

Public Accounts Committee

Oral evidence: Local authority administered COVID grant schemes, HC 1234

Thursday 11 May 2023

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Members present: Dame Meg Hillier (Chair); Olivia Blake; Sir Geoffrey Clifton-Brown; Ashley Dalton; Mr Jonathan Djanogly; Mrs Flick Drummond; Peter Grant.

Gareth Davies, Comptroller and Auditor General, National Audit Office, Peter Gray, Director, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts were in attendance.

Questions 1-119

Witnesses

I: Gareth Davies CB, Permanent Secretary, Department for Business and Trade; David Bickerton, Director-General for Business Sectors, DBT; Anastasia Osbourne, Director, Business Grants and Investment Directorate, DBT; Phil Duffy, Director-General for Growth and Productivity, His Majesty's Treasury.



Report by the Comptroller and Auditor General

COVID-19 business grant schemes

(HC 1200, Session 2022-23)

Examination of witnesses

Witnesses: Gareth Davies CB, David Bickerton, Anastasia Osbourne, Phil Duffy.

Q1 **Chair:** Welcome to the Public Accounts Committee on Thursday 11 May 2023. Today we are looking at another of the Covid schemes. This is the one where local authorities were given grants—announced by Government, but the local authorities administered them—to support small businesses in their area in England through the Covid-19 pandemic. The National Audit Office has helpfully done a Report on this. Obviously, the primary objective at the time was to get financial support out at speed to local businesses. There are concerns, however, as there have been with other schemes, about the checks made in advance and the follow-up checks that did not take place. There is a large amount of money at stake, as is the case with many other Covid schemes. Of course, the delays in recovering money make it harder to do so. Today we are questioning officials about how this is going and whether there is any chance that the money that has gone out fraudulently will ever be recovered.

I am pleased to welcome, from the new Department for Business and Trade, Gareth Davies, the permanent secretary. Of course, he was not the Department's permanent secretary at the time this happened, just to be absolutely clear. I also welcome David Bickerton, the director-general for business sectors. Were you in post at the time?

David Bickerton: Not at the beginning, no.

Q2 **Chair:** Okay. I also welcome Anastasia Osbourne, the director for business grants and investment directorate. Anastasia, were you there at the time?

Anastasia Osbourne: I was not there at the time.

Q3 **Chair:** Okay. I also welcome, from the Treasury, Phil Duffy, the director-general for growth and productivity, who was in post at the time.

Phil Duffy: I very much was.

Q4 **Chair:** As often is the case with the turnover of people in Whitehall, we were here at that time but other people were not. Before we go into the main session and I bring in Ashley Dalton MP, I want to get a catch-up from you, Mr Davies, as permanent secretary, about the product safety review. We did a report on this and were very concerned about product safety. The Office for Product Safety and Standards published a product regulation strategy after our report, but the product safety review is still



yet to appear. Can you tell us what has happened, what consultation has taken place and where that product safety review is?

Gareth Davies CB: Sure. As you say, Chair, the initial work was done back in 2021. Following that, we published our response in November of that year. We are now working through the publication of a consultation. We are looking to get that out in reasonably short notice—I hesitate to say “imminently”, because obviously we are looking for grid slots on this. This is essentially looking at a number of issues. One is around making sure that there is a level playing field between physical and online retailers. There is also supply chain assurance and ensuring there is a proportionality between the way in which the health and safety rules apply to different products in different circumstances.

Q5 **Chair:** We were very struck in that hearing—obviously, you were not the permanent secretary at the time—by the terrible things that have happened to children with online purchasing. There was the issue of small magnets that are damaging young people and children’s guts, and some really dangerous things. It seems like there is a big gap between 2021 and now in 2023, and with a further consultation still to go. I am just worried that Whitehall is not moving fast enough on something that has been a problem for a long time.

Gareth Davies CB: I can assure you that the new ministerial team is very focused on this. I have had conversations with Minister Hollinrake and our Secretary of State as well. While I cannot, unfortunately, give you a date for publication, I assure you that certainly the official machine and the ministerial team are very focused on this.

Q6 **Chair:** Once that consultation is launched and takes place, what is the timeframe on changing any of the rules?

Gareth Davies CB: Again, that is subject to bids for legislation and the extent to which this will need primary versus secondary legislation.

Q7 **Chair:** Okay, so what are the chances of needing primary legislation on this?

Gareth Davies CB: It is hard to say at the moment, given where we are on the consultation. I will not be able to talk to that.

Q8 **Chair:** The wheels of Whitehall move slowly but, by mentioning Minister Hollinrake, you have given us a hint about who we should be lobbying and pressuring or supporting, depending how you look at it, to get things moving. I know the British Toy and Hobby Association, among others, has been very concerned about this.

Gareth Davies CB: They have certainly made their representations to me. All I can offer, if it would be helpful to the Committee, is to write as soon as we have greater clarity.

Chair: If you could. We are very keen to pursue this. We were very concerned when we read about it and looked at it. We think there is some really important work that needs to be done. We are behind the



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Department in getting the work done; we are just frustrated about how long it is taking to deliver—we are not a policy Committee.

Could I have any declarations of interests from Members?

Sir Geoffrey Clifton-Brown: I declare that I am a member of a farming partnership in Norfolk that was in receipt of some of these Covid business support grants.

Chair: Thank you, Sir Geoffrey. We are going to go on to our main session now, which is looking at the money that was allocated by local authorities to businesses. I am pleased to welcome Ashley Dalton—a new member of the Committee—to lead today.

Q9 **Ashley Dalton:** Obviously, we have spent a lot of time looking at some of the detail. I want to start with a few questions around the delivery and that relationship with local authorities for the delivery of the programme. Mr Bickerton and Mr Duffy, it became clear that there was a bit of a shift for the Department from being predominantly policy-based to being delivery-based. What took place to make that shift? Did you consult any other Departments with more experience of delivery before embarking on rolling out the scheme?

David Bickerton: The initial delivery was decided to be done through the local authorities because they had both data about businesses and information about those businesses within them. You will remember that some of the rules about who was going to get the grants were quite finely judged. Because we decided to go through the local authorities—we can probably discuss that in a bit more detail later—the original delivery was put through a team that I am now the DG for, which is the cities and local growth unit. That is a joint venture between what was then MHCLG and BEIS, and is now a joint venture between DLUHC and DBT. The team that was delivering it was essentially a joint team between BEIS and MHCLG. At the time, the people who were doing it were on the BEIS side of it, but because they were in a joint team, it was intended to integrate the two.

Gareth Davies CB: To follow up on David's point, I think it is a very fair comment, and if you look at the history of BEIS—I have worked there previously—it was a primarily policy-focused Department, working on things like science policy, the research councils and regulation for businesses. You will remember that, back in March 2020, the scale of the crisis that hit meant that a lot of the standard delivery mechanisms—Everyone was busy. Everyone was sent to the four winds. We were all working remotely. I was in the Department for Transport at the time, so I was running the DfT response. From speaking to colleagues in the new Department and who were in BEIS, there were obviously incredible pressures on the team. Our policy team had relationships with the local authority. This is no criticism of the individuals—it is my responsibility as accounting officer—but they did not have the full support and training they needed to set up a full grant programme. Frankly, this was new work for them. The people who did have that ability were working on other programmes at the same time.



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Anastasia set up the new capability in the Department. Actually, what I see is that the capability we need in the Department for Business and Trade is that real delivery role. In the old Department for International Trade, we had a lot of delivery responsibilities, such as in export promotion and investment promotion, which the Committee heard about a month ago, I think. We are definitely recognising the changing nature of the Department and of the capability and capacity we need. I think that is credit to what Anastasia has built. It certainly was not there at the time.

Q10 Ashley Dalton: Interestingly, you talked about the relationship with local government and the fact that everybody was busy. I was working in local government at the time, and I agree that everybody was busy. I was wondering what assessment might have been made of the impact of Covid-19 restrictions on the abilities and capacity of the local authorities to deliver the programme they were being asked to deliver.

Gareth Davies CB: I don't know the specifics on that, but I can imagine, having seen what I saw in the Department for Transport, that it was limited. If you remember, from the point of announcement of lockdown by the Prime Minister through to the first payments, it was a matter of days. I think it was less than 20 days for the first payment. The priority then was getting money to businesses. This was the first time the country had ever entered lockdown. If you go back to some of the forecasts in the media and from the economic specialists at the time, there was a real sense of crisis. People did not know the scale of the economic impact this would have. The No. 1 priority—Phil may want to talk about this—was getting money to businesses. That was the overarching priority. You saw that in the direction letter that was issued to the accounting officer at the time, Alex Chisholm.

David Bickerton: I would add that during the month of March, officials had I think six or seven group meetings with either the Local Government Association or the finance people within the local authorities in order to start teeing this up. I think they were aware of the challenges they were facing.

Q11 Mrs Drummond: Could I ask a quick supplementary? Why wasn't MHCLG given the lead on this, rather than BEIS? That Department delivers and links in with local authorities much more than BEIS does. Was there any reason that BEIS, rather than MHCLG, was given the lead?

Gareth Davies CB: I will bring Phil in, but traditionally lots of Government Departments work through local authorities to deliver their policies. As you will know, we use the section 31 powers, and given the fact that this was focused on business and business support, the delivery programme was primarily through BEIS. We obviously work closely with MHCLG, now DLUHC. I work closely with my opposite there, Sarah Healey, on these policies. It is important to note that not all work goes through DLUHC. I don't know, Phil, whether you have more context.

Phil Duffy: It is a standard ambit question. We normally would use the lead Department. If it is an environmental matter, DEFRA would do that,



even if it was going through local government. So that is not really surprising. Perhaps I could just say a little bit about what was going on during this period, since no one here was there. It was an interesting time, because we were very clear with our Ministers that we would see a very large part of the economy shut down permanently within days if this lockdown went on without money being given to companies. There was a study published in April that year by Steer that showed that about a third of companies could not cope with more than two weeks without any income stream.

So our Ministers at the Treasury were faced with very difficult and bleak choices. They did not have much notice that there was going to be a lockdown. They were not planning for a lockdown when this happened. There were not very many datasets that we could turn to that would enable us to get money out quickly, which is why we alighted on the business rates one, because it would help us target those smaller firms. Of course, that is a very imperfect dataset, as transpired later on, and there was an assumption, which I think was wrong, that local authorities knew more about the companies that were paying the rates than they did. That is highlighted in the Report, and I think it is a very fair criticism.

Q12 Ashley Dalton: Moving on slightly from that, you have explained why local authorities were the vehicle, and thank you for doing so. At the beginning, or actually at any point during the programme, what reporting expectations were communicated to local authorities, and how and when? What did we tell them that we would be expecting them to provide?

Gareth Davies CB: I would make a distinction between the different cohorts and different generations. We learned about and matured our capability in the Department around the expectations on local authorities. On the first cohort of schemes—those from March 2020—I would say that how we provided the detail of the information that we required back was pretty loosey-goosey. It was very much handled on a local authority by local authority basis. I can understand the logic within the team at the time. They were trying to make this easy and simple for the relevant local authorities to administer. As Phil said, it was about getting money to the businesses, and that was the overarching priority.

The cost of having that tailored approach meant that they did not have the standardised information, the standardised terms in the grant letter, the standardised data requirements or the reporting requirements. So you had a very manual system, which had to be invented post hoc. That is never perfect, because you want to design this in. I feel like I am criticising teams that worked incredibly hard at the time, but I am just trying to explain the context and why they thought as they did, which I can now see the logic of.

That, frankly, is fairly reflected in the NAO Report. It limited our ability to understand the payments and the splits between error and fraud, and those challenges limited the ability to recoup. You will have seen the letter from the Secretary of State at the time to local authorities, very early on. It emphasised the importance of paying out money quickly—back to Phil's



point on the concerns about the economy—and the role of the Government in standing behind debt, provided that local authorities take “reasonable and practical steps”. But it is fair to say that the requirements around the first three grant programmes, or cohort 1—the small business grant, the retail hospitality one and the local authority discretionary one—were not what you would necessarily do in peacetime. This was a wartime set of programmes.

David Bickerton: It may be worth adding a little to that about the section 151 officers in the local authorities, who were clearly concerned about this issue. They were aware of their responsibilities under the Local Government Act and the Local Government Finance Act. That is why they were looking for the Secretary of State to say, “If you have taken all reasonable and practical steps to check the recipient before the money goes out, and if you take all reasonable and practical steps to recover money that is found to be an irregular payment afterwards, BEIS will stand behind it.” The emphasis and concerns that the local authorities had around that are evidenced by the fact that the first comfort about the Department standing behind those payments was given orally in March or early April, and then was repeated in a letter in July 2020.

Q13 **Mr Djanogly:** If I could move on to look at the recovery of losses, first to identify the figures here. The NAO Report, as at 24 March, states: “£1.1 billion estimated losses occurring as a result of error and fraud in business grant schemes”, and “£11.4 million of losses recovered by mid-February 2023”. Are those figures still accurate or can you update them?

Gareth Davies CB: I can give you a quick update on that. On the estimates of fraud and error—as you know, this is from a sample approach—we have completed the sampling work on the first cohort. The first three grants were issued in March 2020, and those numbers are the same. So 8.4% is our estimate there, and that will be our final estimate as per the accounts last year.

For cohorts 2 and 3, we have taken a slightly different approach. The first set of estimates were based on five samples per grant scheme per local authority. For the second and third cohorts, we took a more stratified approach to enable a bit more detailed analysis. We worked with the NAO and ONS to make sure they were happy with those estimates. Those numbers that you have are based on 5,000 samples. We have now got that up to 9,000. We are looking to get up to 10,000, and the final numbers will be published in our accounts this year in June 2023.

I don’t want to give an early sense of the numbers, but I imagine they will creep up slightly. I am not saying they will double, but they will certainly creep up slightly. Within the bounds, as you would expect, some will be slightly higher than we previously estimated and some slightly lower. That £1.1 billion—plus or minus—is pretty stable.

In terms of the recovery, the current recovery figure stands at £20 million.

Q14 **Mr Djanogly:** So, £20 million—significantly up.



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Gareth Davies CB: Yes, £20.9 million.

Chair: Obviously the NAO Report was a snapshot in time.

Gareth Davies CB: It is significantly up, but at the same time we had to—

Mr Djanogly: Yes, there was a significant gap—I will come on to that.

Chair: We are giving you the very little bit of good news.

Gareth Davies CB: I am showing no complacency on my side.

Q15 **Mr Djanogly:** In terms of the gap, there is a mix here between issues of delivery and recovery. I am looking at the NAO Report and the BEIS annual report, which raise three important issues on recovery efforts. I will say what they are. Paragraph 2.21 of the NAO Report states: “Completing the cohort 1 assurance work proved challenging due to both a lack of clarity in the scheme guidance and problems with the initial instructions given to local authorities regarding the assurance checks.” That is two items.

The BEIS annual report states the Government Internal Audit Agency “highlighted that the increasing shift towards delivery work (for what has traditionally been a policy Department) is adding to the pressures on Departmental capability and capacity.” That goes back to the delivery issue that Ms Dalton mentioned. There are three issues there. Mr Davies, could you please say to what extent those clearly identified issues have been addressed?

Gareth Davies CB: I think that is a very fair assessment—those three issues. Some of those issues cannot be addressed because they are historical. We cannot go back in time on the first two points. That is in the nature of the cohort 1 scheme design. It goes back to what I was saying: I have worked in financial services in the private sector, and the way you handle error and fraud is that you design the policy in, right at the start, in the product design. That, for very good reasons, did not happen here. Some of the scheme design was ambiguous in nature. For example, the third scheme in cohort 1 was a discretionary grant for local authorities. There was also in cohort 2 slightly ambiguous wording around “wet-led”. You might remember some of the debates around whether Scotch eggs counted as a substantial meal; you had all of that. That was inherent in the nature of the grant, as designed, and the product that was designed. That means that when you come back to do the assurance, there is a fundamental ambiguity at the heart of the scheme, which makes assurance work hard and expensive.

On the overall cost and the sampling that I talked about, remember that we paid out 4.5 million grants, and 15,000 cases cost us £1.5 million, I think. That gives you a sense of the cost of assuring even those cases. That is, unfortunately, inherent, and now a historical fact, based on the decisions that were made in 2020. In terms of the capability, I think that was a fair assessment at the time, and the internal audit was right at the time, with the policy nature of the Department.



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I would also mention the workload on the Department and local authorities at the time, given the nature of the crisis and the fact that everyone was adjusting to working remotely. While the technology was great, that required a different style of working. In the past, when you had a crisis—I have done this in Transport—you would get everyone in the same room, feed them with pizza and chocolate, and work intensively. It is a very physical thing. We have had to learn how to adapt over the past few years—

Q16 **Mr Djanogly:** With respect, you are going back to delivery. What about—

Gareth Davies CB: Sorry, that is to your third question on capability.

Q17 **Mr Djanogly:** It is, but I am asking whether you have now reconfigured, so that you can address this.

Gareth Davies CB: Yes. There are two things that we have done; then I might bring Ana in, to talk about the great work that she has done on the building of the grants unit. In the past, policy teams, as I mentioned, led the development, and then, in crisis, the delivery, of the product. In fairness to those teams, they did not have the training or support needed to ensure that we could manage these issues. We have now separated that out, so you have a product design team, but with proper assurance from the grants team, led by Ana, to ensure that that works. In the new Department, because of the wider range of responsibilities under Business and Trade, that will be a key design feature. I will ensure that the CFO and the COO have a much stronger assurance role. Ana, maybe you would like to come in on that.

Anastasia Osbourne: Definitely. Since the Covid grants, we have built capability in my directorate, in terms of a centre of excellence. To give an example, my team is delivering 10 of the 11 energy schemes. That is because we look at it from end to end. We do not just think about things in stages; we look at the whole grant process, which means that we are bringing in some of that information right up front. If you speak to some of the local authorities, that is what they felt was lacking from the earlier schemes. There was not a full understanding of what would be required in the later stages.

For the Department, there was an emphasis on getting the money out of the door. It was less about, “How do you monitor the money?” or “How do you successfully close out a scheme?” That is why the team that I lead looks after that, end to end, and ensures that we can do all the steps really well, while still being able to signal our expectations at each stage of the grants.

Chair: It is perhaps just worth reminding ourselves, before I bring Mr Djanogly back in, that there was, of course, a ministerial direction for cohort 1, highlighting the risks to value for money and of the whole scheme. That was not unusual at the time, but I think that there was an awareness, to some degree, of some of the problems. However, I think that more have arisen since. Mr Djanogly?



Q18 Mr Djanogly: You are talking about reconfiguring, but with debt collection, the longer you leave the debt, the harder it becomes to collect. Have you made an assessment of the implications of that? Will it get harder to collect these debts?

Anastasia Osbourne: As you said, it does become more difficult over time. When we have had communication with local authorities, many have been proactive; soon after the money went out of the door, some already identified where they needed to pick that up. Some of the figures that you are seeing do not take into account that local authorities have already done some recovery.

However, you are correct; it will be more challenging over time to claim back that money, but we now have a process that is clearer about what local authorities are expected to do, and how we respond when the debt is transferred to us.

Q19 Mr Djanogly: Of course, coming out of all this is the accusation that recovering losses from those grant schemes was a low priority for your Department. How would you address that, Mr Davies?

Gareth Davies CB: I think it is fair to say that the priority was on following cohort 1. Again if you go back to the period of the crisis, you had the subsequent waves of Covid, and the need to do subsequent grant schemes, both in cohort 2, for alpha and delta—I think it was at that point—and then obviously there was the omicron scheme in phase 3.

On the overall demands on the Department, I think it is fair to say that the priority was continued support for business. Obviously, we have gone from Covid to the energy crisis, so we have made sure to build up Ana's team. Having come fresh into the Department, and having reviewed this with the team, I come back to the point that a lot of the issues sit in the original design. I feel like I am coming here with excuses. I don't mean to; I am just trying to explain what I have seen when reviewing the decisions that were made. Because of the way in which the schemes were designed, particularly in cohort 1—those first three grant programmes—it makes it incredibly hard to follow up on the debt.

The demand that we placed on local authorities was to pay out the money quickly. If you look at that overall £1.1 billion, £985 million was in the cohort 1 scheme. That is why it is fundamentally hard to chase the debt—because the data is not there. It is a mixed picture on the data. We are working closely, as Ana has said, with the local authorities and section 151 officers to do this. There is inconsistency in the grant letters that local authorities issued to businesses. Three years on, some of those businesses will have folded, unfortunately, or moved on. Even when we do identify the business, its ability to pay is a question. Frankly, there are legal questions about the ability to recoup money.

Again, I come back to the way that this grant scheme was designed. On the whole, those businesses did not apply for the money; they were paid automatically. Even if we go through all those stages, the actual recovery



is hard. My judgment is that recouping large amounts of this debt will be incredibly hard.

- Q20 **Mr Djanogly:** The method of recovery is through local authorities, so let us have a little look at how those local authorities are being incentivised to recover losses. I refer you to the NAO Report, paragraph 2.23: "BEIS and local authorities have thus far made little progress in recovering grants paid out because of error and fraud. BEIS required local authorities to pursue any error and fraud they identify arising from payments they have made, at a minimum by writing three times to the grant recipient." That, to me, sounds as though you are just asking local authorities to go through the motions, saying, "Send out your three letters."

Gareth Davies CB: I think that is slightly unfair. Local authorities and section 151 officers have responsibilities under "Managing Public Money". That is the nature of the section 31 grant. I think David might want to come in on some of the support we provided to local authorities. The main bit of support is through the new burdens funding—over £200 million to support them, along with training advice and guidance.

- Q21 **Mr Djanogly:** I will say a little bit more on this, because to my mind, recovery can be effected through two means: stick or carrot—or a combination of both. Did local authorities risk losing out if they did not collect any of this money? That is the stick. How could local authorities gain—perhaps through getting a percentage of what they collected—if they collected? Where was the stick and carrot in this?

David Bickerton: That is a nice way of putting it, Mr Djanogly. The question about losing out is that these are statutory obligations of the section 151 officers. One could take the view that the new burdens payments, which were paid to the local authorities, essentially recompensed them for doing a job that they are required to do under statute, and which they need to put money into. I think that is correct.

It is also worth remembering, just to go back a little bit, about the different types of irregular payments. In the Report, people always talk about fraud and error. There are three types of irregular payment. There is fraud, which is where someone has pretended to be someone, or someone has pretended that premises were theirs, or whatever. There is simple error, which is when the money is sent to the same person twice, or something like that. Then there is non-compliance, where the money appears and there is no evidence of fraud. In the early days, the local authorities did not necessarily distinguish between those three payments. The nature of the scheme is that the local authorities are delivery partners. They are the people who are giving out the money to the local authorities, so the debt is owing to them, but they may not know whether it is fraud, non-compliance or error.

Thinking about your carrot and stick, if you look at the carrot, I would say that officers are paid to do this job under the new burdens. They are performing a statutory obligation. As for the stick, behind your question is:



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could we incentivise them to do this more efficiently? One thing worries me when I look at the split between fraud, error and non-compliance. The BEIS anti-fraud team sent out a survey in July 2022 and said to the local authorities, "How many irregular payments have you got?" 60% of the local authorities came back and said, "Well, in total, about £74 million, and £59 million of that is from non-compliance and error, and £15 million is fraud." What is interesting—we will probably get into the data later—is that when you look at the amount of money that they have actually recovered, the percentage of recoveries in respect of fraud drops very, very significantly.

One concern I have about giving local authorities a cut, if you like, of whatever they can recover is that because it is much easier to recover non-compliance and error payments, we would essentially be encouraging them to press down on the small businesses who were most—and still are—under pressure at the time, rather than the fraudsters. It would be much easier to win the incentive payment by chasing down those small and medium-sized businesses that actually got the money in error.

Chair: You could structure it so that you gave them a bigger dividend.

Q22 **Mr Djanogly:** I have one final point. It is actually slightly more than "stick and carrot". It is about who takes ownership of this process. Looking at it and having heard what you said, I still do not see who ultimately is taking ownership of this, in terms of collecting. That is something that you need to look at.

Gareth Davies CB: Just to be clear, I see it as our Department—me—who is responsible for this overall, but obviously the responsibility for section 31 sits with local authorities.

Mr Djanogly: Exactly.

Gareth Davies CB: That is the nature of the devolved settlement and how we use local authorities at this point. We are certainly looking at this with the new Department, and are speaking to our new lead non-executive. I certainly want to do a review to ensure that we are doing all we can within the structure, given where we are. I have explained the complexities and what happened in March 2020, but I wanted to do a proper look and see. Given where we are, the information we have, and the legal position—again, these grants are legally the responsibility of local authorities, so it is hard for us to intervene in that relationship—and given that structure, I want to ensure, with a fresh pair of eyes, that we are doing all we can. I just caution you that from my early judgment on this, I think it will be very difficult, given the scheme design. Ultimately, responsibility comes up to me.

Q23 **Sir Geoffrey Clifton-Brown:** I would like to follow up on Mr Djanogly's questions. Although I am not in any way here to excuse local authorities, paragraph 2.30 does make it clear that they were well paid for doing this work. It says that the "£142 million funding that authorities received for delivering the grant schemes during 2020-21 was 35% greater than the



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amount that authorities reported spending on collecting business rates in 2019-20". So they were well paid for doing all this work.

The appendix makes it clear, Mr Davies, that your ex-Department, BEIS, commissioned a process evaluation of the grant schemes to understand what they had achieved and how well they were implemented. Mr Bickerton, did that include how many grant applications in each of the schemes local authorities refused, because they felt they were not eligible for the money?

David Bickerton: Can I take your first point, Sir Geoffrey, which was about whether the local authorities were well paid to do this job? I think the number I have is slightly bigger than yours.

Chair: It ended up being £210 million.

David Bickerton: It ended up being £210 million or £211 million.

Sir Geoffrey Clifton-Brown: That is the figure in the Report.

David Bickerton: That is less than £1 million per local authority. As Mr Davies was saying, when we were doing the sampling for the BEIS or DBT annual report and accounts, the sampling of about 10,000 to 15,000 payments cost us about £1.5 million quid. I am not sure that I would agree that they were handsomely paid to do this; they were paid—

Sir Geoffrey Clifton-Brown: To my authority, £1 million on an annual budget of £12 million is a lot of money.

David Bickerton: It is a lot of money, but they also had quite a lot of work to do for it.

Sir Geoffrey Clifton-Brown: Fair enough.

David Bickerton: On your process evaluation, I do not know whether that was taken into account. I will get back to you on that.

Q24 **Sir Geoffrey Clifton-Brown:** Can you give an answer to that, Mr Davies? Have you done any evaluation of how many grant applications local authorities refused on various schemes?

Gareth Davies CB: That will be part of the Ipsos MORI evaluation that we are expecting to publish before summer.

David Bickerton: If I may, an awful lot of these were paid to people as if a reverse payment of business rates, so a lot of them did not actually have applications.

Gareth Davies CB: To make a distinction and make sure that we are all talking about the same schemes, cohort 1—

Chair: Was just given out.



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Gareth Davies CB: On the whole—not perfectly, because there were some inconsistencies between local authorities—it was paid out based on the business rate register.

Q25 **Chair:** The discretionary bit was the one that was not.

Gareth Davies CB: Some local authorities may have had slightly different processes, but on the whole I think it is fair to say that cohort 1 was paid automatically. That is the way to think about it. Cohorts 2 and 3 then became more of a standard grant application process.

The team was able to drive down fraud and error rates in those later cohorts essentially because of what we had learned around pre-application checks, the use of bank accounts, Companies House information and the like. We saw the fraud and error rates falling from an estimated 8.4% to a current estimate of 1% to 0.5%. That is the distinction. We will have more information on that in the evaluation.

Q26 **Sir Geoffrey Clifton-Brown:** May I clarify the total figure for fraud and error? I refer to the evidence of the Local Government Association—I don't know if you have had a chance to see this, Mr Davies—

Chair: It has only just been published.

Gareth Davies CB: No.

Q27 **Sir Geoffrey Clifton-Brown:** A sentence in there says that the BEIS/DBT best estimate of a split between fraud and error is 17% by value as fraud and 83% as error—

Chair: Which is similar to what Mr Bickerton just said.

Sir Geoffrey Clifton-Brown: Everyone gets caught up by the headline figure of £1.1 billion in fraud and error, but if we split that down by percentage, that means that £913 million was by error and £187 million by fraud.

Gareth Davies CB: I am afraid to say that it is very hard to put an accurate figure on the fraud and error split. Again, that comes back to the definitions and how we use them. If we come back to legal definitions of fraud, we have to look at intent, but we have a lack of information, and there is the fact that the payments were paid out. In cohort 1, I would expect a very low fraud rate, because the grants were paid automatically, so it was not a fraudulent applicant, but they might have been paid in error, as in the wrong name was on the business rate register, or the like.

There are different ways in which we can try to get into the fraud versus error question. One is the survey that David mentioned, back in July 2022, in which 60% of local authorities reported on 11,000 irregular payments, of which about 15% were seen as fraudulent. Another way is looking at the reporting to the Department. Of the cases where local authorities have recovered the debt and it has come back to central Government, 2% were fraudulent. For the ones that were in debt, the figure is 23%. If we do a weighted average, that suggests about 8%. None of this is perfect, and



there is a lot of reporting and sample bias, but that would suggest somewhere between the 8% and 15% figures. That is a rough-and-ready figure for fraud.

The distinction I would make is with cohort 1, where £985 million is the estimated loss. My judgment—this is only my judgment, I am afraid—is that the fraud will be very low there, because that was down not to applicants, but to people being paid automatically. The bigger issue with fraud is with the later schemes, where there was an application process, and where we used the National Anti-Fraud Network and the National Investigation Service.

Q28 Sir Geoffrey Clifton-Brown: Given the answers you have already given to Mr Djanogly, that the recovery rates for error are only in the tens of millions, and I have just given you a figure where in the first cohort the error was £913 million, it seems to me that the Department combined with the local authorities could do much more to chase up the error element, which should be much easier to recover than the fraudulent element. What more are you doing to recover some of that money that was paid out in error?

Gareth Davies CB: I might bring Ana in at this point. Essentially, what we are doing is working with local authorities, with the section 151 officers, providing the advice on the debt recovery and the funding for the New Burdens amounts. But I will just come back to the fundamental issue we have here. We asked local authorities to pay this at speed. Some of the data—the data is imperfect. Some of the ability to track these companies—some of these are very small companies, and often it's unclear that people have moved on. Some of the bank accounts are out of date. Some of the businesses have closed. You're right that we need to be fully focused on it, but it's certainly not a simple process. And when you come back to the cost—I will just give you a sense of the costs.

On sampling alone, just to get the sample and understand whether a payment was fraudulent—sorry, whether it was an irregular payment—it cost £1.5 million just for the 15,000 payments. That is just to give you a sense of where the cost would be. The cost of doing this, if you scaled that up to the 4.5 million—just to understand the number of irregular payments would cost somewhere in the region of £450 million to £500 million. That is just to understand which payments were irregular. It doesn't include the cost then of debt recovery—the actual going out and knocking on doors. There is an important value-for-money assessment, which I want to make sure that we do properly.

Q29 Sir Geoffrey Clifton-Brown: That was a great answer, but it wasn't the answer to my question.

Gareth Davies CB: Wasn't it?

Sir Geoffrey Clifton-Brown: No.

Gareth Davies CB: I thought you were asking—



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Sir Geoffrey Clifton-Brown: It was: what more can be done to chase up the error element of the whole matter?

Anastasia Osbourne: You are correct: there is more that we can do. One of the things that we are looking at, from the survey we did, is following up with those local authorities that have not responded to us in the earlier assessments, to get a better understanding of what is happening in their area. The thing to also just take into account is that the local authorities are going through their own challenges.

Just to bring that to life, you can take, for example, Croydon, which is obviously in administration. So there are challenges that we have to work through, but there is definitely more that we can do to engage with them to understand some of the challenges that they are facing, in terms of trying to get this information together and be able to collate that a lot more effectively.

Sir Geoffrey Clifton-Brown: I think what Mr—sorry, am I taking up too much time, Chair?

Chair: No, it's fine.

Q30 **Sir Geoffrey Clifton-Brown:** I think what Mr Djanogly was getting at and what the Report is getting at is that the local authorities—exactly as you say, Ms Osbourne—are under great pressure at the moment, but actually, if you incentivise them to recover some of this money, if you give them a percentage of the money that they recover, they might be much keener to do it.

Phil Duffy: First, we should be a bit careful about criticising the authorities. They have had, as you say, a very difficult few months. They have gone straight into doing council tax rebates for the energy schemes. We passed on a huge amount—

Q31 **Sir Geoffrey Clifton-Brown:** Let me be very clear, Mr Duffy. I was not criticising local authorities; I was asking what more the Department could do to recover some of this money paid out in error. I wasn't criticising local authorities.

Phil Duffy: It is really important to go back to the point that Mr Davies was making about the economics of this and the business case for it, because although we have an estimate of the scale and I think we could do more to improve that estimate through the sampling work that Ms Osbourne was discussing, we don't actually have a list of people and payments that were in error. That £1.1 billion is not a list; it's an estimate based on sampling.

To acquire the list of payments, we would have to redo a huge amount of checks across the system—there are 4.5 million payments. Estimates will vary as to how much that would take, but it could be certainly tens and possibly hundreds of millions to redo the administration work that would be required to prove and get the list of those payments. Authorities haven't got that information, either, because they are not being asked to



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do that kind of assessment. So whether you incentivise them or not, that wouldn't change the economics, fundamentally, of that process, and we would have to think very hard about that.

From our point of view at the Treasury, we expect public authorities to comply with "Managing Public Money" and their CIPFA guidance as section 151 holders. As we have heard, they were given £210 million. That wasn't a hugely generous settlement. There are 15 schemes here. And the later schemes were very complex to administer, because they had lots of marginal edge cases and so on. So I wouldn't over-claim for that. But we do expect them to comply with obligations on recovery within that settlement.

A point I think we haven't brought out here is that, with some of the schemes, the authorities did report to Government that they had done certain things with the money which were irregular but were done with good intentions. For example, some authorities recognised that businesses could no longer pay fees to the authority for the provision of services: parking, market fees—those kinds of questions. And they used the additional grant payment they got to cover those costs. That isn't actually within the scheme rules; it is irregular, but it wasn't necessarily an unreasonable decision. And Ministers were clear on those—they would overlook some of those. They would regularise some of those payments. The message from Government at the early stage was that we were working hand in glove with local government to get the money out the door and being pragmatic about some of those areas.

Now, that obviously does not apply to fraud or the kind of serious errors of people getting two payments, or payments to bank accounts that weren't real, and there are real issues there that we need to resolve. But I think that authorities have heard rightly from Government that in the early payments the priority was getting money out the door, not every last detail of regularity on some of these additional payments.

All that, drawn together, tells us that recovery is very difficult; there are choices for us about how far we go; and the next step, as Ms Osbourne has said, is to do the sampling fully. We have 60% of returns; we haven't got all of them. I think it would be better if we did have all the authorities in. We would give you a better estimate of fraud, and the paid in good faith but non-compliant—they're generally non-compliant—that we currently have. And I think that would give this Committee the assurance you're looking for, at least in the first instance.

Q32 **Chair:** Thank you very much. I just wanted to go back over some of those points. One of the first questions really is about this timeframe for recovering debts that local authorities have. It's quite different across different local authorities, but that wasn't written in at the beginning and that seems a pretty obvious gap. Why wasn't it written in at the beginning?

David Bickerton: When cohort 1 was paid out?



Chair: Yes.

David Bickerton: Obviously, I wasn't there at the time, but I think the only answer I can give to that is that the imperative was about getting the money out and it was only in December 2020 that we were able to get the debt recovery guidelines in place.

Q33 **Chair:** Okay. There are different figures bandied around. What is the longest period that any local authority has given for a payback on it?

David Bickerton: It is supposed to be by the end of 2025, but I understand that some of them may have done significantly longer dates—

Q34 **Chair:** I think that the longest is a few decades. Is that one that resonates with you?

David Bickerton: Certainly a date that felt longer.

Q35 **Chair:** How can it be, under the normal spending rules, that a local authority could decide on a multi-decade payback period for a grant sent out by Government? Even without strict guidelines, which I will come on to, how could that happen?

David Bickerton: It is inherent in this process that this is a debt that is owed to the local authority; it is only at the date at which they refer to it on to DBT that we require them to enter into a legal assignment of that claim in favour of us. Ultimately I wouldn't like to comment on why a local authority felt that that was an appropriate timeframe for recovery.

Q36 **Chair:** But as Mr Djanogly and others have said, the longer that these go on, the harder it is to recover it. If you've got a multi-decade payment plan, there is a chance that by the end of that—I mean, how many businesses are even going to survive that long, realistically? Even good businesses don't all survive many decades. The chance of getting that money back is slimmer and therefore the Treasury and the Department ultimately are going to be out of pocket, because that money is less likely to come in.

In the various rainbow books, is there any good guidance? I'm not up to date with CIPFA's guidance on this sort of thing, but it seems to me pretty irregular. Does it bother you, Mr Bickerton?

David Bickerton: It is not really for me to say, I think. That would have been a decision made by the local authority.

Chair: And there was just absolutely nothing that the Department or the Treasury, which might be—

Phil Duffy: Look, it is clearly a failure that it took until December 2020 to publish the principles of debt recovery. Those principles are reasonable, and they fully comply with the orange book and "Managing Public Money". So, 36 months is the period we are talking about for a maximum repayment mechanism. It also makes clear that we will not accept transference of debt back to central Government if reasonable steps to recovery have not been made.



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Now, I can't comment on this multi-decade—I don't know what that case is. And if there is one, let's look at it. But in the first cohort, there are some authorities that are saying, "Well, you did not tell us in March 2020 what the time period was going to be, so we've come up with our own view and we think it's reasonable." I would dispute that multi-decades is reasonable; I think 36 months is about right. There will then be a question for us as to whether we will accept back on to our books a non-recovery of that debt; we may not, if we don't think it's reasonable and we will contest that with the local authority.

Q37 Chair: It could be, if you are a bit clever, that a good local authority finance team with interesting political leadership—I am not sure about this particular case; I don't even know the local authority—could have run rings around central Government by making sure that this money was into the local economy and was being paid back so slowly that, realistically, whatever happened the money would stay settled into that local economy, for good or ill. I mean, it seems to me that it was a complete free-for-all if people could set ridiculously long payback periods.

Phil Duffy: If you had told me in that February that we would be doing this level of business grants—I mean, that was not on anyone's radar at all. We had to create a function to pay business grants from scratch in less than 10 days. The points you are rightly raising are about a failure at that inset to put into place the guide rails for repayment that we would expect. We have now got those. It did take until December 2020 to get them published, but we have some levers to make sure that if we have unreasonable attempts to transfer debt back to us on silly payment deals, we can reject them, and we will do that.

Q38 Chair: Let me go back a bit. The cities and local growth team has been slightly reconfigured. How many of that team had delivered a grant scheme before? I know Ms Osbourne that you have made some changes, but before that, how many of the team in the Department had actually delivered a grant scheme before, picking up on the policy versus delivery aspect?

Gareth Davies CB: I am sorry, I do not have those numbers for you. I can certainly ask and go back through our data, but my overall headline would be that it was low, and I would not be surprised if it was zero.

Q39 Chair: What about now, Ms Osbourne, with your new, souped-up arrangements?

Anastasia Osbourne: I am very fortunate that I have quite an extensive team that have extensive years of experience in delivering grant schemes?

Q40 Chair: And they were recruited from outside?

Anastasia Osbourne: They were recruited from within the Department, and some came from outside. Just to give you an example, some of the team that currently work for me previously delivered the regional growth fund, which was many moons ago, but again they have extensive experience of grant delivery.



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Q41 **Chair:** So they were not the people doing the scheme at the time—there was a deficit there. How many are now working on debt recovery in the Department? Who does that come under?

Anastasia Osbourne: We have a team of 30 currently looking at grants in general. The way that we operate and the way that my directorate is set up is that we are quite multi-functional.

Q42 **Chair:** Is that just for these schemes, or are the 30 people covering more?

Anastasia Osbourne: We look at it seriously but from a more functional perspective.

Q43 **Chair:** So you are looking at the debt that is easier to recover or the area where you are most concerned about it not being recovered? Are you looking at it on a risk basis rather than a scheme basis?

Anastasia Osbourne: Yes.

Q44 **Chair:** Can you give us a rough approximation of what percentage of time your team will spend looking at these schemes? As Mr Djanogly said, there is an awful lot of debt, and Mr Davies has been pretty candid about the chance of getting some of that money back.

Anastasia Osbourne: It is worth me clarifying that I do have a reassurance and debt team, and they will be looking at reassurance, assurance and reconciliation. That is their full-time job. Within that team, there is a team of about 18 people that are looking at that.

Q45 **Chair:** Eighteen?

Anastasia Osbourne: Yes.

Q46 **Chair:** So out of the 30 there are 18 people looking at many schemes including this one?

Anastasia Osbourne: Yes, but I would say that the Covid schemes are predominantly what they are looking at now.

Q47 **Chair:** Are you hoping that the energy schemes have been designed so that you won't have this problem?

Anastasia Osbourne: Fortunately, we are sort of leading on those. That has already been baked in at the front.

Q48 **Chair:** We met with Mr Davies' predecessor—Sarah Munby when she was at the predecessor Department—and had some quite useful conversations about building those things in. We were to a degree reassured, though we wait to see what actually happens.

I know it was 10 days, and we all completely understand that everyone was rushed and there was a lot to be done, with people working very hard. But the speed, and we have looked at this with many schemes we have looked at, really overrode some of the basic things. There was a lack of timeline on debt recovery. I know you were not all there, and that was the challenge, but why was there not even a simple timeline put in?



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It took until December, Mr Duffy. Surely the Treasury was watching this? Even if the Department's delivery end of it was not well homed, surely at the Treasury there would have been lights flashing about the need to have some restrictions on how long these loans can be paid out for.

Phil Duffy: The first point to make is that we did flag all these risks and directions we took for these schemes. It is entirely obvious looking at it, even with no experience of giving out business grants, that some of the risks it enabled were materialised. Ministers had to make difficult judgments about that. They were aware of those things. I have heard people talk elsewhere about installing further anti-fraud measures that would have added maybe a week to the processing, but a week is a long time at the moment that someone has just shut a business down. The view of the Ministers was that they wanted to press on ahead with those areas.

Q49 **Chair:** There was ministerial direction for the first cohort, wasn't there?

Phil Duffy: That is right. We are predominantly talking about the first cohort here. Actually, if you look at the fraud and error rates of subsequent cohorts, even though they are much more complex schemes, there is a much better performance overall.

Q50 **Chair:** It couldn't have been worse, could it? By the time it came to the later schemes, some lessons had been picked up, and you had more time to put in some safeguards.

Phil Duffy: Contrary to some of the other Covid schemes, which did see a high level of targeted fraud, the decision to pay this to existing businesses that had a business rates relationship will have driven down fraud, Ms Hillier. That is an important point.

Q51 **Chair:** That brings me to the issue of data quality in local government. We have all talked to our own local authorities about how it worked, and in some cases there was a certain savviness. Sometimes, there was good software, but a lot of smaller local councils found it really hard to invest in that finance software. Was that even on the radar at the time? There was a big variation in how able local authorities were to do this reverse engineering. Was that something that you were aware of?

Gareth Davies CB: Coming back to Phil's comment, it is fair to say that in cohort 1 the focus was on speed. That was overarching, and my predecessor asked for a direction at the time because of the understandable ministerial concerns. The focus was not on building a common digital platform.

Q52 **Chair:** I think it would have been hard to have had a common digital platform in the timeframe.

Gareth Davies CB: Exactly.

Q53 **Chair:** Were you aware of the differential capabilities of different local authorities?



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Gareth Davies CB: I wasn't there, but from speaking to colleagues, I know that they would have been aware of the fact that there was a differential ability. We have worked with local authorities extensively. I just want to re-emphasise the cities and local growth unit. We asked them to do a very hard job at that time. They were asked to deliver this at speed, and to have responsibility—

Chair: We recognise that it was challenging.

Gareth Davies CB: It is my responsibility as accounting officer, rather than theirs. They were asked to do something very hard—

Q54 **Chair:** As with other schemes, the key thing is the awareness of what the risks were. Was there an awareness of the fact that lots of councils found it hard for very understandable reasons? Money had been squeezed, so it was hardly a top priority for many councils to think about investing in their finance software. I suppose we have a slightly different view on the Public Accounts Committee about the relative importance of that, but you can see what the local political questions would be, so there were some that were a long way behind on that. Were you aware of that?

Gareth Davies CB: Totally, and the team asked for a direction right at the start on feasibility, as well as on VFM and regularity, because of these concerns.

Q55 **Chair:** That brings me to the issue of data sharing. This is to Mr Bickerton, or maybe to Mr Duffy. What were the requirements, as this process wound through, for local authorities to share information with you—data on how it was going and so on? Is there a protocol that you have with local councils?

David Bickerton: That protocol has been updated enormously, but at the time there was reporting back on a weekly and a monthly basis on the extent to which money had gone out.

Chair: Reporting back is different from data sharing.

David Bickerton: Yes.

Q56 **Chair:** So they were reporting back—I know that my local authority was doing monthly returns at one point—but what about your access to their data? There is a lot of good data sharing that now happens across Government, but do you have access and reach into what local authorities are doing? If you ask to see things, can you see them now, and could you see them then, under the rules of the scheme?

Anastasia Osbourne: We have definitely learned. In the beginning—again, we tend to ringfence cohort 1—it was very high level, in terms of the data that we were asking them to provide. That improved over time, and our data sharing arrangements became more embedded within the work they were doing and the money they were sending out on our behalf. Now, we have more clarity and more data about the level of payments and who they were going to, whereas we didn't have that at the beginning.



Q57 Chair: I had a very excellent head of finance, who is so good that he has now been poached by Liverpool. He found that it was relatively straightforward for a well-run local authority's finance department to provide that data. It would have been easy to have asked for it earlier from the best authorities. I suppose I make that point more as an observation. On the quality of business rate data, from what you are suggesting, Mr Davies, that was understood, and that is partly why the direction was called. Was there an understanding of that? Mr Duffy touched on that before.

Phil Duffy: Perhaps I can address some of those points, Chair. First, we knew full well that business rates data was imperfect. Some of the updates can take two to four years, depending on the local authority. Given that one of the criteria of the grants in the first wave was the rateable value, there was a likelihood that those values would have been inaccurate at the point it was paid. There would have been change—companies would have grown or shrunk. A principal source of our problems in the first round was the question of the existing rateable values.

We did think, though—and we were right—that it would be possible to use that data to make the payments. We assumed that local authorities would want to collect the rates from their taxpayers, and therefore there would be a strong relationship between the authority and the taxpayers. That proved right, albeit some of the data was aged and not fully accurate, and local authorities wouldn't have had the data systems to modify things like duplicate names and do other things that they have now brought in. So I think we had some sense of that, and that was one of the discussions that we had with Ministers prior to the direction's being issued.

On data sharing, I think one clarification is important. Where fraud is concerned, we have had the ability to stretch out that data via the national fraud initiative, and now the Public Sector Fraud Authority. Where there is a fraudulent claim, we can share that and look for company entities, duplicate names and suspicious addresses—those kind of questions.

Q58 Chair: On the repayments, do you know how much—I guess Mr Bickerton might know this—has been voluntary repayment by businesses that have acknowledged that they got something in error?

David Bickerton: The Department has received about £6.1 million of voluntary payments from, essentially, big high-street names that recognise either that they did not need the money or that they had been paid multiple times because they had several branches in the same local authority.

Q59 Chair: Why do you think they have coughed up?

David Bickerton: I think there were a number of responsible businesses that received payments out of the whole Government suite and felt that they did not need them. I wasn't in Government at the time, but there was some feeling that the country was all in it together. The Prime Minister was talking at a moment of national emergency, and I think there



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were some responsible companies who simply said, “We shouldn’t be taking this money from the taxpayer.”

Q60 **Chair:** Was there any state aid issue there? We were still under the state aid rules.

David Bickerton: The local authorities were requiring applicants to certify on receipt—particularly of the retail, hospitality and leisure grant—that they were in compliance with state aid, and so they might be giving it back because they were non-compliant with state aid rules.

Q61 **Chair:** So the onus was on the business to declare and not the local authority.

David Bickerton indicated assent.

Q62 **Chair:** It would have been quite hard for a local authority to make that judgment.

David Bickerton: They would not have known.

Q63 **Chair:** Are you convinced that that is all squared off now, in terms of any state aid issues? Are you convinced that anything that should have been paid back on that basis has been?

David Bickerton: As far as I am aware.

Q64 **Chair:** Okay. That is a very loose statement. How can you be aware of that, and what are you doing to make sure that it is all in play?

David Bickerton: What, whether more of them should be repaying the money?

Chair: Yes.

David Bickerton: To be candid, I do not think that we have really been chasing that one through. We have paid it, and there was a requirement to certify that they were in compliance with state aid rules. In the event that they were not in compliance with state aid rules, they would not have made the eligibility criteria. So it would either be non-compliant with no evidence of fraud, or potentially fraudulent. But ultimately that is a question of eligibility for the company.

Q65 **Chair:** Okay, so they are going to get into more trouble than the taxpayer, in that sense. For the record, Mr Davies is nodding. We have talked a lot about prepayment checks, which I will not go over again. Let me just pick up on the points that Mr Djanogly was quite rightly raising. You said that, if you had incentives, they were likely to be incentives to go for the low-hanging fruit, basically—errors that were easy to catch—rather than high-end fraud. But have you thought about providing differential incentives to pursue fraudulence? It is about the money—obviously, that is what we are here to count. But it is also, as you highlighted just then, about the fact that the Prime Minister talked about a national emergency—all in it together. I think everybody has a pretty tough view of people who deliberately tried to defraud the system. It is



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something about sending out a message. Have you considered any incentive payment for local government to go after the really fraudulent cases and to encourage them to do more of that?

David Bickerton: Yes, we have considered and discussed it. We have concluded that we are not convinced yet that it would represent value for money. There are two points there. You make the point about the low-hanging fruit, and so differentiation might be a good way forward. I think it is worth thinking about how some of the fraud took place. Although, even in the very first cohort, companies were not having to apply for this, money was being paid into their bank accounts. There was a particular type of fraud in which you would say, "Sorry, I'm working from home; can you give me the business rates number—the NNDR—for my business?" I will not go into too much detail about how you do it.

Chair: My council had—

David Bickerton: I think it is fairly well documented. On some of those that were caught in the very early stages, the money that was paid was distributed to 20 accounts very quickly—immediately upon receipt. Of course, the amounts received were about £10,000 to £25,000. There is a starburst effect in terms of where a lot of those fraudulent receipts will have gone.

Q66 **Chair:** Lots of small amounts of money.

David Bickerton: Lots of small amounts. In one example I think they paid to 20 accounts within five or 10 minutes. Well, if the average payment is between £10,000 and £25,000, each one of those is less than £1,000. I do think that it will be very difficult to show value for money for that.

Q67 **Chair:** It seems to me that this is a charter for fraudsters to get away with it.

David Bickerton: You lead me neatly to my next point. Essentially, the public are furious with fraudsters in relation to these and any schemes. The proof of the Government's seriousness about this is the extent of the efforts that have been put into the anti-fraud pursuit—the level of arrests, and prosecutions, and disqualifications of directors. That is a theme that you can take right across the whole of the Government's intervention in the pandemic.

Q68 **Chair:** What about overpayments to local authorities? I think famously the Mayor of Liverpool was talking about not giving back any money that had been given. Was there a level of overpayment to councils, and how much of it did you get back?

David Bickerton: That is a much better news story. We paid £27 billion to the local authorities in full. They paid about £22.8 billion to businesses, so they owe us £4.155 billion, of which £3.85 billion has already been recovered. There is about another £300 million to go. We are working through those. Eventually, they will pay back because they are section 151 officers, so they are required under the legislation to do so.



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On the process of working that through—just so you don't think we are sitting there just waiting for it to come in—in January 2023 local authorities that were more than 90 days overdue owed us about £120 million. Now, that figure is £48.2 million owed by late-payers, and £47.2 million of that sits with five local authorities where we have escalated it with the section 151 officer. Coming back slightly to Sir Geoffrey's question about where you would get money quickest, the quickest amount of money to get back into the public coffers would be to complete that reconciliation and encourage particularly those five local authorities to pay the nearly £50 million that they owe us.

Q69 Chair: It might be worth asking the Comptroller and Auditor General and Mr Gray how that would appear in the local authority accounts. Obviously, the NAO does not audit local authorities, but I wonder how it would be reflected. If councils owe money to the Department and it is still being pursued, so it is not really their money but it is still in their accounts, how would that be treated in accounting terms, and how would local taxpayers know that that money does not really belong to the local authority but should be back with the Exchequer nationally?

Peter Gray: I do not know how it would appear in the local authority accounts. Clearly, in terms of the Department's accounts we would be interested in how real that figure was, and the extent to which there is a good probability that it will be repaid, and the underlying assurance that supports that. We would see it from the Department end.

Gareth Davies: The local authority should be making an assessment of how much of that money is due back to the Department, and therefore it would appear as a debt owed by the council. The auditor of a council would be testing whether they had made appropriate assessments and were realistic in doing that.

Q70 Chair: When are you hoping that you will get all that back, Mr Bickerton?

David Bickerton: As soon as possible. It is overdue.

Gareth Davies CB: To give you a sense of progress on this, we were talking about how the numbers have changed since my predecessor last wrote to you. If you go back to November 2022, the numbers then were around £2 billion. We have gone from £2 billion to £3.8 billion in six months.

Q71 Chair: Section 151 officers have a responsibility to do this, but nevertheless it is swilling around in local government accounts, helping them to manage their budget in the meantime.

Gareth Davies CB: The issue, frankly, is around the reconciliation of some of the more complex schemes in cohort 3. There are 100 cases that we are working our way through. I do not see it so much as local authorities being resistant; it is more a case of the complexity of the later schemes and getting the reconciliation right on that.

Q72 Sir Geoffrey Clifton-Brown: Can I come back, Mr Bickerton, on your answer that paying local authorities a percentage to recover either fraud



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or error would not be value for money? Clearly if it was easy to recover this money, either on error or fraud, it would have been recovered by now. As in the exchange I had earlier with Mr Duffy, we all agree that local authorities are under intense pressure. With these difficult matters, there is simply no incentive, and the easiest thing is to say, "We can't be bothered. We haven't got the time or the resources to do this", and it won't be done. Surely there would be a benefit in giving local authorities some form of incentive to try to recover some of this money. After all, if Ms Osbourne's team went out there and appointed debt collectors to recover a serious case of fraud, that is exactly what she would be doing: paying those debt collectors a percentage of the debt to collect it. Why not pay the local authorities a percentage of the debt to collect it?

David Bickerton: I hope I said it might not be value for money, rather than it would not be value for money. We will continue to consider it.

Sir Geoffrey Clifton-Brown: You will continue to consider it. Thank you.

Chair: Although we are a value for money Committee, sometimes it is not about that. We have a long-standing disagreement with HMRC on the level of prosecutions, partly because of that deterrent factor and saying to people, "This isn't acceptable behaviour", because actually that is part of the probity of handling taxpayers' money that we are all so interested in.

Q73 **Peter Grant:** Mr Bickerton, I want to come back to a comment you made earlier in reply to Mr Djanogly, where you described the debt as being legally owed by a business to the local authority. Is it not the case that if the local authority recovers the money that is owed to it, it immediately has to pay it back to the Government?

David Bickerton: That is absolutely true.

Q74 **Peter Grant:** That is a strange set-up, isn't it?

David Bickerton: It is sort of inherent in the way that the scheme was set up. The local authorities are our delivery partners; it was them making the grants to the local businesses. However, I do take your point. That is why, after the money had been sent out to the local authorities, to enable us to pursue debts that had been referred back to the Department, we required an assignment of those rights by the local authority to us. Essentially, what happens is that the local authorities will try three times to recover the money; I think Sir Geoffrey made a comment about that feeling a bit like going through the motions, but I think for most of us, receiving an invoice from a local authority, followed by a reminder, followed by a final reminder—that would incentivise me to pay. After the local authorities have gone through that process, to the extent that they have recovered money, they give it back to us, and to the extent that they have not, they refer that to us. We then assess whether the demand from DBT will be more persuasive than the demand from the local authority.

Q75 **Peter Grant:** I take your point that most of us would respond to the first, second or third letter from the local authority, but most of us wouldn't set out to defraud the local authority in the first place. We are not talking



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about most of us here; we are talking about a minority of businesses who know that they owe the public purse money and, in many cases, have no intention of paying it back. Is there a need for a different approach, rather than just using the approach most people would respond to? Because most people have already paid it back.

David Bickerton: To the extent that a local authority has categorised an irregular payment as fraud, it is obliged to notify that to the NAFN immediately to take fraud action. When they refer it to us, we pass it on to our debt collection team. We assess whether there is a possibility of getting the money back in, whether it is value for money to get the money back in, or whether there is some other reason why we might not want to get the money in. Other than that, we will pass it through to the debt recovery team. I can see Mr Duffy wants to come in.

Phil Duffy: I just want to make the point that when local authorities actually know about a missed payment or a fraud, they are doing pretty well at getting the money back. As of 26 April, there was £28 million of fraud and error payments reported. The authorities have got back £15 million, £7 million of which they thought was debt and £6 million of which they referred back to central Government. They have written off only £85,000 of that £28 million, so this process is working quite well. The issue is that they know about only £28 million, because they haven't gone through the entire 4.5 million payments to find the rest of it. The value for money question is not, "Should they pursue things they know about?"—yes, they should—but, "How much should they spend going looking for further irregular payments, and what is the value for money of that, given how many payments they would have to look at to find those irregularities?"

Chair: The more you lay it out—we have had this from other teams dealing with similar things—it feels like a fraudster's charter. It is such a haystack that we will never find the needle. We knew it was going to be a problem in the beginning; we outlined that and made that warning. You have repeatedly said, Mr Davies, that it is difficult to calculate how much we will get back. Some of the figures are a bit rough and ready. It doesn't give confidence to taxpayers, but it does give confidence to fraudsters. We will go on to lessons learned in a moment, but I am really concerned. I hear the practical issues, but we are in danger of Whitehall sending out very bad messages.

- Q76 **Peter Grant:** Mr Duffy, when you answered the Chair's question about data sharing and the Department having access to local authorities' data, you pointed out that where there are grounds for suspicion of fraud, organisations can share data. Is it not the case that we think the vast majority of the £1 million or so that we are trying to recover was not fraudulent? Almost all of it was in cohort 1. As we have heard, because that was money paid to people who didn't ask for it, in most cases it would be very difficult to establish that it had been fraudulent. For the bulk of the money that we are trying to recover, do you have the right to share data that is currently held by local authorities? Was that written into the scheme at the beginning?



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Phil Duffy: This is on non-fraudulent, non-criminal payments. I don't think I know the answer to that.

Anastasia Osbourne: In cohort 1, it was very much high-level information that they were providing to us in terms of how many payments went out. The information was not as detailed as we would have liked in cohort 1.

Phil Duffy: I think the situation is that if the local authorities can't recover an irregular or non-compliant payment, they can refer it back to us, so they would tell us to whom they paid it and the detail of who made that payment. If they suspect fraud, it is a different set of legal provisions. They can send a lot of data to us immediately and we can share that with the fraudsters. From our point of view, we very much agree with the Chair. What the public want to see on fraud is prosecutions, and they are looking at jail time, not just repayment. There is an important point about the metrics of that, and how many people involved in crime on these schemes will face prosecution. That is a really important part of the overall picture.

Q77 **Peter Grant:** If somebody had been wrongly paid the grant by 25 local authorities for 25 different business premises, we then have 25 local authorities trying to chase them for the money. But nobody knows about the other 24, do they, because the local authorities are not allowed to share that information with one another if they are not allowed to share it with you? You could have somebody who is being pursued for a significant number of debts by different local authorities, and because there is no automatic permission to share data unless you can establish something is fraudulent, nobody knows.

David Bickerton: In October '21 we introduced a digital data management tool, which is designed to collate the information. Candidly, I don't know whether that is available for the local authorities just to feed into, or whether they have access to it as well. It was designed deliberately. We went out to a small cohort of local authorities when we were designing it in order to pull together that information. You gave an example of 25 local authorities chasing the same company—that ought to show up in there, but only to the extent that the local authorities have been able to carry out the level of assurance so that all 25 of them were there. Implicit in your question is that by the time a company is being chased by the local authorities, it will be on their systems.

Q78 **Peter Grant:** This is the point I am driving at: are there restrictions or limits as to how effective the process can be because of data protection issues that could have been identified at the time?

Gareth Davies CB: Yes, basically.

Q79 **Peter Grant:** My final question is similar to one we have asked numerous Departments when looking at Covid schemes. We knew at least 10 years ahead that something like Covid was coming. Everybody knew that the world was overdue a serious outbreak of some kind of virus. We didn't know exactly what, but we knew it was coming. However, in February



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2020, the contingency plan for business support during a pandemic was a blank sheet of paper. Why? Why had nothing been done to plan for a large-scale emergency business support scheme almost until the day it needed to start?

Gareth Davies CB: That is a very good question, and one for the inquiry. Having been around business support for a number of years, I think it was almost inconceivable that we would have paid this level of money out at such speed. Lock down the economy, move to furlough—some of those programmes, frankly, were almost not within our frame of reference at the time. You could argue that. There are good challenges for officials to make sure that we are not limiting ourselves in terms of what we are thinking has potential or not. Certainly at that time it really was not on the agenda, but the Treasury might have views on that.

Phil Duffy: There is another nuance. There is an assumption that this was the right thing to do. What the NAO says in the recommendation is that we should evaluate whether this was the right thing to do. That is a very important question. Clearly, the scale we paid out in the first wave was very large; it was fiscally very difficult and it reduced our ability to fund other things later on. We did not know at the time that we would end up doing 15 schemes across this piece. There were many twists and turns in Covid that were not foreseen at that period, and was it right to do that? This question of what would have been the optimum preparation for this scenario is one that is very live, and we will have to think about that quite hard.

Q80 **Chair:** But Mr Grant is right to raise it. It is a very long time since I was in Government and I went along as a sub to a Cabinet sub-committee looking at the then pandemic threat. There in that meeting was raised the idea that schools would close, because children would be super-spreaders. I as a visitor to that meeting raised the question, “What will parents do? Will we just put children together? How will they work?” I was not delving into this in great depth, but if I as a relative newbie to that debate turned up and asked those simple questions, where was the discussion going on in Whitehall about what would happen? For example, if schools closed, that would have an impact on businesses. There seemed to be very little thinking. As you say, was it that you were just looking in very narrow tramlines?

Gareth Davies CB: I certainly wasn’t involved in any of those discussions, but certainly the idea of paying out—

Q81 **Chair:** But there was an avian flu threat in I think 2008 or 2009, and SARS has happened.

Gareth Davies CB: We are getting into what the inquiry will look at, but the interesting question is that pandemic flu was on the national risk register; it was one of the key priorities and it was planned for. As it happened, Covid had very different features from the viral pathology that was planned for under the national risk register. One of the questions is: was that right? What are the different sorts of pandemics we should



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prepare for? One that has high transmissibility but relatively low fatality is a different model from what is planned for.

Chair: We are in danger of straying into the inquiry. On lessons learnt, I will bring in Mrs Flick Drummond.

Q82 **Mrs Drummond:** Starting with criteria, there was confusion among the business community and the local authorities because the Treasury set the criteria, as we have mentioned. BEIS in those days had to deliver the money and local authorities had to administer it. How is the Government going to work in future? The local authorities said that they had no input into the criteria set. Have there been discussions about bringing all those three, or whatever they are called, together so that you can plan effectively if this happens again?

Anastasia Osbourne: I think we have learnt some lessons from that. We definitely have seen how the Department making decisions about criteria plays out on the ground, particularly for local authorities. One thing that we did, especially in the omicron period, was aim to engage really early with the local authorities, so we could test with a cohort of them whether these criteria would work. What would be the challenges on the ground? So we are bringing them closer to us. Within this session, we keep on talking about delivery partners, and my team definitely takes that seriously. I have a relationship management team that speaks to local authorities regularly about what they are being asked to do by the Department. What are the challenges that they are facing and how can we adapt knowing the information that they are feeding back? So it is definitely improving in terms of it being two-way.

Q83 **Mrs Drummond:** How much detail are you going into? We as MPs had to fight to get money for various businesses, whether it was a discretionary grant or a grant for wet pubs or wedding events. They might not have had a rateable value because they were doing it in their shed at the back or something like that. Are you looking into that sort of granular detail for the future?

Anastasia Osbourne: We definitely are, but I think this comes back to the point that we talk to them quite regularly to understand what it means on the ground in terms of how it is being delivered. We get a lot of feedback on exactly what you said about wedding venues where they use it on their property. That is getting fed back into the policy teams so that they can then make a decision about how that work gets incorporated. Is this included or is it not included? We are quicker at being able to respond to some of that now. We can always get better. We are doing that in the energy schemes as well; we are feeding that back to the policy teams quite quickly.

Gareth Davies CB: I think it is fair to say—this will probably stray into the inquiry—that, certainly in the early phases of the crisis, the connection between the policy making and the delivery information was not as strong as we would have liked it to be. There is always a bit of a balance or a trade-off between broad-brush approaches, which are simple to



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implement, and something that is incredibly targeted. You can imagine that, from the epidemiological approach, you want to be incredibly targeted, because you want to limit the impact on the economy. In the early cohort of grant programmes, that connection was not as strong as we would have liked. I have mentioned that we did not have the capability or the capacity to do that. Now, with dedicated professional support—the big lesson from all of this is about having a dedicated team to provide delivery assurance up front at the design phase—we are in a better situation. However, the next crisis is unlikely to be the same as the last one, so it is about agility and making sure we have the relationships right, rather than about making sure the last schemes will be done better the next time round. That is the balance we need.

Q84 Mrs Drummond: I think that the announcement of the grants, and then the guidance, came later as well. So they knew how much they were going to get, but it took time. Those sorts of things are going to be ironed out for the future. You have been looking at that.

Anastasia Osbourne: One of the things that we learned—I will go back to omicron, because omicron was linked to the latter schemes. As soon as we were aware, we ensured that we were able to get that information out to local authorities, just to put them on alert. To put that into context, it was over a Christmas period, which as you can imagine was quite challenging, because people were going on holiday. What we were able to do, though, was alert them to the fact that it was coming and start to have a discussion with them about what the criteria would mean for them on the ground.

Q85 Mrs Drummond: Because the public will hear that a grant is coming and then they inundate the local authority, which causes a problem with processing things.

Anastasia Osbourne: Exactly.

Q86 Mrs Drummond: We talked very briefly earlier about the quality of data that local authorities can access. Are you looking at that as well, and making sure that it can be improved so that the money goes to the right places? Again, we had landlords who had lots of tenants—say, on a farm—and the tenants were not registering business rates and so on. Is that all going to be looked at as well?

Anastasia Osbourne: I am not going to go into too much detail about the energy schemes, but we have learned a lot from the Covid schemes. In the energy schemes, what we are able to do is to really understand the little quirks that, as you have said, the criteria do not quite capture and how that works. In terms of the energy schemes, we have the data system that we are using. It is a digital one that is run by the Department, so there is more of a co-ownership and co-delivery, which is slightly different from what we did in the Covid schemes, where a lot of emphasis was placed on the local authority. We are definitely working in partnership with them. It is a very different type of scheme, whereby the data is being shared in real time.



Q87 Mrs Drummond: Carrying on with business rates, the quality of data at the Valuation Office Agency is very variable. How can we have confidence about using business rates when there seems to be a lot of confusion about the valuations?

Anastasia Osbourne: Again, the business rates was a decision that was taken in some of the early cohorts. Mr Duffy has already highlighted that that was challenging in terms of it being up to date—exactly what you have said. In the latter schemes, you see that we changed to more of an application process, whereby the local authority had the opportunity to assess and to really see if the business was eligible, which we felt was a more stringent way of being able to get the money out the door. It was very different in cohort one.

Q88 Mrs Drummond: So is there training for local authorities to get this all into place? Are there grants and money to put the software in place? Are you looking at that, Mr Duffy?

Phil Duffy: This is a bit about the philosophy and approach here. We had a lot of edge cases in the energy schemes: we had houseboats, we had sub-let tenancies, we had people in park homes and we had people who were completely off-grid. We have had to create a whole flotilla of schemes to make sure that the schemes overall are fair and respond to what parliamentarians are saying about some of their constituents. We have done that. We took a bit more time to clarify the guidance, with help from Ms Osbourne's team. We iterated that with local government, to make sure they had the right kind of approvals and knew what was ineligible and what was not. That is leading to lower fraud and more accurate payments.

Who knows what will happen in the future? I do not think we foresaw having to have specialist schemes for entirely off-grid properties, for example; that is a new thing, but that way of working is at the core. There are lots of concerns about VOA. They are doing their best to maintain valuation, but when we revalue property for business rates is a separate decision.

Q89 Mrs Drummond: If you are going to rely on using business rates to give out the grants, that information needs to be correct in the first place.

There are also inconsistencies between authorities about the discretionary grants which has caused us particular grief, as you can imagine. Local authorities had different interpretations of what they thought it was. How can you ensure consistency in the future?

Anastasia Osbourne: One of the key things that we looked at in the guidance—my team are pretty good at doing this—is that we will really test what we mean, and the definitions and how you apply that. We have definitely learned that when you talk about discretion and you set a criterion, we have to define it. We have to be really clear about what is in scope and what is not in scope.

When you are designing grant schemes, there is always a case somewhere that falls outside, where you have to take individual decisions. As we saw



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in cohort 1, some discretionary decisions that were being taken made sense—total sense—to the local authorities on the ground at that time, but recognising now we are able to respond to that and be agile to, “What does it mean for X company, which doesn’t quite fit the criteria that we’ve set out?”

Q90 **Mrs Drummond:** We talked about the five local authorities that had not paid the money, but in hindsight, was it right to publish league tables of the local authorities and distributing grant allocations, and was the data that they were based on completely accurate?

Anastasia Osbourne: The data from the first cohort was, I believe, done quite quickly and based just on the information that we had at the time. Over time, the allocations and the way that we have done the allocations to each local authority improved. And they were also verified as well, by other data statisticians within the Department, so we can have a lot more faith in the latter parts.

In terms of the league tables, that was a decision by the Ministers and they were quite clear about that, in terms of how they were published and what they expected to see.

Gareth Davies CB: It comes back to the ministerial direction and the policy intent, which was speed at that point—touching on what Phil said about the state of the economy and the concerns for business resilience at that time. That focus on speed framed all of the decisions then that cascaded through in terms of scheme design and implementation.

Q91 **Mrs Drummond:** Okay. Ms Osbourne, your office is the basic office that is going to put all this together for the future—is that what is happening, or will there be something else? I know that you have the evaluation coming up; are you going to wait until that has been published to put things together, or are you already working on it now?

Anastasia Osbourne: When you say “putting things together”, can you just clarify that?

Mrs Drummond: All the Departments together, so that if this happens again you know all the criteria and you know exactly what to do, and you feel quite secure that all the information is now in place, and all the local authorities, and you have got it all planned.

Anastasia Osbourne: We definitely have the information; if we are going to use the local authorities as our delivery partner, we have that information in place. And we also have the standard documentation and the way that we believe that an end-to-end system should be put in place; we definitely have that.

In terms of how that operates in an environment wherein we are now very different Departments, we expect the same principles to be embedded across that, and the work that we are doing with Cabinet Office on grant delivery generally aligns with that as well. So there is a standard that we



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expect to maintain, no matter where the grants are being delivered across Whitehall.

Q92 **Mrs Drummond:** And you are leading on that and training all the other Departments to do that?

Anastasia Osbourne: I am not.

Q93 **Mrs Drummond:** Because it seems to me that there needs to be one—?

Chair: A promotion opportunity, Ms Osbourne? *[Laughter.]*

Mrs Drummond: There needs to be one Department that has overall control. Whether it is Cabinet Office, I don't know, but there must be one Department that can make sure that all the other Departments have bought in and they all have the same standards; otherwise, we are going to have this problem again.

Anastasia Osbourne: The Cabinet Office is leading to ensure that grant management and grant delivery across all of Whitehall is consistent and aligns to its principles. My directorate aligns to those principles and will deliver grants on the ground to those principles, because we have learned and we have had to embed many of the lessons.

Q94 **Chair:** So if you have a brilliant idea one day, do you feed it into the Cabinet Office?

Anastasia Osbourne: We do. I am the grant champion for my Department and I feed to them on any of the grants that are going through.

Q95 **Chair:** Who is the lead on grants across Government?

Anastasia Osbourne: It is the Cabinet Office, a lady called Penny Horner-Long—I hope she knows her name has been mentioned. She leads on the grants across Whitehall to ensure the principles.

It is also worth saying that in setting up my directory, we had a lot of feedback from other Departments with centralised systems—MHCLG is one of them, and DEFRA, which also delivers grants. This is a community of people who are very specialised in what they do. Being able to improve over time has become an emphasis, not only for my directorate but for Gareth.

Gareth Davies CB: Yes. If there is one overarching lesson to come out of the crisis, there is a lot about context—the unusual nature of March 2020, questions about preparedness, as you rightly said, Chair, and want of inquiry—but it is the importance of having a professionalised grant function with standardised approaches. There is a bit about trying to predict what we might want to do in future, but a lot more of it is about having the right relationships, as well as the agility and capacity to do that, and making sure that we are not setting up teams to do something that they have not frankly been given the skills, experience or capability to do by me.



Q96 **Mrs Drummond:** So, on this, a lot of training is going on.

Gareth Davies CB: Yes. The idea now is, rather than having a team that is excellent at policy, legislation and briefing for Ministers—great on product and policy design—then having to run and implement a grant scheme, we will essentially accommodate a partnership, where Ana would provide both support and a bit of challenge, to make sure that the team is actually embedding the lessons and has that cross-Whitehall perspective, bringing in the advice of the Cabinet Office on grant design and of the Public Sector Fraud Authority, to make sure that that is embedded from the start.

Q97 **Mrs Drummond:** Including the local authorities, too.

Gareth Davies CB: Exactly. That is a core relationship.

Q98 **Sir Geoffrey Clifton-Brown:** Mr Davies, we all have PhDs in hindsight. I accept the need to get the money out quickly to businesses, which might have been going bankrupt as a result of the shutdown measures, but with hindsight, do you think that just taking a few days longer to design the schemes a little better might have reduced some of the fraud and error?

Gareth Davies CB: I was not in the Department, but when I remember back to what was happening in Transport in that March period, at that point we had real concerns about the viability of logistics companies to deliver. That was about delivering food to supermarkets and concern about what was happening at the ports, so the scale of the concern in that March 2020 period—depends what we control for—for me, at that time, was about how in a crisis we rely not just on what the public sector and local authorities are doing, but on private sector companies to keep the core part of our country operating. A safe food supply was a big one of those. On balance, I can totally understand the judgments made by Ministers at the time.

Q99 **Sir Geoffrey Clifton-Brown:** The Report on page 30, in paragraph 20.20, states: “Pre-payment checks for all grants moved from not being mentioned in the BEIS guidance for newly-launched schemes, to being mentioned, to being recommended, to being mandated.” In hindsight, should some form of prepayment checks have been in place for the first phase of the grants?

David Bickerton: Clearly, the fraud, error and non-compliance numbers came down as pre-payment checks went from being advisory to mandatory as we went through the schemes. The question of whether those prepayment checks would have delayed payment too much goes back to the same answer that Mr Davies made. Ultimately, the question is, how long would those pre-payment checks have taken?

Gareth Davies CB: May I just add a point on that? Apologies for interrupting. The lesson there that we have learned—that I have learned—is to make sure that that question is asked explicitly. There was lots we were aware of, but from my reflections on this, we were not aware enough of the scale of the importance of those pre-checks. We can see that now from the numbers. We have embedded the evidence we have and the



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lessons learned, but in a future crisis, Ministers may still decide to pause on the prepayment checks. I would imagine that I would want a direction at that point, just as my predecessor did, but it is about ensuring that we understand the choices and trade-offs for Ministers. The importance of those prepayment checks is now really recognised, given, as you have seen, the numbers on fraud and error falling over that period. It will always be a balance call when the wider policy concern was around speed.

Q100 Sir Geoffrey Clifton-Brown: Thank you for that clarification; that is very helpful. Ms Osbourne, at paragraph 2.18 on that same page, it says: "At the start of the pandemic the BEIS counter-fraud team consisted of two permanent staff and a fast-streamer on rotation." Given that you now have a team of 40, I think you said—

Anastasia Osbourne: More than that; I now have a team of 120 staff.

Q101 Sir Geoffrey Clifton-Brown: Right. Given all your professional training—even with hindsight—before the scheme was launched, surely that team was totally inadequate in its size and scope?

Anastasia Osbourne: I think I will—

Sir Geoffrey Clifton-Brown: I ask the question to Mr Davies as well.

Chair: I can see that you are reluctant to criticise the senior people prior to you, but I think that is stating the bleeding obvious, if I may say.

Gareth Davies CB: It is one for me. It is hard for me, and I do not want to criticise predecessors not knowing the full context at the time. All I can say is that now, where we are, we are certainly very focused on the need for that professionalism in grant delivery.

I think it comes back to some of your questions, Ms Dalton, around the role of the Department and the policy nature of the Department versus the grant delivery of the Department. My Department now is very different to BEIS in terms of both the delivery responsibilities it has and, therefore, the way in which I am looking to build the capability and capacity in the Department.

Q102 Sir Geoffrey Clifton-Brown: Thank you. Mr Bickerton, can I take you to figure 10 on page 34? All of us, but particularly MPs, are at the sharp end—and local authorities—because we were getting all the queries on this. That table shows us quite clearly that at the beginning of cohort 1, there were relatively few versions of the scheme guidance. However, when we got down the line, several months later—and you would expect the lessons to have been learned about how to deliver these schemes—we have a huge jump in the number of versions; sometimes there are several in the same day, but certainly many in the same week.

I know—I was a Member of Parliament—that we were trying to interpret this from the Government website. Again, with hindsight and lessons learned, surely as you were going along, having done cohort 1, you could have managed to streamline the remaining cohort so that it was not necessary to issue so many different versions of the guidance?



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David Bickerton: Obviously, when you look at the 30 versions of the local restrictions support grant, that is quite difficult to follow, because it is moving in real time. What this shows is that, particularly in 2021, there was a real emphasis on making sure that what was going on was clearer. I accept that suggestion, but again I would note that we appear to have learned from our experience by the time that we get to cohorts 2 and 3.

Gareth Davies CB: Can I build on that as well? We should be really clear about what we mean by the 30 versions of the guidance published. That is not us changing—"Oh, maybe debt should be repaid in four years, not three years." It is not about the operationalisation details; this is about, as Phil said earlier on, the twists and turns of Covid over that period. The cohort 2 grants were in that period—I slightly lose track of the time—from early 2020 to late 2021 with the different variants coming up. This was in the period when cohort 1 was paid from the business rates to all local authorities, based on your business rates.

If you remember the 2021 experience of Covid, it was around different regional restrictions, so that will be why there are multiple versions of guidance. There will be different views around what could close and what could open, if you remember the nightclubs or wet-led pubs and the different types of businesses—as I said earlier on, is a Scotch egg a substantial meal or not?

The number of versions of the guidance reflect the policy decisions being made as a result of the Covid crisis and the epidemiological questions around what restrictions we wanted to put in place, and the desire at that point to have more nuanced interventions, rather than the blanket approach we had in the first lockdown. It is more around that. I would not like the impression to be left that this is us changing our guidance around how you do the good, practical grant payments or how you do debt repayment.

Q103 **Sir Geoffrey Clifton-Brown:** No, I think it's exactly as you are saying. But this is what we as MPs were getting on the ground. It was many of those people whom Ms Drummond has instanced, who weren't included in the first scheme and who needed to be included in the discretionary second scheme. It did seem to us on the ground as MPs that you as a Department were not reacting quickly enough from our queries as to people who were not covered; wedding venues is a classic example.

Chair: Not understanding the businesses—

Sir Geoffrey Clifton-Brown: Yes. This was what we felt on the ground. I remember at the time being incredibly frustrated that you as a Department—I know you weren't there at the time, but nevertheless you are answering for the Department—were not reacting quickly enough to the queries that were coming through from us MPs.

Chair: Not anticipating them, actually.

Sir Geoffrey Clifton-Brown: Or even anticipating them.



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Gareth Davies CB: I think that probably just reflects the nature of the crisis at the time, but Phil wants to come in.

Phil Duffy: The complexity of the restrictions got exponentially more difficult as time went on. We ended up with regional variations. We had grants for open and semi-open schemes. We had dozens of complicated edge cases to manage. You mentioned weddings. We also had swimming pools and travel agencies, which were reliant on in-person business. We had the issue about what a substantial meal was. We had pizzerias being closed in Manchester. I think we did our best to respond to those things. What is an issue for me is that if you look at the fraud and error rates on this extremely complex set of subsequent schemes, they are actually pretty low, which tells us what? It tells us that we were listening and working very effectively with local government to get the guidance as clear as possible, and with the police as well—

Q104 **Sir Geoffrey Clifton-Brown:** But my question was not really about fraud and error in this case. It was about who was included and who was not included.

Phil Duffy: I think there is a slight category problem throughout the NAO's work, if I may say so, which is that it wasn't as if we were sitting clearly in Whitehall, knowing exactly what the restrictions were going to be and waiting to tell local government about them. Actually, Ministers were having to take very rapid decisions about lockdown—often in the face of ambiguous information—and then immediately move towards getting some form of economic support in place.

You can see that, because the first regional intervention, which was in Leicester, took place the day we ended the first road map. So we were right back at the beginning as soon as we had finished that first phase of cohort 1. That kind of dynamic loop we were in—I appreciate entirely the point about frustrations from constituents, but we did have to respond, and I therefore think 30 pieces of guidance is better than not responding to all the points that people rightly made.

Q105 **Chair:** I think that what Sir Geoffrey is driving at, and we are not really getting an answer on, is that it wasn't a surprise to a lot of us in our constituencies if you represented big wedding venues or if you represented, as I do, lots of businesses that work in shared office spaces and don't pay business rates. These were known facts locally, but it didn't seem known in the Department or even in the Treasury that there were these types of businesses. Quite often when we were on calls with the then Paymaster General—now Leader of the House—these were new things to Government; it was a surprise. We were all learning, but there wasn't an understanding of the business sector from the Business Department. That's the concern, isn't it, Sir Geoffrey?

Sir Geoffrey Clifton-Brown: Yes.

Phil Duffy: I think there is some truth in that. I also think that things like the rule of six, for example, and the two-indoors rule we hadn't foreseen. We ended up with lots of businesses that could say, "Well, actually, I can't



operate in my beer garden; I haven't got a beer garden. I'm just straight on the pavement." So we took an approach that trusted local government, through these discretionary schemes, to take a view on whether a pub had to close or didn't have to close, or was capable of serving a meal or not. These were elements of the way in which the restrictions fell out of the epidemiology that we didn't foresee, and we didn't have guidance ready to deal with them. So some of it is that. I appreciate your point about hairdressers, swimming pools and some of the leisure centres, but there is quite a lot that I don't think it would have been reasonable to have foreseen.

Chair: Well, okay, there are always going to be those hard cases.

Q106 **Sir Geoffrey Clifton-Brown:** The Treasury clearly had the ultimate idea of this scheme, so it started, on the initial design, and then handed it over to BEIS. In the lessons learned, are you going to evaluate whether, in hindsight, some businesses were over-compensated and some were under-compensated?

Phil Duffy: Yes, we will look very hard at that question. It's a very important question for us. There is a very high dead-weight in this form of very generous scheme. One of the reasons we ended up with a lot of schemes that were all quite complex later on is that we were trying to surgically identify the worst affected businesses and support them and not those that didn't need to close. Of course, some businesses did quite well during the pandemic; it wasn't a universal picture. Our goal for the scheme—going back to value for money—was to make sure that businesses could survive and people stayed in employment for longer, and one of the questions we are very keen to understand is this. Is that true? Did we actually protect businesses and employment over the period? We did leave the pandemic with quite a lot of people who had lost contact with the workplace, despite the fact we had spent £27 billion and there was furlough and everything else. I think you make a really important point. We will have to look at it carefully.

Q107 **Sir Geoffrey Clifton-Brown:** Finally, Mr Davies, I have listened to this hearing very carefully, but—I am sorry to be critical—I just do not get the impression that the fraud and error is being pursued sufficiently. I did not get a positive enough answer to my question about what more local authorities could do.

I appreciated Mr Duffy's exchange right at the beginning of the hearing about how much pressure local authorities are under—they are under pressure with their audits, and a lot are way behind on their audits, so the section 151 officers have an awful lot to do—but I just wonder whether there could be a bigger initiative, perhaps by giving them a percentage of the money that they recoup, or something else. There is still a lot of money in fraud and error—£1.1 billion the Report says—and you have only recovered in the tens of millions. A lot of money out there could still be due to Government, so can there not be a bigger initiative to recover some of it?



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Gareth Davies CB: You raise a good question. I certainly do not want to give the impression that I am complacent about this; I wanted to be open and frank with the Committee about the scale of the challenge.

Given the way in which the schemes were designed at the start, I do not think that it would be right for me to suggest that we will easily be able to recoup the £1.1 billion. However, I am keen to ensure that we are doing all we can, given where we are now, given what happened back in 2020, given the nature of the schemes, and given the information and data we have. That is why I have asked our departmental non-executive to review this and to see what more we could do to recoup the money.

I certainly do not want to leave you with false expectations about what that will be able to achieve, but I want to make sure that we are testing all the questions, including the ones you have raised about incentives—I am speaking to the Treasury about that, and I recognise the concerns—and the Chair's question about value for money, but there is also the issue of probity and taxpayer confidence. We are making sure that we look at that in the round.

Q108 **Chair:** That is your non-exec looking at that, to present to the board.

Gareth Davies CB: Yes—so it is a new Department, with a new non-exec.

Q109 **Chair:** Who is your non-exec?

Gareth Davies CB: Stephen Hill.

Q110 **Chair:** His background?

Gareth Davies CB: He is ex-business—he was chair of the FT Group and was in private equity. We also have people with finance backgrounds, particularly on our ARAC.

Q111 **Chair:** He is a new non-executive—new to Government.

Gareth Davies CB: He is a new non-executive, yes.

David Bickerton: He was a non-executive in BEIS, previous to DBT.

Chair: He was a non-executive in BEIS—

David Bickerton: He was a non-exec in BEIS—

Chair: So he has been in the system.

Gareth Davies CB: He has been in the system, but he is new to the Department, sorry.

Chair: Because your Department is new.

Gareth Davies CB: If answering from that perspective—

Chair: He has been around in Whitehall.

Q112 **Sir Geoffrey Clifton-Brown:** Given Mr Djanogly's very valid point that



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the longer the debts go on, the more difficult they are to recover, how long is this process likely to take?

Gareth Davies CB: I would like to have initial views by the summer certainly. I will happily write to the Committee with numbers and updates on the number of recoveries, as well as the initial views of what more we could do and the choices we are making.

Q113 **Chair:** Perhaps we can consult you offline, but we are also interested to see, if we can, Mr Hill's private report to you. We often see private papers. As a Committee, we are very keen to see good practice and suggestions of how to deal with this.

Gareth Davies CB: I am happy to explore that outside the meeting.

Q114 **Chair:** We could do that on reading room terms, because we would not usually hold the documents.

I have a last couple of quick questions. We talked a lot about business rates. Ms Drummond highlighted some of those points particularly. What are you doing? Overall, as a Department, you have a serious responsibility here with the Treasury, so who is making sure that we get better records, a better business rates system? There is some talk about change—every Government talks about changing business rates—but we still have bad data. What are we going to do about that?

Phil Duffy: Business rates are an increasingly contentious issue. They are contentious because of the change between bricks-and-mortar trade and online trade. There is a big debate about the future of the tax system, which I do not think we can explore here—

Chair: It is more the data—

Phil Duffy: The underlying question about revaluation we are taking very seriously. We have delayed revaluation, if I recollect correctly, partly to allow people a bit more space as we recover from Covid. We are planning to do that. Because we are putting so much focus on business rates in terms of how we support business, with a significant number of easements in the system, we would agree that data is very important—

Q115 **Chair:** This is the thing: there are all the different changes to an existing system, but the data is very poor. That is what we want to know.

Phil Duffy: Why don't I write to you about the timetable for the next revaluation, which will be the next step? Currently, it has this lag of between two and four years. I can update the Committee on when that would happen.

Q116 **Chair:** Exactly. In that letter, will you outline more? There is the system as it is, and that does mean that the data is always imperfect and out of date. The data was particularly important for this scheme, and any potential future business support—we are looking at energy, but who knows what will come down the line? It is about getting the data right. If you could undertake to write to us, Mr Duffy, we may pursue that.



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Finally, to you again, Mr Duffy, the Treasury often talks about dead-weight. It has a natural inertia, I guess, about giving taxpayers' money away freely—well, I hope that it does, because we would support that, generally, as a Committee. What do you think are the best lessons, or best new practices, that are either embedded in Departments or that you want to see embedded?

For example, Ms Osbourne's big team that is now working out, from beginning to end, how to build in fraud prevention, work up the policy and deliver the grant. That sounds like progress. Are you now more confident than you were before the pandemic that some of those lessons will actually be embedded and that you will see a bit more rigour in Departments about dishing out taxpayers' money on behalf of the Exchequer?

Phil Duffy: Well, I think that we can look with some satisfaction at the progress that we have made since the first round—not only the remaining 12 schemes under Covid but the seven schemes under the energy scheme, which were also co-ordinated by Ms Osbourne's team. I think they've been more successful.

In part, we have also managed to target the money better. If you look at things such as park homes and canal boats in the energy schemes, that has worked quite well; we responded quite quickly, and it is really positive. As has also been said—

Q117 **Chair:** I have to say, I met some of my canal-boat dwellers only a weekend ago, and they were saying that it took a long while to get the money, so let's not get too excited about that.

Phil Duffy: I mean, that is a balance, isn't it? We have to get the balance right between probity, targeting guidance and speed. As ever, there is that kind of area. There is also the focus on end-to-end policymaking—so, "What data do you require?"

You rightly raised the point about the time for repayment for irregularities; that, I think, has improved. I think that having the life-cycle understood across Departments on this is really positive. Ms Osbourne mentioned DEFRA, but also MHCLG, which does quite a lot of grant work as well. One could add UKRI to that, and some of the science programmes, which also had the same issue about end-to-end large dumps. That is all positive.

I also think that we have tried to move, increasingly, to more targeted schemes, and that will improve VFM. If you look at the later omicron arrangements, such as the wet-led pubs scheme, they are much more targeted than the—it is a bit pejorative, but the "helicopter money" approach from the first stage.

In the evaluation, we will have to work out, "Did this scheme achieve its objective, and was the fiscal cost, in aggregate, worth it for the United Kingdom?" Given where we are now on the national debt picture, that is the key question that the Treasury needs to answer.

Chair: Yes, well, there's a big question at the end of a session! That is



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very much bread and butter for this Committee. We are not a policy Committee, of course, but we want to look at value for money. I think that Mr Grant has a final question.

Q118 Peter Grant: Going back to the problem with the business rates information, we now know that using business rates as a proxy for telling you where the businesses are is not reliable, especially for small businesses. If you had to do the same next week—if you needed to have a way of urgently getting support or information to small businesses—would you still have to use the business rates register, with all its flaws? Do you have another way, now, that you would be able to more accurately identify where the businesses are?

Phil Duffy: I would slightly challenge the notion that that did not work. What is happening right now, in authorities across the whole of England—

Chair: It worked imperfectly, or it was imperfect.

Phil Duffy: It worked imperfectly, but it is true that authorities did know their taxpayers, and they know them because, of course, they are currently giving relief on things such as pubs, at 50%, under various schemes that we have brought in since then. So, we are still using business rates to achieve policy effect all the time, including at the latest fiscal event. As I said, I will write to the Committee about where we are on the data, and what the latest re-evaluation looks like, because that is clearly at the core of your question.

I think that we did not appreciate at the time things such as not having the sort of data systems that would enable us to spot things such as duplicates. That was not present in all local authorities. It was in some, as the Chair has said, but it was not in all of them. That is another thing that we should have known but did not know at the time.

Q119 Peter Grant: Where there are businesses that are so small that they do not pay business rates at all, hasn't there been an issue that they did not have any incentive to notify a local authority if they moved out and somebody else moved in? For the business rates register, in that case, it did not matter who was in the property because they were not going to be paying anything. Those were often exactly the kinds of small businesses that you were trying to target. Has anything been done to put that right? Are you relying on local authorities to go back and correct their records?

Phil Duffy: Going back to what we did in 2020, while we were doing this set of schemes, we were also looking at the furlough and the self-employed scheme—the SEISS. That was a difficult scheme in its own terms, but was, in part, intended to pick up some of the microbusinesses that were self-incorporated, which would not have property. A good example would be something like peripatetic hairdressers, who do not have property. They were shut down, but they wouldn't qualify for a business rates exemption if they didn't have any property.



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We did do things at the time to try to capture some of the self-employed and microbusinesses through different mechanisms than just business rates. I think that it is important, when you evaluate the scheme, to look at the entirety of the support that was given, not just this scheme in isolation.

Chair: Thank you very much, Mr Grant. Thank you to colleagues, and thank you to our witnesses. The transcript of this session will be published on our website, uncorrected, in the next couple of days. We will be producing a report, we hope, before the summer recess. Thank you very much for your time.