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UK COVID-19 INQUIRY

MODULE 9 (ECONOMIC RESPONSE)

**CORPORATE WITNESS STATEMENT
OF THE DEPARTMENT FOR BUSINESS AND TRADE
(ON BEHALF OF THE FORMER DEPARTMENT FOR BUSINESS, ENERGY AND
INDUSTRIAL STRATEGY)**

STATEMENT OF GARETH DAVIES: PART C

PART C GRANTS

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SECTION 1: OVERVIEW OF THE COVID-19 BUSINESS GRANTS SCHEMES

- 1.1. The Covid-19 business grant schemes were among the most significant measures introduced by Government to support small businesses and improve economic confidence during the pandemic, with £22.6 billion in grants paid through eight grant schemes to an estimated 1.4 million businesses.
- 1.2. The Government introduced three cohorts of grant schemes. A summary of each is set out at Annex 7.
- 1.3. The cohort one schemes were launched during the first national lockdown, which began in March 2020.
- 1.4. The cohort two schemes ran between September 2020 and March 2022 to support businesses affected by restrictions under the Tiers system and the second and third sets of national restrictions.
- 1.5. The cohort three schemes included a grant introduced in April 2021 to support businesses with the costs associated with reopening and a grant introduced in January 2022 to support businesses most affected by the emergence of the Omicron variant.

SECTION 2: THE PERIOD IMMEDIATELY BEFORE THE SPRING BUDGET 2020

- 2.1. In this Section, I provide an overview of the initial development of the Covid-19 business grant schemes in the period immediately before the Spring Budget on 11 March 2020 (**Spring Budget 2020**).
- 2.2. HMT led policy development and decision making to provide grant support to small businesses. In the days leading up to the Spring Budget 2020 announcement, HMT consulted the Department and MHCLG on policy development including the feasibility, scope, and key considerations of introducing cash support to small businesses in the form of grants.

Request from HM Treasury for Grant Scheme Options

- 2.3. On 7 March 2020, HMT officials contacted MHCLG policy advisers at the Chancellor's request, to ask for options for providing grants to support SMEs, which would be administered by local authorities {GD(C)/001 – INQ000064741}. HMT proposed that support be provided to businesses via local authority grants for the following reasons:
 - a) The purpose of awarding grants was to support businesses with high fixed costs relating to property;
 - b) The volume of businesses relative to the value of grants (i.e. lots of small transactions were required);
 - c) The lack of any obvious delivery route except through local authorities. HMRC could not deliver funding through the tax system and departments such as BEIS did not have the resources to manage lots of small transactions;
 - d) The existing, well-established grant mechanism that allowed central government to transfer grant funds to local authorities for the purpose of providing grants to businesses under section 31 of the Local Government Act 2003; and
 - e) The use of business rates reliefs that were adapted to reflect the types of businesses most likely to be mandated to close (for example, the Retail, Hospitality and Leisure business rate relief) and local authorities' role in collecting business rates.

- 2.4. For these reasons, central government determined that providing funding to local authorities to administer the grant scheme was the only delivery route that would allow for timely payments to eligible businesses.
- 2.5. The Department understands that HMT chose local authorities because they were seen as the most effective way to deliver grants using the business rates system. It was also thought that local authorities had a better understanding of local businesses in their areas than central government. HMT indicated that the total value of the grants would be in the region of £1 billion. Given the proposal to channel the grants via local authorities, the initial request from HMT was directed at local government teams within MHCLG. Katy Baldwin (Deputy Director, Local Government Finance, MHCLG) added the Department (Rachel Merelie, Director, Business Investment, BEIS) and the joint CLGU team, consisting of Stephen Jones (Director), Jenny Dibden (Director), and Tony Bray (Deputy Director), to the email chain, suggesting that the Department could draw on its prior experience of administering grants to local authorities through the Flood Recovery Framework.
- 2.6. On 7 March 2020, HMT notified the Department and MHCLG that the Chancellor had asked for options for grants for small businesses, to be administered by local authorities, as part of a potential Covid-19 budget package. Between 7 and 9 March 2020, the following considerations were raised by MHCLG and the Department {GD(C)/001 – INQ000064741}:
- a) Limits on local authorities' capacity and defining eligibility. MHCLG officials were concerned that local authority capacity would be limited as they would be managing a range of other Covid-19 issues, including those related to the workforce, social care, and public health. In addition, MHCLG advised that a complex and tailored grant scheme would place onerous demands on the capacity of local authorities, since they would be required to define and assess eligibility for grants and work closely with eligible businesses;
 - b) The Department's experience of the Flood Recovery Framework. Katy Baldwin strongly advised that existing central infrastructures should be explored first, and that BEIS should be consulted, as the Department had experience in delivering the Flood Recovery Framework. This consisted of Government funding paid to local authorities to enable them to support households and businesses impacted by severe weather events, including through the Business Recovery Grant scheme. The Business Recovery Grant scheme took the form

of cash injections to a small number of businesses in defined geographical areas to help support recovery in the immediate aftermath of a severe weather event, such as flood damage. Local authorities assessed businesses' eligibility and determined the amounts to be paid to each impacted business. This meant that payments were tailored to businesses' needs but were also time-consuming to put in place. Rachel Merelie therefore wrote that grants such as those available under the Business Recovery Grant scheme would only be suitable to address a small number of businesses affected in a particular locality and would otherwise be too complex to administer;

- c) Power to transfer funds to local authorities. MHCLG suggested using Section 31 of the Local Government Act 2003 to transfer grant funds to local authorities, reflecting the approach taken to the Business Recovery Grants scheme as part of the Flood Recovery Framework. However, officials were concerned that this power was ill suited to 'passport' money to businesses, i.e. to transfer funds to local authorities so they could directly pass the funds onto businesses based on an eligibility criteria. Officials advised HMT to take legal advice on this;
- d) Administration costs. Katy Baldwin commented that local authorities would require funding for their administration costs. As these costs would be incurred while implementing a new policy, referred to as a 'new burden', HMT would need to agree new burdens funding to cover them; and
- e) Early payment to local authorities. With a view to speeding up the process, HMT also enquired about the possibility of paying local authorities at the end of March 2020, i.e. within the 2019/2020 financial year, and whether there would be any limitations on local authorities using this funding during the following financial year. Katy Baldwin advised that such payments would constitute a "payment in advance of need" and would need to satisfy the principles in 'Managing Public Money', which stated that "payments in advance of need shall be exceptional and shall only be considered if a good value for money case for the Exchequer can be made".

2.7. Notwithstanding the challenges and outstanding issues, on 9 March 2020 HMT confirmed that the Chancellor was minded to announce funding of £1 billion for a grant scheme in the Spring Budget 2020 as a way of getting financial support to businesses quickly {GD(C)/001 – INQ000064741}.

- 2.8. On 9 March 2020, Jane Whewell (Investment Deputy Director, Business Investment Team, BEIS) informed the Secretary of State of the proposal to create a grant scheme to support small businesses. Jane Whewell stated that the critical point at this stage was to get clarity on whether the proposed scheme would be UK-wide or England only. She also recorded that clarity was needed on who would hold the budget and whether the Department or MHCLG would lead the scheme {GD(C)/002 – INQ000543050}.

HM Treasury's advice to the Chancellor on proposed scheme

- 2.9. On 9 March 2020, HMT sought input from the Department and MHCLG (including members of the CLGU) on draft advice which HMT had prepared for the Chancellor on the proposed grant scheme. HMT was seeking to find a population of businesses in genuine need that was not too large, and which could be tightly defined, so that it would be easy for local authorities to check whether any given business met the criteria {GD(C)/003 – INQ000543053}.
- 2.10. HMT's draft advice addressed the challenges presented by administering the grant scheme through local authorities and the potential eligibility criteria:
- a) The timing of the measure. The risk was that any grant scheme was only likely to be operational well after the expected peak in Covid-19, projected to be due within eight to ten weeks. It could even miss the second peak that was anticipated later that year; and
 - b) The capacity of local authorities to deliver the proposed grant scheme. Local authorities were dealing with the operational impacts of Covid-19 and they were not equipped to distribute small amounts of money to thousands of businesses with no existing architecture. Experience had shown that, even when this was done on much smaller scales (including Flood Recovery Framework and business rates relief), there were significant 'loud complaints' about the process. A third of authorities would be in a pre-election period, and therefore unable to take decisions on how to use grant funding, which could further slow the release of funds to businesses {GD(C)/003 – INQ000543053}.
- 2.11. HMT's draft advice set out the following eligibility criteria for the scheme that:
- a) Excluded businesses with no employees and/or no physical business property. Instead, it would be aimed at businesses with monthly salary bills, business rents, and utilities bills, as these required monthly cashflow which businesses might struggle to meet;

- b) Included small businesses only, defined by HMT as businesses with fewer than nine employees and/or eligible for Small Business Rates Relief (**SBRR**). The SBRR allowed businesses to claim either full or tapered relief on business rates, i.e. the tax that they paid to local authorities on properties they occupied which had a rateable value below £15,000. HMT had identified that businesses eligible for SBRR would not benefit from any of the other support measures which would be announced in the Spring Budget 2020. HMT estimated that using eligibility for the SBRR would limit the number of eligible businesses to fewer than 700,000;
- c) To be eligible, a business would need to be registered as such before 10 March 2020 to minimise the risk of people 'gaming' the system; and
- d) To be eligible, a business would also need to be affected by Covid-19. HMT's draft advice stated that businesses were to self-certify that they had been affected by Covid-19, for example through supply chain impacts, demand impact, or employee absence. HMT recommended that local authorities should conduct checks on businesses' revenue, cashflow, profit, and evidence of staff absence to verify this impact.

Department for Business, Energy and Industrial Strategy Submission on options for a Grant Scheme

2.12. On 9 March 2020, HMT officials presented the Chancellor with two options for the proposed grant scheme {GD(C)/004 – INQ000543056}. On 10 March 2020, a submission was sent to the Secretary of State regarding the two options presented to the Chancellor, together with the advice which BEIS officials had fed back to HMT {GD(C)/004 – INQ000543056}. The submission to the Secretary of State advised that the Chancellor had asked HMT officials for advice on providing funds to micro-businesses that were unlikely to be assisted by other measures in the Spring Budget 2020. HMT's suggestion was for funding of £1 billion, for England only (with similar arrangements for the Devolved Administrations), potentially delivered in tranches, to be passed to local authorities. The submission stated that HMT officials had offered the Chancellor the following two options:

“First, a scheme with an application process open to all microbusinesses with fewer than 10 employees (up to 5.3 million businesses in England, including

around 3 million sole traders), who would have to demonstrate negative impacts from Covid-19; or

Second, a scheme targeted to all microbusinesses who are in receipt of [SBRR] regardless of any impact of COVID-19 (c. 725k businesses – with fewer than 10 employees and a rateable value under a fixed threshold). This option could also include those in receipt of Rural Rates Relief (c. 3,000 businesses).”

- 2.13. The advice to the Secretary of State stated that the first option was not deliverable. It would require individual applications for grants to be reviewed, evidenced, and verified, and local authorities simply did not have the capacity to run grant schemes of this scale. As a result, the risk of delay, payment irregularities, and negative reaction from local authorities could lead to the scheme being withdrawn in the days following the Spring Budget 2020 ({{GD(C)/004 – INQ000543056}} at paragraph 24).
- 2.14. Officials confirmed that the second option had a number of advantages explaining that, *“It would be much simpler to administer as LAs already know who gets SBRR so the only “review” required for each individual application would be ensuring basic checks such as avoiding duplicate payments. There would be a need for some central oversight (from BEIS and/or MHCLG) to assess how Local Authorities have delivered the scheme, whom they have supported, and the amounts involved.”* ({{GD(C)/004 – INQ000543056}} at paragraph 25).
- 2.15. The submission stated that the proposed grant amount was a uniform payment of around £1,000 per business and that there were significant deliverability challenges that needed to be worked through, including local authorities’ capacity and capability to deliver payments within a tight timescale ({{GD(C)/004 – INQ000543056}} at paragraphs 26 and 27).
- 2.16. It was explained that a ministerial direction was likely to be required. It was likely that an Accounting Officer assessment would show poor value for money because of the inevitable deadweight loss of an untargeted scheme. Likewise, there were concerns about the impact, in value for money terms, that these grant payments would have. The submission stated that the impact of the scheme could also be weakened by delivery risks i.e. it was not clear that the payments could be made in time to assist businesses impacted by Covid-19 ({{GD(C)/004 – INQ000543056}} at paragraph 27).
- 2.17. On 10 March 2020, the Chancellor confirmed to HMT officials that his preference was for a grant to all businesses in receipt of SBRR and Rural Rates Relief (**RRR**),

irrespective of whether a business could demonstrate that it had been affected by Covid-19. HMT advised the Department and CLGU officials that this was because the first option was unlikely to be deliverable in any meaningful timeframe {GD(C)/005 – INQ000543057}.

Development of Early Grant Scheme

2.18. The decision on the total amount to be allocated to the grant scheme rested with the Chancellor. The Department and CLGU did not contribute to any assessment of the financial impact of the Covid-19 outbreak. However, Will Garton (Director of Public Services, HMT) sought CLGU's and the Department's assistance on the following:

"1. Deliverability. It would be useful to get confirmation from CLG that we think such a system is technically viable, even if it involves local authorities sending a cheque to the business in receipt of SBRR (having just persuaded that Chancellor that it is preferable to the alternative, I am rather hoping the answer is yes!). [Action: CLG]

2. Coverage. Could we just check that there are no other relevant reliefs in play – and it is only Rural Rates and SBRR? [Action: CLG]

3. Quantum. We are looking at spending 1-2bn on this (please protect). We would be grateful for your advice on framing and amounts. For instance, £x per businesses in receipt of SBRR/ RRR is the equivalent of y months rent/some other indicator. [Action BEIS and CLG]." {GD(C)/006 – INQ000543063}

2.19. On 10 March 2020, Tony Bray provided HMT, MHCLG, and the Department with a scheme design document for discussion, which had been developed from discussions between the Department and MHCLG {GD(C)/007 – INQ000543054}. He explained that the scheme had not yet been formally agreed. At this stage, the document still referred to "...a single flat rate payment of £1,000 (subject to confirmation of the overall scheme quantum)". The document also stated: "The level of payments will not create State Aid issues but this should be kept under review if the overall scheme quantum increases."(Original emphasis)

2.20. The 10 March 2020 submission (discussed at paragraphs 2.12 to 2.16 above) also explained, with regard to the grant funding scheme for 'micro businesses', that at the time it was to be announced it would not be sufficiently worked up for the financial and policy implications to be known, and that "[a]ny announcement should therefore be subject to business case" {GD(C)/004 – INQ000543056}. The submission also stated

that there would be a period of several days following the Spring Budget 2020 announcement where details of the changes to the scheme would be worked up.

- 2.21. Later, on 10 March 2020, HMT shared a draft of a proposed Spring Budget 2020 announcement with the Department and MHCLG for comment {GD(C)/005 – INQ000543057}. During the course of email discussions, HMT notified the Department and MHCLG of the increased grant rate from £1,500.00 to £3,000.00 per eligible business. The Department worked with HMT, CLGU, and MHCLG on the wording of the Spring Budget 2020 announcement and provided feedback on the Chancellor's briefing and Q&A (which HMT had prepared) {GD(C)/008 – INQ000065310}. The Spring Budget 2020 announcement was intended to be very high-level, as the details of the scheme had yet to be determined. The Department did not play a part in HMT's decision to announce the scheme when it was not yet finalised, but was supportive in principle of the Spring Budget 2020 measures, depending on final scheme design. Tony Bray was of the view that the increased grant rate *"feels a better place to be in relation to the grant individual businesses get"* {GD(C)/009 – INQ000576438}.

Decision to make the Department's Permanent Secretary the Accounting Officer for the Grant Scheme

- 2.22. Between 10 and 11 March 2020, Alex Chisholm (Permanent Secretary, BEIS), Jeremy Pocklington (acting Permanent Secretary, MHCLG), and Phillip Duffy (Director General, Growth and Productivity, HMT) discussed Accounting Officer ownership of the proposed grant scheme {GD(C)/010 – INQ000543061}. Initially, Alex Chisholm did not consider that the Department should hold the Accounting Officer role, however, as the Department was responsible for business support, HMT were of the view the Department should hold Accounting Officer responsibility {GD(C)/010 – INQ000543061}.
- 2.23. On the morning of 11 March 2020, Alex Chisholm obtained the Secretary of State's agreement to the Department taking on Accounting Officer responsibility for the emergency grant scheme, but expressed concerns about the value for money:

"... based on my current understanding of the proposal, the emergency grant scheme looks most unlikely to pass the value for money test because of uncertain benefits to set against the known costs. We cannot know at the moment how much of the amount spent is going to be dead-weight in that it either gives money to businesses that would have carried on regardless,

without any palpable net growth stimulation effect, or it gives money to businesses that fail anyway...

So while I accept this is a necessary measure, and by addressing SMEs by using the existing category of rates relief it can be targeted and deliverable quickly, I struggle to see how we can assure this to the usual Managing Public Money standards of evidence and confidence in value for money. Hence, unless the facts change materially, it is likely that I will conclude I need to seek a Ministerial Direction for the emergency grant scheme. But, to be clear, this is not because I am opposed to the idea of providing some real relief to 700,000 vulnerable firms in such a moment of crisis.” {GD(C)/010 – INQ000543061}

- 2.24. The Permanent Secretary became Accounting Officer for the proposed scheme, with Jenny Dibden acting as the Senior Reporting Officer (**SRO**) in her role as co-director of CLGU.

Role of the Cities and Local Growth Unit

- 2.25. The decision to administer grants through CLGU was taken early in the process of developing the Covid-19 business support grant schemes. CLGU already had resources in place for supporting businesses in exceptional circumstances, which could be utilised when looking to administer grant funding for small businesses.
- 2.26. In addition, CLGU had local area teams with existing relationships with local authorities, which was considered beneficial for delivering grant schemes. Likewise, the link with MHCLG was important, as they had a well-established grant mechanism in place that enabled central government to make quick payments to local authorities. It was also thought that there was more capacity in the CLGU than other teams in the Department, although there was still pressure on resource at the start of the pandemic and this became more challenging as the pandemic progressed.

SECTION 3: COHORT ONE SCHEMES – SMALL BUSINESS GRANT FUND AND RETAIL HOSPITALITY AND LEISURE GRANT FUND

- 3.1. This Section addresses the creation and design of the Small Business Grants Fund (SBGF) and Retail Hospitality and Leisure Grant Fund (RHLGF) following the Chancellor's announcement on 11 March 2020, including policy development, scheme implementation, and delivery. I will address each scheme in turn.
- 3.2. The LADGF was developed after the SBGF and RHLGF were introduced, in order to provide support to businesses which were not eligible under these schemes. The LADGF is addressed in Section 4 below.

Announcement and Objectives of the SBGF

- 3.3. The Chancellor announced the SBGF in the Spring Budget 2020 on 11 March 2020. Its creation was intended to support small and rural businesses with their pandemic business costs. The Chancellor explained that:

“to support those businesses, the government will provide £2.2 billion of funding for local authorities in England. This will provide £3,000 to around 700,000 business currently eligible for SBRR or Rural Rate Relief, to help meet their ongoing business costs. For a property with a rateable value of £12,000, this is one quarter of their rateable value, or comparable to 3 months of rent. Most properties that are eligible for SBRR will have a lower rateable value, and so this will represent an even greater proportion of their annual rent.”

- 3.4. On the same date, 11 March 2020, the Assistant Private Secretary to the Chancellor contacted the Secretary of State's private office, explaining that the Department would deliver a number of measures including grant funding to support small businesses comprising £2.2 billion in funding for local authorities in England {GD(C)/011 – INQ000543065}. The email stated that HMT wanted to work closely with the Department and MHCLG to rapidly agree the design of the scheme.
- 3.5. HMT confirmed that the Chancellor had agreed, in principle, to provide additional funding for the administration of the scheme, subject to a new burdens assessment by the Department. HMT also confirmed that it would provide the Department with additional administrative funding in the next financial year (2020/2021), subject to assessment of a bid by HMT officials. HMT also recognised that the scheme would be

subject to a formal Accounting Officer assessment and indicated that it was willing to work with the Department to process the necessary approvals.

- 3.6. After the announcement, the Department liaised with HMT and MHCLG on the feasibility of paying the grant funds to local authorities in time for local authorities to start making payments to eligible businesses at the start of the new financial year on 6 April 2020 {GD(C)/012 – INQ000543100} and {GD(C)/013 – INQ000543093}.
- 3.7. On 17 March 2020, the Chancellor announced that the SBGF payment would be increased from £3,000 to £10,000. The Department was informed on the same date. The Department has been unable to locate any correspondence from HMT informing the Department of the increased grant amount prior to the announcement or explaining the rationale for the increase {GD(C)/014 – INQ000543084}. The increased grant rate reflected ongoing policy discussions relating to a potential national lockdown, social distancing, and the types of businesses that were to be mandated to close or to operate as takeaway only. The increase was broadly welcomed by the Department to help support small businesses.

Early Stakeholder Engagement

- 3.8. It was clear from the outset that communication with business and local authorities would be key to implementing the scheme. However, owing to the confidentiality that surrounds Budget announcements, it had not been possible for CLGU to consult with local authorities or the business community on the proposed design of the SBGF prior to the Spring Budget 2020.
- 3.9. Following the announcement of the SBGF in the Spring Budget 2020, the Department actively engaged with representatives from local authorities and businesses to develop the design and operation of the scheme and developed accompanying strategies for communication and engagement.

Communication and Engagement by the Department following the Spring Budget 2020 announcement

- 3.10. On the day of the Spring Budget 2020, Jayne McCann (Deputy Director of the Business Intelligence and Readiness Directorate (**BIRD**)) highlighted to Sarah Munby, in her role as the BEIS Director General, Business Sectors Group, that the Department's Covid-19 operating model did not take into account communication with business. Communication with business was split across multiple teams within the Department (Business Growth, Business Engagement, Communications and BIRD) and was a

“...confused picture with requests hitting different people in a slightly random fashion”
{GD(C)/015 – INQ000543058}.

- 3.11. On 11 March 2020, Sarah Munby agreed to an additional business facing communication and engagement bubble being added to the Department’s Covid-19 operating model, with an accountable SRO director and a small project team {GD(C)/016 – INQ000543060}.
- 3.12. The Department then took the following actions to engage with the relevant local authorities and business:
 - a) The Secretary of State held discussions with representatives of the LGA on 11 March 2020, to consult on the best way to operationalise the SBGF and to engage with the LGA as a stakeholder and delivery partner {GD(C)/017 – INQ000543066}.
 - b) The Secretary of State asked that roundtable discussions be set up with sector stakeholders, for example a meeting took place on 11 March 2020 between the Secretary of State and BROs {GD(C)/018 – INQ000543064}.
 - c) Twice weekly calls between the Department and BROs were established to update them on the Government response to Covid-19 and to gather intelligence and feedback on the impact and risks of the Government business support measures. The first call was held on 11 March 2020 with a follow-up the next day {GD(C)/019 – INQ000543068}. These calls ran bi-weekly until July 2020 {GD(C)/020 – INQ000543264}. The discussions with BROs were helpful in being able to explain HMG’s approach to business support. BROs were also able to raise general concerns regarding where businesses would miss out, for example, because of the focus on businesses in-scope for rate relief, or sectoral focus – retail, hospitality and leisure.
 - d) A direct contact within the Department was established to whom BROs could direct queries related to Covid-19 {GD(C)/021 – INQ000543069}. The Secretary of State asked the Department to ensure that queries from BROs received a response within 12 hours {GD(C)/019 – INQ000543068}.
 - e) A strategic plan for BEIS ministerial engagement with business, BROs, and other stakeholder groups was developed. It detailed how ministerial engagement was to fit with Covid-19 related aspects of business communication and engagement and was accompanied by a list of priority

stakeholders. The strategic plan and stakeholder list was sent to the Secretary of State on 20 March 2020 {GD(C)/022 – INQ000543088}, {GD(C)/023 – INQ000543089}, and {GD(C)/024 – INQ000543090}.

- f) A business communication and engagement plan was designed in collaboration with the communications hub in Cabinet Office. It was “...to be centrally led and owned...” and to form part of a central government strategy {GD(C)/025 – INQ000543071}. The Covid-19 Business and Economy Communications and Engagement paper was provided to the Permanent Secretary on 13 March 2020. The paper addressed communication and engagement with small businesses and emphasised the need to ensure maximum take-up of schemes and available support {GD(C)/026 – INQ000543072}. Annex A of the paper (Strategy and Delivery Next Steps) set out the Government's strategy for communication and engagement with business and a process to collect and analyse business intelligence so that the Department could map supply, demand, and labour market shock. The key areas of focus were:
- i. Objective 1: Encourage behaviours that help bolster the wider economy in line with the latest health advice including steps that should, and should not, be taken;
 - ii. Objective 2: Maximising the take up of support schemes, particularly by small businesses; and
 - iii. Objective 3: Supporting individual sectors or regions as necessary.
- g) The Covid-19 Business and Economy Communications and Engagement paper asked the Permanent Secretary and Special Advisers to note that the communication and engagement plan detailed in Annex A was not funded and that it would cost between £2 million and £5 million.

- 3.13. Annex A of the Covid-19 Business and Economy Communications and Engagement paper was included in the briefing for the first meeting of the Ministerial Business Response Group {GD(C)/027 – INQ000543075}. As the Secretary of State's speaking points for the meeting recorded, the communications and engagement proposal required co-ordination from the communications hub in Cabinet Office, with staffing provided from relevant departments into the hub, and staff delivering from within each department {GD(C)/028 – INQ000543073}.

- 3.14. The communication and engagement actions required strong cross-departmental engagement with HMT and MHCLG. In particular, MHCLG provided support to the Department in engagement and liaison with the local authorities during the discussions on the details of the cohort one schemes.
- 3.15. On 12 March 2020, CLGU spoke with nine local authority Chief Executives (representing the nine English regions) to discuss the SBGF and details of scheme delivery. The nine chief executives formed part of the Local Authority Information Network, which had been established prior to the pandemic. The Secretary of State requested an update on these discussions the following day. He sought confirmation that local authorities would have capacity to deliver the SBGF and made clear that the Department would support them in doing so. CLGU officials informed the Secretary of State that the nine chief executives viewed the announcement as a positive one and had lots of questions about how the scheme would work in practice {GD(C)/012 – INQ000543100}. There was also recognition that there was a “...*need to balance pace of delivery with due diligence to ensure risks are mitigated (i.e. a process that mitigates security issues such as fraud)*”. The processes put in place to manage financial risk and irregular payments are discussed in detail at Section 14, below.
- 3.16. CLGU officials also reported that the LGA had offered to coordinate engagement with local authorities, pulling together a group of experts from local authorities who could work with the Department in areas such as business rates, finance, and compliance. Further conversations with local authorities were planned {GD(C)/012 – INQ000543100}.
- 3.17. On 13 March 2020, BEIS officials prepared a note for a meeting with Cabinet Office, on the Spring Budget 2020 measures that had been announced. In relation to the SBGF, the note stated that the LGA, alongside individual local authority chief executives, had reacted positively to the grant scheme for SMEs and recognised the need to work closely with the Government to implement the scheme at pace {GD(C)/029 – INQ000563871}.
- 3.18. Following the announcements by the Chancellor on 17 March 2020, HMT coordinated with the Department to agree next steps on the messaging to local authorities and the products needed {GD(C)/030 – INQ000543693} and {GD(C)/031 – INQ000543076}.
- 3.19. CLGU led on drafting a letter to be sent from the Secretary of State to local authorities with details of the SBGF and RHLGF and scheme guidance. HMT directed that the letter should be issued to local authorities by no later than 1 April 2020.

- 3.20. On 23 March 2020, the Secretary of State wrote to the Leaders and Chief Executives of all 314 local authorities, detailing how the SBGF and RHLGF would be delivered and attached a guidance document (discussed at paragraphs 3.62 to 3.96 below) {GD(C)/032 – INQ000064765}. As set out above, MHCLG provided support to the Department in the engagement and liaison with the local authorities. MHCLG were tasked with issuing the letter from the Secretary of State to local authority leaders {GD(C)/033 – INQ000065999} and {GD(C)/032 – INQ000064765}.
- 3.21. During March 2020, MHCLG also assisted the Department with ‘intelligence reporting’ for grant-related briefings to the Chancellor, engagement with Mayoral Combined Authorities on the details of the SBGF, and “*live discussions with LAs to refine the [SBGF] guidance*” {GD(C)/034 – INQ000543067}.

Creation and Objectives of the RHLGF

- 3.22. In mid-March 2020, the Department became increasingly aware of significant concerns in relation to the hospitality and retail sectors and on 16 March 2020, the Secretary of State discussed the impacts of Covid-19 on business with BROs {GD(C)/035 – INQ000543074}. BROs reported that the hospitality sector would run out of cash in four to six weeks and the retail sector in seven. There were only 10 days left until quarterly rental payments were due. BROs pointed out that the “*Budget looked like [a] drop in the ocean*”. This was in line with a Business Impact Assessment produced by the Department and circulated on 15 March 2020, which reported that, in addition to the aviation sector, the sectors facing the most acute pressures were hospitality and tourism {GD(C)/001 – INQ000064741}.
- 3.23. According to SAGE advice, this situation was likely to worsen after the Prime Minister’s announcement on the evening of 16 March 2020, in which he asked people in England to avoid non-essential contact and travel, including avoiding pubs, clubs, theatres, and other social venues. The Prime Minister also recommended that people start working from home. On 17 March 2020, after considering the impact that the new medical advice would have on the retail, hospitality, and leisure sectors, the Chancellor announced a series of new measures, including the RHLGF.
- 3.24. The Department became aware of the RHLGF when it was announced on 17 March 2020. The Department was not consulted in advance and did not have any influence over the Chancellor’s announcement. On the evening of 17 March 2020, Sarah Munby communicated her concerns to HMT about the deliverability of this proposed new

scheme {GD(C)/036 – INQ000543079}. Sarah Munby explained that the new scheme was significantly more complex than the SBGF as it would require local authorities to consider several factors (including the sector of the business, its rateable value and whether it was in receipt of SBRR) to identify eligible businesses. She also pointed out that many pubs and restaurants were parts of large chains and queried how the grant would be applied now that these multi-site businesses would fall in scope. In particular when their business properties were located in more than one local authority area. In addition, more businesses being in scope meant more payments to set up, with larger amounts of money flowing through the system, adding to the risks of this scheme. Accordingly, Sarah Munby advised that the Department was unable to commit to delivering this scheme at the same speed as the SBGF, given the additional complexities. In response Philip Duffy suggested a call to discuss the Department's concerns {GD(C)/037 – INQ000543077}. A meeting was convened between HMT, MHCLG, and the Department the following day, on 18 March 2020, to agree next steps regarding delivery of the proposed scheme {GD(C)/038 – INQ000543083}.

3.25. On 18 March 2020, Minister Scully and a senior BEIS official met with representatives of the FSB to learn more about the concerns of the small business community {GD(C)/039 – INQ000543078}. The FSB's feedback was positive in respect of the Government's actions to date, including the Chancellor's announcements on 17 March 2020, and the swiftness of the response. They urged the Government to keep in mind the need for speed of access to information, keeping messages simple, ensuring businesses knew where to find information, and avoiding making access to finance overly burdensome. The FSB also raised concerns about the hospitality industry, which would be making people redundant by the end of the week and asked whether there was any timeline on the delivery of the broader economic support packages. Minister Scully responded that there was no further clarity or information on this, but that he was engaging with HMT to get more information and would continue to press this issue {GD(C)/040 – INQ000543085}.

3.26. On 20 March 2020 the Department asked HMT for the scheme rationale, to which HMT responded:

"This scheme was developed extremely rapidly, and mainly in meetings with the Chancellor rather than any written advice... However, the clear rationale for the grants to small retail, hospitality, and leisure businesses is that the Govt has now ordered them to close and thus they will see a complete fall in income,

whilst still having some fixed costs to pay. A cash grant will help to cover this shortfall, with the aim of preventing companies from becoming insolvent. Most of these companies are otherwise profitable businesses, and once the Covid-related disruption is over, it is economically beneficial for those businesses to be in a position to resume operations.” {GD(C)/041 – INQ000543097}

Accounting Officer Assessment for the SBGF and RHLGF

3.27. On 23 March 2020, Accounting Officer advice regarding the SBGF and RHLGF was provided to the Secretary of State {GD(C)/042 – INQ000543099}. The covering submission made clear that for both schemes a ministerial direction would be required, in accordance with ‘Managing Public Money’, because of the significant uncertainties around the value for money of each scheme.

Small Business Grant Fund

3.28. The Accounting Officer advice for the SBGF was provided at Annex D of the 23 March 2020 submission. The Accounting Officer assessment of value for money for the SBGF, rated at very high risk, was as follows:

“The primary rationale for the scheme is to help small businesses with their cash flow. Small businesses often have the least ability to withstand sudden shocks to their demand and supply chains. Covid-19 will have an adverse impact on many small business (i.e. supply chain, fall in demand, staff absences, uncertainty etc). This scheme, along with interventions by the Bank of England and private banks on SME lending, could help provide some temporary easing of cashflow issues for eligible small businesses.

At this point in time, it is not possible to confidently estimate the extent to which this funding will help small businesses successfully navigate the impacts of Covid-19.

There is no available evidence on which to base a reliable assessment of the likely net impact of the fund. It could be that it has significant benefit and helps many vulnerable companies. However, there are uncertainties around the extent to which this funding will either go to companies that would have carried on regardless, without any palpable net growth stimulation effect, or gives money to businesses that may fail anyway.

However, the absence of evidence at this stage means that weighing possible benefits against costs cannot yield a reliable measurement of value for money on an ex-ante basis.”

3.29. The Accounting Officer assessment of propriety was rated at medium risk and stated:

“The scheme is novel as we have not previously run an emergency business scheme of this kind, which provides a pre-determined grant amount on a significant scale. We do provide small (£2,500) grants to businesses through the flooding framework, however, this is only to those who can evidence they have been impacted by the event and there will be no such criteria for this Covid-19 scheme. The flooding response is also localised and far smaller (low £millions, not £billions).

It is contentious as it may give rise to challenges from businesses that are not receiving support, but which are being, or stand as much risk of, being impacted by Covid-19. It is repercussive as it sets a precedent for HMG intervention in similar scenarios. It may also create an expectation that HMG should pay further grants should disruption continue for a significant period of time or worsen.”

3.30. The feasibility of the SBGF was rated as medium-high risk. This was due to the Department’s concerns surrounding local authorities’ ability to deliver the funding to businesses accurately and in a timely manner. Local authorities had been asked to deliver the scheme at very short notice and at pace. It was likely that their capacity to do so was impacted by Covid-19, i.e. illness and general working disruptions, as well as their ability to recruit and expand at short notice. The proposal outlined in the Accounting Officer assessment stated that the Department would send the required funds to MHCLG via the Government Banking Service (**GBS**), a shared banking service across central government and wider public sector. MHCLG would then make payments to local authorities on the Department’s behalf. This would mitigate a number of delivery risks as MHCLG had established processes for paying local authorities. The payment of grant funds to local authorities, including the Memorandum of Understanding (**MoU**) between BEIS and MHCLG regarding Accounting Officer responsibility and transfer of funds to local authorities, is discussed in further detail below.

Retail, Hospitality and Leisure Grant Fund

- 3.31. The Accounting Officer assessment for the RHLGF was provided at Annex D of the 23 March 2020 submission. It stated many of the risks were the same as those identified in the SBGF. It rated the regularity of the scheme as medium risk. The Accounting Officer assessment stated:

“The overall quantum of funding required will depend on the number of eligible businesses who claim the grant. The current estimate is that this will be in the region of £5bn which will require additional HMT funding, based on our understanding of eligible businesses (a rateable value below £51k) in the retail, hospitality and leisure sector. HMT have indicated that there will be additional funding available should this fund spend more than currently anticipated. ... The power in s 31 of the Local Government Act 2003 will be used to pass monies to MHCLG, this is a broad power with no financial cap, it requires the consent of the Treasury, which has been given.”

- 3.32. In respect of propriety of the RHLGF, the Accounting Officer assessment stated the scheme was novel, contentious, and potentially repercussive. There was a risk that some businesses would also wrongly receive money under the SBGF if they were in receipt of SBRR and RRR. As such, the risk was rated as medium-high. To mitigate this, the Accounting Officer assessment stated that, *“The guidance and ongoing support can alert LAs to this risk”*.

- 3.33. The Accounting Officer assessment identified a very high risk in respect of value for money of the RHLGF scheme. Annex D of the submission stated:

“There is no available evidence on which to base a reliable assessment of the likely net impact of the fund. It could be that it has significant benefit and helps many vulnerable companies. However, there are uncertainties around the extent to which this funding will either go to companies that would have carried on regardless, without any palpable net growth stimulation effect, or gives money to businesses that may fail anyway. However, the absence of evidence at this stage means that weighing possible benefits against costs cannot yield a reliable measurement of value for money on an ex-ante basis.”

- 3.34. The feasibility of the RHLGF was rated as high risk. The Accounting Officer assessment stated that the design of the RHLGF meant businesses with multiple sites would receive multiple grants and that HMT was aware of this. It also highlighted a risk that the sum of money received by a business with multiple sites might be higher than the level of funding permitted under State aid rules. In order to mitigate this risk, the

Accounting Officer assessment proposed that the payments to local authorities be reconciled against the grants ultimately paid out to businesses to confirm whether the initial estimates of the number of in-scope businesses was accurate. It was stated that the Department ought to formalise an agreement with HMT to address any inaccuracies identified in Supplementary Estimates to ensure any additional expenses could be approved by Parliament.¹ The guidance issued in respect of the schemes would also warn local authorities of the risks and suggest further mitigation measures.

Ministerial Direction

- 3.35. On the same day, 23 March 2020, and in parallel with the Accounting Officer advice, the Permanent Secretary wrote to the Secretary of State in his role as Principal Accounting Officer in relation to each scheme:
- a) Letter dated 23 March 2020 regarding the SBGF {GD(C)/044 – INQ000543109}; and
 - b) Letter dated 23 March 2020 regarding the RHLGF {GD(C)/045 – INQ000543110}.
- 3.36. For each scheme, the Permanent Secretary made clear that a ministerial direction would be required. The Permanent Secretary advised he was unable to provide the Secretary of State with the necessary assurance that the proposals represented value for money to the usual standards of evidence and confidence that are expected by ‘Managing Public Money’. The feasibility risks were also addressed. The letters recognised the strong case for action and that there were legitimate reasons for the Secretary of State to choose to proceed notwithstanding the value for money risks. The value for money risks were for the Secretary of State to consider and could not form part of the Accounting Officer assessment.
- 3.37. The Secretary of State replied on the same day providing a ministerial direction for the SBGF and RHLGF. He confirmed he understood the ‘Managing Public Money’ issues raised in the proposals. He directed the Permanent Secretary to work closely with HMT and MHCLG to deliver the schemes with immediate effect and manage the identified risks as best he could.

¹ Estimates are the means of obtaining from Parliament the legal authority to consume resources and spend cash the Government needs to finance a department’s agreed spending programme. Supplementary Estimates are used to seek additional resources, capital and/or cash or to reallocate existing resources and capital to new activities. For further information, please see: {GD(C)/043 - INQ000585848}.

- 3.38. The ministerial direction letter issued in respect of the SBGF, dated 23 March 2020, included {INQ000607384} – INQ000064764}:

“I recognise the Managing Public Money issues that this proposal causes for you as the Principal Accounting Officer. However, as you set out in your letter to me, there are broader issues that I am able to weigh in my decision that you are not able to accommodate in your own assessment.

We know that many small businesses are suffering as a result of the unexpected economic shock caused by Covid-19. Government has a responsibility to support these businesses and this grant funding will, as you point out in your letter, provide many small businesses with valuable and timely financial relief from the impact of Covid-19. This is a key component in the Government’s comprehensive response to the evolving economic situation which is designed to support the economy through this time of crisis.”

- 3.39. The ministerial direction letter in respect of the RHLGF, dated 23 March 2020, included:

“I acknowledge that the absence of available evidence means that you are unable to provide me with the necessary assurances that this proposal represents value for money to the standards expected by Managing Public Money (MPM) and must therefore seek my direction to proceed.

However, as you highlight in your letter, there are clearly compelling reasons to justify the introduction of this fund, which fall outside the confines of MPM. These are extraordinary economic circumstances and businesses in the retail, hospitality and leisure sectors are particularly exposed to the disruption being caused by Covid-19. As your letter notes, this grants fund will go some way to helping to alleviate financial anxiety that businesses face through this economic turmoil. Without such prompt action, businesses and jobs will be at acute risk” {GD(C)/047 – INQ000064763}.

Early Implementation of the SBGF and RHLGF

- 3.40. A major hurdle to advancing the implementation of the SBGF and RHLGF was the extent of local authorities’ ability to obtain bank details for all eligible businesses. Their ability to do so varied depending on the scheme. This issue was addressed in the submission sent to the Permanent Secretary on 22 March 2020 {GD(C)/048 – INQ000543108}. In relation to the SBGF it was explained that “Ratepayers eligible for

the Small Business Rate Relief and Rural Rate Relief schemes. Most of these ratepayers have received 100% rate relief for some time and so have not provided bank details (or bank details have been deleted as authorities are not able to retain the data)." In respect of the RHLGF, where eligible businesses were in receipt of expanded retail discount rate relief, it was stated *"Most of these ratepayers will have been paying rates. The degree to which bank details are held will vary depending on how they pay their rates but, for example, one authority has found that they have bank details for about 50% of retailers and most hospitality and leisure ratepayers."*

- 3.41. The submission explained that, where local authorities did not hold bank details, they had identified several ways to obtain them, for example emailing, writing to, or calling eligible ratepayers, or working with local business associations to contact businesses. The submission advised against central government running a widespread campaign to publicise the need to provide bank details to local authorities. It stated that this carried the risk of swamping local government with requests from ineligible businesses and delaying the collection of genuine data and ultimately payments to qualifying businesses. Officials also advised against a central registration process for businesses to provide their bank details for the following reasons:

"Beyond the technical challenges of this (we would need to triage the form once received and ensure the right personal and financial details go to the right authority in respect of the right property), it would cut across the work which local authorities will themselves have started to collect the same information. Sending mixed messages to ratepayers about how to provide the information could frustrate and delay the payments of grants ...

LAs know the 1.3m small business they want to pay and contacting outwards is relatively low risk. But a mechanism where anyone can submit a form, potentially using their own bank details against somebody else's business, is much higher risk. Experience shows that this type of approach is a fraudsters' charter and we strongly recommend not proceeding with this digital solution."

- 3.42. The submission explained that once bank details were obtained, local authorities would have to manually enter them on the correct system for each scheme to process the payment. CLGU explored ways to increase the number of staff in local government to help with data entry of bank details. However, given that the schemes were scheduled to start the following week, it was unlikely new staff could be trained in time to contribute and conducting training would take up resources in local authorities. The

Department also had to consider potential data protection restrictions. This was because the details of the individual grant recipients were held at local authority level and these could not be shared with CLGU, due to the personal nature of the data. Local authorities sought to redeploy their staff internally, but they were also impacted by absences due to illness and having to deliver other Covid-19 response measures. Paragraph 29 of the submission confirmed that the administrative costs incurred by local authorities would be covered by new burdens funding {GD(C)/048 – INQ000543108}.

Early Considerations of Processes to Mitigate the Risk of Irregular Payments

- 3.43. From 20 March 2020, CLGU worked with the Grants Management Function in Cabinet Office to develop guidance for local authorities to deliver the SBGF and RHLGF, this included consideration of how the risk of irregular payments could be reduced without compromising on speed of delivery {GD(C)/049 – INQ000543094}.
- 3.44. Local authorities reported that completing pre-payment checks risked significantly delaying payments to businesses as well as increasing the strain on their capacity. The Government Grants Management team at Cabinet Office recommended that any burden on local authorities to complete checks in advance of payment be minimised and confirmed that the risk of paying only on the basis of data in the system was accepted {GD(C)/049 – INQ000543094}. The risk would be mitigated by clearly communicating that money would be clawed back if funds were incorrectly paid out to businesses, although the methodology for clawing back was still to be confirmed and was being explored with HMRC. Cabinet Office offered to support each local authority by deploying its due diligence tool, Spotlight {GD(C)/050 – INQ000543095}. Spotlight completed baseline due diligence checks in seconds and identified businesses that may no longer be operating. It could be made available quickly and required limited inputting of data. Cabinet Office also provided a specification for the data for local authorities to collect. The specification had been compiled by the National Fraud Initiative.
- 3.45. Over the weekend of 21 and 22 March 2020, Cabinet Office and CLGU worked with two volunteer local authorities to compare the effectiveness of local authorities' existing assurance processes with Spotlight. The volunteer local authorities reported some concerns that they would not have resources to conduct due diligence on the data held on their systems before grant payments were made. Further, they had confidence in only 50% of the data on their business rates system. When the data that was held by

volunteer local authorities was run through Spotlight, it revealed that “...*large numbers of businesses [were] already in liquidation or had directors who had been struck off...*” {GD(C)/051 – INQ000543098}. Cabinet Office told CLGU on 24 March 2020 that “[t]he data from our review of business rate data from two local authorities indicated that in excess of 5% of the companies were now dissolved” {GD(C)/052 – INQ000543113}. This indicated that local authorities would struggle to adhere to the guidance that dissolved businesses should not receive grant payments.

- 3.46. The engagement with the two volunteer local authorities showed that there would be challenges using the data held by local authorities. Also, it was likely that the quality of data would vary depending on the local authority. Notwithstanding these potential issues, getting support to businesses quickly was a priority for HMT and BEIS ministers. On 24 March 2020, CLGU wrote to local authority finance directors regarding grant delivery support. They advised local authorities that Spotlight was being made available to them ahead of its release across Government on 1 April 2020 {GD(C)/053 – INQ000543118}. Local authorities were invited to email a dedicated mailbox to register for access to Spotlight. As regards to post-payment assurance, local authorities were directed to Annex B of the SBGF and RHLGF Guidance (discussed at paragraphs 3.86 to 3.87 below) for the data fields that they were required to collect. Local authorities were advised that the Department was developing a recommended process for collecting data on grant payments which would be provided in due course. The processes put in place to manage financial risk and irregular payments are discussed in detail at Section 14, below.

Memorandum of Understanding

- 3.47. With the economic situation worsening each day, ministers directed that it was vital that local authorities receive grant funds as soon as possible so they could start making payments to eligible businesses.
- 3.48. The Department worked with MHCLG and HMT to find solutions to speed up the transfer of grant funds to local authorities. The Department and MHCLG confirmed their agreement on key responsibilities in a MoU which Jenny Dibden approved on 25 March 2020 {GD(C)/054 – INQ000543126}. A MoU was required as although the Department held Accounting Officer responsibility MHCLG would transfer the grant funds to local authorities on the Department’s behalf. The MoU addressed the following:

- a) MHCLG would act as agent of the Department for the purpose of administering payments to local authorities, who would in turn make payments to eligible businesses. This decision was made in order to expedite the payment of grant funding to businesses, as MHCLG was already set up with local authorities' current contact details. The Department was responsible for ensuring that funds were in MHCLG's bank account by 1 April 2020, so that MHCLG in turn could transfer the funds to local authorities on this date.
- b) The Department was also responsible for liaising with HMT and the Debt Management Office (**DMO**) (an Executive Agency of HMT) to confirm that the necessary funds could be generated in the markets (i.e. drawn down from deposits, bonds and money markets, and put in MHCLG's bank account). The DMO was responsible for:
 - i. Debt and cash management for the Government;
 - ii. Lending to local authorities; and
 - iii. Managing certain public funds.

3.49. The MoU provided that the Department would determine the allocation schedule to local authorities, i.e. the amount each local authority would receive. Jenny Dibden, as SRO, was responsible for producing and signing-off grant determination letters to local authorities. Grant determination letters confirmed the amount of funding allocated to local authorities, the purpose of the grant, any conditions and requirements for local authorities to receive the grant, and the duration of the grant.

3.50. The MoU confirmed that the grants would be paid to local authorities under section 31 of the Local Government Act 2003. The MHCLG Accounting Officer, as the Agent responsible for the administration of the grants, would be accountable to the Department for safeguarding the funds, and ensuring the complete, accurate, and timely payment to the local authorities in accordance with the allocation schedule. In the event that funding was not distributed to local authorities, or where local authorities returned any funds to MHCLG, MHCLG was to return the funds to the Department. MHCLG officials would issue a statement reconciling the contribution received by businesses and the payments made to local authorities.

3.51. The MoU also set out local authorities' responsibility and accountability for the lawful use of funds, pursuant to section 151 of the Local Government Act 1972. It provided that "...every local authority has a responsibility to make arrangements for the proper

administration of their financial affairs and to secure that one of their officers has responsibility for the administration of those affairs". The MoU also stated local authorities would "...be responsible for the onward payment of the grant monies to local businesses, and for recording the payments as [distinct items] in their [relevant administration accounts]". This provided some assurance as to the traceability of each grant payment and would facilitate the reconciliation between the funds received by local authorities and the payments made to businesses under the SBGF and RHLGF.

Allocation of Funding

- 3.52. While BEIS was responsible for allocating the grant funds to local authorities, MHCLG supported the Department by calculating the total amount of funding that would need to be transferred to local authorities to deliver the grants. The estimate was required to ensure HMT provided the Department with enough additional budget to meet the costs of the SBGF and RHLGF in the financial year 2020/2021 {GD(C)/038 – INQ000543083}. Tony Bray and Tom Taylor (Director, Finance and Portfolio team, and Chief Financial Director, BEIS) agreed to use estimates produced by MHCLG based on the data they held about local businesses, as this would be faster than collecting data from local authorities to calculate the number of eligible business properties in each local authority {GD(C)/038 – INQ000543083}.
- 3.53. However, as they did not hold the type of data required to filter businesses based on the rateable value of the properties they occupied, MHCLG was unable to produce these estimates. To fill in the gaps in their data, MHCLG applied assumptions, which could result in either overpaying local authorities, or underpaying them and leaving them out of funds to pay businesses. In an email dated 20 March 2020, Ben Toogood (Deputy Director, Analysis and Data Directorate, MHCLG) informed the Department and HMT that it would therefore be essential that a data collection exercise be put in place to identify any discrepancy between MHCLG's estimates and the amounts actually paid out by local authorities to businesses {GD(C)/055 – INQ000543125}. The concerns in relation to the two categories of business properties eligible under the RHLGF are described below.
- a) Business properties eligible for a £10,000 grant under the RHLGF (i.e. business properties with a rateable value under £15,000). Due to the limited data held by MHCLG, it was not possible to discount from their calculation businesses, eligible under both the SBGF and RHLGF, which should only receive money under the SBGF. MHCLG was only able to estimate that 40% of all businesses

under the rateable value threshold would qualify for both schemes, using old data from the 2015/2016 Business Rates Retail Relief scheme {GD(C)/056 – INQ000585474}. MHCLG warned: *“It’s not clear that this ratio would apply equally across authorities. We could produce LA level versions of 40%, but still not perfect. The costs vary by £50m nationally for each percentage point change to the 40%. At a local authority level, you could quite easily see a 10 percentage point error.”*

- b) Business properties eligible for a £25,000 grant under the RHLGF (i.e. business properties with a rateable value of between £15,000 and £51,000). Some properties in this category would be subject to State aid limits. MHCLG assumed that 80% of properties in this category would receive a grant under the RHLGF. They stated, however, that *“[t]his was based on expert judgement, rather than data”*. They added that a 1 percentage point error would cost around £37.5 million nationally.

- 3.54. The estimates were calculated and approved by the Department at great speed to facilitate transferring funds to local authorities on 1 April 2020. Jenny Dibden approved the local authority allocations, totalling over £12.3 billion, on 25 March 2020 {GD(C)/057 – INQ000543128}.
- 3.55. Due to departmental budget spending controls, MHCLG required a ministerial direction to make the payments to local authorities by 1 April 2020 {GD(C)/058 – INQ000543096}.
- 3.56. As payments to local authorities were made as advance contributions, MHCLG were required to complete a reconciliation exercise when the schemes closed to either recover any undispersed funds or make a top-up payment to local authorities to cover any additional award to businesses.

Grant Offer Letters for the SBGF and RHLGF

- 3.57. The CLGU team sent a letter to local authorities advising that the first tranche of funding for the SBGF and RHLGF would be delivered on 25 March 2020 and the balance delivered on 1 April 2020 {GD(C)/059 – INQ000543117}, {GD(C)/060 – INQ000543103} and {GD(C)/053 – INQ000543118}. Local authorities were encouraged *“...to take all possible steps to deliver these grants quickly, including redeploying resource to deliver these schemes and taking on temporary resource where possible.”*

- 3.58. On 31 March 2020, CLGU sent a grant offer letter for the SBGF and the RHLGF (the **SBGF and RHLGF Offer Letter**) to each local authority, along with a grant determination from the Secretary of State dated 25 March 2020 (the **SBGF and RHLGF Grant Determination**). The SBGF and RHLGF Offer Letter was drafted by CLGU and MHCLG and signed by Jenny Dibden. It outlined the conditions and requirements for the administration of the SBGF and RHLGF and the total amount that would be transferred to each individual local authority by 1 April 2020. I exhibit an example SBGF and RHLGF Offer Letter and SBGF and RHLGF Grant Determination at {GD(C)/061 – INQ000543137} and {GD(C)/062 – INQ000543133}.
- 3.59. The SBGF and RHLGF Offer Letter stated that the funds to be transferred were “...an on account payment as authorities will be funded on outturn costs to be confirmed in the future. As a result a reconciliation process will take place in due course. BEIS and MHCLG will make reconciliation payments to the Council or require reconciliation payments from the Council based on that process”. In addition, local authorities were advised that, “Under no circumstances may the Grant be used to cover any expenditure outside of these schemes.” The SBGF and RHLGF Offer Letter stated that grant payments to the local authorities were being made under section 31 of the Local Government Act 2003, and local authorities were responsible for delivering funds to eligible businesses and ensuring compliance with the terms and conditions contained within the letter. Local authorities were instructed that they must ensure businesses meet the criteria set out in the scheme guidance, record and retain records of grant payments, provide weekly monitoring reports on the number of eligible businesses and payments made, and share with the Department any issues regarding implementation.
- 3.60. HMT had suggested that the Department incorporate a provision in the SBGF and RHLGF Offer Letter regarding the fiduciary responsibility of landlords to ensure money reached small businesses who were tenants, rather than property owners. However, this provision was not included because the SBGF and RHLGF were designed to support businesses who were ratepayers on a property {GD(C)/063 – INQ000543123} and {GD(C)/064 – INQ000543124}. With regard to fraud, the SBGF and RHLGF Offer Letter stated that “Any businesses falsifying their records to gain additional Grant money or committing any other fraudulent acts will face prosecution and any funding awarded will be subject to claw back and become immediately repayable in full to BEIS.” It reiterated the availability of counter fraud tool, Spotlight, and that local authorities would be supported in post-event assurance work. At paragraph 17.28

below, I have set out reflections on the cohort one grant offer letters in relation to post-payment assurance and reconciliation.

- 3.61. The SBGF and RHLGF Grant Determination, which accompanied the SBGF and RHLGF Offer Letter, was drafted by the CLGU and approved by HMT on 25 March 2020 {GD(C)/065 – INQ000543122}. It stated that the Secretary of State had determined the local authorities to which the grants would be paid and the amount allocated to each. A clawback provision was included in the SBGF and RHLGF Grant Determination to ensure the Secretary of State had the power to seek that any residual funding be returned to the Department in the event that it had not been distributed to businesses {GD(C)/063 – INQ000543123}. Reflecting the language in the SBGF and RHLGF Offer Letter, the conditions of the SBGF and RHLGF Grant Determination were as follows:

“1. This is an on account payment as authorities will be funded on outturn costs to be confirmed in the future. As a result a reconciliation process will take place in due course. The department will make reconciliation payments to authorities or require reconciliation payments from authorities based on that process.

Local authorities must:

2. Ensure businesses meet the criteria set out in the Grant Funding Schemes, Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund published in March 2020, including as amended, and any supplementary guidance.

3. Provide weekly monitoring reports on the number of businesses eligible for each scheme, the number of payments being processed and the value per scheme, and the number of actual payments and value per scheme.”

SBGF and RHLGF Guidance and Eligibility

- 3.62. The remainder of this Section will address the development of the guidance issued by the Department in relation to the SBGF and RHLGF (the **SBGF and RHLGF Guidance**). It will also discuss the Department's engagement with and feedback from local authorities and other stakeholders on the SBGF and RHLGF Guidance.
- 3.63. Following the Government's announcement of the SBGF on 11 March 2020, and the RHLGF on 17 March 2020, the Department and officials from the MHCLG Local Government Business Rates team engaged with the LAAG to refine guidance for local authorities regarding delivery of the schemes. The intention was to provide clear,

concise, and unambiguous guidance to local authorities, so that the decisions to be made by local authorities were functional rather than policy decisions.

Work to finalise the SBGF and RHLGF Guidance

- 3.64. As set out at paragraph 3.23 above, on 17 March 2020, the Chancellor announced the RHLGF to help protect businesses in the retail, hospitality, and leisure sectors. Businesses in these sectors were particularly exposed to the substantial supply and demand side disruption being caused by Covid-19. As highlighted by HMT in an email dated 18 March 2020, the eligibility criteria for the RHLGF was agreed between HMT and CLGU at pace. It centred on the need to keep delivery of the scheme simple and get grant funds to businesses as quickly as practicable {GD(C)/038 – INQ000543083}.
- 3.65. By 19 March 2020, CLGU had provided draft SBGF and RHLGF Guidance to the LAAG for comment {GD(C)/066 – INQ000543087}. On the evening of 20 March 2020, Jenny Dibden sent a submission, together with the draft SBGF and RHLGF Guidance, to the Secretary of State for approval {GD(C)/067 – INQ000543091} and {GD(C)/068 – INQ000543092}. The submission recommended the Department proceed to publish the SBGF and RHLGF Guidance and sign the accompanying letter to local authorities {GD(C)/032 – INQ000064765}. The submission confirmed that the Department had “...worked closely with the MHCLG Local Government Business Rates team to develop this guidance ... [the] Local Authority [Advisory] group has given feedback on the principles of our guidance, and are content that the schemes are deliverable and can be delivered at pace.” As set out in Part A of this statement, meetings with the LAAG were informal. The Department does not hold copies of meeting minutes with the LAAG. On mitigating the risk of fraud, the submission stated that the Department had “...worked with the Cabinet Office (CO) to identify mitigations to fraud risk within the guidance, including securing a CO tool [i.e. Spotlight] and CO specialist support to support LAs in delivery” of the grant schemes.
- 3.66. In response, the Secretary of State's private office asked for clarification about the deliverability of the SBGF and RHLGF and how the Department would support local authorities to get funds to businesses {GD(C)/013 – INQ000543093}.
- 3.67. On 22 March 2020, Jenny Dibden circulated a further submission addressing the points raised by the Secretary of State {GD(C)/069 – INQ000543106} and {GD(C)/048 – INQ000543108}. The submission stated that local authorities believed the schemes were workable and that the Department would contact each local authority to establish

whether the SBGF and RHLGF Guidance had been received and actioned. The submission recommended that the Secretary of State “*Agree to write to the banks early next week, to ensure they are aware of the grants being launched and urge understanding for small businesses who present in distress. Reinforce with a telephone conference call to the sector*”. Finally, the submission detailed the support being provided by the Department to local authorities and requested that the Secretary of State review the support and confirm whether it met his expectations.

3.68. On 23 March 2020, the Secretary of State signed the letter to be sent to each local authority and signed the ministerial direction for the SBGF and RHLGF {GD(C)/033 – INQ000065999}.

3.69. On the evening of 23 March 2020, the SBGF and RHLGF Guidance, a document combining guidance for both schemes, was circulated to local authorities {GD(C)/060 – INQ000543103}, {GD(C)/070 – INQ000543101}, and {GD(C)/032 – INQ000064765}. The accompanying letter from the Secretary of State instructed local authorities:

“...the detailed guidance being provided is intended to ensure that all Local Authorities can act immediately to support [businesses] – and by extension support local economies.

Local Authorities should contact eligible businesses this week in order to collect any outstanding details for payment and we expect grant payments to be made as soon after 1st April as possible.”

3.70. On 24 March 2020, the SBGF and RHLGF Guidance was published on the Government website.

3.71. The SBGF and RHLGF Guidance provided guidance on eligibility, the operation and delivery of the schemes, and is discussed in further detail in the paragraphs immediately below.

SBGF and RHLGF Eligibility Criteria

3.72. The SBGF and RHLGF Guidance, and accompanying letter from the Secretary of State dated 23 March 2020, provided local authorities with details of the eligibility criteria for the schemes {GD(C)/032 – INQ000064765} and {GD(C)/060 – INQ000543103}.

3.73. The eligibility criteria for the SBGF, as set out in the SBGF and RHLGF Guidance, were as follows:

- a) Businesses with 'hereditaments' (property capable of being inherited);
- b) Business in England receiving Small Business Rate Relief (SBRR) as of 11 March 2020 (including those with a rateable value² of between £12,000 and £15,000 which receive tapered relief);
- c) Hereditaments that were not eligible for percentage SBRR relief were excluded, unless eligible for the Small Business Rate Multiplier; and
- d) Hereditaments which on 11 March 2020 were eligible for relief under the rural rate relief scheme were also eligible.

3.74. Under the SBF, eligible businesses qualified for a payment of £10,000.

3.75. The criteria to receive grants under the RHLGF, as set out in the SBF and RHLGF Guidance, were as follows:

- a) Businesses: For those with business 'hereditaments' or properties capable of being inherited;
- b) Businesses that were eligible for the Expanded Retail Discount on business rates as of 11 March 2020;
- c) Businesses that had a rateable value under £51,000; and
- d) Charities. For those that otherwise met the business criteria but whose tax bill for 11 March 2020 had been reduced to zero by a local discretionary award, the Discretionary Rate Relief, were also eligible for the RHLGF {GD(C)/060 – INQ000543103}.

3.76. To be eligible for the RHLGF, applicants needed to be eligible for the Expanded Retail Discount. The Expanded Retail Discount was one of the measures announced by the Chancellor in the Spring Budget 2020 and was based on the existing Business Rates Retail Discount. The Business Rates Retail Discount consisted of a one third discount in the amount of tax that businesses had to pay to local authorities for the financial years 2019/2020 and 2020/2021. The Expanded Retail Discount increased that discount from 33% to 100%, meaning that businesses would not have to pay Business Rates to local authorities for the financial year 2020/2021. This discount applied to businesses who occupied properties that were wholly or mainly being used:

² The rateable value of a business property was an estimate of what it could cost to rent the property for a year, on a certain valuation date set by the Government. This value was calculated by the Valuation Office Agency. Local authorities used the rateable value of properties owned by a business to work out the amount of business rate, i.e. the amount of tax they have to pay for the local authority's services.

- a) As shops, restaurants, cafes, drinking establishments, cinemas and live music venues;
 - b) For assembly and leisure; or
 - c) As hotels, guest & boarding premises, and self-catering accommodation.
- 3.77. The MHCLG produced guidance on the Expanded Retail Discount for local authorities on 11 March 2020. It stated that it was for local authorities to adopt a local billing scheme and determine when to grant relief, using the guidance as a base {GD(C)/071 – INQ000585844}. Central government would then reimburse local authorities for the local share of the discretionary relief using a grant under section 31 of the Local Government Act 2003.
- 3.78. Under the RHLGF, eligible business qualified for the following:
- a) Businesses occupying a property with a rateable value of up to and including £15,000 were eligible to receive a grant of £10,000; and
 - b) Businesses occupying a property with a rateable value of over £15,000 and less than £51,000 would receive a grant of £25,000.
- 3.79. Applicable to both schemes, the SBGF and RHLGF Guidance stated:
- a) Local authorities were responsible for delivering the grant funding to eligible businesses and the Government would reimburse local authorities that pay grants to eligible businesses;
 - b) The person who was recorded in the billing authority's records as the ratepayer (as at 11 March 2020) would receive the grants;
 - c) Eligible recipients would receive one grant per hereditament;
 - d) Hereditaments occupied for personal uses (for example, private stables and loose boxes, beach huts and moorings), car parks and parking spaces were not eligible for the grant schemes;
 - e) Businesses which were in liquidation or were dissolved as at 11 March 2020 were not eligible for the grant schemes;
 - f) Where a local authority had reason to believe that the information it held about the ratepayer was inaccurate, it could withhold or recover the grant and take reasonable steps to identify the correct ratepayer. Local authorities were instructed to make it clear to recipients that the recipient may be required to

repay the grant if the recipient was not the ratepayer on the eligible day, i.e. 11 March 2020;

- g) The Government would not accept deliberate manipulation or fraud. Any business caught falsifying its records to gain additional grant money would face prosecution and any funding issued would be subject to claw back;
- h) Any changes to the rating list 3, which details the rateable value of all non-domestic properties, after the 11 March 2020, including changes which had been backdated to this date, could be ignored for the purposes of eligibility;
- i) Local authorities were not required to adjust, pay or recover grants where the rating list was subsequently amended retrospectively to the 11 March 2020;
- j) In cases where it was clear to the local authority that the rating list was inaccurate as at 11 March 2020, the local authority had the discretion to withhold the grant and/or award the grant based on its view of who would have been entitled to the grant, had the list been accurate;
- k) Post-payment, the Government Grants Management Function and Counter Fraud Function would support local authorities to carry out post-event assurance work to identify high risk payments;
- l) The Government Grants Management Function and Counter Fraud Function would make their digital assurance tool, Spotlight, available to local authorities; and
- m) The Department would undertake regular data collection exercises and local authorities should retain the necessary data on the awards provided, including the numbers of businesses which were eligible per scheme, the number of payments being processed and value per scheme, and the number of actual payments and value per scheme. Further guidance to support this process would follow. Annex B of the SBGF and RHLGF Guidance set out the minimum data fields that local authorities were required to collect to complete post-payment assurance.

3.80. Finally, local authorities were directed to email enquiries regarding the SBGF and RHLGF to a dedicated business grants mailbox, managed by the CLGU team.

³ The rating list sets out all rateable values for non-domestic properties in England and Wales. It is used by local authorities to help determine business rates.

Feedback from and engagement with Local Authorities and Business Groups on the SBGF and RHLGF Guidance

- 3.81. On 24 March 2020, the Department provided a briefing to MHCLG (for its acting Permanent Secretary) on communication of the Covid-19 business support grant schemes {GD(C)/072 – INQ000543115}. The briefing explained that the Department, supported by MHCLG, had worked closely with the LAAG, and specialists in local authorities and business rate experts, to refine the SBGF and RHLGF Guidance {GD(C)/073 – INQ000543116}. The briefing explained that local authorities had raised queries, mainly in relation to State aid rules, and had raised concerns about the additional burden of data capture and post-payment assurance requirements. Local authorities had suggested that this would delay implementing the schemes. On the same date (24 March 2020), Tony Bray advised CLGU would engage with the Local Enterprise Network, Business Growth Hubs, and BROs to help explain the schemes and encourage local group support to local authorities with the aim that funding reached businesses as quickly as possible {GD(C)/074 – INQ000543111}.
- 3.82. On 25 March 2020, there was a telephone conference between the CLGU and the LAAG, aimed at helping the LAAG “*cascade the guidance*” {GD(C)/075 – INQ000543104}, {GD(C)/064 – INQ000543124} and {GD(C)/076 – INQ000543130}. The LAAG fed back that:
- “LAs are clear that any upfront data collection will slow payment of grants down by a number of weeks. There is variation in how ready LAs are to pay – and a risk of postcode lottery – but those ready to move now want to issue cheques almost immediate[ly]. Other authorities are going to have to write and get bank details, although adding further data fields turns an enquiry about bank details into an application process (which these schemes are stated not to have).”*
- 3.83. On 27 March 2020, the British Beer & Pub Association contacted the Department, raising a number of concerns. The email invited the Government to waive State aid restrictions in relation to grants. It said that local authorities were interpreting and implementing the SBGF and RHLGF in different ways, while others were contradicting the SBGF and RHLGF Guidance. It also explained that members had raised concerns about determining the appropriate recipient of a grant by reference to the person responsible for rates on 11 March 2020, giving an example of a pub with a licensee who left on 13 March 2020. It informed the Department that none of the British Beer & Pub Association’s members had received grant monies and stressed that help was

needed as quickly and efficiently as possible {GD(C)/077 – INQ000543134}. On 2 April 2020, on the Secretary of State's bi-weekly call with BROs, BROs advised the Secretary of State that there were inconsistencies across local authorities in how the SBGF and RHLGF were being administered and emphasised the need for a standardised approach {GD(C)/078 – INQ000543144}. For example, the British Chambers of Commerce reported “...we're seeing some very patchy approaches, some LAs are pushing the money out as fast as possible, but some asking businesses to apply and having to wait several weeks for that money. Anything you can do to encourage a more standard approach would be really helpful”. The Confederation of British Industry reported that they were “...hearing some good reports from across the UK, it's a bit patchy.”

- 3.84. By 5 April 2020, the LGA's view was that more clarity was needed in parts of the SBGF and RHLGF Guidance, particularly around State aid {GD(C)/079 – INQ000543153}. On 6 April 2020, the British Retail Consortium also asked for clarity on the application of State aid rules, arising from the SBGF and RHLGF Guidance {GD(C)/080 – INQ000596665}. This issue was later addressed by revisions to the SBGF and RHLGF Guidance and the subsequent publication of a new version as set out in the following sub-sections.

Updates to the SBGF and RHLGF Guidance

- 3.85. On 25 March 2020, the SBGF and RHLGF Guidance was updated to more clearly set out which hereditaments were included in the SBGF, and which were excluded, and to amend the categories of rateable value for the RHLGF following feedback from stakeholders {GD(C)/081 – INQ000543120}. Those not included in the SBGF were carved out as “*Hereditaments that were not eligible for percentage SBRR relief (including those eligible for the Small Business Rate Multiplier)*”. This meant that small businesses that had business properties which did not have a rateable value of between £12,001.00 to £15,000.00, and therefore could not receive a percentage of relief from 100% down to 0%, were excluded from the scheme (even if they were eligible for the Small Business Rate Multiplier which was a sum used to calculate a business' rates bill and applicable to business properties with a rateable value below £51,000.00) {GD(C)/082 – INQ000585833}. In relation to the RHLGF, to avoid confusion, the rateable values as set out in Annex A of the SBGF and RHLGF Guidance, were amended to state that the two categories of rateable value were up to

£15,000.00, and from £15,000.01 to £50,999.99. (See the second version of the SBGF and RHLGF Guidance at {GD(C)/083 – INQ000543121})

- 3.86. On 31 March 2020, the Cabinet Office Grants Management Function team emailed the Department and cautioned “[the] current guidance for small business grants includes details of the checks which Spotlight can perform. Spotlight is a due diligence tool which aims to reduce fraud; by publishing the detail of the checks, we are helping fraudsters work their way around the system”. Annex B of the SBGF and RHLGF Guidance (version 2) listed the minimum data fields local authorities should collect, including the information required from a local authority’s business rates system, in order to complete effective post payment assurance on grant payments. To avoid fraudsters being alerted to the due diligence being completed by local authorities, version two of the SBGF and RHLGF Guidance was removed from the Government’s website at the request of the CLGU and republished without Annex B on 31 March 2020.
- 3.87. The third iteration of the SBGF and RHLGF Guidance was issued on 1 April 2020 ({GD(C)/084 – INQ000543140} and {GD(C)/085 – INQ000543139}). It provided updated information on State aid, managing the risk of fraud, and post-payment monitoring and reporting requirements. It also included a re-draft of Annex B to reflect the Cabinet Office Grants Management Function team’s comments the previous day. Annex B no longer contained an extensive list of the data required for the checks made by Spotlight. Instead, it set out the weekly post-payment reporting that local authorities were required to undertake, including the:

“Numbers of businesses eligible per scheme

Number of actual payments

A RAG rating for delivery confidence

Issues encountered in implementing the scheme to allow BEIS to support development of solutions with local authorities”.

- 3.88. On managing the risk of fraud, the SBGF and RHLGF Guidance now stated that the Department wanted local authorities to work with the Department and each other in identifying and sharing good practice, including protecting eligible businesses against fraud. Local authorities were directed to complete the weekly post-payment reporting return by midday on Mondays. This was done via DELTA, an online system provided

by MHCLG to facilitate the collection of statistical data and the administration of grant applications.

- 3.89. The fourth iteration of the SBGF and RHLGF Guidance was published on 2 April 2020 and included details regarding grant funding allocations and information on when undertakings in distress (**UID**) were required for recipients of the RHLGF in order to comply with EU law on State aid {GD(C)/086 – INQ000543148}. These revisions to the SBGF and RHLGF Guidance reflected CLGU discussions on State aid and UID {GD(C)/087 – INQ000543143} and {GD(C)/088 – INQ000543154}.
- 3.90. On 3 April 2020, officials sent a submission to the Secretary of State on the progress of the grant schemes and the development of the next iteration of the SBGF and RHLGF Guidance and FAQs document (discussed in further detail at paragraph 3.95 below) {GD(C)/089 – INQ000543147} and {GD(C)/090 – INQ000543146}. On supporting local authorities to deliver the SBGF and RHLGF, the submission stated that the Department had also redeployed significant resource from CLGU to provide more support to and have regular engagement with local authorities. It was confirmed that two briefing sessions had taken place with over 300 local authority representatives attending each. In addition to the continued engagement with the LAAG on policy development, the submission also highlighted the dedicated business grants mailbox for local authority queries and that officials had collected lead contact details from every local authority. It explained that *“This week our regional teams have been calling all lead contacts to check they have received all guidance and are ready to start making grants.”*
- 3.91. A fifth iteration of the SBGF and RHLGF Guidance was published on 24 April 2020 and provided clarification on whether grants were subject to tax {GD(C)/091 – INQ000543172}. Although mentioned in previous versions, the wording in this iteration of the SBGF and RHLGF Guidance was expanded at the request of HMT. It stated that only businesses which made an overall profit once grant income was included would be subject to tax {GD(C)/092 – INQ000543238}.
- 3.92. The final iteration of the SBGF and RHLGF Guidance was published on 7 August 2020. It provided clarification on grant scheme eligibility for town and parish councils and confirmed they were not eligible for the RHLGF {GD(C)/093 – INQ000543301}. This amendment was as a consequence of queries received from local authorities surrounding the eligibility of parish and town councils due to their status as precepting

authorities (those that do not collect council tax directly but instruct a billing authority to do it on their behalf) {GD(C)/094 – INQ000543302}.

Supplementary Documents to the SBGF and RHLGF Guidance

- 3.93. On or around 31 March 2020, to supplement the SBGF and RHLGF Guidance, the Department published “*Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund Guidance – Information for Business*” (the **SBGF and RHLGF Business Information**) {GD(C)/095 – INQ000543136} and {GD(C)/096 – INQ000543135}. The aim of the SBGF and RHLGF Business Information was to make clear to businesses, in plain English, what each grant scheme entailed and eligibility criteria. Importantly, it explained that local authorities would contact eligible businesses to arrange payment of grant funds. To aid communication of the grant schemes the SBGF and RHLGF Business Information was distributed to local Growth Hubs.
- 3.94. On 3 April 2020, consistent with the SBGF and RHLGF Guidance, the SBGF and RHLGF Business Information was updated to include information on State aid, including how local authorities would contact businesses regarding the completion of State aid declarations (if applicable) {GD(C)/097 – INQ000543149} and {GD(C)/098 – INQ000543150}.
- 3.95. Following publication of the SBGF and RHLGF Guidance (and the various updates) CLGU received queries from businesses about the schemes through “Area Leads” (BEIS officials assigned to liaise with local authorities in a particular region), the dedicated business grants mailbox, and via weekly calls with local authorities. CLGU collated frequently asked questions and then published two documents. The first was a public-facing FAQs document, intended to assist both businesses and local authorities, and to be published online. This was called the ‘*Grant Funding Schemes – Frequently Asked Questions (FAQ) Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund Guidance.*’ It was published on 2 April 2020 {GD(C)/099 – INQ000543142}. It was updated on 3 April 2020 to contain more information on State aid {GD(C)/100 – INQ000543832}.
- 3.96. The second document was a technical document prepared for local authorities and intended to provide answers to questions on delivery of the grant schemes and reporting – ‘*Grant Funding Schemes – Technical Frequently Asked Questions (FAQ) for Local Authorities – Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund Guidance.*’ It sought to capture questions and answers discussed during

livestream events with local authorities, and through engagement with the Area Leads and other stakeholders. It was issued to local authorities on 7 April 2020. On 23 April 2020, an updated version was circulated {GD(C)/101 – INQ000543168}.

SECTION 4: COHORT ONE SCHEMES – THE LOCAL AUTHORITY DISCRETIONARY GRANT FUND

4.1. The final cohort one scheme, the LADGF, was announced on 1 May 2020. This section will address the objectives for the LADGF, the Accounting Officer assessment, the allocation of funding for the grant, and engagement with local authorities on delivery of the scheme.

Objectives for and establishment of the LADGF

4.2. In April 2020, business representatives and regional authorities raised concerns that small businesses that did not pay business rates were ineligible for support under the SBGF and RHLGF. Example concerns (recorded in the Weekly Covid-19 Sector and Regional/DA Dashboard (dated 17 April 2020) – a dashboard which recorded business intelligence for each region in England {GD(C)/102 – INQ000543157} included:

- a) Some businesses were concerned they “...[were] unable to access support to keep operations going.” Such businesses included “...[s]mall business not directly responsible for business rates; or with no rating (such as B&Bs or business operated from homes)...”; and
- b) Firms “...which [did] not pay business rates directly, such as market traders or those working in serviced offices, continue[d] to miss out on grant payments and [were] lobbying for equivalent financial support.”

4.3. As recorded in the Covid-19 Key Business Insights Daily Report dated 8 April 2020, there was also a “...disproportionate number of small, incubator-type businesses in region that [couldn't] access grants scheme as [they paid] an overall rent/service charge/rates fee...” {GD(C)/103 – INQ000596666}. A proposal was made that regional partners be empowered to identify and support smaller businesses who might not have been able to access any Government support at that time.

4.4. In addition, MPs had lobbied the Chancellor about small businesses that would otherwise have been eligible for the SBGF and RHLGF but were deemed ineligible as they rented part of a larger space. In particular, HMT officials in the Enterprise and Growth Unit sought advice on whether it would be “...defensible to just give a discretionary pot to all local authorities (scaled by size of business population), or would [they] need to be more prescriptive at a national level” {GD(C)/104 – INQ000543171}.

4.5. On 20 April 2020, the Chancellor requested advice from several departments, including BEIS, on whether the SBGF and RHLGF could be extended to businesses in shared buildings, how that could be done, and the likely cost.

4.6. On the afternoon of 20 April 2020 officials from the Department, MHCLG, and HMT had a conference call to discuss an extension of the grant schemes. Following the call, HMT circulated for comment a draft submission to the Chancellor on whether grants could be extended to businesses in shared spaces without their own ratings assessment {GD(C)/105 – INQ000543162} and {GD(C)/106 – INQ000543161}. It was not HMT’s ordinary practice to share HMT submissions with the Department or to inform the Department of the reasoning behind the Chancellor’s decisions. The draft submission stated this could be done by either developing a specific ‘shared spaces’ scheme or creating a ‘discretionary pot’ for the local authorities “...for a range of ‘hard cases’”. HMT officials did not recommend either option and concluded that:

“Neither a narrow ‘shared spaces’ scheme nor a wider discretionary pot are well-targeted at businesses that would otherwise fail due to Covid-19.

Announcing either scheme will have a lag of at least several weeks until the majority of eligible businesses received the cash, leading to criticism from businesses. In addition, not all ‘hard cases’ would be captured, leading to continued lobbying from those businesses that miss out.”

4.7. Officials considered other models for a grant scheme, such as the discretionary grant scheme in Wales. Tony Bray spoke to officials in the Welsh administration and learned that it was not tied to business rates. The Welsh scheme had a defined criteria including employing between 1 and 9 employees (and maintaining employment for 12 months), VAT registered (or VAT exempt with a turnover greater than £85,000), and with businesses required to evidence a drop in turnover greater than 40% as a result of the pandemic.

4.8. On 21 April 2020, BEIS officials responded: {GD(C)/104 – INQ000543171}:

“Our preference is for something that closely resembles the Wales scheme. I think [it’s] quite different to the “discretionary pot” as [it’s] currently described, as it would have quite clear criteria and a process set at a national level, and is simply administered locally. The Welsh schemes criteria are a good place to start and does enable a good degree of targeting. I understand that

deliverability issues will remain, but as discussed yesterday the more tightly defined the criteria at a national level, the easier it is for LAs to administer.”

4.9. In response, HMT officials advised:

“The Chancellor has already ruled out a scheme that would provide grants to all businesses with fewer than 10 employees (my previous advice to him last week). That would have been fairly similar to the Wales scheme – only difference in the Welsh scheme is need to be VAT registered, and need to have seen a 40% income drop due to Covid.

Those criteria would still mean the majority of 1-9 employee businesses are in scope, so we’d be looking at costs of £3-5 billion – significantly more than either of the options in this paper. For that reason, and the CX’s previous steer, we can’t recommend that approach.”

4.10. On the same day, 21 April 2020, MHCLG officials raised questions about defining businesses in shared buildings and highlighted consistent requests from local authorities that new reliefs be centrally defined, should a discretionary support scheme be introduced.

4.11. On 23 April 2020, HMT officials advised various departments, including BEIS, that the Chancellor was “...minded to create a discretionary grant pot for Local Authorities to help with ‘hard cases’”. This was not a final decision; the Chancellor had asked for detailed advice on the design of such a scheme {GD(C)/104 – INQ000543171}. HMT did not inform the Department why the Chancellor ultimately opted to proceed with this option despite the 20 April 2020 draft advice not recommending this course. HMT officials sought comments from the Department and MHCLG on a variety of draft recommendations including:

- a) That central government did not set strict criteria for local authorities to apply, but rather left a large amount of discretion to local authorities, with national guidance stating that support should focus on small business with high fixed costs (for example, rent) and a significant drop in income due to Covid-19;
- b) Limiting individual grant payments to a maximum of £25,000 per business, with a second tier of £10,000, and local authorities having flexibility to make grants less than £10,000, as considered appropriate;
- c) Businesses must show they were trading before 11 March 2020 to help reduce fraud; and

- d) Granting local authorities an additional 5% of the value of their existing grant allocation to date (with local authorities first using their existing grant underspends to deliver the discretionary scheme). That would amount to £617 million for England, with the equivalent funding to Devolved Administrations under the Barnett formula being £117 million, so £734 million in total.
- 4.12. HMT officials also asked if it *“would be possible to test this potential criteria with a couple of trusted [local authorities].”* In response, Tony Bray confirmed he would engage with local authorities {GD(C)/107 – INQ000543182}.
- 4.13. On 24 April 2020, HMT, MHCLG, and the Department met to discuss the design of the proposed scheme and policy framework {GD(C)/107 – INQ000543182}.
- 4.14. On 28 April 2020, HMT officials informed the Department that the Chancellor wanted to proceed with a discretionary grant fund and circulated the final proposed eligibility criteria {GD(C)/107 – INQ000543182}, {GD(C)/108 – INQ000543183}, and {GD(C)/109 – INQ000543185}.
- 4.15. On 29 April 2020, a submission was sent to the Secretary of State seeking his approval on a number of matters relating to a new discretionary fund for local authorities {GD(C)/110 – INQ000543186}. The advice summarised the broad intention of the scheme and key elements as follows:
- “1. A proposed fund for local authorities to administer locally to help address cases not in-scope of support from the existing [SBGF] or the [RHLGF].*
- 2. An additional 5% (£617 million) allocation on top of the original £12.33 billion, apportioned to local authorities in proportion to their original funding.*
- 3. Simple national framework for local authorities to use to structure local schemes with a focus on small businesses with relatively high costs associated with property (e.g. rents) but un-tied from the business rates system.”*
- 4.16. The submission explained that there were small businesses with relatively high fixed costs as they rented their property however, because they did not have the direct liability for business rates, they were out of scope of the SBGF and RHLGF. Examples provided included: small businesses in shared office spaces or other flexible workspaces, market traders, and B&Bs which paid council tax instead of business rates. Therefore, the set of eligible businesses was now wider than simply businesses in shared building (as had been the original proposal).

- 4.17. The advice stated that the proposed approach was that Government would set out some eligibility criteria. The Department's suggested eligibility criteria, which had been tested with HMT officials, was as follows:

"Businesses must be able to demonstrate that they have ongoing fixed building-related costs;

Businesses must also demonstrate that they have seen a significant drop of income due to Coronavirus restriction measures;

Businesses with 0 – 49 employees are eligible;

Businesses must demonstrate that they were trading on or before 11th March;

Businesses which are eligible for the existing grants schemes or Self-employed Income Support Scheme are ineligible."

- 4.18. The submission explained that the proposed scheme would have two tiers of grants, £10,000 and £25,000, to reflect "...the different size and levels of fixed-costs...", but that local authorities should also have the discretion to make grants of less than £10,000 (paragraph 13). The advice stated that officials were not looking to target specific sectors of business. The value of the proposed scheme was that local authorities had the discretion to target those businesses and sectors that were important in their local economies (paragraph 14).

- 4.19. As to the policy aims of the LADGF, the submission stated that:

"15. We believe this proposal has the potential to support some of the businesses which were omitted from the original schemes, for example businesses that operate out of co-working spaces, which has been a key concern for tech and start-up companies, market traders and other businesses that operate out of concessions in larger properties and other hard cases that did not receive the original grants."

- 4.20. The advice set out that it was likely the proposed scheme would still leave some business groups without support, for example, the recently self-employed and directors of limited companies. The submission stated that HMT had been "...firmly resistant to additional support for these groups." The proposed grant was also unlikely to cover home workers (paragraphs 17 and 18).

- 4.21. The submission recommended that the Secretary of State "...note the significant Accounting Officer risks associated with the proposal and that because of these risks

it is highly likely that a Ministerial Direction will be required should [the Secretary of State] choose to proceed.” It stated:

“19. ... on the basis of current available information it is not possible to construct a business case to demonstrate that this funding represents value for money to the standards expected by Managing Public Money. In particular, whilst this funding may provide relief to some companies it is not possible to assess how much will go to those who either do not need (i.e. because they are already surviving through trading or from the range of HMG support schemes) or [if] or where it will not prevent a closure.

20. There are also significant AO risks around the feasibility of this proposal. In particular there are risks around Local Authorities ability to accurately deliver a new and complex scheme such as this in the middle of a pandemic and on top of all of their other commitments. There are also significant risks around payments made in error, including fraudulent claims, which were included in advice on the previous C-19 grant schemes and which are subsequently appearing and which will be extremely difficult to effectively mitigate.”

- 4.22. The submission confirmed that full Accounting Officer advice was being finalised.
- 4.23. In relation to local authorities’ capacity to deliver this new scheme, the submission noted that feedback from a small number of local authorities had suggested dealing with this kind of new discretionary scheme may not take up much more capacity than dealing with complaints from businesses that were ineligible for the SBGF and RHLGF (paragraphs 26 and 27).
- 4.24. With regard to funding, the submission stated that HMT had verbally confirmed that it would provide the Department with additional funding for meeting the costs of this new scheme. The key issue was whether a 5% uplift from the existing grant allocation would be sufficient to address the potential demand. It was noted that it was very difficult to assess the potential number of businesses that may be in the scope of the scheme. An estimate of 300,000 to 500,000 was provided (paragraphs 23 to 25).
- 4.25. It was suggested that the scheme could be announced to a meeting of 314 local authorities which was already scheduled for 1 May 2020 (paragraph 29).
- 4.26. The submission recommended the Secretary of State agree:

“a) The additional funding level is appropriate at this time but subject to ongoing review in relation to need as local authorities administer the scheme.

b) *The proposed scheme design and eligibility criteria, with the discretion available for local authorities.*

c) *The plan to announce the scheme, subject to a more detailed plan being developed.*

d) *That you note the significant Accounting Officer risks associated with the proposal and that because of these risks it is highly likely that a Ministerial Direction will be required should you choose to proceed.”* (paragraph 5)

Accounting Officer Assessment and Ministerial Direction

- 4.27. On 1 May 2020, Accounting Officer advice on the LADGF was sent to the acting Permanent Secretary {GD(C)/111 – INQ000543193} and {GD(C)/112 – INQ000543194}. The advice set out the proposed criteria and stated that grant awards would be tiered, at £25,000 then £10,000, with local authorities having discretion to make payments of any amount under £10,000. The Accounting Officer advice confirmed that the Department had now taken on lead responsibilities for the scheme, which would be delivered to eligible businesses through local authorities.
- 4.28. The Accounting Officer advice explained that HMT had agreed to provide, where necessary, additional funding for a discretionary grant fund, which would be capped at 5% of the existing grant schemes (the SBGF and RHLGF), with a maximum cost of £734 million (inclusive of £116 million for the Devolved Administrations). It stated that HMT had previously agreed to provide £70 million of ‘New Burdens’ funding and £5 million (subject to a business case) for BEIS to administer the range of Covid-19 grant schemes. BEIS, MHCLG and HMT would develop guidance on delivery of the funding.
- 4.29. The Accounting Officer advice recommended seeking a ministerial direction if the LADGF was to proceed, given the “...*significant uncertainties around the value for money of the scheme, as well a number of risks which may inhibit the effective delivery of the scheme*” (paragraph 8). A draft letter seeking a ministerial direction was appended to the Accounting Officer advice. It was stated that there was a “...*high risk around HMG/LA’s ability to deliver this scheme accurately and in a timely fashion...*” (paragraph 11) and the Department was working with HMT and MHCLG to mitigate this risk as best as possible but, even with such steps, some delivery risk would remain. The Accounting Officer advice highlighted that the scheme was “*contentious and potentially repercussive*” (paragraph 16) and that it raised expectations that the

Government would continue to provide funding for these businesses and others in the future, should the situation be prolonged or get worse {GD(C)/112 – INQ000543194}.

- 4.30. On 1 May 2020, the acting Permanent Secretary confirmed that she was happy to proceed as recommended and wrote to the Secretary of State seeking a ministerial direction for the LADGF on the basis that it was not possible to demonstrate that the scheme represented value for money to the standards required by 'Managing Public Money' {GD(C)/111 – INQ000543193} and {GD(C)/113 – INQ000543191}. The acting Permanent Secretary highlighted the risks about the feasibility of the scheme, given the need for local authorities to administer a new scheme during the pandemic, the pace needed to support businesses, and the need for local authorities to establish rules to exercise their discretion. In addition, the acting Permanent Secretary also explained that risks in relation to regularity and propriety depended on the eventual level of fraud, error, and non-compliance with State aid rules, which could not be reliably estimated in advance. While local authorities were expected to take all reasonable and practicable steps to avoid this, if there were material levels of fraud, error, and State aid non-compliance, then this would likely be deemed irregular in terms of spending authority. The acting Permanent Secretary noted that there were wider economic and social reasons for introducing the LADGF which the Secretary of State could consider, but she could not.
- 4.31. The Secretary of State issued a ministerial direction that day (1 May 2020), agreeing that there was strong policy rationale for the LADGF, indicating that the Chancellor (via his officials) had given approval to proceed, and directing the acting Permanent Secretary, as Accounting Officer, to take the scheme forward with immediate effect {GD(C)/114 – INQ000543192}.

Announcement of the LADGF

- 4.32. On 1 May 2020, a livestream was held between CLGU officials and representatives from all 314 English local authorities. The Secretary of State attended this livestream and announced the creation of the LADGF. In addition to the level of funding for the scheme, local authorities were advised that the LADGF was a more flexible grant aimed predominantly at small businesses that were not eligible for the SBGF and RHLGF {GD(C)/115 – INQ000543187}, {GD(C)/116 – INQ000543188}, and {GD(C)/117 – INQ000543198}. The livestreams with local authorities occurred intermittently, in and around the time when key announcements were made, or when guidance was issued in respect of the various Covid-19 business grant schemes. In

periods of rapid change, such as during the tiering system and periods of national lockdown, discussed in Section 7 below, livestreams were held more regularly to ensure local authorities were kept informed. The livestreams provided an opportunity for the Department to convey key messages to local authorities delivering the grant schemes and answer frequently asked questions.

- 4.33. The LADGF was publicly announced on 2 May 2020 {GD(C)/118 – INQ000543204}.

LADGF Guidance

- 4.34. On Monday 4 May 2020, CLGU circulated draft guidance to support local authorities in administering the LADGF to officials within the Department (**LADGF Guidance**) {GD(C)/119 – INQ000543206}.
- 4.35. On 4 May 2020, a Cabinet Office official sent Jenny Dibden guidance and training materials to assist with delivery of the LADGF, including training that local authorities may use {GD(C)/120 – INQ000543207}. The email advised:

“...I would like to encourage you to submit this new scheme for review by CGAP [Complex Grants Advice Panel⁴]. This will provide you with access to a range of experts and support in addressing some of the challenges you have in operationalising this scheme at pace. This will also give you, as SRO, confidence when the NAO undertakes the inevitable review of this scheme post Covid19.

...

Lastly you may want to consider engaging with an organisation like Sedgwick that has the technology to rapidly set up and run online application schemes with built in checks. This could provide LAs struggling with the right resource, a route to rapidly execute the grant application process or [efficiently] run post scheme assurance.”

- 4.36. CLGU did not engage with Sedgwick (or any similar organisation) to implement an application scheme. HMT and BEIS ministers were reluctant to impose a centralised online application process which risked slowing down the delivery of the LADGF and therefore payments to businesses. There were also concerns regarding the viability of

⁴ The CGAP is an independent, cross-government expert panel, co-ordinated by the Cabinet Office Government Grants Management Function (GGMF). Referral to the panel is strongly recommended by Cabinet Office for all schemes that are high-risk, novel, contentious, or repercussive.

the Sedgwick offer and as such, whether it should be recommended to 314 local authorities.

- 4.37. As set out above, Cabinet Office recommended that the LADGF be submitted for review by CGAP and provisionally allocated time for its review on Thursday 7 May 2020, but this was not taken up {GD(C)/120 – INQ000543207}. Officials were of the view that whilst the Department was managing the grant fund, it was for local authorities to manage the delivery of the grant schemes, and that this was an important distinction. On 6 May 2020, CLGU circulated the draft LADGF Guidance to the LAAG {GD(C)/121 – INQ000543210} and {GD(C)/122 – INQ000543211}.
- 4.38. On 6 May 2020, the draft LADGF Guidance was shared with the private offices of the Secretary of State, the MHCLG Secretary of State, and Minister Clarke (Minister of State, MHCLG) {GD(C)/123 – INQ000543208} and {GD(C)/124 – INQ000543209}. Minister Clarke’s private office fed back that the LADGF Guidance should make it clearer that local authorities had the flexibility to make grant awards smaller than £25,000 or £10,000 when oversubscribed, to ensure that more businesses could be supported. The draft LADGF Guidance was updated to reflect this {GD(C)/125 – INQ000543217}. On 7 May 2020, the draft LADGF Guidance was circulated to HMT for comment {GD(C)/126 – INQ000543212}.
- 4.39. On 11 May 2020, HMT officials advised the Department and MHCLG that the Chancellor wanted to relax the wording of the draft conditions allowing some “*wiggle room*” to enable local authorities to reprioritise within their budgets and exercise discretion. HMT recognised that this was a “*substantive change*” to what had been communicated to local authorities and a “*potentially unwelcome one given they [had] been asking for more clarity/ hard cut off*” {GD(C)/126 – INQ000543212}. Jenny Dibden notified Sarah Munby and Emran Mian (Director General, Strategy, MHCLG) of this change and advised that it would lead to some delay {GD(C)/126 – INQ000543212}.
- 4.40. The Department, CLGU, and HMT fed into a revised draft of the LADGF Guidance which was sent to the Chancellor’s private office on 13 May 2020 {GD(C)/127 – INQ000543215} and {GD(C)/128 – INQ000543216}. The revised LADGF Guidance incorporated the Chancellor’s request that it be made clear that local authorities had some flexibility to exercise discretion in awarding grants, stating that the Department was “*...setting some national criteria for the funds but allowing Local Authorities to determine which cases to support within those criteria.*”

- 4.41. On 13 May 2020, the LADGF Guidance was finalised and published on the Government website following input from the Department's legal advisers, Finance Business Partners⁵, Cabinet Office, MHCLG, and HMT {GD(C)/129 – INQ000543220}, {GD(C)/130 – INQ000543221}, {GD(C)/131 – INQ000543219}, and {GD(C)/132 – INQ000543222}. It was intended to support local authorities in England administer the LADGF and explained how the grants would be provided. Following feedback from local authorities that the LADGF could not be delivered by the end of May 2020, the LADGF Guidance stated that first payments would be received by businesses by early June 2020 {GD(C)/129 – INQ000543220} and {GD(C)/130 – INQ000543221}.
- 4.42. The LADGF Guidance encouraged local authorities to prioritise certain types of business and included a non-exhaustive list: small businesses in shared offices or flexible workspaces, regular market traders with fixed building costs, bed and breakfasts paying Council Tax instead of business rates, and charity properties in receipt of charitable business rates relief {GD(C)/130 – INQ000543221}. Local authorities were expected to set out the scope of their discretionary grant scheme on their websites, providing clear guidance on which types of business were being prioritised, as well as the rationale for the level of grant.
- 4.43. The LADGF Guidance stated that businesses in receipt of grants from any Government Covid-19 related scheme (other than payments under the Coronavirus Job Retention Scheme) were ineligible for the LADGF. The LADGF Guidance explained that local authorities would need to run some form of application process as the potential beneficiaries were highly unlikely to be known directly by local authorities. This would allow local authorities to undertake proportionate pre-payment checks to confirm eligibility and to determine how they use their discretion in relation to the appropriate level of grant.
- 4.44. The LADGF Guidance expressly stated that the Government would not accept deliberate manipulation and fraud, and any business caught falsifying records to receive grant money would face prosecution. Any funding issued or grants paid in error would be subject to claw back. As with the previous schemes, the Spotlight tool was available for local authorities to utilise. The LADGF Guidance also covered the management of irregular payments, post-event assurance, and data collection,

⁵ Finance Business Partners support the development of policy and delivery plans and associated funding requirements, providing financial information, advice, challenge and assurance to enable effective decision making. They provide expert financial advice, analysis and assurance to ministers, executive boards and budget holders.

monitoring, and reporting requirements. These matters were dealt with collectively across all cohort one schemes and are addressed at Section 14, below.

- 4.45. The Department hosted a livestream event on 15 May 2020, attended by representatives from all local authorities. The aim was to provide an overview of the LADGF and answer questions arising from the LADGF Guidance {GD(C)/133 – INQ000543243}.
- 4.46. On 20 May 2020, HMT put advice to the Chancellor on the interaction between the Self-Employed Income Support Scheme (**SEISS**) and LADGF. Under the LADGF as launched, those in receipt of SEISS were ineligible for the LADGF. This advice was not provided to the Department. The Chancellor decided to remove the bar on those receiving, or those eligible for, grants under the SEISS from also receiving grants from the LADGF {GD(C)/134 – INQ000543228}. The LADGF Guidance was amended as a result of this decision {GD(C)/135 – INQ000543229}. On 22 May 2020, the Secretary of State's private office cleared the amendments and the LADGF Guidance was published in its updated form on 23 May 2020 {GD(C)/136 – INQ000543232}, {GD(C)/137 – INQ000543230}, and {GD(C)/138 – INQ000543233}.
- 4.47. On 26 May 2020, an FAQs document was issued to assist local authorities with the delivery of the LADGF (the **LADGF FAQs**) {GD(C)/139 – INQ000543231}. The LADGF FAQs reflected common questions raised by local authorities in the 15 May 2020 livestream event. CLGU hosted a further livestream event for the local authorities on 29 May 2020 to discuss the LADGF FAQs {GD(C)/133 – INQ000543243}.
- 4.48. On 29 May 2020, a separate guidance document for businesses was published on the Government website to assist eligible businesses seeking to make an application under the LADGF {GD(C)/140 – INQ000543240}. It included information regarding grant amounts, eligibility, and how to apply. Following the livestream event with the local authorities on 29 May 2020, the Department updated and reissued the LADGF FAQs on 15 June 2020 {GD(C)/141 – INQ000543257} and {GD(C)/142 – INQ000543258}. A number of matters were clarified in the second iteration of the LADGF FAQs, for example, what the Government considered 'trading' to mean and the impact of the rating list on eligibility under the LADGF.
- 4.49. On 19 June 2020, CLGU officials held another livestream event at which local authorities could raise questions regarding the LADGF. On 10 July 2020, a further version of the LADGF FAQs was prepared and issued to local authorities {GD(C)/143 – INQ000543273} and {GD(C)/144 – INQ000543271}. The revised version made a

number of clarifications, including the matters on which local authorities had discretion, updates to eligibility requirements, and confirmation that local authorities were required to report monthly to the Department on their pre- and post-payment assurance activities and provide an update on their fraud risk assessment.

- 4.50. On 7 August 2020, a third and final version of the LADGF Guidance was published. This clarified the eligibility of town and parish councils {GD(C)/094 – INQ000543302}. Town and parish councils were eligible if they met the scheme criteria {GD(C)/145 – INQ000543303}.

Payment of LADGF to the Local Authorities

- 4.51. As with the SBGF and the RHLGF, MHCLG acted as the Department's agent in making grant payments to local authorities. This was done for the purpose of expediency given that MHCLG was already set up to make payments to local authorities and had relevant bank details. A Memorandum of Understanding (the **LADGF MoU**) was prepared to facilitate these payments {GD(C)/146 – INQ000543250}. The LADGF MoU stated that the LADGF was a “...*BEIS scheme, for which BEIS has full policy and Accounting Officer (AO) responsibility...*”
- 4.52. As previously explained, £617 million of additional funding was initially budgeted for the LADGF (i.e. approximately 5% of the original £12.33 billion that was provided to local authorities for the SBGF and RHLGF). As some local authorities had residual funds from the SBGF and RHLGF, and did not require a top-up payment, £581,055,000 was ultimately allocated to the local authorities over the lifetime of the LADGF.
- 4.53. The application process and award decisions in respect of the LADGF sat with the individual local authorities. The Department did not directly receive information on the applications submitted by businesses, including the number of applications that were refused. This data was (and is) held by the relevant local authority and not by the Department.

SECTION 5: CLOSURE OF COHORT ONE SCHEMES

- 5.1. On 2 June 2020, the Secretary of State sent a letter to the Chancellor regarding the proposed closure of the cohort one schemes {GD(C)/147 – INQ000543242} and {GD(C)/148 – INQ000543269}. He explained that 283 of 314 local authorities had paid out over 80% of the allocated grant funding, and 134 had paid out over 90%. The Secretary of State proposed a cut-off date for local authorities to pay any remaining businesses by 22 June 2020, after which local authorities would be asked to return any remaining funds. The Secretary of State suggested redistributing the returned funding to allow for a second round of the LADGF at the end of June 2020. He reported, there had been high demand for the scheme, with local authorities warning they were likely to be over-subscribed and many indicating they could spend much more than the funding they were allocated. The letter asked for the Chancellor's consent to the proposal.
- 5.2. The Chancellor's private office responded to the Secretary of State on 16 June 2020 {GD(C)/148 – INQ000543269}:

"The Chancellor acknowledges that many Local Authorities have said that demand for discretionary grants is likely to outstrip the funding which they have received, and that they would welcome the opportunity for a further round of discretionary grants. However, the Chancellor has decided to ask Local Authorities – and BEIS – to return the underspend (currently estimated at c. £170 million) associated with all three grant schemes (from the initial £12.4bn allocation) as was expected and agreed at the time of the grants being deployed. As you know, the Chancellor is more widely considering what further economic support to provide this year, and we look forward to BEIS's return to the wider 20/21 reprioritisation exercise.

...

In light of his decision to ask for underspends to be returned to the Exchequer, there is less urgency to choose an imminent closing date for the SBGF and RHLGF. The Chancellor [...] therefore is of the view that these schemes should close at the end of August. This gives the Government and Local Authorities plenty of time to communicate (in a low key manner) the closing date and to contact remaining eligible businesses which have not yet claimed a grant. However, we expect Local Authorities to continue to make SBGF and RHLGF

payments at pace, and we also expect that they will have made the vast majority of payments significantly before the end of August.

The Chancellor would like BEIS to inform Local Authorities of the closing date as soon as possible to allow them to prepare for the end of the scheme. However, the comms regarding the closing date should be kept to a minimum, and should present this as a strictly administrative development.”

- 5.3. Officials identified issues with the underspend as calculated in the initial advice to the Chancellor, concluding that there was in fact likely to be a greater underspend (between £500 million and £1 billion), which was to be returned in full to HMT {GD(C)/148 – INQ000543269} and {GD(C)/149 – INQ000543266}. Having clarified this with the Chancellor’s private office, advice was prepared for the Secretary of State regarding closure of the cohort one schemes at the end of August, returning unspent funds, and plans to inform local authorities as soon as possible {GD(C)/149 – INQ000543266}. The advice recommended that the Secretary of State suggest an earlier closure of the two main schemes (the SBGF and RHLGF) towards the end of July 2020, or in the first week of August 2020, and proposed ringfencing part of the underspend to use “*for targeted local response*” {GD(C)/149 – INQ000543266}.
- 5.4. On or around 21 July 2020, the Secretary of State responded to the Chancellor agreeing to close the cohort one schemes at the end of August 2020 and stating that any unspent allocation will be returned, following a reconciliation process {GD(C)/150 – INQ000543281} and {GD(C)/151 – INQ000543282}. The response proposed that the cohort one schemes be closed and a new, separate allocation of emergency business support funding be agreed.
- 5.5. On 23 July 2020, the Secretary of State wrote to the local authorities’ chief executives advising the SBGF, RHLGF, and LADGF would close on 28 August 2020 {GD(C)/152 – INQ000543287}, {GD(C)/153 – INQ000543288}, and {GD(C)/154 – INQ000543657}. The Department provided further clarification to local authorities on 31 July 2020:

“Where there are application deadlines beyond Friday 28 August (we expect this to relate to the Discretionary Fund only), we ask that local authorities bring forward the deadline to latest Friday 28 August;

We recognise that as a result there may be some applications / payments still being processed on Friday 28 August. We are therefore allowing until 30

September at the latest to work through those and make final payments under the scheme;

...

If there remain outstanding issues at the end of September we will deal with these separately as part of the reconciliation process. We will provide more detail on that process as soon as possible." (Original emphasis) {GD(C)/155 – INQ000543299}

- 5.6. On or around 28 August 2020, the Department provided an FAQs document to local authorities regarding the closure of the cohort one schemes {GD(C)/156 – INQ000543331}, {GD(C)/157 – INQ000543308}, and {GD(C)/158 – INQ000543307}. On 28 August 2020, all cohort one schemes closed.

SECTION 6: CONSIDERATION OF LOCALLY FOCUSED GRANT SCHEMES

- 6.1. Before turning to the introduction of the cohort two schemes, I briefly set out the situation which developed in Leicester during the summer of 2020 and the Department's contribution to the Government response.
- 6.2. The introduction of local lockdowns in June 2020 created new challenges and highlighted gaps in the financial support packages available to businesses. The Department had to start to consider how targeted restrictions would impact businesses, and the need for more tailored support.
- 6.3. The Department designed a new support package for the Leicester area following the local lockdown imposed there from 30 June 2020. The intention was that this new package would form a blueprint for future support provided to areas similarly placed under local lockdown restrictions. A support package along these lines was not ultimately approved and instead HMT provided a lump sum of £3 million to Leicester City Council and Oadby and Wigston Borough Council.
- 6.4. Relaxations to restrictions were due to apply in England from 4 July 2020. On 30 June 2020, the Government (with the agreement of Leicestershire County Council and Leicester City Council) decided not to relax restrictions in Leicester and to close schools and non-essential retail in Leicester. At that time, Leicester accounted for 10% of all positive Covid-19 cases identified in the country.
- 6.5. On 8 July 2020, a BEIS official emailed Tony Bray, and referred to "*...how the Leicester situation point[ed] to a potential gap that we should try to fix in anticipation of any further local lockdowns*". Businesses had often exhausted their financial reserves during the national lockdown. They were then told they could re-open and had invested in making their premises Covid-19 secure and met other re-opening costs, and then were faced with a further lockdown which "*...would in effect nullify all the efforts Government has been doing for so long through the various support schemes to keep them open*" {GD(C)/159 – INQ000543270}.
- 6.6. On 16 July 2020, BEIS officials sent a submission to the Secretary of State which set out a proposal to support areas impacted by local lockdowns with a scheme of locally administered grants which would be awarded to affected small businesses. It was proposed that the scheme would be funded by the monies due to be returned from

local authorities upon the imminent closure of the RHLGF and SBF {GD(C)/160 – INQ000543276} and {GD(C)/161 – INQ000543278}.

- 6.7. The submission was accompanied by a draft letter from the Secretary of State to the Chancellor, which requested the Chancellor's agreement to the proposal that *"some of the funding that will return to BEIS from Local Authorities can be used to support a targeted scheme to support small businesses affected by localised lockdowns this financial year"* {GD(C)/162 – INQ000543277}.
- 6.8. In relation to Leicester specifically (being the first area to experience a local lockdown), the draft letter set out the Secretary of State's proposal to *"continue to close the existing schemes and agree a new, separate allocation of emergency business support funding. This would provide a flat-rate payment of £1,000 per week per eligible business, to a maximum payment per business of £5,000..."*.
- 6.9. On 17 July 2020, HMT wrote to CLGU stating that the Chancellor was considering providing support to Leicester and sharing with the Department their advice on their proposed design of a new grant scheme {GD(C)/163 – INQ000543280} and {GD(C)/164 – INQ000543279}.
- 6.10. HMT instead decided *"...to make available an additional £3 million of funding to Leicester City Council and Oadby and Wigston Borough Council, which these Local Authorities can use to support the businesses most in need in their areas"*. This £3 million fund would be drawn from DHSC's existing budgets {GD(C)/165 – INQ000543284}.
- 6.11. On 22 July 2020, the Secretary of State's private office replied to HMT, setting out the Department's concerns, specifically that the proposed £3 million would be inadequate. If divided between the 4,605 SMEs in the worst affected sectors of non-essential retail, hospitality and sports, and leisure in the Leicester area, the fund would amount to only *"...on average £740 per business over the 3.5 weeks the Leicester lockdown has lasted to-date. This equates to around £215 per week, and will stretch to around £170 per week if we consider that Leicester lockdown review will take the place on 1 August. This would not be commensurate with the loss of trade they will have seen, and may create an optical risk of the Government being seen to not support these businesses adequately during local lockdowns"* {GD(C)/166 – INQ000543286}.
- 6.12. The Secretary of State put forward an alternative proposal in line with the submission of 16 July 2020, namely that grants should be provided *"...of £1,000 per week for up*

to 5 weeks, capping the maximum payment to a business at £5,000 overall. [...] This would be available for non-essential retail, hospitality, sports, and leisure SMEs. We would suggest using their previous eligibility for the Small Business Grant Fund (SBGF) and the Retail, Hospitality and Leisure Grant Fund (RHLGF) schemes for ease of administration and calculation [...] [T]his model should be applied to any area that is subject to a local lockdown.”

- 6.13. The Chancellor’s Assistant Private Secretary responded on 22 July 2020. She stated that “...the CX has already considered precisely these type of options [...] and does not wish to pursue them [...] CX also disagrees with the methodology you have set out [...] And the CX has been clear that the £3m will be funding by DHSC” {GD(C)/166 – INQ000543286}. The Chancellor’s Assistant Private Secretary also sought confirmation that the Department was working up a proposal with DHSC to proceed on the basis set out by the Chancellor.
- 6.14. On receipt of the response from HMT, the Secretary of State’s private office worked with the CLGU to prepare a scheme proposal in accordance with the Chancellor’s decision. A submission was drafted and sent to the Secretary of State on 23 July 2020 {GD(C)/167 – INQ000543292} and {GD(C)/168 – INQ000543291}. The scheme design was based on the LADGF {GD(C)/169 – INQ000543289} and {GD(C)/170 – INQ000543290}.
- 6.15. The Secretary of State took the view that the agreed Leicester grant was simply a one-off payment to the two local authorities covering Leicester and the adjacent area of Oadby and Wigston, and the Department had already raised concerns about its design. The Secretary of State considered “...it is not a scheme that BEIS needs to be involved in and [...] HMT and DHSC can proceed with it independently” {GD(C)/171 – INQ000543293}. Accordingly, the Department took on no responsibility for the operation of the Leicester scheme {GD(C)/172 – INQ000543294}.
- 6.16. While the Department’s proposal for the Leicester support package was not approved by HMT and a different version of the scheme was ultimately delivered by DHSC, the Department’s preparatory work during summer 2020 informed the development and structure of the cohort two grant schemes, which I describe in detail below.
- 6.17. The following common features illustrate how the Leicester support package informed the development and structure of the cohort two grant schemes:
 - a) Targeted funding for areas with Tier or local restrictions;

- b) A focus on mitigating costs and burdens to businesses impacted by local lockdown restrictions;
- c) Grants administered locally to businesses impacted by local lockdowns;
- d) Local authority discretion when allocating grants; and
- e) Checks to reduce fraud/error to be undertaken by local authorities.

SECTION 7: COHORT TWO SCHEMES

Introduction

- 7.1. The cohort two grant schemes were designed to help businesses respond to the unprecedented impact of Covid-19 on different sectors, particularly as a result of mandated closures or other restrictions imposed in the local and national lockdowns between autumn 2020 and spring 2021.
- 7.2. Around three million grants were allocated under the cohort two schemes, totalling approximately £9.9 billion. As with the cohort one schemes, the cohort two grant schemes were delivered by local authorities.
- 7.3. The cohort two grant schemes were more targeted than the cohort one schemes. They focused on businesses impacted by restrictions which variously applied during the second and third national lockdowns, and during the two iterations of the Tiers system which applied during local lockdowns. The grant schemes over this period were therefore established and developed in response to a rapidly changing landscape of restrictions and non-pharmaceutical interventions. The epidemiological landscape was fast-moving and unpredictable during the cohort two period, requiring an adaptive response at speed. At the same time, non-pharmaceutical interventions became extremely complex, in turn creating significant complexity in the cohort two schemes. As DBT has accepted in Part A of this statement, the result was a complex web of grant support, sometimes too vague and ambiguous in its terms. That complexity is necessarily reflected in this Section.
- 7.4. The cohort two grant schemes shared three core characteristics:
 - a) The approach adopted by HMT for the cohort two schemes meant that while funding was more targeted, the schemes were also very complex to administer because some schemes applied only during periods of national lockdown and others only when the Tiers system was in place. Each change in restrictions brought with it a new package (or new packages) of support, and a different combination of schemes with different eligibility criteria.
 - b) The cohort two grant schemes were each launched quickly and only applied for a few weeks or months, sometimes overlapping with one another. Some schemes only applied under specific Tiers, so only applied to those parts of the country under Tier restrictions. There was therefore a disparity of geographical application, which varied according to changes in the restrictions.

- c) As set out in detail below, payments to businesses were made at a much faster pace than under the cohort one schemes, in some circumstances every fortnight. This substantially increased the number of payments made by local authorities, adding to capacity pressures.

Structure of this Section

- 7.5. I have provided a high-level overview of the cohort two grant schemes at paragraphs 7.10 to 7.15 by way of introduction.
- 7.6. The periods during which some of the schemes were in force overlapped (see a diagram at {GD(C)/173 – INQ000585749}). Therefore, the clearest structure to explain the operation of the cohort two grant schemes is chronological, by reference to the periods of restrictions during which the schemes were effective. The local and national lockdown measures and the Tiers system will be familiar to the Inquiry (see an overview at {GD(C)/174 – INQ000543839}). The following periods are used in this Section to explain the cohort two schemes:
 - a) Local lockdowns (9 September 2020 to 13 October 2020);
 - b) First Tiers system (14 October 2020 to 4 November 2020);
 - c) Second national lockdown (5 November 2020 to 1 December 2020);
 - d) Revised Tiers system (2 December to 4 January 2021); and
 - e) Third national lockdown (5 January 2021 to 31 March 2021).
- 7.7. Within each period, the following topics are addressed:
 - a) An introduction to the period, summarising the context of the restrictions in force and the scheme(s) in operation during the period;
 - b) Initial development of the relevant scheme(s) introduced during the period;
 - c) Accounting Officer advice in relation to those scheme(s), where applicable;
 - d) Eligibility criteria for the scheme(s);
 - e) Guidance related to the scheme(s), where applicable; and
 - f) Implementation, including the allocation of funding and issue of grant offer letters where applicable.
- 7.8. However, the chronology of events does not always mirror the above order (for example, the allocation of funding at times occurred prior to the publication of finalised

guidance as a consequence of the pace of the scheme announcements). For ease of reading, I have addressed the relevant topics broadly chronologically, albeit with some overlap between topics, rather than strictly in the above order.

- 7.9. Finally, where a scheme that operated in a prior period continued to operate in a later period, I have not rehearsed the details of that scheme in subsequent sections. Instead, persisting schemes are set out in each introductory section where appropriate.

Overview of the Cohort Two Grant Schemes

- 7.10. By way of introduction, I set out below an overview of the key dates and details of the cohort two grant schemes. I then describe the development of each scheme in the context of the restrictions in place at the time.
- 7.11. The Local Restrictions Support Grant (**LRS**G) was the first scheme designed to respond to the likely financial impact of the local lockdowns on businesses. It was intended to provide support to businesses required to close in accordance with local restrictions. The main eligibility criteria for the LRS G, which were subject to amendment, are set out at paragraphs 7.32 and 7.34 below. Eligible businesses could claim up to £1,500 for each three-week period that they were required to close. Local authorities also received a discretionary 5% on top of their funding allocations to help where businesses did not fit the standard eligibility criteria but there was a potential case for support.
- 7.12. The LRS G was revised to respond to the changing landscape of restrictions between October 2020 and March 2021. While these were initially structured as revisions of the same schemes, the complexity of the revisions led HMT and CLGU to redefine them as separate sub-schemes, which comprised:
- a) The LRS G (Sectors): This sub-scheme provided support to businesses that had been required to shut during the first national lockdown in March 2020 and had not yet been permitted to reopen. It was initially announced as an extension to the LRS G on 9 October 2020. It applied from 1 November 2020 until the start of the second national lockdown on 5 November 2020 and during the revised Tiers system from 2 December 2020 to 4 January 2021. It ceased to apply during periods of national lockdown. The main eligibility criteria for the LRS G (Sectors), which were subject to amendment, is set out at paragraph 7.109 below. Funding was provided for each 14-day period of closure from 1

November 2020 {GD(C)/175 – INQ000543457}. Applications for this scheme closed on 31 March 2021 and payments ended on 14 May 2021;

- b) The LRSG (Open): This sub-scheme provided support to businesses which were allowed to remain open and operational but were impacted by local restrictions. Eligible businesses could claim up to £1,050 for each 14-day period that they were impacted by restrictions. It was announced on 22 October 2020. It was backdated to 1 August 2020 and applied only when local, as opposed to national, restrictions were in place. The main eligibility criteria for the LRSG (Open), which were subject to amendment, is set out at paragraphs 7.106 and 7.108 below. Applications for this scheme closed on 31 March 2021 and payments ended on 14 May 2021;
- c) The LRSG (Closed): This sub-scheme provided support to businesses which were required to close as a result of local restrictions. It was a revised version of the LRSG announced on 9 October 2020, and renamed 'LRSG (Closed)' after the Chancellor's announcement on 22 October 2020, which did not include the discretionary 5% for local authorities to deal with 'edge cases'. The main eligibility criteria for the LRSG (Closed), which were subject to amendment, is set out at paragraphs 7.104 and 7.105 below. Eligible businesses could claim up to £1,500 for each two-week period that they were required to close. It applied only when local restrictions were in place and gave rise to two grants: the LRSG (Closed) (Pre-4 November) which applied to eligible businesses required to close due to local restrictions on or after 9 September 2020 until 4 November 2020, and the LRSG (Closed) (Post-2 December) which applied to eligible businesses required to close during the revised Tiers system from 2 December 2020 to 4 January 2021. Applications for this scheme closed on 31 March 2021 and payments ended on 14 May 2021. The discretionary element was turned into a more generous stand-alone discretionary fund, known as the Additional Restrictions Grant (**ARG**). As the ARG persisted after closure of the LRSG sub-schemes, it is described separately at paragraph 7.13 below;
- d) The LRSG (Closed) Addendum: This sub-scheme replaced the LRSG (Closed) for businesses mandated to close during periods of national lockdown. The main eligibility criteria for the LRSG (Closed) Addendum, which were subject to amendment, is set out at paragraph 7.111 below. Eligible businesses could claim up to £3,000 for each 28-day period that they were required to close. It

gave rise to two grants: the LRSB (Closed) Addendum (November) which applied to eligible businesses required to close during the second national lockdown from 5 November 2020 to 1 December 2020, and the LRSB (Closed) Addendum 5 January, which comprised two payment cycles, covered the third national lockdown from January 2021 to March 2021. Applications for the LRSB (Closed) Addendum (November) closed on 31 March 2021 and payments ended on 30 April 2021. Applications for the first payment cycle (42 days) of the LRSB (Closed) Addendum 5 January closed on 31 March 2021 and payments ended on 30 April 2021. Applications for the second payment cycle (44 days) of the LRSB (Closed) Addendum 5 January closed on 31 May 2021 and payments ended on 30 June 2021; and

- e) The LRSB (Closed) Addendum Tier Four: This sub-scheme superseded the LRSB (Closed) in Tier Four areas and extended its application to non-essential retail and beauty care. It was announced on 19 December 2020 and applied from 20 December 2020. Applications for this scheme closed on 31 March 2021 and payments ended on 14 May 2021.

- 7.13. The ARG was established so that local authorities could provide grants to businesses in England based on local economic need (including to businesses that were not eligible for the LRSB and any of its sub-schemes) and applied during both local and national lockdowns. It was announced on 31 October 2020 but its application was backdated to 14 October 2020. It was the longest running scheme. The eligibility criteria for the ARG are set out at paragraph 7.113 below. The final application date was 28 February 2022 and payments for this scheme ended on 31 March 2022.
- 7.14. The Christmas Support Payment (**CSP**) provided a one-off payment of £1,000 to qualifying pubs in England that were subject to Tier Two and Tier Three restrictions. The eligibility criteria for the CSP is set out at paragraphs 7.171 and 7.173 below. It was announced on 1 December 2020 and operated from 2 December 2020. Applications for this scheme closed on 28 February 2021 and payments ended on 31 March 2021.
- 7.15. The Closed Business Lockdown Payment (**CBLP**) provided a one-off payment of up to £9,000 to eligible businesses required to close direct in-person services owing to the national lockdown. The eligibility criteria for the CBLP is set out at paragraphs 7.235 below. It was announced on and applied from 5 January 2021. Applications for this scheme closed on 31 March 2021 and payments ended on 14 May 2021.

7.16. I set out below a brief summary of each cohort two grant scheme, chronologically in order of the date on which each was announced. I have used the published government figures received from local authorities on Covid-19 business grants {GD(C)/176 – INQ000576421}. Combined scheme figures are used rather than individual scheme figures for the LRSG (Closed) and its sub or variant-schemes (all of which are marked with an asterisk*) rather than individual figures for each of these. Combined figures for the LRSG (Open) also include those for the initial LRSG scheme and LRSG Bolton. The data for the LRSG (Open) and LRSG (Closed) schemes, and their sub-schemes, was captured, but not by individual scheme timeframe. This was to expedite submission of returns by local authorities to conclude reconciliation. To complete the breakdown now would require significant work in order to review the data from 314 local authorities across each individual scheme to accurately record the number of awards.

Name of grant	Objective	Key dates and duration	Level of funding	Total funding awarded
Local Restrictions Support Grants (LRSG)	To support businesses in England required to close due to local restrictions.	Announced: 9 September 2020 Revised: 9 October 2020 Applied from: 9 September 2020 Guidance published: 24 September 2020 Replaced by the LRSG (Closed): 3 November 2020	Up to £1,500 per three-week period of closure, depending on the rateable value of the property. Discretionary 5% allocated to local authorities to support 'edge cases'	204,531 payments were made under the LRSG (Open) up until May 2021. The total amount provided via local authorities to businesses for the LRSG (Open) was £261,419,501. The above funding amounts also include the totals for LRSG Bolton.
LRSG (Sectors)*	To support businesses in England that had been required to close nationally since 23 March 2020, such as nightclubs and entertainment venues.	Announced: 9 October 2020 Applied from: 1 to 4 November 2020 and 2 December 2020 to 4 January 2021 Guidance published: 3 November 2020 Closed: 31 March 2021 Final payments: 14 May 2021	Up to £1,500 per 14-day period that the business was closed, depending on the rateable value of the property	2,019,216 payments were made under the LRSG (Closed) and its variants up until May 2021. The total amount provided via local authorities to businesses for the LRSG (Closed) and its variants was £7,530,473,136.

LRSG (Open)	To support businesses in England allowed to remain open or operational but which were severely impacted by Tiers Two and Three restrictions.	<p>Announced: 22 October 2020</p> <p>Applied: retrospectively from 1 August 2020 to 4 November and 2 December 2020 to 4 January 2021</p> <p>Guidance published: 3 November 2020</p> <p>Closed: 31 March 2021</p> <p>Final payments: 14 May 2021</p>	<p>Up to £2,100 per 28-day period, before 2 December 2020, depending on the value of the property</p> <p>Up to £1,050 per 14-day period, from 2 December 2020, depending on the rateable value of the property.</p>	<p>204,531 payments were made under the LRSG (Open) up until May 2021.</p> <p>The total amount provided via local authorities to businesses for the LRSG (Open) was £261,419,501.</p>
LRSG (Closed) Pre-November 2020*	To support businesses in England required to close due to Tiers Two and Three restrictions during the First Tiers system.	<p>Announced: 9 October 2020</p> <p>Applied: from 9 September 2020 to 4 November 2020</p> <p>Guidance published: 3 November 2020</p> <p>Closed: 31 March 2021</p> <p>Final payments: 14 May 2021</p>	Up to £1,500 per 14-day period that the business was closed, depending on the rateable value of the property.	<p>2,019,216 payments were made under the LRSG (Closed) and its variants up until May 2021.</p> <p>The total amount provided via local authorities to businesses for the LRSG (Closed) and its variants was £7,530,473,136.</p>
Additional Restrictions Grant (ARG)	To support businesses not covered by other grant schemes or where additional funding is needed.	<p>Announced: 31 October 2020</p> <p>Applied: retrospectively from 14 October 2020</p> <p>Guidance published: 3 November 2020</p> <p>Closed: 31 March 2022</p> <p>Final payments: 31 March 2022</p>	Local authorities had discretion on the amount paid to businesses.	<p>751,610 payments were made to businesses under the ARG.</p> <p>The total amount provided via local authorities to businesses for the ARG was £2,129,921,455.</p>
LRSG (Closed) Addendum (November)*	To support businesses required to close during the second national lockdown.	<p>Announced: 31 October 2020</p> <p>Applied from: 5 November 2020 to 3 December 2020</p> <p>Guidance published: 3 November 2020</p> <p>Closed: 31 March 2021</p>	£1,334 to £3,000 per 28-day qualifying restrictions period, depending on the rateable value of the property.	<p>2,019,216 payments were made under the LRSG (Closed) and its variants up until May 2021.</p> <p>The total amount provided via local authorities to businesses for the LRSG (Closed) and</p>

		Final payments: 14 May 2021	.	its variants was £7,530,473,136.
LRSG (Closed) (Post 2 December 2020)*	To support businesses in England required to close due to Tiers Two and Three restrictions during the Revised Tiers system.	Announced: 9 October 2020 Applied: from 2 December 2020 to 4 January 2021 Guidance published: 9 December 2020 Closed: 31 March 2021 Final payments: 14 May 2021	Up to £1,500 per 14-day period that the business was closed, depending on the rateable value of the property.	2,019,216 payments were made under the LRSG (Closed) and its variants up until May 2021. The total amount provided via local authorities to businesses for the LRSG (Closed) and its variants was £7,530,473,136.
Christmas Support Payment (CSP)	To support wet-led pubs impacted by the Tiers Two and Three restrictions during the Revised Tiers system.	Announced: 1 December 2020 Applied from: 2 December 2020 Guidance published: 9 December 2020 Closed: 28 February 2021 Final payments: 31 March 2021	A one-off cash grant of £1,000.	23,081 payments were made under the CSP grant. The total amount provided via local authorities to businesses for the CSP was £24,934,400.
LRSG (Closed) Addendum Tier Four*	To support businesses in England required to close due to Tier Four restrictions during the Revised Tiers system.	Announced: 19 December 2020 Applied from: 20 December 2020 to 4 January 2021 Guidance published: 27 December 2020 Closed: 14 May 2021 Final payments: 14 May 2021	Up to £1,500 per 14-day period that the business was closed, depending on the rateable value of the property.	2,019,216 payments were made under the LRSG (Closed) and its variants up until May 2021. The total amount provided via local authorities to businesses for the LRSG (Closed) and its variants was £7,530,473,136.
LRSG (Closed) Addendum 5 January*	To support businesses required to close during the third national lockdown.	Announced: 5 January 2021 Applied: from 5 January 2021 Guidance published: 13 January 2021 Closed: 31 March 2021	(1) First payment cycle (5 January 2021 to 15 February 2021): £2,001 – £4,500 per 42-day qualifying restrictions period, depending on the rateable	2,019,216 payments were made under the LRSG (Closed) and its variants up until May 2021. The total amount provided via local authorities to businesses for the LRSG (Closed) and

		Final payments: 30 June 2021	value of the property. (2) Second payment cycle (16 February 2021 to 31 March 2021): £2,096 – £4,714 per 44-day qualifying restrictions period, depending on the rateable value of the property.	its variants was £7,530,473,136.
Closed Businesses Lockdown Payment (CBLP)*	Businesses that were required to close due to the third national lockdown.	Announced: 5 January 2021 Applied from: 5 January 2021 Guidance published: 13 January 2021 Closed: 31 March 2021 Final payments: 14 May 2021	A one-off cash grant of up to £9,000, depending on the rateable value of the property.	2,019,216 payments were made under the LRSG (Closed) and its variants up until May 2021. The total amount provided via local authorities to businesses for the LRSG (Closed) and its variants was £7,530,473,136.

7.17. I set out below a brief overview of the cohort two schemes announced and the grants applicable in each period of local and national restrictions:

Period of restrictions	Announcement		Grants available and effective date
Local Lockdowns <i>(early September to mid October 2020)</i>	9 September 2020	LRSG	LRSG – from 9 September 2020
First Tiers system <i>(14 October 2020 to 4 November 2020)</i>	22 October 2020	LRSG (Open) LRSG renamed 'LRSG (Closed)'	LRSG (Sectors) – from 1 November 2020 LRSG (Open) (Pre-November 2020) – backdated to 1 August 2020 LRSG (Closed) – 9 September 2020
	31 October 2020	LRSG (Closed) Addendum (November) ARG	ARG – backdated to 14 October 2020

Second national lockdown <i>(5 November 2020 to 1 December 2020)</i>	1 December 2020	CSP	LRSB (Closed) Addendum (November) – from 5 November 2020 ARG
Revised Tiers system <i>(2 December 2020 to 4 January 2021)</i>	19 December 2020	LRSB (Closed) Addendum Tier Four	Tier One: <ul style="list-style-type: none"> • LRSB (Sectors) • ARG Tiers Two and Three: <ul style="list-style-type: none"> • LRSB (Closed) (Post 2 December 2020) • LRSB (Open) • LRSB (Sectors) • ARG • CSP – from 2 December 2020 Tier Four: <ul style="list-style-type: none"> • LRSB (Closed) Addendum Tier Four – from 20 December 2020 • ARG
Third national lockdown <i>(5 January 2021 to 7 March 2021)</i>	5 January 2021	LRSB (Closed) Addendum 5 January CBLP ARG allocation increased to £500 million.	LRSB (Closed) Addendum 5 January – from 5 January 2021 ARG (increased allocation) – from 5 January 2021 CBLP – from 5 January 2021

7.18. I will now address each chronological period of restrictions, and the packages of support available during that period, in turn.

(a) Local Lockdowns (9 September 2020 to 13 October 2020)

7.19. During the period of local lockdowns between 9 September and 13 October 2020, the LRSB was in place to provide support to businesses that had been required to close in accordance with local restrictions.

7.20. The LRSB was initially announced as the Local Lockdown Grant Fund on 9 September 2020 and was renamed LRSB on 24 September 2020. I will refer to the scheme as the LRSB throughout.

Initial development of the LRSB

7.21. On 9 September 2020, HMT informed the Secretary of State’s private office that *“[b]uilding on the work which your officials have done, the Chancellor has agreed to*

introduce a new scheme of business grants for businesses that are closed as a result of local lockdowns" {GD(C)/177 – INQ000543313}. Given the Department's extensive work already done on designing the earlier national grant schemes and discretionary scheme, the Chancellor considered that it was well placed to take the lead on the new schemes.

- 7.22. HMT provided the details of the proposed scheme to the Department. In brief:
- a) HMG would grant £1,000 to each closed business with a rateable value of £51,000 or less, and £1,500 to each closed business with a rateable value of over £51,000;
 - b) Grants would be issued for each three-week period that a business was closed. For example, if a small business was closed for 6 weeks, it would receive £2,000;
 - c) The grants would be administered by local authorities;
 - d) Grants would only be available when it was agreed at a national level (by the Joint Biosecurity Centre's Gold Command) that business closures were required;
 - e) Local authorities would also get a 5% top up payment for discretionary grants to help with 'edge cases' and businesses which were closed and not in the ratings system; and
 - f) Additional funding would be provided to local authorities where the conditions for this grant funding were met.
- 7.23. Following a call between CLGU and HMT, Jenny Dibden wrote on the same day, 9 September 2020, to the Secretary of State's private office to provide further information about the Chancellor's announcement {GD(C)/177 – INQ000543313}. She described the initial parameters of the scheme, the need for new guidance and Accounting Officer advice to determine whether or not a ministerial direction would be required.
- 7.24. On the afternoon of 9 September 2020, the Secretary of State and Steve Barclay, Chief Secretary to the Treasury, announced the introduction of a new grant scheme {GD(C)/178 – INQ000585835}.

Accounting Officer Advice

- 7.25. On 11 September 2020, Tony Bray sent the final Accounting Officer advice for the LRSG to the Permanent Secretary (then referred to as the Local Lockdown Grant

Fund) {GD(C)/179 – INQ000543322} {GD(C)/180 – INQ000543323}. The Accounting Officer advice was that the new scheme would not require a ministerial direction because it was expected to deliver better value for money than previous grants schemes “*on an equity basis*” in light of the “*targeted nature of the scheme and ability to learn from previous interventions*”. The Permanent Secretary asked CLGU officials to clarify why an equity basis was a legitimate reason for intervention in the assessment of the value for money of public expenditure. A BEIS official provided an explanation and a separate note setting out the differences between commercial and economic value for money assessments to assist the Permanent Secretary in her consideration of the advice {GD(C)/181 – INQ000543337} {GD(C)/182 – INQ000543338}.

- 7.26. On 17 September 2020, Tony Bray sent to the Permanent Secretary’s private office an updated version of the Accounting Officer advice which included further detail in relation to value for money {GD(C)/183 – INQ000543341} and {GD(C)/184 – INQ000543342}. A detailed value for money assessment had not been undertaken because the exact population of eligible businesses could not have been known at the time. The assessment would be determined by the geographical area that the local lockdowns would cover, when announced. However, the grants were targeted at mitigating the costs and burdens which fell on businesses impacted by local lockdowns and the Department was confident that the scheme would represent value for money on equity grounds.
- 7.27. In relation to propriety, the scheme was flagged as medium-high risk given the possibility of precedent-setting for future HMG intervention and potential challenges from businesses not receiving support, which could lead to reputational risks for the Department.
- 7.28. The Accounting Officer assessment explained that whilst the sums involved in this scheme were low, they would still constitute State aid until 31 December 2020 (when State aid rules would cease to apply). It stressed the importance of continued cooperation across Government to ensure that grant recipients did not exceed the threshold stated, given the previous support that had been provided.
- 7.29. The Accounting Officer assessment also flagged a medium to high delivery risk, particularly in relation to fraud and error (which is considered further in Section 14, below):

“... As with previous LA grant schemes there is a risk of fraud and error and the Department will work with LA’s and Cabinet Office to mitigate this risk.

To support LAs in developing their risk assessments the Department will provide risk assessment templates tailored to the relevant fund. ...

Local Authorities will be asked to provide reports to the Department comprising an update on their Fraud Risk Assessments and pre- and post-payment assurance activities as they are delivered over the lifetime of these grants ...

If Local Authorities detect fraud (successful rather than attempted fraud), or if they suspect fraud (attempted as well as actual) that is organised, large scale, systematic or crosses LA boundaries, they must report it in real time outside of the above mentioned regular reporting period. We know there is variety in who Local Authorities report this information to and currently there is no single channel. Whilst we work on a single channel solution, it is critical to capture this information in real time so we recommend Local Authorities report it simultaneously through the following channels: the National Anti-Fraud Network (NAFN), the National Investigation Service (NATIS) and the National Fraud Initiative (NFI), in addition to the Department.

The Government Grants Management Function and Counter Fraud Function have made their digital assurance tool, Spotlight, available to Local Authorities to support the administration of Covid-19 emergency grants. Spotlight is designed to complement existing due-diligence checks and highlight areas of risk to inform 6 grant-making decisions. Where risks are identified, further checks may be required to help Local Authorities determine if the applicants meet aspects of the eligibility criteria.”

- 7.30. The accompanying submission recommended that a ministerial direction was not required and stated that “[c]ompared to the previous grant schemes, the local lockdown support is expected to deliver better value for money on an equity basis” {GD(C)/180 – INQ000543323}. It stated local authorities now had improved business rating lists, contact and payment details of businesses in scope, and experience of running schemes. As such, officials felt they were in a much stronger position to deliver the grants than they had been in March and April 2020.
- 7.31. The Permanent Secretary was content with the revised Accounting Officer advice and happy to proceed with its recommendations {GD(C)/183 – INQ000543341}.

LRSG Eligibility criteria

- 7.32. The eligibility criteria as announced on 9 September 2020 were as follows {GD(C)/178 – INQ000585835}:
- a) Businesses occupying a premises with a rateable value less than £51,000 or occupying a property or part of a property subject to an annual rent or mortgage payment of less than that amount, were to receive £1,000;
 - b) Businesses occupying a premises with a rateable value of £51,000 or more or occupying a property or part of a property subject to an annual rent or mortgage payment of that amount or more, were to receive £1,500;
 - c) Businesses still closed under national restrictions (e.g. nightclubs) were not eligible; and
 - d) Local authorities were able to determine further eligibility criteria.
- 7.33. Local authorities were also to receive an additional 5% top-up amount of business support funding to enable them to assist businesses affected by closures which were not on the business rates list.
- 7.34. The criteria were supplemented by further detail set out in the LRSG guidance, as set out below.

LRSG Guidance

- 7.35. The Department worked with HMT, MHCLG, Cabinet Office, the Joint Biosecurity Centre and involved the LAAG to arrive at the initial proposed wording of the LRSG guidance (the **LRSG Guidance**) {GD(C)/185 – INQ000543344}.
- 7.36. On 9 September 2020, CLGU circulated draft LRSG Guidance for local authorities to HMT for comment {GD(C)/186 – INQ000543315} and {GD(C)/187 – INQ000543314}. An amended version incorporating changes following HMT input was circulated later that day {GD(C)/188 – INQ000543316} and {GD(C)/189 – INQ000543317}.
- 7.37. On 10 September 2020, CLGU shared the draft LRSG Guidance with the LAAG. While the draft was at an early stage, CLGU recognised that the LAAG would be in a position to make valuable contributions to its early development, and officials met the LAAG on the same day {GD(C)/190 – INQ000543319} and {GD(C)/191 – INQ000543320}. LAAG members provided feedback in this meeting and amendments were made to the LRSG Guidance, including:

- a) To ensure consistency between the overall scheme purpose, and the discretionary and non-discretionary aspects of the scheme;
 - b) To clarify that grants were to be awarded following the end of each three-week lockdown period; and
 - c) To clarify the application process {GD(C)/192 – INQ000543321}.
- 7.38. On 14 September 2020, Tony Bray sent a working draft of the LRSG Guidance to Sheffield City Council for comment {GD(C)/193 – INQ000543332} and {GD(C)/194 – INQ000543333}. HMT officials sent further comments and made amendments to the draft on the same day {GD(C)/195 – INQ000543334} and {GD(C)/196 – INQ000543335}.
- 7.39. On 15 September 2020, a further draft of the LRSG Guidance was circulated to the LAAG {GD(C)/197 – INQ000543336}. As officials hoped that the LRSG Guidance would be published imminently, there was very limited room for further amendments. The Chief Executive of Wyre Forest District Council queried whether local authorities were required to collect data by parliamentary constituency. Officials subsequently amended the LRSG Guidance to include express reference to data to allow reporting by constituency {GD(C)/198 – INQ000543345}.
- 7.40. On 17 September 2020, BEIS officials sent a submission to the Secretary of State outlining the final proposed scheme design and draft LRSG Guidance, for approval {GD(C)/199 – INQ000543343}, {GD(C)/185 – INQ000543344} and {GD(C)/198 – INQ000543345}. He explained that the timing of the decision was pressing as “...*there may need to be a need to activate the policy soon (e.g. Bolton).*”
- 7.41. On 18 September 2020, Tony Bray also circulated draft LRSG guidance for businesses (the **LRSG Business Guidance**) to senior BEIS officials and the Secretary of State {GD(C)/200 – INQ000543346} and {GD(C)/201 – INQ000543347}.
- 7.42. The Secretary of State approved the publication of the LRSG Guidance and the LRSG Business Guidance on 24 September 2020 {GD(C)/202 – INQ000543359}, {GD(C)/203 – INQ000543354} and {GD(C)/204 – INQ000543355}. The final version of the ‘Dear Colleague’ letter was sent out to all English MPs on 28 September 2020 {GD(C)/205 – INQ000543357}, {GD(C)/206 – INQ000543358} and {GD(C)/207 – INQ000543360}.
- 7.43. The LRSG Guidance set out several aspects of the scheme, including that:

- a) Eligible businesses were to receive one grant for each property liable to pay business rates. Eligibility may vary between each local lockdown area, based on the localised restrictions;
 - b) Local authorities could determine which businesses were most relevant to their local economy and adapt their approach to their circumstances, utilising the discretionary element of the fund. Local authorities were to set out the scope of their grant on their local website and provide clear guidance to businesses;
 - c) Businesses closed for less than three weeks were ineligible for funding. Businesses were also ineligible under the LRSG if they could continue to trade because they did not depend on providing direct in-person services, they were outside of the scope of the localised restrictions. or if they had already received the maximum levels of State aid permitted under the de minimis and the Covid-19 Temporary State Aid Framework; and
 - d) Businesses that were still subject to national closures, such as nightclubs, would not be eligible.
- 7.44. By 23 September 2020, CLGU had started to develop a LRSG FAQs document for local authorities, based on questions which had arisen in previous schemes and informed by discussions with stakeholders {GD(C)/208 – INQ000543356}. Officials held a meeting with Core Cities UK (a group representing 11 of the UK’s largest cities) on 24 September 2020 to discuss the FAQs {GD(C)/209 – INQ000543353}.
- 7.45. On 29 September 2020, a meeting with the LAAG was held to discuss the LRSG FAQs document {GD(C)/209 – INQ000543353} and {GD(C)/210 – INQ000543367}. A CLGU official stated that the FAQs were compiled “...based on questions that arose from the [earlier] schemes and from discussions with stakeholders. [These] extended clarifications of the guidance where it wouldn’t be suitable to go into full detail in the guidance. Otherwise [BEIS] tried to incorporate questions into the guidance itself. Feedback we received from some stakeholders last time [was] that it was tricky to keep up with various updated versions of FAQs, so I think it may be better to wait a couple of days to see which questions arise from LAs taking in the guidance” {GD(C)/211 – INQ000543350}. The FAQs were then tailored to assist Bolton Metropolitan Borough Council, as it had already completed over three weeks of localised restrictions {GD(C)/212 – INQ000543370} and {GD(C)/213 – INQ000543407}.

- 7.46. As explained at paragraph 3.80 above, a dedicated business grants mailbox was provided by the Department to ensure that there was a clear channel of communication for local authorities to ask the CLGU questions and deliver feedback in respect of the Covid-19 business grants. By way of example, on 25 and 27 September 2020 the Department received queries from Leicester City Council and sought input from CLGU officials {GD(C)/214 – INQ000585680}, {GD(C)/215 – INQ000585679} and {GD(C)/216 – INQ000585678}.
- 7.47. While every effort was made by the CLGU to respond to all the concerns raised, pressures meant that not all correspondence received a timely response and some queries went unanswered. The workload was not assisted by the fact that some businesses (as opposed to local authorities) obtained and used the business grants mailbox email address. It was also important to issue consistent responses. The regularly updated FAQs issued in relation to the various Covid-19 business grant schemes, as I describe elsewhere, provided a useful format to respond to the most urgent or common queries received in the mailbox and, importantly, helped ensure that standardised responses were issued.

Implementation: Allocation of funding for the LRSG

- 7.48. The Department provided funding to individual local authorities on a case-by-case basis under section 31 of the Local Government Act 2003, using the underspends from the cohort one schemes with top up funds from HMT as required. {GD(C)/217 – INQ000543351}. As set out in a 17 September 2020 submission, “[b]efore any local lockdown triggers a grant allocation to a Local Authority we will provide an update on estimated funding required, the precise conditions that apply so the appropriate approvals can be sought to make s.31 payments to the Local Authority” {GD(C)/185 – INQ000543344}.
- 7.49. The Department anticipated that it would take a few weeks for it to transfer the funds to local authorities once they entered a local lockdown. To speed up payment to eligible businesses, the Department encouraged local authorities to use their own cash or any underspends they had left over from their cohort one schemes allocation. The Department was aware of which local authorities had underspends from the cohort one schemes. It planned to monitor local authorities’ positions as they “*moved up and down the concern list*” of instances of Covid-19 cases and kept track of which areas were most at risk of entering into lockdown {GD(C)/218 – INQ000543352}.

- 7.50. The first area to trigger the LRSG was Bolton Metropolitan Borough Council, which entered a local lockdown on 8 September 2020. Discussions had taken place between CLGU and Bolton Metropolitan Borough Council to identify premises that were potentially eligible to receive a grant under the LRSG. On 28 September 2020, Tony Bray informed the Department that CLGU had a good local assessment of the businesses in scope for support, but that the figures were “*a bit*” higher than the original assessment due to problems with the accuracy of the business ratings system {GD(C)/219 – INQ000543361}. He emphasised to finance officials that the scheme was designed to remove the cliff edge for businesses with Retail Value of £51,000 and over, who had not previously been able to benefit from a grant {GD(C)/220 – INQ000543363}.
- 7.51. On 30 September 2020, CLGU officials sent a submission to Minister Scully on the triggering of the LRSG payment to Bolton Metropolitan Borough Council {GD(C)/221 – INQ000543365} and {GD(C)/222 – INQ000543364}. The submission sought Minister Scully’s approval to trigger the first LRSG payment of £617,925 to Bolton Metropolitan Borough Council, to support 549 businesses affected by the reimposition of closures. Minister Scully approved the payment on 1 October 2020 {GD(C)/223 – INQ000543369}.
- 7.52. On 2 October 2020, CLGU sent the Grant Determination Letter to Tony Bray for signature {GD(C)/224 – INQ000543368}. It was to be provided alongside the guidance document tailored to assist Bolton Metropolitan Borough Council {GD(C)/225 – INQ000543473}.

Revision of the LRSG

- 7.53. On 7 October 2020, an HMT official emailed Jenny Dibden requesting a call to discuss an impending HMT announcement. HMT notified Jenny Dibden and Tony Bray that the Chancellor would be making an announcement in the coming days regarding a revision to the LRSG. Further details would be provided by HMT in an email to the Secretary of State {GD(C)/226 – INQ000543374}.
- 7.54. On 9 October 2020, HMT informed the Secretary of State’s private office that the Chancellor would make an announcement that afternoon in relation to the grants available to businesses affected by local restrictions and asked to speak with the Secretary of State {GD(C)/226 – INQ000543374}. Shortly before the Chancellor and the Secretary of State spoke, HMT wrote again to the Secretary of State’s private office

to set out the proposed changes to the LRSB which the Chancellor planned to announce {GD(C)/227 – INQ000543373}. In brief:

- a) In light of the changing local lockdown situation, the Chancellor had decided to make the LRSB more generous so that businesses would receive up to £3,000 per month, and were eligible for payment sooner, after only two weeks of closure rather than three; and
- b) A change in trigger point from a three-week closure period to a two-week closure period would come into immediate effect and be backdated to include Bolton Metropolitan Borough Council so that businesses there would be able to receive the new, higher, grant awards.

7.55. Local authorities would continue to receive 5% of the funding which they received for the LRSB as a discretionary fund, which the Government would encourage them to use to support businesses that had been legally mandated to close by the Government but were outside of the business rates system.

7.56. The scheme was expected to run until April 2021, with a review point in January 2021.

7.57. Later on 9 October 2020, CLGU received further updates from MHCLG regarding the announcement of an extension to the LRSB {GD(C)/226 – INQ000543374} and {GD(C)/228 – INQ000543375}. The Government had decided that businesses required to close due to an imposed local lockdown should receive support sooner, i.e. after only two weeks rather than three weeks. The Government was also aware that some businesses, such as nightclubs, had not been able to reopen since the first national lockdown in March 2020. The Government therefore extended the LRSB to include such businesses. CLGU officials sent a submission to the Secretary of State and the Permanent Secretary later that day, summarising the changes {GD(C)/229 – INQ000543377}. Although it was initially announced as an extension to the LRSB scheme and was briefly renamed 'LRSB (National)', I refer to it as the '**LRSB (Sectors)**' throughout.

Accounting Officer assessment for the revised LRSB

7.58. On 13 October 2020, Jenny Dibden sent an update to the Secretary of State and the Permanent Secretary {GD(C)/230 – INQ000543383}. She explained that CLGU was revising the Accounting Officer assessment of the LRSB in light of the revision announced on 9 October 2020 and the impacts for Bolton Metropolitan Borough Council, for which HMT had agreed to backdate the conditions of the revised LRSB.

CLGU had identified a further complexity, i.e. that businesses eligible for support under the LRSB would also be eligible for the Job Support Scheme which was expanded to firms required to close on 9 October 2020. CLGU worked to establish how businesses which had remained closed since March 2020 could be identified by local authorities.

7.59. On 16 October 2020, CLGU officials sent a submission to the Permanent Secretary's private office with revised Accounting Officer advice (Annex A) {GD(C)/231 – INQ000543388} and {GD(C)/232 – INQ000543389}. The revisions to the original LRSB scheme were set out at paragraphs 9 and 10. It was stated that it was "*extremely difficult to estimate how much this scheme will cost*" (paragraph 13).

7.60. The Accounting Officer assessment of value for money of the revised LRSB was low risk. The submission stated:

"A detailed VFM analysis for this intervention has not been undertaken as the business beneficiaries will be dependent on future localised restrictions being implemented, the geography of which cannot be known now and the specific business closures which may vary between area... The policy amendments compared to September, increasing payments and reducing qualifying periods, should result in a more equitable outcome as the policy changes are more targeted especially for larger businesses with higher fixed costs, and align payments to the review cycles that are now being adopted as part of the three-tier approach. As a result, we are confident that this intervention will represent value for money on an equity basis."

7.61. In terms of other key Accounting Officer considerations, the advice stated:

"There is a management risk with the increasing and unpredictable escalation of LAs to tier three, 'very high', of the local alert levels. It will become increasingly difficult to manage the process of working with LAs to discuss/agree their grant allocations and delivery concerns if there are many LAs that trigger the scheme.

There is a delivery risk if a significant number of areas are subject to the highest level of local restrictions and we have to manage an increasing number of payments to different timelines. To help mitigate this, we are working on a simplified payments process which should reduce the administrative burden on policy and finance teams, as well as UKSBS."

7.62. The Permanent Secretary raised a number of queries in relation to the Accounting Officer advice. However, with the new set of grants announced by the Chancellor on 22 October 2020 (discussed in further detail in the sections below), the 16 October 2020 Accounting Officer advice became redundant. The LRSG (as announced on 9 September 2020 and revised on 9 October 2020) became the LRSG (Closed) {GD(C)/233 – INQ000543392}, {GD(C)/234 – INQ000543400} and {GD(C)/235 – INQ000543415}.

(b) First Tiers system (14 October 2020 to 4 November 2020)

7.63. On 14 October 2020, the Prime Minister introduced a Tiers system of restrictions across England. There were three tiers, each with a different set of restrictions. Tier Three had the most severe restrictions. These applied to local areas depending on the level of identified Covid-19 cases in the area. I will refer to this period of restrictions as the 'First Tiers system'. The First Tiers system applied until the second national lockdown from 5 November 2020.

7.64. During the First Tiers system, the LRSG continued to operate, with local authorities making grant payments to businesses under this scheme. Bolton Metropolitan Borough Council was the only area which had triggered these payments, before the Tiers system came into force. The LRSG (Sectors) also operated from 1 November 2020.

7.65. The Chancellor recognised the need for greater support to businesses impacted by the restrictions in Tier Two and Tier Three areas and announced a series of new grants on 22 October 2020: the LRSG (Open), the LRSG (Closed), and the ARG. On 31 October 2020, the Prime Minister announced a second national lockdown to start on 5 November 2020. CLGU officials therefore planned for the return of nationwide restrictions by developing an extension of the LRSG (Closed) to all businesses in England during periods of national lockdown. This would become the LRSG (Closed) Addendum.

7.66. The next section will explore the impetus for these new grants and their early design.

Initial development of a new package of grants

7.67. The First Tiers system came into effect on 14 October 2020, imposing various restrictions which greatly impacted businesses across England. Indoor gatherings were restricted and hospitality businesses were required to close at 10pm under all Tiers. Tier Three restrictions were the most severe and had the most significant impact

on businesses. Under Tier Three, pubs, bars, and restaurants could only serve alcohol with a 'substantial meal', which meant that 'wet-led pubs' (i.e. pubs that predominantly served alcohol rather than food) had to close. People were prohibited from mixing with other households both indoors and in most outdoor settings.

- 7.68. As restrictions in Tier Three were much stricter than those in place during previous local lockdowns, it was clear that the LRSG would not be sufficient to support businesses during this period. MHCLG officials led negotiations with the local authorities responsible for areas due to enter Tier Three restrictions {GD(C)/236 – INQ000543395}. The purpose of these negotiations was to agree the level of financial support which central government would provide to impacted areas, should they agree to move to Tier Three. The Department was not part of these negotiations but was informed on 15 October 2020 that Cabinet Office was working on a potential package for local business under Tier Three restrictions {GD(C)/237 – INQ000543384}.
- 7.69. Emran Mian (MHCLG) wrote further to CLGU in the afternoon on 15 October 2020 confirming there would be a discretionary pot which was likely to vary from area-to-area {GD(C)/238 – INQ000543385}. On the same day he also informed Jenny Dibden and Tony Bray that Cabinet Office had agreed a deal with Lancashire of “*up to £30m for an enhanced business support package and a ministerial taskforce to learn the lessons*” {GD(C)/239 – INQ000543386}.
- 7.70. The Department was not involved in the discussions surrounding support for local authorities and awaited further information from MHCLG and HMT. It was unclear at this stage whether the Department would be involved in delivering the new support package. On 19 October 2020, Tony Bray sent the following update to Minister Scully and the Permanent Secretary's private office:

“...there is currently a lack of clarity on the accountability for the extra funding being awarded to Very High risk areas for ‘wider business support’ (e.g. reports of £30m Lancashire, £40m Liverpool City Region) and how this aligns with LRSG)...” {GD(C)/240 – **INQ000543398**}

- 7.71. Tony Bray sent a further update on 19 October 2020, as follows:

“There is limited clarity on the purposes that the funding can be used for – HMT will set out some principles which we will shape with them, with a desire to have this more focused on supporting businesses rather than workforce hardship... This still feels like a moving feast.”

7.72. Later that day, HMT shared the draft conditions for £30 million in business support funding to Liverpool and Lancashire and sought CLGU's views. The conditions were intended to apply to all negotiations of local lockdown deals with English local authorities. They covered various aspects of the support, including duration and eligibility for funding. The draft conditions stated that this funding would be available to:

"1. Businesses forced to close due to Tier 3 restrictions (including topping up funding received via the Local Business Support Grant); or

2. Businesses otherwise affected by Tier 3 restrictions e.g. by reduced demand owing to the closure of other Tier 3 businesses whether through reduced footfall, changing consumer behaviour, or the closure or market shrinkage of other parts of their supply chain" {GD(C)/241 – INQ000543401}

7.73. On 19 October 2020, Tony Bray raised concerns with HMT that this condition would undermine the LRSG. He stated:

"... wouldn't we just be better making their terms of the existing fund more generous. By saying LAs can top we are conceding that it is insufficient funding which weakens the case for LRSG, where the BEIS AO already has doubts. I'm not sure running effectively the same grant scheme through both a national and local channel feels very sensible. It would be better for local partners to in effect extend it to both businesses that aren't supported through LRSG and to actions that can't be funded via LRSG." {GD(C)/241 – INQ000543401}

7.74. On 20 October 2020, Jenny Dibden shared the likely outline of the new scheme, including £200 million which the Chancellor had assigned to support the negotiations with local authorities moving into Tier Three restrictions {GD(C)/240 – INQ000543398}. This was the first proposal of what would later be called the ARG and I will refer to it as such from this point onwards. In brief this update confirmed:

- a) Funding would be allocated in addition to the LRSG funding and could be used by local authorities to maintain viable businesses and retain jobs. The 5% discretionary element would be removed, as it would now be replaced by this new fund so that local authorities would have a single, consolidated, and more flexible fund;

- b) It was for local authorities to exercise their discretion on how the funding was used to ensure that it was well targeted. Businesses were also to be given operational freedom on how to use the funding; and
 - c) Bolton Metropolitan Borough Council had already received its funding (as the first applicants to the LRSG). This new fund would not impact the funding already agreed with Bolton.
- 7.75. On 21 October 2020, CLGU circulated an internal update explaining that, subject to HMT confirmation, BEIS would be accountable for both the LRSG and the new additional funding (later called the ARG). Policy discussions were ongoing between No 10, HMT, and the Covid-19 Taskforce {GD(C)/242 – INQ000543402}.
- 7.76. On the evening of 21 October 2020, things were moving very quickly as the Chancellor prepared to make a new announcement the following day. The Department received a series of communications from HMT regarding this announcement:
- a) HMT wrote to the Secretary of State and the MHCLG Secretary of State, explaining that discussions were ongoing between HMT and MHCLG regarding the ARG. HMT advised that MHCLG would shortly be putting a proposition to HMT on a negotiating pot for local areas engaged in discussions on moving to Tier Three restrictions. HMT stated: “...the £200m pot I think is moving to a £per head amount with no flex” and sought the Secretary of State’s agreement, as the Department would take on Accounting Officer responsibility for the ARG {GD(C)/243 – INQ000543404}. Internally, BEIS officials raised concerns around the Department taking on Accounting Officer responsibility for a policy and scheme which was being led and determined by MHCLG {GD(C)/244 – INQ000543405}. However, the Secretary of State’s private office confirmed the Secretary of State’s initial view was that he was content for the Department to take on Accounting Officer responsibility if officials were content from an Accounting Officer perspective;
 - b) Separately, the Department was informed that the Chancellor was due to announce a new scheme for businesses impacted by restrictions in Tier Two areas, but not forced to close. Such businesses could not benefit from the LRSG and the LRSG (Sectors) as those schemes only applied to businesses required to close. This scheme would be separate from the ARG, and similar to the LRSG, but with payments at around 70% of the LRSG Tier Three rates available {GD(C)/245 – INQ000543403}. HMT did not provide any further

details to CLGU at this time and the Department had not previously been involved in discussions about this new scheme. CLGU had however previously raised the issue of support for businesses in Tier Two areas with HMT {GD(C)/240 – **INQ000543398**} and {GD(C)/246 – INQ000576396}. This scheme would later be referred to as the LRSG (Open).

7.77. On 22 October 2020, the Chancellor announced additional measures to support businesses in Tier Two and Tier Three areas. The grants announced were in addition to the LRSG which would continue to operate and provide support. The additional measures were:

- a) For Tier Two areas: Additional funding to allow local authorities to support businesses in Tier Two areas which were not legally required to close, but which were severely impacted by the restrictions on socialising. This would later be referred to as the 'LRSG (Open)' (but was first referred to as 'Tier 2 Discretionary Business Grant' then 'LRSG (Tier 2)'). The funding would be based on the number of hospitality, hotel, B&B, and leisure businesses in a local authority area. Local authorities would receive funding equivalent to 70% of the award made to closed businesses (worth up to £3,000/month), and a 5% top up to these amounts to cover other businesses that might be affected by the restrictions, but which did not fit clearly into these categories. It would be up to local authorities to determine eligibility and funding. Levels of grants were set out by HMT as an 'approximate guide' according to a business property's rateable value. It was intended that these grants would initially run until April 2021, with a review point in January 2021. The Government also published a "*Business Grants Factsheet*" for support in Tier Two areas on 22 October 2020 {GD(C)/247 – INQ000585689}; and
- b) For Tier Three areas: Businesses in Tier Three areas would qualify for greater support whether closed (up to £3,000/month) or open. The announcement stated that the Government was working with local leaders to ensure the packages were "*fair and transparent*" although the announcement did not provide further detail at this stage. As with Tier Two areas, local authorities were to determine eligibility and funding levels according to an 'approximate guide' specified, mainly according to the business property's rateable value {GD(C)/248 – INQ000585852}. This would become the LRSG (Open) and ARG.

Various grant proposals (Tier Two and Tier Three)

- 7.78. After the Chancellor's announcement on 22 October 2020, CLGU and the Department worked on the design of the new grants for Tier Two and Tier Three areas. The Chancellor had not specified the form of support which would be available to businesses in Tier Three.
- 7.79. Ultimately the support for businesses in Tier Two areas comprised the LRSG (Open) and LRSG (Sectors) schemes. The support for Tier Three areas comprised LRSG (Open), LRSG (Closed), and the ARG. The ARG was to be a one-off payment calculated on the basis of £20 per head, as opposed to the 5% discretionary figure as in its previous forms. However, over several days prior to confirmation of those schemes, the details of the schemes and the basis of the calculation of the ARG changed rapidly. This affected the Department's ability to respond to queries from those affected by the schemes and undertake an Accounting Officer assessment. These developments are described in the following paragraphs, and the ultimate design of the scheme from paragraph 7.88, below.
- 7.80. On 22 October 2020, the Chancellor's announcement removed the discretionary 5% element of the LRSG for closed businesses in Tier Three. HMT indicated a 'per head' amount would instead be made available. The rationale for the use of a 'per head' formula was not provided to the Department. In a submission to the Secretary of State and the Permanent Secretary dated 22 October 2020, it was stated that this approach had been adopted to align the new grant with other non-business support measures announced by the Chancellor {GD(C)/249 – INQ000543406}.
- 7.81. Later that day, HMT informed the Secretary of State that they were developing a broader package of discretionary support measures for local authorities in Tier Three areas, which would not be administered by the Department. This differed from previous HMT communication that the Department would be administering a new grant based on a 'per head' amount and created confusion within CLGU, who were already working on producing guidance on the new 'per head' funding. The written communication and lack of clarity on the details of the additional funding for Tier Three areas left CLGU unable to complete an Accounting Officer assessment for the new package of grants announced by the Chancellor on 22 October 2020, or to respond to the many enquiries they were receiving {GD(C)/250 – INQ000543414}.

- 7.82. However, on 23 October 2020, HMT confirmed in writing that the discretionary 5% was being removed from the LRSG for businesses in Tier Three areas and replaced by the more generous 'per head' calculation {GD(C)/251 – INQ000543412}. CLGU continued to develop the various measures with HMT during the day on 23 October 2020 and discussed the Tier Three additional 'per head' funding with HMT and Cabinet Office. Officials agreed to develop coordinated advice for the Department, HMT, Cabinet Office, and MHCLG on the new discretionary fund, in advance of a collective decision early the next week {GD(C)/252 – INQ000543409}.
- 7.83. In the afternoon of 23 October 2020, CLGU officials sent a submission to the Secretary of State, Minister Scully, and the Permanent Secretary, seeking their views in advance of final advice and decisions about the new funding announced by the Chancellor on 22 October 2020 {GD(C)/253 – INQ000543413}. In this submission, CLGU proposed an alternative solution to the 'per head' additional funding (referred to in the submission as "*Tier 3 Enhanced Business Support grant*") for Tier Three local authorities. They proposed that the new funding announced for Tier Two local authorities (referred to in the submission as "*Tier 2 Discretionary Business Grants*" and which would later be called the LRSG (Open)) be made available to Tier Three local authorities. According to CLGU, this would be simpler and, like a 'per head' additional funding pot, its operation would not depend on negotiation with local authorities. The submission included the following:

"16. HMT have made this a potentially complex, interdependent set of interventions. As such there is significant delivery risk focused on Local Authorities ability to manage (especially those in Tier 3 areas) and some heightened fraud and error risk. There are also internal BEIS risks around multiple payments to Local Authorities.

17. Moreover, HMT have decided that in specific relation to the Tier 2 Discretionary Business Grant, areas moving from Tier 2 in either direction (lower or higher risk) get to keep a whole month's funding even if they move within the month. The inability to recover this funding for areas moving from Tier 2 to Tier 1 is not consistent with HMT's Managing Public Money guidance. Our proposal that Tier 3 areas maintain their eligibility for this grant instead of receiving a new Enhanced Business Support grant reduces this concern for Tier 2 areas moving to Tier 3."

7.84. Later that day, 23 October 2020, HMT formally wrote to the Secretary of State's private office to set out the additional support for open businesses in Tier Two which the Chancellor had announced the previous day {GD(C)/235 – INQ000543415}. This email further clarified that the LRSG (as announced on 9 September 2020 and revised on 9 October 2020) would now be called the 'LRSG (Closed)' and that the new grant for Tier Two local authorities would be called the 'LRSG (Tier 2)' (this would later be renamed the 'LRSG (Open)'). HMT was still working with CLGU officials on the design of the additional support for Tier Three areas but was able to provide further detail on the LRSG (Tier 2). They laid out conditions for local authority distribution to businesses, which included:

- a) Supporting businesses adversely impacted by Tier Two restrictions by providing them with direct cash grants, both to survive and to kickstart their recovery;
- b) Giving operational freedom to businesses on how to use any grant money, though in some cases it may be appropriate for local authorities to set broad expectations for how the funding would be used; and
- c) It would be for local authorities to ensure that funding was targeted at those businesses most in need of support and which were sustainable in the long-term, if not for the disruption caused by Covid-19.

7.85. On 26 October 2020, HMT then circulated an alternative proposal which would abandon per head funding, and instead increase allocations to local authorities by way of an uplift to the previous Tier Two funding {GD(C)/254 – INQ000543417}. This proposal was not ultimately progressed.

7.86. HMT wrote to CLGU on 27 October 2020 to inform them that they had agreed the following with the Chancellor regarding the additional Tier Three business support. A term sheet setting out the proposal was attached to the email {GD(C)/255 – INQ000543420} and {GD(C)/256 – INQ000543419}. In summary, HMT had decided to:

“Extend Tier 2 grants to an LA that enters Tier 3 for the whole period it is in Tier 3; and

Provide a one off pot at £20/head to an LA at the point it hits tier 3”.

7.87. On 28 October 2020, HMT wrote to CLGU to suggest further discussions on expanding LRSG (Open) to Tier Three areas. CLGU responded to set out their concerns about

timing, explaining that the Department could not finalise the Accounting Officer advice with the policy still moving and could not issue guidance or payments without prior Accounting Officer approval {GD(C)/257 – INQ000543421}.

Finalisation of Tier Two and Tier Three grants

- 7.88. On the evening of 28 October 2020, HMT wrote to the Secretary of State with updates on the latest developments regarding the extension of support to businesses in Tier Two to Tier Three areas {GD(C)/258 – INQ000543423}. The provision of funding would be done according to the same formula and to the same timescales as in Tier Two areas and local authorities would have the same discretion over funding. As the Department was leading on the scheme related to Tier Two areas, the Chancellor asked the Department to lead on the extension of this scheme into Tier Three areas, and to take on Accounting Officer responsibility.
- 7.89. HMT summarised the support that would be available for businesses in Tier Two and Tier Three areas as follows:
- a) Tier Two: LRSG (Open); LRSG (Sectors); and
 - b) Tier Three: LRSG (Open), LRSG (Closed), and the £20 per head funding, which HMT re-named the ARG.
- 7.90. HMT acknowledged the time constraints and pressure on CLGU's capacity to set up this support. The Chancellor wanted the LRSG (Open) guidance to be finalised by 31 October 2020 i.e. within three days, with grant determination letters issued the following week on 6 November 2020.
- 7.91. MHCLG wrote to the Secretary of State and HMT to set out their proposed approach to the ARG for Tier Three local authorities, on the basis of a one-off payment of £20 per head {GD(C)/259 – INQ000543496}. HMT responded that the Chancellor was content to agree MHCLG's proposed scheme, subject to the Department and MHCLG agreeing final responsibilities, including who would be the lead department and identifying an Accounting Officer. The Department was also to agree robust monitoring and evaluation plans with HMT by 13 November 2020.
- 7.92. On 29 October 2020, CLGU officials sent a further submission to the Secretary of State {GD(C)/260 – INQ000543431}. It explained that officials were now able to put the set of announcements on additional support to businesses in areas subject to Tier Two and Tier Three restrictions into a coherent set of supporting measures, develop guidance, and provide an Accounting Officer assessment. The submission

summarised the grants that would now be available to Tier Two and Tier Three local authorities. The submission explained that these schemes were novel and untested, and highlighted the key risks around them. The submission asked the Secretary of State to approve the publication of the relevant guidance and approve a small increase to the LRS (Closed) grant for Bolton Metropolitan Borough Council. This area had triggered LRS payment on 9 September 2020, at which point the scheme applied to businesses that had to close for three weeks rather than the two weeks required to trigger the LRS (Closed). HMT had agreed to backdate the change to Bolton. A small number of additional businesses were therefore eligible for the LRS (Closed) and the allocation of funding for Bolton Metropolitan Borough Council needed to be increased as a result.

- 7.93. On 29 October 2020, the Permanent Secretary contacted Jeremy Pocklington (Permanent Secretary, MHCLG) to discuss Accounting Officer responsibility for the ARG, setting out her initial view that the scheme sat most naturally within MHCLG responsibility. Given its focus on support to the wider economy, rather than solely on businesses, the Permanent Secretary's view was that MHCLG should take on Accounting Officer responsibility {GD(C)/261 – INQ000543426}.
- 7.94. On 30 October 2020, the Secretary of State responded to the 29 October 2020 submission (see paragraph 7.897.92, above). He agreed to the Department taking on responsibility for the schemes except the ARG, which was still being discussed with MHCLG. He also agreed to the publication of the guidance prepared for each scheme and agreed the small increase to the LRS (Closed) in Bolton {GD(C)/262 – INQ000543430}.
- 7.95. Following further discussions with MHCLG, Cabinet Office, and HMT, on 1 November 2020, the Secretary of State agreed that the Department would take on Accounting Officer responsibility for all schemes, including the ARG {GD(C)/262 – INQ000543430}.

Adaptation of the package of grants for the second national lockdown

- 7.96. On 31 October 2020, the Prime Minister announced a national lockdown which would run from 5 November to 2 December 2020. This announcement came before the Department published guidance on the package of grants for the First Tiers system. With HMT's approval, CLGU and the Department agreed to hold off publication of the guidance as they were concerned that publishing this guidance a few days before the

Tiers system being replaced with a national lockdown would confuse local authorities {GD(C)/263 – INQ000543447}.

- 7.97. On the morning of 31 October 2020, the Department was notified at a cross-Whitehall meeting that a four-week national lockdown would come into force on 5 November 2020 {GD(C)/264 – INQ000543438}. Officials from the Department held discussions with HMT at pace regarding proposals to adapt the existing grant schemes {GD(C)/265 – INQ000543439}. HMT provided confirmation of the Chancellor's final decision on grants and local authority funding later that afternoon {GD(C)/266 – INQ000543440} and {GD(C)/267 – INQ000543441}. Shortly after on the same day, the Chancellor announced the support that would be available during the second national lockdown, i.e. the LRSG (Closed), applicable to all businesses required to close in England, and later renamed 'LRSG (Closed) Addendum', and the ARG {GD(C)/268 – INQ000585834}. HMT wrote later that evening to the Secretary of State and the Secretary of State for MHCLG providing further details of the grants support package for the period of national lockdown {GD(C)/269 – INQ000543442}.
- 7.98. On 3 November 2020, CLGU officials sent a submission to the Secretary of State and the Permanent Secretary on the proposed grant schemes to support businesses affected by the national restrictions announced by the Prime Minister on 31 October 2020, together with an Accounting Officer assessment described from paragraph 7.117 below {GD(C)/270 – INQ000543461} and {GD(C)/271 – INQ000543460}.
- 7.99. The submission stated that this set of proposals had been developed at pace with HMT and the Department had agreed to deliver the proposed schemes. The submission further explained:

“... The announcement that England faces a 4-week period of national lockdown from 5th November means we now need to provide support to additional areas, in line with the restrictions. The previous Tier 2 and Tier 3 schemes will still provide support for the period up to 5th November. When the national lockdown is de-escalated these schemes can be reintroduced to support areas that may remain in Tier 2 or Tier 3.”

- 7.100. In relation to the ARG, the submission stated:

“5. We previously provided advice on this scheme, which provides a one-off payment to Local Authority areas based on a calculation of £20 per head to provide economic support. This funding can also be used in FY 2021-22.”

...

7. This will now be the basis on which the grants will be applied for previous Tier 3 areas and to all areas with the extension to national lockdown. This scheme expected to cost c£1.1Bn...”

7.101. The submission also proposed that the LRSG (Closed) should be expanded during the period of national lockdown to cover all those businesses required to close across England. The monthly cost of this extension on a national basis was estimated to be £1 billion. The submission attached guidance for this new sub-scheme, as an addendum to the LRSG (Closed) guidance. This sub-scheme would therefore be later referred to as the ‘LRSG (Closed) Addendum’.

7.102. The submission also stated that the LRSG (Sectors) was effective from 1 November 2020. This scheme would run for four days until the start of the second national lockdown on 5 November 2020. At this point, the LRSG (Sectors) would stop applying and support would instead be available through the LRSG (Closed) Addendum for the duration of the national lockdown. I refer to this addendum as LRSG (Closed) Addendum (November) in this statement. The submission stated:

“Assuming progressive de-escalation from national lockdown, these businesses are likely to be required to remain closed for some period and this scheme will reactivate at the point national restrictions are eased...”

7.103. The Permanent Secretary approved the submission on the same day (3 November 2020) {GD(C)/272 – INQ000543467}.

LRSG (Closed), LRSG (Open), LRSG (Sectors), LRSG (Closed) Addendum (November) and ARG Eligibility Criteria

7.104. The LRSG (Closed) applied to businesses that were open as usual and providing in-person services to customers from their business premises, and then required to close on or after 9 September 2020 for a consecutive period of no less than 14 days as a result of local or national lockdowns.

7.105. The level of support was based on the rateable value of business premises:

- a) Businesses occupying a premises with a rateable value of £15,000 or under on the date of the commencement of the local restrictions, were to receive up to £667 per 14-day period;

- b) Businesses occupying a premises with a rateable value over £15,000 on the date of the commencement of the local restrictions were to receive up to £1,000 per 14-day period; or
- c) Businesses occupying a premises with a rateable value of exactly £51,000 or above on the date of the commencement of the local restrictions were to receive up to £1,500 per 14-day period.

7.106. The LRSG (Open) applied to businesses meeting the following cumulative criteria:

- a) Being based in an area subject to Tier Two or Tier Three local restrictions since 1 August 2020 and had been severely impacted because of the local restrictions;
- b) Had been established prior to the introduction of Tier Two or Tier Three restrictions; and
- c) Had not had to close but had been impacted by local restrictions.

7.107. Local authorities had the freedom to determine the precise eligibility criteria for the LRSG (Open). However, the Government expected the funding to be targeted at hospitality, hotel, bed & breakfast, and leisure businesses.

7.108. The level of support was also based on the rateable value of business premises:

- a) Businesses occupying a premises with a rateable value of £15,000 or under on the date of the commencement of the local restrictions, were to receive up to £467 per 28-day period;
- b) Businesses occupying a premises with a rateable value over £15,000 on the date of the commencement of the local restrictions were to receive up to £1,400 per 28-day period; and
- c) Businesses occupying a premises with a rateable value of exactly £51,000 or above on the date of the commencement of the local restrictions were to receive up to £2,100 per 28-day period.

7.109. The LRSG (Sectors) was available for businesses that had been required to close due to national restrictions imposed on 23 March 2020 and which had not been able to re-open as a result of further local or national lockdowns. Eligible businesses were:

- a) Nightclubs, dance halls, and discotheques; and
- b) Sexual entertainment venues and hostess bars.

- 7.110. The amount of funding offered to individual businesses and the frequency of payment for the LRSG (Sectors) were the same as for the LRSG (Closed).
- 7.111. The LRSG (Closed) Addendum November applied to businesses that had been mandated to close during the second national lockdown and included non-essential retail, leisure, personal care, sports facilities and hospitality businesses.
- 7.112. As with the LRSG (Closed), the LRSG (Open), and the LRSG (Sectors), the level of support for the LRSG (Closed) Addendum November was based on the rateable value of business premises:
- a) Businesses occupying a premises with a rateable value of £15,000 or under on the date of the commencement of the local restrictions, were to receive of £1,334 per 28-day period;
 - b) Businesses occupying a premises with a rateable value over £15,000 on the date of the commencement of the local restrictions were to receive up to £2,000 per 28-day period; and
 - c) Businesses occupying a premises with a rateable value of exactly £51,000 or above on the date of the commencement of the local restrictions were to receive up to £3,000 per 28-day period.
- 7.113. All local authorities in England, except those who had previously agreed support with the Government (i.e. Liverpool, Lancashire, Greater Manchester, South Yorkshire, West Yorkshire, Warrington and Nottinghamshire), were eligible for funding under the ARG. They would receive a one-off lump sum payment amounting to £20 per head when entering either Tier Three or a national lockdown. Local authorities could use this funding for business support activities. The Government envisaged that this would primarily take the form of discretionary grants, but local authorities could also use this funding for wider business support activities.
- 7.114. If local authorities used the ARG funding for business support grants, the same eligibility criteria and conditions as for the LRSG (Closed) applied. However, local authorities had the discretion to alter the amount of funding offered to individual businesses and the frequency of payment.
- 7.115. These criteria were supplemented by further detail set out in scheme guidance documents:
- a) the LRSG (Closed) {GD(C)/273 – INQ000543455};

- b) the LRSO (Open) {GD(C)/274 – INQ000543464};
- c) the LRSO (Sectors) {GD(C)/275 – INQ000543465};
- d) the LRSO (Addendum) November {GD(C)/276 – INQ000543454}; and
- e) the ARG {GD(C)/277 – INQ000543456}.

7.116. I will address the development of these guidance documents at paragraphs 7.124 to 7.132 below.

Accounting Officer assessment for the LRSO (Closed), LRSO (Open), LRSO (Sectors), LRSO (Addendum) November and ARG

7.117. On 3 November 2020 Tony Bray sent Accounting Officer advice to the Secretary of State on the proposed packages of grants which would be available in the last few days of the First Tiers system and during the second national lockdown starting on 5 November 2020 {GD(C)/270 – INQ000543461} and {GD(C)/271 – INQ000543460}.

7.118. Addressing value for money, the Accounting Officer assessment stated that the main rationale for this package of interventions was equity and fairness. The proposed schemes would compensate businesses who had faced unavoidable costs and therefore create a fairer and more equitable outcome compared with the consequences of no intervention. For example, the LRSO (Closed) offset costs incurred through no fault of closed businesses due to wider public health considerations. There were a number of factors which could undermine the value for money argument:

“whether there are sufficient controls in place to assure that funds are well targeted and spent on the purposes intended,

HMT’s instruction that the department should not recover any overpayments (which is contrary to the guidance set out in Managing Public Money), and

because of this it is possible that local authorities will move between schemes and receive disproportional benefit.”

7.119. The Accounting Officer assessment stated the following in respect of the risk of fraud and error:

“The risk of fraud and error from this intervention is relatively low (<0.5%), as estimated by the monthly assurance reporting by local authorities on these grants, and working with the Cabinet Office, there are robust assurance processes in place. In addition,

business ratings lists are much more up to date (as a result of the grants funds and business rates holidays) so we expect lower errors and opportunities for fraud in the future.”

- 7.120. Officials acknowledged that there was a risk around local authorities’ ability to deliver this funding in an accurate and timely manner. Local authorities were also being asked to develop and assess a new application process whilst also managing risks of payments made in error and fraud. It was anticipated that these risks could be managed through guidance issued to local authorities, but the Accounting Officer assessment highlighted that there remained a residual risk that would be difficult to mitigate entirely. Officials took the view that the risks associated with the proposals could be managed and therefore it was unlikely that a ministerial direction would be sought.
- 7.121. Later that evening, 3 November 2020, after clearance by Mike Keoghan, Jenny Dibden sent the final Accounting Officer advice to the Permanent Secretary’s private office {GD(C)/278 – INQ000543463}.
- 7.122. Following consideration of advice from HMT received on 30 October 2020, and the Accounting Officer advice from BEIS officials, the Permanent Secretary concluded that a ministerial direction was not required for the LRSG (Closed), LRSG (Open), LRSG (Sectors), LRSG (Closed) Addendum, or ARG {GD(C)/279 – INQ000543436}. She approved the advice {GD(C)/272 – INQ000543467}. The Permanent Secretary explained the reasons for this in a subsequent letter to the NAO dated 15 December 2020 {GD(C)/280 – INQ000543566}. The letter explained:
- a) The delivery mechanism via local authorities had been proven to work and had been shown to be able to deliver at pace. The Department was better placed to support local authorities and had been able to issue guidance and FAQs at a much faster pace;
 - b) The risk of fraud and error from these interventions was relatively low, as estimated by the monthly assurance reporting by local authorities on the grants; and
 - c) The main rationale for the packages was equity and fairness.
- 7.123. The Permanent Secretary also considered that the Department could ensure value for money. The grant schemes were targeted at the most affected businesses, the size of the grants was related to the level of rent businesses would owe (avoiding

overcompensation), the delivery mechanism was proven, and we had put in place monitoring.

The LRSB (Closed), LRSB (Open), LRSB (Sectors), and ARG Guidance

- 7.124. CLGU officials worked with other Departments to develop guidance related to the schemes in place and liaised with local authorities to discuss any queries arising.
- 7.125. On 24 October 2020, officials highlighted that the fact that schemes were not yet finalised meant that timeframes for the publication of guidance were continually moving {GD(C)/281 – INQ000543416}.
- 7.126. On 28 October 2020, the Chancellor requested that guidance in relation to the LRSB (Open) scheme be finalised by 31 October 2020, with grant determination letters sent to eligible local authorities by the same date {GD(C)/282 – INQ000543437}.
- 7.127. On 29 October 2020, Cabinet Office officials provided comments on an early draft of the LRSB (Open) guidance, and the draft was reviewed by Special Advisers and the Analysis Directorate {GD(C)/283 – INQ000543428}.
- 7.128. On 29 October 2020, HMT officials requested that MHCLG and BEIS publish guidance in relation to the ARG by 6 November 2020. Tony Bray responded that, while guidance could be developed in the meantime, any publication would have to follow a decision as to departmental responsibility for the scheme {GD(C)/284 – INQ000585692}.
- 7.129. On 2 November 2020, CLGU officials circulated drafts of the LRSB (Open), LRSB (Closed), LRSB (Closed) Addendum (November), LRSB (Sectors), and the ARG to Jenny Dibden and HMT for comment {GD(C)/285 – INQ000543444}, {GD(C)/286 – INQ000543445} and {GD(C)/287 – INQ000543446}. Over the following day, Jenny Dibden and HMT provided comments {GD(C)/288 – INQ000543450}, {GD(C)/289 – INQ000543451}, and {GD(C)/290 – INQ000543452}.
- 7.130. On 3 November 2020, the Secretary of State, the Permanent Secretary, and Minister Scully approved the guidance in relation to the LRSB (Closed), LRSB (Open), LRSB (Closed) Addendum (November), LRSB (Sectors), and ARG {GD(C)/272 – INQ000543467}, {GD(C)/277 – INQ000543456}, {GD(C)/274 – INQ000543464}, {GD(C)/273 – INQ000543455}, {GD(C)/275 – INQ000543465} and {GD(C)/276 – INQ000543454}. The guidance for each scheme was published on the same day {GD(C)/291 – INQ000543466}. FAQs for the ARG were also issued to local authorities

to assist them in administering the scheme. Twelve versions of this FAQs document were published over the lifetime of the ARG {GD(C)/292 – INQ000585851}.

- 7.131. On 4 November 2020, officials held a livestream event attended by 921 local authority representatives. Local authorities submitted hundreds of questions for the event's Q&A session. Questions which could not be answered were to be included within FAQs sent out to local authorities {GD(C)/225 – INQ000543473} and {GD(C)/293 – INQ000543453}. On 5 November 2020 Jenny Dibden highlighted that a total of 391 questions were produced during the livestream, with further questions received by email. Officials batched up the queries and drafted responses according to priority {GD(C)/294 – INQ000585699}. Local authorities who contacted the Department as they had been unable to attend the event received an update by email {GD(C)/295 – INQ000585700}. Officials collated answers to the queries and disseminated five separate FAQs documents for each scheme on 9 November 2020 {GD(C)/296 – INQ000543489}.
- 7.132. The dedicated business grants mailbox for local authorities' queries continued to operate over this period. By way of example, on 4 November 2020 officials corresponded with the Mid Devon District Council in respect of the guidance recently published in relation to pubs and restaurants {GD(C)/297 – INQ000585698}. On 6 November 2020 officials received a query from Telford and Wrekin Council {GD(C)/298 – INQ000585701}. Local authorities also used the mailbox to bring to the Department's attention to errors in the guidance or related documents, as a result of the volume and speed of publication {GD(C)/299 – INQ000585703}. As indicated in paragraph 7.47 above, officials experienced difficulties in responding to all individual queries in view of the number of local authorities and the volume of correspondence {GD(C)/300 – INQ000585709}. As a result, officials suggested that local authorities review the guidance, and any associated FAQs, and raise queries in the event that their questions remained unanswered {GD(C)/301 – INQ000585708} and {GD(C)/302 – INQ000585704}.

The LRSG (Bolton) Eligibility and Guidance

- 7.133. Bolton had entered Tier Three equivalent restrictions on 9 September 2020, and a grant was triggered on 1 October 2020. It had therefore made payments prior to the revision of the terms of LRSG (Closed) on 9 October 2020 (see paragraph 7.54 above). HMT agreed that rather than attempt to claw back the funding in view of the differences in amounts payable under the revised scheme, the new iteration of LRSG (Closed)

would not apply to Bolton and instead an individualised approach was appropriate {GD(C)/263 – INQ000543447}.

- 7.134. Throughout October 2020, CLGU developed guidance relating to LRSG (Bolton) (the **LRSG (Bolton) Guidance**). On 9 October 2020, CLGU officials engaged with the local authority in Bolton to address how these changes would impact their scheme {GD(C)/303 – INQ000543376} and {GD(C)/304 – INQ000585687}.
- 7.135. On 22 October 2020, officials shared draft LRSG (Bolton) Guidance with HMT for comment {GD(C)/213 – INQ000543407}. On 23 October 2020 officials produced a revised version incorporating responses to comments from HMT {GD(C)/305 – INQ000543411}. On 27 October 2020 and 28 October 2020 HMT provided further comments {GD(C)/306 – INQ000543418} and {GD(C)/307 – INQ000543422}. Later on 28 October 2020, officials sent the draft LRSG (Bolton) Guidance to Jenny Dibden and Tony Bray {GD(C)/308 – INQ000543424}.
- 7.136. On 29 October 2020, officials sent a submission to the Secretary of State's private office, seeking approval for publication of the LRSG (Bolton) Guidance {GD(C)/260 – INQ000543431} and {GD(C)/309 – INQ000543425}. On 30 October 2020, Tony Bray confirmed that the LRSG (Bolton) Guidance was not to be published for national use but provided to the local authority in Bolton {GD(C)/310 – INQ000543432}. The Secretary of State delegated approval of this guidance to Minister Scully on the same day {GD(C)/311 – INQ000543433}. Minister Scully approved the LRSG (Bolton) Guidance on 2 November 2020 {GD(C)/312 – INQ000543434}, {GD(C)/313 – INQ000543435} and {GD(C)/314 – INQ000543443}.
- 7.137. On 4 November 2020 officials sent the LRSG (Bolton) Guidance to Bolton Metropolitan Borough Council {GD(C)/315 – INQ000543470} and {GD(C)/316 – **INQ000543435**}. On 5 November 2020, officials spoke to Bolton Metropolitan Borough Council to discuss any queries arising out of the LRSG (Bolton) Guidance {GD(C)/315 – INQ000543470} and {GD(C)/313 – INQ000543435}.

Allocation of Funding, Grant Determination and Grant Offer Letters

- 7.138. On 4 November 2020, officials sent a submission to Minister Scully and the Permanent Secretary regarding grant allocations for local authorities for the LRSG (Open), LRSG (Closed), LRSG Closed Addendum (November), and ARG for the Tier Two, Tier Three, and national lockdown periods {GD(C)/316 – INQ000543476} and {GD(C)/317 – INQ000543474}. The submission recommended:

- a) The Department should make payments to local authorities to run grant schemes for businesses closed or severely impacted by Tier Two and Tier Three restrictions (the schemes were LRSG (Open), LRSG (Closed), and for Tier Three only areas, the ARG) and for businesses closed or severely impacted by the national lockdown from 1 August – 2 December (these schemes were LRSG (Closed) Addendum (November) and the ARG); and
- b) The Department should provide MHCLG with £2.264 billion to make these payments.

7.139. The amounts for the LRSG (Open) and ARG were calculated by formulae. The amounts for LRSG (Closed), either for Tier Three areas or for the period in national lockdown, were calculated by the Department by reference to Valuation Office Agency data.

7.140. To prevent over-allocation, the Department provided 90% of the calculated amount and agreed to provide additional funding if any local authority was under-funded. The payments were to be made by MHCLG on behalf of the Department in the interests of time and the Permanent Secretary authorised the transfer of £2,262,587,327 to MHCLG to make the payments. These were to be made under section 31 of the Local Government Act 2003, as with the payments under the cohort one schemes.

7.141. A MoU setting out the agency relationship between the Department and MHCLG was signed {GD(C)/318 – INQ000543483}. It agreed that MHCLG required the allocation data from the Department by close of business on 6 November 2020 in order for MHCLG to make the transfer to local authorities on 13 November 2020. The LRSG grant determination stated that the Secretary of State for MHCLG and Steven Greenwood of CLGU were the designated signatories {GD(C)/319 – INQ000543481}.

7.142. HMT approval was required for section 31 payments for each local authority for ARG, LRSG (Closed) Addendum (November), and backdated LRSG (Open) payments, which were pro-rated to 4 November 2020 {GD(C)/320 – INQ000543480}.

7.143. The submission was cleared later that evening {GD(C)/321 – INQ000543475}, {GD(C)/316 – INQ000543476} and {GD(C)/322 – INQ000543478}.

7.144. Following clearance, CLGU emailed local authority Finance Directors to confirm the allocations for the LRSG (Closed) Addendum (November) for the national lockdown period from 5 November to 2 December 2020, and for the ARG {GD(C)/323 – INQ000543479}. The team explicitly stated that the LRSG (Closed) Addendum

(November) allocations included an amount to cover LRSG (Sectors) for the second national lockdown period from 5 November to 2 December 2020.

7.145. I exhibit example grant offer letters issued to local authorities in relation to the:

- a) LRSG (Closed) Addendum November {GD(C)/324 – INQ000543495};
- b) LRSG (Open) {GD(C)/325 – INQ000543482};
- c) LRSG (Closed) {GD(C)/326 – INQ000543567}; and
- d) ARG {GD(C)/327 – INQ000543494}.

7.146. The Permanent Secretary received updates on the payments made under the ARG, LRSG (Sectors), LRSG (Closed) Addendum (November), LRSG (Open), and LRSG (Closed). The figures provided were based on self-reported information from the local authorities (by way of example, see {GD(C)/328 – INQ000543557} and {GD(C)/329 – INQ000543584} in respect of periods ending 29 November 2020 and 13 December 2020).

(c) The Second National Lockdown (5 November 2020 to 2 December 2020)

7.147. The Government announced the second national lockdown on 31 October 2020. It was in effect from 5 November 2020 to 2 December 2020.

7.148. During this period, the LRSG (Closed) Addendum November and the ARG applied.

7.149. CLGU and the Department started planning for the return of the Tiers system. On 23 November 2020, the Prime Minister announced that the second national lockdown would end a day earlier, meaning the Tiers system would return on 2 December 2020 rather than 3 December 2020. In this section, I describe the Department's preparatory work for the return to the Tiers system, which involved the following:

- a) Adjusting the allocation of funding to local authorities for the LRSG (Closed) as a result of the second national lockdown ending a day early; and
- b) Publishing revised guidance on the suspension of the LRSG (Closed) Addendum and the reversion to the LRSG (Closed), LRSG (Open), and LRSG (Sectors).

7.150. During this period, CLGU and the Department also explored further support for hospitality businesses likely to be severely impacted by ongoing restrictions during the Christmas period. This led to the announcement of a new grant scheme, the CSP. This section will describe its development.

Development of Economic Support for the Hospitality Sector

- 7.151. In November 2020, the Department and CLGU started to plan for the return of the Tiers system after the end of the national lockdown in December 2020. On 13 November 2020, Cabinet Office commissioned a paper to set out the economic impacts of the various restrictions being considered in the revised tiering system, and in particular “...the estimated economic impact on hospitality businesses was as they passed through the previous tier system” {GD(C)/330 – INQ000543499}.
- 7.152. In response, the Department produced an economic impact analysis of the tier restrictions on the hospitality sector – ‘*BEIS economic impacts analysis of business restrictions: Hospitality*’, and a paper entitled ‘*UK Hospitality and BBPA analysis of business performance for reopening*’ was prepared by UK Hospitality and the British Beer and Pub Association (**BBPA**) {GD(C)/330 – INQ000543499}, {GD(C)/331 – INQ000543500} and {GD(C)/332 – INQ000543501}. The Department’s economic impact analysis explained that the hospitality sector had been particularly adversely affected by restrictions. On 16 November 2020 the Department shared these documents with Cabinet Office and HMT {GD(C)/330 – INQ000543499}.
- 7.153. In particular, the data from survey evidence showed the proposed restrictions requiring pubs and bars to close unless operating as restaurants, and the rule that hospitality venues could only serve alcohol with ‘substantial meals’, would have severe consequences for pubs, particularly ‘wet-led’ pubs which comprised 64% of total UK pubs {GD(C)/331 – INQ000543500}.
- 7.154. On 19 November 2020, the Secretary of State met with Simon Ridley (Head of Cabinet Office Covid-19 Taskforce) and James Bowler (Second Permanent Secretary, Cabinet Office Covid-19 Taskforce) to discuss grant scheme proposals {GD(C)/333 – INQ000543508} and {GD(C)/334 – INQ000543506}. In advance of the meeting, the Department provided the Secretary of State with a note on proposed economic countermeasures to support businesses impacted by the new Tiers structure {GD(C)/335 – INQ000543504}. The Department addressed the following key points:
- a) A return to Tiers for many businesses would mean insolvency and redundancies, which would result in significant damage to the economy. Hospitality was particularly vulnerable;
 - b) Targeted business support was more critical than it was in March 2020 to preserve viable jobs until the vaccine arrived; and

- c) Cash reserves had been exhausted as furlough did not cover ongoing monthly costs for businesses.

7.155. In its note, the Department proposed several measures in response to those concerns:

- a) A large cash injection in the form of a grant or guaranteed loan, targeted at hospitality and close-contact service sectors;
- b) An increase to £15,000 for a grant to businesses who had to stay closed in Tier Three; and
- c) A £7,000 grant for businesses to adapt to changing rules and guidance when they moved into more restrictive Tiers.

7.156. To address potential gaps in support left by the above countermeasures, the Department also suggested a package to improve margins, such as business rates and VAT discounts, and non-fiscal measures such as extending regulatory easements to allow local authorities to permit businesses to set up hospitality areas outside.

7.157. After the meeting with Simon Ridley and James Bowler, the Secretary of State asked the Department to develop the following measures {GD(C)/333 – INQ000543508}:

*“(i) **An increase in the grant for Tier 3** (from £3k to e.g. £4.5k, depending on what we can show is needed from the evidence);*

*(ii) **An increased grant for impacted businesses at Tier 2** (perhaps £3k, as we had had for Tier 3 previously, but also possible higher)”* (Original emphasis)

7.158. On 19 November 2020, Carl Creswell (Director, Professional & Business Services, Retail and Post, BEIS) sent an update to the Permanent Secretary stating the Secretary of State’s preference for a grant as opposed to a loan, with a steer to focus on hospitality firms which would be impacted if the Tiers did not allow close contact {GD(C)/333 – INQ000543508}. The Department developed a new package of support which included the following cumulative measures {GD(C)/336 – INQ000543505}:

- a) A pot worth £15,000 per business to local authorities with businesses required to close in Tier Three;
- b) A liquidity injection, in the form of a grant or a guaranteed loan, of £20,000 to £30,000 to all viable businesses in the most affected sectors;
- c) A pot worth £7,000 per customer-facing service business to local authorities which were moved into Tiers Two or Three;

- d) A smaller support pot for local authorities for customer-facing service businesses impacted by restrictions in Tier Two, linked to revenue reduction;
- e) A package of measures to improve margins in recovery including business rates and VAT discounts and deferrals; and
- f) A package of non-fiscal interventions to aid businesses operating in the Tiers system.

7.159. On 19 November 2020, the Department shared its analysis of the economic impact of a return to the Tiers system on the hospitality and close contact services sectors with HMT. The slide pack also set out the measures proposed by the Department to mitigate the impact {GD(C)/337 – INQ000543509}. In response, HMT advised that the Chancellor did not intend to announce any further business support measures alongside the new Tiers regime, when it came into force on 2 December 2020 {GD(C)/337 – INQ000543509}.

Planning the return to the Tiers system

7.160. On 23 November 2020 the Prime Minister announced the Covid-19 Winter Plan, which included the return to the Tiers system on 2 December 2020, a day earlier than initially announced. This had implications on the allocation of funding for local authorities. On 26 November 2020, CLGU officials sent a submission to the Permanent Secretary addressing these implications {GD(C)/338 – INQ000543518}. The submission explained that:

- a) This created a risk of double payment of LRSG (Closed) Addendum and LRSG (Closed) for businesses completing their 28-day period of closure and remaining closed under the revised Tiers system on 2 December 2020. This was anticipated to apply to 35% of businesses; and
- b) This added one extra day of funding for all businesses in Tiers Two and Three.

7.161. CLGU estimated the cost of the additional day of funding and the one day of double funding at around £53 million. They suggested a number of solutions to avoid the issue of double payment, including resetting the second national lockdown to a 27-day period, ending on 1 December 2020. However, HMT had agreed not to seek to reset the national lockdown grant period and to accept the extra payments. The submission stated that should any future period of national lockdown be imposed, CLGU would work with HMT and the Covid-19 Taskforce to avoid this situation reoccurring. They

had already made the Covid-19 Taskforce aware of this situation {GD(C)/338 – INQ000543518}.

7.162. The submission also sought the Permanent Secretary's approval for publication of the revised guidance and associated FAQs that would suspend the LRSG (Closed) Addendum and reinstate the LRSG (Closed), LRSG (Sectors), and LRSG (Open) LRSG from 00.01am on 2 December 2020. The Permanent Secretary cleared the submission on the evening of 26 November 2020 {GD(C)/339 – INQ000543519}.

Development of the CSP

7.163. The Prime Minister's Covid-19 Winter Plan included a revised Tiers system in effect from 2 December 2020 and special measures for socialising during the Christmas period {GD(C)/174 – INQ000543839}. The revised Tiers system differed from the first Tiers system in that:

- a) Hospitality businesses in Tier Three were required to close and move their business to takeaway only;
- b) Hospitality businesses permitted to remain open were allowed to close at 11pm (instead of 10pm); and
- c) Organised large events (elite sport events, live performances) could take place in Tiers 1 and 2 (with restrictions).

7.164. Following the announcement of the Covid-19 Winter Plan on 23 November 2020, the Department continued to raise concerns about the consequences of the revised Tiers system for the hospitality sector {GD(C)/340 – INQ000543527}. In advance of HMT putting advice to the Chancellor, on 26 November 2020, officials in the BEIS Hospitality and Retail sector team shared analysis with HMT on the financial support for the hospitality sector {GD(C)/341 – INQ000543515} and {GD(C)/342 – INQ000543516}.

7.165. On 30 November 2020, Cabinet Office contacted the Department regarding the analysis that had been shared with HMT on 26 November 2020. Cabinet Office requested more information, including how many restaurants, bars, pubs, and cafes were likely to be eligible for the LRSG (Open) in December 2020 {GD(C)/343 – INQ000543520}. In response, officials from the BEIS Hospitality and Retail team provided sector-specific advice about support for these businesses.

7.166. In parallel, additional data was shared with HMT on the impact on the hospitality sector of the revised Tiers, including the Department's estimated calculations of the number

of pubs that would close, and further analysis from the BBPA {GD(C)/344 – INQ000543521}, {GD(C)/345 – INQ000543522}, {GD(C)/346 – INQ000543523} and {GD(C)/347 – INQ000543524}.

7.167. In the evening of 30 November 2020, a No 10 official shared with the Department the draft public announcement which the Prime Minister intended to make on the following day for comment {GD(C)/348 – INQ000543525}. It stated that the Prime Minister would announce a Christmas grant for ‘wet-led pubs’ of £1,000, across all Tiers in lieu of Christmas trade. This would be a one-off payment in addition to the support available through the LRSG (Closed), LRSG (Open), and the ARG. The draft public announcement further stated:

“Pubs that focus on alcohol, rather than provide food, have been asked to make huge sacrifices over the festive season and will be eligible for a one-off £1000 to help make ends meet. ...

...

‘Pubs are at the heart of communities across the country and they have been among the businesses which have suffered the most during the pandemic.

‘While we can’t make up for all the trade they will lose over Christmas, I hope this new £1000 grant – on top of the furlough, VAT and business rates relief and existing grants, goes some way to help them weather the economic storm.’

(Original emphasis) {GD(C)/348 – INQ000543525}

7.168. Later on 30 November 2020, Carl Creswell sent an email to the Permanent Secretary forwarding No 10’s draft public announcement {GD(C)/348 – INQ000543525}. He had informed No 10 that he considered it would be better to increase the support to businesses by way of top-ups to the existing grants, rather than creating a new grant.

7.169. On the same day, 30 November 2020, Greg Falconer (Deputy Director, Hospitality Sector Support Team, BEIS), replied internally stating that the Department welcomed the announcement, but made the following observations:

- a) The Department sought confirmation that the new measure would only apply to ‘wet-led pubs’. He stated that defining a ‘wet-led pub’ would be challenging;
- b) He also stated that the pub sector might not react positively to this announcement, as it fell short of the support they had been asking for. In

addition, under the 'wet-led pub' designation, businesses like nightclubs and wedding venues would be left out; and

- c) He asked HMT to confirm in writing that they would provide funds to the Department for these new grants {GD(C)/349 – INQ000543526}.

7.170. Further to the above, the Department also shared with HMT their concern that a flat-rate of £1,000 distributed to all wet-led pubs regardless of the Tier they operated under would invite further criticisms, as wet-led pubs would be eligible whether or not they were closed. However, No 10 had indicated to the Department that a flat-rate would be easier to administer {GD(C)/350 – INQ000543528}.

CSP announcement and eligibility

7.171. On 1 December 2020, the Prime Minister announced an additional one-off grant for 'wet-led' pubs in Tiers Two and Three only, in lieu of Christmas trade. The Prime Minister's announcement stated: "*Wet-led pubs in tiers 2 and 3 will be subject to significant measures under the new regional tiered system and it is right for the government to increase its support*" {GD(C)/351 – INQ000585843}.

7.172. On 3 December 2020, the Chancellor's Assistant Private Secretary provided the Secretary of State with details of the CSP. The Chancellor wished for the Department to lead on the CSP and take on Accounting Officer responsibility. The Chancellor's Assistant Private Secretary stressed that the Chancellor had emphasised the importance of transferring the necessary funding to local authorities as quickly as possible, as well as the importance of local authorities working at pace to get their application processes up and running.

7.173. The scheme was described as follows {GD(C)/352 – INQ000543534}:

- a) 'Wet-led' pubs were defined as pubs that generated less than 50% of their revenue from food sales;
- b) All local authorities in England in Tiers Two or Three would receive additional funding so that they could make grant payments of £1,000 to 'wet-led' pubs in their areas;
- c) The CSP would be administered through local authorities, which should set up an application process in order to deliver the scheme; and
- d) Businesses, as part of the application process, would be required to self-certify the percentage of turn-over from sales of food.

7.174. On 4 December 2020, CLGU officials sent a submission to the Secretary of State seeking agreement that the Department would administer the CSP grant scheme on the basis that the costs were fully covered by HMT {GD(C)/353 – INQ000543536}. On 8 December 2020, the Secretary of State agreed for the Department to take on Accounting Officer responsibility for the CSP {GD(C)/354 – INQ000609560}.

Guidance during the *second national lockdown*

7.175. On 6 November 2020, CLGU circulated draft FAQs for comment, including from Special Advisers {GD(C)/355 – INQ000543484}, {GD(C)/356 – INQ000543485}, {GD(C)/357 – INQ000543486}, {GD(C)/358 – INQ000543487} and {GD(C)/359 – INQ000543488}. The Department's Special Advisers' office submitted comments on 9 November 2020 and confirmed that the FAQs could be issued by email to local authorities {GD(C)/367 – INQ000543486} and {GD(C)/368 – INQ000543487}. Officials circulated the FAQs documents to local authorities on the same day, with an invitation to a further livestream event on 11 November 2020 {GD(C)/296 – INQ000543489} and {GD(C)/360 – INQ000585705}.

7.176. On 12 November 2020 guidance for business for the ARG, LRSG (Sectors), LRSG (Closed) Addendum (November), LRSG (Open), and LRSG (Closed) was published on the Government website {GD(C)/361 – INQ000543492} and {GD(C)/362 – INQ000585706}.

7.177. Officials updated the FAQs following local authority feedback and shared the extended version with local authorities on 16 November 2020 {GD(C)/363 – INQ000543497}, {GD(C)/364 – INQ000543498} and {GD(C)/365 – INQ000543502}.

7.178. On 17 November 2020 officials shared extended FAQs with the invitees to a further livestream event the following day {GD(C)/362 – INQ000585706} and {GD(C)/366 – INQ000543510}. Officials shared a further draft of the extended FAQs on 23 November 2020 following the livestream event {GD(C)/367 – INQ000543511}.

7.179. On 26 November 2020 officials sent a submission to the Permanent Secretary for approval of the publication of revised guidance and associated FAQs in light of the announcement of the end of the national lockdown, and return to a Tiers system, one day earlier than anticipated. The revised guidance suspended the LRSG (Closed) Addendum (November) and reverted to the LRSG (Closed), LRSG (Sectors), and LRSG (Open) from 2 December 2020, as the country entered the Revised Tiers system as set out below {GD(C)/368 – INQ000543517}.

(d) The Revised Tiers system (2 December 2020 to January 2021)

- 7.180. On 23 November 2020, the Prime Minister had set out the Government's Covid-19 Winter Plan, which included the reintroduction of a modified Tiers system from 2 December 2020 and special measures for socialising during Christmas. I will refer to it as the 'Revised Tiers system'.
- 7.181. Under the Revised Tiers system, hospitality businesses in Tier Three were required to close and hospitality businesses that remained open (i.e. in Tier One and Tier Two) were required to close by 11pm.
- 7.182. In response to rapidly increasing instances of Covid-19 and concerns about the Alpha variant, on 19 December 2020 the Government announced a stricter tier of restrictions, Tier Four. To provide further support to businesses impacted by these restrictions, the Chancellor announced that a new version of the LRSG (Closed) scheme would be available, i.e. the LRSG (Closed) Addendum Tier Four.
- 7.183. During the Revised Tiers system, the following grant schemes applied:
- a) the LRSG (Closed);
 - b) the LRSG (Open);
 - c) the LRSG (Sectors);
 - d) the ARG;
 - e) the CSP, available from or around 9 December 2020; and
 - f) the LRSG (Closed) Addendum Tier Four, from 31 December 2020.

Accounting Officer Assessment for the CSP

- 7.184. On 7 December 2020, the Permanent Secretary received Accounting Officer advice regarding the CSP {GD(C)/369 – INQ000543541} and {GD(C)/370 – INQ000543542}.
- 7.185. HMT estimated that 70% of pubs in England were "wet-led". The Department's Hospitality team estimated that there were 33,000 pubs in Tier Two and Three areas, and that 16,500 of these were not able to serve a substantial meal. Based on this, it was estimated that the scheme would cost in the region of £27 million. However, the

Accounting Officer advice explained that final costs depended upon the number of eligible businesses paid.

- 7.186. Value for money was deemed to be medium risk. The strongest justification for the value for money of the scheme was equity and fairness. There were additional risks associated with the scheme due to businesses self-certifying as they might do so fraudulently, and basing the funding eligibility on a crude proxy, i.e. less than 50% of revenue from food. It was explained that any loss from fraudulent claims under the CSP could be partially mitigated by requiring local authorities to carry out checks as part of post-payment assurance.
- 7.187. The main delivery concern was the calculation of local authority allocations. To minimise overpayments, officials suggested that grant allocations should be based on the data from the Valuation Office Agency, reduced to 70% (the industry calculation of the proportion of wet-led pubs), and that local authorities should be provided with 80% of this allocation.
- 7.188. In response to the Accounting Officer advice, the Permanent Secretary sought clarification on the number of premises that would fall within scope of the grant and the definition of a “wet-led” pub {GD(C)/371 – INQ000543544} and {GD(C)/372 – INQ000543545}. On 8 December 2020, the Permanent Secretary provided Accounting Officer clearance for the CSP {GD(C)/373 – INQ000543549}.

Guidance during the Revised Tiers System

- 7.189. On 2 December 2020 CLGU officials and BEIS Special Advisers reviewed LRSG (Open) guidance, and FAQs related to the LRSG and ARG {GD(C)/374 – INQ000543530}, {GD(C)/375 – INQ000543531}, and {GD(C)/376 – INQ000543532}.
- 7.190. On 4 December 2020, CLGU officials circulated draft guidance for the CSP, and following input from HMT, Minister Scully approved the guidance on 8 December 2020 {GD(C)/377 – INQ000543537}, {GD(C)/378 – INQ000543538}, {GD(C)/379 – INQ000543543}, and {GD(C)/380 – INQ000543546}. On the same day, officials stated that local authorities were voicing frustration about the delays in the publication of guidance {GD(C)/381 – INQ000543547}. Later the same day, CLGU officials circulated CSP guidance which had been amended in view of the implementation date of the Tiers system having been moved by HMT {GD(C)/373 – INQ000543549} and {GD(C)/382 – INQ000543550}.

- 7.191. On 9 December 2020 officials held a further livestream event with local authorities to discuss the guidance {GD(C)/383 – INQ000585722} and {GD(C)/384 – INQ000543552}.
- 7.192. The Secretary of State's private office cleared the CSP guidance on 9 December 2020 and it was published on the Government website on the same date {GD(C)/384 – INQ000543552} and {GD(C)/385 – INQ000543597}. The Department acknowledges that there was a delay in publishing the guidance; officials were working at pace to deliver the new schemes, whilst also engaging with key stakeholders on the updates.
- 7.193. The CSP guidance set out that businesses in areas moving from Tier One to Tier Two or Tier Three after 29 December 2020 would not be eligible to receive funding, and the scheme would close on 29 December 2020. Final applications were required from local authorities by 31 January 2021.
- 7.194. On 10 December 2020 officials finalised guidance for the LRSG (Open), including the latest extended FAQs (Issue 3), setting out all changes to the LRSG sub-schemes and ARG since the start of the Tiers system, and circulated the guidance to the LAAG {GD(C)/386 – INQ000543555} and {GD(C)/384 – INQ000543552}. On the same date, officials sent the LRSG (Open) and CSP guidance to local authorities via email {GD(C)/387 – INQ000543558}. CSP guidance for businesses was published on 11 December 2020 {GD(C)/388 – INQ000543580}. On 12 December 2020 CLGU officials shared a further FAQs document relating to the LRSG sub-schemes, the ARG, and CSP with the LAAG {GD(C)/389 – INQ000543575}.
- 7.195. On 18 December 2020 officials circulated a revised version of the LRSG (Sectors), LRSG (Open), LRSG (Closed), CSP, and ARG guidance due to changes related to State aid {GD(C)/390 – INQ000543579}.
- 7.196. A FAQs document relating to the CSP, the LRSG sub-schemes and the ARG was provided to local authorities on 17 December 2020 {GD(C)/489 – INQ000543575} and {GD(C)/391 – INQ000543576}. A further document comprising FAQs relating to the CSP, LRSG sub-schemes, and the ARG was circulated to local authorities on 15 January 2021 {GD(C)/392 – INQ000543623} and {GD(C)/393 – INQ000543622}.
- 7.197. On or around 29 January 2021, the Department agreed with HMT to extend the deadline for applications for the CSP from 31 January 2021 to 28 February 2021 {GD(C)/394 – INQ000543636}.

7.198. A final update was made to the CSP Guidance on 4 March 2021 to reflect the change in State aid rules, which no longer applied to grant payments made after 31 December 2020, being the end of the transitional period, following the UK's exit from the EU {GD(C)/395 – INQ000543686}.

Allocation of CSP Funding to Local Authorities

7.199. Officials notified local authorities of their CSP funding allocation on 16 December 2020 {GD(C)/396 – INQ000543574} and {GD(C)/397 – INQ000543570}. An initial allocation of funds was calculated by taking 80% of pubs, identified by Valuation Office Agency data in each local authority area, and making a payment of 80% of the estimated grant funding required with top-up funding available if needed {GD(C)/398 – INQ000543697}.

7.200. On 18 December 2020, the Department made CSP grant payments to 314 local authorities on an 'on account' basis pursuant to section 31 of the Local Government Act 2003. This was confirmed in the grant offer letter sent to the local authorities. An example CSP grant offer letter is provided at {GD(C)/399 – INQ000543577}.

7.201. A submission requesting approval for LRSG payments, including for a one-off balancing payment for wet-led pubs for the CSP for 20 December 2020 to 4 January 2021, was sent to the Secretary of State and the Permanent Secretary on 27 January 2021 {GD(C)/400 – INQ000543627} and {GD(C)/401 – INQ000543631}.

7.202. On 5 February 2021, balancing payments, totalling £243,200 were made to local authorities to correct CSP grant allocation underpayments {GD(C)/401 – INQ000543631}, {GD(C)/402 – INQ000543629} and {GD(C)/403 – INQ000543711}.

Development of the LRSG (Closed) Addendum Tier Four

7.203. On 19 December 2020, the Prime Minister announced that all of London, adjacent parts of the South-East of England, and the East of England would be escalated to Tier Four due to the rapid increase in Covid-19 cases and pressures on the NHS. Restrictions under Tier Four included the same restrictions imposed on hospitality and non-essential retail businesses during national lockdowns. Hospitality businesses were required to close but were permitted to operate as takeaway or delivery only. Non-essential retail businesses were required to close but were permitted to operate via click and collect or delivery only.

7.204. On the same day on a call with BROs, the Secretary of State stated that the LRSG (Closed) would be available for businesses in Tiers Two, Three, and Four that were

closed and expanded support to include non-essential retail businesses {GD(C)/404 – INQ000543583} and {GD(C)/405 – INQ000543582}.

7.205. A submission on Tier Four business support dated 23 December 2020 asked the Secretary of State to agree that Tier Four areas should receive an additional LRSG (Closed) allocation to include non-essential retail and other businesses required to close {GD(C)/406 – INQ000543591}. The cost was estimated to be around £250 million for each two-week period on the basis of the existing cohort of Tier Four areas. The submission stated that BEIS had tested simply rolling forward LRSG (Open) allocations at Tier Three to Tier Four areas with HMT officials but they did not think the Chancellor would be receptive.

7.206. The submission also stated:

“A number of Local Authorities moved from Tier 2 to Tier 3 and then into Tier 4 rapidly over 2 days...we have agreed with HMT that these Local Authorities will receive the full LRSG (Closed) Tier 4 allocation from a start date of the 19th December rather than the 20th. There is an additional cost of c£11m because LRSG (Closed) Tier 4 includes more businesses in scope and because the LRSG (Open) grant rate is 70% of the equivalent LRSG (Closed) grant rate for the same set of businesses.

We have also agreed with Treasury that Local Authorities that moved to Tier 3 a few days earlier on the 16th December, will be provided 3 days pro-rata payment of Tier 3 LRSG (Closed) and LRSG (Open) and will receive LRSG (Closed) Tier 4 from 19th December so that all current Tier 4 areas are at least on the same start date.”

7.207. The Permanent Secretary approved the Accounting Officer advice on or around 23 December 2020 {GD(C)/407 – INQ000543592}. The Accounting Officer advice for Tier Four support grant schemes consolidated the Accounting Officer advice from 3 November 2020 (above at 7.98) {GD(C)/408 – INQ000543559}. In relation to grants available for Tier Four areas, the LRSG (Closed) was to be altered to include non-essential retail and beauty services in addition to hospitality, leisure, and accommodation and tourism businesses that had to close under Tier Three. The LRSG (Closed) Addendum Tier Four as it came to be known was designed to support those businesses that had entered Tier Four in the specified region on a 14-day payment cycle for as long as Tier Four restrictions applied.

- 7.208. The Accounting Officer advice concluded that the feasibility of implementing the schemes under the Tier Four update as high risk due to the risks around the local authorities' ability to deliver the scheme in an accurate and timely manner due to short notice and the resources required for other statutory activities. It assessed the value for money as medium risk, being lower than other schemes due to the rationale of compensating businesses that had closed to protect the national interest. The advice explained that the Department had had limited involvement in the design of the package including the bandings and amounts being provided. It also stated that the section 31 Local Government Act 2003 power would again be used to pass monies to local authorities.
- 7.209. The payment date from BEIS for the LRSG (Closed) Addendum Tier Four was expected to be 31 January 2021, for a sum of £1.6 billion {GD(C)/409 – INQ000543637}.

Guidance related to the LRSG (Closed) Addendum Tier Four

- 7.210. On 22 December 2020 Tony Bray circulated draft guidance related to LRSG (Closed) Addendum Tier Four, including to HMT, for comment {GD(C)/410 – INQ000543586} and {GD(C)/411 – INQ000543587}. HMT officials confirmed the final details of the policy and approved the guidance on the same day {GD(C)/412 – INQ000543588} and {GD(C)/413 – INQ000543589}. Minister Scully approved the guidance on 24 December 2020, and it was published on 27 December 2020 {GD(C)/407 – INQ000543592}, {GD(C)/406 – INQ000543591}, {GD(C)/414 – INQ000543596} and {GD(C)/415 – INQ000543598}. This guidance was subsequently supplemented by FAQs, as described in paragraph 7.256 below.

Implementation during the Revised Tiers System

- 7.211. On 11 December 2020 the Permanent Secretary's office approved a submission dated 9 December 2020 requesting approval to make payments to local authorities for the LRSG (Open) and LRSG (Closed) as a result of local authorities entering the new Tiers system on 2 December 2020 {GD(C)/416 – INQ000543561}. The Permanent Secretary once again agreed to the delegation of the spending authority for signing the Grant Determination to the Deputy Director of the CLGU {GD(C)/417 – INQ000543554}.
- 7.212. On 29 January 2021, Minister Scully approved further payments in respect of the LRSG (Open) and the LRSG (Closed) as a result of some local authorities changing

Tiers {GD(C)/418 – INQ000543630}, {GD(C)/401 – INQ000543631}, and {GD(C)/419 – INQ000543633}.

(e) Third National Lockdown (January 2021 to March 2021)

7.213. On 4 January 2021, the Prime Minister announced a third national lockdown from 5 January 2021 for a period of six weeks. This triggered a different grants regime for businesses, which reflected the regime during the second national lockdown from 5 November 2020 to 2 December 2020 {GD(C)/420 – INQ000543601}.

7.214. The LRSG (Open) and LRSG (Sectors) were suspended and the LRSG (Closed) Addendum applied during this period. Although most of the contemporaneous documents refer to the latter scheme as the LRSG (Closed), I will refer to it as the 'LRSG (Closed) Addendum 5 January' in this statement.

7.215. Overnight on 4 and 5 January 2021, the Chancellor's Assistant Private Secretary informed the Secretary of State that the Chancellor had decided to increase the support available to businesses during this new national lockdown {GD(C)/421 – INQ000543599}.

7.216. In addition to the LRSG (Closed) Addendum 5 January, the Chancellor decided to provide the following support:

- a) One-off top up grants worth up to £9,000 per property. This would later be referred to as the CBLP and is discussed in greater details at paragraphs 7.221 to 7.224 below; and
- b) £500 million of ARG made available to local authorities in England (and £94 million to the Devolved Administrations).

7.217. The aim of this new support was to partially offset business costs that were likely to result from the new lockdown as well as business closures. It also aimed to support more businesses to be able to survive and subsequently thrive as the programme to control the pandemic (for example, mass vaccination) took effect {GD(C)/422 – INQ000543613}.

7.218. The Chancellor's Assistant Private Secretary advised that the Department should assume that the new national lockdown would last for at least six weeks and thus make up front payments to local authorities for six weeks for the LRSG (Closed) Addendum. Local authorities could then make six weeks' worth of LRSG (Closed) Addendum payments to businesses alongside the CBLP.

- 7.219. He confirmed that the Chancellor had asked the Department to lead on the delivery of the CBLP, and increased ARG, and to take on Accounting Officer responsibility. He also explained that the Chancellor had emphasised the importance of transferring the necessary funding to local authorities as quickly as possible, and the importance of local authorities working at pace to get their application processes up and running by no later than 14 January 2021.
- 7.220. On 5 January 2021, the Chancellor announced £4.6 billion in new lockdown grants to support businesses, in the form described by HMT to the Secretary of State earlier that day. The support focused on the retail, hospitality, and leisure businesses. The Chancellor stated: *“This will help businesses to get through the months ahead – and crucially it will help sustain jobs, so workers can be ready to return when they are able to reopen”* {GD(C)/423 – INQ000585836}. He stated that the increased ARG allocation was made available for local authorities and Devolved Administrations to support businesses affected by the restrictions but not eligible for CBLP and LRSG (Closed).

Development of the CBLP and expansion of the ARG

- 7.221. On 10 December 2020, Cabinet Office informed the Secretary of State that No 10 had asked Cabinet Office to work up non-fiscal measures into a package to support pubs and the hospitality sector which could be agreed by Ministers for a potential announcement in the new year. Cabinet Office liaised with the Department to start to develop options {GD(C)/424 – INQ000543562} and {GD(C)/425 – INQ000543563}. The Department had previously provided analytics on the impacts of the Tiers system on hospitality to Cabinet Office and agreed to provide a more detailed assessment of the impacts on 10 December 2020. On 11 December 2020, a BEIS team, including a BEIS modelling specialist, began to consider what support other countries had provided for sectors including hospitality and retail, the impact of the support measures, and to examine the following:

“Breakdown of debt vulnerability results into pubs, bars and clubs versus restaurants

An average stat for rent debts in hospitality (maybe broken down by size of business or subsector)

Maybe an illustrative no rent debt scenario – how much of their debt vulnerability is due to rents

Maybe a scenario where we could limit revenue decrease to 30%

A scenario where revenue recovery rebounds slower than seen over summer.”

{GD(C)/425 – INQ000543563}

- 7.222. Details of the support given by other countries was provided by the overseas posts to the Department and a note was provided to the Secretary of State {GD(C)/426 – INQ000543581}. The Department also provided a note on hospitality industry data and financial resilience modelling {GD(C)/427 – INQ000543560}, {GD(C)/428 – INQ000543565} and {GD(C)/429 – INQ000576408}.
- 7.223. BEIS officials also met with officials from HMT, UKGI, and DCMS to discuss challenges faced by businesses, including those in the hospitality sector and in particular businesses struggling with rent when faced with Tier Three in London {GD(C)/430 – INQ000543568}. The Secretary of State then met with BROs on 21 December 2020 who suggested some local authorities were slow in distributing the latest grant payments and that *“around 66% of hospitality businesses have been required to close but 90% of the sector was actually closed and many of the businesses in the lower tiers that did not qualify for support would need to be helped if businesses were to be saved. The cash burn for the sector was around half a billion pounds per month and larger brands and business chains were now being impacted.”* {GD(C)/431 – INQ000543585}
- 7.224. On 5 January 2021, the Chancellor’s Assistant Private Secretary informed the Secretary of State that the Chancellor had decided to provide businesses which were required to close under the Third National Lockdown with one-off grants of up to £9,000, on top of the existing LRSG (Closed) {GD(C)/421 – INQ000543599}. All local authorities were to receive additional funding so that they could pay one-off grants to businesses in the following way:
- a) Businesses with a rateable value of £15,000 and under would receive £4,000;
 - b) Businesses with a rateable value over £15,000 and less than £51,000 would receive £6,000; and
 - c) Businesses with a rateable value of £51,000 and over would receive £9,000.
- 7.225. The email also confirmed the top up of £500 million to the ARG and that local authorities would again administer these one-off payments.
- 7.226. On 5 January 2021 the Secretary of State asked the CLGU team for more information on all the grant schemes, in advance of a meeting scheduled for that afternoon {GD(C)/432 – INQ000543602}. The Secretary of State also asked CLGU for a proposal

for simplifying the range of grant schemes available to businesses. The proposal was to go in a letter to the Chancellor setting out a roadmap for reopening sectors and for support to go alongside that.

7.227. On 6 January 2021, the Secretary of State's office sent a letter to the Chancellor (copied to the Prime Minister and Secretary of State for Housing, Communities and Local Government) {GD(C)/433 – INQ000543610}, {GD(C)/434 – INQ000543611}, and {GD(C)/435 – INQ000543634}. Considering feedback from the BROs, it explained that:

“...the measures announced [were] the twelfth and thirteenth grants that local authorities [were] due to pay – whether in arrears, live or dormant. While my department is working to push LAs to deliver grant payments more quickly than they currently are – and today I will be speaking to hundreds of LAs about this – so many schemes create complexity and risk slowing delivery. I would therefore be grateful for BEIS to be involved in the design of any new schemes, and my preference would be that in future we avoid creating new schemes, and rather make payments through existing schemes if possible.”

7.228. Annex A of the letter set out the issues raised by BROs, including the need to ensure that any LRSG awards were not fettered by State aid, and arguing that the thirteen different variations of the LRSG should be rationalised and simplified to support local government and business.

7.229. On 11 February 2021 the CLGU team updated Michael Keoghan on conversations with HMT about streamlining the grant schemes. It explained that BEIS was “*ultimately in a situation where officials are still putting advice up the Chancellor, and it's clear the decisions on the new scheme(s) will be led by HMT. We've agreed with SoS's PO that to try and influence these decisions, BEIS PO will email the Chancellor's PO*” {GD(C)/436 – INQ000543654}.

7.230. On 12 February 2021, the Permanent Secretary approved a note on key principles for future schemes, which was sent to the Secretary of State's private office for communication to the Chancellor's private office. It set out five core principles for streamlining the grants which informed the submission dated 3 March 2021 which I address further at paragraph 8.4 {GD(C)/437 – INQ000543746}, {GD(C)/438 – INQ000543658} and {GD(C)/439 – INQ000543659}. The principles were:

- a) Clear and simple eligibility criteria for businesses;

- b) Establishing closure dates on existing schemes;
- c) Consistent monthly payment cycles;
- d) Simple reporting requirements; and
- e) Advance notice of new grant schemes.

7.231. The principles were confirmed as having been shared with the Chancellor's office in the submission dated 3 March 2021 {GD(C)/439 – INQ000543659}.

7.232. The Chancellor's announcement of the CBLP was welcomed by businesses and, in particular, the British Beer and Pubs Association, who stated that "*...the announcement was a lifeline to pubs across England who otherwise were at very real risk of closing for good*" {GD(C)/440 – INQ000543603}.

7.233. The Chancellor's announcement initially targeted the CBLP on the retail, hospitality, and leisure sectors. However, HMT confirmed with the Department later that day, 5 January 2021, that the CBLP would be available for all businesses required to close (as with the LRSG (Closed)) {GD(C)/441 – INQ000543604}.

7.234. Following queries from stakeholders (including Kate Nicholls, CEO of UK Hospitality), on 5 January 2021 the BEIS Hospitality Sector Support Team sought further clarification from HMT on the scope of the CBLP {GD(C)/442 – INQ000543606} and {GD(C)/443 – INQ000543607}.

7.235. Later on 5 January 2021, HMT confirmed that eligibility for the CBLP depended on a business being legally closed, in the business rates system, and being unable to effectively operate remotely. In addition, any hospitality businesses with a property operating on a takeaway only basis was also eligible {GD(C)/444 – INQ000543609}. However, businesses in the supply chain for example breweries, were not eligible for the CBLP, given the policy of not allowing takeaway alcohol. Instead, they would be eligible for the increased ARG. HMT also confirmed that the following were in scope for the CBLP:

- a) All hospitality businesses that were closed i.e. pubs, restaurants, cafes, bars, and nightclubs;
- b) Eligible businesses with a voluntary agreement in place but which were not insolvent, in liquidation or in administration, and were still trading and operating; and
- c) Personal care businesses, for example hairdressers, nail bars.

Accounting Officer Assessment for the Support Package for the Third National Lockdown

- 7.236. Upon learning about the new measures on 5 January 2021, as Accounting Officer the Permanent Secretary wanted to understand the justification and economic analysis underpinning the increased support. This was because she was concerned that there may be overcompensation {GD(C)/445 – INQ000543600}.
- 7.237. On 8 January 2021, the Permanent Secretary received Accounting Officer advice on the package of grants (covering the CBLP, additional support for the LRSG (Closed) and increased funding for the ARG) which would be available during the third national lockdown {GD(C)/446 – INQ000543612} {GD(C)/422 – INQ000543613}. The Accounting Officer Assessment explained that this set of policies had been developed at pace by HMT and the Department had had limited input on the design of the package, including the rationale for the bandings, the amounts being provided, and the strategic fit of this package with broader policy.
- 7.238. Since the Chancellor’s announcement of the package, the costs had increased by £6.1 million to cover a new method of allocation for the increased ARG, which rose to £100 per business. However, the Department was able to absorb the additional cost as it was within its budget.
- 7.239. Value for money was assessed to be medium to high risk. The strongest justification for value for money for the scheme was equity and fairness. The lack of robust evidence on the impacts of the new national lockdown and the underlying impact on micro and small businesses meant that officials were unable to confirm that the package of measures was proportionate to the likely costs. However, some degree of over/under compensation was considered inevitable, unless there was a more complicated, less timely and more expensive delivery mechanism. This package of measures was therefore considered to be the best method for achieving the strategic objective in a timely fashion and in a cost-effective way. This package would also help businesses during the recovery phase, which was the second element of the strategic objective for this package. The Accounting Officer Assessment suggested robust monitoring and evaluation of the implementation of the measures to assist in mitigating the risk of overcompensation.
- 7.240. Delivery of the scheme presented a medium risk. The Accounting Officer Assessment stated:

“BEIS has to manage and monitor payments across a number of schemes with different timings and payment rates across each scheme and with Local Authorities subject to different rules as the Covid-19 containment strategy develops, which increases the chance of error.

There is also a risk around Local Authorities’ ability to deliver this funding in an accurate (including value for money) and timely manner...”

- 7.241. On 11 January 2021, the Permanent Secretary provided Accounting Officer clearance for the new support package {GD(C)/447 – INQ000543615}. On 12 January 2021, CLGU were asked to hold off on issuing a Grant Determination for the LRSG (Closed) Addendum 5 January payments as amendments needed to be made in respect of payments to Mayoral combined authorities and some of the local authorities {GD(C)/448 – INQ000543619}.
- 7.242. On 14 January 2021, CLGU Deputy Director, Steven Greenwood, confirmed to the Secretary of State that the payments for the newly announced January schemes had been processed and should be received by local authorities the following day {GD(C)/449 – INQ000543621}.
- 7.243. On 19 February 2021 (document mis-dated as 19 February 2020), the Permanent Secretary approved Accounting Officer advice regarding the second cycle of funding for the LRSG (Closed) Addendum 5 January onwards (covering the period from 16 February 2021 to 31 March 2021), the CBLP and the ARG top-up of £500 million {GD(C)/450 – INQ000543664} {GD(C)/451 – INQ000543660} {GD(C)/452 – INQ000543668}. The advice set out the risks of overpayment associated with providing local authorities with the full allocation of £1.58 billion for the 44 days from 16 February 2021 until the end of the financial year.

Allocation of CBLP Funding to Local Authorities

- 7.244. Local authorities received an initial allocation of 90% of the estimated grant funding amount for the CBLP scheme. If this threshold was reached, Government paid local authorities the further agreed funding. This practice was introduced to achieve efficiency and a smooth funding delivery process and allowed for a margin of error in Valuation Office Agency data. Example grant offer letters sent to local authorities are provided at {GD(C)/453 – INQ000576404}, {GD(C)/454 – INQ000576406}, and {GD(C)/455 – INQ000576405}.

- 7.245. As set out in the FAQs, CBLP grants were then payable to the person who, according to the billing authority's records, was the ratepayer in respect of the inheritable property on 5 January 2021 {GD(C)/393 – INQ000543622}. Local authorities were to receive the funding for the CBLP at the same time as LRSG (Closed) Addendum 5 January onwards and were expected to pay eligible businesses the two scheme payments together. There was therefore no need to run two separate application processes.
- 7.246. The allocation paid to local authorities in respect of the CBLP (as at 12 April 2021) was £3.02 billion {GD(C)/456 – INQ000543726}. By the end of May 2021, nearly £2 billion in payments under the CBLP had been made {GD(C)/457 – INQ000543734}.

Allocation of the LRSG (Closed) Addendum 5 January payment to Local Authorities

- 7.247. For the LRSG (Closed) Addendum 5 January payment, local authorities were to receive a six-week allocation of funding of £1.67 billion and to pay eligible businesses the allocation as soon as possible. This was to be reviewed after six weeks had elapsed. The allocation was to be provided in line with the grant offer letter sent to local authorities using a grant under section 31 of the Local Government Act. The first payment cycle was for 42 days.
- 7.248. On 12 February 2021, HMT confirmed that the current support under LRSG (Closed) Addendum 5 January would continue {GD(C)/458 – INQ000543655}. A second payment cycle was initiated for 44 days, for the period 16 February 2021 to 31 March 2021 {GD(C)/459 – INQ000543670}. A submission for the approval of Minister Scully dated 19 February 2021 stated that the payment required for this period was £1.58 billion {GD(C)/460 – INQ000543663} and {GD(C)/461 – INQ000543662}.

Allocation of the £500 million increase to ARG payments to Local Authorities

- 7.249. On 5 January 2021 the Secretary of State wrote to local authority chief executives informing them that the ARG allocation announced on 5 January 2021 by the Chancellor would take place as soon as possible {GD(C)/462 – INQ000543605}. The letter stated "*However, several local authorities have yet to make their first payments on one or more of the schemes. We recognise there will be various reasons for this, however, I would like to reinforce that it is crucial for the survival of businesses, and our recovery once this crisis is over, that this money reach them as quickly as possible.*"
- 7.250. HMT approved the ARG top-up alongside the CBLP and LRSG (Closed) Addendum 5 January payments. The ARG top-up payment to local authorities was to take place on 11 February 2022 by section 31 grant {GD(C)/463 – INQ000543815}.

- 7.251. In March 2021, HMT changed its approach on ARG allocations and set out that previous allocations under the ARG had to be spent before local authorities could access top-up funding. On 9 March 2021, a submission was sent to the Secretary of State, Minister Scully, and the Permanent Secretary providing an update on the ARG (and Restart Grant) and next steps {GD(C)/464 – INQ000543689} and {GD(C)/465 – INQ000543690}. The Restart Grant (cohort three) is discussed at Section 9, below. The advice stated “*Local Authorities have told us that they would like more time to make the payments, especially as it has not previously been clear that with ARG they should aim to get the money out of the door quickly (further reinforced by current guidance indicating that Local Authorities have until 31 March 2022 to spend ARG funding).*”
- 7.252. On streamlining the business grant schemes the submission confirmed, “*[o]ver the past few months we have been talking to Local Authorities and businesses to understand how to streamline the existing grant schemes. HMT have taken our suggestions on board and announced a simple approach of Restart Grant and a further top-up of ARG to provide extra discretionary funding and in addition agreed to close the existing Local Restrictions Support Grant Scheme.*”
- 7.253. The following day, the Secretary of State’s private office confirmed that he had read the 9 March 2021 advice {GD(C)/466 – INQ000543692}.

Guidance during the Third National Lockdown

- 7.254. On 6 January 2021, the Secretary of State held a livestream event with local authorities (with Jenny Dibden and CLGU) {GD(C)/467 – INQ000585730}.
- 7.255. On 13 January 2021, the Department published guidance to assist local authorities in delivering both the CBLP and the LRSG (Closed) Addendum 5 January {GD(C)/468 – INQ000543618} (the **January Business Support Package Guidance**). With regard to the CBLP, the January Business Support Package Guidance stated that local authorities would receive funding to deliver a one-off payment for businesses that have been required to close from 5 January 2021 due to the introduction of national restrictions. Eligibility for the CBLP was the same as the LRSG (Closed) Addendum 5 January and covered those businesses which had been mandated to close by the Government. It was for local authorities to decide whether they needed to run an application process. The scheme would close on 30 April 2021, so final payments needed to be made by this date.

- 7.256. On 14 January 2021, CLGU officials shared a draft of FAQs relating to Tier Four and the January lockdown, including LRSG (Closed) Addendum November, LRSG (Closed) Addendum Tier Four, the CBLP, and ARG with Minister Scully's private office {GD(C)/469 – INQ000543620}. On the same day, officials met with the LAAG. Following this meeting, on 15 January 2021, officials circulated a finalised version of the FAQs to local authorities {GD(C)/392 – INQ000543623} and {GD(C)/393 – **INQ000543622**}. The FAQs were updated on or around 26 February 2021 to outline a new payment cycle and clarify some difficult cases that had been raised with BEIS {GD(C)/470 – INQ000543652} and {GD(C)/471 – INQ000543653}.
- 7.257. On 19 February 2021, CLGU officials circulated updated guidance in relation to LRSG (Closed) Addendum 5 January and CBLP to Minister Scully for approval {GD(C)/472 – INQ000543665}, {GD(C)/473 – INQ000543666}, {GD(C)/474 – INQ000543667}, and {GD(C)/459 – INQ000543670}. The January Business Support Package Guidance was updated with details of the second payment cycle period (44-day period) from 16 February 2021 to 31 March 2021, including closure dates. The January Business Support Package Guidance was published on 22 February 2021 {GD(C)/475 – INQ000543671}.
- 7.258. Guidance for businesses wishing to apply for the CBLP was also published on the Government website on 21 January 2021 {GD(C)/476 – INQ000543625}.
- 7.259. On 24 February 2021, officials produced updated FAQs which were shared with local authorities in advance of a livestream event on 25 February 2021, with an amended FAQs document produced the following day {GD(C)/477 – INQ000585746} and {GD(C)/173 – INQ000585749}.
- 7.260. On 3 March 2021, officials updated the guidance for local authorities in relation to the LRSG (Closed), LRSG (Open), LRSG (Sectors), LRSG (Closed) Addendum (November), and LRSG (Closed) Addendum Tier 4 to confirm scheme closure dates and reflect State aid rules (as required) {GD(C)/478 – INQ000543681} {GD(C)/479 – INQ000543678}. The closure dates for the second payment cycle of the LRSG (Closed) Addendum 5 January had been provided in the updated January Business Support Package Guidance issued to local authorities on 22 February 2021 {GD(C)/475 – INQ000543671}. The closure of the cohort two schemes is addressed in Section 8, below. The updated ARG guidance included confirmation of the increased funding for the scheme following the Chancellor's announcement on 5 January 2021 {GD(C)/480 – INQ000543680}. The updated guidance was cleared and published on

the Government website on 4 March 2021 {GD(C)/481 – INQ000543687} and {GD(C)/482 – INQ000543685}.

- 7.261. On 16 March 2021, officials circulated further draft guidance related to the ARG to Minister Scully and Mike Keoghan, which was approved the following day {GD(C)/483 – INQ000543698}, {GD(C)/484 – INQ000543700}, {GD(C)/485 – INQ000543699} and {GD(C)/486 – INQ000543703}. In the meantime, on 16 March 2021 officials had circulated draft ARG guidance to the LAAG for feedback.
- 7.262. On 17 March 2021, Westminster City Council raised queries on the draft ARG guidance, including the data fields required for the grant application process, and the role of local authorities in seeking to recover fraudulently claimed debts {GD(C)/487 – INQ000543702}. Jenny Dibden stated that the LAAG's expectations would need to be managed as there was insufficient time to deal with each of the comments received but considered that a suggested change from the local authority in Sheffield was important to incorporate {GD(C)/488 – INQ000543706} and {GD(C)/489 – INQ000543704}. The updated ARG guidance was published on the same day (17 March 2021) {GD(C)/490 – INQ000543708}.
- 7.263. On 25 March 2021, CLGU officials wrote to local authority finance directors, confirming the grant payments for the LRSG (Closed), LRSG (Open), and CSP and provided links to the accompanying guidance {GD(C)/403 – INQ000543711}. On the same day, Jenny Dibden held a livestream event to discuss updates to the grant schemes in place. During this livestream, Jenny Dibden informed local authorities that the Department had introduced new relationship managers which had been tasked with managing all stakeholder relationships involved in the business grants process. Their role involved supporting local authorities with answers to grants issues, administering training where a learning need had been identified and providing sector or area specific advice {GD(C)/491 – INQ000543710}.
- 7.264. On or around 30 March 2021 a final FAQs, covering the LRSG sub-schemes, ARG, CSP, and CBLP, initiated prior to 31 March 2021, was issued to local authorities {GD(C)/492 – INQ000543718} and {GD(C)/493 – INQ000543723}.

SECTION 8: CLOSURE OF COHORT TWO SCHEMES

- 8.1. The grant schemes in cohort two were closed as follows:
- a) The CSP was closed for applications on 28 January 2021, and final payments made by 31 March 2021;
 - b) The LRSG (Closed), LRSG (Open), LRSG (Sectors), LRSG (Closed) Addendum November, and the LRSG (Closed) Addendum Tier Four were closed for applications on 31 March 2021, and final payments made by 30 April 2021; and
 - c) The LRSG (Closed) Addendum 5 January:
 - i. For the first payment cycle (42 days) applications closed on 31 March 2021 and final payments made by 30 April 2021.
 - ii. For the second payment cycle (44 days) applications closed on 31 May 2021 and final payments made by 30 June 2021.
- 8.2. As the application process and award decisions sat with the individual local authorities, the Department did not directly receive information on the applications submitted by businesses, including the number of applications that were refused. This data was (and is) held by the relevant local authority and not the Department.

Closure of the CSP

- 8.3. The first of the cohort two grant schemes to close was the CSP. As stated in the first iteration of the CSP Guidance published on 9 December 2020, this scheme was initially set up with a final application date of 31 January 2021 {GD(C)/382 – INQ000543550}. Final payments were to be made to businesses by 28 February 2021 at the latest. However, as stated at paragraph 7.197 above, these dates were extended to 28 February 2021 and 31 March 2021 respectively {GD(C)/494 – INQ000543683}.

Closure of LRSG sub-schemes and the CBLP

- 8.4. On 3 March 2021, officials sent a submission to Minister Scully recommending that each of the LRSG sub-schemes (being the LRSG (Closed), LRSG (Open), LRSG (Sectors), LRSG (Closed) Addendum, and the LRSG (Closed) Addendum Tier Four) be closed for applications on 31 March 2021, with final payments to be made on 30 April 2021 {GD(C)/479 – INQ000543678} and {GD(C)/494 – INQ000543683}. As discussed at paragraph 7.257 above, the extended application and payment closure

dates for the second payment cycle of the LRSG (Closed) Addendum 5 January had been approved by Minister Scully on 19 February 2021 {GD(C)/474 – INQ000543667}. The 3 March 2021 submission post-dated the publication of the Government's roadmap out of lockdown on 22 February 2021 which informed the development of the first grant scheme of cohort three, the Restart Grant. Both the roadmap and the Restart Grant are discussed in Section 9, below.

- 8.5. The Department considered that closing the complex LRSG sub-schemes prior to introducing a new grant would reduce the complexity of the schemes and the administrative burden on local authorities. This aligned with the principles outlined in a document prepared in consultation with HMT (and signed off by the Chancellor), being the *'Local Authority Business Grants: Key principles for future grant schemes'*. This document was annexed to the 3 March 2021 submission. It set out five key principles to streamline the existing grant schemes to ensure local authorities had capacity to deal with new grants being introduced. The principles set out were:
- a) Eligibility criteria ought to be clear and simple in order to reduce the complexity in eligibility where possible, and provide simple, clear, and coherent guidance on which businesses were eligible to apply for which grants;
 - b) Closure dates needed to be set for the existing grant schemes to reduce the number of schemes and overall complexity;
 - c) A move to consistent monthly payment cycles to ease the burdens on local authorities;
 - d) Significantly simplified reporting requirements to ensure local authorities could focus on delivering the grants, and to improve the quality received from local authorities; and
 - e) Advance notice of new grant schemes to local authorities to develop guidance and give the best advice possible.
- 8.6. Minister Scully approved the proposed grant scheme end dates on 4 March 2021 {GD(C)/495 – INQ000543684}.
- 8.7. The application closing date and final payment date for the CBLP were stated in the January Business Support Package Guidance published on 12 January 2021 {GD(C)/468 – INQ000543618}. In accordance with the January Business Support Package Guidance applications closed on 31 March 2021 and final payments had to be made by 30 April 2021.

Closure of the ARG

- 8.8. The last of the cohort two schemes to close was the ARG, which closed alongside the last of the cohort three grants (which are detailed in Section 9, below). The ARG was the longest running of all the Covid-19 schemes (and ran in parallel to the cohort three schemes) due to the extensive discretion local authorities were permitted in awarding grants under this scheme within the broad overarching criteria set by central government. The other cohort two and three schemes were more targeted; the ARG provided businesses which were not eligible under those schemes with an opportunity to access support.
- 8.9. An amended version of the ARG guidance was published on 30 December 2021 which stated *“Funds that have not been fully defrayed from the Local Authority’s bank account by 31 March 2022 will be subject to recovery. For the avoidance of doubt, Local Authorities need to manage their application and payment process to achieve all spend by 31 March 2022, as payments after this date will not be allowed in any circumstances”* {GD(C)/496 – INQ000543795}. This date was chosen to align with the end of the financial year.

SECTION 9: COHORT THREE SCHEMES OVERVIEW (APRIL 2021 TO MARCH 2022)

- 9.1. The final cohort of grant schemes ran between April 2021 and March 2022. It comprised the Restart Grant and the Omicron Hospitality and Leisure Grant (OHLG). This Section addresses the creation, design, and implementation of these schemes.
- 9.2. The Restart Grant was open for applications between 1 April 2021 and 30 June 2021 and provided a one-off cash grant of up to £6,000 for non-essential retail businesses (defined as “Strand One” businesses in the scheme’s guidance) and up to £18,000 to hospitality, leisure, personal care, and accommodation businesses (defined as “Strand Two” businesses in the scheme’s guidance). The amount awarded was based on the rateable value of the business property.
- 9.3. The OHLG was established in response to the rapid spread of the Omicron variant in late autumn 2021 and provided a one-off cash grant to hospitality, leisure, and accommodation businesses which operated within the business rates system. Businesses could receive up to £6,000, depending on the rateable value of the business premises.
- 9.4. The Department sought to learn from its experience of the cohorts one and two schemes in designing the cohort three grants, in particular in relation to the identification of irregular payments and the reconciliation process following scheme closure, as well as engagement with local authorities and businesses. For example, in cohort three there was a requirement that local authorities establish an application process for businesses that had not previously received funding under a Covid-19 grant scheme. Whilst Department Ministers had previously prioritised speed of delivery, it was now clear that applications (and pre- and post-payment due diligence checks using Spotlight) were required to mitigate the risk of irregular payments, as I explain further in Section 14, below. The schemes were also designed to be more finely targeted to the specific sectors most impacted by restrictions.

Cohort Three Grants – Objectives of the Restart Grant

- 9.5. HMT led on the design of the Restart Grant, with the Department contributing to the development of the scheme. The scheme was introduced to support non-essential retail, hospitality, and leisure businesses as they reopened in accordance with the Government’s Roadmap. Businesses in these sectors had been significantly affected by lockdowns and would continue to be impacted by social distancing measures when

they reopened. One of the main purposes of this scheme was to assist eligible businesses in establishing Covid-19-safe practices.

- 9.6. The Cabinet Office commissioned a paper, requiring the Department to set out “...*the considerations and analysis around some of the specific sectors affected by current restrictions, to feed into the detailed design of the roadmap*” {GD(C)/497 – INQ000065051}, {GD(C)/498 – INQ000543641}. The Department made two key recommendations in its paper dated 9 February 2021:
- a) For the hospitality sector, it proposed a phased reopening based on managing risk which was “...***predicated on adequate support to help all venues, particularly pubs over the course of the year.***” (Original emphasis). Service of alcohol indoors would be prohibited in phase one of three because the consumption of alcohol reduced compliance with social distancing; and
 - b) For non-essential retail and personal care, the paper proposed that businesses in these sectors should reopen early, with no staggered reopening of sub-sectors. This approach assumed ongoing support for businesses that faced severe revenue challenges until restrictions could be lifted. Proposed support for the personal care sector included an “*Emergency recovery fund to help businesses access money for cash flow.*”
- 9.7. On 10 February 2021, the Department held a ministerial ‘deep dive’ discussion with the Secretary of State entitled ‘Recovery from COVID – To discuss the environment for business in the coming months: what the rest of 2021 is likely to look like, and what our policy response will be’. A slide pack prepared for this meeting outlined the Department’s ideas for reopening the economy {GD(C)/499 – INQ000543648}.
- 9.8. The Department’s priority was to promote the sustainable reopening of closed sectors, reinforced by the ongoing, flexible support for businesses to avoid ‘cliff edges’ once the lockdown ended. The vast majority of hospitality, non-essential retail, and personal care businesses reported that they could not “...*sustain cash burn in excess of [Government] grants, [and] they expect[ed] to run out of cash by the end of April [2021].*” Proposed support to businesses included a “*Potential broader grant fund for costs of adaptation to a prolonged lockdown and reopening*” {GD(C)/497 – INQ000065051}.
- 9.9. It was particularly important that businesses in the closed sectors continued to receive some form of Government support upon their reopening; a significant number of the

Government's support initiatives were due to end on 31 March 2021, alongside the lifting of lockdown restrictions. This included the SEISS, business rates relief, and the 5% VAT reduction for businesses.

- 9.10. On 7 February 2021, **Name Redacted** (Special Adviser to the Secretary of State, BEIS) said (as reported by the Special Advisers' Head of Office) that the Government needed to "...*announce any reopening timeline together with business support measures, to give sectors the certainty they need[ed] to make reopening preparations.*" Minister Scully also raised concerns regarding the proposed approach for the reopening of the hospitality sector. He was concerned that "...*the unintended consequence of no alcohol indoors would be pubs being allowed to open but not being viable enough to actually do so, therefore falling outside financial support and a greater risk of failures*" {GD(C)/500 – INQ000543645}.
- 9.11. To address these concerns, Greg Falconer suggested that hospitality initially be permitted to open outdoors only with no restrictions on the service of alcohol. However, he said that this would mean that many hospitality venues (mostly restaurants) would not be able to open due to their lack of outdoor space. The Secretary of State was unable to review the slide pack before it was provided to Cabinet Office on 8 February 2021, however, he reviewed the final version later that day {GD(C)/501 – INQ000543646}.
- 9.12. On 22 February 2021, the Government published its roadmap out of lockdown (**the Roadmap**). It confirmed that, from 8 March 2021, people in England would see restrictions begin to lift and the Government's four-step roadmap would offer a route back to a more normal life. The restrictions were to be lifted in a staggered way, with many businesses due to open in April 2021.

Establishment of the Restart Grant

- 9.13. From February 2021, the Department consulted with local authorities regarding how the existing grant schemes could be streamlined to reduce their administrative burden prior to the introduction of any new grant schemes. The Department discussed the Roadmap with businesses to determine which Government interventions would be of assistance and what their responsibilities would be upon reopening {GD(C)/502 – INQ000596699}, {GD(C)/503 – INQ000543669} and {GD(C)/504 – INQ000543672}. The major issues identified by businesses were:

- a) The Roadmap needed to clearly communicate the responsibilities imposed on businesses as they reopened;
 - b) The need for ongoing financial support from the Government to support their reopening; and
 - c) The need to avoid a tiered reopening. Pubs, in particular, highlighted how difficult it was for them to not only make a profit but break even throughout the period of the Tiers system.
- 9.14. In order to maintain compliance with the principles at Article 3.4 of the Trade and Cooperation Agreement between the EU and the UK⁶, officials sent a submission to Minister Scully on 2 March 2021 seeking to increase the Covid-19 grant schemes' subsidy limits to align with the increase in the Temporary Framework and ensure adequate support of businesses. HMT requested that the relevant Department officials approve this increase in advance of the Budget. Minister Scully approved the submission and its recommendations that morning {GD(C)/505 – INQ000543676} and {GD(C)/506 – INQ000543677}. Each iteration of the guidance for the Restart Grant and OHLG addressed the application of State aid rules in detail to assist local authorities in ensuring businesses stayed within the legal threshold.
- 9.15. In the Budget on 3 March 2021, the Chancellor announced that the Restart Grant would be available to eligible businesses from 1 April 2021 {GD(C)/465 – INQ000543690}. The Restart Grant was tailored to the Roadmap {GD(C)/479 – INQ000543678} and {GD(C)/465 – INQ000543690}. HMT had designed the grant around the intended reopening dates for each sector {GD(C)/508 – INQ000596700}.
- 9.16. On 9 March 2021, officials sent a submission to the Secretary of State with an update on the Restart Grant Scheme and the Additional Restrictions Grant {GD(C)/465 – INQ000543690}.
- 9.17. On 15 March 2021, officials sent the Permanent Secretary a further submission containing Accounting Officer advice for the Restart Grant {GD(C)/509 – INQ000543769}. The Accounting Officer advice was included with the submission at Annex A. The submission stated that the scheme had been designed at pace by HMT,

⁶ On 28 January 2021, a fifth amendment was added to the EU Temporary Framework for State Aid measures, which prolonged all measures outlined in the framework until 31 December 2021 and increased aid ceilings. Whilst the transitional period following the UK's exit from the EU ended on 31 December 2020, the Trade and Cooperation Agreement between the EU and the UK came into effect on 24 December 2020 {GD(C)/507 - INQ000585728}.

with the Department having limited input in the design of the package. It made clear that the delivery mechanism had minimal costs and that the policy was well targeted. However, officials were unable to conclusively say whether or not the scheme represented value for money due to the lack of robust evidence on the impacts of lockdown and the underlying cost structure for micro and small businesses. In addition, the impacts and costs on micro and small businesses would vary substantially.

- 9.18. The Permanent Secretary cleared the Accounting Officer advice on 16 March 2021. A ministerial direction was not required for the Restart Grant {GD(C)/510 – INQ000543696}.
- 9.19. A further submission was sent to Minister Scully on 16 March 2021, seeking approval of the proposed structure of the Restart Grant and of the corresponding draft guidance for local authorities. Minister Scully approved the proposal on 17 March 2021 {GD(C)/511 – INQ000543705} and {GD(C)/484 – **INQ000543700**}. The submission stated that local authorities would be required to administer an application process for first-time applicants for a Covid-19 business grant and that data regarding businesses applying for a grant must be collected. The Department also required local authorities, for the first time, to conduct at least two pre-payment checks, including one on the company and one on its bank account. The Department observed the success of these further checks in reducing the level of fraud arising from the Restart Grant when the following grant, the OHLG, was being designed {GD(C)/512 – INQ000543767}.
- 9.20. As was the case with the earlier grant schemes, this grant was ring-fenced pursuant to section 31(4) of the Local Government Act 2003. Local authorities were therefore permitted only to allocate the funds provided for the Restart Grant to eligible businesses under this scheme {GD(C)/513 – INQ000543827}.

Allocation of Restart Grant Funding to Local Authorities

- 9.21. In accordance with the Chancellor's announcement in the Budget on 3 March 2021, a total of £3.8 billion was announced for the Restart Grant {GD(C)/465 – INQ000543690}. As set out in the scheme guidance for local authorities, in line with the approach taken to the cohort two schemes, 90% of the estimated grant funding was provided, with the remaining amount to be topped up later if required {GD(C)/514 – INQ000543707}. On 24 March 2021, Mike Keohan requested the Secretary of State's approval to make the payment to the local authorities {GD(C)/515 –

INQ000543709}. Minister Scully approved this payment on behalf of the Secretary of State on 25 March 2021 {GD(C)/516 – INQ000543715}.

9.22. The Department estimated the types of businesses that would require support in reopening, as well as how many businesses were likely to fall within the scope of the new scheme, with reference to the data held by the Valuation Office Agency. The Department estimated that approximately 450,000 retail business properties would be eligible for the scheme, as would approximately 230,000 business properties within the hospitality, accommodation, leisure, gym, and personal care sectors {GD(C)/484 –

INQ000543700

9.23. Steven Greenwood sent a grant offer letter to the local authorities' finance directors on 6 April 2021. He advised the Department would transfer funds to local authorities on or around 6 April 2021 in the amounts outlined at Annex A of the letter for each English local authority {GD(C)/517 – INQ000543716}.

9.24. By the time of the cohort three schemes, the Department was responsible for making payments directly to the local authorities using Oracle without the assistance of MHCLG. Oracle is a database management system which supports procurement, including purchase order creation and the approval and tracking of orders. It can help mitigate the risk of error by verifying prices, providing an audit trail and checking for duplicate invoices. Payments to local authorities were made “...*through the regular purchase order process to ensure there [were] appropriate controls in place and to reduce the risk of error*” {GD(C)/509 – INQ000543769}.

9.25. Ultimately, 396,319 grants (totalling £3.05 billion in funding) were distributed to businesses under the Restart Grant. Local authorities were required to return to the Department any funding not distributed to businesses within 30 days of completing their reconciliation process. The deadline for final payments to be made by the local authorities was 31 July 2021. As was the case with all earlier grant schemes, the level of funding was set by HMT {GD(C)/514 – INQ000543707}.

Delivery of the Restart Grant – Guidance

9.26. On 17 March 2021, Restart Grant guidance was published following approval by Minister Scully {GD(C)/511 – INQ000543705} and {GD(C)/514 – INQ000543707}. An updated version of the guidance was published on 4 May 2021. FAQ documents were also published to assist local authorities in administering the scheme on 15 April 2021,

7 May 2021, 4 June 2021, 16 June 2021, 22 July 2021 and 9 August 2021. I address the key changes to the guidance and FAQs below.

- 9.27. The guidance stated that the primary aim of the Restart Grant was to “...*support businesses that offer in-person services, where the main service and activity takes place in a fixed rate-paying premises, in the relevant sectors...*” and was only available to businesses on the ratings list. It set out the thresholds that would apply to each business depending on their rateable value, and the levels of payment due.
- 9.28. Local authorities were required to determine whether businesses were eligible under Strand One or Strand Two of the scheme. Definitions and specific criteria pertaining to each strand were provided in the guidance to assist local authorities with this assessment. In circumstances where a business offered non-essential services and services falling within another category, the guidance stated the following:
- “[T]he main service can be determined by assessing which category constitutes 50% or more of their overall business. The main service principle will determine which threshold of funding a business receives. Businesses will need to declare which is their main service. Local Authorities will need to exercise their reasonable judgement to determine whether or not a business is eligible for grants under which funding threshold and be satisfied that they have taken reasonable and practicable steps to pay eligible businesses and to pay them the correct amount.”*
- 9.29. Each local authority was required to establish its own application process for all businesses which had not applied for a Covid-19 business grant previously. They were also required to collect information pertaining to the business, including its trading address and unique company reference number, the date the business was established, the number of employees and the cumulative value of any previous Covid-19 grant funding it had received.
- 9.30. The updated version of the guidance was published on 4 May 2021. The only amendments made to the guidance clarified the state of subsidy allowances for the Covid-19 business grant schemes {GD(C)/518 – INQ000543737}.
- 9.31. The first version of the FAQ document was published on 15 April 2021 {GD(C)/519 – INQ000543729}. This document was collated based on questions from local authorities about the scheme at the LAAG meetings relating to eligibility, the application process, pre-payment checks, payments to businesses, reporting,

assurance, and fraud. The documents also addressed questions relating to the ARG, which was being delivered at the same time.

- 9.32. The FAQ document was amended five times to include additional questions reflecting common queries being raised by the local authorities whilst delivering the scheme. The second version of the document, published on 7 May 2021, contained answers to additional questions relating to the Restart Grant, including the eligibility of businesses applying for a payment who were not complying with Covid-19 legislation and whether specific types of businesses were eligible under the scheme. From 28 May 2020, updated FAQ documents were also communicated to local authorities via business grant funds email updates provided by the Department's relationship managers {GD(C)/520 – INQ000585739} and {GD(C)/521 – INQ000585740}. Since its introduction in March 2021 (see paragraph 7.263), the role of relationship managers had received positive feedback from local authorities. Their email updates aimed at highlighting a range of updates and information from across the Business Investment Directorate, including updated guidance and FAQ.
- 9.33. The third version of the FAQ document, published on 4 June 2021, provided further clarification in respect of the eligibility of specific types of businesses under the Restart Grant {GD(C)/522 – INQ000543735} and {GD(C)/523 – INQ000543740}.
- 9.34. The fourth version of the FAQs, published on 16 June 2021, clarified there would be no extension of the application closing date for the Restart Grant despite a delay in stage four of the Roadmap {GD(C)/524 – INQ000543807}.
- 9.35. Version five of the FAQ document was published on 22 July 2021 {GD(C)/525 – INQ000543747}. The only amendments made to this version related to the ARG.
- 9.36. The final amended version of the FAQ document was published on 9 August 2021 and clarified how funds would be recovered by the Department if a business returned a grant payment {GD(C)/526 – INQ000543819}.
- 9.37. Some local authorities took longer than others to set up their application processes for the Restart Grant (mostly due to capacity issues) which led to some minimal delay in conveying funding to businesses. There were also some cases where it was complicated to determine a business' eligibility under the scheme, which also caused delays to payments whilst local authorities sought information from the Department. The Department clarified common questions relating to eligibility under the scheme in a second iteration of the FAQs published on 7 May 2021.

Cohort Three Grants – Objectives for and Establishment of the Omicron Hospitality & Leisure Grant

- 9.38. The OHLG was established in response to the rapid spread of the Omicron variant in late autumn 2021 with the aim of getting money to businesses that were being impacted by the rise of the variant as quickly as possible.
- 9.39. By 17 December 2021, the Department was aware of the rising impact of the Omicron variant on the hospitality and entertainment sectors, owing to correspondence with other central government departments and the Secretary of State's engagement with business representatives from the hospitality sector {GD(C)/527 – INQ000543759}. The hospitality business representatives had communicated a preference for Government to directly support businesses in the form of grant or VAT/business rates relief (rather than business loans) owing to the already high levels of debt in the sector {GD(C)/527 – INQ000543759}. The Department and HMT shared this view and I understand that HMT had advised the Chancellor accordingly {GD(C)/527 – INQ000543759}. Department officials also held a call with hospitality trade organisations at 2pm on 21 December 2021, following the Chancellor's announcement {GD(C)/528 – INQ000543763}.
- 9.40. The Chancellor announced the OHLG on 21 December 2021 alongside a third top-up of the ARG {GD(C)/529 – INQ000543762} and {GD(C)/530 – INQ000543766}. The Department was made aware of this new grant and directed to commence work on the guidance for the scheme approximately two hours before it was publicly announced at 1pm on 21 December 2021 {GD(C)/531 – INQ000543761}.
- 9.41. CGLU officials sent a submission to the Permanent Secretary on 22 December 2021 which explained that the OHLG was intended to "*...partially offset loss of income to hospitality and leisure businesses caused by the uncertainty created by the spread of [Omicron]... This funding is intended to support the businesses that are hardest hit, enabling them to survive and subsequently thrive as the programme to control the pandemic (e.g., booster vaccinations) takes effect*" {GD(C)/532 – INQ000576413}. As explained in this submission, HMT led on the design of this package and the Department provided input regarding delivery.
- 9.42. In order to support local authorities in delivering OHLG funding to businesses as quickly as possible, the Department proposed that local authorities be permitted to pause their work relating to reconciliation, assurance, and debt recovery in relation to

the earlier schemes. It was stated that this delay would impact on overall programme delivery and the full closure of the existing schemes. It would also have an impact on Department accounts and the recovery of funds to HMT. It was for these reasons that Department officials advised that, as Accounting Officer, the Permanent Secretary might prefer to seek a ministerial direction for the OHLG {GD(C)/532 – INQ000576413}.

- 9.43. A summary of the Accounting Officer advice relating to the OHLG was contained in the submission and provisional Accounting Officer advice followed {GD(C)/532 – INQ000576413} and {GD(C)/533 – INQ000543764}. The summary of the Accounting Officer advice stated:

“28. These schemes are novel, contentious, and potentially repercussive and as such HMT consent will be required. HMT have previously said that they will provide this when signing off the draft guidance, which we expect tomorrow at the latest if we are to hit the first week of January deadline. These schemes also raise expectations that HMG will continue to provide funding for these businesses and others going forward should the situation be prolonged or get worse, though this is predominantly a risk for HMT to manage.

29. Parliament does not regard fraud and error in public funds as within the spirit of why it awards spending authority. The benchmark typically applied is that fraud and error levels above 1% are deemed to be material, failing the propriety test and thus irregular. The BEIS accounts for 2020/21 were qualified on regularity grounds for material levels of fraud and error in both COVID-19 business grants and in COVID-19 business loans.

30. On balance, it seems reasonable to believe that the levels of fraud and error in the schemes announced by the Chancellor this week will be lower than in the initial cohort of grants distributed in early 2020/21. However, whether improvements and changes are sufficient to have shifted the fraud and error risk from a range of 4.4%-13.4% to under 1% is unknowable ahead of the intended launch. It is therefore a matter of judgement for the Accounting Officer as to whether she is sufficiently assured as to the likely levels of fraud and error.”

- 9.44. An amended submission and Accounting Officer advice were provided to the Permanent Secretary on 23 December 2021 following feedback from the Department's

lawyers {GD(C)/530 – INQ000543766}, {GD(C)/512 – INQ000543767} and {GD(C)/534 – INQ000543768}.

- 9.45. The Permanent Secretary reviewed the submission and Accounting Officer advice on 23 December 2021 and asked for further information in relation to the risk of fraud arising from the scheme {GD(C)/535 – INQ000543774}. On 29 December 2021, the Permanent Secretary received an updated version of the submission and Accounting Officer advice which sought to address her concerns {GD(C)/536 – INQ000543782}, {GD(C)/537 – INQ000543783} and {GD(C)/538 – INQ000543784}.
- 9.46. The Permanent Secretary's concerns persisted because she did not consider that there was sufficient information in the submission or advice as to how the Department had managed fraud and error in earlier schemes, whether anything new was being proposed for the OHLG and what the residual risk of fraud was (and why it was still high, given the actions BEIS was taking to mitigate the risk) {GD(C)/539 – INQ000543785}. As Accounting Officer, based on the advice she had received, the Permanent Secretary was not yet reassured that the scheme was affordable given that conversations with HMT were still ongoing regarding the further potential costs associated with all aspects of delivering the scheme (including assurance, counter fraud, and evaluation activities). The Permanent Secretary also did not agree with the suggestion that any scheme where fraud was estimated to be above 1% required a ministerial direction to proceed {GD(C)/540 – INQ000543786}.
- 9.47. Department officials reviewed the Permanent Secretary's comments and provided a further updated version of the submission and Accounting Officer advice on 30 December 2021 with comprehensive updates which alleviated her concerns {GD(C)/541 – INQ000543789}, {GD(C)/542 – INQ000543790} and {GD(C)/543 – INQ000543791}. The submission stated:

“7. BEIS has full responsibility for delivering the grant scheme, previously additional support was provided from MHCLG now DLUHC... Lessons have been learnt from the delivery of previous schemes, and these have been incorporated within the overall delivery this includes improvements to detailed and sector focused eligibility criteria, as well as clarity on the final payment dates which are set at the start the schemes.

...

9. *The Omicron Hospitality and Leisure Grant will be administered through a mandated application process. This is specifically designed to reduce fraud and error (a previous risk in earlier schemes) and enable better collection of data for monitoring and evaluation. However, it is worth noting that this will delay getting money to businesses. In addition, we are also mandating pre-payment checks for the Omicron Hospitality and Leisure Grants (company and bank account). Both these areas will be set out within the guidance that will be sent to all LAs however there remains a residual risk that will be difficult to fully mitigate against.*

...

25. *In terms of mitigating the fraud risk, it should be noted that minimum standards of fraud control will be in place and undertaken by LAs, such as the business rate reference number is used as a check.*

26. *There remains a risk of fraud and error, as the scheme is being developed and delivered at pace and through the LAs. However, this has been significantly reduced in comparison with the initial schemes ...”*

9.48. The Accounting Officer advice provided at Annex A of the submission outlined the following:

“Propriety:

Fraud and error risk

...

The current proposals, while still developed at pace have improved significantly in comparison to the initial schemes which directly aim to mitigate the level of error in several ways:

Lessons have been learned by both BEIS and local authorities in the administration of such schemes. In particular, the quality of information available to local authorities’ business rates registers have been improved in response to the limitations exposed by the initial grant schemes. This will ensure the LAs are using improved information when assessing companies for both schemes, which are based on tiered levels of rateable value. These improvements will reduce the level of fraud and error seen for this control check.

The two schemes under consideration for this assessment have quite different design characteristics. In particular, the early grants were not application-based and had very little by way of pre-payment checking built in. The new grants are application-based which allows LAs to carry out additional checks that was not in place previously...

...

Value for money

... we consider the following three issues for equity interventions: the cost of delivery for the scheme, whether the policy is targeted at those that have incurred costs, and whether compensation is proportionate to the cost faced.

Overall, we believe the scheme clearly passes two of these tests; the delivery mechanism is proven to have minimal delivery costs, the scheme is targeted at firms most affected by the impacts associated with rules, guidance, and consumer behaviour, and therefore face unavoidable costs...

...

The final test on overcompensation is not clear cut and we are unable to say conclusively that this represents VFM – this is due to a lack of robust evidence on the impacts of the rules, guidance, and messaging, and underlying cost structure for micro businesses. In addition, the impacts and costs on micro businesses will be very diverse on absolute and relative fixed and variable costs.”

- 9.49. The Permanent Secretary cleared the submission on 30 December 2021 and did not consider that a ministerial direction was required to proceed {GD(C)/544 – INQ000543788}.
- 9.50. On 22 December 2021, the Permanent Secretary was also copied into a submission addressed to Minister Scully seeking his approval to “...deliver further business support in response to the Omicron situation, [to] provide relief to companies during the winter period and reduce the risk of insolvencies and redundancies as per Rt Hon, Chancellor of the Exchequer announcement on 21st December 2021” {GD(C)/545 – INQ000543765}. An updated version of this submission was provided on 23 December 2021 following a legal review {GD(C)/546 – INQ000543770} and {GD(C)/547 – INQ000543771}. Minister Scully approved the package of support on the same day. However, he questioned whether anything could be done to get payments into

businesses' hands more quickly than the suggested three to four weeks. He, along with the Secretary of State and BEIS Special Advisers, were also keen to explore raising the thresholds set out by the EU State Aid Temporary Framework to allow more businesses to benefit from the support {GD(C)/548 – INQ000543772}. David Bickerton (Director General, Business Sectors Group, BEIS) advised that the Department was working to provide the cash to local authorities as quickly as possible, and within the first week of January 2022 {GD(C)/549 – INQ000543773}.

- 9.51. On 23 December 2021, officials sent a submission to the Secretary of State, Minister Scully and the Permanent Secretary, seeking approval to pay local authorities their respective allocations from the £635,275,485 set aside for the OHLG and £102,000,000 top-up funding for the ARG {GD(C)/550 – INQ000543792} and {GD(C)/551 – INQ000543793}. On 24 December 2021, the Permanent Secretary queried why the submission recorded the total allocation for the OHLG as £635,275,485 when the Chancellor announced that £683 million would be provided pursuant to this grant package. She was advised that Department officials had queried the initial figure of £683 million with HMT as HMT were relying on outdated data. HMT had ultimately agreed that the total allocation for the scheme would be £706 million. In line with previous schemes, 90% of the total figure was provided to local authorities upfront (which equalled £635,275,485) {GD(C)/552 – INQ000543780}. Accordingly, the Permanent Secretary provided her approval on or around 29 December 2021 {GD(C)/553 – INQ000543781}. Minister Scully and the Secretary of State provided their approval to make these payments on 24 December 2021 {GD(C)/554 – INQ000543778}.

Allocation of OHLG Funding to Local Authorities

- 9.52. Funding for the OHLG scheme was provided to local authorities on or around 7 January 2022. Finance directors for each local authority were informed by way of a letter from the Business Investment Directorate on 11 January 2022, which contained a breakdown of each English local authority's funding allocation for the OHLG {GD(C)/555 – INQ000543801}.
- 9.53. Following the provision of funding for the OHLG to local authorities, the average seven-day distribution of funding to businesses by local authorities between 24 January and 12 February 2022 totalled more than £60 million per day, with a high of £73 million {GD(C)/556 – INQ000585837}. Following the scheme's closure on 31 March 2022, a

total of £455,534,024 across 134,370 payments had been paid out to businesses, being 71.7% of the total allocation of funding provided {GD(C)/557 – INQ000543828}.

Delivery of the OHLG – Guidance

- 9.54. On 23 December 2021, officials sent the draft guidance for the OHLG (and ARG) to Minister Scully for approval, with an accompanying submission outlining the detail of the scheme design {GD(C)/558 – INQ000543777} and {GD(C)/559 – INQ000543776}. The submission explained that BEIS and HMT were continuing to discuss the eligibility criteria relating to hospitality and leisure businesses as their definitions were not clear and BEIS was concerned this would lead to confusion for businesses.
- 9.55. The Secretary of State and Minister Scully approved the guidance on 24 December 2021 {GD(C)/560 – INQ000543779}. It was published on 30 December 2021 (**OHLG Guidance**) {GD(C)/561 – INQ000543794} and {GD(C)/562 – INQ000543796}.
- 9.56. The OHLG Guidance explained that the primary principle of the OHLG was “...to support businesses that offer[ed] in-person services, where the main service and activity [took] place in a fixed rate-paying premises, in the hospitality, leisure and accommodation sectors.” The OHLG Guidance included the following information:
- a) Funding would be made available from January 2022 and the scheme would close for applications on 28 February 2022. The deadline for final payments to be made to recipients was 31 March 2022;
 - b) The amount awarded was determined by the applicant business’ rateable value;
 - c) Eligibility requirements for businesses and a list of those that fell into scope for hospitality, leisure and accommodation. This list was not exhaustive and local authorities were expected to use their own local knowledge and the criteria in the guidance to make a decision on eligibility. Businesses that were excluded from the OHLG’s eligibility criteria were largely eligible for the ARG instead or were not mandated to close;
 - d) Local authorities would need to run an application process for all applicants for the grant and must be satisfied that businesses that had previously received related grants met the eligibility criteria for OHLG; and

- e) It also provided local authorities with definitions of hospitality, leisure, and accommodation businesses to assist them in determining eligibility under the scheme.
- 9.57. The OHLG Guidance was updated again on 20 January 2022 following a change made to the reporting requirements imposed on the local authorities and an extension of the application end date {GD(C)/563 – INQ000543812} and {GD(C)/564 – INQ000585828}. These changes were made to reduce the administrative burden on local authorities in delivering the scheme on top of the ARG and other day-to-day tasks {GD(C)/565 – INQ000543810}.
- 9.58. An FAQ document was provided to local authorities on 18 January 2022 to assist them in delivering the scheme. This document also provided some clarification on matters relating to the ARG {GD(C)/566 – INQ000543808}.
- 9.59. As with earlier grant schemes, local authorities could raise issues or queries arising from the OHLG with dedicated Department relationship managers by phone or email. The Department continued to hold regular livestream events with local authorities in which they could also raise queries and issues related to delivery of the scheme. The queries raised were fed into the FAQs document issued on 18 January 2022 {GD(C)/567 – INQ000543806}. In addition, local authorities were able to raise queries via the dedicated business grants mailbox. Example queries raised by local authorities included when they were likely to receive guidance, and direction on grant payment processes and bank transfers to eligible businesses {GD(C)/568 – INQ000543787} and {GD(C)/567 – INQ000543806}. Local authorities also sought clarification on the guidance issued, for example, whether new applications were required for the OHLG (and ARG) or whether they could make immediate payment to eligible businesses where they had previously received a grant, given local authorities already held the data and evidence as to which businesses were eligible {GD(C)/569 – INQ000543797}. Local authorities highlighted the pressures of launching the scheme at pace, digesting the guidance issued by the Department and processing applications in advance of the scheme closure date {GD(C)/570 – INQ000543805}. The Department did its best to respond to queries in a timely manner. Despite the Department's best efforts with the resources available, some local authorities were concerned that they did not always receive timely responses.
- 9.60. On 7 January 2022, a local government association senior finance adviser advised Anastasia Osbourne (Director, Business Investment, BEIS) that there was some

concern at senior member level with the OHLG scheme in that it “...[did] not allow for any discretion in the light of local circumstances and that councils may [have been] in a position of having to distribute it to businesses which they [did] not consider [had] been significantly impacted by Omicron. One example [was] holiday homes / lets which [were] entitled to the grant but which one seaside council said were full. On the other hand other sectors which would have got the previous LRSG and Restart Grants, such as hairdressing, [would] not be entitled to the OHLG.”

- 9.61. The LAAG was not consulted on the draft version of the OHLG Guidance prior to its publication. In the same email (7 January 2022) the local government senior finance adviser raised concerns that the group was not convened, as had happened previously {GD(C)/571 – INQ000543799}.
- 9.62. In response, Anastasia Osbourne acknowledged these concerns, explaining that the Department was pushed to launch the scheme quickly over the holiday period, which posed a challenge. She agreed that the ARG funding was available to provide local authorities with the flexibility to support businesses falling outside the scope of the OHLG. She also stated that his concerns would be communicated within the Department and the focus of the team would shift towards more communication and engagement with local authorities in delivering the scheme {GD(C)/572 – INQ000543800}.

SECTION 10: CLOSURE OF COHORT THREE SCHEMES

Closure of the Restart Grant

10.1. As stated in the first iteration of the guidance published for the Restart Grant on 17 March 2021, the application closing date for the Restart Grant was 30 June 2021 and final payments were to be made to businesses by 31 July 2021 {GD(C)/514 – INQ000543707}. This closing date was chosen because it fell shortly after the final step in the Government’s Roadmap.

Closure of the OHLG

10.2. The application closing date and final payment date for the OHLG were provided in the scheme guidance published on 30 December 2021, namely 28 February 2022 and 31 March 2022 respectively {GD(C)/562 – INQ000543796}. The closure date was chosen to align with the end of the financial year.

SECTION 11: NEW BURDENS FUNDING AND LOCAL AUTHORITY RESOURCING ISSUES

New Burdens Payments to Facilitate Delivery of the Grant Schemes

- 11.1. A 'new burden' is defined as "...any policy or initiative which increases the cost of providing local authority services" {GD(C)/573 – INQ000585838}. A total of £210.06 million in new burdens funding was distributed to the local authorities to mitigate the administrative costs associated with delivering the Covid-19 grant schemes between July 2020 and March 2023 {GD(C)/574 – INQ000576417}. The amounts attributed to each local authority were calculated based on the number of in-scope business premises per local authority area and an estimate of costs associated with delivering the SBGF and RHLGF by a sample of local authorities.
- 11.2. New burdens funding was paid in arrears. Accordingly, local authorities were responsible for covering the early cost of administering the schemes. A total of eight payments were made on the following dates:
- a) £49,700,000 on 7 July 2020 {GD(C)/575 – INQ000585661};
 - b) £22,383,000 on 18 December 2020 {GD(C)/576 – INQ000543535};
 - c) £69,987,600 on 12 May 2021 {GD(C)/577 – INQ000543733};
 - d) £30,489,000 on or around 24 November 2021 {GD(C)/578 – INQ000543754};
 - e) £6,742,800 on 8 December 2021 {GD(C)/579 – INQ000543758};
 - f) £4,495,200 on 16 December 2022 {GD(C)/579 – INQ000543758};
 - g) £15,315,342 on or around 9 February 2022 {GD(C)/580 – INQ000543814}; and
 - h) £10,945,026 on or around 27 March 2023 {GD(C)/581 – INQ000543837}.
- 11.3. New burdens funding was intended to cover all costs associated with administering the schemes from their creation through to assurance checks, reconciliation, and recovery of incorrect payments to businesses. Local authorities were generally content with the amount of funding received from the central government to assist them in administering the Covid-19 grant schemes.

Calculation of New Burdens Funding

- 11.4. An official from the Local Economies Contingency Team within CLGU engaged representatives from four local authorities (Liverpool, Ealing, Bury, and Mid Sussex)

between 27 April 2020 and 4 May 2020 to estimate the local authorities' likely administrative costs associated with delivering the SBGF and the RHLGF {GD(C)/582 – INQ000543205}.

- 11.5. Each representative provided an estimate of the costs associated with delivering the SBGF and RHLGF throughout the first eight weeks of the schemes, with a particular focus on staffing, printing, communications and engagement, and technology and automation by 4 May 2020. The average figure was determined and that informed the creation of a five-tiered payment system. Additionally, the number of in-scope business premises per local authority area on 3 May 2020 was used to determine the level of funding that each area required {GD(C)/583 – INQ000543236}.
- 11.6. This five-tiered system was used to determine the appropriate level of new burdens funding for the local authorities throughout the delivery of the Covid-19 grant schemes. For example, a submission to Minister Scully dated 28 January 2022 sought his approval of new burdens payments to all local authorities to reimburse them for the costs associated with administering the OHLG {GD(C)/584 – INQ000543813}.

Capacity and Resourcing Issues with BEIS and the Local Authorities

- 11.7. Resourcing proved to be one of the fundamental difficulties encountered in the administration of the Covid-19 grants, for both the Department and local authorities. The BEIS Business Grants Programme grew from a team that administered small grants equalling approximately £4,000 (and totalling a few million pounds) on the Flood Recovery Framework to a £22 billion scheme. The team had not been set up to deal with the volume of work that was required of it in response to the pandemic and lacked staff with the requisite experience to carry out such an enormous, complex task at pace.
- 11.8. The Department was also acutely aware of the huge administrative burden placed on local authorities in delivering the Covid-19 grant schemes and sought to implement solutions to reduce this. For example, the Permanent Secretary received a submission on 12 January 2022 (prior to it being sent to Minister Scully for final clearance) which highlighted the pressures local authorities were under in administering the OHLG and ARG {GD(C)/585 – INQ000543802} and {GD(C)/586 – INQ000543803}. This submission provided “...*potential options for reducing the delivery burden of administering these schemes in order to support our local government partners to successfully deliver the new grants to businesses at a time when they [were] facing*

significant resource pressures". On 13 January 2022, the Permanent Secretary provided her views on the options outlined. Overall, the Permanent Secretary considered that the various options (such as delaying assurance activities for earlier grants schemes) were not justifiable given the associated risks {GD(C)/587 – INQ000543804}. Thereafter, an updated version of this submission was provided to Minister Scully for approval on 19 January 2022 {GD(C)/588 – INQ000543809} and {GD(C)/565 – INQ000543810}. The two options recommended in the updated submission were an extension of the OHLG application end date from 28 February 2022 to 18 March 2022 (but not an extension of the date for final payments to businesses) and reducing the frequency of data reporting from weekly to fortnightly {GD(C)/565 – INQ000543810}. Minister Scully approved these changes to the scheme on 20 January 2022 {GD(C)/589 – INQ000543811}.

11.9. As stated in the Evaluation of Covid-19 Business Support Grant Schemes Final Report (**the Ipsos Grant Schemes Report**), the following issues contributed most to the stress on local authorities {GD(C)/590 – INQ000585832}:

- a) The requirement that local authorities develop discretionary aspects of some of the schemes, such as the application processes associated with the LADGF and OHLG, as well as the publication of policies regarding the use of discretionary funding to assist businesses;
- b) The actual distribution of grant funding, including processing payments and staffing phone lines; and
- c) The introduction of mandatory pre- and post-payment checks. Despite their importance in mitigating the risk of fraud and error, it imposed another administrative layer on local authorities which were already stretched very thin.

11.10. The local authorities' teams responsible for delivering the grants were also relatively small. Many local authorities were also dealing with their own staff being furloughed and having employees work from home which also hampered their ability to run these schemes.

SECTION 12: COMMUNICATION WITH THE PUBLIC

- 12.1. The Department considered that the majority of communication with the public was best undertaken by the local authorities themselves. This was due to their proximity to the grant recipients, their knowledge of their respective areas, and their comprehensive understanding of local need. The Department was responsible for communicating high-level details of the schemes, including the announcement of new schemes and the total amount of support, extensions and variations to existing schemes and details including eligibility criteria, and the process of awarding grants (i.e. whether businesses were able to apply for grants or whether funding would be automatically awarded pursuant to the business rates system). Scheme announcements were made on the Government website and in the media. Examples of these announcements are located at {GD(C)/591 – INQ000585839} and {GD(C)/592 – INQ000585840}.
- 12.2. The Department also published data for transparency purposes on the Government website which outlined the amount of funding awarded to local authorities and the amount subsequently attributed to businesses. Examples of these publications are located at {GD(C)/593 – INQ000585850} and {GD(C)/594 – INQ000585849}. Local authorities were also required to publish information relating to the schemes on their own websites (including any eligibility criteria they set for the discretionary grants). Examples have been disclosed to the Inquiry {GD(C)/595 – INQ000585841} and {GD(C)/596 – INQ000585842}.
- 12.3. Over time, the Department appointed dedicated relationship managers (including contingent worker contractors) to liaise with a particular sector in a given region. For example, one dedicated relationship manager dealt with the hospitality sector in London and the South East.
- 12.4. The Department also appointed one grade seven team leader and one grade six head of engagement, who led on stakeholder engagement and oversaw local authority relationship management, engagement, and communication.
- 12.5. These individuals were responsible for overseeing the management of the business grants mailbox and provided a point of contact for their assigned sector and area.
- 12.6. The Department published summaries of each of the grant schemes on the Government website in a section that summarised Government support available to businesses, beyond initiatives just relating to the pandemic.

- 12.7. Plain English explanations of the schemes were provided, as were links to assist businesses in determining their relevant local authority. CLGU and the BEIS sector teams also engaged directly with business, industry, and sector bodies to explain the schemes and ensure business-facing, grant-related resources were clear and accessible. Growth hubs also assisted in the dissemination of information regarding the Covid-19 grant schemes to the public.
- 12.8. As stated in the Ipsos Grant Schemes Report, none of the external observers (or local authorities) consulted for the case studies undertaken in the course of its evaluation reported that communications regarding the Covid-19 grant schemes failed to reach hard-to-reach groups {GD(C)/590 – INQ000585832}. Only 3% of businesses consulted that did not receive a grant advised that they were unaware of the existence of the schemes. Most local authorities advised that they provided some form of in-person support to businesses (for example, telephone helplines). However, some businesses consulted in the case studies advised that these were hard to reach and did not necessarily assist in resolving their queries surrounding online application processes.

SECTION 13: EQUALITY CONSIDERATIONS

13.1. The Department recognises the vital importance of equality assessments, and the need to consider those who are disadvantaged or face inequality when developing and delivering policies. Pursuant to section 149 of the Equality Act 2010, the Department completed public sector equality duty (PSED) assessments for each of the Covid-19 grant schemes, as follows:

- a) SBGF, RHLGF, and LADGF on 20 June 2020 {GD(C)/597 – INQ000543244};
- b) LRSG (Closed), LRSG (National), LRSG (Open), the Bolton scheme, and ARG on 3 November 2020 {GD(C)/271 – INQ000543460}: this assessment was carried out shortly after the First Tiers system came into effect on 14 October 2020. An earlier version of the PSED assessment was put to Minister Scully along with the submission on 29 October 2020 and draft guidance documents for the LRSG (Open), LRSG (National), and the Bolton scheme {GD(C)/598 – INQ000543449}, {GD(C)/599 – INQ000543448}, and {GD(C)/263 – INQ000543447}. The PSED assessment was updated on 3 November 2020 to clarify that it also covered the ARG, that local authorities were required to consider equality impacts insofar as the discretionary elements of the LRSG (Open) and ARG were concerned, and that the schemes may disproportionately benefit men as business owners were more likely to be male {GD(C)/270 – INQ000543461} and {GD(C)/271 – INQ000543460};
- c) LRSG (Closed), LRSG (National), LRSG (Open), the Bolton scheme, and ARG on 22 December 2020 {GD(C)/600 – INQ000543590}: this assessment was included with Accounting Officer advice provided to the Permanent Secretary on 22 December 2020, following the Government’s announcement of the new Tier Four restrictions on 19 December 2020. The Accounting Officer advice was then included with the submission put to the Secretary of State and Minister Scully on 23 December 2020 seeking their agreement to local authorities in Tier Four areas receiving an additional allocation for the LRSG (Closed) {GD(C)/406 **INQ000543591**};
- d) LRSG (Closed), LRSG (National), LRSG (Open), the Bolton scheme, and ARG on 8 January 2021 {GD(C)/422 – INQ000543613}: this assessment was also included with Accounting Officer advice provided to the Permanent Secretary on 8 January 2021 and cleared on 11 January 2021 {GD(C)/601 –

INQ000543614}. This advice was provided following the Prime Minister's announcement of the third national lockdown on 4 January 2021 and the Chancellor's 5 January 2021 announcement of the CBLP, and further support becoming available under the ARG and LRSG (Closed) Addendum;

- e) LRSG (Closed), LRSG (National), LRSG (Open), the Bolton scheme, and ARG on 3 February 2021 {GD(C)/602 – INQ000543639}: this assessment was also carried out in the context of the third national lockdown and associated support package provided under the CBLP, ARG, and LRSG (Closed) Addendum. Following the implementation of these additional supports, the Department was required to update the relevant guidance to local authorities and correspond with the Chancellor regarding domestic subsidy limits following an increase in the EU's State aid ceiling under their Temporary Framework {GD(C)/603 – INQ000543638}, {GD(C)/602 – INQ000543639}, and {GD(C)/604 – INQ000543640};
- f) LRSG (Closed), LRSG (National), LRSG (Open), the Bolton scheme, and ARG on 19 February 2021 {GD(C)/451 – INQ000543660}: this assessment was included with Accounting Officer advice provided to the Permanent Secretary relating to the extension of the LRSG (Closed) to 31 March 2021 and ahead of the announcement of the Government's Roadmap on 22 February 2021 {GD(C)/452 – INQ000543668} and {GD(C)/451 – INQ000543660};
- g) Restart Grant on 15 March 2021 {GD(C)/509 – INQ000543769}: this PSED assessment was included with the Accounting Officer advice provided to the Permanent Secretary on 15 March 2021 following the announcement of the Restart Grant on 3 March 2021;
- h) All grants, except the OHLG, on 27 July 2021 {GD(C)/605 – INQ000543749}: Mike Keoghan emailed several BEIS officials on 5 May 2021, including Jo Shanmugalingam, Anastasia Osbourne, and Jess Skilbeck, advising BEIS's equalities objectives would be published in due course and that the Equality and Human Rights Commission had written to the Permanent Secretary regarding the importance of placing equality considerations at centre of the Department's policy-making {GD(C)/606 – INQ000543748}. He requested that a PSED assessment be completed by 31 May 2021 in relation to all active Covid-19 business grant schemes; and

- i) All grant schemes on 23 December 2021 {GD(C)/607 – INQ000543831}: this assessment was completed two days after the announcement of the OHLG.⁷
- 13.2. As set out above, the PSED assessments for the SBGF, RHLGF, and LADGF were only completed in June 2020 and the LRSG in early November 2020 {GD(C)/597 – INQ000543244} and {GD(C)/271 – INQ000543460}. The Department accepts that these assessments were not completed, as they should have been, prior to their implementation. The Department was operating with such limited capacity and was overwhelmed with the amount of work required to design and implement the schemes. However, it is acknowledged that completion of these assessments is of vital importance to inform the design of any Government initiative to ensure that support efficiently reaches its desired recipients and does not inadvertently disadvantage any individual with a protected characteristic. The PSED assessments should have been prioritised and completed ahead of the schemes' implementation. Had the PSED assessments been completed at the outset, the Department considers it unlikely that they would have resulted in any major changes to how the schemes were originally operationalised. The assessments might have thrown up some additional considerations around targeting specific parts of the business population but this had already been considered in the policy options development and discounted by HMT.
- 13.3. For each of the grant schemes, the PSED assessments identified that the business owners most likely to experience disadvantage arising from the schemes (albeit only a minimal risk) were those with protected characteristics affecting their access to the internet or their computer literacy skills. Specifically, there was a small risk to business owners aged over 65, ethnic minorities, individuals with disabilities, and religious societies whose beliefs were incompatible with the use of electronic communications. Had the assessments been completed at the start, the assessments may also have provided considerations around accessibility for those with protected characteristics and the use of electronic communications. However, in relation to the SBGF, this was largely mitigated as local authorities were not required to have an application system and were encouraged to pay grants based on the existing information they held.
- 13.4. BEIS and HMT recommended proceeding with new schemes and continuing with existing schemes because the risks as assessed in the PSED assessments were low

⁷ The footer of the PSED assessments at {GD(C)/597 - INQ000543244}, {GD(C)/605 - INQ000543749}, and {GD(C)/607 - INQ000543831} state these documents are dated "20-06-02". This was a template error; the correct dates of these assessments have been reflected in the text of my statement.

to minimal. It was determined that, in most respects, these schemes would not disproportionately negatively impact individuals who shared a protected characteristic. The Department also took steps to minimise the potential impact identified regarding computer literacy and internet access issues. For example, the submission of 15 March 2021 on the Restart Grant (see paragraph 9.17, above) advised as follows:

“Public Sector Equalities Duty

You are required to have due regard to the public sector equality duty under section 149(1) Equality Act 2010 in exercising your functions. The key issue which arises from these proposals in relation to the PSED are as follows – there is a small risk that small business owners belonging to one or more of the following groups: aged over 65, BME, disabled, and religious societies whose beliefs are incompatible with the use of electronic communications, may not fully benefit from these schemes if they face internet accessibility issues which tend to be lower in these groups. This risk is predominantly driven by access to the internet and literacy skills. We consider that this risk is minimised by Local Authorities and CLGU Area Leads disseminating information through their networks to ensure small business owners with the aforementioned protected characteristics are made aware of the grants fund and the application process. We do not consider that any negative impacts on equality are disproportionate and we have considered appropriately the need to advance equality and foster good relations.” {GD(C)/509 – INQ000543769}.

- 13.5. BEIS and HMT considered that the best approach to minimising the risks was for local authorities to disseminate information throughout their networks to ensure small business owners with protected characteristics were made aware of the Covid-19 grant schemes and the application process. BEIS considered that local authorities were closer to the target groups and had a better understanding of how to reach eligible businesses in the most appropriate way.
- 13.6. The Department, along with MHCLG, also contacted a sample of local authorities on a monthly basis to ensure compliance with the mandatory criteria and to understand how local authorities were exercising their discretion in the discretionary schemes. MHCLG assisted by circulating news and guidance on the schemes across small business representative groups, local enterprise partnerships, and to the Chamber of Commerce.

- 13.7. For grants that were automatically awarded based on the business rates system, it was assessed that they would have no negative impact on small business owners with protected characteristics. While businesses owners with protected characteristics would not be identifiable through business rates, the support would be applied equally to all small and micro business owners that qualified {GD(C)/597 – INQ000543244}.
- 13.8. Local authorities are, of course, also required to act in accordance with their own PSED obligations. This was first outlined in the PSED assessment included in the 3 November 2020 Accounting Officer advice at {GD(C)/271 – INQ000543460}. Given that some of the grant schemes had discretionary aspects, BEIS required local authorities to comply with the following monitoring requirements to ensure compliance with their duties pursuant to section 149 of the Equality Act 2010:
- “1. All Local Authority schemes (eligibility criteria) must be published online.*
- 2. In its role as a public body, Local Authorities must ensure that its criteria fulfil the requirements of the Public Sector Equality Duty as set out in section 149 of the Equality Act 2010.*
- 3. MHCLG / BEIS will also contact a sample of Local Authorities each month to check it is awarding grants in line with the mandatory criteria and understand the ways in which Local Authorities are using its discretion.*
- 4. Local authorities will be required to report on their progress in developing and delivering these schemes to BEIS.”* {GD(C)/598 – INQ000543449}.
- 13.9. In response to a specific question from the Inquiry, the Department did not have any formal meetings specifically to discuss or consider matters relating to equality within the schemes. BEIS officials discussed equality considerations in the context of the Department’s PSED obligations for the completion of Accounting Officer advice and policy submissions, however no minutes of these conversations exist.
- 13.10. With regard to the Department’s consideration of socially and economically vulnerable groups at the design stage of the grants, the overall intention of the Covid-19 grant schemes was to provide financial support to businesses experiencing difficulties as a direct result of Government-imposed restrictions and lockdowns. The various Covid-19 grant and loan schemes were a patchwork of support designed to support businesses and only comprised a portion of the wider Government support.
- 13.11. The grant schemes became more targeted with each cohort to ensure support reached businesses most likely to experience financial hardship as a result of Government

restrictions. The SBF, LADGF, LRSG sub-schemes, and Restart Grant were available to the smallest businesses (subject to each schemes' individual eligibility criteria), and the LADGF and ARG also provided local authorities with discretion in awarding grants to businesses in accordance with local need.

SECTION 14: IRREGULAR PAYMENTS AND MANAGEMENT OF FINANCIAL RISK

Introduction

- 14.1. In this Section, I address the steps taken by BEIS to mitigate financial risk in the Covid-19 grant schemes. The Department has determined that, in the grants schemes, non-compliant payments and payments made in error by local authorities significantly outweighed grant payments obtained by fraud. This contrasts with the Bounce Back Loan Scheme where, as addressed in Part B of this statement, fraud was the predominant cause of the losses incurred.
- 14.2. DBT now uses the term “irregular payments” as a global term to describe payments that should not have been paid under the terms of the Covid-19 grant schemes. This term is used throughout this Section. On the basis of data obtained of ineligible grant payments notified via local authorities since their closure, DBT has classified its analysis of Covid-19 grant payments made irregularly into three categories: non-compliant payments, those made in error, and those made as a result of fraud on the part of applicant businesses:
- a) **“Non-compliant payments”** refers to grant payments made to businesses based on inaccurate information where there was no evidence that this was deliberate on the part of the business awarded the grant. As part of the strengthening of the early grant schemes, BEIS contacted local authority finance directors to reiterate the importance of post-payment checks to ensure businesses met the eligibility criteria of the schemes {GD(C)/608 – INQ000543156} (see further paragraph 14.31, below). Local authorities were instructed to pay grants under the SBGF and RHLGF to businesses based on existing business rate records that they held to support speed of payment, without checking the accuracy of those records. Business rates records were, in many cases, not up to date. Changing regulations or unclear guidance resulted in businesses incorrectly believing they were eligible for support and submitting an application in good faith for a grant to which it was not fully entitled. Non-compliance was the most common type of irregular payment made under the Covid-19 grant schemes. Examples of non-compliant payments included where a business:

- i. Was eligible to receive a grant, however received an incorrect amount based on out-of-date local authority data (a business' rateable value was used to determine eligibility and value of a grant payment under many of the Covid-19 grant schemes);
 - ii. Received an automatic payment pursuant to incorrect business rates data held by the local authorities (i.e. under the SBGF or RHLGF), where the business was no longer trading but where the associated bank account was still active to receive the payment;
 - iii. Mistakenly asserted it was liable for business rates on a particular date, believing it was eligible to receive a grant;
 - iv. Chose to close even though it was not required to under the Government-imposed restrictions at a given time; and
 - v. Was mandated to close under Government-imposed restrictions but did not do so for the full period of the grant.
- b) "Error" refers to payments made incorrectly by local authorities. Erroneous payments were largely made to genuine, eligible businesses that were suffering from the financial impacts of Government-imposed lockdowns but received more money than they were entitled to. Examples of erroneous payments included:
- i. Where a local authority mistakenly made multiple payments to the same business (where fewer payments ought to have been made); and
 - ii. Where the local authority entered incorrect bank account details, due to out-of-date or incorrect internal records held by the local authority.
- c) "**Fraud**" (actual or suspected) refers to identified fraud or applications for grant funding by dissolved businesses. Fraud was perpetuated in a variety of ways, including the impersonation of businesses that were eligible for a grant, multiple claims being made by individual businesses, and inactive businesses submitting false documents as evidence they were trading at the time. In some cases, there is sufficient evidence to categorise a grant payment as fraudulent, for example where false documents were used, or it is clear that a grant was claimed by an inactive company. In other cases, however, there are plausible reasons why a mistake could have been made by the applicant, such that the payment would have been a case of non-compliance. Grant payments are only

categorised as fraudulent where there is sufficient basis to consider that there was an intent to defraud.

- 14.3. Estimates of the value of irregular payments made during the Covid-19 grant schemes, calculated on the basis of data gathered by the Department and from figures reported by local authorities, are discussed in Section 15 from paragraph 15.24. It should be explained that, at the outset of the pandemic and in delivering the Covid-19 grant schemes, local authorities only identified and reported irregular payments to the Department; they did not report specifically on the levels of non-compliant payments, erroneous payments, or payments made pursuant to fraudulent applications. In reality, under 50% of local authorities reported irregular payments during the delivery phase of the Covid-19 grant schemes.
- 14.4. I have addressed critical reflections on the grant schemes in detail in Section 17 of my statement below. To give context to this Section of my statement, in brief overview, the main issues that arose were:
- a) For the cohort one schemes, speed of payment was prioritised at the expense of assurance and quality control checks. This led to a much higher level of irregular payments being made under these schemes. The risk of irregular payments was recognised at the time of implementation and had to be weighed against these benefits in speed and ease of administration. For the early grant schemes, payments were made automatically which limited the opportunity for fraudulent applications to be made (however this increased the risk of non-compliance due to the reliance on out-of-date or incomplete business rates data leading to some ineligible businesses receiving a grant and other eligible businesses not receiving enough); and
 - b) The lack of initial instruction to local authorities to undertake mandatory due diligence and assurance checks led to inconsistent practices being adopted across different areas.

Cities and Local Growth Unit Management of Financial Risk Pre-Pandemic

- 14.5. As has already been stated, pre-payment checks and application processes were not mandated for the cohort one and two schemes given that the primary focus of these grants was speed of payment. The main design features implemented in pre-pandemic grant schemes which aimed at minimising the financial risk were pre-payment checks and application processes, with final awards subsequently monitored by BEIS and paid

in arrears. Recovery clauses were also ordinarily included in the grant agreements. Accordingly, the risk of irregular payments occurring in pre-pandemic schemes was much lower.

- 14.6. CLGU did not have any other pre-existing structures or processes it could draw upon or adapt for the novel Covid-19 grant schemes. CLGU contacted BEIS and MHCLG in this regard, however there were no BEIS structures that could be quickly adapted and there was nothing available in MHCLG that allowed CLGU to deal with systematic, organised, cross-boundary fraud.

Estimation of Likely Irregular Payments in the Covid-19 Grant Schemes

- 14.7. The way the Department estimated the likely level of irregular payments in pre-pandemic schemes could also not be adapted for the Covid-19 grant schemes as most of these grants were automatically awarded based on the business rates system.
- 14.8. Given the Covid-19 grant schemes were created under immense pressure in the context of a national emergency, it was inherently difficult to estimate the projected level of irregular payments with accuracy or confidence. This was one of the major factors which drove the decision to seek a ministerial direction for some of the schemes, particularly the cohort one grants. The Department considers that BEIS, in the context of the limitations and imperatives that applied, could not have made a more robust assessment of the likely levels of irregular payments that would materialise in the schemes. This is due to the context in which the schemes were created, particularly given the priority which Ministers assessed ought to be given to providing funding to businesses at pace. The implementation of application processes and pre-payment due diligence checks would have helped the Department both predict and limit the levels of irregular payments in the schemes. However, as has previously been stated, these were trade-offs that the Department knowingly accepted to prioritise speed of payment.

Design Features Implemented to Mitigate Risk of Irregular Payments

- 14.9. The Department implemented a variety of measures to prevent and estimate irregular payments in the grant schemes. References to 'assurance activity' or 'assurance work' in this part of my statement are to the various measures to identify, detect, and recover irregular payments. The measures became more comprehensive as the grant schemes developed through the cohorts, but (due to prioritisation of speed of delivery)

did not apply or were far more limited in the earlier schemes. A summary is provided below:

- a) Pre- and post-payment checks
 - i. Pre- and post-payment checks involved local authorities confirming whether a business that would otherwise be eligible for a grant was operational and trading in accordance with each scheme's eligibility criteria.
 - ii. The Department did not mandate these checks until the cohort three grant schemes given the priority placed on speed of payment to businesses in the cohort one and two schemes (however, some local authorities ultimately opted to complete pre-payment checks). Spotlight, a digital assurance tool (detailed at paragraph 3.44 above), was made available to assist local authorities with these checks. Its use was not mandatory, and it did not provide comprehensive assurance to local authorities as it only contained limited data on sole traders. Since businesses needed to make an application under the LADGF (cohort one), that process was seen to mitigate some of the risk inherent in the SGBF and RHLGF, given each application would be subject of review by a local authority. By contrast, there was no application process required for the SGBF or RHLGF.
 - iii. Pre- and post-payment checks were mentioned in the guidance documents for the various cohort two schemes, but they were not mandated as speed of payment to businesses was still a high priority and the Department was conscious of the local authorities' capacity issues. The Government Grants Management Function and Counter-Fraud Function waived the annual fee for Spotlight to assist with pre- and post-payment checks (if the various local authorities opted to complete them). Further tools via the National Fraud Initiative (**NFI**) were also available to local authorities to assist in verifying businesses' bank accounts; these provided insight into whether the company was trading at the relevant date set in each scheme's eligibility criteria.
 - iv. Pre-payment checks were mandated for the cohort three grants, including on the business itself and its bank account. These checks led to a reduction in the level of fraud in these schemes {GD(C)/512 – INQ000543767}.

- b) Post-event assurance action plan
 - i. Cabinet Office required BEIS (and other central government departments) to complete a post-event assurance action plan (**PEAP**) detailing the types of activity the Department planned to undertake, or commission others to undertake, to provide assurance on the propriety and regularity of payments regarding the Covid-19 support schemes {GD(C)/609 – INQ000543252} and {GD(C)/610 – INQ000543254}. The Department's first draft PEAP was circulated by the BEIS finance team to CLGU on 1 June 2020. BEIS's PEAP covered the Covid-19 grant and loan schemes and prioritised the Department's "...highest risk [*being the cohort one schemes*], highest value grant and guaranteed loan schemes...". Local authorities were also required to create their own PEAP.
- c) Assurance reporting
 - i. Local authorities were initially required to report to the Department monthly to provide an update on the assurance activities being undertaken (in accordance with their individual pre- and post-payment assurance plans), along with an update on their fraud risk assessment {GD(C)/611 – INQ000543260}. This reporting requirement was removed in April 2021 to allow local authorities to concentrate their resources on paying grants to businesses.
 - ii. Initially, if local authorities identified successful cases of fraud (or attempted fraud that was organised, large scale, systematic, or crossed local authority boundaries), this had to be reported to the Department, the National Anti Fraud Network (**NAFN**), National Investigation Service (**NATIS**), and the NFI immediately. This position was revised in summer 2021 to require local authorities to report any fraud (actual or suspected) to NAFN and BEIS. NAFN was responsible for referring the matter to NATIS for investigation.
- d) Engagement with other stakeholders
 - i. BEIS worked with other government departments and agencies to support local authorities in preventing and detecting irregular payments.

The agencies included the NAFN, NATIS, NFI, City of London Police, and domestic banks.

- 14.10. In addition, where a payment was made erroneously, local authorities were directed in December 2020 via the Debt Recovery Guidance (discussed in more detail in Section 15) that they should first determine whether the error was made by themselves or the grant recipient {GD(C)/612 – INQ000543512}. Thereafter, the relevant local authority was required to take all reasonable and practicable steps to recover the funds.
- 14.11. In the case of a non-compliant payment, for example, where a grant was paid by a local authority in good faith and in accordance with guidance, but the guidance was subsequently updated bringing into question the eligibility of the grant payment, the Department did not require the grant to be recovered. This was the Department's position until summer 2021; subsequently, local authorities were required to attempt recovery of all irregular grant payments identified regardless of how it arose (i.e. whether as a result of non-compliance, error, or fraud).

Precautions against Irregular Payments in the Cohort One Grants

- 14.12. CLGU needed to create new processes aimed at mitigating the risk of irregular payments in the Covid-19 grant schemes. As has already been stated, the main goal of the cohort one (and to some extent, cohort two) grants was to provide support to businesses as quickly as possible in the context of a national emergency. The recognised financial risk was therefore balanced against this need.
- 14.13. As set out from paragraph 2.12 above, in a submission on the design of the early schemes, dated 10 March 2020, the Secretary of State was informed that HMT officials had offered the Chancellor two options {GD(C)/004 – INQ000543056}. The first was a scheme with an application process for micro-businesses in England with fewer than 10 employees and the second was a scheme targeted at all micro-businesses in receipt of SBRR regardless of evidence going to the impact of Covid-19 on the business. The submission stated:

“24. We consider the first of these schemes to be undeliverable as currently described, because it would require individual applications to be reviewed, evidenced and verified. Local Authorities simply do not have the capacity to run grant schemes of this scale, and the risk of delay, fraud, and negative LA reaction would all be such that we think the scheme would in practice be

withdrawn under the further scrutiny that would take place in the days following the budget.

25. The second variant has a number of advantages. It would be much simpler to administer as LAs already know who gets SBRR so the only “review” required for each individual application would be ensuring basic checks such as avoiding duplicate payments. There would be a need for some central oversight (from BEIS and/or MHCLG) to assess how Local Authorities have delivered the scheme, whom they have supported, and the amounts involved.

26. There are significant deliverability challenges with this option that we will need to work through. This includes capacity and capability in the LA’s to deliver these payments within the tight timescale.”

- 14.14. As a result of concerns about speed and deliverability, an application process was not introduced for the initial grant schemes. With a focus on speed and deliverability, all micro-businesses in receipt of SBRR and RRR were automatically eligible for the SBGF or RHLGF. The delivery of these schemes was reliant on data held by local authorities; it later transpired that a lot of this was out-of-date or incomplete, leading to the high rate of non-compliant payments observed. The automatic eligibility for the SBGF and RHLGF, the dependence on unreliable local authority data, and the absence of mandated pre-payment checks combined to increase the risk of irregular payments. In answer to a point specifically raised by the Inquiry, it follows that significant compromise was made regarding the risk and management of irregular payments because of the need for speed of delivery, and this was highest in the cohort one grants.
- 14.15. The various cohort one guidance documents included provisions that local authorities should remind grant recipients that accepting payment of the grant amounted to a confirmation that the recipient was eligible. This practice was maintained for the cohort two and three grants. The cohort one scheme guidance also stated that post-payment assurance would be carried out in due course. As discussed in further detail below, during April to June 2020, the CLGU, in partnership with Cabinet Office and the Department’s counter fraud specialists, developed guidance for local authorities on mitigating the risk of irregular payments, including fraud risk assessments and post-payment assurance processes.
- 14.16. On 20 March 2020, Cabinet Office confirmed that their “...*recommendation [was] that to support rapid payment any burden on Local Authorities to complete checks in*

advance of payment are minimised and the risk of paying on the basis of the data in the system is accepted.” {GD(C)/049 – INQ000543094}.

- 14.17. As outlined earlier, pre-payment checks involved confirming whether a business was operational and trading, and therefore eligible (subject to other eligibility criteria) to receive a grant. Spotlight, Cabinet Office’s digital due diligence tool, was offered to local authorities to assist with these checks. However, limitations in what Spotlight could be used for were highlighted by BEIS officials {GD(C)/613 – INQ000543132}. Spotlight was heavily based on data that was publicly available from Companies House. Although it had the ability to bulk process data and identify any red flags quickly, it was explained that the tool had previously returned “false positives”. For example, companies actively trading could appear to be inactive or dissolved according to Spotlight data if they had failed to properly update their trading status or failed to upload returns to Companies House. Officials therefore took the view that it could not be relied on as the only means of verifying the status of a company and data held by local authorities was more likely to be up to date in some cases.
- 14.18. Between 20 and 23 March 2020, Cabinet Office worked with two local authorities, Castlepoint Local Borough and Thurrock Local Authority, to test Spotlight and their assurance processes. Both local authorities reported concerns that they would not have the resources to conduct pre-payment checks on businesses before grant payments were made and that they had confidence in only about 50% of the data on their business rates system. When the data held by the local authorities was run through Spotlight, it reported that a large number of businesses were already in liquidation or had directors who had been struck off {GD(C)/051 – INQ000543098}.
- 14.19. A submission was sent to the Secretary of State on 22 March 2020 and advised the following in relation to pre-payment checks {GD(C)/048 – INQ000543108}:

“Fraud also remains a risk as we balance the need for speed against the time it takes to do pre-payment checks (in addition to post-payment assurance). We are in contact with Companies House to look at the feasibility of using their databases to check businesses in bulk or one at a time. We are also in discussion with the Cabinet Office about their anti-fraud tools. These are both in addition to existing LA measures.”

- 14.20. The first and second iteration of the SBGF and RHLGF Guidance, issued to local authorities on 23 March 2020 and 25 March 2020 respectively, stated the following in

relation to managing the risk of fraud in these schemes {GD(C)/060 – INQ000543103} and {GD(C)/083 – INQ000543121}:

“33. The Government will not accept deliberate manipulation and fraud – and any business caught falsifying their records to gain additional grant money will face prosecution and any funding issued will be subject to claw back.

34. The Government Grants Management Function and Counter Fraud Function will make their digital assurance tool, Spotlight, available to Local Authorities, and will offer support in using the tool and interpreting results.”

- 14.21. No further direction regarding pre- or post-payment checks was provided. These versions of the SBGF and RHLGF Guidance also stated at paragraph 10 that “...*the Government Grants Management Function and Counter Fraud Function [would] support local authorities to carry out post-event assurance work to identify high risk payments*” and Annex B established “...*the minimum data local authorities [would] need to have available in a format that [could] be shared with central government, in order to complete effective post award assurance on grants...*” {GD(C)/060 – INQ000543103} and {GD(C)/083 – INQ000543121}.
- 14.22. On 24 March 2020, Cabinet Office cautioned the Department that “*The data from our review of business rate data from two local authorities indicated that in excess of 5% of the companies were now dissolved. This evidence suggests that LAs will struggle to meet the guidance that dissolved companies should not be paid.*” {GD(C)/614 – INQ000543114}.
- 14.23. On 26 March 2020, CLGU provided an update to HMT on the grant schemes and issues relating to error and fraud {GC(C)/615 – INQ000543131}. Tony Bray advised that Cabinet Office had been pressing for local authorities to undertake data collection before issuing payments to eligible businesses, however local authorities had advised “...*that introducing onerous pre-payment checks [would] delay things by 4-6 weeks...have therefore, broadly, brokered a position where the focus [would] be on post-payment checks*”. CLGU suggested local authorities be encouraged (but not required) to utilise Spotlight in the SBGF and RHLGF Guidance. With the focus on getting local authorities ready to deliver payments, the process for post-payment checks would then be set out in subsequent guidance. HMT did not take issue with CLGU’s suggested approach {GD(C)/615 – INQ000543131}.

14.24. Also on 26 March 2020, Jenny Dibden reported to the Permanent Secretary that there was a “...*potential tension between speed of payment (to enable eligible businesses to survive in real time) and mitigating the risk of error and fraud.*” Jenny Dibden reiterated that the feedback from the LAAG was “...*that any upfront data collection [would] slow payment of grants down by a number of weeks.*” In response, the Permanent Secretary requested that a ministerial view be sought on how much priority should be placed on speed stating that, if speed was prioritised, the consequence would be that pre-payment checks, normally advisable, would not be carried out {GD(C)/076 – INQ000543130}.

14.25. Later on 26 March 2020, officials sent a submission to the Secretary of State, seeking a “...*steer on how much priority to accord to speed in the payment of these grants, noting that if speed is prioritised the pre-checks normally advisable will not be done in all cases, there will be a reliance on post-payment checks and the degree of fraud and error in payments is likely to be higher*” {GD(C)/616 – INQ000543129}. If the primary objective was speed, the advice given in the submission was to:

“Reconfirm with LAs the primary objective is speed;

Offer LAs the use of Cabinet Office tool (called Spotlight) and support for pre and/or post payment checks but not mandate it;

Include in the payment letter to each business reference to post payment checks being a condition of accepting the grant, as well as a similar reference about State Aid;

Retrospectively collect data/missing data items for post payment assurance, not do it up front;

Set details out of the post payment checks process in subsequent guidance – our focus now is on getting LAs up and running to identify eligible businesses and make payments;

Confirm that LAs’ S.151 officers (Finance Directors) have to assure themselves that local authorities are managing the grants effectively and will be alert to fraud and the need to protect the local authority.”

14.26. The 26 March 2020 submission also highlighted that, although the Department could request local authorities to take actions to mitigate these risks, the Department was ultimately accountable to Parliament for the regularity and propriety of grant payments made under the schemes. Further, the submission explained that “*It is not possible to*

estimate with any degree of reliability what the error rate might be. However, on a £12.3bn combined value for these grant schemes every 1% of payments made in error would amount to £123m. Some very rough and unverified estimates produced by Cabinet Office (based on a sample base of 2 LAs) suggest payments in error might amount to £650m."

14.27. In reply to this submission, the Secretary of State's steer was to "...pay at speed, remind recipients of their responsibility in respect of accepting the grant and rely on post payment checks for assurance rather [than] pre payment" {GC(C)/615 – INQ000543131}.

14.28. The following paragraph was included in the third version of the SBF and RHLGF Guidance issued on 1 April 2020 {GD(C)/085 – **INQ000543139**}:

"34. The Local Authority must call or write to the business, stating that by accepting the grant payment, the business confirms that they are eligible for the grant schemes. This includes where Local Authorities already have bank details for businesses, and are in a position to send out funding immediately, or where the Local Authority is sending a cheque to a business."

14.29. The 1 April 2020 version of the SBF and RHLGF Guidance clarified that any grants paid in error may also be subject to claw back, and further elaborated on the use of Spotlight {GD(C)/085 – **INQ000543139**}:

*"37. ... Alongside other checks conducted by local authorities, the tool **can help with pre-payment and post payment assurance**. We also want local authorities to work with us and each other in identifying and sharing good practice, including protecting eligible businesses which may be targeted by fraudsters pretending to be central or local government or acting on their behalf." [emphasis added]*

14.30. On 3 April 2020, officials provided an update to the Secretary of State on the progress of the delivery of the SBF and RHLGF {GD(C)/089 – INQ000543147}. The update advised "[a]n **updated version of the guidance** was published on 1 April, responding to feedback from local authorities. This version set out the requirements for post payment assurance and the requirement for weekly reporting to the department. We are working with local authorities to make the grant process as smooth as possible, with post- rather than pre-payment checks for assurance. Alex Chisholm is writing to

Finance Directors in Local Authorities to set out the importance of post-payment checks." (original emphasis).

- 14.31. On 16 April 2020, Sam Beckett wrote in her capacity as Accounting Officer to local authority finance directors reiterating the importance of post-payment checks. The letter confirmed the requirement that each local authority, with support from the Government Grants Management and Counter-Fraud Function, conduct a series of post-payment checks on recipient businesses to ensure that they met the criteria of the schemes and, where necessary, recover funding {GD(C)/608 – INQ000543156}. However, the subsequent grant determination letters and guidance documents issued for the cohort one and two schemes did not contain a formal instruction to local authorities to complete post-payment checks to confirm the eligibility of businesses that had been issued a grant.
- 14.32. On 19 April 2020, an update was provided to the Secretary of State on issues relating to non-compliance, error, and fraud {GD(C)/617 – INQ000543158} and {GD(C)/618 – INQ000543159}. Officials stated that local authorities had "*...different systems and processes for addressing error, non-compliance and fraud...*", and "*...some LAs prioritised upfront fraud activity over speed.*" In addition, the update stated that:
- a) At least a third of the local authorities had utilised Spotlight to assist with checks;
 - b) The LAAG had reported that local authorities were detecting what they believed to be fraud and were taking action; and
 - c) Local authorities had re-deployed other teams (for example council tax and parking enforcement teams) to work on identifying erroneous payments, which – despite those teams receiving training – might increase the risk of error.
- 14.33. Because of the priority given in March and April 2020 to speed of delivery, assurance guidance was delayed until the schemes had been launched. Without assurance guidance in place, the Department was reliant on local authorities undertaking their own assurance processes to avoid irregular payments. On 30 April 2020, the Secretary of State wrote to local authorities about financial accountability for the SBGF and RHLGF {GD(C)/619 – INQ000543189}. The letter stated:

"We can confirm that the Department...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...will be accountable for what is left over.”

14.34. As the LADGF was being designed in April 2020, further consideration was given to mitigating the risk of irregular payments. As set out from paragraph 4.15 above, on 29 April 2020, officials sent a submission to the Secretary of State seeking approval of the proposed LADGF {GD(C)/110 – INQ000543186}. The risks associated with local authorities' ability accurately to deliver the LADGF were highlighted in Sam Beckett's letter of 1 May 2020 to the Secretary of State seeking a ministerial direction {GD(C)/113 – INQ000543191}. It was anticipated that the design of LADGF would help resolve some of the financial risk inherent in the SBGF and RHLGF. Local authorities were required to conduct a formal application process for businesses applying under the LADGF. Applicants to this scheme were not known to local authorities as they did not operate within the business rates system. See Annex A of the Accounting Officer advice dated 1 May 2020 at {GD(C)/112 – INQ000543194} which stated:

“The application process will help resolve some of the fraud and error risks inherent in the Small Business Grants and Retail, Hospitality and Leisure Grants as it will allow for more pre-payment checks, with an expectation that local authorities will use the Cabinet Office's Spotlight tool to help do this, or checks equivalent to this. It is accepted that this scheme will take longer to disburse funding, although clearly it is important that businesses in need are supported as quickly as possible.”

14.35. Accordingly, the first version of LADGF Guidance, published on 13 May 2020, recognised that the application process would provide local authorities with an opportunity to “...undertake proportionate pre-payment checks to confirm eligibility relative to their local scheme...” {GD(C)/130 – INQ000543221}. Insofar as the management of fraud risk (including pre- and post-payment checks) and post-event assurance were concerned, the wording of the sections of the LADGF Guidance published on 13 May 2020 was identical to the 1 April 2020 version of the SBGF and RHLGF Guidance {GD(C)/085 – INQ000543139}. There were no amendments made to the wording of these sections in any subsequent version of the SBGF and RHLGF Guidance or the LADGF Guidance.

14.36. Draft assurance guidance was circulated for comment on or around 11 May 2020 (**Cohort One Assurance Guidance**) {GD(C)/620 – INQ000543214} and {GD(C)/621 – INQ000543213}. CLGU officials raised concerns about how it would “...land with LAs

given that a large % of grants have already been paid out (with strong ministerial encouragement).” {GD(C)/622 – INQ000543234}.

14.37. On 22 May 2020, the draft Cohort One Assurance Guidance was circulated to a sample group of four local authority finance directors for comment. Feedback was provided {GD(C)/623 – INQ000543237}. The Westminster Council finance director had the following concerns:

- a) That the Cohort One Assurance Guidance seemed to infer that an application process should have occurred and a full risk assessment would have been undertaken before starting the grant payment process, which would not have happened for the majority of local authorities;
- b) It did not make clear what was expected from local authorities in terms of post-payment checks and debt recovery; and
- c) That the monthly reporting returns and fraud reporting were too onerous.

14.38. On 5 June 2020, following a review by Cabinet Office, the Cohort One Assurance Guidance was shared with CLGU, together with a draft fraud risk assessment user guide and template. The fraud risk template was intended to support local authorities in adopting a consistent approach to conducting a fraud risk assessment for the grant schemes they were delivering.

14.39. On 12 June 2020, CLGU met with the LAAG to discuss their comments on the documents {GD(C)/623 – INQ000543237}. CLGU reported the draft documents *“...landed well with the group; they had minimal comments. We will be supplying a FAQ in due course”* {GD(C)/624 – INQ000543263}.

14.40. On the evening of 16 June 2020, the Cohort One Assurance Guidance and accompanying documents for the SBGF and RHLGF were issued to local authorities. See email to local authorities at {GD(C)/625 – INQ000543262}, and attachments at {GD(C)/626 – INQ000543259}, {GD(C)/627 – INQ000543246}, {GD(C)/628 – INQ000543247}, {GD(C)/629 – INQ000543248}, {GD(C)/630 – INQ000543261}, and {GD(C)/611 – INQ000543260}. Due to the inclusion of counter fraud measures, the Cohort One Assurance Guidance was not published on the Government’s website.

14.41. The covering email to local authority chief executives stated that the Cohort One Assurance Guidance was intended to set out the overall broad framework for assurance activities that local authorities were required to undertake. Local authorities needed to undertake a fraud risk assessment as part of their assurance plans. The

Department also stated that they would send further information on the required assurance reporting by the start of July, with the first monthly reports being expected by the end of July. The debt recovery guidance would follow by August, with the Government's post-payment assurance process shared by September 2020 {GD(C)/625 – INQ000543262}.

14.42. The finalised Cohort One Assurance Guidance stated:

*“13. To deliver this assurance requirement, Local Authorities should develop pre- and post-payment assurance plans for each business grant scheme. There **should be an eligibility check and a recipient check on all payments, whether pre or post payment.** The plans should set out the actions and checks Local Authorities will undertake to ascertain regularity of payments.*

...

17. Local Authorities will be asked to provide a monthly report to the Department comprising an update on their Fraud Risk Assessments and pre- and post-payment assurance activities as they are delivered over the lifetime of these grants... The first reports from Local Authorities are required by the end of July 2020 for monthly completion until March 2021 at which point the Department will review the approach going forward.

...

19. If Local Authorities detect fraud (successful rather than attempted fraud), or if they suspect fraud (attempted as well as actual) that is organised, large scale, systematic or crosses Local Authority boundaries, they must report it in real time outside of the above mentioned regular reporting period.

...

27. Where checks discover that payments have been made in error or have been claimed as a result of fraud, any initial recovery action will need to be undertaken by the Local Authority.” [emphasis added]

14.43. In relation to the SBGF and RHLGF, eligibility checks included using Spotlight or checks equivalent to this, such as with Experian or Companies House and, for sole traders, requesting a VAT number. In relation to beneficiary checks, local authorities were advised to undertake checks on the bank account details supplied by the business to the local authority against the records it held, then verifying the authenticity

of grant payments if stopped or queried by banks. LADGF eligibility checks included checking companies' fixed property costs, such as utility bills, rent, insurance, carrying out searches on Companies House, licensing, and planning permission searches, and checking their records to ensure that a business did not also receive either the SBGF or RHLGF.

Precautions against Irregular Payments in the Cohort Two Grants

- 14.44. Whilst the first version of guidance for the LRSB issued to local authorities in September 2020 stated that the use of Spotlight would complement local authorities' existing pre-award due-diligence checks, it did not refer to how these pre-award checks ought to be comprised {GD(C)/203 – INQ000543354}. As the cohort two schemes evolved, the guidance documents for the various schemes became more stringent regarding what was expected of local authorities in relation to pre-payment checks. By the time the January Business Support Package Guidance was issued on 5 January 2021, local authorities were directed to establish appropriate pre-payment measures {GD(C)/468 – INQ000543618}. Pre-payment checks were not mandated when the cohort two schemes were first being implemented as the Department's focus was still on conveying grant funding to businesses as quickly as possible.
- 14.45. The first iteration of the LRSB Guidance (prior to the scheme being broken into sub-schemes), published on 24 September 2020, stated {GD(C)/203 – INQ000543354}:

“Managing the risk of fraud

...

*47. Local Authorities must continue to ensure the safe administration of grants and that appropriate measures are put in place to mitigate against the increased risks of both fraud and payment error. In this respect, **grant administrators should consider supplementing existing controls with digital tools** to support efficient, appropriate and accurate grants awards. The Government Grants Management Function and Counter Fraud Function have waived the annual fee and made their digital due-diligence tool, *Spotlight*, available to Local Authorities to support the administration of Covid-19 emergency grants until 31 March 2021.*

*48. *Spotlight* complements existing pre-award due-diligence checks and highlights areas of risk to inform grant-making decisions, through fundamental (basic) due diligence checks. *Spotlight* can also provide enhanced due*

diligence, through a paid-for service, and grant administrators are encouraged to consider the benefits of enhanced due diligence.

...

Post event assurance

49. All Local Authorities are required to follow this guidance and conduct activity to provide assurance that the grants have been paid out in line with the eligibility and State aid guidance for these schemes.

...

52. The Government Grants Management Function and Counter Fraud Function will support Local Authorities to carry out post-event assurance work to identify high risk payments and to estimate and measure the likely incidence of fraud and error that has occurred in the scheme. This requires statistically significant sample testing of key residual risks to assess the level of fraud / error that has arisen from the residual aspect of identified fraud risks. Post-event assurance is therefore dependent upon a detailed fraud risk assessment being undertaken for the scheme. Guidance will be made available to Local Authorities to support the development of Post Event Assurance Action Plans.

..." [emphasis added]

- 14.46. The wording of the ARG Guidance, published on 3 November 2020, was updated and strongly recommended the use of Spotlight to complete pre-award due diligence checks. However, eligibility and recipient checks "should" have been completed either pre- or post-payment. It stated {GD(C)/277 – INQ000543456}:

"45. ... Local Authorities should develop pre- and post-payment assurance plans for each grant scheme. There should be an eligibility check and a recipient check on all payments, whether pre- or post-payment. The plans should set out the actions and checks Local Authorities will undertake to ascertain regularity of payments. They should cover the pre-payment checks for grants still to be paid, but also the post payment assurance checking regime that the Local Authority will introduce to identify irregular payments."

Managing the risk of fraud and payments in error

39. The Government Grants Management Function have waived the annual fee and made their digital due-diligence tool, Spotlight, available to Local

Authorities to support the administration of Covid-19 emergency grants until 31 March 2021. Use of Spotlight to support pre-award due diligence is strongly recommended.

...

Pre- and post-event assurance

...

46. The volume and depth of checks that a Local Authority undertakes as detailed in these plans should be proportionate to the grant value versus the cost of the check, and informed by a Fraud Risk Assessment of the likelihood of error and/or fraud in the payments they have made.

47. Consequently, Fraud Risk Assessments should also be undertaken for each grant scheme and comprise part of the assurance plan. To support Local Authorities in developing their risk assessments the Department will provide risk assessment templates tailored to the relevant funds.

...

Monitoring and reporting requirements

...

55. The Government Counter Fraud Function has worked in partnership with Experian to introduce two new complementary products to assist public bodies in addressing residual fraud risks when dispersing funds for the Covid-19 financial support schemes by addressing their residual fraud risks. These tools will allow Local Authorities to:

- a. verify the bank accounts of companies in receipt of these business grants;*
- and*
- b. provide insight into whether the company was trading at the relevant date for these grants.*

56. These tools are available via the National Fraud Initiative (NFI) and can be used for both pre- and post-payment checks. They apply to both registered companies (at Companies House) and unregistered companies such as sole traders. For further information and to access the tools, please email helpdesk@nfi.gov.uk.

...” [emphasis added]

14.47. The language of the CBLP and LRSB (Closed) Addendum guidance (**January Business Support Package Guidance**), which was published on 5 January 2021, was slightly different again. It stated that local authorities were required to take steps to manage the risk of fraud and error, including by establishing appropriate pre-payment measures {GD(C)/468 – INQ000543618}. Local authorities were also required to conduct pre- and post-payment assurance work to identify payments made in error, including the completion of fraud risk assessments, and retain and provide data to the Department in accordance with Annex B of the January Business Support Package Guidance.

Precautions against Irregular Payments in the Cohort Three Grants

14.48. In January 2021, the Department commissioned a review of the Covid-19 grants programme. This review is outlined in detail in Section 17. It identified specific issues within the earlier schemes, including those relating to the management of financial risk, and informed changes implemented by the Department in the cohort three schemes. This included mandating pre-payment checks prior to awarding a grant, an application process for businesses which had not applied for a grant previously, and the introduction of a clearer reporting regime for local authorities who identified fraud in the schemes {GD(C)/512 – INQ000543767}. These practices were outlined in the guidance for the Restart Grant and the OHLG. The fraud risk assessments completed for each of the earlier schemes also aided the Department’s understanding of fraud risk, the way fraud was perpetuated in the schemes, and the actions that could be undertaken by local authorities to mitigate this risk {GD(C)/512 – INQ000543767}. The Department assessed that the changes made to the cohort three schemes led to a reduction in the level of fraud in those schemes {GD(C)/512 – INQ000543767}.

14.49. The Restart Grant Guidance, first published on 17 March 2021, again stated that local authorities were required to call or write to successful applicants advising that, by accepting payment, this was a confirmation that they met the eligibility requirements of the scheme {GD(C)/514 – INQ000543707}. The guidance also required local authorities to undertake pre- and post-payment checks on businesses that applied for the scheme, including businesses that had previously applied for earlier grants. This involved the verification of both the business and its bank accounts using due-diligence tools such as Spotlight prior to payment of a grant. These “enhanced checks” were required to ensure the applicant business was still trading at the point of application

and that the business' bank account was not linked to suspected or actual fraud. In addition, the Restart Grant Guidance stated the following in relation to pre- and post-event assurance {GD(C)/514 – INQ000543707}:

*“77. ... Local Authorities **must have** [previously worded 'should develop'] pre- and post-payment assurance plans in place for this grant scheme. Local Authorities must ensure these plans are in place as soon as possible and can be provided to BEIS when requested. The plans **must** [previously 'should'] set out the actions and checks Local Authorities will undertake to ascertain regularity of payments. The plans need to cover the minimum two pre-payment checks (company and bank account) for grants to be paid, but also the post-payment assurance checking regime that the Local Authority will introduce to identify irregular payments. The Spotlight tool now includes the functionality to add schemes pre- or post-award.” [emphasis added]*

- 14.50. The Department also revised its position regarding local authorities' obligation to report fraud (suspected or actual) to BEIS and NAFN. Whilst local authorities were initially only required to report successful cases of fraud (or attempted fraud that was organised, large scale, systematic, or crossed local authority boundaries), the Restart Guidance required local authorities to report any fraud in real time {GD(C)/514 – INQ000543707}:

“85. If Local Authorities detect any fraud that is attempted or actual, whether it is local, or organised, large scale, systematic or crosses Local Authority boundaries then they must report it in real time to the dedicated inbox at NAFN National Anti-Fraud Network (intel@nafn.gov.uk). This is so Government can build up a full picture of what is going on and get vital information and alerts back to Local Authorities in real time, this also feeds into the wider intelligence network on counter fraud within Grants.”

- 14.51. The OHLG Guidance maintained the requirement that local authorities complete pre-payment checks prior to awarding a grant to a business {GD(C)/562 – INQ000543796}. The Department also required local authorities to retain data outlining the digital due-diligence checks undertaken with respect to each grant awarded. Following a recommendation by the BEIS fraud team, two further controls were also applied for the OHLG to enable the Department to identify payments that ultimately needed to be recovered and to enable banks to freeze payments being made to suspicious accounts {GD(C)/512 – INQ000543767}. These additional controls were outlined in the OHLG

Guidance, which stated that “[g]rant payments should only be made to UK bank accounts” and “...Local Authorities are required to include the name of the grant (OHLG) and Local Authority code as part of the payment reference when making a payment to a business.”

Post-Event Assurance Action Plans and Assurance Reporting

- 14.52. On 12 May 2020, it was agreed that central government departments should produce an action plan to detail their approach to post-event assurance on Covid-19 stimulus spends {GD(C)/631 – INQ000543226}. Cabinet Office requested that departments submit their PEAPs by 12 June 2020 {GD(C)/632 – INQ000543227}. A draft PEAP pertaining to the grants schemes was circulated by the BEIS finance team on 1 June 2020 {GD(C)/633 – INQ000543241}. Tom Taylor, who oversaw this work for the Department, approved the draft on 10 June 2020 {GD(C)/634 – INQ000543251}.
- 14.53. On 10 June 2020, the Department's PEAP (covering both loans and grants) was provided to the acting Permanent Secretary {GD(C)/635 – INQ000543255}, {GD(C)/609 – INQ000543252}, and {GD(C)/610 – INQ000543254}. The covering submission stated that the PEAP would be carried out over the rest of the financial year and would be reviewed by Cabinet Office through a sub-board, the Covid-19 Fraud Ministerial Board, led by Cabinet Office but with BEIS representation through Minister Zahawi. The PEAP outlined 11 actions items relating to the grant schemes:
- a) The Department was to circulate a fraud risk assessment template for each of the schemes and conduct sample assessments with the LAAG;
 - b) Local authorities were to complete (and regularly review) detailed fraud and error risk assessments by the end of July 2020;
 - c) CLGU was to circulate assurance guidance explaining the role of local authorities in the assurance process;
 - d) Local authorities were required to produce (and regularly review) their own PEAPs by the end of July 2020;
 - e) CLGU in conjunction with the BEIS fraud team were to monitor the data provided by local authorities;
 - f) BEIS were to agree on post-payment assurance activities with a third party (for example, MHCLG analysts or Government Internal Audit Agency) using a sample-based approach to test payments made by local authorities;

- g) BEIS were to agree debt recovery arrangements with the local authorities;
- h) BEIS were to agree the fraud investigation arrangements with local authorities to provide assurance that all steps to identify and investigate fraud had been taken;
- i) BEIS were to disseminate threat assessment reports to delivery partners (including local authorities and domestic banks) to identify any similar instances of fraud;
- j) BEIS was to communicate with businesses to warn them regarding the threat of fraud, for example, by fraudsters impersonating central government; and
- k) BEIS was to complete post-implementation review activities encompassing formal assurance work and independent testing.

14.54. The BEIS PEAP met the criteria set by Cabinet Office.

14.55. Following the Covid-19 Fraud Ministerial Board meeting, Cabinet Office issued further guidance to support PEAP development on 21 July 2020 {GD(C)/636 – INQ000543283}. In addition, Cabinet Office advised there was an expectation that a fraud risk assessment would be undertaken by BEIS and prioritisation and resourcing should be assigned proportionately. It stated “[*f*]raud risks are often underestimated, therefore there is an expectation that resource would be assigned to measure the identified fraud risks to establish their true likely scale.”

14.56. On 17 August 2020, an updated BEIS PEAP was submitted to Cabinet Office {GD(C)/637 – INQ000543304} and {GD(C)/638 – INQ000543305}. The PEAP contained several action items, including the provision of a bespoke fraud risk assessment for each of the grant funds by BEIS to the LAAG and Cabinet Office, in order to identify high risk areas pertaining to fraud and inform local authorities’ PEAPs {GD(C)/638 – INQ000543305}. Local authorities were then required to complete these fraud risk assessments and return them to the Department to assist with BEIS’s post-payment assurance work. On 20 August 2020, Cabinet Office provided feedback {GD(C)/639 – INQ000543309} and {GD(C)/640 – INQ000543310}. The PEAP was further updated to incorporate this feedback. The Department kept its PEAP up to date, providing status updates on each of the specified activities outlined in the plan. Examples are provided at {GD(C)/641 – INQ000543318} and {GD(C)/642 – INQ000543427}. Feedback was also provided in April 2021 by the Government Fraud Function in Cabinet Office {GD(C)/643 – INQ000543724}.

- 14.57. The final iteration of BEIS's PEAP was circulated on 14 October 2021 {GD(C)/644 – INQ000543751} together with an update on the Department's progress against the PEAP and a summary of testing results for the cohort one grants {GD(C)/645 – INQ000543752}.
- 14.58. Pursuant to the Department's PEAP, the local authorities were also required to create their own PEAPs.

Assurance Reporting

- 14.59. CLGU worked with local authorities on the assurance process in advance of the first monthly assurance reporting deadline, at the end of July 2020. On 18 June 2020, a livestream meeting was held with local authorities to discuss the Cohort One Assurance Guidance, including monthly assurance and fraud reporting. On 2 July 2020, the CLGU team wrote to local authorities to confirm the monthly assurance data they were required to collect and record in the Business Grants Schemes Assurance Reports {GD(C)/646 – INQ000543268} and {GD(C)/647 – INQ000543267}. Local authorities were advised that a final reporting tool (and guidance relating to it) would be provided before the end of July 2020. An example of this tool is provided at {GD(C)/648 – INQ000543851}.
- 14.60. On 2 and 3 July 2020, LADGF fraud risk assessment workshops were convened with a sample group of local authorities to discuss fraud risks and any weaknesses in the assurance process. On 8 July 2020, a fraud risk assessment template, generated from discussions at the workshops, was shared with the sample group of local authorities for comment {GD(C)/649 – INQ000543275}. Minor changes were suggested {GD(C)/650 – INQ000543274}.
- 14.61. On 10 July 2020, the Department issued a document entitled "*Grant Funding Schemes Assurance Guidance – FAQs for Local Authorities*" (**Assurance FAQs**) to provide further clarification on the assurance process and fraud risk assessment activity {GD(C)/651 – INQ000543272} and {GD(C)/143 – INQ000543273}. The Assurance FAQs were developed based on queries raised by local authorities.
- 14.62. CLGU issued the LADGF fraud risk assessment template to local authorities on 29 July 2020 {GD(C)/652 – INQ000543297}, {GD(C)/653 – INQ000543295}, and {GD(C)/654 – INQ000543298}. Updated fraud risk assessment templates for the SBGF and RHLGF, which addressed queries raised by local authorities at the July 2020 assurance workshops, were also provided {GD(C)/655 – INQ000543296}.

- 14.63. In accordance with the Cohort One Assurance Guidance, local authorities were required to submit monthly reports updating the Department on their pre- and post-payment assurance activities in relation to the grant schemes (**the Business Grants Schemes Assurance Reports**) {GD(C)/611 – INQ000543260}. This was self-reported data and was not quality-assured or verified by the Department. The Business Grants Schemes Assurance Reports included details of the number of grants paid and any irregular payments identified by local authorities.
- 14.64. Local authorities were instructed to submit their Business Grants Schemes Assurance Report on the SBGF and RHLGF for the first reporting period, 1 April to 30 June 2020, by close of business on 5 August 2020. At this stage, local authorities were not asked to submit reports on the LADGF {GD(C)/656 – INQ000543285}. The instructions clarified that local authorities were not required to return their fraud risk assessments at that point in time. However, it was explained that BEIS may require sight of them in the future as part of central government's post-payment assurance activities.
- 14.65. On 18 August 2020, the Department announced the roll-out of a digital assurance reporting tool utilising Microsoft Forms, which would replace the existing system of reporting data to the Department via Excel spreadsheet {GD(C)/657 – INQ000543311} and {GD(C)/658 – INQ000543306}. The accompanying instructions reiterated that, at this stage, assurance reporting related to the SBGF and RHLGF only. Examples of this updated reporting tool are provided at {GD(C)/659 – INQ000543849}, {GD(C)/660 – INQ000543850}, and {GD(C)/661 – INQ000543674}.
- 14.66. In the week of 5 October 2020, the Department hosted several livestream workshops on cohort one grant schemes' assurance to assist local authorities with their ongoing assurance activities {GD(C)/662 – INQ000543573}. At this point, there was an 80% return rate from local authorities for July, August, and September 2020, and the data being returned each month was of very high quality and improving with each return. The assurance workshops covered subjects including the purpose of monthly reporting, details of the Department's post-payment assurance assessment which would be conducted in 2021, and the requirement for local authorities to have a post-payment assurance plan. The Department confirmed that guidance was to be issued to all local authorities in relation to the reconciliation process on 13 October 2020, and guidance would follow in relation to debt recovery in due course. These guidance documents are outlined from paragraphs 15.7 and 15.31 respectively.

- 14.67. Assurance reporting for the LADGF began in November 2020 {GD(C)/663 – INQ000543572}.
- 14.68. The Department compiled the data returned by local authorities in respect of all three cohort one grants, for example {GD(C)/664 – INQ000543372} and {GD(C)/665 – INQ000543741}. An assurance dashboard (**Assurance Dashboard**) was created and used to inform Ministers and central government about the assurance processes underpinning the business grant payments. The Assurance Dashboard recorded whether local authorities had post-payment assurance plans in place and whether risk assessments had been completed for the grant schemes. It also recorded details of the eligibility and beneficiary checks carried out by local authorities in respect of grant payments {GD(C)/666 – INQ000543513}. An example of an Assurance Dashboard, completed for the SBGF and RHLGF for the period covering first payments to businesses to 30 September 2020, is provided at {GD(C)/667 – INQ000543840}.
- 14.69. The Department paused the local authorities' monthly reporting requirement for January and February 2021, owing to the introduction of additional cohort two schemes and the impact this had on local authorities' resources {GD(C)/668 – INQ000543852}. It was reintroduced in March 2021, despite a lot of push-back from the local authorities {GD(C)/668 – INQ000543852}. The final reporting period for the cohort one grants ended on 31 March 2021, with the final Business Grants Schemes Assurance Reports due prior to 1 May 2021 {GD(C)/658 – INQ000543306}.
- 14.70. In April 2021, the Department removed the requirement for local authorities to report on their assurance activities. This was never reintroduced. This reporting requirement was removed to allow local authorities to concentrate their resources on delivering grants to businesses.

Engagement with Stakeholders in Managing Risk of Irregular Payments

- 14.71. The Department worked with various government departments and other stakeholders in the course of its work in preventing and detecting irregular payments. This included NAFN, NATIS, NFI, City of London Police, and domestic banks.
- 14.72. NAFN worked with the local authorities providing them with intelligence alerts on known fraudulent and suspected fraudulent activities. NAFN supplied the Department's fraud team with weekly reports outlining the fraudulent activity identified, including the total value of fraud incidents, total incidents prevented, and the total recovered incidents.

- 14.73. Where identified incidents of fraud reached the threshold for serious fraud, they were passed to NATIS to investigate and prosecute. NATIS is able to freeze monies and has the power to recover assets by means such as search and seizure. The threshold for serious fraud was originally set at £100,000 and was later reduced to £50,000. However, as the average Covid-19 business grant was £10,000, NATIS investigated very few cases of suspected fraud identified by the local authorities.
- 14.74. The NFI assisted local authorities in carrying out their post-payment assurance checks to identify fraud in the schemes {GD(C)/611 – INQ000543260}. It helped to evaluate data submitted by the local authorities and undertook a data-matching exercise to identify potential cases of fraud. The local authorities were then able to identify matches and target those most likely to constitute fraud and could then take recovery action, where required. Debt recovery is discussed in detail at Section 15.
- 14.75. CLGU also worked with the City of London Police and banks on the issue of payments being stopped by the banks. City of London Police made contact with Jenny Dibden on 6 April 2020 as the domestic banks started noticing significant payments being made and expected these to be Government grants. However, the banks' systems were stopping some payments due to their in-built checks that flagged suspicious activity on accounts. These payments could not be held indefinitely and a mechanism was required to unblock these. Jenny Dibden joined regular City of London Police calls with the counter fraud leads from domestic banks on public sector issues to explain the schemes and deal with these issues. Where banks would not release funds to customers, BEIS officials linked the specific bank to the relevant local authority so that the legitimacy of the payment could be examined.

SECTION 15: RECONCILIATION AND DEBT RECOVERY

- 15.1. Following the closure of each Covid-19 grant scheme, local authorities assisted the Department with a reconciliation process to determine the total amount of money awarded pursuant to each scheme against the amount of funding they were originally allocated. Any residual funding from a local authority's allocation was calculated and subsequently returned to the Department. Local authorities that distributed funding to businesses in excess of the funding allocated to them were reimbursed. The Department recovered approximately £4.1 billion in undispersed grant funding from local authorities in respect of all three cohorts.
- 15.2. The Department is separately undertaking a debt recovery process to pursue any irregular payments. Local authorities were required to undertake a minimum of three steps to attempt recovery of these payments, and only permitted to refer outstanding debts to BEIS for further recovery action if their attempts at recovery were unsuccessful.

Reconciliation of Cohort One Grants

- 15.3. The grant offer letters sent to the local authorities confirming their allocations for each scheme outlined the conditions under which the funding was provided. They explained that these payments were made on an on-account basis and that a reconciliation process would take place in due course. This was also explained in the grant determination letters provided alongside the grant offer letters. See, for example, the grant offer letter and grant determination letter sent to North Tyneside Council on 30 March 2020 for the SBGF and the RHLGF {GD(C)/061 – INQ000543137} and {GD(C)/062 – INQ000543133}.
- 15.4. Following the closure of the cohort one grant schemes on 28 August 2020, on 14 September 2020, the CLGU internally circulated a draft Reconciliation Process Document and draft guidance for the authorities on the reconciliation process (**Reconciliation Guidance**) {GD(C)/669 – INQ000543327} and {GD(C)/670 – INQ000543326}.
- 15.5. The Reconciliation Guidance detailed the steps local authorities would be required to undertake to reconcile payments made pursuant to the cohort one grant schemes. CLGU shared the draft Reconciliation Guidance with HMT on 29 September 2020, who advised on 30 September 2020 they did not have any comments {GD(C)/671 – INQ000543366}.

- 15.6. CLGU also sent a copy to the LAAG for comment on 29 September 2020 {GD(C)/672 – INQ000543362}. The draft Reconciliation Guidance stated local authorities would be required to provide the following information to the Department by close of play 16 October 2020:
- a) The number and value of grants provided under the various cohort one schemes;
 - b) A screenshot of the accounting platform recording the grant being paid; and
 - c) A document outlining the postcode and Companies House number of each recipient business, and the value of grant they received {GD(C)/670 – INQ000543326}.
- 15.7. Two representatives from the LAAG raised concerns with this deadline, proposing an extension to the end of October 2020, given some local authorities were also administering grants to businesses under the LRSB and were implementing a new system to make payments to people who were self-isolating {GD(C)/672 – INQ000543362} and {GD(C)/733 – INQ000543371}. This feedback was taken into account in the final version of the Reconciliation Guidance that was issued to local authorities on 13 October 2020 {GD(C)/674 – INQ000543742} and {GD(C)/675 – INQ000543380}.
- 15.8. The Reconciliation Guidance directed local authorities to commence the reconciliation process as soon as possible and provide the information detailed at paragraph 15.6 above by 30 October 2020. Local authorities were also required to provide constituency data via DELTA if their area covered more than one parliamentary constituency area. BEIS reviewed this information once received from local authorities and issued them a letter confirming the total amount awarded pursuant to the SBGF, RHLGF, and the LADGF. The Department then made additional payments or recovered any unspent funds from local authorities as required.
- 15.9. On 4 December 2020, HMT advised the Secretary of State that the Chancellor was concerned about the progress of recovery of unspent grant funds from local authorities {GD(C)/676 – INQ000543564}. Jenny Dibden advised that capacity was a significant issue in administering the reconciliation process and issuing recovery letters to local authorities. CLGU needed to review nearly one million business records in total as well as evidence of expenditure, alongside delivering the cohort two grant schemes. CLGU had recruited more staff, although this resource was not available to them before

January 2021 due to notice periods. Steven Greenwood also added that chasing local authorities to obtain additional information on reconciliation continued to represent a significant amount of CLGU's work. To achieve their target of recovering £700 million from local authorities by 31 December 2020, CLGU made the decision to prioritise letters to local authorities that owed more in value, rather than prioritising the number of letters sent out. This work was being undertaken by the CLGU whilst it was also administering the complex cohort two schemes. Accordingly, this necessitated difficult trade-offs between finalising reconciliation work on the cohort one schemes and delivering the new grant schemes. BEIS and HMT Ministers made clear that the priority was the delivering of funding to businesses, and as such, setting up and administering the cohort two schemes took priority over the reconciliation process.

- 15.10. On 27 January 2021, officials sent a submission to the Permanent Secretary and the Secretary of State (with Minister Scully and the BEIS Special Advisers copied in) seeking approval for various payments to local authorities {GD(C)/418 – INQ000543630} and {GD(C)/401 – INQ000543631}. This included top-up payments pursuant to the reconciliation process to the local authorities who provided funding to businesses in excess of their original allocated funds under the SBGF, RHLGF, and LADGF. The total amount sought for this purpose was £18,205,936 {GD(C)/677 – INQ000543632}. The Secretary of State advised that he was content for Minister Scully to sign off on the funding sought, and Minister Scully provided his approval on 29 January 2021 {GD(C)/419 – INQ000543633} and {GD(C)/678 – INQ000543644}. The total amount was revised to £17,498,386 on 5 February 2021 as St Albans City and District Council provided partial evidence of additional payments and the overall figures no longer balanced {GD(C)/679 – INQ000543643}.
- 15.11. On 8 February 2021, the Department wrote to HMT seeking consent to make the reconciliation top-up payments to local authorities {GD(C)/680 – INQ000543649}. HMT approved the payments on 9 February 2021 and a grant determination letter was provided on 10 February 2021 {GD(C)/680 – INQ000543649}, {GD(C)/681 – INQ000543650}, and {GD(C)/682 – INQ000543651}.
- 15.12. However, at least 40 local authorities had paid grants under the cohort one schemes to businesses after the final payment date {GD(C)/154 – INQ000543657}. CLGU officials sent a submission to the Secretary of State on 17 February 2021 regarding how these grant payments ought to be reconciled {GD(C)/683 – INQ000543656} and {GD(C)/154 – INQ000543657}. The submission recommended the Department hold a

firm line where a payment had been made beyond 30 September 2020 (or 30 October 2020 in the case of successful appeals for non-payment) and request local authorities to remove any grant payments beyond these dates from their reconciliation figures. The Secretary of State's Senior Private Secretary queried the submission, to ensure the Department was not contradicting its previous position, by now holding a firm line on payment dates {GD(C)/684 – INQ000543673}. CLGU officials clarified that the Secretary of State had stated that he would “...stand behind erroneous payments after Local Authorities have done everything they can reasonably and practicably do to avoid wrong payments in the first instance. To follow our guidance is reasonable and practicable.” The Department was clear that, in accepting late payments by local authorities, they would have to set a new grant end date for all. This would mean re-opening the reconciliation processes that had already concluded.

- 15.13. Instead, the Department proposed to allow local authorities to use funding from the ARG to cover these payments, recognising that if money was paid to eligible businesses in good faith, it should not be withdrawn from them. Local authorities still had a significant underspend for the ARG and the Department considered that “[a]llowing LAs to utilise their ARG allocation allows us to complete the reconciliation exercise in line with the guidance that was provided but equally protects the interests of the individual businesses. We have considered this from an AO perspective and do not believe it changes the AO assessment made for ARG” {GD(C)/154 – INQ000543657}.
- 15.14. On 25 February 2021, Jenny Dibden wrote to local authorities' finance directors regarding payments made to businesses pursuant to the cohort one grant schemes after the final payment date {GD(C)/685 – INQ000543675}. She advised any payments made after the deadline were to be removed from the expenditure declared in reconciliation returns and would therefore need to be funded outside of the schemes. As proposed in the submission dated 17 February 2021, local authorities were permitted instead to cover these payments with their ARG funding.
- 15.15. On 8 April 2021, officials sent a submission to the Secretary of State requesting his consent to make a second tranche of top-up reconciliation payments to local authorities for the SBGF, RHLGF, and LADGF, totalling £5,722,209 {GD(C)/686 – INQ000543725}. The submission stated that, as of March 2021, the Department had recovered circa £800 million in unspent grant funds from local authorities who had paid out less to businesses under the cohort one grants than was allocated to them. The

Secretary of State approved the top-up funding on 13 April 2021 and the Department transferred the funds to local authorities on 24 April 2021 {GD(C)/687 – INQ000543728}.

- 15.16. On 29 June 2021, officials sent a submission to Minister Scully providing a further update on cohort one reconciliation and seeking an additional £2,699,550 in top-up funding to local authorities for the cohort one grants {GD(C)/688 – INQ000543743} and {GD(C)/689 – INQ000543744}. The submission stated that the Department had recovered circa £1 billion from local authorities at that point in time. Minister Scully approved the top-up payment on 8 July 2021 and the Department transferred the funds to the local authorities in July 2021 {GD(C)/690 – INQ000543745}.

Reconciliation of Cohort Two and Three Grants

- 15.17. The Department learned several lessons from the reconciliation process of the cohort one grants, leading to a number of changes in the process for the cohort two and three grants {GD(C)/691 – INQ000543721}. As stated above, the first cohort two scheme to close was the CSP. Accordingly, the reconciliation process commenced for the CSP ahead of the other cohort two schemes.
- 15.18. A document entitled “*Covid-19 Christmas Support Payment for Wet Led Pubs Local Authority Reconciliation Process*” was provided to local authorities in late March 2021 outlining the steps local authorities were required to undertake {GD(C)/692 – INQ000543720} and {GD(C)/691 – INQ000543721}. Owing to some discrepancies in data provided by local authorities via their DELTA returns for the cohort one schemes, BEIS provided local authorities with a table that was utilised to outline these figures instead; this was provided at annex one of {GD(C)/691 – INQ000543721} (**Reconciliation Table**). It was explained by a BEIS official that the DELTA figures did not assist with the reconciliation process for the cohort one schemes and only added additional burden to the local authorities’ already stretched workload {GD(C)/692 – INQ000543720}. The Department was also very firm that there were no exceptions to the final payment date due to the difficulties late payments caused in the reconciliation of the cohort one grant schemes.
- 15.19. Otherwise, the prescribed reconciliation process for the cohort two and three schemes was much the same as that for the cohort one schemes. Local authorities were required to provide documentation outlining the detail of payments made to businesses

pursuant to the CSP by 30 April 2021, one month after the scheme closure date on 31 March 2021 {GD(C)/691 – INQ000543721}.

- 15.20. The Department continued to prescribe use of the Reconciliation Table by local authorities in all future grant schemes. The final reconciliations took some time to complete, as a small number of local authorities were slow in submitting and agreeing their final reconciliation figures for the individual schemes. The reconciliation process for the cohort two and three schemes were completed on 15 February 2024 and 28 February 2024 respectively, with scheme closure letters being issued to the local authorities.
- 15.21. Government provided local authorities with a total of £26.7 billion in funding across all three cohorts of grants. Local authorities ultimately distributed £22.6 billion to businesses. As not all the funds were utilised, BEIS has recovered £4.1 billion of undisbursed funds.

Estimates of Total Irregular Payments

- 15.22. The Department undertook a sampling exercise starting in summer 2021, to check whether local authorities had appropriate processes in place to ensure grant payments were made to eligible businesses (the Post-Payment Assurance System (**PPAS**)). Although the purpose of PPAS was not to detect and estimate the likely total value of irregular payments made to businesses, the Department has used the data provided by local authorities to extrapolate the likely levels of irregular payments that materialised in the Covid-19 grant schemes.
- 15.23. To carry out the sampling exercise, BEIS selected five postcodes for each local authority area and for each cohort one scheme, totalling a national sample of 4,710 grants {GD(C)/692 – INQ000543720}. The sampling approach was agreed with the Department's finance and counter fraud teams, Cabinet Office, the Government Internal Audit Agency (**GIAA**), and the NAO {GD(C)/692 – INQ000543720} and {GD(C)/693 – INQ000543722}. Local authorities were required to provide evidence of the pre- and post-payment assurance checks undertaken for these postcodes by early-May 2021 {GD(C)/694 – INQ000543756}. At a minimum, the Department suggested evidence of the following should be submitted:
- a) That the business was eligible to receive the grant in terms of solvency and rate-payer status;
 - b) That State aid checks had been undertaken;

- c) That checks had been conducted on the business' bank account;
- d) The prescribed application process (where applicable), including evidence of award;
- e) Evidence of the cost code from which grants were paid; and
- f) Evidence of any activity undertaken by the local authority to reclaim grants paid incorrectly (if applicable) {GD(C)/694 – INQ000543756}.

15.24. The interim outcome of this sampling exercise insofar as the cohort one schemes were concerned was published in the BEIS Annual Reports and Accounts 2021-22 {GD(C)/695 – INQ000543835}. It stated that the initial estimate of irregular grant payments in the cohort one schemes was £1.038 billion. This figure was later revised to £985 million, as stated at page 160 of the BEIS Annual Reports and Accounts 2022-23 {GD(C)/696 – INQ000472213}.

15.25. Due to continuing resourcing issues within BEIS and the local authorities, the PPAS exercise for the cohort two and three grants was not signed off by the NAO until April 2023. The final estimate of irregularity in the cohort two and three grant schemes, as recorded in the BEIS Annual Reports and Accounts 2022-23 at pages 161 to 162, were {GD(C)/696 – INQ000472213}:

- a) LRSG sub-schemes: £29.4 million;
- b) ARG: £7.6 million;
- c) Restart Grant: £10.1 million; and
- d) OHLG: £3.2 million.⁸

15.26. Accordingly, the Department's statistical estimate of the level of irregular payments that materialised in the Covid-19 grant schemes is £1.032 billion, of which the cohort one schemes are estimated to constitute the vast majority (£985 million). However, it is right to emphasise that these figures are estimates only, based on extrapolation from the sampling that was done.

15.27. The total irregular payments reported by local authorities to the Department as of January 2025 is significantly lower at £64,178,688. It is inherently difficult to estimate

⁸ DBT notes that the figures provided at paragraph 15.25 added to the revised estimate for the cohort one schemes (i.e. £985 million) amounts to 1.035 billion, not 1.032 billion. These are the figures published in the BEIS Annual Reports and Accounts 2022-23 at page 161 to 162. This discrepancy is due to rounding for the estimates.

with accuracy or certainty whether these irregular payments arose as a result of non-compliance, error, or fraud; the figures reported by local authorities are based on their own classification regarding the type of irregularity and the Department often does not agree with their categorisation. For example, a local authority will sometimes categorise an irregular payment as fraud, however on the Department's review, there will be insufficient evidence to demonstrate dishonest intent and therefore fraud. The total irregular payments identified in the Covid-19 grant schemes has not been broken down by type of irregularity, and as such has not been reported in BEIS's Annual Reports and Accounts. Further, as I have already stated, the Department also did not initially request that local authorities report on the categories of irregular payments identified.

15.28. DBT has been formally notified of the following figures with respect to each scheme:

	<u>Successfully recovered by local authorities</u> =(b)+(c) (a)	<u>Successfully recovered and returned to the Department</u> (b)	<u>Successfully recovered awaiting return to the Department</u> (c)	<u>Not recovered and referred as debt</u> (d)	TOTAL =(a)+(d)
Cohort one					
SBGF	£18,413,556	£17,910,751	£502,806	£6,502,225	£24,915,781
RHLGF	£11,586,615	£11,157,774	£428,841	£4,010,999	£15,597,614
LADGF	£205,642	£179,102	£26,540	£114,475	£320,116
Sub-Total	£30,205,812	£29,247,626	£958,186	£10,627,699	£40,833,512
Cohort two					
LRSB sub-schemes	£11,292,983	£10,517,457	£775,526	£4,896,497	£16,189,480
CSP	£86,000	£84,000	£2,000	£23,700	£109,700
ARG	£936,109	£892,986	£43,123	£614,194	£1,550,303
Sub-Total	£12,315,092	£11,494,443	£820,649	£5,534,391	£17,849,483
Cohort three					
Restart Grant	£2,805,611	£2,796,093	£9,517	£1,909,565	£4,715,176
OHLG	£693,230	£0	£693,230	£87,288	£780,517
Sub-Total	£3,498,841	£2,796,093	£702,747	£1,996,853	£5,495,693
TOTAL	£46,019,745	£43,538,162	£2,481,582	£18,158,943	£64,178,688

15.29. The final value of irregular payments made under the grant schemes is likely to be higher than the amount so far identified by local authorities, even if it might not be as

high as the £1.032 billion statistical estimate. To that end, DBT is currently undertaking a Pathfinder project, working with a small number of local authorities to assist our understanding of irregular payment and to explore methods to incentivise further identification and recovery of irregular payments. DBT needs to gain a better understanding of the actual figure, and to continue to work with local authorities to recover irregular payments. The further investigations undertaken by the Pathfinder project are therefore important, and I include further details on the project in my second statement addressing DBT's current policies and preparedness. I recognise that there is a significant difference between the statistical estimate and the information reported by local authorities so far. The Pathfinder project will help us determine a more accurate estimate.

Debt Recovery Undertaken by Local Authorities

- 15.30. Local authorities were advised on 16 June 2020 (in the Cohort One Assurance Guidance) that any initial debt recovery action for ineligible grant payments would need to be undertaken by them and that guidance on this process would be issued in July 2020. On 10 July 2020, Jenny Dibden provided local authorities with Grant Funding Schemes Assurance Guidance FAQs {GD(C)/651 – INQ000543272}. The FAQs directed local authorities to continue to follow their own debt recovery processes whilst awaiting guidance.
- 15.31. On 14 September 2020, CLGU internally circulated a draft debt recovery guidance and a policy scoping document entitled "*Business Grant Schemes Debt Recovery Process and Clawback Options*" {GD(C)/697 – INQ000543328}, {GD(C)/698 – INQ000543329}, and {GD(C)/699 – INQ000543330}. Following discussions with Cabinet Office, CLGU proposed a minimum three-step approach to debt recovery which they deemed would be "*reasonable and practicable*" for local authorities to undertake to recover grant funds prior to referring the debt back to central government for recovery. It was anticipated that this process would avoid duplicating activity between local and central government and would result in a swifter recovery process with lower costs and a greater chance of recovery.
- 15.32. The Department considered whether it could incentivise local authorities to recover the funding themselves by permitting them to retain a specified percentage of the money recovered. However, Cabinet Office advised CLGU that this was not standard practice in grant schemes {GD(C)/698 – INQ000543329}.

- 15.33. On 13 October 2020, CLGU provided draft Debt Recovery Guidance to the LAAG {GD(C)/700 – INQ000543378} and {GD(C)/701 – INQ000543379}. Mid Sussex District Council had one comment in respect of non-compliant payments due to insufficient systems, specifically where State aid checks were not undertaken prior to the award of a grant. This representative stated local authorities could complete these checks, however direction from the Department was required regarding which system they ought to use {GD(C)/702 – INQ000543393} and {GD(C)/703 – INQ000543394}. In parallel, CLGU shared the draft Debt Recovery Guidance (along with the Post-Payment Assurance Guidance) with the NFI who did not have any comments in respect of the Debt Recovery Guidance {GD(C)/704 – INQ000543387}.
- 15.34. CLGU sent a submission together with the draft Debt Recovery Guidance to Minister Scully on 8 December 2020 seeking approval of the proposed approach to ‘reasonable and practicable’ debt recovery in respect of the cohort one grants {GD(C)/705 – INQ000543688} and {GD(C)/666 – INQ000543513}. The submission stated:
- “Local Authorities have been asked to provide monthly data returns showing grants paid and progress with recovery action of overpayments. We have created an Assurance Dashboard from this data which will be used to inform ministers and senior management across Government on the assurance processes underpinning Business Grant payments. The Dashboard demonstrates the good progress Local Authorities are making in reclaiming ineligible grants and forms a useful basis for engagement. ...”*
- 15.35. The proposed minimum steps required for a local authority to meet the threshold of ‘reasonable and practicable’ were:
- a) Raise an invoice detailing the grant to be repaid;
 - b) Send a ‘signed for’ reminder letter if no payment has been made within 28 days of the invoice date; and
 - c) Send a ‘signed for’ final options letter if no payment has been made within 28 days of the reminder.
- 15.36. Local authorities were required to make three attempts to recover the funds (by contacting the business on three separate occasions to request repayment). Only if a payment could not be recovered after these three attempts had been made was the local authority permitted to refer that payment to BEIS as a debt. The initial expectation

was that most irregular payments would be recovered by the local authority without needing to refer same to BEIS.

- 15.37. On 14 December 2020, Minister Scully cleared the submission and approved the proposed approach to debt recovery {GD(C)/705 – INQ000543688}. On 16 December 2020, the Department issued the Debt Recovery Guidance for the cohort one schemes to local authorities {GD(C)/396 – INQ000543574} and {GD(C)/612 – INQ000543512}. CLGU advised local authorities that further guidance on grants for which recovery had not been possible would be issued in due course {GD(C)/396 – INQ000543574}.
- 15.38. The Cohort One Debt Recovery Guidance did not expressly state when the three minimum steps outlined at paragraph 15.35 above should be taken by local authorities. However, where all reasonable and practicable steps had been undertaken to reclaim grant payments and this had been unsuccessful, local authorities were directed to update BEIS using the standard post-payment reporting process.
- 15.39. With regard to accountability for unrecovered ineligible grant payments, the guidance stated that this should be reported to the Department who would determine whether the local authority would be held accountable for the debt. Local authorities could be held accountable for repayment if they had not undertaken “*satisfactory assurance processes*” {GD(C)/612 – INQ000543512}.

Debt Recovery Undertaken by BEIS

- 15.40. As has been stated, any debt that the local authorities were not able to recover was referred back to the Department. When the Covid-19 grant schemes were initially designed, the Department did not anticipate such a high volume of grants would need to be recovered as it was expected most businesses that incorrectly received a grant would pay the money back to BEIS.
- 15.41. As BEIS did not have the capacity to undertake debt recovery action, this work was undertaken via a contract with Indesser, a Cabinet Office procured debt management agency. Cabinet Office was a partner in the development of Indesser and encouraged government departments to use its services. The Department commenced discussions with Indesser at the instruction of Cabinet Office regarding this work several months prior to March 2021, however the Department was unable to proceed due to data protection considerations that had not been taken into account when the grant schemes were designed {GD(C)/706 – INQ000543717}.

15.42. To overcome this hurdle, the Debt Recovery Guidance was amended to include a paragraph reiterating “...*the need for LAs to have data protection policies in place, and we will provide a link to a Business Grants Privacy Notice*” {GD(C)/706 – INQ000543717}. The updated Debt Recovery Guidance was issued to local authorities on 28 May 2021 with the following paragraph {GD(C)/707 – INQ000543738} and {GD(C)/708 – INQ000543739}:

“49. Local Authorities are required to collect information from businesses relating to debt recovery activity and this data will be shared with a third-party debt collection agency via BEIS to enable collection activity to be undertaken. Local Authorities will need to ensure they have appropriate data protection arrangements in line with the UK General Data Protection Regulation (UK GDPR) and the Data Protection Act 2018. Further details can be found in the Covid -19 Business Grants Privacy Notice available at <https://www.gov.uk/government/publications/covid-19-grant-schemes-privacy-notice>”.

15.43. However, the Indesser contract as initially agreed was not appropriate to support the debt recovery work. The Department and Indesser had an existing contract to support debt recovery in the Employment Tribunal Service prior to the Covid-19 pandemic, and the Department was instructed by Cabinet Office to use the existing contract for the debt recovery work relating to the Covid-19 grants. This was largely due to expediency, as it was a change request to an existing contract rather than a new procurement which should have been quicker to implement than starting from scratch. The existing Indesser contract was lifted from a government framework, which should have helped ensure value for money and compliance with a number of central requirements (such as cyber-security) which are tested at framework level.

15.44. Cabinet Office directed BEIS to instigate a change request to this existing contract to incorporate work on the Covid-19 grants, which ultimately took over nine months. Discussions regarding the change request to allow Indesser to work on the Covid-19 grant schemes commenced in March 2021. At that point, BEIS had already decided to use Indesser and its debt recovery services through its “Digital Debt Gateway” (DDG). The DDG provided BEIS with access to debt recovery agents that would write to the business requesting repayment (and then follow up three times in the event the business did not respond).

- 15.45. The process of agreeing the change request was slow. The DDG was an existing service that Indesser offered, so it ought to have been straight-forward to vary the existing Employment Tribunal Service contract. However, a series of detailed documents were required by Indesser from the Department setting out the issue and volume of potential cases. The set-up costs were fixed through the framework and BEIS had no scope to renegotiate these. Final agreement was reached in October 2021. The DDG resulted in £0.00 being recovered despite £36,000 being spent by BEIS on development costs for the service.
- 15.46. BEIS recognised that the DDG was not appropriate as it simply repeated the recovery steps already taken by the local authority without success. A further change request to the Indesser contract was therefore completed in 2023 to introduce litigation services into the contract via PLATO, incurring an additional £165,000 in development costs. Litigation services were sub-contracted by Indesser to Shakespeare Martineau LLP. The Indesser litigation service successfully recovered £180,000 through to the end of November 2024. The original Indesser contract expired at this point; the Department has since moved away from Indesser and has contracted directly with Shakespeare Martineau LLP. An additional £15,000 has been recovered since November 2024 and litigation work is ongoing with an increasing number of debt referrals
- 15.47. NATIS has recovered £1.77 million to date; this figure is separate to those outlined in the table above at paragraph 15.28.
- 15.48. In some circumstances, the Department has opted not to pursue recovery of identified irregular payments. For example, in cases of insolvency or where a limited company has been dissolved, where a sole trader is not traceable or contactable, or where a sole trader is deceased with no estate.

SECTION 16: THE DEVOLVED ADMINISTRATIONS

16.1. Part A of this statement addresses how the Department engaged with the Devolved Administrations in relation to economic matters in response to the pandemic. In this Section, I will address the allocation of funding to the Devolved Administrations, the extent to which the Devolved Administrations were consulted on the design of the Covid-19 grant schemes in England, and communication of business support schemes across the UK.

Allocation of Funding to the Devolved Administrations

16.2. Government allocates funding in two ways, either to the UK as a whole (for example defence spending), or specifically for England and when the funding is for a policy area that is devolved to the Devolved Administrations (for example health, education, and local government).

16.3. The Barnett formula is used by HMT to calculate the annual block grants for the Scottish Government, the Welsh Government, and the Northern Ireland Executive {GD(C)/709 – INQ000585861}. It determines the overall funding available for public services in the Devolved Administrations. The Barnett formula enables HMT to calculate the share of funding provided to Scotland, Wales, and Northern Ireland on an equivalent pounds-per-person basis using the Government spending allocated to England as the baseline. HMT uses the following example: if spending on education in England increases by £100 per person, the Devolved Administrations' funding will increase by £100 per person. This exact amount is based on the size of the population governed by each Devolved Administration.

16.4. The Devolved Administrations received funding for Covid-19 grant schemes under the Barnett formula directly from HMT. The Department had no role in the allocation of grant funding to the Devolved Administrations.

Dialogue with the Devolved Administrations

16.5. Economic development, including business support, is a devolved matter. As the Inquiry will be aware, during the Covid-19 pandemic, the Devolved Administrations designed and administered their own grant schemes. As a result, the Devolved Administrations were not consulted on the design of the Covid-19 business grant schemes for England.

- 16.6. Throughout the relevant period, CLGU had periodic quarterly meetings with colleagues in the Devolved Administrations to discuss collective issues relating to the Covid-19 grant schemes being administered across the UK. The discussions were informal. The Department does not hold minutes of these meetings.
- 16.7. The meetings with Devolved Administration colleagues were an opportunity to provide updates regarding the schemes in place across the four nations and share experiences and learning points. For example, in June 2020, CLGU suggested a meeting to discuss fraud in the Covid-19 grant schemes {GD(C)/710 – INQ000543265}. In September 2020, a meeting was convened between CLGU and officials from the Devolved Administrations in which officials provided an update and exchanged views and learning on local lockdown response measures for businesses and an update on the closure of the initial business grants schemes (in England, the cohort one grant schemes). Following this meeting, CLGU circulated draft LRSG guidance for local authorities and Accounting Officer advice to colleagues in Wales and Northern Ireland {GD(C)/711 – INQ000543325} and {GD(C)/712 – INQ000543348}.

Communication

- 16.8. The Department has been asked whether any different messaging or approaches taken by the Devolved Administrations impacted upon the clarity of communication about the Covid-19 grant schemes in England, and vice versa. This issue was not raised with the Department. As set out above, the Devolved Administrations received funding for the Covid-19 grant schemes directly from HMT.
- 16.9. HMT led on the communication of the level of funding to be allocated to the Devolved Administrations, and the Devolved Administrations led on the communication of the grant schemes in each of Scotland, Wales, and Northern Ireland.

SECTION 17: CRITICAL REFLECTIONS

17.1. Part A of this statement set out key reflections on the context for, and the lessons learned from, the Covid-19 business support schemes generally. In this Section, I set out, in further detail, critical reflections on the grant schemes, with an emphasis on the cohort one schemes specifically. This Section also responds to a number of specific questions put by the Inquiry. Before turning to these important matters, it is appropriate to emphasise the challenging context for the grant schemes, the urgency of their introduction, and the positive impact that they had. The reality at the time was that a number of trade-offs were necessitated in the interests of providing businesses with urgent support. This is not intended to detract from the importance of recognising areas where things could have been improved, most notably the level of irregular payments that were made in the grant schemes, particularly in cohort one.

The Context of the Grant Schemes and Positive Impact

- 17.2. As already outlined in Part A of my statement, the scale of the challenge and threat to businesses was unprecedented. This obviously applied with equal force to the small and medium sized businesses which the grant schemes primarily supported, and which were expected to face the most significant disruption. There was a need to act quickly and decisively at a time when it was not known how long the pandemic would last, how long restrictions would be in place, or how restrictions would develop and change. The Department also needed to respond to decisions made elsewhere in Government on the nature and timing of non-pharmaceutical interventions. This was particularly relevant in the cohort two schemes, which responded to local restrictions and the tiering system.
- 17.3. The local authority grants were introduced and implemented in circumstances where resources across Government and in the Department were stretched, both because of major additional work pressures arising from the pandemic, and because of illness and other absences from work. I recognise that the same kinds of pressures would have applied to local authorities and to many of the businesses that the Government aimed to support.
- 17.4. During the pandemic, eight separate grant schemes were established to support businesses. Between March 2020 and March 2022, 4,529,000 grant payments were made under the grant schemes. A total of £22.6 billion was paid out by 314 local authorities during this period. It is estimated that 1.4 million businesses benefitted from

the grant schemes, including the smallest businesses expected to face the most significant disruption as a result of the pandemic.

- 17.5. The cohort one grant schemes reached over 90% of the eligible population of businesses. This data is not available for the cohort two and three schemes. These schemes were more targeted and were not universal, but indications are that grant funding reached just over a quarter of businesses (registered and unregistered) in England.
- 17.6. As set out in the Ipsos Grant Schemes Report, given the range of operational and resourcing challenges faced, the speed with which the programme was delivered, particularly the cohort one schemes, should be considered a significant achievement {GD(C)/590 – INQ000585832}.
- 17.7. The grant schemes programme was one of the largest interventions made to protect the economy during the pandemic and, whilst the support provided was substantial, providing robust, quantitative evidence of the positive impact is a complex matter. That is not least because of the difficulty in establishing the counter-factual if no, or lesser, grant support had been provided e.g. which businesses would have survived and which jobs would have been protected. However, while there are limits in the ability to make these assessments, the Department does believe that the grant schemes played a significant part in protecting businesses and jobs.
- 17.8. The Ipsos Grant Schemes Report estimated that the grant schemes may have safeguarded just over 300,000 jobs directly by preventing the closure of workplaces and a further 100,000 jobs in businesses that would have otherwise survived the pandemic but may have been required to reduce employment levels.
- 17.9. The Department and local authorities successfully established the initial schemes so that financial support was quickly made available to small businesses. The initial cohort one grants were originally announced on 11 March 2020 and the final announcement was on 17 March 2020. Guidance was issued to local authorities on 23 March 2020. Funding was provided to local authorities on 1 April 2020. 70% of cohort one grant payments were paid within four weeks of funding being provided to local authorities. This was done under significant pressures and without an existing delivery infrastructure with priority given to speed of delivery. Generally, it is the Department's view that delivery of the grant schemes was achieved quickly and efficiently, with funds reaching businesses swiftly; to this that extent the schemes can be considered a significant achievement, as stated by the Ipsos Grant Schemes Report. However, as

addressed below, there were significant problems associated with the speed of delivery of the cohort one schemes.

- 17.10. Steps were taken to enhance the operation of the grant schemes with the goals of improving value for money, accessibility, and equity. For example, the SBGF and RHLGF were launched with eligibility criteria based on the rateable value of a business' premises. While this gave them a wide reach some affected businesses were ineligible. The LADGF gave local authorities discretion to make payments according to local needs and priorities. Subsequent schemes become more focused and targeted, responding to local needs, local lockdowns and the tiering systems, as well as sectors facing the most disruption.
- 17.11. The Ipsos Grant Schemes Report notes that promotion of the grant schemes was effective in contributing to the extensive reach of the programme and its rapid mobilisation. Promotion of the schemes was largely led by local authorities which had a range of tools to ensure they were reaching as many groups as possible including direct contact through letters and emails, promotion on social media, and circulation of newsletters. Central government assisted in encouraging applications through public announcements by the Chancellor and Secretary of State and publications on websites. Neither local authorities nor the external observers consulted for the Ipsos Grant Schemes Report described communications failing to engage "hard to reach" groups. However, a small number of stakeholders did raise concerns that most information about the schemes and the application process was only available digitally. This risked excluding those who lived in rural areas with limited internet connectivity or who were less literate with technology. While local authorities did provide some in person support, such as telephone helplines, some businesses reported that these were hard to access and did not necessarily resolve issues around the online application process.

Summary of Reflections

- 17.12. Preparedness: The decision to use grant funding was made swiftly, and the design of the cohort one schemes was undertaken rapidly. The Department had close working relationships with local authorities and experience of administering a number of grant schemes, the largest being the Regional Growth Fund. It also had experience of emergency grants, e.g. in response to flooding. However, as I explained in Part A, the grant schemes were based on existing structures and relationships rapidly expanded to an unforeseen scale. There was limited existing infrastructure to deliver grants on

this scale. This meant the schemes developed quickly without the required infrastructure, design templates or underlying data that would have been beneficial. In addition, the Department did not have contingency plans on how to implement and staff delivery on this scale.

17.13. Priority given to speed of action: As explained throughout this statement, speed of action was a priority for ministers, particularly for the cohort one schemes. Officials advised ministers that acting with such speed involved various risks, including whether the schemes would amount to value for money. This was a policy decision taken by Ministers, who needed to make difficult political decisions about the design and speed of introduction of the schemes. Ministers accepted the financial risks associated with the grant schemes and weighed those against the wish to support businesses as quickly as possible in the context of a national emergency. There were four important consequences of the prioritisation of getting money to businesses as quickly as possible through rapid delivery of the initial schemes.

- a) First, the cohort one schemes were designed without sufficient knowledge and understanding of the accuracy of data held by the local authorities on rateable businesses.
- b) Secondly and linked to this, the speed at which the schemes were implemented contributed to the extent of irregular payments. I expand on this below.
- c) Thirdly, the assurance controls put in place at the outset were undoubtedly not as thorough as they could have been. The risks of this were highlighted at the outset. However, Ministers were keen to get money to businesses as quickly as possible and so the decision was made to not carry out pre-payment checks in order to ensure the grants could be delivered at pace. As referred to above, this improved over time but work on after-the-event assurance of the cohort one schemes was delayed because of the need to design and deliver the complex cohort two schemes, again at speed. Again, I expand on this below. Together these factors have made recovery of irregular payments more difficult. In addition, the design and delivery model for the cohort one schemes put more emphasis on local authorities as the first line of defence. Reflecting on our response, DBT would accept that more guidance on post payment activities, alongside the Department's expectations for local authorities, should have been provided sooner, but the focus was primarily on the swiftness of payments at this stage.

- d) Fourthly, additional pressure was put on local authorities who were generally only notified by Government of new grant schemes at the time that they were publicly announced by HMT. Local authorities then had to respond at pace.
- 17.14. Extent of irregular payments (payments due to non-compliance, error, and fraud): Both the Department and I recognise the considerable public concern at the estimated cost of irregular payments in the grant schemes, particularly the cohort one grants. As I have said in Part A, the speed at which cohort one schemes had to be delivered meant that irregular payments could not have been completely designed out or mitigated fully. Some degree of irregular payments was inevitable. Analysis undertaken by the Department produced an estimate of £1.032 billion of irregular payments (4.6% of the value of grants paid to businesses). This was based on a sampling approach agreed with the ONS and NAO and is included in the former BEIS Annual Report and Accounts 2022-23.
- 17.15. For the cohort one schemes, based on the sampling approach outlined above, the final estimate of irregular grant payments is £985 million. The cohort two and three grant schemes had lower levels of irregular payments.
- 17.16. For the cohort two and three grant schemes the Department implemented a range of measures to obtain greater assurance over the regularity and value for money. The cohort two and three schemes were more targeted. Pre-payment checks were encouraged for the cohort two schemes and then mandated for the cohort three schemes. Post-payment assurance checks were encouraged to be undertaken to check that a business had been eligible for the payment. Data management practices were improved, and independent evaluation of the schemes was carried out. These measures resulted in a level of irregular payments more in line with those that would usually be expected in Government grant schemes. The central estimate of irregular payments in the cohort two and three schemes is:
- a) LRSG sub-schemes: 0.5% (£29.4 million);
 - b) ARG: 0.4% (£7.6 million);
 - c) Restart Grant: 0.3% (£10.1 million); and
 - d) OHLG: 0.7% (£3.2 million).
- 17.17. To date, local authorities, who themselves have significant pressures and limited resources to assure payments that were made, have identified and reported £64.1 million in irregular payments to the Department. The majority of these payments have

been identified as non-compliant and erroneous payments as opposed to suspected fraud. This was set out in further detail in Section 15 of this statement.

- 17.18. As outlined in Section 15, the final value of irregular payments made under the grant schemes is likely to be higher than the amount so far identified by local authorities, even if it might not be as high as the £1.032 billion statistical estimate. To that end, DBT is currently undertaking a Pathfinder project, working with a small number of local authorities to assist our understanding of irregular payment and to explore methods to incentivise further identification and recovery of irregular payments, considering the levels currently reported, and to explore methods to incentivise further identification and recovery of irregular payments. The further investigations undertaken by the Pathfinder project are therefore important, and I include further details on the project in my second witness statement addressing DBT's current policies and preparedness. I recognise that there is a significant difference between the statistical estimate and the information reported by local authorities so far. The Pathfinder project will help us determine a more accurate estimate.
- 17.19. Low level of recovery of irregular payments: The primary objective of the grant schemes was to deliver financial support to businesses as quickly as possible and this was achieved. As already set out, a decision was made to prioritise speed over carrying out pre-payments checks at the start of the pandemic and the Department did not act sufficiently quickly to direct local authorities to conduct follow-up checks. This delay has made recovery of irregular payments more difficult to achieve and progress in recovering these payments has been slow. As set out in more detail in Section 15, to date £46.01 million has been recovered. Local authorities are initially responsible for pursuing recovery, at a minimum writing three times to the recipient of the irregular payment. If, after that, the local authority is unable to reclaim the funds, the case is referred to the Department. However, all recovered funds are to be paid back to central government meaning that there is a lack of incentive for local authorities to identify further losses or to make efforts at recovery beyond the minimum requirement. In the section on 'debt recovery' below, I summarise the reasons for the Government taking this approach.
- 17.20. Complexity of cohort two schemes: As set out in detail in Section 7, the cohort two schemes were more targeted, aiming to support businesses more affected by restrictions. From autumn 2020, there were rapidly changing social distance restrictions, restrictions moved from local to tiered, and then to a national lockdown.

The Department did not know in advance how those restrictions would develop. From the perspective of local authority grants, this led to multiple schemes and sub-schemes being introduced, each having its own eligibility criteria and rules. These schemes and sub-schemes had accompanying guidance. The result was a complex web of grant support, which changed on a regular basis. This put demands on the CLGU teams and on already stretched local authorities. It was also challenging for businesses to know what they were eligible for, and when seeking certainty.

- 17.21. Challenges arising from scheme guidance: A number of legitimate concerns have been raised by local authorities about the extensive guidance on the grant schemes. Officials worked incredibly hard to develop guidance and update it to reflect the changing elements of the schemes. Likewise, officials engaged regularly with local authorities to gather their feedback. It was right to issue early guidance and to update and improve it in response to issues raised, but at times the guidance was insufficiently clear for local authorities and businesses. Whilst this did not impact levels of uptake, it led to an over-iteration of updating guidance and may have resulted in higher levels of irregular payments. In some cases, updated guidance resulted in the reversal of earlier decisions impacting businesses. There were often delays in issuing guidance, due to the complexity of scheme design and the fact the schemes were constantly evolving. This led to uncertainty for businesses in trying to understand the support that might be available to them. In addition, the naming of the schemes sometimes caused confusion for local authorities, for example there were several iterations of LRSG, and more distinction here would have been a relatively simple way to improve clarity.
- 17.22. As I have set out in the overview in Part A of this statement, the principal lesson from the cohort two schemes is that, if in any future pandemic, the non-pharmaceutical interventions are too complex or change too rapidly, they risk serious knock-on impacts on the delivery of grant support, including over complicating the system of grant support. It might be said that the Government should have de-coupled grant support from the nature and level of non-pharmaceutical interventions, but that would not have been straightforward. The cohort two schemes (which became so complex) were seeking to target grant support at businesses most affected by the geographically and sector-based closures and restrictions. De-coupling grant support from those closures and restrictions would have risked less targeted grant support, and that less targeted support would have been less generous in amount (as more businesses would have been included). That would probably have provided worse value for money. On any view, however, in future there must be greater emphasis on keeping the design of grant

support schemes simple, thereby aiding interpretation of the schemes and the speed and consistency of implementation.

Further Reflections on the Cohort One Grant Schemes

- 17.23. This Section of my statement expands on critical reflections about the cohort one schemes.
- 17.24. The major success of the cohort one schemes was the speed at which money was conveyed to businesses. BEIS and local authorities worked under significant pressure to achieve this and paid out £11.679 billion under the cohort one grant schemes. The Government also quickly responded to feedback about the eligibility criteria of the SBGf and RHLGF and developed and launched the LADGF. This allowed local authorities to respond to local needs based on their knowledge of local businesses.
- 17.25. However, there are a series of issues with how the cohort one schemes were set up and then administered, which I summarise here.
- 17.26. The Government did not require local authorities to undertake any pre-payment checks on grant recipients. This was because the focus was on speed and getting the payments delivered quickly. This policy decision contributed to the level of irregular payments. The Department has since publicly recognised the importance of pre-payment checks. The lack of pre-payment checks significantly contributed to the levels of non-compliance, error, and fraud that materialised in the cohort one grant schemes. As the grant schemes progressed, such checks were encouraged, then recommended and then mandated.
- 17.27. In addition, the Department over-estimated the accuracy and reliability of data held by local authorities, which also contributed to the level of irregular payments. The Department relied on knowledge that local authorities had of the businesses in their areas, but there was insufficient time to evaluate these assumptions.
- 17.28. The grant offer letters for the cohort one grants were issued at pace because of the focus on getting money to businesses rapidly. Given the pressures that local authorities were under at the time, the CLGU sought to make the process as simple as possible for local authorities to implement. For these reasons there were gaps in the offer letters. There was insufficient clarity and direction on the need for local authorities to undertake post-payment checks, on the data to be collected to assist with assurance and reconciliation work, or the provisions for reporting irregular payments to the Department. This contributed to difficulties the Department had with later asking

local authorities to complete post-payment assurance work on the cohort one schemes. The Department also could not retrospectively request data from local authorities to enable Government to undertake necessary reconciliation work.

- 17.29. The Department acknowledges that including clear instructions on assurance and reporting would not have significantly impacted upon the quick dispersal of the grant funding. This was a significant lesson learned from the Covid-19 pandemic and the experience informs evolving practices of the Department, this is covered in further detail my second witness statement. There was also little consideration given to identifying and recovering irregular payments (including a time frame for debt recovery) at the launch of the cohort one schemes.
- 17.30. In May 2020, the Department began considering how to complete post-payment assurance checks (which would help detect irregular payments). Unfortunately, because of the pressures of introducing the cohort two schemes, this work was then delayed until March 2021. The Department also commissioned a review of the local authority grants in January 2021, which I return to below. But the ability to conduct these post-payment checks was compromised because of poor data that was available to the Department. There was also a long backlog of checks to be done. The delay in undertaking post-payment assurance checks has made recovery of grants more difficult.
- 17.31. BEIS review of the Covid-19 grant schemes: In September 2020, Mike Keoghan started as BEIS acting Director General, Business Sectors. He made inquiries about accounting for the funding distributed under the cohort one schemes and the of these schemes. This was at a time when the CLGU team was focused on developing and delivering the complex cohort two schemes. Mike Keoghan decided that a review of the local authority grant work was needed. He wanted this to happen in autumn 2020 but in fact it started in January 2021. This was due to the pressures of delivering the cohort two schemes, lack of resource and broader Departmental pressures (including EU-Exit transition planning).
- 17.32. On 7 January 2021, MH&A, a consultancy firm, was commissioned to conduct the review. They were tasked with reviewing the programme management structures, identifying risks and issues with the current processes, consulting stakeholders (including local authorities), and providing recommendations for improvement {GD(C)/713 – INQ000543616}, {GD(C)/714 – INQ000543617}.

- 17.33. Key findings from the review: On 1 February 2021, MH&A provided its assessment of the current programme {GD(C)/715 – INQ000596691} and {GD(C)/716 – INQ000596694}. It also worked on providing a high-level model for future schemes and giving advice on the resource needed to effectively administer and audit the local authority grants.
- 17.34. Whilst the review acknowledged the achievements of the CLGU team, particularly the delivery of the cohort one and two schemes at pace, it identified several areas in which improvements could be made. I briefly address each of them in turn below:
- a) Inadequate resourcing: The review found that the level of resourcing for the schemes was substantially too low and needed to be bolstered with at least an additional 30 full time staff members.
 - b) Lack of a formal programme board: The review stated that for a programme with the level of complexity and value of the grants scheme a discrete programme board would be expected. As detailed below a formal programme board was established in February 2021.
 - c) Lack of robust programme management: The review found that there was a lack of regular programme management supported by a detailed plan and updated risk, action, issue and decision logs
 - d) Lack of documented end-to-end process: There was no document or set of documents setting out in detail the end-to-end process being used to manage the schemes.
 - e) Lack of formal assurance mechanisms: There was no evidence of formal, ongoing assurance activities to ensure that policies and processes were being followed and funds used appropriately.
 - f) Lack of allocation model assurance: The models used to calculate funding allocations to local authorities had not passed the Department's model quality assurance process. An initial assessment of the most recent model (at that time) suggested that substantial work was required for it to meet the Department's standards.
 - g) Lack of reliable data and reporting: While data was regularly collected from local authorities, concerns had been expressed within the Department about its robustness. An exercise was undertaken to 'cleanse' the data to increase consistency and quality.

- h) Insufficient communications and customer service activity: There was a substantial backlog of correspondence in the programme inbox and more proactive communication was required.
- i) Lack of monitoring and evaluation plan: A monitoring and evaluation plan had not been prepared and was required to enable robust and insightful evaluation.
- j) Live 'new burdens' issue: Local authorities had received new burdens funding for the cohort one schemes but were awaiting confirmation of the amount they would receive and the funding itself for the remainder of schemes.

17.35. In addition to the issues raised in the report the Department recognised that problems were caused by the fact that both MHCLG and BEIS were responsible for aspects of the grant schemes. This splitting of responsibility between the two departments allowed officials in each organisation to think or assume that the other was completing work related to assurance. It also led to oversight of the schemes being diluted.

17.36. At this stage, the Department also recognised that there had been a lost opportunity to evaluate the cohort one schemes between June and August 2020 and implement improvements. At that point there had been a lull in the virus and less money was being sent to local authorities. Whilst the Department was not aware of what would come next in the pandemic, a formal lessons learned exercise ought to have been undertaken at that time.

17.37. In early 2021, the central modelling unit within BEIS (which now sits within the Department for Energy Security and Net Zero) was also asked, to review the Department's spreadsheets that recorded the amounts allocated to local authorities. Some errors were identified, including allocation of incorrect levels of funding to some areas. Such errors occurred as a result of the need for the Department to respond to a constantly evolving situation especially involving the cohort two grants. Given that payments were often based on estimates, adjustment and reconciliation was an ongoing process and where errors were identified, resulting in underpayments or overpayments, these were corrected through adjustments in the next payment round.

17.38. A review was also carried out by GIAA of cohort one grants reconciliation and debt recovery and PPAS. The phase one report was issued in March 2021 and found that the Department had taken effective steps to prevent and detect potential fraud risks {GD(C)/717 – INQ000576407}. However, it concluded that limited resources had been allocated to performing the post assurance activity. The phase two report was

published in May 2021 and found there was limited reporting on the SBGF funding, and therefore a limited ability to exercise adequate governance and oversight over the SBGF {GD(C)/718 – [INQ000576410](#)}. The GIAA recommended that post-payment assurance activities “...be supported by clear guidance and forward-looking plans to assure BEIS that there [was] sufficient ongoing oversight and reporting arrangements in place.”

- 17.39. Steps taken to address the issues identified: On 26 January 2021, the Department stood up a new team to lead the response to the MH&A review and improve delivery of the grant schemes. On 1 February 2021, Beccy Eggleton (Deputy Director, Local Authority Grants) was formally established as the new programme director, reporting to Jenny Dibden {GD(C)/719 – [INQ000576401](#)}.
- 17.40. Alongside this, the Department commissioned a further consultancy project to provide programme management whilst changes were made to the grants programme. Additional resource was brought in to support financial reconciliation work.
- 17.41. On 2 February 2021, Mike Keoghan wrote to the Department’s Executive Committee seeking approval to develop and implement a single grant management function to be managed by the ‘BEIS Central Grants and Loans (CGL) Team’ (formed from the Regional Growth Fund team). The objective was for this grant management function to become the default delivery route for all grant-related projects, and to build a centre of expertise within the Department {GD(C)/720 – [INQ000543626](#)}.
- 17.42. As I have referred to above, while from the outset governance of the grant schemes was overseen by daily meetings of a senior team within the Department, there was initially no formal programme board. As the grant schemes grew in number and complexity, and it became clear how prolonged the situation would be, there was a clear need to formalise governance. It was also difficult to step back and review the schemes given the highly reactive policy development necessitated at the time. The Covid-19 Business Grants Programme Board was established in February 2021 to provide senior oversight of local authority grants and act as a forum to discuss strategic issues and assess risk and performance against strategic objectives {GD(C)/721 – [INQ000543753](#)}. Its terms of reference are provided at {GD(C)/721 – [INQ000543753](#)}. The first meeting was on 22 February 2021 {GD(C)/722 – [INQ000576403](#)} and {GD(C)/723 – [INQ000576412](#)}. The Covid-19 Business Grants Programme Board was comprised of officials from BEIS, HMT, and representatives from various local authorities. It assisted in embedding better scrutiny of the schemes. The Covid-19

Business Grants Programme Board is no longer in operation. A Grant Delivery Directorate and Grant Delivery Board are now in place and are covered in detail in my second witness statement.

- 17.43. By 1 April 2021, the delivery of the local authority grants was officially moved to the BEIS Business Grants and Investment Directorate (**the Directorate**). It was recognised that, as the Department was accountable for the grant schemes, it was not ideal to have the unit delivering the schemes split across two departments. The Directorate was also intended to be a centre of grant expertise. Jess Skilbeck became the new SRO and SCS lead for the programme {GD(C)/724 – INQ000543719}. MHCLG continued to be involved, as its approval of proposed schemes was needed pursuant to section 31 of the Local Government Act 2003. However, in effect, the Restart Grant was the first scheme for which the Department had sole responsibility.
- 17.44. While real improvements had been made for cohort three schemes, some issues did persist such as HMT providing short notice of announcements about schemes. For instance, the Chancellor announced the OHLG on 21 December 2021 with an expectation that it would go live before the end of the year. This caused problems as many local authority contacts were not available during the festive period. Ultimately, the scheme did not go live until early January 2022. Earlier notice of the announcement would have given the opportunity for better preparation and increased the chances of meeting the initial target date.

Debt Recovery

- 17.45. As the Department did not have in-house capacity to take on debt recovery work, the CLGU grants team relied heavily on the local authorities' section 151 officers to allocate resource to debt recovery activity i.e. ensuring that irregular payments were identified and recovered from grant recipients in a timely manner. As set out above, local authorities were not specifically incentivised to recover money given that all recovered funds had to be paid back to central government. When the debt recovery policy was being designed, the Department did have discussions with HMT and Cabinet Office, about whether local authorities should be able, as an incentive, to keep all or some of the money recovered. However, the view was taken that recovery activities should be sufficiently covered by the new burdens payments provided to local authorities for the administration of the grant schemes. HMT was clear that this funding should cover assurance and debt recovery activities. The Department agreed with this approach. There were also concerns that such financial incentives would simply

encourage local authorities to pursue the small businesses most under pressure at the time, rather than tackling cases of fraud. This was because it would be much easier to recover non-compliant payments or those made in error, whereas fraud recovery was more difficult.

- 17.46. As stated above, in instances where recovery of debt was not possible, local authorities referred cases back to the Department. The Department did not have capacity to undertake the debt recovery work, and this was passed on to a third-party debt recovery agency, Indesser. In Section 15 above, I have explained the problems with the scope of the contract with Indesser. This was a major challenge for the debt recovery work done by the Department. The fact that the initial contract with Indesser did not initially include litigation services contributed to significant delays in debt recovery.
- 17.47. In relation to fraud, the Department's approach is to pursue recovery of all funds unless specialist advice from litigation experts determines that there is no chance of recovery, as this is seen as a critical deterrent. In addition, local authorities have referred suspected fraud activity to NAFN, and the Department has a contract with NATIS to pursue organised crime, high value, and cross-boundary fraud-related activity. The work carried out by NATIS is covered in more detail in Part B.

Overview of Reflections

- 17.48. The grant schemes met their primary objective of providing a rapid response to assist businesses with the cashflow issues caused by the pandemic and subsequent restrictions. The choice to prioritise speed of delivery meant compromises were made in terms of scheme design and assurance. The grants programme was initially relatively small, using existing systems applied to a purpose for which they had not been designed, and it quickly outgrew the systems and resources allocated to it. With the cohort one schemes decisions were taken to introduce only limited targeting to ensure the schemes were delivered as quickly and simply as possible in the knowledge that some businesses may be over or undercompensated. Introduction of financial needs tests at this time would have placed an undue administrative burden on local authorities when they were already stretched in their response to the pandemic.
- 17.49. As set out in Part A, there may have been ways to deliver the grant schemes on a more cost-effective basis, but the mechanisms for doing so were limited by lack of preparedness and the limited infrastructure in place within local authorities to deliver

an emergency economic response, i.e. at the scale and pace required. Any attempts to create such infrastructure would have severely hindered the ability to respond to the situation with the speed required and created additional pressures on already limited resources. More targeting built into the initial scheme design could have led to lower costs although again the administrative burden this would have involved would have negatively affected the speed of delivery. Other means for reducing costs, such as making the grants less generous could have proved counter-productive in the long run by leading to higher rates of business failure and greater eventual losses.

- 17.50. The Department's working relationships with local authorities, were overall positive, and strengthened over time. In general, local authorities engaged proactively with the grant schemes although there was some variance in this. Challenges were presented by the fact that local authorities were, during this time, under severe pressure and had limited capacity. It should be recognised that local authorities were required to make a significant change from their usual role of collecting funds to distributing grant funding. At the outset, few local authorities were equipped to set up such schemes easily and rapidly. Given these limitations the rapid mobilisation of the programme through local authorities in April 2020 should be seen as a significant achievement.
- 17.51. The lessons taken from the implementation of cohort one schemes meant that data monitoring was improved for cohorts two and three, with the introduction of pre-payment checks improving the accuracy of local authority data and substantially reducing the risk of losses. Targeting was also improved with the later cohorts being designed with more tightly defined eligibility criteria.
- 17.52. In Section 7 of this statement, I have set out the difficulties presented by the complex situation in which the cohort two schemes were required to operate. These complexities, coupled with rapidly changing rules and tiering arrangements, placed significant demands on the Department and local authorities and led to uncertainty for businesses seeking to understand which support they could access. As the policy grew, the Department was responding to a highly reactive situation, so had little time to step back and really review how the schemes were operating. This restricted the capacity officials had to consider and implement changes in delivery. The review carried out in early 2021 led to improvements in the Department's capacity and capability.
- 17.53. By the time cohort three schemes were introduced real progress had been made with improved resourcing and governance structures as well as more streamlined

processes. Given that cohort three schemes were operating in a more straightforward context, in contrast with the crisis scenario of the earlier schemes, it was easier to apply lessons learned to the design of the grants which became more targeted to the sectors most affected. The cohort three grants also benefitted from better due diligence with pre- and post-payment checks carried out using Spotlight which reduced the irregular payments made.

- 17.54. The lessons learned from design and delivery of the Covid grant schemes have fed into the development and implementation of subsequent schemes. One example of this is the Energy Bill Support Scheme GB, which operated from October 2022. Lessons implemented including assurance activity planning from the outset, a full assessment, in collaboration with Cabinet Office, of fraud risk and counter fraud activity, and starting assurance work much earlier in the lifetime of the programme.