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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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.