

Business, Energy and Industrial Strategy Committee

Oral evidence: Covid loan fraud, HC 1190

Tuesday 15 March 2022

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Business, Energy and Industrial Strategy Committee Members present: Darren Jones (Chair); Tonia Antoniazzi; Alan Brown; Richard Fuller; Ms Nusrat Ghani; Mark Jenkinson; Andy McDonald; Charlotte Nichols; Mark Pawsey; Alexander Stafford.

Treasury Committee Member present: Siobhain McDonagh.

Questions 1 - 34

Witnesses

[I](#): The Lord Agnew of Oulton DL.

Examination of witness

Witness: The Lord Agnew of Oulton DL.

Q1 Chair: Welcome to the Business, Energy and Industrial Strategy Select Committee for our hearing today on fraud and loss in the covid financial schemes. We have three panels this morning. For the first panel, we are delighted to welcome Lord Agnew, who until recently was a Minister in the Government with responsibility for anti-fraud measures.

Lord Agnew, if I could start the questioning, all these covid schemes were Treasury decisions that were delegated to the BEIS Department, which were delegated to the British Business Bank, which were delegated to the actual banks to administer. You sat predominantly in the Cabinet Office. Why were you unable to get the anti-fraud measures that you wanted to see in place through that whole chain of command?

Lord Agnew: My role in this was very tangential. Although I had responsibility for the counter-fraud function, the reality is that the counter-fraud function was frozen out of the discussions right at the very beginning. We were never involved, and this was a very small part of my portfolio. I was initially thrown into manufacturing ventilators for the first three months of the crisis. I was not closely involved with this. I was never consulted by anybody, and it was only when I started to hear the problems anecdotally that I tried to get involved.

Q2 Chair: You presumably said to the Chancellor, the Business Secretary or someone in Government that you felt you should have been involved.

Lord Agnew: Yes, of course.

Q3 Chair: What did they say to you?

Lord Agnew: "Butt out."

Q4 Chair: Why do you think they told you not to be involved?

Lord Agnew: To be fair to the whole system, one has to remember what it was like here exactly two years ago, almost to the day. The system broke down. The Government were absolutely terrified of the implications of covid. This was seen as an important response to protect the commercial part of our economy, particularly the smaller businesses. Intellectually, there was nothing wrong with the idea. As I said last week in the Treasury Committee, the Swiss Government did a very similar thing. They had 100% state-backed guarantees for smaller businesses in the economy. There was never any disagreement; it is the implementation that has been so woeful.

Q5 Chair: In Switzerland, they put quite a lot of conditions on what public funds could and could not be used for and the liability of company directors if they did otherwise. We did not do that in the UK. Do you have any idea why?



Lord Agnew: I do not. You are right: it was very, very loose. There are still protections in the wording of the agreements. If the will was there, a lot could be done. For example, one of the figures I pressed for and they refused to give me was how much money went from the business bank accounts of the recipients of the loans to the individuals who were directors or shareholders of those businesses and in what timeframe that money went across. We all heard anecdotally about sports cars being bought up and down the country by recipients of British Business Bank loans. That is a fraud. That was in the wording of the agreements. That is perfectly legitimately able to be recovered, if the will were there.

Q6 **Chair:** You just said that you asked "them" for the information and "they" refused. Who were "they"?

Lord Agnew: It was the British Business Bank. The most recent letters I wrote were on 16 December. I wrote one to the chair of the British Business Bank and I wrote one to a senior official there. That followed a meeting I had had a month before. I am going to give you these, so you can have them. I hear that recently they are blocking the release of these on FOI, because that is what they do. They have become more and more defensive.

In my meeting on 18 November with some of the people you are interviewing today, this is the first action point that I have from the meeting: "British Business Bank to provide a dashboard illustrating bank performance on bounce back loans." That was sent. When I had no response, I then wrote a follow-up letter on 16 December. I asked for that and I asked a number of other questions. By the time I left nearly two months later, they still had not answered the letter. They have now answered the letter, but they have not answered the questions. That is the way it works, is it not?

It was the same with the chair. He got a letter on the same day; he did not answer it. He came up with the ludicrous excuse that he had not received the letter. I then checked with the Lords attendants. What you do is send electronic mail into the system; there is a shield to make sure that nutters and people cannot get straight through to the recipients; and then it goes on. The day the letter from my office was sent, on the day it was written, it was forwarded on to him at 4.47 pm. He had had the letter, but he had not bothered to look at it, presumably. Anyway, it took him two months to reply. Again, he did not answer any of the questions. This is the repeating theme that has gone on over certainly the last year.

I know we have only a very few minutes here today, but what I want to try to do is wind you up into the sort of fury and frustration that I have, because the British Business Bank has presided over one of the most colossal cock-ups in recent Government management. Taxpayers are paying for this. There is still a sliver of time to stop it. That is why I go on about it. This is not something that happened and we are now going to have a long-winded inquiry. You need to move fast today. You are the last line of defence. I have failed, but you have the power to get this



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information out of the British Business Bank. If they cannot supply it to you today, you know there is a problem. If they say to you that they will give it to you in a week, that is fair enough. If it does not arrive in a week, they do not have it and they do not know how to get it.

I have four key questions that I want to give you. I am sorry; I do not want to dominate proceedings. All of you want to ask questions, but these are questions that you must ask today, please.

How much money has been paid out by the Treasury so far on the 100% state guarantee? There is no data on this. You also need that broken down by loss class. How much is fraud; how much is credit?

How much of the original £47 billion paid out on these loans went back to the banks? That is important. The banks benefited from this, because many of them immediately rang up the recipients and said, "Why do you not pay off that overdraft? Pay off that lease. It is cheaper money." They probably had £10 billion. Therefore, they have a huge moral responsibility to do their bit here, even if the conditions are weak.

What protocols have been agreed with the British Business Bank and the lending banks on the level of activity required to pursue fraud? Where is the protocol? I asked for it; I never got it.

Lastly and probably most importantly, when do we expect to see a proper public dashboard like the one the Swiss Government produce? Why have they refused to provide that despite many requests?

Q7 **Chair:** Thank you for that. I am amazed that, as a Minister, you did not get answers to your questions. That has to be unusual, does it not?

Lord Agnew: Mr Jones, one day you will be a Minister and you will experience exactly the same. Good luck. That is the way it works, I am afraid. That is why I resigned. If I was able to get the answers, I would have got them. I am not a petulant individual. I believe firmly that you stay inside the tent fighting your case absolutely up to the last minute, but, when I was asked to stand up publicly and defend the record of the British Business Bank in this area, I simply could not do it. That was not because I am some wonderful sanctimonious hero, but I am not a crook and I could not defend it publicly. It is indefensible. You could say that I failed as a Minister. I did fail. One day you will have a chance, and you will see exactly what I mean.

Chair: I am amazed to hear that, but you are right of course that parliamentary Select Committees have the power to summon documents. I am sure the witnesses from the British Business Bank have heard your questions.

Q8 **Tonia Antoniazzi:** Lord Agnew, with the bounce back loan scheme, if a similar scheme were ever to be put in place again with a similar requirement for quick delivery, what could and should be done differently?



Lord Agnew: There was a conflation or confusion that doing a few more checks at the moment of issuing the loan was going to materially slow down getting the money into the economy. That is total and utter rubbish. Someone bought the mantra and so that is what happened.

You have some banks coming in today. If you ask them about the normal fraud markers that they have on any loan processing arrangement, they will have at least 50 markers. These are all done instantaneously; it is real-time data. It is not something they take a month to do. A lot of these were lifted and were not required of the banks. That is why we have seen the sort of chaos that has emerged: lending to companies that had been dissolved, lending to companies that had not even existed before covid—and on it goes. Simple checks would have pulled that out without delaying the money.

Q9 **Tonia Antoniazzi:** Are there any Government resources or data sources, for example the Companies House register, that should be improved or maybe maintained more regularly in order to stop that?

Lord Agnew: There is a whole extra issue here that is linked to the economic crime Bill. I was there for the final knockings last night. We have started our journey. I hope to goodness that we get the second one quickly, because the first one was only an hors d'oeuvre, frankly. There is a huge body of work there. I am reluctant to get into too much detail here today, because you have witnesses today who could solve a lot of these problems now if they had the will to and if they knew that the consequences of not doing so would be dismissal and permanent damage to their reputations. Those are the two levers you have.

Q10 **Chair:** You just said that the banks, for example, had the systems in place to do these checks quickly in real time and they chose not to. They will probably say to us later, I assume, that it was because the Government asked them not to do so. If they did not push back on that, do you have any suggestions as to why?

Lord Agnew: They were under enormous pressure, like everybody else. If they were told by the Treasury or whoever it was, "Do not worry; just get the money out," that is what they would have done.

This is where we come back to the dashboard. When you eventually get the data, you will see that there are enormous discrepancies between the performances of individual banks. There are some banks that are really good. One of the banks you are going to be meeting today—I am not going to use names—did it properly. They did not drop all their fraud markers. They kept all those checks in place and they got rid of a huge load of dud applications. Other banks were less scrupulous and they just piled the money out of the door. That is why the dashboard is so important: because you will then start to see the very variable performance of the participants.

Q11 **Andy McDonald:** We are talking about something like £4.9 billion in



fraud of the £79 billion that went out of the door.

Lord Agnew: I have not a clue. Why? Again, this is the frustration. We are not getting any data. When I did my question and resigned, I was given a piece of data that said we had paid out something like £960 million on the guarantees—this was at the end of January—and of that £220 million had been for fraud. So 220 is nearly 25% of 960. It does not necessarily work like that; of course it does not, but we are all blind, and we should not be blind. The data should be there.

They keep saying that the scheme is too fresh for data. That is rubbish as well. About 70% of the loans went out in those first couple of months: May, June, July of 2020. There was a 12-month holiday on payments, so you could say, "There is no visibility on performance then," but from June of last year there would be data. Where is it?

Q12 **Andy McDonald:** There was a written question by John McDonnell to Paul Scully, and the answer came back, "At scheme design level, the rules of the scheme set out minimum standards in relation to fraud which highlight action lenders are expected to take to identify fraudulent applications. The British Business Bank's audit function enables BBB to sample portfolios of lending to assess regularity and take action if required." It goes on to say, "For the Bounce Back Loan Scheme, we continue to work extensively with BBB and the lenders to strengthen the anti-fraud systems in place." Is that an accurate account of what happened?

Lord Agnew: It is like the description of the French army at the outset of the second world war. People toured the lines; they saw all the emplacements; they thought everything was fine. The reality of it was that, if you pushed, there was nothing behind it. The fraud analytics were very weak. The Cabinet Office counter-fraud function managed to get a little bit of money to go in and do the work. We did that and it threw up some alarming data. It showed that there were £1.4 billion of loans on the sample that had a high risk of fraud. These were things like companies that were dormant in the two years before they received the loans. They had not done anything, but they got the money. There were companies that were dissolved prior to covid that were still receiving loans.

All this data was flushed out, but what has been done with it? It gets worse than that. This piece of money that we are able to get expires at the end of this month, in about 12 days' time. When we asked them what they were doing to continue the process, the British Business Bank and BEIS said they had no money to continue the analytics programme. That is ending in 10 days' time.

Q13 **Andy McDonald:** In terms of the chances of getting any of this back, as we are currently structured, are we saying that it is just too late and there is little or no prospect of getting this money back?



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Lord Agnew: It is not too late if you get on with it. As I said right at the beginning, even if the banks do not have a legal obligation, they have a huge moral obligation to get stuck into this. If—I am making the number up, because I have no visibility—they received £10 billion of the £47 billion to pay down some of their marginal credit risks, that has saved their bad debt provisions. We have seen huge dividends coming out of the banks in the last few weeks. Everyone has done jolly nicely there, the management and the shareholders. If they had had to take that £10 billion as a hit on their own balance sheets, they would not be paying out these dividends. They have an absolute obligation to help us go after these people.

There needs to be some structure; there needs to be some data. Some of the banks may be, and you will find that out today. The thing is not aligned properly. Once the guarantee has been paid, they are still expected to go on chasing for another year. Why would they bother to do that? There is absolutely no alignment of interest.

Q14 **Andy McDonald:** Are you saying that the British Business Bank is just not resourced and structured in a way to pursue this fraud?

Lord Agnew: It is not about resource. It is about common sense and getting the right people in. They did not even have a fraud function in place when covid hit two years ago. They hired in a very good consultant, who did some good work and wrote some good reports and advice to them. You must get this information, because they largely ignored that information. He was saying to them, "Do this. Do that. Put this in place," and I do not think they did.

Q15 **Mark Pawsey:** Lord Agnew, if the British Business Bank was incapable of managing this process effectively, why did the Government give it the job?

Lord Agnew: Again, these decisions would have been made in hours, probably, let alone weeks. It was a vehicle sitting in the machinery of government.

Mark Pawsey: It just happened to be in the right place at the right time.

Lord Agnew: It happened to be the only kid on the block at the time. The crucial weakness of the British Business Bank is that it is not regulated like any other bank in the country. It is not regulated by the FCA or the PRA. Its regulator is BEIS. BEIS has no experience in the regulation of a bank. No one was watching it properly. The accounting officer of BEIS does not have a clue about banking. If you were to ask the sponsorship team, which is the team that manages all its ALBs, how many of them have banking regulatory oversight experience, I would bet that none of them do. You have this whole chain of weakness, going back to Mr Jones's point at the beginning. There are weaknesses all the way through the system.

Q16 **Ms Ghani:** You talked about the lack of structure to chase the money. Is



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there also a lack of leadership? If there was a desire to fix this—

Lord Agnew: It normally comes down to leadership, does it not?

Ms Ghani: Yes.

Lord Agnew: The fish rots from the head down. I am surprised that you do not have the chair of the British Business Bank here today. I hope very soon you will. I wrote him a letter. I asked 13 questions. He did not answer it. He answered the letter after I had left, but he did not answer any of the questions.

Q17 **Ms Ghani:** When you were Minister, how often did you meet the chair? What was the relationship like then?

Lord Agnew: I had no formal relationship. This is the point. The whole counter-fraud effort across Government is very disparate. It was only when I imposed myself. In my tenure, I spoke to him maybe twice.

Q18 **Ms Ghani:** Who is he accountable to?

Lord Agnew: He is accountable to BEIS.

Ms Ghani: Who in BEIS?

Lord Agnew: It is the sponsorship team. Every Government Department that has ALBs has a thing called a sponsorship team. They are responsible for the management of all of the ALBs in their stable.

Q19 **Ms Ghani:** Who runs the sponsorship team?

Lord Agnew: Ultimately, they report to the Permanent Secretary, who is the accounting officer. That is where the line of command goes.

Q20 **Ms Ghani:** How close was the Permanent Secretary throughout the process to the fact that the British Business Bank was not fit for purpose to do this job?

Lord Agnew: You will have to ask her.

Q21 **Ms Ghani:** Did you ever ask her?

Lord Agnew: No.

Q22 **Ms Ghani:** Did any discussions ever take place around this at all when you were a Minister?

Lord Agnew: No. My discussions were tangential, as I have said. This was probably 4% or 5% of my portfolio. My main efforts were to try to get the counter-fraud function in the Cabinet Office into the room to have discussions, because it is a very knowledgeable and expert team, and to get a bit more money out of the Treasury to arm them to go out and do this work.

Q23 **Ms Ghani:** Were you aware of any conversations between the Treasury and BEIS about how this was not working well? Were there no ministerial



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conversations? Were no briefing notes sent out?

Lord Agnew: I am not aware of those. The point is that the line of command is very clear: the accounting officer of BEIS, the sponsorship team, the oversight of the board of the British Business Bank. That is the line of command. I was not aware of the full horror until quite a long time after the whole programme had been unveiled. We tried to get into the room during these discussions. We were not listened to.

Q24 **Ms Ghani:** I know you are here for a short period of time; this is hopefully my final question. When was the sponsorship team made aware that there was a problem here? How long did they keep that information close? When did they start sharing that information out?

Lord Agnew: I have no idea. You are being too backward looking with all of this. We have a problem now, and you are looking to dig into a problem that happened two years ago. I respect that, but, if you want to protect taxpayers' money, you should be going after the data that can be made available now and pushing the banks to do their job. That is the priority. You can have your long inquiry later when all the money has been lost, but let us try to save some of the money now.

Q25 **Ms Ghani:** That requires the Permanent Secretary, the sponsoring Department, the BEIS Secretary of State and the Chancellor to get on board.

Lord Agnew: Yes.

Q26 **Chair:** I am amazed that the insinuation is that the Chancellor and the Business Secretary are not on board in the effort to recover an enormous amount of public money.

Lord Agnew: I am not saying they are not on board; I am saying that they are not necessarily focused on it. To be fair to them, I do not see why they should be having to crawl all over the detail. The Chancellor came up with this intervention, which was a perfectly legitimate one. He reasonably assumed that the machine would be capable of implementing it in a reasonable way.

He would have said something like, "We want to have a light touch to get this money out quickly." This is the analogy I use: if I find you on the side of the road and you have had a heart attack, and I get you into an ambulance and say to the ambulance driver, "Get to the hospital now," I do not expect the ambulance driver to drive through a bus stop and kill half the people on the way to the hospital. That is the way that it seems to have been interpreted. I do not blame the Chancellor for that. He cannot possibly be over all the details. That is why the administrative machine should be taking responsibility.

Q27 **Chair:** Should the British Business Bank be moved out of BEIS and regulated?



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Lord Agnew: The first thing that should happen is that the board should be sacked. We are in this ridiculous position now where they are doubling down on their defensiveness. That is why you cannot get any information out of them. They are trying to defend the flaws of two years ago and beyond. They have to go—the sooner the better, because you will get a new team in. They will want to solve the problem.

The next thing is that, yes, I agree with you that it should not be regulated in this ad hoc way; it should be properly regulated by the PRA and the FCA, who absolutely understand how to regulate banks. For whatever criticisms you have of them, it is a pretty good regime. That is what they need.

Q28 **Chair:** British Business Bank officials might say that, before covid, they were comparatively relatively small and they administered a small number of schemes. They would probably say that they were doing a good job doing that. When covid happened, they were given this enormous responsibility by the Government. There was a huge increase in activity, financing and responsibilities for the delivery and oversight of programmes. Is that not a fair defence?

Lord Agnew: It is a perfectly rational one, but they ignored help when it was offered to them. As I said in one of these other committees that I have attended, BEIS had two counter-fraud officials in the whole Department. They were not going to listen to the counter-fraud function at the centre.

Yes, you are right: it would have been a small, cosy little operation. Suddenly the balance sheet is expanded by multiples of hundreds of per cent., and the game changes. They did not lift their game with it or have the humility to say, "Look, we need help here." That is what happened. That is why I want you to get the minutes and the copies of those memos from that fraud consultant who was there right at the beginning. Just see what he had to say.

Q29 **Richard Fuller:** Just for disclosure, I should say that I am an adviser to a fund and some companies that may have applied for and may have obtained British Business Bank loans.

Lord Agnew, thank you for your focus on how we save taxpayers' money now and the clarity on the actions that we could take to help save taxpayers' money. You have given us some useful questions.

You have mentioned that there needs to be a clear-out of the board at the British Business Bank. Could you tell us a bit more about what actions are needed now to get the necessary levels of leadership in Government to achieve that, given that people, as you say, have so many priorities? What specific actions are needed on the commercial banks to stop further money leaking out?

Lord Agnew: The whole fraud landscape is completely atomised across Government. There are 20 to 25 agencies all having a go, but there is no



co-ordination. There needs to be a central function that has oversight. It should probably have a Minister, but there needs to be one proper organisation, or at least access so that everyone is talking to each other. For example, HMRC has different powers of recovery to BEIS, because of the flaws in the legislation. People are not aware of all this detail, because it is so buried in the bowels of Government. If we had one oversight body, it would be a huge step forward.

The next thing is the funding. I am not someone who goes around bleating for more Government money, but there needs to be a much clearer funding landscape. There should be very strong expectations on what the money does. If they are not returning two to three times what they receive every year, they are not doing their job properly. There is a very clear metric there, but that does not exist.

When they put a lot of money into HMRC to get the furlough fraud in February last year, I wrote to the Treasury and said, "Do not just pile all the money and bodies into the Treasury. There are other parts of Government that are far less well equipped to deal with these problems with fraud." They did not listen to me.

Q30 Richard Fuller: Yesterday in your contribution in the House of Lords you talked about an annual report for further public exposure about this. Can you just mention to the Committee a bit more about your ideas on that?

Lord Agnew: This is the thing that Governments hate, because it shines a light on areas that they do not necessarily want people to see. I do not agree with that. I believe that transparency is the best way to run a good Government, not to the nth degree, but on something like this. An annual report by whoever was to lead this cross-Government fraud authority could set out the landscape, show where the problems are and show what needs to be done to address those problems. If that were done once a year and submitted to you in the House of Commons, it would give people a chance to understand this.

Even the NAO reckons, at its lower estimate, that we are losing around £30 billion a year in fraud. I do not say that we can get rid of all that, but could we cut a third of it? That is where I come back to my earlier point. There is a penny off income tax available if we just had a bit more will to be more co-ordinated.

Q31 Alan Brown: Sticking on transparent reporting, the Government were required, under the EU state aid rules, to report information to the EU about the state aid granted in the covid loans that were issued up to 31 December 2020. That publishing did include the business names and the amount of funding received by these businesses. Should the Government continue to publish this data? If so, how helpful would that be? Would it help shine a light and let other people, such as investigative journalists, start to drill down into where this money went and possibly ask other questions as well?



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Lord Agnew: Yes, absolutely. This is the other ludicrous thing. BEIS has said that it is not going to publish all those who were recipients of British Business Bank loans. It is absolutely inexcusable behaviour. Of course it should. They received money from the Government at very preferential terms. I completely agree with you. We should be publishing this data. I would encourage you to look at the Swiss Government's one. It is all in English. The data metric is kept up to date on a virtually real-time basis. Why can we not do that?

Q32 **Alan Brown:** You said that they are trying to hide behind it being commercially sensitive information. Why would the Government not want this information published?

Lord Agnew: You had better ask the Government that. I do not see any possible justification for not providing it. Taxpayers have paid for this, and they should know what is happening. There is no reason at all. Going back to Mr Jones's point about Ministers not getting information, that is a classic stalling tactic that you get from the machine when you are trying to break it open. It is total rubbish.

Q33 **Alan Brown:** Should Ministers themselves be demanding this information? As well as apparently being frightened to publish it, should they not be demanding that and demanding that it is analysed?

Lord Agnew: I demanded it for a long time unsuccessfully. This is the point. People who have never been Ministers seem to think that Ministers have almost God-like status. We are just cogs in a machine thrashing around. In my own case, I had 25 submissions a day on average and another 50 pieces of correspondence a week. You are covering a huge landscape of activity. You get one area. Following that up is very tiring and very frustrating. I had eight people in my private office. It was the largest private office in the Cabinet Office bar the boss. Six of them were chasing all the time. They were chasing, chasing, chasing to get the sorts of things you are suggesting need to be done.

Q34 **Alan Brown:** You call it "the machine", but it is civil servants possibly trying to hide the extent of management mistakes.

Lord Agnew: It is paranoid risk aversion combined with ignorance and lack of confidence. It is a whole mass of activity. There is a lack of training for civil servants, so they do not understand this stuff. When they send out a blanket refusal like that—"No, we are not going to publish these loans because it is confidential"—in some cases that shuts it down. "Oh well, we had better not force that one any harder. We had better go off somewhere else." That is what happens. You have to keep drilling the whole time, and it is jolly hard work.

One day Mr Jones will be a Minister. He is 25 years younger than I am. He will have the stamina to go at it better than I was able to.

Alan Brown: I will hand back to the future Minister.



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Chair: Thank you for that. Our time has come to an end, Lord Agnew. Thank you for coming with your contributions. If you would like to drop those documents to our Clerks, we will take them from you.

Lord Agnew: There is a copy of my letter to the BEIS machine, which they are currently trying to block on FOI. You should have that letter.

Richard Fuller: We would like that.

Lord Agnew: Read it today. You might ask them why they will not release it, because there are no great shakes in there.

Chair: Could you pass the documents to our Clerks? Thank you, Lord Agnew.