

# First Report of Session 2022–23

## Department for Business, Energy & Industrial Strategy

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

#### Introduction from the Committee

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.

Based on a report by the National Audit Office, the Committee took evidence on 23 February 2022 from the Department for Business, Energy & Industrial Strategy. The Committee published its report on 18 May 2022. This is the government's response to the Committee's report.

#### Relevant reports

- NAO report: [Annual Report and Accounts](#) – Session 2019-20 (HC 709)
- PAC report: [Department for Business, Energy & Industrial Strategy Annual Report and Accounts 2020–21](#) - Session 2022–23 (HC 59)

#### Government response to the Committee

***1: PAC conclusion: 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.***

**1: PAC 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.**

1.1 The government agrees with the Committee's recommendation.

### **Recommendation implemented**

1.2 The Department for Business, Energy & Industrial Strategy's 2020-21 accounts were qualified due to estimated material levels of fraud and error in the initial COVID-19 grant schemes and the COVID-19 loan guarantee schemes. The estimates of fraud and error in the schemes remain highly uncertain and are being revised as more information becomes available. The Department for Business, Energy & Industrial Strategy (the department/BEIS) will publish revised estimates in its 2021-22 accounts.

### **Financial Guarantees**

1.3 Since the launch of the scheme, the department has been working alongside the British Business Bank to mitigate fraud risks in the Bounce Back Loan Scheme, working with lenders, law enforcement and other partners across government. At Spring Statement 2022 the Chancellor announced new funding which will lead to the doubling of the department's enforcement capacity through the National Investigation Service (NATIS) and richer data to support work with lenders, who remain the first line of defence in catching potential fraudsters.

### **Grants**

1.4 From an allocation of £26.9 billion, £22.6 billion has been paid to businesses through over 4.5 million awards. Of the £4.3 billion difference, over £2 billion underspent has been returned by local authorities, with the balance expected in the coming months now that all schemes have closed. In addition, irregular payments have occurred. The initial estimate of which was included in the 2020-21 accounts, with a central point of 8.9%. Further details on the limitations of the estimate are included within the accounts. Over £4 million has been voluntarily repaid from large companies and debt recovery of irregular payments due to error, fraud, or non-compliance is underway. Full assurance work is underway and expected to be completed by the end of the calendar year with first estimates reflected in 22-23 accounts. Further information is included in the accompanying letter to recommendation 3.

**2: PAC conclusion: The Department does not have a good enough assessment of the levels of fraud and error in local authority administered business support grants.**

**2: PAC 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.**

2.1 The government agrees with the Committee's recommendation.

### **Target implementation date: Autumn 2022**

2.2 The general principle applies that local authorities are responsible and accountable for the lawful use of funds under Section 151 of the Local Government Act 1972.

2.3 Section 151 Officers within the local authorities are required to exercise their duties in line with the Chartered Institute of Public Finance and Accountability (CIPFA) guidance,

ensuring their oversight of the proper administration of financial affairs within the local authority including these grants.

2.4. It is a condition of BEIS grants to local authorities that they must take all reasonable and practicable steps to recover any payment made in fraud or error before BEIS becomes liable. BEIS will pursue collection of all outstanding debt unless there is a value for money (VFM) case for not doing so. Decisions will be made on a case-by-case basis. A dedicated debt recovery policy has been developed with Cabinet Office and Treasury (HMT). The debt recovery policy guidance has been published on GOV.UK.

2.5 Further details to be provided in due course. The department will write to the Committee detailing how full cooperation from local authorities will enable robust fraud and error estimates which will lead to better recovery outcomes.

***3: PAC conclusion: 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.***

***3: PAC 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.***

3.1 The government agrees with the Committee's recommendation.

#### **Recommendation implemented**

3.2 Each scheme was developed in an emergency context in response to emerging variants, local and national restrictions/lockdowns. There has been an iterative approach to the grants schemes with each one getting stronger and more robust.

3.3 The lessons learnt from delivering the initial COVID-19 support grants is that greater assurance can be obtained through mandating pre-payment eligibility checks by local authorities, improved assurance sampling design, innovative data collection and management, as well as independent evaluation. Further information is included in the letter accompanying this recommendation.

3.4 Responsibility for checking that all grant awards were issued in a compliant manner and to eligible businesses rests with the local authority. It is a condition of BEIS grants to local authorities that they must take all reasonable and practicable steps to recover any payment made in fraud or error before BEIS becomes liable. See paragraph 2.4 above.

3.5 Grant award letters issued to local authorities on all COVID-19 business support schemes confirmed that the local authority was required to undertake appropriate and proportional assurance check on all grants issued to determine whether the funds were awarded to eligible businesses in a compliant manner. Each scheme has unique eligibility criteria to be checked.

***4: PAC conclusion: 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.***

**4a: PAC 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.**

4.1 The government agrees with the Committee's recommendation.

#### **Recommendation implemented**

4.2 The economic crisis brought about by the COVID-19 pandemic required an extraordinary response from government. The department was clear at the outset that the design of certain COVID-19 business support schemes, combined with the pace at which they were being implemented, would create a heightened vulnerability to fraud and there would be a significant risk of credit losses. Where schemes were implemented under Ministerial Direction, the exchange of letters have since been published on GOV.UK.

4.3 For the Bounce Back Loan Scheme (BBLs), the [request for ministerial direction](#) made clear that the residual fraud risk would be very high, even after mitigations, and set out the reasons behind this. As mentioned in the [request for ministerial direction](#), the department received external advice ahead of the scheme's launch on measures to try to mitigate fraud. In certain cases, it was not possible to implement mitigating actions before the scheme was launched, and some mitigating actions were developed at a later stage as government's understanding of the fraud risk matured.

**4b: PAC recommendation: 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.**

4.4 The government agrees with the Committee's recommendation.

#### **Recommendation implemented**

4.5 As part of the assurance work in support of the 15 local authority grants issued during COVID-19 pandemic, the department made significant investments in its counter fraud and assurance work. Where fraud and error are identified and the local authority cannot recover the funds, the department has instructed Indesser (a Cabinet Office procured debt recovery agency) to recover the debts on its behalf. Lessons learnt documents have been produced to ensure BEIS deliver a programme of continuous improvement protecting government funds.

4.6 The COVID-19 loan schemes are delegated schemes, and primary responsibility for detection, investigation and recovery of fraud sits with lenders, in line with their usual processes. The Cabinet Office's fraud analytics programme aids lenders in this process by improving the information available to them on suspected fraud, which they can use to support their internal investigations and pursue recoveries. Meanwhile, the department is working with the National Investigation Service (NATIS), the Insolvency Service and other law enforcement agencies to pursue investigations into fraud in the Bounce Back Loan Scheme (BBLs).

4.7 At the 2022 Spring Statement, the department secured additional funding for NATIS and the British Business Bank to target abuse of BBLs. This funding has enabled NATIS to increase its investigative capability and establish a Criminal Disruption Unit (CDU). The CDU will target higher volume but lower value fraud whilst the core investigations continue to target high value fraud involving organised crime.

4.8 The forthcoming BBLs counter-fraud strategy will set out further details of how the Government intends to pursue recoveries in case of fraud and error, including through work with lenders.

**5: PAC conclusion: 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.**

**5: PAC 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.**

5.1 The government agrees with the Committee's recommendation.

**Target implementation date: December 2022**

5.2 The department continues to refine its estimates of the levels of fraud and error across its COVID-19 business support schemes, including the COVID-19 loan schemes and grants.

5.3 The department will publish revised estimates for Cohort 1 grants and first estimates for the subsequent schemes in its 2021-22 annual report and accounts due to be published in Autumn 2022. See paragraph 1.4 above.

5.4 As part of the assurance work, the department will write to local authorities with the findings and asking them were relevant to start the debt recovery process.

5.5 The COVID-19 loan schemes are delegated schemes, and primary responsibility for detection, investigation and recovery of fraud sits with lenders, in line with their usual processes. The Cabinet Office's fraud analytics programme aids lenders in this process by improving the information available to them on suspected fraud, which they can use to support their internal investigations and pursue recoveries.

5.6 Meanwhile, the department is working with NATIS, the Insolvency Service and other law enforcement agencies to pursue investigations into fraud in the Bounce Back Loan Scheme (BBLs). At the 2022 Spring Statement, the department secured additional funding for NATIS and the British Business Bank to target abuse of BBLs.

**6: PAC conclusion: 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.**

**6: PAC 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.**

6.1 The government agrees with the Committee's recommendation.

**Recommendation implemented**

6.2 Over the past decade, the government has provided over £2.5 billion in funding to support the Post Office network. The government is providing a further £335 million for the Post Office over the next three years. The government is confident that with this funding, Post

Office remains a viable company and can continue to meet the core requirements for the network, including maintaining a network of at least 11,500 branches and ensuring that 99% of the UK population lives within three miles of their nearest branch.

6.3 Post Office Ltd published its annual report and accounts for 2020–21 in May 2022, which, while highlighting a number of risks and uncertainties, was prepared on a going concern basis. Post Office’s independent auditors concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements was appropriate.

6.4 The Horizon scandal has had a devastating impact on postmasters and their families. It is right that affected postmasters are properly compensated and, without government funding, the compensation would have been unaffordable to Post Office. To form part of the going concern assessment for Post Office’s financial statements, BEIS issued letters of comfort to assist the Post Office Board in maintaining its view that the company continues to be able to meet its liabilities. The government will share letters with the Committee from BEIS to Post Office, providing assurances for the Historical Shortfall Scheme, interim and full payments for those with overturned criminal convictions. Further letters will be shared with the Committee at the earliest opportunity.