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Dame Meg Hillier MP
Chair of the Public Accounts Committee
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Dear Chair,

FOLLOW UP TO THE FIRST REPORT – DEPARTMENT FOR BUSINESS, ENERGY & INDUSTRIAL STRATEGY ANNUAL REPORT AND ACCOUNTS 2020-21.

I am writing to update the Committee on the fifth recommendation made in its report "Department for Business, Energy & Industrial Strategy Annual Report and Accounts 2020–21 – the First Report of Session 2022–23", published on 18 May 2022. The recommendation stated that:

The Department should, alongside its Treasury Minute response, 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.

As a department, we are committed to ensuring and evidencing that our business support schemes are compliant with Managing Public Money and demonstrate value for money. We are also committed to pursuing recovery of funds in the event of non-compliance, fraud and error, and to sharing lessons learned in the development and implementation of emerging schemes.

COVID-19 Grants Schemes – fraud and error estimates

The Department continues to refine the estimates of fraud and error. I refer the Committee to my letter on Recommendation 2.

Cohort 1 Grants

The Department has published revised final estimates for COVID-19 Cohort 1 grants and initial estimates for the subsequent schemes in its 2021-2022 annual report and accounts published in October 2022.

The Department published initial estimates in the 2020-21 annual report and accounts, with revised estimate Based on a Post-Payment Assurance Process for

the Cohort 1 schemes – Small Business Grant Fund (SBGF); Retail, Hospitality, Leisure Grant Fund (RHLGF) and the Local Authority Discretionary Grant Fund (LADGF), the central estimate irregular grant payments is £985 million as shown in the table below.

SBGF, RHLGF, LADGF – Final estimate

Department expenditure	£11,659m (2020-21)
Upper bound (95% confidence interval)	9.3% (£1,079m)
Central estimate	8.4% (£985m)
Lower bound (95% confidence interval)	7.6% (£890m)

Cohort 2 and 3 Grants

Ongoing assurance has resulted in a significant decrease in the estimated levels of fraud and error in the later grant schemes (cohort 2 and 3), compared to the initial three grant schemes (SBGF, LADGF, RHLGF). The initial estimates are shown in the table below.

Scheme	2021-22 Initial Central Estimate
Various Local Restriction Grant Schemes (LRSG)	0.5% £27m
Restart Scheme	0.5% £16m
Additional Restrictions grant (ARG)	1.6% £34m
Omicron Hospitality and Leisure grant fund	1.3% £6m

The Department is continuing its assurance exercises to refine the fraud and error estimates for the LRSG, Christmas Support Payment, Restart, ARG and OHLG schemes. These exercises will test larger samples of payments based on the sampling methodology agreed with the Office for National Statistics (ONS), with work ongoing to the end of March 2023 and publication of the refinements to the estimates within the 2022-2023 Annual Report and Accounts (ARA).

Debt Recovery

Both local authorities and the Department continue to pursue collection of all outstanding debt unless there is a value for money case for not doing so. Decisions are made on a case-by-case basis. I refer the Committee to my letter on Recommendation 2. More detailed information is provided in the table below.

A summary of the recovery findings to 30 September 2022 is below:

Grant payments notified by local authorities as irregular	£13.12m	BEIS expects the value of irregular grants, which local authorities notify to

(identified as coming from fraud or error)		BEIS to increase. An increase will reflect the forecast error and fraud rate.
Of which		
Recovered by local authorities	£9.75m	Local authorities have repaid £3.2m of this to HM Treasury. The outstanding amount to be repaid in the next few months.
Attempted to recover by local authorities but unsuccessful	£3.37m	Referred to BEIS as debt.

The debt recovery work stream within the Department is gaining momentum with further recoveries expected throughout 2022-23. As erroneous payments are identified by local authorities and recovered, the gap between the estimate and recoveries will decrease. However, due to the prioritisation of helping businesses particularly at the beginning of the pandemic through providing them with money to keep going, it ist is unlikely that the majority of these payments will be recovered by the Department.

Lessons learnt

The integration of lessons learned during the lifetime of the programme has likely contributed to the significant decrease in the estimated levels of fraud and error in the later grant schemes. I refer the Committee to my letter on Recommendation 2, which provides an overview of key lessons learnt.

Learning from the delivery of the COVID-19 grants programme has been shared as part of the development and implementation of other schemes. For instance, these lessons have been integrated the delivery of the Energy Bill Support Scheme GB, in particular:
- the development of a comprehensive guidance in collaboration with energy suppliers (published in September on gov.uk)
- a dedicated team of relationship managers responsible for providing tailor-made support and advice to each energy supplier
- planning from the outset on assurance activities and plans communicated to delivery partners
- full assessment of fraud risks and counter fraud activities, in collaboration with the Cabinet Office
- Start of the assurance work early in the lifetime of the programme (3 months after the start of live delivery)
- And using a digital data collection platform and near real time indicators to drive performance

COVID-19 Loan Schemes – fraud and error estimates

Bounce Back Loan Scheme (BBLS)

The Department published its initial estimate of the level of fraud in the Bounce Back Loan Scheme (BBLS) in the 2020-21 Annual Report and Accounts. Since then, the Department has continued to work to refine its methodology for estimating the level of fraud and error in the BBLS.

As more information has become available on repayments, this information has been used to determine an estimate of the level of losses likely to arise from fraud and error occurrence.

In addition to this, the Department alongside the British Business Bank (BBB) has continued to monitor the sample of loans involved in the PwC sampling exercise undertaken in 2020-21. This has enabled the Department to account for additional claims identified by lenders as fraudulent within this original sample population.

The current estimate of fraud and error in the BBLS is set out below:

	Estimate 31 March 2022	November 2021	31 March 2021
Central estimate	3.49% £1,120m	7.5%	11.15% £4,944m
Lower range	1.49% £481m	4.5%	8.15% £3,615m
Upper range	7.24% £2,320m	10.5%	14.15% £6,275m
Sample size	1,067	1,067	1,067

The Department acknowledges that not all indicators of fraud and error are fully reflected in the current estimate. Whilst work has been performed to validate the potential impact of these risk indicators, there is not currently sufficiently robust data available to quantify their impact.

The impact of these fraud risk indicators is either not supportable or would require undue cost or effort in order to produce a robust estimate, and as such, they have not been included within the fraud rate estimate at year end. The Department has already spent a significant sum in producing its estimate and has determined that it would not be a good use of public money to refine an estimate which is going to naturally become more robust in the future as loans default, and as claims are made on the guarantee due to fraud.

An extensive amount of work has been performed to try to quantify the impact of these, and whilst the estimate is not robust enough from an accounting standard perspective to include within the Expected Credit Loss (ECL) calculation, the Department currently estimates that an uplift of 4% to the fraud occurrence estimate of 8%, resulting in a fraud incidence rate of 12% would be reasonable, based on information that is currently available. When the fraud loss estimate and known identified frauds are taken into account, this would increase the central estimate from the current estimate of 3.49% to 5.75%. This has been included on page 264 of the ARA to help provide additional information to the reader.

Whilst there are limitations to the data supporting the estimate, the Department has used all supportable information that is available at the year end, to determine its estimate of fraud in the BBLS portfolio.

<u>CBILS, CLBILS, RLS</u>

Repayments data which is available to date supports the Department's assessment that there is a normal level of fraud and error within the Coronavirus Business Interruption Loan Scheme (CBILS), the Coronavirus Large Business Interruption Loan Scheme (CLBILS) and the Recovery Loan Scheme (RLS). There are currently low levels of claims and defaults across these three schemes, and low levels of payments in arrears, which supports the Department's assessment.

The Department will continue to monitor fraud and error on these schemes, along with continued monitoring of repayments as further information becomes available.

<u>Future Fund</u>

Within the 2021-22 Annual Report and Accounts, £9 million was recognised in relation to 13 suspected fraudulent payments as part of the Future Fund Scheme.

<u>Enforcement and Debt Recovery</u>

Lenders remain responsible in the first instance for recovering BBLS funds, fraudulent or otherwise. The latest lender performance data is available at <u>https://www.gov.uk/government/publications/covid-19-loan-guarantee-schemes-repayment-data/bounce-back-loan-scheme-performance-data-as-at-31-july-2022.</u>

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 Loans Scheme.

By 31 March 2022, NATIS had recovered £3.8 million in fraudulent BBLS facilities (0.34% of estimated irregular payments expected to result in a loss at 31 March 202210), of which £2.6 million has been returned to the commercial lenders and partners and £1.2 million has been returned to HM Treasury. In relation to BBLS, NATIS had made 49 arrests and had 43 ongoing investigations as at 31 March 2022. Since 1 April 2022 NATIS has recovered a further £2 million and conducted an additional 102 suspect interventions.

<u>Application of lessons learned</u>

The Department has committed to produce a full report setting out the lessons that have been learnt in the design and delivery of the COVID-19 loan schemes, in response to recommendations from the Committee's reports "Lessons from Greensill Capital: accreditation to business support schemes" and "Bounce Back Loans Scheme: Follow Up". The report is intended to complement the findings from <u>the first phase of the evaluation</u>, which was published in June 2022. The report is being finalised and I expect that it will be presented to the Committee in the coming weeks.

I hope you find that the information I have provided in this letter addresses the Committee's recommendation, and I look forward to our future engagements.

Sarah Munby