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Dame Meg Hillier MP
Chair of the Public Accounts Committee
House of Commons
London
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[By email]

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Dear Dame Meg

In its report *COVID-19 cost tracker update (Session 2021-22),* the Public Accounts Committee (PAC) recommended that:

''HM Treasury should write to the committee by the end of the financial year setting out:

- how much taxpayers' money has been lost to fraud and error within schemes introduced in response to the pandemic;
- and how much it expects will be recovered for each pound it spends doing so."

The report also recommended that:

''HM Treasury should write to the committee by the end of the financial year setting out:

- what it has learned from the government's response to the COVID-19 pandemic; and
- what action it is taking to identify and collate learning from across government departments.''

I am writing to respond to these recommendations; other recommendations will be addressed in the usual way in the forthcoming Treasury Minute.

Fraud and error

The government takes fraud extremely seriously. It has been consistently clear that fraud is never acceptable and that those who have defrauded the government will be subject to rigorous criminal and commercial recovery efforts. The instances of fraud in Covid support schemes need to be seen in the context of the circumstances at the time, and as a consequence of the speed and scale of the support which the government had to provide urgently to the economy. That support protected millions of jobs and businesses

and has enabled the economy to recover rapidly as the UK emerges from the pandemic. The Office for Budget Responsibility, in its Economic and Fiscal Outlook published last week, endorsed this view: although it regards expected levels of fraud in Covid schemes to be "considerable", this should be balanced "against the potential economic costs from delivering support more slowly in order to target it more rigorously. Those potential costs cannot be quantified with any precision but, given the rapid rebound in activity and low levels of unemployment facilitated by these measures, it is not unreasonable to think that they could have been far greater" [1].

Estimates

Each department is responsible for estimating fraud and error in the schemes it administers. The latest estimates are set out in departments' 2020-21 Annual Report and Accounts (ARAs). Updated estimates will be published in the next few months in 2021-22 ARAs.

For the HMRC support schemes, provisional estimates are as follows for 2020-21 (compared to the original planning assumption, when the schemes were launched):

Scheme	Latest estimate	Original planning assumption
Coronavirus Job Retention Scheme (CJRS)	8.7%	5-10%
Self-Employment Income Support Scheme (SEISS)	2.5%	1-2%
Eat Out to Help Out (EOHO)	8.5%	5-10%

For the BEIS schemes, the BEIS 2020-21 ARA shows the following estimated level of fraud and error at year end within the Bounce Back Loan (BBLS) and Grants schemes:

Scheme	Value of schemes	Fraud and error range
Bounce Back Loans	Total value guaranteed of £47.4 billion	£3.6 billion to £6.3 billion
Coronavirus Business Interruption Loan Scheme (CBILS)	Total value guaranteed of £26.4 billion (80% guaranteed)	No specific estimate. Fraud and error expected to be low due to credit and other checks carried out by lender in application process. Repayment data to date supports this view with very low levels of non-performance across both schemes.
Coronavirus Large Business Interruption Loan Scheme (CLBILS)	Total value guaranteed of £5.6 billion (80% guaranteed)	

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[1] https://obr.uk/efo/economic-and-fiscal-outlook-march-2022/

Covid-19 Business Support Grants	Value of grants schemes is £19.1 billion	£0.5 to £1.6 billion

DWP's ARA shows that, in 2020-21, the estimated level of overpayments due to fraud and error was 3.9% (£8.4 billion) of benefit expenditure, compared with 2.4% (£4.6 billion) in 2019-20.

The Covid Corporate Financing Facility has now closed, with all loans repaid in full, and zero losses to fraud and error.

Recoveries

Each department is responsible for tackling fraud and error in the schemes it administers. The schemes are very different, and so the approach taken and the data available varies significantly.

In relation to HMRC-administered Covid schemes, the government has invested over £100m in a Taxpayer Protection Taskforce of 1,265 HMRC staff to combat fraud in the HMRC schemes. The Taskforce is expected to recover between £800 million and £1 billion from fraudulent or incorrect payments during 2021-22 and 2022-23. This is in addition to the £536m recovered in 2020-21. The government reviewed the funding of the Taskforce during the 2021 Spending Review (SR2021), and HMT and HMRC continue to work together to monitor estimates of error and fraud, and consider options for adapting HMRC's response in light of new data and new understanding. The Taxpayer Protection Taskforce is fully funded for 2022-23, and HMRC will continue to pursue risks on the schemes for many years to come through its wider programme of compliance work.

The return on investment in fraud recovery on Covid loans is much more difficult to estimate, given the unique nature of the loan books, particularly the BBLS. Recoveries for the vast majority of cases are expected to be conducted by lenders but in some cases, notably in the case of serious fraud, law enforcement agencies will also have a role. Building on the £6m funding already allocated to the National Investigation Service (NATIS) for counter-fraud activities in relation to Covid loans, the Chancellor set out in the Spring Statement last week that NATIS will receive £13m additional funding over three years to double its investigative capacity on Bounce Back Loans and fund further enforcement activity. The British Business Bank (BBB) will receive £11m in funding over 3 years to boost its counter-fraud and assurance programme.

For local authority-administered business grants, fraud and error monitoring and recovery is the responsibility of local authorities. BEIS guidance for the grant schemes requires that local authorities have assurance plans in place which set out the steps they take to minimise fraud. The government's Grants Management Function and Counter Fraud Function made available their digital assurance tool – Spotlight – to local authorities to support these actions and help identify high risk payments. Where grants have been paid in error, non-compliantly or to a fraudster, local authorities must seek to recover these funds and return them to BEIS. If local authorities have been unable to reclaim the grant,

the case may be referred to BEIS under the Debt Recovery Policy to establish the next steps. Local Authorities are required to demonstrate that they have taken all reasonable and practicable steps to reclaim incorrectly paid grant funds. Debts assigned to BEIS will be referred to Indesser, a Cabinet Office procured debt recovery service, to action.

DWP has taken significant action to bring down the level of fraud, in 2020-21 alone stopping more than £1.9bn in attempted benefit fraud and recovering £0.8bn in overpayments. In December 2021 the government announced £510m to increase DWP's capacity and capability to deter, detect and recover overpayments due to fraud, expected to deliver savings of £1.43bn over the next three years. This funding will help DWP to develop innovative and sustainable means of preventing fraud and error, minimising losses to government, and help to ensure benefit claimants do not generate unmanageable debt.

In last week's Spring Statement the Chancellor announced a new package of measures to tackle fraud. This provides an additional £48.8m of funding over 3 years to support the creation of a new Public Sector Fraud Authority and enhance counter-fraud work across the BBB and NATIS in relation to BBLS, including for additional data analytics and enforcement capabilities, and a further £12m to HMRC. This investment enables government and enforcement agencies to step up their efforts to reduce fraud and error, and bring fraudsters to justice, and will recover millions of pounds.

Lessons learned

The Treasury continues to learn from the experience of the pandemic, particularly in the areas of financial management and the design of the economic support schemes. This letter provides an update on the Treasury's work since my letter of 10 December 2021, which covered our work on accounting officer guidance, forecasting and fraud and error.

Public spending and procurement

The previous Chief Secretary to the Treasury wrote to the Treasury Select Committee in April 2021[2] with reflections on the spending control framework applied through the pandemic, how we used it flexibly and setting out the lessons we had taken from where it had worked less well. He also shared some key lessons learned on the government's procurement during the height of the pandemic. These included the need for stronger information sharing across government departments and the NHS, greater Cabinet Office external scrutiny earlier in the process, and embedding Treasury and Cabinet Office officials into internal processes in spending departments where there is a need to work quickly.

My letter of 10 December 2021 set out the lessons learned from our review of Accounting Officer assessments and updating Managing Public Money. Over the last few months we have focused on implementation, and have:

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[2] https://committees.parliament.uk/publications/5617/documents/55534/default/

- published updated Accounting Officer Assessment guidance that details better ways of joint working and advice on how to approach accounting officer duties in circumstances of uncertainty. We have also more explicitly linked business cases and accounting officer assessments and strengthened the role of the Finance Function in the authoring of assessments by requiring that such assessments should have Finance director sign off; and

- published an updated version of *Managing Public Money* with additions on combating fraud, and on communications with Parliament regarding Ministerial directions and contingent liabilities.

Finance

We are also working to embed lessons in our own practices, and to share these more broadly across government.

Cat Little, as Head of the Government Finance Function, convenes a Finance Leadership Group (FLG) which meets every month. The agendas include a Treasury update in which the latest information on fiscal events and other Treasury activity with departments is shared. The agendas also include items that require the attention of all government departments, and which allow departments to share best practice and common issues and concerns.

Recent sessions have covered:

- **Forecasting** - this has led to the creation of an FLG forecasting sub-group tasked with working to improve forecasting accuracy. The group has discussed the impact of COVID-19 on departmental forecasting and is taking forward a project to set expectations around forecasting best practice for finance professionals and budget holders via the Government Finance Function.
- **Risk Management** - we convened an FLG risk-management sub-group to get input from across the Government into the Strategy and Delivery Plan. This plan sets out how we will strengthen leadership and enhance credibility, collaborate across boundaries, enhance capability and drive professionalism.
- **Financial Reporting** - a joint session was held with FLG and the National Audit Office (NAO) in November which focused on the success factors needed to improve the timeliness and quality of reporting in Annual Report and Accounts (ARAs) for 2021-22. We have returned to an administrative deadline of 30 June for laying ARAs. Eight departments have indicated they will not achieve a pre-recess laying date for 2021-22 (due in part to legacy issues and delays to local government pension assurance). The Treasury is hosting forums to identify and resolve issues that may hinder more timely reporting and will cascade relevant guidance as needed. On the content of ARAs, the Treasury has introduced new mandatory requirements of a report on the impact of the pandemic on departmental goals, strategic objectives and priority outcomes, and a fraud and error analysis of Covid support schemes.
- **Audit and Assurance** – The Government Internal Audit Agency (GIAA) attended a session on cross-government insights from the 2020-21 assurance work, in

particular those related to the Covid response. FLG looked at the outcomes from the cross-Government Risk Management review and discussed the impact of Covid on risk tolerance levels.

The Government Finance Function remains committed to ensuring the finance community across government has access to adequate guidance and best practice. We maintain a COVID-19 hub on the OneFinance platform - accessible to all government finance staff - which provides the latest advice and guidance in a single place online. Finance updates cover Accounting Officer flexibilities, response and recovery risk management, changes to payment and debt processes.

The Treasury has also prepared a new forecasting framework, which has been shared with departments. This sets out forecasting expectations and provides incentives to departments to share robust forecasts that enable the Treasury to monitor public spending effectively and thereby minimise the risk to public finances.

Covid Economic Support Schemes

The government is evaluating the delivery and impact of Covid economic support schemes to ensure we learn lessons for the future. For example, the government has already published the CJRS Evaluation Plan and will publish an Interim Report shortly. The evaluation will assess the delivery of the scheme, the difference it has made to employees and businesses, as well as what lessons can be learned from its delivery and how it can inform future policy making. The government is also carrying out an evaluation of the SEISS, assessing its delivery, impact on self-employed individuals and lessons learned, which will be published in due course. The BBB has commissioned a full, multi-year evaluation of the business loan schemes, which is being conducted by London Economics and Ipsos MORI. The first report will be published in the summer, with subsequent reports following in 2023 and 2024.

Ahead of these formal evaluations the government has been learning lessons from the experience of introducing and administering the Covid support schemes. For example, the experience of delivering the CJRS and SEISS has reinforced the need for a more flexible, resilient and responsive tax administration system. The HMRC and HMT 10-year Tax Administration Strategy sets out the departments' commitments to build a trusted, modern tax administration system that works closer to real time and is better able to respond to national crises. This includes extending Making Tax Digital and increasing use of real-time information to give customers and HMRC a more up-to-date understanding of and certainty over a customer's position. Counter-fraud measures in the economic support schemes have been progressively tightened in the light of experience. And the government incorporated lessons from the 2020 business loan schemes when introducing a new scheme, the Recovery Loan Scheme (RLS), in April 2021 including changes to the RLS guarantee agreement and privacy policy to support data sharing on counter-fraud activity. The scheme also benefits from the continued work of HMT, BEIS and BBB to establish a formal governance and assurance structure around counter-fraud work.

The Treasury will continue to learn these lessons, through the continuing experience of implementation, formal evaluations, reports by independent bodies such as the GIAA and NAO, and as we engage with the forthcoming Covid Inquiry.

Tom Scholar