



House of Commons
Committee of Public Accounts

**Department for
Business, Energy &
Industrial Strategy
Annual Report and
Accounts 2020–21**

First Report of Session 2022–23

*Report, together with formal minutes relating
to the report*

*Ordered by the House of Commons
to be printed 11 May 2022*

The Committee of Public Accounts

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Summary

Despite providing important support to businesses across the country, billions of pounds of taxpayers' money will nonetheless be lost to fraud and error as a result of the Department for Business, Energy & Industrial Strategy's approach to its COVID-19 business support schemes. Of £79.3 billion worth of loans guaranteed by the Department to support businesses during the first year of the pandemic, it estimates that it will lose £4.9 billion to fraud and error, where loans were issued to ineligible businesses.

Some of its eye-watering losses only represent the Department's best estimates so far, so the actual amount of taxpayer's money that will be lost could be even higher. Despite distributing over £21.8 billion of grant funding through local authorities, the Department lacks information on recipients of grant payments where these were administered by local authorities when acting as agents of the Department. It has only estimated the level of fraud and error in less than half of these grants, but already estimates that over £1 billion of the £11.5 billion examined will be lost.

The Department will not know the true extent of total fraud and error within its COVID-19 business support schemes for some time as its assessments gradually catch up with payments made. We are concerned that identifying fraud and error so late will hinder recovery efforts as the money will have been spent and the trails will have long ago gone cold. We are unconvinced that the Department's current plans for recovering money claimed fraudulently will act as a sufficient deterrent to those considering committing fraud.

Given the Department had anticipated a heightened risk with these schemes, we are disappointed that it does not appear to have used all the tools at its disposal to minimise fraud and error. It is now imperative that the Department learns lessons from its COVID-19 business support schemes to inform current and future schemes, whether these are providing funds during a crisis or as part of business as usual.

Introduction

In response to the COVID-19 pandemic, the Department for Business, Energy & Industrial Strategy (the Department) was responsible for government's business support loan schemes including the Bounce Back Loans Scheme, Coronavirus Business Interruption Loan Scheme, and Coronavirus Large Business Interruption Loan Scheme. In 2020–21, its budget increased from £14 billion in 2019–20 to £44 billion, with much of the increase directly attributable to the government's response to the COVID-19 pandemic and associated support for businesses. The British Business Bank, one of the Department's partner organisations, was responsible for delivering all three of these business support loan schemes. In addition, seven COVID-19 business support grant schemes for businesses were delivered by local authorities acting as agents of the Department.

Together these business support schemes were intended to limit damage to businesses and the economy caused by the pandemic. The Department sought (and received) ministerial directions to proceed given the heightened risk of improper payments as a result of distributing this public money at the pace and magnitude proposed. We have reported before that the Department acted at speed to support businesses, but left the taxpayer at risk of large losses due to fraud and error.

As part of his audit of the Department's accounts, the Comptroller and Auditor General qualified his opinion on regularity, given material levels of estimated fraud and error in COVID-19 business support loans and grants. As at the end of the March 2021, fraud and error in the Department's COVID-19 loan schemes was estimated to be £4.9 billion, and fraud and error in its grant schemes to be just over £1 billion. The Department will continue to refine its estimates of fraud and error in these schemes over the next few years and so a total loss to taxpayers cannot yet be determined.

Conclusions and recommendations

1. **The Comptroller and Auditor General qualified his opinion of the Department’s 2020–21 accounts due to eye-watering levels of estimated fraud and error in the COVID-19 business support schemes.** During 2020–21, the Department guaranteed £79.3 billion of COVID-19 loans as part of its business support schemes and estimated that its losses to fraud and error in these schemes were £4.9 billion. In the same period, of £21.8 billion the Department provided to local authorities acting as its agents to deliver COVID-19 grants to local businesses, it estimated that over £1 billion will be lost as a result of fraud and error. The Department has only estimated levels of fraud and error in £11.5 billion of these grants and does not yet know how much will be lost to fraud and error within the remaining grants. The Department considers that while its loan schemes are substantially impacted by fraud, its grant schemes are more impacted by error. As a result of these material levels of fraud and error in COVID-19 loan and grant business support schemes, the Comptroller and Auditor General qualified his opinion. As we have observed in our examination of some of these schemes, these losses represent taxpayers’ money that could have been spent on other public services.

Recommendation: *The Department, as part of its Treasury Minute response, should detail how it will make sure that it is doing everything in its power to reduce the current taxpayer exposure to losses through fraud and error and to address the reasons why its accounts were qualified.*

2. **The Department does not have a good enough assessment of the levels of fraud and error in local authority administered business support grants.** During 2020–21 and 2021–22 the Department has provided funds to local authorities to distribute to local businesses in their areas through nine grant schemes. The Department has so far only attempted to assess the extent of fraud and error in the initial three grant schemes administered in Spring 2020: the Small Business Grant Fund; Retail, Hospitality and Leisure Grant Fund; and the Local Authority Discretionary Grant Fund. The Department’s sample examined only 476 grants, representing 0.05% of grants paid out by number. The Department asserts that it is refining its estimate of fraud and error in this group by expanding its sample to nearly 5,000 grants, and that the second group of local authority administered grants would be an even larger sample of 12,000 grants. However, the Department has not yet started work on the second group and success with these larger samples relies on the capacity and willingness of local authorities to cooperate. We are concerned that local authorities have few incentives to do so given that all recovered funds are to be passed to the Department, and the limitations to the estimates of fraud and error make it challenging for the Department and local authorities to assess the time and resources required to recover these funds.

Recommendation: *The Department should write to the Committee by September 2022 setting out how it will obtain full cooperation from local authorities to allow it to calculate robust fraud and error estimates for all COVID-19 business support grants, milestones for achieving these calculations, and how this information is being used to focus recovery efforts.*

3. **The Department does not know whether grants distributed by local authorities on its behalf have benefited businesses, including those most in need of that funding.** Although the Department set the eligibility criteria for grant schemes administered by local authorities, it delegated most grant decisions to them. The Department told us that pre-payment checks did not apply to all these schemes, and that ministers prioritised delivery of grants over faster post-payment assurance sampling work. However, with only 476 grants tested, the Department does not know where the vast majority of this £21.8 billion grant funding has gone, nor the eligibility of those in receipt of it. In the absence of more granular information, the assessment it has done is already indicative of ineligible businesses receiving grant funding, eligible businesses receiving a value of grant funding they were ineligible for, or most likely a combination of both. Fraud and error in these grant payments reduces the effectiveness of these schemes to achieve their objective of providing funds to support those businesses most in need.

Recommendation: *The Department should, alongside its Treasury Minute response, explain to the Committee how it is going to obtain greater assurance over the regularity and value for money of grant payments made on its behalf.*

4. **The Department was aware of heightened fraud risks within its COVID-19 business support schemes from the outset but did not make full use of all the tools at its disposal to prevent and detect fraud.** The Department expected that some potential recipients of funding for its COVID-19 business support schemes would attempt to defraud the exchequer. It sought ministerial directions on these schemes highlighting some of the risks posed by fraud, but did not attempt to quantify the potential fraud exposure. These requests for ministerial directions also did not sufficiently identify or reflect the potential risks from organised economic crime. The number of new companies being registered in 2020–21 rose by more than 20% compared to any of the previous five years. Although the Department indicated that disruption can also present opportunity, we feel around 170,000 new companies would certainly appear to be a warning sign warranting closer scrutiny. However, the Department could not tell us whether it sought or received information from Companies House on company formation trends, and so this is unlikely to have featured in the Department’s understanding of evolving fraud risks. Each new company could potentially apply for COVID-19 business support. Lord Agnew suggested more than 1,000 companies received emergency business support despite not trading at the start of the pandemic, referring to this as a “schoolboy error”.

Recommendation: *The Department should ensure that the expected scale and sources of fraud risk should be clearly communicated to ministers when ministerial directions are sought, including mitigating actions such as, for example, how the Department and Companies House would work together sharing information to prevent fraud.*

The Department should, as part of its Treasury Minute response, clearly explain how it is planning to recover funds it identifies as claimed fraudulently or paid out in error.

5. **The Department has yet to set out how it is learning lessons from managing its COVID-19 business support schemes to better protect taxpayers’ money**

in future. The Department now has two years' worth of experience designing, implementing, and managing COVID-19 business support schemes, and some experience of recovery activities where fraud and error has been identified. It has identified some learning that, for example, has allowed it to refine its approach to identifying fraud and error in COVID-19 business support grants. However, this is to reduce shortcomings in existing schemes, and we would expect to see the Department demonstrating that it is learning wider lessons from these schemes which it could then apply to improve its stewardship of public funds in the future. Several of the Department's major areas of expenditure in the coming years, such as supporting public sector decarbonisation and achieving net zero, will again require routing taxpayer funds through third parties as it did with COVID-19 business support schemes. We would expect lessons the Department has learned during the pandemic to support the design and delivery of these future schemes.

Recommendation: *The Department should continue to refine its estimates of the levels of fraud and error across its COVID-19 business support schemes, recovering monies to reduce losses to the public purse and apply any lessons learned from these to future support schemes. It should write to the Committee before the end of the year to set out how it is applying lessons learned in its ongoing activities.*

6. **The Post Office's mismanagement of its Horizon programme has had devastating consequences for individuals wrongly accused of fraud. The financial cost of compensating these individuals will largely fall to the public purse.** The Horizon accounting system erroneously recorded shortfalls of cash in local Post Office branches over its more than 20-year lifetime. The Post Office considered some of these shortfalls to be caused by subpostmasters and subpostmistresses, resulting in those staff being dismissed and the Post Office taking action to attempt to recover the 'losses' and in some cases leading to prosecutions and people being wrongly convicted. The Department estimates that the 'Historical Shortfall Scheme', set up by the Post Office to compensate those who may have experienced and repaid shortfalls (for example from their own funds), is likely to cost £153 million, of which it has set aside £65 million. The Secretary of State for the Department is the sole shareholder of the Post Office, and the Department will provide sufficient financial support to Post Office to cover the scheme. The government has also committed to paying compensation for overturned criminal convictions and estimates that this may cost the taxpayer up to £780 million. The government has also committed to covering the cost of this compensation.

Recommendation: *The Department should write to the Committee alongside its Treasury Minute response to set out what actions are being taken to ensure Post Office Ltd remains a viable company.*

Where the Department (or HM Government) provides assurances to Post Office Ltd over the funding of its liabilities, it should inform the Committee at the earliest opportunity.

1 COVID-19 business support schemes

1. On the basis of a report by the Comptroller and Auditor General we took evidence from the Department for Business, Energy & Industrial Strategy (the Department) on its performance in 2020–21.¹

2. In response to the COVID-19 pandemic, the Department for Business, Energy & Industrial Strategy (the Department) was responsible for government’s business support loan schemes including the Bounce Back Loans Scheme, Coronavirus Business Interruption Loan Scheme, and Coronavirus Large Business Interruption Loan Scheme.² In 2020–21, its budget increased to £44 billion from £14 billion in 2019–20, with much of the increase directly attributable to the government’s response to the COVID-19 pandemic and associated support for businesses.³ The British Business Bank, one of the Department’s partner organisations, was responsible for delivering all three of these business support loan schemes. In addition, seven COVID-19 business support grant schemes for businesses were delivered by local authorities acting primarily as agents of the Department.⁴

3. Together these business support schemes were intended to limit damage to businesses and the economy caused by the pandemic, such as restrictions to trading imposed by government due to social distancing requirements, or challenges in raising working capital. To protect businesses and the economy, the government encouraged the Department to establish these measures quickly, and to prioritise speed when distributing funding.⁵ The Department sought (and received) ministerial directions to proceed given the heightened risk of improper payments as a result of distributing this public money at the pace and magnitude proposed.⁶ Our examination of business support schemes during the pandemic, including the Bounce Back Loans Scheme, has shown that the Department acted at impressive speed to support individuals, but left the taxpayer at risk of large losses due to fraud and error.⁷

4. As part of his audit of the Department’s accounts, the Comptroller and Auditor General was content that these presented a true and fair view of the state of its affairs.⁸ However, he qualified his opinion on regularity, reflecting that spending was not in line with Parliamentary expectations, given material levels of estimated fraud and error in COVID-19 business support loans and grants.⁹ As at the end of the March 2021, fraud and error in the Department’s COVID-19 loan schemes was estimated to be £4.9 billion, and fraud and error in its grant schemes just over £1 billion.¹⁰ The Department will continue to

1 Report by the Comptroller and Auditor General, *Department for Business, Energy & Industrial Strategy Annual report and accounts 2020–21*, 25 November 2021

2 C&AG’s Report, Introduction, page 130

3 Chair’s opening statement

4 Q 67; C&AG’s Report, Introduction, page 130

5 Qq 9, 41, 63; C&AG’s Report, page 131

6 Qq 9, 41, 59–60; C&AG’s Report, page 133

7 Oral evidence: [Bounce Back Loan Scheme: Follow up](#), HC 951, Q 1

8 The Certificate of the Comptroller and Auditor General to the House of Commons, *Department for Business, Energy & Industrial Strategy Annual report and accounts 2020–21*, 25 November 2021, Opinion on financial statements, page 124

9 C&AG’s Report

10 C&AG’s Report, pages 130–134

refine its estimates of fraud and error in these schemes over the next few years, including taking into account any COVID-19 funding provided after 2020–21 as well as any funds recovered, and so a total loss to taxpayers cannot yet be determined.¹¹

Fraud and error estimates in business support schemes

5. During 2020–21, the Department guaranteed £79.3 billion of loans and provided £21.8 billion in grant funding to local authorities in England as part of its response to the COVID-19 pandemic. The government guaranteed loans were provided through the Bounce Back Loans Scheme (BBLs), Coronavirus Business Interruption Loan Scheme (CBILs) and Coronavirus Large Business Interruption Loan Scheme (CLBILs). All three loan schemes were administered by the British Business Bank, one of the Department's partner organisations. The grant funding was distributed by local authorities, primarily acting as agents of the Department, through the Small Business Grant Fund; Retail, Hospitality and Leisure Grant Fund; Local Authority Discretionary Grant Fund; Local Restriction Support Grants (multiple scheme iterations); Additional Restrictions Grant; Christmas Support Package; and Closed Business Lockdown Payment.¹² The Department told us that it set up both the loan and grant schemes with levels of fraud and error risk that it would never normally tolerate.¹³ It considers that while its loan schemes are substantially impacted by fraud, its grant schemes are more impacted by error.¹⁴

6. Of the £79.3 billion of COVID-19 loans, the Department estimated its credit loss at £19.8 billion, that is where lenders will call on government guarantees as borrowers default or loans will otherwise not be repaid.¹⁵ This includes an estimated loss of £4.9 billion to fraud through its loan schemes.¹⁶ This figure represents the central estimate in a range between £3.6 billion (8.15%) and nearly £6.3 billion (14.15%), and relates only to the £46 billion of loans guaranteed by the Bounce Back Loans Scheme, as the Department has not tested for fraud in CBILs and CLBILs.¹⁷ The Department is continuing to refine its estimates and considers that a more realistic fraud figure may be 7.5%; however, this is based on information that only became available in May 2021 and is not yet assessed by the Department.¹⁸ If true, this could imply a loss of around £3.3 billion rather than £4.9 billion.¹⁹

7. In addition to its guaranteed loan schemes, the Department provided £21.8 billion in grant funding to local authorities to distribute to businesses in their areas. The Department set the eligibility criteria and provided guidance on grant making to local authorities.²⁰ In the first three grant schemes, which account for £11.5 billion²¹ of this funding, the

11 Qq 10, 13, 67, 72–77, 99–101; C&AG's Report, page 134

12 Q 67; C&AG's Report, page 130

13 Q 24

14 Qq 9, 17

15 C&AG's Report, Introduction, page 130

16 C&AG's Report, pages 130–133

17 Department for Business, Energy & Industrial Strategy, *Annual report and accounts 2020–21*, 25 November 2021, Accountability report, page 121 and Note 19, page 215; C&AG's Report, page 133

18 Q 10; C&AG's Report, page 132

19 If 11.15% implies a fraud loss of £4.9 billion, 7.5% would equate to approximately £3.3 billion

20 Q 67; C&AG's Report, pages 130, 133–134

21 Department for Business, Energy & Industrial Strategy, *Annual report and accounts 2020–21*, 25 November 2021, Note 4.4, page 167: £10,824 million in 2019–20 plus £683 million in 2020–21 = £11,507 million or £11.5 billion

Department estimates 8.9%, or just over £1 billion, is lost to fraud and error.²² Again, this figure represents a central estimate in a range between £514 million (4.4%) and nearly £1.6 billion (13.4%).²³ The Department told us that this was an estimate that it has low confidence in.²⁴ In written evidence, the Institute of Chartered Accountants in England and Wales (ICAEW), a regulator of the accountancy and audit profession, believes there is a significant chance that this underestimates the level of fraud and error; however, it also considers that the Department has had sufficient time to collect the information it needs from local authorities and perform adequate checks to calculate a more accurate estimate.²⁵ As a result of these material levels of fraud and error in COVID-19 loan and grant business support schemes, the Comptroller and Auditor General qualified his opinion.²⁶ In several of our recent reports such as *HMRC Performance in 2020–21*, *The Department for Work and Pensions' Accounts 2020–21—Fraud and error in the benefits system and Bounce Back Loan Schemes: Follow-up* we have highlighted COVID-19 losses to the public purse and the opportunity cost this imposes on providing other public services.²⁷

Limitations of fraud and error estimates in local authority administered grants

8. Of the £21.8 billion grant funding the Department provided to local authorities to distribute in their areas in 2020–21, the Department has so far attempted to assess the extent of fraud and error in only £11.5 billion of this funding, and through a sample of only 476 grants. This very small sample represents only 0.05% by number out of a total population of circa one million grants.²⁸ The Department now considers this insufficient to gain an accurate picture of the true level of fraud and error in these payments and has initiated a tenfold increase in its sampling of these grants to inform its 2021–22 accounts.²⁹ The Department also told us it has committed to an even larger sample of 12,000 for its second group of grants, which it also distributed to local authorities in 2020–21.³⁰ It has not yet started assessing fraud and error in this group and considers it unlikely that it will be able to report on these until its 2022–23 accounts.³¹ In addition, the Department continued to provide grant funding to local authorities in 2021–22 as part of a third group of schemes, but also considers it unlikely that it will have reliable fraud and error estimates for this group until its 2022–23 accounts.³² The ICAEW told us that non-complex fraud and error in these latter schemes could total between £318 million and £968 million if levels are comparable to those in the schemes the Department has assessed so far.³³

22 Qq 10, 13, 33–36; Department for Business, Energy & Industrial Strategy, *Annual report and accounts 2020–21*, 25 November 2021, Accountability report, page 122

23 Department for Business, Energy & Industrial Strategy, *Annual report and accounts 2020–21*, 25 November 2021, Accountability report, page 122

24 Q 10

25 ICAEW, pages 4–5, paras 12–13

26 C&AG's Report, pages 130–134

27 Q 68; Committee of Public Accounts, *HMRC Performance in 2020–21*, Thirty-Seventh Report of Session 2021–22, HC 641, 11 February 2022; Committee of Public Accounts, *The Department for Work and Pensions' Accounts 2020–21 – Fraud and error in the benefits system*, Twenty-Fifth Report of Session 2021–22, HC 633, 17 November 2021; Committee of Public Accounts, *Bounce Back Loan Schemes: Follow-up*, Fiftieth Report of Session 2021–22, HC 951 on 27 April 2022

28 Qq 33–36; C&AG's Report, pages 130, 133; Department for Business, Energy & Industrial Strategy, *Annual report and accounts 2020–21*, 25 November 2021, Accountability report, page 122

29 Qq 34, 67

30 Q 67

31 Qq 67, 72–77

32 Qq 10, 72–77

33 ICAEW, para 14

9. The success of these larger samples relies on the capacity and cooperation of local authorities to respond to the Department’s requests for information.³⁴ The Department considers that it has not yet given local authorities the opportunity to do the necessary reconciliations, as it has been asking so much of them to deliver grant schemes.³⁵ However, the ICAEW also noted that when government places additional responsibilities on local government, it is vital that it provides sufficient additional resources to enable it to administer these additional responsibilities. It indicated that the Department did not appear to have provided additional resource to enable local authorities to do so and it was therefore not surprising that some have struggled to meet the reporting and assurance requirements. It highlighted that the business support grants represented significant additional activity for some smaller local authorities, such as East Lindsey District Council, which distributed £46.5 million of payments under these schemes compared to total expenditure of £99.6 million reported in its 2020–21 accounts.³⁶ A local authority is also responsible for any recovery actions where it has made ineligible payments.³⁷ Local authorities would appear to have limited incentives to do so given they must cover the costs of debt recovery and prosecutions, and any recovered funds return to the Department.³⁸ The limitations to the estimates of fraud and error also make it challenging for the Department and local authorities to assess the time and resources required to recover these funds.³⁹

10. Despite recognising these limitations and uncertainty in its current estimates, the Department does not believe that its grant funding has been subject to significant fraud.⁴⁰ It suggests that fraud will ultimately range between 1% and 2%, which it would consider as ‘normal’ and consistent with its expectations.⁴¹ Conversely, it suggests that it has been more surprised by grant schemes impacted by error where local authorities have made payments to ineligible businesses or have overpaid to eligible businesses.⁴²

Whether local authority administered grants reached the right businesses

11. Although the Department set eligibility criteria for grant schemes administered by local authorities, it delegated most grant decisions to them. The Department told us that it provided clear guidance to local authorities on recordkeeping requirements and the need to be able to reconcile payments for the purposes of audit.⁴³ However, it also told us that administering these grants had put real pressure on local authorities, despite the Department not always requiring them to conduct pre-payment eligibility checks before making grant payments to businesses. As with other schemes set up during the pandemic that we have reported on, the Department told us that it launched schemes with ‘consciously insufficient levels of upfront control’, and with ministers prioritising delivery of grants to businesses over doing (post-payment assurance) sampling faster.⁴⁴

34 Q 67

35 Q 69

36 ICAEW, paras 24–25

37 68–70

38 Qq 12, 68–71, 77, 97, 103

39 Qq 63, 97–99, 103

40 Department for Business, Energy & Industrial Strategy, *Annual report and accounts 2020–21*, 25 November 2021, Accountability report, page 122

41 Qq 9–10, 13

42 Q 17

43 Q 67

44 Qq 15, 63

12. Having sampled only 476 grants distributed by local authorities out of circa one million grants made, the Department therefore has very little visibility of which businesses have benefited from these schemes.⁴⁵ It cannot say whether many businesses in receipt of grants were eligible, and whether those that were both eligible and received grant funding received the right amount. The very limited assessment it has already done suggests ineligible businesses receiving grant funding, and some eligible businesses received a value of grant funding they were ineligible for. Neither furthers the policy objectives of these schemes, to support those businesses most in need, and the taxpayer also loses value for money.

Using tools to prevent and detect fraud

13. The Department was responsible for a substantial component of government’s overall financial response to the pandemic, resulting in the third-largest estimated lifetime costs of any department, as reported by the National Audit Office’s COVID-19 cost tracker.⁴⁶ We have previously reported that government prioritised speed when designing and implementing measures to limit the damage to the economy and people’s livelihoods from the impact of the coronavirus pandemic, launching schemes in a matter of weeks.⁴⁷ This approach presented its own risks, and the Department acknowledged that it expected some potential recipients of funding for COVID-19 business support schemes would attempt to defraud the exchequer, and that it chose consciously to tolerate this following ministerial directions⁴⁸ to proceed.⁴⁹ However, there are high levels of fraud in some of these schemes, and the request for the Bounce Back Loans Scheme ministerial direction, for example, did not attempt to quantify the potential fraud exposure, or identify who the perpetrators of fraud might be, despite flagging the risk as ‘very high’.⁵⁰

14. Registrations of new companies on Companies House increased sharply during 2020–21. During the period 2015–16 to 2019–20, annual new company registrations averaged 640,000. By comparison, in 2020–21 there were more than 810,000, making new company registrations in that year more than 20% higher than in any of the preceding five.⁵¹ Companies House does not validate information provided to them when a new company is registered, or do checks to confirm a person with a role in a company exists.⁵² The Department told us that disruption can create legitimate business opportunities and the increase in and of itself is not an indicator of anything adverse; however, the Department did not evidence this assertion, and we are sceptical that creative disruption accounts for the 170,000 new companies and feel that this should have been a warning warranting closer scrutiny.⁵³ The Department did not know whether it sought or received information from Companies House for company formation trends, and as such these ‘unusual patterns’

45 Qq 33–36; Department for Business, Energy & Industrial Strategy, *Annual report and accounts 2020–21*, 25 November 2021, Accountability report, page 122

46 The COVID-19 cost tracker, available at: [COVID-19 cost tracker – National Audit Office \(NAO\)](#)

47 Q 41

48 Ministerial directions are formal instructions from ministers telling their department to proceed with a spending proposal, despite an objection from their permanent secretary (on grounds of risks to regularity, propriety, value for money or feasibility: the parliamentary expectations of the stewardship of public funds)

49 Qq 9, 17

50 [Correspondence](#) from Department for Business, Energy & Industrial Strategy Accounting Officer to Secretary of State for Business, Energy & Industrial Strategy seeking ministerial direction on the introduction of the Bounce Back Loan Scheme, 1 May 2020

51 Q 19

52 Q 84

53 Qq 18–21

are unlikely to have featured in the Department’s understanding of evolving fraud risks.⁵⁴ In addition, each of these new companies could potentially apply for COVID-19 business support. Lord Agnew, former Minister of State with counter-fraud responsibility, noted in his January resignation address to the House of Lords that “schoolboy errors” were made, including allowing more than 1,000 companies that weren’t trading when the pandemic struck to receive support under the Bounce Back Loans scheme.⁵⁵

Learning lessons

15. The Department launched its first COVID-19 business support scheme shortly after the first lockdown was announced on 23 March 2020. Since then, the Department has launched many more, and now has around two years’ worth of experience of designing, implementing, and managing its COVID-19 business support schemes.⁵⁶ It has taken some actions seeking to apply learning to improve these schemes and reduce fraud and error, including approaching other departments to learn from them, such as the Cabinet Office counter-fraud function. It subsequently increased capability and capacity in its own counter-fraud function, with one of this function’s new duties being to undertake mandatory fraud risk assessments at outline and final business case stages when considering new policy.⁵⁷ The ICAEW told us that it believes the Department should strengthen its counter-fraud capacity and capability more widely, particularly as grants are likely to play a key role in delivering the government’s Net Zero Strategy.⁵⁸

16. As some COVID-19 business support schemes have increasingly become part of business as usual, the Department told us that, for example in relation to grants distributed by local authorities, its systems and methods are now approaching maturity. It considers it has improved its guidance to local authorities and refined its approach to identifying fraud and error in these grant schemes.⁵⁹ However, lessons learnt seem to have been largely actions in pursuit of reducing shortcomings in existing schemes rather than learning wider lessons that could be applied to limit fraud and error in future schemes. The ICAEW recommends that the government establishes a standard framework for assuring grants delivered through local authorities, providing clarity to the respective reporting roles of central and local government, as well as measures to be used to detect and prevent fraud and error.⁶⁰

17. The Department has commissioned evaluation of its business support schemes; however, it cautioned that it is proving challenging to separate the impact of various aspects of government’s overall support package which also included, for example the furlough scheme.⁶¹ Several of the Department’s major areas of expenditure in the coming years, such as supporting public sector decarbonisation and achieving net zero, will again require routing taxpayer funds through third parties as it did with COVID-19 business support schemes.

54 Qq 18, 21

55 Q 16

56 Q 64

57 Q 62

58 ICAEW, paras 20, 26, 34

59 Department for Business, Energy & Industrial Strategy, *Annual report and accounts 2020–21*, 25 November 2021, Accountability report, page 123

60 ICAEW, paras 34–35

61 Q 40

2 Post Office Horizon IT programme compensation

18. Between 1997 and 2000 the Post Office implemented a new IT system called Horizon. This system is now known to be responsible for accounting discrepancies that suggested, for example, shortfalls of cash in Post Office branches.⁶² At the time, the Post Office considered some of these shortfalls to be caused by branch staff such as postmasters, resulting in dismissals, attempts to recover apparent losses, and in some cases prosecutions. Such actions had terrible personal and financial consequences for honest, hard-working staff, wrongly accused of misconduct and crime. In May 2020 the Post Office set up the Horizon Historical Shortfall Scheme to compensate staff who may have experienced cash shortfalls reported by the Horizon system through the normal course of their duties, and repaid shortfalls from their own funds.⁶³

19. In December 2020 the Department wrote to the Post Office, noting that the number of applications to the Scheme was ‘...materially higher than expected resulting in a corresponding increase in possible scheme claims and costs...’ and that the Post Office considered ‘...any amount in excess of the original budget will be unaffordable...’. With the Secretary of State as sole shareholder of the Post Office, the Department determined that it would apply to HM Treasury for future funding so the Post Office could meet its obligations for payments under the scheme (providing so-called ‘comfort’ to the Post Office that it would be able to meet its liabilities as and when they fall due).⁶⁴

20. The Department currently estimates that the scheme is likely to cost £153 million, of which £89 million is from the Post Office and £65 million is from the Department.⁶⁵ The Department noted that its contribution was its current best estimate, and did not represent a hard and fast limit: should the estimate prove to be too low, then it will be increased.⁶⁶ In addition to the scheme, the government has committed to covering the costs of compensation to those former Post Office employees wrongly convicted of criminal offenses. The Department currently estimates this may cost the taxpayer up to £780 million.⁶⁷

62 Q 79

63 Qq 79, 80

64 [Correspondence](#) from the Department for Business, Energy & Industrial Strategy to the Board of Directors, Post Office Ltd., 14 December 2020

65 Q 78

66 Q 79

67 Qq 78–80

Formal minutes

Wednesday 11 May 2022

Members present:

Dame Meg Hillier

Shaun Bailey

Sir Geoffrey Clifton-Brown

Peter Grant

Kate Green

Antony Higginbotham

Angela Richardson

James Wild

Department for Business, Energy & Industrial Strategy Annual Report and Accounts 2020–21

Draft Report (*Department for Business, Energy & Industrial Strategy Annual Report and Accounts 2020–21*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 20 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the First of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

Adjourned till Monday 16 May at 3:30pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Wednesday 23 February 2022

Sarah Munby, Permanent Secretary, Department for Business, Energy and Industrial Strategy; **Tom Taylor**, Strategic Finance Director & Chief Financial Officer, Department for Business, Energy and Industrial Strategy; **Kim Humberstone OBE**, Co-Director of Finance, Department for Business, Energy and Industrial Strategy

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Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

BRA numbers are generated by the evidence processing system and so may not be complete.

- 1 ICAEW ([BRA0001](#))

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website.

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1st	Low emission cars	HC 186
2nd	BBC strategic financial management	HC 187
3rd	COVID-19: Support for children's education	HC 240
4th	COVID-19: Local government finance	HC 239
5th	COVID-19: Government Support for Charities	HC 250
6th	Public Sector Pensions	HC 289
7th	Adult Social Care Markets	HC 252
8th	COVID 19: Culture Recovery Fund	HC 340
9th	Fraud and Error	HC 253
10th	Overview of the English rail system	HC 170
11th	Local auditor reporting on local government in England	HC 171
12th	COVID 19: Cost Tracker Update	HC 173
13th	Initial lessons from the government's response to the COVID-19 pandemic	HC 175
14th	Windrush Compensation Scheme	HC 174
15th	DWP Employment support	HC 177
16th	Principles of effective regulation	HC 176
17th	High Speed 2: Progress at Summer 2021	HC 329
18th	Government's delivery through arm's-length bodies	HC 181
19th	Protecting consumers from unsafe products	HC 180
20th	Optimising the defence estate	HC 179
21st	School Funding	HC 183
22nd	Improving the performance of major defence equipment contracts	HC 185
23rd	Test and Trace update	HC 182
24th	Crossrail: A progress update	HC 184
25th	The Department for Work and Pensions' Accounts 2020–21 – Fraud and error in the benefits system	HC 633
26th	Lessons from Greensill Capital: accreditation to business support schemes	HC 169
27th	Green Homes Grant Voucher Scheme	HC 635

Number	Title	Reference
28th	Efficiency in government	HC 636
29th	The National Law Enforcement Data Programme	HC 638
30th	Challenges in implementing digital change	HC 637
31st	Environmental Land Management Scheme	HC 639
32nd	Delivering gigabitcapable broadband	HC 743
33rd	Underpayments of the State Pension	HC 654
34th	Local Government Finance System: Overview and Challenges	HC 646
35th	The pharmacy early payment and salary advance schemes in the NHS	HC 745
36th	EU Exit: UK Border post transition	HC 746
37th	HMRC Performance in 2020–21	HC 641
38th	COVID-19 cost tracker update	HC 640
39th	DWP Employment Support: Kickstart Scheme	HC 655
40th	Excess votes 2020–21: Serious Fraud Office	HC 1099
41st	Achieving Net Zero: Follow up	HC 642
42nd	Financial sustainability of schools in England	HC 650
43rd	Reducing the backlog in criminal courts	HC 643
44th	NHS backlogs and waiting times in England	HC 747
45th	Progress with trade negotiations	HC 993
46th	Government preparedness for the COVID-19 pandemic: lessons for government on risk	HC 952
47th	Academies Sector Annual Report and Accounts 2019/20	HC 994
48th	HMRC's management of tax debt	HC 953
49th	Regulation of private renting	HC 996
50th	Bounce Back Loans Scheme: Follow-up	HC 951
51st	Improving outcomes for women in the criminal justice system	HC 997
52nd	Ministry of Defence Equipment Plan 2021–31	HC 1164
1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

Session 2019–21

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1st	Support for children with special educational needs and disabilities	HC 85
2nd	Defence Nuclear Infrastructure	HC 86
3rd	High Speed 2: Spring 2020 Update	HC 84

Number	Title	Reference
4th	EU Exit: Get ready for Brexit Campaign	HC 131
5th	University technical colleges	HC 87
6th	Excess votes 2018–19	HC 243
7th	Gambling regulation: problem gambling and protecting vulnerable people	HC 134
8th	NHS capital expenditure and financial management	HC 344
9th	Water supply and demand management	HC 378
10th	Defence capability and the Equipment Plan	HC 247
11th	Local authority investment in commercial property	HC 312
12th	Management of tax reliefs	HC 379
13th	Whole of Government Response to COVID-19	HC 404
14th	Readying the NHS and social care for the COVID-19 peak	HC 405
15th	Improving the prison estate	HC 244
16th	Progress in remediating dangerous cladding	HC 406
17th	Immigration enforcement	HC 407
18th	NHS nursing workforce	HC 408
19th	Restoration and renewal of the Palace of Westminster	HC 549
20th	Tackling the tax gap	HC 650
21st	Government support for UK exporters	HC 679
22nd	Digital transformation in the NHS	HC 680
23rd	Delivering carrier strike	HC 684
24th	Selecting towns for the Towns Fund	HC 651
25th	Asylum accommodation and support transformation programme	HC 683
26th	Department of Work and Pensions Accounts 2019–20	HC 681
27th	Covid-19: Supply of ventilators	HC 685
28th	The Nuclear Decommissioning Authority's management of the Magnox contract	HC 653
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
32nd	Specialist Skills in the civil service	HC 686
33rd	Covid-19: Bounce Back Loan Scheme	HC 687
34th	Covid-19: Support for jobs	HC 920
35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655

Number	Title	Reference
38th	Managing colleges' financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
40th	Achieving government's long-term environmental goals	HC 927
41st	COVID 19: the free school meals voucher scheme	HC 689
42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928
43rd	COVID-19: Planning for a vaccine Part 1	HC 930
44th	Excess Votes 2019–20	HC 1205
45th	Managing flood risk	HC 931
46th	Achieving Net Zero	HC 935
47th	COVID-19: Test, track and trace (part 1)	HC 932
48th	Digital Services at the Border	HC 936
49th	COVID-19: housing people sleeping rough	HC 934
50th	Defence Equipment Plan 2020–2030	HC 693
51st	Managing the expiry of PFI contracts	HC 1114
52nd	Key challenges facing the Ministry of Justice	HC 1190
53rd	Covid 19: supporting the vulnerable during lockdown	HC 938
54th	Improving single living accommodation for service personnel	HC 940
55th	Environmental tax measures	HC 937
56th	Industrial Strategy Challenge Fund	HC 941