



Department for
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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 the Committee to update on the second 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, explain to the Committee 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.

Apologies for the slight delay in the response requested in September 2022. This was due to aligning this letter with the publication of the 2021-22 Annual Report and Accounts (ARA) on 20 October.

Thank you for setting out the Committee’s recommendations. I am pleased to confirm to the Committee that my teams have been forging a strong working partnership with local authorities, actively engaging with and supporting them every step of the way to provide us with information. Local authorities have already provided more than 7,000 assurance samples across all schemes. This successful collaborative way of working has enabled the Department to make robust fraud and error analysis of the COVID-19 business support schemes. Estimates of fraud and error in relation to the COVID-19 business support grants were published in the department’s annual report and accounts.

The central estimate of the level of fraud and error in the first three ‘cohort 1’ schemes (SBGF, RHLGF, LADGF) is 8.4% (£985 million). This is the department’s final estimate for these schemes. For the later schemes the Department has set out initial estimates of fraud and error, except for the Christmas Support Payment (CSP) scheme where a small sample size means a statistically valid estimate is not yet available. The initial central estimates for these schemes are:

- Local Restrictions Support Grants (LRSG) schemes – 0.5% (£27m)

- Restart – 0.5% (£16m)
- Additional Restrictions Grant – 1.6% (£34m)
- Omicron Hospitality and Leisure Grant – 1.3% (£6m)

There has been a significant decrease in the estimated levels of fraud and error in the later grant schemes, compared with the first three schemes. Lessons learnt were integrated during the lifetime of the programme, in particular:

- the introduction of application-based processes
- clearer scheme guidance
- better criteria on who is eligible to receive the payments
- stronger requirements for local authorities to perform pre-payment checks
- the creation of a digital data platform to drive performance
- more clarity on the information the department requires from local authorities to evidence that a payment was eligible.

In addition, a dedicated team of relationship managers has been instrumental in providing local authorities with tailor-made support and advice.

These estimates have been calculated over a large enough sample (7,000) returned by local authorities to be robust for first estimation. The Department continues to work proactively and collaboratively with local authorities to gather the full assurance evidence and refine the fraud and error estimates for these schemes. Approximately 5,000 remaining samples are expected by the end of the year. However, we expect that the revised estimates to be within the margin of errors and not significantly diverge. The final estimates will be published with the 2022-23 Annual Report and Accounts once audited.

As erroneous payments are identified by local authorities and recovered, the gap between the estimate and recoveries will decrease. As of 30 September 2022, the department has been notified of £13.12m of irregular grant payments by local authorities, with £9.75m of this recovered by local authorities. Local authorities have been unsuccessful in recovering £3.37m of irregular grant payments. 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. The Department will 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. All debt recovery cases involving fraud or potential fraud will be pursued.

The debt recovery work stream within the department is gaining momentum with further recoveries expected throughout 2022-23. A letter was issued to all LAs on 20 October 2022 as a reminder of their responsibility to take a zero-tolerance approach to fraud and to actively engage in debt recovery activity and a webinar on this topic will take place in November. Reminders are regularly issued to local authorities and a local authority board member delivered a speech to Institute of Revenues, Rating and Valuation Annual Conference Oct 22 – “Winding Down Covid Reliefs and Grants”, with reference to ongoing debt recovery expected action.

However, due to the initial prioritisation of speedy delivery of grant payments and the wider economic conditions impacting small businesses, the majority of payments made in error are unlikely to be recovered either by local authorities or the department. The current expectation is that debt recovery activity will be ongoing to

December 2025 to ensure value for money for the taxpayer as repayment instalment term payments are realised. We recognise that the initial prioritisation of speedy delivery of grant payments and the wider economic conditions that have been impacting small businesses mean that the majority of payments made in error may not be recovered either by local authorities or the Department.

I hope the above addresses your recommendation, and I look forward to our future engagements.

I am copying this letter to the Treasury Officer of Accounts.

Sarah Munby