

Fraud Act 2006 and Digital Fraud Committee

Corrected oral evidence: Fraud Act 2006 and Digital fraud

Thursday 3 March 2022

10.40 am

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Members present: Baroness Morgan of Cotes (The Chair); Lord Allan of Hallam; Baroness Bowles of Berkhamsted; Lord Browne of Ladyton; Viscount Colville of Culross; Baroness Henig; Baroness Kingsmill; Lord Sandhurst; Baroness Taylor of Bolton; Lord Vaux of Harrowden; Lord Young of Cookham.

Evidence Session No. 3

Virtual Proceeding

Questions 23 - 33

Examination of Witness

Lord Agnew of Oulton.

Q23 **The Chair:** Thank you, Lord Agnew, for joining us for this next session of the House of Lords inquiry into the Fraud Act 2006 and digital fraud. A transcript will be taken and you will have an opportunity to correct that once it has been prepared. We have some questions for you. We are very grateful. Apologies for keeping you waiting slightly, but our last witness led us into this session with you extremely well by talking about the bounce-back loans and the fraud checks that were not deployed.

I want to ask you a pretty broad question to start off with. We have, of course, read with interest both your speech and the media coverage following your recent exit from office. Could you just explain, in your own words, why you resigned your post as Minister for Efficiency and Transformation in January of this year?

Lord Agnew of Oulton: There were two reasons. The first, at the time, was the Government's foolish decision to take the economic crime Bill out of the third legislative Session. I was very pleased to see that, after I left, within a few days they had put it back on. Now, with events in Ukraine, that has been further accelerated, with the First Reading coming into the Commons in the next day or two. I am pleased about that. We might pick up on the detail of that a little later, but that is progress. If I have achieved nothing else, I feel that that was a price worth paying.

The second issue was on the bounce-back loan thing, which I remain extremely worried about. I decided to make the stand at the point I did because we are about to hit an inflexion point on this loan scheme, because they were, essentially, two-year loans that had a repayment point and a point at which the claims could be made on the state guarantee after the two years. The two years are about to hit us, because the bulk of those loans went out between April and June of 2020.

I have been pushing, for over a year, for a proper dashboard of the performance of the banks and the management of their portfolio of these loans, particularly on the fraud issues. That was never forthcoming. I asked and asked. I had a meeting just at the end of my tenure in November. I asked that it was minuted in that meeting. I got no response. I then sent letters in the middle of December and they were not responded to by the time I left. I believe the letters have been answered but the questions have not. That is the latest that I have heard.

This is important because we are about to start paying out billions of pounds in state guarantees with no clear mechanism of what is expected of the banks in their job in chasing down the fraud before they get the guarantee paid. They were paid to administer these loans and there should be a clear expectation of the work that they should have done to mitigate the fraud against the taxpayers' ultimate liability.

The Chair: Thank you for that very clear explanation.

Q24 **Lord Young of Cookham:** Good morning, Lord Agnew. I am really sorry that you left the Government. Your resignation statement is one of the most remarkable events in my 50 years in Parliament. Those of us who have been Ministers felt your pain. In your interview with the *Times*, you said, "The failure of the government to tackle fraud felt so egregious, and the need for remedy so urgent, that I felt my only option was to smash some crockery to get people to take notice".

Before you did this, did you raise concerns about officials—and your statement was really about officials—with the Permanent Secretary in the relevant department? Did you raise your concerns before resigning with the Ministers you reported to—the Chancellor, the Chief Secretary or the Chancellor of the Duchy—in order to try to get them to mobilise the change in the government response to fraud that you felt was necessary before, in your own words, you gave up your career?

Lord Agnew of Oulton: There are several bits to that. The first thing is that I certainly raised it very regularly with the Perm Sec in the Cabinet Office, Alex Chisholm, whom I had a very good relationship with, and he was very concerned about it, so it was very much on his radar.

I did not raise it directly with the Perm Sec in the Treasury and, with hindsight, that was a mistake. I was dealing at the director-general level within the Treasury and I was assured that the matter was being dealt with seriously. I think I was being told that, but things were not happening. It was a mistake on my part not to have escalated it to Tom

Scholar. Certainly that is what I will be encouraging all the Select Committees that are investigating that to do. Ultimately, all the roads lead to him on this issue, in my opinion.

To your second question, I absolutely expressed my frustration to Ministers. I did not do the histrionic thing and say, "If you don't do something on this, I'm going to resign". That is just not my style. I also did not think it was fair to talk to Ministers when I had decided that I was going to resign, because that would have put them in an impossible position. That is probably down to my own personality. Perhaps it might have changed things if I had tried to do it from my inside, but I was not getting traction in the Treasury. I counted the number of subs that I initiated on fraud in my two years, and I am talking about 30 or 40 at least, where I was trying to generate more interest and concern in this area.

Lord Young of Cookham: So they did not know you were going to resign.

Lord Agnew of Oulton: No, nobody knew. No politician knew that I was going to resign until I stood up that day.

Lord Young of Cookham: Moving on, you later said in your statement, "I am the Minister for counter-fraud", and that it would have been dishonest to stay in the role if you could not do it properly. After you left, I do not think you were replaced. Were your responsibilities in this area simply transferred to another Minister or Ministers who are already, presumably, pretty busy? Have you noticed any changes, apart from the economic crime Bill, which we all welcome, since you resigned?

Lord Agnew of Oulton: Three and a half Ministers have taken over what I did in various forms, but the Minister who has taken over counter-fraud is Jacob Rees-Mogg, and he is now fully in the saddle. There was an interregnum of a few weeks, but he is now fully briefed on this, is gripping it, and shares my concerns. I am very pleased that we have someone of his intellectual calibre, and he is also a businessman who understands business. He has taken that over.

The CDL, Steve Barclay, whose role has rather changed, as he is chief of staff to the Prime Minister, but is still connected to the Cabinet Office, is very exercised by this. I have not seen it, but I know that a letter has been issued by the Prime Minister on this subject, requiring a number of changes, which is grinding through the system at the moment. They were waiting for Treasury responses, which I hope will be imminent in the next few days, which will set out a path to tackle a lot of this stuff.

Lord Young of Cookham: On that point, some people have suggested to us that in order to reflect the seriousness with which government regards fraud there should be a Minister for Fraud. Is it your view that fraud covers such a wide variety of crimes and departments that that would be impractical, or do you see some merit in that suggestion?

Lord Agnew of Oulton: It goes to the heart of the dysfunctionality of government, which is this siloing of departments and this obsession that the Treasury has for individual accounting officers across each department. That makes it easy and tidy for the Treasury, because it holds to account 25 accounting officers and the money all sits in their silos. The cost to us as citizens is that there is painfully little join-up of departments to collaborate on issues that are complex, such as this. It applies on things like adult social care and homelessness. There are a whole range of interventions today that government needs to make to improve citizens' lives, where it does not sit tidily in one department. Fraud is one of those examples.

I was the Counter-fraud Minister over the function that manages counter-fraud in government, but that made me, I would say, a junior artillery officer in a division. It did not give me the clout to bring down the artillery in certain places if it was needed, so I do think there should be a higher-profile Minister in government. There also needs to be a much more convening counter-fraud unit—call it what you want—that can hold all the different bits of government to account on fraud, which does not happen at the moment.

Q25 **Baroness Bowles of Berkhamsted:** Welcome, Lord Agnew. In the House, you said that neither the Treasury nor BEIS understood the complete disjunction between the scale of criminality and enforcement capability. Could you elaborate a little further on what is causing that disjunction and, moving on from that, what incentives can be brought to bear to encourage, even within the silos, things to be taken more seriously?

Lord Agnew of Oulton: Just focusing on the bounce-back loans for a moment, because that is the area that I focused on, there have been three layers of failure in the government of that intervention.

First, at the British Business Bank level, there has been a complete failure by the board to grip this process. From memory, there are seven tier 1 banks that sit in the bounce-back loan system, which were the main issuers of the loans. They have no data on the performance of those banks. There is no dashboard that shows what is happening. It just does not exist. I have been asking for a year. It still does not exist as of today, as far as I am aware. I am slightly out of date now, because I am not in government, but if you get an unequivocal statement that it exists, I would urge you to get to see it, because words are cheap, as I have learned.

The second level of failure is BEIS itself, which has not demanded of the British Business Bank that kind of data for this huge £47 billion scheme. The problem is partly that BEIS just has no expertise in how to run a bank. As I have only recently discovered, the British Business Bank is not properly regulated like every other bank in the country by a combination of the PRA and the FCA. It is regulated by BEIS, but BEIS has no expertise.

Given the weakness at BEIS, you then have the failure of Treasury to see these weaknesses and to intervene on its own account. This is a Treasury scheme, so if it sees that the system is failing further down the line, it should have moved far more quickly to put in place the protections that were needed. In February of last year, the Treasury announced a large amount of money and resource to go to HMRC to combat furlough fraud, but it did nothing to beef up the fraud resources in either BEIS or the British Business Bank.

Just to give you an example, at the moment there is a data analytics programme in the British Business Bank that has a budget that runs out at the end of March. There is no continuation budget to keep that running at the end of March. There is no commitment by either BEIS or the British Business Bank to find the money to do it. I am talking about single digit millions—small sums—against the potential losses to fraud.

Baroness Bowles of Berkhamsted: You said that there was not very much by way of data, but there was previously a data analytics budget. Is it being discontinued possibly because it was not working?

Lord Agnew of Oulton: No, I think it is being discontinued because they do not understand how important it is. For example, in the early dip tests of this data analysis when I was still there, they identified, in the first sample, 35,000 loans that were high risk for fraud. As far as I am aware, they have done nothing about a further analysis of what went wrong with those 35,000 loans and potential fraud, and what they are doing to get the money back. That is only the tip of the iceberg. The analytics programme needs to carry on across the whole book, and I fear that that 35,000 will be much higher.

Baroness Bowles of Berkhamsted: It might be quite difficult. I remember looking at this quite a lot in the legislation that went through and talking about how the banks were going to get the money back. There was concern at the time that maybe the banks would be too tough, and there had been some examples of that, where promises were made that they did not have to do checks. Was that an absolute statement—“You don’t have to check anything”—by government at the time? How can you row back from that? I suppose they were always told that they had to make efforts to recoup the money.

Lord Agnew of Oulton: I would just give you a very simple analogy, because this is the excuse being used by all these people in this particular car crash. If I find you lying on the side of a road having had a heart attack, I summon an ambulance, I put you in the ambulance and I say to the driver, “Get Baroness Bowles to the hospital very quickly”, I do not expect the driver to drive through a bus stop and kill all the pedestrians on the way to the hospital. I expect him or her to drive efficiently and to get you there as quickly as possible.

The same applied to getting this money out of the door. Yes, the imperative was to get it out quickly, but there were any number of very simple checks that could have been done and that would have caught a

lot of the fraud. I do not want to go back and try to be Captain Hindsight here, and say, "If things had happened differently two years ago, everyone would be happy today", but there are still bits of data that would help us tackle what I think is a complete pandemic of fraud—forgive the pun.

Let me just give you three simple examples. How much of that £47 billion that was paid went into company accounts and left those company accounts within a few days or weeks of the money hitting those businesses? In other words, we know that there are hundreds of anecdotal examples of directors of these companies taking the money out of the business, putting it in their private bank accounts, going off and buying a sports car. That is a fraud. That was against the purpose of the loan. The banks will have the data on it. They know exactly where and when the money moved, so can we please see the data and what they are doing about it?

The same applies to money that left the country. How much of that £47 billion hit the British banking system and then left overseas within X weeks and months? I sent letters of congratulation to Border Force staff who picked up suitcases of cash leaving the country, literally. The banks could do far more on that.

The most important point of all, which is why I believe the banks have a strong moral obligation—again, I would like to see the data on this—is how much of that £47 billion went directly to the banks to pay off their own loans. Think of yourself. Maybe you have a small chain of cafés in Lincoln. You get your £50,000 loan to your business and I, as your bank manager, ring you up the next day and say, "Baroness Bowles, I see you've had your bounce-back loan. Why don't you pay off our overdraft and pay off the lease on that new kitchen that you've just put in? We'll take 35 grand of that, if it's okay with you".

I would say that a large sum—I have no idea how much, but let us say it is £10 billion—went directly back to the banks to plug their own balance sheets. I would like to know how much that is. I asked but nobody has ever been able to give me the sum of money. That is a direct bung to the banks. They are now paying out huge dividends and they have benefited, so I believe that they have an absolute obligation to help us in chasing down this fraud, and the expectation should be set far higher.

Baroness Bowles of Berkhamsted: It is quite interesting if you think that banks may have put pressure on getting bounce-back loan money back into their accounts. Do you think something like legislation that meant there was a failure to prevent fraud could have captured that activity more easily than it might be captured now?

Lord Agnew of Oulton: Of course, if they had thought a little more carefully about this at the time. I am not someone who wants to try to reinvent a wheel that has already rolled down the hill. The counter-fraud function in the Cabinet Office was never consulted by Treasury in the establishment of the mechanisms for these loans. They should have

been. It is a total failure, in my view, of the Treasury team that put this together. Why did they not talk to the experts who have lived and breathed this stuff for years? They did not do it. If they had done it, they would have seen that they could have put in some very simple changes that would not have delayed the money going out—maybe a day or two at the most—but they did not do it.

The Treasury has repeated this mistake on at least two other occasions. They did another £1 billion worth of grants to local authorities in December, where, again, it was announced publicly, before they had consulted counter-fraud on how loans mechanisms should work. This is a structural problem in the Treasury, in my view.

Q26 Lord Vaux of Harrowden: Good morning, Lord Agnew. In your resignation speech, you talked about the schoolboy errors that were made in relation to companies that were not trading before the pandemic being allowed to receive bounce-back loans. Presumably, a part of the problem is the ease with which a company can be set up and the lack of verification of the details that go into that process. We have now seen the White Paper on the reform of Companies House, which has just been issued.

First, why do you think it has taken the government so long to reform Companies House and to fix these problems, which seem relatively straightforward? Secondly, looking at the White Paper, is there anything that you want to comment on? Are there any gaps that you see in terms of the reform of Companies House?

Lord Agnew of Oulton: In terms of your first question, it is a mixture of naivety, complacency, ignorance and stupidity. I genuinely cannot offer you any logical explanation for why it has taken four or five years to move on something that was committed to back then. I do not understand. There is a very weak argument that is put forward, which says, "We do not want to put more burdens on business or on new business creation. It is not right".

If we just take a very important omission in this first-phase Bill, they are not imposing a requirement on Companies House to follow the same anti-money laundering rules that the company formation agents have to follow. There is a thing called the fifth anti-money laundering directive, which requires a formation agent to run a check on anyone who is applying to them to set up a company. It is very light touch. It is not very expensive. It costs a few pounds to do it. For some weird reason, Companies House does not have to do the same thing, and that is inexplicable to me.

Just to give you an idea of the impact of this, in November of last year around 65,000 companies were created in Britain. About 35,000 were created by formation agents and about 30,000 by Companies House. Those 30,000 went through without any anti-money laundering checks. It is absolutely bonkers. I will be pushing for an amendment at least to put that into this economic crime Bill coming through in the next few days,

because, again, Companies House is ready to do it. They have even been given a budget in the 2021 SR to fund whatever changes are necessary to their computer systems and so on. They are ready to roll. That would be my first real plea—to get traction on that.

The other thing is that they are talking about nominee directors for people who want some sort of anonymity, and that is a huge open goal for more opportunity for obfuscation. They need to put some pretty strong obligations around those nominees. If they are going to stand as a nominee for a crook, they will have to take the responsibility for that crook's behaviour; otherwise it will be pointless.

Lord Vaux of Harrowden: It seems to me that, when I look at the White Paper, one of the things they are providing to Companies House is an ability to query information but not an obligation to verify it. First, I wondered whether you had any thoughts about that. Secondly, it does not take us any further beyond the first level of ownership. You have to identify the shareholders, but it does not mean that you then have to identify the ultimate beneficial owner. Those were two things that I picked up. I just wondered whether you had any thoughts.

Lord Agnew of Oulton: You are right. Part of the problem is that, at the moment, although I may have got the numbers wrong, I think Companies House charges a trivial sum, like £12, to set up a company with it. Therefore, it does not have any resources to do any of the things that you suggested in the first part of your question. If you took that £12 up to £18 or £20, you would create a revenue base that does not impede the creation of a new business, but it would give them some firepower to be far more intrusive wherever they find bad practice going on.

One thing I managed to push out across quite a lot of government, particularly grants with local authorities, was a thing called Quantexa, which is a very simple software system that allows you to see connected parties. If you put in my name, it will show you all the companies I have been involved in over my career and any judgments against Companies House. It is a very simple piece of software and it is not expensive. If you gave Companies House that few extra pounds per search or per set-up, it would have the resources to do these things.

In terms of your second question, you are right. If all we are doing is burying the bad players further away from the coalface, we are not going to solve the problem. I would agree with you that they need to be much more intrusive about that. Let us be honest about this. Who are these people who need all this secrecy? What kind of person who is not a crook needs secrecy? That is where I would start the argument. There will be some people, of course, but they should be a minuscule proportion of the overall landscape.

Q27 **Baroness Henig:** Good morning, Lord Agnew. You have talked about silos, about the Treasury and its powers, and about your own lack of power, as you saw it, to influence, change and do what needed to be done. Can I ask you a couple of questions? First, what needs to happen

to enable the Government to tackle fraud more effectively, either in the Treasury or in the government machinery generally? What would lead to more effective tackling of fraud?

Secondly, you mentioned Jacob Rees-Mogg taking over your work. What first steps would you like to see him take? Do you think he will have the clout that you felt that you did not have? If he has the clout, what would you like him to do?

Lord Agnew of Oulton: Let us deal with that bit first. He will have more clout than me because he is a full Cabinet Minister, which I was not, so that gets him at the top table. He has spads, which I did not have. He has not taken over all my portfolio. He has Brexit opportunities but not a lot of the other stuff that I had, so he has a bit more headspace than I had. If I was to allocate the time that I had available to counter-fraud against the whole of my responsibilities, it was probably 5%. That is not a sustainable way for such an important portfolio to be managed. That is the first thing.

Secondly, we must have an overall counter-fraud oversight body or board. It has to have some teeth, and a requirement to report to Parliament once a year and to call out the bad actors in government. At the moment, we have a situation where the Treasury is trying to subsume the counter-fraud unit back into the Treasury as part of the finance function. That would just smother and silence it. The Treasury, for reasons that are inexplicable to me, does not want to see a loud voice on counter-fraud in government. I do not understand why, but its mission is to try to shut down the discussion on this, which I completely disagree with.

It is not another quango that is spending lots of money. If it could not return £5 for every £1 it cost annually, it should be shut down. I think it would recover a multiple of that. We do not want to overpromise and underdeliver. It would need a very small budget of a few million pounds per year, maybe £20 million. If it did not bring in £100 million, that would be fair enough, but I know it would if it was managed properly.

Baroness Henig: Would this oversight board be government departments or public/private spanning the sector as a whole?

Lord Agnew of Oulton: It needs to span the whole sector, because we have a terrible problem of fraud in the private sector. We know that something like 35% of all crime is fraud-related. If someone is committing a fraud against an individual, you can be damned sure that they are having a go at the government as well. This goes back to the siloing problem, in that you have little bits and pieces all struggling away around a system, but it is not properly joined up and they are not getting the support. You have the NCA doing bits. You have Action Fraud trying to do stuff.

There are people everywhere and the money is atomised. There needs to be an oversight board—and call it what you want—with some proper teeth. This is what the United States has done. It created someone called

an inspector-general of fraud, with a remit to report to Congress annually. That is important, because that is the opportunity to call out the bad behaviour. I was giving you the example earlier about the failure of the British Business Bank, BEIS and Treasury. Nobody is aware of this, but if we had this oversight organisation, that would be the opportunity to call these people to account.

The Chair: I think that it is now 42% of crime that is related to fraud, so it is on the increase even more.

Q28 **Viscount Colville of Culross:** Good morning, Lord Agnew. Looking at the economic crime Bill, which you have already been asked some questions on, I would like to look at a specific area. When we are talking about beneficial owners, particularly when it comes to the Russians, we keep hearing about the Crown dependencies and overseas territories. Do you think more can be done to speed up the creation of registers in those territories to expose who the beneficial owners are of so many of these companies that have been set up?

I have a totally separate question. On the White Paper, you have already talked about Companies House following the fifth anti-money laundering directive, but do you think that more emphasis should be put on Companies House playing an active role in cracking down on fraud and working with the enforcement agencies to do that? Sorry, they are two very separate questions, but I would appreciate your view.

Lord Agnew of Oulton: Let us deal with your second question first. We have to be careful not to bog Companies House down in what can become difficult, complex investigations, but it should have an obligation to do a similar thing that banks have to do and to produce SARs. I cannot remember what the acronym stands for—a suspicious something report.

The Chair: They are suspicious activity reports.

Lord Agnew of Oulton: Yes, exactly. Companies House should have an obligation to produce those. It should have some sort of flagging system where it can block the creation of companies. I was set an example by somebody, where they, as the formation agent, blocked a couple of individuals from forming a company, because they had seen, through their anti-money laundering checks, that they were bad actors. All that happened was that these individuals went down the road, directly to Companies House, created a company a week later, and then put an adverse Trustpilot report on the firm that blocked them. You could not make it up.

Companies House could do more, but we need to be careful that it is not seen as anti-business and slowing things down. I suspect that the percentage of bad actors will be in the single digits, so we must not let that derail those people who genuinely want to move quickly to set up new businesses. It is about getting the balance.

Just remind me of your first question.

Viscount Colville of Culross: It was about the Crown dependencies and overseas territories, and whether we should speed up the establishment of registers in those places.

Lord Agnew of Oulton: We definitely should. As I understand it, we have written commitments from all the overseas territories that they will have some sort of register in place by the end of next year. That is my understanding. I have not had any dealings with them, so I am speaking only from a fairly low knowledge base, but I understand that one or two of these overseas territories are very resistant to the idea, so the devil will be in the detail. How good will these registers be? How often will they be kept up-to-date? How transparent will they be?

We should be putting a lot more pressure on these people, because if you get more and more people who are prepared to be transparent and rigorous about this, you then leave a minority of territories that have a reputation for dealing with shady people, which would put pressure on them. I agree with you that we need to be all over that. Again, there are one or two territories that a lot of this stuff is coming out of. There is an 80:20 rule going on at the moment, as I understand it. I would urge you to keep up your campaign on that.

Q29 **Baroness Taylor of Bolton:** Good morning, Lord Agnew. You have mentioned the economic crime Bill. People have been pressing for this legislation for some time. You also mentioned that you wanted an amendment to fill gaps. We have been waiting for it, but it is now being presented as emergency legislation. It will have one day in the House of Commons and two days in the House of Lords. I am really concerned that this legislation should be fit for purpose, and I just wonder if you have a view on that in particular.

Lord Agnew of Oulton: As you know, politics seems to thrive on the urgent over the important, and then things get rushed through and done badly. There is a commitment for a more detailed piece of economic crime legislation, I believe, to follow up in the summer. Indeed, I gather that there is a move in the Commons that they change the name of this emergency economic crime Bill, because it really is not a fully fledged economic crime Bill. Therefore, we should have a little more honesty about that, so I would agree with you.

There are more technical changes that I would like to see, but, given the speed at which they want to do it, I did not want to be difficult. I do think my suggestion about the fifth anti-money laundering directive being applicable to Companies House is such an easy thing for them to do. It is a couple of sentences in the Bill. It is nothing new to anybody.

There are some other examples. For example, there are quite a lot of properties that are owned in obscure structures that were created before the 20-year rule. Should one fuss about that? It goes back at least to the Yeltsin era, which is when a lot of this trouble began and when gangster capitalism took root in Russia just after the end of the fall of the Soviet Union.

One has to be practical about it. Let us get something on the statute books, as long as they stand by their commitment to do a more detailed Bill later on in the summer. That is the bit I am worried about. They might say, "We did this one in March, so we're not going to do this other one now". That is what I am always worried about. Again, I would urge you, in whatever way you can, to get a very strong commitment that the full-fat version is coming through in a few months.

Q30 Lord Browne of Ladyton: Good morning, Lord Agnew, and thank you for your evidence. This is a broader question than those we have been asking you up until now. Alongside banks and Companies House, what other agents do you think should take more responsibility for fraud facilitated through their organisations? I am thinking, for example, of social media platforms, but also of telecoms businesses and online tech platforms, which are doing something but maybe should be doing more.

Lord Agnew of Oulton: It is a huge question, particularly if you think about Baroness Morgan's point about 40% of crime being fraud-related and where that is flowing through the system. If you go on to Google or something, how easy is it for you to be scammed because Google is not doing more? I would agree with you that, where any of these platforms are getting commercial advantage from bad actors advertising in a dishonest way, there should be more obligation on them to report bad behaviour and to use what I would call reasonable endeavours to shut it down.

I cannot give you a toolkit on that at the moment. It is not an area that I have given enough thought to, because it tends to impact more on crime into society rather than into government, but I agree with you.

One other small area is company formation agents. At the moment, a company formation agent anywhere in the world can set up a company in Britain. They are a totally unknown and unregulated set of organisations, and we could do quite a lot more there, initially on a relatively light-touch basis, to ensure that they are reputable organisations.

Lord Browne of Ladyton: Can I just go back to Companies House and ask you a very specific question? My understanding is that about 500,000 companies are set up in this country every year, and we have 4 million at any given time in existence, although, of course, not all trading. Are you aware of how many applications are made to Companies House to set up companies that are refused? In your time as a Minister, did Companies House ever come to you or, to your knowledge, anybody in government, and say, "If we only had more powers, we could do something about this problem that people are identifying"?

Lord Agnew of Oulton: I had no direct remit over Companies House, so I never had any direct discussions with it. I suspect that the answer to your question—and I do not know this, but I am sure you are right—is that the percentage that it refuses would be infinitesimally small, because the system is just not geared up to deal with it.

That is why I made the point a little earlier that, if you took that £12 and just made it £18, £6 on 500,000 new companies a year would give a reasonable fighting fund. A few million pounds goes a hell of a long way in this business, because with good data you can find an awful lot out very quickly. I agree with you, which is why I would like to see that formation fee go up, but the money hypothecated to be available to do the sorts of things that you have just suggested.

Lord Browne of Ladyton: In a similar vein, when you had this very significant responsibility in government—and there is a great deal of admiration for your approach, which you revealed in your statement, to this very important job—were you aware of other agents, such as telecom companies, social media companies or online trading businesses, coming to government and saying, “There are things going on that we’re uncomfortable about. If we got some help from the government, we could probably help deal with this”? Were you aware of initiatives of that nature, or do we have always go to these people and point out to them what they are doing?

Lord Agnew of Oulton: I was not in that landscape, partly for the reason I gave earlier that, of my total portfolio, this was about 5% of my responsibilities. I simply did not have the bandwidth to go on to what I would call offensive action, and to go out and talk to the sorts of actors that you are referring to.

I am a huge believer that you align interests. If you are a telecoms company and I, as a business, apply to you to get a broadband subscription or something, you will do some kind of credit check on me, because you are not going to want to take a bad debt risk of a few thousand pounds a year, so it would not be that hard to extend that to some kind of fraud check as well: are these people bad actors?

Back to my example on the software called Quantexa, it is just not that difficult to do this stuff. That is what is so frustrating for me. A little thought up front in the plumbing of these things could make life a great deal more difficult.

Q31 **Lord Allan of Hallam:** On the data point, Lord Agnew, one theme that has come up is the challenges with information sharing, particularly between the public and private sector, in that there is a nervousness. Lots of people know about the bad guys but they are nervous about telling each other about them. I was just wondering whether you had any experience of that and how important you think it is that we fix that, so that, where different people know about them, they can share that information.

Lord Agnew of Oulton: I agree that that is often used as the excuse, and there is tremendous timidity across the system. People are frightened of GDPR; they do not understand it and all that sort of thing. There are two answers to that, in my view.

First, early on in my tenure, in mid-2020, we set up a special legal resource in the Cabinet Office that had real expertise in GDPR. Whenever we had the story saying, "We can't share this piece of data because of GDPR", we would make them go and talk to this little team, who had deep expertise in GDPR and, more often than not, they would show that it was perfectly legitimate, even under the current regulation.

Secondly, if we had a central counter-fraud oversight body, that could become the clearing house for a lot of this data and encourage the transfer of this sort of information.

I know that people are nervous about data, but the debate has moved on a lot in the last 10 or 15 years. People are prepared to put their whole lives on Facebook and other platforms, and to have their data sold and monetised in a pretty ruthless way. On something like this, where we are protecting society, the arguments are very strong.

Q32 Lord Sandhurst: Thank you very much, Lord Agnew. I have found listening to you fascinating and valuable, if a little depressing. Taking a glass half full approach, you said that you hoped your actions might prompt others finally to "move the machine" to act on fraud. If you could suggest one recommendation for our Committee to make to government, what would that recommendation be?

Lord Agnew of Oulton: The single most important thing will be to have this central oversight body that can call out bad behaviour in government, whether it is lethargy, complacency or ignorance, but it needs to sit away from the Treasury, so that Treasury is answerable to it as well. That is the single most important thing, in my view, and it could be done very easily.

There is real push. The Prime Minister, whom I never met as a Minister myself, has asked to meet me since I left to discuss this issue, so he gets the importance of this. In terms of your glass half full, it is a good thing that he is now interested in the simple, raw politics of it. As I said in my resignation statement, there is at least a penny off income tax sitting here, and it is probably a bit more than that. The acknowledged sum that we are losing is £29 billion a year, which is NAO data, not some fanciful figure. I am not suggesting for a minute that we can eliminate £29 billion worth of fraud in government, but I do believe that we could take a good chunk of that out. We have to start surfacing the areas of weakness in government, and that is not going on enough at the moment.

Lord Sandhurst: Just as a follow-up, you talked in this context about the US inspector-general of fraud, who reports annually to Congress. We can find out, but do you have any idea whether there are any comparable structures here for independent outside bodies to report directly to Parliament?

Lord Agnew of Oulton: No, not to my knowledge. Clearly, you have the Select Committees, the NAO and the PAC, but they are not focused on this particular area and are too backward looking, in my view. They are

not horizon scanning for the next set of problems that are going to hit us. They are not looking at what investments we should be making to deal with this.

For example, it took me a year to convince the Treasury to have training sessions in counter-fraud. Just before I left, we were just starting the first sessions where Treasury officials were being taught about what fraud in society is, what counter-fraud measures can be taken, and why it is a danger to society. That is starting to happen, but we need to do far more of this.

Lord Sandhurst: So we need something like the HM inspector of prisons or HM inspector of constabulary.

Lord Agnew of Oulton: Yes, it has to be something like that. I am not against new quangos; do not get me wrong. I was the Minister for approving quangos, and here I am suggesting that we have a new one of some kind, but I would be adamant that it had to earn its keep. If it was not showing, in a clearly demonstrable way, that the amount it was saving was over and above its own costs each year, it would be judged to be failing as an entity, and that would be very easy to do. An HM inspector of fraud would give it some teeth and some visibility.

Just to give you a small anecdote on this, after I left I was contacted by 34 journalists. I spoke to very few of them, because I have had little exposure to dealing with journalists in my career. I have always taken the view that I get on with the bloody job. I did a little experiment: I wrote back to all those journalists and said, "If you are interested only in the little drama of a junior Minister leaving government, don't bother. Are you interested in this as a subject that is part of our society, which is important?"

Of those 34, 27 came back and said, "This is something we're really worried about. We've been trying to get traction for months or years. We just don't understand why this is not treated more seriously". There is a real appetite out there to get stuck into this stuff.

Q33 **The Chair:** Thank you very much, Lord Agnew. Let us hope that those 27 are listening to this evidence this morning and will cover it suitably, although, of course, we are very well aware of other events going on.

I just want to follow up on one question before we let you go. In your statement, when you answered the question and then exited from office, you said that officials in other departments refused to engage constructively with the counter-fraud function that sits in the Cabinet Office. Did these officials refuse, as in saying, "No, we do not need to speak to the Cabinet Office" or "We will not speak to the Cabinet Office", or was there just a general attitude: "We do not need to because we know everything we need to know already"?

Lord Agnew of Oulton: It was both. You have worked as a Minister. You know what it is like. When the system does not want to do something, it is incredibly clever at not doing it. Rarely will they say to your face,

“Minister, you’re talking a whole lot of codswallop. We’re not going to do it”, but they will find innumerable ways to stop it happening.

In the case of BEIS, it had only two counter-fraud officials in the whole department when Covid broke and these loan schemes were being constructed. They would not engage with the counter-fraud function in terms of getting more resource in there to help them. They just would not do it. As I was explaining in an earlier answer, it took me a year to get these training sessions running with Treasury officials to try to explain to them why this is an important part of the machinery of government.

There needs to be much more of a culture of comply or explain. If counter-fraud sends out some guidelines on how a new loan scheme or grant scheme should work, they should be the writ of the land, unless the department or the local authority comes back and says, “We hear what you say, but we’re going to do it this way. We think this is better. We will stand by our judgment and we’ll be judged by it”. That is how it should work. At the moment, the counter-fraud function does not have sufficient bite across the system.

The Chair: Thank you very much. It is fair to say that we all look forward to your speech in the debate on the economic crime Bill in our House, when it happens, I hope and suspect, in the next few days. Can I, for now, thank you very much indeed for the evidence you have given this morning? As Lord Young says, we can all agree that you are a great loss to the Government, and I hope that the Prime Minister appreciates that when he meets you.