



Treasury Committee

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

Wednesday 9 March 2022

Ordered by the House of Commons to be published on 9 March 2022.

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

Questions 1 to 129

Witnesses

I: Lord Agnew of Oulton, former Minister of State, HM Treasury and the Cabinet Office.

Examination of witness

Witness: Lord Agnew of Oulton.

Chair: Welcome to the Treasury Committee's evidence session on HM Treasury's role in combating fraud. Can I invite our witness to introduce himself?

Lord Agnew: Good afternoon and thank you very much for inviting me to your Committee today. I was the Minister for Efficiency and Transformation across the Treasury and the Cabinet Office for two years, between February 2020 and January of this year.

Q1 **Chair:** Thank you very much and welcome to our Committee, Lord Agnew. You caused a little bit of a stir in what is normally quite a genteel place when you resigned at the Dispatch Box. Do you want to tell us why you felt you had no option but to resign?

Lord Agnew: I just hate to see mammoth inefficiency. I had this title—"Minister for Efficiency and Transparency", which is a slightly Monty Python title, given that I arrived within three weeks of Covid and everything was thrown into disarray. I was appointed because I believe very strongly that the taxpayer deserves that Government should use their money wisely and an issue like the management of counter-fraud is very much a cross-party issue. There is not anybody who would condone



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a weak system that allows money to fall into the laps of crooks, and that is what I saw happening.

In any of these situations you try to bring about change from inside the tent and you get to a point where that just does not seem to be working, and that is the moment you have to take the view to step out. I was asked to answer a question defending our track record on this particular intervention, the bounce-back loans, and I could not stand up with any integrity and say that we had done a great job, because we had not.

Q2 Chair: Do you want to give us a bit more information about your view of the bounce-back loan scheme and what the issue was? You did write an article the following day in the *FT* and you have not talked about this publicly since. Do you want to, for the record, share with us your view of why the bounce-back loan scheme was such a problem?

Lord Agnew: First, intellectually and at the top policy level, I believe it was an important intervention. It was there to protect the productive capacity of our small business sector in this country. We were facing so many unknowns at that point it was a reasonable thing to do. I have no issue with the principle of doing it, but it is all about the implementation. Again, I have no problem that we will probably see very substantial credit losses on that loan scheme. Again, that is fine. We had to get the money out quickly to our legitimate businesses and give them the lifeline they needed. That is all fine, but on the fraud side it was just a "Dad's Army" operation.

Q3 Chair: By "Dad's Army" operation, do you mean that it was a bit of a joke?

Lord Agnew: Yes, absolutely. I hope we are going to have some time on the Scholar letter a bit later, but, for me, it embodies everything about the complacency that grips the Civil Service. Clearly, he did not write that letter because he has not corrected grammatical errors in it, but he is the second most senior civil servant in the country and he could have done an awful lot better. We will come back to this, but I very much hope you will drill hard into that letter and I will give you some examples of some of the failings.

Let us start from where I sat in the machine. I was the Minister overseeing the counter-fraud function. I had a lot of functions to oversee, but that was one of them. They are a very good team based in the Cabinet Office. They are only a small team, but they have deep expertise in this area. They were simply closed out of the room. They were never consulted in the establishment of the bounce-back loan scheme, for reasons that I never got to the bottom of.

You will see in Scholar's letter that he talks about going to PwC and getting advice. Why did he not go to the people on his doorstep who absolutely understand fraud in all its manifestations? They did not do that. He does not talk about the recommendations that PwC make. He is



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ambiguous and says, “We took those that we could implement most quickly”. Let us see the list, please. Let us have a list of every single recommendation they made, every one that they used and then the reasons for the ones that they did not use.

There is a database called Cifas, which is a not-for-profit fraud database that is used very widely across the lending landscape in this country. You can do a Cifas check for fraud in moments. They did not do that at the beginning of the bounce-back loan process. It would not have delayed getting the money out to legitimate people.

It is the same with the duplicates. It took them six weeks to build a duplicate system. By the time they had finished building it, 60% of the money had already gone out of the door, but it is even worse than that. HSBC did not implement that for another four months. They did not get it in until November of 2020. We have no idea how many duplicate loans were lent out.

The example I gave in my resignation statement—this is where I talk about “Dad’s Army”—is they were lending money to companies that did not even exist before Covid broke out, because of a total naivety in the system and not putting in proper checks. It is not a difficult thing to do.

Again, coming back to the endless excuse, “We had to get the money out quickly”: yes, you do have to get the money out quickly, but if you are in the commercial lending world—I can tell you because I have been in it—if you do not respond quickly and efficiently to your customers and get the money out quickly you lose the business. They go down the road to somebody else. The whole system is geared up to move quickly, but also to mitigate against the fraud risk. For some reason it was completely ignored until far too late.

Q4 **Chair:** Moving quickly has been the main reason, as you correctly point out, that we have been given, when we have asked about levels of fraud—potentially up to £4.9 billion in the bounce-back loan scheme. How much delay would have been caused by doing the basic checks you were talking about?

Lord Agnew: A couple of days, literally. This is the whole point. They are sheltering behind this excuse that if they had done the job better, it would have taken too long, but I can assure you that is not the way it works.

Q5 **Chair:** You were in your ministerial post while this was all going on around you. You say they did not consult the fraud experts in the Cabinet Office. Did they consult you?

Lord Agnew: No. I was derailed because I was made the ventilator manufacturing Minister for this particular period; I was six and a half days a week trying to get ventilators built, so I was not focused on this. I did write to the Treasury in February of last year, quite a lot later, pleading for more resource for all of the areas other than HMRC. He



makes a big store in his letter about how all this money went to HMRC, which is good, but that went for furlough fraud, essentially. There was nothing comparable that was provided to BEIS, the British Business Bank or indeed the counter-fraud function.

Q6 Chair: You are particularly critical of the British Business Bank and BEIS and their fraud controls, and it seemed to be that that most frustrated you when you threw—or broke—the crockery in the House of Lords, if I could put it that way. Do you want to elaborate a bit on that? It seems to involve the things they could do to get money back after it had gone out of the door.

Lord Agnew: Again, I am very conscious that this is your Treasury Committee and I do not want to tread on the toes of the BEIS team, who I am seeing next week, but these things do conflate, frankly. The first thing you have to realise, which I did not realise at the time, is that the British Business Bank is not regulated like an ordinary bank. It is not regulated by the PRA or the FCA, so there is no culture of proper oversight of the bank and, from what I can make out, there is nobody in BEIS who has that compensating skill to oversee a bank with a balance sheet that exploded because of Covid. You have this huge gap in the system.

Bear in mind that BEIS has something extraordinary like 40 ALBs that they have oversight of, ranging across a vast landscape of different activities. This was just one entity and, as far as I could see, there was simply no expertise. As I said in my resignation statement, we reckon they had two officials in BEIS with counter-fraud experience when this whole thing blew up and they were not deeply trained in the counter-fraud profession. They were just generalist civil servants who happened to be in the wrong place at the wrong time, but then we get into this siloing, and they were not receptive to support coming from the counter-fraud function.

Q7 Chair: By “not receptive”, do you mean they refused help?

Lord Agnew: You have been around the game a long time. You have been a Minister. You can say no in 100 different ways, can you not?

Chair: Not replying is one way.

Lord Agnew: Yes, exactly. They certainly did not throw open their arms and say, “Please come and help us. We have a real problem here”, and you can only push so far in these situations. They did not have any expertise. As far as I can make out, the British Business Bank did not have any expertise in this area. They did not even hire a counter-fraud specialist until after the event, and now she has just left in frustration at what she was trying to deal with, so that is another thing to deal with when I talk to the BEIS Committee. Indeed, the main board director with responsibility for the BBLs has also resigned.



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We have holes all the way up and down the system, which is why my view, which I said to Treasury officials many times, is that if you have a scheme that is not working and it is £47 billion, it is a Treasury problem. You cannot keep pushing it down and saying, "No, that is the accounting officer in BEIS. That is his or her problem". That does not wash with me for a scheme of this size.

Q8 Chair: You accused the Treasury in your resignation speech of having no knowledge of or little interest in the consequences of fraud to our economy and society. This Committee has recently published its economic crime report, which does not use language quite as stark as that but has a similar theme. What needs to be done to put this right?

Lord Agnew: There needs to be a little bit of humility. That is why this letter annoyed me, because it is all about how marvellous everything is—"We did a wonderful job. We threw £400 billion of taxpayers' money out there to save the country and it is fantastic"—instead of just stepping back and saying, "Actually, we got a lot of stuff wrong here". That is the bit that frustrates me. We all make mistakes. One of the mistakes I made is that I should have tackled Scholar much earlier on in my tenure. I was dealing at the DG level and I bought their particular narrative. I should not have done that. That was my mistake.

Q9 Chair: What was their narrative that you bought?

Lord Agnew: "Everything is being done that can be done". As I say, this stuff went on for quite a long time; it was over a year. I was pushing and pushing for this data dashboard, because, for me, all of the waffle disappears if you see the data. I do not know; maybe you have seen a data dashboard, but I could never see one. They never would show anything to me. I am not sure it exists.

Q10 Chair: Did they claim a data dashboard existed but never show it to you?

Lord Agnew: "It is all being attended to"—you know the sort of words that you get in Government. Let us see what happened elsewhere in the world. I have with me here a copy of the Swiss scheme—perhaps some of you want to put it into Google and look it up. It was a scheme of a similar size to ours relative to the size of their economy and there is a dashboard. It is even in English, and it shows all of the data on a rolling, real-time basis. They are estimating fraud for their scheme at about 1%.

This lot are saying 4%. I do not think it will be 4%. I think it will be a lot more than 4%, but I do not know; I might be wrong, because I cannot see anything. I am completely blind and I believe you are blind. I believe the Treasury is, I believe BEIS is and I believe the British Business Bank is.

Why do we not have that data? Then they could say, "Look, Agnew is an idiot. He is ranting about something that is irrelevant. Here is the data. Here are the number of loans we have made. This is where we are".



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I do not accept Scholar's point about it being quite a new loan scheme and, therefore, it is too early to have data. That is entirely wrong because they lent over 60% of the money within less than three months. They opened the doors in about May 2020. Some 65% had gone out by the end of July. As you probably know, it was 12 months no repayments. That is fine. By July of last year they had 60% of the loan book that should have started making repayments, so what is the data? How many people started repaying their loans in July of last year? We now have, or should have, nine months of data of those who did not repay.

Again, if you know anything about finance, in fraud the very biggest alarm bell on fraud is that you never get a payment, because they have taken the money and they have legged it by then. If we got the data to show for all of those loans where there had been no repayments for the first six months after the holiday, that is an indicator of fraud. I am not saying it is definitely fraud, but that is the place to start and that is where they should start looking, but we have nothing.

I asked for two other pieces of data; again, I was told it was impossible. How much of the money that went into those company bank accounts left them within a few days to go into the private bank accounts of the proprietors of those companies? That is a signal. You will have heard anecdotally lots of people going off and buying sports cars in those early months of the bounce-back loans going out. That would be a very easy piece of data to get as you start homing in on where to start pursuing your lines of enquiry. Similarly, how much of the money went into the business accounts and then left the country? They have all that information. That is what banks are. They are just massive data machines.

I said it last week in the Lords fraud hearing. I was writing letters of congratulation to Border Force staff for picking up suitcases of cash leaving the country, so it was happy days if you were a crook in those first few months. Rather than just admitting it, it is, "Oh no, this was a price worth paying". It was not a price worth paying. I am not here to be Captain Hindsight and say, "If everything had been done differently two years ago, it would all be marvellous now". We have a crunch point coming up in the next few weeks, which is the claim on the state guarantee. As you will know, they are 100% state guarantee backed.

Q11 **Chair:** It is a much easier thing for a bank to claim the state guarantee than do all the difficult work to chase the suitcases full of money that have left the country. I presume that is the point.

Lord Agnew: Show me the incentive and I will show you the behaviour. There they are sitting with a 100% state guarantee, which they can claim, I think, two years after the loans were issued. I asked what the criteria are that a bank needs to show they have been through before they are allowed to claim the guarantee: "Just give me the list of the five or 10 things they have to do". They would not give me the list.



Q12 **Chair:** Do you think that there is a list?

Lord Agnew: I have to be very English. I would hope there is a list. I do not think there is a list, but this is why I am pushing it now: there will be an avalanche of claims on that state guarantee coming into the Treasury in the next few weeks and months. That is why your influence can demand to see the list and then to have the assurance that the banks are adhering to it.

Q13 **Siobhain McDonagh:** We have done quite a few investigations into Greensill and the British Business Bank giving £500 million in loan guarantees at a time when the Prudential Regulatory Authority and the Serious Fraud Office were investigating them. Some of us—not all of us—suspect that the Treasury kicked Greensill into BEIS and then into the British Business Bank to get them off their back. Now they are saying that the loan guarantee has been rescinded, but people invested on the basis that the guarantee was there. How secure do you think the British Business Bank can be that people are not going to come after those guarantees?

Lord Agnew: It was quite interesting; when all that blew up I did ask to be briefed on it, but I was told it was subject to a fraud inquiry and basically to butt out, so I never got to the bottom of what was going on there.

Q14 **Siobhain McDonagh:** They do not seem to have told BEIS there was a fraud inquiry.

Lord Agnew: No; there you are. Just add it to the list.

Q15 **Chair:** You accused the Treasury in your resignation speech of having no knowledge of or little interest in the consequences of fraud to our economy and society, which our economic crime report said were serious. Would you like to just say what you think those are?

Lord Agnew: I am great believer in life that it is about deeds over words, and so we look at what support the Treasury has given to the counter-fraud community in this country over the last 10 or 20 years. It does not really matter. The NCA, which is probably one of our best crime-fighting forces in this sector, has seen a real-terms reduction in its budget of about 4% or 4.5%.

The counter-fraud office function that I had oversight of was continually starved of money. As I say, I made a plea in February of last year for some money for that function to be able to get stuck in and do stuff. The excuse I was given is, "Oh no, we must wait until the spending review". That is nine months. "We cannot make any decisions now". We are talking about single-digit millions here. These are trivial sums against the leverage impact if the work is done properly.

Then Scholar talks about learning lessons. They do not learn lessons, because only a few months ago they launched another scheme, which



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was through DLUHC. This was in December of last year. It was a grant scheme for local authorities—£683 million for hospitality and leisure, £102 million for additional restrictions grant and £30 million for culture recovery. That was announced without any consultation with the counter-fraud team, and DLUHC is weak on fraud, rather like BEIS.

They do not have a really good crack team of people who would have put all the controls in place. We only heard about this on the television and then they scrambled to get into the conversation and get some stuff put in retrospectively. I do not accept people learning lessons in the Treasury. They just closed them out of the conversation. I do not know why. That is why you need to ask them.

Chair: I am sure we will, Lord Agnew.

Lord Agnew: I hope you will.

Q16 **Kevin Hollinrake:** You mentioned the letter from Tom Scholar and some interesting parts of that. You were chair of the cross-Government ministerial fraud board, which he refers to in his letter to us. He says in it that the Treasury is fully engaged in a cross-Government ministerial fraud board, established and initially chaired by yourself, and has supported its work in developing post-event assurance plans. How accurate is that statement?

Lord Agnew: You should ask the question, “Show us the granular interventions that the Treasury provided that made a difference”, because I do not recall any. There may have been some, but let us just ask the question, because it is a typical bland statement. Smear a bit of blancmange over the issue and everyone goes to sleep. I would like to know what they did.

Q17 **Kevin Hollinrake:** He says he fully engaged with you. Is that not your experience?

Lord Agnew: I have no recollection of that. I do not want to sound too rabid about it, but I genuinely have no recollection. Their big game was they wanted to subsume the counter-fraud function into the Treasury. That really did worry me, because if the officials are Treasury officials, they are not going to be the discordant voices in the room.

Q18 **Kevin Hollinrake:** What about BEIS? BEIS has a role in this too and they have some counter-fraud people in their Department. Did they engage with your activities and work?

Lord Agnew: We had a few of these cross-departmental meetings. They did not cut through. You could perhaps blame some of that on me. As I say, I had a huge portfolio. As soon as I had finished building the ventilators, I was made the HMRC border readiness Minister, and so one just ricocheted on to the next crisis. It might be a fair criticism to say I was not tough enough in my chairing of those board meetings.



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There were not enough of them, and I remember I surfaced at one point and said, "Why have we not had any more of these ministerial cross-departmental fraud meetings". My office said, "We have been trying to get dates in the diary and blah, blah, blah. No one would turn up". Ultimately, I must take the rap for that. If I had made more noise, I probably could have corralled these people to attend those meetings, but there were not very many of them and I am not sure if we achieved anything particularly useful from them.

Q19 Kevin Hollinrake: Was it a problem with them that Treasury and BEIS just were not interested in this whole topic of fraud? Was it more shovelling money out the door rather than making sure the wrong kind of people did not get the money?

Lord Agnew: It seems to be. I call this the sewer of Government. As long as the deodorant is strong enough and the lid is kept on the sewer, life carries on.

Q20 Kevin Hollinrake: In terms of cross-departmental working generally, I read that Treasury is saying, "We are going after all fraud of all loans", and BEIS is saying, "We are only going after the big stuff", so the fraud of £100,000 and more. Was your experience that there were different perspectives on what we would do with this, or was there any joint working that was effective?

Lord Agnew: One of the crucial weaknesses of Government is this silo thinking. It is slightly propagated by the Treasury because of their obsession with the accounting officer regime. They like to act as the puppeteer with their 20 or so accounting officers and they all dance to the Treasury's tune, but they do not collaborate with each other.

When they put all that extra money into HMRC for what they called the taxpayer recovery taskforce or something—they called it some gimmicky name—what should have happened is the Treasury should have lent 50 people to BEIS and to the British Business Bank. They did not do that. That is not the way Government think, so, no, there was very little cross-departmental working.

Q21 Kevin Hollinrake: Was that the National Investigation Service?

Lord Agnew: No, that is another. Shall we deal with that, as you raise it? There is another one that really irritated me. This is this thing called NATIS. NATIS was given some extra money. Even in his letter, he said, "Oh yes, they have had 49 arrests". If you take the £4 billion that he thinks is the loss rate and divide that by an average loan rate of about £40,000, that is 100,000 occurrences, and he is boasting about 49 occurrences. That gives you the disconnect, and this is the way they deal with it. They will take some trivial little intervention and list it as a major effort in dealing with the problem. NATIS is not the solution. It does good work, but it is miniscule in the overall scheme of things.

Q22 Kevin Hollinrake: You mentioned the Tom Scholar letter and there were



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various things you would like to raise in that. You raised a couple of things already with PwC and this issue here. Is there anything else in there you thought, "That does not actually stack up"?

Lord Agnew: There are a few things. On page 7 he talks about Managing Public Money guidance as the great bible that everyone should adhere to, but the reality is that there is not counter-fraud experience across Whitehall, other than in DWP and HMRC. They have deep expertise. There is no doubt about it and they are good.

If Jim Harra says that he genuinely worries about that £2.5 billion, which he mentioned in evidence perhaps to your Committee, he is probably right, but he has a hell of a good team there who are going after this stuff, so that is fine. If you go back to these other departments, DLUHC and BEIS, they just do not have the expertise.

Q23 **Kevin Hollinrake:** There is lots of debate in the House this week on economic crime, with the Economic Crime Bill, and lots of people are saying that generally our counter-fraud agencies are not sufficiently resourced. Is your experience that that is exactly the same within Government? You said there are two people in BEIS dealing with this. Are there just not enough people at the right level to be able to tackle this properly?

Lord Agnew: It is not resourced properly, but the frustrating thing is if the job is done properly, these things are self-financing. I am speaking on the Economic Crime Bill later on today. We are bringing a few useful things in. It is only a third of the problem being solved, but it is a start.

Things like beefing up the manoeuvrability on the unexplained wealth orders will give those teams a lot more room to manoeuvre, and that is a good thing. They will pay for themselves. That is the frustrating for me. No one is more hairshirt on spending Government money or taxpayers' money than me, but I know that money spent here will return a decent dividend to the taxpayer.

Q24 **Kevin Hollinrake:** Why does the Treasury not get that? We got an £800 million fine from Airbus, with a deferred prosecution, into the Treasury on a bribery case. Why does the Treasury not get that if they spent more money in this area it would actually pay for itself?

Lord Agnew: I am genuinely completely confounded. The only thing I can say to you is that the average age of a Treasury official is 29 and the turnover of staff in there is somewhere between 20% and 25% a year. They are very bright in a standard way—they went to a good university and got a good degree—but they have no life experience.

I had to explain to one Treasury civil servant what working capital was. I had to explain to another one what dilapidation claims were on property. These are not people who are properly trained in the plumbing of Government.



I fought for a year to get the counter-fraud team in to go and give educational seminars to Treasury officials on fraud, and they just started doing that just before I left. The first question was “What is fraud?” That is where they started. This is a big problem, and then, going back to my sewer analogy for the high-ups, there is no way that Scholar wrote that letter. He did not write that letter. It was pushed down to some generalist. It is littered with mistakes. That is the bottom line.

- Q25 **Kevin Hollinrake:** I get that there will be some young, inexperienced people within the Treasury. There are also some experienced people, both within the ministerial ranks and within the officials. Is this not about leadership? You have shown leadership here to such an extent you have had to resign because you could not direct things in the way you wanted. Is the emphasis not all wrong from the top, to say, “This is where we should be focusing our attention”?

Lord Agnew: Yes, absolutely. The interesting thing is Tom Scholar’s own background. I found this out on Wikipedia. He was the British representative on the boards of the International Monetary Fund and the World Bank, attached to the British Embassy in Washington. He understands the finance world probably uniquely better than any other Permanent Secretary in Government, so why is he not demanding more accountability? Why has he tolerated the lack of a data dashboard from the British Business Bank for the last 18 months? I do not know the answer to that question; I just plead with you that you go out and get the answer to it, because I failed.

- Q26 **Kevin Hollinrake:** In your resignation speech you described yourself as a Minister for counter-fraud, but that is not listed in any of your titles officially. Why is that?

Lord Agnew: It is complicated, because I had a very wide-ranging brief. I was the Minister for everything that no one else wanted to do. I was the Minister for all of the Government functions that sit inside the Cabinet Office, so that is things like the Government’s property estate. I was Minister for public sector digital, so things like the Government Digital Service.

I had a whole range of these things and sitting in there was counter-fraud. It is actually called fraud, error, debt and grants—FEDG—and it has been lumped together as a bit of an orphanage. I was the Minister over that, but you are right: in my overall scheme of things it was probably only 5% of my portfolio.

- Q27 **Kevin Hollinrake:** Should there be a Minister for counter-fraud within the Government whose focus is on this, who tries to get these silos swept aside and people working together to be able to look at this properly?

Lord Agnew: If you accept the NAO’s estimate of annual fraud to the state being £29 billion a year, that warrants a Minister. That is their figure, not my figure. This is the problem. We have agencies scattered everywhere. There are about 25 different agencies reporting into multiple



different Ministries. There needs to be a much more co-ordinated approach. As I said in my resignation statement, which I absolutely stand by, we are never going to eliminate all of the £29 billion, but if we could just get rid of 20% of that, that is a penny off income tax.

Q28 **Chair:** By the way, £29 billion is the lower estimate.

Lord Agnew: Again, I do not like to be hyperbolic. I stick to the lower numbers.

Q29 **Chair:** It is between 29 and 52.

Lord Agnew: Exactly, but even if you are cautious about it, it is a colossal sum of money.

Q30 **Anthony Browne:** I shall declare an interest. When I was director of the Policy Exchange think-tank, Theodore Agnew was one of my trustees.

My questions are focusing on the role of the Treasury in managing and responding to fraud. How do you see the Treasury's role in not just bounce-back loans but fraud across Government overall?

Lord Agnew: The culture has been, "We know that HMRC are good at what they do and that is where all the fraud is", but the nature of Government has changed over the last few years, where we are intervening in a much more assertive way in things like Government grants. I may have this figure wrong, but it is somewhere in the order of about £35 billion a year going out in various forms, and that is wide open to fraud if you do not set it up properly.

There are very simple things you can do. I had to fight very hard to get them to see that we needed to demand much more of the Departments that were administering grants. There is a naivety on the part of Treasury of the role here.

Q31 **Anthony Browne:** Does the Treasury not see it as part of its role to combat fraud? You mentioned there was a fraud team within the Cabinet Office, which you had dotted-line responsibility for, and they were very competent. Did the Treasury not see it as its function to tackle fraud in public spending?

Lord Agnew: Again, you would think so, would you not? You are right. For example, going back to when the bounce-back loans were being created, the counter-fraud team wrote to Treasury with some suggestions on how to improve the construction and the letter was ignored. I do not understand it. The problem with very brainy people is that there is a tendency to arrogance.

Q32 **Anthony Browne:** Do you think the fraud in the bounce-back loan scheme was particularly bad because the Government had other priorities at the time? If you remember, there was media clamour to get the money out the door as quickly as possible; initially they had loans where there was an 80% guarantee and then there were concerns about banks



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requiring directors to give personal guarantees. They swept all that away and just said, "Get the money out the door". That was the priority, which presumably would make fraud worse.

Lord Agnew: That is the lazy explanation. I had a look at the letter of direction that was issued between BEIS, the Permanent Secretary and the Secretary of State there and it does say, "The fact that borrowers are able to self-certify eligibility creates a risk. However, this risk can be mitigated through appropriate auditing". It was always in the system that fraud had to be dealt with.

One of the questions that I asked, which I never got an answer to, was, "How many BBLs were advanced to businesses that were already in default of existing bank loans between 1 June and 30 June?" Under that I looked up the guidance, which said, "If the business that takes out the loan is in default under the terms of any other borrowing facility, whether it is with the same lender or not, it will be deemed to be in default of the bounce-back loan", so they were in default when they started.

Then there was stuff on SARs: "Do not forget your lender has a legal duty as part of its money laundering obligations to report to the National Crime Agency if they have a suspicion that you have obtained or are using a bounce-back loan fraudulently. This matter would be investigated and you could face criminal prosecution". The pieces of the jigsaw were there. They finally woke up about six months too late, by which time all the money had gone out the door, virtually.

Q33 **Anthony Browne:** In evidence to the Public Accounts Committee, Cat Little, director general of public spending at the Treasury, set out what the Treasury does in terms of combating fraud, but in particular was referring to the Managing Public Money document, which you referred to earlier. She said, "The Treasury goes through a process of assuring ourselves itself that the overall controlled environment and the way in which Departments and accounting officers are approaching the mitigation and management of fraud risk are in line with our expectations". Is that guidance completely ineffective? It is there on paper.

Lord Agnew: It is your classic hide behind a piece of paper.

Q34 **Anthony Browne:** In reality it has no influence over other Government Departments.

Lord Agnew: There seems to be no sense of urgency in how this stuff was dealt with. When I wrote to the chairman of the British Business Bank to pursue the failure to have a dashboard, I copied the letter to her to try to get a bit more oomph into the system. He never answered my letter. He has apparently now answered the letter, although he did not answer the questions. That is another great trick, is it not?

Q35 **Anthony Browne:** What responsibility do other Government Departments have to combat fraud within them? What do you think they



should have?

Lord Agnew: Managing Public Money will tell them they have to do it.

Q36 **Anthony Browne:** They just do not.

Lord Agnew: They are overwhelmed. As I said, the accounting officer at BEIS has 35 or 40 ALBs, and the sponsorship team there is not strong enough to manage all of those in an assertive and proactive way.

Q37 **Anthony Browne:** Where should responsibility for fraud sit within Government? You mentioned this Cabinet Office unit; you praised them and said they have the right expertise. They presumably have very limited control over the bounce-back loan scheme, for example, or the other £50 billion of grants that you mentioned. Is the assignment of responsibility for fraud not then in the wrong place?

Lord Agnew: That is back to Kevin's point. Should there be a Minister with overall oversight of fraud? There should be, and then he or she would be the person—

Anthony Browne: They could range across Departments.

Lord Agnew: He or she could range across the whole landscape. He or she should not sit in the Treasury because of the Treasury's track record of their lack of attention to this. They have written themselves out of the script. That Minister should sit probably in the Cabinet Office, but it could be anywhere else. That is not the point. He or she should make a report to Parliament every year on our performance. That is what we should do and that is what I was pushing for before I left. You are familiar with the Infrastructure and Projects Authority, which has evolved.

Q38 **Anthony Browne:** They do an annual report.

Lord Agnew: I wanted to have one of those for fraud, so that it has some teeth. The IPA now, for example, can block an infrastructure project if it goes for a review and they do not believe they are in a ready state to proceed with it, so they can just shut it down. That is a very powerful intervention. We need a fraud authority that has the same sort of intervention power. Then they would be in the room for a bounce-back loan situation, or any of these others, with that deep expertise.

Q39 **Anthony Browne:** You said the Treasury has no interest in fraud. You could not explain why, apart from the fact they are very young and there is a huge turnover. Given they have a role for managing public finances—ultimately, they have to raise the money and it is clearly in their interests not to have all this money going out the door on fraud—rather than completely writing the Treasury off, is it not a question that actually you may need a cultural revolution in the Treasury? I am not quite sure what the right phrase is. They may not be thinking about it at the moment, but they clearly do have an incentive to think about it longer term, do they not?



Lord Agnew: I agree with you. It is absolutely confounding to me; I just could never understand. In February of last year, when I wrote formally and asked for support, the excuse I was given was it was an untidy intervention and nine months away from the spending review. That is the sort of mentality that one is dealing with. I do not understand why and that is why it will be your job as the Treasury Select Committee to drill into this stuff and try to work it out.

Part of the problem is these numbers have got so big, have they not? It is £400 billion here, this, that and the other and we have borrowed a couple of trillion, and people forget that £1 billion is a great deal of money. This is a problem. When you get above a certain sum of money—maybe it is an average house price—people lose any sense of connection to what the sum actually means.

Siobhain McDonagh: On local authorities, people will concentrate on the £100 that has been spent and let £1 million go without any question.

Q40 **Anthony Browne:** You mentioned there should be a Minister for fraud who would range across the Departments and you want an annual report to Parliament about the status of fraud.

Are there any other proposals you have to try to instil a strong anti-fraud regime within Government? For example, if you have spending programmes, like the grants that you mentioned, there should be by statute a gateway that does fraud checks on that spending programme. How else would you do it?

Lord Agnew: Back to my analogy with the Infrastructure and Projects Authority: underneath that Minister should be a fraud oversight board or secretariat. I do not want to create more quangos, but the threads should be able to go to one place and, as you say, they should be able to require basically what I would call “comply or explain”.

In other words, they should say to any new grant-giver: “This is how you do it. If you are not going to do it this way, fine, but you tell us why you are doing it differently”, and that does not exist at the moment. The counter-fraud function simply does not have the authority to require a high standard.

Q41 **Anthony Browne:** It is spread across Government, the Cabinet Office, Treasury and other Government Departments.

Lord Agnew: Yes.

Q42 **Rushanara Ali:** Good afternoon, Lord Agnew. I have a few follow-ups and then I am going to dig deeper into economic crime and legislation, as well as investment in resources to tackle fraud. You mentioned the point about banks and state guarantees and the need to see them doing due diligence. Do you think that there is a case then for the Government to hold off honouring the guarantees until there is evidence that banks did all the right things in terms of due diligence before they qualify for the



state guarantee? Is that something that should be done straightaway?

Lord Agnew: It is the single most important question to be answered now because of the urgency. As I said, these are going to start hitting the Treasury in industrial quantities in the next few weeks. Again, I had been asking for the data when I was the Minister. I never got the data.

For the briefing for the question I was told that they had already settled just under £1 billion of state guaranteed pay-outs. From memory, it was £960 million, and £220 million was directly attributable to fraud. Those numbers are from my memory; I may have got them wrong. Those are the numbers I was given to do the question. When I put those out there, the next day the Treasury said, "We do not recognise those numbers". Great. What are the numbers? This why we keep going round and round in circles. Why will they not share the data?

Q43 **Rushanara Ali:** Just going back to Tom Scholar's rather lengthy response to us, which you have critiqued already, one of the things we could write back to him on is what the Government are going to do around this and some action ahead of these loan guarantees being honoured. If there are any other suggestions you have, by all means, do feed them in.

Lord Agnew: Here we are; I have them ready for you. These are the questions that I think should be asked: how much money has been paid out by the Treasury so far to meet the 100% state guarantee on failed BBL loans, broken down by category of loss, including fraud loss? What protocols have been agreed with the BBL lending banks as to a base level of activity required to chase down fraudulent advances of BBLs before you will pay out? When do you expect to see a proper performance dashboard for each of the main tier 1 banks' management performance of these loans?

Then the Chancellor in the Commons, a day or two after I left, made a statement that all fraud will be pursued, so my question is: who will do this? Will this be another burden on the taxpayer, or will the banks deliver this as part of the fees they have been paid by Treasury to manage this programme? They are the crucial questions.

Q44 **Rushanara Ali:** Thank you. That gives us plenty of food for thought when we reply back and ask Ministers and the Permanent Secretary those questions, among others.

You mentioned the broader point about fraud. According to the Public Accounts Committee, the latest report found that fraud and error are likely to have cost the UK Government as much as £16 billion across the Covid-19 emergency loans. Given all your expertise and what you have seen, how much do you think the Government can recoup? Alongside the points you have already made, what else needs to be done to recoup the money that has been lost to Covid-19 emergency loan schemes? You mentioned 20%. Is that what we should be looking at in terms of effort to get some of that money recovered, or could we achieve a greater figure?



Lord Agnew: Again, it is so frustrating not seeing any of the data, but that would be a starting point. I gave you two examples of data that should be available, which is how much is paid out to individuals from once the loan arrived and how much went abroad. Those would be markers of fraud and then the next marker, as I mentioned earlier, is how many did not start repayments after their 12-months-free anniversary expired from July of last year.

Q45 **Rushanara Ali:** You mentioned this point about people taking bags of British taxpayers' money out of the country in bags of cash. Did you get a sense of how much of that was going on? You mentioned that you were writing letters to thank officials who managed to stop some of that happening.

Lord Agnew: I did not stop it. I just wrote to thank the teams for having the oomph to do it. A letter from a Minister congratulating someone is quite a powerful thing. It is a very small gesture but it tends to be appreciated, and I did that a lot in my ministerial career. I do not have a clue. I would have fortnightly meetings with the fraud team and they would come in with the latest war stories.

One of them that day was, "Did you hear the Border Force team in Portsmouth has picked up two suitcases of cash?" They challenged the characters leaving the country and the characters said, "This is our bounce-back loan money. We are off to buy a house in Turkey", to which the team, very much to their credit, because they did not know anything about the rules, said, "That does not sound right. We will keep that, thank you very much", and they just confiscated it.

I do not think much of that happened. I do not want to overstate it, but it definitely happened.

Q46 **Rushanara Ali:** Moving on to the resignation and an article in the *Financial Times*, where you said that "an Economic Crime Bill to fill the regulatory gaps should be presented to Parliament. This was foolishly rejected last week as a candidate Bill for the next Parliamentary session".

It has taken a war to get to a point. Your resignation did not achieve the desired effect, unfortunately, but now we are looking at this Economic Crime Bill in the light of the international crisis. What areas are not covered that you think need to be covered? There have been references to a subsequent Bill that is going to come. You helpfully had a list of questions earlier on. Are there things that need to be in this Bill and what needs to be in the next Bill? Are you confident there will be a next Bill, or is it about kicking it into the long grass and people forgetting about it?

Lord Agnew: They are very good questions. I have just written my speech for the debate this evening.

Rushanara Ali: Watch this space.



Lord Agnew: You have pre-empted it. I have raised those points and, basically, at the end I say, which was raised by somebody else, that the Bill that is going through at the moment should not really be called an Economic Crime Bill, because it is about tightening up some Land Registry disclosures, but it is a start. Like I said earlier, the unexplained wealth order stuff is an important step forward. I do not want to be churlish. We will be better off when this Bill goes through than we were a month ago, so let us be positive.

What I am very worried about, exactly as you have said, is that there becomes a narrative that, "We have done our Economic Crime Bill this year. We do not have to do any more than this", and that would be an absolute tragedy, because this only deals with probably 25% of what needs to be done. The Companies House situation is simply terrifying in the gaping holes that exist there in terms of their inability to carry out any proper anti-money laundering checks on people applying for a company.

Q47 **Rushanara Ali:** Did you say 20% of what needs to be covered will be covered by this Bill, but there is the rest of it, so we need a timeframe for the next Economic Crime Bill?

Lord Agnew: Exactly, yes.

Rushanara Ali: We are not going to be able to scratch the surface.

Lord Agnew: I will read to you what I have written for this evening.

Rushanara Ali: If there any key highlights that you want to share with us, then you are very welcome.

Lord Agnew: I basically say, "While I accept the Government are committed to bringing forward a second Economic Crime Bill later this year, focusing on Companies House reforms, it is worth reminding the House that there are gaping holes in our arsenal. For example, Companies House is not required to comply with the fifth anti-money laundering directive. This means a company can be registered directly with them without any checks. Around 300,000 companies a year are registered directly with them".

That is just an unforced error. I do not understand why we cannot get that into this Bill, but I have been told that we cannot and, because I have never been a Back-Bencher before, I am not familiar with how you lobby to get amendments in. I am going to try to get a few in tomorrow. That is just such an obvious thing, because company formation agents are required to comply with the fifth anti-money laundering directive, but for some weird reason Companies House is not. I do not understand that. Maybe you can explain it to me.

Chair: There were amendments in the Commons to that effect, but it is a very quick emergency piece of legislation and those amendments were not voted on, effectively, because there were 45 amendments and we



inevitably had to concentrate. There would be a lot of sympathy for your comments.

Q48 Rushanara Ali: I just had one last question. You mentioned that it would have only take an extra two days to have the relevant checks done, so this argument about needing to respond quickly to a crisis, which Ministers and others have hidden behind, has been shot to pieces in terms of your insights and what could have been done. As a consequence, the taxpayer has been short-changed by billions and billions of pounds.

Were some of the things that you were doing an inconvenient truth to Government Ministers who were desperate to respond to the crisis? Also, there have been reports around particular issues around contracts, favouritism and separate pathways, but, in a way, it was a distraction for those who wanted to just get on with it. If you were being really kind to some of the Ministries, they wanted to get on with it. They did not really care too much about how it was done and whether there was waste, fraud or even favouritism and even conflicts of interests in relation to some of the PPE contract scandals.

There is something fundamentally wrong with the way our Government operated during this period, and broader lessons need to be learned about not only how fraud is tackled, but also how Ministers conduct themselves and Whitehall makes sure that officials make sure that Ministers behave appropriately in the way they make those decisions that can then leave the taxpayer short-changed. Is there a bigger issue here alongside the point around fraud, the checks and balances, the need for expertise and so on?

Lord Agnew: There is a much bigger issue here. It is down to the whole administration of Government. I have tried to avoid overly politicising this. I accept you are a Labour MP and a few hits at—

Rushanara Ali: I am not trying to make a hit. I am making a broader point, with respect.

Lord Agnew: I respect that.

Q49 Rushanara Ali: That is why I have framed the question in this way, because these are important lessons for any party in Government about how they operate.

Lord Agnew: I want to take it back a few notches; hopefully, you will see where I am coming from. I was also the Minister for Civil Service HR. That is 450,000 people. When I first came out of the initial lockdown in about August, I was thinking, "Why on earth can't anything get done around here? Why is it all so difficult?" I thought, "How do we train our civil servants? How does all that work?"

I wrote a very innocent request to the HR department and I said, "How much do we spend every year on training civil servants? How do we know if the training is any good? How do we monitor the thing?" That was a



pretty innocent question. Do you know how long it took them to answer that question? I chased it every month. I chased it for 16 months. I finally got the answer in January and the answer was this: "Minister, we are not sure how much we spend on training of civil servants. It is somewhere between £150 million and £600 million a year. We do not know how good the training is and we do not know how effective people are once they have been trained". That is the problem. You could say Ministers should be much more attentive about this, but, as you know, the problem with the system is, as a Minister, I could not fire anybody. You never can.

Q50 **Rushanara Ali:** We have established there is a need at the official level for improvement and more expertise and more training. Do you think, at the political level, Ministers turned a blind eye when there were obvious areas where they could have been much more disciplined? This would apply for any future Government as well as the current Government. There is this point that it could have taken two days to do these extra checks, or insist on these checks, and it would have saved the taxpayer a lot of money. Do you think that it just became less of a priority? What discussions did you have with your political colleagues—senior Ministers, the Treasury Ministers and others—to raise alarm bells at the political level?

Lord Agnew: My answer to that question is that the system was overwhelmed at the moment of Covid. It was just blown out of the water. Ministers were not inattentive, but this is where I come back to my point. What level of detail does a Minister have to go to to be seen to be doing his or her job? At what point should the Civil Service be relied upon to get the detail right? That is really my point.

I am a detail person, so for me detail is quite easy, but there are three types of politicians out there: those who are good at talking, those who are good at thinking and those who are good at doing. A very small number can do all three of those things. That is fair, is it not? Look at the backgrounds that you all come from to become MPs and in due course Ministers. You are not equipped to ask the sorts of questions that need to be asked in these situations.

Fraud is in my DNA because when I was 18 years old I was a licensed private enquiry agent in the New South Wales court system, going around as a sort of gumshoe aged 18. I learned about the criminal mind when I was 18 years old. I am 61. I am interested by it. It challenges me. Why do these very clever people want to go on to the dark side rather than make their money legitimately? It is just one of my quirky interests, but for most people it is just very dull, boring and unpleasant. It is a really difficult question. Yes, you can say Ministers should have asked more difficult questions and they should have drilled deeper.

Rushanara Ali: If only there were more Ministers like you in Government.



Lord Agnew: No, that is not fair, because I am not a good communicator. I am not someone who will go and kiss babies.

Q51 **Chair:** You are doing okay at the moment, Lord Agnew. I just wanted to put on record that Mel Stride, our Chair, is probably watching rapt at the television screen. He is not here because he is still suffering from Covid. I just wanted to put that on the record, in case people wondered where he was.

Lord Agnew: Just to finish off on this, we did bring in some ministerial training, for example, and we should probably do a lot more of this. We brought it in for infrastructure projects and we put together a scheme with the Saïd Business School in Oxford. It was quite a useful thing. Again, if you come into politics and have been a nurse, a teacher or something, it would have been quite a useful thing to learn a little bit about infrastructure, which is a very complicated area. There should be more training available for Ministers.

The whole thing is mad. One day you are sitting on the Back Benches and then suddenly you get a call from the Prime Minister and you are parachuted into a Department. Suddenly, you get these ghastly things called teachings, where 20 civil servants over four days will bombard you with information and you are meant to absorb all this, and then you are meant to be a Minister. It is crazy.

There are a lot of faults in the system. I completely concede that, but my criticism is more at the Civil Service. Whether you are left or right, you cannot deliver your manifestos unless you have a well-functioning Civil Service, and there is not enough focus on that.

Q52 **Siobhain McDonagh:** On 28 August 2020 the Fraud Advisory Panel wrote to you directly, warning of serious concerns about and weaknesses in the resources available to combat fraud risks, that effective mechanisms must be established to protect public money and that failure to do so would lead to fraudsters exploiting the further weaknesses in the current system. The letter called on the Government to consider creating a centralised data repository for lenders to share data on Covid-related loans and grants and to establish a cross-sector crisis committee to advise on strategy and policy to prevent fraud. Do you remember the letter?

Lord Agnew: No, I do not. Did I answer it?

Q53 **Siobhain McDonagh:** I do not know.

Lord Agnew: That is not to duck the question. I did a few things in this area. For example, I managed to get a dialogue between Jim Harra at HMRC and the British Business Bank, so that they shared the income information that HMRC has on businesses, to try to tackle this massive overclaiming of the bounce-back loans. As you know, the maximum was £50,000, but it was meant to be a percentage of the turnover of your business. I did create a dialogue there. I also tried to get them to share



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data on the tax returns because that would show the income, so that you could validate it. Who are these people?

Siobhain McDonagh: The Fraud Advisory Panel.

Lord Agnew: Is that a Government thing?

Siobhain McDonagh: No, they are voluntary thing.

Lord Agnew: You should see what I said in my reply. I am sure my private office can produce it. I would have answered it.

Q54 **Siobhain McDonagh:** I appreciate your answer. How would you remember? It seems like quite a strong letter that supports your general thrust.

Lord Agnew: There was a lot of concern in the system.

Q55 **Siobhain McDonagh:** Whenever we have hearings to do with fraud in Government spending, private spending or investment, people who are really committed come and see us and just, with frustration, shout at us about why more is not being done.

Lord Agnew: I was just getting over leaving Government. Coming in today I got myself all revved up again, reading all these papers again, because it is infuriating. There is movement. Rushanara asked whether Ministers helped in the Treasury, and one outstandingly supportive Minister was Steve Barclay, who was the Chief Secretary. He shares my concern about all this. He got me a little bit of money and bits and pieces during the worst of Covid.

When he came in as my boss at the Cabinet Office, there is a letter in the works now, which I have not seen because it happened just after I left, to the Prime Minister asking for a number of different things to happen, such as a proper oversight board of the British Business Bank and what they are doing. There is not enough oversight, going back to the point I made at the beginning. The PRA and the FCA are not there. As I say, I have not seen this letter, but there are 10 things on that letter. The Prime Minister has supported those, but it is grinding around the system. It may need a write-round or something.

Things are happening and Steve Barclay is pushing that, but he has an enormous portfolio. One of the good things that happened with me going is there are now three Ministers involved in a lot of the stuff I did. Two of them are Cabinet Ministers, in the shape of Steve Barclay and Jacob Rees-Mogg, and then Michael Ellis has Cabinet attendance rights, so they have more clout than I had. I was underpowered.

Q56 **Siobhain McDonagh:** You have referred to this, but what up-front due diligence was carried out to protect money from the Covid financial support schemes being given to fraudsters?



Lord Agnew: Not enough; that is the bottom line. If you go back to these Cifas fraud checks, these are online checks. They can be done in moments.

Q57 **Siobhain McDonagh:** It is the point that you made: why would you give a grant to a company that had not existed before?

Lord Agnew: Exactly. There were somewhere between 1,000 and 1,500 companies like that. One of the things the counter-fraud function has been able to do is stop a lot of these being struck off and the people disappearing. There is still a chance to go after some of these people. It will be that much harder but we should try. I want to know what the Treasury has in mind. My view is they should push the responsibility back to the banks that got paid to do this.

There is one other very important question that I asked, which I hope you will ask because I have had no answer to this. I hope you understand where I am coming from on this. I asked the question, "How much of the £47 billion that went out under the bounce-backs got clawed back by the banks within a few weeks of the money arriving?" You run a chain of takeaways in Doncaster. You have applied for your £50,000. The money arrives in your bank account. I am your bank manager. I ring you up and I say, "Siobhain, I see you have had your £50,000. Why do you not just pay off this loan that you have with us? It would be less risk. It is cheaper, blah, blah, blah".

That is a big sum of money. I have no idea how much it is, but assume it is £10 billion. I am making the number up because no one will tell me what it is. That is the extent of the Government's intervention to protect the banks' balance sheets in this crisis, so they have a very strong moral obligation to support us absolutely, to the nth degree, to go after this stuff, because these banks are now all declaring enormous dividends, are they not? Again, I am making the number up, but if it was that order of magnitude, they would not be declaring these dividends now and they would not be picking up the bonuses in the management team. Can you please find out how much went straight back to the banks? That is the moral leverage that we have over the banks to do this job properly.

Q58 **Siobhain McDonagh:** I had an email from a constituent who told me that she had a childcare business and got a bounce-back loan and built an extension on her house. She thought it was very unfair that the bank was now asking her to make instalments to pay it back. I am just one MP with one story.

Lord Agnew: What can I say? I am afraid entitlement is a bad disease, is it not?

Q59 **Siobhain McDonagh:** On a similar line—I am sure your response will be pretty much the same—what monitoring measures were put in place after funds were loaned to ensure that they had not been handed to fraudsters?



Lord Agnew: I never could get any data. This is the point. If you go on to that Swiss loan scheme, you will see there is a lovely table that shows you all these things. For me, that would end a lot of the argument. If we had the dashboard, we would know the answer to these questions. That is why the Scholar letter upset me so much, because the idea that this is all a very new facility just does not wash. I would just push very hard for that.

Q60 **Siobhain McDonagh:** You have already again referred to this, but did the Treasury have an inadequate number of people with specialist counter-fraud knowledge before Covid support schemes were put into place? Did they have anyone?

Lord Agnew: No, but then they had the counter-fraud team in the Cabinet Office if they chose to use them, so the people were there with the expertise. The guy who runs the counter-fraud team is so good that we hire him on a perpetual basis to the Australian Government. They pay part of his salary because he is so well regarded. The guy is just a total boffin on fraud. We have some really good people.

His boss, who runs the whole of that FEDG team I mentioned, was 16 years in HMRC on counter-fraud. She makes me look like a Sunday school teacher. She is tough and understands all of this area. We have very good people; there are some really good people in HMRC. I do not mind that Treasury does not have the expertise. It is just about having the humility to say, "I do not understand this stuff. Get the people in who know it". That is all they should do.

Q61 **Siobhain McDonagh:** Do you think the Treasury has learned any lessons?

Lord Agnew: I cannot see it. I have been out of the game now for five or six weeks, but I understand that the tectonic plates are shifting deep in the bureaucracy and they are being a little bit more engaged in this now. I hope that they can come out and when Scholar comes to see you, he can say, "Agnew was most unreasonable. We have just announced this". I live in hope. I am basically an optimistic person, so let us see what happens. The bit I would urge you to really chase down are these state guarantees over the next few weeks, because the clock is ticking on that and these sums are going to be absolutely enormous.

Q62 **Julie Marson:** Good afternoon, Lord Agnew. I have some more questions on the bounce-back loan scheme specifically. Perhaps I could get your views on the actual level of fraud that we are likely to see. The central estimate we have mentioned is £4.9 billion, but that is a central estimate ranging from £3.6 billion to £6.3 billion. How realistic do you think that estimate is?

Lord Agnew: In the absence of any data, I suspect it might be a bit low. That would be my concern, given all the weaknesses that were there at the beginning and how little has been done. I mentioned earlier on the head of fraud at the British Business Bank has just resigned out of



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frustration because she was not getting supported in the British Business Bank to drive a much harder set of reporting standards of the bank. That figure is probably a low estimate, but I do not want to pretend to have any knowledge on this, because I need to see the data.

Q63 Julie Marson: I do not want to put words in your mouth, but you are looking at perhaps the upper end of that.

Lord Agnew: What was the upper figure?

Julie Marson: The upper end is £6.3 billion.

Lord Agnew: I go back to the figure that I used in my resignation statement, which was if they have just paid out £1 billion in guarantees and 22% of that was for fraud, that is not a very good start, is it?

Q64 Julie Marson: Absolutely. In contrast, although it is unaudited, PwC revised that £4.9 billion down, interestingly enough, to £3.3 billion, so that estimate went in a different direction to potentially what you are saying.

Lord Agnew: To be fair, they have received a great deal of money from the Government to write long reports, so let us hope their reports are worthwhile.

Again, I will just give you another example of the Treasury's extraordinary attitude to all this. The British Business Bank had a data analytics contract in place for the analysis of exactly the sorts of things that you are asking about. That contract expires at the end of this month and they claim that they have no money to renew the contract and that BEIS has no money either, so we are going to lose the data analytics capacity at the end of this month. You couldn't make it up really, could you?

I understand that there has been sufficient embarrassment that they are going to crank it up again, but it will not happen until June. Again, I only hear that anecdotally, so it is something you might ask. These are tiny sums of money. You are talking about £3 million or £4 million to do some good data-crunching, but that is the attitude. Why did someone in the Treasury not think, "This is trivial. Let us get them the money and get on with it"?

Q65 Julie Marson: Tom Scholar in the letter says that he expected an above-normal level of fraud for the bounce-back loans because of their nature and the need to get them through quickly. How do you assess a normal level of fraud in the bounce-back loan or even what an above-normal level is?

Lord Agnew: The Swiss reckon that they can do it at 1%, but we know the Swiss are very well-organised people, so let us say double that, which is 2%. That is probably the sort of number that would be acceptable. Again, I do want to separate credit loss here, because I have no issue



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with money being lost if people were battling to save their businesses, the money went in to do stuff to keep the businesses going and it did not work. That is perfectly fair cop, but the money going to crooks or being spent in a crooked way is the bit that upset me.

Q66 Julie Marson: In your resignation speech you said you have been arguing with Treasury and BEIS officials for nearly two years to get them to lift their game: "I have been mostly unsuccessful". Who are you referring to when you are talking about those conversations about upping your game?

Lord Agnew: These were all with officials in Treasury. The mistake I made is I should have escalated it to Scholar much earlier. I should have said to him, "This is not moving fast enough". That was my fault. Would it have made a difference? I have no idea, but I should have done. At least I could have said I had done that.

You might think I am mad. I just cannot understand it, because it is such a free hit for us. As I say, £1 million spent in this area will return £3 million to £5 million if it is spent properly. That is the bit that frustrates me. I am not here saying, "Just throw more taxpayers' money into something".

Let me give you another example from the Treasury. I had forgotten about this one. I had a win on this, credit mostly to Alex Chisholm, the Permanent Secretary at the Cabinet Office. When Covid all blew up two years ago, as you will remember, they opened the sluice-gates on universal credit; they perfectly reasonably registered a hell of a lot of people very quickly and they waived a lot of the checks to get people receiving something quickly. That was perfectly reasonable.

After a few months I went back to them and I said, "Okay. That was fine, but now the surge is over, are you retrospectively going back and doing the checks and sorting it out?" and they were starting to do that, but then I asked a question a few months later. I said, "When are you going to be back to the pre-Covid level of fraud on universal credit?" I cannot remember the percentages. Anyway, they wrote back and said, "It is going to be 2028 before we can get back to pre-Covid fraud levels", and I said, "What do you mean?" They said, "We do not have enough resource to do it".

Anyway, to be fair to Alex Chisholm, he really fought for this one. He went to Treasury and they got them quite a lot of money to deal with that. I do not know what the new date will be, but that will make a big difference. Again, it was weird that we had to have this big argument. There was an acceptance that we could sit there for the next six years with these unacceptably high levels of fraud. The money that they will have invested to bring this back will be paid for, again, two or three times.

Q67 Julie Marson: What other officials were you talking to, say, in the



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Treasury, just to give us a feel at what level you were trying to raise these issues?

Lord Agnew: I was at DG level in the Treasury. That was the level. I tried to deal with BEIS but I could not get any sense out of them. You know how you talk to people and they have glazed eyes back at you. I had too much on my plate, as I say, with all these other things. I was the Minister for getting civil servants out of London. It was a huge battle, again with the Civil Service, to get them to agree to do that. I was the Government property Minister trying to deal with what will happen to the property estate post Covid and home-working. There was endless stuff. Back to Kevin's point, this needs a proper focused person.

Q68 **Julie Marson:** Just to characterise the kind of response you were getting, you mentioned about saying no in many different ways. Were you being told no or were you being fobbed off, would you say?

Lord Agnew: I was being fobbed off.

Q69 **Julie Marson:** You mentioned Steve Barclay. What kinds of issues were you raising with fellow Ministers and what kind of response were you getting from them?

Lord Agnew: They were occupied with other things. Let us be honest about that. The other elephant in the room was Brexit and getting ready for that. We were running those two crises simultaneously. As I say, I was the HMRC border readiness Minister from about August 2020 up to and beyond when we went live. That was the hardest job I have ever done in my life. We had to have 21 computer systems synchronised on 31 December 2020.

Government was just overloaded. That is the reality of it. If Ministers were not as attentive as they should have been, that is a mitigation. Again, you can say, "It is not an adequate mitigation". I respect that, but I am trying to give you the human dynamic on this rather than get into personalities.

Q70 **Julie Marson:** If you feel like you are going round in circles, either getting fobbed off or getting nothing—

Lord Agnew: I had a lot of support from James Brokenshire, who was very nice and who sadly has died. He had the fraud hat at the Home Office and he was very supportive. He was on the cross-departmental board and really saw the power of it. There is a new one who has just taken over there.

Kevin Hollinrake: Damian Hinds.

Lord Agnew: He is very supportive. Then there is another person. He was one of the PPSs at the Treasury when you were there, Kevin. He is just gone over to the Home Office. Sorry; I have forgotten his name. You will think of it.



Kevin Hollinrake: Is it Julia Lopez?

Lord Agnew: No. He is in the Home Office.

Some Ministers instinctively get it, but some do not. As I say, if you have been a nurse as your career, what has fraud got to do with life? That is the reality. I am unusual because I have had 44 years in business, which means that I have seen pretty much everything over that tenure and made every mistake known to man. You simply cannot expect Ministers to have that sort of background.

Q71 **Chair:** The Government say that they get a lot of outside support from business and have made a big thing of it. Departments have had their boards peopled with non-executive directors from outside, so there is not really an issue.

Lord Agnew: We have tried very hard to do that and there are some exceptionally good people who have been involved.

Q72 **Chair:** You are saying that is not really affecting the core of how Government behave.

Lord Agnew: It depends on the relationship between those people, the Permanent Secretary of that Department and the Secretary of State of that Department, so that triangle of relationships. We have some really good lead non-executives of Government Departments who do add a lot of value, but they only add the value where the Permanent Secretary sees that they are constructive critical friends and has enough self-confidence to have these people inside the tent and prepared to take criticism from them.

Q73 **Chair:** Is that a criticism of Tom Scholar from you?

Lord Agnew: The board of the Treasury is not particularly assertive. I do not know much about that board, but I know that Michael Gove was always a big fan of these boards and we had a very good board at the Cabinet Office. When I was at the DfE I was one of those board members and we had people very committed to education but also with a business background. He is doing something similar. He did something similar at the Ministry of Justice. He sees it because he likes the challenge.

We have brought in some good people. Peter Freeman, who is now the chair of Homes England, is an exceptional person with a very impressive property track record who is really getting to grips with that agency. Lord Deighton came in and helped with the PPE early on. We get some good people, but it is very hard for these people because the system does not really welcome them in in an administrative sense.

Q74 **Kevin Hollinrake:** I do not know if the Swiss do it, but they definitely do it in the US. Another way of tackling this is through transparency of the actual loans. The US listed all the recipients of the loans. The British Business Bank said it would not do that on the grounds of commercial sensitivity. Would that be something you would recommend: that they



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just list who got the loans?

Lord Agnew: It is total drivel, is it not? This is taxpayers' money. What is the commercial sensitivity? It is that classic fob-off. It is an excuse not to do it, probably because they never have got a grip of their data, I presume. Of course they should be. I am a farmer; I receive a farming payment for my farm and it is on the public record.

Q75 **Alison Thewliss:** I had lots of questions and lots of them have been answered, so I am going to try to go through a few detailed points on the bounce-back loan scheme. You mentioned some of the brakes upon the system that you could have put in place to stop them being paid out fraudulently. It is interesting that some of the schemes did require credit and affordability checks as part of the application process. If those had been included in the bounce-back loans, do you think that might have had an impact? There is an inconsistency there in what was required.

Lord Agnew: It would have definitely had an impact, yes. There is no doubt. I cannot quantify it, but it would have had an impact and it would not have slowed things down very much. That is the point. I do not understand why they did not do it properly.

Q76 **Alison Thewliss:** How were the payments that were paid out to companies that were not even trading allowed to be part of the system? It seems an absolute no-brainer.

Lord Agnew: Maybe you should ask Tom Scholar that when you meet him.

Q77 **Alison Thewliss:** Yes. You were not able to get any answers as to why that was the case.

Lord Agnew: No, no credible answer. That is the problem with that letter. If he had said in the letter, "These are the things we got wrong and this is what we are doing to make sure that does not happen again", it would have shown a little bit of humility, but the letter is painted as if it was a wonderful thing and these are a few minor technical difficulties that you should all just stop complaining about. That is where I disagree with him.

Q78 **Alison Thewliss:** You talked about Companies House earlier on and I have made many points about this in the House over various years. I agree; I cannot understand why Companies House is not an anti-money laundering supervisor either, and I would agree about the loophole that you mentioned about company formation agents. In terms of what is on the Companies House register sometimes not being correct, checked or verified in any way, does that make it more difficult for Government to chase down companies that had loans paid out to them?

Lord Agnew: Yes, absolutely. The track record of Companies House actually taking assertive offensive action against anyone is on the fingers of two hands. There is a tiny fee to pay when you register. It is £12 or something. If you just double that, that would create the fighting fund.



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As I mentioned, it is 300,000 companies a year at £10 a go. Even £3 million a year would give them a little team to make a big difference. That is what needs to happen. Yes, I agree with you.

Q79 Alison Thewliss: You said in your *Financial Times* article that the safety mechanisms of the National Audit Office, the House of Commons Public Accounts Committee and Select Committees have all failed to embarrass the system into action. You feel that your resignation has made some degree of difference and things are moving in the background, albeit perhaps not as quickly as we would all like to see. Why do you think there has been this lack of action across the board?

Lord Agnew: There is a terrible complacency in the system. That is the only explanation that I can offer. There is a tolerance of mediocrity. Part of the problem is too few Permanent Secretaries have had lives outside the Civil Service, so they do not know what good looks like. They are accepting of the low standards because that is the norm. It is a conundrum. There is this sense that it is other people's money and that somehow it does not matter. I fundamentally disagree with that.

Alison Thewliss: I would agree with you there.

Lord Agnew: It will be very interesting. I am going to be watching you lot very carefully over the next few months to see if you are able to really hold the Treasury to account on this stuff. I worry that the Select Committees seem to bounce off too often. I know this from being in Whitehall now for 10 or more years. It is a game how a civil servant deports him or herself at a PAC or whatever. It is a dark art. It is how they can come out of here unscathed at the end of it without actually having committed to do anything. There is something wrong with the way this oversight works. You are very well-resourced Committee. Mel told me you have a strong secretariat with good people, so I am genuinely very interested to see if you can wrestle this beast into some sort of order.

Alison Thewliss: We hope so; we will certainly give it a good go.

Lord Agnew: I will be watching.

Q80 Alison Thewliss: Given the lack of capacity in BEIS to run a scheme of this scale, this size and this amount of money, with so few staff with counter-fraud expertise, why was this allowed to go ahead? It seems very strange that there is no brake on the system to say, "Wait a minute. You guys do not know what you are doing. Give this to somebody who does know what they are doing".

Lord Agnew: Again, everyone was terrified of where we were. It is interesting how much we have all forgotten. It was two years ago and it was, for me, like a bad dream. To be fair, the action needed to be taken very quickly.



What I would have done, which is hindsight, although it should still happen now, is that, given that the whole role of the British Business Bank was going to fundamentally change from being quite a small, niche organisation to being a massive manager of a very big loan portfolio, they should have immediately put them under the auspices of the PRA and the FCA, which have all the expertise needed to really hold them to account. That was the mistake I believe that was made.

It can be rectified now. BEIS is not equipped to manage an organisation like the British Business Bank in its current format. Bear in mind that these loans are going to be rattling around for four or five years, so this is not something that is going to disappear.

Q81 Alison Thewliss: You had said that oversight by both BEIS and the British Business Bank of the panel lenders of the bounce-back loans had been nothing less than woeful and they were assisted by the Treasury, which appears to have no knowledge of or little interest in the consequences of fraud to our economy or society. Could you tell me a bit more of what the oversight mechanisms are at the moment by the Treasury and what they should be to try to tighten it up?

Lord Agnew: I mentioned to an earlier question this issue of joining up data. Somebody asked and I gave the example of me getting HMRC to help out a bit. I had one call that nearly put me into the nuthouse with the panel banks. I cannot remember when it was. It was just to hear all the lame excuses that were being made for why there was not more rigour, again when I was pushing for the dashboard, and that should not have been accepted by the British Business Bank. There should have been a data streaming mechanism from the first few weeks of when these things went out of the door. Why have they failed to do that? I just do not know. I think they just did not have the expertise, and that is why we should have had the FCA and the PRA involved a bit more, but I would get them in there now.

Q82 Alison Thewliss: It would clearly be worthwhile having them in now. Is it too late for a lot of this stuff?

Lord Agnew: It is not if I come back to my point about state guarantees. There was one article after I left that said that the banks have suddenly pulled a lot of the ones that the guaranteed claims are about to make because they were suddenly a bit rattled, because they were just going to look so bad because they had clearly done nothing. That is only something I read in the newspaper.

The Treasury should be sending a much stronger message to the banks that we expect them to do their job properly on this. Bear in mind one of the banks is NatWest, which is majority owned by the Government and indeed has a relationship directly with the Treasury. What conversations are they having on that route? It is important that we are sending that message out. As Angela said earlier, do not expect to get your guarantee paid if you have done nothing. Just forget about it. Go off and do some



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work, but do not darken our door until you have done some work to get this money back.

Q83 **Alison Thewliss:** Would the criteria that they signed up to allow for that?

Lord Agnew: I do not know the details, but they were given a management fee for doing all this, so what have they done for it? That is the question, is it not?

Q84 **Chair:** The National Audit Office said that the loan contract did not contain any specific restrictions for use of the loan, so that implies you could have built an extension with it. What is your understanding?

Lord Agnew: My understanding is that the money had to be for the business. I do not agree with that, but I could stand corrected. The NAO is a serious organisation.

Q85 **Chair:** My understanding is that you had to self-certify that it was for the business, but it is not in the contract that was signed that you had to use it for the business. Were you aware of that?

Lord Agnew: If you have self-certified and then you have used it for something else, that is fraud, is it not, with my simple approach to life? If you are running a takeaway in Doncaster, why do you need a sports car?

Chair: Luxury Deliveroo!

Lord Agnew: If they can justify that, good luck to them.

Q86 **Alison Thewliss:** You mentioned that there is some counter-fraud experience in bits of Government and it is not wide enough spread. Some of it exists, you said, in HMRC and DWP. It does not really exist in DLUHC or BEIS. Aside from having perhaps a Minister to focus that through, how do you get that cross-Government working to happen, to say, "Look, you know about it here. You have no experience of it there". How do you match that up, or do you just take away those responsibilities from the Government Departments that do not have the expertise?

Lord Agnew: That is why I would like to see a central function that has those powers to call to account any part of Government that is giving or lending money. They should all be answerable. In terms of the quality of their mechanisms, they should be answerable back to that central point, and that does not happen at the moment.

Q87 **Alison Thewliss:** If you are not prepared to be answerable, you should not be giving out the money.

Lord Agnew: If you cannot show that you are running it properly, then there should be a stop, absolutely. I just found another bit here, just back to this issue about duplicate loans. It says here in the guidance, "There is only one application per group. If you have applied for more than one business that is under common ownership or control, then this is fraud". That is back to the duplication.



There is enough in here if the banks face up to their moral responsibility and, given my point that I made earlier to Siobhain about the quantity of money that will have flowed straight back to them, they are absolutely responsible for doing a proper job on this.

Q88 Anthony Browne: There is a segue, because my questions are about, in fact, what the banks did and just to drill down on some detail on what they should do.

When the bounce-back loan scheme was launched, I did have this discussion both with the Treasury and banks about what is to stop fraud, because it is obvious that anyone could apply for it, get the £50,000 and buy a sports car, and I was reassured both by the Treasury and by the banks that actually they would be required to do business-as-usual fraud checks and, if there was fraud and the banks did the normal business, then the Government would be liable, but if they did not do proper fraud checks, then the banks would be liable.

Coming back to the point you said earlier about, "You show me the incentives. I will show you the activity", under that thesis the banks had an incentive to stop fraud because there is quite a high risk they might end up paying for it themselves. I am just wondering what is wrong with that. That is what I was told at the beginning of all this, but, clearly, it has not worked out like that. I am just wondering why you think it has not worked out like that. Were the banks not doing the business-as-usual fraud checks, which they were supposed to do?

Lord Agnew: Again, what we discovered was a huge range of behaviours by individual banks. With things like the suspicious activity reports, the percentages relative to loans issued by different banks varied enormously. There were some banks that were diligent and others that, frankly, were not. I did not know what you have just told me and that is very good news if that is the case. If they cannot prove that they have done the basic fraud checks—

Q89 Anthony Browne: I was told it informally, so it may not be the formal position.

Lord Agnew: I hope you are right.

Q90 Anthony Browne: Otherwise, what is to stop the banks just giving out money to anyone and not doing any checks whatsoever?

Lord Agnew: The point is, Anthony, that we should get to the bottom of this now before these claims start coming in, because I know what will happen. There will be thousands of individual transactions hitting some set of clerks somewhere in the Treasury. NatWest will say, "Right. Here is this month's list of claims. Here is 100 loans at £25,000 each. Please send us a cheque".

Q91 Anthony Browne: You mentioned in your resignation speech the variation between the banks that you just referred to and, just to quote your speech back to you, three out of seven main lenders accounted for



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87% of loans paid out to companies already dissolved; two of the seven account for 81% of cases where loans were paid out to companies incorporated post Covid; and one in seven of the banks accounts for 38% of the duplicate application checks that were not carried out after the requirement was enforced. That is quite extraordinarily skewed behaviour. Presumably the banks just had different processes. Do you have different insight into that?

Lord Agnew: I could never unpack it. That is why I kept banging on about the dashboard, because the dashboard shows you everything.

Q92 **Anthony Browne:** You do not name the banks here, but do you know which banks were good and which banks were bad? Can you tell us? We are under parliamentary privilege here, I believe.

Lord Agnew: HSBC was very late in getting their duplicate check system in, as I mentioned earlier. It took them until November, apparently, to start doing proper loan checks. By November the horse had well and truly bolted, so that was disgraceful. I have a suspicion of one or two of the others, but it probably is not appropriate to—

Q93 **Anthony Browne:** One thing that Lloyds Bank told me was that they were alarmed at what was going on. They had lots of applications from companies that were not Lloyds Bank customers, so they had no information about these companies and they are applying for £50,000 loans. They then introduced a new requirement that they would only give bounce-back loans to companies that were already Lloyds current account customers, so they had the information. They knew they were trading entities. That had a dramatic impact.

You could apply to be a customer at Lloyds for a current business account or you could be a customer at Lloyds and apply for a bounce-back loan, but you could not not be a customer at Lloyds and apply for a bounce-back loan. That was just something they did unilaterally because they were concerned about what was going on, but we do not know what any of the other banks did, presumably.

Lord Agnew: That is common sense, is it not? I am glad that it prevailed then.

Q94 **Anthony Browne:** You just have these completely random strangers come to you and ask for £50,000 and you do very limited checks.

Lord Agnew: I hope you will drill into this, because I have a suspicion that one of the seven main banks really took advantage of this.

Q95 **Anthony Browne:** How did they take advantage?

Lord Agnew: They just lent indiscriminately.

Q96 **Anthony Browne:** Was it because they got the management fees? What is the incentive there?



Lord Agnew: They wanted to build their balance sheet and there was no downside because they thought they were going to get a 100% guarantee on any of them that went wrong. Imagine a marketing budget if you wanted to go and build a couple of billion into a lending balance sheet. You were being paid to do it and there was no downside if you do not do it.

Q97 **Chair:** Would you consider naming that bank, Lord Agnew?

Lord Agnew: I do not think I should, to be honest with you.

Chair: It is very tantalising.

Lord Agnew: I know. I would love to say.

Q98 **Anthony Browne:** You have parliamentary privilege here.

Lord Agnew: I do not think I can. The trouble is it would be a market-impacting event if I told you who I think it is. That is my problem, and I might be wrong—because I never saw the blinking data, you see. This is why it is so frustrating. I could have said in a moment.

Q99 **Anthony Browne:** The data that I quoted that you quoted in your letter—

Lord Agnew: These are individual data exercises. That PwC and the analytics thing I was talking about earlier is all manual stuff and not the Swiss Government's system, where it is all real-time data just flowing through all the time. That is the problem. It is another reason why killing off that data analytics exercise at the end of this month is so foolish, because it seems there is not a real-time data dashboard yet.

Q100 **Anthony Browne:** You have referred many times to the duplicate payments issue. Do you know how that emerged as an issue and how that requirement was brought in? Clearly, there was a learning there. Something happened to alert the Treasury that this was going on.

Lord Agnew: They were doing these deep-dive pieces of analytical testing. They would take a sample of 1,000 loans and they would run it through their analysis, so that is where they were getting some of this data, but my concern, as I said then, is that there were still large numbers of duplicate loans that went out even after they had brought in the duplicate test, and it took them far too long to bring that in. It took six weeks to do something that could have been done in probably 10 days. A unique identifier on a loan in this day and age is not complicated, but, no, they managed to make a meal of it.

Again, one could go after that money quite easily and that was one of the excuses one of the banks made that really annoyed me: "You are treating these people as fraudsters". I said, "No, you are not, because you give them the chance to correct an error they have made and then you are protected from it being a fraudulent act. You have, say, 90 days to review and say, 'Sorry, I got it wrong and I should not have applied for the extra



loan. We will make arrangements to pay it back". There was just no acceptance that that should happen. I believe it should happen.

Q101 **Anthony Browne:** You have mentioned several times the impending claims on the state guarantee, and that banks are going to start coming to the Treasury and saying, "Will you pay out 100% on this loan?" You have quite rightly pointed out the conflict of interest there between the taxpayer, the Government and the banks, which are trying to shovel responsibility on to each other. What should be the requirements for the Government to refuse to pay the guarantee? In your mind, do you have a particular set of things that the bank has or has not done?

Lord Agnew: If they have the data, I would go back to the seven banks and I would rank them by effectiveness. I would take the highest performing bank and I would set that as the standard that I would expect the other six to comply with.

Q102 **Anthony Browne:** If they were only reclaiming 2% of loans, you would hold the others to that level.

Lord Agnew: Yes, exactly.

Q103 **Anthony Browne:** You would not set it out as a set of activities or checks they should have done.

Lord Agnew: There should be a checklist, yes. I just pray there is one, but I am reassured that you were given that assurance yourself that the deal was that if they did it properly, they would be supported by the taxpayer and if they did not do it properly, then they would have to take the hit.

Q104 **Anthony Browne:** What about if the banks were lending tens of millions of pounds wondering under what circumstances they would be held liable for defaults?

Lord Agnew: You should maybe get some of the banks in. Maybe that is a BEIS job. You see the urgency, though. The clock is ticking on that two-year anniversary, so I just urge you to get a grip of this very quickly.

Q105 **Anthony Browne:** Finally, about the incentives for recovering funds, you mentioned the alarm if the repayments have not been made for six months. You think it is probably fraud and the banks have procedures to try to reclaim money normally, but here, as I understand it, if they reclaim some money from fraud, they pay it straight back to the Treasury, so, as I understand it, they have no incentive to reclaim fraudulent loans.

Lord Agnew: There are two things. They were paid to administer the scheme, so they were paid.

Anthony Browne: A 1% fee or something.

Lord Agnew: I do not know what the deal was, but then there is the bit that I mentioned earlier, which is that they benefited enormously from



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this intervention because a large proportion of those bounce-back loans would have gone straight back on to the bank's own balance sheet.

Q106 **Anthony Browne:** It would have reduced risks on their own loans.

Lord Agnew: Exactly. That has saved them a great deal of money and allowed them to ramp their dividends up to very high levels. If the Government and the taxpayer, as they did in 2008-09, step in to save the banks, then the banks owe us something, do they not?

Q107 **Anthony Browne:** I agree totally. The point I was trying to make here is when you have a loan that you think might have been fraudulent, normally they could take some steps to recover it, but do the banks have any incentive to do that?

Lord Agnew: They will if they do not get the state guarantee, will they not? They will have a huge incentive, but it is how the whole thing is constructed.

Q108 **Anthony Browne:** If they get the state guarantee, then there is no incentive.

Lord Agnew: If they can just send a schedule through to some clerk in the Treasury once a month for a cheque, then we are in big trouble. I do not believe that it could be that bad, but, as I say, I could never get to the bottom of it. Scholar does not provide any information in his letter.

Q109 **Anthony Browne:** Basically, just to clarify, the banks have a loan they think is defrauded. They can either just send a note to the Treasury, "Give us the £50,000 back", or they can get the counter-fraud team to try to recover the money and chase the people to the Bahamas and get the money back at huge expense, huge time and everything else. What would you do? Which would you choose? You would just go to the Treasury.

Lord Agnew: To your point, if it says in the agreement that you do not get your state guarantee paid unless you have done the following X things, then they should be doing those things, but I do not know what that list is. I tried to get it and I failed, but you are going to succeed where I failed.

Anthony Browne: We will try. We are all committed to that.

Q110 **Emma Hardy:** Just on a personal level, I find you a fascinating witness. We have very few people come in and just be absolutely honest and up-front with what they think.

Lord Agnew: I am not clever enough to be dishonest.

Q111 **Emma Hardy:** I really like it, so thank you for that.

Just going back to when my colleague and friend, Siobhain, was questioning you, you mentioned all these people and this expertise that we have in Government. I cannot remember the named individual. One of



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them was being used by Australia. It seems so obvious. Why were they not used? Why was their expertise not called on? I just do not understand. I just wondered if you understood from working in Government. Is it because it is a different Department? I do not really know how these things work. Why would you not use that expertise?

Lord Agnew: I agree with you, but if I just give you another slightly unrelated statistic, you will see where it comes from. Pre-Covid, in the year before Covid, the Government spent £1.8 billion on consultants. Again, that was another area of responsibility I had. Apart from the appalling waste of money, it is the infantilisation of the Civil Service. There you have bright, well-educated people and when some problem arises you do not give it to them. You go off to some blooming consultant and pay three times as much. Why?

Anyway, one of my modest successes is I set up an internal consultancy service in the Cabinet Office called the Government Consulting Hub, where they did the work at half the tariff of the big PwCs and all that lot. It also generated a huge amount of expertise in that team and then gradually there will be a diaspora as they leave that consulting hub and go off into other parts of Whitehall, so gradually we are upskilling civil servants.

There just is this extraordinary attitude that there is nobody around who can do the job so they have to go and see a consultant. I do not know why they do that. Is it the "you never got fired for buying IBM"? I do not know. If you have the PwC moniker on some report, then you are not at risk. You can say, "I hired the most expensive consultant". I do not know. It is not how I would run things. That is why I tried to stop it in the Cabinet Office. We were successful. We reduced the spend in the Cabinet Office on the use of consultants. There are some very able people in Government and particularly in this area.

Q112 **Emma Hardy:** I know we are not here to discuss HR, but something else I found really interesting was when you said the average age was 29 and there is a high turnover. That would immediately worry me with my trade union background. Why is there such a high turnover? What is going on in these Departments that people are leaving after only a short period of time? It seems to me that the reason for the average age being 29 and there being a high turnover is that people come, do not like it and leave quickly.

Lord Agnew: They see it as a staging post into Government.

Q113 **Anthony Browne:** They double their salary by leaving. That is why.

Lord Agnew: Maybe a lot of them are being nicked by these consultants. I do not know, but it makes for an organisation that lacks individual technical skills. That is the point. They should then use the people out there who had the skills to support them and that is the bit. It is the hubris that I do not like.



Q114 **Emma Hardy:** To the main point, I wanted to really seek your views on what the Treasury has done in response to the high levels of fraud, whether you think they have done enough or what you think they have done, because the Prime Minister in response to your letter stated that "absolutely no fraudulent claims have been written off". Is that in line with your understanding?

Lord Agnew: Again, I have seen no data. As I mentioned earlier, the Chancellor made a statement in the Commons a few days after I left saying that all fraud would be pursued, but six weeks later have we seen a plan? Who is going to pursue it? I have not a clue, but I accept that I am not inside the tent anymore and there may be some cunning plan that is about to be unveiled.

That is something that you should push for because if we take the worst-case scenario and Anthony is wrong and there are no contractual protections on the banks having to go after this money themselves, all these fraudulently paid loans will then come back into the Government's balance sheet. We are going to need to create a bad bank to go after those people.

Is that what the Chancellor has in mind? I do not know. We should not have to do that. The banks should do it, but at the moment I am completely in the dark and maybe you are too. I do not know, but that needs to be resolved very quickly, again because of this time sensitivity. These claims are going to be pouring in within the next couple of months. Is there going to be a machine to pick up these claims and deal with them?

Q115 **Emma Hardy:** If you were in Government now, is that one of the things you would be calling for or asking for, or do you think it is acceptable to write off however much fraudulently?

Lord Agnew: No, it is not acceptable. It is definitely not acceptable. My first port of call would be to push the banks very hard to do the job, but I do not know the detail of the contractual relationships. They will soon start squealing if we delay the payment of these guarantees. That will soon flush out the story. If we just sent a letter to the seven banks and said, "Sorry, nothing happening for six months while we get our act together", then we will see what the real story is, will we not?

Q116 **Emma Hardy:** You would foresee it being led more by the banks with pressure coming from the Treasury rather than it being led by the Treasury to recover these funds.

Lord Agnew: Yes. I absolutely do not accept that we should write this stuff off without a detailed process of pursuit. There will be some where we are just tucked up because they were so clever and they got in and out so quickly, particularly for the money that has gone abroad. That is why I keep asking for that statistic. That would be degraded.



The chances of getting that money, if a week later it had gone off to Turkey, Romania or somewhere, are very low, but if it has just gone to buy a sports car, then that person needs to sell the sports car and pay everything back. Second-hand car prices have gone up in the last 18 months, so he would probably get out of it and get his money back to us without too much of a loss. With fraud or with any bad debt work, the longer you leave it, the more you degrade your chances of recovery.

Q117 **Emma Hardy:** Is there a crunch point coming up then where, if you do not go after it now, we are not going to get it back, or have we passed that point?

Lord Agnew: No, we have not passed it, but the window is closing in on us. That is the point.

Q118 **Emma Hardy:** You would be expecting to see, or we should be as a Committee calling to see, from Government a detailed plan on how they are going to chase this money down and what they are going to do.

Lord Agnew: Yes, as well as absolute clarity and transparency on the amount that is being paid out for fraud, because that is the key. If I am wrong and that £4.5 billion figure turns out to be less than that, fair enough, but I am sceptical.

Q119 **Emma Hardy:** As you pointed out when you were talking about the NAO estimate of fraud being £29 billion a year, 20% of that will help everyone with the cost-of-living crisis and all the other things Government are struggling to pay for at the moment. What is the current approach to enforcement activity generally when it comes to fraud, if you could outline that?

Lord Agnew: Again, most of that in Government is done through DWP and HMRC, and they are pretty good, but they have had decades of experience in doing it. One of the statistics I used to use was the closure of the tax gap, for example. Ten years ago the view was we had about 7.5% of unrecovered tax and that has now been squeezed down to about 5%. They have probably got another percentage point it could come down by. HMRC is very good and DWP is pretty good, but beyond that the capability drops off very quickly.

Q120 **Emma Hardy:** This might be too much of an obvious question, but if HMRC are good and DWP are good, why can those good people not go into the Treasury and design the scheme?

Lord Agnew: I suggested that.

Q121 **Emma Hardy:** Who do you suggest it to and what was their response?

Lord Agnew: I cannot remember which official, but they just look at you as though you have landed from outer space. That does not work. How do you do the accounting officer reconciliation of that if the accounting officer in HMRC is sending 100 people to BEIS? The system just does not work like that, which is one of the great flaws in it. There is not fungibility



in the moving of resource around Government. It finds it very difficult to do it.

Q122 **Emma Hardy:** That seems a bit bonkers. You have seen Sir Tom Scholar's letter and he has stated that, "As of 16 February 2022, the Insolvency Service have achieved the following outcomes in relation to bounce-back loans: 106 director disqualifications, 48 bankruptcy restrictions and 13 companies wound up in the public interest. Further work is underway, including on 1,100 director disqualifications and 47 criminal cases". Do you think more needs to be done on that?

Lord Agnew: That is a drop in the ocean. That is my point. If there are 100,000 fraudulent loans out there, he is not dealing with a fraction of 1% in that lot, is he? It is risible.

Q123 **Emma Hardy:** I am going to give you free rein now, because you have referenced this letter a few times—not just the grammar of it, but a few other things. What are your other main criticisms of what Tom Scholar has put in this letter?

Lord Agnew: He has told one of his officials in the Treasury, "Just write a letter to get rid of them. We will throw in a few random statistics and they will swallow it. That will get rid of them". That is what happened. If he really cared about this, he would have put a much strong letter together and he would have explained where the problems were, but he has not done that. He is going on about macroeconomic interventions and £400 billion of support of taxpayers' money, thank you, as if that solves it: "That has ticked the box. These other things are third order and, really, I am too busy to deal with it". That is how it feels to me when I read this letter, but what do you think? What is your view?

Q124 **Emma Hardy:** It would not be the first letter I have received from someone senior in Government that is intended as a brush-off, so most politicians are used to receiving letters like this. In terms of going back and challenging it, you are saying you want to give us the ammunition to take back to the Treasury.

Lord Agnew: I mentioned this at the beginning. On page 3 he talks about the PwC issue. He does not mention PwC. He says in the second paragraph, "The firm", which is PwC, "undertook prelaunch workshops with counter-fraud experts...They produced a number of recommendations and the Government incorporated all those that were consistent with the overriding need for speed". I do not think that happened, but I do not know that, because, as I said at the beginning, we want a list of all the recommendations, we want a list of all those that were implemented and we want a list of those that were not implemented and why they were not implemented. That is the first one.

Then we go down to page 4 and he talks about learning lessons. If I got a fiver for every time a civil servant told me they were learning lessons, I would be a very rich man. I gave you the example of a much more recent scheme in December of last year where they did another nearly £1 billion



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and never bothered to talk to the counter-fraud team, so you could go back and say, "Why were they not consulted and how can you really prove you are learning anything?"

Then I would go to the bottom of page 4. He says, "The BBL scheme is at an early stage". I utterly reject that, as I have said before. This is not at an early stage. You now have well over half of the book that should be making regular repayments. We should have data on that and we should know why the repayments are not being made. In other words, are they in distress? Did the businesses go bust for credit reasons, or is it fraud? That is that one.

I would push on what the plans are for dealing with fraud as per the Chancellor's comment and then at page 7 he goes on about Managing Public Money. That does not cut it for me, because what is the level of expertise in those Departments that are meant to be following Managing Public Money and are they resourced to do it? As I mentioned, I made a specific request for resource and it was denied.

I mentioned the reference to NATIS on page 9 before, which is almost insulting. Forty-nine arrests—big deal! When you have 100,000 possible fraud cases out there and they have made 49 arrests, that is a disgrace if that is the main lever of pursuing fraud. If it is one of 20 interventions—but he only picks that because that is about the best he can come up with. Are you pleased that he has gone after 49 when there are 100,000 crooks possibly out there?

Emma Hardy: Definitely not.

Lord Agnew: No, so ask him.

Q125 **Emma Hardy:** It is not even convictions, is it? It is arrests.

Lord Agnew: No. Nul points for that one. That gives you enough to get going on. Let us hear what he has to say.

Let us see if I made any other comments. He might like to explain why banks did not comply with the duplicate checks and also the desperate need for data. How much has he authorised that has been paid out so far in state guarantees? On this business of being fully engaged with the cross-departmental fraud board, as I mentioned to Kevin earlier on, let us have some examples of their wonderful interventions. I do not remember them and I could be wrong. I am sceptical. I am sorry if I sound cynical, but I was in the machine a long time and you get beaten up by it.

Emma Hardy: That is very interesting.

Lord Agnew: That gives you something to get your teeth into.

Q126 **Emma Hardy:** Yes, definitely. As you referenced "Dad's Army" earlier, I am hoping that Tom Scholar is not shouting, "Don't panic", as he is listening to the evidence that you are giving.



Kevin Hollinrake: “We’re doomed!”

Lord Agnew: He will come in here all smooth and full of charm and all the rest of it, but get the numbers—get the data. That is the bit. They are terribly good at all that smooth talk, but you have to go to the third level of detail.

Emma Hardy: As you said, this is public money. We are in a cost-of-living crisis. This is a huge amount of money. People are desperate to have it. It should not be going to criminals.

Lord Agnew: Yes, exactly.

Q127 **Kevin Hollinrake:** Just following some of the comments in your resignation speech and the *FT* article, I did a written question to BEIS about lender performance and BEIS responded by saying, “We are unable to disclose the rates of indicators of suspected fraud by individual lender at this time due to the commercial sensitive nature of this information”.

Lord Agnew: It is just like their pathetic response on the names of the recipients of the loans.

Q128 **Kevin Hollinrake:** Is it commercially sensitive?

Lord Agnew: No, of course it is not. It is sensitive because you are going to have one or two that are good and five that are not very good, or maybe two or three that are diabolically awful.

Q129 **Kevin Hollinrake:** How in any way could it be commercially sensitive?

Lord Agnew: It is not commercially sensitive. It is embarrassing; that is what it is, and it will be embarrassing for BEIS and the British Business Bank when the full agony is displayed to the world. That is an insulting response to you and I hope you do not take it lying down.

Chair: Thank you very much for the very interesting—verging on astonishing—evidence that you have given us today, Lord Agnew. We will certainly take up the cudgels that you have given us to get information on the dashboard to contest the issues about commercial sensitivity. In our mind’s eye will be sports cars and suitcases of our cash leaving at Dover—we want to see as much of that as possible returned to the Treasury.

We will follow up on this; you need have no doubt about that. It only remains for me now to thank you for your evidence and declare the Committee closed.