Witness name: Mark Cheeseman

Statement No.: Second

Exhibits: 500

Dated: 14 October 2025

UK COVID-19 INQUIRY

CORPORATE WITNESS STATEMENT OF MARK CHEESEMAN

I, Mark Cheeseman, will say as follows: -

1. SECTION 1: INTRODUCTION AND EXECUTIVE SUMMARY

1.1. I am a senior civil servant and serve as Chief Executive Officer of the Public Sector Fraud Authority (PSFA) based in the Cabinet Office. I have held this position since May 2023, having been interim CEO from August 2022. I am also the head of the Government Counter Fraud Function.

1.2. This corporate witness statement has been produced in response to the Inquiry's request for evidence pursuant to Rule 9 of the Inquiry Rules 2006 dated 16 December 2024 and addressed to the PSFA (the Rule 9 request). The relevant period for Module 9, as specified by the Inquiry, is 1 January 2020 to 28 June 2022. The statement has been prepared with the assistance of officials within the Cabinet Office, Counsel and the Government Legal Department.

Introductory overview of relevant fraud governance structures

1.3. Public servants play an important role in helping to ensure that taxpayers' money and public services are protected, as far as possible, from fraud. In this statement, I set out the role of the central team of the Government Counter Fraud Function (based in the Cabinet Office) in addressing public sector fraud as relevant to Module 9 of the Inquiry. Where relevant and helpful, in this statement I will outline the broader structural changes in the way fraud has been, and is now, managed across government. This includes the establishment of the PSFA in August 2022, and the role it plays working across departments and public bodies to strengthen the effectiveness of the Government's overall response to fraud.

1.4. The **Government Counter Fraud Function**, established in 2018, consists of circa 13,000 public servants who work to find and tackle fraud, bribery, corruption and wider economic crime across the whole of government. These public servants are based in departments and work through respective departmental accountability structures. The Government Counter Fraud Function is one of 14 Functions[1] within government. The Government functional standards help to set expectations for the management of Functions across government, including the roles and accountabilities needed.[2] The functional standards form part of a suite of management standards that promote consistent and coherent ways of working across government, and provide a stable basis for assurance, risk management and capability improvement. All Functions are led by a Head of Function, who is responsible for setting standards, building capability and shaping cross-government strategies. I am the Head of the Government Counter Fraud Function, a role which I hold alongside my main job as CEO of the PSFA, and I report directly to the Permanent Secretary of the Cabinet Office and Civil Service Chief Operating Officer. The Government Counter Fraud Function works to bring together and support all public servants working to find and fight fraud. The Counter Fraud Functional Standard (titled GovS 013: Counter Fraud[3]) sets out the basics which a department or public body should have in place to manage counter fraud effectively.

1.5. The **Centre of Expertise** (CoEx) was the functional centre of the Government Counter Fraud Function until the creation of the PSFA in August 2022, and was responsible for setting the strategy, standards and policy for the Government Counter Fraud Function. CoEx, which I led as Deputy Director from July 2016, was based in the Cabinet Office and comprised circa 40 staff.

1.6. The CoEx team was part of a wider business unit called **Fraud, Error, Debt and Grants** which brought together the central teams for: a) the Government Counter Fraud Function; b) the Government Grants Management Function; and c) the Government Debt Management Function. The Fraud, Error, Debt and Grants business unit was led by Executive Director, Lyn McDonald, from October 2019.

1.7. In April 2020, I was promoted to Director. In parallel to leading the CoEx, I became the Chief Operating Officer of the Fraud, Error, Debt and Grants business unit and continued

[1] MC/001 - INQ000497014
[2] MC/002 - INQ000497027
[3] MC/003 - INQ000471032

to report directly to Lyn McDonald.

1.8. The terms Government Counter Fraud Function and CoEx are often used interchangeably, so where reference is made to work undertaken by the Government Counter Fraud Function in this statement, it refers to work undertaken by CoEx unless otherwise stated.

1.9. In 2018, CoEx led on the development and launch of the **Government Counter Fraud Profession**[4], which created a framework to build counter fraud capability across the public sector. The Government Counter Fraud Profession creates a structure that recognises capability for the counter fraud community under professional standards, practice and guidance, supporting its growth, and empowering its members to safeguard public services and combat economic crime.

1.10. The benefit of establishing counter fraud as both a Profession and a Function in government is that it supports the development of professional capability of all public servants working in counter fraud, helps to set a collective cross-government vision and shared strategic objectives for counter fraud professionals, and supports the modernisation of the Government's counter fraud response. With over 300 public bodies in government which vary in scale, size and fraud risk, having a Government Counter Fraud Function and recognised Profession enables organisations to share practices, address the fraud and error challenge against government and improve the delivery of counter fraud work. This model also means that departments and public bodies can choose what they adopt and tailor to fit their own areas of responsibility and view of risk.

1.11. At the beginning of the relevant period, CoEx reported its cross-government functional work to the Civil Service Chief Executive Officer (the Civil Service CEO, Sir John Manzoni). From 14 April 2020, CoEx reported to the Civil Service Chief Operating Officer (the Civil Service COO, which was Sir Alex Chisholm for the remainder of the relevant period).

1.12. In mid-2022, when ministers sought to make more progress on the fraud agenda in government, I led the development and launch of the PSFA, which was launched in August 2022.[5] The PSFA absorbed the CoEx team and I was appointed as the interim CEO, before being appointed to the role permanently in May 2023 - I remain in that role as of the date of this statement.

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[4] MC/004 - INQ000497019

[5] There were other structural changes around this time. The Government Grants Management Function was moved from the Fraud, Error, Debt and Grants unit to the Government Commercial Function in April 2022, and the Government Debt Management Function was moved to HMT in March 2023.

1.13. CoEx's, and subsequently PSFA's, remit is to improve the performance of government in managing fraud risks. This is a cross-government approach, and not specific to one department. Both the CoEx and PSFA (which are the focus of this statement) are therefore to be distinguished from the separate **Cabinet Office Counter Fraud team**. Like similar teams in other departments, the Cabinet Office Counter Fraud team supports the Cabinet Office at a departmental level with the detection and prevention of fraud. That team provides counter fraud advice on the management of risk and carries out fraud investigations on allegations of fraud, bribery and corruption from across the Cabinet Office, and reports performance to the PSFA on a quarterly basis as per the Counter Fraud Functional Standard. I am unable to speak on the actions of the Cabinet Office Counter Fraud Team during the pandemic.

1.14. Responsibility for managing public sector fraud risks associated with specific schemes or areas of public spending sits within the circa 300 central government departments and public bodies. This includes responsibility for implementing, executing and auditing controls to reduce the threat and risk of fraud.

1.15. Recognising the global challenge that fraud presents and the value and importance of learning from and working with international partners to improve fraud risk management practices, the UK co-founded the International Public Sector Fraud Forum in 2017 together with the US, Canada, Australia and New Zealand. The International Public Sector Fraud Forum is a forum for sharing international experience and best practice in tackling fraud. The International Public Sector Fraud Forum recognises that there is always going to be fraud and crucially that, as technology and society evolves and new fraud risks inevitably emerge, it will take time for organisations to develop a counter fraud and corruption response.[6]

Executive summary

1.16. Prior to and during the pandemic, as remains the case now, individual departments and public bodies were responsible for managing fraud risk in relation to programmes and schemes within their respective areas of work. Departmental Accounting Officers were responsible for the management of public funds in accordance with the regulatory and proprietary requirements and principles contained within 'Managing Public Money'. Managing Public Money is guidance published by HMT which sets out the main principles for dealing with resources in public sector organisations in the UK.[7]

[6] MC/005 - INQ000496988
[7] MC/006 - INQ000279942

1.17. As explained above, the PSFA did not exist until August 2022. This is after the date range to be considered in Module 9, during which time it was CoEx that delivered cross-government counter fraud work (including in relation to the pandemic), not the PSFA. In this statement I have therefore described in broader detail the scope of counter fraud activity relating to Module 9, focusing on the activity of CoEx, including in the period immediately prior to the pandemic (as summarised in Section 2 of this statement).

1.18. It is important to emphasise that CoEx was not involved in the design of economic interventions during the pandemic. This work largely fell within the remit of HM Treasury (HMT) which had overall fiscal responsibility for determining how the Government would support businesses through the pandemic, working with other departments on delivery as necessary. As summarised above, the role of CoEx was to support departments, and to provide advice and insight to ministers and the Civil Service Chief Operating Officer about the level of fraud in the system. This remains the PSFA's role today.

1.19. During the pandemic, CoEx worked to advise departments on how to mitigate fraud and error risks, and how to conduct post event assurance[8] in relation to the economic schemes which they were responsible for administering. This included:

1.19.1. The Department for Business, Energy and Industrial Strategy (BEIS) which was responsible, along with the Ministry of Housing, Communities and Local Government (MHCLG), for administering Business Support Grants (including the Small Business Grant Fund (SBGF) and the Retail, Hospitality and Leisure Grant Fund (RHLGF));

1.19.2. The Bank of England which was responsible for administering the Covid Corporate Financing Facility (CCFF);

1.19.3. The British Business Bank (BBB) which, together with BEIS, was responsible for administering the Bounce Back Loan Scheme (BBLS), the Coronavirus Large Business Interruption Loan Scheme (CLBILS) and the Coronavirus Business Interruption Loan Scheme (CBILS);

1.19.4. The Department for Work and Pensions (DWP) which is responsible for administering Universal Credit; and,

1.19.5. HM Revenue and Customs (HMRC) which was responsible for administering

[8] In April 2020, the Government Counter Fraud Function produced a Post Event Assurance toolkit, in which Post Event Assurance is defined as the systematic process of identifying and understanding the level of loss, irregularity, and non-compliance through post-payment checks [MC/007 - INQ000497002]

the Coronavirus Job Retention Scheme (CJRS, commonly known as furlough) and the Self-Employment Income Support Scheme (SEISS).

1.20. The Government Counter Fraud Function includes over 13,000 people across public bodies and departments, of which the majority are centred in HMRC and DWP.[9] Counter fraud capability and capacity vary across the Function, and have continued to evolve and develop beyond the relevant period of this Module. As such, where this statement addresses the Inquiry's questions about the response to fraud during the pandemic, it should not be read as making an assessment of the Government's current response to fraud.

Statement Overview

1.21. This statement describes the counter fraud work of the CoEx during the pandemic, including its involvement with specific economic schemes introduced by the Government. It also provides information on the creation of the PSFA, which was largely in response to fraud during the pandemic.

1.22. **Section 2** provides information on the activity of CoEx prior to the pandemic.

1.23. **Section 3** provides an overview of counter fraud activity that CoEx conducted, including the governance structures it introduced, to meet the demands of increasing fraud levels during the pandemic, and enable CoEx to work across the system during the pandemic.

1.24. **Section 4** provides a summary of the CoEx's involvement with the economic schemes and interventions introduced by the Government during the relevant period. Specific involvement on the following schemes/interventions is included: business support grants; CJRS; SEISS; Universal Credit; CLBILS; CBILS; BBLS; and CCFF.

1.25. **Section 5** sets out the establishment of the PSFA in August 2022, and lessons learned from the pandemic.

[9] MC/001 - INQ000497014

2. SECTION 2: COUNTER FRAUD ACTIVITY BEFORE THE COVID-19 PANDEMIC

CoEx between 2018 and 2020

2.1. The Government Counter Fraud Function and the Government Counter Fraud Profession were established in 2018. Once the Government Counter Fraud Function was established, CoEx continued to develop and promote its counter fraud offering to departments (who are ultimately responsible for managing fraud related risks in their respective areas) across government and internationally.

2.2. In 2017, the Cabinet Office launched the Government Counter Fraud Functional Standard, which applied to all government departments and their arm's length bodies (ALBs).[10] The Government Counter Fraud Functional Standard set the minimum standards for the management of counter fraud, bribery and corruption activity in government organisations. Prior to this, there were no explicit counter fraud standards, but Accounting Officers were (and remain) responsible for the management of public funds in accordance with the regulatory and proprietary requirements and principles contained within Managing Public Money. This guidance did not include a requirement for CoEx to be involved in the design of economic schemes.[11] There have been previous instances (before the Inquiry's relevant period) where departments had asked for assistance in designing high risk schemes. For example, assistance was provided alongside the Government Grants Management Function to help manage fraud risk in grant schemes associated with EU Exit.

2.3. The Government's Counter Fraud Functional Standard was updated in August 2021.[12] Having a functional standard is important to help ensure the basics for technical areas are in place across departments and their Arms-Length-Bodies. At a fundamental level the Counter Fraud Functional Standard details the basics that public bodies should have in place. The basics checklist in the annex covers these, and they include having: an accountable individual at board level; a counter fraud strategy, policy and response plan; a fraud risk assessment; established reporting routes; access to trained investigators; undertaking proactive activity to detect fraud and ensuring staff have appropriate fraud awareness training.[13]

2.4. CoEx worked to publish promotional material outlining the Government's Counter Fraud Functional Standard and the assistance that CoEx could offer departments in countering

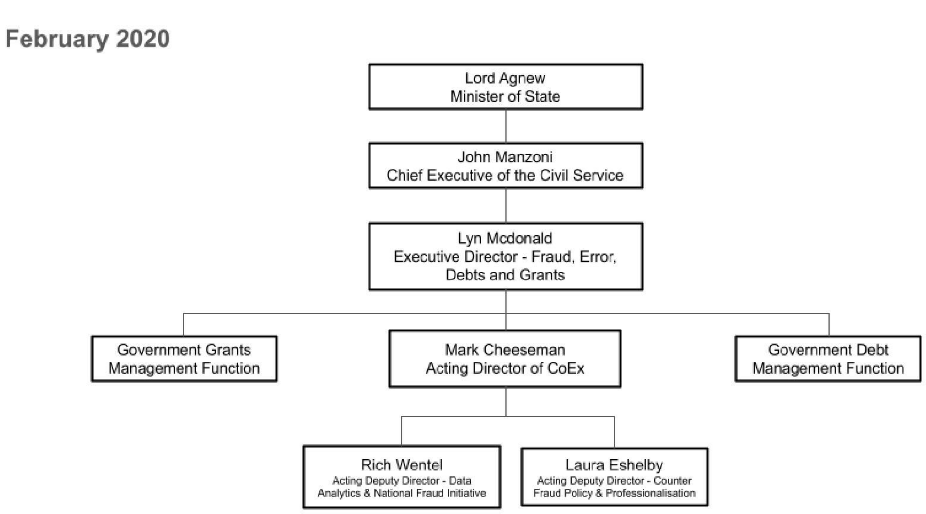
[10] MC/008 - INQ000496987
[11] Guidance published by HMT which sets out the main principles for dealing with resources in public sector organisations in the UK [MC/006 - INQ000279942].
[12] MC/003 - INQ000471032
[13] MC/003 - INQ000471032

fraud by providing expert advice, developing capability, setting and assuring standards, monitoring fraud across government and identifying where fraud could be found or prevented.[14] CoEx also organised the first Counter Fraud International Symposium held in London in 2018, a group that would go on to form the International Public Sector Fraud Forum (as referred to above).[15]

2.5. CoEx also worked to explore and improve the way that the Government used data in order to combat fraud. In June 2019, the Cabinet Office and the Department for Digital, Culture, Media and Sport (DCMS) produced a 'Thought Paper' titled 'Tackling Fraud in Government with Data Analytics – Starting the Conversation'.[16] This paper identified that the Cabinet Office was leading the development of the Government Counter Fraud Function's use of data to fight fraud and was working with a number of public bodies to fight fraud in the form of recoveries, cost savings and the development and refinement of counter fraud systems. The foundations provided by this work assisted in CoEx's data analytics work during the pandemic which is described in Section 4. It also noted that work was being undertaken to coordinate a new Counter Fraud Data Analyst Community which would support the development of counter fraud analytics as well as best practice guidance and training on how to use analytics in counter fraud based on experience from the private sector.

2.6. As explained above, prior to the pandemic, CoEx was part of the wider Fraud, Error, Debt and Grants business unit in the Cabinet Office. The Fraud, Error, Debt and Grants unit reported to the Civil Service CEO and ministers. CoEx was a small team, and grew from 4 members of staff in 2016 to 40 in February 2020.[17] The organogram in Figure 1 outlines where CoEx sat within the Cabinet Office in February 2020, and its senior leadership team at the time. Lyn Mcdonald held overall responsibility for our response and led on ministerial engagement with Lord Agnew throughout.

Figure 1: Pre-pandemic structure of CoEx



3. SECTION 3: OVERALL RESPONSE AND GOVERNANCE STRUCTURES OF COEX DURING THE PANDEMIC

3.1. Guidance developed by the International Public Sector Fraud Forum, published in February 2019, concluded that the risk of fraud rises during emergency situations.[18] The COVID-19 pandemic was no exception. The International Public Sector Fraud Forum guidance was drafted in advance of the pandemic in the context of planning for general emergencies, and was used to support the counter fraud responses to COVID-19 in the UK, US, New Zealand, Australia and Canada. I led the development of this guidance and wrote the foreword whilst on secondment to the Australian Government, during which I witnessed the challenges of emergency support management during the bushfire crisis of late 2019/early 2020. The CoEx response to the pandemic was based on this guidance.

3.2. Part of CoEx's role during the pandemic was producing and promoting guidance for the management of fraud. As outlined in the government's Managing Public Money guidance, available prior to the pandemic, "Accounting Officers [were] responsible for managing public sector organisations' risks, including fraud".[19] The guidance also set out that "each organisation should identify, itemise and assess how it might be vulnerable to fraud, covering the risks in some detail. Fraud should be always considered as a risk for the departments' risk register." Whilst this guidance encouraged organisations to understand their respective fraud risks, it did not require individual risk assessments to be undertaken for schemes or initiatives. The functional standard published in 2018 stated that departments should undertake varying levels of fraud risk assessments on a "regular basis"[20] but at the time of the pandemic there was no explicit requirement for departments to undertake an assessment of risk prior to the launch of an economic scheme or intervention.

3.3. The Budget of 11 March 2020 announced a number of economic interventions for individuals and businesses which included: CBILS; Business Rates Relief; Business Support Grants; the Small Business Grants Fund; and other interventions.[21] Further interventions were announced on 20 March 2020: the CJRS and changes to Universal Credit.[22] As explained above, CoEx was not involved in the development or design of any of these interventions. I have outlined later in this statement the counter fraud work undertaken by CoEx in relation to these schemes during the relevant period.

3.4. After the Budget on 13 March 2020, I emailed the Civil Service CEO stating that, as part

[18] MC/013 - INQ000055873
[19] MC/014 - INQ000496989, Annex 4.9
[20] MC/008 - INQ000496987
[21] MC/015 - INQ000088015
[22] MC/016 - INQ000065324

of a cross-government data bid, CoEx had gained funding of £5.5 million over three years from HMT for counter fraud data work.[23]

3.5. By March 2020, CoEx was raising concerns within government about the potential for fraud to increase as a result of the emerging pandemic - see for example an email to the leadership team of CoEx sent on 15 March 2020.[24] On 16 March 2020, I emailed Sir John Manzoni, Civil Service CEO, providing a slide pack which explained how CoEx was reprioritising its work in response to the pandemic. Lord Agnew (Minister of State for Efficiency and Transformation jointly in the Cabinet Office and HMT) was also briefed on this work in a submission dated 25 March 2020.[25]

3.6. In addition to CoEx's role in advising ministers and the Civil Service CEO on the level of risk and key issues, the work of CoEx at the time covered five areas:

3.6.1. Building public awareness of scams;

3.6.2. Sharing and promoting guidance on managing fraud in emergency responses, such as the guidance produced by CoEx in February 2020;

3.6.3. Working with counter fraud teams across government to better understand and reduce their fraud risks;

3.6.4. Working with departments to shape post-event assurance work;

3.6.5. Using data to carry out upfront checks and post event assurance, using tools such as Spotlight to implement frictionless controls.[26]

3.7. On 17 March 2020, I wrote to counter fraud leaders in the Home Office, National Crime Agency, Serious Fraud Office, HMRC, DWP and the City of London police to encourage a joined-up approach to effectively dealing with fraud relating to the pandemic. This led to extensive cross-system working between organisations, enabling sharing of evidence, data and intelligence (for example in the various meeting structures I describe later in this section).[27]

3.8. In a submission to Lord Agnew on 25 March 2020, CoEx stated that they "expect the incidents of fraud to rise over this period, and for the government's stimulus spending to be at a high risk of fraud".[28] This was based on the well-established observation that fraud

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[23] MC/017 - INQ000547799
[24] MC/018 - INQ000593985
[25] MC/019 - INQ000496990
[26] MC/020 - INQ000477905
[27] MC/021 - INQ000594189
[28] MC/019 - INQ000496990

rises in the event of crises. In light of this assessment, CoEx re-prioritised the work of the Government Counter Fraud Function, including by supporting departments to understand their own fraud risk, particularly where limited fraud resources were in place.[29]

3.9. On 26 March 2020, I shared with Alex Aiken (Executive Director for Government Communications) and Lord Agnew, guidance created by CoEx, the National Cyber Security Centre and HMRC on how to reduce the occurrences of misuse of Government communications (such as SMS scams). This was in response to misuse of the UK_Gov text channel. I encouraged Alex Aiken to share it widely with the government communications function.[30]

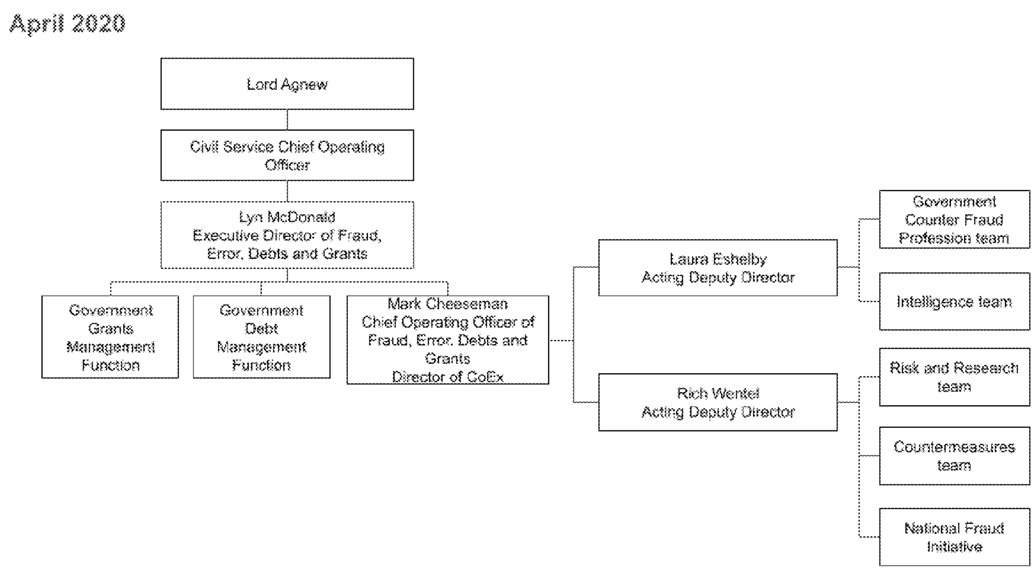
3.10. As indicated in a Home Office submission dated 17 April 2020, shared with Lord Agnew in parallel to the Security Minister, the initial rise in fraud was much lower than had been expected.[31] It was expected then to rise as conditions began to "settle around the crisis" and fraudsters began to "adapt methods to take advantage of people". The submission noted that CoEx's initial risk assessment identified the areas of the public sector most at risk of COVID-19 related fraud as predominantly the stimulus-related economic schemes. I have outlined below how CoEx undertook the above five workstreams in its overall response to the pandemic.

Restructuring CoEx to support the pandemic response

3.11. CoEx restructured its resources to help manage the response to increasing fraud risk at the start of the pandemic. The organogram in Figure 2 below illustrates the new structure of CoEx, as at April 2020, and I summarise below the work of its teams.

[29] MC/022 - INQ000497016; MC/023 - INQ000477905
[30] MC/024 - INQ000547798; MC/025 - INQ000547797
[31] MC/026 - INQ000496991

Figure 2



Risk and research team

3.12. In March 2020, CoEx set up a risk and research team led by Rich Wentel (Deputy Director within CoEx, now Chief Operating Officer of the PSFA). From March 2020, this team worked to develop the Global Fraud Risk Assessment to build a deeper understanding of the fraud landscape across government during the pandemic. The Global Fraud Risk Assessment was a light-touch review of the inherent fraud risk of schemes. The Global Fraud Risk Assessment was developed using the Government Counter Fraud Profession standard for fraud risk assessment, but it was a new approach to fraud risk assessment. It was a new approach as it was developed to provide a whole-system view of fraud risk (limited to specific COVID-19 schemes) to support departments and allow CoEx to focus on the areas of highest risk, to maximise the impact of our limited resource. When a scheme was announced it was incorporated in the Global Fraud Risk Assessment, which then highlighted the areas of highest inherent risk. This allowed the targeting of more detailed scheme-level fraud risk assessments within departments. Departments with schemes assessed as the highest risk were offered qualified fraud risk assessment resources by CoEx to assist with detailed assessments.[32]

3.13. The first initial draft Global Fraud Risk Assessment was created on 23 March 2020 and listed the priority areas where the fraud risk was assessed to be high as: the Coronavirus Business Interruption Loan Scheme; business support grants; the furlough scheme; and

[32] MC/027 - INQ000594111

welfare schemes led by the DWP (the increase of Universal Credit, housing benefit, and the opening up of Statutory Sick Pay to the self-employed).[33] The Global Fraud Risk Assessment was updated, as required, through the relevant period.

Countermeasures team

3.14. In March 2020, CoEx set up a countermeasures team led by Rich Wentel. The team was responsible for: designing and deploying low-friction countermeasures in economic schemes; utilising data to design these; negotiating with ministers and departments to obtain this data; designing data collection solutions; and working with departments to shape post event assurance work on the COVID-19 response. The work of this team and the specific economic schemes/interventions are detailed in Section 4.

3.15. In March 2020, the CoEx commissioned Accenture to provide support to the work of the team. 'Scrum squads' were set up to focus on the fraud risks and potential countermeasures/controls for each of the highest risk schemes. There were 6 scrum squads focused on the following areas: Scrum Squad A on CBILs; Scrum Squad B on the Small Business Grant Fund and the Retail Hospitality and Leisure Grant Fund; Scrub Squad C on HMRC schemes (SEISS and CJRS); Scrum Squad D on NHS procurement; Scrum Squad E on the Covid Corporate Financing Facility; and Scrum Squad F on support for charities led by DCMS.[34] The role of these scrum squads was to engage with relevant departments and provide them with expert advice where necessary. The scrum squads changed throughout the pandemic depending on the highest risk schemes. Section 4 provides detail of the scrum squads' work with relevant departments in relation to economic schemes and interventions, and the extent to which their advice was followed.

3.16. On 26 March 2020, CoEx published the Government's guidance on fraud control in emergency management, which was based on the aforementioned International Public Sector Fraud Forum guidance.[35] This was published on gov.uk and shared directly with key stakeholders across the Government Counter Fraud Profession. The guidance stated that "all public bodies should be attuned to the risks facing their organisations and the public sector. Public bodies can reduce the threat of widespread fraud by integrating low-friction controls into payments where possible, and carrying out post-event assurance work". The guidance stated that the "imminent threats" to the public sector were: first party application fraud (i.e the risk that an applicant may misrepresent their circumstances to

[33] MC/028 - INQ000593955
[34] MC/029 - INQ000594184; MC/030 - INQ000594170
[35] MC/031 - INQ000496698

qualify for a government grant or scheme); and third party impersonation fraud (i.e. the risk that a third party may impersonate a business to extract grant funding from government). The guidance stated the principles for effective fraud control were: collecting consistent data on applicants and payments, in line with the Government Counter Fraud Function's minimum data specifications (which were a new set of specifications created at the start of the pandemic[36]); to "put in place robust claw back agreements" to be able to recover funds paid out incorrectly; making use of available government-wide fraud prevention tools such as gov.uk Verify and Spotlight (explained in more detail at paragraph 4.8 below); along with conducting post-event assurance and introducing frictionless controls.

3.17. In April 2020, the Government Counter Fraud Function published the 'COVID-19 Financial Support Schemes Counter Fraud Measures Toolkit'.[37] The toolkit was developed to assist public bodies in the design and delivery of COVID-19 financial support schemes, and stated the offer of support that could be provided by the Government Counter Fraud Function.

3.18. The National Fraud Initiative (which existed prior to the pandemic) is a Cabinet Office data matching initiative which has prevented and detected nearly £2 billion in fraud and error since 1996.[38] Rich Wentel was the Deputy Director responsible for the National Fraud Initiative during the relevant period. The National Fraud Initiative is a team based in CoEx (and, now, in the PFSA) which conducts the data matching exercise with over 1,200 participating organisations across the public and private sectors. Data matching involves comparing sets of data from organisations (such as payroll or benefit records) with other records held by the same or another body, to see the extent to which they match. Inconsistencies are flagged to an organisation to investigate. The National Fraud Initiative requires certain public sector bodies to provide data on a mandatory basis for the prevention and detection of fraud.[39]

3.19. As well as providing direct assistance to its users to detect fraud and also prevent fraud, the National Fraud Initiative also directly prevents some instances of individuals fraudulently obtaining benefits. Between April 2020 and March 2022 the National Fraud Initiative identified and prevented £443 million of fraud across the UK. Examples of the National Fraud Initiative's work include preventing fraudulent and wrongful claims for council tax single person discount; preventing housing benefit overpayments; detecting

[36] MC/032 - INQ000477240 Annex A
[37] MC/032 - INQ000477240
[38] MC/033 - INQ000593911
[39] MC/033 - INQ000593911 page 5

pension fraud and fraudulent applications for housing waiting lists, amongst many other types of fraud. The National Fraud Initiative publishes reports every two years on its activities and outcomes.[40]

3.20. During the pandemic, CoEx contracted a company called Quantexa to provide a network analytics and entity resolution tool (known in CoEx as the "Quantexa tool") to "root out COVID-19 loan fraud through the use of network analytics". This enabled government to "identify connections between individuals and organisations, whilst risking the loans and activity in the network to help surface fraud", according to a briefing to the Fraud Ministerial Board.[41] According to CoEx's post event assurance toolkit, the Quantexa platform can securely bring together large volumes of complex records (such as companies, events, people and other intelligence). It also performs an "automated network analysis (e.g shared addresses, directors, transactions and other linking data)". The data of these networks can then be inputted into fraud or compliance detection models for automated risk scoring. Suspicious entities and networks can then be reviewed to help direct users to a decision. The platform's data sources "make it particularly useful for assessing foreign suppliers or identifying how and where criminals may be using shell companies, stealing identities, or leveraging cyber channels to defraud government".[42]

3.21. The COVID-19 Loan Schemes Fraud Analytics Programme, run by the countermeasures team, also provided counter fraud flags to identify instances of potential fraud. These were then shared with accredited lenders to help them recover fraudulently obtained money. More detail on how this was used for the Bounce Back Loan scheme is provided in Section 4.

The intelligence team

3.22. In March 2020, CoEx, as part of its restructure to address the anticipated increase in fraud as a result of the pandemic, set up an intelligence team to gather intelligence from across the public and private sector on COVID-19 with the aim of developing an overview of the fraud threat by monitoring the fraud landscape, and sharing that intelligence with public bodies where it could reduce fraud risk.

3.23. The central intelligence team was a small team led by Laura Eshelby, Deputy Director within CoEx. The team worked with stakeholders across sectors, feeding into external groups such as the Fraud Advisory Panel's 'COVID-19 Fraud Watch', and attending National Crime Agency (NCA)-led governance (Operation Etherin, which was set up by

[40] MC/034 - INQ000496741
[41] MC/035 - INQ000611209
[42] MC/036 - INQ000611227

the NCA's National Economic Crime Centre to understand, respond, and communicate on the fraud threats resulting from the pandemic[43]) to represent the public sector.

3.24. CoEx established the COVID-19 Crime Stoppers Hotline (after a full tender process) which ran from October 2020 to 31 March 2023. CoEx wrote to all departments on 1 October 2020 to confirm that they could receive the referrals from the Hotline.[44] In a report reviewing the performance of the Intelligence function in PSFA dated 16 March 2023 it was established that up to 28 February 2023, "the Intelligence team received 7058 referrals (and this continues to rise) of which 4964 (cut off date of 8/2/23) came from the Hotline. All have now been disseminated as of 28/2/23", with 75% being routed to the National Investigation Service[45] and 9% being routed to the Insolvency Service. This reflected that over 80% of referrals related to the BBL scheme, other BEIS loan schemes or Business Support grants. The National Investigation Service and INSS were the primary operational agencies focused on tackling fraud in the BEIS schemes. In addition, 570 intelligence reports were shared as additional fraud flags to BBB and were shared with the accredited lenders for the BBL and other loan schemes.[46]

3.25. The decision to set up the hotline was based on a balance between the benefits it could be expected to deliver, the additional intelligence on COVID-19 fraud that would be available against the costs to operate it and the reputational risk (and potential public trust damage that could result) if public bodies were not able to deal with the referrals. We had concerns that public bodies may not be able to deal with the referrals, but received confirmations from the main departments that they could. As a result, CoEx's advice was that the hotline was a worthwhile investment, as it would provide the public with a clear reporting space, increase our intelligence on the actual fraud likely to be occurring and would likely lead to benefits for the taxpayer as public bodies dealt with the cases.[47]

3.26. The value of the intelligence team and hotline can be measured through both financial and non-financial metrics. As of 16 March 2023, in addition to savings on PPE procurement set out in Module 5, there was a further audited saving of £50,000 relating to BBLS. There was a further £1.5 million in (unaudited) savings relating to intelligence flags shared with and acted upon by BBLS lenders, leading to prevented fraud or detected fraud that was subsequently recovered. The intelligence team at a cost of circa £1.07

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[43] MC/037 - INQ000497003
[44] Separate emails were sent to each department. I exhibit one of these emails to BEIS by way of example (MC/038 - INQ000547825).
[45] The National Investigation Service investigates serious crime where public authorities or the funds they manage have been targeted. The National Investigation Service is a service of Thurrock Council with staff based across the UK (MC/039 - INQ000593948)
[46] MC/040 - INQ000547805
[47] MC/041 - INQ000610620

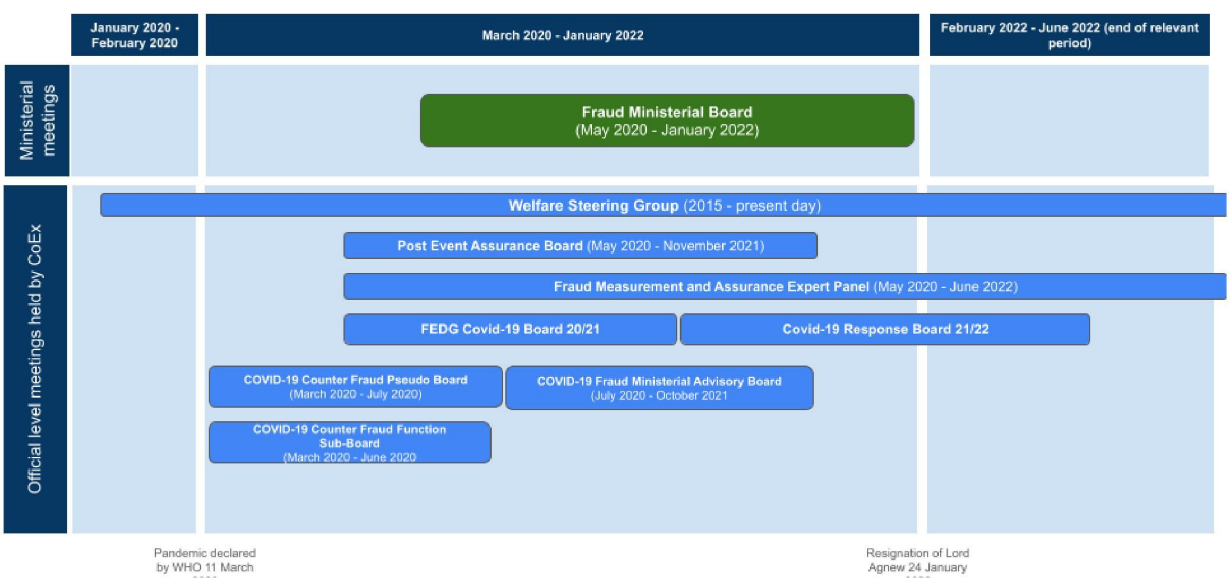
million had delivered audited benefits of over £76.5 million.[48]

3.27. The intelligence team delivered significant non-financial value, including internal newsletters for the Government Counter Fraud Function, and public facing alerts as to possible threats (e.g. SMS fraud, COVID Pass fraud[49]), and other counter fraud benefits not relevant to the scope of Module 9.

3.28. The central intelligence team also coordinated the dissemination of intelligence. In the case of economic schemes, fraud information was passed to named officers in the corresponding organisational fraud units to respond to. This applied for any information obtained via the COVID-19 Crime Stoppers Hotline, received centrally, or via the National Crime Agency, which was shared directly.

3.29. Along with the restructuring of CoEx, the demands of the pandemic called for a new structure of meetings for the counter fraud response. Figure 3 below illustrates the ministerial and official-level meeting structures in place throughout the relevant period which were governed by CoEx. I have summarised below the meetings which took place within this structure. CoEx's work described in Section 4 fed into and was discussed in these meetings as appropriate.

Figure 3 - Ministerial and official-level meeting structures governed by CoEx



[48] MC/040 - INQ000547805
[49] MC/042 - INQ000496992; MC/043 - INQ000497004

Boards set up in March 2020

3.30. Initially two boards were established in March 2020 under this new structure. The first of these boards was the COVID-19 Counter Fraud Pseudo Board, which was established as an intelligence and information sharing forum. It was designed to bring the wider counter fraud community together to ensure common understanding and was attended by senior representatives from the public sector including law enforcement. The actions and decisions were circulated after each meeting.[50] At each meeting the Pseudo Board would discuss general business and public sector fraud threats, as well as hear updates from specific departments. The Pseudo Board met 14 times from 26 March 2020 to 2 July 2020.[51] From July 2020 the Pseudo Board was renamed the COVID-19 Fraud Ministerial Advisory Board.[52] The COVID-19 Fraud Ministerial Advisory Board met 6 times from July 2020 to October 2021.[53]

3.31. The second board was the COVID-19 Counter Fraud Function Sub-Board. This established a public sector-specific functional sub-board with counter fraud senior leads from the Home Office, HMRC, DWP, Government Internal Audit Agency (GIAA), BEIS, BBB and other departments/organisations. The Sub-Board met from March 2020 to June 2020.[54]

The GPSMIG and the creation of the Fraud Ministerial Board

3.32. On 7 May 2020, the Government Counter Fraud Function was commissioned to work with colleagues in the Home Office, DWP, Department of Health and Social Care (DHSC) and others to produce a paper for a meeting of the General Public Sector Ministerial Implementation Group (GPSMIG, one of the four ministerial implementation groups which co-ordinated the Government's response to the pandemic between March and May 2020). This work was presented to a GPSMIG meeting on 12 May 2020 where ministers considered work to counter fraud during the pandemic. The Government Counter Fraud Function produced a paper[55] for the meeting which noted that:

3.32.1. The Government Counter Fraud Function had brought the public sector together to create new intelligence sharing arrangements which included

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[50] MC/044 - INQ000593890
[51] MC/045 - INQ000593897;MC/046 - INQ000593895; MC/047 - INQ000593894 (March 2020). MC/048 - INQ000594004; MC/049 - INQ000594006; MC/050 - INQ000594005; MC/051 - INQ000593906; MC/052 - INQ000594206 (July 2020).
[52] MC/052 - INQ000594206
[53] MC/053 - INQ000593903; MC/054 - INQ000593904; MC/055 - INQ000593905; MC/056 - INQ000593876; MC/057 - INQ000593877; MC/058 - INQ000593878; MC/059 - INQ000593879; MC/060 - INQ000593880; MC/061 - INQ000593881; MC/062 - INQ000593882
[54] MC/063 - INQ000594014
[55] MC/064 - INQ000083562

work across traditional law enforcement and public sector boundaries.

3.32.2. The Government Counter Fraud Function had published guidance on key issues and controls for public bodies to use; and

3.32.3. The Government Counter Fraud Function had worked with banks and credit agencies to develop and launch two new fraud prevention tools and were piloting five further tools.[56]

3.33. The Government Counter Fraud Function recommended that the GPSMIG require all departments to commit to Post Event Assurance Activity and to developing an action plan by the end of May 2020. The Government Counter Fraud Function also stated that more could be done on investing in intelligence sharing, exploring new legislative powers and reviewing lessons learned. The Government Counter Fraud Function also recommended that all COVID-19 fraud activity be brought together in a new Fraud Ministerial Board, chaired by the Cabinet Office, HMT and the Home Office.[57]

3.34. At the GPSMIG meeting, ministers agreed to the recommendations on tackling the public sector fraud threat as a result of COVID-19, and the following actions were issued:

3.34.1. "ALL DEPARTMENTS, with support from the CABINET OFFICE, to commit to post event assurance activity and to develop an action plan by the end of May.

3.34.2. CABINET OFFICE to work with other departments to invest in intelligence sharing.

3.34.3. CABINET OFFICE to explore any new legislative powers that might be needed, or existing legislation to be better understood and used.

3.34.4. CABINET OFFICE to commission a review of lessons learned.

3.34.5. CABINET OFFICE to oversee activities to tackle COVID-19 related fraud in a new Ministerial Board, to be chaired with HM TREASURY and the HOME OFFICE."

3.35. The Fraud Ministerial Board was co-chaired by Lord Agnew and James Brokenshire (Minister of State for Security, in the Home Office)[58] and its purpose was to "coordinate and advise on the response to fraud for COVID-19 with a focus on the public sector". It

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[56] An update on the status of the implementation of the tools is provided at MC/065 - INQ000471014.
[57] MC/066 - INQ000083567;MC/067 - INQ000272906; MC/068 - INQ000083623
[58] The Fraud Ministerial Board's approved terms of reference which were agreed at the first meeting on 16 July 2020 are at MC/069 - INQ000477265.

reported, if required, to the newly formed COVID-19 Ministerial Board(s). In particular the Fraud Ministerial Board was to:

3.35.1. Gain an understanding of what fraud and irregularity there was in the COVID-19 support packages, repurposed grants and increased demand and if there was any further policy action needed as a result;

3.35.2. Review the use of existing legislation and consider the need for new legislation for public bodies, wider law enforcement and the banking sector to counter fraud in response to COVID-19;

3.35.3. Review the opportunities to increase fraud intelligence sharing between banks, police and public sector post COVID-19; and

3.35.4. Oversee a lessons learnt review of the public sector fraud response to COVID-19 to inform future emergency management responses. This was conducted in November 2020 and is summarised in Section 4.

3.36. As set out in the chronology below, the Fraud Ministerial Board had significant involvement in driving Post Event Assurance activity. Post Event Assurance is described in further detail later in this section. A meeting of the Fraud Ministerial Board was held on 16 July 2020[59], where it was agreed that departments should provide returns detailing the amount of counter fraud resource in place to undertake Post Event Assurance activity; that departments should incorporate fraud threat intelligence sharing and checks within their Post Event Assurance activity; and departments should ensure the "correct legal gateways" were in place to share data for counter fraud purposes.

3.37. On 17 June 2020, CoEx provided a COVID-19 fraud update to Lord Agnew.[60] This update identified the key areas for fraud risk which were (in relation to the scope of Module 9): Universal Credit (DWP), the CJRS (HMRC), Business Support Grants (BEIS), and Bounce Back Loans (BEIS/BBB). The submission stated that DWP and HMRC had significant counter fraud capability and were taking action to reduce the risk of fraud, which was "having an identifiable financial impact". The submission stated that in other areas, departmental capability was not as strong, and CoEx was assisting these departments to implement counter measures to fraud, and use Post Event Assurance activity to understand the extent of irregularity in these schemes and recover loss where possible. This statement explores both of these aspects of work in greater detail below.

[59] MC/070 - INQ000497000
[60] MC/071 - INQ000477258

3.38. On 30 June 2020, CoEx updated the Fraud Ministerial Board on the COVID-19 fraud landscape. The paper stated an estimated £440 billion had been committed to financial stimulus packages in response to COVID-19, of which an estimated assessed value of £194 billion had been spent, with fraud and irregular spend across the packages being estimated at £2.2 (0.5%) - £22 billion (5%). In response to this, government departments had implemented additional measures to mitigate COVID-19 fraud (e.g. HMRC pivoted fraud investigation, compliance, risking and cyber teams to focus on COVID-19 specific threats). CoEx, in response to public sector fraud, had produced a Global Fraud Risk Assessment for all the COVID-19 financial stimulus packages to enable departments to identify where risk appeared in different stimulus packages and prioritise their resources effectively. In providing direct support to departments improving up-front controls, CoEx and the GIAA had detected £31.8 million of irregular payments.[61]

3.39. The Fraud Ministerial Board met on 16 July 2020 and the accompanying minutes are exhibited.[62] The Fraud Ministerial Board discussed departments' Post Event Assurance action plans and agreed that departments should provide returns detailing the counter fraud resource in place to undertake Post Event Assurance activity, and incorporate fraud threat intelligence sharing and checks within the Post Event Assurance activity wherever appropriate.

3.40. The Fraud Ministerial Board met on 20 October 2020.[63] The Fraud Ministerial Board first discussed intelligence sharing, where it was agreed that access to criminal intelligence should be increased and provided through a central team that coordinated information to and from the public sector. A Bounce Back Loan threat assessment was discussed and the Fraud Ministerial Board requested that HMT and BEIS examine what further checks could be taken on those applying for Bounce Back Loans.

3.41. At a Fraud Ministerial Board meeting on 25 November 2020[64] there was discussion on: tackling fraud in the Bounce Back Loan scheme; counter fraud legislative options; and departmental action plans for PEA. A paper was produced by BEIS for the meeting titled 'Tackling Fraud in the Bounce Back Loan Scheme' which sets out some of the counter measures introduced by BEIS to combat fraud.[65] I set out how CoEx was involved in working with BEIS on tackling fraud in the Bounce Back Loan scheme later in this statement. The Fraud Ministerial Board agreed in relation to Bounce Back Loans that: a meeting be set up between the BEIS Secretary of State (Business Secretary), the

[61] MC/072 - INQ000497009; MC/073 - INQ000547800
[62] MC/070 - INQ000497000
[63] MC/074 - INQ000497029
[64] MC/075 - INQ000497001
[65] MC/076 - INQ000594085

Economic Secretary to the Treasury, Lord Agnew and CoEx to discuss fraud in the scheme; BEIS were to produce a plan for dealing with retrospective borrowers who had overstated their turnover; and BEIS were to provide guidance for the banks as to when they should action a suspicious transaction report.

3.42. A paper was also produced by CoEx which stated that "The GCFF [Government Counter Fraud Function] is conducting an in-depth quality review of the testing for the top six highest risk schemes". These schemes were: DHSC procurement; the BBLS; the RHLGF; the SBGF; CBILS and CLBILS.[66] The Fraud Measurement and Assurance Expert Panel would conduct reviews of these schemes which are set out later in this section. The Fraud Ministerial Board agreed that CoEx should send a submission to the Chancellor of the Duchy of Lancaster (CDL) to seek agreement on the development of a White Paper on legislative options to deal with fraud. The Fraud Ministerial Board also agreed that an update on the Post Event Assurance plans should be given in January 2021, and that it should meet quarterly thereafter.

3.43. On 21 January 2021, CoEx provided an update to Lord Agnew on all areas of CoEx's work, including a strategic update on the fraud landscape. One point within this noted that "the threat landscape continues to evolve and we have evidence that the lessons learnt during the earlier phases of COVID-19 are not being applied to new or extended areas of spend. A few new areas of risk are emerging including vaccine related fraud. These types of fraud risks are moving beyond financial impact to include human harm and reputation impact that could, for example, directly harm individuals and undermine confidence in the UK vaccine distribution."[67] I understand the reference to "extended areas of spend" to be to the BBLS (which had been extended on 17 December 2020). CoEx had made recommendations to introduce additional controls into BBLS to reduce the risk of and losses from fraud. These had not been taken forward by scheme designers in HMT. For examples, see paragraphs 4.114 and 4.126. This gave cause for concern that lessons were not being learned from earlier phases - specifically the benefits of building in controls into the process. As the submission indicates, the reference to "new areas of spend" is to vaccine related fraud. I do not address this further in this statement as it is outside the scope of Module 9.

3.44. The update also stated that "there is evidence of the limited levers available to the Counter Fraud Function. In many cases fraud experts were not consulted on the scheme design at the outset. The consequence of this is additional taxpayer loss. In [the] BBL

[66] MC/077 - INQ000593871
[67] MC/078 - INQ000477271

[Bounce Back Loan] scheme the Function has saved £millions by the upfront controls we put in place but they were all too late - they should have, and could have, been in place at the beginning".

3.45. The Fraud Ministerial Board met on 18 November 2021 to discuss Post Event Assurance, transforming fraud management through legislation and a COVID-19 case study which was an effort to use data to study loan fraud.[68] The Fraud Ministerial Board agreed: to support development of a White Paper and a Bill to transform fraud management through legislation; that the Cabinet Office was to provide a fuller case study on effective analytics; and that departments should continue to provide regular updates to the Fraud Ministerial Board on Post Event Assurance activity.

3.46. The Fraud Ministerial Board itself was an initiative of Lord Agnew that was not continued by his successor Sir Jacob Rees-Mogg (Minister of State from 8 February 2022 to 6 September 2022). Much of the work overseen by the Fraud Ministerial Board was, however, continued under Sir Jacob Rees-Mogg including Post Event Assurance work, the development of legislative options, the COVID-19 Fraud Analytics work and the workforce and performance review.

The Post Event Assurance Board

3.47. As directed by the Fraud Ministerial Board, fraud measurement and assurance became a stated objective of Post Event Assurance. In April 2020, the Government Counter Fraud Function produced a Post Event Assurance toolkit, in which Post Event Assurance is defined as the systematic process of identifying and understanding the level of loss, irregularity, and non-compliance through post-payment checks.[69]

3.48. The Post Event Assurance Board was a mixed disciplinary group comprising fraud risk, policy, data and analytics, and fraud measurement experts from across government from Cabinet Office, HMRC, DWP, HMT, the Office for National Statistics (ONS) and the GIAA It was first set up in March 2020 to provide strategic leadership and expert advice on the approach taken within the government's Post Event Assurance programme, and to hold departments to account on the progress and quality of work undertaken.[70] The Post Event Assurance Board was composed of senior leaders that had responsibility for counter fraud, bribery and corruption in their organisations and government functions. The secretariat was provided by CoEx.

[68] MC/079 - **INQ000609779**
[69] MC/007 - INQ000497002
[70] Terms of reference and membership of the Post Event Assurance Board are at MC/080 - INQ000514298

3.49. The purpose of the Post Event Assurance Board was to commission and evaluate action plans for Post Event Assurance activity from departments. Departments' activity was then reviewed to consider whether they were delivering against their action plans and whether their risk assessment activity was in line with the government standards for FRA. Supporting this work was the Post Event Assurance working group, made up of subject matter experts from across the fraud, analytical, finance, commercial, debt management, audit and grants functions.[71] The group would meet as required to support departments with their action plan delivery, consider lessons learned and share cross-cutting findings.[72]

3.50. The Post Event Assurance Board reviewed other departments' counter fraud action plans for COVID-19 related schemes. This included reviews of fraud risk assessments, as well as any plans to undertake fraud measurement, such as testing for fraud within specific schemes, procurement of PPE, ventilators and the NHS Test and Trace (NHST&T) programme.

3.51. The Post Event Assurance Board met on 4 May 2020, with attendees from the GIAA, DWP, the Crown Commercial Service, the ONS, Ministry of Justice, HMRC and DHSC. The meeting explored the principles to be applied when carrying out PEA.[73]

3.52. The Post Event Assurance Board met again on 18 May 2020 and discussed Post Event Assurance guidance[74], where Post Event Assurance activity was being undertaken and what cross-government scheme risks had been identified to date.[75]

3.53. At a further meeting of the Post Event Assurance Board on 4 June 2020, Post Event Assurance guidance was discussed again including amendments to the guidance and timings for it being issued.[76]

3.54. The Post Event Assurance Board met again on 18 June 2020.[77] The Post Event Assurance Board discussed a general overview of Post Event Assurance action plans received. The Post Event Assurance Board met again on 25 June 2020.[78] At this meeting the Post Event Assurance Board discussed a draft Post Event Assurance ministerial update paper, and agreed that all COVID-19 procurement spend should be included in this paper.

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[71] MC/081 - INQ000514298
[72] A Post Event Assurance Activity Plan is at MC/082 - INQ000514290
[73] MC/083 - INQ000496993
[74] MC/084 - INQ000496994
[75] MC/085 - INQ000496995
[76] MC/086 - INQ000514293
[77] MC/087 - INQ000496996
[78] MC/088 - INQ000496997

3.55. On 8 July 2020, the Post Event Assurance Board met and discussed the Stage 2 review criteria that had been developed by the working group.[79]

3.56. The Post Event Assurance Board met again on 30 July 2020, with an update on feedback from the Fraud Ministerial Board, including that departments ensure that correct legal gateways were in place to share data for counter fraud purposes and that departments should provide returns detailing the amount of counter fraud resources they had in place to undertake Post Event Assurance activity.[80]

3.57. The Post Event Assurance Board met on 13 August 2020 and discussed Stage 2 Post Event Assurance action plans and sharing them with other departments.[81]

3.58. Another meeting occurred on 20 August 2020 and discussed Stage 2 action plans once more.[82]

3.59. The Post Event Assurance Board met again on 5 and 9 November 2020. The departmental actions plans that had been through tier 1 and tier 2 review were considered, and there was a discussion of the content of updates the Post Event Assurance Board would give to the Fraud Ministerial Board.[83]

3.60. The Post Event Assurance Board met on 3 February 2021 where a review of departmental progress on Post Event Assurance activity was discussed.[84]

3.61. The Post Event Assurance Board met again on 7 September 2021 where departments were asked to provide their latest Post Event Assurance action plans, so that overall progress across government could be captured, and provided advice and recommendations on departments' testing plans for their highest risk schemes.[85]

3.62. When the Post Event Assurance board met on 25 November 2021, it was provided with an overview of the review started in September 2021 on cross-government Post Event Assurance activity. The Government Counter Fraud Function received updates from 11 departments as part of this review. Departments had committed to test 92 schemes. Testing had started on 79 of these, with 27 having been completed. The minutes stated that by March 2022 there would only be a "partial picture" of fraud losses from COVID-19 spend, with a substantial view not available until 2024, based on current departmental timescales. The minutes stated that the Fraud Ministerial Board was concerned about the

[79] MC/089 - INQ000514294
[80] MC/090 - INQ000514295
[81] MC/091 - INQ000547829; MC/092 - INQ000496998
[82] MC/092 - INQ000496998; MC/093 - INQ000496999
[83] MC/094 - INQ000514296; MC/095 - INQ000514297
[84] MC/096 - INQ000593926
[85] MC/097 - INQ000593927

length of time departments had reported that it would take to understand fraud losses. The overall fraud losses from COVID-19 were published in the Cross-Government Fraud Landscape Report 2021-2022 (published in March 2024), which is summarised in Section 5 of this statement.[86]

The Fraud Measurement and Assurance Expert Panel

3.63. As part of the actions from the GPSMIG meeting on 12 May 2020, departments were asked to conduct Post Event Assurance work, to better understand the level of fraud in their schemes (including economic schemes), and to better estimate the likely level of loss to fraud.[87]

3.64. At the time of the pandemic there were published government standards for fraud measurement as part of the guidance provided to the wider Government Counter Fraud Function community, and these were accessible to departments. For example, the Functional Standard published in 2018[88], and the Fraud Risk Assessment Core Discipline published in March 2022[89], which contained the agreed professional standards and guidance for people and organisations undertaking fraud risk assessments within central government.

3.65. The Fraud Measurement and Assurance Expert Panel, an independent group of cross-government experts, reviewed and assessed whether fraud measurement exercises undertaken by departments met the published government fraud measurement standards[90]. As I have previously described at paragraph 3.42, a paper from CoEx to the Fraud Ministerial Board stated that a review of the top six highest risk schemes would be conducted. This focused on the economic schemes: BBLS; CBILS; CLBILS; RHLGF; SBGF.[91] DHSC procurement was also part of this top six, as described in my Module 5 corporate statement. The Fraud Measurement and Assurance Expert Panel met for the last time in July 2022. Section 4 details the Fraud Measurement and Assurance Expert Panel reviews of specific schemes where relevant.

Fraud, Error, Debts and Grants COVID-19 Board July 2020-May 2021

3.66. In June 2020, the Fraud, Error, Debt and Grants business unit submitted a business case to HMT, and HMT agreed to fund the unit £4.5 million in 2020-21 for COVID-19 response work. Following steers, the investment was made on a principle that it should be the

[86] MC/098 - INQ000514292
[87] MC/067 - INQ000272906
[88] MC/008 - INQ000496987
[89] MC/099 - INQ000497007
[90] MC/003 - INQ000471032
[91] MC/077 - INQ000593871

minimum cost possible, rather than a case that brought optimal outcomes. The cases focused on the minimal cost to make the most significant immediate difference. A Fraud, Error, Debt and Grants COVID-19 Board was set up to monitor the deliverables of the business case provided to HMT in June 2020 for this funding.

3.67. I chaired the Fraud, Error, Debt and Grants Board, which met monthly from July 2020 to May 2021. According to the terms of reference, the Fraud, Error, Debt and Grants Board was to be attended by representatives from each of the three functions in the Fraud, Error, Debt and Grants business unit (counter fraud, debt and grants) as well as external attendees invited on an ad hoc basis to "increase scrutiny and challenge". In terms of counter fraud work, the Fraud, Error, Debt and Grants Board would review each month: the development and implementation of scheme specific countermeasures; the development of fraud risk assessments; and intelligence sharing between the private and public sector. The Fraud, Error, Debt and Grants Board would monitor the "robustness of the benefits being delivered to make sure that the methodology and figures have sufficient scrutiny to report back to HMT, the Cabinet Office Permanent Secretary and other Ministers".[92] The Fraud, Error, Debt and Grants Board would also be updated on the monitoring of finances at each meeting. Figures on benefits were provided for each meeting from CoEx, however it should be noted these figures were then subject to audit by the GIAA. I now summarise the chronology of the Fraud, Error, Debt and Grants Board meetings, with detail relevant to counter fraud activity and the scope of Module 9.

3.68. The Fraud, Error, Debt and Grants Board first met on 28 July 2020 where it discussed: Board membership and terms and reference; an update on finance; and deliverables and savings.[93]

3.69. The Fraud, Error, Debt and Grants Board met on 24 August 2020 where it discussed updates from the three functions.[94] The CoEx counter fraud update paper stated that: the implementation of many countermeasures depended on engagement and cooperation from departments and "There is a risk that these departments do not engage with the response". The paper also stated the risks of a second wave of COVID-19 could mean fraud staff being redeployed in departments. The update also stated that the team needed to "ensure that departments continue to invest in post event assurance activity. Every department requires the funding to be able to tackle fraud".[95]

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[92] MC/100 - INQ000594197
[93] MC/101 - INQ000594202; MC/102 - INQ000594196; MC/100 - INQ000594197; MC/103 - INQ000611641; MC/104 - INQ000594198; MC/105 - INQ000594199; MC/106 - INQ000594200; MC/107 - INQ000594201
[94] MC/108 - INQ000593901; MC/109 - INQ000594194; MC/110 - INQ000611627
[95] MC/111 - INQ000593902

3.70. The Fraud, Error, Debt and Grants Board met on 21 September 2020. The counter fraud update discussed the total savings to date from activity, however also noted that these figures would need to be audited by the GIAA.[96]

3.71. The Fraud, Error, Debt and Grants Board met on 26 October 2020. The update from CoEx stated that we were "beginning to provide support for the second wave of economic stimulus recovery spend for C-19", and were seeking to prepare a second business case for additional funding. The update stated the Fraud Hotline was launched on 12 October 2020. Additionally a dashboard was provided to the Fraud, Error, Debt and Grants Board on overall COVID-19 delivery. This dashboard stated that the CoEx had supported BEIS in three key areas to improve their ability to find and recover fraud which were fraud risk assessments, sampling and testing, and Post Event Assurance action plans. Section 4 of this statement provides an overview of this activity where relevant to economic schemes administered by the department.[97]

3.72. The Fraud, Error, Debt and Grants Board met on 7 December 2020. The Fraud, Error, Debt and Grants dashboard on the delivery against the business case stated, in respect of counter fraud activity, that: work on Bounce Back Loans was ongoing with a data analytics pilot in progress (detailed in Section 4); actions from the Fraud Ministerial Board were being worked on; and the Fraud Hotline had received 451 reports between 12 October and 30 November 2020, with 390 of 451 reports disseminated to BEIS in relation to Bounce Back Loans and the Small Business Grant Fund.[98]

3.73. The Fraud, Error, Debt and Grants Board met on 11 January 2021. The Fraud, Error, Debt and Grants dashboard stated that: CoEx continued to deliver a comprehensive data analytics programme to detect fraud in the Bounce Back Loan scheme; and 703 reports had been made to the COVID-19 Fraud Hotline between 12 October 2020 and 6 January 2021, with 613 referred to BEIS.[99]

3.74. The Fraud, Error, Debt and Grants Board met on 8 February 2021. CoEx updated that a further 18 schemes had been through high level FRA, equating to 99% of schemes by then having conducted high level risk assessments for fraud. 19 of the highest risk schemes had had a detailed fraud risk assessment conducted. As previously stated, the figures on savings realised by CoEx (prevented and recovered fraud and error) were

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[96] MC/112 - INQ000594115; MC/113 - INQ000594112; MC/114 - INQ000594113; MC/115 - INQ000594114
[97] MC/116 - INQ000594109; MC/117 - INQ000593900; MC/118 - INQ000594104; MC/119 - INQ000594106; MC/120 - INQ000594107; MC/121 - INQ000594108; MC/122 - CAB028699126; MC/123 - INQ000594105
[98] MC/124 - INQ000594082; MC/125 - INQ000594140; MC/126 - INQ000611637; MC/127 - INQ000594081; MC/128 INQ000594080 MC/129 INQ000594079 MC/130 INQ000594078 MC/131 INQ000594083
[99] MC/132 - INQ000594147; MC/133 - INQ000594139; MC/134 - INQ000611640; MC/135 - INQ000594146; MC/136 - INQ000594143; MC/137 - INQ000594142; MC/138 - INQ000594141; MC/139 - INQ000594144; MC/140 - INQ000594145

subject to audit by the GIAA. The confirmed figures for savings from CoEx's work were verified by the GIAA: £76.8 million of confirmed prevented or recovered fraud savings from PPE procurement; £33.3 million of confirmed prevented fraud savings from the Future Fund scheme using the Experian bank account checker tool; £13.6 million of prevented fraud savings from the Change of Director flag for Bounce Back Loans; and £0.345 million of confirmed prevented fraud savings from the Business Support Grants scheme. This totalled £123.1 million savings confirmed by the GIAA's audit as of 4 February 2021.[100]

3.75. The Fraud, Error, Debt and Grants Board met on 8 March 2021. The Government Debt Management Function did not attend the meeting as they had completed their deliverables as set out in the business case. The figure for audited savings from counter fraud work was revised to £119.7 million by the GIAA in the update paper from CoEx. The minutes stated that CoEx had received some funding for data analytics work on the Bounce Back Loan scheme, with the remainder of the funding pending decision. This work will be detailed further in Section 4.[101]

3.76. The final Fraud, Error, Debt and Grants Board meeting took place on 10 May 2021. A final dashboard was reviewed as well as papers from lessons learnt exercises from each of the functions of the Fraud, Error, Debt and Grants business unit. The final dashboard stated that CoEx had secured £3.3 million of funding to continue the COVID-19 response for 2021-22. 2,023 reports had been received by the COVID-19 Fraud Hotline from 12 October 2020 to 15 April 2021, 1,373 of which had been disseminated to BEIS. The final dashboard stated that the total benefits identified by CoEx were £124 million. The counter fraud lessons learnt paper stated three recommendations: that the cross-departmental ministerial boards should continue to improve government's counter fraud response; that a fraud risk assessment should be undertaken by suitably skilled people for any existing COVID-19 scheme that was extended; and that departments should have a plan for how they invest further in counter fraud capacity (proportionate with the level of fraud risk).[102]

COVID-19 Response Board July 2021- April 2022

3.77. HMT allocated further funding for 2021/2022 to the Government Counter Fraud Function and the Government Grants Management Function to continue to address fraud and error in the COVID-19 response. The Government Grants Management Function was allocated

[100] MC/141 - INQ000594132; MC/142 - INQ000594129; MC/143 - INQ000594133; MC/144 - INQ000594134; MC/145 - INQ000594135; MC/146 - INQ000594136; MC/147 - INQ000594137
[101] MC/148 - INQ000594124; MC/149 - INQ000593990; MC/150 - INQ000594125; MC/151 - INQ000594123; MC/152 - INQ000594126; MC/153 - INQ000611639; MC/154 - INQ000594127; MC/155 - INQ000594128
[102] MC/156 - INQ000593992; MC/157 - INQ000594061; MC/158 - INQ000593995; MC/159 - INQ000593991; MC/160 - INQ000593994; MC/161 - INQ000593993

£3 million, and the Government Counter Fraud Function £3.3 million.The COVID-19 Response Board ("the Response Board") was established in July 2021 to monitor the progress and delivery of both the Government Counter Fraud Function and the Government Grants Management Function against the budget.[103] I summarise below the meetings as relevant to the CoEx COVID-19 counter fraud response.

3.78. The first meeting of the Response Board took place on 7 July 2021 where its terms of reference were agreed. According to a slide pack provided to the Response Board, CoEx planned to use the funding to: deliver fraud analytics for the BBLS; deliver a programme for BEIS and BBB to support accredited lenders to detect and prevent fraud in their economic stimulus schemes; develop and maintain the Global Fraud Risk Assessment; maintain central oversight of the COVID-19 Fraud Hotline with prioritisation of referrals to departments; and run the Fraud Measurement and Assurance Expert Panel reviews in the top six highest risk COVID-19 schemes.[104]

3.79. The Response Board met on 16 August 2021 where it was stated that: the Bounce Back Loan fraud analytics programme was given a 'green' delivery confidence assessment with three major risks mitigated; and the Fraud Measurement and Assurance Expert Panel was given an 'amber' assessment (due to such factors as recruitment campaigns having limited results) with focus for the programme being given to BEIS and DHSC schemes.[105]

3.80. The Response Board met again on 13 September 2021 where an overview of CoEx's work on key deliverables was reviewed during the previous month. This included: Global Fraud Risk Assessment extracts had been sent to counter fraud leads in departments to verify; there was "continued engagement" with BEIS and DHSC to agree provisional timelines to fraud measurement testing; and continued work on the Bounce Back Loan fraud analytics programme.[106]

3.81. The Response Board met on 16 December 2021. Alongside the usual update on progress against the deliverables, two papers were provided by CoEx. One paper described how CoEx planned to find £5 million in savings through Post Event Assurance work. The other paper, provided by CoEx's intelligence team, stated that the target for £3 million of savings from the Fraud Hotline would not be delivered in that financial year due to time lags in intelligence being shared and action being taken and challenges for departments to action the outcomes from the Hotline (such as lack of capacity and capability). The

[103] MC/162 - INQ000547821
[104] MC/163 - INQ000594051; MC/162 - INQ000547821
[105] MC/164 - INQ000594050
[106] MC/165 - INQ000594003

paper did state that £30 million of savings had already been achieved in the previous financial year with the prior year's funding from HMT.[107]

3.82. The Response Board met on 24 January 2022. CoEx updated on its progress against the deliverables for the year which included: Phase 2 of the analytics programme was complete with £81 million (fully audited) prevented fraud and Phase 3 underway; and a Post Event Assurance review had been commissioned to departments, of which 12 had engaged; amongst other actions.[108]

3.83. The Response Board met again on 28 February 2022. CoEx updated on its progress against the deliverables for the year which included: Phase 3 of the Bounce Back Loan fraud analytics programme was underway, tracking 'green' against the delivery plan; all departments had submitted their Post Event Assurance reviews and CoEx were analysing returns; and a Global Fraud Risk Assessment paper was in draft in preparation for presentation to the Finance Leaders Group.[109]

3.84. The final meeting of the Response Board took place on 12 April 2022. The final dashboard stated the progress made in the financial year which included: completion of Phases 2 and 3 of the Fraud Analytics Programme with benefits totalling £81 million in prevented fraud, £49 million detected and £1.8 million fully recovered to date; six loss measurement exercises had been assured by the Government Counter Fraud Function Fraud Measurement and Assurance Expert Panel; and 3,000 intelligence reports had been shared with departments/law enforcement agencies.[110]

Lessons identified by the Government Counter Fraud Function during the pandemic

3.85. In May 2020, ministers agreed[111] that CoEx would lead a lessons learned review of the public sector counter fraud response to COVID-19 to inform future emergency and operational fraud management. This review covered all areas of counter fraud activity, not solely in relation to procurement.

3.86. The output of the review was provided by CoEx to the Fraud Ministerial Board in November 2020 in a paper titled "COVID-19 Counter Fraud Lessons Learnt Policy Research Paper".[112] Feedback was gathered from departments responsible for the delivery of COVID-19 schemes, repurposed grants or increased spending as a result of the pandemic. Additional input into the review was also sought from cross-public-sector

[107] MC/166 - INQ000594065; MC/167 - INQ000594075; MC/168 - INQ000594071
[108] MC/169 - INQ000594042; MC/170 - INQ000594066; MC/171 - INQ000593884
[109] MC/172 - INQ000594043
[110] MC/173 - INQ000593874; MC/174 - INQ000593873
[111] MC/068 - INQ000083623
[112] MC/175 - INQ000480105

counter fraud professionals. This exercise demonstrated the impact of the pandemic on fraud loss data over time in the public sector: "pre C-19, the value of loss due to fraud and error in the public sector was estimated at £31-53 billion a year. With the additional government expenditure in response to C-19, losses are estimated to be a further £1.725 - £17.25 billion in fraud and error".

3.87. The paper is split into four parts and is summarised below:

3.88. What went well:

3.88.1. Collaboration with cross-function, cross-sector colleagues and internal department teams supported the Government's COVID-19 counter fraud response.

3.88.2. Some departments were able to utilise functional expertise to assist with activities such as fraud risk assessments.

3.89. Common challenges faced by departments:

3.89.1. The scale of total fraud and error in COVID-19 schemes was likely to be considerable and the actual level would not be known for some time until after the event.

3.89.2. Some departments were under-resourced in their counter fraud capacity and faced recruitment challenges which created gaps in their engagement with schemes.

3.89.3. Counter fraud risks were not regularly incorporated in the design and delivery phases of some schemes and therefore some counter fraud risks were not considered.

3.89.4. Data access, data quality issues and the ability to use data in some departments.

3.90. Reflections on what could be done differently to improve the COVID-19 counter fraud response:

3.90.1. Invest in counter fraud capability and increase capacity proportionate to the level of fraud risk.

3.90.2. Undertake fraud risk assessment to understand the need for upfront counter fraud checks.

3.90.3. Improve data access, data quality and the ability to use data across government.

3.90.4. Integrate counter fraud into established processes and procedures for better, overall decision making.

3.90.5. Review the engagement approach between the Counter Fraud Function and departments to ensure counter fraud activity was clearly communicated and supported.

3.91. Recommendations:

3.91.1. Maintain the cross-departmental ministerial and multi-function advisory boards to oversee and improve the government's continued COVID-19 counter fraud response.

3.91.2. Departments should have a plan for how they invest further in skilled counter fraud capacity (proportionate to the level of fraud risk) and there should be a plan for additional and ongoing investment in the development of the Government Counter Fraud Function to improve the prevention and detection of fraud.

3.91.3. A fraud risk assessment should be undertaken by skilled people for any existing COVID-19 scheme that is extended. This should be reviewed regularly to monitor and re-assess fraud risks as they evolve to ensure mitigation is in place.

3.91.4. Improve common access to key datasets with an agreed minimum and consistent data specification to improve effectiveness of checks and exploit the data held across government to verify the eligibility of payments.

3.91.5. There should be a plan in place to invest in counter fraud data analytics to improve the ability to identify higher risk applications quicker and prevent and detect a greater level of fraud.

3.91.6. Conduct a review of the Counter Fraud Function engagement approach with departments to identify areas where working together could be improved in order to realise better counter fraud outcomes.

3.92. An update briefing on these recommendations was also provided to the Fraud Ministerial

Board.[113] Further lessons learned exercises, beyond the relevant period, are outlined in Section 5.

[113] MC/176 - INQ000497021

4. SECTION 4: COEX INVOLVEMENT WITH ECONOMIC SCHEMES AND INTERVENTIONS INTRODUCED DURING THE PANDEMIC

4.1. This section sets out a summary of CoEx's involvement in economic schemes and interventions introduced by the Government during the pandemic. In addition to the work described above that CoEx did to feed into the overall COVID-19 response, the below information describes the work conducted by the countermeasures team on each economic scheme and intervention.

4.2. I repeat the important point that CoEx was not involved in the design of any economic scheme introduced by the Government during the relevant period.

Business Support Grants

4.3. Grant schemes were one way that the Government sought to support businesses and relieve some of the financial impact of non-pharmaceutical interventions. HMT was the department responsible for determining how the Government would support businesses through the pandemic. BEIS was responsible for the operational delivery of the schemes announced by HMT, including the development of guidance for local authorities which paid grants directly to eligible local businesses. MHCLG also had a significant role in working with BEIS to implement the schemes.[114] As explained above, CoEx was not involved in the design of grant schemes; its role was purely in relation to the management of the fraud risks which the schemes gave rise to.

4.4. CoEx allocated its resources in March 2020 to support MHCLG and BEIS, given that business support grants were deemed one of the highest risk schemes in the Global Fraud Risk Assessment. The Government Grants Management Function led the Fraud, Error, Debt and Grants unit's response to the schemes, with support from CoEx.

4.5. On 18 March 2020, No.10 was provided with an update note on the plan for CoEx and the Government Grants Management Function (part of the wider Fraud, Error, Debt and Grants business unit) to offer support to departments working on COVID-19 grants.[115] This offer of support was approved by CDL in a submission from the Fraud, Error, Debt and Grants business unit on 19 March 2020.[116] On 20 March 2020, Lyn McDonald wrote to the Permanent Secretaries of MHCLG, BEIS and HMT, offering support from the Government Grants Management Function and CoEx which included: contributing to the drafting and editing of guidance to include clawback clauses (i.e. that "any business caught falsifying their records to gain additional grant money will face prosecution and any funding issued

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[114] MC/177 - INQ000578213
[115] MC/178 - INQ000593986
[116] MC/179 - INQ000593899

will be subject to claw back [recovery of funds], as may any grants paid in error"[117]); encouraging the use of the due diligence tool Spotlight (explained in further detail below) into each local authority as a minimum; the expansion of the National Fraud Initiative to capture business rates as part of biannual mandatory data capture; detailed data specification for data capture to support both upfront controls and PEA; and assistance with Post Event Assurance activity.[118]

The National Fraud Initiative and due diligence tools

4.6. On 27 March 2020, CoEx sought approval from Lord Agnew to extend the data matching activity of the National Fraud Initiative (see above at paragraphs 3.18-3.19) to include the economic schemes implemented in response to COVID-19. The submission stated that a number of emergency funding programmes involved local authorities awarding grants to businesses and individuals, and that CoEx had concerns that "the requirement to disburse funds quickly in the current climate may result in increased losses due to fraud and error". In order to ensure "meaningful post event assurance activity is viable, the National Fraud Initiative proposes to mandate information from LAs [local authorities] about Covid-19 relief payments as well as any other information (for example a fuller extract of business rates to support the detention of fraudulent grants)". [119] Lord Agnew agreed to this extension of the National Fraud Initiative on 31 March 2020.[120]

4.7. The National Fraud Initiative mandated the provision of COVID-19 grants data from local authorities as part of the National Fraud Initiative 2020/21 work programme. This allowed a data matching pilot to be undertaken, which aimed to flag potential fraud where companies had received multiple grants or where fraudsters impersonated genuine businesses in order to access grants. The National Fraud Initiative worked closely with BEIS, local authorities and the National Anti Fraud Network (a local authority based intelligence service) to progress the pilot and the follow up on fraud flags. The National Fraud Initiative shared data on known attempts to defraud the system by matching fraud watchlists data, maintained by the National Anti Fraud Network and BEIS, to the wider grants data submitted to the National Fraud Initiative by local councils. This additional work led to £2.1 million in additional fraud detected or prevented, of which £1.7 million was in recovery.[121]

[117] MC/180 - INQ000593938
[118] MC/181 - INQ000593898
[119] MC/182 - INQ000593910; MC/033 - INQ000593911
[120] MC/183 - INQ000593909
[121] MC/184 - INQ000593947

4.8. Spotlight is an automated due-diligence tool which was designed specifically to improve the management of government grants. Spotlight compares information from grant applications against a range of data sources and determines the level of risk. Spotlight has unique access to government data and helps to ensure that checks are detailed and rigorous. Spotlight uses Companies House data, the Government Grants Information System, and the Government contract database to perform basic due diligence checks. The tool uses this information to quickly process applications to highlight areas of risk and inform grant-making decisions. Spotlight can assess a large volume of grant applications against open source and government datasets, and provide summaries for consideration to aid decision-making. These checks can be done at pace and completed almost immediately. It is important to note that Spotlight was not designed to replace due-diligence checks, but to make them quicker, simpler and more rigorous. Grant makers are usually expected to review the results, performing further checks and investigations where required. Spotlight highlights risks/flags where grant makers may otherwise be unaware of them.[122]

4.9. On 20 March 2020, MHCLG accepted CoEx and the Government Grants Management Function's offer of support, which was to provide access to Spotlight for all local authorities.[123] CoEx and the Government Grants Management Function began a pilot on 23 March 2020 to test Spotlight on two grant schemes, SBGF and RHLGF, with two local authorities: Castle Point Borough Council and Thurrock Council.[124] The Fraud, Error, Debt and Grants business unit tested the business rate data from the two local authorities (comprising 2,000 applicants in total). The report stated: "The findings show that Spotlight is a useful tool to provide risking insight but the indicators from the Spotlight checks require further investigation. It demonstrated that there is a risk that grants could still be awarded to companies who do not meet the eligibility criteria, largely due to the lack of data held by some LAs [local authorities]".[125] I set out later in this statement how CoEx and the Government Grants Management Function advised BEIS to ensure the collection of a minimum of data requirements by local authorities in their guidance on business support grants.

4.10. On 24 March 2020, BEIS published guidance on business support grants which stated "The Government Grants Management Function and Counter Fraud Function will make

[122] MC/185 - INQ000593983
[123] MC/186 - INQ000593914; MC/186 - INQ000593914
[124] MC/187 - INQ000593913
[125] MC/188 - INQ000593912

their digital assurance tool, Spotlight, available to Local Authorities, and will offer support in using the tool and interpreting results."[126]

4.11. On 26 March 2020, CoEx began working with Experian to build a solution that could enable the Government to pay a grant to a validated business and current account that is either matched to the business's credit file, or to an account that is retrieved from the business credit file.

4.12. This became a two tier tool: a Bank Account Verification check which validated bank accounts against consumer and commercial credit data to reduce the risk of paying funds into invalid, fraudulent or high risk accounts, and an Active Company Checker using commercial credit data to see if a company has a commercial footprint. This service went live and was deployed via the National Fraud Initiative on 30 April 2020, becoming available for all local and central government users.[127]

4.13. The impact of the Experian tool was audited by the GIAA covering 2020/21 and 2021/22 (covering the period that the Experian tool was made available to and used by 228 local authorities). In total £5,883,814 in additional fraud and error was detected of which £768,028 was identified as in recovery.[128] These savings were all post event detections and subsequent recoveries.[129]

Guidance and advice on business support grants

4.14. As previously stated, guidance was first published by BEIS on 24 March 2020 which stated that Spotlight was available to local authorities administering grants, and that the Government Counter Fraud Function and the Government Grants Management Function would provide support to conduct Post Event Assurance to identify high risk payments.[130]

4.15. In order to develop a process for the recovery of fraudulently claimed grants, and to enable more effective upfront checks and post event assurance, CoEx advised MHCLG and BEIS to ensure minimum data requirements for grants paid were collected by local authorities. During the early stages of the drafting of guidance, on 20 March 2020 CoEx advised MHCLG that it was crucial for local authorities to be able to recover grant funding.[131]

[126] MC/189 - INQ000543103
[127] MC/190 - INQ000594163
[128] MC/191 - INQ000593958
[129] MC/191 - INQ000593958
[130] MC/189 - INQ000543103
[131] MC/192 - INQ000593984

4.16. On 31 March 2020, guidance was updated by BEIS to include Annex B on post-payment reporting, where local authorities were required to report weekly to BEIS on the SBGF and RHLGF. The reports were to cover the following minimum data requirements: the number of businesses eligible per scheme; the number of actual payments; a RAG rating for delivery confidence; and any issues encountered implementing the scheme.[132]

4.17. At a meeting on 17 April 2020 of the Small Business Grant Schemes Advisory Group[133], it was confirmed by BEIS that the Secretary of State (Alok Sharma) intended to publish data on 20 April 2020 on payments made by local authorities under the grant schemes online, to include the percentage of funds paid out of the total original allocation for each local authority. This planned publication by BEIS became known as a 'league table'. Some local authorities who had paid out less than others articulated a view that they had a low risk/fraud appetite and had chosen to undertake more upfront checking before making payments.[134]

4.18. CoEx was also made aware that there was concern in MHCLG and BEIS that the funding was not being distributed quickly enough given the proposed completion date of the end of April 2020. BEIS advised in the Small Business Grant Schemes Advisory Group call on 17 April 2020 that Minister Paul Scully had contacted each of the local authorities that had not distributed any payments (or returned any data on payments to MHCLG).[135]

4.19. CoEx was concerned that the proposal by BEIS to publish this 'league table' created an incentive for local authorities to deprioritise anti fraud measures, and together with the Government Grants Management Function, it subsequently wrote to No.10 special advisers advising that "One potential outcome is that if they are subject to league tables based on the rate they have disbursed the funds, then there will be a motivation to simply get the funds out and all reasonable controls will be removed. We believe that publishing in this way will drive the wrong behaviours". CoEx also advised No.10 that a number of local authorities had used the Spotlight tool and were able to identify and halt payments to ineligible companies (approximately £23 million across £1 billion in awards checked through Spotlight as of 17 April 2020).[136]

4.20. On 17 April 2020, I wrote to the Director for the Business Support Grants at MHCLG[137] and flagged my concerns in relation to the proposed league table. I stated that "publishing

[132] MC/180 - INQ000593938
[133] This was a regular meeting organised by BEIS attended by local authorities, MHCLG, CoEx and the Government Grants Management Function to discuss the SBGF and RHLGF
[134] MC/193 - INQ000594169
[135] MC/193 - INQ000594169
[136] MC/194 - INQ000594167
[137] Jenny Dibden held the co-Director role in the joint MHCLG and BEIS Cities and Local Growth Unit

the extent LAs [local authorities] have made payments (based on data with known weaknesses) is likely to drive up irregular payments, as it will pressure LAs to make payments to improve their standing on this, rather than to not pay where it is not appropriate. The framing in the meeting today that has been communicated to me is the line will be 'We have paid out x to entitled companies'. I wanted to throw a caution in on this. We know there will be irregularity in this. Spotlight has already prevented some and we have a post event assurance team set up to get at others. My strong advice is we should avoid saying that we have paid eligible companies".[138]

4.21. The performance data up to 5 July 2020 (published on 7 August 2020) was not a league table, but rather a factual account of the amount of funding disbursed by each local authority across three grants schemes (SBGF - £6.44 billion value, 644,000 volume; RHLGF - £4.182 billion value, 221,000 volume; Local Authority Discretionary Grant Fund - £239 million value, 37,500 volume).[139]

4.22. On 30 April 2020, the BEIS Secretary of State sent a letter to local authorities setting out BEIS's expectations of local authorities in conducting "reasonable and practicable" fraud checks stating: "We also know that you are concerned about who is accountable – central or local government – for money paid out in error or due to fraud. We can confirm that the Department for Business, Energy and Industrial Strategy will stand behind any erroneous payments, subject to local authorities having done what is reasonable and practicable to have avoided this in the first place and then having exhausted all reasonable and practicable steps to recover any over-payments. The Department for Business, Energy and Industrial Strategy will be accountable for what is left over. We hope that clarifying the overall position on financial accountability is helpful in releasing further grant payments".[140] CoEx supported this position and advised MHCLG/BEIS that this was an appropriate way to strike the balance between speed and accuracy.

4.23. The Fraud, Error, Debt and Grants business unit then provided ongoing support to MHCLG and BEIS to administer business support grants throughout the relevant period, via the Spotlight tool and post event assurance activity. Once the Bounce Back Loan scheme was announced, much of the Government Counter Fraud Function's work focused on this, as set out later in this section.

4.24. The Fraud Measurement and Assurance Expert Panel conducted a review of the RHLGF and SBGF, finding that the fraud measurement and assurance activity in both grant funds

138 MC/195 - INQ000594168
139 MC/196 - INQ000593937
140 MC/197 - INQ000543189

were "Not meeting the standard". The Panel's feedback stated that the funds did not meet the fraud measurement standard, and that they were not satisfied that the work conducted had led to a credible estimate of the level of fraud and error in the schemes. The main issues with the report assessed by the Panel (which set out the fraud sampling methodology, testing plan and results) were: there was "too much reliance" on information obtained from local authorities with no departmental testing or assurance undertaken on the information; it was unclear how some fraud and error estimates had been produced; and that decisions on whether fraud and error had occurred had been taken by third parties (e.g local authorities), so the Panel were unable to have confidence that a consistent approach had been taken to the schemes.[141]

4.25. At the same time that CoEx was supporting BEIS to develop an enforcement strategy for the Business Support Grants, CoEx were aware that the National Investigation Service was being commissioned separately by local authorities to look at fraud in the Business Support Grants being disbursed by local authorities. BEIS were struggling to find an enforcement option for the scheme. On 3 June 2020 CoEx facilitated an introduction between MHCLG/BEIS and the National Investigation Service, and following this BEIS took the decision to contract the National Investigation Service to lead investigations into Business Support Grants.[142]

4.26. In February 2023, the newly created Department for Business and Trade (DBT) took over responsibility for the schemes from BEIS.[143]

4.27. The Inquiry will be aware that the National Audit Office's (NAO) March 2023 report on Business Support Schemes details "£1.1 billion estimated losses occurring as a result of error and fraud in business grant schemes, 2020-21 and 2021-22 (just under 5% of the value of grants paid to businesses)".[144]

4.28. An evaluation report authored by IPSOS UK for DBT identified that 83% of the £1.1 billion in estimated losses was related to error as opposed to fraud, and concluded that "The rapid mobilisation of Cohort One grant schemes is likely to have had the adverse consequence of comparatively high levels of irregular payments, as the first cohort of schemes were largely launched without formal application and due diligence processes. These issues meant that the BEIS Accounting Officer sought a Ministerial Direction for the expenditure".[145]

[141] MC/198 - INQ000593875; MC/199 - INQ000611220
[142] MC/200 - INQ000594019
[143] MC/177 - INQ000593941
[144] MC/201 - INQ000576430
[145] MC/202 - INQ000585832

4.29. In terms of recovery of Business Support Grant losses to fraud and irregularity, the PSFA collects and monitors data from DBT. DBT has continued to progress recovery actions through the running of a Pathfinder project in 2024/25 to retest the statistical estimate and consider further ways of checking and identifying irregular payments (payments due to error, non-compliance or fraud). DBT's annual report and accounts 2023-2024 states that as of 31 March 2024, irregular payments of £56.15 million in the Business Support Grants schemes had been identified comprising of: £36.4 million successfully recovered and returned to DBT; £4.3 million successfully recovered by local authorities but not yet repaid to DBT; and £15.4 million referred to DBT as debt where the local authority has not been able to recover, and which DBT is now pursuing. During the financial year 2023-2024 there were 11 ongoing investigations focusing on fraud against the Business Support Grant schemes.[146]

Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme

4.30. On 20 March 2020, the Chancellor announced the CJRS. Employers could put workers on temporary leave and the Government would pay cash grants of 80% of employees' salaries, up to £2,500 a month.[147] The first phase of furlough operated to the end of June 2020. From July to October 2020, a modified second phase allowed employers to bring employees back to work part-time, and the grant was reduced to 70% (September) and 60% (October). When the Government introduced the second national lockdown in November 2020, it increased the proportion of wages paid back to 80%, removing the need for an employer contribution to wages, before reducing it again in July and August 2021.[148]

4.31. The Chancellor announced the SEISS on 26 March 2020.[149] The aim of SEISS was to provide grant payments to self-employed individuals whose business had been adversely affected by COVID-19 restrictions. The first round of SEISS commenced on 13 May 2020 and ran to 13 July 2020. HMRC extended SEISS three times after October 2020.[150] Both schemes ended on 30 September 2021.

4.32. As with all the other schemes, CoEx had no role in the design or initial announcement of these schemes. The schemes were designed by HMT and HMRC, and administered by HMRC following HMT's direction. I summarise below how CoEx interacted with both departments in relation to the two schemes.

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[146] MC/203 - INQ000593942
[147] MC/204 - INQ000065324
[148] MC/205 - INQ000578210
[149] MC/206 - INQ000086740
[150] MC/205 - INQ000593946

4.33. According to the PSFA's cross-government Counter Fraud Strategy 2024-2027, published in March 2024, some 11,200 or 84% of the government's counter fraud staff work for DWP or HMRC.[151] These departments have their own legal powers of fraud investigation and enforcement. They also have counter-fraud activities embedded within operations and have other counter-fraud expertise not available to other departments.[152] It was therefore known to the Government Counter Fraud Function at the start of the pandemic that HMRC had significant counter fraud capacity and capability.

4.34. On 25 March 2020 the Government Grants Management Function wrote to officials in HMT and HMRC to ask for a meeting stating: "In order to provide assistance and access to the wealth of resources we have to offer, it is crucial that we are notified of any schemes or awards that are being established as early as possible." CoEx were then invited to this meeting which took place on 26 March 2020.[153] The agenda for the meeting was provided by the Government Grants Management Function, where officials intended to discuss: an introduction to the Fraud, Error, Debt and Grants unit; an introduction to the CJRS; and the specific offer of support, which comprised resources such as Spotlight as well as specialist advice on grants and counter fraud.[154]

4.35. The readout of the meeting stated that officials from CoEx asked a series of questions relating to the potential abuse of the CJRS, and recommended that Post Event Assurance be carried out. A series of risks to the scheme were identified including: employers may fraudulently claim for employees not on furlough; employers may put employees on furlough when not affected to "preserve cash-flow"; employers may not pass salary (or all of salary) on to some or all employees; and employers may attempt to claim a higher salary for an employee than normally paid. HMT confirmed that HMRC were working with Capgemini on some of these issues and had "engaged with their own counter-fraud teams". HMT and HMRC had already identified these risks to the Chancellor, and were developing "robust comms" focusing on both employers and employees. Applications to the scheme would ask employers to log how they assess employees' wages, and HMRC would reserve the right to investigate in any instance. Payments would be made in arrears where possible, and employees not paid correctly could take this up with employers via the Advisory, Conciliation and Arbitration Service.[155]

4.36. On 26 March 2020, after the meeting, HMT provided the Government Grants Management Function and CoEx with a fact sheet on the SEISS, before it was announced

151 MC/001 - INQ000497014
152 MC/207 - INQ000578214
153 MC/208 - INQ000594188
154 MC/209 - INQ000594187
155 MC/210 - INQ000594183

later that day.[156] Rich Wentel met with with HMRC fraud counterparts, and noted HMRC's strong counter fraud capability to other CoEx officials and "confidence that the systems will be designed to mitigate the risks that have been seen in previous payroll frauds, and that there will be attention put on the after action work and investigation in due course".[157]

4.37. A submission dated 9 April 2020 from CoEx to Lord Agnew on the stimulus fraud threat similarly stated that whilst the CJRS was at a "high risk of fraud and irregularity", it was not one of the top risks on the Global Fraud Risk Assessment, because of the counter fraud capability and capacity in HMRC. The highest risks of fraud found by the Global Fraud Risk Assessment in this submission were: Universal Credit; the Business Interruption Scheme; NHS procurement of medical supplies; the Large Business Interruption Loan Scheme; and the business support grants as described in the previous section.[158]

4.38. On 27 March 2020, CoEx wrote to HMRC requesting CoEx representation on the Anti Fraud Working Group[159] to ensure that CoEx had visibility of the HMRC approach to provide a high level of confidence around the response and to ensure that the pre-payment checks and post payment planned assurance/compliance activity were as developed as possible given the circumstances.[160] The Fraud, Error, Debt and Grants unit met with HMT and HMRC officials on 1 April 2020 to discuss the support offered from CoEx and the Government Grants Management Function for the SEISS.[161] The same day CoEx wrote to HMRC to offer data analytics support.[162] On 6 April 2020, the CoEx wrote to HMRC to offer support with fraud risk assessment.[163] On 14 April 2020, HMRC responded that the best option for CoEx involvement, given the imminent launch of the CJRS schemes, was to provide a verbal briefing on the schemes together with associated fraud risks and the mitigations being put in place.[164]

4.39. From the outset, CoEx was content that HMRC's maturity and capability was such that we had confidence in the HMRC approach. We concluded that the right counter fraud experts from the Fraud Investigation Service and the Risk and Intelligence Service within HMRC were engaged in the work, and that CoEx had "a lot of confidence that the systems will be designed to mitigate the risks that have been seen in previous payroll frauds, and that

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156 MC/211 - INQ000594185; MC/212 - INQ000594186
157 MC/213 - INQ000594180
158 MC/214 - INQ000594176
159 The Anti Fraud Working Group was a cross-government HMRC led meeting
160 MC/215 - INQ000594179
161 MC/216 - INQ000593923
162 MC/217 - INQ000594178
163 MC/218 - INQ000593892
164 MC/219 - INQ000594175

there will be attention put on the after action work and investigation in due course"[165]. CoEx continued to provide some engagement and support to HMRC, for example, providing HMRC's Risk and Intelligence Service with the Counter Fraud Measures Toolkit and information on the Spotlight tool on 16 April 2020.[166] CoEx shared the Global Fraud Risk Assessment with HMRC on 9 June 2020.[167]

4.40. Given HMRC's anti-fraud capability, a decision was taken by Lord Agnew and the Financial Secretary to the Treasury to exempt HMRC from the requirement to provide a Post Event Assurance Action Plan. It was understood that HMRC was already carrying out comprehensive Post Event Assurance activity in relation to all of the COVID-19 economic schemes it administered, with the commitment that "this activity will be subject to external scrutiny by HM Treasury at the request of the Financial Secretary to the Treasury and the National Audit Office". This position was reflected in a paper for the Fraud Ministerial Board on 15 July 2020 which stated: "HMRC's approach to Post Event Assurance is centred around a mature end-to-end risking process. For COVID-19 this has been led by a dedicated COVID-19 counter fraud risk working group set up within HMRC, bringing together functional and subject matter experts from within HMRC. This approach has informed the policy design and eligibility criteria for the HMRC COVID-19 schemes from inception, identifying and assessing the priority residual risks within each of the schemes, factoring in organisational risk appetite and threat assessment data to create the detailed fraud risk assessments produced by HMRC. These detailed fraud risk assessments were then shared with the central Counter Fraud Function within the Cabinet Office to support collaborative working to identify dual and cross-over funding risks impacting schemes across wider government. Post event assurance activity has been considered at all stages within this process, and a Post Event Assurance action plan has been produced and will be led by a new COVID-19 sub-Directorate being set up within HMRC. HMRC's Post Event Assurance plans will be reviewed internally by HMRC Internal Audit and will be subject to external scrutiny by HM Treasury and the National Audit Office. There are no current plans for this Ministerial Board to have sight of this".[168]

4.41. CoEx monitored the levels and threats of fraud in both the CJRS and SEISS via updates from HMRC, and briefed ministers as necessary for the rest of the relevant period. For example on 12 June 2020 a slide pack created by CoEx provided a 'Fraud Threat Overview'. In this, the most common fraud threat to the CJRS had been identified as "grant misuse where an employer has formally put employees on furlough while they

[165] MC/220 - INQ000594181
[166] MC/221 - INQ000594171
[167] MC/222 - INQ000594022; MC/223 - INQ000594021
[168] MC/224 - INQ000593869

continue to work. Businesses have also received phishing emails asking for their bank details in order to support CJRS claims.[169] On 18 June 2020, HMRC provided CoEx with a case study of their approach to preventing and tackling abuse of the COVID schemes and offering support from colleagues across HMRC to share their experience, expertise and insight into reporting and assurance processes with other departments[170].

4.42. According to HMRC's 'Error and fraud in the COVID-19 schemes: methodology and approach', the "most likely error and fraud rate" was 5.1%, worth £3.082 billion for the CJRS. For SEISS the fraud and error rate was 3.2%, worth £629 million.[171]

Universal Credit

4.43. Universal Credit is a benefit to help with living costs, paid to people who have a low income or are out of work.[172] On 20 March 2020, HMT published 'Our Plan for People's Jobs and Incomes' which included changes to Universal Credit.[173]

4.44. Universal Credit claimants grew significantly in Great Britain during the pandemic, as many businesses were unable to trade and employees unable to work due to restrictions. DWP data showed that from 1 March to 26 May 2020, DWP received 2.4 million starts to Universal Credit.[174] In comparison, 2.7 million people in total had claimed Universal Credit in December 2019.[175] To cope with the volume, DWP suspended some controls so it was able to process cases quickly, online, and either without face-to-face contact or with social distancing.[176]

4.45. As with HMRC, it was CoEx's view that the DWP had a strong and capable counter fraud team within the department, and therefore CoEx's involvement with the administering of Universal Credit during the relevant period was limited. I have summarised where CoEx was involved at key points during the relevant period.

4.46. Prior to the pandemic CoEx was heavily involved in scrutinising DWP performance on welfare fraud and error through the Welfare Steering Group. Whilst the scrutiny of DWP's performance during the pandemic was supplemented by the GPSMIG, and subsequently the Fraud Ministerial Board, and specific areas such as the Post Event Assurance Board (which reported to the Fraud Ministerial Board), the Welfare Steering Group remained a key route to oversight of DWP fraud and error performance during a very challenging

[169] MC/225 - INQ000594017
[170] MC/226 - INQ000594012; MC/227 - INQ000594013
[171] MC/228 - INQ000593943
[172] MC/229 - INQ000593949
[173] MC/016 - INQ000065324
[174] MC/230 - INQ000611219
[175] MC/231 - INQ000611216
[176] MC/232 - INQ000611215

period for DWP. I have set out how these different governance routes were used to help manage and support DWP efforts to tackle fraud and error in welfare spending at a time when, due to the pandemic, the surge of claims into Universal Credit was unprecedented.

4.47. The Welfare Steering Group was set up in 2015, and consisted of the Permanent Secretaries of the Cabinet Office, DWP and HMRC, as well as representatives from other departments such as HMT.[177] The terms of reference state that the scope examined by the group was "Reducing fraud and error and improving debt collection for DWP welfare benefits (either naturally occurring e.g. social fund or through fraud and error) and HMRC tax credits."[178] Non-payment or late payment of taxes, fines, licence fees and other charges were not in the scope examined by the Welfare Steering Group. The terms of reference, provided to its meeting on 26 February 2015, state the objectives of the Welfare Steering Group were to:

4.47.1. Devise sensible measurements and ambitions for fraud, error and debt reduction;

4.47.2. Oversee development of strategies and policies to reduce fraud, error and debt;

4.47.3. Monitor ongoing performance against these targets; and,

4.47.4. The group was not to act as a policy decision making function, but may suggest policies for fraud, error and debt reduction.[179]

4.48. Prior to, and during the pandemic, the CoEx provided secretariat support for the Welfare Steering Group. The Welfare Steering Group was chaired by Sir John Manzoni as Civil Service CEO. Sir Alex Chisholm became the chair when he succeeded Sir John Manzoni (as Civil Service Chief Operating Officer) in April 2020. The Welfare Steering Group met five times during the period relevant for Module 9. The Welfare Steering Group continued to meet beyond the relevant period.

4.49. In the last meeting prior to the pandemic on 14 January 2020, the group discussed: the DWP's fraud and error strategy and delivery plan; performance targets from 2020/21 through to 2023/2024; and confirmation of the next dates of future meetings.[180]

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[177] MC/233 - INQ000593915
[178] MC/234 - INQ000593954
[179] MC/234 - INQ000593954
[180] MC/235 - INQ000594211; MC/236 - INQ000594210; MC/237 - INQ000594212; MC/238 - INQ000594213; MC/239 - INQ000594214; MC/240 - INQ000594215

4.50. It became clear that the economic impact of the COVID-19 pandemic and national lockdowns was going to lead to an increased uptake of benefits, especially Universal Credit, as a key line of support to the UK population. The first Global Fraud Risk Assessment, created on 23 March 2020, listed welfare schemes administered by DWP as one of the priority areas where the fraud risk was assessed to be high. This included Universal Credit.[181]

4.51. On 25 March 2020, officials in the Fraud, Error, Debt and Grants unit contacted officials in DWP to offer counter fraud support, and asked for details of the counter fraud and error measures DWP was implementing. Officials in DWP responded on 31 March 2020 to say that the department's main focus was to ensure benefits got to those who needed them as quickly as possible, and were suspending "the majority of CFCD [Counter Fraud Compliance and Debt] work (investigations, compliance interviews, debt recovery and issuing most National Insurance numbers) to free up around 4,000 staff" to support benefit paying operations, along with suspending face to face interviews for all benefits. The DWP confirmed there would "still be an expectation that claimants report their circumstances correctly and any changes correctly; failure to do this could result in a financial penalty in addition to the recovery of any overpayment".[182]

4.52. In an update provided by DWP officials to ministers on 26 March 2020, it was stated that applications for Universal Credit had risen from 9,000 to 105,000 a day. A DWP case study was provided on how COVID-19 had impacted counter fraud capacity. DWP had reported a total reduction in resource of 17%, or 1067 full time equivalent staff (FTE). 631 staff (10%) had been redeployed to support frontline services and a further 436 (7%) were self isolating. Due to the rise in applications, DWP had had to pause much of their compliance activity, with the exception of serious and organised fraud and terrorism. The update stated that DWP "acknowledge this capacity impact and reduction in compliance could lead to an increase in fraud and error".[183]

4.53. Prior to the pandemic, DWP had agreed to set a target for fraud and error within welfare spending of 2.5%. However, on 3 April 2020 the Director of Counter Fraud Compliance and Debt in DWP wrote to the Civil Service CEO and sought permission to delay the publication of the agreed DWP fraud and error target, citing the pressures of COVID-19 and the move away from counter fraud and compliance activity towards supporting the

[181] MC/028 - INQ000593955
[182] MC/241 - INQ000593893
[183] MC/046 - INQ000593895

Universal Credit surge. Following advice from CoEx, the Civil Service CEO agreed to the request to delay the publication of the target[184].

4.54. On 28 April 2020, the Head of the Universal Credit Welfare Spending team in HMT contacted CoEx to let them know, ahead of the next Welfare Steering Group meeting on 13 May 2020, that HMT had agreed various temporary operational easements to support DWP to respond to the pandemic. This included suspending most debt deductions as well as other changes such as relaxing identification verification requirements in Universal Credit, which would increase fraud and error. The email stated that: "We are asking DWP to provide regular MI [management information] on F&E and to set out their plan to respond to the inevitable increase in F&E. The Chancellor and Chief [CST] are both very focused on the fraud risk to UC [Universal Credit] and interested in data on this"[185].

4.55. The Welfare Steering Group remained a key governance route to oversee DWP performance during the relevant period. On 12 May 2020, CoEx provided briefing papers to attendees for the Welfare Steering Group meeting on 13 May 2020. The impact of COVID-19 on DWP fraud and error was a key part of the agenda. The briefing papers set out that the context for welfare fraud had changed considerably since the last Welfare Steering Group meeting in January 2020,[186] and there were a number of areas where DWP had had to take action that would cause the fraud and error rate to increase as a result of the pandemic, including:

4.55.1. Claims to Universal Credit had increased by 682%. Universal Credit remained the key safety net across the UK for those for whom other Government support packages were not available. Dealing with this volume of new claimants was unprecedented and required DWP as a whole to reprioritise its work;

4.55.2. 54% of counter fraud staff were taken off counter fraud, compliance and debt work and moved to support the Universal Credit surge, further impacted by staff absences, both COVID and non-COVID related. Virtually all counter fraud activity other than serious and organised crime activity was halted;

4.55.3. To deliver the support to new claimants in the time required, DWP requested and were granted a number of easements, including reducing the rigour of identity checks to accelerate the registration process;

[184] MC/242 - INQ000594029; MC/243 - INQ000594031
[185] MC/244 - INQ000594164
[186] MC/242 - INQ000594029

4.55.4. HMT ministers appreciated the significant challenges COVID-19 posed for DWP, and they had been content to approve all of the easements DWP had sought. They were concerned about the fraud risk to Universal Credit, particularly from relaxing ID verification requirements; and,

4.55.5. The Chief Secretary to the Treasury had tasked DWP with providing a fully modelled fraud and error impact of relaxing identification verification in Universal Credit, by 13 May 2020. He had also been clear that DWP must seek further approval if they believed they would need to extend this measure beyond 11 May 2020.[187]

4.56. The readout of the meeting shows that it was understood by all parties that the need for easements was clear, and that where these had happened, they were being flagged and an advance verification team with 600 FTE was in place to review them post-payment[188].

4.57. On 15 May 2020, DWP wrote to HMT setting out their arguments in favour of the required easements and their modelling of likely increases in fraud and error as a result.[189]

4.58. On 3 June 2020, at HMT's request, CoEx provided advice on how DWP should track the impact of teams they set up to review cases impacted by the easements.[190]

4.59. On 12 June 2020, DWP provided a briefing to Alex Chisholm ahead of his appearance at the Public Accounts Committee on 15 June 2020, focused on the Government's COVID-19 response. This highlighted the DWP response including the establishment of an Enhanced Checking Service to route all the suspected fraud cases (through staff referrals and data analysis) to a new team of Counter Fraud Compliance and Debt experts who would review claims, contact claimants by telephone to seek verification of the claim, and if the claimant was unable to verify the claim or was not contactable, then the suspicious element of the claim would not be paid. It also highlighted that DWP was able to identify all claims that had been made during this period, which would assist in targeting their interventions and to seek recovery of any overpayments. Work was ongoing to segment those cases based on the level of verification.[191]

4.60. CoEx were kept updated by the DWP on their counter fraud activity and, consistent with CoEx's role, shared this with ministers where necessary. On 10 June 2020, CoEx provided a submission to Lord Agnew which provided the minister with information on

[187] MC/243 - INQ000594031; MC/245 - INQ000594033; MC/246 - INQ000594032; MC/247 - INQ000594030; MC/242 - INQ000594029
[188] MC/248 - INQ000594157
[189] MC/249 - INQ000594020
[190] MC/250 - INQ000594023
[191] MC/251 - INQ000594016; MC/252 - INQ000547818

Universal Credit easements, as well as fraud and error risks and mitigations. Applications for Universal Credit had significantly increased, with a total of 2.4 million new claims, with the claim rate at the start of the pandemic being over 500% of normal activity, and the claim rate per day from mid-May 2020 being double the normal claim rate. The submission[192] stated the easements put in place by DWP to respond to the significant increase of application for Universal Credit were:

4.60.1. Redeploying compliance and investigation staff onto frontline Universal Credit duties to manage the number of new claimants (at its peak being 54% or 3,441 FTE);

4.60.2. Suspending face to face interviews on 18 March 2020, affecting DWP's ability to check identity and eligibility;

4.60.3. A 'trust and protect' approach to most claimants' circumstances was introduced, which suspended upfront documentary verification of circumstances;

4.60.4. A 'failsafe' approach was introduced - "payment of claims where verification was still outstanding at the time of the first payment (terminated in early May and was only applied to 2% of the new claims)".

4.61. The submission also stated that the introduction of these easements reduced the level of controls and increased the likelihood that false claims would occur. The latest figures at the time of the submission were that the fraud and error rate in Universal Credit was 9.4% prior to the pandemic. The total level of Universal Credit expenditure in 2020/21 was originally forecast at £23.7 billion, but due to the rise in claimants of Universal Credit as a result of the pandemic, this had risen to £40.3 billion, increasing the baseline fraud and error level by £1.8 billion (to 3.8 billion).[193]

4.62. The submission set out the DWP's response to the increasing fraud risk, which can be summarised as:

4.62.1. 97,000 claims considered high risk referred by staff had been routed to a "dedicated post application checking service" introduced on 15 April 2020. This was the Enhanced Checking Service, which had over 600 FTE reviewing cases.

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[192] MC/253 - INQ000593907; MC/254 - INQ000593908
[193] MC/253 - INQ000593907; MC/254 - INQ000593908

4.62.2. As of 5 June 2020 the Enhanced Checking Service had completed reviews on around 44,000 cases with a "hit rate of around 79%, preventing an AME [Annual Managed Expenditure] loss of around £295 million to date (with a further £350 million expected from the referrals in the backlog)". This included both actual savings where debt could be recovered and a preventative saving to reflect that ongoing losses had been stopped by this activity.

4.62.3. In addition to the Enhanced Checking Service, all claims subject to reduced verification checks would be reviewed at a later date. From 4 June 2020 the DWP had been testing the best way to "cleanse cases, focusing on 5 different cohorts of riskier cases to address any irregularity".

4.62.4. Focusing on Serious Organised Crime was estimated to have saved/protected £110 million;

4.62.5. 112 social media sites promoting identity scams had been taken down; and,

4.62.6. Staff reporting of COVID-19 related scams had been enhanced with 97,000 high risk cases flagged by this process.

4.63. DWP, according to the submission, had begun the process of reintroducing controls, including more robust verification processes as follows:

a. "Social Sector Rent - checks reintroduced on 7/5/20

b. Children - verification checks reintroduced on 19/5/20

c. Identity - reintroduction of more stringent ID verification checks from 8/6 including requiring upload of ID documentation for any claimant failing the online Verify system

d. Private Rent being tested - process that requires the claimant to upload their tenancy agreement

e. Additionally Universal Credit advances would not be paid until a claimant had verified their identity."

4.64. CoEx also played an oversight and monitoring role in respect of increased losses to fraud and error in welfare as a result of COVID-19. On 12 May 2020, agreement was reached at the GPSMIG meeting that all departments (including DWP) should commit to developing an action plan by the end of the month. The action plans would set out how they would A) identify and B) seek to recoup any fraudulent payments made through the stimulus packages, repurposed spending (e.g. grants) and areas of increased demand (e.g. Universal Credit). The departmental action plans would be scrutinised by the newly established Fraud Ministerial Board, which would review the six departments with the highest risk portfolio at their first meeting (including DWP). The deadline was ultimately extended to 12 June 2020.[194]

4.65. DWP's plan was reviewed against post event assurance standards on 18 June 2020, and DWP were notified about this on 23 June 2020. From that point through to the end of the Post Event Assurance monitoring by CoEx, DWP were fully engaged in the Post Event Assurance work and provided six (in total) iterations of their Post Event Assurance plans required by the Fraud Ministerial Board. This included proactive and comprehensive sampling to estimate the level of fraud and error in welfare, but particularly in Universal Credit (which rose to 14.5%), and the introduction of retrospective checking of claims from October 2020, which in turn became the Total Case Review approach adopted by DWP to review all cases that had not been subject to full verification as a result of the COVID-19 easements. The report to CoEx for the sixth Post Event Assurance review in January 2022 advised that, within the sample cohorts chosen (100 cases by October 2021 with a further 1000 cases by February 2022), DWP estimated that the level of error to be found and corrected would be c.10% and it would increase to around 20% of the claims reviewed over time as staff were upskilled and trained.[195]

4.66. On 18 June 2020, CoEx provided a submission to Lord Agnew setting out their approach and highlighting that Universal Credit remained in the top six highest fraud risks facing the government.[196]

4.67. On 7 January 2021, in a submission to the Civil Service COO, it was stated that it was the view of CoEx that "the C-19 claim surge is being dealt with and that DWP have an effective plan in place to manage this, although the retrospective work has yet to commence".[197]

4.68. The Welfare Steering Group met on 12 January 2021. The agenda was: a DWP update on the impact of COVID-19 and the current situation with Universal Credit and activities to reduce fraud and error; a focus on structural causes of fraud and error in Universal Credit; the proposed Spending Review and other funding bids to address fraud and error

[194] MC/253 - INQ000593907; MC/254 - INQ000593908
[195] MC/255 - INQ000593979
[196] MC/256 - INQ000477257
[197] MC/257 - INQ000594152

capability and capacity.[198] A paper was provided by the DWP and HMRC which updated the group on what had been done to reduce fraud and error. The actions included: increasing analytical capabilities with the Enhanced Checking Service; and "pulling together a comprehensive plan on how to reduce MVFE [monetary value of fraud and error]". The paper stated some challenges remained, such as seeking resource for initiatives that needed to be funded (e.g. fraud and error staffing), or delivering "major challenging legislative change in order to make a difference on capital F&E [fraud and error]".[199] A welfare debt dashboard was also provided.[200]

4.69. The Welfare Steering Group met again on 23 June 2021. The agenda items were: focus on structural causes of fraud and error in Universal Credit and ongoing tax credit error and fraud work; and performance targets for 2020/2021 and beyond.[201] A paper was provided by the DWP and HMRC which updated the group on what had been done to reduce fraud and error since the last meeting. There had been "good progress" on the plan for reducing the monetary value of fraud and error, stating that "'in-design' and 'in-discovery' activities are forecast to produce a reduction in UC [Universal Credit] MVFE [monetary value of fraud and error] (c.20%, resulting in 10.4% by 2027/28) which would achieve £3.8 bn 2021/22 - 2027/28".[202] A welfare debt dashboard was also provided.[203] The minutes of the meeting state the agreed actions were: DWP to develop plans for a "short-term case cleanse" to reduce fraud and error pending longer term plans; DWP to set a new performance target in November 2021 after the Spending Review; and DWP's monetary value of fraud and error was not to exceed 3.9% that year - but this was not a formal target.[204]

4.70. At the Welfare Steering Group meeting on 14 December 2021, the agenda items were: the Universal Credit fraud and error position including plans to reduce this; and discussion of a White Paper.[205] HMRC and DWP provided the usual update paper on fraud and error progress, actions which included: key loss areas of existing work; Spending Review settlements for departments; setting fraud and error targets; and the joint bid for legislation with the Cabinet Office to improve and expand DWP's capabilities to identify and root out fraud and error.[206] A welfare debt dashboard was also provided.[207]

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198 MC/258 - INQ000594149
199 MC/259 - INQ000594150
200 MC/260 - INQ000594151
201 MC/261 - INQ000594054
202 MC/262 - INQ000594055
203 MC/263 - INQ000594056
204 MC/264 - INQ000594053
205 MC/265 - INQ000594072
206 MC/266 - INQ000594073
207 MC/267 - INQ000594074

Coronavirus Large Business Interruption Loan Scheme

4.71. The Coronavirus Large Business Interruption Loan Scheme (CLBILS) was launched on 3 April 2020 and ran until 31 March 2021. CLBILS was administered by the BBB.[208] It was designed to help medium and large businesses to access loans and finance up to £200 million, with a government guarantee of 80% of the finance to the lender. A lender was able to provide up to 25% of the business's annual turnover and the maximum amount that could be borrowed was £200 million. Finance was available from 3 months to 3 years. The scheme was available to UK-based businesses with an annual turnover of over £45 million and the other eligibility criteria were:

4.71.1. The business "had not received support under the Bank of England's Covid-19 Corporate Financing Facility";

4.71.2. That the business "would be viable were it not for the pandemic";

4.71.3. That the business "had been affected by coronavirus";

4.71.4. That the loan would "enable the business to trade out of any short-term to medium-term difficulty resulting from coronavirus";

4.71.5. That if borrowing over £50 million the business "must agree to restrictions on dividend payments, senior pay and share buy-backs during the period of the loan".[209]

4.72. 27 lenders participated in the scheme including all the main retail banks.[210] An applicant had to provide documents that demonstrated how they would be able to afford to repay the loan including: management accounts, cash flow forecasts, business plans, historic accounts and details of assets. Lenders were required to check that the loan was for a suitable business purpose, was affordable to the business and whether it was the right type of finance for the business (potentially offering another type of finance). The business remained responsible for repaying 100% of the amount borrowed.[211]

4.73. In total £4.5 billion was loaned through the CLBILS scheme across 720 loans. DBT's latest transparency reporting on CLBILS (up to end of December 2024) confirms that there are no cases of reported fraud in this scheme.[212]

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208 MC/268 - INQ000593933
209 MC/269 - INQ000593953
210 MC/269 - INQ000593953
211 MC/269 - INQ000593953
212 MC/270 - INQ000593939

4.74. CoEx had limited involvement with the CLBILS scheme. CoEx was not involved in the design of the scheme, but once announced it was included as part of its risk work that led to the ongoing development of the Global Fraud Risk Assessment throughout the relevant period. CLBILS was included in the top 10 highest risk schemes in the Global Fraud Risk Assessment.[213] The first threat and intelligence update created by CoEx on 6 April 2020 highlighted CLBILS as being in the top three highest risk schemes at the time.[214]

4.75. In an update to the Civil Service CEO on 9 April 2020, CoEx flagged that CLBILS was considered to be a high risk scheme. The update stated that as of 8 April 2020 the BBB had requested fraud expertise support, which had already provided an initial risk assessment view with further consideration of countermeasures being scoped. CoEx had "Embedded qualified fraud risk assessors in all high risk programmes" which included CLBILs.[215] A fraud risk assessment was completed by CoEx by in early May[216] and shared with BBB.[217]

4.76. CLBILS was subjected to the same Post Event Assurance oversight by CoEx as all other areas of spend. On 1 December 2020, CoEx wrote to BEIS and BBB, flagging that the initial Post Event Assurance Action Plan submission from BEIS covered BBLs and Covid Grants, but did not cover CBILS or CLBILS. CoEx sought clarification about whether a separate Post Event Assurance Action Plan for these schemes existed, and offered support to BBB to further refine the fraud risk assessment, and help to provide an outline of possible testing options for different fraud risks as CoEx had for the BBLS scheme. The CLBILS Post Event Assurance Action Plan together with the detailed fraud risk assessment dated 18 August 2021 were submitted on 27 August 2021 and revised further in a workshop with BBB, BEIS and CoEx on 1 September 2021[218].

4.77. CoEx continued to support BBB to monitor the Post Event Assurance plans for CLBILS. At a meeting of BBB's Counter Fraud Strategy Board on 4 October 2021, the status of the CLBILS portfolio was presented, showing progression of both the fraud risk assessment and the Post Event Assurance Action Plan, with 55 of the 95 risks accepted, and 34 not accepted, as well as an overview of the controls in the CLBILS scheme.[219]

4.78. BBB provided information in relation to the fraud risk assessment risks and Post Event Assurance actions for CLBILS in the Counter Fraud Strategy Board meeting on 1

[213] MC/028 - INQ000593955
[214] MC/271 - INQ000593891
[215] MC/272 - INQ000594172; MC/273 - INQ000594173
[216] MC/274 - INQ000593961; MC/275 - INQ000593966
[217] MC/276 - INQ000593962
[218] MC/277 - INQ000594044
[219] MC/278 - INQ000594000; MC/279 - INQ000594001; MC/280 - INQ611633 Detailed within the fraud risk assessment were options for managing the residual risks. It was for BEIS/BBB to accept these.

November 2021 - showing that 14 of the 21 actions within the CLBILS Post Event Assurance Action Plan were completed or on track and that 62% of the risks flagged in the fraud risk assessment were accepted by BBB.[220]

4.79. Despite agreement at the Fraud Ministerial Board on 9 November 2021 that CLBILS, as part of the top six highest risk schemes, would be subject to fraud measurement[221], BBB did not undertake fraud measurement / loss estimate activity on the CLBILS scheme. Instead it worked to develop its understanding of potential fraud occurrence through the application of Key Risk Indicators aligned to the scheme's approved fraud risk assessments[222]. As a result there is no formal fraud estimate for the scheme and this is reflected in the BEIS Annual Report and Accounts 2021-22 which describes the estimate of the level of fraud and error present in CLBILS as "immaterial" but without any calculation of the fraud rate in the scheme.[223]

4.80. As part of the Fraud Analytics Programme, CoEx continued to support BEIS and BBB in relation to CLBILS for the rest of the relevant period, including:

4.80.1. Dissolution Objections Process and insolvency screening - In June 2022 CoEx's Fraud Analytics Dashboard showed that the Dissolution Objection Process had been extended to CLBILS and also that our insolvency screening had been extended to CLBILS.[224] The Dissolution Objection Process prevents a company from dissolving if it has an outstanding COVID-19 loan facility, by comparing the first notice for compulsory strike-off with the active loan book and objecting to strike off where appropriate.

4.80.2. Cross scheme duplicates screening - On 12 April 2022 we shared our analytics report for the BBLS. The report showed that there was significant risk of cross scheme duplicates (claiming across loan schemes) including CLBILS[225].

<u>Coronavirus Business Interruption Loan Scheme</u>

Advice and support provided to BBB

4.81. The Coronavirus Business Interruption Loan Scheme (CBILS) was launched on 23 March 2020 and ran through to 31 March 2021. The scheme was designed to help small and

[220] MC/281 - INQ000564233
[221] MC/077 - INQ000593871
[222] MC/282 - INQ000594046 p.3
[223] MC/283 - INQ000543835
[224] MC/284 - INQ000611632
[225] MC/285 - INQ000594034; MC/286 - INQ000611634

medium-sized businesses to access loans and other kinds of finance up to £5 million, with the government providing a guarantee for 80% of the finance to the lender and paying interest and any fees for the first 12 months. To be eligible for the scheme the business had to be based in the UK with a maximum annual turnover of £45 million, have been adversely impacted by the pandemic and have been a viable business before the pandemic. CBILS support was up to 3 years for overdrafts and invoice finance facilities, and up to 6 years for loans and asset finance facilities.[226] CoEx's initial involvement with CBILS comprised: embedding expert resources to conduct a FRA; proposing a model for CoEx to support data analytics on the CBILS loan book; a proposal encouraging BEIS to develop a target operating model; and using the Fraud Analytics Programme intended for use on the BBLS to additionally deal with fraud in CBILS. These are described below.

4.82. CBILS lenders were able to apply their normal credit, fraud and affordability checks as they would for their normal business lending, and borrowers were required to provide evidence supporting their applications, including: management accounts, cash flow forecasts, business plan, historic accounts and details of assets, in order that the lender could ensure that the loan was for a suitable business purpose, was affordable for the business, and was the right finance option for the business's needs. Whilst the lender would decide whether to extend the loan (or another type of finance), if awarded the borrower would remain responsible for repaying 100% of the amount borrowed.[227]

4.83. In total £25.83 billion was loaned through the CBILS scheme across 97,756 loans and 118 lenders. DBT's latest transparency reporting on CBILS (up to end of December 2024) confirms that "Lenders have flagged £0.06 billion of the £25.83 billion of CBILS drawn value as suspected fraud". 89.01% of CBILS facilities by volume were either fully repaid or 'on schedule'. The government guarantee had so far been settled on 8.34% of the total CLBILS facilities by volume. Within the CBILS scheme the government guarantee had been removed from 619 loans to a total value of £155.34 million (i.e. the lender agrees to remove it from guarantee cover, meaning any default on the loan is a lender issue and the Government guarantee cannot be called on, preventing loss of public money).[228]

4.84. Prior to the launch of CBILS, BBB commissioned PWC to conduct a FRA, which assessed the scheme to be at high risk of fraud (as assessed against Cabinet Office fraud risk assessment guidelines).[229]

[226] MC/287 - INQ000593934
[227] MC/269 - INQ000593953
[228] MC/288 - INQ000593939; MC/289 - INQ000611628 Table 8
[229] MC/290 - INQ000594120; MC/291 - INQ000594121

4.85. CoEx was not involved in the design of the scheme, but once announced it was included as part of CoEx's risk work that formed the Global Fraud Risk Assessment, as with other schemes. The first consideration by CoEx of fraud risk in CBILS was via the initial Global Fraud Risk Assessment from 23 March 2020[230]. As with all COVID-19 economic schemes announced by the Government, CoEx established a scrum squad comprising both risk and countermeasures expertise. The scrum squad would undertake initial engagements with the relevant departments and administrators (in this case BEIS and BBB), and an initial assessment of fraud risks, including seconding in expert fraud risk assessment capability. A scrum session on 6 April 2020 on CBILS led to development of an initial high level fraud risk assessment for CBILS[231] which classified the scheme as high risk. CBILS was included in the top 10 highest risk schemes in the Global Fraud Risk Assessment. An update on fraud threat and intelligence update created by CoEx on 6 April 2020 highlighted CBILS as being in the top 3 highest risk schemes at the time.[232]

4.86. CoEx engaged with UK Finance and the National Economic Crime Centre to understand the potential impact of the CBILS scheme, but the view from UK Finance and the banking sector was that BBB had already considered that banks had adequate procedures in place to manage fraud risks as part of the accreditation process to join the scheme[233]. As CBILS was built on existing processes for business lending for government schemes such as the Enterprise Finance Guarantee, and this provided risk mitigation, they did not believe there was a material new risk with regards to CBILS.[234]

4.87. On 9 April 2020, I wrote to the Civil Service CEO to provide an update on CoEx's response to COVID-19, stating that we had "embedded qualified fraud risk assessors in all high risk programmes" which included BEIS and the BBB. The BBB had requested fraud expertise support from CoEx, which included an initial high level risk assessment view, with further consideration of additional fraud risk assessment support and countermeasures being scoped.[235]

4.88. From April 2020, CoEx deployed expert fraud risk assessors into BBB to complete a fraud risk assessment for both CBILS and CLBILS.[236] A final fraud risk assessment was shared with BBB on 1 May 2020.[237] Subsequently the updated fraud risk assessment was finalised by BBB and presented to and approved by BBB's Executive Audit and Risk

[230] MC/028 - INQ000593955
[231] MC/292 - INQ000593957; MC/293 - INQ000593956
[232] MC/271 - INQ000593891
[233] MC/294 - INQ000547827
[234] MC/295 - INQ000593889
[235] MC/272 - INQ000594172; MC/273 - INQ000594173
[236] MC/296 - INQ000594193; MC/297 - INQ000547795
[237] MC/275 - INQ000593966

Committee on 17 February 2021.[238] At BEIS's Counter Fraud Strategy meeting on 8 March 2021, BBB provided an updated summary of the CBILS fraud risk assessment and Post Event Assurance plans stating that, "In line with Cabinet Office (CO) risk assessment methodology a new, more comprehensive, CBILS Fraud Risk Assessment has been completed by BBB with specialist input and support of an external Fraud Consultant."[239] This fraud risk assessment was further revised in a workshop with BBB, BEIS and CoEx on 18 August 2021.[240]

4.89. On 1 May 2020, BBB requested support for data analytics from CoEx to identify and detect duplicate applications for the BBLS and existing CBILS schemes.[241] From 1 May 2020 to 24 June 2020, CoEx sought to develop a data analytics option to help monitor the CBILS and BBLS loan books. The proposal for this was shared by CoEx with HMT on 24 June 2020. This proposal aimed to use CoEx's National Fraud Initiative (as set out at paragraph 3.18-3.19) to monitor the entire CBILS (and BBLS) loan book for: companies that had failed since taking a loan; companies that were likely to fail; and companies that had misrepresented their turnover as part of their application. This was intended to assist HMT and BBB to monitor the loan book to understand the levels of credit losses from companies that had since failed, as well as identify companies that had fraudulently triggered the government's guarantee. The proposal from CoEx advised that the solution had been developed in consultation with BBB and BEIS, to help address the following residual fraud risks in the scheme:

4.89.1. Director takes a loan and places the company into liquidation

4.89.2. Applicant misrepresents their turnover to maximise lending under the scheme

4.89.3. Applicant applies using a dormant / inactive company

4.89.4. Applicant has obtained a loan with no intent / ability to repay

4.89.5. Applicant has used the funds for personal reasons ('not for economic benefit')

4.89.6. Organised crime groups target the scheme using false companies, mule accounts or compromised accounts (acquired via the Dark Web).[242]

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238 MC/298 - INQ000594122; MC/290 - INQ000594120
239 MC/298 - INQ000594122
240 MC/299 - INQ000594047
241 MC/300 - INQ000594161
242 MC/301 - INQ000594010; MC/302 - INQ000594011

4.90. As of 13 July 2020, there had been no decision on funding from HMT,[243] and ultimately the proposal was not taken up. CoEx conducted further analytics work for BEIS as set out from paragraph 4.93.

4.91. CoEx also encouraged BEIS to develop a target operating model to deal with fraud in the COVID-19 loan schemes, including CBILS. To assist, CoEx drafted a proposal for BEIS and shared it with them on 26 June 2020, focusing on a multi-tiered approach to fraud in the loan schemes, with bespoke responses for each tier.[244]

4.92. This was reshared on 9 September 2020 when CoEx wrote to BEIS, BBB and HMT setting out the need for: a clear operating model; a clear picture about the response to fraud and error in these schemes; some further advice about how to resource counter fraud work; and more focus on Post Event Assurance action plans to understand the level of fraud and error in the COVID-19 loan schemes (requiring sampling, measurement, data analytics etc and a clear understanding of the risks through clear FRA). CoEx set out their position as follows: "I think that there is a requirement for HMT and BEIS to map out clearly where they see the CF agenda and what else they want to include in it, or not. That is then a question of fraud/risk appetite that can be decided by Ministers. My position has consistently been that we need to ensure that those decisions are made, recorded and within the parameters of those decisions we do as much as we can. I think there is more work to do on this. The Counter Fraud Function is happy to assist you to progress this but the accountability for this rests with BEIS/HMT so the requirement to map out what should be done also rests there. Happy to be told I'm wrong but this is the position as we see it in the CFF".[245]

4.93. CoEx also provided BEIS with a proposal for a Fraud Analytics Programme to detect fraud in the BBLS on 2 July 2020, which was extended in part to focus on fraud risks in the CBILS scheme. This is detailed in the next part of this section on the BBLS. As part of the Fraud Analytics Programme, CoEx continued to support BEIS and BBB with outputs that were relevant to CLBILS including:

4.93.1. Quantexa tool - As of 2 December 2021, CoEx reported to ministers that our network analytics tool developed with Quantexa had been fully deployed across the entire CBILS and CLBILS (and BBLS) loan books. The first set of networks (including CLBILS and CBILS facilities) were generated, deconflicted with the National Investigation Service and shared with BBB on

[243] MC/303 - INQ000594204
[244] MC/304 - INQ000594007; MC/305 - INQ000594008
[245] MC/306 - INQ000594190

10 August 2022[246]. In total, 57 of the highest scoring networks, with a guaranteed loan value of £224 million were shared with BBB. This highlighted links between entities, allowing lenders to identify suspect loans as a result of their proximity to other suspect entities, which would not be identifiable if each loan was looked at in isolation. Despite chasing, the CoEx has not received a report with the outcomes from BBB.

4.93.2. The Dissolution Objection Process (as described above) - In June 2022, CoEx's Fraud Analytics Dashboard showed that the Dissolution Objection Process and insolvency screening had been extended to CBILS. This showed that the Government had objected to the dissolution of 685 companies with 798 CBILS loans valued at £121.3 million, which included 25 companies with 26 loans valued at £3.3 million that lenders had marked as suspected fraud. It also showed that as a result of the Dissolution Objection Process, 155 companies with 164 loans had repaid £13.3 million since the objection.[247]

4.93.3. From March 2021, on a monthly basis, our insolvency screening matched details of all open/in progress/liquidations to the BBB portal to identify any businesses with live COVID-19 loans (including CBILS) that were seeking liquidation, in order to flag these to lenders to ensure that lenders were aware and were acting as creditors within the insolvency process. The same dashboard for June 2022 showed that of the 1559 active CBILS loans valued at £342.33 million that were linked to live liquidations by the Insolvency Service, 58 loans valued at £15.29 million were marked as suspected fraud by the lender. The matching exercise allows the Insolvency Service to know that the company petitioning for insolvency has a live loan, and therefore that the bank is a creditor in the insolvency. In addition, in cases which are flagged as suspect fraud by the lenders, this check gives the Insolvency Service more information so they can consider how they assess that case. This is particularly relevant if the loan was not declared to the Insolvency Practitioner, or the company failed to follow the correct dissolution process. In these cases (or any case of suspected fraud), the Official Receiver or Insolvency Practitioner will look closely at the accounts of the business and look to see if a civil or criminal investigation is appropriate. This is a decision

[246] MC/307 - INQ000611629
[247] MC/284 - INQ000611632

for the Insolvency Service, but one we helped inform with our data analytics. This process continues at time of writing this statement.

4.93.4. Cross-scheme duplicates screening - On 12 April 2022, we shared our BBL Analytics Report with BEIS and BBB. The report showed that there was significant risk of cross scheme duplicates (claiming across loan schemes) including CBILS and CLBILS.[248] The report estimated that £9.7 billion[249] could be potential cross-scheme duplicates, and recommended that further analysis be undertaken on that figure to understand the residual risk, as well as for BBB to review recovery options with lenders regarding ineligible facilities across the schemes.

4.93.5. As stated in Section 3, CoEx also established a COVID-19 Fraud Hotline in partnership with Crimestoppers which went live on 12 October 2020.[250] As of 7 January 2022 the Hotline had received 15 reports of fraud against the CBILS scheme (1% of all reports to that date) which were reviewed and disseminated to BEIS for action.[251]

Post Event Assurance

4.94. CBILS was subject to the same Post Event Assurance oversight by CoEx as all other areas of spend. The initial BEIS Post Event Assurance Action Plan submitted to CoEx did not cover CBILS or CLBILS and this was flagged as a concern by CoEx on 1 December 2020. On 2 December 2020, at BEIS's COVID-19 Counter Fraud Forum, it was agreed that CBILS should be the next scheme to go through a Fraud Risk Assessment, followed up by the Post Event Assurance plan. The intention was to build on the work undertaken on the CBILS fraud risk assessment in April 2020 and refresh/update it. As of January 2021 this work had not commenced.[252]

4.95. According to an update to the Fraud Ministerial Board on 19 November 2020, it was identified by CoEx that there was limited capacity and capability to deliver post event assurance plans in some departments. As a developing government function, there were "relatively few individuals" with expertise in counter fraud to conduct this activity.[253] I have set out later in this statement how it was CoEx's view that BEIS lacked sufficient capability

[248] MC/285 - INQ000594034; MC/286 - INQ000611634
[249] MC/286 - INQ000611634 slide 12. The analysis did not yet exclude duplicates where the first loan was repaid prior to the second loan application, and may have included repaid loans, so further analysis was required to differentiate this
[250] MC/123 - INQ000594105
[251] MC/308 - INQ000594070
[252] MC/309 - INQ000594148; MC/310 - INQ000611239
[253] MC/311 - INQ000593868

to address counter fraud risks (paragraph 4.158). The CBILS Post Event Assurance Action Plan was submitted to CoEx on 13 August 2021[254] and revised further in a workshop with BBB, BEIS and CoEx on 18 August 2021.[255] The detailed fraud risk assessment[256] and the Post Event Assurance plan were shared on 13 August 2021.[257] A further iteration of the BEIS Post Event Assurance plan submitted to CoEx subsequently included both CBILS and CLBILS and was submitted in January 2022.[258]

4.96. CoEx continued to support BBB to monitor the Post Event Assurance plans for CBILS. At a Counter Fraud Strategy Board meeting on 1 October 2021, the status of the CBILS portfolio was presented showing progression of both the fraud risk assessment and the Post Event Assurance Action Plan, with 12 of the 39 risks accepted, and 27 not accepted, as well as an overview of the controls in the CBILS scheme[259]. The position for CBILS in terms of fraud risk assessment risks and Post Event Assurance actions was reported to BEIS's Counter Fraud Strategy Board meeting by BBB on 1 November 2021. This showed that 15 of the 23 actions within the CLBILS Post Event Assurance action plan were completed or on track and that 31% of the risks flagged in the fraud risk assessment were accepted by BBB[260].

Fraud Measurement and Assurance

4.97. Despite agreement at the Fraud Ministerial Board on 9 November 2021 that CBILS, as part of the top six highest risk schemes, would be subject to fraud measurement,[261] BBB did not undertake fraud measurement / loss estimate activity on the CBILS scheme. Instead BBB undertook activity to develop BBB's understanding of potential fraud occurrence through the application of Key Risk Indicators aligned to the scheme's approved fraud risk assessments.[262]

4.98. The BBB approach to fraud measurement (Project Tapestry) was assessed against the Government Standard for Fraud Measurement when reviewed by CoEx's Fraud Measurement and Assurance Expert Panel in April 2022, and did not meet the standard. The Panel's feedback stated the work undertaken was not sufficient for fraud measurement, as there had been no reported rates of estimated fraud/and or error

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[254] MC/312 - INQ000593960
[255] MC/313 - INQ000593964
[256] MC/314 - INQ000594045
[257] MC/299 - INQ000594047; MC/315 - INQ000594048; MC/316 - INQ000593964
[258] MC/317 - INQ000593959
[259] Detailed within the fraud risk assessment were options for managing the residual risks. It was for BEIS/BBB to accept these.
MC/318 - INQ000594001
[260] MC/319 - INQ000593997; MC/320 - INQ000564233
[261] MC/077 - INQ000593871
[262] MC/282 - INQ000594046

documented within the submission to the Panel. The majority of the work completed "seemed to look at fraud indicators, not testing that would allow conclusions on whether fraud/error had happened in individual cases". The feedback also cited "a lack of identifiable evidence sources, no clarity around evidence and no mention of limitations of the evidence being used" as its reasoning for the score.[263] The BEIS Annual Report and Accounts 2021-22 stated "fraud is considered to be material for BBLS only, an explicit fraud rate has not been built into the ECL [expected credit loss] calculations for CBILS, CLBILS". There is no fraud estimate from DBT for the scheme.[264] Due to reasons set out in BEIS' Annual Report, and that the BBB approach to fraud measurement failed CoEx's assessment, I cannot provide an estimated level of fraud in CBILS and CLBILS.

Bounce Back Loan scheme

4.99. This section sets out CoEx's involvement with the Bounce Back Loan Scheme (BBLS). A substantial amount of CoEx's work to support departments to reduce fraud and error loss during the relevant period was focused on this scheme, and the PSFA continues that work today. Therefore I have addressed CoEx's involvement with the scheme in the following order:

4.99.1. An introduction to the scheme and CoEx's initial interaction with BBB after the announcement of BBLS. Importantly, CoEx was not involved in the design or launch of BBLS.

4.99.2. A series of upfront controls introduced by CoEx in the BBLS are then described. Controls were introduced to manage fraud risk. These included the 'Change of Director flag' and incorporation date checks.

4.99.3. The over-inflation of business turnover to secure a higher BBL was identified as a key fraud risk. CoEx conducted two analytics pilots and introduced the Bounce Back Loan Scheme Verification Service in order to verify turnover of BBLS applicants;

4.99.4. The introduction of the Dissolution Objections Process is then addressed. This was introduced to stop companies dissolving without paying back their loan;

[263] MC/321 - INQ000547804
[264] MC/322 - INQ000543835

4.99.5. CoEx supported BEIS and BBB to manage fraud in the BBLS through the delivery of a data analytics programme, and supported departments in fraud measurement and assurance work of the BBLS;

4.99.6. I then set out that whilst the CoEx support for the BBLS has delivered significant impact, some proposals were not taken forward by departments; and,

4.99.7. I note that there was increased ministerial interest in counter fraud activity following the resignation of Lord Agnew on 24 January 2022. I have addressed here the specific activity following this event in relation to BBLS, which included the creation of a lender performance dashboard and establishing improved governance structures for lender oversight in BBB.

Introduction to the scheme

4.100. The BBLS was announced on 27 April 2020 in response to the economic challenges businesses faced as a result of the outbreak of COVID-19. The scheme was announced a month after the launch of CBILS, following concerns from business and trade bodies that CBILS did not provide businesses, particularly smaller enterprises, immediate access to cash necessary for their short-term survival. Therefore the scheme was announced to complement existing business loan schemes to enable more businesses, particularly sole traders, to access immediate financial support. The scheme was administered by the BBB, on behalf of BEIS. The BBB delivered the loan scheme via a network of accredited commercial lenders. The scheme was open to applications until 31 March 2021. Much of the design of the BBLS was by HMT, and the department was involved in policy decisions throughout. [265]

4.101. The support available equated to up to 25% of turnover, or a maximum loan of up to £50,000. The interest rate was fixed at 2.5% per annum, although the Government would pay the first year of interest. As standard the repayment term was six years after the first year. The Government provided lenders with a 100% guarantee against the loans (both capital and interest) should a borrower default on their repayments.[266]

4.102. BBLS had less restrictive eligibility criteria than both CBILS and CLBILS. There were no business size restrictions, and applicants were not required to set out a borrowing proposal that a lender would consider viable in normal circumstances. The government provided lenders with a 100% guarantee against the loans, which meant that if the

[265] MC/323 - INQ000593952
[266] MC/323 - INQ000593952

borrower did not repay the loan, the government would step in and repay the lender (CBILS and CLBILS had an 80% government guarantee).[267]

4.103. The policy intent of the scheme was to provide urgent capital to businesses, and lenders were expected to approve and pay out loans within 24 hours, or within 48 hours where further fraud checks were required, for existing business customers of the bank to which the applicant applied. There was no designated timeline for existing personal or new customers, meaning lenders would follow existing business standard procedures.[268]

4.104. The scheme facilitated quicker access to loans by waiving credit and affordability checks and enabling applicants to self-certify their application documents. This included a self-certification that the business was not in difficulty on 31 December 2019 (i.e. not at risk of an insolvency event), that the business was impacted by COVID-19 and that the applicant would be able to repay the loan. Lenders were not required to verify self-certified documents from applicants, but were required to conduct standard anti-fraud, anti-money laundering and Know Your Customer checks.[269]

4.105. BEIS and BBB were responsible for administering the scheme, and the Accounting Officer was (and remains) responsible for the management of public funds and fraud risks in accordance with the regulatory and proprietary requirements and principles contained within Managing Public Money.[270]

4.106. BBLS was launched on 4 May 2020, less than two weeks after being announced.[271] In total, 1.5 million loans, worth £47 billion, were issued by lenders before the scheme closed on 31 March 2021. In March 2021, BEIS estimated that between 31% and 48% of loans would not be repaid, with a 'most likely' estimate of 37%. Whilst (non-fraud) credit losses would account for a majority of these losses, the department and BBB acknowledged that many would be the result of fraud.[272]

4.107. BEIS and BBB stated in their Annual Report for 2020-2021 that over £2 billion of fraud had been prevented in the scheme.[273] It should be noted that, CoEx advised BEIS to fully audit the figures they used to demonstrate prevented levels of fraud in the BBLS.[274] We were not informed of any assurance undertaken on these numbers.

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[267] MC/324 - INQ000578200
[268] MC/324 - INQ000578200
[269] MC/325 - INQ000578209
[270] Guidance published by HMT which sets out the main principles for dealing with resources in public sector organisations in the UK - [MC/006 - INQ000279942].
[271] MC/326 - INQ000593969
[272] MC/325 - INQ000578209
[273] MC/327 - INQ000096922 page 65
[274] MC/328 - INQ000611232

Initial CoEx involvement with the scheme

4.108. BBLS was designed and launched without any CoEx involvement. From the time that the BBLS was launched, CoEx became involved in efforts to reduce fraud and loss by providing expert support to BEIS (and its successor department, DBT, which has taken over responsibility for the scheme), BBB and HMT. PSFA continues to provide that support now. Over time this support has been increasingly accepted and relied upon, with PSFA services and expertise being part of the response. I have provided further detail on this later in this section regarding activity after the resignation of Lord Agnew. The BBLS was a high fraud risk COVID-19 scheme, which was exacerbated by its design that allowed the use of self attestation of eligibility and turnover, and removed core banking credit and affordability checks (such as identify checks[275]). Lenders were required to conduct standard anti-fraud, anti-money laundering and Know Your Customer checks.[276] The BBLS was also a high risk scheme due to the delivery mechanism (through accredited lenders and administered by the BBB and overseen by BEIS), with there being limited legal provisions within the Guarantee Agreement (the legal contract with lenders) to require specific lender actions including data provision and counter fraud actions. It was also high risk due to the relative lack of counter fraud capability across both the BBB and BEIS, which I have explained later in my statement.

4.109. The use of a 100% government guarantee resulted in a lack of incentive for action on fraud. As a result, there were limited incentives for lenders to take action to find, investigate or recover fraud losses beyond the up front checks. Any additional activity would result in cost for the lenders, with all benefits accruing to the government. This was raised at several points, along with a recommendation to introduce an incentive scheme to find and recover more fraud.

4.110. CoEx first became aware of a proposal for a 100% government guarantee backed SME loan on 27 April 2020, and sought to establish the facts by contacting the Director of Risk and Compliance at BBB.[277] The initial guidance for the BBLS was published on gov.uk on 27 April 2020.[278]

4.111. On 1 May 2020, the Director of Risk and Compliance at BBB provided CoEx with a fraud risk review report from PWC titled 'Project April' for the impending BBLS scheme.[279] The report highlighted a number of residual fraud risk areas categorised as 'very-high' and

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275 MC/329 - INQ000611204
276 MC/325 - INQ000578209
277 MC/330 - INQ000594165; MC/331 - INQ000611207
278 MC/323 - INQ000593952
279 MC/332 - INQ000593888; MC/333 - INQ000593968

stated that "Our work has not assessed the design effectiveness or operational effectiveness of fraud controls at any of the Lenders". The PWC risk report highlighted significant challenges for lenders to adjust to the requirements of the BBLS, most notably the requirement to remove credit and affordability checks. As of 1 May 2020, PWC had identified a number of residual fraud risks in the scheme including: reliance on self certification; multiple applications to different COVID-19 schemes; abuse of the scheme by opportunistic individuals with no real business or inactive/dormant accounts; fake documentation; and organised crime, for example exploitation of individuals by organised crime groups to provide account details to fraudsters.[280]

4.112. BBB outlined concerns around the "compressed timetable" for delivering the scheme in a Reservation Notice, citing that it would not be feasible to put in place "robust controls and governance" to ensure public funds were used appropriately and identifying concerns about the "extensive reliance on customer self-certification and the corresponding fraud risk".[281]

4.113. On 1 May 2020, BEIS requested a Ministerial Direction to proceed with the scheme.[282] Sam Beckett, then Acting Permanent Secretary for BEIS, cited a value for money risk of lending to businesses that were already unviable before the pandemic, and regularity and propriety risks from increasing the speed of loan payments and thereby loosening normal controls. Mr Beckett stated that "even with mitigation steps in place, the residual risk (of fraud and error) remains 'very high'". The Business Secretary responded the same day to confirm that the department should proceed with the scheme,[283] and a Ministerial Direction to proceed with the scheme was issued on 3 May 2020.[284] The scheme was then formally launched the following day (4 May 2020).

4.114. CoEx was engaged to support the development of a fraud risk assessment for BBB from early May 2020.[285] This work continued through to 29 October 2020 when the finalised BBLS fraud risk assessment was signed off by the BBB Executive Audit and Risk Committee; BEIS approved the fraud risk assessment on 3 November 2020[286]. On 1 May 2020, BBB requested support for data analytics to identify and detect duplicate

[280] MC/333 - INQ000593968
[281] The Reservation Notice was a letter which raises concerns regarding the propriety, value for money, and feasibility of the BBLS MC/334 - INQ000564005
[282] Ministerial directions are formal instructions telling departments to proceed with a spending proposal MC/335 - INQ000593928
[283] MC/336 - INQ000064823
[284] MC/337 - INQ000564006
[285] MC/332 - INQ000593888
[286] MC/338 - INQ000547824; MC/339 - INQ000594088; MC/340 - INQ000594089

applications for the BBL and existing CBILS schemes.[287] This was part of the proposal previously described at paragraph 4.89, but was not taken up.

4.115. CoEx attended a workshop with BBB, UK Finance and the relevant lenders on 6 May 2020.[288] This initial workshop became the BBB's Bank Fraud Collaboration Group which CoEx would attend on an advisory basis.

4.116. On 7 May 2020, CoEx met with BBB to advise on a duplicate checking solution in the BBLS, proposing a solution using Cifas, the UK's anti-fraud system for banking. This led to further engagements with lenders, and the addendum report from PWC (following their earlier risk report) dated 15 May 2020 confirms that BBB subsequently engaged with Cifas and secured the support of lenders to proceed with the Cifas solution.[289]

Upfront controls

4.117. A key part of CoEx's early support on the BBLS was to propose, and then support and deliver, the introduction of increased upfront controls to manage specific fraud risks whilst the scheme was live. This was consistent with the wider approach to managing fraud risk led by CoEx during this period, and was based on the guidance on fraud control in emergency management published on 26 March 2020.[290]

4.118. Initially the focus was on the risk of individuals and businesses claiming multiple loans as at the point of launch. There was no mechanism in place to identify multiple applications with other commercial banks. CoEx advised BBB of the need for a check for duplication, and supported the development and implementation of the 'Cifas duplicate check'.[291] This check was "a ring-fenced database, via a Cifas platform, for use by lenders to identify and flag duplicate applications to prevent businesses from accessing multiple BBLS loans across multiple lenders".[292] This was made available to lenders in early June 2020.[293]

4.119. A further upfront control introduced while the scheme was operational was the 'Change of Director flag'. During June and early July 2020, the accredited lenders reported at the Bank Fraud Collaboration Working Group an emerging risk whereby seemingly dormant or non-trading companies would change their director and then seek to secure a BBL. In response to this, CoEx developed the Change of Director flag for the BBLS. This fraud flag utilised the previously developed Experian Active Company Check tool (described at

[287] MC/300 - INQ000594161
[288] MC/341 - INQ000593887
[289] MC/342 - INQ000593967
[290] MC/031 - INQ000496698
[291] MC/343 - INQ000594027; MC/344 - INQ000547819
[292] MC/345 - INQ000547812
[293] MC/325 - INQ000578209

paragraph 4.12) which used commercial credit data to identify a potentially non trading company. CoEx developed a dataset showing UK companies that were incorporated within the last 2 years, that had no commercial credit history, and where Companies House records showed a change of director since 1 May 2020.[294] This measure was designed to prevent inactive companies from obtaining BBL funding, given that one of the key eligibility requirements for the scheme was that the business seeking the company had to have been trading before 1 March 2020. I set out at paragraph 4.152.1 the full audited savings from the introduction of this upfront control.

4.120. In order to demonstrate the capability of the Change of Director flag for preventing fraud, CoEx undertook a 'backbook review' (a review of loans already given in the BBLS). 16,474 companies identified as having been incorporated for under 2 years and which had a change of director after 1 May 2020 were examined, using the Experian tool to determine if they had any commercial credit footprint. 8,992 of these companies could not be traced, of which 684 had taken BBLS loans, with potential fraud totalling £29.1 million (7% fraud rate).[295] This demonstrated that this was a live fraud issue in the scheme, and, if it was not addressed, it would lead to further losses. On 14 July 2020, CoEx shared these results with BEIS and BBB.[296] Joint guidance from CoEx, BBB and Cifas was shared with the banks on 15 July 2020.[297] CoEx also updated Lord Agnew about the work to introduce the Change of Director flag on 20 July 2020.[298]

4.121. The dataset from the backbook review was provided to Cifas, and the Change of Director flag was incorporated from 13 July 2020 as one of the upfront checks to be undertaken by all lenders at the point of loan origination.[299] This measure led to £53,544,131 in prevented fraud within the scheme - savings which were audited by the GIAA for the fiscal years 2020-21 and 2021-22 covering the period that the scheme was live.[300]

4.122. On 13 August 2020 CoEx asked BBB to provide data on the number of companies incorporated since March 2020 which had applied for a BBLS loan. Businesses incorporated after 1 March 2020 were not eligible under the scheme. BBB replied on 14 August 2020, stating that no such data was held, and asked if CoEx could conduct this analysis for BBB. On 14 August 2020, CoEx agreed to provide this as part of its fraud analytics work.[301] This commenced the development of the 'Incorporation Date Check' to

[294] MC/346 - INQ000594205
[295] MC/347 - INQ000594203
[296] MC/348 - INQ000594207; MC/349 - INQ000594208
[297] MC/346 - INQ000594205
[298] MC/350 - INQ000593917
[299] MC/346 - INQ000594205
[300]MC/351 - INQ000547806 page 5 £13,560,425; MC/352 - **INQ000611630** - 2020/21 £539,575 + 2021/22 £40,444,111 page 19. Total is £54,544,131.
[301] MC/353 - INQ000594195

identify businesses which were unlikely to have been trading on 1 March 2020 but which had nevertheless received a BBLS loan.

4.123. On 19 October 2020, CoEx received confirmation from lenders that not all lenders had checked the incorporation date of a business at the point of application.[302] On 20 October 2020, BBB confirmed that, under the scheme rules, lenders were not required to check incorporation dates or verify the responses supplied by the borrower, stating that "the requirements of the scheme enables businesses to self declare and does not mandate that lenders verify this information".[303] On 22 October 2020, planning for the development of the Incorporation Date Check proposals commenced and a meeting between CoEx, BEIS, BBB and HMT was set up to discuss the proposals. On 23 October 2020, CoEx staff reported to me that there was general agreement to progress the Incorporation Date check across all participants.[304] On 4 November 2020, BBB instructed Cifas to take the Incorporation Date Check live as a further upfront check to be undertaken by all lenders at the point of loan origination.[305] The check went live on 6 November 2020.

4.124. Prior to the introduction of the Incorporation Date check, circa 1.3 million loans had been made with a value of £41.4 billion (circa 88% of all loans). Between its introduction on 6 November 2020 and the closure of the BBLS on 31 March 2021, the Incorporation Date Check prevented £40,270,815 in attempted fraud, savings which were audited by the GIAA for the fiscal year 2020-21 covering the period that the scheme was live.[306]

Validation of turnover

4.125. The inflation of declared business turnover to secure a higher BBLS loan was identified by CoEx as a key risk in the scheme from the outset, given the reliance on self certification of information provided by applicants to the BBLS and that lenders were not required by the scheme rules to verify turnover information. CoEx sought to develop data analytics pilots to attempt to assess the scale of turnover inflation in the BBLS.

4.126. CoEx's initial focus from June 2020[307] was to develop a solution that would extend the National Fraud Initiative to support both BBLS and CBILS across a range of identified fraud risks, including the misrepresentation of turnover. Details on the proposal were provided to HMT on 24 June 2020. The proposal would allow the National Fraud Initiative to monitor the "entire CBIL and BBL loan book" for: companies that had failed since taking

302 MC/354 - INQ000594102
303 MC/355 - INQ000594110
304 MC/356 - INQ000594101
305 MC/357 - INQ000594095
306 MC/358 - INQ000547809 page 5
307 MC/359 - INQ000594015

a loan; companies that were likely to fail; and companies that had misrepresented their turnover as part of their application. This would have given HMT and BBB the ability to understand levels of credit losses from companies that had since failed, and identify companies that had fraudulently triggered the Government's guarantee.[308] This proposal was not taken up. According to correspondence with HMT, the proposal was not taken up as the proposed indicators did not "sufficiently indicate new instances of fraud in isolation and risk many borrowers being targeted by lenders for review due to false positives". HMT stated that "many lenders already review whether an account/company is dormant before granting the loan". HMT also stated the scope of the proposal would "impose a significant burden on lenders to review and take decisions about a wide range of indicators which do not necessarily equate to fraud, with many false positives, and lenders would not be well-placed to decide the appropriate actions to be taken". BEIS agreed with HMT that the proposal was "not workable".[309]

4.127. In early November 2020, CoEx worked up a proposal to add 2018/19 company turnover into the BBLS portal[310] and shared it with BEIS as a means of identifying extreme cases of turnover misrepresentation. The proposal identified two main sources of turnover information: HMRC Company Tax Returns, and Annual Accounts (also known as 'Statutory Accounts') held by Companies House.[311] Whilst the proposal to add HMRC turnover data into the BBL portal was not taken up, CoEx developed further options to test the viability of these two key data sources for turnover. These developed into two pilots: the BBL NFI/Equifax turnover pilot, and the Digital Economy Act 2017 F/15 BBL HMRC pilot, which sought to develop a turnover check as an upfront control in the BBLS. Ultimately, the two pilots failed to establish a turnover check for reasons set out below, but the learnings were applied to setting up the BBLS Verification Service (to verify turnover using HMRC data). I have summarised the progress from the two pilots to the BBLS Verification Service below.

Validation of turnover: BBL NFI/Equifax Turnover Pilot

4.128. On 5 November 2020, discussions took place between BEIS and CoEx about the potential to develop upfront checks relating to turnover verification.[312] The same day, CoEx proposed to BEIS a pilot using the National Fraud Initiative to undertake a loss measurement exercise. This involved matching a randomised sample of 10,000 companies that had applied for and received a loan, to credit reference data held by

308 MC/301 - INQ000594010
309 MC/360 - INQ000547828
310 MC/361 - INQ000594097
311 MC/362 - INQ000594096; MC/361 - INQ000594097
312 MC/363 - INQ000594093

Equifax for all SME current accounts held between 1 January 2019 to 31 December 2019. This was planned in order to develop a check that could assess turnover quickly, and assess the extent of turnover inflation in the BBLS.[313] Work to progress this started on 6 November 2020 and BEIS and BBB approved the pilot on 13 November 2020.[314]

4.129. On 5 February 2021, CoEx provided BEIS and BBB with the results of the pilot exercise to help determine the extent of turnover inflation in the BBLS. The pilot identified an indicative fraud and error rate of between 4% and 15% for inflated turnover. The exercise found that 92% of businesses in the sample would not have been eligible for the loan amount taken on the scheme, had actual turnover data for 2019 been used to determine the maximum loan amount, which according to the report equated to £31.3 million in value of loans. CoEx determined with the pilot that using credit reference data to check turnover was not feasible for use as an upfront control for BBLS. This was because the data coverage of the pilot was limited, as Equifax's turnover data did not provide information for all UK-registered companies.[315]

Validation of turnover: Digital Economy Act F/15 HMRC pilot

4.130. After the conclusion from the previous pilot, CoEx ran another pilot under the Digital Economy Act 2017. CoEx, and subsequently the PSFA, oversee the powers of the Digital Economy Act 2017. The powers of the Digital Economy Act 2017 are intended to facilitate data sharing to better manage and reduce public sector debt, and to combat fraud against the public sector.[316] The second pilot sought to apply declarations of turnover to HMRC against declarations of turnover in BBLS applications.

4.131. From 18 June 2021, the pilot used a separate random sample of 10,000 BBLS applications (selected by BBB on 16 November 2020) to identify the extent of turnover inflation, using HMRC turnover data from company tax returns. The work of the pilot was significantly delayed due to concerns from the Information Commissioner's Office regarding lender privacy notices. It took some time for BEIS to address these concerns, for example with the BEIS COVID-19 loans privacy notice on 3 March 2021[317] and a revision of the BBB privacy notice which was updated on 15 March 2021.[318] Lenders were instructed by BBB to notify their borrowers about the change in privacy notice by 26 March 2021, but UK Finance pushed back on behalf of its members and a further 4-6

[313] MC/364 - INQ000594094
[314] MC/365 - INQ000594087
[315] MC/366 - INQ000594130; MC/367 - INQ000594131
[316] MC/368 - INQ000593976
[317] MC/369 - INQ000611211
[318] MC/370 - INQ000611213

week window was provided.[319] Ultimately the issue was resolved as of May 2021 by BEIS/BBB and all lenders had published their updated privacy notices to enable the HMRC data pilot to proceed.[320]

4.132. On 6 August 2021, CoEx sent BEIS a report detailing the results of the HMRC turnover sample in the BBLS. The turnover declaration on the BBLS application was matched against the HMRC company tax return data; and filtered to best align the 2019 calendar year turnover to the accounting end period held by HMRC. 52% of the filtered sample size would not have been eligible for the loan amount taken, based on the 25% tolerance for inflated turnover as defined by HMT. None of these loans had been flagged as suspected fraud by lenders. The overpayment value for those with 25% of more turnover inflation was £14.5 million (300% more than what they were eligible for).[321]

4.133. Despite turnover inflation being a significant fraud risk in the scheme, and the CoEx pilots demonstrating the risk posed by turnover inflation, my understanding is that a full scheme approach to turnover verification was not progressed.

4.134. On 18 August 2021, CoEx shared a report relating to the BBLS turnover inflation sample with BEIS. It highlighted two critical points which constrained the use of turnover data as a reliable tool for identifying and proving fraud in the BBLS:

4.134.1. Turnover year constraints – the BBLS loan application required businesses to self certify their turnover for the calendar year for 2019 (unless incorporated after 1 January 2020 in which case they were required to estimate their turnover). HMRC data on turnover is captured for the financial year. This mismatch in the accounting periods meant that it was not possible to have sufficient confidence in the turnover estimate and to use turnover data matching to indicate fraud unless significantly misstated.

4.134.2. Turnover inflation terminology – there were numerous reasons why turnover could be inflated and within the constraints of the data available the report stated that it could not be concluded that the turnover had been purposefully inflated to commit fraud in the BBLS application, as this could be due to several factors such as under reporting to HMRC, or error either on behalf of borrower or lender.[322]

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[319] MC/371 - INQ000547817
[320] MC/372 - INQ000547814
[321] MC/373 - INQ000593885; MC/374 - INQ000593886
[322] MC/375 - INQ000594052

Validation of turnover: Bounce Back Loan Scheme Verification Service

4.135. After the findings from the two pilots which attempted to implement a scheme-wide turnover check in the BBLS, CoEx sought to develop further proposals to support lenders to verify turnover to detect fraud. On 9 November 2020, CoEx shared initial proposals for company turnover checking with BEIS, which was a live check for lenders to use upfront.[323] On 16 November 2020, CoEx followed up with a more detailed proposal covering three potential models for turnover verification. One model suggested expanding the HMRC Mortgage Verification Service to cover turnover in BBLS.[324] The HMRC Mortgage Verification service allows lenders to verify the turnover on mortgage applications where they believe there is suspicion that the turnover is falsified. It was CoEx's view that this expansion of the service could be mobilised quicker than the other models, given it was an existing process with lenders.[325] BEIS, BBB and HMT fed into the proposal[326] and ministers agreed to the proposal on 2 December 2020.[327]

4.136. Between 18 November 2020 and the service launch on 22 December 2020, CoEx worked with HMRC to develop this option and to introduce it as a service that allowed lenders (who would sign up via a memorandum of understanding) to verify income declarations for the BBLS application process, using data held by HMRC. On 17 December 2020, CoEx confirmed with HMRC that the service could also be used for existing (originated) loans as well as new applications.[328]

4.137. The BBLS Verification Service went live on 22 December 2020.[329] Despite lender requests for the service, there was very limited adoption, with only 4 BBLS accredited lenders signing the required memorandum of understanding to engage with the service, and only 31 checks undertaken. The check was successful in detecting discrepancies in turnover declarations. 13 of the 31 checks undertaken (42%) were returned as "Not Verified" which flagged a fraud risk.[330] The BBLS Verification Service was shut down shortly after the BBLS was closed on 31 March 2021.[331]

4.138. On 19 May 2021, during a meeting of BBB's Bank Fraud Collaboration Working Group, lenders suggested that the BBLS Verification Service would be of continuing value even

[323] MC/362 - INQ000594096; MC/361 - INQ000594097
[324] MC/376 - INQ000594092; MC/377 - INQ000594091
[325] MC/378 - INQ000624980
[326] MC/379 - INQ000594086
[327] MC/380 - INQ000594084
[328] MC/381 - INQ000594155
[329] MC/382 - INQ000594154
[330] MC/383 - INQ000594076; MC/384 - INQ000594077
[331] MC/385 - INQ000594153; MC/386 - INQ000547815

after the BBLS had been closed.[332] CoEx supported the proposal to relaunch the BBLS Verification Service tool so that lenders could use turnover verification in their stock of high risk loans but were clear that to make it viable it needed a majority of lenders to adopt it[333] and following BBB engagement with the lenders they responded with indicative volumes.[334]

4.139. On 10 June 2021, CoEx shared an updated proposal with BEIS, HMT, BBB and HMRC.[335] CoEx made a formal request on 18 June 2021 to restart the BBLS Verification Service[336] and formal HMRC support was secured on 22 June 2021.[337] The scheme was relaunched on 2 July 2021 and ran through to 30 November 2021. During this period, only 4 lenders signed the memorandum of understanding, and only 273 checks were undertaken. Again the detection rate was significant, with 166 checks (61%) being returned as "Not Verified".[338]

Dissolution Objections Process

4.140. CoEx's Fraud Analytics Programme (detailed below) identified significant risks around the number of corporate bodies that had taken out a BBLS loan and had either been dissolved or were due to be struck off the Companies House Register. This meant dissolution without notifying the lender of the BBL, or making any attempt to repay the loan. Once a company is dissolved, it no longer exists as a legal entity, meaning that lenders would be unable to pursue dissolved companies for outstanding debts under the BBLS, creating the possibility that fraudsters could apply for a BBLS loan and then seek to immediately dissolve the entity after extracting funds.[339]

4.141. On 9 June 2020, CoEx flagged the emerging risk that insolvency practitioners had reported "repeated examples of company directors taking out a BBLS loan, paying the money into a personal account, then placing the company into liquidation".[340] On 14 December 2020, CoEx were alerted to a concern from Companies House that one of the major banks was about to file a few thousand "objection to strike off" applications for companies that had applied for BBLS loans and were now seeking dissolution. CoEx raised this with BEIS and BBB the same day.[341]

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[332] MC/387 - INQ000593989; MC/388 - INQ000593987
[333] MC/389 - INQ000593988
[334] MC/390 - INQ000594060
[335] MC/391 - INQ000594059; MC/392 - INQ000547822
[336] MC/393 - INQ000594058
[337] MC/394 - INQ000594057
[338] MC/383 - INQ000594076; MC/384 - INQ000594077
[339] MC/395 - INQ000547826 page 5 shows that our analysis had £37 million of loan facilities with a completed dissolution or insolvency before receiving a BBL
[340] MC/396 - INQ000594018
[341] MC/397 - INQ000594156

4.142. The 'Dissolution Objection Process' was a process, agreed by CoEx, BEIS, the Insolvency Service and Companies House, for the Government to raise a bulk objection to striking off the public register at Companies House. The aim of the proposal was to avoid loss to government as a guarantor of the BBLS, by ensuring that companies that applied for a BBLS loan were not dissolved before lenders were able to pursue debt recovery and that intelligence/investigation teams were able to investigate allegations of fraud before monies were dissipated. Ministerial approval for this action was given on 22 February 2021, and the bulk objections process for BBLS was introduced on 9 March 2021.[342] On 15 March 2021, a data sharing memorandum of understanding was signed by BEIS, Companies House and CoEx that enabled CoEx to undertake specific data analytics activity to support the introduction of a bulk Dissolution Objection Process.[343]

4.143. The process to identify companies seeking dissolution that held an outstanding BBL, and then block that dissolution, involved Companies House providing a list to BEIS and in turn CoEx, comprising companies at the first phase of the strike off process. This data was then checked by CoEx against the list of corporate entities holding a BBLS loan, and the resultant file was passed back to Companies House (via BEIS). The list was treated as an objection to the strike-off, and as a result the Companies House Registrar would then lodge an objection against each company which would suspend any strike off action for 6 months. A confirmation of all of the objections agreed were provided to CoEx and BEIS for monitoring and tracking purposes. This process was repeated on a monthly basis. This was to ensure companies in receipt of a BBL which entered the strike off process were not removed from the register before lenders and intelligence/enforcement teams were able to carry out relevant recoveries or fraud investigations.[344] The process also allowed for objections to strike off to be extended beyond the initial 6 months subject to Companies House Registrar agreement.

4.144. The Dissolution Objections Process went live on 4 March 2021. Strike off action was suspended for 13,599 companies with debts amounting to £455,344,808 from 4 March 2021 until 10 September 2021[345]. The process continues to be run on a monthly basis, and the risks are monitored closely through the provision of analytics data from the PSFA dashboard to the DBT Counter Fraud Strategy Board.

4.145. Prior to the introduction of the Dissolution Objections Process, CoEx's analysis in March 2021 identified that 4,866 companies had been dissolved whilst still holding a live BBLS

[342] MC/398 - INQ000594119
[343] MC/399 - INQ000594117
[344] MC/400 - INQ000594118
[345] MC/401 - INQ000593996. When the first objections were set on 4 March 2021, they would last 6 months until September 2021.

debt. These included: 1,085 loans valued at £35 million held by companies that had dissolved prior to the award of the loan; 431 loans valued at £13.9 million held by companies that had dissolved within 90 days of the loan being awarded; and a further 3,350 loans valued at £99.8m held by companies that had dissolved between 90 - 329 days after the loan had been paid.[346]

4.146. The latest Fraud Analytics Benefits Dashboard dated January 2025 states the Dissolution Objections Process currently safeguards £8.29 billion in loans from dissolution. Of this, £242.80 million has been repaid by the borrower[347] of which £190.97 million has been audited.[348] It has now been extended beyond BBLS to all COVID-19 loan schemes as a key way of reducing unnecessary losses.

Fraud Analytics Programme

4.147. CoEx supported BEIS and BBB to manage fraud in the BBLS through the delivery of a data analytics programme titled the COVID-19 Loan Schemes "Fraud Analytics Programme". The PSFA continues the work of the programme at time of writing this statement.

4.148. CoEx commenced development of proposals for a comprehensive fraud data analytics programme for the BBLS on 2 July 2020.[349] The initial proposals focused on a broad approach to fraud in the scheme, targeting a number of fraud risks. As a result of BEIS and HMT concerns, the proposal was refocused (against CoEx advice) to focus solely on the fraud against the scheme committed by organised crime, with a renewed proposal submitted on 16 September 2020.[350] This approach was subsequently adopted on 16 September 2020 and formed the basis of the analytics approach.

4.149. This Fraud Analytics Programme has been delivered over 10 phases and is ongoing. The phases and their contents are set out at Figure 4, with the first 4 phases delivered within the relevant period.

[346] MC/402 - INQ000593977
[347] The lender agrees with BBB to remove it from guarantee cover, meaning any default on the loan is a lender issue and the Government guarantee cannot be called on, preventing loss of public money.
[348] MC/403 - INQ000547810 - page 3 (£40,509,531); MC/404 - INQ000547808 - page 5 (£20,605,007); MC/405 - INQ000547807 page 3 (£37,294,448 + £92,555,807 (partials). Total is £190,964,793.
[349] MC/406 - INQ000594209
[350] MC/407 - INQ000594192

Figure 4

	Timelines	Key Deliverables
Phase 1	Sep 2020 - March 2021	• Identification of 6 high fraud risk indicators for limited companies known as the Phase 1 flags (BBLS only, shared with lenders in March 2021) • Dissolution Objection Process Pilot (BBLS only) • Overall loan book analysis e.g. lender analysis, turnover analysis etc
Phase 2	June 2021 - Nov 2021	• Operationalised monthly runs of Dissolution Objection Process (BBLS only) • Insolvency Data Matching Process Pilot (BBLS only) • Analysis of HMRC Coronavirus Job Retention Scheme and Mini-Umbrella Company data • Analysis of HMRC Turnover sample
Phase 3	Dec 2021 - April 2022	• Refreshed Phase 1 flags and shared with lenders in January 2022 • Monthly runs of Dissolution Objection Process extended to all loan schemes • Monthly runs of Insolvency Data Matching Process extended to all loan schemes • Multiple Borrowings analysis (not shared with lenders) • Top 250 high risk Quantexa networks shared with lenders (March 2022, ltd companies only) • Monthly Fraud Analytics dashboard
Phase 4	May 2022 - Aug 2022	• Monthly runs of Dissolution Objection Process (all loan schemes) • Monthly runs of Insolvency Data Matching Process (all loan schemes) • Monthly Fraud Analytics dashboard • Audited benefits for P1 flags and Dissolution Objection Process
Phase 5	Sept 2022 - March 2023	• Monthly runs of Dissolution Objection Process (all loan schemes) • Monthly runs of Insolvency Data Matching Process (all loan schemes) • Monthly Fraud Analytics dashboard • Fraud portfolio screening (non-performing loans) exercise shared with lenders (March)
Phase 6	April 2023 - Sept 2023	• Monthly runs of Dissolution Objection Process (all loan schemes) • Monthly runs of Insolvency Data Matching Process (all loan schemes) • Monthly Fraud Analytics dashboard • Analysed results from the fraud portfolio screening (non-performing loans) completed by lenders • Audited benefits for P1 flags and Dissolution Objection Process

Phase 7	October 2023 - March 2024	• Monthly runs of Dissolution Objection Process (all loan schemes) • Monthly runs of Insolvency Data Matching Process (all loan schemes) • Monthly Fraud Analytics dashboard • DOP policy analysis to understand which loans with a DOP were still making repayments. Loans identified where the objection could be removed. • Built pilot for monthly process of matching Sole Traders to the Individual Insolvency Register • Fraud scoring model for Post Claims Audit for limited companies (Phase 1 of Post Claims Audit) • Analysis of HMRC data on Sole Traders and identification of high risk fraud flags for sole traders e.g. inflated turnover
Phase 8	April 2024 - September 2024	• Monthly runs of Dissolution Objection Process (all loan schemes) • Monthly runs of Insolvency Data Matching Process (all loan schemes) • Operationalised monthly process of matching Sole Traders to the Individual Insolvency Register • Monthly Fraud Analytics dashboard • Audited benefits for P1 flags and Dissolution Objection Process, including DOP Partial Repayments • Fraud scoring model for Post Claims Audit for limited companies (Phase 2 and 3 of Post Claims Audit)
Phase 9	October 2024 - March 2025	• Monthly runs of Dissolution Objection Process (all loan schemes) • Monthly runs of Insolvency Data Matching Process (all loan schemes) • Monthly runs of Individual Insolvency Register Data Matching Process (BBLS only) • Monthly Fraud Analytics dashboard • Top 97 high risk sole trader Quantexa Networks (pilot of 5 networks shared with lenders, October 2024) • Multiple Borrowings analysis (shared with lenders, October 2024) • Fraud scoring model for Post Claims Audit for limited companies (Phase 4 of Post Claims Audit) • Identification of loans for PSFA Enforcement BBLS pilot including high risk sole trader indicators
Phase 10	April 2025 - March 2026	• Audited benefits for P1 flags, Dissolution Objection Process, including Partial Repayments and Multiple Borrowings. • Handover of analytics programme to DBT by March 2026 • Monthly runs of Dissolution Objection Process (all loan schemes) • Monthly runs of Insolvency Data Matching Process (all loan schemes) • Monthly runs of Individual Insolvency Register Data

		Matching Process (BBLS only) • Bi-monthly Fraud Analytics dashboard • Remaining 92 high risk sole trader Quantexa Networks shared with lenders • Identification of loans for PSFA Enforcement BBLS pilot including high risk sole trader indicators • Fraud scoring model for Post Claims Audit for limited companies (Phase 5 of Post Claims Audit)

4.150. The initial focus of the analytics programme (Phase 1: Sep 2020 - March 2021) (outside of the upfront controls developed and implemented in the scheme) was to develop Key Fraud Risk Indicators to assist lenders to identify fraud in their loan books using government data. CoEx developed Key Fraud Risk Indicators that flagged £1.3 billion (2.8% of total loan book)[351] in potential fraud across 6 areas:[352]

4.150.1. Companies incorporated after 1 March 2020 with a BBLS loan (over 3,849 BBLS loans worth more than £143 million in total were identified as having an incorporation date after 1 March 2020, excluding sole traders);

4.150.2. Companies with filed dormant accounts from 2019 or 2020 after receiving a BBLS loan (over 8,186 BBLS loans worth £297 million were identified where dormant accounts were filed on or after the facility letter date for either the year of 2019, the year of 2020 or both years);

4.150.3. Companies with dissolution processes completed prior to receiving a BBL. 4,866 applications worth circa £149 million were identified where the BBL recipient had dissolved the company without repayment of the loan. Of this, 1,085 BBLS loans worth £35 million were identified where dissolution was completed before the loan was offered, 431 BBLS loans worth circa £14 million, where the company subsequently completed dissolution without restoration within 0 - 90 days of the facility letter date. This indicated potential fraud where the business had obtained a BBLS loan with no intention to repay and to dissolve quickly, with 3350 loans worth £100 million linked to company dissolutions between 3 months and 1 year after the loan was taken;

4.150.4. Companies with a completed liquidation process prior to receiving a BBLS loan (57 BBLS loans worth £2.3 million were identified where liquidation were completed before the facility letter date);

[351] MC/408 - INQ000547816
[352] MC/402 - INQ000593977

4.150.5. 'Hijacked' companies with a BBLS loan. This occurred when, unbeknownst to the owner, a company's identity was taken over by a third party and used to apply for a loan; and,

4.150.6. Backdated change of directors with a BBLS loan.

4.151. These became known as Phase 1 or 'P1 flags'. These high risk fraud flags were shared with BBLS lenders in March 2021, with a refreshed data set shared with lenders in January 2022. Phase 1 also included initial turnover analysis which showed that 65,000 loans had £200,000 as the declared turnover: the precise figure needed to obtain the maximum £50,000 loan value under the BBLS[353].

4.152. Since its introduction in 2020/21, the Fraud Analytics Programme has delivered audited savings of £429,063,738, which can be broken down into the following categories:

4.152.1. Change of Director flag - £54,544,131[354];

4.152.2. Incorporation Check flag - £40,270,815[355];

4.152.3. Dissolution Objection Process - £190,964,793[356];

4.152.4. P1 flags which detected and recovered fraud worth £143,283,999[357].

Advice to BEIS on their counter fraud response

4.153. The BBLS was based on BAU lender processes with the position that any recovery or potential criminal investigation would sit solely with the lenders and their regular processes, as directed by HMT, and that it was for the lenders to decide on a debt recovery process based on their regular procedures[358].

4.154. CoEx supported BEIS to improve the counter fraud response in the BBLS in four ways:

4.154.1. Providing expert advice to develop a target operating model for the BBLS enforcement response;

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[353] MC/408 - INQ000547816 page 6
[354] MC/351 - INQ000547806 page 5 £13,560,425; MC/352 - INQ000611630 2020/21 £539,575 + 2021/22 £40,444,111 page 19. Total is £54,544,131.
[355] MC/358 - INQ000547809 pg 5
[356] MC/403 - INQ000547810 - page 3 (£40,509,531); MC/404 - INQ000547808 - page 5 (£20,605,007); MC/405 - INQ000547807 page 3 (£37,294,448 + £92,555,807 (partials). Total is £190,964,793.
[357] MC/403 - INQ000547810 - page 3 (£99,476,014); MC/404 - INQ000547808 - page 4 (£17,162,406); MC/405 - INQ000547807 - page 3 (£26,645,579) Total is £143,283,999
[358] MC/409 - INQ000594024

4.154.2. Introducing BEIS to the National Investigation Service to consider as an option to deliver criminal investigations across BBLS and business support grants (as described at paragraph 4.25);

4.154.3. Assisting the design of a Counter Fraud Function for BEIS, suitable to meet the challenges in rising fraud; and,

4.154.4. Securing an experienced Senior Civil Servant counter fraud lead from another government department to work in BEIS.

4.155. I have explained above that some departments had significant, mature counter fraud capability which enabled them to better meet the demand of rising fraud during the pandemic, such as DWP and HMRC. It was CoEx's view that during the pandemic, BEIS did not have sufficient capability or capacity to deal with the fraud issues it faced. CoEx advised BEIS by suggesting an operating model to manage and organise their enforcement response on 4 April 2022[359]. On 5 April 2022 CoEx sent an updated model for BEIS's enforcement operations[360].

4.156. Given that the National Investigation Service had already been contracted by BEIS to deliver an investigation capability on Business Support Grants, on 24 June 2020 CoEx introduced BEIS for a second time to the National Investigation Service to consider undertaking a similar role for the BBLS cases[361]. BEIS then brought in the National Investigation Service as the operational arm of the BBLS response. The National Investigation Service and INSS were then the primary operational agencies focused on tackling fraud in the BEIS schemes.

4.157. On 15 September 2020, I wrote to the BEIS Finance Director to encourage the department to increase its investment in counter fraud arrangements as part of the upcoming Spending Review. I highlighted that "there is likely to be significant fraud to be picked through retrospectively". I also advised that that department should secure a senior civil servant expert fraud lead to lead their work in this space.[362]

4.158. Ahead of a meeting between the Civil Service Chief Operating Officer and the BEIS Finance Director on 5 November 2020, I provided the Civil Service Chief Operating Officer with a note setting out the significant challenges faced by BEIS in addressing large-scale fraud in the BBLS. The note advised that BEIS should build a capable, experienced and sustainable fraud function that included: full-time senior leadership on counter fraud; a

[359] MC/410 - INQ000594035
[360] MC/411 - INQ000594037; MC/412 - INQ000594038
[361] MC/413 - INQ000594009
[362] MC/414 - INQ000547796

fraud policy function to review allegations of fraud and work with enforcement capability to take action; qualified fraud risk assessors; an intelligence capacity to deal with sensitive intelligence and triage it to civil and criminal enforcement options; investigation capacity capable of undertaking criminal and civil investigations and delivering financial outcomes (which could be outsourced); compliance capacity to deal with cases not taken for investigation (which again could be outsourced), data analytics capacity to use data to find and prevent fraud, a benefits realisation function to ensure benefits were realised and had integrity and an intelligent client function to oversee any elements that were provided by external providers. The note stated BEIS had not taken up offers of support from CoEx to help build their capability.[363] At the time of the pandemic, BEIS had a small, policy-focused team working on counter fraud across the department. This consisted of 2 full-time equivalents.[364] In light of the significant increase in direct spending, which was at high risk as seen by CoEx's Global Fraud Risk Assessment and the requests for ministerial directions, the view of the CoEx was that this resource was not sufficient in size or expertise to lead a response to the new level of risk.

4.159. The readout of the meeting on 5 November 2020 highlighted that BEIS were now keen for CoEx to help source a dedicated counter fraud Deputy Director to assist them, and to help them design an effective counter fraud function within BEIS.[365] Following that meeting, I secured support from across the Government Counter Fraud Function to support the design of the new BEIS Counter Fraud Function. A workshop to discuss the design took place on 17 November 2020. Following the workshop, on 4 December 2020 I shared with BEIS a proposal for their counter fraud function, highlighting the need to recruit the right leadership.[366] I worked to bring in an expert Counter Fraud Deputy Director from DHSC who commenced work in BEIS in January 2021.

Fraud Measurement and Assurance

4.160. On 14 September 2020, BEIS requested support from CoEx in: developing a detailed fraud risk assessment for the BBLS; scoping a testing/sampling/measurement exercise; helping them progress an operating model, and helping them to redraft their Post Event Assurance action plan.[367]

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[363] MC/415 - INQ000547801
[364] MC/416 - INQ000611235
[365] MC/417 - INQ000594098
[366] MC/418 - INQ000594090; MC/419 - INQ000594158; MC/420 - INQ000594159; MC/421 - INQ000594160
[367] MC/422 - INQ000594116

4.161. On 16 September 2020, CoEx challenged BBB's use of PWC to undertake fraud sampling. BBB responded that HMT were supportive of PWC conducting this, and did not want banks to conduct this activity.[368]

4.162. CoEx wrote to BEIS on 21 October 2020, stating that BEIS' proposed fraud measurement approach with PWC did not meet the Government standard[369]. On 3 November 2020, CoEx had provided advice to BEIS to help direct their efforts of undertaking sampling for fraud and error in the BBLS, and advised it should be shared with BBB to help shape their approach. In addition, CoEx offered to provide a specialist resource to assist BEIS in overseeing PWC's efforts to help ensure alignment with the Government's fraud measurement standards, and advised that CoEx would convene the Fraud Measurement and Assurance Expert Panel to give an independent view on the final approach and testing outcomes.[370] As shown in my advice to BEIS on 6 November 2020, the proposed approach to fraud measurement did not meet the Government standard as "a smaller sample size tested in more depth" would provide more information on fraud loss than the planned "large, light touch sample" which would be "less reliable". CoEx could not identify in the PWC approach whether the risk datasets gave an effective check of fraud risks. I advised that more detailed tests be undertaken, "driven by the specific risks, or that this limitation is openly recognised as part of the testing alongside the impact of this on the reliability of results".[371]

4.163. Between 2 March 2022 (once a memorandum of understanding was agreed) and 7 April 2022, BBB submitted their sampling (Project Hastings, undertaken by PWC) for scrutiny by CoEx's Fraud Measurement and Assurance Expert Panel. Feedback to BBB on 7 April 2022 from the Fraud Measurement and Assurance Expert Panel confirmed that "Overall BBLS achieved a 'Not Meeting the Standard' rating. The Expert Panel determined the exercise did not meet some of the key criteria in the Government Fraud Measurement Standard. The Expert Panel was not satisfied that the work conducted has led to a credible estimate of the levels of fraud and error in the scheme". The fraud estimate for the scheme of 7.5% was deemed as likely to be an underestimate.[372] The CoEx report flagged that BBB's fraud measurement exercise did not meet the standard as the testing did not include some of the highest scoring fraud risks (e.g. turnover inflation); and there was limited assurance on the consistency of the testing, because it relied on work by lenders with very different internal processes.[373]

[368] MC/423 - INQ000594191
[369] MC/424 - INQ000594103
[370] MC/425 - INQ000594099; MC/425 - INQ000594099; MC/426 - INQ000594100
[371] MC/427 - INQ000611234
[372] MC/428 - INQ000593981
[373] MC/428 - INQ000593981

Post Event Assurance

4.164. The BBLS was subjected to the same post event assurance oversight by CoEx as all other areas of spend. A post event assurance plan for BBLS was received by CoEx on 25 September 2020 from BEIS.[374] The CoEx internal assessment of the plan was that it covered key areas including: fraud risk assessment; plans for fraud measurement; data analytics; plans for recovery actions; fraud loss monitoring and reporting; and a lenders assurance programme. However, indicative timescale of activities and detail on resourcing issues (such as in investigative resources) were limited in the plan, as well as detail on sampling and measurement activity.[375]

4.165. CoEx continued to support BBB to monitor the post event assurance plan for BBLS, updating ministers where necessary. For example, an update provided to Lord Agnew on 8 December 2020 stated that £42 billion had been paid out to 1.4 million entities, with the "current run rate of payments" being £2 billion a month. The update stated the CoEx estimate at the time of fraud and error was 5%-10% (£2 billion-£4 billion) - the confirmed amount was to be informed by sampling activity from BEIS/BBB as part of their post event assurance plan.[376] As I have previously stated, some departments struggled to action their post event assurance plans. According to an update submission to Lord Agnew on 24 November 2021 "most departments have not really progressed their Post Event Assurance plans, and few have started the required fraud measurement exercises. BEIS still has further work to deliver the PEA [Post Event Assurance] requirements, as they have multiple schemes. This work will extend into next year and requires oversight, governance and resourcing to ensure it is delivered".[377]

Risks relating to the Bounce Back Loan Scheme

4.166. As I have previously stated, the BBLS was based on 'Business as Usual' lender processes with the position that any recovery or potential criminal investigation would sit solely with the lenders[378].

4.167. My view was that the fundamental challenge with the BBLS was the incentives for those responsible for delivering the scheme (BBB, BEIS and most importantly the lenders) to take action. Taking any action on fraud, beyond the limited upfront controls, would represent a cost item to the deliverers (i.e. they would have to spend to deliver it), and the

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[374] MC/429 - INQ000611237; MC/430 - INQ000624953
[375] MC/431 - INQ000611236
[376] MC/432 - INQ000610678
[377] MC/433 - INQ000610751
[378] MC/409 - INQ000594024

benefits would not accrue to them. All benefits for reducing fraud ultimately accrue to HMT through reductions on claims to the guarantee.

4.168. My view was that to drive activity in this, a structure is needed that either changes the incentives or closely manages performance through data to drive activity.

4.169. It was important, given the "reliance on lenders" to ensure their performance was managed and overseen.[379] CoEx, in a submission to Lord Agnew on 20 May 2021, advised that a lender performance dashboard was needed to achieve this. The submission stated "we have advised for a number of months the need for detailed MI [management information] on lender behaviour and performance and secured agreement at the governance board. However, the pace is painfully slow and the dashboard is yet to be delivered".[380]

4.170. On 18 November 2021, Lord Agnew met with officials from BEIS and BBB to discuss the BBLS counter fraud response. The readout stated that Lord Agnew raised his concerns that BBB were not judging lenders on a dashboard of performance. The readout stated Lord Agnew commented "that it is not acceptable that billions of pounds of taxpayers money is being lost and he would like to see more ownership of these issues. He would like to know how banks are being held to account to drive a much more diligent approach to fraud." BBB officials explained that whilst the lenders did have legal and contractual obligations in relation to the BBLS, there were obstacles in the way of improvement. An action from the meeting was for BBB to provide a dashboard illustrating bank performance on BBLS[381].

4.171. On 16 December 2021, Lord Agnew wrote to the Chair of the BBB Board (Lord Kelvin) and the head of counter fraud in BBB to request more action on BBLS fraud. The letter asked BBB to work with CoEx to develop "three key areas" which were: to develop a lender performance dashboard; to identify lenders demonstrating best practice, and then use this to challenge lenders that operate below this level"; and "to develop improved access to data from the lenders to inform these conversations and the audit process". [382]

4.172. On 17 January 2022, Lord Agnew requested that CoEx and HMT draft a short note for him and the Chancellor addressing his concerns that not all banks were completing the same level of due diligence on firms that received BBLS loans, before they claimed on the

[379] MC/434 - INQ000594068
[380] MC/435 - INQ000547823
[381] MC/436 - INQ000593922
[382] MC/437 - INQ000611636

guarantee.[383] Officials in CoEx, BEIS and BBB agreed on the advice but HMT were not willing to agree to it (as they did not believe the submission represented their views on how the BBLS data should be interpreted), although they did agree to the specific numbers provided to Lord Agnew on 19 January 2022.[384] CoEx's view was that "since the lenders are the front line for this scheme, then there should be focus on how they are performing, what the MI [management information] and data is telling us about lender performance to manage fraud risk and to maximise recoveries, and that this should inform scheme management and delivery".[385]

4.173. In the submission to Lord Agnew, CoEx flagged 4 areas of disagreement with HMT relating to: lender performance data to inform effective risk management; emerging evidence of lender inconsistency; over-reliance on audit; and debt recovery.[386]

4.174. On 20 January 2022, Lord Agnew's office confirmed to CoEX that he agreed with the risks set out in the submission, but was concerned about the approach being taken by HMT and BEIS.[387].

4.175. On 21 January 2022, CoEx provided a response to Lord Agnew's request for clarification around certain figures used in the BBLS submission[388]. This included confirmation on: the dates of implementation of upfront controls in BBLS (the Incorporation Date Check and duplicate check); the letter sent to BBB on 16 December 2021; and that Companies House did not undertake anti-money laundering checks.

Resignation of Lord Agnew

4.176. On 24 January 2022, CoEx met with Lord Agnew as part of a regular cadence of ministerial meetings. During the meeting, Lord Agnew sought to check a number of key facts that had been included in recent submissions. On the same day Lord Agnew attended the House of Lords and resigned from his ministerial position.[389]

4.177. Following his resignation there was significant ministerial interest in the BBLS and the issues Lord Agnew had raised. On 26 January 2022, CoEx set out initial proposals in relation to the areas flagged by Lord Agnew.[390] On 27 January 2022, I worked with BEIS

[383] MC/438 - INQ000594069
[384] MC/439 - INQ000594067; MC/434 - INQ000594068
[385] MC/440 - INQ000593921
[386] MC/441 - INQ000594064
[387] MC/442 - INQ000593918
[388] MC/443 - INQ000593919; MC/444 - INQ000593920
[389] MC/445 - INQ000593883
[390] MC/446 - INQ000593867

to agree proposals for a proposed Director General-level board for lender performance, alongside a monthly lender performance management meeting within BBB.[391]

4.178. CDL raised two particular topics he wished to discuss as arising from Lord Agnew's resignation: options to address Lord Agnew's "tactical concerns" with BBLS, and his longer term concerns such as economic crime legislation.[392] A meeting was arranged to discuss these issues. Ahead of that meeting, I wrote to BEIS on 27 January 2022 to set out a proposed response to the issues raised.[393]

4.179. On 27 January 2022, Lyn McDonald and I met with CDL. He asked us to prepare a letter to the Prime Minister and Chancellor on how to provide an announceable strategy to demonstrate a commitment to ensure a counter fraud response is taken seriously; and a letter from CDL regarding the formation of a cross-government BBLS Fraud Oversight Board to the Chancellor and the BEIS Secretary of State[394]. Draft letters were sent to CDL on 31 January 2022.[395]

4.180. After Lord Agnew had resigned, Lord Kelvin wrote to him on 27 January 2022 stating that his letter of 16 December 2021 had not been received by BBB until 25 January 2022. Lord Kelvin stated that a response would be provided by his team.[396] Lord Kelvin sent a response to CDL (as the powers that had been delegated to Lord Agnew reverted back to him) on 31 January 2022. This letter stated: the BBB "remains committed to using available data to administer the schemes" and had shared data on the scheme's performance on "at least a monthly basis" with CoEx; and the BBB had put in place a number of activities to oversee lender performance during the operation of the BBLS, such as "audit assurance".[397]

4.181. On 31 January 2022, CDL wrote to the Chancellor and the BEIS Secretary of State to propose the development of a Fraud Oversight Board at a senior official level with representation from BEIS, HMT, BBB and CoEx, and to focus on lender performance in finding and recovering fraud in the BBLS. The Fraud Oversight Board would also be required to prioritise developing a lender performance dashboard with which to challenge lender performance and to hold lenders to account on their BBLS counter-fraud activity. CDL specified the ideal membership including Jo Shanmugalingam, the BEIS Director General responsible for BBLS, Catherine Lewis Le Torre, the interim BBB CEO, "A DG or

[391] MC/447 - INQ000594062
[392] MC/448 - INQ000594063
[393] MC/448 - INQ000594063
[394] MC/449 - INQ000593925
[395] MC/450 - INQ000593865
[396] MC/451 - INQ000547794
[397] MC/452 - INQ000547793

senior Director" from HMT, and Lyn Mcdonald, Executive Director of the Fraud, Error, Debt and Grants business unit.[398]

4.182. On 16 February 2022, the Prime Minister commissioned advice to set out a plan for addressing both fraud specifically related to COVID-19, and inefficiencies in counter fraud more widely. The Prime Minister stated he wanted CDL, supported by Jacob Rees-Mogg (appointed Minister of State for Brexit Opportunities and Government Efficiency on 8 February 2022 (Minister of State)), to lead on this plan. The Prime Minister wanted to see progress in respect of proposals with HMT to establish the PSFA; development of a mandatory Fraud Impact Assessment; development of a Public Sector Fraud and Debt Management Bill to complement the Economic Crime Bill); and, more radical system-wide proposals to genuinely incentivise fraud prevention and enforcement, building on the investment in the Counter Fraud Function.[399]

4.183. In relation to the BBLS specifically, the Prime Minister detailed activity he wanted to be pursued[400]:

4.183.1. The BBB "should be required to produce a data dashboard to show fraud losses";

4.183.2. "An Oversight Board should be established, reporting to CO and other associated departments";

4.183.3. "An independent panel to review guarantee cases is established to scrutinise lenders' proposals".[401]

4.184. A joint submission from CoEx and HMT was provided to the Prime Minister on 25 February 2022. In terms of the response to issues raised by Lord Agnew in respect of fraud within the BBLS, the submission detailed that:

4.184.1. Work was underway to deliver a lender performance dashboard, building on existing data, to be delivered by 7 March 2022;

4.184.2. The terms of reference and membership of the Fraud Oversight Board were being finalised and this board would support, challenge, and provide strategic advice to BBB on lender performance management. Members would include senior officials in BEIS, the Cabinet Office, HMT & BBB. The

[398] MC/453 - INQ000593866
[399] MC/454 - INQ000594041
[400] MC/454 - INQ000594041
[401] MC/454 - INQ000594041

Fraud Oversight Board would advise the Permanent Secretary at BEIS as Accounting Officer for the BBLS and provide regular updates to ministers at the Cabinet Office, HMT and BEIS; and,

4.184.3. The BBB had an established guarantee assurance and audit programme, which assessed lenders' performance against their obligations under the BBLS. Discussions were taking place with BEIS on how the BBB's existing panel could be developed to ensure it made robust decisions on lender performance management and claims.[402]

4.185. CoEx provided regular updates for the rest of the relevant period on progress of this work to CDL and the Minister of State, against the areas of focus set by the Prime Minister[403]. The first Lender Performance Advisory Board was held by BBB on 23 March 2022. An independent panel held by BBB, named the Lender Performance Strategic Committee, first met on 16 March 2022.[404] On 14 March 2022, it was agreed that CoEx would sit in an advisory capacity on the 'Lender Performance Strategic Committee to bring additional expertise and challenge as well as providing assurance around the BBB's lender management.[405]

4.186. CoEx provided a further update to the Prime Minister on 19 May 2022 on the progress of counter fraud work which comprised:

4.186.1. the production of a lender performance dashboard;

4.186.2. the setting up of two Lender Performance Boards to scrutinise lender performance;

4.186.3. the Economic Crime Bill was progressing through Parliament, with DWP set to seek further legislation to deal with fraud; and,

4.186.4. The announcement of the setting up of the PSFA in the Chancellor's Spring Statement (further detail on this is provided in Section 5).[406]

4.187. CoEx worked closely with the BBB to help them shape the lender performance dashboard. On 7 March 2022, we updated the Minister of State on the current dashboard[407]. A further iteration of the dashboard was shared with the minister on 23

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[402] MC/455 - INQ000593924
[403] MC/456 - INQ000593870
[404] MC/457 - INQ000593870
[405] MC/458 - INQ000594040
[406] MC/459 - INQ000593982
[407] MC/460 - INQ000593980

March 2022[408] and whilst noting that there was more to do, it acknowledged that progress had been made[409]. The update also flagged that lenders were challenging BBB on the lender performance dashboard and if it would be published, citing disclosure and reputational risk. The dashboard became a central part of discussions about lender challenge in the Lender Performance Advisory Board. This led to discussions and negotiations (led by BBB, supported by CoEx) with lenders about specific areas of failings and led to more guarantee removals. According to a June 2022 submission to ministers, the positive effects of the dashboard included: improvements in lender performance through targeted challenge (with negotiations of BBB with lenders supported by CoEx); and a total of £86 million had been removed from the Government guarantee cover, as a result of engagement by British Business Bank "with lenders and lenders accepting culpability for issuing ineligible loans".[410] At time of writing this statement, the total removed from the Government guarantee for ineligibility is £241.01 million.

Prompt letters

4.188. In order to take action on potential losses to fraud in the BBLS, CoEx conducted work to introduce targeted 'prompt letters', in an attempt to provoke repayment by BBLS claimants. This was proposed to the Minister of State on 14 March 2022 in a submission on non-legislative options to deal with fraud. CoEx recommended the letters as one of these options. The submission stated that a letter could be effective in "getting a repayment or settlement without recourse to the judicial system or law enforcement", having been successful in other departments in the past. The process used "Nudge theory to persuade payment and can be coupled with the threat that we reserve the right to take criminal and further civil action if payment is not made".[411] After ministerial agreement, CoEx in an update on 30 March 2022 described that the design of the prompt letters would need trilateral engagement with HMT and BEIS ministers, before consulting with BBB as the independent delivery agent of the scheme.[412]

4.189. CoEx met with the Minister of State and BEIS to discuss the proposals of prompt letters on 1 April 2022. It was agreed that BEIS and HMT would advise their ministers regarding the proposal and work with BBB to implement it with lenders.[413] On 12 April 2022, BEIS provided CoEx and HMT with a readout from their Secretary of State regarding the prompt letter process. The readout stated that whilst the Secretary of State agreed to "working

[408] MC/461 - INQ000547820
[409] MC/461 - INQ000547820; MC/462 - INQ000611635
[410] MC/463 - INQ000611631
[411] MC/464 - INQ000611206; MC/465 - INQ000611205
[412] MC/466 - INQ000611231
[413] MC/467 - INQ000611230

with lenders to send communications to borrowers to encourage repayment", he did not want to be "seen to be targeting particular groups given the risk of writing aggressive comms to individuals who have not committed fraud." The readout stated the Secretary of State wanted "communication to go to all borrowers in arrears to remind them of their obligations and include messaging on fraud." The BEIS Secretary of State was also clear that he did not want the department to take on the debt from lenders to progress additional recoveries in fraud cases.[414]

4.190. On 21 April 2022, CoEx wrote to HMT officials and updated them on the prompt letter proposals, setting out that both CDL and the Minister of State remained keen to issue the letters to borrowers.[415] On 12 May 2022, the Minister of State's office sought an update on the proposal, with concerns that the letters had been "significantly watered down to be a letter sent to anyone in arrears offering support on paying back debt".[416] On 26 May 2022, CoEx provided a submission setting out that decisions taken by the BEIS Secretary of State meant that the only viable approach was for the lenders to write out to borrowers. CoEx also proposed a draft letter to individual lenders as part of the recovery process.[417] The Minister of State confirmed he was content with the approach on 6 June 2022.[418]

4.191. Beyond the relevant period of Module 9, further work was done to try and progress the prompt letter process. On 19 July 2022, a trilateral ministerial meeting took place where the prompt letter approach was discussed and it was agreed that this would be progressed by BEIS/BBB with the note that lenders were expected to issue the letter from September 2022 onwards.[419]

4.192. On 3 October 2022, Jacob Rees-Mogg, as the then BEIS Secretary of State, signed off on the final letters to borrowers, meaning that BEIS/lenders could send them out, marking the completion of a complex piece of work to align government around a ministerial instruction.[420] Soon after, however, on 25 October 2022, Jacob Rees-Mogg resigned as BEIS Secretary of State and was replaced by Grant Shapps. Given the change of ministers, the letter that had been signed off by Jacob Rees-Mogg was held by BEIS to be reviewed by their new Secretary of State.[421] On 22 November 2022, BEIS advised CoEx

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[414] MC/468 - INQ000611229
[415] MC/469 - INQ000611228
[416] MC/470 - INQ000611226
[417] MC/471 - INQ000611225
[418] MC/472 - INQ000611224
[419] MC/473 - INQ000611214
[420] MC/474 - INQ000611217
[421] MC/475 -INQ000611218

that the BEIS Secretary of State did not think it was appropriate for the letter to go from BEIS Ministers, and therefore, declined to sign the letter.[422] The letters were not sent.

Covid Corporate Financing Facility

4.193. The Covid Corporate Financing Facility (CCFF) was a support scheme led by HMT and delivered by the Bank of England. The aim of the scheme was to provide support for large investment grade businesses in a wide range of sectors to pay salaries, rents and suppliers, by buying short term debt from large companies and to allow businesses to finance their short term liabilities. It was also designed to support corporate finance markets overall and ease the supply of credit to all firms. The scheme was delivered through commercial lenders, backed by the Bank of England.[423]

4.194. The CCFF was announced on 17 March 2020[424] on the Bank of England website with details of the scheme published on 20 March 2020. The CCFF scheme closed to new applications on 31 December 2020.[425]

4.195. As with all schemes announced as COVID-19 economic support schemes, CoEx established a scrum squad comprising both risk and countermeasures expertise to undertake initial engagements with the relevant departments and administrators (in this case HMT and the Bank of England), and to undertake an initial assessment of fraud risks, including seconding in individuals with expert fraud risk assessment capability from across the Government Counter Fraud Function. This scrum squad was set up on 6 April 2020.[426] On 8 April 2020 CoEx provided an update to the Civil Service CEO, which stated that they had "resource to be embedded into the Bank of England to support risk assessment of COVID Corporate Financing Facility".[427] CoEx's initial focus was on the development of a fraud risk assessment to understand the risks in the scheme.[428] The Covid Scrum squad tracker[429] as of 5 May 2020 showed that a fraud risk assessment session had been held with the Bank of England. A further session was to be scheduled for CoEx embedded officials to talk to the Bank of England's Operational Risk and Internal Audit teams, using Cabinet Office Counter Fraud Function tools and templates, followed by a further session to review the fraud risk assessment and provide feedback.

4.196. On 11 May 2020, CoEx wrote to the Bank of England to seek to arrange a meeting to

[422] MC/476 - INQ000611221
[423] MC/477 - INQ000593406
[424] MC/478 - INQ000611212
[425] MC/479 - INQ000611210
[426] MC/480 - INQ000594174
[427] MC/273 - INQ000594173
[428] MC/481 - INQ000593963
[429] MC/482 - INQ000594162

explain the various CoEx templates to the Bank of England's Internal Audit and Operational Risk teams, and to provide a virtual fraud risk assessment session to talk through the process. The Bank of England, whilst receptive, stressed that the work could not commence until internal governance and clearances had been secured.[430] On the 12 May 2020 CoEx shared a terms of engagement document to set out the proposed scope of CoEx support for the Bank of England on the CCFF scheme, with a focus on FRA, identification of residual fraud risks and proposed mitigations, and further work to develop and implement additional controls[431].

4.197. A review of scrum squads on 14 May 2020 showed that CoEx had planned an expert fraud risk assessment resource to be embedded into the Bank of England to assess the risk in the CCFF scheme, once a decision to progress had been made.[432] As of 20 May 2020 a decision had not been made in respect of the offer of support provided[433] and with the launch of the BBLS, CoEx's limited resources were directed to that scheme given the extremely high fraud risk within it. As of 18 January 2021 CoEx had not engaged further on the CCFF.[434]

4.198. HMT was exempted from the CoEx-led Post Event Assurance activity as agreed by the Fraud Ministerial Board, due to their role in design rather than delivery of the schemes.[435] As such there was no onward monitoring of the CCFF scheme after this initial approach to support by CoEx.

Other economic schemes and interventions

4.199. There were a number of other economic schemes and interventions introduced by the Government during the pandemic. Aside from being included in the Global Fraud Risk Assessment and departments' fraud risk assessment and Post Event Assurance activity, CoEx was not involved in the design, implementation, or delivery of the following schemes/interventions, nor did it advise on how to address the level of fraud in these specific schemes/interventions during the relevant period:

4.199.1. Eat Out to Help Out;

4.199.2. Statutory Sick Pay;

4.199.3. Business rate relief;

[430] MC/483 - INQ000594025
[431] MC/484 - INQ000594026
[432] MC/485 - INQ000594028
[433] MC/484 - INQ000594026
[434] MC/486 - INQ000594138
[435] MC/311 - INQ000593868

4.199.4. Bus and rail funding; and,

4.199.5. Voluntary and community funding.

5. SECTION 5: COUNTER FRAUD ACTIVITY POST-PANDEMIC AND THE ESTABLISHMENT OF THE PSFA

Establishment of the PSFA

5.1. The COVID-19 pandemic changed the nature of the fraud landscape. Heightened risk of fraud, including fraud associated with the economic schemes and interventions introduced during the pandemic, prompted efforts to strengthen the Government's response to public sector fraud. As a demonstration of its commitment to tackling public sector fraud, in March 2022 the Chancellor announced £48.8 million funding over three years for the creation of the PSFA,[436] and a taskforce was convened to oversee its implementation. This taskforce was jointly led by Sir Alex Chisholm and Cat Little (Second Permanent Secretary of HMT). Laura Eshelby, Jenny Rowland, Tom Etheridge and I were the lead officials.[437] The taskforce would meet at regular intervals to discuss the setting up of the PSFA.[438] I led the design and launch of the PSFA, and was then appointed as the interim CEO at the launch of the PSFA. My interim appointment was made permanent in May 2023.

5.2. A presentation in May 2022 by the Government Counter Fraud Function to HMT gives some of the reasons for establishing the PSFA.[439] As well as recognising the heightened levels of fraud and financial loss associated with initiatives introduced during the COVID-19 pandemic (estimated to total at least £13 billion), the presentation highlighted the need to: provide increased support and expert fraud advice for Accounting Officers[440] and ministers; bring together HMT and Cabinet Office "with one, expert led voice on fraud management"; create new focus for finding and fighting fraud; recover financial loss in the public sector; and embed across government departments the structures that the Government had already invested in (e.g. financial outcome metrics and professional standards).

5.3. The PSFA was established on 3 August 2022, replacing CoEx. Following the challenges brought by the pandemic, the creation of the PSFA was one way in which the Government sought to signal its continued ambition and commitment to tackling fraud and to bring renewed focus and expert-led strategy for government departments and public bodies working to reduce the impact of fraud.[441] The PSFA sits at the heart of government,

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[436] MC/487 - INQ000471048
[437] MC/488 - INQ000594036
[438] See a meeting readout from 24 April 2022: MC/489 - INQ000593872
[439] MC/490 - INQ000497008
[440] Accounting Officers are typically heads of government departments, such as Permanent Secretaries, who hold the responsibility for managing fraud risk.
[441] A public body is a formally established organisation that is, at least in part, publicly funded to deliver a public or government service, though not as a ministerial department. The term refers to a wide range of public sector entities.

reporting into HMT and Cabinet Office processes and governance. The PSFA currently reports to the Minister for the Cabinet Office.

Purpose of the PSFA

5.4. The PSFA published its mandate in September 2022.[442] This document sets out an overview of the PSFA's mission, responsibilities and how it works with other departments and public bodies.

5.5. The mandate identifies the PSFA's aims as follows:

5.5.1. "The Public Sector Fraud Authority will be the government's Centre of Expertise on the management of public sector fraud.

5.5.2. The PSFA will be the authoritative voice within government on the extent of the risk and threat of fraud across the public sector and the government's overall performance in dealing with it.

5.5.3. The PSFA will be focused on ministerial departments and public bodies,[443] but it will share practices and make available standards to the wider public sector.[444]

5.5.4. The PSFA will be the centre of the government's Counter Fraud Function, bringing together the expertise of those who work to find and fight fraud and reduce error across government.

5.5.5. The PSFA will openly and regularly update on its activities and the data it holds to the NAO. This will include performance data and the compliance with mandatory processes and data requests.[445]

5.5.6. The PSFA will produce an Annual Report that makes transparent the levels of fraud in government and the latest fraud and error evidence base and an annual report on its performance."

5.6. The PSFA Mandate explains that the mission of the PSFA is to:

5.6.1. modernise the Government's fraud and error response by widening access to, and use of, leading practices, tools and technology;

[442] MC/491 - INQ000497018
[443] A public body is a formally established organisation that is, at least in part, publicly funded to deliver a public or government service, though not as a ministerial department. The term refers to a wide range of public sector entities.
[444] Including, for example, local government and the devolved administrations.
[445] This does not include fraud and threat risks with NAO where the organisation will be approached directly.

5.6.2. build expert-led services to better fight fraud and error through risk, prevention, data and enforcement techniques;

5.6.3. develop capability in the public sector to find, prevent and respond to fraud and error;

5.6.4. put performance at the heart of public sector fraud, focusing on investments and outcomes; and,

5.6.5. be seen as a beacon of fraud and error expertise and a destination for those wanting to make a difference in fighting public sector fraud.[446]

5.7. In practice, the PSFA acts as the Government's centre of expertise for the management of fraud against the public sector. The PSFA is composed of experts in public and private sector counter fraud. The PSFA advises them on the levels of fraud across government, trends and performance in ways of dealing with it; uses data to scrutinise public body performance; provides expert advice on assurance and key counter fraud activities; and builds and delivers support services targeted to the specific needs of individual departments.

5.8. The PSFA works with government departments to minimise fraud risk and combat fraud via training and building the Government Counter Fraud Profession. For example, the Government Counter Fraud Profession brochure sets out the training available to professionals working in counter fraud.[447] It also leads the International Public Sector Fraud Forum, working with counter fraud experts in Australia, Canada, New Zealand and the United States, to support the sharing and development of international counter fraud best practice, i.e. the most effective ways to tackle fraud.

5.9. The PSFA Mandate describes six areas of work it undertakes, divided across "Services" and "Functions" (these are not to be confused with the cross-government Functions described in paragraph 1.4):

Services

5.9.1.1. **Risk, Threat and Prevention Support**: supporting ministerial departments and public bodies in understanding the risks and threats they face, and mitigating these risks through controls, prevention and deterrence activity. This is not a 'one size fits all' approach, but is instead tailored according to need and

[446] MC/491 - INQ000497018
[447] MC/492 - INQ000497012

PSFA resourcing.

5.9.1.2. **Data and Intelligence Services**: supporting government departments and public bodies by providing data analytics services and access to technology solutions to find and prevent fraud. Alongside this, the PSFA runs a unit to coordinate, facilitate and share intelligence across central government. This builds on learning from the COVID-19 Fraud Hotline which disseminated intelligence on referrals to the Hotline effectively across public sector organisations. The Hotline closed in September 2022, but messaging was provided on the hotline number up until June 2023, which signposted callers to other avenues of reporting. The Hotline was closed in line with the ending of the COVID-19 schemes.[448]

5.9.1.3. **Enforcement Services**: supporting government departments and public bodies by seeking to provide services that investigate cases of potential fraud against them, including applying sanctions and recovering assets.

Functions

5.9.1.4. **Performance, Assurance and Evidence**: overseeing the performance of ministerial departments and public bodies in reducing fraud and fraud risk and undertaking assurance and review activities, including Functional Standard assurance, quality reviews of counter fraud activity and targeted reviews of areas of fraud, and maintaining the public sector evidence base on fraud and error through publication of an Annual Report on its performance.

5.9.1.5. **Practice Standards and Capability function**: bringing expertise together to define practices, develop standards and develop capability across the public sector through the Government Counter Fraud Profession.

5.9.1.6. **Policy function**: leading on cross-system policy initiatives,

[448] MC/493 - INQ000477281 page 19

including reviews of legislation.

5.10. The PSFA brings together experts from across public bodies and other sectors to produce guidance and standards for departments and public bodies, to deepen expertise, and to assist in the delivery of greater fraud prevention and recovery outcomes. Examples of the publicly available guidance produced by the PSFA are provided and summarised below:

5.10.1. The cross-government Counter Fraud Strategy 2024-2027[449], published in March 2024, sets the strategy for the Government Counter Fraud Profession's response to fraud, including how to reduce the risk of fraud, and increasing capability in government to fight fraud.

5.10.2. The Fraud Prevention Standard for Counter Fraud Professionals[450], published in July 2023, describes the professional standards and competencies needed for an individual to achieve practitioner level in counter fraud work, and guidance on how to increase the quality of an organisation's counter fraud work.

5.10.3. The Standard for the Counter Bribery and Corruption Professional, published in May 2023[451], contains the agreed professional standards and guidance for countering bribery (complementing the previously published standards) and corruption in central government.

Remit of the PSFA

5.11. As set out in its mandate, the PSFA is "the authoritative voice within government on the extent of the risk and threat of fraud across the public sector and the government's overall performance in dealing with it". Responsibility for managing the risk of fraud within individual cases of government spending and specific schemes remains with departmental Accounting Officers or nominated Accounting Officers within public bodies. For example, the CEO of a public body is often nominated to make Accounting Officer decisions by the Permanent Secretary of the sponsor department.

5.12. In line with Managing Public Money guidance[452] and the Counter Fraud Functional Standard,[453] public bodies must build and maintain their own counter fraud teams, the size and scale of which should be determined by the department and proportionate to "the

[449] MC/001 - INQ000497014
[450] MC/494 - INQ000497020
[451] MC/495 - INQ000497011
[452] Guidance published by HMT which sets out the main principles for dealing with resources in public sector organisations in the UK: MC/006 - INQ000279942
[453] MC/003 - INQ000471032

level of risk that they face" as set out in the PSFA mandate.[454] Departments and public bodies should not rely on the PSFA to provide essential fraud services, but the PSFA can be used to help strengthen or expand a department or public body's counter fraud capability or expertise.

5.13. The PSFA requires all departments to provide metrics/data on their counter fraud activity and impact through the quarterly Consolidated Data Return which informs the evidence base and is published annually in the Fraud Landscape Report. The Consolidated Data Return captures data on detected fraud, prevented fraud and recovered fraud and includes COVID-19 fraud data. The Consolidated Data Return is applied to all departments for all areas of spend.

5.14. The PSFA Mandate sets out the specific mandatory processes the PSFA has for government departments and public bodies:

5.14.1. "The use of Initial Fraud Impact Assessments during the design phase pre-announcement in significant areas of new spend (in line with Managing Public Money and the Green Book)[455]

5.14.2. The submission of quarterly performance data on levels of fraud and error (as defined by the PSFA) and progress against action plans and metrics

5.14.3. The use of, and assurance against,[456] the Counter Fraud Functional Standard

5.14.4. Agreement of annual action plans and metrics on fraud management."

5.15. The mandate states the responsibilities of government departments and public bodies to the PSFA in managing fraud risk. These are provided below:

5.15.1. Ministerial departments and public bodies must provide accurate fraud and error loss data to the PSFA, within agreed quarterly timescales.

5.15.2. They must ensure that all detected fraud and error conforms to the government definition and prevented fraud data links to approved methodologies.

5.15.3. Ministerial departments and public bodies must ensure that they provide the PSFA with the relevant data and documentation required to complete

[454] MC/491 - INQ000497018
[455] MC/496 - INQ000497025
[456] This includes self-assessment, intra-departmental assurance and also assurance reviews performed by the PSFA itself.

Functional Standard assurance.

5.15.4. Ministerial departments and public bodies must provide the PSFA with access to data and documentation necessary to conduct Quality Reviews and Targeted Reviews.

5.15.5. Ministerial departments and public bodies must consider and take recorded action on the recommendations from targeted reviews undertaken by the PSFA.

5.15.6. Ministerial departments and public bodies must notify and seek advice from the PSFA on spending review bids for new counter fraud activity ahead of submission to HMT.

5.15.7. Ministerial departments and public bodies must complete an Initial Fraud Impact Assessment on any new major spend areas in accordance with the Green book and Managing Public Money.

5.15.8. Ministerial departments and public bodies must consider the feedback given by the PSFA through the Functional Standard assurance process and Quality Reviews and record the action they take as a result and update the PSFA as required.

5.16. As part of the Government's commitment to transparency of fraud in the public sector, it publishes the Fraud Landscape Report, utilising the data provided by departments. This is in order to show the levels of fraud in government and the latest fraud and error evidence base, or what is referred to as the 'Scale of the Challenge' in the PSFA's mandate.

5.17. The 2022 Cross-Government Fraud Landscape Annual Report published in March 2023 deals with pandemic fraud,[457] stating that the overall trend was one of increasing levels of detected, prevented and recovered fraud and error. The report includes the data from 2020/21, so includes spending by the UK Government in support of the pandemic response. To summarise the report, detected fraud rose from £227 million in 2019/20 to £243 million in 2020/21. Detected fraud and error rose from £310 million to £525 million in 2020/21. Prevented fraud and error rose from £388 million in 2019/20 to £653 million in 2020/21, and recovered fraud and error rose from £92 million in 2019/20 to £193 million in 2020/21.

5.18. The Cross-Government Fraud Landscape Report 2021-2022 (published in March 2024)[458]

[457] MC/034 - INQ000496741
[458] MC/098 - INQ000514292

provides further detail on COVID-19 related fraud for the financial year 2021-22. The detected, prevented and recovered data in the report excludes fraud and error within welfare (including any impact of COVID-19 on fraud and error levels), tax and COVID-19 support schemes administered by HMRC and the DWP. These figures are reported separately by HMRC and DWP. It should be noted that in respect of recoveries, there is not always a direct alignment between the detection of fraudulent activity and the recovery of money. Recovery takes time and may be reported across multiple years. In addition to the reported data, the Report provides an update on the estimate of fraud and error within COVID-19 support schemes. This is based on Post Event Assurance activity undertaken by departments. In contrast to the data on detected, recovered and prevented fraud and error, this data is provided over the two financial years, 2020-21 and 2021-22.

5.19. The Report indicates a 52% increase in overall detected fraud and error in 2021-22, compared to 2020-21, with £823 million in detected fraud and error in 2021-22, up from £541 million in 2020-21. Of detected fraud, 45% is related to COVID-19, and 55% related to departments' business-as-usual work. Detected fraud associated with COVID-19 increased 389% from £54 million to £264 million between 2020-21 and 2021-22. Recovered fraud and error was worth £190 million in 2021-22, down 9% from £209 million in the previous financial year.

5.20. The Inquiry will be aware of the appointment of the Covid Counter Fraud Commissioner in December 2024. The PSFA collaborates with and aids the work of the Commissioner. It is not the purpose of this statement to comment on the work of the Commissioner while that is in progress.

Lessons learned from fraud in the delivery of financial schemes during the pandemic

5.21. The Inquiry has asked about work carried out by the PSFA to identify what went well and what could be improved in relation to managing fraud in the economic response to the pandemic. As set out above, responsibility for managing the risk of fraud within individual cases of government spending and specific schemes remains with departmental Accounting Officers or nominated Accounting Officers within public bodies. Similarly, individual departments, under the direction of their respective Accounting Officers, would be expected to carry out lessons learned exercises into counter fraud activity for the individual schemes within their remit.

5.22. In line with its role as the Government's centre of expertise for the management of fraud against the public sector, the PSFA has conducted lessons learned exercises on the public sector counter fraud response to the pandemic as a whole and learnings from the pandemic have been implemented in the PSFA operating model. The PSFA has not, however, conducted specific lessons learned exercises in relation to individual economic support schemes introduced in response to COVID-19.

5.23. There are a number of lessons learned from the management of fraud risk in the pandemic that have been identified by the centre. These have been integrated into the work plans of the PSFA, and work across government. This can most notably be seen in the PSFA's published annual plan, which structures itself around five focuses informed by the experiences during the pandemic.[459]

5.24. The key lessons learned, and the action taken as a result are broken down below:

5.24.1. As previously stated, CoEx had limited levers to engage public bodies and encourage them to act, or respond to recommendations made. Since the pandemic, the government has created the Public Sector Fraud Authority, with a specific, published mandate that sets out expectations of public bodies and the PSFA.

5.24.2. Where there was a mature counter fraud function within a public body (e.g DWP, HMRC and the CoEx) with a focus on performance and outcomes, it was easier to make cases for investment to act on fraud risk and loss - or to build quantitative cases for decisions on fraud resourcing. Since the pandemic, the PSFA has implemented a structure of outcome and performance targets and monitoring across government departments to increase the maturity and enable better cases to be made in the future.

5.24.3. It was easier, more efficient and more effective for investments in fraud control resourcing to be made up front at the point of scheme creation than it was for these to be made retrospectively. Since the pandemic, the PSFA and HMT have driven the consideration of fraud risk and resourcing earlier in the process through the introduction of a new review - Initial Fraud Impact Assessments (that consider the risk of fraud in large new schemes) at the point of scheme creation. This was integrated into Managing Public Money[460] and the Green Book. They are designed to be completed prior to funding approval, and an impact score is generated. Where the impact is assessed as high, or very high, it recommends progression to a full fraud risk assessment as soon as possible. It is now mandated that Initial Fraud Impact

[459] The most recent delivery plan published in January 2025 is at: MC/497 - INQ000611223.
[460] Guidance published by HMT which sets out the main principles for dealing with resources in public sector organisations in the UK: [MC/006 - INQ000279942]

Assessments be conducted on all major new spend initiatives prior to launch. They provide a high level view of inherent fraud risk in new schemes. Building from the Global Fraud Risk Assessment used in the pandemic, the government has started the creation of a Global Fraud Risk Assessment across governmental spend and has created a High Fraud Risk Portfolio, that highlights the identified government schemes with the highest level of risk where no measurement is in place for the level of fraud, and enables the centre of government to encourage a proactive approach on fraud management.

5.24.4. Where public bodies had a higher level of maturity in the use of data and analytics to find and prevent fraud, they were more able to draw on this to reduce the level of fraud risk and loss in their schemes and able to do it more quickly. Since the pandemic, the government has increased investment in cross government data and analytics activity. This involved: taking the work done by the PSFA in support of DBT in the BBLS, and building a new network analytics platform for public bodies to draw on; increasing the use of the Digital Economy Act to enable new data shares to find fraud; and sharing practice across government through the cross-system 'Community of Practice'. Harnessing data and technology more effectively is one of the five agreed strategic priorities in the Government's Counter Fraud Functional Strategy, that sets the priority focuses for government bodies in how they find and fight fraud.[461]

5.24.5. Some public bodies struggled to take action on allegations of fraud where they occurred. Since the pandemic, the government has taken a number of actions through the PSFA to support public bodies to take more action on instances of fraud including: the launch of a pilot of a central Enforcement Unit; taking the Public Authorities (Fraud, Error and Recovery) Bill through Parliament (detailed at paragraphs 5.27-5.29); reviewing the investigation standards in the Counter Fraud Profession; and proactively monitoring resources in public bodies to take action on fraud through frequent workforce and performance reviews.

5.24.6. Counter fraud expertise could have been used more up front to assist with scheme design by understanding the fraud risk and shaping the scheme to reduce those risks. Since the pandemic, the government has acted on this

[461] MC/001 - INQ000497014

by introducing Initial Fraud Impact Assessments up front, to identify potential high risk schemes and further consider fraud, and significantly increased the number of trained fraud risk assessors across government - doubling this to 200 in 2023/24.

5.24.7. In high risk schemes, some public bodies did not complete fraud measurement exercises that met the government standard. Capability to undertake fraud measurement exercises was limited. Since the pandemic, the government has created a Professional Standard for fraud measurement[462], that details the skills, knowledge and experience that people undertaking fraud measurement activities should have. A fraud measurement qualification has also been piloted and launched.

5.24.8. Capability in fraud management across the public sector was variable and the work that the government had underway, such as creating qualifications in fraud risk assessment, was helpful and was building capability. Since the pandemic, the government launched a strategy for the Government Counter Fraud Profession which includes a specific strategic focus on building expertise in fraud management/control.[463] From this the government has created and published professional standards in fraud prevention, fraud detection and building a sound counter fraud culture. The government has also created a Prospectus for those who work in fraud roles to enable them to identify training quickly to build their capability and has started work to build a Fraud Control Apprenticeship that will build the next generation of fraud management specialists.

5.24.9. Strong technical leadership in countering fraud was essential to swift and effective progress on fraud issues and for public bodies to be able to act as an educated consumer of the counter fraud services it develops and accesses. Since the pandemic the government has created a new qualification for the leaders of counter fraud units, the world's first, made it available to public bodies and ran a pilot and two full cohorts of this qualification - with 20 public servants passing through it.

5.24.10. The sharing of information and practice across the public sector and internationally was valuable and both gave insights and confidence in approaches taken. Since the pandemic, the government has further

[462] MC/494 - INQ000497020
[463] MC/001 - INQ000497014

increased the 'Community of Practice', hosted by the PSFA, that shares practices and experiences across the public sector in finding and fighting public sector fraud, this includes inviting local authorities to this group. It has grown the national conference that it hosts, and increased the number of learning events that are offered from the centre of government. It has also deepened its partnership with members of the International Public Sector Fraud Forum, to understand international practice, establish international good practice and share emerging challenges and solutions.

5.25. Further to the above, in January 2024, the PSFA produced an internal policy research paper titled 'C-19 Lessons Learnt UK and International Findings'.[464] The lessons learnt review draws on research conducted in consultation both with counter fraud professionals and departments responsible for the delivery of COVID-19 schemes, repurposed grants or increased spending as a result of the pandemic. The paper is split into four parts: identifying lessons learned from what went well; setting out the common challenges faced by departments; recommendations to improve government counter fraud response; and, recommendations for future emergency management responses. Insights were validated and enhanced by lessons across the membership of the International Public Sector Fraud Forum. As the scope of Module 9 is concerned with the range of economic interventions across the United Kingdom, I have not summarised the international considerations here. These are summarised below:

5.25.1. **Lessons learnt:** collaboration across functions, cross-sector organisations and internal department teams supported the government's counter fraud response well; some departments were able to utilise functional expertise to support the design and delivery of schemes e.g fraud risk assessments; and, counter fraud worked well where it was embedded in processes and procedures.

5.25.2. **Challenges:** some departments were under-resourced in their counter fraud capacity and faced recruitment challenges; fraud risk assessments were not regularly incorporated into the design and delivery phases of some schemes; data access and quality issues were barriers to preventing and detecting potential fraud; and, access to common datasets did not happen quickly enough across some departments.

5.25.3. **Recommendations:** invest in counter fraud capability and capacity

[464] MC/498 - INQ000497022

proportionate to the level of fraud risk; undertake fraud risk assessments to understand the requirement for upfront counter fraud checks; improve data access, data quality and the ability to use data across government; integrate counter fraud into established processes and procedures for better overall decision making; and, review the engagement approach between the Counter Fraud Function and departments to ensure counter fraud activity is clearly communicated and supported.

5.26. The C-19 Lessons Learnt UK and International Findings paper was subsequently shared with the NAO. The recommendations are beginning to be put into place, for example, the Government Counter Fraud Function published in March 2024 an 'Introduction to AI: with a focus on counter fraud',[465] in order to improve the ability to use data across government.

Public Authorities (Fraud, Error and Recovery) Bill

5.27. In January 2025, the Public Authorities (Fraud, Error and Recovery) Bill ("the Bill") was introduced to Parliament. Part 1 of the Bill is intended to safeguard public money by reducing public sector fraud, error and debt, while Part 2 would introduce new powers to help the DWP address fraud and error in the social security system, and recover overpayment debt.[466]

5.28. Currently, other than DWP and HMRC, government departments have limited powers and resources to address sizable losses. Similarly, while the PSFA has a pilot in place to test the investigation of suspected fraud and refers such matters to other government departments and agencies, it has limited powers and relies on common law and data sharing arrangements. Part 1 of the Bill makes provisions that would give powers to the Minister for the Cabinet Office to authorise PSFA officials to investigate suspected fraud against public authorities, to recover money related to fraud, to take enforcement action and to support other departments with their counter-fraud efforts. The Bill also increases the time limit for bringing civil claims in COVID-19 related fraud from 6 to 12 years, thus giving the PSFA more time to investigate complex cases and apply their new powers retrospectively. The powers granted through this Bill would allow the PSFA to undertake cases arising from those departments and other public authorities where there is a gap in investigation provision or the public body wishes to access the more efficient and effective powers that the PSFA will hold.

5.29. Part 1 of the Bill would also allow the PSFA, currently within the Cabinet Office, to be "established as a separate body from the Cabinet Office. The Cabinet Office would be

[465] MC/499 - INQ000497015
[466] MC/500 - INQ000593950

able to transfer the functions under the Bill to the PSFA. The government intends to test various approaches to the new fraud and error powers, before using this option. The Minister for the Cabinet Office would also be able to delegate certain tasks to officials at the PSFA".

Statement of Truth

I believe that the facts stated in this witness statement are true. I understand that proceedings may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

Signed:

Personal Data

Dated: 14 October 2025