Department for
Business, Energy
& Industrial Strategy

Rt Hon Kwasi Kwarteng MP
Secretary of State
Department for Business,
Energy & Industrial Strategy
1 Victoria Street
London
SW1H 0ET

T +44 (0) 20 7215 5000
E enquiries@beis.gov.uk
W www.gov.uk

2 February 2021

Darren Jones MP
House of Commons
London
SW1A 0AA

Dear Darren,

Thank you for your letter dated 19 January on behalf of the Business, Energy and Industrial Strategy Committee regarding estimates of fraud and error in Covid-19 Support Schemes.

You cite the recent news story that HM Treasury has written off £4.3bn of the £5.8bn that was estimated to be 'unrecoverable' from its Covid-19 support schemes. This is misleading; it is not a figure produced by HMRC. It is an inference made in reporting by The Times, subtracting £1.5bn (as an estimate for the amount to be recovered by the Taxpayer Taskforce) from the £5.8bn estimated as error and fraud in 2020-21.

HMG have not written off fraudulently-claimed grants. The figures quoted are what we expect the Taxpayer Taskforce to recover in the two years it will exist for. HMRC has longer to address fraud in the schemes, which it will do in the context of wider compliance activity.

I can further clarify that the support schemes covered in this figure represent estimated losses from the Coronavirus Job Retention Scheme, the Self-Employment Income Support Scheme and the Eat Out to Help Out scheme. The figure does not cover Covid support schemes which are administered by my Department.

With that in mind, I turn to answering your points.

1. **What is the Department's current best estimate of the total level of fraud and error present in the BBLS and each of the other Covid-19 support schemes that it is responsible for?**

As reported in the Department's 2020-21 Annual Report and Accounts, the Department commissioned PwC through the British Business Bank to provide an independent estimate of fraud occurrence in the scheme. As set out in the accounts, the latest verified estimate from PwC (based on work conducted independently on the British Business Bank's behalf by PwC) indicates that the rate of fraud and error in BBLS could range from £3.6 billion to £6.3 billion, with a central estimate of £4.9 billion (11.15% of facilities).

As further noted in the accounts, more recent information from PwC suggests a reduction in the central BBLS fraud estimate to 7.5% (which would equate to a total of around £3.3bn across the scheme). This estimate requires further verification as our work with lenders and government agencies to identify fraudulent loans continues. Our estimates appear broadly similar to those reported for other Covid-19 support schemes.

These estimates relate to the occurrence of fraud and error. Further work is underway to better assess the links between the fraud risk indicators, fraud occurrence and fraud loss, which will help us to refine our estimates. We would expect these estimates 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.

With respect to CBILS and CLBILS, as the Department's Annual Report and Accounts confirmed, the evaluation of information available at the time supported the Department's original assessment that the scheme is not likely to be affected by elevated levels of fraud. Further sampling work is ongoing.

With regard to the level of fraud and error for Covid-19 support schemes managed by Local Authorities, a fact-finding exercise with Local Authorities has started with the aim of establishing the levels of fraud and error on Covid-19 support schemes, the total of monies recovered from fraud and error actions and the number of prosecutions relating to fraud activity on these schemes.

2. **What proportion and amount of the £4.9 billion estimated fraud and error does the Department reasonably expect to be recoverable?**

As BBLS is a delegated scheme, the Department expects the lenders to effect the majority of recoveries (both in relation to cases of suspected fraud and error, and in cases of credit loss). In parallel, and as one part of a complex enforcement landscape, the Department has tasked the National Investigation Service (NATIS) with recovering at least £6m over the next three years, and already in 2020/21 they have recovered £3.3m. This figure does not include recoveries made by other agencies or by the lenders themselves, and as such represents a small proportion of likely overall recoveries. It is also important to clarify that the value we derive from activity by enforcement agencies goes wider than what they recover directly, including tackling serious organised crime activity. The Department welcomed the National Audit Office's recent recommendation to set out a formal cross cutting Counter Fraud Strategy, and will respond in due course. In doing so we will consider what metrics can be applied to the impact of successful counter-fraud activity, as proposed by the NAO.

3. **What actions are the Department currently taking to recover Covid-19 support scheme overpayments?**

With regards to Covid-19 loans, it is important to note that lenders are responsible for undertaking recoveries action in the first instance, fraud or otherwise. Lenders are expected to use a range of means to recover outstanding Bounce Back Loan monies in line with their existing practices and wider regulatory obligations. The Guarantee Agreements covering the schemes, as well as guidance provides further detail on how lenders should approach recovery activity. Lender's recovery activity is monitored via the British Business Bank through a programme of audits.

BEIS complements this activity by working with a range of enforcement agencies to recover fraudulently obtained loans and take action against fraudsters. As well our partnership with NATIS, we are working with the Insolvency Service, the National Crime Agency, and local police forces.

4. **Is the Department currently engaging in discussions with HM Treasury about writing off any elements of the fraud and error that have been identified in the BBLS?**

My Department is not currently in conversation with HM Treasury about the write off of said facilities. Ministers have always been clear that these are loans, not grants. Borrowers should make every reasonable effort to repay facilities they take out, and lenders are expected to seek recoveries where a loan defaults.

We will continue to update Parliament and the public on our expected losses in relation to the schemes through the BEIS Annual Report and Accounts.

I hope this information is useful to you. Thank you for taking the time to write to me.

Yours ever,

RT HON KWASI KWARTENG MP
Secretary of State, Department for Business, Energy & Industrial Strategy