

# FORGING A VIRTUOUS CIRCLE

REINVESTING FINES AND CRIMINAL ASSETS TO TURBOCHARGE THE FIGHT AGAINST ECONOMIC CRIME

BY JAMES BOLTON-JONES

# CONTENTS

<b>Executive summary</b>	<b>3</b>
<b>Key findings</b>	<b>5</b>
<b>Recommendations</b>	<b>8</b>
<b>Key stats</b>	<b>9</b>
<b>I. The current state of play in economic crime enforcement</b>	<b>10</b>
An overview of law enforcement's recent record on economic crime	10
How much do agencies generate through economic crime enforcement?	14
Half-baked: the last government's resourcing for economic crime enforcement	15
Bang for the buck: what would result from more investment in fighting economic crime?	18
<b>II. A mixed blessing for law enforcement: the Asset Recovery Incentivisation Scheme (ARIS)</b>	<b>20</b>
<b>III. Turning ARIS into an Economic Crime Fighting Fund</b>	<b>35</b>
<b>Endnotes</b>	<b>39</b>

# FORGING A VIRTUOUS CIRCLE

## Reinvesting fines and criminal assets to turbocharge the fight against economic crime

The UK agencies tasked with fighting economic crime together generate £566 million pounds on average each year for the government through seizing criminal assets and imposing regulatory and criminal fines. But despite these agencies' major contribution to the public purse, the Treasury holds on to most of these funds. Meanwhile, these agencies are left chronically underfunded, struggling to attract and retain specialist staff and held back by outdated technology.<sup>1</sup>

**AGENCIES ARE CHRONICALLY UNDERFUNDED, STRUGGLE TO ATTRACT SPECIALIST STAFF, AND HELD BACK BY OUTDATED TECHNOLOGY**

It is not clear that the little money which is reinvested into agencies is spent as effectively as it should be. While some is used to incentivise and drive innovation in asset recovery, in other instances it is spent on pet projects – in one case funding an inter-police force yacht race – rather than on increasing the UK's asset recovery efforts as it is meant to do.

Our report finds that the current system which enables the reinvestment of funds generated through enforcement – the Asset Recovery Incentivisation Scheme (ARIS) – is opaque, encourages agencies to go after low-hanging fruit, and overlooks the wider benefits of financial investigation beyond asset recovery. The Home Office is in the dark about how millions are spent through the scheme and agencies spend ARIS funds with very little accountability.

The last government committed to explore how more funds could be reinvested through ARIS for tackling economic crime.<sup>2</sup> However, there are real questions as to whether tinkering around the edges with ARIS will be the gamechanger needed to deliver the UK government's ambition to recover more criminal assets.<sup>3</sup>

The previous government committed in 2023 to recover an additional £1 billion in criminal assets on top of current asset recovery efforts.<sup>4</sup> However, despite promising rises in the past two years, asset recovery decreased by 29% on the previous year in 2023/24.<sup>5</sup>

Furthermore, it is not clear that the UK's current asset recovery efforts are commensurate with the level needed to deter criminals and prevent the UK being a major hub for money laundering. The £243.3 million recovered in 2023/24 represents just 0.2% of the £100 billion a year the National Crime Agency assesses could realistically be laundered through the UK.<sup>6</sup>

In 2027, the UK will face a review by the global money laundering watchdog, the Financial Action Task Force (FATF). New global standards on asset recovery will be a key feature of that review.<sup>7</sup> Against these standards, the UK will be assessed on whether criminals are permanently deprived of their proceeds of crime,<sup>8</sup> and whether it has provided sufficient resources to enforcement bodies to effectively pursue asset recovery.

An urgent rethink about how assets are reinvested back into law enforcement is needed if the UK is to show that it will turbocharge asset recovery efforts and once again play a leadership role on the global stage.

Our report argues that revamping ARIS to create an Economic Crime Fighting Fund (ECFF) that builds on its strengths but avoids its shortcomings would create a virtuous circle where reinvested assets generate better criminal justice outcomes, more funds for victim compensation, and greater recovery of criminal assets.

# KEY FINDINGS

## 1. The Treasury retains the vast majority of funds generated through economic crime enforcement

Just 17.6% of the £4 billion generated for the government by law enforcement agencies and anti-money laundering (AML) supervisors between 2017/18 and 2023/24 was reinvested into those agencies or into crime reduction and community projects. This £4 billion consists of the economic crime fines which go to the Consolidated Fund administered by the Treasury (not including those retained by AML supervisors), and criminal assets, a portion of which are reinvested into agencies through ARIS, with the rest going to the Home Office and Treasury. This figure does not include funds for victim compensation.

Investment in economic crime enforcement and AML supervision could have been boosted by £466 million a year if the remaining £3.3 billion of fines and recovered criminal assets had been earmarked for enforcement.

If just 50% of these enforcement receipts had been reinvested, economic crime regulation and enforcement would have received an extra £233 million a year, nearly double the annual investment underpinning the 2023-2026 Economic Crime Plan.

## 2. The Asset Recovery Incentivisation Scheme (ARIS) – which allows for reinvestment of some enforcement receipts back into law enforcement – is deeply flawed. Our review of ARIS found:

### a. The Home Office is in the dark over much of ARIS spending

Just 3% of £116.5 million distributed to agencies via ARIS in 2022/23 is publicly accounted for in their annual reports. The Home Office itself – which receives around 50% of recovered assets – gives minimal insight into how it spends these funds.

Up to £190 million or almost one third in ARIS funds received by agencies appears to be unaccounted for in Home Office data, with only a quarter of ARIS recipients responding to the latest government survey about how they spent these funds.

#### **b. ARIS funds are sometimes spent on pet projects rather than on further asset recovery**

In one case ARIS funds were used to fund an inter-police force yacht race from Portsmouth to Liverpool.

Other ARIS funds were used by Police forces to buy e-bikes and night vision cameras.

#### **c. Many agencies have to spend ARIS funds in the year they receive them, making long-term investments impossible**

The NCA had to return almost half of its total ARIS allocation for 2022/23 to the Treasury as it was unable to spend it before the end of the financial year.

Annual fluctuations in the amounts of assets recovered make it hard to invest on a sustainable or long-term basis.

#### **d. ARIS creates perverse incentives for agencies to seek financial gain**

ARIS has been scrutinised in the courts on several occasions due to a perception that agencies could be motivated by financial gain when recovering assets. This was one of the key reasons the Serious Fraud Office (SFO) pulled out of ARIS in 2014.

The US offers a cautionary tale for how things can go wrong when law enforcement "*policies for profit*".

#### **e. The ARIS allocation formula has the potential to skew agencies' priorities**

Independent bodies have raised concerns that ARIS discourages agencies from working in partnership, since the involvement of fewer agencies means higher returns via ARIS.

ARIS may encourage agencies to use asset recovery routes from which they stand to gain the most, rather than the one that is most efficient and appropriate in the circumstances.

The allocation formula can also be unfair – a one-off search which finds a large amount of unexplained cash can yield a far bigger monetary incentive for agencies compared with a long and painstaking investigation that results in a modest asset recovery.

### **3. Reinvesting more of the funds generated through enforcement into a £400 million a year Economic Crime Fighting Fund would turbocharge the UK's fight against economic crime and bring significant returns**

An Economic Crime Fighting Fund would significantly reduce the administrative burden on law enforcement agencies by consolidating various external funding streams for economic crime, and making this funding more resilient to unexpected shortfalls.

It could also avoid damaging funding cliff-edges by providing multi-year budgets to allow agencies to make long-term, strategic investments in people and technology.

More reinvestment of assets is likely to lead to a direct return on investment, improving current rates which include the SFO providing a 317% return on its budget in the five years to 2024, and Asset Confiscation Enforcement Teams embedded in Regional Organised Crime Units returning £15 for every £1 invested.

### **4. Despite serious issues with ARIS, there are positive aspects that must be retained if it is turned into an Economic Crime Fighting Fund**

The ring fenced funding ARIS provides helps agencies prioritise their use of Proceeds of Crime Act (PoCA) asset recovery powers.

ARIS funds allow agencies to experiment and develop new, innovative approaches to asset recovery.

Investing recovered assets in socially useful projects can have a strong impact by making an explicit link between the project and the seized criminal money which funds it.

The ARIS Top Slice – a small fund for enhancing national level asset recovery capabilities – allows strategic investment in asset recovery, can be done on a multi-year basis, and avoids issues with perverse incentives.

# RECOMMENDATIONS

**Within the next six months, the government should:**

## **1. Take steps to immediately increase the accountability and transparency of ARIS by:**

- a. Publishing more detailed data on ARIS spending and impact in future annual Asset Recovery Statistical Bulletins.
- b. Requiring greater detail from recipient agencies about how they spend ARIS funds.
- c. Undertaking an assessment of whether and how ARIS spending improves asset recovery and wider criminal justice outcomes.

## **2. Explore mechanisms ahead of Phase 2 of Spending Review 2025 for reinvesting a significantly higher percentage of enforcement receipts back into law enforcement, including through the creation of an Economic Crime Fighting Fund:**

As part of this process, the government should:

- a. Commission a review of whether and how a fundamental revamp of ARIS could enhance asset recovery and wider criminal justice outcomes.
- b. Undertake a wide stakeholder consultation into how more reinvestment could work, including through the creation of an Economic Crime Fighting Fund.
- c. Ensure law enforcement agencies' budget bids for Phase 2 of Spending Review 2025 include how much they have brought into the Exchequer through fines and seized assets over the past two years, as well as the wider effect this has had on criminal justice outcomes, and ensure that funding settlements take this into account.



## KEY STATS

**44%**

decline in standalone money laundering convictions between 2017/18 - 2022/23. Where money laundering is prosecuted alongside other offences, convictions have plateaued

**0.2%**

percentage of the over £100bn the NCA assesses could be laundered through the UK each year that was recovered in 2023/24

**29%**

decrease in recovered assets in 2023/24 compared with the previous year (despite a 3.2% increase on the 7-year median)

**3%**

percentage of the £116.5m distributed to agencies via the Asset Recovery Incentivisation Scheme in 2022/23 that was publicly accounted for in their annual reports

**566  
MILLION £**

average amount economic crime fighting agencies generate each year through seizing criminal assets and imposing relevant fines

**466  
MILLION £**

potential annual increase in economic crime enforcement budgets if fines and recovered assets were earmarked for enforcement

**17.6%  
£1 OUT OF £6**

total generated through economic crime enforcement (asset recovery and fines) that is directly reinvested into agencies. A portion of criminal assets are reinvested for spending on asset recovery, crime reduction or community projects, or "miscellaneous" spending.

**1/3**

of Asset Recovery Incentivisation Scheme spending by agencies appears unaccounted for in Home Office data for the last six years

**64%**

decline in fraud convictions between 2017/18 and 2022/23

# I. THE CURRENT STATE OF PLAY IN ECONOMIC CRIME ENFORCEMENT

## An overview of law enforcement's recent record on economic crime

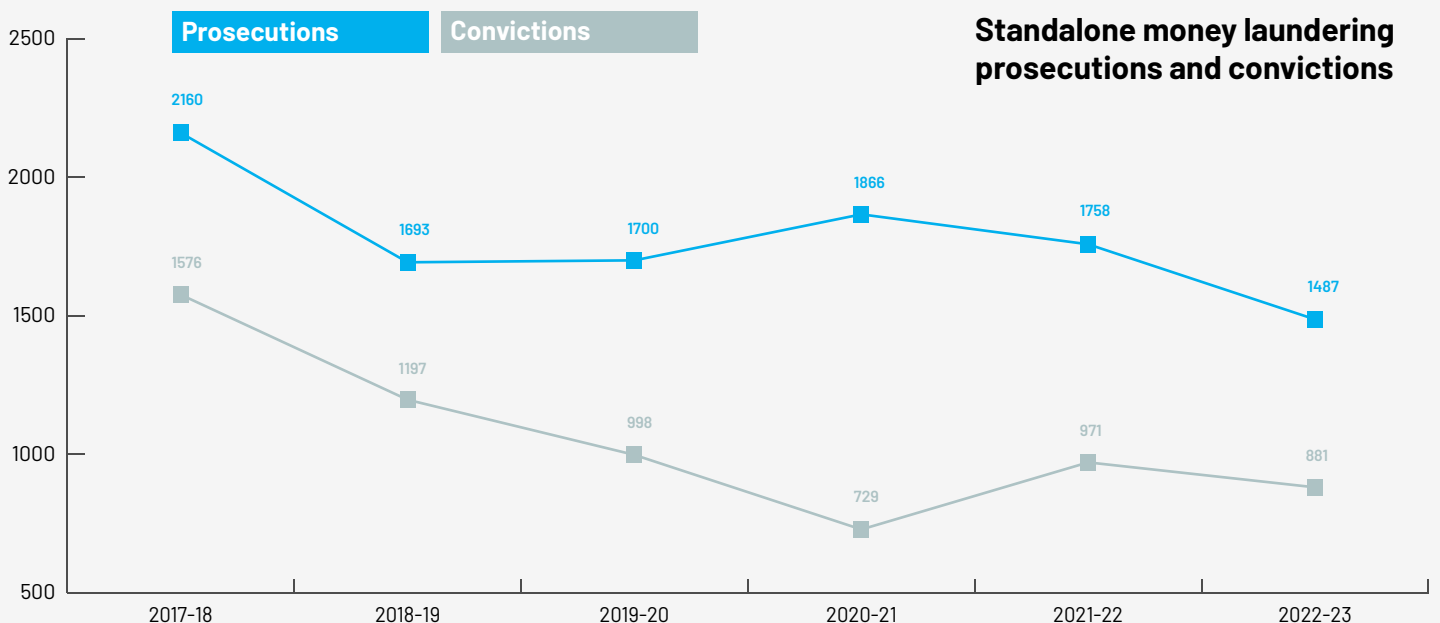
Criminal justice statistics indicate that prosecutions and convictions in England and Wales for economic crimes (which is a devolved matter in Scotland and Northern Ireland) are in decline or stagnating. Asset recovery – another key enforcement lever – saw two record years between 2021 and 2023, but declined in 2023/24. Regulatory fines for breaches of the AML rules meanwhile have increased in number every year since 2019-2020 reaching a record high in 2022/23, though overall fine values decreased by 17.8% between 2021/22 and 2022/23.

**PROSECUTIONS AND CONVICTIONS IN ENGLAND AND WALES FOR ECONOMIC CRIMES ARE STAGNATING**

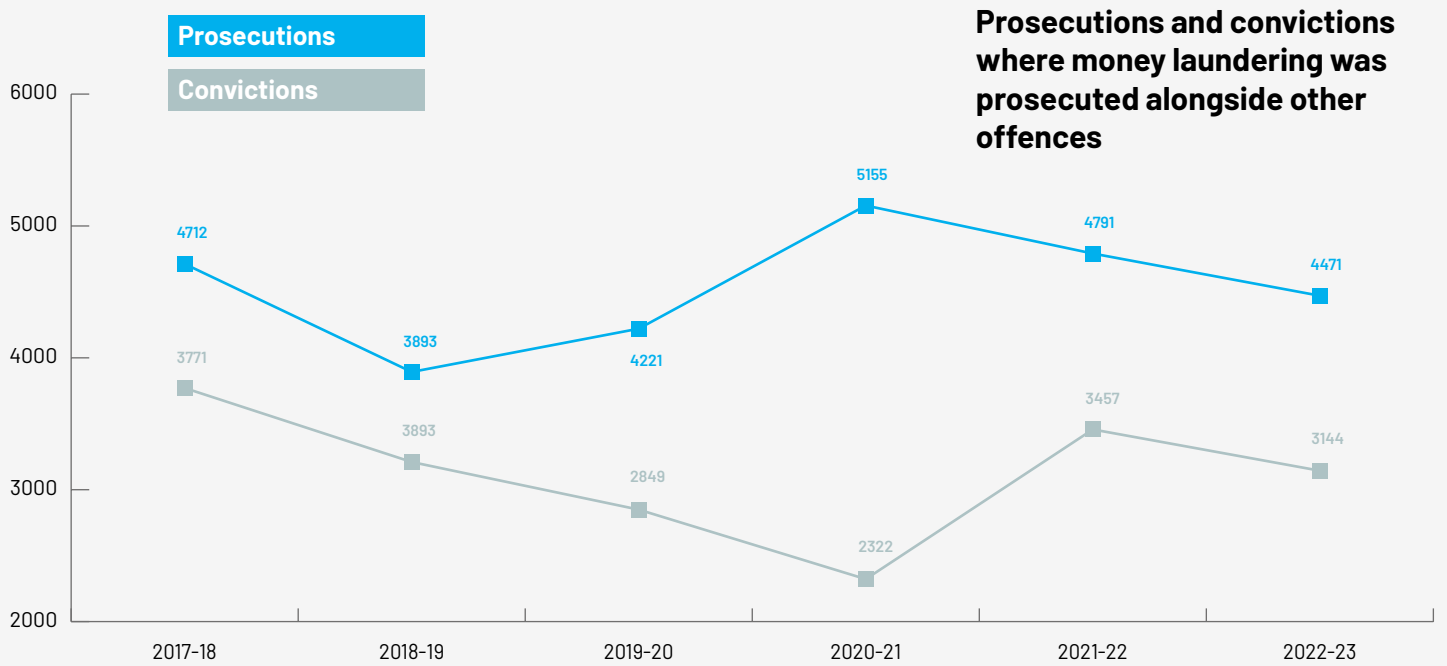
While these are by no means the only metrics by which to assess success in countering economic crime and only offer a big picture overview that inevitably overlooks complexities,<sup>9</sup> they give a flavour of the state of play in economic crime enforcement and represent key “*immediate outcomes*” used by the FATF to assess the effectiveness of a country’s AML framework.<sup>10</sup>

### Prosecutions and convictions for money laundering

When the FATF last assessed the UK in 2018, one of its focuses was on prosecution and conviction rates for standalone money laundering cases.<sup>11</sup> Official data shows that since the FATF review, these kinds of money laundering prosecutions decreased by 31% and convictions by 44% when comparing rates in 2017/18 with those in 2022/23.<sup>12</sup>

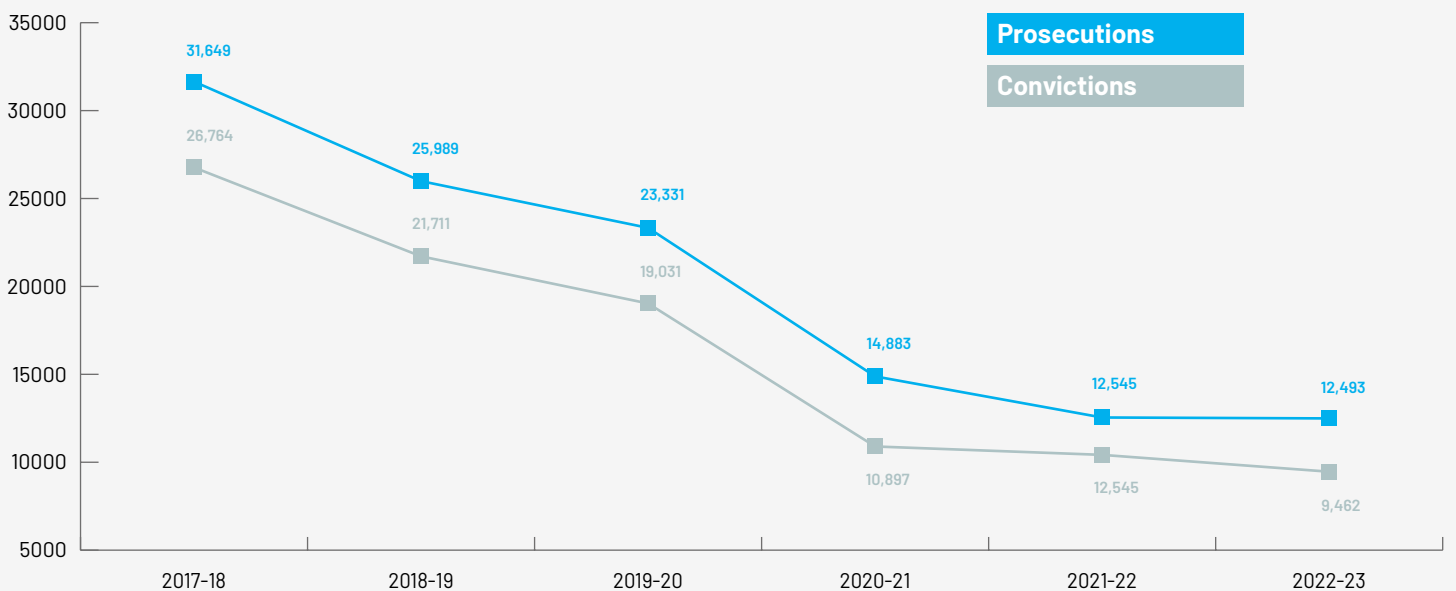


Prosecutions and convictions where money laundering was prosecuted alongside other offences meanwhile have plateaued, with prosecutions down 5% in 2022/23 compared to 2017/18 and convictions down by 16.6%, with significant fluctuations in prosecutions and convictions in this period.<sup>13</sup>

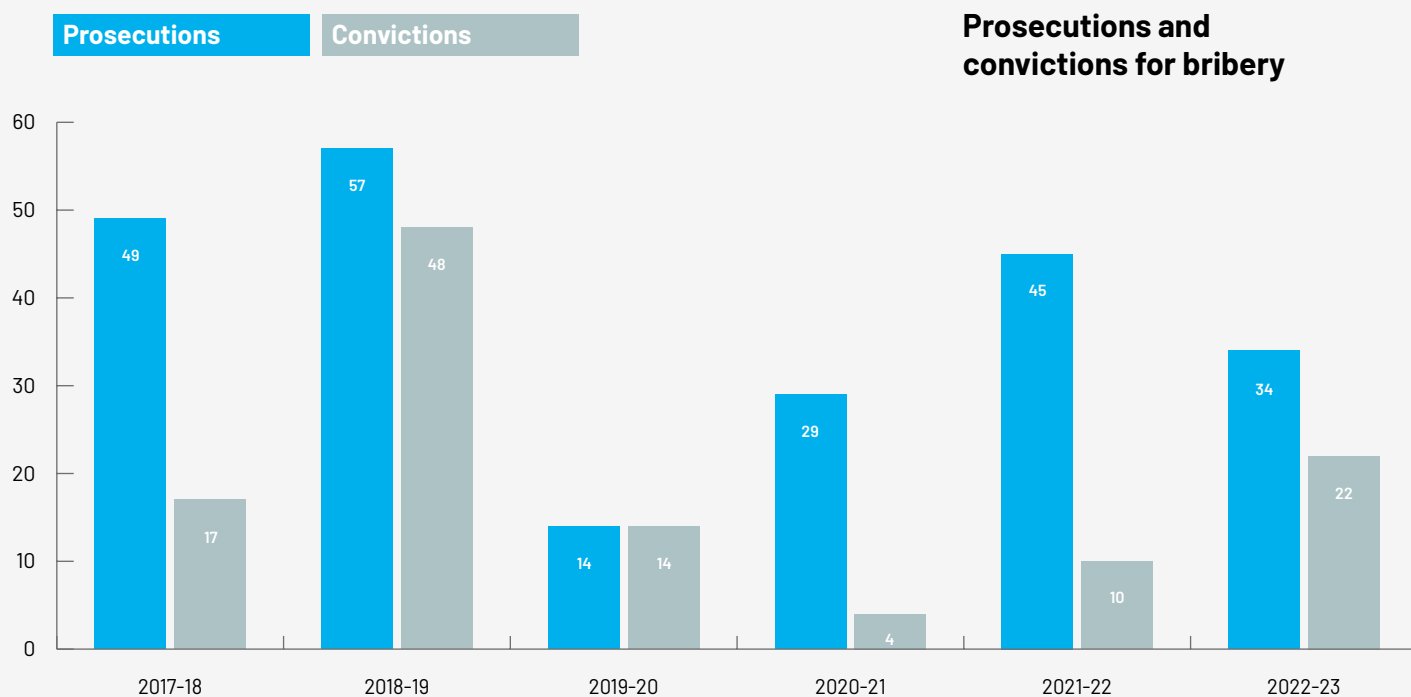


### Fraud prosecutions and convictions

Prosecutions and convictions for fraud – itself one of the main predicate offences for money laundering – have seen the steepest decline, with prosecutions plummeting by 60.5% and convictions by 64.6% between 2017/18 and 2022/23.<sup>14</sup>

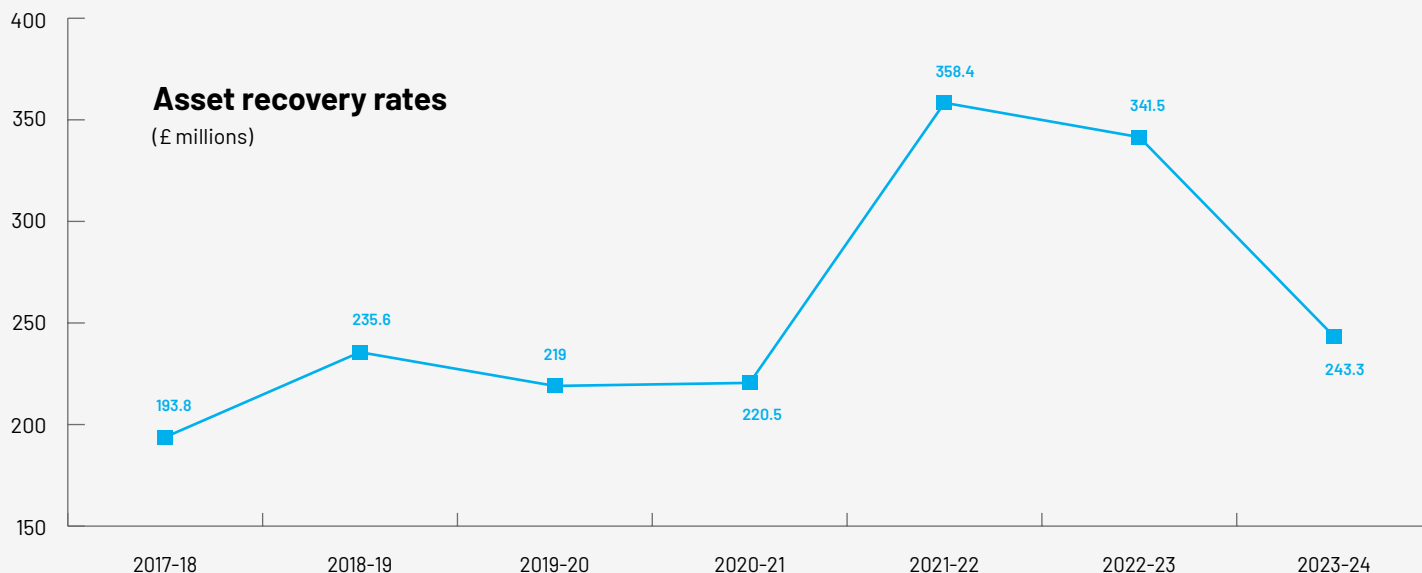


Prosecutions for bribery decreased by 30.6% between 2017/18 and 2022/23 while convictions declined by 29%, though there were significant fluctuations in prosecutions and convictions in this time period.<sup>15</sup>



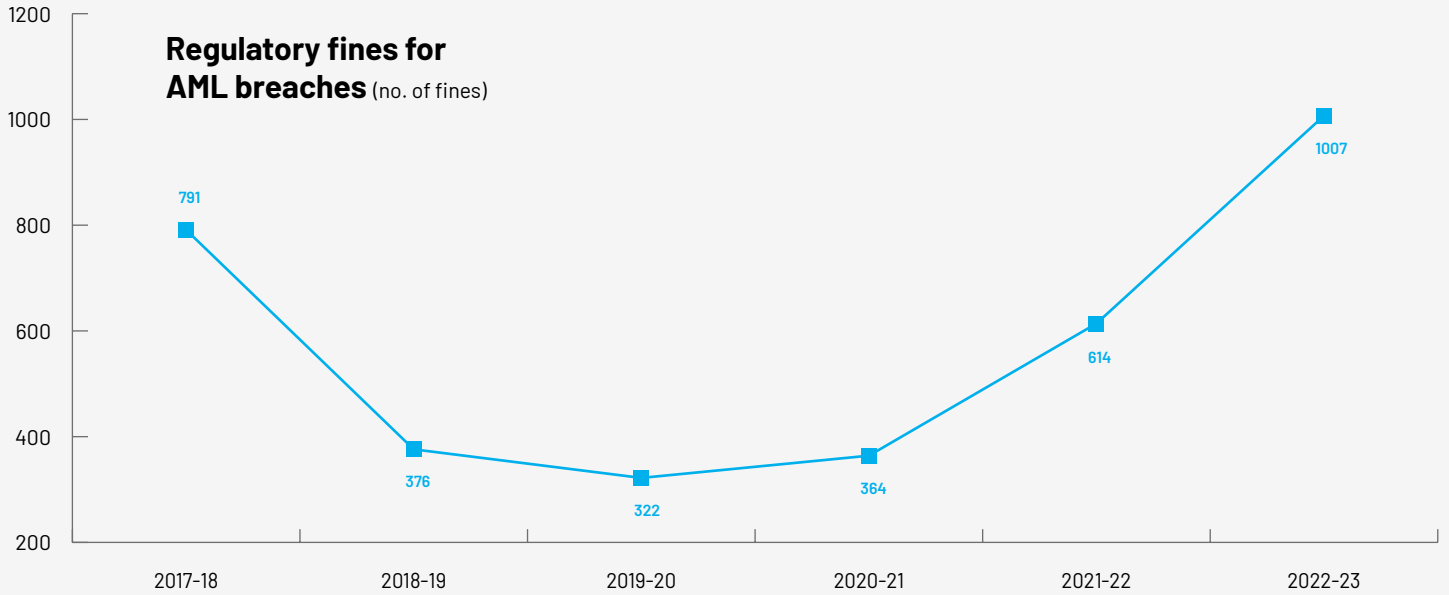
## Asset recovery

After record years in 2021/22 and 2022/23 driven by a few exceptionally high recoveries (including a civil recovery case worth £53.9 million and a confiscation case worth £93.5 million), annual rates of asset recovery decreased by 29% between 2022/23 and 2023/24, though the 2023/24 figure was a 3.2% increase on the 7-year median. The total asset recovery figure in 2023/24 of £243 million is only just above the figure for 2018, when the FATF published its last Mutual Evaluation Report (MER) of the UK.

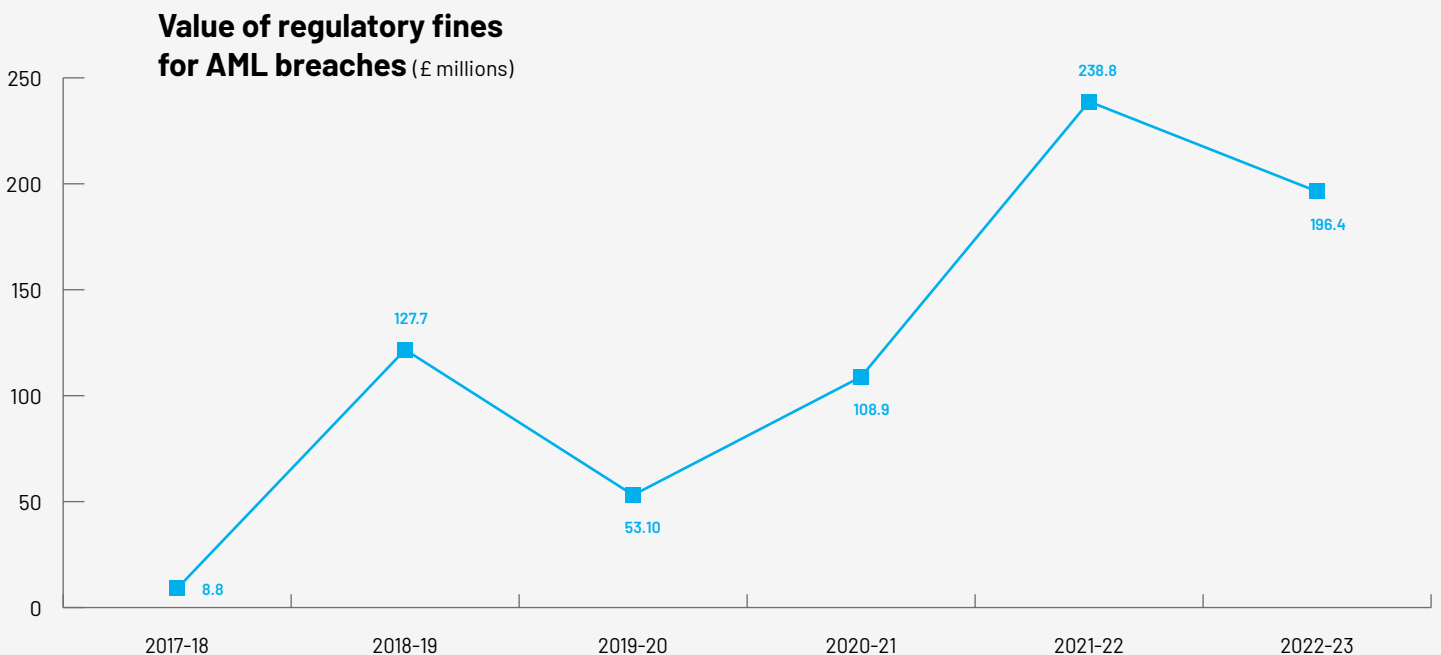


## AML supervision enforcement

Overall regulatory fines imposed by all the AML supervisors for breaches of the AML rules increased by 27% between the last FATF MER and 2022/23. While overall fine values increased every year between 2019/20 and 2022/23, the two years between 2019/20 and 2020/21 saw the fewest annual number of fines issued in the last decade.



Overall fine values for AML breaches have increased significantly since the last FATF MER, from just £8.8 million in 2017/18 to £196.4 million in 2022/23, an increase of over 2000%.<sup>16</sup>



However, this apparent increase in enforcement action was driven by large fines imposed by a small number of supervisors. In 2022/23 for example average fines issued by the Financial Conduct Authority (FCA) and Gambling Commission (GC) were £19,546,000 and £2,819,000, but HMRC and the professional body supervisors' average fines were £7,000 and £4,000 respectively (largely driven by the fact that the bodies these supervisors fine tend to be much smaller compared to the financial and gambling bodies supervised by the FCA and GC).<sup>17</sup>

In sum, when the FATF reviews the UK in 2027 it will find a mixed record on economic crime enforcement. And while analysing available data at a more granular level will reveal nuances not captured here, there are still some significant gaps in publicly accessible data.

For example, while the annual asset recovery statistical bulletin breaks down asset recoveries by predicate offence, the Ministry of Justice's data on money laundering prosecutions and convictions does not, and neither dataset includes any statistics on High-end money laundering (HEML) which would be crucial for shedding light on the state of anti-corruption enforcement. The UK did provide data for the FATF MER in 2018 on HEML investigations started by the NCA, HMRC, and the SFO but has not published any further data on this since then.<sup>18</sup>

## How much do agencies generate through economic crime enforcement?

The UK's agencies tasked with fighting economic crime together generate an estimated £566 million pounds on average each year through seizing criminal assets and imposing fines (not including funds used for victim compensation).

**AGENCIES TASKED WITH FIGHTING ECONOMIC CRIME GENERATE AN ESTIMATED £566 MILLION EACH YEAR**

This figure is based on the seven year average from 2017/18 to 2023/24 in nominal terms of nearly £4 billion generated through economic crime enforcement, at least 63% of which is directly retained by the Treasury.

This sum consists of:

- assets recovered from criminals, with 50% paid mostly to the Home Office and partly to the Treasury (£697 million) and 50% to law enforcement bodies participating in ARIS (another £697 million, though some of this was taken by the Treasury due to annual spending rules);<sup>19</sup>
- monies remitted to the Treasury following Deferred Prosecutions Agreements (£1.7 billion);<sup>20</sup>
- penalties paid by companies following SFO corporate criminal convictions and remitted to the Treasury (£244 million);<sup>21</sup> and
- fines levied by the AML supervisors which remit their fines to the Treasury (£613 million).<sup>22</sup>

Not all AML supervisors remit their fines to the Treasury, so this figure only includes fines issued by: the FCA, HMRC, the GC, the Solicitors Regulation Authority, and the Council for Licensed Conveyancers. Other supervisors either do not remit their AML fines to the Treasury or issued no fines between 2017/18 and 2023/24.

The FCA issues fines in its capacity as an AML supervisor under the Money Laundering Regulations and Financial Services and Markets Act 2000, but only fines under the latter statute are remitted to the Treasury.<sup>23</sup> The GC declined to specify how much in AML fines it remitted to the Treasury in an FOI request, so amounts had to be calculated according to how much the GC remitted from all fines and penalties (including but not limited to those for AML breaches).

## **Half-baked: the last government's resourcing for economic crime enforcement**

The previous government said its latest three-year Economic Crime Plan (ECP2), running from 2023-2026, was “*underpinned*” by £400 million additional investment on top of agency core budgets (equal to £133 million a year) covering the period 2022/23-2024/25.<sup>24</sup> No new funding was announced when the plan was launched in March 2023, with the £400 million funding consisting of:

- £200 million from the new £100 million a year Economic Crime Levy (ECL), which only started bringing in revenue from the 2023/24 financial year;<sup>25</sup> and
- Around £200 million of additional government investment (or £66.6 million a year) announced at the 2020 and 2021 spending reviews.<sup>26</sup>

This funding was shared between several different agencies and had to cover a huge range of commitments in the ECP2, from reducing money laundering and recovering more criminal assets to driving down sanctions evasion, and from cutting fraud to reducing the threat from international illicit finance.

It runs out at the end of the 2024/25 financial year, with new public investment for tackling economic crime due to be set at Phase 2 of the 2025 Spending Review due in late Spring. Phase 1 of this Spending Review (part of the 2024 Autumn Budget) announced £24 million of funding for the SFO's investigations of the largest cases of complex fraud, bribery and corruption, but did not cover funding for the wider anti-economic crime landscape.<sup>27</sup>

The previous government relied heavily on two mechanisms for finding new sources of investment for economic crime enforcement, both of which have real limitations.

### **1. The Economic Crime Levy (ECL)**

The ECL – first charged on entities regulated for money laundering in 2023/24 to cover the previous financial year – is specifically and solely for tackling money laundering.<sup>28</sup> It will be partly invested in the new Anti-Money Laundering and Asset Recovery Programme announced in the ECP2, which aims to improve the law enforcement response to money laundering and recover more criminal assets (including crypto assets) by recruiting more investigators and investing in key technology.<sup>29</sup>

The ECL has suffered serious teething problems, with the previous government announcing in the March 2024 budget that due to lower than expected receipts amounting to “about £80 million”, entities with annual revenues of £1 billion will now have to contribute double the amount previously required to the Levy (from £250,000 to £500,000 a year).<sup>30</sup>

The government “expects” this to result in £110 million being raised, though it is not clear if this is a one-off or permanent increase in the levy.<sup>31</sup> Conversations for this briefing with law enforcement recipients of the ECL indicated that some projects have had to be delayed by a year as a result of the shortfall.

## 2. The Suspended Accounts Scheme

The previous government’s Criminal Justice Bill (CJB) – which was dropped due to the 2024 General Election – sought to establish a new mechanism to enable banks to release suspected illicit funds held in suspended accounts for the government to invest in tackling economic crime.<sup>32</sup> At least £200-220 million of suspected criminal funds are currently frozen in UK bank accounts, with this sum increasing by an estimated £35.6 million each year.<sup>33</sup>

**AT LEAST £200-220 MILLION OF SUSPECTED CRIMINAL FUNDS ARE CURRENTLY FROZEN IN UK BANK ACCOUNTS**

Had the CJB passed, the government expected these funds to be available in 2025/26 “at the earliest” due to a need to pass enabling legislation, develop rules for the scheme, and implement it.<sup>33</sup>

During the passage of the CJB representatives of the financial sector described the proposed scheme as “unworkable” because liabilities (such as from litigation by those whose accounts had been suspended) relating to the transferred funds would remain with financial institutions rather than passing to the government. This was despite the government offering to cover claims in cases where accounts were wrongly suspended up to an unspecified cap.<sup>35</sup>

When devising the voluntary scheme, the government considered three alternative options.<sup>36</sup>

1. A mandatory scheme, which it ruled out due to “excessive” costs and “unnecessary” complexity.
2. A private sector-led scheme along the lines of one adopted by Lloyds Bank, which in 2022 partnered with the City of London Police to spend £7 million in suspended funds on victim support and fraud enforcement measures.<sup>37</sup> The government ruled this option out too because it only concerned a small proportion of the suspended funds and there were doubts over whether other banks would want to replicate it.
3. The final option which the government assessed was unlikely to be repeated was to follow the route of a High Court case in which £54 million of suspended funds were released through a civil recovery order made by the NCA. Given the time taken to secure the funds and the evidential requirements on the bank holding the funds, the Home Office deemed it unlikely



that other banks would follow suit. In addition, interviewees for this briefing suggested that law enforcement agencies may be reluctant to dedicate their limited resources to such cases which are perceived to have minimal impact on criminality.

The ongoing challenges in successfully releasing these suspended funds suggests that it cannot, at least in the short term, be relied on to provide the urgently needed boost in resourcing for economic crime enforcement.

Even if it is achieved, it would represent yet another potentially uneven funding line (along with the ECL, ARIS, and other short-term external grants) for government and law enforcement agencies to manage.

The advantages of having a pooled fund such as the recommended Economic Crime Fighting Fund is that it would help consolidate these multiple funding sources and significantly reduce the administrative burden on agencies.

It could follow the example of the new Integrated Security Fund launched in April 2024, which combined the Conflict, Stability and Security Fund, the National Cyber Programme and the Economic Deterrence Initiative into a single fund for tackling the security challenges outlined in the Integrated Review Refresh.<sup>38</sup>

Pooling all economic crime funding streams would also empower decision makers to consider more combined strategic objectives and prevent them from being pulled in different directions by contradictory spending requirements, such as those under ARIS and the ECL.

### **What resourcing have experts and law enforcement said is needed?**

**There is widespread consensus that if the UK is serious about tackling serious and organised crime (which includes economic crime), it will need significantly more investment than it is currently getting.**

In 2019, former NCA Director General Lynne Owens said that the system for tackling serious and organised crime (of which economic crime is a major part) needed £2.7 billion a year.<sup>39</sup>

The current NCA Director General Graeme Biggar has said the agency must “transform” its “capabilities” and recruit more “world class experts”.<sup>40</sup>

Several independent reviews of economic crime fighting bodies over the past few years have consistently called for a long-term funding strategy for key agencies. These include:

- HM Crown Prosecution Inspectorate, which recommended the government “urgently addresses how the SFO is funded” to be able to deal with disclosure and compete in the open market;<sup>41</sup>

**IF THE UK IS SERIOUS ABOUT TACKLING ECONOMIC CRIME IT WILL NEED SIGNIFICANTLY MORE INVESTMENT**

- HM Inspectorate of Constabulary and Fire & Rescue Services, which in 2021 found that the NCA had struggled to improve its “*slow and inefficient*” IT systems due to the short-term and uncertain nature of its funding, and urged the government to give clarity over its funding to allow investment in longer-term projects;<sup>42</sup>
- Sir Craig Mackey, who in his 2021 independent review into funding for combatting Serious and Organised Crime called on the government to implement multi-year budgets to “*drive system transformation, capabilities development and capacity growth*”, noting that improvements to the government’s response to serious and organised crime would need “*sustained and coordinated investment over the next 5-10 years*”.<sup>43</sup>

Independent experts have also called for a critical reappraisal of the funding landscape for economic crime enforcement. The Royal United Services Institute (RUSI) has argued for an annual investment of £250 million to fund a minimum of 2,000 additional new police officers working on economic crime by 2030.<sup>44</sup>

The City of London Law Society has called for the budget of the SFO to be increased by at least 50% in line with its net contribution to the Treasury and warned that if the UK is seen as incapable of prosecuting complex frauds the reliability and capacity of the British state could be called into question.<sup>45</sup>

Meanwhile, anti-fraud experts and the finance sector have flagged the need for all sectors whose systems might be abused by fraudsters to pay their share for enforcement. In particular, RUSI and anti-fraud not-for-profit organisation Cifas, as well as UK Finance have called for a fraud levy on the tech sector – which currently contributes very little to the enforcement of fraud.<sup>46</sup>

## **Bang for the buck: what would result from more investment in fighting economic crime?**

Even at a conservative estimate, the government could expect to see a direct return on investments made through an Economic Crime Fighting Fund (ECFF). This is because in addition to its impact on crime and corruption, a by-product of economic crime enforcement for those holding the purse strings is that it often provides very good value for money. For example:

**FOR EVERY POUND INVESTED OVER 5 YEARS TO FEBRUARY 2024, THE SFO RETURNED £3 TO THE TREASURY**

- For every pound invested in the SFO over five years up to February 2024, the agency returned £3 to the Treasury (such as through penalties from Deferred Prosecution Agreements and asset recovery orders), a 317% return on its budget;<sup>47</sup>
- For every £1 spent on the NCA’s International Corruption Unit it has frozen £21. The benefits of this work are of course far wider, since corruption undermines the rule of law and democratic institutions, with multiple knock on effects on investment, instability and conflict;<sup>48</sup> and
- Asset Confiscation Enforcement Teams embedded in Regional Organised Crime Units, which ensure that Confiscation Orders are effectively enforced, have returned £15 for every £1 invested.<sup>49</sup>

Additional, targeted investment across the system would be likely to further improve the UK's use of asset recovery to tackle crime while at the same time increasing the amount coming into the public purse. More resourcing to enable robust enforcement of the UK's AML and anti-bribery laws meanwhile would be very likely to lead to an increase in the number of regulatory and criminal fines being imposed for wrongdoing.

Investment in economic crime enforcement and AML supervision could have been boosted by £466 million a year if the remaining £3.3 billion of fines and recovered criminal assets had been earmarked for enforcement.<sup>50</sup> Even reinvesting less than 30% of the £367 million a year agencies return on average to the Treasury through economic crime fines<sup>51</sup> would be enough to double investment announced by the previous government in crucial technology needed for economic crime enforcement.<sup>52</sup>

In sum, it would not be unreasonable to count on the ECFF to bring in well over the initial cost of investments made through it, enabling more victim compensation and further cost neutral investment in both economic crime enforcement and other government spending on vital public services.

## II. A MIXED BLESSING FOR LAW ENFORCEMENT: THE ASSET RECOVERY INCENTIVISATION SCHEME (ARIS)

### What is ARIS and how does it work?

ARIS gives law enforcement agencies a cut of the money they seize using criminal and civil powers under the Proceeds of Crime Act (PoCA). Well over 200 bodies with PoCA powers are eligible to receive funding through ARIS, ranging from large law enforcement agencies like the NCA, to local councils and Police Forces.<sup>53</sup> The SFO is one of the only enforcement agencies outside the scheme after it voluntarily withdrew in 2014.

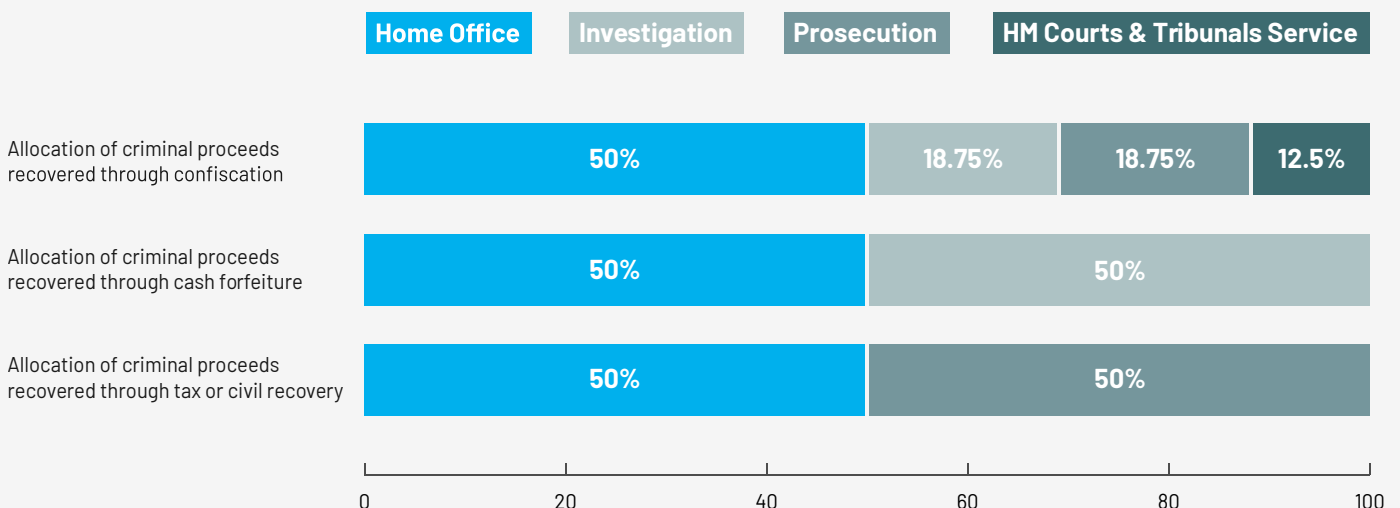
**WELL OVER 200 BODIES WITH POCA POWERS ARE ELIGIBLE TO RECEIVE FUNDING THROUGH ARIS**

ARIS was established in 2006 (though the UK has had various mechanisms for the reinvestment of the proceeds of crime since 1999).<sup>54</sup> It has no formal footing and is described as an “unusual” arrangement requiring “ongoing agreement” between the Home Office, Treasury, the Ministry of Justice and the Attorney General.<sup>55</sup>

The way funds are distributed under ARIS is complicated, with different arrangements depending on how the assets were recovered. Agencies with PoCA powers receive 50% of recovered assets and the Home Office receives the other 50%.<sup>56</sup> The 50% for law enforcement agencies is generally divided according to a formula which depends on the way the proceeds of crime were seized.

### The ARIS allocation formulas

(source: National Audit Office)



Funds are only paid into the ARIS pot after victims have been compensated, costs associated with enforcing confiscation orders are covered, and after £13.9 million a year has been set aside for national level asset recovery capabilities (known as the “Top Slice”, with agencies and the Home Office contributing 50% each). This means that overall, ARIS agencies actually receive less than 50% of total recovered assets.

### **How much does the Treasury get?**

**As asset recovery receipts increase, so does the amount of funds that go to the Treasury when the Home Office ARIS allocation exceeds a cap, which was previously set at £92 million and was raised to £121 million for 2023/24 and 2024/25.** This cap lets the Home Office receive 50% of total annual ARIS allocations up to £184 million (raised to £242 million for 2023/24 and 2024/25) with anything above the cap going to the Treasury.<sup>57</sup>

Due to the increase in asset recovery receipts between 2021-2023, the cap was surpassed for the first time in 2021/22 and again in 2022/23, resulting in the Treasury receiving £92 million (£62 million in 2021/22 and £30 million in 2022/23) from Home Office ARIS receipts.<sup>58</sup> The government had committed in 2016 to returning anything above this cap to the Regional Asset Recovery Teams (which are part of Police Regional Organised Crime Units), but it is unclear if this actually happened when, several years later, the cap was exceeded for the first time.<sup>59</sup>

In addition, some of the recovered assets received by ARIS recipients are returned unspent to the Treasury because agencies subject to central government accounting rules must spend ARIS receipts by the end of the financial year. The NCA for example did not have time to spend nearly half of its ARIS allocation in 2022/23 and had to return it to the Treasury.

### **What about victim compensation?**

Compensation for victims should be considered before reinvestment occurs. For criminal confiscation orders, identifiable victims are compensated before any funds are confiscated and allocated to ARIS. Where an asset recovery enforcement action has been funded by aid money, as happens with the NCA’s International Corruption Unit, 100% of assets are returned to the victim country from which they were stolen.

**COMPENSATION  
FOR VICTIMS SHOULD  
BE CONSIDERED  
BEFORE REINVESTMENT  
OCCURS**

Under civil recovery and forfeiture there is no automatic mechanism for victim compensation to be paid, although under legislation introduced in 2023 “*victims and other owners*” claiming that money subject to freezing and forfeiture proceedings belongs to them can apply for it to be released.<sup>60</sup>

Victim compensation could be widened if assets recovered following investigations into violations of sanctions – such as those against Russia for its reinvasion of Ukraine – could be repurposed for the benefit of victims.<sup>61</sup>

## What has the government said about reforming ARIS?

The previous government committed in the ECP2 to reinvest more recovered assets to tackle economic crime, including through ARIS. The government said it would “*develop potential options*” for increasing reinvestment of ARIS receipts and “*explore further ways*” to enable multi-year investment through ARIS by the final quarter of 2024.<sup>62</sup>

While no public announcements have been made on what progress the government has made towards these commitments, interviews for this briefing suggest some projects funded through the Top Slice have received investment across two years.

## Where is ARIS falling short?

ARIS has long been criticised by parliamentary committees and independent bodies, despite some incremental reforms.



2006

ARIS is established. The UK has had various schemes to reinvest seized criminal assets back into the work of law enforcement and socially beneficial projects since 1999, after the US and Italy pioneered the practice in the 1980s and 1990s.<sup>63</sup>

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2010

A joint report on asset recovery by the criminal justice inspectorates saw merit in “*revisiting*” ARIS, especially the way it creates “*inappropriate incentives*”.<sup>64</sup>

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2013  
2014

Reports from the National Audit Office (NAO) and Public Accounts Committee (PAC) described ARIS as “*flawed*”, “*opaque*”, and “*ineffective*”.<sup>65</sup>

 2015

NAO and PAC criticism sparked a government review of ARIS that resulted in reforms establishing an annual survey on agencies' use of ARIS funds and the introduction of the Top Slice.<sup>66</sup>

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 2016

Despite these reforms, follow-up reports by the PAC and NAO both maintained that the government had not addressed a number of “weaknesses” with ARIS.

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 2016

In the same year the Home Affairs Committee said that the government had failed to persuade them that ARIS was “fit for purpose” and agreed with the NAO’s findings.<sup>67</sup>

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 2017

The government for the first time published its annual Asset Recovery Statistical Bulletin, which has included progressively more detailed data from the Joint Asset Recovery Database (JARD) on assets recovered and the kinds of asset recovery orders used.<sup>68</sup> However, the JARD includes no data on how funds returned to agencies through ARIS are used.

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 2020  
2022

The Law Commission’s consultation paper on reforming confiscation also raised serious concerns about ARIS, which are echoed in its final 2022 report.<sup>69</sup>

Our review of ARIS has also found the following significant issues with the scheme:

## 1. ARIS spending is opaque and has become more so since its reform in 2015

The Home Office recommends agencies follow the “*spirit*” of the scheme to spend ARIS funds on asset recovery work, crime reduction projects, community projects and the catch-all category of “*miscellaneous expenditure*”.<sup>70</sup> But no formal restrictions on ARIS spending exist and there is significant variation in how these bodies spend their ARIS funds.

### Pet projects – how do ARIS recipients spend their funds?

Multiple interviewees for this briefing expressed frustration with what they saw as Police and Crime Commissioners’ spending on “*vanity*” or “*pet*” projects with ARIS monies that, while sometimes benefiting local communities, were also politically advantageous.

**IN ONE CASE FUNDS WERE USED TO FUND A YACHT RACE BETWEEN POLICE FORCES**

In one case ARIS funds were used to fund a yacht race from Portsmouth to Liverpool between three Police Forces (which included young people from local communities in the crew).

Other Police forces use their ARIS funds for spending that bears no apparent relation to asset recovery. Derbyshire Constabulary for example used £40,000 from ARIS to buy 22 e-bikes,<sup>72</sup> while Lincolnshire Police bought 20 night vision cameras to help combat rural crime with £20,000 of ARIS funds.<sup>73</sup>

Several Police and Crime Commissioners run funds to reinvest the proceeds of crime into community projects. Some, such as South Yorkshire and North Yorkshire Police forces, give details of each project funded.<sup>74</sup> Others such as North Wales Police simply state that they have a fund which allocates funds to communities, without giving details.<sup>75</sup>

Some agencies such as Sussex Police use ARIS receipts to fund what arguably should be done with core funding, such as posts in its Economic Crime Unit.<sup>76</sup> Directly funding posts with ARIS receipts raises the risks of individual officers pursuing low-hanging fruit in order to ensure their role is funded.

This wide interpretation of how ARIS funds can be used means it is critical that there is greater oversight and accountability for how they are spent. Without detailed evidence of this it is impossible to see whether investment of ARIS receipts is meeting the original aim of the scheme to help to improve asset recovery outcomes.



## What does the Home Office know about agencies' ARIS spending?

Limited data held by the Home Office on agencies' use of ARIS funds raises the risk that funds are spent inefficiently. The Home Office notes that the survey findings for 2021/22 and 2022/23 are based on responses from just 20% and 25% respectively of agencies that previously received ARIS funds.<sup>77</sup>

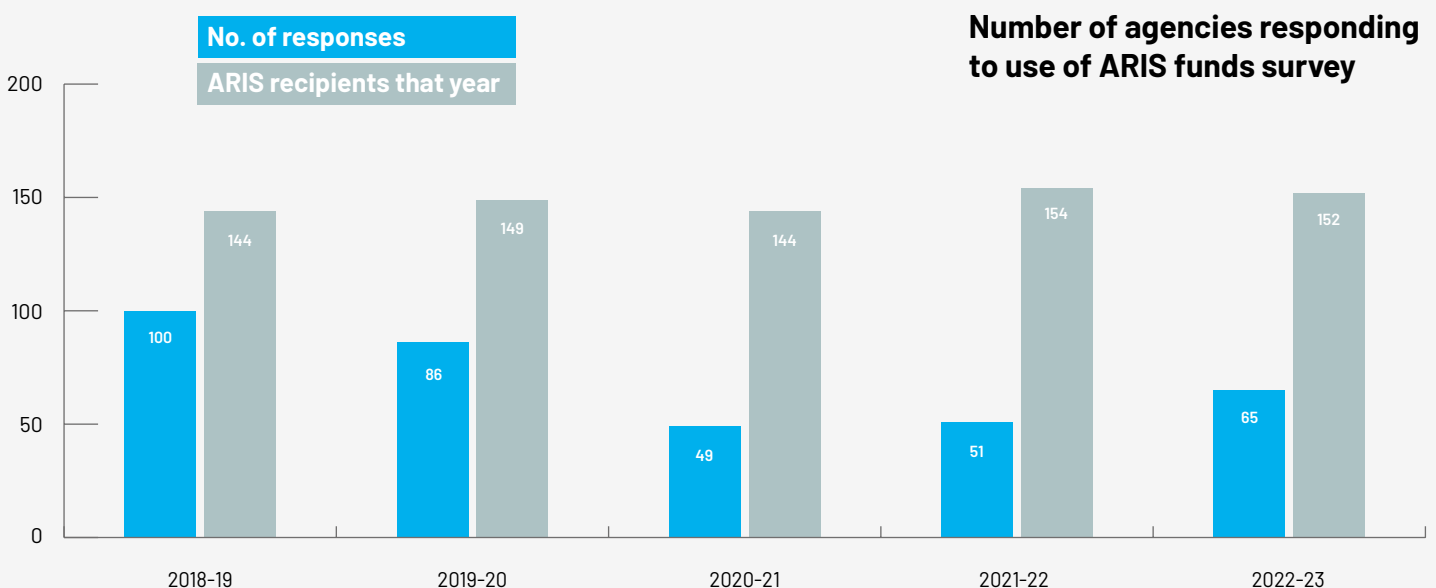
Some ARIS recipients such as Police Forces and Local Authorities do not have to spend ARIS receipts in the year they receive them, so it is not possible to directly compare overall annual ARIS allocations with overall ARIS spending reported in the annual use of ARIS funds surveys.<sup>78</sup>

Nevertheless, the large gap between the £599 million that ARIS agencies received between 2017/18 and 2022/23, and the £409 million that is accounted for in the use of ARIS funds surveys over that period indicates that at least some of the remaining £190 million, amounting to 32% of ARIS funds agencies received during this time, is unaccounted for in Home Office data. According to the Home Office, the survey is being redesigned to improve the quality of the data it collects, including the response rate, a welcome development that cannot come soon enough given the weaknesses identified with the current survey.<sup>79</sup>

Of the £409 million that is accounted for, £67 million, or 16%, was spent on vague "miscellaneous projects". While the majority – 71% or £292 million – was spent on "asset recovery work", the survey offers no details as to the nature of this work.<sup>80</sup>

The fact that such a large proportion of total ARIS funds received by agencies appears to be unaccounted for in the use of funds survey indicates that the Home Office is in the dark over millions in ARIS spending by recipient agencies.

Some interviewees for this briefing noted that the failure of bodies to report on their use of ARIS funds to the Home Office raises real questions about how effective the scheme is at incentivising asset recovery, although others highlighted that ARIS plays an important role in helping law enforcement bodies prioritise asset recovery.



## What do individual ARIS recipients say about their ARIS spending?

Individual agencies' reporting on their use of ARIS funds is highly inconsistent and tends to lack detail. Of the 70 bodies (including Police forces, local councils, and national-level bodies like the NCA) which received over £100,000 in ARIS funds in 2022-2023 (amounting to 99% of total ARIS allocations to PoCA agencies that year), only around a quarter (17 agencies) mentioned what they spent their ARIS monies on in their annual reports.<sup>81</sup>

**AGENCIES' REPORTING ON USE OF FUNDS IS HIGHLY INCONSISTENT AND TENDS TO LACK DETAIL**

Overall, only around 3% (or £3.9 million) of ARIS funds worth £116.5 million distributed to these 70 bodies in 2022/23 are accounted for in their annual reports.<sup>82</sup>

Meanwhile, "*large PoCA agencies*" (classed by the government as the Home Office Immigration Enforcement, NCA and HMRC) give no details on how they use ARIS funds in their annual reports. The only publicly available data on their ARIS spending is found in the annual reports of Northern Ireland's Organised Crime Taskforce (OCT), which works with these agencies and noted in its most recent 2022/23 report that:

- the NCA's ARIS monies were used to buy equipment and training for Immigration Enforcement and Criminal and Financial Investigation Officers, and
- HMRC's £30 million in ARIS money was invested in 21 counter-fraud projects including delivery of specialist IT systems, additional legal support for complex fraud cases and capability building in support of international partnerships on fiscal fraud.<sup>83</sup>

## What do the Home Office and HMCTS say about their ARIS spending?

The Home Office itself gives little insight into how it spends the 50% of ARIS funds it receives. In a 2015 review of ARIS the government argued that since its ARIS allocation forms a part of the Home Office's core budget it is used to fund Police forces, efforts to tackle serious and organised crime, and Regional Organised Crime Units.<sup>84</sup>

More recently, the Home Office has said its ARIS allocation represents "*core funding*" that would otherwise be provided by the Treasury, and is spent on:

- priority front line activity, including supporting and safeguarding victims;
- delivering the policy response to the Economic Crime and the National Cyber Strategy; and
- delivering statutory obligations.<sup>85</sup>

As the Home Office is not required to specify what it spends its ARIS funds on there is no way of verifying these spending claims, which are subject to annual budget review and are not ring fenced.<sup>86</sup>

Similarly, HM Courts and Tribunals Service (HMCTS), an executive agency of the Ministry of Justice, receives 12.5% of confiscation orders under ARIS – amounting to nearly £84 million over the last seven years – but offers no transparency into how it spends these funds.<sup>87</sup>

Some interviewees suggested HMCTS's ARIS funds could be spent specifically on improving the courts' performance on criminal confiscation, such as by providing equipment to improve virtual hearings, holding hearings on Saturdays, creating a central hub that deals with all PoCA financial applications, and holding more hearings remotely to increase capacity.<sup>88</sup>

## 2. ARIS funds cannot be invested across multiple years

The last government's ECP2 committed to "explore" enabling multi-year investment of ARIS receipts by the final quarter of 2024. According to interviews and correspondence with the Home Office, this is already underway, but only relates to 'Top Slice' or national level projects, some of which have received funding for two years.

**LARGE CIVIL RECOVERY RECEIPTS HAVE BEEN FORFEITED BECAUSE THEY COULD NOT BE SPENT BEFORE THE YEAR END**

While this is an improvement, it does not address the fundamental issue that bodies subject to central government accounting rules (such as the NCA, CPS and HMRC) must spend their ARIS receipts in the year they receive them, with any funds they cannot spend before the end of the financial year taken by the Treasury.<sup>89</sup>

This is a particular problem when agencies seize assets near the end of the financial year, giving them little time to absorb ARIS receipts. This has led to situations where large civil recovery receipts have had to be forfeited to the Treasury because they could not be spent before the end of the year.

Given ARIS is an informal arrangement between government departments, the Treasury could seek to exempt exceptionally large asset recovery receipts from ARIS altogether. But this would risk disincentivising agencies from taking on ambitious, high-risk asset recovery cases.

In addition, public bodies subject to central government accounting rules are limited in the amount of income they can retain in the course of a year. Any income (including from ARIS) received that exceeds 10% of their annual budget must be surrendered to the Treasury.<sup>90</sup> One interviewee from a law enforcement agency suggested that this can lead agencies to limit the number of cases they take on in a year, or delay cases until the following year so as to not lose out on ARIS receipts.

### **Annual spending constraints on ARIS spending have long been criticised.**

- The NAO said in 2016 that they built "uncertainty" and "enforced short-termism ... into the system"<sup>91</sup> a point echoed in the 2016 PAC report which said it prevented "effective reinvestment".<sup>92</sup>
- The then Permanent Secretary at the Home Office told the PAC in 2016 that annual spending rules constraining ARIS spending were the "curse of just about everybody in my job" and a "symptom of a much broader point".<sup>93</sup>

**Annual spending rules do not apply to all PoCA agencies.** Unlike the NCA, HMRC, CPS, and the numerous other public bodies eligible to receive monies through ARIS, Police forces and local

authorities – which have separate accounting rules – may carry over unspent ARIS receipts and place them in reserve funds earmarked for multi-year spending of ARIS monies.<sup>94</sup>

There is a mechanism for rolling unspent budgets into the next financial year but it is not suitable for ARIS. “*Budget exchange*” lets government departments carry over a proportion of unspent funds from one year to the next but can only apply when departments inform Parliament that they expect to under or overspend on their annual budgets.<sup>95</sup> This does not work for ARIS, as an unexpected windfall an agency receives through the scheme near the end of the year is extremely hard to budget for.

## **Annual spending rules restricting ARIS spending in practice**

### **Operation Agade**

In late November 2022 the NCA secured a High Court Order to recover £54 million in suspended funds held in accounts at Barclays Bank believed to be linked to criminal activity.

After apportioning £4 million for victim compensation, the NCA benefited from a nearly 50% share amounting to £23.33 million, as per ARIS allocations for civil recovery. This was almost double the NCA’s total ARIS allocation received the previous year.

The NCA only had around four months to spend this sum, and in the end only managed to spend 36% or £8.32 million, with the remaining £15.01 million returned to the Treasury amounting to almost half (45%) of the NCA’s total ARIS allocation for 2022/23.<sup>96</sup> To put this into context, £15 million could pay the salaries of roughly 450 NCA investigators for a year.<sup>97</sup>

### **Operation Neutron**

In the same year, the Crown Prosecution Service secured a £29 million Asset Forfeiture Order – the largest ever in the UK at the time – in relation to an international money laundering scheme following an investigation by the City of London Police (CoLP).<sup>98</sup>

While both CoLP and the CPS received around 25% each from the order through ARIS, because they received it at the end of the financial year the CPS had very little time to spend such a large sum and had to return it to the Treasury. Since the Police are not subject to the same central government accounting rules, CoLP were able to spend their £7.1 million cut over the course of the next year and beyond.<sup>99</sup>

This example underlines the inconsistency underpinning ARIS which can make it an ineffective reinvestment mechanism, particularly for agencies subject to annual spending rules.

### 3. ARIS funds can be hard to manage and spend effectively

Given that enforcement outcomes may change from year to year, ARIS has always carried the risk of being an unpredictable income stream. Interviewees for this briefing noted that despite partially successful efforts to forecast the expected levels of annual ARIS receipts, their potential volatility and the variation in timing over when ARIS money becomes available makes ARIS receipts hard to use for investment on a sustainable basis.

This, combined with the requirement to spend them in-year, makes it difficult to recruit additional staff or make long-term spending plans with ARIS funds. While agencies are required to make a “planning assumption” about how much they expect to get through ARIS, this can be challenging in reality.<sup>100</sup>

#### The SFO’s alternative to ARIS

The SFO withdrew from ARIS in 2014, after serious criticism from the judiciary about the potential for perverse incentives.<sup>101</sup> An additional factor cited by the agency was that any income stream from ARIS is “*unpredictable in both timing and amount.*”<sup>102</sup>

The SFO Proceeds of Crime Division, established in 2009, was initially entirely funded by ARIS receipts,<sup>103</sup> but after its withdrawal from the scheme in 2014, the SFO reached an agreement with the Treasury allowing it to convert future “*assumed ARIS income*” into baseline funding covering the approximate cost of running the Proceeds of Crime Division.<sup>104</sup> While the SFO’s ARIS receipts are paid directly to the Treasury, a portion of them still contribute to the Top Slice scheme.

In some ways, this represents a better approach to the allocation of enforcement receipts by providing certainty in terms of budget and resource planning (while also avoiding criticism on grounds of conflict of interest and policing for profit).<sup>105</sup>

**However, the fixed sum the SFO receives is not always a fair reflection of the assets it recovers in a given year.** This mechanism would only be fair and ensure the SFO Proceeds of Crime Division is properly funded if the fixed sum was raised and regularly reviewed to ensure it remains a fair reflection of both assets recovered and the Division’s wider impact on crime.

### 4. ARIS may create perverse incentives for agencies to seek financial gain

The Law Commission argued in its 2022 report on confiscation that ARIS “*creates the potential for conflicts of interest*” and has raised concerns that agencies responsible for confiscation may be “*incentivised by financial gain for their organisations*”.<sup>106</sup> Without reform, the Commission found that this is “*likely to remain a ground*” for challenging confiscation.

While members of law enforcement bodies interviewed for this briefing emphasised that they often have to fight for asset recovery to be prioritised and are solely motivated by the powerful effect asset recovery has on crime and returning funds to victims – and certainly not financial gain for their agencies – ARIS has been scrutinised in the courts on several occasions for this very reason.

**MEMBERS INTERVIEWED EMPHASISED THAT THEY ARE MOTIVATED BY THE POWERFUL EFFECT ASSET RECOVERY HAS ON CRIME**

**Courts have been particularly likely to find that confiscation powers wielded by local government authorities are susceptible to abuse or raise concerns about conflicts of interest.**

- In 2017 Thurrock Council sought to bring a prosecution on behalf of the Legal Aid Agency (LAA) against appellants they alleged had made fraudulent claims. The judge found that an agreement between the LAA and Thurrock Council amounted to a “*money making enterprise*” with the Council having a “*real financial interest*” in undertaking the prosecution, ultimately ruling that the Council had no powers under the Local Government Act to prosecute the case.<sup>107</sup>
- In at least two cases in 2018 and 2019, judges stayed prosecutions as an abuse of process after ruling that local authorities were influenced by the prospect of a financial benefit deriving from a confiscation order.<sup>108</sup>
- In a 2020 case, while the High Court rejected a claim that ARIS inappropriately influenced a decision by a local authority to prosecute,<sup>109</sup> the judge noted that ARIS may give rise to a “*serious conflict of interest*” on the part of the prosecutor, who must be “*scrupulous*” to ensure a decision to prosecute is not motivated by the prospect of financial gain.

Similarly, in a 2010 SFO prosecution for foreign bribery when the agency was still part of ARIS, the judge found that for a prosecutor such as the Director of the SFO to give notice requiring a court to proceed with confiscation rather than a fine would create a “*very considerable conflict of interest incompatible with his independent duties as a prosecutor.*”<sup>110</sup>

**A cautionary tale from one US model of asset sharing.**

The “*Equitable Sharing Program*” (ESP) in the US offers a warning for how things can go wrong with incentivising asset recovery. This allows local, state and tribal law enforcement agencies that have participated in an investigation or prosecution resulting in a federal forfeiture to receive a share of up to 80% of the proceeds.<sup>111</sup>

The ESP has been subject to strong criticism from across the political spectrum by the media, non-governmental organisations and academics, with claims that it encourages law enforcement to “*police for profit*” at the expense of pursuing the most appropriate enforcement option for reducing crime.<sup>112</sup>

A key UK government report on the proceeds of crime published in 2000 that foreshadowed PoCA specifically articulated the need to avoid the ESP’s pitfalls by pooling asset recovery receipts in a general fund rather than allocating them directly to agencies.<sup>113</sup>



While this early approach was abandoned in favour of ARIS in 2006, the idea of a pooled fund was partially restored with the introduction of the Top Slice in 2014. Though ARIS has not received the same level of criticism or been abused to the same extent, the risks inherent in the ESP are similar.

## 5. The ARIS allocation formula has the potential to skew agencies' priorities

Several independent bodies and parliamentary committees have highlighted issues with ARIS' allocation formulas. The Law Commission's 2020 consultation paper on confiscation suggested the allocation formula could:

- discourage agencies from working in partnership since the involvement of fewer agencies means higher returns via ARIS,<sup>114</sup> and
- create inefficiencies by incentivising use of confiscation orders over deprivation orders, despite the latter being quicker and less labour intensive. Unlike confiscation orders, no direct benefit is available to law enforcement in deprivation orders, with all proceeds from forfeited items given to charity.<sup>115</sup>

Meanwhile the NAO suggested in its 2016 report on confiscation that the formulas could encourage the investigating body to prioritise civil recovery and cash seizure (for which it receives around 50% of the proceeds) over confiscation (for which it receives only 18.75%).<sup>116</sup> The CPS in evidence to the Home Affairs Committee's 2016 inquiry into the Proceeds of Crime agreed, claiming that "*financial incentives strongly incentivise cash seizure over confiscation*".<sup>117</sup>

Use of civil routes to asset recovery have indeed increased significantly in the last six years (while they fell by 50% between 2021/22 and 2022/23 they began increasing again in 2023/24).<sup>118</sup> But it is hard to say whether this is the result of the allocation formula, or increased use of new powers brought in by the Criminal Finances Act 2017 (especially Account Freezing and Forfeiture Orders).

These new powers are an effective tool to fight crime when evidence for a criminal prosecution is lacking but agencies can prove on the balance of probabilities that assets are the proceeds of crime. They allow law enforcement to achieve results much more efficiently, whereas cases involving confiscation can get held up for years in the increasingly overwhelmed court system. In cases of international corruption, civil asset recovery orders can be especially advantageous when it is difficult to obtain evidence from overseas.

Individuals interviewed for this briefing rejected suggestions that law enforcement would favour civil forfeiture over criminal confiscation, noting that the choice of asset recovery route depends on what is the most appropriate for the circumstances. But the lack of transparency and oversight of the scheme makes it hard to ensure that all agencies involved in asset recovery act with the integrity this requires.

## How the allocation formula can be unfair

Meanwhile, ARIS runs the risk of making agencies and policymakers overly focused on the revenue raising aspects of asset recovery rather than its wider impact on crime. This fails to recognise the wider benefits the financial investigation skills needed for asset recovery can have on other areas of crime fighting.

**ARIS RUNS THE RISK OF MAKING AGENCIES AND POLICYMAKERS OVERLY FOCUSED ON REVENUE RAISING**

For example, a long-term investigation into an organised crime group may result in several prosecutions that dismantle the group. But if they have successfully hidden most of their criminal profits the confiscation order may be relatively modest.

By contrast a one-off search of a suspect's vehicle which happens to contain a large amount of unexplained cash could result in a much larger forfeiture order, despite the fact that far less crime prevention or disruption resulted from the intervention.

Under ARIS, the one-off forfeiture would be rewarded much more generously than the painstaking investigation that required far more resources and had a much greater impact on crime.

## Don't throw the baby out with the bathwater – positive aspects of ARIS

Despite these criticisms of ARIS, there are positive aspects which would be crucial to retain if it was replaced by an ECFE.

Individuals at law enforcement agencies participating in ARIS interviewed for this briefing identified the funds reinvested through the scheme as an important factor in helping agencies prioritise their use of PoCA asset recovery powers. One noted that in the early days of PoCA, incentives provided by ARIS were essential for motivating agencies to use these new powers.

In the context of tight budgets and competing priorities, ARIS was cited as an important factor in focusing attention on PoCA asset recovery powers. One observed that if ARIS did not exist it would be likely to lower the emphasis on asset recovery work, with others seeing the ability to generate reinvestable funds as highly positive.

Interviewees also emphasised that ARIS can be a seed fund for agencies to develop new, innovative approaches to asset recovery. For example, ARIS funds might be used to establish pilot teams which would be asked to prove a concept such as hiring legal counsel to support criminal investigation teams. If this concept proved successful after one or two years the agency would push for the pilot team to be funded with core, 'business as usual' funding. Others commented that ARIS funds can be spent on supporting the well-being of staff, helping with staff retention.

In addition to the benefits ARIS brings to law enforcement agencies, some recipients choose to invest their receipts in projects reducing crime or benefiting local communities. This 'social re-use'



of recovered assets is common practice in many countries, and, like reinvesting the proceeds of crime into further law enforcement, is seen as having a strong social impact by making an explicit link between seized criminal funds and investments with social benefits.<sup>119</sup>

If ARIS was replaced by an ECFF, it would be essential to retain these benefits that ARIS currently brings to agencies and communities. It would be disastrous if turning ARIS into an ECFF inadvertently deprived agencies of crucial funds they currently receive through ARIS which in some cases allow them to innovate and drive forward asset recovery. In particular, agencies would need to receive ring fenced funding to spend on asset recovery in addition to their core funding, and a proportion of recovered assets would need to be allocated to 'social re-use' projects.

## Investing in national capability: the Top Slice

Another positive aspect of ARIS is the Top Slice – a small cut (currently set at £13.9 million or 6% of total assets recovered in 2023/24) of ARIS receipts introduced in 2014 that is reserved for projects which contribute to *'improving the national asset recovery performance picture'*.<sup>120</sup>

**TOP SLICE IS A PROMISING INITIATIVE THAT ALLOWS FOR STRATEGIC INVESTMENT THROUGHOUT THE ASSET RECOVERY PIPELINE**

The Top Slice resurrected an idea – first raised in a landmark 2000 report on asset recovery from the Cabinet Office's Performance and Innovation Unit – of creating a *"recovered asset fund"*. This was envisioned as a *"flexible pooled budget"* for facilitating the rolling out of the financial investigation and asset confiscation initiatives. The report rejected the idea of reinvesting funds directly in agencies – as happens now through ARIS – in order to not *"adversely skew incentives"*.<sup>121</sup>

In 2023 the Home Office for the first time released data on the 18 Top Slice projects funded in 2022/23, and published this information again in 2023/24. The government claims these projects helped improve the UK's national level asset recovery capabilities in various ways including by:

- ensuring confiscation orders are paid in full;
- embedding lawyers in Regional Organised Crime Units; and
- improving the ability of law enforcement to recover cryptocurrency.<sup>122</sup>

The Top Slice is a promising initiative that allows for strategic investment throughout the asset recovery pipeline, can be done on a multi-year basis, and avoids issues with perverse incentives. It has good levels of accountability, with projects approved through a cross government and law enforcement panel process and spending regularly monitored by the Home Office.

However some interviewees for this briefing warned that the Top Slice has been used to fund business as usual projects, denying funding for new and innovative work. In addition, interviewees criticised the overly onerous process for applying for grants (known as the competed grants process).

More transparency about the projects funded by the Top Slice such as their impact on criminality and return on investment would highlight its apparent success and strengthen the case for funding more projects to drive innovation in asset recovery at a national level.<sup>123</sup>

If an ECFE did replace ARIS, it would be essential to retain the invaluable funding for innovative asset recovery-related projects that the Top Slice provides.

## III. TURNING ARIS INTO AN ECONOMIC CRIME FIGHTING FUND

While ARIS was useful for focusing minds in the early days of PoCA,<sup>124</sup> there are serious questions as to whether it is still achieving its ultimate goal of incentivising and increasing asset recovery. One individual interviewed for this briefing even described ARIS as a “*poisoned chalice*”.

The lack of transparency, failure to effectively ring fence ARIS funds for asset recovery, and piecemeal approach to spending across hundreds of agencies means it cannot enable the strategic, targeted investment that is needed to drive up asset recovery.

There is a golden opportunity to reform ARIS by simplifying how assets are reinvested into enforcement, ensuring more funds are directly reinvested in asset recovery work and expanding it to reflect a wider category of income that is generated by law enforcement activity – most notably fines.

### What the US gets right

The federal Asset Forfeiture Fund (AFF) is a special fund in the US Treasury which receives monies forfeited through both criminal and civil means to fund the Asset Forfeiture Program. The US Attorney General can use the Fund to finance expenses associated with performing asset forfeiture functions and, with specific limitations, certain general investigative costs.<sup>125</sup>

**The key advantage of the AFF compared to the UK system is that all the funds from asset forfeiture are ring fenced in a pooled fund that is used for further asset recovery. None are absorbed into the general federal budget.**

In the US some enforcement agencies may also keep the fines they impose. This includes the Department of Justice, which can take a 3% cut of civil fines and use the money to cover the costs of collecting civil and criminal fines, as well as the costs of “*related activities*” including costs incurred by the Foreign Corrupt Practices Act unit and the FBI’s International Corruption Unit during their investigations.<sup>126</sup>

An ECFE would take the best aspects of the US system by pooling funds from multiple sources and investing them across the economic crime ecosystem, rather than directly back into the body which levied the fine or made the asset recovery order.

A fund for reinvesting economic crime enforcement receipts was first proposed in January 2022 in a Royal United Services Institute/Spotlight on Corruption joint white paper based on a multi-sector workshop.<sup>127</sup> It was a key proposal in Spotlight’s 2022 report on the economic crime enforcement gap.<sup>128</sup>

Versions of the fund have been backed by:

- The 2022 and 2024 Economic Crime Manifestos published by the All Party Parliamentary Groups on Anti-Corruption and Responsible Tax and Fair Business Banking;<sup>129</sup>
- The Fraud Act 2006 and Digital Fraud Committee in the House of Lords;<sup>130</sup>
- Amendments to the Economic Crime and Corporate Transparency Bill tabled by Dame Margaret Hodge MP, with cross-party support from leading Conservative MPs and the Labour Front Bench;<sup>131</sup>
- The previous government's Anti-Fraud Champion, Simon Fell MP;<sup>132</sup>
- The Royal United Services Institute in their December 2022 report: *Towards a New Model for Economic Crime Policing*;<sup>133</sup>
- The anti-fraud organisation Cifas, which has called for increased investment in fraud policing via a ring fenced fraud policing budget paid for through the reinvestment of economic crime enforcement receipts.<sup>134</sup>
- An October 2024 report by the Tony Blair Institute for Global Change on improving the response to serious and organised crime, which called for a Serious and Organised Crime Fund that ring fences money raised through asset recovery and fines levied for economic crimes.<sup>135</sup>

## How could an Economic Crime Fighting Fund work?

An Economic Crime Fighting Fund would have to adhere to some core principles in order to be effective and accountable:

**1. A pooled fund.** Pooling funds from economic crime enforcement receipts would be essential to avoid perverse incentives for law enforcement to prioritise cases from which they stand to gain the most financially, a major criticism of reinvestment mechanisms for fines and recovered assets in the US.

Pooling funds would also significantly reduce the administrative burden on law enforcement agencies for economic crime funding by consolidating the various external funding streams currently consisting of ARIS and the ECL, as well as a potential Fraud Levy and funds from suspended accounts, if legislation is passed to release them. This would make funding more resilient to unexpected shortfalls as happened with the ECL, avoiding needless delay to, or even abandonment of, planned projects.

Importantly, core budgets of economic crime fighting agencies should at least be maintained at current levels or increased, with the ECFF supplementing core funding.

Finally, pooling economic crime funding streams into a single fund would encourage strategic investment in tackling underlying issues that undermine the efficiency of economic crime enforcement (such as the lack of a clear career pathway for financial investigators, or the lack of access to core systems such as better e-discovery or databases on sanctions and Politically Exposed Persons).

**2. Multi-year budgets.** Currently agencies are struggling to make essential investments in personnel and infrastructure due to uncertainties over their budgets. Ensuring the ECFF funds activities over at least three years (and ideally five) would build long-term resilience into the UK's economic crime response and avoid damaging funding cliff-edges.

As economic crime receipts fluctuate from year to year, **Phase 2 of Spending Review 2025 should allocate a fixed amount per year to the fund** to reflect average annual economic crime enforcement receipts in previous years as well as other funding sources like an expanded Economic Crime Levy or funds from suspended accounts.

The fund could amount to **at least £400 million a year**, made up of:

- a proportion of the **£200 million** on average that is distributed each year to central government and agencies **through ARIS**;<sup>136</sup>
- the existing **£100 million a year Economic Crime Levy (ECL)**, which could be expanded by at least another **£40 million** by bringing in internet service providers and telecommunications companies into scope as recommended by UK Finance, or by establishing a separate **Fraud Levy** as recommended by Cifas and RUSI;<sup>137</sup>
- the at least **£220 million** of suspected **proceeds of crime currently suspended in bank accounts**, which the last government sought to release for spending on economic crime through the Criminal Justice Bill, and which is expected to yield **£35.6 million a year** in additional suspended funds;<sup>138</sup> and
- a proportion of the average **£367 million a year** in economic crime fines, which could be relied upon to top up the fund and ensure it provides a consistent amount of annual funding.<sup>139</sup>

This will ensure confidence in the long-term, sustainable funding available to economic crime fighting agencies, with the expectation that at the very least a similar amount, if not more, will be generated over the course of the spending review period making it at worst a cost-neutral investment. Additional funds brought in as a result of this investment could be used to increase victim compensation, ploughed back into enforcement and spent on other vital public services.

**3. Effective allocation.** With key responsibilities to tackle economic crime sitting across several government departments and the operational response spanning various agencies, it would be essential for ECFF allocations to be made on a strategic, cross-government and agency basis and be ring fenced for spending on activities related to tackling economic crime.

One option to explore would be for the National Economic Crime Centre (NECC) in the NCA, which leads the cross-system operational response to economic crime and brings together all relevant agencies, departments, and regulators, to make decisions on the most effective and strategic ways to allocate the ECFF. If this option was chosen, steps would need to be taken to ensure the NECC has sufficient expertise and support in project management, or is able to bring in outside expertise from other parts of government, to effectively allocate the ECFF.

An advisory panel with representation from a wide range of stakeholders could set overarching strategic priorities for the Fund (in the same way the National Security Council does for the Integrated Security Fund), give input into allocation decisions and provide routine oversight of ECFF spending, while ensuring that the allocation process is not too onerous, as has been identified as an issue with the ARIS Top Slice.<sup>140</sup>

**4. Flexibility.** It should be possible to add new funding sources to the ECFF as they emerge. If agencies return more money to the Treasury during the spending review period than past averages suggest, the government should increase allocations through the ECFF in annual budget settlements to ensure a virtuous circle of ever greater enforcement and reinvestment.

**5. Transparency, accountability, and oversight.** To avoid the pitfalls of opaque spending through ARIS, the government should publish an annual report on activities funded by the ECFF, including:

- rigorous monitoring and evaluation of how these activities have contributed to curbing economic crime, and
- whether they represent value for money.

In addition, investments through the ECFF should be subject to rigorous and independent audit. Spending through the ECFF should be regularly examined by the National Audit Office, the Criminal Justice Joint Inspection, and relevant parliamentary committees.

A Minister – most likely in the Home Office – would need to be accountable to Parliament for how the ECFF is spent, and the Fund would need to be subject to the usual Supply Estimate process through which Parliament approves government spending.

## Conclusion

There is wide consensus that if the UK is serious about tackling economic crime, key agencies need significantly more investment. At the same time, enforcement agencies return huge sums to the Treasury, but see precious little of this reinvested in their work. To make matters worse, the funds which are reinvested in agencies risk being spent inefficiently due to the flawed Asset Recovery Incentivisation Scheme. This report sets out a solution to turbocharge enforcement in a sustainable and accountable way through establishing an Economic Crime Fighting Fund.



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🖱 [www.spotlightcorruption.org](http://www.spotlightcorruption.org)

✉ [info@spotlightcorruption.org](mailto:info@spotlightcorruption.org)

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