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Grant Fraud Assurance Report

Report summary:

This report is to provide an update for Members of the Audit & Governance Committee of the measures taken to protect against fraud & error for the administration of Covid grants. Reporting to members was an action from the assurance report submitted to BEIS.

Local Authorities were given the responsibility of administering the Covid grants to businesses to help financially support them through the various lockdowns. As part of this requirement there was a duty to ensure the safe administration of grants and that we put in place appropriate measures to mitigate against the increased risks of fraud and payment error. As part of this requirement we have needed to put in place risk plans that cover both pre and post payment assurance checks. The following report summarises the steps that we have taken and the processes conducted to minimise the risk of fraud and error within the grant schemes.

The report breaks the grants into 3 sections:

Section 1 – the first lockdown starting in March 2020

Section 2 – the second & third period of national restrictions commencing November 2020 through to March 2021

Section 3 – Re-opening of businesses from April 2021 (Restart grants)

Is the proposed decision in accordance with:

Budget Yes No

Policy Framework Yes No

Recommendation:

Members are content with the information provided in the report and agree no recommendations are required.

Reason for recommendation:

Due to the low level of recoveries from the grant schemes and the green/amber rating of the risk assessments we do not consider there are further actions required.

Officer: Libby Jarrett, Service Lead Revenues, Benefits, Customer Services, Fraud & Compliance

Portfolio(s) (check which apply):

Climate Action and Emergencies

- Coast, Country and Environment
- Council and Corporate Co-ordination
- Culture, Tourism, Leisure and Sport
- Democracy and Transparency
- Economy and Assets
- Finance
- Strategic Planning
- Sustainable Homes and Communities

Equalities impact Low Impact

Climate change Low Impact

Risk: Low Risk;

Links to background information

[First Risk Assessment](#)

[Second SWAP Risk Assessment](#)

[SWAP COVID-19 Fraud Risk Assessment](#)

Link to [Council Plan](#):

Priorities (check which apply)

- Outstanding Place and Environment
- Outstanding Homes and Communities
- Outstanding Economic Growth, Productivity, and Prosperity
- Outstanding Council and Council Services

1.0 Purpose

- 1.1 All local authorities are required to follow the guidance set out by BEIS (Department for Business Energy & Industrial Strategy) for the various grant schemes and conduct activity to provide assurance that the grants have been paid out in line with the eligibility and state aid conditions (subsidies) for these schemes.
- 1.2 The general principle applies that Local Authorities are responsible and accountable for the lawful use of funds under section 151 of the Local Government Act 1972. The Section 151 Officer within the Local Authority is required to exercise their duties, ensuring proper oversight and administration of all the grants in response to the Covid-19 pandemic.
- 1.3 The various guidance states that to deliver this assurance Local Authorities should develop pre and post-payment assurance/risk plans for each grant scheme. There should be an eligibility check and a recipient check on all payments, whether pre- or post-payment. These plans should set out the actions and checks Local Authorities will undertake to ascertain the probity of payments.

2.0 Background

- 2.1 EDDC has completed a number of grant schemes over the last 18 months in response to the Covid-19 pandemic. To date the schemes that have been implemented are as follows:
 - 1. Small Business Rate Relief Grant Fund
 - 2. Retail, Hospitality and Leisure Grant Fund – March 20
 - 3. Discretionary Grant Fund – June 20
 - 4. Local Restriction Support Grant 05.11.20 – 01.12.20
 - 5. Local Restriction Support Grant Open 2.12.20 – 30.12.20

6. Local Restriction Support Grant Closed 31.12.20 – 04.01.21
7. Christmas Support Payment for Wet Led Pubs – One off payment
8. Additional Restriction Grant – November 20 to March 22
9. Local Restriction Support Grant 05.01.21 – 15.02.21
10. Closed Business Lockdown Payment – One off payment Jan–March 21
11. Local Restriction Support Grant 16.02.21 – 31.03.21
12. Restart Grants – April 2021

2.2 In all nearly 15,000 payments have been made to individual businesses with over £83m of grants distributed. This work has been led by Revenues & Benefits and the Economic Development team and has been supported from other teams (Accountancy, Communications, Strata etc.).

2.3 The table below provides a breakdown of the grant schemes:

	Grant name /period	Applications received	Approved	Total paid	
1	Small Business Rate Relief Grant	2,925	2,759	27,590,000	Scheme 1
2	Retail Hospitality & Leisure Grant	963	926	15,365,000	Scheme 2a&b
3	Discretionary	329	299	2,310,000	
4	National restrictions –5 November to 1 December LRSO (C) Addendum	1,881	1,693	2,541,580	LRSO 1
	Tier 2/Tier 3 2 Dec to 4 Jan				
5	LRSO (O)	975	771	921,969	LRSO 2
	Special cases	20	20	715,000	
6	LRSO (C)		465	156,890	
7	Christmas support payment –Wet Led pubs	67	62	62,000	
8	Additional Restrictions Grant (ARG)	1,003	1,003	4,265,181	
9	National restrictions LRSO (C) Addendum 5 January - 15 February	1,796	1,713	3,843,393	LRSO 3
10	CBLP 5 January - 31 March	1,796	1,713	8,306,000	
11	National restrictions LRSO (C) Addendum 16 February - 31 March	1,706	1,672	4,248,572	LRSO 3.1
12	Restart Grants 01 April	1866	1743	13,057,445	
	Total	15,327	14,839	83,383,030	

2.4 From the 01 August 2021 all grant schemes closed apart from the final part of the Additional Restriction Grant which is ongoing until 31 March 2022 with the Innovation Resilience Fund (IRF).

2.5 Now that the majority of the grant schemes have concluded the attention turns to the reconciliation and post assurance tasks of the grant schemes. Some of these have been concluded, some are in progress and others have yet to be started. This has been dependant on instructions and guidance being received from BEIS.

3. Small Business Rate Grant and Retail Hospitality & leisure Grant -Schemes 1, 2a & b (Grants 1-3 in the table see para 2.3)

3.1 Pre-Payment Checks

- 3.1.1 The first step that EDDC took when the grant scheme was announced by Government late March 2020 was to conduct data analysis on the Business Rates database to identify potential qualifying claimants. This analysis was supported by experienced officers with over 30 years' experience between them of dealing with businesses in the East Devon area. This was also overseen by the Revenues & Benefits Service Lead who also has a significant amount of experience of the rating system.
- 3.1.2 The decision was taken early that we would use an online application based system that needed both a business rates number and pin number to be entered before it allowed a claim to be entered. If this was not entered or was entered incorrectly no claim was allowed. A letter was sent to all known eligible businesses with the PIN code explaining how to claim but this did not include their business rates number (second identifier). The reasons for this was to ensure that we were managing the gateway and only allowing genuine businesses to make an application. This also allowed us to pay grants out quickly to the majority of straightforward cases as we were not having to sift through lots of erroneous claims. Those who didn't have a rates account due to various reasons (business recently changed hands, not rated, etc.) we were able to deal with separately.
- 3.1.3 Strata was requested to assist in the design and implementation of the web based application form using our Customer Relations Management software (Firmstep) that then fed into our payment system. As part of the application process a recent bank statement was requested to be uploaded to check the business was still trading and confirm it was a valid business. Once the officer had approved the claim this would then be passed for payment. A further check was then made on the bank account details. For the first grant schemes neither Spotlight* nor CIFAS** was used for pre-payment assurance.

* Spotlight – Government's online due diligence tool that uses data from government sources to check for financial viability, company history and potential fraud risks. The tool provides a traffic light risk assessment by giving a red, amber or green rating.

** CIFAS – Not for profit fraud prevention organisation that has the UK's largest database of instances of actual and attempted fraud against member organisations (includes public and private sector data). Online tool that allows us to check our grant claims against this database and uses the same traffic light risk assessment. More information available here: www.cifas.org.uk

- 3.1.4 The checks conducted pre-payment were:
1. Business rates number
 2. Pin Code
 3. Uploaded bank statement (needed to be in the business name & was the same account the grant was being paid into and also showing recent transactions)
 4. Check business details against business rates system (name, address, meets scheme requirements)
 5. Check applicant details against business rates system
 6. Online open source check (website, companies house, etc)
 7. Insolvency check on register

3.2 Post Payment Checks

- 3.2.1 The subsequent guidance published by BEIS recommended the use of Spotlight to check the grants either in Pre or Post assurance. Due to the speed in getting the application set up and paying businesses it was not possible to put applications through spotlight as a pre-payment process as this would have added a time delay to the payment being made. It is important to appreciate the pressurised and challenging environment we were working in at that time, as the government announced the grant scheme to the public on 15 March, we

received the initial guidance on 23 March and then almost daily iterations of updated guidance at the same time as trying to develop a system for paying out grants which went live 1 April. Using spotlight was not part of the initial guidance and was included in one of the subsequent updates. As part of our post-assurance work all appropriate cases that had received a payment were subsequently checked with Spotlight. We were also offered the use of CIFAS through our audit partners SWAP and so utilised this service as an additional security check.

- 3.2.2 The two systems differed in that Spotlight could only check limited companies while CIFAS could check both limited and non-limited businesses.
- 3.2.3 All cases that received a grant payment were run through CIFAS. All limited companies that received a payment were run through spotlight to give us the cases that needed further investigation.
- 3.2.4 A sample of 10% (circa 300) was taken from the full list and used by our Fraud & Compliance Officer to manually check for fraud or errors using open source information. This found a 1% initial mismatch. These were the same files highlighted by CIFAS and Spotlight. As such it was felt no further manual checks were needed and to continue with the Spotlight and CIFAS data.
- 3.2.5 There was a total of 399 mismatches that were identified by CIFAS and Spotlight. After initial officer assessment we were able to reduce this down to 169. The majority were removed because they used the trading address and not the registered address so it flagged with Companies House or there was an inputting error i.e. companies house number, postcode etc.
- 3.2.6 Of the remaining 169 cases requiring further investigation 135 were identified from the Spotlight report and 34 were highlighted from the CIFAS report. (see below)

Datamatching Service	No of files (submitted)	% of mismatches requiring investigation	Cases identified for further investigation
Spotlight	1409	10.44%	135
Cifas	3336	1.02%	34

- 3.2.7 These were subjected to a more detailed investigation by our Corporate Fraud & Compliance Officer. These investigations involved visiting and using various business rates data and open source data. The investigations were completed at the start of 2021. On conclusion there were no new cases that needed monies recovered. Files that the investigation highlighted for recovery had already been actioned due to other factors i.e. landlord trying to claim when tenant already had received a grant etc. The other area the investigation highlighted was the need to review our SBRR (Small Business Rate Relief) cases (see para. 7).
- 3.2.8 The Discretionary Grant was not included as part of this review process. While an application process was used for the discretionary grant scheme and a spotlight check conducted all the matters were reviewed as part of the committee approval which constituted both officers and elected members. Due to this level of scrutiny prior to payment it was deemed not necessary to conduct further post assurance payment tests.

3.3 Risk Assessment

- 3.3.1 A [Risk assessment](#) has been completed on all 3 of these grant schemes. The risk assessment was reviewed by SWAP before being approved by both the Service Lead and S151 officer and was submitted to BEIS as part of the grant requirements.

3.4 Reclaimed Grants

- 3.4.1 So far, 13 Grants totalling £145,000 have been identified as being paid in “error” and no fraudulent cases. Each of these businesses have been written to advising that they need to return the grant money. 9 of these grants have been repaid and four remain outstanding.
- 3.4.2 The four that have not yet repaid have now been passed to BEIS to review. The standard debt recovery process, as issued in BEIS guidance, for the grants was followed. This consisted of 3 letters, increasing in severity, to each of the businesses. Phone calls and emails were also sent where appropriate. BEIS is now considering the next steps.

3.5 Other Information

- 3.5.1 In addition to the above checks both weekly and monthly reports had to be sent to BEIS to confirm what payments had been made as part of the BEIS reconciliation.
- 3.5.2 Information on all the grants for these 3 schemes has also been forwarded to the National Fraud Initiative (NFI) and HMRC (Her Majesty’s Revenue & Customs) for tax reasons.

4. Local Restriction Support Grants (4-7 & 9-11 – see para 2.3)

4.1 Pre-Payment Checks

- 4.1.1 As part of the grant guidance a section was included within all the guidance from BEIS in regard to pre or post assurance plans and checks.
- 4.1.2 Again, as per the first grant scheme, data analysis was conducted on the Business rates system to ascertain the likely businesses that could claim the grants. This analysis highlighted approximately 2600 businesses held on the system
- 4.1.3 EDDC used our experience in both the previous grants and the first Firmstep application form to enhance the process. A spotlight check of all grants for Limited Companies was incorporated and conducted on a daily basis prior to payment via a report for these schemes. While we were not the first to go live with our scheme once it was live there was very few issues or problems in regard to access, downtime etc.
- 4.1.4 SWAP was employed to run these checks and then report back on any issues. Officers were then informed and conducted a review before either accepting or rejecting the claim and payment being made. Payment was only made after checking the bank statement supplied and that matched to the details on the application. We also checked that there was valid transactions going through the account before payment.
- 4.1.5 Spotlight was not able to be utilised for non-limited companies. As such it was decided a more rigorous application process and additional information was required. However, due to the nature of the grants it was not possible to utilise a pin/access number for every grant scheme. This was highlighted with the ‘Open Scheme’ (grant 5) as we could not use the business rate number or an access code to manage the gateway as it was open to non-business rated applicants.
- 4.1.6 Due to this, in addition to the bank statement to confirm bank details for payment a copy of a recent utility bill, lease agreement or insurance certificate for the property was required. Furthermore, additional business questions and declarations were required.
- 4.1.7 With our knowledge of Firmstep we were also able to incorporate an online review stage so the application was reviewed with officers having to complete a series of questions about the grant and confirm data before they could approve, reject or hold for further information.
- 4.1.8 Additionally as the grant schemes were added to, as the lockdown progressed, and new schemes were brought on line a reduced application process was set up. Applicants of the previous scheme were asked to declare nothing had changed and given a new access code to use alongside their business rate number and declarations but didn’t ask them to re-enter all the other business information. They also had to confirm bank account and sort code making a four way verification process.

4.1.9 The checks conducted pre-payment were:

1. Business rates number (where applicable)
2. Pin Code (where applicable)
3. Uploaded bank statement (needed to be in the business name & was the same account the grant was being paid into and also showing recent transactions)
4. Utility Bill, Insurance certificate or lease/tenancy agreement
5. Unique identifier – Companies House No., VAT No., Tax Reference etc
6. Check business details against business rates system (name, address, meets scheme requirements)
7. Check applicant details against business rates system
8. Online open source check (website, companies house, etc)
9. Insolvency check on register

4.2 Post Payment Checks

4.2.1 As SWAP was employed to conduct the Spotlight checks their services were also utilised to conduct the post payment checks. These are being completed and the same sample size as the previous post payment check was used (10%).

4.2.1 This has resulted in 12 cases being highlighted for further checking so far. We are currently conducting those further checks; one has already been accepted and 2 have been highlighted for a visit. The remaining 9 are having online checks conducted.

4.3 Risk Assessment

4.3.1 To free up officer time in order to process the grants for the various schemes over a shorter period of time the decision was taken to utilise SWAP's services to complete the [risk assessment](#) for the different LRSG grants.

4.3.2 SWAP used the template that was supplied by BEIS to complete the risk assessment and the overall assessment was green/amber.

4.3.3 Overall the process was deemed as robust due to the application process and the information requested along with officer checks.

4.4 Reclaimed Grants

4.4.1 SWAP are currently conducting post payment assurance checks on the grants paid out under the various LRSG schemes. Currently we have only had to reclaim 4 of the grants that have been paid out and all of these have since repaid.

4.5 Other Information

4.5.1 In addition to the above checks both weekly and monthly reports had to be sent to BEIS to confirm what payments had been made as part of the BEIS reconciliation.

4.5.2 Furthermore, enhancements were added to the application including a Fraud checker. This checked the bank details against Fraudulent ones supplied by the NFI and flagged to officers if any of them were used. None were flagged.

5. Restart and ARG (Grants 8 & 12 see table at para 2.3)

5.1 Pre-Payment Checks

5.1.1 As per previous grants BEIS gave guidance on both Pre and Post payment checks that needed to be completed. It was recommended that an application/claim form was used as BEIS wanted specific information. This was in addition to the information we had collected on previous schemes.

5.1.2 Our experience from previous grant application processes helped in getting the application/claim form up and running within a short period of time. Spotlight checks were

set to be requested on limited companies (as per the recommendation in the guidance). This was actioned on a daily basis with SWAP conducting the check and reporting back with any exceptions.

5.1.3 The review stage within Firmstep was again used for ease for the officer and a clear audit trail of the checks and who conducted them.

5.1.4 The same checks were then conducted on the claim as per previous schemes:

1. Business rates number
2. Pin Code
3. Uploaded bank statement (needed to be in the business name & was the same account the grant was being paid into and also showing recent transactions)
4. Check business details against business rates system (name, address, meets scheme requirements)
5. Check applicant details against business rates system
6. Online open source check (website, companies house, etc.)
7. Insolvency check on register
8. Check grant awarded amount against RV

5.2 Post Payment Checks

5.2.1 The grant scheme for the Restart Grants only closed on the 31.06.21 and final payments had to be made by the 31.07.21. The ARG was different in that the scheme was allowed to continue until the funds had been used. The guidance gave certain dates to use the funds which then allowed further funding to be sought. If the funds were not used then no further funding was allowed. The ARG scheme for EDDC closed in June 2021 with all funds used.

5.2.2 We are yet to start work on the post assurance checking for these grants but would look to complete over the next few months.

5.3 Risk Assessment

5.3.1 A Risk assessment of the Restart and ARG grants has not been conducted yet. We are awaiting a draft template from BEIS before conducting the risk assessment.

5.4 Reclaimed Grants

5.4.1 Although the post payment checks and risk assessment have not been officially started we have already recovered some grants while conducting other checks and work. So far we have identified and fully recovered 3 grant amounts that were claimed in error.

5.5 Other Information

5.5.1 In addition to the above checks both weekly and monthly reports had to be sent to BEIS to confirm what payments had been made as part of the BEIS reconciliation.

6. Summary

6.1 Due to the comprehensive application/claim form that was employed along with the data analysis before each scheme went live the number of errors has been minimal. In total EDDC has only had to reclaim 20 grants to date.

6.2 There are still a number of matters that need to be completed:

- Post payment checks LRSG (part completed)
- Risk assessment for Restart and ARG
- Post payment checks Restart and ARG
- BEIS pre & post payment assurance confirmation

- 6.3 We have also had to supply all grant information for the first 2 schemes to HMRC for when they check tax returns. The NFI requested data on the first grant schemes and may request information on newer grants. This may lead to us needing to undertake further work depending upon the outcome of these checks by HMRC/BEIS.
- 6.4 In order to complete these tasks we are having to direct resources from the Business Rates team along with help from SWAP which is naturally creating additional work pressures that are having to be considered.
- 6.5 SWAP have recently undertaken an audit on the [Fraud Risk –Impact from Covid-19](#). As part of this they reviewed the fraud prevention controls when processing grant claims. They have provided a 'substantial' assessment which provides the highest rating in terms of minimising the risk of fraud in relation to grants.
- 6.6 In summary, it is important to remember the context in which we were delivering these grants as we were having to work under incredibly pressurised and time limited conditions in which these grant schemes had to be launched. BEIS were developing and refining the criteria and eligibility after the schemes had been announced which created significant challenges for the team in order to strike the right balance of getting these schemes launched quickly in order to safeguard businesses but at the same time protect the public purse against fraud and error. The low level of errors identified to date and the substantial assessment provided by SWAP in their audit should provide assurance to this Committee of the approach adopted by this Council in the way the scheme was designed and implemented. The success of the grant programme is due to the experience, skills, commitment and dedication of the team we had working on it.

7.0 Further considerations

- 7.1 As part of our grant post assurance work we had recognised that we would need to conduct a review of all our SBRR cases as there is a risk that there may be cases where this is being claimed in error. This has been further supported by a case we are currently reviewing following a recent grant claim where it appears that there are discrepancies between the information provided on the grant claim compared to our rating records. Although the business may still be entitled to the grant it could mean that they weren't entitled to claim SBRR.
- 7.2 This review is scheduled to commence in quarter 4 of 2021/22 and we plan to use an external company where they use various data sources to identify an initial list of mismatches/potential errors. These will then be subject to further investigation. This is something that we have been in discussion with our Devon counterparts as we are all in a similar position. Plymouth and Mid Devon have already started their review and we will be keen to understand any lessons learnt that can help inform our approach. The outcome of that review will help to determine any additional controls or ongoing regular reviews that we might need to implement. The findings of the SBRR review is something that we plan to share with this committee which the Chair has raised as an area of concern regarding the risk of fraud and error in this area and if improvements are needed to existing controls.
- 7.3 For information, as at 01 September 2021 EDDC has 3765 businesses receiving SBRR with a value of £8,723,629.28
- 7.4 It should be noted that as we are in the main reimbursed by government for SBRR (as part of the calculation for business rates retention) this means the review will not necessarily generate income for the council but what it does do is protect the public purse by ensuring that we are only granting rate relief to those genuinely entitled.
- 7.5 Whilst our priorities for the past 18 months have been on our response to Covid we recognise that our Fraud and Compliance Strategy needs updating which we are shortly going to be focussing on so we can consider our approach going forward which will need to take account of the fraud risk review currently being undertaken by SWAP and to also

reflect the latest emerging trends in councils exposure to fraud and error. The aim is to bring this to the A&G committee meeting on 20 January 2022.

Financial implications:

There are no direct financial implications from the recommendations of the report.

Legal implications:

The legal position is detailed in the report and no further comment is required.