

Forty-fifth Report of Session 2022-23

Department for Business and Trade

Department for Business, Energy & Industrial Strategy Annual Report and Accounts 2021-22

Introduction from the Committee

In October 2022 the Department for Business, Energy & Industrial Strategy (the Department) published its most recent annual report and accounts, for the accounting period 2021–22. It reported nearly £139 billion of net expenditure (2020–21: £52 billion) and more than £273 billion of net liabilities (2020–21: £164 billion).

The Department works with 43 other public bodies in its group that it refers to as partner organisations, such as the British Business Bank. Together, these span a wide range of sectors, policy responsibilities and operations. Key activities and expenditure during 2021–22 included continuing to provide financial assistance to businesses impacted by the COVID-19 pandemic. The Department was responsible for government’s business support grant schemes that provided local authorities with nearly £25 billion of COVID-19 grant funding to allocate to eligible businesses since March 2020. Furthermore, the Department provided more than £38 billion for the Bounce Back Loans Scheme, operated by the British Business Bank through commercial lenders, since April 2020. Together these business support schemes were intended to limit damage to businesses and the economy caused by the pandemic.

Material levels of fraud and error in COVID-19 business support grants and loans led the Comptroller and Auditor General to qualify his opinion on regularity in 2020–21. In 2021–22 he did not qualify his opinion, noting that the Department had refined its fraud and error estimates. Nevertheless, the Department estimates fraud and error in the early business support grants to be £985 million (8.4%) and the Bounce Back Loans Scheme to be £1,120 million (8%).

Following the recent Machinery of Government changes, we will expect the conclusions and recommendations made in this report to be addressed by the relevant new Departments.

The Committee took evidence on 5 December 2022 from the Department for Business, Energy and Industrial Strategy. The Committee published its report on 26 April 2023. This is the government’s response to the Committee’s report.

Relevant reports

- PAC report: [Department for Business, Energy & Industrial Strategy Annual Report and Accounts 2021-22](#) – Session 2022-23 (HC 1254)

Government response to the Committee

1. PAC conclusion: The Department does not expect to recoup the majority of the estimated £985m of local authority grant payments made, mainly in error, in the first wave of Covid support schemes.

1. PAC recommendation: The Department, alongside its Treasury Minute response, should write to the Committee to quantify its latest estimates of fraud and error in each of the COVID-19 grant schemes and explain its justification where it is not seeking to pursue recoveries from businesses.

1.1 The Government agrees with the Committee’s recommendation.

Target implementation date: Summer/early Autumn 2023

1.2 The Department for Business and Trade (DBT), previously the Department for Business, Energy and Industrial Strategy, can conclude recovery is unrealistic for the following reasons:

- the business has ceased trading, with no residual assets and is not in administration;
- recovery is poor VFM (the cost of litigation actions is higher than the debt) or
- recovery is accepted as a significant reputational risk for DBT.

1.3 The government set out the latest position to the Committee at a hearing in relation to the Local Authority COVID-19 schemes which took place on 11 May 2023, following the recent report by the National Audit Office. The DBT has asked one of the Non-Executive Directors to undertake a review of the ongoing assurance, reconciliation, and recovery activity in relation to irregular payments and will write to the Committee following the conclusion of this review.

1.4 The review is aimed to conclude in Summer/early Autumn 2023.

2. PAC conclusion: The Department's lack of curiosity surrounding lenders' performance in the Bounce Back Loan Scheme increases the risk of losses for the taxpayer.

2. PAC recommendation:

- ***The Department should set out what more it will do to identify the reasons for variances in scheme performance and encourage all lenders to reach an optimal level of performance. This is likely to include establishing the full extent of information held by lenders.***
- ***The Department should make data collection and sharing explicit within initial agreements when setting up future lending schemes.***

2.1 The government agrees with the Committee's recommendation.

Target implementation date: July 2023

2.2 The Department for Business and Trade does not recognise the Committee's description of its predecessor department, the Department for Business, Energy & Industrial Strategy's, lack of curiosity regarding lender performance.

2.3 Driving positive outcomes in lender behaviour is an important tool to mitigate the risk of avoidable losses to the public purse. The Department for Business and Trade, British Business Bank (BBB) and other government stakeholders work closely with UK Finance and individual lenders to achieve this.

2.4 A Lender Performance Advisory Board provides government's oversight and strategic advice, considers action to minimise losses and enables cross-government coordination and escalation routes. The Board is chaired by the responsible DBT Director General and brings together BBB's Chief Executive with senior leaders from HM Treasury, Cabinet Office's Public Sector Fraud Authority and UK Government Investments.

2.5 Current workstreams across these organisations include:

- Improving data collection (and embedding those principles into future schemes from the outset), robustness, and transparency to help understand lender performance and prioritise interventions. Work is continuing to develop the lender portal, standardise data definitions, improve the analysis dashboard and review the range of data published.

- Improving policies and procedures to ensure lenders are operating in accordance with scheme requirements and striving to minimise avoidable loss. This includes enhanced guidance for debt write-off; pilots testing the case for additional action when wrongdoing is suspected; and a Counter Fraud Strategy.
- Targeted action to address individual lender poor performance and maximise recovery of associated losses. This includes audits on lender processes and performance from initial loan approval through to recoveries; claims and write-offs; negotiations to recover losses where poor performance is identified; and undertaking additional assurance activities.

2.6 DBT will provide a full response to the Committee by the implementation date.

3. PAC conclusion: The Department continues to make slow progress on its counter fraud activities related to the Bounce Back Loan Scheme.

3. PAC recommendation:

- **The Department should publish its counter-fraud strategy straightaway and make maximum use of available resources, including lender data and lender audits, to target its activity where it can be most cost effective.**
- **The Department should report back to the Committee with the updated results of the spend on counter fraud and the recovery results obtained compared to the level of estimated fraud.**

3.1 The government agrees with the Committee's recommendation.

Recommendation implemented

3.2 The Department for Business and Trade has developed an overarching Bounce Back Loan Scheme (BBLs) Counter Fraud strategy which is driving an extensive programme of activity in DBT, BBB and wider delivery partners. DBT is considering whether a version of this should be made public in due course.

3.3 The British Business Bank (BBB) publishes data on the COVID-19 debt schemes on a quarterly basis. This is a simultaneous publication inclusive of a full lender list and across the debt scheme portfolios. The most recent [publication](#) was made on 19 May 2023. The data points reported include the following information for each lender:

- Life event values: This data provides an overview of the overall performance of each lender's BBLs loan book, for each of the loan states (arrears, defaults, claimed or settled).
- Suspected fraud analysis, including: i) drawn loan amount; ii) total values of suspected fraud; iii) value of claims where the lender has stated that the reason for the claim is due to fraud; and life event values for suspected fraud facilities (for example, suspected fraud for loans in arrears, in defaulted loans, in claimed loans or settled loans)

3.4 Publication of this data is an important part of the government's ongoing commitment to transparency in relation to the COVID-19 debt schemes. This work is supported by the Public Sector Fraud Authority, who have led the development of a sophisticated analytics programme to better understand the level and types of fraud committed against the scheme.

3.5 The department has commissioned a series of pilots to test the case for additional recovery activities where wrongdoing is suspected, starting with an involuntary liquidation pilot, an enforcement pilot and a pilot involving a private debt management specialist. The department has already seen success from this programme of work and is planning the next steps which will be taken through our established governance mechanisms. In doing so, the

department will consider the ongoing case for additional recovery action, including the value for money and any implications for available capacity in (for example) enforcement agencies.

4. PAC conclusion: The Department's performance reporting in its annual report and accounts does not allow Parliament and the public to monitor progress towards its strategic priorities.

4. PAC recommendation: In its Treasury Minute response, the Department should set out what steps it has taken to ensure that performance reporting in its 2022-23 annual report and accounts will clearly and transparently document its progress against its strategic priorities.

4.1 The government agrees with the Committee's recommendation.

Recommendation implemented

4.2 The government is grateful for the Committee's offer of support and looks forward to engaging with the Committee around the 2022-23 BEIS Annual Report and Accounts. These will be the final Department for Business, Energy & Industrial Strategy (BEIS) accounts, though this should influence successor departments going forward.

4.3 The performance report chapter of the BEIS Annual Report and Accounts sets out BEIS' objectives and priorities and gives information on past performance, including selected metrics, sometimes known as key performance indicators (consistent with the planned objectives and measures previously published in Single Departmental Plans). The metrics included in the 2021-22 BEIS Annual Report and Accounts were reported on the SR20 set of metrics, and not the SR21 set of metrics. In the 2022-23 BEIS Annual Report and Accounts, the Government will report against SR21 metrics which are a more exhaustive and detailed list of objectives and priorities.

4.4 In the 2022-23 BEIS Annual Report and Accounts, the government is looking to provide more contextual information around metrics that it publishes with partner organisations. There are four priority outcomes with eighteen metrics. These involve several partner departments as well as the Office of National Statistics and Bank of England. This means the government will look to draw on their experience to update improve the narrative and context around the position and developments.

4.5 To make performance reporting more user friendly for readers the government will review best practice again with the intention to include more graphical presentation to make the document simpler and highlight the spend involved not just across what was BEIS but also in those arm's-length bodies which are consolidated.

5. PAC conclusion: It is not clear how the Department holds to account third parties that deliver multi-billion pound programmes on its behalf.

5. PAC recommendation: The Department should set out how it retains robust oversight and challenge of third parties delivering major policies and holds these bodies to account for achieving value for money and protecting taxpayer interests.

5.1 The government agrees with the Committee's recommendation.

Recommendation implemented

5.2 Public bodies have a pivotal role in the delivery of departmental policy objectives. DBT has 19 bodies in its more immediate delivery chain which carry out a wide range of functions

on behalf of government. This includes the delivery of public services, provision of independent advice, as well as the regulation of different sectors. Whilst the sources of income vary for different bodies, they are all equally bound by the duty to assure Parliament and the public of high standards of probity in the management of public funds.

5.3 To support them in doing this, the Principal Accounting Officer for DBT has designated the Chief Executives of these bodies as Accounting Officers; responsible for ensuring that their organisation has robust governance, decision-making and financial management arrangements in place. Crucially, Accounting Officers must scrutinise significant policy proposals and plans for major projects to ensure that spend meets the high standards of regularity, propriety, value for money, and feasibility.

5.4 Meaningful oversight by DBT is exercised through a comprehensive and robust framework of engagement. The sponsorship arrangements form a key part of this, and DBT applies the Cabinet Office Sponsorship Code of Good Practice to ensure that rigorous expectations and standards are being met in respect of relationship management, the setting of strategy and objectives, outcome assurance, financial oversight, and governance and accountability. Bodies are also subject to reviews as part of the Arm's Length Body Review Programme - the objectives of which aim to ensure that bodies remain accountable, and operate efficiently, effectively, aligned with the government's priorities. Ultimately, reviews provide a mechanism for ensuring that bodies deliver outstanding public services and value for money for the taxpayer.

5.5 Following the machinery of government (MOG) changes in February 2023, DBT is considering how best to manage its future relationship with public bodies and the type of assurance arrangements that should be established to monitor risk and performance.

5.6 Beyond that each scheme or support programme delivered via third parties is overseen by a departmental Senior Responsible Officer. It is their role to ensure effective oversight of all aspects of delivery and to protect public money. DBT is considering how best to ensure consistency of such delivery following the MOG changes.

6. PAC conclusion: Confidence in the Companies Register is undermined by errors and inaccuracies.

6. PAC recommendation: The Department, alongside its Treasury Minute response, should set out the total number of convictions for making a false declaration to Companies House, and the actions which are being taken to ensure offenders are identified and prosecuted.

6.1 The government disagrees with the Committee's recommendation.

6.2 Most errors on the Companies Register are accidental rather than deliberate and are corrected before enforcement action reaches the prosecution stage. Historically courts have been reluctant to sanction offences where the person or company has subsequently complied. Therefore, numbers of prosecutions are not an indicator of the extensive compliance activity undertaken by Companies House.

6.3 Once passed, the Economic Crime and Corporate Transparency Bill currently before Parliament will reform the role of Companies House and improve transparency over UK companies, to strengthen our business environment, support our national security and combat economic crime, whilst delivering a more reliable companies register to underpin business activity.

6.4 The reforms will bear down on the misuse of UK companies and other corporate structures as vehicles for economic crime and constitute the most significant reform to the UK's framework for registering companies in some 170 years.

6.5 The reforms include extending the Registrar's powers so that the Registrar becomes a more active gatekeeper over company creation and custodian of more reliable data concerning companies and partnerships – including new powers to check, remove or decline information submitted to, or already on, the companies register.

6.6 The reforms also provide Companies House with more effective investigation and enforcement powers and facilitates better cross-checking of data with other public and private sector bodies.

6.7 Companies House already publishes an annual report on its activities and the Bill includes an additional reporting requirement on the implementation and use of the new powers in the Bill.

7. PAC conclusion: Victims of the Post Office Horizon scandal continue to suffer as they await compensation due.

7. PAC recommendation: The Department should write to the Committee alongside its Treasury Minute response to provide details of the total value of payments made to date and the proportion of the total payments that this represents. This should be for both the Historical Shortfall and Historical Convictions schemes and indicate when it expects all claims to be settled.

7.1 The government agrees with the Committee's recommendation.

Recommendation implemented

7.2 The government is working hard to ensure fair compensation is delivered to the postmasters affected by the Horizon scandal as quickly as possible.

7.3 Under the Historical Shortfall Scheme (HSS), as of 30 May 2023, 2,401 offers (over 99%) have now been issued to the original cohort of claimants, totalling £98.7million(net), with 16 offers outstanding. The Post Office expects to issue offers in the remaining cases by the end of July, but this is dependent on information from third parties. 1,965 payments have been made totalling £67.7million (net), meaning over 81% have received payments. This includes £8.7million in interim payments. Total payments will not be known until all cases have been settled. The Post Office has also issued 60 offers to late applicants to the HSS and made 22 payments totalling £320,000; it continues to receive and process late claims. In addition, DBT is preparing to provide further funding to correct an issue relating to tax treatment for some HSS payments.

7.4 For overturned convictions, as of 30 May 2023, the Post Office has made 80 initial interim payments totalling over £8.1million, out of 86 convictions overturned so far. It has settled 55 non-pecuniary claims, including one subject to a pending probate arrangement, and made offers for a further 13 non-pecuniary claims. The Post Office has settled 4 pecuniary claims, meaning it has reached full and final settlements with 4 postmasters. The total compensation paid out by Post Office to those with overturned convictions is over £18.8 million. Post Office encourages postmasters to continue to submit their claims, and once received will review these as quickly as possible.