



National Audit Office



REPORT

COVID-19 business grant schemes

Department for Business and Trade
and HM Treasury

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National Audit Office

COVID-19 business grant schemes

**Department for Business and Trade
and HM Treasury**

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

21 March 2023

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Key facts

£22.6bn

grants paid to businesses between March 2020 and March 2022

484,000

number of grant payments worth £6 billion in total paid by local authorities within a month (March 2020 to April 2020) of the first grant scheme launching

314

local authorities responsible for making grant payments in March 2020

- Eight** separate grant schemes intended to support businesses through the COVID-19 pandemic
- 4,529,000** number of grant payments made via the schemes to businesses in the period March 2020 to March 2022
- £1.1 billion** estimated losses occurring as a result of error and fraud in business grant schemes, 2020-21 and 2021-22 (just under 5% of the value of grants paid to businesses)
- £11.4 million** of losses recovered by mid-February 2023 (around 1% of estimated losses)
- £142 million** additional funding given to local authorities for administering the grant schemes in 2020-21 (a further £68 million has been or is expected to be given for administering grants paid out in 2021-22)

Summary

1 Over the course of the COVID-19 pandemic the government put in place a series of restrictions on daily life aimed at slowing the spread of the virus. While the restrictions varied over time and between different parts of the country, all had an impact on businesses, many of which were forced to temporarily close or curtail their operations. Businesses in the retail, hospitality and leisure sectors were particularly affected as restrictions prohibited or limited large numbers of people gathering in one place.

2 The government launched a series of financial and other measures to support businesses and soften the impact of the restrictions. These measures included tax reliefs, government-backed loans, the furlough schemes and changes to insolvency regulations. In addition, the government announced in early March 2020 that it would provide grants to support smaller businesses in England. The grants were to be administered by local authorities. Between March 2020 and December 2021 the government launched eight separate grant schemes in three cohorts. The government wanted the grants to reach businesses quickly, particularly at the start of the pandemic. By the end of March 2022 the government had provided £26.9 billion of funding across the schemes to local authorities, of which local authorities had distributed £22.6 billion to businesses.¹

3 HM Treasury (HMT) decided the key features of each scheme, including the high-level eligibility criteria and the quantum of support, and announced the schemes. In doing so, HMT worked with the Department for Business, Energy & Industrial Strategy (BEIS) and the Department for Levelling Up, Housing & Communities (DLUHC).² BEIS was responsible for the implementation of the schemes, working through local authorities, and was accountable for the use of public money. On receipt of funding from BEIS, over 300 local authorities across England were responsible for making grant payments to businesses in their areas that met the eligibility criteria. In February 2023 the newly created Department for Business and Trade (DBT) took over responsibility for the schemes from BEIS.³

¹ The Department for Business and Trade is completing an exercise to recover from local authorities monies they have not distributed to businesses.

² At the start of the pandemic, DLUHC was called the Ministry of Housing, Communities & Local Government; the name changed in September 2021. For simplicity we use the current name throughout.

³ On 7 February 2023 the government announced it had split the Department for Business, Energy & Industrial Strategy into three new departments: the Department for Energy Security and Net Zero; the Department for Business and Trade; and the Department for Science, Innovation and Technology. Responsibility for the COVID19 grants now sits with the Department for Business and Trade. We refer to the Department for Business, Energy & Industrial Strategy as the department responsible for introducing and implementing these grants up to 7 February 2023 and to the Department for Business and Trade as the department responsible for these schemes from 7 February 2023.

4 In November 2021, the Comptroller and Auditor General (C&AG) qualified his opinion on BEIS's 2020-21 financial statements because, in part, of concerns over the levels of error and fraud estimated in these schemes. In May 2022 the Committee of Public Accounts reported its concerns regarding the estimated levels of error and fraud associated with the schemes. It questioned whether BEIS had made a robust enough assessment of the overall levels of error and fraud.

Scope of this report

5 This report examines how effectively the government set up and delivered the grant schemes. Early in the pandemic ministers made decisions to accept additional risks. We have recognised in our other work on the COVID-19 response that the government needed to make urgent decisions with limited information to respond to an unprecedented public health emergency. However, even in emergency situations we expect officials to:

- consider risks at the start, and put in place basic controls;
- improve their understanding of risks and the effectiveness of controls over time, refining the programme accordingly; and
- when possible carry out proportionate evaluation of the programme, including identifying lessons that can be applied in the future.

6 This report assesses how BEIS and HMT performed against these expectations. It places particular emphasis on identifying lessons and steps the government can take to enhance its preparedness for future emergencies. We have not considered similar schemes in the devolved administrations as part of our work. The report draws on a range of evidence sources that are set in more detail in Appendix One (Our evidence base).

Key findings

7 **BEIS's grants to support businesses were a key part of the government's response to COVID-19.** Between March 2020 and March 2022 local authorities distributed COVID-19 grants costing £22.6 billion via 4.5 million payments to businesses. In terms of cost, the grants were the second most significant element among the overall package of measures introduced by the government to support businesses and employees during the COVID-19 pandemic, alongside the Coronavirus Job Retention Scheme (often referred to as the furlough scheme) and an array of other support measures (paragraphs 1.4 to 1.6, Figures 2, 3 and 4).

8 Working under significant pressure, BEIS and local authorities succeeded in establishing the schemes and distributing the initial support to businesses quickly. BEIS had less than a month to develop the initial grant schemes. HMT had asked BEIS to begin preparing plans for a grant scheme in late February 2020. It announced the first scheme as part of the Budget on 11 March, with a second scheme and changes to the first announced on 17 March 2020. BEIS and the 314 local authorities were under significant pressure to respond quickly and at a time when they were also being required to deal with other aspects of the pandemic response. By 19 April 2020, the first point at which progress was reported to BEIS, local authorities had made 484,000 payments totalling £6 billion, accounting for 54% of the eventual pay out from these two schemes. By 24 May 2020, two months after the scheme guidance was published, £9.9 billion (89%) had been paid out via 805,000 payments (paragraphs 2.2 to 2.5; Figure 5).

9 Local authorities were not notified of new schemes until they were announced publicly by HMT, creating significant practical challenges as they scrambled to respond. Central and local government had no shared contingency plan in place on how to provide support to businesses in a national emergency. Local authorities reported to us that throughout the pandemic they were often not aware of HMT's intention to launch new schemes until they heard the public announcement. They therefore often found themselves having to scramble to understand the scheme requirements, put in place the right processes and answer queries from local businesses. While BEIS and HMT did consult on a confidential basis with a small number of local authorities, the lack of a strong local authority voice prior to schemes being announced meant that they were sometimes launched with practical issues that took time to resolve fully. For example, it was not straightforward to define what constituted a 'wet-led pub' when deciding eligibility for support under one of the schemes (paragraphs 2.5 and 2.25 to 2.29).

10 HMT and BEIS sought to better target the support to businesses as the pandemic evolved, although this brought increased administrative complexity at a time when BEIS and local authorities were already stretched. During the late summer and autumn of 2020 HMT and BEIS introduced targeted schemes to support those businesses most affected by the restrictions. Over this period public health restrictions moved from local to various forms of tiered restrictions and an eventual lockdown. This strategy resulted in the introduction of multiple sub-schemes each with their own eligibility criteria and scheme rules. Over just one five-week period, for example, BEIS issued initial guidance for eight schemes or sub-schemes. Complexities of scheme design and evolution meant that BEIS guidance either took some time to be issued or had to be updated reflecting significant scheme changes. These complexities, coupled with rapidly changing rules, made significant demands of local authority teams and created uncertainty for businesses seeking to understand the support that might be available (paragraphs 2.11 to 2.13; Figure 7).

11 BEIS relied on existing line management structures to deliver the initial wave of schemes but it took more than one year to put in place more formal programme management arrangements. The Cities and Local Growth Unit (the Unit), a joint BEIS/DLUHC (Department for Levelling Up, Housing & Communities) directorate, had responsibility for delivering the first cohort of schemes. BEIS remained responsible for the monies passed to local authorities. The initial emergency, which had required action from BEIS across a number of fronts, had left no time to establish a programme board to support the COVID-19 business grant programme. The existing line management chain oversaw delivery of the schemes. The scale and nature of the challenges had made very significant demands on staff in the Unit and tested BEIS processes significantly beyond their normal capacity. In February 2021 a BEIS review identified a number of issues which needed to be addressed – such as inadequate resourcing of the BEIS team, a lack of formal programme governance and a lack of robust programme management. BEIS put in place strengthened governance arrangements in spring 2021, such as a grant programme board including representatives from HMT and local authorities (paragraphs 1.8, 2.9 and 2.14).

12 Ninety per cent of the estimated £1.1 billion of losses due to error and fraud arose during the initial wave of schemes. By October 2022 BEIS estimated that error and fraud across all the COVID-19 grant schemes was in the region of £1.1 billion (just under 5% of the value of grants paid to businesses). BEIS estimated error and fraud under the later schemes to be significantly lower. BEIS's estimates were based on taking a sample of payments and performing a series of checks. The sampling approach was designed to produce an estimate of irregular payments rather than make separate estimates distinguishing fraud from error. DBT informed us, however, that of 1,900 irregular payments it had been notified of by local authorities as part of the debt recovery process, 17% involved fraud with the rest involving error (paragraph 2.16).

13 Introducing pre-payment checks and improving the accuracy of local authority-held data for the second and third cohorts of schemes greatly reduced the risk of losses. BEIS and local authority officials attributed the greater error and fraud in the initial schemes to the decision not to require pre-payment checks on grant recipients and shortcomings in the data held by local authorities. BEIS guidance to local authorities on the controls to be applied became progressively stronger over the course of the pandemic. Pre-payment checks moved from not being mentioned in the BEIS guidance as part of the normal grant payment process, to being mentioned, to being recommended, to being mandated. Local authorities reported that the accuracy of their data on local businesses had also improved over the course of the pandemic. In addition, local authorities that had relied on manual payment processes at the start of the pandemic were later able to put in place automated systems and became better placed to spot duplicate payments and other potential sources of error (paragraphs 2.17 to 2.20).

14 BEIS working through local authorities had, by mid-February 2023, recovered £11.4 million of the estimated £1.1 billion of losses (around 1%). BEIS began considering how to carry out its post-payment checking activities, to estimate the level of loss, as early as May 2020. However, the start of this work was postponed until 2021 as BEIS needed to focus on the second wave of grant schemes in autumn 2020. Attempts to estimate losses therefore did not start until at least 12 months after the payments had been made. BEIS required local authorities to pursue any losses from error and fraud they identify arising from payments. However, as all recovered monies must be paid back to central government, local authorities have had no financial incentive to identify losses beyond those contained within the BEIS-directed samples used to derive the estimates (paragraphs 2.21 to 2.23).

15 BEIS commissioned an evaluation of the impact of the grant schemes but HMT has yet to commission an evaluation of the overall government support provided to business. At the start of the pandemic HMT and BEIS took decisions in the midst of great uncertainty and without much of the data that would normally allow them to assess where best to target support and the quantum of support needed. BEIS identified a risk that some of the support provided to some companies might not be needed or make a difference. In November 2021, BEIS commissioned Ipsos to undertake an evaluation of the COVID-19 grant schemes and their economic impact. Evaluating the grant schemes will be challenging given the need to distinguish their impact from that of other measures and, in part, because neither BEIS nor HMT set precise aims for the grants. The Department for Business and Trade (DBT), which now has responsibility for the schemes, expects a final report in spring 2023. BEIS had also commissioned evaluative work examining the impact of its other COVID-19 interventions, including for example the various COVID loans made available to business. DBT expects the evaluations of individual interventions to be complete by summer 2023. HMT informed us it has no parallel plans to evaluate the overall impact of government support to business, for example looking at the impact of support provided across departments and its own response to the emergency (paragraphs 1.9 and 2.31 to 2.36).

Conclusion on value for money

16 The government achieved its primary objective to deliver financial support to businesses quickly during the COVID-19 pandemic. Working through local authorities, BEIS distributed £22.6 billion via 4.5 million payments to businesses in two years. It did this at a time when local authorities and BEIS were also having to deliver on other pandemic-related priorities. BEIS prioritised speed over conducting pre-payment checks for the schemes launched at the start of the pandemic, but did not then act quickly to conduct follow-up checks. The delay in following-up has made the recovery of amounts wrongly paid more difficult to achieve. DBT, which is now responsible for these schemes, has still to report on the impact of these grants, for example in terms of maintaining jobs and how much support might have been given to businesses that did not need it. Without such an assessment an overall judgement about the value for money of the schemes remains open.

17 BEIS's experience of working at speed with local authorities to channel financial support during the COVID-19 pandemic offers important lessons should central government ever find itself in a similar crisis situation. HMT and DBT should ensure they use the lessons identified in this report and their own reviews when updating the government contingency plans to respond to future national emergencies.

Learning lessons

18 HMT and DBT, working with local authorities, should by December 2023 draw up contingency plans to cover the provision of financial support to priority groups in the event of a future national emergency. The plans should draw upon the considerable experience gained by the departments and local authorities during the pandemic. The plans should include:

- the type of leadership, capabilities and governance arrangements that need to be in place as the emergency response evolves;
- the responsibilities for assessing the level of economic risk, identifying potential solutions and taking action;
- the data sources and analysis that might be needed at speed to assess the risk, determine how support might be targeted and the quantum of support needed;
- the mechanisms for drawing upon local authority and departmental delivery expertise early in the design of the emergency support;
- the mechanisms for considering the trade-offs that may need to be made between targeting support and introducing administrative complexity;
- the options available for maintaining adequate control over the disbursement of public money – reducing the risk of error and fraud as far as practicable – whilst acting at pace;

- consideration of what post-payment assurance processes may be needed and what can be done to streamline this; and
- an assessment of the level of resources required to introduce and then manage future schemes when drawing on these lessons.

19 HMT should, by September 2023, commission work to consider the impact of, and benefit secured from, the range of support to business provided through the COVID19 pandemic to inform the development of future initiatives.

Part One

Background

1.1 This part of the report sets out:

- the rationale for the COVID-19 business support grant schemes and their evolution; and
- the roles and responsibilities of the departments and local authorities for delivering the schemes.

Origin of the COVID-19 grant schemes

1.2 Over the course of the COVID-19 pandemic the government deployed a series of measures aimed at slowing the spread of the virus (**Figure 1**). The scale and nature of the measures evolved over time as knowledge of the virus improved and the number of cases fluctuated – ranging from UK-wide lockdowns to local restrictions.

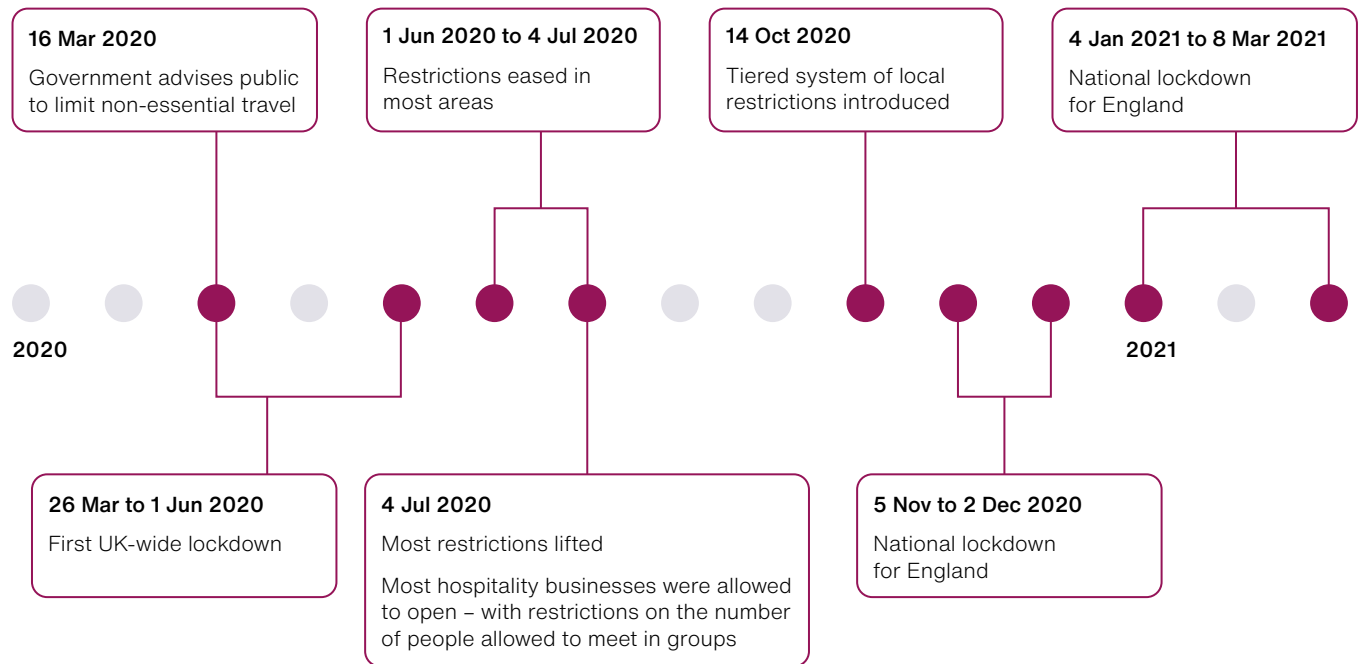
1.3 While the precise terms of the restrictions varied over time and between different parts of the country, all had an impact on businesses, many of which had to temporarily close or curtail their operations. Businesses in the retail, hospitality and leisure sectors were particularly affected as restrictions prohibited or limited large numbers of people gathering in one place, with businesses required, at times, to close down in-person services.

1.4 The government was concerned that the restrictions could pose a threat to many businesses. It launched a series of financial and other measures to support businesses and soften the impact of restrictions (**Figure 2** on page 14). These measures included tax reliefs, government-backed loans, the furlough scheme and changes to insolvency regulations. Alongside these measures, the government announced in March 2020 that it would provide grants to support businesses. The grants were intended in particular to provide support to smaller businesses with fixed costs. The government wanted the grants to reach businesses quickly, particularly at the start of the pandemic when other means of COVID-19 support were at risk of not being ready in time.

Figure 1

Summary of COVID-19 lockdowns and restrictions in the first year of the pandemic

During the first year of the pandemic the government introduced a range of national and local restrictions, including three national lockdowns in England



Notes

- 1 Local restrictions that were not part of a national tiering system are not included.
- 2 For more detail on the period covered or for changes after March 2021, see Jennifer Brown and Esme Kirk-Wade, *Coronavirus: A history of 'Lockdown laws' in England*, House of Commons Library, briefing paper 9068, December 2021. Available at: <https://researchbriefings.files.parliament.uk/documents/CBP-9068/CBP-9068.pdf>.

Source: National Audit Office analysis of government announcements

Figure 2

An overview of the largest government interventions to support business and employment during the COVID-19 pandemic

Business support grants were the second largest intervention to support businesses during the COVID-19 pandemic

Intervention	Description	Lifetime spend (£mn)
Employment support or incentives	The largest intervention in this group was the Coronavirus Job Retention Scheme, which enabled employers to claim a taxable grant covering up to 80% of the wages for furloughed employees (£68,754 million).	70,244
Business grants provided through English local authorities	Grant schemes to support businesses across England.	23,699
Business rates support	The largest intervention in this group was business rates holidays, primarily for businesses in the retail, hospitality and leisure sectors (£18,215 million).	20,506
Business loans	The largest intervention in this group was the Bounce Back Loans Scheme where government provided guarantees for loans from commercial providers (£14,457 million).	16,481
Value Added Tax (VAT) support	The largest intervention was a reduced rate of VAT (5% rather than 20%) for the hospitality sector, accommodation and attractions (£8,360 million).	11,245
Other	All interventions not captured above: accordingly this group contains a highly varied set of interventions. The largest intervention was waiving import duties on critical imports such as medical supplies and equipment (£940 million).	4,961
Total		147,136

Notes

- 1 This figure includes government interventions tagged as 'businesses support' in the COVID-19 cost tracker, available at: www.nao.org.uk/overviews/covid-19-cost-tracker/. Lifetime spend for interventions is based on departmental estimates as of June 2022 and as reported in the NAO cost-tracker. Differences between lifetime spend and expenditure figures reported elsewhere may arise from differences in accounting treatments or timing, for example in relation to the ongoing process for local authorities returning unspent business grant funding.
- 2 We have grouped together the set of business support grants delivered through local authorities that are the subject of this report. For comparability, we have also grouped interventions in other high-spending areas of support (for details of these groups see Appendix One).
- 3 Business grants not delivered through local authorities have been classed as 'other'. Similarly, where interventions contain a mix of grants and loans, these have also been included in the 'other' category.
- 4 Some interventions are UK-wide while others are England-only. England-only business support interventions will have led to additional funding for devolved administrations that is not identified separately in the cost tracker and accordingly is not included.

Source: National Audit Office, *COVID-19 Cost Tracker*

1.5 Government created eight separate schemes giving grants in 2020-21 and 2021-22. These can be grouped into three separate ‘cohorts’, primarily corresponding to significant waves of COVID-19 restrictions. The Department for Business, Energy & Industrial Strategy (BEIS) allocated funding to local authorities.⁴ Local authorities were then responsible for paying the grants to eligible local businesses. The precise terms of the grant schemes differed, for example with regard to how tightly they were targeted (**Figure 3** overleaf). For mandatory schemes BEIS made initial funding allocations by estimating the amount needed in each area by using Valuation Office Agency data to estimate the population of eligible businesses and paying either all or a proportion of the estimated amount needed.⁵ For discretionary schemes, government provided fixed amounts of funding and local authorities could determine their own eligibility criteria. BEIS determined funding for the discretionary schemes on several different bases, such as the number of people or the number of businesses in each area.

1.6 HM Treasury (HMT) first announced £2.2 billion of grants to support businesses through the pandemic in the Budget on 11 March 2020. This funding was substantially increased on 17 March 2020 when HMT announced that any ratepayer business in the retail, hospitality or leisure sectors occupying a premises with a rateable value of less than £51,000 would qualify for a cash grant. These two initial schemes, the Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grant Fund (RHLGF), ran until the summer of 2020. Along with a discretionary scheme, they formed the first cohort of grants (Figure 3). HMT announced further grant schemes to support businesses through other periods of restrictions. The cohort 2 grants were announced in the second half of 2020 in response to the local and national lockdowns responding to the second wave of COVID-19 infections. The cohort 3 grants were announced during 2021 - the first supported business through the national reopening in spring 2021, the second through the restrictions imposed in response to the Omicron variant in December 2021. By the end of March 2022 local authorities had paid out £22.6 billion (**Figure 4** on page 17).

4 On 7 February 2023 the government announced it had split the Department for Business, Energy & Industrial Strategy into three new departments, including the Department for Business and Trade. Responsibility for the COVID-19 grants now sits with the Department for Business and Trade. We refer to the Department for Business, Energy & Industrial Strategy as the department responsible for introducing and implementing these grants up to 7 February 2023 and to the Department for Business and Trade as the department responsible for these schemes from 7 February 2023.

5 Authorities had to return unused funding while additional funding was provided if required.

Figure 3

Initial announcements and eligibility criteria for COVID-19 business support grant schemes

The COVID-19 grant schemes had a range of different criteria

	Scheme	Announced	Summary of eligibility criteria
Cohort 1	Small Business Grant Fund (SBGF)	March 2020	Local authorities provided grants to businesses that met eligibility criteria set by central government. All businesses in receipt of small business rate relief or rural rate relief were eligible for grants of £10,000.
	Retail, Hospitality and Leisure Grant Fund (RHLGF)	March 2020	Local authorities provided grants to businesses that met eligibility criteria set by central government. Businesses in receipt of expanded retail discount and not eligible for SBGF were eligible for grants of £10,000 or £25,000 depending on rateable value of the property (up to a maximum property value of £51,000).
	Local Authority Discretionary Grant Fund	May 2020	Local authorities had broad discretion to decide eligibility criteria and grant value within parameters set by central government. Authorities could make grants of £25,000, £10,000, or any value below £10,000, to businesses that did not qualify for SBGF or RHLGF.
Cohort 2	Local Restrictions Support Grant (nine sub-schemes)	September 2020	Local authorities provided grants to businesses in line with eligibility criteria, grant values and payment cycles set by central government; these varied between sub-schemes. Eligibility was primarily based on whether businesses had had to close or been severely affected by COVID-19 restrictions. The value of grants were tied to the ratings value of business property. Local authorities had more flexibility about payments to businesses severely affected but not required to close.
	Additional Restrictions Grant	October 2020	Local authorities had extensive discretion to decide eligibility criteria and grant value within very broad parameters set by central government. These varied somewhat between different tranches of funding, for example, authorities could allocate funding from all but one tranche to business support measures other than grants. The Department for Business, Energy & Industrial Strategy (BEIS) encouraged authorities to consider businesses not eligible for the other business support grant schemes in place at the time, for example because they were outside the business rates system.
	Christmas Support Payment	December 2020	Local authorities provided grants to businesses that met eligibility criteria set by central government. 'Wet-led' pubs in areas subject to Tier 2 or 3 restrictions in December 2020 were eligible for grants of £1,000.
Cohort 3	Restart Grant	March 2021	Local authorities provided grants to businesses that met eligibility criteria set by central government. Non-essential retail businesses were eligible for one of three levels of grant (maximum £6,000). Hospitality, accommodation, leisure, personal care and gym businesses were eligible for one of three levels of grant (maximum £18,000). Eligibility for different grant values was determined by the rateable value of the business property. Where businesses had a mix of eligible and non-eligible services, authorities had to assess which was their main service to determine eligibility.
	Omicron Hospitality and Leisure Grant	December 2021	Local authorities provided grants to businesses that met eligibility criteria set by central government. Businesses in the leisure, hospitality or accommodation sectors as defined by government were eligible for one of three levels of grant (maximum £6,000) depending on the rateable value of their property. Where businesses had a mix of eligible and non-eligible services, authorities had to assess which was their main service to determine eligibility.

Notes

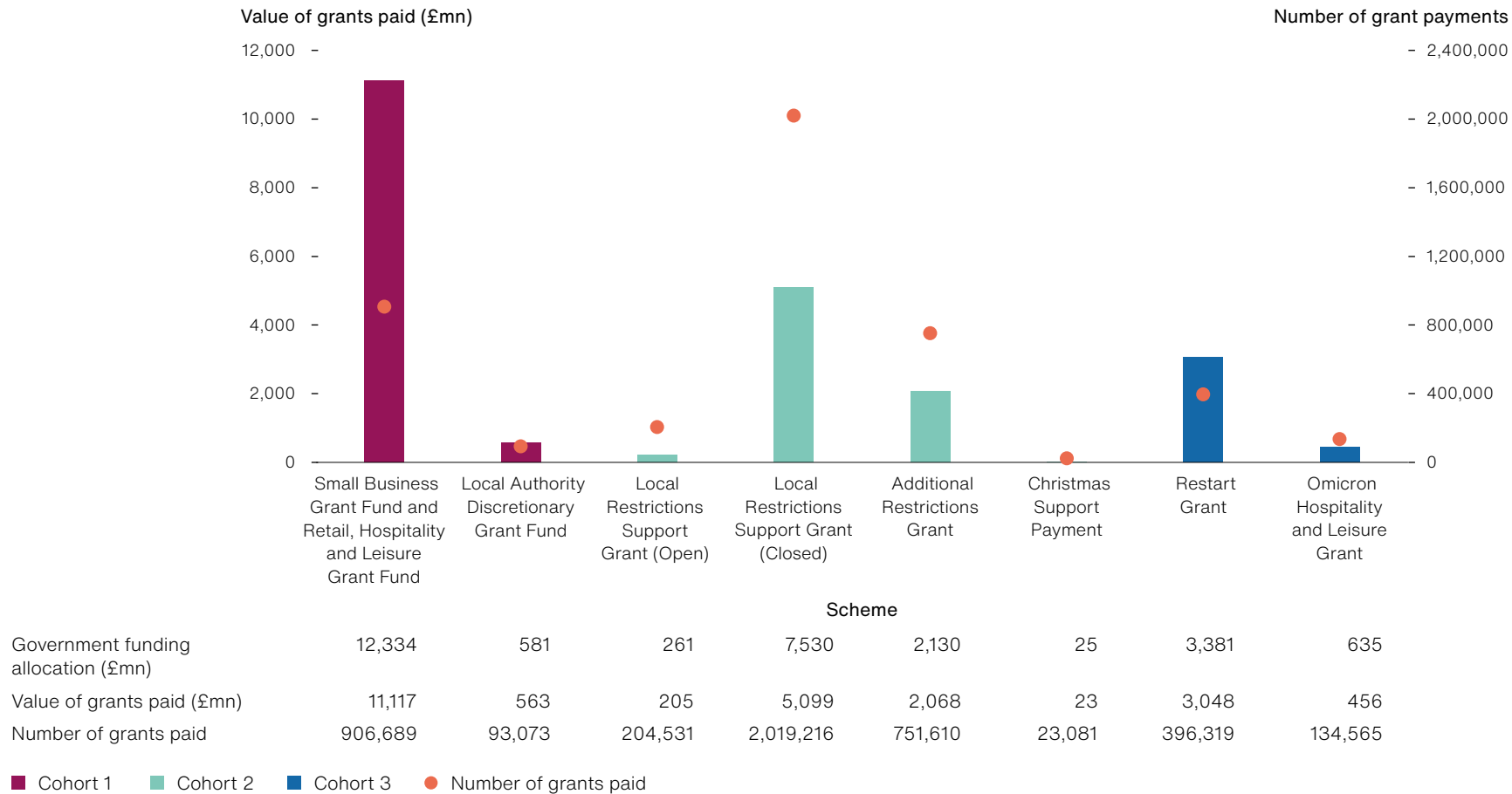
- 1 We have grouped the schemes into cohorts chronologically by the date of their announcement. Accordingly, this grouping may differ from other groupings, such as in BEIS's publications, that group the schemes by their end date or by the timing of assurance work on the schemes.
- 2 For Local Restrictions Support Grant, the month given is the earliest announcement of a constituent sub-scheme; the last sub-schemes were announced in January 2021.
- 3 A wet-led pub primarily derives its income from the sale of drinks, rather than the sale of food.

Source: National Audit Office analysis of government announcements and Department for Business, Energy & Industrial Strategy documentation

Figure 4

Value of COVID-19 business grants paid and number of payments made

More than half of the total value of grants paid came through the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund



Notes

- 1 We have grouped the schemes into cohorts chronologically by the date of their announcement. Accordingly, this grouping may differ from other groupings, such as in BEIS's publications, which group the schemes by their end date or by the timing of assurance work on the schemes.
- 2 The Local Restrictions Support Grant sub-schemes have been grouped into either Open or Closed; the latter includes the sub-schemes for the January 2021 lockdown.
- 3 The government funding allocations represent the government's initial provision of funding to local authorities, based on an estimate. For some schemes, the government recognised that individual authorities may need to spend more or less than their initial allocations, depending on the number of eligible businesses in their area.

Source: National Audit Office analysis of data published by the Department for Business, Energy & Industrial Strategy. Available at: www.gov.uk/government/publications/coronavirus-grant-funding-local-authority-payments-to-small-and-medium-businesses

Roles and responsibilities

1.7 HMT had overall fiscal responsibility for determining how government would support businesses through the COVID-19 pandemic. It took decisions on the grant schemes in the context of the overall support being provided by government to businesses (Figure 2). For the grant schemes, HMT determined the high-level eligibility criteria, the quantum of support and made the initial announcement in each case.

1.8 BEIS was responsible for translating the schemes announced by HMT into operational programmes and allocating the funding to local authorities to support local grant payment. This role included developing and issuing detailed guidance for local authorities on how the schemes should work, including checks and controls. BEIS was also responsible for leading and coordinating post-payment assurance work (an extensive sample-testing exercise which was used to develop estimates of the levels of error and fraud in grant payments) and the reconciliation process by which local authorities identified unspent funding that needed to be returned to central government. Implementation of the schemes was initially assigned to the Cities and Local Growth Unit, a joint unit comprising BEIS and DLUHC officials. It later transferred, in autumn 2021, to a unit within BEIS.

1.9 BEIS's Accounting Officers sought and obtained ministerial directions to go ahead with the first three grant schemes.^{6,7} In doing so the Accounting Officer at the time recognised that some types of businesses would be exposed to substantial disruption because of the COVID-19 pandemic, leading to "immediate financial pressures". They concluded that it was not possible to demonstrate that the grants were likely to represent value for money noting: "at this point in time, and using available information, any assessment will be comparing immeasurable and unknown benefits against significant and known costs. This means that it is not possible to demonstrate reliably the economic impact that this proposal can be expected to have". Specifically the Accounting Officer identified two key risks to value for money posed by the two main cohort 1 schemes:

- A portion of the grants would go to businesses where they would achieve no economic benefit. Some recipient businesses would have survived without a grant and others that received grants would still fail, despite the additional funding;
- The speed with which the first two schemes were being launched created additional risks to taxpayers as it was unlikely that local authorities would be able to administer the schemes effectively and without errors.

6 An accounting officer will seek a direction from a minister to proceed with expenditure when the accounting officer concludes that it does not meet one or more of the accounting officer standards: regularity; propriety; value for money; and feasibility. More details about ministerial directions are set out in HM Treasury's Managing Public Money available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1089622/MPM_Spring_21_with_annexes_040322_1_.pdf

7 Ministerial directions were not sought for the subsequent schemes.

1.10 A group of local authorities across England (314 for the initial schemes) were responsible for assessing which businesses were eligible for grants in line with the guidance and for paying them. The scheme rules issued by BEIS gave local authorities, over the course of the pandemic, varying degrees of discretion in deciding which types of business should receive grants. Local authorities tended to allocate responsibility for implementation to their business rates teams, primarily because HMT criteria for early schemes used eligibility for specific business rate reliefs to determine grant eligibility and rateable value to determine grant amount. In addition to contributing to the post-payment assurance work, local authorities have primary responsibility for recovering grants paid out because of error or fraud and completing reconciliations to identify and return to central government any unspent funding.

Scope of the report

1.11 This report examines the government's set-up and delivery of these grant schemes against the backdrop of the COVID-19 pandemic. In particular we looked at: how BEIS considered, and looked to mitigate, risks when designing and introducing the schemes; the steps it took to develop its understanding of risks over time and the changes it made to its approach as a consequence; and how it is considering the impact of these schemes. In assessing BEIS's and HMT's performance we are looking to identify lessons the government can take forward to prepare for its response to future emergencies.

Part Two

Managing delivery and risk

2.1 This part examines the Department for Business, Energy & Industrial Strategy's (BEIS's) establishment and delivery of the grant schemes, in particular:

- whether BEIS and HM Treasury (HMT) met their objective to get money to businesses quickly at the start of the COVID-19 pandemic;
- whether the roll-out of the later schemes learned lessons from the initial roll-out;
- whether the risk of error and fraud was managed adequately;
- whether there are lessons to be learned from how BEIS and HMT worked with local authorities; and
- whether BEIS (and the Department for Business and Trade (DBT), now responsible for these schemes) and HMT have evaluated the longer-term impact of the schemes.

(a) Whether BEIS and HMT met their objective to get money to businesses quickly at the start of the pandemic

2.2 In late February 2020 HMT asked BEIS to begin preparing plans for a grant scheme to support small businesses affected by the spread of COVID-19. On 11 March as part of the Budget the government announced that there would be a Small Business Grant Fund (SBGF) in England payable by local authorities to all businesses in receipt of small business rate relief or rural rate relief in the business rates system. On 17 March, the government announced that the grants available through the SBGF would be increased from £3,000 to £10,000. The government also announced the establishment of a second grant scheme in England, the Retail, Hospitality and Leisure Grant Fund (RHLGF). This would pay £10,000 to eligible businesses with a property that had a rateable value of up to and including £15,000, and £25,000 to businesses with a property with a rateable value of more than £15,000 and less than £51,000.

2.3 The grants were partly intended to support businesses' cash-flow to help prevent them from becoming insolvent. HMT and BEIS ministers were therefore very keen to see them paid to businesses quickly. By 15 March 2020 ministers were asking BEIS officials for local authorities to be ready to "hit the button" to release funding by 6 April given that some businesses were already thought to be in difficulty.

2.4 The establishment of the schemes posed a substantial challenge for both BEIS and the 314 local authorities involved across England. BEIS and local authorities were having to establish the schemes from scratch in minimal time, and local authorities only became aware of the schemes when the public announcements were made by ministers. This was at a time when BEIS and local government were also grappling with the other impacts and uncertainties posed by the unfolding pandemic.

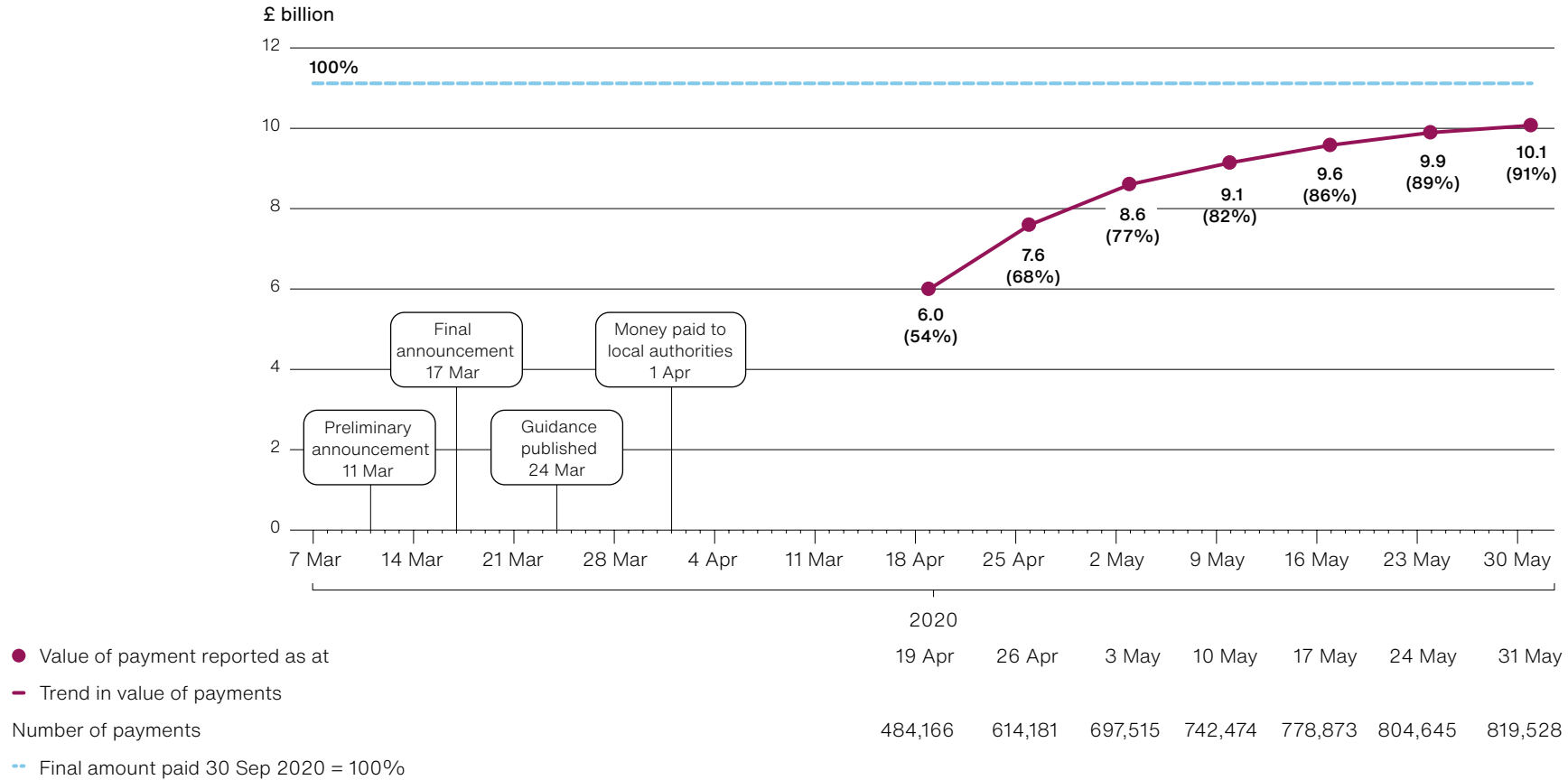
2.5 Our analysis shows that BEIS and local authorities reacted very quickly to pay out large sums in a short space of time. There were no contingency plans between central and local government on how to set about providing support to businesses of all kinds in a nationwide emergency. BEIS issued guidance for both schemes on 24 March 2020 and by 1 April had transferred funds to local authorities. By 19 April, the first point at which progress was reported to BEIS, local authorities had made 484,000 payments totalling £6 billion (**Figure 5** overleaf), accounting for 54% of the eventual pay-out from these two schemes. By 24 May, two months after the guidance was published, £9.9 billion (89%) had been paid out in 805,000 payments.

2.6 The rate at which local authorities were able to pay the grants varied but most were able to act quickly. BEIS did not set a specific target for disbursing the monies but local authorities were under significant pressure to make payments. In mid-April the BEIS Secretary of State stated that it was "not unreasonable" to expect all payments under the first two schemes to be made by the end of the month. HMT officials informed us that their main focus was on how quickly local authorities could disburse the first two-thirds of the money, as they recognised the last third would include the more marginal or riskier decisions. Our analysis suggests that more than 80% of local authorities had disbursed more than two-thirds of the money due to eligible local businesses by 10 May 2020 (**Figure 6** on page 23). It is not possible to determine how many businesses failed due to some businesses not getting support until later. BEIS was not aware of any significant negative impacts.

Figure 5

Set-up dates and early payment data for the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund

Local authorities paid more than two-thirds of the money for these grants within four weeks of receiving funding from government



Notes

- Government's preliminary announcement on 11 March 2020 was of an initial version of the Small Business Grant Fund. The final version was announced on 17 March 2020, with the Retail, Hospitality and Leisure Grant Fund announced alongside it. Guidance for the two schemes was published simultaneously on 24 March 2020. Payment of allocated funding was made by government so that money would arrive in local authority bank accounts on 1 April 2020.
- Local authorities had until 30 September 2020 to make payments, six months after they received funding. Percentages are calculated in relation to the total payments made by 30 September rather than the larger amount initially allocated by government.
- Payment information is only available for both schemes together, rather than individually.

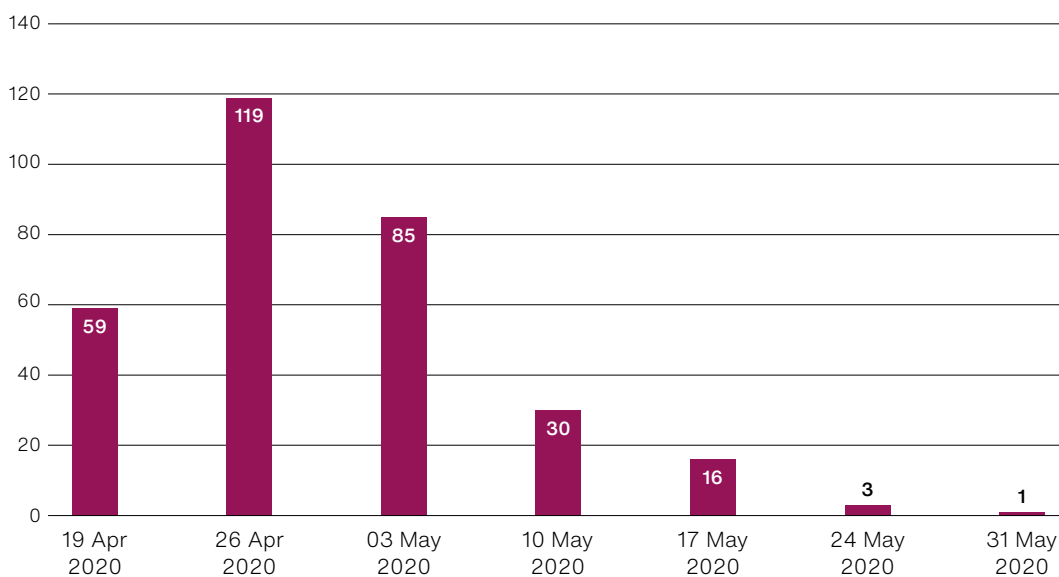
Source: National Audit Office analysis of government data, documents and announcements

Figure 6

Date at which local authorities first reported having made more than two-thirds of payments by value under the first COVID-19 business support grant schemes

While local authorities varied in the speed with which they paid out most payments, more than 80% had done so by 3 May 2020

Number of authorities first reporting a payment level above two-thirds of the value of eligible payments



Dates of payment information in local authority returns to Department for Business, Energy & Industrial Strategy (BEIS)

Notes

- 1 The first COVID-19 business support grant schemes, in terms of both announcements and payments, were the Small Business Grants Fund and the Retail, Hospitality and Leisure Grants Fund, which were in operation from March to September 2020.
- 2 Value of eligible payments: when the schemes ended on 30 September 2020 authorities reported the total value of eligible payments in their area, based on the eligible businesses they had identified by that point (whether from existing records, being approached by businesses or other methods). Authorities did not necessarily manage to pay all businesses they identified as eligible before the schemes closed.
- 3 314 local authorities were involved in delivering these two schemes but, due to a data issue, 313 authorities are included in these calculations.

Source: National Audit Office analysis of data published by the Department for Business, Energy & Industrial Strategy

2.7 Local authorities gave us several reasons why the delivery of grants did not always happen as quickly as government had initially expected. These factors were indicative of the many practical challenges local authorities faced in getting money allocated quickly. For example:

- the schemes affected local authorities differently because their local business populations differed. Analysis published by the Institute for Fiscal Studies found that the proportion of properties potentially eligible for small business rate relief varied between less than 40% in some authorities to more than 80% in others.
- given the link to business rates, the first schemes were generally delivered by business rates teams; however, these teams were geared up for collecting money from businesses rather than giving it out and needed to substantially re-model their processes and systems.
- where companies paid their business rates by direct debit, authorities had their bank account details and were able to make payments simply and securely. For other businesses, authorities needed either to seek account details or decide on using other payment routes; and
- where no payments were due in relation to a property, for example because of 100% small business rate relief for its occupiers, businesses had limited incentive to inform the authority about changes of ownership, meaning that information about such properties and their occupiers could be inaccurate.

(b) Whether BEIS learned lessons to better prepare for later schemes

2.8 The government lifted the requirement in England to stay at home in June 2020 although restrictions remained in place throughout the summer of 2020 in various forms, such as limiting gatherings to groups of six, and later 30 people. However, an increasing number of areas, starting in July with Leicester and parts of Leicestershire, were subject to stricter local restrictions. National restrictions began to be tightened again in September, alongside announcements about the first of what became a second cohort of COVID-19 business grant schemes. A new tiered system of restrictions was introduced in mid-October and a second national lockdown imposed in November 2020.

2.9 BEIS made no substantive changes as to how it oversaw the delivery of the grant schemes ahead of the second cohort. Responsibility for delivering the first cohort of schemes lay with the Cities and Local Growth Unit (the Unit), a joint BEIS/ DLUHC (Department for Levelling Up, Housing & Communities) unit. BEIS remained responsible for the monies paid out. Officials working at the start of the pandemic informed us that no more than 20 full time equivalents from the Unit were working on the grants at any one time. The initial emergency, which had required action from BEIS across a number of fronts, had left no time to establish a programme board to support the COVID-19 business grant programme. The delivery of the programme had taken place through the existing line management chain. The scale and nature of the challenges had made very significant demands on staff in the Unit and had tested BEIS processes significantly beyond their normal capacity.

2.10 BEIS informed us that no significant scenario-planning took place during summer 2020. There was still uncertainty over how the pandemic might develop. Officials informed us that ministers had wanted to see how the epidemiology went rather than engage in scenario-planning around further support with a risk that schemes, might be started prematurely.

2.11 As COVID-19 infection numbers began to rise in the autumn of 2020 the government sought to take a more targeted approach to imposing restrictions and BEIS and HMT sought to be more targeted with the support they offered to business. BEIS and HMT were again having to react to a rapidly changing situation, with policy evolving significantly as the government moved from local restrictions to the introduction of tiers across England. Given this BEIS's administration of the schemes struggled to keep pace with the announcement of new schemes. For example, initial guidance for a single Local Restrictions Support Grant scheme was published 15 days after the initial announcement but was later replaced by guidance for similar schemes, each with significant scheme changes. As a result, it took longer than it had for the first cohort for BEIS to finalise scheme details and for local authorities to have access to relatively stable guidance. (**Figure 7** on pages 26 and 27).

2.12 The cohort 2 schemes were targeted but proved to be much more complex to manage than the cohort 1 schemes. The cohort 2 schemes targeted support in relation to a more complex set of restrictions (in particular, two versions of tiering) than the first national lockdown. BEIS introduced eligibility criteria which used definitions that were not restricted to business rates, with some criteria not always easy to define. Mandatory schemes were short-term, ceasing to apply as restrictions changed. As a result, multiple sub-schemes each with different scheme rules were launched within a short period of time: BEIS published initial guidance for eight schemes or sub-schemes in just over five weeks. In addition, payments for several sub-schemes were now made for each fortnight the restrictions were in place, greatly increasing the number of payments local authorities made (Figure 4).

Figure 7

Days between initial announcements of COVID-19 business support grant schemes and publication of guidance, ordered by date of announcement

The COVID-19 business support grants announced in early autumn 2020 had the longest period before the subsequent publication of scheme guidance

COVID-19 business support grant schemes

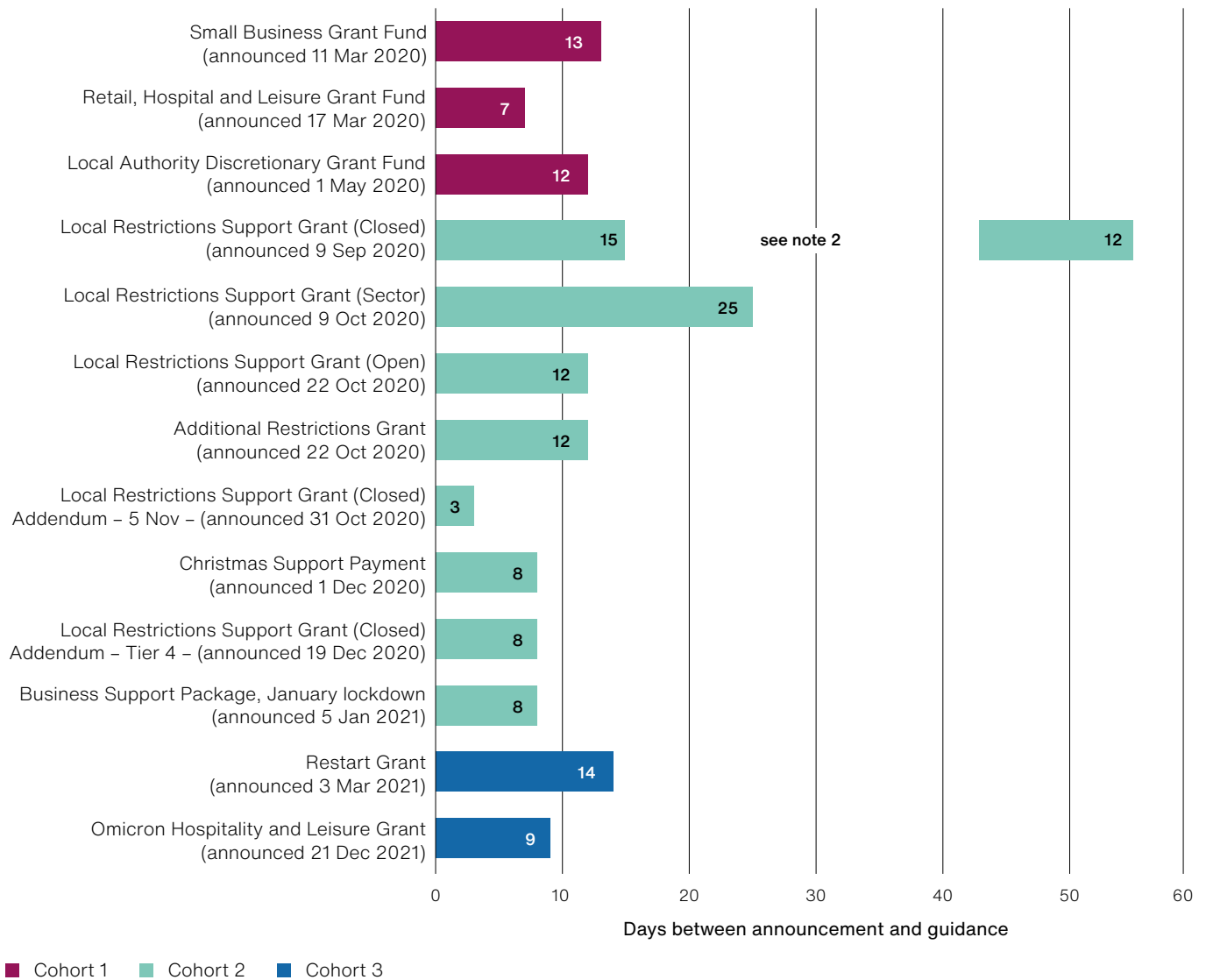


Figure 7 *continued*

Days between initial announcements of COVID-19 business support grant schemes and publication of guidance, ordered by date of announcement

Notes

- 1 This chart uses the date of publication on GOV.UK as the date of guidance publication. By date of announcement, we mean ministerial announcements that either mention the changes to business support grants, or announce the changes to restrictions that caused the new forms of business support grants.
- 2 The chart includes some sub-schemes within the umbrella of the Local Restrictions Support Grant scheme. We have treated the initial Local Restrictions Support Grant guidance published on 24 September 2020 as a predecessor to the Local Restrictions Support Grant (Closed) guidance published on 3 November 2020: most of the funding covered by the initial guidance was aimed at a similar business population to the later guidance, although there were differences in the frequency of grants, the level of grants, and the rateable value thresholds.
- 3 While elements of 24 September 2020 guidance are relevant to Additional Restrictions Grant and Local Restrictions Support Grant (Open), we have used the dates of later, more specific announcements for these.
- 4 We have grouped the schemes into cohorts chronologically by the date of their announcement. Accordingly, this grouping may differ from other groupings, such as in the Department for Business, Energy & Industrial Strategy's publications, which group the schemes by their end date or by the timing of assurance work on the schemes.

Source: National Audit Office analysis of documents published by the Department for Business, Energy & Industrial Strategy

2.13 All of this increased the demands on the BEIS team, whose governance and capacity had not altered significantly from the emergency response in the spring, and on local authorities who had to firstly understand and then administer the schemes. In addition, businesses had to keep abreast of the changing support rules and how they might affect them, including businesses that might have multiple premises covered by different restrictions and hence schemes. Local authorities informed us they faced pressure for consistency from trade associations or businesses with multiple premises, both in relation to discretionary schemes and where authorities had had to use their judgement on points where government guidance was silent. BEIS informed us that some of the issues became quite specific; for example, whether dog grooming businesses were eligible for support.

2.14 In light of the multiplying pressures, BEIS commissioned its own review of the business support schemes in early 2021. In February 2021 the review conducted by officials, with support from consultants, identified inadequate resourcing of the BEIS team, a lack of formal programme governance, a lack of robust programme management, a lack of documented end-to-end process and a lack of formal assurance mechanisms. BEIS quickly improved programme management and governance. For example, it established a COVID-19 business grants programme board in February 2021 and included HMT and local authority representatives from March. Other improvements, such as increasing staffing and developing a digital platform to make it easier for authorities to provide detailed information to BEIS, took longer and some were not completed until late 2021.

2.15 In early 2021 BEIS, working with HMT, began to prepare plans for a potential third wave of support schemes. BEIS and HMT officials informed us they had sought to learn lessons from cohort 2. Officials advised ministers to prioritise scheme delivery over minimising costs for future schemes. For example, within cohort 3 a single Restart Grant scheme was set up to cover the different stages of the road map for reopening, with upfront payments made on the basis of BEIS's expectations about what would happen. This meant the government accepted a greater possibility of providing some funding to businesses that might prove not strictly necessary. However, HMT informed us they felt this was balanced by the scheme guidance being tightened to include mandatory pre-payment checks.

(c) Whether the risk of error and fraud was adequately managed

2.16 In October 2022 BEIS estimated that error and fraud across all the COVID-19 business grant schemes totalled in the region of £1.1 billion, just under 5% of the value of grants paid to businesses (**Figure 8**). The latest figures suggest that around 90% of the losses are attributed to payments made under the cohort 1 schemes. While work is not complete, error and fraud under the cohort 2 and 3 schemes are now estimated to be much lower. BEIS's estimates have been based on taking a sample of payments and performing a series of checks; this sampling approach was not designed to produce separate estimates for fraud and for error. Separate to this, DBT informed us that it had been notified of 1,900 cases classified by local authorities as either fraud (17% by value) or error (83% by value), totalling £11.7 million.⁸ These data have a number of limitations (see Appendix One) but are the best available evidence on the balance between error and fraud in the business grant schemes.

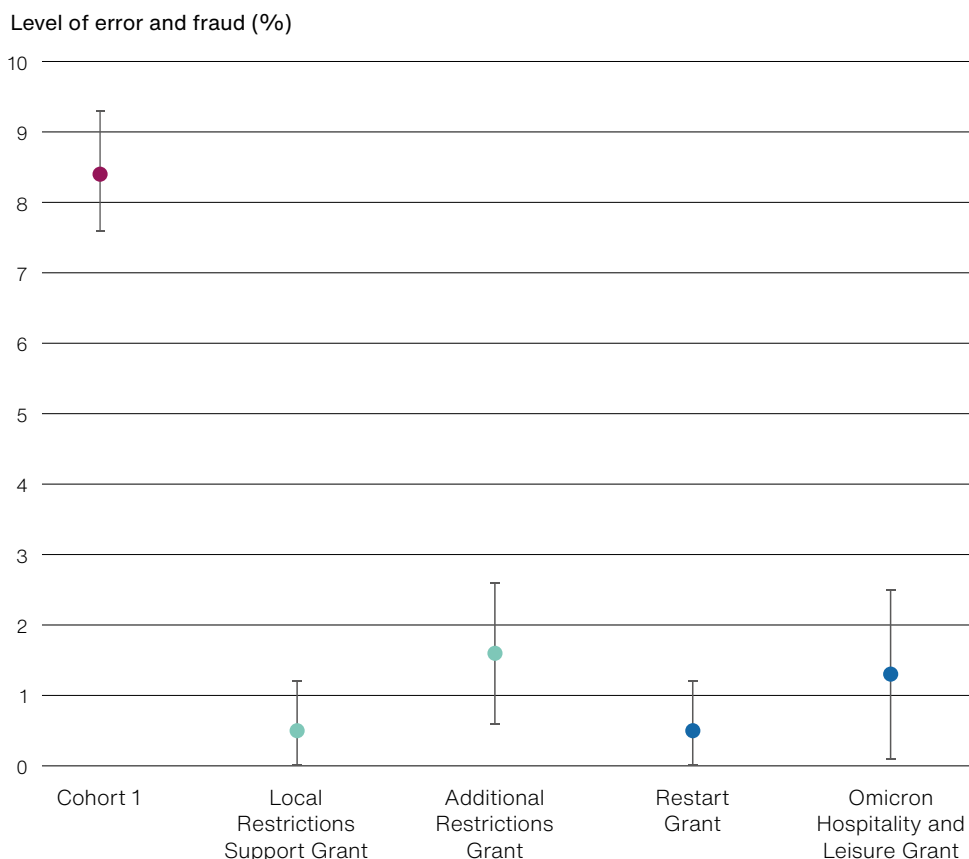
2.17 BEIS and local authority officials attributed the greater error and fraud associated with the cohort 1 schemes to the decision to waive the requirement for pre-payment checks on grant recipients and shortcomings (for this purpose) in the data held by local authorities during the initial stages of the pandemic. The guidance issued by BEIS for the first two COVID-19 grant schemes did not require pre-payment checks to be made. BEIS and HMT considered the trade-off between speed and the required level of pre-payment checking before ministers took decisions on the initial schemes. Both departments were aware that dropping pre-payment checks increased the risk of losses.

⁸ These are cases where local authorities have either told DBT that they have recovered the grant payments or they have referred the cases to DBT as they have tried to recover the payments without success. The information was provided in mid-February 2023.

Figure 8

Central estimates for error and fraud, with confidence intervals, by cohort or scheme

Department for Business, Energy & Industrial Strategy (BEIS) estimates indicate that error and fraud were much higher in the early schemes than in later schemes



	Cohort/scheme				
Central estimate (%)	8.4	0.5	1.6	0.5	1.3
95% confidence range (%)	7.6 to 9.3	0 to 1.2	0.6 to 2.6	0 to 1.2	0.1 to 2.5
Sample size	4,476	587	626	555	392
Central estimate value (£mn)	985	27	34	16	6
95% confidence range, value (£mn)	890 to 1,079	27 to 63	12 to 56	0 to 38	0 to 12

● Cohort 1 ● Cohort 2 ● Cohort 3

Notes

- 1 We have grouped the schemes into cohorts chronologically by the date of their announcement. (This grouping may differ from other groupings, such as in BEIS’s publications, that group the schemes by their end date or by the timing of assurance work on the schemes.) Cohort 1 consists of the first three schemes to be announced: the Small Business Grant Fund, the Retail, Hospitality and Leisure Grant Fund and the Local Authority Discretionary Grant Fund.
- 2 The estimates presented have been derived by BEIS from work on samples of grant payments. For more detail on the approach to sampling, see BEIS’s 2021-22 Annual Report and Accounts.
- 3 The cohort 1 figures are BEIS’s final estimate. For the cohort 2 and 3 schemes, the figures are initial estimates based on parts of the relevant samples. These estimates will continue to be refined as work on the remainder of the full samples is completed. BEIS has not produced an initial estimate of fraud and error for the Christmas Support Payment; a final estimate is expected once the work on the full sample is complete.

Source: National Audit Office presentation of information in the Department for Business, Energy & Industrial Strategy’s 2021-22 Annual Report and Accounts

2.18 BEIS and DLUHC staff working on the early schemes had limited access to counter-fraud capacity. At the start of the pandemic the BEIS counter-fraud team consisted of two permanent staff and a fast-streamer on rotation. Officials informed us that DLUHC's counter-fraud capability was also limited, as counter-fraud responsibility rested largely with local authorities. They reported that the inability to quantify the risk of error and fraud at the start of the first schemes was a significant reason for requesting the ministerial directions (paragraph 1.9). The government counter-fraud function in the Cabinet Office (now the Public Sector Fraud Authority) assessed the July 2020 fraud risk assessments for the initial cohort 1 schemes against the government counter-fraud profession's measurement standard. The schemes were rated as 'Not meeting the standard', for reasons including a lack of clarity and detail.

2.19 At the point the initial schemes were set up, BEIS and HMT officials had expectations that the data held by local authorities on businesses, such as bank details and payment history, would help to reduce the risk of error and fraud. These expectations were not always borne out in full as, in practice, there were categories of business where local authorities either did not have for example bank details, or where the information held was out-of-date. Officials involved in these early decisions were clear that the level of unanticipated data issues was not sufficient to invalidate the choice of local authorities over other delivery routes as, for example, a BEIS-led application process could have involved significant fraud risks.

2.20 The drop in the estimated error and fraud over the course of the pandemic can be attributed to several factors. BEIS guidance to local authorities on the controls to be applied became progressively stronger over the course of the pandemic (**Figure 9**). Pre-payment checks for all grants moved from not being mentioned in the BEIS guidance for newly-launched schemes, to being mentioned, to being recommended, to being mandated. Local authorities informed us that data they held on local businesses had also improved over the course of the pandemic, in terms of both completeness and being up-to-date. In addition, local authorities that had relied on manual payment processes at the start of the pandemic were later able to put in place automated systems and so were better placed to spot duplicate payments and other potential sources of error.

Figure 9

Selected controls in the initial scheme guidance for the first grant schemes of each cohort

Controls became stronger from one cohort to the next, with the guidance becoming more detailed and containing more mandatory elements

Controls for first schemes in each cohort	Application process	Universal pre-payment checks	Consideration of state aid/ subsidy control	Use of online tools
Cohort 1	Not required	Not mentioned	Specific guidance to “be issued shortly”	Spotlight tool “available”
Cohort 2	Not required	Mentioned but not required; authorities “should” develop their own assurance plans	Local authorities must be satisfied that requirements have been fully complied with when making payments	Use of digital tools “encouraged” and use of Spotlight “strongly recommended”
Cohort 3	Required for new grant recipients	Pre-payment company and bank account checks required for all recipients	Local authorities must be satisfied that conditions have been fully complied with when making payments	Use of Spotlight (or an equivalent tool) required

Notes

- 1 We have grouped the schemes into cohorts chronologically by the date of their announcement. Accordingly, this grouping may differ from other groupings, such as in BEIS’s publications, that group the schemes by their end date or by the timing of assurance work on the schemes.
- 2 In each case we have used the first version of the guidance published on GOV.UK.
- 3 The first schemes in cohort 1 were the Small Business Grant Fund and Retail, Hospitality and Leisure Grants Fund, with guidance first published on 24 March 2020. The first schemes in cohort 2 were the Additional Restrictions Grant and four sub-schemes: Local Restrictions Support Grant (Open) v1, Local Restrictions Support Grant (Closed) v1, Local Restrictions Support Grant (Sectors) and Local Restrictions Support Grant (Addendum) 5 November to 2 December 2020, with guidance first published on GOV.UK on 3 November 2020. The first scheme in cohort 3 was the Restart Grant, with guidance first published on 17 March 2021.
- 4 The subsidy control regime (prior to 4 January 2023, the state aid regime) is intended to ensure that UK public authorities give subsidies that minimise distortion to competition and comply with international obligations.
- 5 Spotlight is the government’s ‘online automated due-diligence tool’ for issuing grants. It can run pre-award checks on batches of applicants and reduces the risk of fraud.

Source: National Audit Office analysis of guidance published by Department for Business, Energy & Industrial Strategy

Following up error and fraud

2.21 HMT guidance states that accounting officers should take steps to detect error and fraud and recover payments, as well as estimate the scale of the problem.⁹ BEIS began considering how to complete its post-payment assurance activities as early as May 2020. These activities involved selecting a sample of payments made by local authorities to test whether they conformed to the guidance BEIS had issued. The initial plan had been to start implementing this in autumn 2020 for cohort 1, but because of the pressures on both BEIS and local authorities created by the cohort 2 schemes, the start of assurance work was delayed until the end of March 2021. Completing the cohort 1 assurance work proved challenging due to both a lack of clarity in the scheme guidance and problems with the initial instructions given to local authorities regarding the assurance checks. Accordingly, work on the cohort 1 assurance activities continued until May 2022.

2.22 Separately, in spring 2021, the National Fraud Initiative (NFI), a unit within the Cabinet Office with specific legal powers to access data, worked with BEIS to design an exercise that collected cohort 1 information from local authorities and carried out a data-matching exercise to identify potential cases where companies received multiple grants they were not entitled to, or where fraudsters impersonated genuine businesses to access grants. The NFI collected similar information about later grants in spring 2022 to enable further datamatching.

2.23 BEIS and local authorities have thus far made little progress in recovering grants paid out because of error and fraud. BEIS required local authorities to pursue any error and fraud they identify arising from payments they have made, at a minimum by writing three times to the grant recipient. However, all recovered monies must be paid back to central government. This means local authorities have no financial incentive to make efforts to identify losses beyond those contained within the BEIS-directed samples used to derive the estimates (Figure 8) or to make recovery efforts beyond the minimum. Cases are referred to BEIS (now DBT) when authorities have taken at least the minimum steps and been unable to reclaim funding. By mid-February 2022, local authorities had reported recovery of £12.9 million paid out because of error and fraud, with £11.4 million of this already repaid to DBT. Local authorities had referred cases worth a further £6.0 million to DBT to consider for referral to its recovery and litigation contractor. No money had yet been recovered by the contractor.

9 HM Treasury, *Managing Public Money*. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1089622/MPM_Spring_21_with_annexes_040322_1_.pdf

(d) Whether there are lessons to be learned from how BEIS and HMT worked with local authorities

2.24 Irrespective of the speed with which a new policy has to be implemented it is usually important that public bodies draw on implementation and delivery expertise when designing policies. We have previously found a mixed picture in relation to this during the pandemic. Our work on the development of employment support schemes found that policy and operational staff in HMT and HM Revenue & Customs worked closely together to ensure that policy choices were feasible.¹⁰ However, our work on test and trace reported concerns that central bodies and their contractors had not drawn on local authorities' existing experience or engaged sufficiently with local government and public health experts about the practicalities of implementing these services.¹¹

2.25 Local authorities reported to us that there was often little (BEIS and HMT did consult on a confidential basis with a small number of local authorities) or no engagement from BEIS or HMT prior to new COVID-19 grant schemes being announced. The public announcement of schemes with no warning to local authorities and no indication of the timescales involved meant that local authorities very quickly faced multiple queries from local businesses at a point when they had not received any guidance. Local authorities we spoke to reported that these queries absorbed staff time at a point when they themselves were trying to understand the nature of the task asked of them and to mobilise. Business representatives reported that the lack of clear advice when schemes were launched was often frustrating.

2.26 To inform local authorities about the schemes, BEIS ran, amongst other things, a number of regular webinars and Q&A for a significant period of time, followed up by FAQs. Local authorities told us about periods when they were unable to get timely answers to their queries from BEIS, for example, with no response to some emails. BEIS recognised this issue in its 2021 review. In response, it created a dedicated team of relationship managers to improve its ability to support and work with local authorities.

2.27 HMT had taken the lead role in deciding the key features of each of the COVID-19 grant schemes. Its decisions on the schemes had involved some engagement with other bodies such as BEIS before announcements were made, but little or none with local authorities or other bodies outside central government. At the point of the initial public announcements, the overall parameters of the schemes would be set, such as the size of grants (or level of funding, in discretionary schemes) or the sectors covered. BEIS officials described their department as a "policy taker" from HMT and reported that they would receive as little as a couple of days' warning of announcements. Even when they received advance warning they were not allowed to share this information.

¹⁰ Comptroller and Auditor General, *Implementing employment support schemes in response to the COVID-19 pandemic*, Session 2019-2021, HC 862, National Audit Office, October 2020, paragraph 1.5.

¹¹ Comptroller and Auditor General, *The government's approach to test and trace in England – interim report*, Session 2019-2021, HC 1070, National Audit Office, December 2020, paragraph 7.

2.28 BEIS informed us that it started working with local authorities as soon as announcements were made. However, the combination of limited notice and the pressure for speed meant that guidance for the schemes was published when not fully developed. As a result, guidance for the schemes often required multiple later updates to take account of experience and changes to regulations (**Figure 10**).

Figure 10

Scheme guidance and Frequently Asked Questions (FAQs) for local authorities in relation to COVID-19 business support grant schemes

The greatest number of guidance documents and other documents providing answers to FAQs were prepared in respect of schemes launched from autumn 2020 to January 2021 (Cohort 2)

Scheme	Versions of scheme guidance	FAQ documents
Cohort 1		
Small Business Grant Fund/Retail, Hospitality and Leisure Grant Fund	6	5
Local Authority Discretionary Grant Fund	3	4
Cohort 2		
Local Restrictions Support Grant (nine sub-schemes)	30	12
Additional Restrictions Grant (longest-running scheme)	9	12
Christmas Support Payment	2	2
Cohort 3		
Restart Grant	2	5
Omicron Hospitality and Leisure Grant	3	2

Notes

- 1 We have grouped the schemes into cohorts chronologically by the date of their announcement. Accordingly, this grouping may differ from other groupings, such as in the Department for Business, Energy & Industrial Strategy's publications, which group the schemes by their end date or by the timing of assurance work on the schemes.
- 2 The Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund were always covered together in the documents, and have been counted together. Otherwise, the number of documents cannot be summed across schemes, as some documents (particularly FAQs) dealt with more than one scheme.
- 3 Given the short period during which they were published, and the extent to which delivery overlapped, we have grouped the documents dealing with the Local Restrictions Support Grant sub-schemes. Of the 30 guidance documents, four dealt with two sub-schemes in the same document. For the rest, each document dealt with a single sub-scheme. The FAQs commonly covered multiple sub-schemes in the same documents.
- 4 For scheme guidance, we have examined documents published on GOV.UK. Scheme FAQ documents were circulated to local authorities but were not otherwise made publicly available by government; we have drawn on material provided to us.

Source: National Audit Office analysis of Department for Business, Energy & Industrial Strategy's published and unpublished documents

2.29 While some potential delivery issues were reflected in the ministerial directions, aspects of the design of the schemes, and government expectations about what could be achieved by when, suggest insufficient early input from officials or stakeholders with delivery expertise and knowledge of the capacity and capabilities across local authorities. For example:

- BEIS and HMT underestimated the extent to which authorities did not have up-to-date details on all the businesses in their area;
- local authorities varied significantly in terms of the capacity and capabilities they had in place from the start to meet the government’s expectations. Some local authorities were particularly critical of BEIS publishing data which allowed local authorities to be ranked by the proportion of allocated funds they had paid out. They pointed out that some authorities had been allocated funding for more businesses than were eligible and others less, making this an inaccurate measure of performance; and
- the announcement of the December 2020 Christmas Support Payment for ‘wet-led’ pubs did not contain a definition of ‘wet-led’ that supported straightforward implementation. The scheme also presented local authorities with the challenge of differentiating ‘pubs’ from other licensed premises.

2.30 Local authorities we spoke to were appreciative of the new burdens funding provided by government for delivering the grants, which they generally felt was an appropriate amount. The £142 million funding that authorities received for delivering the grant schemes during 2020-21 was 35% greater than the amount that authorities reported spending on collecting business rates in 2019-20, pre-pandemic. This illustrates the scale of the administrative task posed by the COVID-19 grant schemes.¹²

(e) Whether BEIS and HMT have evaluated the impact of the support provided to business

2.31 At the start of the pandemic HMT and BEIS were operating in the midst of great uncertainty about the scale and potential impact of the pandemic on economic activity. HMT informed us that decisions on the nature and quantum of support to be provided had to be taken with limited robust data on how the financial health of different sections of the economy might be affected by the restrictions. Against this backdrop the BEIS’s Accounting Officer noted in the letters seeking a ministerial direction (paragraph 1.9) that the benefits of the initial schemes were unknown and that it was certain that a portion of the funding would go to businesses that did not need it or businesses that would close even after they received help. Local authorities reported to us concerns that, in their view, some of the mandatory support may have “over-compensated” some businesses while excluding others; although they acknowledged that discretionary funding given to them by BEIS had given them some ability to compensate businesses at risk of missing out.

¹² A further £68 million has been or is expected to be paid to support authorities for the administrative costs of grants they delivered during 2021-22, taking the total to £210 million.

2.32 The large scale of the COVID-19 business grant support - at a cost exceeding the budget for Crossrail - and the challenging circumstances in which decisions were made make it important that the economic and other impacts of the schemes are evaluated. In our 2021 report *Evaluating government spending* we commented that “Evaluation is important for learning whether government interventions are working and to demonstrate accountability for the use of public money... Its purpose is to provide insights into how an intervention has been implemented and what effect it had, for whom, how and why.”¹³ We therefore examined the extent to which BEIS and HMT were undertaking a thorough retrospective evaluation of the grant schemes to identify lessons to feed into future contingency planning and to help judge the schemes’ performance.

2.33 In November 2021, BEIS commissioned Ipsos (then Ipsos MORI) to undertake an evaluation of the COVID-19 grant schemes. After some delays, DBT, now responsible for the schemes, currently expects Ipsos to deliver a draft evaluation report in late spring 2023. The evaluation covers all the grant schemes apart from one which was announced after the terms of reference for the work had been set. The evaluation comprises three main strands:

- A process evaluation looking at how effectively BEIS supported local authorities in delivering the grant schemes;
- A quantitative assessment of how much the grants supported businesses during various stages of the pandemic and whether this represented good value for money; and
- Identifying what lessons can be learned from design and implementation to inform similar schemes in the future.

2.34 We reviewed Ipsos’s evaluation plan against a good practice framework we developed.¹⁴ We concluded that the proposed evaluation addressed the key issues in terms of both process and impacts, and that the methodologies proposed were appropriate to the questions being asked.

¹³ Comptroller and Auditor General, *Evaluating government spending*, Session 2021-22, HC 860, National Audit Office, December 2021, paragraphs 1.1-1.2.

¹⁴ National Audit Office, *Evaluating government spending: an audit framework*, good practice guidance, April 2022.

2.35 Evaluating the impact of the grant schemes will be complex. It will be challenging to distinguish the impact of the grants from the impact of the other support measures deployed by government and to assess how many businesses would have survived without financial help. The evaluation task is likely to have been made more difficult for reasons that were within the control of HMT and BEIS, for example:

- a** government did not set the precise aims of the grants - the grants were “intended to support businesses through challenging times”. As HMT and BEIS did not indicate how many businesses or jobs the grants were meant to support or at what cost, there are no clear criteria against which an evaluation can judge their performance against the original intention; and
- b** BEIS lacked data on which businesses received support for the cohort 1 grants which accounted for £11.7 billion (51.7%) of expenditure. The legal arrangements used to set up the cohort 1 grant schemes did not require local authorities to inform BEIS which businesses received grants, so BEIS did not know who was paid.

2.36 HMT informed us that it has no plans to evaluate the overall impact of government support to business, for example looking at the impact of support provided across departments and its own response to the emergency. It will consider the results of the evaluations of individual policy interventions, and encourages departments to look across the set of interventions they are responsible for. BEIS commissioned work bringing together the results of evaluations of all its COVID-19 interventions including for example the support provided through the various loan schemes. This work is expected to be completed by summer 2023. Work by individual departments will not include examination of how HMT set about supporting decision making on the overall COVID-19 support package and the lessons it can learn should it be required to respond to a future emergency of this type.

Appendix One

Our evidence base

1 Our independent conclusions on government's oversight of the locally administered COVID-19 business support grants were reached following our analysis of evidence collected primarily between September 2022 and January 2023. The expectations against which we have assessed government are set out in paragraph 5 of the report's main body.

Coverage of local authorities in this report

2 This report covers local authorities in England as bodies involved in delivering COVID-19 business support grants and therefore as sources of insight into government's oversight of the grant schemes.¹⁵ We do not assess or present evidence on the performance of individual authorities.

3 As grant scheme eligibility was significantly linked to values or categories within the business rates system (Figure 3), the main local authorities involved in delivery of the grants were 'billing authorities': those responsible for collecting business rates. There were 314 of these authorities in 2020-21 and, following local government reorganisation in Northamptonshire, there were 309 of these in 2021-22 and 2022-23. In addition, three combined authorities played a role in relation to some grants: Greater Manchester; South Yorkshire; and the Liverpool City Region. Billing authorities are currently, in 2022-23, made up of:

- 36 metropolitan district councils;
- 33 councils in London (32 London boroughs and the City of London);
- 59 unitary councils (including the Isles of Scilly); and
- 181 shire district councils.

¹⁵ We have not considered similar schemes in the devolved administrations as part of our work.

Document review

4 We reviewed a range of documents to assist with defining the parameters of the audit and deepen the study team's understanding of the programme. This included a review of:

- papers collected by the National Audit Office (NAO) financial audit team as part of their financial audit of the Department for Business, Energy & Industrial Strategy's (BEIS's) annual report and accounts;
- reports published by parliamentary committees and by stakeholders such as the Institute of Chartered Accountants in England and Wales (ICAEW); and
- published and unpublished BEIS documents including published ministerial directions.

5 We reviewed each document in light of our overarching audit question and our expectations of government. The review was used to refine the scope of the study, including defining more detailed audit questions and methods.

6 We reviewed previous NAO reports relevant to this subject. In addition to those referenced elsewhere in this report, these included:

- Comptroller and Auditor General, *Initial learning from the government's response to the COVID-19 pandemic*, Session 2021-22, HC 66, National Audit Office, May 2021;
- Comptroller and Auditor General, *Lessons learned: Delivering programmes at speed*, Session 2021-22, HC 667, National Audit Office, September 2021; and
- Comptroller and Auditor General, *Delivery of employment support schemes in response to the COVID-19 pandemic*, Session 2022-23, HC 656, National Audit Office, October 2022.

7 We reviewed BEIS documents to understand its implementation of the programme. This included a review of:

- papers and minutes from meetings of the COVID-19 business grants programme board;
- papers and minutes from relevant meetings of BEIS's Performance and Risk Committee;
- papers from BEIS's internal review of the grant schemes; and
- relevant BEIS internal audit reports.

8 We also reviewed and qualitatively assessed each document in light of our overarching audit question and our expectations of government. Our analysis was used to:

- inform further discussion and follow-up with BEIS;
- triangulate findings from other sources, including interview and case study data; and
- inform our approach to the analyses of funding allocations and guidance issued to local authorities.

Analysis of announcements, guidance documents and Frequently Asked Questions (FAQ) documents

9 To understand which businesses were eligible for which grants, what local authorities were required to do, and how often the guidance was changed, we analysed each separate guidance document that BEIS published. We did this by using the UK government web archive, supplemented by documents and information provided by officials, to identify each version of guidance for each grant scheme. For each guidance document we:

- extracted the eligibility criteria for the relevant grant;
- noted what pre-payment and other assurance activities local authorities were required to perform; and
- where applicable, flagged where the guidance had changed from the previous version.

10 We used the results of this analysis to inform our understanding of how the control environment over grant payments changed as the COVID19 pandemic progressed, how the targeting of the grants changed as the pandemic progressed, and as context to understand how levels of error and fraud differed between cohorts of grants.

11 We collected government announcements relevant to the launch or modification of the schemes. We used this to understand the timing of policy development and how this related to the development of guidance.

12 Officials provided us with copies of FAQ documents that had been circulated to local authorities but not otherwise published. We used these, in conjunction with the analysis of guidance documents, to understand how government developed and conveyed scheme requirements.

Analysis of the planned impact and process evaluation

13 BEIS commissioned an impact and process evaluation of the grant schemes to understand what they achieved and how well they were implemented. We reviewed the evaluation plan and, with assistance from colleagues with specific expertise in auditing evaluations, assessed how far it addressed the key questions and whether the available data and the planned methods of evaluation could be expected to produce defensible findings.

14 We have used this analysis to better understand any limitations of the evaluation. We also reviewed interim material produced by BEIS's evaluation contractor for comparison with other sources of information.

Quantitative analysis

15 We analysed published BEIS data on the number and level of payments under the different schemes, in order to understand the speed with which funding was delivered and the size of the undertaking involved. These BEIS data were provided as management information by local authorities; users should be aware that they were published without the level of quality assurance given to official or national statistics. Where we present information on schemes as a whole (for example, in Figure 4), we use the data published by BEIS in August 2022. Where we present information on spending over time within schemes (for example, in Figures 5 and 6), we also draw on information published between April and September 2020.

16 We examined unpublished BEIS data on funding allocations and new burdens payments for local authorities to understand the way in which BEIS arrived at these funding decisions.

17 For an indicative comparison with the level of new burdens funding, we drew on data about total expenditure on business rates collection provided by local authorities to the Department for Levelling Up, Housing & Communities (DLUHC) and published within *Revenue Outturn (RO) 2019-20 Final: Central, Protective and Other Services (RO6) data*, row 426. Data from this workbook were used to compile the National Statistics release *Local Authority Revenue Expenditure and Financing: 2019-20 Final Outturn, England*.

18 We examined unpublished data from the Department for Business and Trade (DBT) from mid-February 2023 on grant cases for recovery that have been notified by local authorities to DBT. Where authorities classified cases using two categories, a narrow category of error (such as duplicate payments) and one of non-compliance with the guidance (such as paying ineligible businesses); we have combined these into a single broader category called error. We excluded cases that local authorities did not classify, and also voluntary repayments by business to authorities (for example, where businesses felt they did not need the grants). DBT has not reviewed local authority classification decisions, such as for consistency. The data also should be treated with care as:

- DBT told us the data come from a minority of local authorities (just over one-third); and
- The total value of cases is small relative to the DBT estimate of error and fraud across the eight schemes. The figures do not include cases where authorities are still trying to recover payments, nor error and fraud that is yet to be identified.

19 The data presented in Figure 2 are from the summer 2022 iteration of the NAO's COVID-19 Cost Tracker. They consist of 73 interventions tagged as 'business support'. Of these interventions, 55 had a positive estimated lifetime cost; for the others the cost was recorded as zero or 'not available'. The interventions within the groups used in Figure 2 are recorded below.

- Employment support or incentives: 'Coronavirus Job Retention Scheme'; 'Kickstart: financial incentive for businesses to hire young employees'; 'Plan for Jobs – payments for employers who hire new apprentices'.
- Business grants provided through English local authorities: 'The Small Business Grant Fund; and the Retail, Hospitality and Leisure Grant Fund'; 'Local Restrictions Support Grants for businesses'; 'Restart Grants'; 'Additional Restrictions Grant'; 'Closed Business Lockdown Payment'; 'Omicron Hospitality and Leisure Grant'; 'Local Authority Discretionary Grant Fund'.
- Business rates support: 'Business rates holidays for retail, hospitality and leisure sectors, and nurseries'; 'COVID-19 Additional Relief Fund'; 'Freezing the business rates multiplier for one year'; 'Business rates: changes to tax deductibility of business rates repayments'.
- Business loans: 'Bounce Back Loan Scheme'; 'Coronavirus Business Interruption Loan Scheme'; 'Coronavirus Large Business Interruption Loan Scheme'; 'Recovery Loan Scheme'; 'Future Fund'.

- Value Added Tax (VAT) support: ‘Reduced rate of VAT for the hospitality sector, accommodation and attractions’; ‘VAT deferral and VAT deferral new payment scheme’; ‘Temporary VAT zero rate on personal protective equipment from 1 May to 31 October 2020’; ‘Bringing forward the removal of VAT on e-publications’; ‘Delaying the VAT domestic reverse charge for the construction sector’.
- Other: the remaining interventions.

Interviews

20 We carried out interviews with officials from BEIS, HM Treasury, DLUHC and the Public Sector Fraud Authority. We selected these officials either because they had worked directly on the policy development or implementation of the grant schemes, or because they provided specialist input on issues such as error and fraud. The interviewees included all three of the Senior Responsible Owners (SROs) the grant schemes have had to date. We used these interviews to:

- understand how policy relating to grants was developed and the challenges central government faced in translating this into practice;
- assess how central government identified and mitigated key risks across the grant schemes, such as error and fraud; and
- inform our understanding of the governance and oversight arrangements that were in place for the grant schemes and how these evolved over time.

21 Given the passage of time since the beginning of the pandemic, we sought to triangulate information provided in interviews against documentary evidence, such as emails, published documents or other papers, as far as possible.

22 We also interviewed Ipsos, the company contracted by BEIS to undertake the impact and process evaluation of the grant schemes. We used this as an opportunity to supplement our understanding of the evaluation plan.

23 To gain a wider perspective on the challenges of administering the business support grants, we spoke to officials from local authorities and representatives of stakeholder bodies. We interviewed officials from authorities who we had been put in touch with by the District Councils Network (four), the Special Interest Group of Municipal Authorities (eight) and the Institute of Revenues, Rating and Valuation (IRRV) (four). We also spoke to representatives of 19 authorities at meetings of the Fighting Fraud and Corruption Locally Board and the London Revenues Group. Where the topics overlapped, we compared our findings with those in an Ipsos interim paper containing the results of process evaluation qualitative research with 26 local authorities, 23 of which were not ones we had spoken to. These routes ensured good coverage of the relevant types of authority and different parts of the country.

24 We spoke to the following stakeholders:

- the Confederation of British Industry (we also reached out to other business representative organisations);
- the Local Government Association;
- ICAEW;
- the Chartered Institute of Public Finance and Accountancy;
- IRRV; and
- the Credit Industry Fraud Avoidance Scheme (CIFAS).

25 We organised interview notes to facilitate comprehensive and consistent analysis. We analysed the data thematically, reviewing the data against the themes identified in our evaluative framework; as well as taking into consideration themes emerging from the data. We used the analysis to:

- inform further lines of enquiry that were followed up with BEIS;
- inform our understanding of the particular practical challenges posed by how the grant schemes were designed; and
- triangulate evidence from other sources (including our document review and data analysis).

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