companies that had been paying business rates to get it to them quickly, while others spent much more time on due diligence checks. In times of urgency, it can be difficult to strike the right balance between getting help to people quickly and protecting grants from fraud.



How government grant makers can identify and prevent fraud

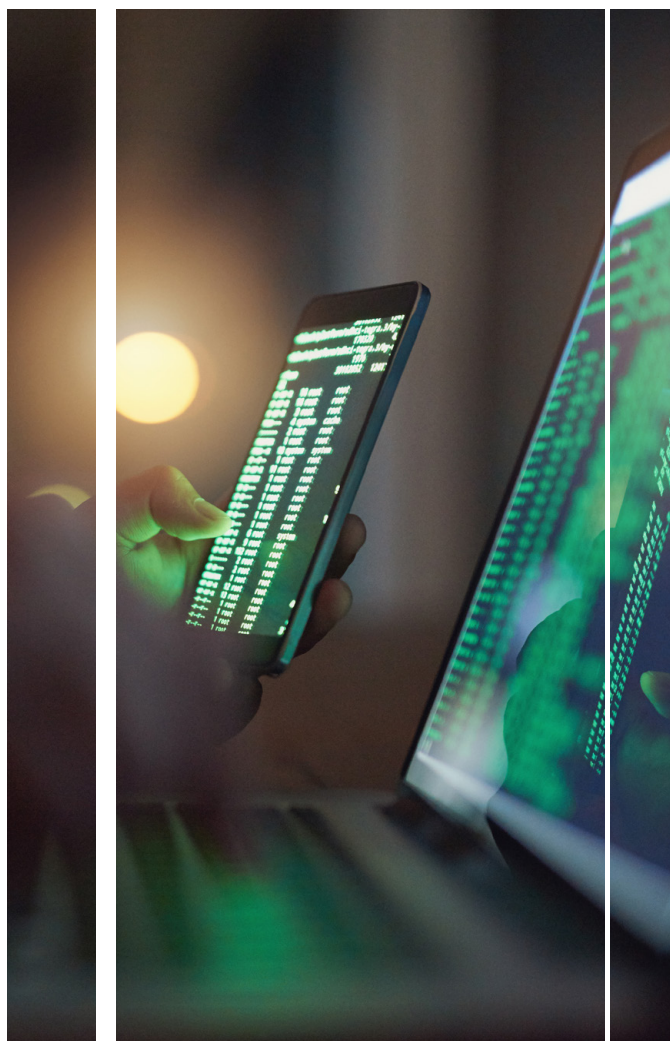
To protect grants and ensure they get into the right hands, government grant makers need to carry out stringent identity and due diligence checks and ensure their systems have sufficient online security.

They also need thorough audit and access controls, alongside reporting and data analytics, to highlight patterns in claiming behaviour that could help them to identify potential fraud. All of this places significant burden on teams and relying on manual processes to check data is time consuming and ineffective.

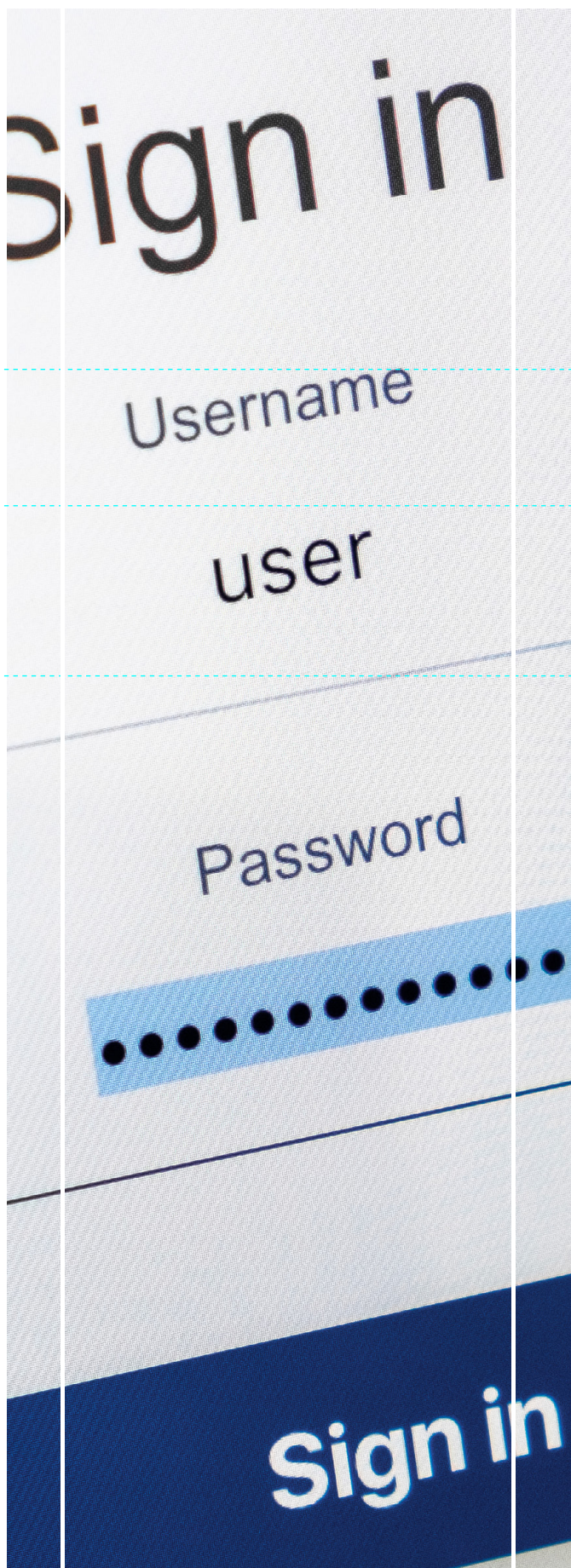
The benefits of using a digital grant solution

The Government Functional Standard for grant-making states that all grants should be “subject to timely and proportionate due diligence and fraud risk assessment.”¹¹ Using a digital solution for grant disbursement that aligns to this standard and includes anti-fraud capabilities can help to reduce the burden on teams, ensure better compliance and improved user experience.

Our Anti-Phoenixing model utilises Open-Source Intelligence and our own AI/ML methodologies to establish current and past ownership as well as directorships and control to establish if the firm or any relevant party is undertaking Phoenixing activities. At this time, Phoenixing is not illegal, but it is severely frowned upon by the FCA and usually generates interest and investigation from HMRC and the Insolvency service.



¹⁰ [Phoenix companies and the role of the Insolvency Service - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/phoenix-companies-and-the-role-of-the-insolvency-service) | ¹¹ [Grants Functional Standard - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/grants-functional-standard)



Data, insights and automation can lead the fight against fraud

The fight against fraud must start when grants are designed and continue through disbursement and follow-up. A digital grant solution can ensure that measures are taken to identify and prevent fraud at every stage.



Background checks can be completed automatically to ensure applications are genuine and to identify bogus activity



Artificial Intelligence can reduce security risks and be used alongside data analytics to identify fraudulent activity



Digital data capture can encourage compliant responses and quickly validate them by integrating and comparing them with external sources



Intelligent automation can enable more detailed due diligence by incorporating Know Your Business and Know Your Customer verification to check against money laundering and confirm the legitimacy of businesses and individuals.

A digital grant-making solution can deliver greater efficiency, transparency and usability so grants can be delivered at pace while ensuring all due diligence requirements are fulfilled to protect the public purse from fraud.

Reducing internal fraud

Government grant makers have a huge amount of responsibility, but manual processes are always open to human error. With any process that involves money, there is also a risk of internal fraud and bribery to consider.

A digital platform with built in controls can prevent errors and reduce the risk of internal fraud with:



Automated sanction checking: A legal requirement for checking against any sanctions in place or for the misappropriation of funds



Data access controls: Different levels of users have different access controls to prevent manipulation of data for personal gain



Audit controls: At payment stage grant administrators are checked by fraud specialists who are checked by team leaders and managers



Audit logs: Records are retained and checked across all users, including when they are accessed, added, edited or deleted



Payment file reporting: Auto-generated reports at payment stage are validated by an external department for accuracy



Fraud/risk reporting: Commonality and anomaly reporting is generated to alert as required

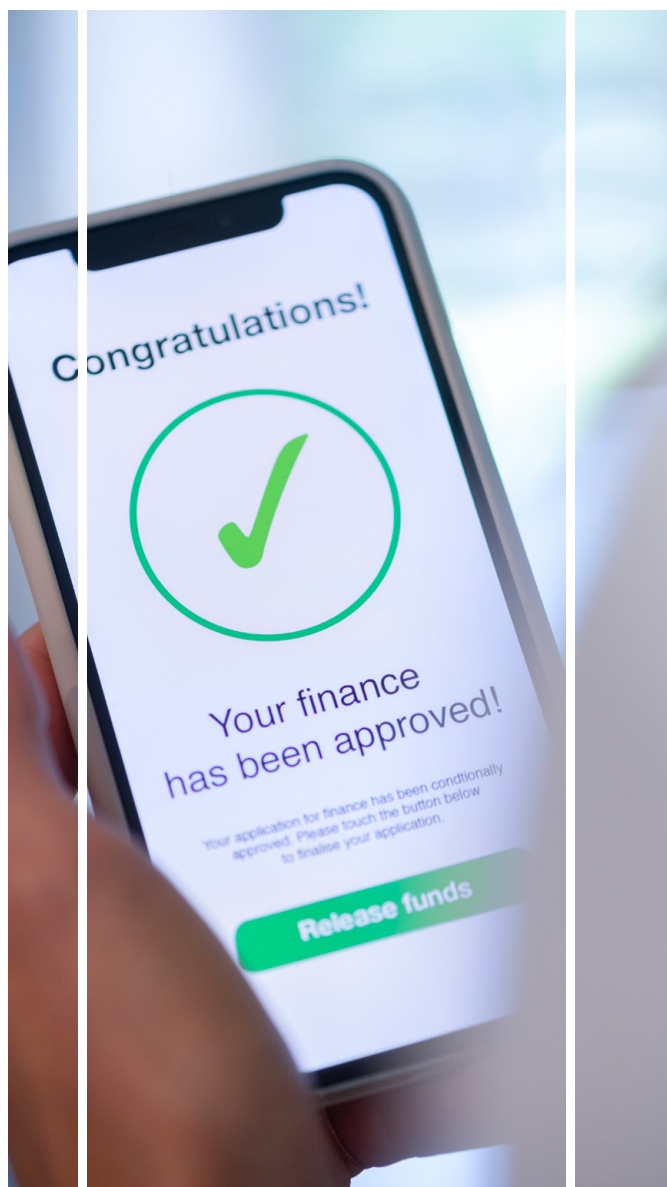


Invoice and bank verification checks: Incorporated within the process to eliminate bank account manipulation



Quality control: Additional analysis is undertaken by fraud specialists to ensure processes are accurate and consistent.

It is impossible for internal teams to spot every incidence of fraud, no matter how much experience they have. However, a digital solution that using artificial intelligence and machine learning will continue to improve as more data is gathered.



Reimagining customer experience

It's important not to forget that most people who apply for government grants do so in good faith. It's therefore important that they are able to access the financial support they need when they need it, without encountering barriers along the way.

A digital grant solution can help to reimagine customer experience through smart process design. It can also guide the applicant through the process, offer information and provide answers to their questions in one place. All of this can be achieved without compromising on fraud protection and due diligence. By using a digital platform with optimised processes, funders can administer grants with confidence and gain new data-led insight into their schemes' outcomes.



Conclusion

As the government turns its focus to re-energising the economy, scheme managers need to ask: how do we get public funds into the right hands?

Government grant makers have a real opportunity to look at what they can learn from the sheer scale and time constraints that they have had to overcome while disbursing grants during the pandemic. It is likely that their manual processes soon failed when coupled with the challenge of reduced resources and remote working. So, what can they do to prevent this happening in future?

Technology is the obvious answer, but it's important that government grant makers turn to the right solution. Automating individual processes or moving separate systems to the cloud will only achieve piecemeal progress.

With so much money and so many livelihoods at stake, grant makers need to turn to a complete digital grant solution and ensure that fraud mitigation and customer experience are embedded at every touchpoint and in every process.

A digital solution will free up valuable time for grant making teams. This gives them the space to focus on reporting and consuming, analysing and interrogating data. It's here that human input is key and will ensure that teams are poised to take decisive action against fraud as soon as it is identified.

How we can help

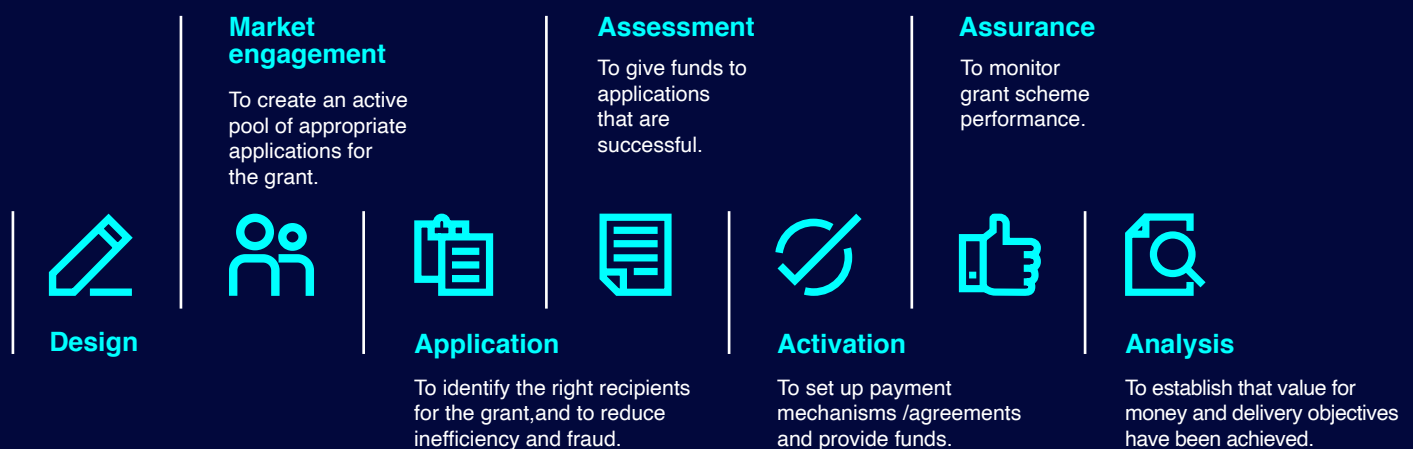
15 years end-to-end fund
disbursement experience

At Capita, we have extensive experience of processing high volumes of grant applications against eligibility criteria. We've now used that experience to design a fully automated end-to-end digital grant management solution.

£14bn+ public sector funds
disbursed by Capita each year

GrantIS uses automation and multiple sources to validate data and process applications more quickly. Our solution aligns with the government's recommended process for grant management documented in its Functional Standard for General Grants. It follows seven crucial steps from design to analysis and has controls to mitigate against fraud, built-in at each one.

Seven crucial steps for delivering successful grant management schemes



With GrantIS you can:

- Set up and launch new grant schemes quickly with a fast, assured and effective platform
- Halve the operational costs of fund management and speed up the disbursement process
- Improve fund applicants' experience with an easy, intuitive and highly automated process
- Minimise fraud with sophisticated, AI-powered anti-fraud tools
- Gain real-time insights into scheme performance for auditing, impact assessment and future grants planning.

We can help to reduce the administrative burden on your teams, reduce errors and improve outcomes.



Case study:

Disbursing business grants during the pandemic

At the beginning of the pandemic the Chancellor announced that eligible businesses, including those in the retail, hospitality and leisure sectors, would not have to pay business rates on their properties for 12 months and that smaller businesses in these sectors will also receive one off grants of either £10,000 or £25,000 to support them while their trading was disrupted.

Working alongside a local authority client in London, we awarded close to 4,000 business grants to date, totalling £67 million, processing an average of over 400 grants a day.

Working closely with the client, we developed a specific plan of action to make sure the approach to distributing grants would serve the most vulnerable customers first.

Here's how we supported local businesses:

Our initial priority was to focus on issuing small business rate grants to more vulnerable small business owners.

We issued the grants in the form of a refund to business rate accounts, paid automatically into business accounts, to avoid owners needing to contact the council.

Where payment details were missing from accounts, our team contacted business owners to confirm payment details so they could be paid the grant instantly.

Information integrated with the council's Interactive voice response service for business rates, directing business owners to specialist help for grant disbursement queries which were all dealt with within one working day.

Our people strengthened the team to support business as usual enquiries, whilst setting up and operating the new service.

A daily meeting and reporting schedule with our client ensured fast and accurate set up and up-to-date reporting on performance against targets, enabling the council to have a clear view of support for businesses in its jurisdiction.

The team worked to the latest guidance and policy changes from government to advise the client, adapt its operations and expedite support to the business community.



Contact us

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Find out more about our digital grant
management service at
[Digital grant management | Capita](#)

