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Department for Business, Energy & Industrial Strategy

Dame Meg Hillier
Chair, Public Accounts Committee

7 December 2021

Dear Dame Meg Hillier,

Re. Covid Support Schemes – PAC Fraud and Error Report Recommendations

I am writing to you as a follow-up to our initial responses published in the Treasury Minutes regarding recommendations 3b and 7b of the Committee's report on Fraud and Error (June 2021).

PAC Recommendation (3b): *BEIS should write to the Committee within 3 months setting out how they will measure fraud and error in all their COVID-19 schemes and build prompt measuring of fraud and error into their future programmes from the outset.*

BEIS Response

1. Fraud and Error Measurement

We launched the Covid-19 support schemes during an emergency situation. In view of the seriousness of the economic circumstances caused by the pandemic, Ministers decided to implement the schemes with significant risks of credit and fraud losses. It was accepted that there would be trade-offs between implementing normal fraud and error checks and controls. Therefore, our counter-fraud strategy and measures reflected this context, with assessment and controls calibrated differently to what might be expected in ordinary times.

BEIS and our delivery partners have successfully delivered over £100 billion of loan and grant support to businesses, and we have taken significant steps to improve our understanding of the level of fraud and error in the various schemes. This is a major programme of work for BEIS, working closely with our delivery partners.
We have increased both staffing and our ability to work effectively with lenders and law enforcement to tackle serious fraud, and for each of the Covid loan schemes, we have put in place a Fraud Risk Assessment and Post Event Assurance Plan, to

identify and evaluate fraud risks; these are regularly reviewed and updated. For each of the Covid grant schemes, BEIS also completed a Fraud Risk Assessment and shared these with Local Authorities. We are grateful for the support we have received from local authorities, lenders and our other delivery partners and recognise the efforts they have made to measure fraud and error.

The schemes are at different stages of assessment, and we have published initial estimates for fraud and error across the major BEIS Covid support schemes (including grants) in our 2020-21 Annual Report and Accounts (ARA) on the 25th of November 2021 (https://www.gov.uk/government/publications/beis-annual-report-and-accounts-2020-to-2021). In doing so, we have drawn on a range of information and data from inside and outside BEIS to provide a 95% confidence interval.

It is important to note that there are limitations to the work completed on these schemes which have been highlighted in the ARA, and the Department will continue to refine these estimates as further information is available. Additionally, the Department is expecting fraud estimate levels to vary from eventual losses as not all fraud typologies identified will necessarily result in losses, and because some funds obtained fraudulently will be recovered or repaid:

The ARA includes estimates for the Covid-loan schemes. The Department's judgement is that there is a normal level of fraud and error within the Coronavirus Business Interruption Loan Scheme (CBILS) and Coronavirus Large Business Interruption Loan Scheme (CLBILS).

The fraud and error estimate for the Bounce Back Loan Scheme (BBLS) ranges from £3.6 billion to £6.3 billion, with the central estimate value being £4.9 billion (11.15%) of loan facilities. Information has also recently become available which supports a reduction in the BBLS fraud estimate to 7.5%, though this reduction requires further verification.

Also included within the ARA is an estimate in relation to fraud and error on the Small Business Grant Fund (SBGF), Retail, Hospitality and Leisure Grant Fund (RHLGF) and Local Authority Discretionary Grant Fund (LADGF). The range identified on the initial work on these schemes was £0.5 billion to £1.6 billion with a central estimate of £1 billion (8.9%). The work undertaken on this scheme has been focused on whether payments were made within the eligibility criteria, as well as detecting easily identifiable fraud.

As further work is completed and we have additional information, it is likely that estimates will be updated in our future ARA. Work will also be completed on the further grants schemes; Closed Business Lockdown Payment, Christmas Support Package, Additional Restrictions Grants (ARG), Local Restrictions Support Grants (various). Although there are some differences in these schemes to SBGF, RHLGF and LADGF and fraudsters may have become more sophisticated, the Department has provided increased guidance and support. Local authorities have also had the opportunity to learn from the initial schemes. Therefore, the Department is expecting the level of fraud and error in these schemes to be lower than identified in the initial sampling work, and this refinement will be reflected in future estimates.

We recognise the importance of building fraud and error measurement into planning for future schemes and to report to Parliament in a timely fashion. We and our partners are continuing to iterate and improve the development and launch of new programmes, building on lessons learned to help identify and tackle fraud and error from the outset. For example, changes were made to the Recovery Loan Scheme (RLS) guarantee agreement and privacy policy to improve our understanding of fraud and error. Similarly, on the grants schemes, as the scheme progressed, pre-payment checks were implemented as well as improvements made to reporting requirements.

I will also draw this recommendation to the attention of Ministers when seeking their views on the policy design and implementation of future schemes, noting that Ministerial decisions in exceptional circumstances could lead to implementation of programmes with more significant risks than would be expected in business-as-usual circumstances.

In addition to the recommendation proposed by the Committee, we will, wherever practical, report on the actual level of fraud losses rather than just the incidence of estimated fraud and error in the scheme.

PAC Recommendation (7b): ***BEIS should write to the Committee within three months setting out details of steps it will take to assess whether the recovery efforts of banks are reasonable, and the steps it will take to recover taxpayers' money if deficiencies are identified.***

BEIS Response

2. Recovery Efforts of Lenders

Notwithstanding the limitations and challenges imposed by the rapid deployment of the Bounce Bank Loan Scheme, BEIS and the BBB worked with lenders, UK Finance, HM Treasury, the FCA and PRA to produce a detailed set of recovery principles which give clear instruction to lenders on how they should act. BEIS and the BBB also continue to work closely with UK Finance and accredited scheme lenders to implement a consistent, industry-wide approach to collection and recovery.

The delegated nature of the scheme places the responsibility of recovery action on lenders. As the Committee was previously informed, the Lender Audit Programme run by the BBB is the key assurance activity of lender recovery efforts. In line with the contractual relationship between the BBB and the lenders, any audit of lender activity focuses on what is set out in the Guarantee Agreement. The auditors are reviewing recovery activity for assurance over lenders' processes, and to ensure reasonable recovery efforts. If material deficiencies in lender process are identified, the Guarantee Agreement between the government and lenders ensures a right of set off against future claims, thereby ensuring public money can be recouped from lenders where appropriate.

It is worth noting that lenders have also voluntarily gone above and beyond some of the requirements in the Guarantee Agreement, for example through their participation in regular information sharing with the Government, the BBB and each other which continues to help prevent and identify fraud. It is our collective priority to ensure we are doing the best we can, within the exceptional circumstances and nature of the schemes, to identify instances of fraud and take recovery actions.

The attached annex provides further details on the above recommendations.

Yours sincerely,

SARAH MUNBY
PERMANENT SECRETARY

Annex

Fraud and Error Measurement and Lender Recovery Efforts in the Covid Support Schemes

- The BBB has completed a three-stage fraud and error risk assessment ('FRA') for each of the BBLS, CBILS, CLBILS, RLS and Future Fund COVID-19 schemes during 2020-2021 which have been approved by BEIS. The Committee was previously informed of PwC's statistical analysis of the Bounce Back Loan Scheme (BBLS) portfolio. This was a random enquiry programme which conducted sampling of loan applications. The final stage of this work has now reported, and BBB and BEIS are reviewing; this may lead to further iteration of our estimate of fraud occurrence, which will enable BEIS and the BBB to estimate fraud risk with a higher degree of confidence.

- The PwC sampling exercise was also extended to the Coronavirus Business Interruption Loan Scheme ('CBILS') and the Coronavirus Large Business Interruption Loan Scheme ('CLBILS') in two phases of work. In phase one, PwC undertook a survey of all CBILS lenders and held workshops with CLBILS lenders to better understand the level of observed fraud. Phase two will further enhance our measurement of fraud and error by validating the survey results, thereby further developing, and understanding the incidence of risk indicators and enabling segmentation of the portfolios to identify cohorts with higher propensity for fraud loss.

- BEIS has also agreed a similar approach to the measurement of fraud and error for the Future Fund, and decision to commence work on the Recovery Loan Scheme will be taken once the sampling work on CBILS and CLBILS has concluded.

- As we informed the Committee previously, for the COVID-19 Local Authority grants programme, BEIS has been working with the Office for National Statistics, Cabinet Office and internal auditors on a post-payment assurance process, For the first three schemes, implemented in Spring/Summer 2020, 4,710 grants have been randomly sampled and stratified by local authorities in England, and from this, a smaller random subset was selected for more enhanced sampling on which the fraud and error estimate is based.

- The BBB is also assessing the long-term value for money for different "sourcing" models for the measurement of fraud including the development of an in-house analytics capability to enable it to complete such activity in the future and enable more timely deployment of resource to undertake measurement work in future.

- Additionally, the BBB will be undertaking actions to complete a lessons learned exercise on fraud risk management, and the output of this work will also inform future development of controls and fraud risk management activities.

[End of Annex]