

Public Accounts Committee

Oral evidence: BEIS Annual Report and Accounts 2020-21, HC 1052

Wednesday 23 February 2022

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Members present: Dame Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Peter Grant; Kate Green; Antony Higginbotham; Kate Osamor; James Wild.

Gareth Davies, Comptroller & Auditor General, National Audit Office, Adrian Jenner, Director of Parliamentary Relations, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Report by the Comptroller and Auditor General BEIS Annual Report & Accounts 2020-21 (HC 808)

Questions 1 – 103

Witnesses

I: Sarah Munby, Permanent Secretary, BEIS; Tom Taylor, Strategic Finance Director and Chief Financial Officer, BEIS; Kim Humberstone OBE, Co-Director of Finance, BEIS.



Examination of witnesses

Witnesses: Sarah Munby, Tom Taylor and Kim Humberstone.

Chair: Welcome to the Public Accounts Committee on 23 February 2022. This is our second panel of the day. We will be looking at the annual report and accounts for the Department for Business, Energy and Industrial Strategy. It is a big set of accounts, because in the first year of the pandemic the Department's budget rose from £14 billion to £44 billion. In most cases, Permanent Secretaries would be quite pleased about that, but in this case it was an awful lot of work for the team in the Department for Business and of course for the National Audit Office. It is hardly surprising, though, given that the Department was managing the Covid support schemes and of course the really important and successful procurement of vaccines.

Due to the levels of potential fraud and error, the head of the National Audit Office, the Comptroller and Auditor General, has had to qualify his opinion, as it is not yet clear whether the money that was spent has been spent where it should have been. In this panel, we are going to be questioning senior officials from the Department about the details of the accounts and how they are going to bring them back into order as well as some of the risks in the Department.

I am really pleased to welcome our witnesses from the Department. We have Sarah Munby, the Permanent Secretary at the Department for Business, Energy and Industrial Strategy. We have Tom Taylor, the strategic finance director; that is the man who has to do all the difficult maths. We also have Kim Humberstone OBE, who is the co-director of finance; she is making sure that the maths is properly done. It is a big job for all of you as accounting officer and finance officers in the Department. We understand the challenge, and we will be asking you tough questions about how you are protecting taxpayers' money.

Before we go into the main session, you wrote to us very recently about the bounce-back loan scheme, Ms Munby. James Wild is just going to pick up some points from that letter. Mr Wild, I will hand over to you.

Q1 James Wild: Ms Munby, you wrote to us post the hearing where we had quite a lot of discussion about the level of fraud and the recoveries process. You have written to us, but it is important that we get something on the record for the people who watched that hearing but who may not have read the correspondence. First, on the recovery period, you stated to this Committee that lenders were expected to pursue recoveries beyond 12 months, but that is not correct, is it?

Sarah Munby: That is right. There will be circumstances where they will pursue recoveries beyond 12 months: for example, if they have already begun a repayment plan during the 12-month period. It is true that there will be some legacy activity beyond the 12 months. The decision made by Ministers at the time of the launch of the scheme was that 12 months



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was a reasonable cap to put on the time that lenders needed to invest in recoveries for no reason other than, after that point, it is unlikely that significant recoveries would be achieved unless, as I say, the process had been begun before the 12-month period.

Q2 James Wild: What is the minimum period that banks are required to pursue recoveries for?

Sarah Munby: There is not a minimum period per se. If there is evidence in the case of a particular loan that there is no good reason to pursue recoveries, at that point banks can claim on the loan. In most cases, we would expect recoveries to have a duration of many months, indeed approaching 12 months, but there is not a minimum requirement on time.

Q3 Chair: Would that be, for instance, bankruptcy?

Sarah Munby: It is a minimum requirement on effort as opposed to time, if you see what I mean. If there is a company that no longer exists and there is no money to go after, we do not require a process to be carried out for process's sake.

Q4 James Wild: You also said that lenders had to wait until the 12 months had elapsed to make a claim on the guarantee. Again, that was not correct, was it?

Sarah Munby: That is right. As I just said, they can claim on the guarantee at the point at which they have carried out a sufficient and robust level of recoveries. That is what the BBB's audit processes will ensure they are doing.

Q5 James Wild: Some guarantees have already been paid out. What is the shortest period that a lender has claimed the guarantee after?

Sarah Munby: I do not know that, but I would be happy to confirm.

Q6 James Wild: If you could come back to us, that would be helpful. On fraud, my reading of the letter is that, provided a lender carries out the minimum checks, there is no mechanism for the bank to get that money back if it is subsequently considered to be fraudulent activity. Is that correct?

Sarah Munby: Yes, providing that the bank has carried out their checks at the start when the loan was issued. There are two cases. The first case is where a bank has or has not, for example, carried out KYC checks at the point of the loan being issued. If they have not done that, it would be a straightforward reason why the guarantee would be suspended. Assuming that has been carried out, the question is whether the bank is fulfilling the requirements of loan agreement in terms of going through their standard recoveries and fraud-prevention processes. As long as they are following those processes and they are audited to be doing that, there is no way of stopping them claiming on the guarantee.



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The set-up from the very beginning of the scheme was that banks were being asked to put out money in an environment in which we knew there was a risk of fraud. It was for the public purse to carry that risk, not for the individual banks, unless those banks had failed to comply with those fraud prevention measures at the start of the loan, like KYC.

Q7 James Wild: Clearly it is regrettable that you made those errors. Why did you, as the accounting officer, misspeak on various points about the recoveries process to the Committee?

Sarah Munby: As you know, I appear in front of this Committee very often. I do my very best to be accurate on all points, and I hope I have a pretty good record. We all occasionally misspeak. To be fair, on the question about the 12 months, as you can imagine, I have gone back and checked that very carefully with the team to make sure I understood it. I had not appreciated the full detail of the complexities about the circumstances in which activity did take place after the end of 12 months. As I said, some activity does, but I should not have characterised it in the way that I did.

Q8 James Wild: Yes, okay. You appear regularly and give good evidence. A couple of weeks after your evidence, Lord Agnew resigned and made a number of points about the fraud process. I just want to ask about one. He highlighted the lack of a single dashboard or management information to scrutinise lenders, which was something we touched on. As accounting officer, when will you have that in place?

Sarah Munby: We are planning to present that to the cross-Whitehall counter-fraud board that we will be establishing next month at a more senior level following Lord Agnew's resignation.

Chair: As you know, this Committee is very concerned about the levels of fraud. We want to see lessons learned from what has happened in the pandemic for any future situations, but we will continue to pursue every Department, including yours, which is part of the theme of today's hearing.

Q9 Peter Grant: Good afternoon to all our witnesses. Ms Munby, what is your response to the Comptroller and Auditor General's qualification? Were you surprised that he qualified the accounts?

Sarah Munby: No, I was not surprised. The accounts were qualified for two reasons. One is the levels of fraud, particularly on BBLs, which we have just been talking about. As I said in my answers to James Wild just now, that is something we knew would happen. It is a risk that we consciously tolerated. It was the subject of a ministerial direction, of course, but many people would see that, in that case, the balance of a really challenging, difficult and problematic fraud situation was outweighed by the need to act swiftly to save companies and livelihoods that would otherwise have been lost. That was the first reason that the accounts were qualified.



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The second was the programme of grants to small businesses that we administered through local authorities. In that case, similarly, when those grants were first launched they were subject to a ministerial direction. For similar reasons, at this stage of the conversation—I am sure we may get into this in more detail—I would draw a distinction here. The concern in the case of the bounce-back loans, as we have just been discussing, is particularly around fraud. Although we do not have all of the answers about exactly how this breaks down, all of our evidence to date suggests that the primary issue in the local authority grants is not fraud. There is some fraud, as there is in any scheme, but we would say that the fraud is within normal expectations. If it were the fraud picture alone, we would not have expected to be qualified on that basis. It is error that really leads to the qualification.

Let me explain the sort of error that we are talking about. It is useful for people to understand what we mean by “error” here. In the sampling work we have done, nearly three-quarters of the overall estimate around fraud and error, which is what led to the qualification, is due to what we think may have been—we cannot verify it yet—errors in the rateable value of a property used to decide the amount of grant that was received. It is not a case where the business did not exist or the business was carrying out any sort of conscious fraud. It is a case where, for example, the LA’s record of the rateable value of the property was not fully up to date. Let us say they were somewhere around the £15,000 value threshold for getting a smaller or a larger grant. They might have received the wrong amount of money. If they were hovering around the top threshold, where it was a question of whether they would or would not get the money, they might have received it when technically they should not have.

I do not say that in any way to suggest that this error is not problematic or is not something we are very concerned about identifying and managing, but it is of a different type. It is a different sort of problem to conscious fraud. In most cases, what we are talking about is businesses that received a technically wrong amount of money but nevertheless were businesses on the high street that were required to close and that were going through a very difficult time.

Q10 Peter Grant: If it is the case that local authorities do not have reliable information on the rateable value of the properties on which are charging rates, I suspect it may be something the Committee will want to look at in more detail at a later date. I appreciate that a lot of that is not within your remit.

For the three Covid support grants that you were responsible for, what is your latest estimate of the value of the fraudulent applications you received? What is your estimate of how many were stopped before payment? How much do you expect to recover out of the payments that were made?



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Sarah Munby: It is worth maybe just laying this out, if you will excuse a slightly lengthy answer, given the importance of the question. There have been several series of grants. Effectively, there was what we in the Department call cohort 1, which were the grants that were issued in the spring of 2020 at the very start of the pandemic; there was a second series of grants that were issued in the autumn and Christmas time of 2020; and then there was a more recent set of grants, including the very latest Omicron grants.

The picture across that full set of grants is that the money going out of the Department was just over £26 billion. Not all of that will ultimately be paid out, because by nature we have definitely given local authorities enough money. Some of it will be reclaimed to the Department. We have already reclaimed over £1 billion, which is nothing to do with fraud and error but to do with local authorities effectively having received a generous allocation, not all of which they will spend.

In terms of fraud and error, it is really early days to give an exact answer to your question. I would not be comfortable in giving a clear answer to that of, "It is this many billion pounds and this many million pounds". On the first cohort, the risk of fraud and error is highest for reasons that we can discuss but are not difficult to imagine. This was when neither we nor LAs knew how to do this; it was the first scheme. From the early sampling work, which is based on a small sample, our best estimate of fraud and error is 8.9%. We have put a really wide range on that from 4% to 13%. I stand behind that range. This is an estimate that we have pretty low confidence in.

You specifically asked about fraud. Within that, as I mentioned earlier, we think fraud is likely to be around the 1% to 2% mark, roughly in line with what you would expect for this sort of scheme even in normal times. It is worth touching on why that is. Unlike in the case of the loans, these grants were tied to property. It is not impossible to commit fraud associated with property, but, in the main, these are businesses that, as you say, had an existing relationship with a local authority because of the payment of rates. The existence of the building, as it were, on which the money is being paid is a very clear and verifiable fact. That is why, while we do not yet have the final answer on how much fraud we think there will be—there is more work to do on that—we are comfortable that fraud for these schemes will be non-zero but in line with normal schemes.

Error looks like it may have been substantial, although it is really early days to say. For example, on the 8.9% that I was just talking about, 70%, three-quarters of that, is around this question about rateable value. We have not been able to go back on all of those grants where we think there might have been an error, sit down with the LA and say, "Could you talk me through why you paid this?" When we do that, I am sure we will discover that some of them are absolutely legitimate.



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It is the same picture as we saw in bounce-back loans. When I was here a few weeks ago, we talked about the estimate of fraud there, which has already dropped from just over 11% to 7.5%. As we are learning more, we are finding that things that were possible fraud turn out not to have been fraud. I would expect the same thing to happen on error here. I cannot be absolutely confident of that. That is why we have given a range that also includes numbers higher than 8.9%. If you asked me for my judgement at this point, it is more likely that the number will go down than that it will go up, but that is something we will have to verify and confirm to the Committee as we learn more.

Q11 Peter Grant: You mentioned that the fact that a business premise exists is verifiable. How many of them did you verify?

Sarah Munby: There were not pre-payment checks for these schemes. As you can imagine, at the point at which the schemes were launched, the question of pre-payment checks was discussed very fully. We did not casually launch these schemes without pre-payment checks. To be clear, when we say "pre-payment checks", we are talking about enforcing that local authorities have to carry them out.

Q12 Peter Grant: It is okay. We have previously gone into the reasons why there were not a lot of pre-payment checks. We have understood that. Have there been significant levels of post-payment checks to confirm that the property exists and was not just lying empty?

Sarah Munby: If I may just distinguish between the different schemes, I talked about those cohorts, 1, 2 and 3. It is worth saying that, for cohort 3, pre-payment checks have been demanded, so the most recent grants are all going out with pre-payment checks.

For cohorts 1 and 2, local authorities have to go through a post-payment checking process and then, ultimately, a recoveries process, where they need to invoice and then remind if there is a need to recover a money that has been paid in error. It is only after the end of that process that then any recovery is returned to the Department, where we take over, unlike in the case of the loans.

You asked at that hearing about whether we had considered using a third-party recovery agency. We do in this case. When a grant comes back to the Department, we are using a third-party recoveries agent to pursue recoveries in the same fashion that you would find in lots of different schemes.

Q13 Peter Grant: At the moment, do you have even a vague idea of what the total loss to the public purse, either through irrecoverable fraudulent payments or irrecoverable overpayments? Do you have any feel at all at this stage of how much is going to be lost?

Sarah Munby: For fraud, on a very simple basis, I have said that I would expect an order of magnitude of 1% to 2%, in line with similar schemes. If you multiply that by £26 billion or £27 billion, which is the overall size



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of these schemes, you get a pretty sizeable number. That is not because these schemes are any more fraudulent than any other Government scheme. It is simply because this was a very large and complex scheme.

I would not feel comfortable saying what I think the end size of the error will be, because I do not think we are confident enough in that error estimate. We are certainly in a position where we entirely understood the NAO's position that it looks like there was a material level of error and a sufficient level of error that our accounts should be qualified on that basis. We would not at all take any issue with that. The size of that error is unknown for any of these cohorts.

I expect even that percentage, the 8.9% that I talked about, which was on cohort 1, to come down for cohorts 2 and 3. The overall picture is something we are, unfortunately, going to have to come back to with more numbers on over time.

Q14 Peter Grant: In his resignation speech, Lord Agnew said that, at the start of the pandemic, your Department only had two counter-fraud officers. He has described neither of them as being experienced in the subject. He has also said that the counter-fraud officers he had did not engage constructively with counterparts in the Cabinet Office. Is that correct?

Sarah Munby: It is absolutely correct that we only had two counter-fraud people in our counter-fraud team at the start of the pandemic. By the way, I do not think that that was the wrong number. It is important to say that the historic rates of fraud across the Department have been really low. This is a thousandfold increase in the level of fraud that we are managing as a Department, coming out through these schemes. It is absolutely factual to say that we had a very small team at that time. Of course, it has significantly expanded now.

It is fair to say that we would not fully recognise the claim that we did not engage with the Cabinet Office counter-fraud function. Indeed, I would take the opportunity to say thank you to the Cabinet Office counter-fraud function, who have been a big support to the Department, including really quite quickly supporting us with adding a deputy director for counter-fraud into the Department, borrowed from elsewhere in Government, so that we could quickly scale up that team with the right kinds of expert resources.

You can imagine that, when I saw that, I went back and asked the relevant teams many detailed questions, like, "How often have you met with the Cabinet Office counter-fraud function?" We are meeting with the central teams multiple times a week across the Department. I have not heard Lord Agnew's points in detail directly, so I do not know exactly what has led him to say that, but, from our point of view, we absolutely recognise the point about not having sufficient anti-fraud resources at the beginning of this process, because we did not know what was coming. I



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would not recognise the point about not having worked closely with the Cabinet Office.

Q15 **Peter Grant:** You referred to having historically very low levels of fraud. How certain can you be that it is the levels of fraud that are very low and not just the levels of detected fraud?

Sarah Munby: It is to do with the nature of the schemes. We have had some specific schemes historically in the Department on which we have been pushed hard on fraud, renewable heat incentive being the classic example, where the NAO had rightful questions to ask about levels of gaming and fraud.

Typically, for the kinds of schemes that we would have been running historically, we would have absolutely had in place all the upfront checks and process that we use to prevent fraud in the first place. That is what you would expect of a responsible accounting officer and my predecessors were in a position to make sure that happened.

The circumstances that led to us launching multiple schemes with what we would all acknowledge were insufficient, but consciously insufficient, levels of upfront control are what have led to not just a slight increase in our fraud risk profile as a Department but, as I say, a thousandfold increase in our fraud risk.

Q16 **Peter Grant:** There was something else that Lord Agnew said. He described it as "schoolboy errors", for example allowing more than 1,000 companies to receive bounce-back loans that were not even trading when Covid struck. Is that figure something that you recognise? Is it something that you are aware of?

Sarah Munby: Yes. This goes to the point about what sort of checks were required at the beginning of the process. It was a really difficult balance. How many checks do you ask people to go through at the cost of meaning that loans will be put out much more slowly. We have litigated the point quite a lot in front of this Committee. Yes, that is right. I am not sure that it is right to describe it as an error, but it is true.

Q17 **Peter Grant:** At what point did you become aware that, as well as being a potential risk, it was turning into a real risk? At what point did you become aware that companies were being set up for what appeared to be primarily the purpose of defrauding you?

Sarah Munby: The reason I am hesitating is that I was not in the seat at that point, so the question you are really asking me is at what point my predecessor became aware. I feel a little bit uncomfortable answering that question.

I will say that we knew from the very beginning that those risks were there. We had a really quite comprehensive, done with external support, fraud risk assessment done before the launch of the scheme. There was no moment of realisation. It was much more of a question of, "Okay,



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these risks are now coming to light much in the way that we expected". In the case of bounce-back loans in particular, our upfront assessment of what would happen proved to be pretty accurate. I do not think there was a prediction problem, if that makes sense.

I would slightly draw a contrast. It is fair to say that, depending on how the numbers emerge, I think we have been more surprised by the level of potential error in the grant schemes. We knew that there would be challenges, but the extent to which that looks like it may have been the case has been a bit more surprising, so I would draw that contrast.

Q18 Peter Grant: During the year that we are looking at, 2020-21, did you get any alerts from Companies House that it had picked up anything unusual in either new company registrations or company dissolutions?

Sarah Munby: We very quickly had in place various data-sharing agreements between the BBB and Companies House. Indeed, this is another place where the Cabinet Office counter-fraud team was involved. That made sure that we were doing data-sharing. That was about being able to put a date check, exactly to your point about companies that did not exist at the right moment. Companies House data allowed us to stop that happening. That is not quite your question.

Companies House was definitely involved. Your question was specifically around whether we saw any unusual patterns. I would have to go back and check the records on that specific question.

Q19 Peter Grant: According to the Companies House annual report, between 2015-16 and 2019-20, it averaged about 640,000 new company registrations a year. It never varied more than down to 610,000 and up to 670,000. In 2020-21, there were more than 810,000 new company registrations. That is more than 20% higher than any of the previous five years. Does it strike you as surprising that that should happen during a year when, for about half of the year, the economy was in lockdown and companies were not able to trade?

Sarah Munby: I would be keen to get Companies House's opinion on that specific question before I answered in full. It is fair to say that disruption, while it is very difficult, also creates economic opportunity. There are all sorts of new companies that set up, for example to make masks, to give an obvious example. It is not inconceivable that you might have seen significant increases.

Q20 Peter Grant: Honestly, does 170,000 new companies to make PPE sound credible?

Sarah Munby: No, I am not suggesting, of course, that all of those would have been doing PPE. There are all sorts. For example, if your company that you currently had was having a difficult time, that might be a reason to set up a new company doing something different. Equally, if you were a self-employed trader and you wanted to be incorporated so



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that you could access some of the Government schemes more straightforwardly, that would be another reason to set up a company.

I would very happily ask Companies House for some analysis of what it thinks makes that up. I am just saying that I do not think that we can jump smoothly to the conclusion that that is necessarily an indicator of anything adverse.

Q21 Peter Grant: It would certainly appear to have been a warning sign that needed to be more closely investigated. Were you aware that there had been a big increase in company registrations? Did you become aware of it through other means? Did Companies House alert you to the fact that there might be something happening that was not correct?

Sarah Munby: As I say, I was not in the seat at the time, so I am afraid that I would need to check the record about what correspondence was received or what conversations were had.

Peter Grant: I may want to come back to other questions on Companies House later on.

Q22 Kate Osamor: I would like to draw my line of questions to the frequency and robustness of annual reporting. I think we can all agree that annual financial reports are a main feature of any corporate reporting. In some quarters, there is lots of criticism about annual reporting because it is past reports; it is past activity and does not show new or potential risk. In essence, the horse has already bolted. Sarah Munby, could you tell the Committee what mechanisms are available to use to report any key risks to a Minister once a new directive has been issued?

Sarah Munby: To confirm, do you mean a Minister within the Department?

Kate Osamor: Yes, within the Department.

Sarah Munby: I am almost wondering how to answer that question. Actually, that is the ordinary course of doing business and what we do all the time. To take these sorts of programmes that we have been talking about as an example, Ministers were receiving very regular updates, partly because we knew they were high risk. Ministers across Government have been involved in repeated sessions specifically about fraud in the context of Covid, for example. Ministers would have been receiving briefings for those. Ministers have been meeting with the banks in the context of the BBLs, so they would have been receiving discussion for those.

In a slightly more systematic way, we also have our implementation and delivery directorate, which is responsible for overseeing our performance on a cross-scheme basis. It regularly reports to Ministers across our top 20, 40, 60 programmes, what status, what we think is delivering, what we think the key risks are.



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That process sometimes kicks up schemes that, for whatever reason, may have not lately received a great deal of ministerial attention. Schemes come in and out of focus naturally. Occasionally, we pick up through that process. Then we tend to gather the full ministerial team to do a deep dive specifically on whatever it may be. These are not really schemes that do not receive a lot of attention, but to give you examples we recently went through one on the automotive transformation fund. We have also done one on Sizewell to bring the full ministerial team up to pace and to receive challenge.

It is not quite that we have lots of specific mechanisms, although we have a few. My personal view is that it is the core job of the civil servants running these teams to manage the risk, inform Ministers about that risk and debate potential responses to that risk with Ministers. What you are describing is absolutely the core business of responsible running of the Department.

Q23 **Kate Osamor:** Would you say that, while you are reporting and showing where there is risk, you are being listened to?

Sarah Munby: Yes.

Q24 **Kate Osamor:** How have we got to a place where there has been so much fraud and so much activity that has shown that nobody has been very clear or been able to identify that fraud could take place?

Sarah Munby: Because of the very unusual circumstances in which the schemes were set up, there was a need to support so many companies at such scale in a completely unprecedented way, with a very high degree of urgency and atmosphere of real impending economic crisis, on top of the medical crisis that of course we were facing. We set up, on both the loans and the grants, schemes with a level of fraud and error risk that we would never have normally tolerated, either as officials or as Ministers. These are really truly exceptional circumstances.

That has meant that, since then, we have all been collectively seeking to manage those challenges as best we can. The best way of managing fraud is preventing fraud from happening in the first place. That is a truism. I do not claim that to be a great point of wisdom. In these schemes, it was very consciously decided that we could not do that without further imperilling the future of many small businesses, so we have been managing that since.

Q25 **Kate Osamor:** With such a wide-ranging remit, would you not think that it would have been better to release the accounts with precise details as things were happening, as opposed to waiting until the annual reports were released?

Sarah Munby: I am not sure the accounts would be the mechanism for doing that.

Chair: I think you are talking about some of the spending, rather than



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the accounts.

Kate Osamor: I will change the word to “spending”.

Chair: The accounts obviously have to be signed off.

Sarah Munby: We do of course report through all sorts of other channels. To take an example, there is the local authority grant scheme. I cannot remember exactly the cadence. I am going to say monthly, but it might not be monthly. It might be slightly less frequent than that. We report amounts spent. Each individual programme will have its usual transparency arrangements, so that is where we would expect to see that. Tom, I do not know if there is anything that you would add about our reporting.

Tom Taylor: We have internal management accounting reports each month for the management and Ministers to consider. We also report every month on a very detailed basis to Her Majesty’s Treasury, which every Department has to do and load on something called the OSCAR system. There has not been a convention so far of releasing in-year expenditure reports, if you like. I appreciate that you do not mean fully audited accounts. That is why we have not done it.

Q26 **Chair:** Mr Taylor, we have had the Covid cost tracker that the NAO put together, which the Treasury is going to continue in a form. It has been an extraordinary period of time. Ms Humberstone, I do not know whether you want to come in on this. Do you not think there may be some benefit for the taxpayer, who has funded all this, to see how you are performing, to have some sort of tracker about the money that has gone out of the door from your Department?

Tom Taylor: I can definitely see the benefits of that. I read the Committee’s report, which was released yesterday and I can definitely agree with the value of the NAO’s work on this. There would have to be a central Government Treasury-led decision as to what the whole of Government should do in terms of in-year reporting and on what terms. That is not something that I have the authority to innovate on.

Q27 **Chair:** Put it this way: if Ms Osamor had put this as a parliamentary written question, what information would your Ministers be able to release on the basis of current spending, given that it is not audited? I understand that there would need to be some consistency across Government. We often get answers that are inadequate, not particularly from your Department I am suggesting, on these questions. Would you be able to provide that information if we were to ask that question.

Tom Taylor: It depends what the type of information is.

Q28 **Chair:** That is very vague. What information could you provide then, if you were asked a specific question?

Tom Taylor: We could provide information that we have a sufficient degree of certainty on. A good example, as the Permanent Secretary



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said, is the amounts that we have distributed to local authorities. That is very simple. It is literally money out of our bank account into local authorities' bank accounts. That is a very transparent thing. We report that in any case on a regular basis.

If we take that example for a moment, how much is the local authority then distributing of those funds? That depends on reporting from the local authorities, which we are not entirely in charge of, and they are very busy administering the schemes. Secondly, there is a much more difficult question, such as how much fraud and error there has been.

Q29 **Chair:** That is what we are discussing, but there is information.

Tom Taylor: There is information.

Q30 **Chair:** To underline Ms Osamor's point, there is information that you could put out in real time.

Tom Taylor: We put out the grants information, I understand, Kim.

Kim Humberstone: We do. That is right. We have two sources of information. We have our normal transparency data, which we publish on the gov.uk website. That is up to date. We usually take two or three months to get that out. Also, there is the Cabinet Office grant tracker, where all the information gets published as well as soon as we manage to get that uploaded.

Q31 **Chair:** As you see from our report yesterday, published formally today—you get a sneak preview in Whitehall—that is really critical for us as a Committee, that the public can see how that is being spent.

Tom Taylor: I did not get a sneak preview. I actually read it this morning.

Q32 **Kate Osamor:** Lastly from me, Ms Munby, given your Department's large inflated budget, have there been any discussions about an additional Permanent Secretary who deals with high-risk projects, similar to what we have been discussing today, and a Permanent Secretary who can actually report to Cabinet as well, not just to you? Have there been any discussions about this?

Sarah Munby: You might have noticed that second Permanent Secretaries are coming into fashion. It is fair to say that they are one of those things that is probably influenced a little bit by fashion. Certainly, it has been a topic of discussion for BEIS too. We have recently seen a second Permanent Secretary appointed at the Department for Transport and it may well be that we end up in the same position in BEIS.

I would reflect though that it is really important to say, on behalf of my team, that it is not the Permanent Secretary who fixes all the problems. We should be careful about falling into a great-man or great-woman model of leadership. I am lucky enough to be surrounded by a fantastic team of directors general and directors. While it may well be that we



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should consider adding a second Permanent Secretary, I do not think that we should imagine that that is the transformative solution. It is a team game.

Kate Osamor: That is part of the wider discussion, but it is about responsibility. It will fall on the Permanent Secretary, ultimately.

Q33 **Chair:** As Ms Munby is very well aware. She is the accounting officer, so, even with a second Permanent Secretary sharing the load, there is one accounting officer in a Department, which makes life clearer and simpler for us at least. Before I go into some other points, I wanted to pick up some points in response to some of the questions that Mr Grant was asking. You talked about the percentage of fraud and error dropping in cohort 1 of grants. In the sample that you looked at, it was 8.9% and you believe that that is coming down. Can you tell us what size of sample you have managed to sample so far?

Sarah Munby: That 8.9% is based on a really small sample. It is 476 loans.

Q34 **Chair:** In your accounts, it was 0.05%, but it is more than that since the accounts were published.

Sarah Munby: We are currently going through a revision to that estimate, essentially, which we do not have the results of yet. That is based on nearly 5,000 loans.

Q35 **Chair:** That 8.9% is on the 0.05%.

Sarah Munby: That is exactly right, yes.

Q36 **Chair:** It is a very small sample statistically.

Sarah Munby: Indeed, hence why I say it is definitely enough to be material and we are definitely concerned about it. Do I have strong confidence that 8.9% is the answer? I definitely could not say that.

Q37 **Chair:** What is your timescale for being able to be clearer on this? We are concerned about this across all Whitehall Departments, to be honest. These moving figures make us a bit nervous.

Sarah Munby: Ultimately, the deadline is that we will need to be able to use that number for our annual reports and accounts next year. Clearly, we will have interim numbers before that. If those numbers are appropriate to be shared, I would be happy to share them.

Q38 **Chair:** It would be helpful to see the trajectory. We will pick the final figure up in next year's accounts. Mr Mackinlay, who is not able to be with us today, has often raised the concern here that local authorities were not always consistently giving out business grants. A business of a similar type in neighbouring authorities could be treated quite differently. When you are looking at and doing your evaluation of how local authorities have allocated the money that you passed down to them to give to businesses, are you evening that out? Are you going to be giving



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some leeway? If a business said, "But the same business next door got the money and you said that is okay", how are you managing that? Is this where you talk about that margin of error?

Sarah Munby: I am not sure if this is what you are asking, but just to check, we are not planning to rebalance. We are not going to say, "This local authority did this, this local authority did that, so now we are going to give us some more money". That is not our intent.

Q39 **Chair:** Basically, if a decision has been made already and that business got it or did not, that is it.

Sarah Munby: Yes. It is worth saying that one of the components of these grants that existed in multiple waves was the additional restrictions grant, which was a conscious flexible pot for local authorities.

To give you a picture of what that was for, it is because there are businesses that do not straightforwardly fall into the definition of, say, pubs, but you might be running a taxi company that operates in exactly the area where all the pubs and nightclubs are closed and you have had a really difficult time of it. The point of the additional restrictions grant was to allow local authorities to support businesses in those kinds of situations.

It is true to say that, if you create flexibility to respond to local circumstance, the inevitable cost of that is inconsistency. You cannot have both local flexibility and fantastic national consistency. In the case of the additional restrictions grant, we absolutely understand that there will have been different ways that that money was used by different authorities. They all got the right amount of money, as it were. The question of exactly who they gave it to is one that we delegated, because they understood the local circumstance.

Q40 **Chair:** I certainly know in my area there were examples of very different types of businesses, because I represent an interesting set of business models, it is fair to say, in my constituency. Are you going to be looking at any evaluation, though, of how that fund was spent? That gives you quite a lot of rich information about the nature of business and different local economies.

Sarah Munby: It is worth commenting on evaluation in general. Ipsos MORI is doing the evaluation of the scheme for us overall. As you can imagine, that is a very full evaluation of all sorts of different aspects of the scheme, including the different waves, the different types of grants, what that impact was.

There is quite a lot of detailed and technical work to do. One of the things I have talked to the Committee about before is that it is actually really challenging to evaluate the individual schemes as part of the Covid response. Furlough, loans and grants are all interacting. We can quite confidently say that we already have enough evidence, looking at the economy, to say that the package as a whole was successful. The



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question of individual contributions of individual programmes is a really quite technical question that will take time to unpick.

Q41 **Chair:** It is quite qualitative actually, because some businesses have interesting business models. I want to pick up on the issue where you talked about a thousandfold level of fraud increase with the schemes that you had to oversee. You also sought ministerial directions, which I think we would accept as absolutely the right thing to do. You had no choice really, as accounting officer. Given you had those ministerial directions going out, did you not think at that point that maybe there was a need to increase the level of fraud support you had in the Department from two people to a bit more?

Sarah Munby: We did. We began increasing that fraud team immediately, because we knew, but the timescales were pretty short here. I do not mean to suggest that it was not a long wait, but Covid came and we were launching these schemes mere weeks later.

Q42 **Chair:** Who were you recruiting to be fraud officers? Were they civil servants or people with expertise from other sectors?

Sarah Munby: Primarily, in those early days, I think I mentioned earlier that we were actually taking experienced Government counter-fraud professionals from other Departments. It is fair to say, by the way, that one of the challenges in those early days was that there were lots of people seeking to do that, so there was pressure on the function as a whole.

Q43 **Chair:** That is exactly my point. Basically, you took existing fraud professionals within the civil service. You did not take general civil servants to become fraud officers.

Sarah Munby: No.

Q44 **Chair:** You did not bring people in from other sectors.

Sarah Munby: We may well have brought people in from the outside. Kim, you might be able to comment.

Kim Humberstone: That is correct. We brought in people who were ex-police officers, experienced in fraud, so that, once the crime stoppers lines was set up, we could analyse the typologies of types of fraud and then feed that back through UK Finance to the lenders. They would be aware to spot that.

Q45 **Chair:** Are any of those people still working for you?

Kim Humberstone: No. They were contractors, so we then moved on to recruit professional counter-fraud experts, with the help of the Cabinet Office.

Q46 **Chair:** I wanted to move on a bit to generally the financial difficulties you are facing and the fact that your accounts are qualified. There is money that you do not know if you will get back yet for the taxpayer. All these



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financial constraints will have an impact on what you can deliver as a Department, and you are a very wide-ranging Department. Things like your nuclear decommissioning work take up a very high percentage of your budget alone. You cannot, presumably, let that all go. What are you going to drop? What are you going to not do, or are you going to just look at efficiencies across the piece in order to balance your books?

Sarah Munby: We have obviously just come out of a three-year spending review. In some sense, at a capital funding level—sorry if I am saying something obvious here—the spending review answers for you the question of what you are going to do and what you are not going to do. You get funding for some of it and you do that and you make bids that you do not get funded and you do not do those. In that sense, it is simple. You may not always entirely like the answers, but it is clear.

Similarly, with RDEL-funded programmes, many of those are either funded or not. You then end up with, particularly when it comes to people who are funded through admin, a question about how you prioritise these resources. The picture for us over the three-year SR is we have big increases in R&D spending. Of course, while you need more people to manage that, to some degree, most of that is going through UKRI or other agencies, so it does not have that much immediate impact on your requirements in the Department.

Q47 **Chair:** That has all been fully paid for, has it not? I notice the advert for chair is out for ARIA, for example.

Sarah Munby: That is right.

Q48 **Chair:** That has all been funded through the SR.

Sarah Munby: That has all been funded. On the one hand, you have an R&D increase. The one I am more concerned about, going directly to your question about managing trade-offs, is that we have significant new capital programmes on net zero buildings, on hydrogen and carbon capture and on energy, including nuclear, which you mentioned. A critical priority for me is to ensure that those substantial new capital programmes or continuing capital programmes are properly supported with the right level of resource.

The consequence of that is that I have had to ask teams from right across the Department to look very carefully at their activities and make sure that we are pursuing efficiencies wherever we can and are prepared, in some cases, to take schemes that may have been running for some time and say, "Has this scheme reached the end of its life?" We have not yet closed that business planning process with Ministers, so I cannot tell you the results of it today, but that is the shape of it.

Q49 **Chair:** It will be quite a revelation if we see certain things that have been going for years that no one has noticed actually stopping in a Department. Do you think you are going to be successful in that?



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Sarah Munby: We are having a good go. It is fair to say that our ministerial team is keen to close some tabs.

Q50 **Chair:** There we go. There is a first time for everything. Sorry, I am a bit cynical about this. We know there are sometimes teams in Departments where no one knows what they are doing because they have been there such a long time. There is also very good work, of course, that goes on.

Sarah Munby: On that point, because of this picture that we essentially have a flat resource profile and a growing capital profile, we had the same picture at SR last year. With the help of teams in the Department, we have been put in a position where we have had to very thoroughly scrub. I am pretty confident that we do not have any teams in the Department that are in a dusty corner. We have thoroughly flushed out any dusty corners, and that is absolutely the right thing to do for the public purse.

Q51 **Chair:** That is refreshing to hear. You mentioned there net zero, hydrogen and carbon capture. A large amount of your work is dealing with delivering on the Government's approach to net zero. We have obviously discussed this. We will not go into it in massive depth today, because we have looked at it before. You have money going in and one thing you need to do is track what the outcomes are. This is not just about money but actually getting that carbon reduction. How is it going, tracking with what other Departments are doing? It is very early days yet. It is not all down to you, but there will be an expense on your Department to deliver something that other Departments will be delivering, if you see what I mean. You have to keep a track on what they are doing. You are responsible for that—three hundred and how many pages was it?—document that you had in front of you last time.

Sarah Munby: I hope you have read all of the annexes by now.

Q52 **Chair:** You are going to now test me on the last annex and I have not got that far, I must admit.

Sarah Munby: Listening to your question, I was reflecting that there are two elements of this. The first is tracking carbon delivery. The core bit of cross-cutting responsibility that we have in this space is ensuring that, essentially, the carbon emission targets that were set by sector or element of the economy are being delivered on. We need to be able to understand that in order to be able to make the strategic decision that, for example, maritime is not doing as well as we hoped—that is not a fact, just conceptually—therefore we really need to double down more on buildings.

The formal process for managing that is that we will be publishing an annual update document to the net zero strategy, which will be the moment at which we crystallise that discussion of "How are we doing on carbon?" I suspect the first few will be relatively—I cannot believe I am about to use this word—boring, in the sense that you do not get big shifts. These are long-term journeys. Over time, we will start to see



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places of over and under-delivery and we may need to consider rebalancing.

On the point about money, I am interested in, "DfT, you have made some commitments around carbon reduction". I am not the accounting officer around spending money to deliver that. That is for the Permanent Secretary to manage.

Q53 Chair: You talked about the example there of maritime versus buildings. You could say vehicles versus buildings, whatever. If a Department is not delivering on its schedule, somebody has to be making the argument in Whitehall, not just at ministerial level, about "A bit more resource into battery technology for cars would mean that that target gets met quicker", or, "We could ramp up the insulation programme for housing", or whatever it may be. You would be directing on that, rather than spending on it. Do you think that the resource in dealing with that, the skills you are going to have to have to monitor that, are immense, and yet you are stretching your people very thin?

Sarah Munby: There are maybe two things to say. One is of course that it was exactly the same sorts of discussions that we had in the run-up to the net zero strategy. The various official and ministerial groups that meet across Whitehall to talk about what the trade-offs are, what the picture is are well-set-up, well-functioning. They are quite mature now and have been running for some period. Ultimately, they go up to the CAS, which is chaired by the Prime Minister. As I have said to the Committee before, the ultimate sanction is not that an official in DfT is going to receive an angry letter from me. The ultimate sanction is that this goes up through ministerial control and back down into the relevant Department, which could be us, whoever is not managing to deliver.

It is also worth saying that the departmental ODPs, which are the plans that Departments have to put together to say what it is they are doing and what the targets are, provide another means right across Whitehall, not just on net zero, but that is one, for tracking what people are doing. We have a cross-cutting outcome in our ODP around net zero, into which other Departments have had to feed in quite specifically what it is they are and are not doing and how they think that will work. Insofar as Whitehall has brilliant tracking system, it is the ODPs. That system is honed in on tracking net zero on top of all the bespoke arrangements that we have put in place, given the importance of the agenda.

Q54 Chair: Who is going to be monitoring the money that goes in, in terms of whether it actually delivers on the outcomes that you want?

Sarah Munby: We will be monitoring whether the carbon outcomes are delivered. Accounting officers in Departments will be monitoring whether those outcomes have been delivered in a value for money way.

Q55 Chair: We will be producing our report on net zero very soon. We will be coming back to this issue repeatedly, so I will not go into that much more



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now. As I said, you have a big Department. You have a lot to deliver. How are you managing to recruit people with the right skills? Do you have the right skills currently in the Department to deliver on the challenges that are ahead of you?

Sarah Munby: The short answer to whether we have the right skills for where we will want to be in three years' time is no. There is quite a substantial skills journey for the Department. That is really about recognising that, while we have always had big delivery programmes in the Department, there is a proportion of our people who are doing, to oversimplify it, delivery work as opposed to policy work. That distinction can be a bit over-purist, but, in a simple way, a higher proportion of our people will be doing delivery versus policy. Hiring in more delivery professionals over time is going to be important.

We have already made some really good starts on that. As you can imagine, that journey has been going for a while. There have been big increases in the number of qualified project delivery professional across the Department. There have been big increases in our number of MPLA-qualified SROs, but it is a journey.

Q56 **Chair:** MPLA is Major Projects Leadership Academy. That is the Civil Service programme done at Oxford, is it not?

Sarah Munby: That is right. Thank you. That is the gold standard. If you are going to be the senior responsible officer for a serious delivery programme, you should really have the MPLA. All that is taking place.

It is worth saying that 18 months, two years ago, as I mentioned earlier, we created a new directorate within the Department. Rather than to deliver individual programmes, the implementation and delivery directorate is there specifically to look at, as a Department, whether our capabilities are in place, whether our reporting is in place, whether our risk management is correct, what the cross-cutting issues are, whether our portfolios are structured correctly, those sorts of system-level delivery issues for the Department.

To give you a live titbit, one thing that team has done is set up something called the project assistance team, which is professionals who specifically can be short-term mobilised into new programmes. One of the real challenges in this if, if a programme comes up quite fast, which they on occasion do—these are the perfect example, but there are others too—you can of course hire people in, but hiring people in takes a bit of time. You need your marines ready to go.

Chair: I am seeing you in a different light, Ms Munby.

Sarah Munby: We now have that to help us with that very beginning phase where project set-up and design is so critical to successful delivery.

Q57 **Chair:** That is quite interesting, because one of my next questions was about how you are managing risk. We have talked a lot about the loan



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schemes and the risks there, but there are other risks you have. If you want a Department packed full of risks, you have lots of big projects. Is that part of your strategy in managing future risks, having that team there so you can get things set up well from the beginning?

Sarah Munby: Yes. They are probably more in the risk reduction, if you see what I mean.

Q58 **Chair:** It is part of managing risk, is it not?

Sarah Munby: Separately, we now have a pretty well-structured risk reporting process in which we track risks across the Department. P&R, which is our committee within the Department that reports to ExCo, looks at risk and the results of that reporting. We also ask leadership teams to look at the results of that reporting.

I do not, though, think that reporting is the answer. It is certainly helpful, but it is not the point. Much of this is about having the right risk culture. While I hesitate to look for upsides from the experience of 2021, the combination of what we are discussing today and, if I may say so, the green homes grant has had a very positive impact on risk and delivery culture in the Department, because we have had borne very forcibly upon us some of the real-world challenges that come in delivery schemes that come upon us rapidly where we are not able to put up-front checks. It is very normal now in the Department to hear very robust and challenging conversations at the beginning of programmes, because we have had such real-world examples of the challenges that come if you do not have those conversations up front.

Q59 **Chair:** Did you similarly find that the fact that you had to issue ministerial directions because of the speed of things crystallised your thinking as well? There is quite an interesting process. When you have to write that letter, it is not a light thing you do, is it?

Sarah Munby: No.

Q60 **Chair:** You have to go through a certain formula and lay out certain thinking.

Sarah Munby: Yes. It is also worth saying that the impact that I am talking about on risk culture within the Department, of course, is also relevant to ministerial risk culture. The things that we are discussing today around fraud and error are really challenging, important and difficult; Ministers are experiencing that too. That certainly makes everyone breathe a little harder in the conversation about a new scheme where you are talking about, "We think it is advisable to put in this fraud control." Right across Government, those conversations are going better now than they were.

Q61 **Chair:** Has it made you more risk-averse? There are always going to be risks in any Government.



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Sarah Munby: I do not think we are more risk-averse, but more conscious of managing risk and discussing, “What is the impact of this control? Do we want to take it? Are we sure we have really considered it?” We are more considered about risk.

Q62 **Chair:** What have you done? Maybe Ms Humberstone could come in on some of this. When we looked at this managing risk, particularly around fraud and error, it was very apparent the Department for Work and Pensions and Her Majesty’s Revenue and Customs were better equipped to deal with it. They were used to dealing with that. They had a process and a thinking in place. Ms Humberstone, did you try to learn any lessons from how they and other Departments managed risk over fraud and error?

Kim Humberstone: Yes, we have. We have taken advice from the Cabinet Office counter-fraud function. We have a Project and Investment Committee where outlined and full business cases come through. One of the requirements now to go through PIC is that there is a fraud risk assessment in place. It is one of the things that we check, and my counter-fraud team performs those fraud risk assessments on behalf of the policy teams that are delivering.

Q63 **Chair:** When you were talking at the very beginning, Ms Munby, about the estimate for fraud and error in the local government schemes, in particular the first cohort—and we have since highlighted that that is a very small sample, and you are trying to manage down that risk—what process are you going through to really crystallise the number of fraudulent claims? Can you perhaps just go through it in more detail than that, or maybe Ms Humberstone?

Sarah Munby: I will start, and then, Kim, if I miss anything, add it. We are essentially doing a similar sort of process, but at a much larger scale with a much bigger sample. Sorry to be boring, but one of the reasons you need a bigger sample is because you have quite a lot of different kinds of grant in here. You have the three cohorts, and even within the cohorts, there are multiple different types of grant, so we need to have a representative sample from within each type in order to give a much richer story for the picture overall. Not only will we be able to have a bigger sample, but we will also be able to do fuller checks, ultimately with greater involvement from the LAs.

I talked about the limitation of our current numbers. I am worried about the small sample; I am more worried about the fact that, for example, where we are saying that there is a risk that this particular grant might have been made in error, we have not yet closed that question down by going back over, in conversation with the LA, “Why did you do it? Does that make sense? What does it look like? Are we collectively happy that this is truly a case of error?”

At the moment, it is a relatively top-down, central view on the problem as opposed to a view that brings together the perspectives of the



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Department and LAs. The reason for that has been that the reality of administering these waves of grants has been a real pressure on LAs. LAs have responded really well and powerfully, but they can only do what they can do. It has not been possible for them to carry out all of the detailed sampling and assurance activities at the same time as being asked to deliver cohorts 2 and 3 of the loans. Ministers, for good reason, have prioritised delivery of the money over doing the sampling work faster.

Q64 **Chair:** We get that. We know there has been a lot of pressure, but Covid has been business as usual now for two years. The first six months was a bit of a shock to everyone, but local authorities were doing regular returns to the Department for Levelling Up, Housing and Communities, for example. Is there not a danger that, the longer this goes on and that you use the excuse, if you like, that they were busy doing something else, that money has gone out of the door and it will never really be recovered?

Sarah Munby: I hesitate to say this because it seems so ironic and we have been here before when we have thought we have reached the end of the road, but it is not in any of our plans or expectations that there should be any further rounds of grants. We are also at a point where the systems and methods for grant delivery, including prepayment checks, are approaching maturity.

Chair: Yes, so if there was another round, we would be in a better place.

Sarah Munby: We are getting to the point now where we are planning, for example, the full collection of data from all LAs across all grants about expected error and fraud. It goes beyond sampling into the full data collection period to happen over the next quarter or so. We are definitely in that mode now. It would have been good if we had been in that mode earlier, but it just has not been possible for LAs to manage the large number of concurrent pressures that they have been facing, in particular the pressure that we have been putting on them to deliver further cohorts of loans.

Q65 **Chair:** Are you confident that they have good records that you can audit? If you need to do a deep dive, are you confident that you can do that?

Sarah Munby: I am confident that we can go in. I could not comment today on the quality of record-keeping.

Q66 **Chair:** It is just that we have seen in central Government that there was some very poor record-keeping for a Civil Service that is supposed to be the gold standard on keeping records, maybe among other things. In other Departments particularly, there was very poor record-keeping. You are hoping that you will find in local authorities that they have kept good—



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Sarah Munby: Yes. Clearly, at BEIS, the thing that we are measuring, at heart, is payments out to a known set of businesses that featured on local authority—

Q67 **Chair:** Your accounts have been qualified on the basis that you are not quite sure where this money has gone, so I was just hoping for a little bit more confidence that you were confident that you would find some audit trail, basically, and if you do some deep dives, you can go down. Mr Taylor is nodding. It sounds like he is going to give me reassurance here, let us hope, for the taxpayer's sake.

Tom Taylor: It was clear in the guidance that we gave to local authorities, with one or two exceptions, that they were acting as our agents under the grant memoranda, and as such, expectations were put on them for recordkeeping and being able to audit, and that we would need to come back and reconcile this information. That is a basis for confidence that we can have.

In answer to your question as to what we are doing to refine the estimate, as the Permanent Secretary said, on cohort 1, we are increasing the sample to near-on 5,000 instead of the original 476, or whatever it was. On cohort 2, it will be even larger still. It will be over 12,000. We took advice from the ONS as to how to devise the sample, and we did it very crudely in the first one for the set of accounts that you see before you because of the time that we had. We took advice from the ONS on improving the precision and things like stratifying it by subgroups, areas, scheme geography and so on.

We will have a statistically robust sampling frame to go after. That should give us confidence that we can narrow down the bounds of the confidence interval around these estimates. Crucially, as the Permanent Secretary said, this depends upon the capacity and willingness of the local authorities to be able to respond to our requests.

Q68 **Chair:** This is taxpayers' money. Even if it is an error at the margins, this is still money that could have been spent on something else. If a company got it in error, but not through their own error because it was allocated in error, where does the buck stop? Does it stop with the council that allocated it inappropriately and has to pay it back or the Department?

Tom Taylor: When we were writing the grant agreements that went out to local authorities, and indeed to individuals, we made clear that the Department would stand behind any fraud and error subject to local authorities taking all reasonable and practicable steps to have administered it properly in the first place, and then secondly, taking all reasonable and practicable steps to recover any debt that was due from any fraud and error. After that point, it is very squarely—

Q69 **Chair:** How long, then, does that process play out?



Tom Taylor: It really depends. Different local authorities have different approaches to debt recovery. They have to take a minimum approach, which is the invoice and then two recorded reminder letters. Some have already taken forward active prosecutions. You can see that there is a variety of practice there, but fundamentally the issue is that we have not given local authorities at large the headspace yet to be able to do all of the reconciliation work because we have been asking so much of them in terms of further grant schemes.

Sarah Munby: If I might just add one thought, everything Tom said is actually right, but of course, while the buck stops with us in the way that Tom has described, local authorities, of course, have their own responsibilities around public money. Regardless of the question of who ultimately pays out, the section 141 officers in local authorities have accounting officer-like responsibilities. They will, of course, also be subject to audit, et cetera. That is not to take any pressure off the processes that we need to ensure we are driving, but there is a separate process for ensuring that local authorities are looking after your money.

Q70 **Chair:** There are also huge delays in local government audit, which will we not revisit, but you know that it is not by any means a perfect situation.

This brings me back to you, Ms Munby. These are the Covid schemes with long tails. We have the 10-year bounce-back loan scheme. You have the local authorities going through processes. Who pays for the prosecutions, incidentally? If a local authority prosecutes, is it them that pays?

Tom Taylor: Yes.

Q71 **Chair:** If you are standing behind them, there is not much incentive for them prosecuting if they would not normally on small amounts of money, I guess. It is a bit like the bounce-back loan schemes. Banks go a certain way, as Mr Wild reminded us at the beginning. Ultimately, it is you, the taxpayer through you, that stands behind them. You have this. You have long tails.

What is the plan over time to manage all of these financial risks that are still rumbling on: fraud; error; repayments, which might not necessarily come back in through fraud or error just because companies go bust? How are you keeping a handle on that from your seat as accounting officer, and does it keep you awake at night?

Sarah Munby: There are two elements to the answer. First of all, it is just worth saying on a very practical basis that we are not in any sense shutting up shop on any of this any time soon. I talked about the business planning process that we are going through now. The right resourcing for managing the tail of these schemes is a critical priority as part of that process, and indeed, we have continued to put additional resources into the team managing the local authority grants, for example, to mean that we can have more relationship managers for LAs and further sessions to support and help provide training to LAs. It is



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certainly not something that I would see as a done game from a resourcing allocation point of view.

The second part of your question is "Okay, so what does that mean for me?" These are some of the most substantial financial risks that exist in the Department. There are others too of different natures, but these are both definitely in my top 10, probably top five, things that I am worried about. I try not to be kept awake at night, but were I to be awake at night, this is one of the things that would be top of my list.

Q72 Chair: I would hope that the taxpayer would expect that at least you could toss and turn a little bit worrying about their money, much as I want you to sleep well and do a good day job. You talked about the full data collection being reported in the annual accounts, but from what you have talked about and what we know from local authorities, they are under pressure. You have told us when you expect to get your accounts back on schedule. You have a plan for that. Do you really expect that you will have information from local authorities, particularly on cohorts 2 and 3, of the funding that you have given them, by that point?

Tom Taylor: We will have a very good re-estimate of cohort 1 by the time that we are talking about the 2021-22 accounts. We will have made good strides into the estimation work for cohorts 2 and 3, for sure, on a much more solid sampling base than we started out with on cohort 1, because of that ONS advice that I mentioned. We cannot say at this moment, because it is dependent upon—

Q73 Chair: By which set of accounts will you be fully back on track?

Tom Taylor: It depends on what you mean by "back on track".

Q74 Chair: I mean having all the information you can about all the money you have put out there and at least a much stronger idea of the fraud and error in those later cohorts. I am putting this very generously.

Tom Taylor: We would hope that in the 2021-22 accounts we will have a much improved estimate. That we can be sure of, for the whole lot. Whether it is sufficiently accurate to satisfy both us and the C&AG remains to be seen. It is more likely that it would be the following year that we would have the degree of certainty that we would have liked to have had from the outset.

Q75 Chair: That is 2024-25.

Tom Taylor: That would be 2022-23 accounts.

Chair: Sorry, I am jumping ahead.

Sarah Munby: Just in case people do not quite have this in their head, that is noting, of course, that the most recent round of grants has gone out very recently. Some of them by that point will be very old and we will have good estimates earlier on those, but some have only just happened, so it will take a bit of time.



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Q76 **Chair:** As you said yourself, you hope that for the later ones you prevented it—

Sarah Munby: Absolutely, yes.

Q77 **Chair:** There will not be full reconciliations on many of these figures for quite some time.

Tom Taylor: I would certainly like to hope that the 2021-22 accounts would have full reconciliation. What I am saying is I cannot guarantee it, because it relies not on the effort of my team solely but on the effort of local authorities.

Chair: There are a lot of worries there about what incentive they have to pursue it if you are standing behind them.

Q78 **Peter Grant:** Ms Munby, I want to look briefly at the Post Office, which is one of the many entities that your Department has some responsibility for. Without obviously cutting across the independent inquiry that is currently underway, what is your latest estimate of the total compensation bill that will have to be paid out to victims of the Horizon scandal?

Sarah Munby: We have written to both this Committee and the BEIS Select Committee in these terms, so I will refer to that, if I may, but you all have this in writing. There are two critical elements of this. One is the historical shortfall scheme, where our current estimated cost of settlement, as set out in the Post Office annual report, is £153 million. I know part of the original question that we were answering here was about Government funding versus Post Office funding. £89 million of that is from the Post Office and a provision of £65 million is from BEIS.

The other piece of the puzzle, of course, is the compensation for overturned criminal convictions. Our current estimated maximum potential spend is £780 million. That is an HMG commitment to cover that spend. It clearly will depend on what happens as to how much of that transpires, but that is what we have put out as our estimated maximum.

Q79 **Peter Grant:** On the historical shortfall scheme, am I right in thinking that that applies to people who were not convicted but who still were very badly treated? That number concerns me, because, in terms of the number of people affected by that, although they were not convicted, the numbers are probably significantly higher.

To give one example of the impact it had, one of my constituents was featured in a number of news bulletins when the inquiry started. She and her elderly mum ran the post office in the village where they lived. They flagged up that something was wrong with the computer system because it kept showing up a discrepancy. The Post Office spent several months ignoring their warnings, then accused them of fraud and sacked them from their jobs. They had to leave the village they lived in because it went around the village like wildfire, as you can imagine, that the postmistress had embezzled money. In fact, the family put in £70,000 of



their own money because they thought they must have been making the mistakes that caused the shortfall.

Her mum died under the shame of being a fraudster, never lived to know that she had been cleared. Her daughter is now trying to, first of all, get compensation for herself and get compensation to pay back the family members who bailed them out at the time. How confident are you that that sum of £153 million can come anywhere close to properly compensating people who were not wrongly prosecuted or convicted but whose lives in some cases were utterly destroyed by actions that we can now see were utterly indefensible?

Sarah Munby: It is important first of all, just before I answer the question directly, to say that we absolutely fully acknowledge that, in all sorts of different ways and in all sorts of different circumstances, many postmasters and their families, exactly as you say, have endured really very challenging circumstances, ones that all of us, and of course our Ministers who have acknowledged this in Parliament, very sincerely regret. The inquiry is just critical to put on the table. It is going to be the place where we understand exactly what has happened. I would have to come back on the specific type of case that you are talking about, but certainly we have been collectively forward-leaning in historical shortfalls criminal compensation, in a desire to provide fair and just compensation for people who have been affected.

Tom Taylor: If I can just add, it is our best estimate at the moment of the likely liability under the historical shortfall scheme. It is just an estimate. It is not, I should stress, any kind of hard and fast limited. It is not a budget within which we have to live. It is, as I say, an estimate. There is an independent panel that has been set up to administer, to look at each individual claim under the HSS. I get to see some of the paperwork for that. I know they are doing an incredibly diligent job. Anybody that has any kind of valid claim should be encouraged to come forward and have their case assessed by the panel.

If in due course it turns out that, as we go through the caseload, the estimate has proven to be too low, then it will be increased. It is not a question of anybody being short-changed. I can assure you of that.

Q80 **Peter Grant:** Clearly the human cost of this is unimaginable. The Committee also has to look at the hard numbers that are involved here. Is it not a fact that the distinction between costs being met by the Post Office and costs being met by the Government is a false distinction, because at the moment the Post Office is in negative equity just for providing for their share of the £153 million? If all of that was landed on the Post Office right now, the choices would be to dissolve the Post Office or bail it out, yet again, at taxpayers' expense. Is it not a fact that that overall cost of not far short of £1 billion, directly or indirectly, is a cost to the taxpayer?



Sarah Munby: It is worth just saying, by the way, just before I answer your question directly, that of course a very large portion of that, the £780 million that I talked about for compensation for overturned convictions, is explicitly on the public purse. At the margin, there are some costs that will be met through existing Post Office funding. They are not an incremental costs to the public purse now.

You are right, of course, that depending on how commercial performance in the Post Office evolves, ultimately if the public purse stands behind that, of course any cost in any public body could ultimately come back to the taxpayer. Whichever way you look at it, we are talking about very significant, multi-hundreds of millions of pounds worth of cost to the public purse to make sure that people who suffered the kinds of things we have just been talking about are properly compensated.

Q81 **Peter Grant:** One of the things that the directors of a company have to do in their annual accounts, and that their auditor has to give a view on, is to consider whether it can be regarded as a going concern. Do you have any worries that the ongoing reliance of the Post Office to be bailed out by taxpayers might actually prejudice their position to be operating as a going concern?

Sarah Munby: That would be a question for the Post Office board. It is not inherently the case that the fact that they receive an element of their money from the public purse would prevent them from being a going concern in and of itself. Obviously the board will look carefully at those questions, as you would expect any board to.

Q82 **Peter Grant:** Looking at another area where your Department has a responsibility over Post Office Ltd and other businesses, on the regulation of businesses and the regulation of the conduct of businesses, at best there had to be very senior people in the Post Office who were grossly negligent, grossly incompetent or both. There is no limit to what "at worst" might be; there could well have been criminal misconduct in some cases. How comfortable are you with the sanctions that you have available to take against directors or officers of a company in those circumstances? At the moment, it does not seem as if anybody from the Post Office has been held to account in any way whatsoever for what happened.

Sarah Munby: I appreciate that this will be an unsatisfying answer, but in the specific case of the Post Office it is important that we wait for the inquiry. It is exactly getting at these questions of what happened. If we had collectively received sufficient evidence at some point to believe that there was a clear case to take action against any specific individual, then that would have happened. That is not to say that, as the inquiry uncovers more evidence and looks at the problem more fully, such evidence could not emerge. Of course it could.

More broadly, not directly in the Department but through our partner bodies and the Insolvency Service, we do hold powers to disqualify



directors. We talked about using those powers for directors who are found to have behaved inappropriately in the context of Covid loans and the British Business Bank's work, for example. There are serious consequences for directors.

Q83 Peter Grant: There can be. I am familiar with the changes that were made for the directors' responsibility. I actually served on the Bill Committee for that piece of legislation. The fact is that it is still far too easy for directors to get away with it for a long time without ever being held to account, partly because of the complexity that can be involved in taking a prosecution for fraud, for example.

I have previously raised on a number of occasions with Ministers in your Department, and in the Treasury, the directors of Blackmore Bond plc, who vanished £46 million of people's pensions. The two directors are still operating dozens of companies registered with Companies House. Between them, there have been scores of breaches of statutory reporting requirements to Companies House, none of which have elicited any sanction because there is no sanction that can be imposed in those circumstances, other than to compulsorily wind up the company. Sometimes it is in the interests of a company to be compulsorily wound up.

I appreciate that Companies House has only recently come under your remit, but what steps are you taking to make sure that, either within your core Department or within bodies such as Companies House, the anti-fraud system in the United Kingdom is made fit for purpose? It quite clearly is not fit for purpose just now.

Sarah Munby: Specifically on Companies House, there are two things that are worth talking about. First, as the Prime Minister has already indicated in the House, we expect to introduce—it is likely to be under Home Office sponsorship—an Economic Crime Bill. That will allow us to give Companies House new powers and responsibilities. There are various elements to that. A potential element, for example, is around a register of overseas property ownership, which will make it harder to carry out money-laundering activities.

All of that work on the legislative pieces of the puzzle sits alongside a serious transformation of Companies House in terms of capabilities. To cut a long story short, it is really modernising the register so we can ensure the right data is on the register, ensure that data is shared in the right way and strengthen the register as a way of exactly tackling economic crime. It is a really exciting journey for Companies House. It is about helping Companies House become an even more powerful agent through the combination of an organisational investment in digitisation and, assuming the Bill moves forward and passes, a series of new powers that will really enable us to have much stronger answers to how Companies House can play its full role in the fight against economic crime.



Q84 **Peter Grant:** We might differ about the use of the phrase “even more powerful” tool. That assumes it is a powerful tool just now, which might be something we have different views on. In response to some of the earlier questions, you mentioned the sharing of data with Companies House. That is all well and good, but are you aware that Companies House does not verify any of the information that is provided to them when a company registers? It does not even do checks to confirm that a person exists.

Sarah Munby: Yes, very much so. That is absolutely in scope of what I would certainly be keen to see changed through the journey I am talking about. The powers of Companies House are both a transformation issue and a legislative one as well.

Q85 **Peter Grant:** Finally on this, the Chair asked in general terms about the adequacy of your staff and the skills they have. Have you begun to estimate how much additional resource Companies House would need to have if they were going to be transformed into an organisation that—

Sarah Munby: Yes.

Peter Grant: Are you able to share with us what—

Sarah Munby: Yes, we have confirmed £63 million of additional funding for Companies House at the spending review.

Q86 **Peter Grant:** Would that be an annual amount?

Sarah Munby: It is over the scorecard.

Q87 **Peter Grant:** It is over the scorecard. What does that mean?

Sarah Munby: I am sorry. Apologies, that is a three-year figure. It is a total of £63 million additional.

Q88 **Peter Grant:** What would be your estimate of the necessary increase in annual staffing costs? Is that wrapped up in that £63 million?

Sarah Munby: That is wrapped up in that £63 million. A lot of that is staffing costs. It is also the investment required to digitise systems, for example.

Q89 **Kate Green:** I just have a couple of other questions on Companies House and specifically in relation to the application of compulsory strike-offs. It is well known among unscrupulous directors that a compulsory strike-off wipes out liabilities, including liabilities to, for example, HMRC or employment tribunal payments as well as other civil penalties. How confident are you that Companies House is proactively ensuring that, where a compulsory strike-off takes place because of non-filing and non-compliance, it is not being used by directors as a way of avoiding liabilities that they would otherwise be required to meet?

Sarah Munby: I do not have a good enough answer to be comfortable giving you one today. I am very happy to come back to you in writing.



Q90 **Kate Green:** That would be helpful. In the context of what you have just been saying in response to Peter Grant about the modernisation of the register and the way in which it enables Companies House to be more assertive, it would be very helpful if we could also be confident that they would be more proactive. At the moment, if a company does not provide the necessary filing information, they are contacted by Companies House. If they do not hear anything back, they are struck off. If there is any objection to that strike-off from third parties, they are required to be very informative and put together a great deal of information to challenge the strike-off.

As a Committee, we would welcome information on how the modernisation programme will redress that imbalance and ensure there is proactive management of the compulsory strike-off process so it is not used as a means of allowing directors to avoid responsibilities.

Sarah Munby: Yes, your question is very clear. It is a question of the extent to which that is or is not included in the proposed measures for the Bill. I will need to come back to you on that.

Q91 **Kate Green:** I just have one other question. If it is possible, could you provide us with annual figures over perhaps the last three years or indeed perhaps going back to 2015—since I gather we have seen a 50% increase in the number of compulsory strike-offs since 2015—on the losses to the public purse in terms of non-payment, for example, of debts to HMRC as a result of compulsory strike-off? The Committee would be very interested to see those figures.

Sarah Munby: We will very happily pass that question on to Companies House and come back to the Committee with whatever is possible.

Q92 **Chair:** This exchange about Companies House has rather highlighted the need for skills in your Department. Who oversees Companies House? Not who by name, but what structure do you have to oversee Companies House within the Department?

Sarah Munby: It is the same for all our arm's-length bodies or partner organisations, as we call them in the Department. It is worth saying, of course, that there are many people with a great deal of expertise inside Companies House itself.

Chair: Yes, but you will need to assure us and—

Sarah Munby: Yes, but I just wanted to emphasise that there is a lot there.

Chair: We completely get that.

Sarah Munby: Inside one of our director general-led groups, market frameworks, we have a sponsor team, as we do for each of our arm's-length bodies. In this case, there is a director, for example, who has responsibility for managing the Companies House relationship.



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Q93 **Chair:** That is the structure, but do they have the right skills to oversee this modernisation programme and ensure it is going well?

Sarah Munby: Yes, or we would not have appointed them into that role. I realise that is a sort of—

Q94 **Chair:** Let us be honest: there are a lot of bright generalists or mandarins, depending on how high up they get. A bright generalist might do a perfectly good job, but there are specific skills that your Department has across a range of issues, as we have touched on earlier.

Sarah Munby: Yes. In terms of overseeing and sponsoring an organisation like Companies House—this is the thing that was making me hesitate in answering your question—one of the challenges is that we could put somebody there who is an expert in digital transformation, but you might also say to me, “Sarah, you should have somebody there who really understands company law”.

Chair: They might have a bit of everything.

Sarah Munby: Exactly, yes. What we are trying to do is find the right balance of skills for people who occupy that role. There is also a degree of skills in sponsoring and managing an arm’s-length body, which is another level. You do not find somebody who has absolutely the full package.

Q95 **Chair:** It is not one person, is it? It is somebody—

Sarah Munby: No, it is a team.

Q96 **Chair:** Do you have the right skills? What is the answer to that question?

Sarah Munby: Of all the skill things that keep me awake at night, I would not say that the skills of the team sponsoring Companies House is particularly of concern.

Q97 **Chair:** You have picked up the concern of the Committee about it and some of the stark figures that we highlighted. Just before we finish, I want to go back to something from earlier. Right at the beginning you were talking about how you estimated fraud and error, and we talked a lot about the sample size. It is one thing to get the estimate right and get it through the NAO as accounts without qualification, but there is also then chasing down the fraud and the error.

We touched a bit on how local authorities will do it, but what are you going to be doing proactively? Have you made a business case for what investment you need in skilled people to chase down fraud? If you were HMRC, you would be getting a good return for it. Can you get a similarly good return on that investment?

Sarah Munby: As Tom mentioned earlier, the first step in the process—I will come to what we are doing in just one second—is that local authorities are the first line of recovery. They go through that process. Once they have completed the process, we take on the recovery. In a much more direct way than we do in the case of bounce-back loans, we



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are using Indesser to carry out the grant recovery work. If you have received a grant in error and you have been invoiced and written to twice by your local authority, the next thing is you will be put over to Indesser, as it were. We have an agreed set of what they will and will not do and how to manage that process. We will invest in that contract up to the point at which it—

Q98 **Chair:** Do you have a business case for what level of investment and what people you will need? If you are using Indesser, I suppose you are outsourcing it. Do you know what level of investment you will need and what level of return you will get from that?

Sarah Munby: Yes. The subtle point I would make is that it is also something that you learn about as you go.

Q99 **Chair:** Except that when a local authority has gone through this process with other of its creditors, it would have an idea of how much is written off, for instance.

Sarah Munby: Yes, sure. All I mean is that it is the sort of thing where what you do typically is set up a payment-by-results-type framing. It is not that you decide upfront that you are definitely going to invest X and get Y. We are still getting value for money. It is a little bit like what Tom was talking about earlier. It is not that there is a hard upper limit to how much we would invest. We will continue putting into that process until the point at which we do not see value for money anymore. We do have a business case, but it is also a dynamic decision.

Q100 **Chair:** How much will you get back?

Sarah Munby: We do not know.

Q101 **Chair:** When will you know? When will you be able to give us better estimates, at the very least?

Sarah Munby: It will probably be on a similar timeframe. I would expect that we will have a better understanding of that in time for the annual report and accounts next year, because we will have begun more of that recoveries work in earnest.

Q102 **Chair:** You will have a better idea of what you might get back. In terms of actually getting it back, how long are the repayment plans typically to be? Are you going to give people one year, five years or 10 years?

Sarah Munby: These amounts are not huge. I do not know exactly what decision we have made on that, but I would be very surprised if we were talking about 10-year repayment plans.

Q103 **Chair:** What is your policy on write-off? Do you have a policy for when you might decide that you are just going to write it off?

Tom Taylor: *Managing Public Money* stipulates that you pursue all debts until it becomes uneconomic to do so, until you get to the point when you do not have a realistic chance of recovery and the costs of continuing are



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greater. However, you can factor into that the public deterrent effect as well as the pure return on money, as a commercial entity might.

One of the areas we have invested in quite heavily—and we will continue to invest in over the spending review—is the National Investigation Service, which works very closely with local authorities and has done some of the high-profile arrests you have seen on the news in terms of local authority grant fraud and indeed some of the loan fraud too. We will continue to invest in those. Those are an important part of our prosecution effort.

Chair: On this Committee we do like a bit of high-profile public deterrence as well as getting the taxpayer's money back into the Exchequer. We will continue to pursue you on those numbers. We can talk as much as we want about theory, but unless the taxpayer's money is coming back in, whether it is given out in fraud or error, that is not really fair on the taxpayer. We will continue to watch you.

Can I thank you very much indeed for your time? We know it is a challenge, but we do want to see those accounts get back on track. You came out of the traps quite quickly, Ms Munby, in promising that would be happening very soon. We hope they are not qualified in the future, but of course that is a matter for the C&AG. I do not know whether the C&AG would like to say anything before we finish, as you have qualified these accounts this year.

Gareth Davies: I would just recognise the amount of sheer hard work that has gone in from both teams to get to a set of accounts in such an unusual year. We do have a good joint plan in place for restoring this to a timely reporting cycle for this year and next year. I will just put that on record.

Chair: While timely reporting cycles are not the only thing we are interested in, it is quite important that we have an idea in real time about what is happening, as I know you will want to have as accounting officer. We look forward to seeing timely accounts for next year. You will be appearing in front of us to discuss those. We hope we will have clear figures, as you have described, on the estimates and hopefully some idea of when the money will come back in. If you can do that, you will be beating some other Departments that seem to be writing off in all but name. That is a controversial comment, I know, in amongst the colleagues' group in Whitehall. It feels like that to us.

Thank you very much indeed. The transcript will be up on the website uncorrected in the next couple of days. We will be producing a report on this in due course, though maybe not before the Easter recess, just because of our volume of work. We will let you know when that is. Thank you very much indeed.