National Audit Office

REPORT

Delivery of employment support schemes in response to the Covid-19 pandemic

HM Revenue & Customs and HM Treasury

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National Audit Office

Delivery of employment support schemes in response to the Covid-19 pandemic

HM Revenue & Customs and HM Treasury

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

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Key facts

£96.9bn

amount distributed in grants across both schemes, net of repayments

14.6m

number of individual employments and self-employed individuals supported by both schemes

£4.5bn

HM Revenue & Customs' (HMRC's) latest estimate of total error and fraud across the two schemes

£5,887	average amount paid for each furloughed job over the course of the grant scheme
£9,700	average amount each self-employed claimant received over the course of the grant scheme
£2,217	average increase in the profits of self-employed people after receiving COVID-19 grants in 2020-21, compared with the previous year
£2.3 billion	HMRC's estimate of the value of grants employers wrongly claimed for furloughed employees for periods when they were working
£968 million	value of repayments employers and self-employed people chose to make because they decided they no longer needed grants, or because they had claimed grants in error
£623 million	HMRC's forecast of the Taxpayer Protection Taskforce's total yield, lower than HMRC's original expectation of £800 million to £1,000 million
24	number of criminal investigations underway in March 2022 covering suspected fraudulent claims for the Coronavirus Job Retention Scheme (CJRS) and Self-Employment Income Support Scheme (SEISS) totalling £13 million

Summary

Introduction

1 In October 2020, we published our first report on the role of HM Treasury and HM Revenue & Customs (HMRC) (collectively referred to as the Departments) in implementing the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS).[1] HM Treasury and HMRC were responsible for advising ministers on the design of the schemes. HM Treasury led on policy design, and HMRC led on administrative design and then the implementation and administration of the schemes.

2 In our first report we concluded that the Departments had met their objective to rapidly implement the schemes and had protected jobs in the short term, although some groups had been unable to access support. We reported that the Departments' ability to manage the high risk of considerable amounts of error and fraud occurring on the schemes would be a key test of value for money. This report covers the remainder of the Departments' COVID-19 pandemic response from October 2020 until the schemes closed at the end of September 2021.

Scope of the report

3 This report considers how the Departments managed risks in continuing to implement and refine the schemes during the remainder of their existence, what impact the schemes had, and how the Departments managed the risk of error and fraud. Specifically, the report looks at:

- whether the schemes achieved their objectives to support incomes and the labour market and reached those previously excluded from the schemes (Part One);
- how the Departments managed the delivery of the schemes through their later iterations, including attempts to improve the value for money of the schemes by making them more targeted while managing the risk of error and fraud (Part Two); and
- how HMRC has estimated the level of error and fraud and undertaken compliance work to detect error and fraud (Part Three).

1 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.

4 This report does not consider other COVID-19 interventions designed to support businesses, including Eat Out to Help Out, or business loans and benefits. We have reported on the Bounce Back Loan Scheme.[2]

5 Appendix One describes our audit approach and evidence base.

Key findings

Achieving objectives

6 The employment support schemes achieved their primary objectives of protecting jobs and businesses during the COVID-19 pandemic. The schemes supported 14.6 million employments and self-employed individuals at a total cost of £96.9 billion. The Departments distributed SEISS grants worth £28.1 billion to 2.9 million individuals and CJRS furlough payments worth £68.9 billion to 1.3 million employers covering 11.7 million individual jobs. This equates to £9,700 per individual SEISS recipient and £5,887 per furloughed job. The actual costs of the schemes fell well below Departmental estimates except in early 2021, when lockdown restrictions were more severe than anticipated. For example, spend on the fifth SEISS grant was nearly £3 billion below expectations. Unemployment peaked at just over 5%, half the level the Office for Budget Responsibility (OBR) predicted in July 2020 with the schemes then in place to the end of October 2020 (paragraphs 1.8, 1.9, 1.18 and 1.19).

7 CJRS provided income support that broadly protected people from economic hardship. An Office for National Statistics (ONS) survey a year into the COVID-19 pandemic showed that CJRS recipients had found the income support helpful. The OBR found that job moves after September 2021 mainly reflected the labour market catching up with the usual rate of employment turnover with only 2.6% of job moves attributed to the withdrawal of CJRS (paragraphs 1.9 and 1.10).

8 SEISS was more generous per supported employment than CJRS, and on average it increased claimants' incomes above pre-pandemic levels. The government set out to make the two schemes equal in generosity, although the terms of the grants frequently varied from one another over the life of the schemes. Average payment per individual for SEISS was higher than the average claim per employment for CJRS. Reasons for this include the fact that SEISS claimants could receive the grant while continuing working, while CJRS only covered hours not worked. On average SEISS recipients saw trading profits increase by £2,217 (14%) after receiving grants. Without the grants, they would have experienced a £5,164 (32%) fall in average trading profits. However, ONS survey data found that the proportion of SEISS claimants experiencing financial difficulties increased from 32% to 39% in 2020-21 despite receiving grants, suggesting the impact of the pandemic on the income of grant recipients was varied, with many losing income, while others gained (paragraphs 1.4, 1.11 and 1.18, and Figure 1).

2 Comptroller and Auditor General, *The Bounce Back Loan Scheme: an update*, Session 2021-22, HC 861, National Audit Office, December 2021.

9 The Departments explored extending SEISS to excluded groups but the government concluded that most changes would make the risk of fraud too great. In October 2020, we reported that an estimated 1.8 million self-employed people were ineligible for policy or administrative reasons. The government extended later phases of SEISS to those who became self-employed in 2019-20. The Departments explored extending the scheme to other excluded groups, including 'company owner managers'. Based on the Departments' advice the government concluded the risk of fraud was too great because data were unreliable or could not be verified independently. The Departments increased take-up of SEISS among 'vulnerable' groups, for example people experiencing mental health issues or victims of domestic violence, who were eligible for grants but had not claimed from the outset (paragraphs 1.12 to 1.17).

Designing the schemes effectively

10 The Departments carried out basic value for money assessments as the schemes developed, but they did not quantify the cost and benefits of different options in monetary terms. The Departments were planning the future of COVID-19 employment support in a fluid situation in which the policy around restrictions on economic activity could change frequently and with little notice. The Departments had insufficient time to produce the detailed documentation that we would normally expect to support major spending decisions and faced difficulties in the absence of timely and robust data. The Departments saw the schemes as inherently good value for money compared with the negative impacts for households and the labour market of no support. The cost of providing grants to those suffering no loss of income and the cost of fraud were considered qualitatively but rarely quantified, as would have been the case under normal business case processes. HM Treasury monitored schemes in other countries to identify good practice (paragraphs 2.3 to 2.9 and 2.11).

11 The design of the schemes meant that several billion pounds were distributed in grants to taxpayers whose incomes were not significantly affected by the COVID-19 pandemic, **but the Departments did not quantify the cost:**

- **For CJRS:** In February 2021 HMRC assessed that 11% of eligible employments were in firms that had no reduction in turnover during the first six months of the scheme compared with the previous year. A survey of employers between November 2020 and February 2021 found that 15% of companies receiving CJRS experienced no reduction in turnover, although a large majority of these reported in the survey that without the scheme, they would have made redundancies or closed. Those who said they would not have made redundancies or closed permanently without CJRS, and simultaneously saw their turnover increase or stay the same, claimed for around 354,000 jobs. This is around 3.7% of employments claimed for under CJRS from March to October 2020, and would equate to £1.5 billion if representative of all jobs claimed for.
- **For SEISS:** In October 2020, the Resolution Foundation found that 17% of those who claimed SEISS did not report a decline in income in any single month from March to September 2020. In June 2022 HMRC analysis covering the recipients of the first three SEISS grants found that 18% of the value of the grants was paid to people who saw their turnover increase even without the scheme. This equates to £3.5 billion of grants paid during that period. In addition, 21% reported an increase in trading profits. The scheme rules permitted claimants to continue working while in receipt of grants.

For both schemes the Departments also expected that grant payments would provide a stimulus to businesses and the wider economy (paragraphs 2.12 to 2.15).

12 When refining the schemes, the Departments considered how to reduce 'deadweight', but only considered significant changes were practical in the later phases. Assessing the relative value of different options for reducing the costs of the schemes was more difficult without a quantified estimate of their impact on deadweight (in particular, grants going to those not in need). The Departments looked at options for reducing the cost of the schemes when economic conditions improved:

- **For CJRS,** the government had paused the introduction of the Job Support Scheme in October 2020. It was a fully worked-up, more targeted scheme, but it was not reintroduced when restrictions were relaxed. When considering changes to CJRS, the Departments were concerned about the timeliness and robustness of data and the changing nature of the COVID-19 pandemic. The government decided that tapering all payments, rather than targeting payments on the basis of the financial impact of COVID-19 on claimants, would be a simpler mechanism and would reduce costs further and more rapidly. The Departments looked at similar schemes in other countries when considering changes, although none involved tapering.

- **For SEISS,** from November 2020 the Departments required claimants to declare that they would suffer a significant reduction in profits due to the pandemic during the claim period. Later, from July 2021, they introduced a financial impact declaration for the final SEISS grant, with two levels of grant corresponding to how far the self-employed person's turnover had reduced during the pandemic as a result of the government's COVID-19 restrictions (paragraphs 2.2, 2.10 and 2.18 to 2.23).

13 **The introduction of a financial impact declaration from July 2021 saved up to £2.5 billion in SEISS grants, pointing to the value of using such tests at an early stage.** While other countries had made use of financial impact tests from the outset, the Departments told us they were concerned that introducing a test earlier on a self-assessed basis would increase the risk of fraud, add complexity for customers and risk delaying payments. In November 2020 the Departments introduced a self-declaration by claimants that they believed their profits would be significantly impacted, rather than a measurable test of financial impact. Later, the Departments' introduction of the financial impact declaration in July 2021 coincided with a large drop in the number of people making claims for SEISS grants (although some of the reduction would have been due to the further reopening of the economy). In this final tranche some £140 million was paid out to 140,000 SEISS claimants who reported no decrease in turnover. Overall, a key lesson for the UK is that early use of clear financial impact tests can reduce the amount of deadweight loss significantly, even if some claimants choose to ignore the test and make claims fraudulently (paragraphs 2.11, 2.15, 2.23 and 2.24).

Error and fraud

14 **HMRC's latest estimate for the total of error and fraud in the two schemes is £4.5 billion (4.6% of cost).** The estimate is subject to considerable uncertainty, with HMRC reporting that error and fraud could range from £3.2 billion (3.3%) to £6.3 billion (6.4%). HMRC has reduced the CJRS estimate for 2020-21 from 8.7% to 5.3%. HMRC's estimates take account of £968 million of grants that recipients chose to repay because they no longer needed them or claimed in error (paragraphs 3.7 to 3.8 and 3.19 and Figure 8).

15 HMRC's estimate of CJRS fraud is based on limited data, and it is unlikely ever to know how much was paid incorrectly for furloughed employees. All estimates of fraud are inherently uncertain, and it is particularly difficult to be sure about their completeness. HMRC made adjustments for non-detection of error and fraud in its estimates, but there are several aspects where the evidence is weak. We identified three main areas of risk to it accurately quantifying the true extent of CJRS fraud:

- HMRC expected most organised crime attacks would be carried out through digital means. It has seen little actual evidence of successful digital attack. As HMRC's programme of random checks did not provide data on the scale of organised crime, its counter-fraud staff estimated organised crime may have extracted around £100 million (0.15% of cost) from CJRS. We have not been able to audit this estimate, which is opinion-based. However, we see a risk of over-optimism because HMRC did not involve independent experts when making its estimate.
- HMRC knew in advance of starting its random enquiry programme that the programme would generate only a weak assessment of the risk of working while furloughed, which is the largest cause of error and fraud. HMRC did indeed find it was detecting too few cases when the programme started. HMRC assessed that a population-representative survey of employees would provide the strongest source of evidence but it did not commission this research. It told us it was concerned about the practicalities of achieving a representative sample and the scope for employees to misunderstand their 'flexible-furlough' status. Instead, it relied on surveys covering only the first few months of the scheme when furloughed employees could not work at all. Consequently, its estimate of £2.3 billion incorrectly paid for employees working while furloughed relies on extrapolating survey data from the fixed-furlough period to cover the final 15-month period of the scheme, and adjusting for furloughed employees working part-time. With the amount of time that has passed, a survey of employees is now less likely to be effective.
- HMRC considered it had insufficient information to estimate the other error and fraud that its random enquiries missed. It therefore increased the level of error and fraud it found by the 20% non-detection uplift it applies when estimating Pay as You Earn (PAYE) employer compliance. However, the risk of non-detection on a new grant scheme such as CJRS is likely to differ from a well-established tax (paragraphs 3.8 to 3.18).

16 HMRC forecasts it will recover around £1.1 billion of error and fraud by 2023-24, but yield from the Taxpayer Protection Taskforce is falling short of its original expectations. In 2020-21, HMRC recovered £535 million, mainly from writing to claimants suspected of non-compliance. In April 2021, HMRC established the Taxpayer Protection Taskforce, increasing the staff it deployed to identify fraud on COVID-19 schemes from around 600 to 1,000. HMRC's expectation that the Taskforce would recover a minimum of £800 million across 2021-22 and 2022-23 is proving challenging. The Taskforce's in-depth checks of high-risk CJRS cases are taking longer than expected to complete and have low yield. HMRC has deployed fewer staff than expected in 2021-22 and 2022-23. It plans to compensate for the shortfall by deploying 266 staff to this work in 2023-24. It now forecasts the Taxpayer Protection Taskforce will secure £623 million by 2023-24, with £605 million coming from CJRS and SEISS. If HMRC meets its forecast for yield, between £2.0 billion and £5.1 billion of overpayments will remain unrecovered, according to HMRC estimates (paragraphs 3.19 to 3.34 and Figure 9).

17 HMRC has restricted criminal investigations to the most serious cases and its limited civil powers mean that few people have been penalised for abuse of the schemes. As at March 2022, HMRC had 24 investigations underway linked to CJRS and SEISS fraud, covering suspected fraudulent claims of £13 million. Twenty-three arrests have been made, but no cases have yet gone to court. HMRC told us that it prioritises recovery of money above criminal prosecution in most cases. HMRC has powers to issue civil penalties on CJRS and SEISS where it has sufficient evidence of deliberate intent of fraudulent behaviour. In line with the general supportive approach to claimants facing difficult circumstances, the government did not seek powers to penalise those who had made mistakes. As at March 2022, HMRC had levied £1.1 million of penalties for CJRS, 0.5% of the overpayments identified through compliance work. For SEISS, penalties were £3.5 million (7%). HMRC is unable to issue penalties for grant claimants who did not take reasonable care. This is different from the position for taxes and means HMRC must meet a high burden of proof and demonstrate deliberate intent to penalise those who committed fraud (paragraphs 3.36 to 3.40).

Conclusion on value for money

18 The employment support schemes provided essential support to the economy during the COVID-19 pandemic, and they achieved their primary objective of preventing millions of job losses. They were introduced at commendable speed as part of the government's emergency response. Designing schemes at speed, coupled with the inherent uncertainty over the course of the pandemic, meant that the schemes would inevitably have flaws. The government made some changes to the schemes as the pandemic progressed, notably extending the schemes to more taxpayers and improving their accessibility. Still, it could have done more in bearing down on deadweight loss and the cost of error and fraud.

19 The schemes have cost close to £100 billion. In part, this was down to the deliberately generous design of the schemes. The Departments sought to strike a balance between delivering support to those who needed it and guarding against the risk of fraud by limiting the schemes to proven taxpayers. The earlier use of clear financial impact tests could have helped the Departments target financial support to those whose incomes were genuinely affected by the pandemic and provided better value for money, even allowing for the risk of claimant error and fraud when applying such a test. It is likely that several billion pounds have been paid to claimants who saw their incomes increase during the period. While the figures are highly uncertain, large amounts of error and fraud are unlikely ever to be recovered. The Departments will need to ensure they continue to bear down on fraud, where it is cost-effective to do so, and pursue the most serious cases with the full force of the law where it serves the public interest.

Recommendations

20 While payments under the schemes have ended, the need to bear down on error and fraud has not. HMRC should:

a **as part of strengthening its methodology for remaining compliance work, analyse its performance in tackling the main risks of non-compliance and identify what further data it can use to identify and tackle risky claims**, including for those where employees may have been working while being claimed for furlough;

b **work with the Cabinet Office and government's counter-fraud functions to improve protocols and thus increase the consistency of data collected on grant claimants, and the pace at which data can be shared between HMRC and other public bodies**, in order to identify risky claims now and in the future;

c **restate its expectations for compliance work in the light of performance to date and publicise the number of criminal investigations, and amounts at risk, to act as a deterrent.** It should consider how its tax compliance work needs to be adapted to include erroneous grant payments and encourage non-compliant taxpayers to return overpayments in advance of this compliance work;

d **as part of improving its methodology for estimating error and fraud, develop scheme-specific estimates for non-detection of error and fraud** and, where appropriate, involve independent experts, such as academics and fraud prevention professionals, for example in assessing the range and scale of frauds by organised crime. The use of external experts can help to mitigate the risk of group-think; and

e **ensure that it routinely gathers data on the results of all its different compliance interventions and use this when it deploys compliance staff by scheme and risk,** targeting resources to recover fraud where it remains cost-effective to do so.

HM Treasury should:

f **where it is cost-effective to tackle error and fraud, ensure sufficient resources are available to HMRC and other departments** so that fraud is pursued efficiently across the government's grant and loan schemes.

21 In evaluating the value for money of the schemes and learning lessons for the future, HM Treasury should:

g **as part of its evaluation of the schemes, define and assess the extent of deadweight, looking at the full range of indicators including the amount of grants paid to employers and the self-employed whose incomes increased**, including commissioning research where appropriate to cover gaps in data from existing systems; and

h **when designing similar grant schemes in the future, devise measurable financial impact tests for consideration by ministers**. Where data are not available to validate eligibility we would normally expect a self-assessment of expected income to be preferable to having no test as it could significantly reduce payments to those not in need, and provide clear criteria against which claimant behaviour could be assessed for possible instances of fraud.

22 In determining how the government should respond in a future crisis:

i **HMRC should identify the data it would need to increase accessibility of future schemes and reduce deadweight costs and error and fraud**. It should consider plans to improve the responsiveness and resilience of the tax system to future economic shocks;

j **HMRC should draw on the lessons it has learned from its compliance response on CJRS and SEISS to consider how it would quickly identify, assess and respond to the main causes of non-compliance in future support schemes, and penalise fraud**; and

k **HM Treasury should ensure it develops robust plans for responding to economic shocks linked to health, environmental or other crises**. Plans should be stress-tested to identify improvements and continually refined.

Part One

Ensuring the schemes achieved their objectives

1.1 This part looks at how HM Revenue & Customs (HMRC) and HM Treasury (together, the Departments) ensured that the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS) reached their intended audience and achieved their objectives. It covers:

- a history of the schemes, focusing on progress since we last reported in October 2020;
- to what extent the schemes supported businesses and minimised unemployment;
- to what extent the schemes were available to those in need; and
- the costs and take-up of the schemes.

History of the COVID-19 employment support schemes from October 2020 to their termination in September 2021

1.2 Our October 2020 report *Implementing employment support schemes in response to the COVID-19 pandemic,* described the development and initial implementation of the schemes.[3]

1.3 In late March 2020, the government announced two UK-wide employment support schemes in response to the coronavirus crisis. The schemes, administered by HMRC following HM Treasury's direction, were:

- **CJRS**: to provide grant payments to employers to help firms continue to keep people in employment. Employers could put workers on temporary leave, and the government would pay them cash grants of up to 80% of employees' salaries, up to £2,500 a month. Phase 1 operated to the end of June 2020. From July to October 2020, a modified second phase allowed employers to bring employees back to work part-time, and the grant was reduced to 70% (September) and 60% (October); and

3 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.

- **SEISS**: to provide grant payments to self-employed individuals whose business had been 'adversely affected' by the government's COVID-19 restrictions. The grants were intended to help support self-employed individuals with living costs, and they could continue to work, start a new trade or take up new employment. The government originally set out to align SEISS with CJRS as closely as possible.

Extensions to the schemes from October 2020

1.4 **Figure 1** on pages 16 and 17 shows how the schemes were extended through to September 2021 in response to recurring waves of the COVID-19 pandemic, and how eligibility criteria and financial contributions changed. The government set out to make the two schemes equal in generosity, although the terms of the grants frequently varied from one another over the life of the schemes. Adjustments to the schemes both tightened eligibility criteria in response to changes in the government's COVID-19 restrictions and widened eligibility by allowing additional cohorts of new taxpayers to the schemes.

CJRS

1.5 By October 2020, the Departments had developed the Job Support Scheme (JSS) as a more targeted alternative to CJRS. The government did not implement its plan to introduce JSS from 1 November 2020 following its announcement of a new lockdown. We discuss JSS in more detail at paragraph 2.6. Eligibility for CJRS was extended twice by allowing employers to use the most recent payrolls on which to base claims. When the government introduced the second national lockdown in November 2020, it increased the proportion of wages paid back to 80%, removing the need for an employer contribution to wages, before reducing it again in July and August 2021.

SEISS

1.6 HMRC extended SEISS three times after October 2020. For SEISS 4, eligibility was widened to include those who became self-employed during 2019-20. The government also sought to make SEISS more targeted:

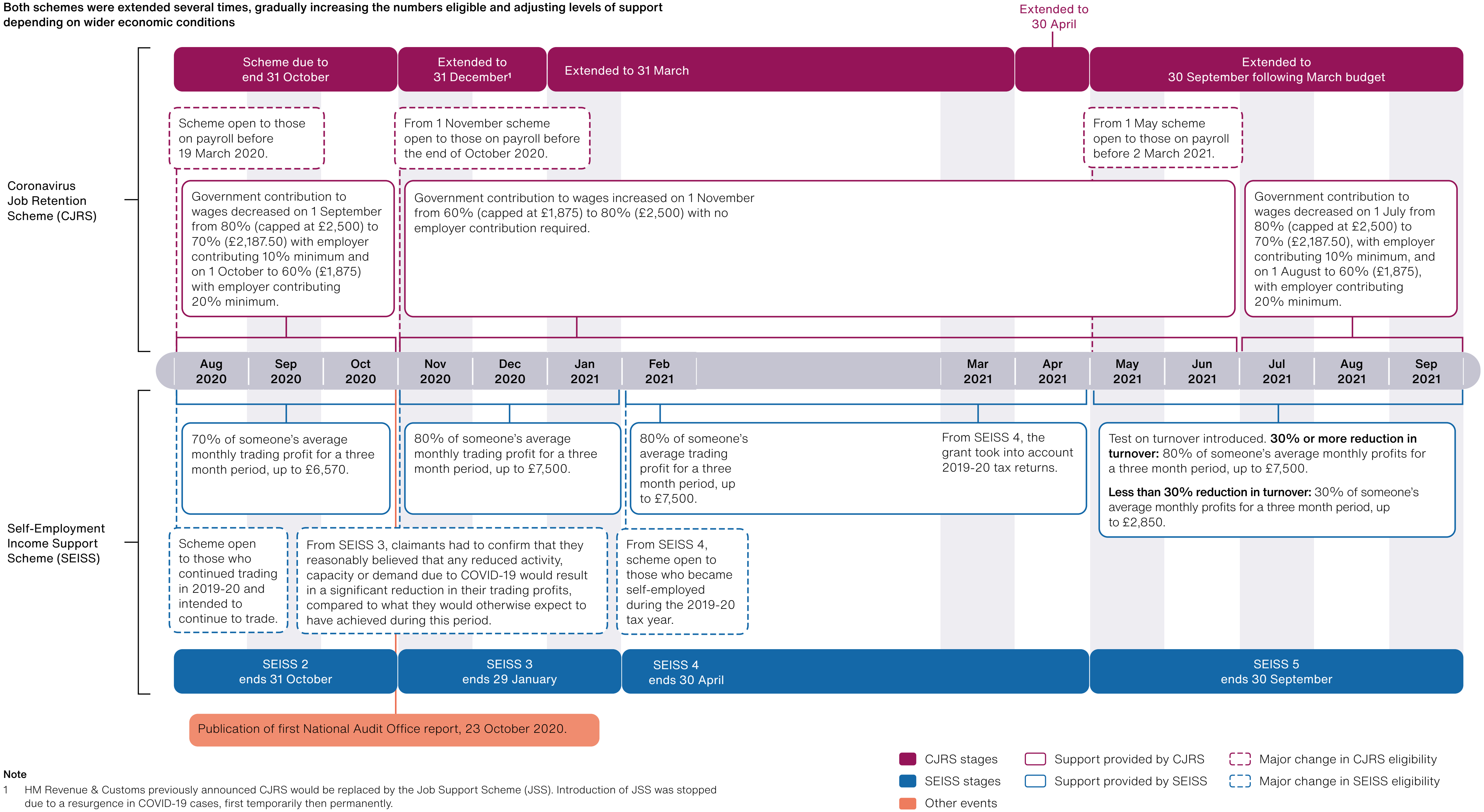
- from SEISS 3, by requiring claimants to declare that they reasonably believed that any reduced activity, capacity or demand due to COVID-19 would result in a significant reduction in their trading profits, compared with what they would otherwise expect to have achieved during this period; and

- for SEISS 5, taxpayers who suffered a less than 30% reduction in turnover received 30% of three months' average trading profits, while the standard rate was 80% for those who suffered a greater reduction in turnover.

Figure 1

Implementation of the COVID-19 employment support schemes from August 2020 to September 2021

Both schemes were extended several times, gradually increasing the numbers eligible and adjusting levels of support depending on wider economic conditions



Note

1 HM Revenue & Customs previously announced CJRS would be replaced by the Job Support Scheme (JSS). Introduction of JSS was stopped due to a resurgence in COVID-19 cases, first temporarily then permanently.

Source: National Audit Office review of HM Revenue & Customs documents

Extent to which the schemes met their objectives

1.7 The government's objectives for the schemes as set out in late 2020 are shown in **Figure 2**. The emphasis placed on particular objectives changed over time. Increasing weight was given to those who were most in need and to developing an exit strategy.

To what extent the schemes supported businesses and individuals and minimised unemployment

1.8 A primary objective of the schemes was to help prevent large-scale job losses, and deep negative impacts on the labour market. **Figure 3** shows they were broadly successful. In July 2020, the Office for Budget Responsibility (OBR) forecast unemployment peaking at 10% with the schemes in place until the end of October 2020, but it actually peaked at 5.2% in the last quarter of 2020. A similar pattern was seen in most comparable countries, with a sharp increase in claimants for unemployment-related benefits from March 2020 levelling off following the introduction of support schemes or extension of existing schemes.

Figure 2

COVID-19 employment support scheme objectives in late 2020

The schemes had objectives for individuals and the economy as a whole

Coronavirus Job Retention Scheme (CJRS) objectives	Self-Employment Income Support Scheme (SEISS) objectives
Provide support that maintains existing employer-employee relationships in order to: • prevent job losses and large and persistent negative impacts on the labour market; • reduce risk of business closure; • support incomes for individuals; and • maintain capacity so firms could rescale activity swiftly as restrictions lift.	Provide financial support to self-employed individuals whose self-employment activities have been 'adversely affected' by COVID-19. Target support on those most reliant on self-employed income. Enable claimants to continue to trade while using the scheme.

For both schemes, HM Treasury and HM Revenue & Customs also wanted to:

- deliver support rapidly to all those who need it during the crisis period; and
- limit costs and scope for error and fraud as far as possible.[1]

Note

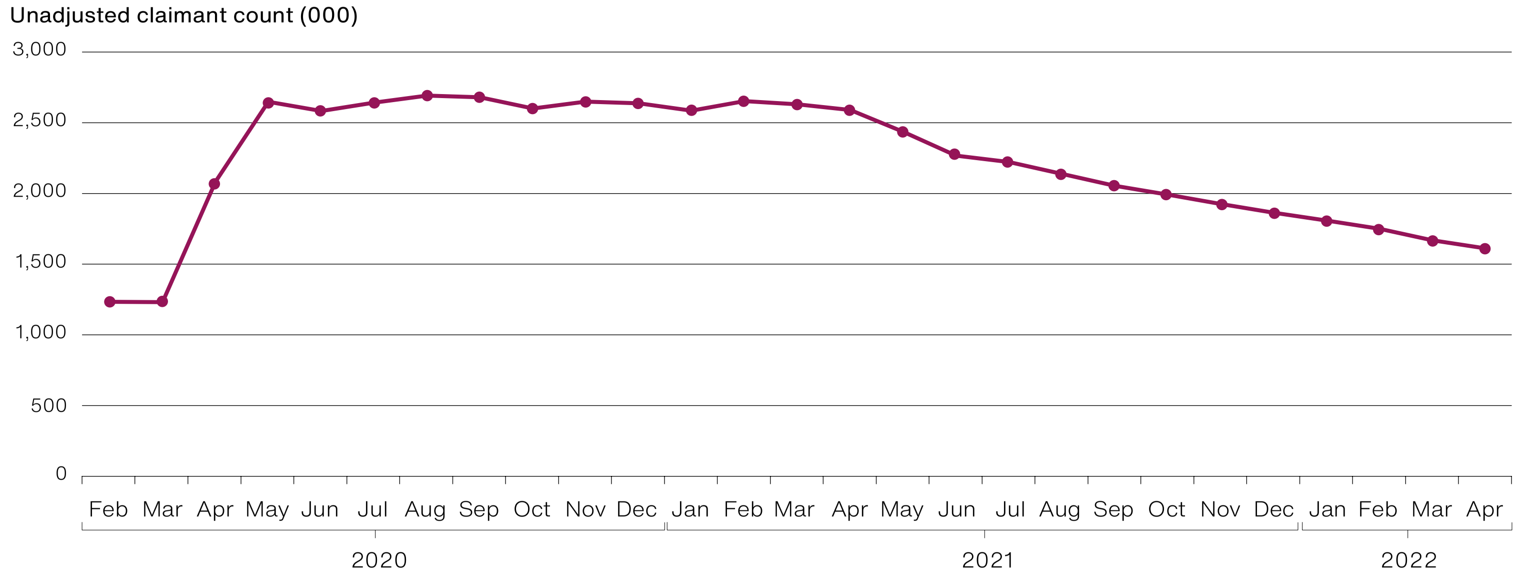
1 We discuss attempts to limit the costs and scope of error and fraud in Part Three.

Source: National Audit Office review of HM Treasury documents

Figure 3

People claiming unemployment-related benefits, February 2020 to April 2022

After an initial spike at the start of the COVID-19 pandemic, the numbers claiming unemployment-related benefits plateaued and then declined



	Feb 2020	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 2021	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 2022	Feb	Mar	Apr
● Unadjusted claimant count (000)	1,234	1,232	2,084	2,648	2,583	2,643	2,692	2,681	2,601	2,649	2,638	2,586	2,653	2,631	2,590	2,436	2,268	2,222	2,138	2,055	1,992	1,926	1,864	1,809	1,751	1,669	1,613

Note

1 The Coronavirus Job Retention Scheme was announced on 20 March 2020 and the Self-Employment Income Support Scheme on 26 March 2020. Both schemes closed at the end of September 2021.

Source: National Audit Office analysis of Office for National Statistics, *Claimant Count: K02000001 UK: People*, June 2022

1.9 The OBR found that 19% of those on furlough at the end of CJRS had changed jobs by January 2022, but that this mostly reflected the labour market catching up with the usual rate of employment turnover. Only 2.6% of moves could be attributed to the withdrawal of CJRS.[4]

1.10 The schemes had objectives to support incomes and direct support to those most in need. An Office for National Statistics (ONS) survey covering the financial year 2020-21 showed that employees furloughed had found income support helpful.[5] Research by the National Institute of Economic and Social Research found that the incidence of overall financial distress among those furloughed increased by 2%, but this was concentrated on those with high income, due to the cap on payments.[6]

1.11 In June 2022 HMRC compared 2020-21 trading profits against earlier years for those receiving SEISS 1 to 3 and those self-employed who did not. HMRC concluded that:

- on average, people who received SEISS saw profits and income increase, but without it would have seen both fall significantly. If eligible claimants had not received SEISS, their mean trading profit would have fallen by £5,164 (32%) between 2019-20 and 2020-21. With the grant, mean trading profits for this group rose by £2,217 (14%). This contrasted with SEISS recipients responding to the ONS survey (paragraph 1.10), where those who experienced financial difficulties increased from 32% in 2019-20 to 39% in 2020-21. They felt, however, just as able to cope with unexpected expenses; and
- the impact varied from sector to sector. SEISS claimants in most sectors saw income increase. Sectors that benefited most were 'financial and insurance', 'construction' and 'professional scientific and technology'.

To what extent the schemes were available to those in need

1.12 In October 2020, we reported that, based on HMRC and third-party estimates, around 2.9 million people were excluded from the schemes (1.8 million from SEISS and 1.1 million from CJRS) either because of ministerial decisions on how to target the schemes or because HMRC did not have data needed to properly guard against the risk of fraud. The majority of self-employed people who did not qualify for SEISS earned more than half their income from another source. The majority of those excluded from CJRS were company directors paid by dividend, although they could claim for income from earnings. It is unclear how many of the 2.9 million were sufficiently affected to need financial support.[7]

4 Office for Budget Responsibility, *What happened to furloughed employees after the CJRS closed?,* March 2022.
5 Office for National Statistics, *Economic well-being estimates from the Survey on Living Conditions, Great Britain*, 2021.
6 National Institute of Economic and Social Research, *National Institute UK Economic Outlook; Box B: Furlough and household financial distress during the COVID-19 pandemic*, Autumn 2021.
7 See footnote 3.

Bringing new taxpayers into the schemes

1.13 Around 1.7 million self-employed people were ineligible for the first three SEISS grants on policy or administrative grounds.[8] Five hundred thousand people who became self-employed in 2019-20, or were otherwise eligible for the first time in 2019-20, were invited to claim SEISS 4 and 5, although take-up among these groups was around one-third. For CJRS, HMRC's real-time information system meant that it could add new claimants more promptly. New cohorts of employees were made eligible for CJRS in November 2020 and 2.6 million in May 2021.

Self-employed people who continued to be ineligible

1.14 Our first report explained limited company directors paid by dividend were ineligible for support.[9] The Departments looked at how company directors might be supported, identifying that between 300,000 and 900,000 were potentially eligible. But the Departments were unable to identify how many were legitimate 'company owner managers' (whose dividend income was pay rather than investment income). The Departments considered that making company directors eligible meant that they would have to rely on self-certification, creating the risk of considerable error and fraud.[10] The government agreed.

1.15 By SEISS 5, 1.7 million self-employed people were not eligible, consisting of those who: made trading profits lower than non-trading profits (which includes investment income and income from being an employee); made a loss; or made profits of more than £50,000. This latter group generally saw profits rise during the COVID-19 pandemic, while all other ineligible groups tended to lose income.

The Departments' actions to address the needs of potentially disadvantaged sub-groups

1.16 The Departments assessed the schemes' impact, including proposed changes, on disadvantaged groups as required by the Public Sector Equality Duty under the Equality Act 2010. They reviewed the likely impact of each iteration of the schemes on the basis of age, disability and ethnicity. Lack of data limited monitoring of actual impacts. HMRC did not collect data on the ethnicity, disability status, religious beliefs, sexual orientation or marriage status of those within the schemes. HMRC did establish that:

- people with disabilities suffering a period of long-term sickness could miss out on SEISS payments;
- young people, women and people from ethnically diverse backgrounds were more likely to be furloughed and, as with other lower-paid workers, more vulnerable to redundancy when furlough was ended. Admitting new taxpayers to schemes would, however, benefit younger people; and

8 See footnote 3.
9 Although they might have been eligible for CJRS for the portion of their income paid as salary.
10 This was also their view regarding an alternative proposal put forward by the Association of Independent Professionals and the Self-Employed (IPSE) to the Treasury Select Committee to use the corporation tax return to identify directors' earnings.

- in certain circumstances, women on maternity leave could miss out on payments from both schemes.

1.17 HMRC identified in late 2020 that take-up of SEISS 1 was nearly 30% lower among groups classed as 'vulnerable', for example those with mental health issues or victims of domestic violence. Through experimentation, HMRC established that reaching out to these groups by letter was effective at increasing take-up to levels similar to the rest of the population. In 2020, HMRC had put in place alternative arrangements for the digitally excluded to access schemes.

The costs of the schemes

1.18 The schemes cost £96.9 billion, consisting of:

- £28.1 billion in SEISS grants to 2.9 million individuals, equating to £9,700 per individual; and
- £68.9 billion in CJRS grants to 1.3 million employers covering 11.7 million individual jobs, equating to £5,887 per job.[11]

Reasons for the higher average payments on SEISS compared with CJRS include the fact that SEISS claimants could receive the grant while continuing working, while CJRS only covered hours not worked.

1.19 **Figure 4** shows how HMRC's estimates of the cost of the schemes compared with outturn. HMRC drew on the work of the OBR and emphasised the uncertainty around the costings, given the unknown path of the COVID-19 pandemic. The forecasts consistently overestimated take-up, and therefore cost, of both schemes, except for the early months of 2021, where a sudden surge in the COVID-19 pandemic resulted in a third lockdown in December 2020. Lower than expected take-up was particularly noticeable in the later SEISS grants.

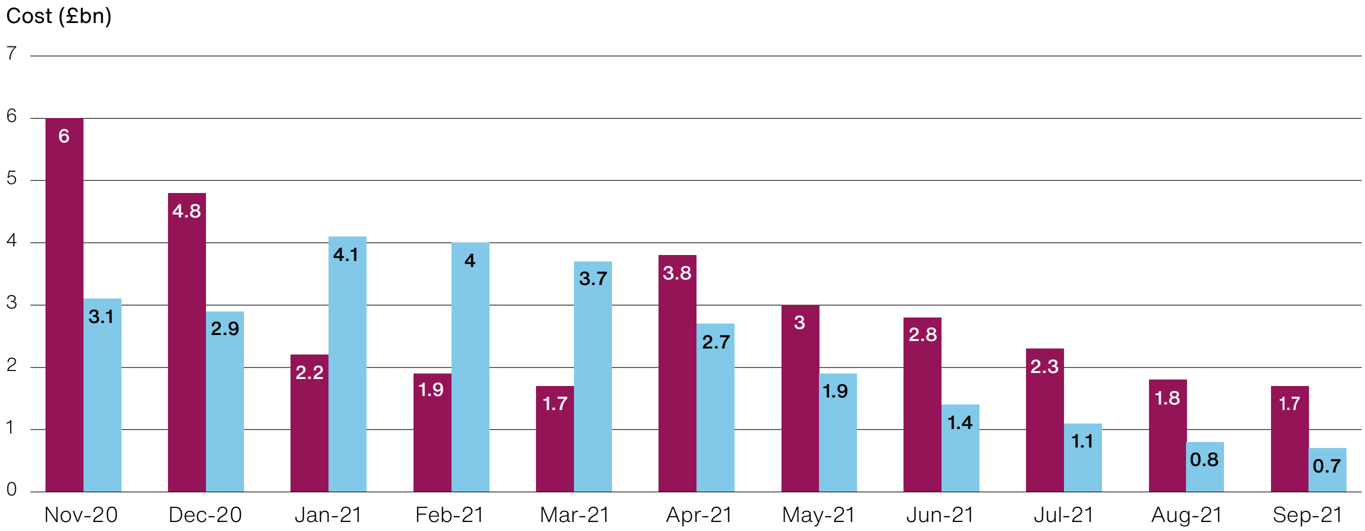
11 Cost is amount distributed in grants, net of repayments.

Figure 4

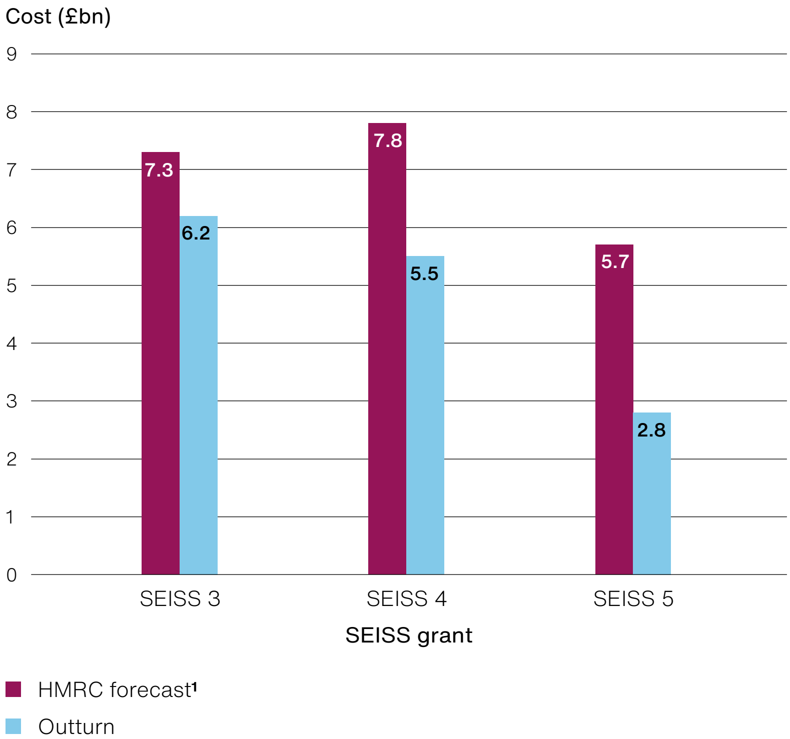
Cost forecasts and outturns for COVID-19 employment support schemes, November 2020 to September 2021

The costs of the schemes were less than HM Revenue & Customs (HMRC) forecast in most periods

Coronavirus Job Retention Scheme



Self-Employment Income Support Scheme[2]



Notes

1 Forecasts for months for the Coronavirus Job Retention Scheme (CJRS) and grants for the Self-Employment Income Support Scheme (SEISS) are the latest submitted internally at decision points for continuation of the schemes: i) CJRS: 18 November 2020 (Nov–Dec 20); 14 December 2020 (Jan–Mar 21); 18 February 2021 (Apr–Sep 21); ii) SEISS: 15 January 2021 (SEISS 3); 25 February 2021 (SEISS 4 and 5).

2 SEISS 3 covered November 2020 to January 2021, SEISS 4 February 2021 to April 2021 and SEISS 5 May 2021 to September 2021.

3 Figure covers the scheme extensions since we last reported in October 2020.

Source: National Audit Office analysis of HM Revenue & Customs documents

Part Two

Management and implementation of the schemes

2.1 This part looks at the extent to which HM Revenue & Customs (HMRC) and HM Treasury (collectively the Departments) implemented the Coronavirus Job Retention Scheme (CJRS) and Self-Employment Income Support Scheme (SEISS) cost-effectively from October 2020 onwards. In our first report, we recommended that the Departments' future consideration of options should demonstrate how risks to value for money have been considered, understood and managed. A major risk was that the speed with which the original schemes were implemented would lead to significant amounts being paid to those who did not need support.

2.2 This part covers:

- how the Departments assessed value for money as they extended the schemes;
- the Departments' assessment of the extent to which grants were going to those not in need ('deadweight'); and
- the Departments' attempts to improve targeting of the schemes, including reducing deadweight and managing error and fraud risks.

Assessments of value for money

2.3 In late 2020 and early 2021, the Departments had to plan COVID-19 employment support in a very fluid situation in which government policy restricting economic activity could change frequently and with little notice. For example, the Departments issued guidance to businesses on the new Job Support Scheme (JSS) on 31 October, only for a new lockdown to be announced immediately. HMRC organised an extension of CJRS over that weekend.

2.4 In our first report, we explained that the Departments had insufficient time to produce documentation, such as business cases, options appraisals and detailed cost-benefit analysis, normally required to support key investment decisions.[12] This continued to be the case during the period from October 2020 onwards. Decision-makers should ensure they have fully considered all the issues regardless of whether they complete formal documentation.[13] The Departments plan to release an interim evaluation of CJRS followed by evaluations of both schemes in due course.

2.5 The Departments kept the schemes under review and looked for good practice and innovation elsewhere. They carried out extensive research into support schemes in other countries when designing and considering changes to the schemes. Like-for-like comparisons were difficult because of differing levels of public health restrictions and different tax, welfare and regulatory regimes. For example, some countries had pre-existing schemes to support 'short-time working'.

2.6 In early autumn 2020 the government had planned to replace CJRS with a more targeted scheme – the JSS – to take advantage of the improving public health situation. The JSS offered one level of support for businesses affected by COVID-19 which remained open, and further support for those required to close by health regulations. The Departments' October 2020 value for money assessment for JSS was extensive, including a detailed consideration of its impact on different business sectors.

2.7 In the event, the Departments had to respond quickly to the resurgence of COVID-19 at the end of October and extended CJRS in increments through to the end of March 2021. The urgency meant that the Departments made a very limited assessment of the value for money of the scheme's extension. The government considered that the severe restrictions on economic activity left it with no alternative.

2.8 At subsequent decision points to extend the schemes, the Departments carried out largely qualitative assessments of value for money. In February and March 2021, when deciding on the form and duration of CJRS beyond April, the Departments emphasised the uncertainty around its value for money analysis. The Departments discussed, but did not quantify, the benefits of CJRS (maintaining employer viability, job matches and employment levels) and the disbenefits (deadweight forming an increasing proportion of remaining furloughs and 'job hoarding'). The Departments told us that they lacked the real-time data to make a reasonable and fair assessment.

12 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 1.8.
13 Comptroller and Auditor General, *Lessons learned: Delivering programmes at speed,* Session 2021-22, HC 667, National Audit Office, September 2021.

2.9 In the case of SEISS, the assessments restated the case made from the scheme's start – that it was good value for money because of the extremely negative impacts for households and for the labour market without a scheme. The Departments' assessments estimated likely costs, but did not usually quantify other elements of value for money. They also drew attention to delivery constraints driven by the lack of good-quality data on the self-employed. Deadweight was discussed as part of the Departments' formal assessments of value for money, but the ability to reduce levels of deadweight were not seen by the Departments as a deciding factor in whether SEISS offered value for money.

The Departments' assessment of the level of deadweight

2.10 The level of deadweight should be considered as part of a cost-benefit analysis when comparing different options for support. As the COVID-19 pandemic continued into 2021, the Departments' analysis indicated that the broad nature of support the schemes offered might be providing large sums to sectors of the economy that were less in need and could be suppressing the natural turnover in the job market. The Departments defined two types of deadweight that did not contribute to the objectives set out for the schemes:

- grants supporting jobs that would have been retained anyway; and
- grants supporting jobs that would not be viable after removal of public health restrictions.

International comparisons

2.11 The Departments analysed measures used in other countries to identify options to improve targeting and limit deadweight, including:

- a test of financial impact to improve targeting of CJRS. Many other countries had incorporated such a test in their equivalent schemes to exclude companies which had not experienced a significant decline in revenue. The Departments' analysis was inconclusive as to the merits of a test. It found most countries relied on self-certification by claimants and it was concerned this could increase the scale of fraud. The Departments told us they were also concerned about the timeliness and robustness of taxpayer data needed to carry out a test on claims;
- a minimum hours threshold to focus on jobs that were most valuable to employers. The few examples the Departments found were mostly in pre-existing schemes;
- the right level of employer contributions when schemes were being gradually withdrawn. The Departments found no consensus on the level of contribution and no use of tapering; and

- the best format for a declaration of financial impact for SEISS 5. Most countries had a test of financial impact. Use of variable grants, depending on the level of impact, was a common feature, and this influenced the approach taken for SEISS 5.

Cost of supporting jobs that would be retained anyway

CJRS

2.12 In February 2021, HM Treasury looked at the impact of the COVID-19 pandemic on turnover when considering a possible financial impact test for CJRS. It estimated that 11% of eligible employments were in firms that had experienced no reduction in turnover during the first six months of CJRS compared with the same period in 2019. HM Treasury considered this a possible example of deadweight but did not quantify its cost.[14]

2.13 A survey of employers carried out on behalf of HMRC between November 2020 and February 2021 put the proportion of firms claiming CJRS and experiencing no reduction in sales or turnover at 15% (**Figure 5** overleaf). Despite this, a large majority of those employers reported in the survey that without the scheme they would have made redundancies or closed. Fifteen per cent of spending on CJRS to the end of October 2020 would have been equivalent to around £6.5 billion. Those firms who said they would not have made redundancies or closed permanently without CJRS, and simultaneously saw their sales or turnover stay about the same or increase due to COVID-19, claimed for around 354,000 jobs.[15] This is around 3.7% of employments that were claimed for through CJRS from March to October 2020, and would equate to £1.5 billion if representative of all jobs claimed for.

SEISS

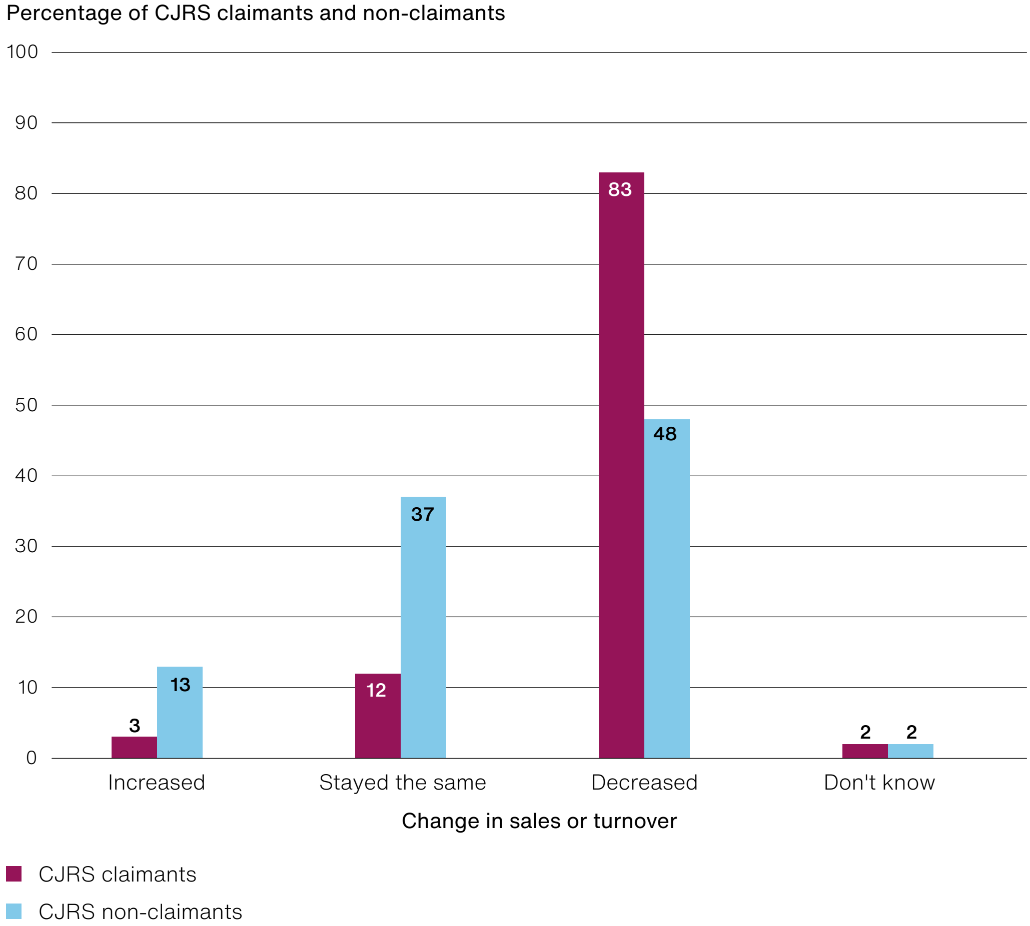
2.14 In October 2020, a Resolution Foundation survey found that 17% of those claiming SEISS did not report a decline in income in any month from March to September 2020. The Resolution Foundation concluded that "SEISS grants were claimed by 435,000 people who did not face any fall in their earnings, at an estimated cost of £1.3 billion." Based on this, HMRC estimated in January 2021 that 10% to 20% of recipients probably experienced no fall in income. In June 2022 HMRC analysis found that 21% of SEISS claimants reported increased trading profits, even without the scheme (compared with 51% with an increase in profits the previous year). Around 18% of the value of the first three SEISS grants was paid to people who reported an increase in turnover. We estimate this equates to expenditure of £3.5 billion. There was no requirement for turnover to fall in order to receive a grant. HMRC told us that such a requirement could have discouraged individuals from continuing to work in their trade or from seeking to grow their business.

14 It is possible for a firm's profits to reduce even if its turnover does not, depending on what happens to its costs.
15 Some 137,000 jobs were in firms with increased sales or turnover and 217,000 jobs were in firms with no change in sales or turnover.

Figure 5

Changes to sales or turnover for Coronavirus Job Retention Scheme (CJRS) claimants and non-claimants to 31 October 2020

Fifteen per cent of employers claiming CJRS saw sales or turnover stay the same or increase



Note

1 Employers were asked "Before 31st October, what impact, if any, had COVID-19 had on your organisation's sales or turnover? Had it... 1. Increased, 2. Stayed about the same, 3. Decreased".

Source: Research carried out on behalf of HM Revenue & Customs

2.15 In February 2021, HM Treasury identified that "a significant proportion" of those receiving SEISS at the end of 2020 came from sectors that were least impacted by the COVID-19 pandemic, were open, or had a 'better' recovery after the first lockdown. HM Treasury divided the self-employed into groups depending on the impact of government COVID-19 restrictions. It estimated, for example, that more than half of claims were from those in sectors that were open or where people could work from home, albeit likely facing reduced demand.

2.16 In June 2022, HMRC calculated that recipients of the first three SEISS grants saw an increase in average trading profits of 14% compared with the year before, although the impact on the incomes of individual claimants will have varied. A business's profits may not have reduced as significantly as anticipated when the SEISS grant claim was made and the business may have recovered better than expected. This does not affect eligibility as scheme rules allowed grants to be claimed even if incomes had increased. SEISS 5 paid out £140 million to 140,000 claimants who reported no decrease in turnover.[16]

Cost of supporting jobs that would not be viable in the long term

2.17 This form of deadweight was not generally assessed by the Departments. It reasoned that employments on full furlough for a long period would be fraudulent claims or non-viable employments, unless they were in the limited and declining number of closed occupations. In February 2021 HMRC identified around 580,000 people who had been fully furloughed from March to the end of November, although only some of these would count as deadweight on the basis that their jobs would not be viable in the long term. Of these, 190,000 subsequently remained on full furlough for the entire 18 months of the scheme. The Departments raised the ratio of employer contributions to the employee's wages to encourage employers to retain only viable jobs as the scheme neared completion.

The Departments' attempts to reduce the costs of the schemes

Reducing the costs of CJRS

2.18 By January 2021, the CJRS policy objectives included minimising productivity loss, minimising costs and facilitating structural adjustments in the economy. In December 2020, the Departments had looked at future options for CJRS in anticipation of restrictions being relaxed in spring 2021. The Departments were concerned about the timeliness and robustness of data needed to keep up with the evolving COVID-19 pandemic. The Departments' qualitative analysis indicated that several options would not be viable (although without quantitative analysis of their implications for deadweight or error and fraud) including:

- Eligibility criteria based on business sectors. This option was discounted because of:
  - difficulties defining sectoral boundaries and lack of accurate data, leading to a likely reliance on businesses self-defining their sector, with a consequent fraud risk; and
  - the differing impacts of government COVID-19 restrictions within some sectors, which "risked deadweight costs" (although the Departments did not compare this to existing deadweight costs).

16 HM Revenue & Customs, *Self-Employment Income Support Scheme statistics*, December 2021.

- A financial impact test based on the level of restrictions a business faced, which had been envisaged as part of JSS to exclude large firms that were performing strongly and hence reduce deadweight. The Departments had not finalised how this would be applied in JSS, and their analysis was that it would not be directly transferable to CJRS due to a lack of timely and complete information.

2.19 In December 2020, the Departments considered that significant changes to the schemes would be more deliverable from March onwards, because of the work needed to put the changes into operation, uncertainty about the path of the COVID-19 pandemic, and claimants' existing expectations. Internal assessments showed that implementing the 'paused' JSS remained a strong option. They considered improving targeting of payments by means of either a test of financial impact or a reintroduction of 'tapering' (gradual increase in the level of employer contribution towards the employee's wages). They considered the latter was the simplest option, based on the experience of using it in summer 2020 and delivery challenges with alternatives, but left options open.

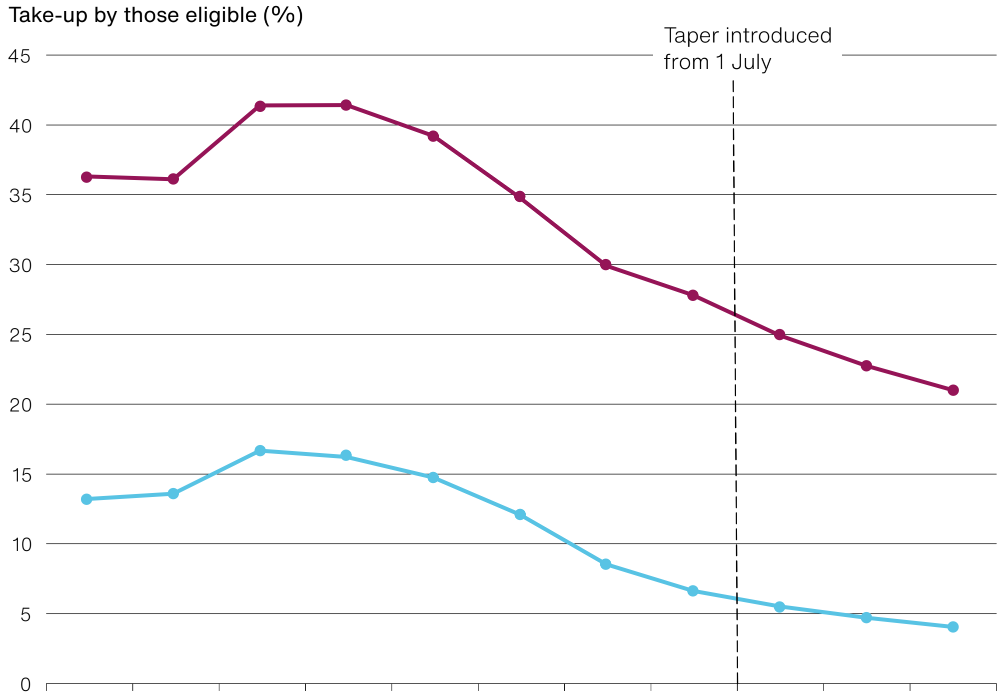
2.20 When making decisions about the design of the remainder of CJRS in February, the Departments continued to view tapering as "the simplest approach to avoid a cliff-edge exit from the scheme while also increasing its value for money by reducing deadweight." In their analysis of the approaches taken by other countries, the Departments found no examples of other countries 'tapering' support over time.

2.21 After considering several scenarios, the Departments concluded that both tapering and targeting payments based on the impact of COVID-19 on businesses' turnover would reduce the monthly cost of the scheme, as well as the average monthly cost per employment supported. They assessed that tapering would be more deliverable and fairer than more targeted options, given limitations to the timeliness and robustness of data. They concluded that tapering would reduce the costs further and more rapidly, but that "this analysis does not take account of the wider economic benefits of maintaining these employer–employee matches (which are a key goal of the scheme)." In fact, the fall in employee take-up during the last three months of CJRS, when tapering was introduced, was slower than in the previous three months, although the economy reopened fully in July (excluding international travel) (**Figure 6**).

Figure 6

Coronavirus Job Retention Scheme (CJRS) take-up rates, November 2020 to September 2021

Take-up of the scheme declined steadily before and after tapering was introduced



	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Employers' take-up of CJRS (percentage of those eligible)	36.3	36.1	41.4	41.4	39.2	34.8	29.9	27.8	24.9	22.7	21.0
Employees' take-up of CJRS (percentage of those eligible)	13.2	13.6	16.7	16.2	14.8	12.1	8.5	6.6	5.5	4.7	4.0

Note

1 Take-up by employers reduced by around one quarter in both the three months before tapering and the three months after. Take-up for employees reduced by 55% in the three months before tapering and by 39% in the three months after.

Source: National Audit Office analysis of HM Revenue & Customs data

Reducing the costs of SEISS

2.22 Scheme rules had always permitted claimants to continue working while receiving SEISS grants. From November 2020, the Departments required claimants to declare that they reasonably believed that any reduced activity, capacity or demand due to COVID-19 would result in a significant reduction in their trading profits, compared with what they would otherwise expect to achieve during this period.[17] The objectives for SEISS were refined in early February 2021. They placed more emphasis on targeting support to those self-employed people who needed it until their business recovered, providing business with certainty, and having a clear exit strategy.

2.23 The Departments introduced a financial impact test for SEISS 5, when self-assessment tax returns for 2019-20 were available, consisting of a two-tier grant based on a claimant's expectations about reductions in their turnover due to the COVID-19 pandemic. Although there were two tiers of grant, eligibility was not removed from any existing claimants. SEISS 5 grants covered the period from 1 May 2021. When applications for SEISS 5 opened on 28 July, the economy had fully reopened, excluding international travel. Take-up dropped significantly to 38% (**Figure 7**), reducing the cost of SEISS 5 by £2.5 billion compared with the cost if take-up had been at the same level as SEISS 4. The Departments told us they were concerned that introducing a test earlier on a self-assessed basis would increase the risk of error and fraud, add complexity for customers and delay payments. They currently estimate that additional error and fraud attributable to the SEISS 5 financial impact declaration amounts to around £170 million to £200 million. Where data are not available to validate eligibility we would normally expect a self-assessment of expected income to be preferable to having no test, as it could significantly reduce payments to those not in need, and provide clear criteria against which claimant behaviour could be assessed for possible instances of fraud.

Estimating the impact of scheme changes on error and fraud

2.24 In assessing options for changing the schemes the Departments should, alongside quantifying the likely impacts on deadweight, have estimated the impacts on error and fraud. It follows that adding to the schemes' eligibility criteria will increase the incidence of error and fraud. More eligibility criteria increase the likelihood that applicants will make mistakes and try to circumvent the rules to maximise grants.[18] Decision-making would have benefited from the Departments setting out more clearly the relative scales of deadweight cost and error and fraud when comparing options. This would have been much easier with robust real-time data about the impact of COVID-19 on claimants.

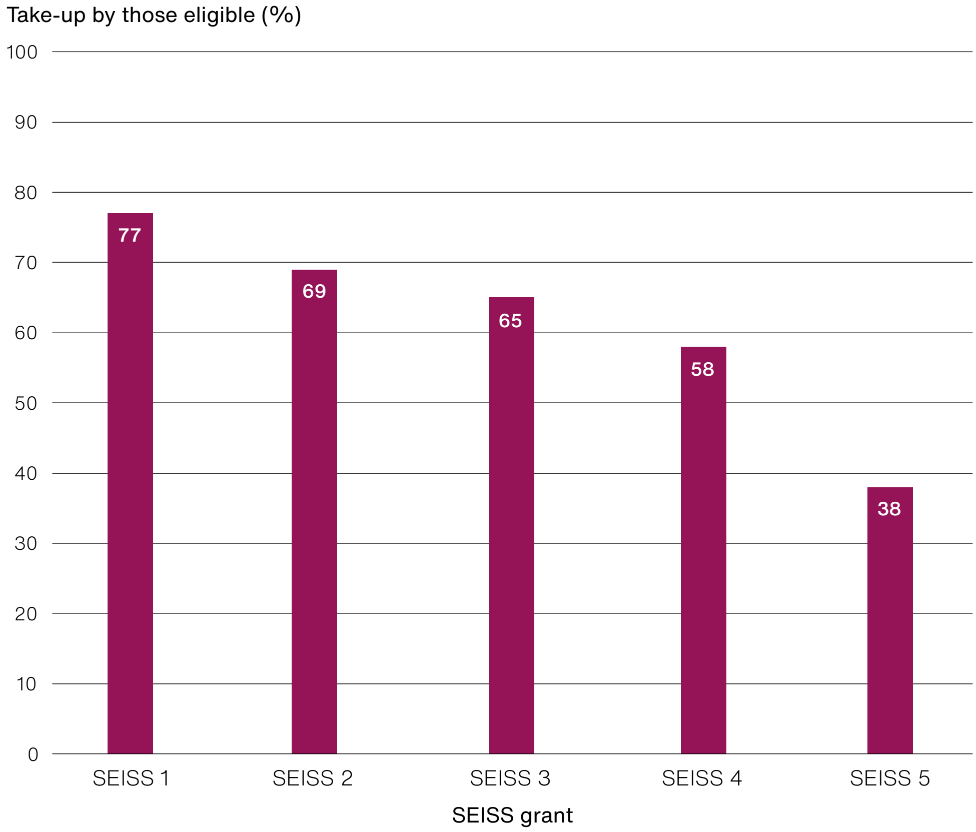
17 HM Revenue & Customs, *[Withdrawn] How your trading conditions affect your eligibility for the Self-Employment Income Support Scheme,* November 2020.

18 In Part Three we look in detail at the amount of estimated and actual error and fraud on the schemes.

Figure 7

Take-up rates for the five Self-Employment Income Support Scheme (SEISS) grants, May 2020 to September 2021

Smaller grants for those whose turnover had declined by less than 30% and improved economic conditions are both likely to have contributed to the large reduction in take-up for SEISS 5



Notes

1 The 20 percentage point reduction between SEISS 4 and SEISS 5 exceeded the reduction between SEISS 1 and SEISS 4 (19 percentage points).

2 SEISS 1 covered May 2020 to July 2020, SEISS 2 covered August 2020 to October 2020, SEISS 3 covered November 2020 to January 2021, SEISS 4 covered February 2021 to April 2021 and SEISS 5 covered May 2021 to September 2021.

Source: National Audit Office presentation of HM Revenue & Customs data, *Official Statistics: Self-Employment Income Support Scheme statistics*, December 2021

2.25 The Departments rarely quantified the impact on error and fraud as part of considering options for reducing the schemes' costs. In January 2021, HM Treasury's review of the cost of extending CJRS into summer 2021 covered options around targeting, tapering and financial impact, but did not compare their likely impacts on error and fraud. Error and fraud were more likely to be assessed when deciding how to implement a particular option. Most notably, in February 2021, the Departments estimated the error and fraud resulting from introduction of a self-declaration of financial impact for SEISS.[19] HMRC estimated the impact of recipients attempting to fraudulently suppress their level of turnover in order to qualify for a larger grant. It decided that the impact on error and fraud would be "low to moderate" (adding five percentage points or more to the rate of error and fraud). HM Treasury had previously argued that the increase in error and fraud would be too great to adopt such an approach, without quantifying the risk.

19 The test makes it more straightforward to retrospectively identify people who should not have made claims and recover overpayments.

Part Three

Error and fraud in the schemes

3.1 In October 2020 we reported on the early implementation of the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS).[20] The pace at which the schemes were designed and implemented meant HM Treasury and HM Revenue & Customs (HMRC) (collectively the Departments) had to accept a greater risk of error and fraud than normal.

3.2 We concluded that a key value for money test for the schemes would be how far the Departments can mitigate error and fraud. We said the Departments should do more to counter acts of fraud, and ensure sufficient resources were committed to recover money where cost-effective to do so.

3.3 In this part of the report, we consider:

- HMRC's preventative controls;
- the possible scale of error and fraud in both CJRS and SEISS, including the risk of non-detection;
- HMRC's progress in tackling error and fraud; and
- HMRC's criminal investigations and the civil penalties it has levied.

HMRC's preventative controls

Controls for CJRS

3.4 HMRC initially assessed that CJRS would be most at risk from organised criminal attacks and opportunistic fraud from claimants intentionally inflating their claims. The Departments initially limited applications to existing taxpayers to reduce the risk of fraud, including from false companies submitting claims. Once received, HMRC had 72 hours to check claims to meet the policy priority of making payments within six days of the application.

20 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.

3.5 In October 2020, we identified weaknesses in HMRC's control environment, most notably around employers claiming furlough for employees who were working, which was against scheme rules ("working while furloughed"). HMRC could not prevent such claims and thus intended to recover sums after payment. In early 2021, HMRC responded to our report, and the subsequent Committee of Public Accounts report, and strengthened its preventative controls by publishing the names and an indication of the amounts claimed by employers, and notifying employees they were included in furlough claims through their personal tax accounts.[21,22] However, with many employers facing cashflow pressures, the conditions remained for many to over-claim.

Controls for SEISS

3.6 As with CJRS, HMRC was concerned SEISS faced risks of organised criminal attack and opportunistic fraud and utilised many of the same controls. It initially restricted the scheme to existing taxpayers. It assessed the overall risk of error and fraud as lower because it invited people to claim directly and calculated the grant using tax records. It used pre-claim and compliance checks to help identify those who were not eligible.

The possible scale of error and fraud

3.7 In July 2022, HMRC published its first estimates of CJRS and SEISS error and fraud in 2021-22 and revised estimates for 2020-21. Its estimates are highly uncertain.[23] Over the whole life of the schemes, HMRC considers it is likely error and fraud of CJRS and SEISS was between £3.2 billion (3.3% of cost) and £6.3 billion (6.4%), with a most likely estimate of £4.5 billion (4.6%) (**Figure 8** on pages 37 and 38).[24]

3.8 HMRC has reduced its most likely estimate of error and fraud in CJRS in 2020-21 from 8.7% to 5.3% and increased its estimate for SEISS from 2.5% to 3.2%. HMRC's estimates the rate of SEISS error and fraud increased in 2021-22, most notably because of the financial impact declaration for SEISS 5 (paragraph 2.23). Around two-thirds of total CJRS error and fraud is due to working while furloughed (HMRC's best estimate is £2.3 billion), which HMRC estimates through a complex model using survey and other data, and a number of assumptions. Its estimates for most other CJRS risks are based on enquiries into a random sample of claims made in the scheme's first eight months.[25]

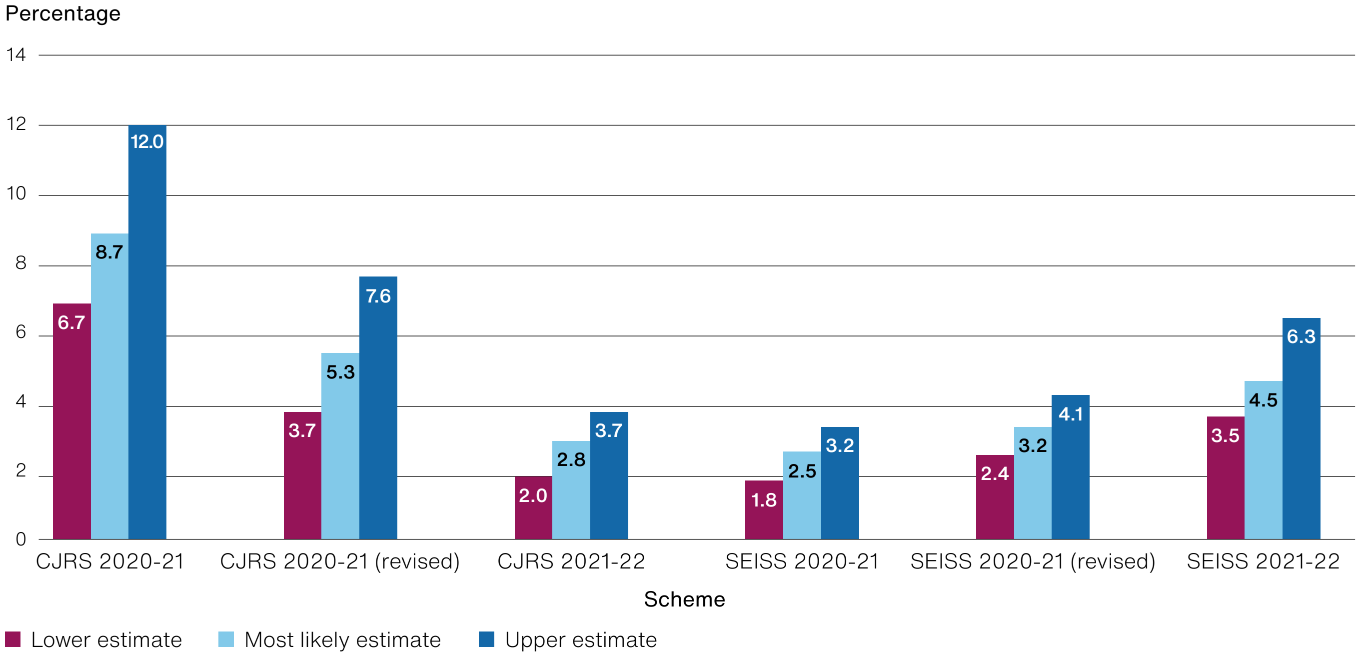
21 HC Committee of Public Accounts, *COVID-19: Support for jobs*, Thirty-Fourth Report of Session 2019–2021, HC 920, December 2020.
22 Personal tax accounts are digital accounts that enable taxpayers to check their tax records.
23 The National Audit Office continues to qualify the accounts of HMRC on the basis that the levels of error and fraud on COVID-19 employment support schemes is material – see Comptroller and Auditor General, *HM Revenue & Customs 2021-22 Accounts*, July 2022, Part Two, pages R29 to R43.
24 Values are total error and fraud before post-payment compliance activity.
25 At September 2022, HMRC was completing enquires into a sample of claims made for the period from November 2020 to September 2021.

Figure 8

HM Revenue & Customs' (HMRC's) estimates of error and fraud in the schemes, rate and amount, 2020-21 and 2021-22

HMRC estimates that both the amount and rate of error and fraud was highest on the Coronavirus Job Retention Scheme (CJRS) in 2020-21. For the Self-Employment Income Support Scheme (SEISS) the amount was highest in 2020-21, but the rate was highest in 2021-22

Error and fraud rates by scheme



Cost of error and fraud by scheme

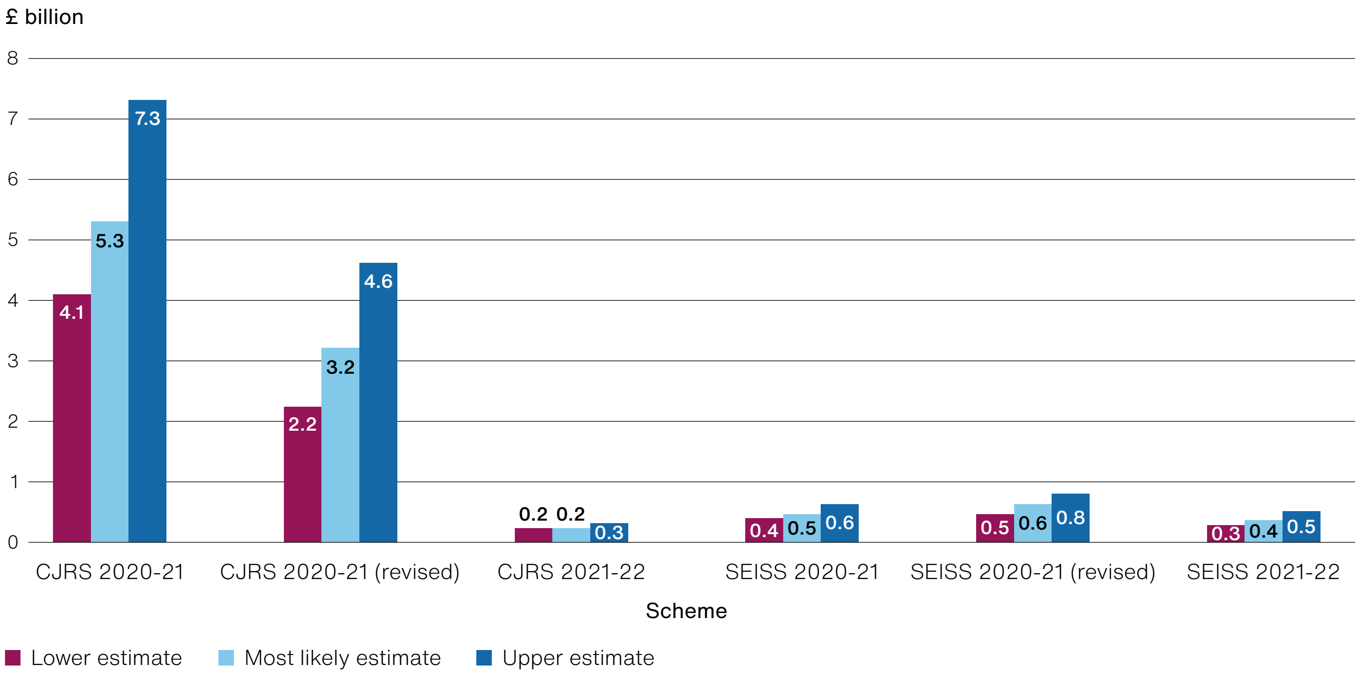


Figure 8 *continued*

HM Revenue & Customs' (HMRC's) estimates of error and fraud in the schemes, rate and amount, 2020-21 and 2021-22

Notes

1 In November 2021, HMRC published its original estimates of error and fraud in CJRS and SEISS in 2020-21 in its Annual Report and Accounts for 2020 to 2021. In July 2022, HMRC revised these estimates and published estimates for 2021-22 in its Annual Report and Accounts 2021 to 2022.

2 HMRC's statistical view is that its estimates provide 95% confidence that actual error and fraud lies within the upper and lower ranges it has calculated for each scheme. There is some overlap between the two ranges reported for both schemes for 2020-21. HMRC plans to publish final estimates in 2023.

3 HMRC estimates the residual error and fraud within the schemes. Residual error and fraud is defined as the monetary value of error and fraud remaining after pre-payment checks but before the effects of post-payment compliance activity have been realised.

4 HMRC's estimates of the likely levels of error and fraud in CJRS are based upon a combination of: the results of a mandatory random enquiry programme into a sample of claims; insights from HMRC administrative data; internal and external surveys; pre-payment risking and verification checks; post-payment compliance data; and experience from error and fraud rates in other tax and benefit streams it administers. HMRC's estimates for SEISS are based upon modelling using a mixture of data from Self-Assessment tax returns, insights from HMRC administrative data and post-payment compliance outputs. HMRC's estimates for both CJRS and SEISS remain subject to significant uncertainty.

5 Values are in nominal terms to maintain consistency with HMRC's Annual Report and Accounts.

Source: National Audit Office presentation of data in HM Revenue & Customs, *Annual Report and Accounts 2021 to 2022*, July 2022, Table 7, page 30 and HM Revenue & Customs, *Annual Report and Accounts 2020 to 2021*, November 2021, page 266

Challenges in estimating error and fraud in CJRS

3.9 Estimating the scale of error and fraud is inherently challenging. It is particularly difficult to be sure about the completeness of fraud estimates. We examined HMRC's adjustment for non-detection of CJRS error and fraud, and its estimates for organised criminal activity and furlough error and fraud arising from employees working while furloughed.

The risk of non-detection of fraud

3.10 A random enquiry programme examining a sample of claims is a standard HMRC approach to measuring error and fraud. For CJRS, HMRC checked its sample for errors but found it difficult to identify opportunistic fraud, including employers failing to pay furloughed employees.[26] HMRC also found no cases of organised crime through the random enquiry programme, either because there was no such fraud in its sample or because it was not detected. Its guidance required few checks for the risks of organised crime. Its checks did consider whether a company was employing staff prior to the scheme, but would not detect hijacked or coerced companies, or identify falsified records. Caseworkers told us it was unlikely the enquiry programme would identify organised crime.

26 Four per cent of furloughed staff responding to a 2020 National Audit Office survey said that their employer had paid them less than 80% of their pay which was the minimum amount they should have received under CJRS.

3.11 HMRC usually adjusts random enquiry programmes for non-detection because it is inevitable some errors and fraudulent activity will be missed. For CJRS, HMRC made a specific adjustment for employees working while furloughed because it was difficult to identify many instances when reviewing claims (paragraph 3.16). It also made a wider adjustment for other error and fraud risks, including organised crime. However, the wider adjustment was not based on the design and operation of the scheme, or the maturity of the CJRS enquiry programme. HMRC considered it did not have sufficient information to make a robust adjustment based on the scheme. Instead, it used the same 20% uplift it applies when estimating employer compliance for Pay as You Earn (PAYE). The nature of error and fraud occurring on CJRS differs to PAYE because it:

- involved a greater degree of self-assessment than PAYE;
- provided greater scope for employers to benefit financially when many faced cash flow problems; and
- as a grant scheme, was attractive to fraudsters.

3.12 As the CJRS enquiry programme was new, and covered a new grant, it was likely to be at a higher risk of non-detection than HMRC's more mature approach for assessing non-detection on PAYE, a well-established tax.

Estimating the risk of organised criminal activity

3.13 HMRC considers that organised criminal activity is unlikely to have succeeded at scale because it restricted CJRS initially to existing taxpayers and its control environment was successful. Its pre-payment controls focused on preventing attacks from organised crime, most of which it expected to be digital. HMRC checked whether claims had links to previous frauds, and checked for digital attacks, including multiple claims from the same device. However, HMRC was unable to check claims to other central and local government data because of the government priority to make CJRS payments quickly and because external data were not in a suitable format. There remained ways in which organised crime could have gained from CJRS, including:

- digital attacks including using compromised tax accounts;
- using existing companies they already controlled;
- obtaining existing companies or coercing legitimate companies to submit fraudulent claims; and
- creating new companies, including in anticipation of government extending CJRS to new taxpayers.

3.14 In April 2020, HMRC estimated that organised crime might account for 2.5% to 5% of expenditure on the initial CJRS scheme. HMRC considers there has not been the level of digital and other attacks it expected. It prevented or detected organised criminal attacks of up to £450 million (0.65% of CJRS's cost) by March 2022, comprising:

- up to £262 million of claims rejected following pre-payment checks, which focused on tackling organised crime; and
- £188 million of claims made by organised criminals that its fraud service prevented (£128 million), recovered (£47 million) or were investigating (£13 million).

3.15 HMRC's counter-fraud staff assessed losses to organised crime, drawing on compliance and fraud investigation data. They considered scenarios for losses, with the largest set at 100% of HMRC's non-detection adjustment (paragraph 3.11). They decided on 50%, equal to around £100 million over the scheme (0.15% of CJRS cost). We have not been able to audit this estimate, which is opinion-based. However, we see a risk of over-optimism. HMRC did not involve independent experts when making its estimate and scenarios were limited to its existing non-detection adjustment. 0.15% is much lower than both HMRC's assessment at the start of CJRS, and the value of criminal attacks which HMRC prevented or detected.

Estimating furlough error and fraud

3.16 HMRC knew in advance of starting its random enquiry programme that the programme would only generate a weak assessment of the risk of working while furloughed, resulting in an underestimate of error and fraud. Experience of operating the random enquiry programme proved that this assessment was accurate and HMRC found it hard to identify employees working while furloughed when reviewing claims. It identified the strongest source of evidence would be to carry out population-representative surveys directly of employees, but it did not commission further research for the period from July 2020. HMRC told us it considered further research was unlikely to provide reliable data because of difficulties in identifying, and getting responses from, a representative sample of furloughed employees, and concerns that respondents might misunderstand their furlough status under 'flexible-furlough'. With the amount of time that has now passed, a further survey of employees is less likely to be effective.

3.17 HMRC developed a model to assess furlough error and fraud, instead of using its random enquiry programme. It reviewed surveys of employees which HMRC, the National Audit Office and third parties had undertaken to understand the extent of furloughed employees working between March and June 2020. Five surveys reported that between 9% and 26% of furloughed employees were working, with another reporting 63%. HMRC judged that 20% was the best estimate. After making adjustments, including for employees undertaking voluntary work, training or working a second job, HMRC estimated that furlough error and fraud was 6.6% of all CJRS spend during this period.

3.18 HMRC estimated that furlough error and fraud fell to 1.1% during the 15 months from July 2020 when 'flexible-furlough' was allowed. In the absence of survey data for the period, HMRC used data collected for other purposes, and made adjusting assumptions, in estimating that:

- overpayments for each employee working while furloughed would be around four-fifths lower under 'flexible-furlough'. It expected a reduction as rule changes meant that, if employees worked during some of the hours that were being claimed for under the furlough scheme, doing so invalidated only that part of the claim, rather than the full claim. HMRC identified two approaches for quantifying the change, selecting the one which produced the largest reduction in estimated error and fraud;[27] and
- the incidence of employees working while claimed for furlough was around one-fifth lower. The HMRC estimate depends on surveys covering March to June 2020 only and is difficult to substantiate in the absence of robust data showing whether the behaviour of employers and furloughed employees changed under 'flexible-furlough'. Caseworkers told us the freedom to work part-time made it difficult to detect whether someone was working for hours they were furloughed. Thus, more furloughed employees may have worked inappropriately during 'flexible-furlough'.

HMRC's progress in tackling error and fraud

3.19 The priority to pay grants quickly meant HMRC could not address some risks to error and fraud before payment. It helped employers and self-employed people to voluntarily repay grants claimed in error or where they were no longer needed (£968 million by March 2022). It began post-payment compliance work in earnest in September 2020, and established the Taxpayer Protection Taskforce in April 2021 to increase its compliance activities in 2021-22 and 2022-23.

3.20 The government's policy is to pursue deliberately fraudulent behaviour, but not penalise applicants for honest mistakes. HMRC is not able to recover all overpayments and has focused on the most serious cases.

3.21 In February 2022, the Committee of Public Accounts concluded that HMRC's plans for recovering overpayments were "unambitious". It said HMRC needed to reassure Parliament and the public that it was serious about tackling error and fraud and was taking all recovery action where cost-effective to do so.[28]

27 It reduced the CJRS error and fraud rate for 2020-21 by 0.4 of a percentage point more than the alternative.
28 Committee of Public Accounts, *HMRC Performance in 2020–21*, Thirty-Seventh Report of Session 2021–22, HC 641, February 2022, page 5.

3.22 We examined the overall results of HMRC's compliance programme, resources deployed, and returns from:

- 'one to many' activities, to communicate standard, common messages to multiple claimants where non-compliance was suspected; and
- 'one to one' compliance cases, where HMRC considered there was high risk a claimant had overclaimed.

Overall results of compliance work

3.23 HMRC's key performance measure is error and fraud repaid or due for repayment ('yield') following compliance activity. In 2020-21, yield was £535 million, with the large majority coming from 'one to many' interventions.

3.24 HMRC had expected the Taxpayer Protection Taskforce to recover a further £800 million to £1,000 million across 2021-22 and 2022-23. Since April 2021, HMRC has largely undertaken more resource-intensive 'one to one' activities and returns have fallen. In August 2022, HMRC forecast yield of £623 million, some £180 million below the lower end of its expectation that the Taskforce would recover £800 million to £1,000 million (**Figure 9**).[29] HMRC considers yield has been more difficult to secure because error and fraud is lower than expected. If HMRC meets its prediction for yield, between £2.0 billion and £5.1 billion of overpayments will remain unrecovered, according to HMRC estimates.

3.25 HMRC is forecasting yield of £343 million for 2022-23 – a 52% improvement on 2021-22 levels. This will be challenging to achieve. HMRC assessed that compliance cases still open at April 2022 may yield around £150 million. HMRC is adding new areas of compliance work in 2022-23, including whether tax has been paid on grants. However, 2021-22 yield was around 10% below HMRC's forecasts and HMRC told the Committee of Public Accounts that it expected returns to diminish.[30]

3.26 HMRC expected the Taxpayer Protection Taskforce would enable it to open 30,000 'one to one' cases during 2020-21 to 2022-23. It is on course to exceed this. It had closed 26,854 cases by March 2022, four-fifths of which were on the simpler SEISS scheme.[31]

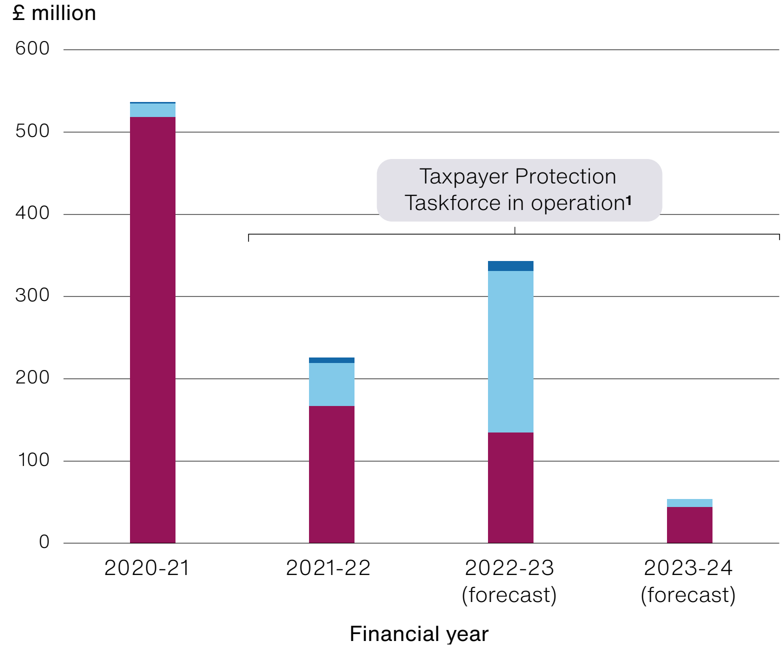
'One to many' activities

3.27 CJRS claimants accounted for 95% (£480 million) of yield. HMRC wrote to 88% of the largest businesses who claimed CJRS, receiving around 1,200 individual repayments and amendments reducing claims, which yielded £370 million.[32]

29 £623 million includes £18 million yield from the 'Eat Out to Help Out' scheme, which provided a discount to encourage people to return to eating out in August 2020.
30 Letter April 2022 from Jim Harra to Committee of Public Accounts Chair Dame Meg Hillier, available at: https://committees.parliament.uk/publications/21983/documents/163435/default/
31 The 26,854 figure includes 349 Eat Out to Help Out cases.
32 Large businesses have a turnover of more than £200 million. Individual businesses may have made multiple repayments.

Figure 9
Yield from post-payment compliance, 2020-21 to 2023-24

Annual yield is expected to be highest in 2020-21. At August 2022, HM Revenue & Customs (HMRC) forecast the Taxpayer Protection Taskforce would yield £623 million from the three years of 2021-22 to 2023-24



	2020-21	2021-22	2022-23 (forecast)	2023-24 (forecast)
Eat Out to Help Out (£m)	2	6	12	0
Self-Employment Income Support Scheme (SEISS) (£m)	16	52	196	10
Coronavirus Job Retention Scheme (CJRS) (£m)	519	167	135	44
Total	**536**	**226**	**343**	**54**

Notes

1 HMRC established the Taxpayer Protection Taskforce in April 2021 to increase its compliance activities in 2021-22 and 2022-23. The Taskforce's activities will now extend into 2023-24 (paragraph 3.35).

2 Most yield in 2020-21 came from HMRC's 'one to many' activities to communicate standard, common messages to multiple claimants where non-compliance was suspected. Yield from such activities is recorded when overpayments are recovered. Most yield in 2021-22, and forecast for 2022-23 and 2023-24, is from 'one to one' compliance cases where HMRC considered there was high risk a claimant had overclaimed. For 'one to one' cases, yield is recorded when the overpayment is identified rather than recovered. HMRC applies a 10% discount as some overpayments will not be recovered.

3 As well as CJRS and SEISS, the Taskforce also covered the 'Eat Out to Help Out' scheme, which provided a discount to encourage people to return to eating out in August 2020.

4 Values are in nominal terms to maintain consistency with the basis of the yield expectation for the Taxpayer Protection Taskforce and values reported by HMRC.

5 Numbers may not sum to total due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

'One to one' activities

3.28 By the end of March 2022, yield was £250 million, of which four-fifths came from CJRS claims. We examined factors which affected yield:

- HMRC's investigations of potential fraud.
- The time taken by HMRC to complete compliance cases.
- HMRC's use of intelligence and insight.

HMRC has management information on yield and resourcing by scheme and team. To help us examine its performance, HMRC analysed its records to provide activity and results data for each of its compliance interventions which target particular fraud risks or groups of risky claimants.

HMRC's investigation of potential fraud

3.29 'One to one' yield totalled £197 million in 2021-22, with £122 million (62%) arising from HMRC's fraud investigation service, which investigates the most serious frauds, including one case which yielded £83 million.

3.30 Returns from HMRC's compliance programme were low in 2021-22, particularly on cases covering CJRS claims from medium-sized and small employers. These cases yielded £27.5 million, or just £51,000 for each of the 540 staff working them. HMRC is forecasting yield will rise to around £170,000 per person in 2022-23, as long-running cases close. On tax compliance, HMRC expects a yield of around £1 million per person.

3.31 HMRC has recovered little of the furlough error and fraud from employees working while being claimed for, which HMRC estimates could have cost £2.3 billion. HMRC's compliance intervention targeting furlough error and fraud had closed 254 cases by March 2022 yielding only £640,000.[33] HMRC has so far found it difficult to identify furlough error and fraud from interrogation of HMRC data and open-source material, and it has not been successful in using other potential sources of insight.

- To help it investigate the relationship between employers and employees, HMRC has interviewed some employees but with limited success. Employees can be reluctant to be interviewed and can refuse, for example because they are in collusion with management, or may be concerned about their employer's reaction.
- HMRC judged that employers could not be visited during lockdown periods and visits would not be cost-effective, particularly after the grant period had finished, and told us that the lack of real-time data would not have allowed visits to be properly targeted.

HMRC is now using VAT data to help it identify employers whose trading was inconsistent with its furlough claims.

33 The £640,000 figure is a proxy for recoveries. It is identified overpayments less a 10% discount for non-payment.

Time to complete cases

3.32 Cases managed by HMRC's main COVID-19 compliance team are proving more difficult to complete than HMRC expected. In 2021-22, the team took an average of 9.5 months (58% longer than the six months expected) to close CJRS cases and 8.2 months (37% longer) to close SEISS cases. Open cases were also taking longer. At March 2022, HMRC had been working 47% of open CJRS cases for more than one year. HMRC considers scheme extensions and rule changes have made casework more complex, reducing by one third the cases a caseworker can manage.

Using intelligence

3.33 Across both schemes, HMRC found it difficult to use many of the 40,983 allegations received through its fraud hotline. It judged 22,064 were of sufficient quality for its compliance teams to consider. Initially some CJRS compliance cases were based on fraud hotline intelligence alone, but these were low-yielding. HMRC does not have management information on the nature of allegations, how many it has investigated and resulting yield, nor the reasons why many allegations were unproductive.

Resources deployed

3.34 The Taxpayer Protection Taskforce enabled HMRC to increase its compliance activities on the schemes. In 2021-22, HMRC deployed an average of 961 staff on CJRS and SEISS, up from 594 in the second half of 2020-21. In total, the Taskforce cost around £60 million in 2021-22. The Taskforce's actual compliance staffing in 2021-22, and forecast staffing for 2022-23, is below its 1,250 complement (**Figure 10** overleaf).[34] HMRC expects to make up for the shortfall by deploying an average of 266 full-time equivalent staff in 2023-24. HMRC is receiving £100 million between 2021-22 and 2025-26 to partly compensate for the diversion of staff from tax compliance activities during the Taxpayer Protection Taskforce's existence.

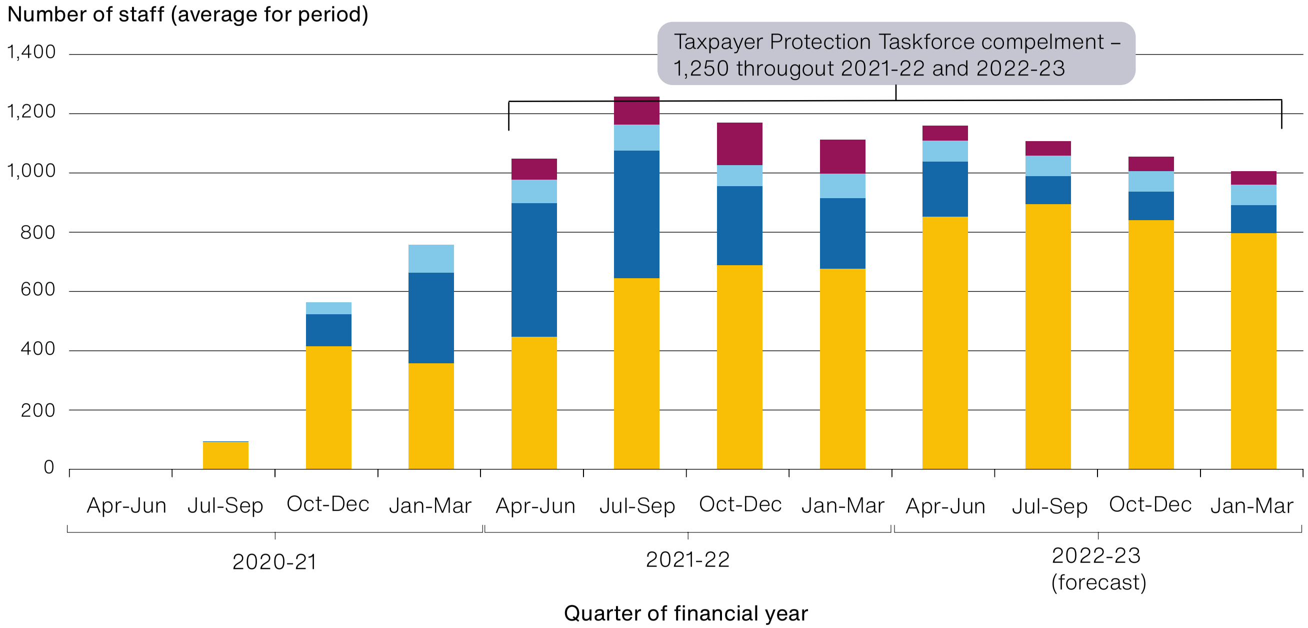
3.35 At September 2022, the government was deciding on the future of the Taxpayer Protection Taskforce, and when and how to bring compliance work on CJRS and SEISS into its business-as-usual activities. It has decided to deploy resources to the Taxpayer Protection Taskforce until at least September 2023. HMRC figures indicate that by 2023-24 between £2.0 billion and £5.1 billion of error and fraud will remain unrecovered. HMRC's estimates of yield indicate that its return on investment on CJRS and SEISS compliance activities was 4:1 in 2021-22, and could be 7:1 in 2022-23.

34 Total Taskforce complement of 1,265 included 15 posts in HMRC's legal team. In addition to the Taskforce, a further 295 staff on average in 2021-22 worked on activities linked to post-payment compliance of COVID-19 schemes, of which two thirds were temporary staff in support roles.

Figure 10

Number of post-payment compliance staff in the Taxpayer Protection Taskforce, 2021-22 to 2022-23, and equivalent roles in 2020-21

Staffing increased in spring 2021 when the Taskforce was established but average staff levels were 8% below its' complement in 2021-22 and are forecast to be 13% below in 2022-23[1]



	Apr-Jun 2020-21	Jul-Sep 2020-21	Oct-Dec 2020-21	Jan-Mar 2020-21	Apr-Jun 2021-22	Jul-Sep 2021-22	Oct-Dec 2021-22	Jan-Mar 2021-22	Apr-Jun 2022-23 (forecast)	Jul-Sep 2022-23 (forecast)	Oct-Dec 2022-23 (forecast)	Jan-Mar 2022-23 (forecast)
Cross-scheme[2]	0	0	0	0	70	94	142	115	50	48	47	46
Eat Out to Help Out[1]	0	0	39	93	79	88	71	83	71	70	70	70
Self-Employment Income Support Scheme (SEISS)	0	1	109	306	451	431	268	238	185	95	95	95
Coronavirus Job Retention Scheme (CJRS)	0	93	415	358	447	645	688	677	853	895	842	797
Total	**0**	**94**	**563**	**757**	**1,047**	**1,258**	**1,170**	**1,113**	**1,160**	**1,107**	**1,054**	**1,007**

Notes

1 HM Revenue & Customs (HMRC) established the Taskforce in April 2021 to increase its compliance activities in 2021-22 and 2022-23. The Taskforce is responsible for CJRS, SEISS and Eat Out to Help Out which provided a discount to encourage people to return to eating out in August 2020. It also includes HMRC's fraud investigations into these schemes.

2 HMRC does not have data on staff covering more than one scheme prior to April 2021. HMRC started collecting data from April 2021 so that it could track actual staffing against the Taskforce complement.

3 Numbers may not sum to total due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

Criminal and civil penalties

Criminal penalties

3.36 As at March 2022, HMRC had 24 investigations underway linked to CJRS and SEISS fraud, covering suspected fraudulent claims of £13 million. Some of the investigations are linked to wider tax risks.[35] None have yet gone to court but there have been 23 arrests spanning nine cases. HMRC prioritises recovery of money over prosecution in most cases.

Civil penalties

3.37 Finance Act 2020 gives HMRC the power to raise penalties of up to 100% of any CJRS or SEISS overpayment where it has sufficient evidence of deliberate fraudulent behaviour.[36] In line with the general supportive approach to claimants facing difficult circumstances, the government did not seek powers to penalise those who had made mistakes. For tax, HMRC can penalise customers who fail to take reasonable care in providing information and gain as a result, which encourages compliance with the tax system as a whole.

3.38 HMRC has issued few penalties on CJRS and SEISS. As at March 2022, CJRS penalties totalled £1.1 million (0.5% of the overpayments identified through 'one to one' compliance work) and SEISS penalties £3.5 million (7%).

3.39 We reviewed 30 CJRS compliance cases where HMRC had identified overpayments. In four cases there were strong indications that claimants may have deliberately inflated claims beyond their entitlement but penalties had not been issued.

- A company director's daughters added to payroll after the scheme cut-off date.
- An employer inflated monthly pay from £719 to £2,500.
- A company director claimed furlough although they had submitted nil PAYE returns before the start of CJRS.
- An employer claimed five times more than it was entitled to for 17 employees during 2020-21.

Following our review, HMRC re-examined these cases and concluded there were either no grounds or insufficient evidence to impose penalties.

3.40 With HMRC needing to meet a high burden of proof, and no mechanism to penalise claimants for not taking reasonable care, few employers are likely to be penalised for inflating claims.

35 There were also seven civil investigations into serious attempted frauds.
36 Penalty is in addition to repayment of overpaid grant. As discussed at paragraphs 3.19 and 3.20, HMRC also seeks to recover overpayments of grants in cases of error.

Appendix One

Our audit methodology

1 HM Revenue & Customs' (HMRC's) and HM Treasury's objectives for the schemes evolved over time, but broadly speaking were to:

- prevent job losses and large, and persistent negative impacts on the labour market;
- support incomes for individuals;
- allow businesses and individuals to continue trading; and
- limit scope for error and fraud as much as possible.

2 Our key overarching question was "Have HMRC and HM Treasury (the Departments) delivered the schemes cost-effectively given the constraints of the COVID-19 pandemic?" We considered the following questions:

- Have the Departments implemented each phase cost-effectively, given the constraints of the COVID-19 pandemic?
- Have the Departments ensured the schemes reached the people intended and achieved the objectives of the schemes?
- Have the Departments managed error and fraud risk cost-effectively given the constraints of the pandemic?

3 Our conclusion is based on analysis of the evidence collected.

4 We collected and analysed evidence between January and September 2022.

5 The report covers the operation of the schemes from October 2020 to September 2021, and the post-payment compliance activities that are continuing into 2023.

6 In the report we have differentiated in the text between analysis carried out by the Departments, and the conclusions that they drew from it, and decisions about the schemes taken at government level.

Methods

Interviews

7 We conducted more than 50 meetings including 'teach-ins' about aspects of the study scope, discussions of information requirements, emerging findings, and weekly liaison meetings with staff in both Departments:

- staff from HMRC's Customer Compliance Group who led on the compliance regime for both Departments, and staff directly involved in compliance casework, including HMRC's Fraud Investigation Service;
- staff from HMRC's Knowledge, Analysis and Intelligence Team to discuss the monitoring and evaluation of the schemes;
- HMRC and HMT policy staff involved in the design and delivery of the schemes; and
- HMRC internal audit.

8 We also engaged with experts from the Institute for Government, National Institute for Economic and Social Research, Chartered Institute of Taxation, the Resolution Foundation, CIFAS and the Association of Independent Professionals and the Self-Employed.

9 These interviews and meetings were carried out online.

Document review

10 We reviewed several hundred documents from both Departments covering:

- policy documents discussing the options available for the Coronavirus Job Retention Scheme (CJRS), the Self-Employment Income Support Scheme (SEISS) and the Job Support Scheme (JSS) during their various iterations and recommendations on the way forward at each stage – including options for the greater targeting of support – and cost forecasts;
- consideration of admitting groups ineligible for the schemes, and the impact of the schemes on demographic sub-groups of the population;
- lessons learned and contingency planning for future interventions;
- early work on the evaluations of the schemes, including analysis of the impact of SEISS on recipients' trading profits and turnover;
- the derivation of estimates of error and fraud; and
- pre- and post-payment compliance activities to detect and deter error and fraud.

11 We reviewed research and reports by government bodies (for example, the Office for Budget Responsibility and the Office for National Statistics) and third parties (for example, the Resolution Foundation) on the impact of the schemes on individuals and the wider economy.

Compliance case review

12 In conjunction with colleagues auditing the accounts of HMRC, we reviewed a sample of post-payment compliance cases undertaken by HMRC as part of its random enquiry programme, reviewing papers and interviewing caseworkers.

Survey

13 We undertook a survey of seven Supreme Audit Institutions (SAIs) in countries where responses to a survey undertaken for our first report on CJRS and SEISS, updated by further research, indicated they were operating similar schemes to CJRS and/or SEISS. We asked questions around the information published by their governments, and reports undertaken by the SAIs themselves on the coverage of the schemes, and in particular information on the extent of fraud and compliance activities. We received five responses.

Quantitative analysis

14 We undertook quantitative analysis on scheme take-up rates and costs; and post-payment compliance analysis around resources deployed, returns from different types of intervention and elapsed time to process cases.

15 HMRC carried out analysis on the population of self-assessment taxpayers on our behalf, to protect taxpayer confidentiality, which was reviewed by National Audit Office (NAO) experts.

16 To answer the question “Have the Departments ensured the schemes reached the people intended and achieved the objectives of the schemes?” we have drawn on third party analysis of the macroeconomic impacts of the schemes.

Back catalogue

17 In designing and carrying out our work we took account of previous NAO analysis examining the two schemes, as well as other government interventions during the COVID-19 pandemic. We also deployed our fraud and error audit framework for assessing the Departments’ approaches to managing error and fraud. The framework builds on significant past experience of government interventions.

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