HOUSE OF COMMONS

Treasury Committee

Oral evidence: HM Treasury’s role in combating fraud, HC 1156

Wednesday 27 April 2022

Ordered by the House of Commons to be published on 27 April 2022.

Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Harriett Baldwin; Anthony Browne; Dame Angela Eagle; Emma Hardy; Kevin Hollinrake; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 130-312

Witnesses

I: Sir Tom Scholar, Permanent Secretary, HM Treasury; Cat Little, Director General, Public Spending, HM Treasury; Gwyneth Nurse, Director General, Financial Services, HM Treasury; Catherine Lewis La Torre, Chief Executive Officer, British Business Bank; Patrick Magee, Chief Commercial Officer, British Business Bank.

Examination of witnesses

Witnesses: Sir Tom Scholar, Cat Little, Gwyneth Nurse, Catherine Lewis La Torre and Patrick Magee.

Chair: Good afternoon and welcome to the Treasury Select Committee and our hearing on the Treasury’s role in combating fraud. I am very pleased to be joined by five witnesses this afternoon. I am going to ask them to very briefly introduce themselves to the Committee.

Sir Tom Scholar: Good afternoon. I am Tom Scholar, the Permanent Secretary to the Treasury.

Gwyneth Nurse: I am Gwyneth Nurse, director general for financial services at the Treasury.

Cat Little: Good afternoon. I am Cat Little, director general of public spending at the Treasury and head of the Government Finance Function.

Catherine Lewis La Torre: Good afternoon, everyone. I am Catherine Lewis La Torre. I am CEO of the British Business Bank.

Patrick Magee: I am Patrick Magee. I am chief commercial officer of the British Business Bank.

Q130 **Chair:** Welcome. Thank you very much for attending today. Can I start with a fairly general point that was made on 24 January, which you will all know? This is a date that is seared into your consciousness, when Lord Agnew resigned spectacularly at the Dispatch Box in the House of Lords. He said on that occasion, "The oversight by both BEIS and the British Business Bank of the panel lenders of the BBLS has been nothing less than woeful. They have been assisted by the Treasury, which appears to have no knowledge of, or little interest in, the consequences of fraud to our economy or society". Tom, is there any element of that broadside that rings true, or was everything absolutely perfect, even though you had to get a lot of money out the door at very short notice, and we know that that comes at a price, in terms of some fraud at least being expected?

Sir Tom Scholar: You summarised very well there the essential dilemma the Government faced at the time in making decisions on the economic support package. On the one hand, there was a very urgent need for support to the economy. On the other hand, there was how to balance that against all the usual checks and controls to make sure that everything is done properly and to avoid the risk of fraud and error. As you said, also things happened extremely quickly. There is no doubt that there will be and there are lessons to be learned.

Q131 **Chair:** Which lessons in particular for the Treasury?

Sir Tom Scholar: For the Treasury, we have been trying to learn the lessons as we go along. We have learned lots of lessons about how we have applied the public expenditure control framework, for example. We had a system where we had much greater delegation to Departments, raised their delegated limits of spending, gave approvals more quickly, sometimes with some of the normal checks after the event.

Q132 **Chair:** Could that have been avoided? Could you have done more checks in a more timely way?

Sir Tom Scholar: Are you talking about public spending in general or bounce back loans?

Chair: Specifically around the Covid loans and grants.

Sir Tom Scholar: On the Covid schemes, as I tried to explain in my first letter on this to you, we did our very best to incorporate from the very beginning counter-fraud checks and counter-fraud expertise. With the HMRC-administered schemes, we did that through HMRC and it always takes the lead on fraud and error in the tax system.

Through the schemes that BEIS is responsible for and the British Business Bank administer, we did that through a mixture of sources of expertise, some private sector expertise in the shape of PwC, prior to the launch of the schemes and then the Government Counter Fraud Function, the GCFF, from the Cabinet Office immediately after launch.

Then, as we went through the life of the scheme, we had regular dialogue, which we can tell you more about, involving the Treasury, the BBB, BEIS, the Cabinet Office counter-fraud experts, PwC and the main lenders under the scheme to try to get a good sense of the situation as we went along and work out in what ways we could tighten up.

Q133 **Chair:** Catherine and Patrick, from the bank's point of view, it was "nothing less than woeful" according to the responsible Minister here. What do you say to that?

Catherine Lewis La Torre: It is, I would say, an unfair characterisation of what the British Business Bank delivered through the Covid crisis. Specifically with regard to the bounce back loan scheme, we implemented that programme in 11 days. Fortunately, we had a predecessor scheme, the enterprise finance guarantee, that we could work with to provide some rails for how we would deliver that. Just as Sir Tom has said, we also took advice from external parties, from the private sector as well, specifically around fraud, before we launched the scheme, so that we could be as prepared as possible, as these loans started to be underwritten by the banks.

Q134 **Chair:** One of the specific things that Lord Agnew went on to say was that, when it came to BEIS, it had a "grand total of two counter-fraud officials on its staff, neither of whom were experienced in the subject". Was that in line with your experience in your dealings with BEIS at that time?

Catherine Lewis La Torre: I cannot speak for the number of people within BEIS. We certainly had people within the bank who had counter-fraud expertise, but that was supplemented by the use of external parties. Subsequently, we have been building dedicated teams within the bank to strengthen our own in-house capability and expertise in that area.

Q135 **Chair:** Is that a recognition that it was too weak at the time, that you are now having to strengthen that?

Catherine Lewis La Torre: We needed a different level of response, given the scale of the schemes that were delivered. Pre-Covid, the amount of funding facilitated through the bank's programmes was around £8 billion. Post Covid, that number, in terms of finance facilitated that we are looking after on behalf of BEIS, is closer to £80 billion. So just the scale of the interventions that we now have warranted a different approach, and that is what we have built subsequently.

Q136 **Chair:** Patrick, did you want to add anything on that?

Patrick Magee: Catherine serves as AO. I was SRO, senior responsible officer, for launching the schemes. Obviously we had to move very quickly. We worked very closely with Treasury, but I do think that the bank was far from woeful in this. I think we moved very quickly. I think we have helped to save probably hundreds of thousands of businesses.

From the very outset, we were extremely concerned about the residual fraud risk. We raised our concerns in a reservation notice, but we did not just raise them and then leave them there. We raised them and did everything we could to mitigate those risks by working through the lenders. The NAO has reported on this and you can see that 14 counter-fraud measures were implemented. It was a huge amount of work by the team and they really responded to the call.

Q137 **Chair:** One of the very specific points that Lord Agnew made was that "schoolboy errors were made: for example, allowing more than 1,000 companies to receive bounce-back loans which were not even trading when Covid struck. They simply failed to understand that company formation agents hold in stock companies with earlier creation dates". Is that figure of 1,000 companies accurate, in your view? Is Lord Agnew's assertion that you dropped the ball and could have avoided doing so also true?

Patrick Magee: I believe that the figure is accurate. The figures that he quoted back were from papers that we had worked very collaboratively with his officials on, who we worked with from May 2020 throughout. The figure was the best estimate at the time and I still believe it to be accurate.

Putting the scheme in place, there was a huge amount of discussion in many APPGs and other discussions in that time, where there was universal consensus that money needed to go out—it needed to go out from the banking system and it needed to go at pace—and the decision was made to take away the credit checks. There was a potential here to move this forward on an entirely self-certified basis, but Gwyneth and I, who is the other witness here, worked tirelessly over those 11 days to work with the banks to put those fraud checks in. Lenders have reported back to us that they prevented £2.2 billion-worth of fraud.

Q138 **Chair:** Could that figure of 1,000 companies erroneously being given that money have been prevented, in the context of the speed that was required? If you could turn the clock back now, would you have done things differently—still got the money generally out the door very quickly, but avoided that particular problem that Lord Agnew seems to think could have been avoided?

Patrick Magee: It is always difficult to look back in hindsight. In terms of obvious errors that were made, no, I don't recall any. If we had had more time to prepare, we could have asked for more things to be done and given the banks more time to build this. But there were some very difficult conversations over the first weekend. We were asked on the Thursday to deliver it. I remember having calls on the Saturday and

Sunday afternoon, saying to the banks, "What can you put in? What can you do in time? We really need you to do the AML and the KYC".

Q139 **Chair:** You are saying, given the mission and the speed at which you were having to work here, there was nothing further you could have realistically and sensibly done to have stopped those 1,000 companies getting the money when they should not have done.

Patrick Magee: There are always lessons to be learned, and with—

Q140 **Chair:** I am trying to ask what they are. What are the lessons to be learned? What could you have done differently? Catherine.

Catherine Lewis La Torre: There were proposals that were set out in the reservation notice. We made two proposals at the time. One was to, rather than launch a new scheme, think about further amendments to CBILS, which BBLS was introduced in response to, because CBILS was considered to be delivering the loans into the market too slowly. That was one option: could we just work around the criteria for CBILS?

The other thing we asked was whether we could have more time before we implemented the scheme so that we could work through some of these issues that had been identified in the work that PwC had done, but also based on the experience that we would have had from previous schemes. Understanding the nature of the self-certification of the scheme meant that BBLS was more open to potential fraud.

The response that we had back from the Department in terms of the direction to proceed with the scheme was very clear. Those concerns that we raised were well understood, but the decision was taken that, with every day that was passing, more businesses and jobs were at risk. The facts were understood; the risks were understood, but, on the basis of the information at the time, the Minister took the decision that we should move ahead with BBLS as designed. It was the self-certification that was the key point.

Q141 **Chair:** Lord Agnew also raised the issue of companies that had already been dissolved at the point that they received funds. He makes the statistical point that "three out of the seven main lenders account for 87% of loans paid out to companies already dissolved". "Why is the ratio so skewed?", he asked, rhetorically. What is the answer to that question? Why was there this very high concentration among a small number of lenders who appear to have been doing something very differently to everybody else?

Catherine Lewis La Torre: I think you have to understand that the delivery of the loans through the scheme was also very concentrated, so the five main banks accounted for 90% of the loans that were issued under bounce back. That was another thing that we were concerned about at the time, because we thought that one of the unintended consequences of the scheme was that it could distort the market, because it would make it more difficult for challenger banks and smaller lenders to compete against the big banks. That was, essentially, the issue that we came across there. It is a concentrated delivery of the scheme because the main banks were best set up to deliver a volume of loans at speed, at scale.

Q142 **Chair:** There are five main banks and Lord Agnew referred to three of the seven main lenders. Does that suggest that at least two of the five were doing something differently that did not cause the same level of problem of putting money into dissolved businesses?

Catherine Lewis La Torre: We have data from all the lenders, and there were 28 accredited lenders for bounce back. We have different data every day. The data that Lord Agnew would have been citing from there would have been at a snapshot in time, so that is something that would move over time as well.

Q143 **Chair:** Lord Agnew, on data, makes the point about the lack of a single dashboard of management data to scrutinise lender performance. He says, "If only BEIS and the British Business Bank would wake up, there is still time to demand data and action on duplicate loans. Why will they not do it? Despite pressing BEIS and the BBB for over a year, there is still no single dashboard of management data to scrutinise lender performance". He gives an impression that he was banging his head against a brick wall, trying to get vital information that, in his view, it appears, could have saved a lot of fraudulent loans going out the door. Is your understanding of the situation the same as his, or do you disagree with his characterisation?

Catherine Lewis La Torre: When you think about a dashboard, that suggests there is one sheet of paper with everything on it. We had two separate pieces of information or documentation presentations. One is where we follow fraud. The other is where we are following lender performance and the management of the loans. Those two pieces of information were prepared in consultation with stakeholders that required information in a certain way and were designed for different fora.

We have now taken both those sets of information and data and put them into one presentation. BEIS has recently established a lender performance advisory board to bring all that data into one place. Cabinet Office is also present in those rooms. So the data was existing. The bank had different channels for delivering different data for different purposes into different fora. We have now tried to consolidate that and bring it all together into one forum, with everybody around the table seeing all the data of that.

Q144 **Chair:** Whatever it was that Lord Agnew was seeking—I do not know exactly what that was, but he describes it as a dashboard—why was it that he ended up in a position where he resigned at the Dispatch Box, very frustrated, among other reasons being that he felt that he was asking for this constantly and not getting it? Why did he not get what he was apparently asking for?

Catherine Lewis La Torre: I am not sure.

Q145 **Chair:** Do you not recognise that he was asking for this?

Catherine Lewis La Torre: We have responded to requests for information from many stakeholders and we have always tried to provide that data through, so I am not sure exactly why.

Q146 **Dame Angela Eagle:** He is not a stakeholder, is he? He was the Minister responsible for minimising fraud. It is not just a stakeholder.

Catherine Lewis La Torre: Of course BEIS is our Department and BEIS is the responsible Department for co-ordinating the exchange of information in this area. For us, he is a very important stakeholder. In terms of that provision of data, we were providing data through to BEIS, to Treasury and different stakeholders in different fora.

Patrick Magee: The request came in. I had my one meeting with Lord Agnew on 18 November 2021. He had asked for the dashboard. I had asked the team to work on putting the dashboard together. We were working on a Public Accounts Committee Report.

Q147 **Chair:** Remind us: when was it that he asked? When were you first aware that he was asking for the information?

Patrick Magee: On 18 November 2021. I thought that it was quite a good meeting. He had quite a spirited view about challenging the lenders and anyone who has talked to me over the last two years knows that I am very much up for, as are the bank and Treasury, challenging the lenders. We ended the meeting saying, "Yes, we will take those actions. We will work on the dashboard." I remember inviting him and saying, "It would be great to have you to join in discussions with lenders if we identify anomalies that Ministers could help us with." I thought it was quite a good meeting myself. So when I saw him stand up on 24 January when we were working and preparing that dashboard, I was quite surprised.

Q148 **Chair:** That was going to be my next question. His statement here came as something of a shock to you, because you felt that you had had a meaningful engagement with him on it, he was happy and you were cracking on with doing what he wanted done.

Patrick Magee: I was very surprised. We had worked very closely with his officials. There was a huge amount of collaboration here across the two years of the scheme. Cabinet Office officials joined us for the first counter-fraud strategy meeting across Government on 6 May 2020. There had always been healthy discussion. We greatly valued the insight. The Cabinet Office provided us huge amounts of helpful insight.

Q149 **Chair:** Subsequent to that meeting on 18 November, there was no instance where Lord Agnew or somebody working in his office, his operation or wherever it may be contacted you or the British Business Bank and said, "I am not happy with the way this is going. Where is the dashboard? It is still not here. I am very frustrated".

Patrick Magee: He wrote to our financial crime director in mid-December, so we knew that he was asking for that. We had replied, "Yes, we are working on this and we will get you a response to the letter and update the dashboard." So there was a November meeting and then in December—

Q150 **Chair:** What was he saying in that letter?

Patrick Magee: It was a very reasonable and I thought well-informed set of questions about "Can we do more?", etc.

Q151 **Chair:** There was no hint of getting frustrated and asking why it had not been produced.

Patrick Magee: No.

Q152 **Chair:** Was there anything subsequent to the letter in terms of audit trail on his dissatisfaction that you are aware of?

Patrick Magee: No.

Chair: There was not at all.

Patrick Magee: Not that I can remember, no.

Q153 **Chair:** Tom, can I ask you about fraud generally and Departments? Clearly, each Department has an important role in ensuring that fraud does not occur. What involvement does the Treasury have in the development of a fraud strategy within Departments? Can you tell us a bit about that, please?

Sir Tom Scholar: Certainly. As you say, each Department is responsible for tackling fraud in its areas of operations or public services. There is an important role for the centre, by which I mean the Treasury and the Cabinet Office together. Between us, we do various things. We set guidance. We set standards. We put requirements on Departments. The basic document that sets out a Department's responsibilities in this area is *Managing Public Money*, which is a Treasury document.

We monitor performance, challenge performance, provide funding, clearly, predominantly through spending reviews. The Cabinet Office is a source of expertise, particularly for those Departments that don't have the same size of fraud function. The two biggest Departments in this are of course HMRC and DWP, since that is where most of the fraud is, but other Departments may have important programmes of work on and they look to the Cabinet Office in particular for expertise.

We have learned a great deal in the last couple of years because, until two years ago, you could say reasonably that a large proportion of business-as-usual fraud and error, as I said, was in the tax and benefits system. That has obviously changed in the last two years with the very large-scale Covid support schemes. So we have, consistently over the last couple of years, been trying to ramp up funding and expertise in this area, culminating in the announcement at the spring statement, a month ago, of the creation of a new Public Sector Fraud Authority. That will be a body that will report jointly to the Treasury and the Cabinet Office and to a Cabinet committee that the Chancellor is chairing and which actually met for the first time this morning.

To summarise, the Treasury and the Cabinet Office are not primarily in the lead but are playing an important and, we hope, a valuable role in making sure that there are cross-Government systems that will be effective in that work.

Q154 **Chair:** Is it the Treasury's view that, at that time, when these loans were going out the door, Departments—BEIS and co.—were performing as you would want them to? Were there any interventions that the Treasury made because that was not happening in the right way?

Sir Tom Scholar: We will make a formal assessment of that, but we will do that once we have the evaluations of the various programmes, which work is well under way on. The first evaluations of both the furlough scheme and the various BEIS schemes are coming later this year.

As Catherine was saying earlier, it is an obvious feature that there was just a huge increase in money being outlaid, whether through the furlough scheme or the self-employed income support scheme or the various BEIS schemes. That is a new activity at large scale. It is completely correct to say that there needs to be a big build-up in fraud expertise and fraud effort to go alongside that. So, over the last couple of years, we have been consistently allocating additional funding to support that.

Q155 **Chair:** So it is the Treasury's position that, with BEIS, it had adequate resource and the right nature of resource in place to handle the fraud-related issues that would inevitably arise as part of that support exercise. Or was there any point at which you—the Treasury—were thinking that there just are not enough people of the right type looking at this, whether internal or external to the Departments?

Sir Tom Scholar: If you look pre-pandemic, the forerunner loan scheme that BEIS oversaw, the enterprise guarantee scheme, I think had a fraud record of something like 1%. It is hard to get below that sort of level. Just looking at that performance, you would say, "Yes, that was adequate for the task."

Q156 **Chair:** At the point that the pandemic struck and suddenly you moved into DWP, HMRC-type fraud risk territory, was the Treasury satisfied at that point that there was sufficient resource in BEIS, for example, to handle the challenges of potential fraud at that time?

Sir Tom Scholar: At that point, there was a clear need to ramp up the effort. As I say, I cannot now quite remember precisely when the additional funding was first provided. In the summer of 2020, I think there was some quite significant funding to support a new data analytics exercise, which was to help BBB help the lenders identify possible cases of fraud and try to tackle them before they happened—the lenders stopped, I think, by their estimate, £2.2 billion up front—but also then start to go after cases. Again, we would have to look to the evaluation to try to work out whether that happened quickly enough, or—

Q157 **Chair:** When would we expect the evaluation?

Sir Tom Scholar: It is a BEIS lead, I think. The first report is due in the next few months. I am not exactly sure when.

Cat Little: We are currently undertaking a full audit of all fraud capacity and capability across every Government Department. That has been a joint project between the Cabinet Office and the Treasury. That will be concluding in June. At that point, we will have a much better understanding of the technical skills, the numbers of people and how they are being deployed. When you combine that with the evaluation of the schemes themselves, I expect us to keep returning to this question of whether we have enough people and the right expertise in the right place.

Q158 **Chair:** The evaluation is a very useful exercise, but it is rather after the event, is it not? What I suppose I am driving at, and I think that Lord Agnew may have been suggesting at the time of his resignation and afterwards, is what happened at the time that all this was going on? Were you sitting in the Treasury, looking closely at what was happening, channelling extra resource in as and where required to try to choke off potential fraud at that point, before the horse left the stable, if I can put it that way?

Cat Little: From a funding perspective we have regular constant dialogue with Departments, as you might imagine, about their resourcing needs, especially during Covid. It felt like we were running a spending event on a monthly basis for the last two years. The same is true of fraud resources. For BEIS in particular, we have provided several tranches of additional funding. That is working closely with the British Business Bank, BEIS and the Government Counter Fraud Function, which, at various points, have said, "We need more resource." We have provided that.

Chair: Cat, thank you for your answer. It was very helpful.

Q159 **Rushanara Ali:** I wanted to draw your attention to an article that came out today in the *Times*, which picks up on one of the answers that Lord Agnew gave to me in his session, which was about the fact that bounce back cash was being smuggled out of the country. He was told this by officials and he thanked some of them for doing what they could to stop some of that. They cite lots of examples. It is pretty devastating to see how our taxpayers' money was being defrauded when we have a cost of living crisis, when people are having to choose between heating and eating and when we have people really struggling, and billions of pounds has been lost to fraudsters—£4.9 billion.

In that spirit, for me the question is why there was not the accountability to the Department that is responsible for allocating the funds to make sure that Departments did the appropriate due diligence, albeit of course we recognise that there was a crisis and everybody needed to act fast. Taxpayers still expect responsibility with their money. It feels like it has been framed in a binary way: we had to get £400 billion out quickly to support people and the economy, and that was our focus.

Sir Tom, can you explain why it is that the Treasury did not do more to make sure there was that accountability and rigour to ensure that money was not lost to fraudsters? Now that we are where we are, you are talking about evaluation, looking at what has happened. What is going to be done to recover as much of the money as possible? I recognise that HMRC has made some progress. How are you going to make sure that the outstanding money that has been lost to fraudsters—nearly £5 billion—is recovered?

Sir Tom Scholar: I will take the second question first, if I may, and then go back to the first one. Evaluation, obviously, is only part of the story. The rest of the story is action, prosecution, enforcement, and there is a huge effort under way there. It is an effort that is shared across the lenders themselves, overseen and driven by the British Business Bank, but also law enforcement agencies. The Treasury has allocated extra funding for that. You have mentioned the HMRC funding, but there was also another £50 million announced for a whole range of authorities in the spring statement, a month ago. The Government are completely clear that fraud is not acceptable, and will be—

Q160 **Rushanara Ali:** Could you give us a number on how much you expect, with all these interventions and the additional resources to tackle the fraud? How much can we expect to be recovered through those efforts, and by when?

Sir Tom Scholar: I can say that for HMRC. HMRC expects to recover a further £1 billion during the course of this year. I am not sure that we have the same number from BEIS or from you. I am not sure that you forecast in that way.

Q161 **Rushanara Ali:** Why do we not have that number? This has been a discussion that has been going on for a long time.

Cat Little: I have a global number. Since SR21, we have invested another £700 million into tackling fraud. These are quite top-down, rough numbers, but we estimate that the return on that will generate more than £7 billion in additional returns over the next five-year period. We have all that broken down, but different schemes return over different periods.

Q162 **Rushanara Ali:** What number do you have in terms of cross-governmental fraud? We have some estimates of around £29 billion to £52 billion. What number are you working with in terms of the target?

Cat Little: The £29 billion is the bottom end of a range that we produced nearly a year ago. That has now been updated and that was pre-Covid. The bottom end of the range is now £33 billion. That is the latest figure that we are using internally in Government. Every quarter, we get updated estimates from Departments and assess what has changed, in terms of recoveries, estimates of fraud, how much validation is needed for us to rely on that data. Every single year, we publish it as part of a fraud landscape report.

Q163 **Rushanara Ali:** Did you say that you are expecting to recover £7 billion?

Cat Little: The additional money that we have invested since SR 21 is around £700 million. That has an estimated return of additional recoveries of £7 billion. That figure does not just include fraud; it involves tax compliance and error as well. It is quite difficult to disaggregate it.

Q164 **Rushanara Ali:** The *Times* article referred to the fact that there is an expectation that £17 billion of the £47 billion that the Government spent on bounce back loans will never be paid back. Some of it is because people cannot afford to pay back, but some of it is fraud. Do you have a breakdown of what you expect to recover against each of these areas of Government expenditure?

Cat Little: Yes, we do. That £17 billion was from the annual report and accounts for BEIS last year. We are currently updating it for the last financial period. We can break it down into both recoveries and we try to get an estimate of what is fraud and what is credit loss.

Q165 **Rushanara Ali:** To the British Business Bank colleagues, could you tell us how much you and the associated Department expect to recover from the money for the loans that have gone to fraud?

Patrick Magee: It is very complex. Let me break down the different numbers, because I get confused from time to time. In terms of the fraud checks that we did manage to get in, that prevented £2.2 billion-worth of fraud from the lenders—

Rushanara Ali: Sorry; with respect, my question was in relation to the fraud that has happened. It is great that you have done that and you have prevented that from happening—that is very welcome, but I am interested in what you are going to be able to recover, in terms of loans, in your area of responsibility. What is your strategy for recovering money that has been stolen, basically, from the taxpayer through fraudulent activity?

Patrick Magee: The first point to make is that the money has gone from the banks. The money has not left the Government. We have set out recovery principles that we worked on with Treasury ourselves to lenders, to make sure that they are pursuing that. The number that you have given there, the £4.9 billion, was based on the estimate for the March 2021 accounts. We have updated that.

Q166 **Rushanara Ali:** The Public Accounts Committee referred to this number just this week, I believe.

Patrick Magee: Then we went on to update to say that the revised estimate is now 7.5%, which brings it under £4 billion, which is still a huge amount that we want to recover. What we are doing, very closely with the lenders, is sharing back the fraud flags, asking them to pursue the lenders, report on to the enforcement agencies and report back to us what the suspected fraud number is and what recoveries they are making against that.

If you take the now 7.5%, the £4 billion-type figure, that is the estimate of fraud. We now have in the book reports from the lender of suspected fraud, where they have greater evidence around that. One is a sampling estimate and one is actual evidence. That figure is now about £850 million, about 1.7% of the book. I fully expect that that number will go up, but whether or not it goes the whole way up to the 7.5%, the £4 billion number— That is how we will measure the effectiveness, because we will look at how good the banks are at taking recovery actions, finding those potentially fraudulent—

Q167 **Rushanara Ali:** I am sorry. I do not know if I have misunderstood this. To be clear, you think you could recover 7.5% of the £4 billion.

Patrick Magee: No. The 7.5% drives the £4 billion. Our sampling work says that 7.5% looks like probable fraud, so the 7.5% of £45 billion gives you around £4 billion. Then our job is to work with the lenders and the enforcement agencies to reduce that probable fraud to as low a number as possible of fraud losses that we will have to pay out in terms of claims. So we will be working with the lenders. We are sharing back those fraud indicators.

This is where Cabinet Office work has been really helpful, because it has been able to work with us on the data analytics programme and say, "It looks like duplicate issues, date of incorporation, etc." So we are sharing all those flags back with the lenders and holding them to account to pursue those amounts. You might well have someone who, in the heat of the pandemic, said, "I have an account with this bank and that bank and I will apply for both." That is clearly fraud because you are only allowed one loan, but the business may well be very strong and is able to pay back those loans.

Q168 **Rushanara Ali:** There are examples of people with bank accounts with £2.72 in an account and they were successfully able to get loans. There are lots of examples like that. How on earth was that allowed to happen?

Patrick Magee: And of course, with 7.5% of 1.5 billion loans, you could have 100,000, so again—

Q169 **Rushanara Ali:** Were the banks not asked to do basic checks?

Patrick Magee: They were, of course.

Q170 **Rushanara Ali:** Why they did not do them? Do you know? Did anyone ask?

Patrick Magee: Of course we did, and we are auditing against that. If you look at the way that we manage the lender portfolios, there are three critical lights that we would shine on to them. We do a lender assurance programme, where we send out our auditors to have a look at whether they have followed the recovery principles, whether they have done the origination processes and whether the fraud checks were done. If there are issues there, we will hold them to account around that. We do the fraud and financial crime work, where we are sharing those indicators back, and we have what we call our guarantee assurance programme, where we screen and look at those. So there is a huge amount of work going on to hold that. We have estimated the 7.5%, £4 billion, and we are hoping to bring those fraud losses down.

Q171 **Rushanara Ali:** Lord Agnew was saying in his evidence that the British Business Bank is not regulated like an ordinary bank by the Prudential Regulation Authority or the Financial Conduct Authority, so there is no culture of proper oversight of the bank. From what I make out, there is nobody in BEIS who has the compensating skills to oversee a bank with a balance sheet that exploded. What do you have to say to that? Should you be regulated or should there be better oversight?

We have heard references to Ministers being considered stakeholders, rather than Ministers that you are accountable to. Is there a culture problem about accountability? We also had the Greensill scandal and the David Cameron fiasco, which this Committee heard evidence on. Your bank seems to be found wanting.

Patrick Magee: I honestly don't recognise that. Catherine, do you want to start and I can build?

Catherine Lewis La Torre: First, with regard to the regulation, the PRA and the FCA are there to regulate banks that hold deposits and have direct relationships with borrowers.

Q172 **Rushanara Ali:** Should you be more accountable to Government Departments? It seems like you are not, actually.

Catherine Lewis La Torre: We don't hold deposits. We are a development bank. We don't have direct relationships with borrowers. All the schemes that we operate are delegated schemes, so the lenders have the direct relationship with the borrowers, and the lenders are regulated. In fact, I believe that, when the British Business Bank was established, there were discussions with the regulators as to whether the bank should be regulated and it was concluded that it should not be.

In terms of the general governance, we are structured as a public limited company. We have an independent board made up of non-executive directors that are experienced in financial services. They absolutely do hold us to account. In addition, we of course report through to the

Secretary of State for BEIS, who is the sole shareholder of the British Business Bank. It is probably a question for the Secretary of State for BEIS as to whether he feels that we are sufficiently accountable to him, but I would say there is a very strong governance structure in place and a strong culture of accountability within the bank.

Sir Tom Scholar: That account is exactly right. When the British Business Bank was established, there was a discussion about whether it should be subject to some kind of regulatory oversight of the sort that you would have for a private sector institution, but as Catherine says, it is not a deposit-taking institution. It is not a bank in that sense.

Q173 **Rushanara Ali:** Is there anything else that needs to be done? Is there anything else? Let us set that to one side. That argument was made and discounted. Are there any other lessons that could be learned, in terms of oversight and accountability of the British Business Bank? Also, are there lessons that can be learned from the fact that different Departments were responsible for different areas of spending during the crisis and that there was not that drive—that much more aggressive drive, one could argue—that certainly could have been useful to make sure that Departments spent money properly and that we did not have such a massive loss of taxpayers' money?

Sir Tom Scholar: On the second part of the question, it is correct that each Department should be responsible for its own finances and account to Parliament for that. There was a very strong drive from the centre, especially from the Treasury, to ensure proper standards.

On the first part, it is really a question for BEIS, since it is the parent Department, but I should say that our experience within the Treasury and working with the British Business Bank has always been very good.

Q174 **Rushanara Ali:** With respect, the strong drive that you mentioned from the Treasury was not strong enough to stop this appalling level of fraud taking place during this period. Is there more that can be done to make sure the Treasury is empowered? It is kind of ironic, because the Treasury is considered this all-powerful Department that has huge amounts of power across Government and yet, on this occasion, it seems to be found wanting.

Sir Tom Scholar: The high levels of fraud, which we certainly have seen, were due to the suspension of some of the normal checks and balances due to exceptional circumstances, and at the time, that was a conscious decision taken by the Government in trying to balance off different interests. Each Department at the time—I set this out in my first letter to you—set out estimates of fraud and error. In, I think, every case, the actual incidence of fraud and error has been within or less than those estimates.

Q175 **Rushanara Ali:** To sum up, Lord Agnew said on the fraud side it was just a "Dad's Army" operation. That is basically, essentially, what the

Government allowed to happen then.

Sir Tom Scholar: I don't accept that, no.

Q176 **Rushanara Ali:** The Government were responsible and you said that they removed many of the checks and balances and we ended up where we are. That is a Government Minister who described it as a "Dad's Army" operation.

Sir Tom Scholar: Could I make a further comment on the circumstances of setting up bounce back loans and why some of those checks were not enforced in the normal way? Earlier in April 2020, the Government set up an earlier loan scheme or guarantee scheme, CBILS. That required lenders to take 20% of the risk on all the loans and it also required them to use all their normal, completely standard commercial lending checks. The experience of that was that many businesses experienced delays in getting their funding, particularly the smallest businesses, particularly those very small businesses, and we have an awful lot of them in this country, with no previous lending relationship with a bank.

Q177 **Rushanara Ali:** That is because it was not a 100% loan guarantee. That does not mean that there should not be checks, just because it is taxpayers' money.

Sir Tom Scholar: There were checks, but in order to supply the finance quickly, and this was the essential judgment that the Government had to take—

Q178 **Rushanara Ali:** Would you say that it was the wrong judgment to approach it in that way?

Sir Tom Scholar: We will have to wait to get to the evaluation of the schemes to make that judgment, but there was a reputable survey of the Institute of Chartered Accountants in England and Wales in April 2020 that said that a third of businesses would go to the wall within a matter of days if they did not get the funding that people were asking for. There was a very clear consensus, I should say across the whole of the political spectrum and many other commentators, that there was a requirement for a 100% guarantee to be disbursed very rapidly. That is what the Government decided to do.

Q179 **Rushanara Ali:** With respect, across the political spectrum we were not asking the Government to dish out money to fraudsters. Also, there was certainly cause for a 100% loan guarantee, absolutely, but that did not go with cross-party consensus that there should not be some checks. Do you think that that was taken advantage of—that when that happened, because there was a 100% guarantee, those who were doing the lending did not do the due diligence that was required?

Sir Tom Scholar: My colleagues from the BBB can talk more about the discussions with the lenders at the time. I don't think that that is the approach that they would have taken, since they would also not want to lend money that was not repaid.

The experts to my left might be able to help more with the issue about the normal credit checks. The very strong feedback from the banks was that particularly for businesses with no history of borrowing—remember that more than 70% of the people that took out bounce back loans had never previously borrowed from a bank for their business, so they had no history of lending—it is not possible in those circumstances for a bank to do all its normal checks very quickly.

The experience of CBILS was that those checks were taking two or three weeks, and there was a very widespread fear that if millions of businesses that had been closed by the coronavirus restrictions on top of that were unable to access any finance for two to three weeks, they would go bankrupt, with devastating consequences for the economy. That was the situation that the Government were facing.

I will turn to Catherine and Patrick in a moment, but in trying to design a scheme that would disburse quickly, the question was how to retain the most checks, consistent with a simple scheme that people can access quickly and that will disburse within 24 to 48 hours. That was the scheme that we were asked to design. In consultation with the lenders, we kept as many checks as we could. They included know your customer, anti-money laundering, checks that the business was operating and had been operating as of 1 March, checks with a reputable bureau against known fraudsters. Those were checks that could be made quickly, consistent with the need to make the lending available very quickly.

The universal feedback from the banks that we consulted was that, to institute all of the full credit checks, which were the ones that they were operating under our previous scheme, CBILS, would mean, for many companies, a wait of several weeks and, in many cases, possibly including completely legitimate businesses, no finance at all. It was for that reason that the Government decided to go ahead with the scheme.

Q180 **Anthony Browne:** On the comments from Sir Tom and Catherine about the British Business Bank not being regulated and the decision to do that, Tom, you said it was not a deposit-taking institution, which is obviously true, and therefore you do not really need prudential regulation. With the benefit of hindsight now, do you think there is a case to revisit whether it should be regulated? I am thinking particularly that you are not subject to any conduct regulation that a normal bank is subject to, such as anti-money laundering regulations and so on. None of that applies to you or any of your staff, or the senior managers regime, which dictates the functions of senior managers that not just you but your senior management team would be expected to fulfil with regards to things like money laundering.

Catherine Lewis La Torre: We certainly do comply with regulatory standards in those areas, even if we are not regulated. We are subject to AML and KYC, which we carry out on all our programmes.

Q181 **Anthony Browne:** But you are not supervised or regulated by it. You do not have the Financial Conduct Authority checking up on you, whether your staff and processes are compliant with regulation.

Patrick Magee: Most of the FCA regulation is about conduct with customers. We guarantee or supply funding, so we are a wholesale provider, so we are not having that retail interaction, so you would find that the vast majority of the FCA rulebook would not fit.

Q182 **Anthony Browne:** I get that, but a lot of the anti-money laundering legislation is not about conduct, treating customers fairly, etc. It is a different set of regulations. There is no outside authority that is checking that you comply with money laundering or fraud regulations.

Catherine Lewis La Torre: We are regulated for anti-money laundering regulations within the commercial arm of the bank.

Anthony Browne: You are regulated by the FCA.

Catherine Lewis La Torre: Yes.

Anthony Browne: That goes against when you said you were not regulated.

Catherine Lewis La Torre: It is for a ring-fenced part of the activities that we have in the commercial arm of the bank.

Anthony Browne: What arm is that? That is not the arm doing the bounce back loans.

Catherine Lewis La Torre: No, this is the equity investment arm, so the patient capital activities.

Q183 **Anthony Browne:** Part of your activity is regulated, but not the bit doing the bounce back loans, which we are investigating now. The question for Tom is, do you not think there is a case, given what has happened, to look at whether the BBB should be regulated by the FCA more widely than it clearly is in the equity thing at the moment?

Sir Tom Scholar: I think that is really a case for BEIS, since it is the parent Department.

Q184 **Anthony Browne:** Your role is guardian for public money. Maybe you could have a word with them privately.

Sir Tom Scholar: I am sure when we get the evaluation of all the schemes, which is a large part of the activity of the bank over the last couple of years, we will look at all the questions. I am sure we will talk to BEIS about them at that time.

Anthony Browne: We have established that the FCA has no role in supervising the bounce back loan scheme and your staff who are doing bounce back loans.

Q185 **Siobhain McDonagh:** Sir Tom, have you removed Lord Agnew's name from your Christmas card list?

Sir Tom Scholar: I never send Christmas cards in an official capacity.

Siobhain McDonagh: What about in a private capacity?

Sir Tom Scholar: Well, I am here to talk about my official capacity.

Q186 **Siobhain McDonagh:** In his damning resignation speech, he highlighted that there was an estimated £29 billion of fraud across Government each year. The counter-fraud agency estimates the figure could be as high as £52 billion, which, as you will know, is more than we spend on our Army, Navy, Air Force and everything that the Ministry of Defence does. What is your best estimate of fraud across Government and why is it so difficult to accurately quantify?

Sir Tom Scholar: Cat earlier gave some figures. I am not sure if they are precisely the same, but they are certainly in the same general area. Most of fraud, or the large proportion of fraud, in the public sector is through the tax system and the benefits system.

Taking the tax system, what is called the tax gap is, I think, about 5%. Trying to close that is one of HMRC's main focuses, in other words to make sure that people pay the tax they owe. HMRC can tell you better than I can some of the difficulties that it faces in doing that, but it is something it has been on for many years. It is gradually bringing the number down. The UK compares quite favourably to other countries in that respect.

You have two big Departments responsible for tackling most of that fraud. Then there are many others with a smaller area. As Cat and I were saying earlier, we have just established a new Public Sector Fraud Authority to try to improve the effort there, including, in particular, the new area, which is from the pandemic support schemes.

Q187 **Siobhain McDonagh:** What is your target for reducing fraud?

Sir Tom Scholar: I think the figure is £7 billion over the next three to five years.

Cat Little: That is the estimated return for the investment that we have made in the last couple of years. We don't currently have a global target. Actually it was one of the subjects that was discussed at the value for money committee that Tom referred to earlier this morning, where there is a dedicated work plan looking at tackling fraud. I would say, "Watch this space," because I think there is a general consensus that there should be some targets and greater transparency around the trajectories to get that.

Q188 **Siobhain McDonagh:** Would you understand that it is quite shocking to us that there are not already targets?

Cat Little: Yes. There have been targets in the past. One thing we are very keen to do is to make sure we have really good, frequent, transparent data to allow us to see what the scale of the problem is. As I say, secondly, I think there is a growing consensus that we should reinstate these targets.

Sir Tom Scholar: HMRC and DWP certainly have targets. It is a central part of their normal business operations.

Q189 **Siobhain McDonagh:** We have met with HMRC and we are aware of its work. Why are the Government spending taxpayer money to try to avoid disclosing under freedom of information the names of companies that received taxpayer-backed bounce back loans?

Sir Tom Scholar: I will turn in a moment to the British Business Bank—

Siobhain McDonagh: Do taxpayers not have a right to know who their money has gone to?

Sir Tom Scholar: My understanding is that there are some quite significant data protection issues here that the bank has had to wrestle with.

Patrick Magee: The two main concerns that we have are around GDPR issues. Approximately 40% of the borrowers are personal individuals, so they would have their names up there, so you have GDPR issues, which some of the banks referred to in the BEIS Select Committee. The other fact is that you could have those borrowers being subject to fraud or social engineering themselves. People could say, "I can help you with a bounce-back loan," etc. Those are the two grounds that we have put forward. We are discussing this with the Information Commissioner's Office. In the first tier they have agreed with us on that, but it is all subject to ongoing approach.

Q190 **Siobhain McDonagh:** I do not understand, as a layperson, how it could possibly be right that, on our behalf, you can give taxpayers' money to a company and for them to be able to claim that GDPR prevents you from telling us how much you gave. That is extraordinary. I understand that there have been some claims from the British Business Bank—and I do not know if it was you, Patrick, or not—that it could lead to vigilante activity. Have you seen any vigilante activity in relation to publishing furlough and CBILS records?

Patrick Magee: I don't think that we have used the term "vigilante", but we would be concerned about fraud.

Catherine Lewis La Torre: The concern is, if there was a database of 1.7 million businesses, most of those in the bounce back loan scheme are microbusinesses, sole traders, where it would be their names that would be disclosed. That would be quite a list for potential fraudsters to target. When you think that the vast and overwhelming majority of businesses took out these loans legitimately and are repaying these loans, I think there would be a risk that that database would fall into the wrong hands. The types of fraudsters that we are dealing with are not just fraudsters here in the UK, as we know; this is a global problem.

Q191 **Siobhain McDonagh:** Sorry to interrupt, but do we not already have a list of businesses, and is it not called Companies House?

Catherine Lewis La Torre: Not with the sorts of information that there would be as per this request. Patrick talked about social engineering fraud, where you would have information of somebody's name, the amount that they took out and the fact that there is a bounce back loan. You can have—we have all seen it; we have been subject to it—people pretending to be an authority that they are not, requesting repayment and immediate repayments. That is one of the risks that we think should be taken into consideration.

Q192 **Siobhain McDonagh:** That seems extraordinary. One of the Treasury's attempted justifications for not providing coronavirus business support to 3 million excluded self-employed businesspeople, including Paul Gapper in my constituency, who is an award-winning wedding photographer, is that they would somehow represent a fraud risk. Given all we have discussed so far this afternoon, is it not intolerable that millions of legitimate businesspeople were excluded from support but criminals and companies formed after the start of the pandemic were not?

Sir Tom Scholar: As I said earlier, every instance of fraud is unacceptable. We discussed in this Committee last year, I think, and you have discussed it with the Chancellor, when deciding on eligibility under the self-employed scheme, there were some really difficult decisions to take about where to draw the line and a fear that, in certain places, you would leave the scheme open to abuse, not by legitimate businesses but by unscrupulous people.

For that reason, at a certain point the Government drew the line and felt that, to open the self-employed scheme further, including to people who had not at that stage filed a self-assessment tax return, would be to open the system too far to abuse, albeit recognising that there would be many completely legitimate people who would thereby be excluded. That certainly was regrettable.

Q193 **Siobhain McDonagh:** But it was completely okay to give loans to companies that had no history of trading and that set up after the start of the pandemic.

Sir Tom Scholar: The requirement on lenders was to make sure that the business was operating before the start of the pandemic. Now, as you say, there are examples, and we are trying to pursue those, of where people got round that, but there was a requirement on lenders to check that businesses were operating pre-pandemic.

Q194 **Chair:** On that point, can we clarify this? So if a lender lends and has not done the appropriate check and the loan goes bad, what then happens in respect of the guarantee? Does it become void and the lender then has to pick up the cost?

Sir Tom Scholar: Correct. There is a lot of discussion that has to happen, but essentially, that is correct.

Patrick Magee: We have the right not to pay. The other thing that we are doing with the lenders is that, as we shine these lights back and share loans where we have concerns, they have the option to withdraw the loan from the guarantee. We have had about £240 million of loans taken out of the guarantee programme and about £45 million-worth of those had been loans where they have said, "That loan was not eligible. Our checks failed and we are taking that out." We are expecting that number to grow as we work through with the banks. Again, we are holding the lenders to account that they do hit the scheme parameters. I agree that it certainly was not acceptable for people to incorporate their businesses after the start of the scheme and then try to—

Q195 **Chair:** Of the £4.9 billion, or £5 billion, or £4.5 billion, or whatever it is—

Patrick Magee: It is hopefully going down.

Chair: Am I right in saying that, for a proportion of that, no guarantee will be called upon? What sort of proportion do you think that might be?

Patrick Magee: That number of probable fraud has gone from £4.9 billion to £3.6 billion as we have revised the estimate through further work. It will be a delicate judgment. We will have, and are already having, interesting conversations with the lenders on whether their checks were sufficient. The vast majority of audits of what the lenders have done have shown that they have. We have had remedial issues and we do have management actions for them to take, so we have the right to withhold payment and we do have the right to claw back if payments have been made and we subsequently find evidence. So we will be holding them to account.

But in terms of that probable fraud where there will be a failing, at this stage it is £240 million that has been withdrawn from the guarantee and we expect that to grow. Most of the checks are showing that the lenders applied the scheme rules.

Q196 **Anthony Browne:** I am going to start with a quote from the beloved Theodore Agnew, who said, "Of course, not all [fraud] can be stopped, but a combination of arrogance, indolence and ignorance freezes the government machine." You have hinted that the Government machine is slightly thawing. Sir Tom, you mentioned earlier that a new body, the Public Sector Fraud Authority, met this morning. Cat, I think you referred to it as the value for money committee. Is that the same thing?

Sir Tom Scholar: They are two different things. There is a new body being created.

Q197 **Anthony Browne:** It has been announced today, I think.

Sir Tom Scholar: It was announced in the spring statement.

Anthony Browne: It met today.

Sir Tom Scholar: No, it did not meet today. There are two separate things. There is a ministerial committee, chaired by the Chancellor, which is overseeing efficiency and value for money across the whole of public spending, including fraud, but not just fraud, a much broader remit than that—value for money generally. Then there is a specific anti-fraud body, the Public Sector Fraud Authority, which will report jointly to the Cabinet Office and the Treasury and be overseen by that committee, chaired by the Chancellor.

Q198 **Anthony Browne:** What are the powers of that committee, the remit, the staffing and so on? Is this a replacement for the Government counter-fraud agency?

Cat Little: I co-chair the taskforce that is setting it up with the Cabinet Office. It will have double the budget. We have put another £25 million into the Public Sector Fraud Authority.

Anthony Browne: Million?

Cat Little: Yes, £25 million, not billion—very good value for money. In terms of what it does, it will have some new powers. The big thing that is different is it jointly reports to the Treasury and the Cabinet Office and directly has oversight to the Chancellor through the value for money committee.

That £25 million will pay for significantly more people with the expertise that we think we need more of in government. It will give new data analytical capability, better use of technology and more data. We are finding that analytics and AI is a really powerful tool in joining up all the different sources of information that we have about potential fraudsters. To be able to use that across the whole of the public sector is key.

It will also have mandatory powers. We have just updated *Managing Public Money* to say that every Department must have a mandatory fraud impact assessment delivered by the Public Sector Fraud Authority. We will also have red teams that work with my spending teams in the Treasury to hold Departments to account. It follows on from a conversation about what will be different in the future. We are going to have fraud experts working with my teams, holding Departments to account, with more data and better analysis.

Q199 **Anthony Browne:** When you say that it mandates them to produce a fraud impact assessment, what are the sanctions or incentives on Government Departments?

Cat Little: At the moment, it is completely discretionary. Sadly, we do have a few examples where fraud impact assessments have not been undertaken. We have had to do post-event assurance as a result. Like everything that is required in *Managing Public Money*, we work with Departments to make sure that they comply with it. There are very strong incentives, personally, for accounting officers to make sure they comply with MPM. It is, ultimately, how we discharge our responsibilities to Parliament and the public.

Q200 **Anthony Browne:** I used to chair the Government's Regulatory Policy Committee and all Government Departments are required to do impact assessments on different policies. I will not name the Departments, but sometimes they just refuse. This came under BEIS as well. BEIS officials would say to the officials in the other Departments, "You have got to produce an impact assessment," and they would say, "Okay, take us to court." How do you actually enforce what you are you doing?

Cat Little: It is a personal responsibility of the accounting officer of every Government Department. That is assessed—

Q201 **Anthony Browne:** There is no actual enforcement mechanism but through HR.

Cat Little: It is ultimately through the performance management framework for permanent secretaries.

Q202 **Anthony Browne:** You said that the £700 million investment so far will lead to £7 billion return of fraud.

Cat Little: Not just fraud. It is tax compliance and error reduction as well.

Q203 **Anthony Browne:** It is the tax gap as well, but still that is an amazing return. If I could guarantee getting £10 back for every £1 I spent, I would do a lot more. I guess that oversight of spending is a question for Tom. If these figures are robust, would you not spend far more money combating fraud, knowing that you get so much money back? It is the point that Theodore Agnew kept making repeatedly in his evidence session—the Government could get so much money back if they spent more money to combat fraud. The figures that you suggest are extraordinary, to the extent that actually you should spend billions to get the £25 billion back that was mentioned earlier.

Cat Little: There is always a tipping point. Critically—

Q204 **Anthony Browne:** Yes, but if it is 10:1 you are not at the tipping point. The tipping point is when you spend a million and get a million back, and then you do not spend any more. But if you are spending a million and getting 10 million back, you carry on spending.

Cat Little: These figures cover a range of very different schemes, with very different varying rates of return. In some schemes, there are much lower rates and we have had to think very carefully about whether that is the right thing to do.

At the spending review, we went through all the resourcing requests from Departments. I should stress that it is over to Departments to manage fraud risk, to work out whether they have the right resources, skills, data and capability to manage that risk. As at the time of the spending review, we funded every single ask from Departments. There is also a limit on fraud expertise and capability, with the significant increase in the private sector and the public sector.

Anthony Browne: It will take time to train them up.

Cat Little: There is a finite group of people who we can employ to do this work. There are things other than the money that constrain how much you would spend.

Q205 **Anthony Browne:** In response to earlier questions, you mentioned about having targets for fraud. Presumably, those targets would come under the Public Sector Fraud Authority.

Cat Little: Yes; the idea is that both Departments and the Public Sector Fraud Authority will have targets. It has to be both.

Q206 **Anthony Browne:** Do the Departments assess their own fraud, or will it be subject to external challenge, as it were? Departments have an inherent internal incentive to say, "There is not much fraud happening. We will turn a blind eye to this. Let us measure it down. Let us manage the figures down." Certainly, if you have a target, you are increasing the pressure to do that. There needs to be an external challenge.

Cat Little: Yes, exactly. There are multiple ways in which Departments have to assess, report and respond to fraud risk. Obviously, they have to report all material fraud. They have to provide the Cabinet Office and the Treasury with updates of what they estimate to be their fraud risk and how much they are recovering on a quarterly basis. The PSFA, as I mentioned, is going to have these red teams working with my spending teams, challenging and constructively working with Departments. But we also rely on external experts, including the National Audit Office and the Government Internal Audit Agency, to provide expert assurance and a third line of defence.

Q207 **Anthony Browne:** So the National Audit Office will help oversee these targets in some way. That will be part of its function.

Cat Little: It will not oversee it but, ultimately, where there is material fraud it is a requirement for that to be reported in the annual reports and accounts, and where it is material, the National Audit Office will audit the evidence base for the data that is produced.

Q208 **Anthony Browne:** Maybe you have not decided yet, but presumably these targets should go down over time? Will you just do the year ahead?

Cat Little: I am afraid that we have not yet got into that level of detail. I would expect for there to be different targets, depending on the estimate and the nature of the business.

Q209 **Harriett Baldwin:** I want to get my head around the facts. Lord Agnew was the Treasury Minister who was responsible for counter-fraud across

Government; is that right?

Sir Tom Scholar: He was a joint Cabinet Office and Treasury Minister. His title was the Minister for Efficiency and Transformation, which covered a broad range of things.

Q210 **Harriett Baldwin:** That included counter-fraud across Government. It is exactly two years ago today that the Chancellor got up and announced the bounce back loan scheme. It was 27 April 2020, and then the scheme went live on 4 May. So we are talking about very compressed timelines. I wanted to get a sense of the timetable. What day was the reservation letter written?

Catherine Lewis La Torre: We sent the reservation notice on 2 May. We were directed to proceed on 3 May.

Q211 **Harriett Baldwin:** You were directed by the Business Secretary, as I understand it.

Catherine Lewis La Torre: It was by the Business Secretary, yes.

Q212 **Harriett Baldwin:** But the Chancellor had already announced the scheme on 27 April.

Catherine Lewis La Torre: Yes.

Q213 **Harriett Baldwin:** So prior to the announcement, you had not formally written a reservation letter.

Catherine Lewis La Torre: We were having lots of conversations. I will probably bring in Patrick, because I came into this role in September, but Patrick was around at that time.

Patrick Magee: Thank you for the reminder. It is two years to the day. I think we were told on 22 April. I think, Gwyneth, you and others rang me to ask whether we could adjust the scheme. My first reaction was, "With taking those checks, there will be fraud risk. How do we do that?" We commissioned PwC on 23 April.

Q214 **Harriett Baldwin:** What day was the ministerial direction given?

Patrick Magee: It was on 2 May.

Harriett Baldwin: It was on 2 May, the same day that the reservation letter was written.

Patrick Magee: Yes, but the point I am trying to bridge back to is that we were told on 22 April and we immediately thought that fraud would be a risk here. We began to mitigate those risks by commissioning PwC, talking to the lenders, asking what things they could put in place. The reservation notice letter that we sent on 2 May refers to a note that we had sent to Sam Beckett on 26 April. Within three or four days, we had said, "There is a problem here. We want to mitigate that. We should alert Ministers to the risks." So for two years plus five days, I have been very concerned about fraud and have been making those concerns known and doing everything we can to mitigate them.

Q215 **Harriett Baldwin:** Were the fraud checks that you claim have now stopped £2.2 billion in terms of payouts already in existence at the scheme's launch, or are they ones you have put in subsequently?

Patrick Magee: The £2.2 billion figure is a figure reported by the lenders to us. Those are loans that didn't get made. They received £2.2 billion-worth of applications where they said, "No, that looks fraudulent" and kicked it away, so that never got into the book. Of the £45 billion of the book that was lent, we have gone in and sampled it. To build on Cat's comments, there has been great support and challenge from Treasury and Cabinet Office around that sampling and work. We have now estimated this 7.5%, £3.6 billion, previously £4.9 billion. Through the action we are taking, we are hoping to mitigate those fraud losses down below that level.

Q216 **Harriett Baldwin:** The Chancellor announced the scheme on 27 April. The scheme goes live on 4 May. The ministerial direction comes through on 2 May. Tom, as you know, we have always had an interest in your WhatsApp messages. I think you will remember that you were losing your phone all over the place and so on. But if we were to ask to see your WhatsApp messages around this time, about the scheme, what would you have been saying?

Sir Tom Scholar: I am very confident that there would not have been any WhatsApp messages about it at all, because, as I have previously said, that is not how I discuss Government business. The scheme at the time was being developed in the Treasury, before the Chancellor's announcement, working from the beginning with the British Business Bank. The reason for that is that it came naturally out of an ongoing discussion about CBILS and what could be done to change the scheme. The start of the discussion was, "How can we change CBILS to make disbursement quicker and easier for smaller businesses?" That was an ongoing collaborative discussion.

At a certain point, the Chancellor decided on the scheme and announced it. We then had—what was it?—10 days to make it operational. The directions came at that point. It is a technical reason. It is when you enter into a formal obligation to spend money that the need for a direction gets considered. That is why the direction comes at that point, rather than an earlier point.

Q217 **Harriett Baldwin:** That is really helpful. The British Business Bank itself worked through the banking system. You mentioned that 20 banks were involved. This is probably a bit too personal, but yesterday I was trying to send some money to my brother from my father's estate and I was on hold most of the day. I eventually spent 45 minutes with Barclays as they tried to go through their anti-fraud checks.

Banks are very rigorous in terms of anti-fraud checking. We want them to be rigorous in terms of anti-fraud checking. But obviously something did not work here with the banks that were your partners in distributing the funds. What is the feedback you have had from them in terms of things they, in retrospect, would want to have done differently?

Patrick Magee: In terms of some of the processes that we asked them to put in place, which they did, it is checking with the normal fraud bureau, the Cifas and other systems. That was the big debate on that first weekend, over the 22nd to the 26th, as to whether they could implement those fraud checks. After many discussions with Gwyneth and me, they said that they could build that into the completely new journey that they would build over the coming week.

They had not come back to us and said, "We should have built that in." We got that in. Could we have done the duplicate check quicker? We built a brand new system, connecting 28 banks, within five or six weeks. The other counter-fraud measures that are set out in the NAO Report, I think it is figure 8, have been helpful. We have had huge numbers of meetings. In the early days, we had weekly meetings with the lenders and biweekly meetings across Government to say, "What more can be done to mitigate these risks?" I would refer you to that NAO Report on fraud and the bounce back loans. That is a very good summary of the different measures we put in.

Q218 **Harriett Baldwin:** We have heard that everyone knew ex ante that there would be fraud and that it was not really possible to prevent all the fraud. We have also heard that no specific business case was written, either by the Treasury or by BEIS. We have also heard some anecdotal evidence there from you, Tom, that a third of businesses in this country were on the brink of bankruptcy at that moment in time.

I think we will all have come across businesses in our constituencies that were really grateful for that money coming in so quickly at that time. Is it possible to quantify ex post a business case of how many businesses were saved, despite the fact that obviously we are all very annoyed about the stories like the ones in *The Times* today about the fraud? Has there been an ex post business case of how well this worked as a macroeconomic measure?

Patrick Magee: That is exactly what we are doing in the economic evaluation. Tom quoted the Institute of Chartered Accountants in England and Wales survey in April 2020. We are looking now to look back and question loan recipients in terms of how many would have been saved. We have to finalise the numbers, but it is looking to be in the same ballpark as that accountancy institute survey. Part of the benefits for Government will be those probably hundreds of thousands of businesses that were saved, at a cost that all of us found unacceptable.

I readily understand your passion about this is the fraud losses. Hopefully we will get them down below that 7.5%, and then there will be the credit losses. That will be the long-term balance. But the economic cost of hundreds of thousands of businesses going out, which could have cost hundreds of thousands of jobs, has to be weighed against the costs of the fraud losses, which were deeply regretted, and the credit losses, which were an unfortunate consequence of businesses going under.

Q219 **Harriett Baldwin:** Has the Treasury done any other work on that?

Sir Tom Scholar: As Patrick says, the evaluation gets at maybe the micro level, the individual firm level. At an aggregate level, it is very difficult to put a number on it, but the independent commentators, like the International Monetary Fund, the Office for Budget Responsibility and the OECD, have all said that the scale and speed of the economic response was one of the quickest and most comprehensive in the world, and very material in protecting the economy from greater damage.

Q220 **Harriett Baldwin:** It would be really helpful to be able to put a number on it to compare with the fraud loss so far. My final question is around the points that Lord Agnew made about the fact that, within Cabinet Office, there is some tremendous counter-fraud expertise. Was that drawn on at the time? Should it have been drawn on more? Was there expertise in management that you could have got internally? I know that you appointed PwC. Was that done just because you knew them? Was there any competitive basis? Were they the world's leading experts on this? What are your thoughts ex post on that?

Patrick Magee: Recalling those days, we have been running schemes for quite some time. We have worked with the lenders. We understand how the lenders work. We have worked with PwC in the past. We did ask them and Deloitte. It was one of the shortest tenders ever; I think it was on 22 and 23 April. We got a proposal from them. We appointed them on 23 or 24 April to get out and do that, because we knew that they worked with the lenders. It is true we did not work with the Cabinet Office counter-fraud function from 22 April to 4 May, but it had been announced. They did offer to help and we immediately brought them in on 6 May. They attended every counter-fraud strategy forum from then on.

This is why I am still surprised at Lord Agnew's reaction. We have had thousands of hours of interaction with the Cabinet Office in terms of the mechanisms they took us through, in terms of drawing up those fraud risk assessments, the post-event assurance plans and the challenges that we get. We have just gone through what they call a fraud measurement and assurance panel, where we have looked at that sample and really tested it. Again, we will revise that. There has been a huge amount of collaboration with them.

Q221 **Harriett Baldwin:** Do you think he and his office should have just been kept more informed about all the work you were doing? Is that your view?

Patrick Magee: I said to him outside the BEIS Select Committee it would have been great if I could have spent more than half an hour with him in his tenure, because I think he would have been more assured. Kevin, you know how hard we work. We appeared in front of your APPG many times during April to June and we were absolutely flat-out and we have always been seeking to mitigate this.

Q222 **Emma Hardy:** Patrick, I just wondered if I could start with you, because you said that you, from the beginning, raised concerns about the fraud risk and were trying to mitigate this by working through the lenders. I was just looking at the key findings from the Public Accounts Committee. One of the points they have made is, "We are concerned that the Department is placing too much reliance on lenders to minimise taxpayers' losses without incentivising them to do so". I wondered if you thought that was a fair criticism or what your opinion was on that. What is the incentive for lenders?

Patrick Magee: I totally understand that. Again, it was one of the things that triggered our concern—what would be their skin in the game if they were to get 100% back? You have to think about the broader relationship between Government and the banking industry. You think about the regulation. I know Anthony has had a lot of involvement with the banking industry. The FCA has interests in whether it is treating customers fairly and following recovery principles, etc.

Again, Government and the banks will have to work together for decades to come. There are many incentives that we have to say to them, "You have to comply with the standards here. We have called out a lot of issues here. We need you to fix them. We are challenging you about the fraud flags. What are you doing with those? Are you investigating them fully?" At the high level, we pay out 100% if they follow the scheme rules, but we have many levers to make sure that they do follow the scheme rules. It is a fair question, but we have answers. There is a strong set of legal, contractual and regulatory—

Q223 **Emma Hardy:** Looking back, I wonder whether you think there may have been too much reliance on them to actually do all of these checks that they were meant to do.

Patrick Magee: I don't think there was any other way we could have got that support to businesses without using the lending industry to get that out there. The bounce back loan sits in a customer's portfolio. They might have borrowed £30,000 and it is great capital for them. It is 2.5% money. It is a year interest-free. The real incentive there is that kept that business alive. Now, as they seek to recover, if they start to not pay their bouncebank loan, they say, "Hold on, that is going to trigger across and that will impact your credit rating across the bank".

We are finding that people may have begun to miss one or two months of their bounce back payment. They say, "Hold on: that impacts our whole relationship," and suddenly we find a little bit of curing in the book. The fact that the banks have provided that money and are then following up to the customers, treating them fairly and looking to their financial needs gives them an incentive to make sure their customers manage this correctly. The pay as you grow mechanisms that the Treasury introduced with us in September 2020 have been really helpful for the businesses, because that allows them to extend the money out from six years to 10 years, to take a payment holiday if they are struggling.

Q224 **Emma Hardy:** I forgot to write it down when you were talking, but did I hear you say £840 million?

Patrick Magee: For suspected fraud, yes, but—

Q225 **Emma Hardy:** There we go. At the moment, obviously the bounce back load fraud will lie with the taxpayer, will lie with the British Government. You are saying that, unless the lenders have done the adequate checks, the responsibility is on them. Other than that £840 million, is there any indication of how—basically, are the banks going to be punished for their inadequate checks if they have been proven to not be following the guidance that was issued to them in terms of issuing these loans? Do we know what level that is looking like?

Patrick Magee: The way to think of that £840 million is that that is what the banks have flagged at the moment in terms of suspected fraud. In terms of what they have claimed so far against the guarantee—these are the up-to-date figures and we will be publishing more data—we have had about £1.9 billion-worth of claims, and about £350 million of that is paid out, £62 million in suspected fraud. So we have paid out £62 million on suspected fraud. That is because we believe that they did apply the checks. We are continuing to challenge them and the audits are coming in, so we could claw back. We will have to see how that goes. The better figure to think of is the other figure I mentioned, the £240 million of withdrawn guarantees. If they withdraw the guarantee cover, they have to absorb the loss. Then that is what really hits them.

Emma Hardy: That is a good incentive.

Patrick Magee: That is the incentive there.

Q226 **Emma Hardy:** Is that how you are going to turn the thumbscrews a little bit?

Patrick Magee: I wouldn't want to be seen as a torturer, but if I have to.

Q227 **Emma Hardy:** It might be a way of getting some of the taxpayers' money back.

Patrick Magee: As I say, there are many incentives here to make sure the banks do the right thing, and I think broadly they have, but if they have not we will call them out.

Q228 **Emma Hardy:** Cat, I just wondered on a few points. You were talking to my colleague Siobhain about targets for fraud reduction, and you said that there have always been targets in HMRC and DWP. What is the estimated amount of fraud? You said 5%, but what is that in terms of an amount for HMRC, and the same in terms of DWP?

Sir Tom Scholar: The 5% figure I quoted is what is called the tax gap, which is the difference between what HMRC thinks should be paid in total tax across the whole economy and what it actually receives. 5% is actually a fairly low figure by international standards, but it is obviously a very large sum of money. That is what that refers to. It is a mixture of fraud and error as well.

Q229 **Emma Hardy:** What I am keen to know about, either from Cat or yourself, Sir Tom, is how the fraud levels compare between DWP, HMRC and the Treasury in terms of amount.

Sir Tom Scholar: I am not sure what the equivalent figure for DWP and the benefits system is. Again, it is a familiar experience in every country that when you are paying benefits out, some proportion of that will be claimed incorrectly. I can check the figure with DWP. I am afraid I do not have it immediately available.

Q230 **Emma Hardy:** That would be helpful, because I am also keen to know, is it a political decision or a decision of the civil service to resource these different areas to look at fraud? Is that a political decision?

Sir Tom Scholar: That is a decision that Ministers take in the spending review negotiation, yes.

Q231 **Emma Hardy:** In terms of resource allocated to looking at fraud, is it the DWP, HMRC or the Treasury that has the greatest resource allocated to look at fraud?

Sir Tom Scholar: It is not something that we lead on in the Treasury. We do not have a big fraud department because each Department is responsible for tackling fraud in the public services that they are delivering. HMRC has a very large fraud operation. DWP also has a very large counter-fraud operation. There are regular discussions between the Treasury and HMRC, and the Treasury and DWP, about what their resourcing needs are for that. Those are then settled by Ministers in the spending review.

Q232 **Emma Hardy:** At the moment, the greatest level of fraud is in the Treasury with this loan system; is that correct?

Sir Tom Scholar: This is not Treasury. This is actually the Department for Business. It sits in the Department for Business.

Q233 **Emma Hardy:** Is that where the greatest level of fraud is, compared to someone getting an extra couple of quid on their pension?

Sir Tom Scholar: The biggest pounds-billion instance of fraud will be in HMRC. I am fairly confident DWP will be second. Then these coronavirus special interventions will be below that.

Cat Little: Just to give you a sense of the number of people, there are about 16,000 people—not fraud experts but people who are going after and tackling fraud and the tax gap across Government. About 5,000 of those are within HMRC. Forgive me; I don't know all of the data yet about DWP but, as I mentioned earlier, we are currently doing a full audit to make sure that we understand exactly where the capacity and the skills are.

Q234 **Emma Hardy:** It would be interesting to follow this up, Chair, to have a look at where the Government are politically choosing to focus their resource and energy on fraud prevention and tackling fraud compared to the actual amount of pounds lost to the British taxpayer. I would be keen to understand that.

Cat, you have brilliantly brought me on to one of my favourite topics, which is Hull. To just mention, there is a finite group of people with this expertise and a big build-up in fraud expertise is needed. You are doing a review. You are looking to publish in June. That all sounds really great. I just would like to urge you to ignore some dinosaur-type attitudes to where people can work and how effectively they can work, and to spread your net wider to have a look at recruiting in other areas of the country, looking at and utilising remote working opportunities, because not everyone with the expertise for this lives in London. Some may live in a place called Hull, which I might have mentioned before.

If we follow the attitude of some mock Victorian characters, we might not make the use of that talent that exists around the country. It is not a question, more of a point for Cat. You can respond on that if you want, Cat, in terms of how you will utilise talent across the UK.

Cat Little: Speaking as the head of the Government Finance Function, what I have found is, particularly through our new Darlington Economic Campus, we have recruited lots of brilliant finance expertise that we would not have been able to compete with the London market for; that is for sure. For example, technology experts using ERP systems are very sought-after resources. I have been able to recruit much more of that expertise in the north-east, which has been great.

Q235 **Emma Hardy:** Is that for utilising remote working? Is that how you have managed to do it?

Cat Little: It is mainly having a presence regionally and having a really good offer. People want to come and work in finance in Government and want to work at the Treasury, which is fantastic. We want to make sure that people have got the right tools and can work in the way that best suits them.

Q236 **Emma Hardy:** Wherever they may be located in the country. Finally, Sir Tom, you mentioned in your response to the Chair of the Committee's letter on 16 March that it was clear from the outset that, even with mitigation steps, the residual risk of fraud and error would be very high. I just wondered whether you had, from the beginning, an estimate in your mind of what the level of fraud would be before it was even rolled out. And what specific characteristics of the bounce back loan made you think this was going to be a problem?

Sir Tom Scholar: We did have estimates from the beginning. They were not primarily our estimates; they were primarily yours, and working through BEIS. If I recall correctly, it was a very wide estimate at the beginning, between 30% and 70%. Is that right, or was it 30% to 65%?

Patrick Magee: That is a total loss.

Sir Tom Scholar: That is a total loss, including credit loss. What we have seen over time, with experience, is that that range has come in and the numbers have also come down, not least thanks to all the work we have been doing to try to get the number down.

Q237 **Emma Hardy:** Finally, on the second part of my question, what specific characteristics were there in the bounce back loans that made you this concerned about the level of fraud?

Sir Tom Scholar: The basic feature of it was that it was an operation that was not being done by the commercial lenders using their full normal processes, including credit assessment processes. They do all those things for a reason and it is to protect themselves against fraud and error. I tried to explain earlier that there were big macroeconomic reasons for doing that. In the end, Government Ministers judged that the public interest, value for money for the public sector as a whole, was better served by protecting the economy through the intervention, even if that came at some loss here. That was the overall judgment. The consequence of that was that we were asking the lenders not to use all of their checks. That was the reason that opened up the scheme to greater risk of fraud.

Q238 **Chair:** Patrick, I have a very quick question. Earlier we focused on the 100,000 businesses that had been registered prior to the pandemic but were not trading. I think Lord Agnew suggested there were 100,000 businesses that were not trading at the point that they claimed but had been set up prior to the pandemic, because they were just bought from agents off the shelf. They had been pre-registered. That had led to fraud. Are those in the category of companies who would have fallen foul of the banks' checks? Are they going to ultimately come to the door of the Government in terms of being a write-off, or are they going to be for the banks to ultimately write off?

Patrick Magee: It will depend on the processes.

Q239 **Chair:** Should the banks have picked it up?

Patrick Magee: If they were pre-registered, the figure I thought we were talking about there was the 1,000 that were incorporated.

Chair: Did I say 100,000? I meant 1,000. I am sorry.

Patrick Magee: Those would be ones where we will be sharing back those fraud flags and saying, "Have you done the right checks? How did that get through the system?" Some of those may be in the 240 that have been taken out. I do not have the answer on that. If something was incorporated clearly after 1 March—

Chair: If you can just write to the Committee on that specific question, I would be interested; thank you.

Q240 **Alison Thewliss:** I have some follow-up on that as well, but I wanted to ask each of you, first of all, what you consider to have been the main causes of fraud within the bounce back loan scheme.

Sir Tom Scholar: The catch-all answer to that is people applying for money with no intention of using it for the purpose for which it was supplied, which was to support the business of that person. In a nutshell, that will cover most cases. The scheme was also very clear that the bounce back loan was to be used to support the business of the person applying for it.

Patrick Magee: I draw your eye to something I have flagged here: page 32 of the NAO Report on fraud in the bounce back loan, where we set out our top 10 risks. Turnover misstatement and application from inactive companies were the top two, but it is set out on page 32 and the NAO does a very good job of boiling these things down. That is a good example of the risks that we identified in collaboration with Cabinet Office and have been raising the flags since then.

Catherine Lewis La Torre: The actual text, just to build on yours, is that borrowers had to self-certify that, "We undertake to use the credit granted on the basis of this agreement only to provide economic benefit to my business, for example providing working capital or investing in my business. We also confirm that the bounce back loan will be used wholly for business purposes and not personal purposes". So borrowers had to self-certify that they were using the loan for those purposes. If not, of course, it was clearly fraud.

Cat Little: The only thing I would add is that it is that issue of intent. It is where people have intentionally used that money beyond the purposes of the scheme that we are most concerned about.

Gwyneth Nurse: I would agree with what has been said already, plus of course the issue of duplicate loans. Once we had put the system in, that resolved it, but in the early days, there was a problem with duplicates.

Q241 **Dame Angela Eagle:** On that duplicate loan issue, it took a month to resolve the duplicate loan issue, by which time £21.3 billion had gone out of the door, had it not?

Gwyneth Nurse: Yes, I am sure you are right.

Dame Angela Eagle: It is a pretty big stable door and a pretty big horse.

Gwyneth Nurse: We put in the duplicate loan scheme with the British Business Bank as soon as possible. There were a million separate data points to work through. The work was done at pace.

Sir Tom Scholar: Banks were required, if I remember correctly, to check on duplicate loans within their own systems. Obviously, what no one bank could do would be to check which other bank had received an application. The technical challenge in building this was to set up a database with 1.5 million data points across 28 institutions. It is a significant challenge. It is not something that you could expect anyone to do overnight. That is why it took some time.

Q242 **Chair:** Are the banks on the hook for the duplicate fraud on the basis that they needed to check?

Patrick Magee: After the system was in place, it is probably a bit unreasonable to say, if you did not have a way to look into the other book for the duplicate loans.

Q243 **Chair:** That requirement for checking duplicates was once the system was in place, not prior to that.

Sir Tom Scholar: They would not have had any way of checking prior to that.

Q244 **Alison Thewliss:** We were talking about companies that were claiming bounce back loans despite the fact that they were not trading as Covid-19 struck, as the Chair mentioned. Lord Agnew had mentioned that the Treasury had failed to understand that company formation agents hold in stock companies with earlier creation dates. You mentioned in your letter, Sir Tom, on 29 March that the scheme would not permit loans to businesses that were not established before the pandemic. Where do these off-the-shelf companies sit within that? They existed. They could be pulled off the shelf. They could be used. They would have an earlier creation date. Where did these sit within that scheme?

Patrick Magee: That goes to the phrase that Catherine was just reading out there, because if someone pulled an off-the-shelf company and said, "This is my trading company. I have been trading legitimately," they have not and they are not using those loans for that purpose, so that is fraud.

It is difficult if people are going to lie on that self-certification form and there is a certified company there. So you are looking into that fraud. That is why I think there is that difference between the 1.8% of identified suspected fraud in the book now and the 7.5% that we estimate, because you have to then go and prove and say, "Hold on. That company existed, but you weren't trading." That is where you get into the really tough discussions with the banks in terms of, "Did you check enough? Had you reason to believe there?" But again, there was only a certain level of checks that they could do in that period. That is a very good example of where we will be going.

Let us just say you have a businessperson who maybe pulled a couple of those companies forward and did that. Then they might have a banking relationship anyway and they go, "If I default on this loan, it is going to impact my credit score." You will see, in many of the cases highlighted in *The Times* today, that those people have now been disqualified. They will not be a director again. It will go against their credit score. It is a public forum. People thinking of perpetuating fraud on these need to think very carefully about it, because it impacts their business and their credit history. For those people who honestly fail, that is difficult and a tragedy, but those who take those things and pull a company out of the shelf need to think about that.

Q245 **Alison Thewliss:** Is the checking on that hampered by the reality that the Companies House register is basically a load of guff? Lots of the data on there is not accurate. Does that make the checking more difficult?

Patrick Magee: There are issues with checking the data. There was also a suspension of some activity in Companies House striking off companies during that pandemic period, which might have meant that more companies that were going down did not get picked up in the banking checks. That is why we talk about fraud and error. There will be things where the banks were doing everything they should have, but the data was not available to them or it was not being updated in the midst of the pandemic.

Q246 **Alison Thewliss:** In the cases where company formation agents were involved, has there been any further checking on those company formation agents and what they have been up to?

Patrick Magee: I would need to go through the detail of that with our financial crime team, but it has definitely been a hotspot area that we have been looking at.

Q247 **Alison Thewliss:** To follow up on some of Emma's questions, it is well established that HMRC and DWP have counter-fraud experts. It seems baffling to me that you would place so much responsibility on a scheme into a Department with limited experience of that fraud expertise.

Patrick Magee: Obviously lots of criticisms have been made, but if I think of what the counterfactual would have been to setting up a scheme, the bank has only existed since 2014, we have been running the enterprise finance guarantee and the start-up loans, we had worked with the Cabinet Office and got a gold standard award for doing fraud work on preventing fraud in that scheme. From a personal perspective, the BBB being there, being able to mobilise this and being able to have the relationship with the lenders to be able to move them across to the scheme allowed us to mobilise that support to help a lot of businesses. We were by far the best alternative. If we had not existed, Government would have had a more difficult job in launching it.

Q248 **Alison Thewliss:** A lot of Lord Agnew's evidence centred around not asking other people for expertise where it existed. Why were people not brought in from counter-fraud from HMRC and DWP to make sure that what you were doing was the best way of using public money?

Patrick Magee: Again, you are probably talking about that period from 22 April to 4 May. DWP and HMRC are experts in checking on grant fraud and people where money has been paid out. The lenders are the experts. At the lenders, their daily business is to prevent fraud on their books. We obviously talked to them. We talked to PwC, who were there. We worked with many of the banks on this to see what could be done. We went to the commercial sources. We went to the private sector consultant. We went to the banks and worked with them.

Q249 **Alison Thewliss:** You did not go to the people within Government who have longstanding expertise in this.

Sir Tom Scholar: Just to add to that, there is longstanding expertise in Government in counter-fraud operations within those specific services, so the tax system or the benefit system. Fraud in commercial lending is a completely different exercise. HMRC would not have the expertise that we were looking for in these circumstances. They would certainly tell you the same.

Q250 **Alison Thewliss:** Were they asked?

Sir Tom Scholar: They are not experts in commercial lending.

Q251 **Alison Thewliss:** They are experts on fraudsters.

Sir Tom Scholar: Fraud is a very multifaceted thing. Somebody that is expert in preventing fraud in one area would not necessarily be the right person to advise in another area. If you look at the record of the British Business Bank in previous schemes that it has administered such as, for example, the enterprise finance guarantee scheme, as I said earlier, the incidence of fraud was at 1%, which is extremely low. They have a very strong track record.

It is striking that we are not talking about CLBILS or CBILS today, those being much more standard commercial schemes that the BBB has overseen. We have not seen there the same worrying increase in fraud. The reason we have in this particular scheme was because of the particular design of the scheme and the particular circumstance of the scheme, which required us to depart from normal commercial practices. It is not really a commentary on the capability or the expertise of the bank; it is a commentary on the circumstances at the time.

Q252 **Alison Thewliss:** I am not entirely familiar with the details of the enterprise guarantee scheme. How many people apply to that?

Patrick Magee: We did about £3.5 billion-worth of enterprise guarantee over its years. We operated it through the financial crisis, when it did about £1 billion in the lead-up.

Q253 **Alison Thewliss:** How many applications are there compared to bounce bank loans?

Patrick Magee: In the year prior to the pandemic, it probably would have done about £250 million, about 3,000 applications. That was the scaling that was involved there.

Q254 **Alison Thewliss:** To move to the issue of duplicate loan checks, I understand that the duplicate loan check was not formally introduced until June 2020, after almost 61% of the loans by value had been made. Why did it take so long to roll that out?

Patrick Magee: We discussed this in the Public Accounts Committee. If you try to get the banks to agree to share their data, they have to work out that their privacy notices allow that. You have to get their IT departments to agree to share that information. We were very fortunate in that Cifas, who are the industry body, proposed a solution where they could use some of their existing links. The fact that we set that up in five weeks— It is unfortunate that that much money had gone out, but any IT project within a bank that gets delivered within five weeks normally gets a gold star, and 28 banks doing it in five weeks is as good as we could manage. We did everything we could to get that, because we knew that would be a significant potential risk.

Q255 **Alison Thewliss:** In its Report on the bounce back loans, the NAO stated that the British Business Bank only formally began testing the effectiveness of the duplicate payment control 14 months after the introduction. When the testing took place, several duplicate applications were found, which suggests the control was not quite working as you had intended. Could you tell me a bit more about the reasons why there was then this 14-month gap between implementation and actually testing those controls?

Patrick Magee: You have got me now. I have a reasonable file here. I do not remember that particular point. What I would say is that we are testing that significantly. We are sharing those back with the lenders. I referred in the BEIS Select Committee to the 23,000 duplicate loans that we found and were testing, sharing that back with the banks and testing them in terms of why that did not work. We established that system and we have been working on it and continue to test on it.

Q256 **Alison Thewliss:** How long did it take the other controls that were introduced to come into place?

Patrick Magee: I think it is figure 10 or 12 in the NAO Report that shows the actual timeline and the 14 counter-fraud measures. They are all set out in there. Those were all stood up over the period after. But there was a huge prioritisation exercise to be done. When we saw the scale of the scheme, we actually had to build an operational system in order to gather 70 data points, which are continually updated on 1.5 million loans, to process the interest payments, the business interruption payments. We had a huge operational challenge to scale to do that, and we were constantly prioritising where we thought we needed to.

We had good support from the Treasury, and the NAO Report also sets out the financial support we have had from the Treasury to build the systems and the controls. Inevitably, you look back and you go, "Could I have adjusted the order or tested controls earlier?" Absolutely, there are probably things we could have or should have done better.

Sitting suspended for a Division in the House.

On resuming—

Q257 **Kevin Hollinrake:** I am sorry if this has been covered before; I could not make the early part of the meeting. This is about the extent to which the guarantee would not cover the banks, where they have clearly made their own mistakes. One of the CEOs of the big banks has said they will cover anywhere they see blatant fraud—they will cover that, rather than expecting the Government to cover the guarantee on a bounce back loan. You say the requirement to check duplicates was introduced in June, but I understand one bank did not introduce that until December.

It is about how that will happen. Is it a requirement that you identify which cases are blatant fraud or blatant lack of due process by the bank? Is it identifying certain cases, or are you going to check a certain number and then extrapolate that up to say, "We are only going to give you x amount rather than the whole amount"?

Patrick Magee: Perhaps we should have a chat with that CEO, because they are not quite as forthcoming with me as you, Kevin.

Kevin Hollinrake: I am very happy to give you the name.

Patrick Magee: I think they would say, if they blatantly did not cover the minimum standards in the guarantees, so if they did not apply the fraud checks. Most of them would say, "We did our fraud checks but there was still, unfortunately, fraud." Then they would say, "That is not covered". But we absolutely will hold them to account and challenge that. What we are doing is taking the fraud flags that we identify in collaboration with the Cabinet Office, sharing those back and saying, "We see signs of potential discrepancy here in terms of duplicates, date of incorporation, etc. Can you explain to us what action you are taking to make sure that those are not duplicates?"

I am particularly aware of when the claims build up. Compared to the forecast losses, we are still in the relatively early days of the claims process. When those claims come in, we will be scrutinising those and saying, "Is there a fraud there? Is there an issue there? Did your process apply?" Through our lender assurance and our guarantee assurance, we are checking those. That is how we are challenging them around that.

Q258 **Kevin Hollinrake:** When you have identified a certain percentage in their portfolio, will you then say, "We reckon 2% of your portfolio is like that. Therefore, we are only going to give you 98% of your money back"?

Patrick Magee: The process that we are working through is that, following that challenge, they are withdrawing guarantees. I did cite some of the numbers earlier on, but we have had about £240 million of guarantees removed from the system. Some of those are just from data errors and other things, but about £45 million-worth of loans has been withdrawn so far, where they have said, "That was not eligible. We should have caught that. That is our fault." So they are beginning to lift those out.

Q259 **Kevin Hollinrake:** Again, is that specific to particular loans, or is that an estimate based upon their overall portfolio?

Patrick Magee: No, the £240 million and the £45 million are loans and we are tracking how many loans are withdrawn by the banks where they admit failings on their part. They are saying to us, "If it is a clear failing on our part, we will withdraw them if we did not live up to the guarantee."

Q260 **Kevin Hollinrake:** So you are going to trust the banks to identify them and tell you, basically.

Patrick Magee: We will mark their homework quite closely. We will not let them mark it themselves.

Q261 **Kevin Hollinrake:** How many bounce back loans were there? There were over a million.

Patrick Magee: There were 1.6 million.

Q262 **Kevin Hollinrake:** How can you check that many?

Patrick Magee: We do it through the data analysis. We were chatting earlier about the additional resources the Government are putting to work on this. In the data analytics that we have done with the Cabinet Office, we have identified cohorts through a thing called *[Inaudible]* which identifies organised crime. We have looked at turnover. We have looked at duplicates. We have looked at date of incorporation. We share those samples back. Then we say to them, "In your internal process, before you make that claim, you should be going through the steps to make sure that is a valid guarantee." Then we can sample that.

If you look at the audit assurance process, we will go in and sample claims and recoveries. Then if someone pops out who is going, "You have a high issue there," then we go deep into it and dig into that. There are quite a few lights that we are shining on it.

Q263 **Kevin Hollinrake:** Ultimately, you have to identify every loan that was wrongly issued, rather than make an estimate. Is that what you are saying?

Patrick Magee: At the end of the day, we have a guarantee portal with all points. It is a very big database with 1.6 million loans. There are about 70 different data points and then we are adding to that the fraud flags and checking that against it. So there is a huge data-matching exercise. Of course, you get lots of data inconsistencies, because you are matching one source, HMRC and Cabinet Office analysis, versus bank lending data. There is a huge data-scrubbing exercise, and that is why we have had to scale the resources of the bank and outsource some of those.

Q264 **Kevin Hollinrake:** Will you publish all that information by bank, so that the public, or we, or somebody can see the relative performances by bank?

Patrick Magee: That is a really good question. We were quizzed on that at the BEIS Select Committee. We have been discussing with colleagues across Government. We would expect by early summer to be doing the next wave of publication of scheme performance data, again giving lender data probably by amount drawn, amount claimed and then overall potential fraud flags as well in terms of the scheme. So we are looking at the publication strategy. That is under consultation with us and Government, but we would expect to have next stage of publication by early summer.

Kevin Hollinrake: So you think that will be publicly available.

Patrick Magee: That is the plan. In November, we did overall scheme data. We did not do it by lender, because it was very early days.

Q265 **Julie Marson:** I have some questions about some of the data and some of the processes in terms of monitoring the performance of the bounce back loan scheme. We have covered some of this. Perhaps there is the risk of a bit of repetition, but I think it bears clarifying and putting in one space. Catherine or Patrick, could you outline the role of the British Business Bank in its entirety in monitoring the performance of the bounce back loan scheme, please?

Patrick Magee: It is very much our role to administer the scheme. We have the contractual relationship with the lenders, so we sign the guarantee agreements on behalf of the BEIS Secretary of State, but we maintain the lender relationships. We maintain a portal. It is a massive database that we had to build at pace. That has all of the 1.6 million loans on. We administer the payments; if claims are made we pay out on those.

Because we have that data, we scrutinise that data. We work with colleagues across Government in terms of some of the data analytics and then ask, "What are the trends that we are talking about here? What are we seeing?" That is why we were talking about these two dashboards. We had the counter-fraud strategy board, which looked at that. Cabinet Office is responsible for counter-fraud expertise, so we share that data there. BEIS are overall responsible for the scheme, so we were sharing insights and trends with them. We are now bringing those two dashboards together and we have this lender performance assurance board now, which senior officials from Treasury, BEIS, Cabinet Office and Catherine sit on. Then my team present to that with the analysis.

I like to talk about, "Data, insight, action". There is so much data here that you could really lose it. I know I have had to re-explain some of the data, because even I get jumbled on it sometimes. You get the data, but then it is really the insight. Who is standing out as a tall poppy? Is there an anomaly there? Is there something that requires further questioning? Then it is the action that we take. Just to give you a sense, we have audited all 28 lenders. Just on the bounce back scheme alone, there are over 300 management actions that the banks are taking to clarify the data, checking things, etc. Then through the guarantee assurance and the fraud and financial crime work, there is a lot of holding the banks to account on it.

Q266 **Julie Marson:** I might come back on a couple of those bits, but I would like to ask the same question of Tom, please, in terms of the role of the Treasury in monitoring the performance of that scheme.

Sir Tom Scholar: It is the flipside of what Patrick has said. The bank is on the frontline with all the lenders, pulling together all the data, which it reports up to not exactly a board but a regular meeting of senior officials. It is actually BEIS that is the Department responsible for overseeing it. We obviously have a close interest, given the importance of the scheme to the economy, but we are very much in a supporting role in that discussion.

Q267 **Julie Marson:** You wrote to the Committee about some of the monitoring and talking about the snappily named Covid-19 loan scheme counter-fraud strategy board. That extensive data is fed into that particular board. It has HMT, BEIS and the Government Counter Fraud Function, along with the British Business Bank. What is the data? Is it the data that Patrick is referring to that is all fed into that board? What kind of processes and decisions are coming out of that board? What is the action that is coming out of that?

Sir Tom Scholar: That board was ministerially chaired by Lord Agnew during 2020 and 2021. I am not sure when it last met. Gwyneth, do you know?

Gwyneth Nurse: There was the Lord Agnew board that met on several occasions during 2020 and 2021. Recently, we have set up this new version of a board that is looking at all the data that Patrick was talking about. Indeed, there was a meeting of that, which I attended before Easter. That meeting is looking at all the data, it is looking at the dashboard and then it is prioritising action, supporting the British Business Bank in the prioritisation they are doing in terms of their fraud work. That is what that is doing.

Catherine Lewis La Torre: In addition to the data that we are bringing, we have data as well from the Cabinet Office, which we are combining to bring that into the lender performance advisory board that has been established. There is mainly our data, but there is also additional data that we are bringing as well to then discuss what actions would be taken on the basis of the analysis that is being done in those meetings, around what the data is telling us.

Q268 **Julie Marson:** This was changed. That particular board does not exist and that was a ministerial-led board. Is that what you are saying?

Sir Tom Scholar: I think it was my mistake. I mixed up the two bodies. Apologies for the confusion.

Gwyneth Nurse: I think the one you were asking about was the one that we are talking about now. There have been lots of different boards at various stages.

Q269 **Julie Marson:** It is confusing. Does it strike to an inconsistency and maybe confusion in the whole process from start to finish?

Patrick Magee: No, let me try to assure you around that. I think the one you are referring to is the CFSB, the counter-fraud strategy board. That is the core official one that has met every two weeks since May 2020. That is where HMT, ourselves, Treasury and BEIS get together. That board is the one that we take what we call our fraud risk assessment to. That identified 35 different risks and the actions that will follow up on that. Through that, we would be saying, "Where do we need to do more analysis in terms of the different categories we have?" That is the real co-ordination across Government and using the resources across Government to identify the fraud flags. That has been the main working group of officials within Government.

The recent innovation that we have been talking about is the lender performance advisory board. As the claims begin to build now and we are beginning to say, "We are going to challenge the lenders on this issue," or, "What do we feel about certain actions that could be taken?", we then take that for officials to discuss. Those are the two main official bodies where we, administering the scheme, talk to our colleagues across Government about important policy decisions. Then, as Tom was describing earlier, there is a relatively new committee—the value for money committee—that the Chancellor is chairing going forward. That is a broader piece out there as well. Then Lord Agnew had his ministerial board in 2020 and 2021. There are two levels of political oversight and then those are the official bodies.

Q270 **Julie Marson:** When Lord Agnew told the Committee that he could not get access to things like the dashboards and so on, but he had his own committee, does that mean the committee did not get access to the data that it needed? How would that have happened?

Patrick Magee: We were discussing that earlier. I met with him on 18 November. We took an action to merge together the performance data and the fraud dashboard. We have now shared that back to the board. That is why I am surprised. I have been rereading his statement and his press commentary on that. I said to him outside the BEIS Select Committee that I would have loved to have spent more time with him, because, in the work that we have been doing and the huge amount of work with his own officials, there is more that could have been done. I would love to have spent more time with him in that regard.

Q271 **Julie Marson:** You mentioned the portal. Is that the same one that is actually designed to manage the guarantees rather than the loan performance itself? That is the one that comes from the lenders.

Patrick Magee: Yes, it is a large database where they will be feeding in. Basically, when they take out the loan, they register the loan on there and say, "This is the loan we want guaranteed." Then they will provide us arrears when the loan is falling behind. Has it defaulted? Has it claimed? Has it settled? That is a huge database. That was a big risk for us. Alison was asking earlier. We basically scaled the database that used to hold 2,500 loans a year to 1.5 million. That was a big technology risk for us at the time.

Catherine, when she took over as CEO, led a project called the *[inaudible]*, where we have invested heavily in our data, our IT, our outsourcing and our risk management, because of the scaling that we have had to do. Touch wood, that portal has scaled well for us and has given us good insight. We are constantly adding more data, including the fraud flags, to that.

Q272 **Julie Marson:** You have talked about merging the dashboards and so on as if there is an ongoing process of improvement and reviewing. Are you satisfied that what you are doing in terms of the data and the processes is as good as it can be? Is that a constant effort to renew and improve?

Catherine Lewis La Torre: It is fair to say that the visualisation of the information and the data that we have iterates constantly, because there are different things that you look at depending on the life of the scheme. In the early days, we were looking to collect where the loans were being disbursed and we were looking at geographical splits, sector splits and so on. Now that we have repayment data, we are looking at trends around that. There have been various iterations of the presentation itself. That is why people talk about a dashboard. It is not one piece of paper. These are quite detailed presentations, providing the data visualised in different ways, focusing on different themes, also tailored towards the agenda for that particular meeting that we are going into. It is always going to be iterating.

Patrick Magee: It is not a picture. It is not a piece of art. It is a multi-part series. You could binge on this and just watch the different data pieces. It is never perfect. We would always want to improve on it. When there is so much data here, you can dive into it, but I am always reminding the team, "The data is one thing. What does it tell you? What is the insight? What action should we be taking?"

Q273 **Julie Marson:** Is it possible to take a view now of where you are with the data and the process, to say, "This is the critical data we are going to need now to prevent the fraud or to improve the data on the fraud"? Is it possible that the processes will have to change based on that? Is it possible to go down and to say, "This is the really critical data and the actions that we are going to need to take now to minimise the fraud"?

Patrick Magee: Again, the book has all been originated now, so it is really about taking action to maximise the recoveries from that. We have, at the front of that dashboard, developed a heat map, which I find really helpful, because it shows you where the hotter spots are and where the things are where we want to take action. Where will we target the audits? Where will we challenge the lenders? Now you are getting into that really interesting period where £45 billion went out, £3.7 billion has come in, about £3 billion is in arrears, £2 billion is in default. Only £2 billion has been claimed. Where do we dive down next? Where do we challenge next? Again, you have to look at that data, draw out the insights and take the actions.

It will always evolve, because there will be parts of this book that will be out there for another eight years. We are always having to manage that portfolio. It is a fascinating exercise in many ways. I am sorry if I am being a bit nerdy about it, but you do get quite interested in the data.

Q274 **Julie Marson:** Tom, in the same letter, you said that the British Business Bank does not hold data on the number of bounce back loans that were transferred from company bank accounts into the private bank accounts of the owners. Is this something that you think is worth pursuing or are there too many flaws in that data and too many valid reasons why that might happen, so that it is not very useful to identify fraud?

Sir Tom Scholar: The bank will be able to comment too. In many cases the borrowers would not have had a business account. They would have been operating their business from their personal account in any case. In other cases, there could be legitimate business-related reasons why money would have been transferred from one to the other. As I understand it, it is not a transaction that a bank would normally monitor, so they do not have the systems that would naturally generate that information. Of course, there will have been cases where that kind of transfer would have happened for fraudulent reasons, but there would have been others where they would be for legitimate reasons. As I understand it, in terms of going after where the money is, where the main body of fraud is, that is not thought to be a particularly helpful check to make.

Patrick Magee: Again, we have investigated that and discussed it. If someone sets up a business—Julie Marson Restaurant Services or a consultancy or whatever it might be—the loan would be against that, but then you might pay yourself a salary or a stipend out of it, so the money would be coming across. It may well be that you incorporated your business relatively recently, but you may have organised standing orders for some of the payments that go out of the business. We have investigated that and that is the rationale we have had coming back from the banks on it.

Q275 **Chair:** Can I just come back to the evaluation exercise that is going on? Who is carrying that out? Is the British Business Bank actually carrying out the evaluation?

Patrick Magee: We commission independent experts.

Catherine Lewis La Torre: It is Oxford Economics.

Q276 **Chair:** So it is a completely independent exercise. You do not have influence or mark your own homework.

Catherine Lewis La Torre: No. There is actually a very small number of companies that have the expertise to do these types of evaluations.

Chair: They are just left to get on with it without being interfered with or influenced in any way by yourselves.

Patrick Magee: It comes back in for peer review within Government. We commission these independent evaluations of our programmes all the time, and then they come back in for peer review within Government. We generally ask the relevant Departments to be part of that peer review.

Q277 **Chair:** Who is it that has given them the questions that you are expecting them to answer?

Patrick Magee: When we establish an evaluation we will commission the research, but if we are going to have it peer-reviewed at the end, we will speak to the Government economists in HMT and BEIS.

Q278 **Chair:** But effectively, you say to them, "This is the output we want from your exercise." Is that correct?

Patrick Magee: We set the questions and then ask them to conduct the analysis and come up with the evaluation.

Q279 **Chair:** Would Ministers have been involved in putting those questions together, or is that something that would not have gone across to Ministers?

Patrick Magee: I think it is generally done at officially level.

Q280 **Chair:** Will the output answer the following questions? What additional measures and checks might have been reasonably expected to have been brought in at the time that the loans were going out and there was a lot of time pressure? Had you brought those additional checks and measures in, how much additional fraud might have been saved as a consequence? Will we get to understand the answer to that?

Catherine Lewis La Torre: The outputs are more around the economic impacts of the scheme. I will have to check in terms of whether it would specifically answer that. We try to get to what the funding was used for, what the loans were used for, how many jobs were protected, how many businesses were saved and so on.

Q281 **Chair:** In terms of learning the lessons from this exercise in case, heaven forbid, we have to go into that kind of space again, presumably it would be very useful to know the answers to those questions. What could you have done differently? What could you have reasonably been expected to have done differently? What would it have achieved had you done that?

Patrick Magee: I think we will be looking at those questions through separate means. If we look back at the NAO Report from late last year and the PAC, who published their Report today, they have asked for a counter-fraud strategy to be developed by BEIS. We are obviously closely collaborating on that. There are also actions to define the lessons learned. The economic evaluation is really what are the benefits to the economy and what are the costs.

Chair: I understand that, but it is not quite the point that I am making.

Patrick Magee: It is really the PAC work that will—

Chair: We probably will write to you for a little more on your thinking around that.

Q282 **Dame Angela Eagle:** Lord Agnew suggested that there was little incentive for lenders to pursue outstanding loans due to the 100% state guarantee. He is right, is he not, Sir Tom?

Sir Tom Scholar: There is a contractual requirement on them to. If they don't take the steps that they are required to do under the agreement that the business bank has with them, as we were discussing earlier, then the guarantee isn't valid and they won't get the payout. There is a contractual requirement as well as an incentive.

Q283 **Dame Angela Eagle:** Will that apply to the £21.3 billion that was taken out as bounce back loans in the first month before there was even a way of checking that multiple applications had not been made?

Sir Tom Scholar: From the first day of operation of the scheme, there were checks that lenders were required to make.

Dame Angela Eagle: Did that include whether multiple applications were being made?

Sir Tom Scholar: As we discussed earlier, from the beginning lenders were required to check for multiple applications within their own bank. I think that is correct. But the check across banks had to wait for the cross-bank database to be established. So that check was not there from the first day; it was there from as soon as possible after that.

Dame Angela Eagle: By which time half of the amount of money that was lent had already gone out of the door.

Sir Tom Scholar: I cannot remember the precise figures.

Dame Angela Eagle: It was £21.3 billion in the first month. So if you were a bank and you had lent, and it was discovered that other banks had lent, but you had done it in the first month, the state guarantee would still apply.

Sir Tom Scholar: There are a number of other checks that banks were required to make from the beginning, and the British Business Bank goes through with them the process of verifying whether they have done that. If they haven't done it, the guarantee is not applicable.

Q284 **Dame Angela Eagle:** That is not an answer to my question, with all due respect. If, in the first month when that cross-bank check was not available, an individual lender had lent, using the state guarantee, to an entity that turned out subsequently to have made multiple applications with other lenders, the state guarantee would still apply, because at that time it was not possible to check. Is that correct?

Sir Tom Scholar: You have to check all the other things as well. If everything else was correct and that was the only thing that was an issue, then it would apply. But you would still have to do all the other checks that I have mentioned. Patrick, you may want to add something.

Q285 **Dame Angela Eagle:** So the answer is yes, isn't it?

Patrick Magee: It is, but we would be—

Dame Angela Eagle: The answer is yes.

Sir Tom Scholar: Provided all the other checks had also been established.

Q286 **Dame Angela Eagle:** So there is a state guarantee on multiple applications to the same organisation for the first month, because there was no way of checking across different banks that multiple applications had been made.

Sir Tom Scholar: There was no way of checking across different banks at that time, no.

Q287 **Dame Angela Eagle:** In December, two men were jailed for running a £70 million money laundering scheme, £10 million of which came from fraudulent Covid loans. That means, if it is a £50,000 loan, that is 200 loans. One of these men was a Russian, another Lithuanian. The interesting thing about this case is that they were on bail after being arrested for fraud in 2018 when they started fraudulently claiming bounce back loans in 2020 for the various shell companies that they had set up for their money laundering efforts. It appears that they collected £10 million of Government money, taxpayers' money, at 50,000 quid a time when they were on bail for fraud and money laundering. How did that happen, Sir Tom, on your watch?

Sir Tom Scholar: I am not aware of the particular case you mention, but we can certainly look into it.

Q288 **Dame Angela Eagle:** One was a Russian. It would be deeply alarming if

Russian-organised crime and illicit finance milked our bounce back loan system and was able to access that amount of public money as a result of the Government's lack of checks in the Covid support package. Are there ways of checking whether other Russian crime syndicates have ransacked the UK public purse?

Sir Tom Scholar: Everything you say is extremely worrying. As I said, I am not aware of the particular case.

Q289 **Dame Angela Eagle:** They have been jailed. It has been in the papers. Why are you not aware of some of the things that are happening with the schemes that you are meant to be in charge of and looking after? This is public knowledge. This has been reported in the press.

Patrick Magee: What I would say to you is that it is the work that we have been doing that has brought that case to the knowledge of the enforcement agencies, and enforcement action has been taken and they have been jailed.

Q290 **Dame Angela Eagle:** How many other Russian crime syndicates have been ransacking the UK public purse, then?

Patrick Magee: We have been sharing the data back. We have been asking the lenders to bring that to us. We have had 43 arrests by NATIS, etc. That is where we have always been targeting the effort—that serious organised crime. Where we have had evidence of that, we are taking action around it. You will see the press reports today. People are being disqualified and arrested for these things.

Q291 **Dame Angela Eagle:** They are being disqualified and arrested for using the money to do up their gardens, for using the money to feed their gambling habit on a gambling spree when they did not actually have a company at all, and for taking out Covid loans in cash. Pub landlords were paying themselves pandemic funds as consulting fees. It is just a bonanza of fraud, is it not?

Catherine Lewis La Torre: It is an important point about the data, because we have talked a lot about the data uses, in that we have to go back and have conversations with the lenders to interrogate then. The other use of the data that we are collecting is to provide to the investigative services, to look into certain information that we have at our disposal. That is another use of the data that we have.

Q292 **Dame Angela Eagle:** For 1.6 million loans, you have had 49 arrests. It is not touching even the first little iota of what is going on, given that the schemes that you put into place were so open to abuse for at least a month.

Patrick Magee: Again, the arrests are at the significant, scary end of fraud. We want to recover the loans. In terms of the duplicates, as I said at the BEIS Select Committee, we have identified 22,000. What you do there is you send the banks after them and say, "Hold on—you have a duplicate loan over here in another bank we know about, so you haven't—"

Q293 **Dame Angela Eagle:** If they could not assess whether there was a duplicate for the first month, you are going to pay the loan out, aren't you?

Patrick Magee: One would hope and expect, for those people who might have said, "I am going to tell a little bit of a lie here and I am going to apply for two loans," that they will be able to pay one or other of those back. There is a difference between fraud occurrence, which has been way too high, and fraud loss, which will still be too high, and we flagged those risks from the outset and made a priority to do it. But again, we have taken you back to the circumstances at the time, where hundreds of thousands of businesses were at risk of going bust. So a difficult decision had to be made and we had to implement that decision.

Q294 **Dame Angela Eagle:** I know that everybody from the Chancellor on down, including all of you here today, has talked about speed being of the essence, but speed surely is not the only criterion if the public see these kinds of fraudulent behaviours going on with public money. It lessens everybody's confidence in the ability of the authorities to reward proper legal behaviour when they see people behaving in these kinds of blatantly illegal ways, and many, many, many of them, who we will never know about, getting away with it.

Sir Tom Scholar: As I said earlier, we regard fraud as totally unacceptable and will go—

Q295 **Dame Angela Eagle:** I know you say that, but then you create systems that allow bonanzas of fraud to go on. Now, you have all said that the reason for doing this was that we were in the crisis and that is absolutely true. You prioritised break-neck speed, as the Public Accounts Committee said in its Report today, but actually there is no clear view yet about what the long-term impact of the scheme was in terms of its own criterion of saving businesses.

You have asserted that it saves businesses, but the Public Accounts Committee says that it is not possible to judge whether the scheme had a reasonable impact until much later down the timescale, when some of these loans are paid back, when we see whether it is £4.9 billion in fraud and £17 billion of taxpayers' money not repaid because those businesses went bust, or it is even higher. At the moment, it is uncertain. You cannot assert that the scheme was successful, but you are asserting that. How come you can assert that, when the Public Accounts Committee says that it is uncertain whether the scheme worked or not?

Sir Tom Scholar: Well, as the Public Accounts Committee says, it is certainly true that we won't know the full cost until the end of the lifetime of the scheme, and we are at fairly early days in terms of repayment, so we don't have all that much data yet to go on. We are learning more all the time. I think the experience to date has been that estimates of overall losses have come down from the earlier estimates. Estimates of fraud have also come down from the initial estimates. That is not least as a result of the huge effort that is being put into wrestling with that problem.

To go back to what I said earlier, in April 2020 the Government introduced a scheme, CBILS, which involved all the usual credit and affordability checks, which are the main ways in which lenders identify possible fraud. The very strong view at the time, from many, many sources, was that that scheme was not available to millions of businesses that needed it and were facing bankruptcy, and that there was a need for a scheme that was simpler and quicker. The Government had to assess that against the increased risk of fraud as a result.

Q296 **Dame Angela Eagle:** You effectively assessed speed as the only real criterion, didn't you, which is why we have got the bonanza of fraud?

Sir Tom Scholar: No, not as the only real criterion. The NAO has looked at this twice, reviewed all the paperwork and seen that there was a very strong discussion at the time within the Treasury, within the British Business Bank, between us, with BEIS, with expert advisers, of the risks of fraud and error, and the actions that we could take to minimise them.

Q297 **Dame Angela Eagle:** Let me just read what the NAO says. "The Department has been complacent"—this is BEIS—"in preventing scheme fraud and its prioritisation of 'top tier' fraudsters puts other Government schemes at risk". "We are concerned that the Department is placing too much reliance on lenders to minimise taxpayer losses without incentivising them to do so". "It is unacceptable that the Department has no plans to recover outstanding debt after lenders have pursued borrowers for up to 12 months". That is not a ringing endorsement, is it?

Sir Tom Scholar: I think their comments there are about recovery processes. It is not a comment on the original policy design of the scheme.

Q298 **Dame Angela Eagle:** Yes, but the recovery processes, by definition, are much larger and more complex because the scheme was so open to fraud in the first place. So this is not a ringing endorsement and the amount of recovering that you have to do is colossal because of the holes that were in the design of the scheme. Isn't that true, Sir Tom?

Sir Tom Scholar: As we have often said this afternoon, there were particular features of the scheme, which were a direct consequence of the circumstances at the time, that meant that some of the normal controls didn't apply. As a consequence, as everybody knew at the time, there was a greater risk of fraud, and we are taking every step we possibly can to tackle that.

Q299 **Dame Angela Eagle:** A scheme that allows somebody to apply for a bounce back loan 200 times when they are on bail for being a money launderer does not sound to me like it is hard to defraud. Does it?

Sir Tom Scholar: As I said, I do not know the particular facts of the incident.

Q300 **Dame Angela Eagle:** It has all been in open court. Those are the particular facts.

Sir Tom Scholar: I am not denying it. I am just saying I don't know the ins and outs of that particular case. The Treasury is also not responsible for implementing particular cases. What I am trying to explain to you is what the Government are doing about the problem of fraud more generally and how we are trying to address it.

Q301 **Dame Angela Eagle:** I don't think the NAO is particularly impressed so far yet either. You are talking about CBILS. Can I ask about Greensill, because we have the British Business Bank here at the moment? They were allowed to lend £400 million in CBILS after you allowed them to become an accredited lender, and they lent £350 million to companies within the Gupta Family Group, six issued on the same day in September 2020, which contravened the scheme's £50 million lending cap to company groups. How did that happen?

Catherine Lewis La Torre: You are right that Greensill was accredited under the CLBILS scheme. It was not an accredited lender for BBLS. We instigated an investigation of Greensill in October 2020. It would be difficult for me to comment on that investigation. But I can say that I have provided an update on the status to Dame Meg Hillier of the PAC, as we committed to do after the hearing.

Q302 **Dame Angela Eagle:** Perhaps you could provide us with an update on the status, because we have done hearings on the collapse of the Greensill Bank and how it came about. Is that money ever going to be recovered?

Catherine Lewis La Torre: I don't think that is something that I can comment on, but I would be very happy in a private session to—

Q303 **Dame Angela Eagle:** It is quite a lot of money. Is it ever going to be recovered?

Patrick Magee: The point that Sarah Munby made in the Committee was that that money has not left Government. It is a guarantee.

Sir Tom Scholar: My understanding is that there was a guarantee, which was suspended last year pending further investigation and a legal process. What I have heard the Department say in other settings is that the guarantee is suspended. While that ongoing legal process is happening, it is not possible to make further public comment.

Q304 **Dame Angela Eagle:** Where is the money? The money was lent.

Sir Tom Scholar: The money was not lent by the Government. The Government through the British Business Bank offers a guarantee, which was not paid out and has been suspended.

Q305 **Dame Angela Eagle:** Where did the money come from to lend to Greensill?

Catherine Lewis La Torre: It was Greensill's funding from its sources. There is no public money that has been lent here.

Q306 **Dame Angela Eagle:** Are you worried about the kind of accreditation you did there and the kind of accreditation you are doing, albeit for a very different scheme aimed at different people? Are you not worried that your checks were really not very good?

Catherine Lewis La Torre: We work with over 200 delivery partners, so banks, financial institutions and investment firms, and I think this is in a category of one.

Q307 **Dame Angela Eagle:** You were pressed, presumably, by Ministers at BEIS to extend these facilities to Greensill.

Catherine Lewis La Torre: We went through the same accreditation process for Greensill as we went through for the other potential accredited lenders for that programme, which is set out in the hearing, as given to the PAC.

Q308 **Dame Angela Eagle:** I think the extent of the departmental email exchanges between the bank and the Department were described as unusual by the bank, not normal.

Catherine Lewis La Torre: We were in very unusual times.

Q309 **Dame Angela Eagle:** So you had similar unusual exchanges about other groups that did not have David Cameron on the board.

Patrick Magee: The exchanges there were with the BEIS steel team, which obviously has a very strong interest in the steel industry. It was not with the Ministers or the ministerial office, but it was still an unusual amount, as we said. We shared those exchanges with the NAO, which commented on those in the Report.

Q310 **Kevin Hollinrake:** On the case that Angela raises on the £10 million that was taken by somebody who was charged with fraud or something, has the guaranteed covered that £10 million?

Patrick Magee: I would have to look into the individual cases. We would have to work out whether it was CBILS or BBLS, whether there were 200 of them. I would rather comment that I have seen the article, but I have not gone into it.

Kevin Hollinrake: Can you write to us and let us know, please?

Patrick Magee: Sure.

Q311 **Chair:** Can I just come back to one point of clarity? We have had quite a long session here and we have basically been asking several questions over and over. They have all been around what went wrong, whether it could have been avoided, etc. I am clear about one thing and we all accept that—that these were extraordinary times and you had real time pressure to get stuff out there quickly. I am prejudging that it did have a significant macroeconomic effect, and it was successful and unemployment did not go through the roof. So you get a huge tick for all of that.

But it cannot have been done perfectly. Even though there was time pressure and therefore you had to do it in a certain way, there must have been things that could have been done. You must surely be sitting there thinking, "Actually, there are five or six things that, if we had our time again, would not have cut across our requirement to get it out quickly but would have reduced the level of fraud that we think is going on here," I am not clear in my own mind that I have heard today what those things are. Could I give you as witnesses a final opportunity to tell us the one or two things in the back of your mind that you are thinking, Do you know, if we had our time again, we could have relatively simply made these changes and it would have made a difference to the level of fraud"?

Would anybody like to comment on that final question? Or are you sitting there thinking, "No, we would do it exactly the same if we ran it over again"?

Sir Tom Scholar: Let me start. As I said earlier, right from the beginning of the operation of the scheme, we had this regular forum for dialogue going with us, the bank, BEIS, lenders, counter-fraud experts, which as we went along identified further checks that could be incorporated, further ways of checking the data and flagging risks that could then lead to greater counter-fraud action. I guess if we knew everything then that we know now, we would have been able to incorporate those things from the beginning. But it was a scheme that was put together in about 10 days, so we did what we could as quickly as we could.

What I don't think we have found is some other additional thing that could have been incorporated but would still have been consistent with a scheme disbursing within 24 to 48 hours, which was the requirement of the policy because of the circumstances. We have between us been working on this for two years.

Q312 **Chair:** So, given what you knew at the time, you would not have done anything differently with the benefit of hindsight. Will anybody else go any further than that or are you all feeling that way?

Catherine Lewis La Torre: As I said, what we set out in the reservation notice were other options and we explored at length whether we could have introduced additional amendments to CBILS. That was ruled out and there was a lot of criticism of the bank at the time that money was going into the market too slowly.

The other thing was whether we could have reasonably launched the scheme a little bit later. Rather than 11 days, could we have taken 20 or 30 days to have given ourselves more time to work through the issues that we had identified with the banks to have more in place before launch? That was the other option: to delay, basically, and to give ourselves more time to put more of those things in place. But there was a very strong imperative to act in the moment, because the other side of that debate was from a wide range of business bodies telling us, "With every day that you delay, we are losing businesses. People are losing their jobs." That was the counter-argument for us really trying to buy as much time as we could before implementing the scheme.

Patrick Magee: Just to build on what Catherine was saying, obviously Dame Angela has focused on the duplicate, which is the most obvious issue. If we had had those 10 extra days, could we have spent all that time focusing on the duplicate issue? Again, we have identified 20,000 loans out of 1.6 million that look like duplicates at this point, and we are trying to recover as many of those as possible.

We are certainly not saying perfection, and certainly if we had had time it would have been lovely to have had some of the options that Catherine laid out. The team across the bank and across Government worked incredibly hard and you have got to measure that and say, "Perfection is never achievable, but the team worked extremely hard." So I would have had the same team and given them the same tasks to do. It would have been lovely to have had more time and more notice of the pandemic, but we didn't.

Chair: We have reached the end. Thank you very much. It has been quite a robust session in parts, so I am grateful to you for attending. I am grateful as always to the officials from the Treasury for attending, but particularly to you both for coming from the British Business Bank, because you are not an organisation that we normally have oversight over. It is good of you to come and join us today. We appreciate the input that you have provided. That concludes this session.