National Audit Office

Report
by the Comptroller
and Auditor General

HM Treasury, HM Revenue & Customs

Implementing employment support schemes in response to the COVID-19 pandemic

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Key facts

£52.7bn

Total costs reported for the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS) up to 20 September 2020

£69.7bn

Combined total forecast spend for CJRS and first two grants of SEISS

£3.9bn

HM Revenue & Customs' (HMRC's) upper estimate of fraud and error on CJRS to 20 September, based on 5% to 10% fraud and error levels on £39.3 billion of payments. The 5% estimate equates to £2.0 billion

9.6 million	total jobs furloughed with 1.2 million employers (61% of those eligible) making at least one CJRS claim[1]
2 million	estimate of workforce (to nearest million) remaining furloughed based on employers surveyed, 7 to 20 September 2020
9%	proportion of furloughed employees in our survey telling us that they worked at their employer's request while furloughed
2.6 million	self-employed individuals made a first grant claim to the SEISS scheme (77% of those potentially eligible) to 31 July 2020
99.5%	CJRS claims paid within six working days
97.5%	SEISS claims paid within six working days
£278 million	amounts companies repaid voluntarily to HMRC for CJRS payments they did not need or took in error
£275 million	overpayments HMRC estimates it could recover on 10,000 CJRS payments it believes are at high-risk of fraud

Note

1 The latest HMRC COVID-19 statistics are available at: www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics

Summary

Introduction

1 On 20 March 2020 government announced the Coronavirus Job Retention Scheme (CJRS), followed on 26 March by the Self-Employment Income Support Scheme (SEISS) as part of its economic response to the COVID-19 pandemic. Our report refers to these as 'the schemes'.

2 Initially government's overriding ambition for both schemes was to provide financial support to businesses and individuals as quickly as possible in the wake of the COVID-19 pandemic to protect jobs. In summary:

- **CJRS:** The initial aim was to provide rapid financial support to help firms continue to keep people in employment. Employers could put workers on temporary leave and government would pay them cash grants of 80% of employees' salaries, up to £2,500 a month (CJRS 1). From July and under a 'flexible furlough' phase (CJRS 2), the objectives changed to give firms flexibility to support the recovery and in August, by introducing an employer contribution.

- **SEISS:** The aim was to provide fast grant payments to self-employed individuals whose businesses had been 'adversely affected' by the pandemic. The grant was intended to help support self-employed individuals with living costs, but they could also continue to work, start a new trade or take up a new employment. A second SEISS grant was available to claim from 17 August 2020.

3 The schemes were only open to existing taxpayers who met certain eligibility criteria. At 20 September 2020 CJRS had supported 1.2 million employers and 9.6 million jobs, with claims totalling £39.3 billion. The Office for Budget Responsibility (OBR) expects CJRS claims to reach £54.5 billion in total. By 20 September 2020 the SEISS scheme had at least 2.6 million claims, totalling £13.4 billion. OBR forecasts SEISS claims will total £15.2 billion, bringing total forecast spending for these schemes to nearly £70 billion. The CJRS scheme will end on 31 October. On 24 September 2020 government announced a new Job Support Scheme (JSS) intended to provide help for short-time working (reduced hours) and an extension to SEISS until April 2021. On 9 October government announced an extension to JSS (referred to as 'expanded JSS') to support companies whose businesses are legally required to close as a direct result of coronavirus restrictions.

4 HM Revenue & Customs (HMRC) and HM Treasury – collectively referred to as 'the Departments' – 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.

Scope of this report

5 The scale and nature of the current COVID-19 pandemic, and government's response to it, is unprecedented in recent history. This report considers how well HM Treasury and HMRC have managed risks thus far in implementing these schemes. This report considers whether the Departments have:

- **managed design and delivery risks effectively in implementing the schemes. Part One** assesses the Departments' implementation of these schemes against evaluative criteria that draw upon our work analysing the government's response to other crises;
- **understood whether the schemes are reaching the people intended. Part Two** examines the Departments' approach to ensuring that the schemes were reaching their intended recipients, whether they had a good understanding of the consequences of their design decisions and what the impact of those decisions has been; and
- **managed fraud and error risks effectively. Part Three** considers how far fraud and error risks have been addressed.

6 This report does not consider HMRC's other COVID-19 interventions designed to support businesses, including the Coronavirus Job Retention Bonus and Eat Out to Help Out, or the relationship between the schemes and wider government support such as business loans and benefits. We have previously reported on the Bounce Back Loans Scheme.[1]

7 Our audit approach is described in Appendix One and the evidence base we used is in Appendix Two. Appendix Three provides international comparisons and Appendix Four shows how the schemes have evolved over time.

1 Comptroller and Auditor General, *Investigation into the Bounce Back Loan scheme*, Session 2019–2021, HC 860, National Audit Office, October 2020.

Key findings

Designing and implementing the employment support schemes

8 **The Departments implemented the schemes quickly and ahead of schedule.** Ministers set clear objectives that both schemes should be delivered quickly. Government announced the CJRS scheme on 20 March 2020. HMRC planned to make initial CJRS payments by the end of April 2020, but made it available to employers from 20 April, just a month after the government's announcement. Government announced the SEISS scheme on 26 March. HMRC intended to make SEISS payments by the beginning of June but made the scheme available from 13 May, two weeks early. HMRC accelerated the original timetable for the SEISS scheme, recognising the need to provide financial support to eligible customers as quickly as possible (paragraphs 1.1 to 1.4 and Figure 2).

9 **The scale of the challenge was potentially increased by the lack of pandemic contingency planning and existing employment support schemes the Departments could easily adapt.** Instead, HM Treasury told us it drew on economic contingency planning designed for financial rescues, developed following the credit crisis; and draft policy work on wage subsidy schemes and lessons learned from other countries, such as Germany, in implementing short-time working schemes (paragraph 1.7).

10 **Given the compressed timeframe to design each scheme, the Departments could not follow standard processes comprehensively.** In the circumstances, the Departments had insufficient time to produce detailed documentation – such as business cases, options appraisal and detailed cost-benefit analysis – that we would normally expect to be available to support key investment decisions. Instead, policy and operational officials worked closely together to rapidly develop employment support schemes that they could implement quickly. HMRC agreed clear principles for both schemes, including that the claim process should be simple and the grant calculation straightforward. HMRC used existing supplier relationships and contracts to develop the IT solution (paragraphs 1.5 to 1.6, 1.8, 1.9).

11 **HMRC implemented the schemes quickly through strong project management, risk management and service testing.** Detailed planning and project management were central to rapid delivery. The Departments took a structured approach to identify and manage risk, using government's *Orange Book* on risk management. HMRC's IT staff took four weeks to implement the CJRS scheme, compared with an average of around 18 months that they normally need to deliver major IT projects. HMRC tested customer journeys and developed guidance for customers and training for staff to enable the effective operation of the schemes (paragraphs 1.10 to 1.18 and Figure 3).

12 **Other countries, at the start of the pandemic, were able to adapt existing schemes to deliver support more quickly.** We contacted 20 national audit institutions to understand how their respective governments designed and implemented similar employment support schemes. Most countries implemented their schemes faster than CJRS, but almost all had pre-existing arrangements they could adapt. Countries such as Germany and France already had short-time work schemes in place to support companies with salary costs at times of economic crisis (paragraphs 1.19 to 1.23 and Figure 4).

Supporting the people intended

13 **The schemes have been largely successful in protecting jobs through the lockdown period, with at least 12.2 million people benefitting from support.** The CJRS scheme supported 9.6 million jobs and, at its peak in May, around 30% of the workforce eligible for the scheme across the UK were furloughed. The SEISS scheme supported at least 2.6 million self-employed people, around 77% of the 3.4 million people potentially eligible for the scheme. The number of jobs furloughed fell to around five million by the end of July, while unemployment levels remained broadly stable at around 4% of the workforce. This suggests the schemes provided an effective bridge during the early phases of the pandemic, allowing some people to return to work when the national lockdown eased. However, the number of people on payrolls fell by 0.5 million between March and April. We found one in five people we surveyed who were in paid employment were not furloughed but had their pay or hours reduced, presumably because they could continue to work in some capacity through lockdown without their employer drawing on CJRS (paragraphs 2.12 to 2.16, Figure 7 and Figure 9).

14 **A combination of policy decisions and constraints in the tax system meant that as many as 2.9 million people were not eligible for the schemes.** People were excluded from the schemes either because of ministerial decisions about how to target the schemes, or because HMRC did not have data needed to properly guard against the risk of fraud. The precise number of people needing help is uncertain because not everyone will have been sufficiently affected by the pandemic to need financial support. Groups ineligible for support were as follows:

- CJRS: an estimated 1.1 million people were ineligible because HMRC had limited data to verify claims. HMRC has not estimated the number affected but third-party estimates suggest around 0.4 million short-term contractors moving between jobs were ineligible. Additionally, 0.7 million limited company directors could not claim for company dividends paid instead of salaries. The tax system treats company dividends as investment income and HMRC cannot separately identify those payments from other investments. However, company directors could still claim for earnings registered with the Pay-As-You-Earn scheme and apply for bounce back loans.

- SEISS: HMRC estimated that around 1.6 million self-employed people did not meet the scheme's policy criteria. Of these, 1.4 million people had trading profit that was less than their non-trading income; 0.5 million people had a trading profit of £0 or made a loss; and 0.2 million people were ineligible because their trading profits exceeded £50,000.[2]

- SEISS: third-parties estimated a further 0.2 million people who were newly self-employed in 2019-20 were ineligible because they had not yet submitted a Self Assessment return. Therefore, HMRC did not have verified records on which to confirm their activity and estimate their income. This figure could have been greater had lockdown occurred further from the January 2020 deadline for annual tax Self Assessment returns. HMRC intends to introduce more frequent (quarterly) reporting for self-employed people under Making Tax Digital from April 2023 (paragraphs 2.6 to 2.11 and Figure 6).

15 **The Departments considered the equality implications of their design decisions.** The Departments carried out equality impact assessments for both schemes. They identified that a high proportion of Black, Asian and minority ethnic people were self-employed and undertook additional work to raise awareness of SEISS with stakeholder groups. HMRC's monitoring data provide information on the age and gender profiles of people covered by the schemes but do not report on other protected characteristics, such as ethnicity, as these data are not necessary for the administration of taxes. The data show that a greater proportion of younger workers were furloughed. A greater proportion of men were furloughed initially, but this reduced over time and by September there was little difference between men and women. In August 2020 HMRC began tendering for survey and qualitative research to gain additional feedback on the schemes (paragraphs 2.17 to 2.22 and Figure 10).

16 **In the long-term the number of jobs protected will depend on wider government support.** Around two million (9%) workers remained furloughed in mid-September. Retail, accommodation and food services, manufacturing and construction have claimed the most financial support from the schemes to date. Many of these sectors have also utilised bounce back loans. The long-term impact of the schemes is likely to be difficult to disentangle from the effects of wider government support and the ongoing impact of COVID-19. The new JSS is intended to support short-time working between November 2020 and April 2021. Government has also announced an extension to SEISS over the period and further furlough support (expanded JSS) for businesses legally required to close due to lockdown restrictions (paragraphs 2.23 to 2.28 and Figure 11).

2 Some individuals fell into more than one category, meaning numbers add to more than 1.6 million.

Managing fraud and error

17 In implementing the schemes, the Departments accepted there may be a higher risk of fraud and error than normal, in order to provide rapid financial support and protect jobs. Recognising the priority placed on speed, the Departments have tolerated greater risk than normal. Limiting the schemes only to taxpayers with current records has helped to reduce the risk of certain types of fraud significantly because applicants had to be known to HMRC and had to be paying tax. However, the aim to make payments within six working days limited HMRC's ability to carry out pre-payment checks. For example, HMRC did not validate some data upfront or require details of the amounts claimed for every employee before making payments. It made a systematic assessment of the risks and prospects of recovery from different groups and prioritised its response for the time constraints it faced. HMRC did not have the enforcement powers to recover overpayments by the time the schemes went live. It took a calculated risk that powers would be granted and received these in July 2020 (paragraphs 3.5 to 3.9 and Figure 15).

18 There is evidence that significant levels of furlough fraud occurred, with limited controls over employers' arrangements with employees. Employers committed furlough fraud if they claimed furlough payments but kept employees working for them against CJRS rules. HMRC's fraud hotline has received more than 10,000 reports, mainly of furlough fraud, but it has not yet carried out survey work or random sampling to estimate the scale of the issue. Of furloughed people responding to our survey, 9% admitted to working in lockdown at the request of their employer, and against the rules of the scheme. Other surveys indicate between 7% and 34% of furloughed employees surveyed worked at the request of their employer while furloughed. HMRC concluded it would tackle fraud through whistleblowing and retrospective compliance work. However, employees would not have known if their employer was part of the government furlough scheme unless their employer had informed them. Controls such as contacting employees directly or publicising which companies claimed furlough payments were considered but rejected. HMRC concluded it would have been unrealistic to contact employees because of the large numbers involved, and that publishing a list of employers risked deterring too many legitimate claims. HMRC intends to publish the names of employers claiming the JSS scheme and to notify employees through their personal tax accounts when an employer has claimed JSS (paragraphs 3.10 to 3.21 and Figure 18).

19 The scale of total fraud and error is likely to be considerable, particularly for CJRS, but HMRC will not know the actual levels for some time. HMRC's planning assumption was that total fraud and error could range from 5% to 10% on CJRS, which would equate to £2.0 billion to £3.9 billion based on payments made by mid-September. For the first SEISS grant, HMRC's planning assumption was that fraud and error could range from 1% to 2%. Both these estimates were largely assumption-based rather than evidence-based. At the end of September 2020, HMRC was developing a programme of work to understand the full scale of fraud and error. It aims to refine its provisional estimates again by the end of 2020 and in spring 2021 as it undertakes more compliance work and receives more operational intelligence. HMRC does not expect to have a complete assessment of the total fraud and error it needs to tackle until the end of 2021 at the earliest. HMRC is monitoring the levels of organised criminal activity including the stealing of taxpayer identities and coercion of taxpayers to make fraudulent claims. To date, HMRC has blocked only £10 million of CJRS claims. It intends to measure its effectiveness in mitigating the risk in due course (paragraphs 3.20 to 3.28 and Figure 16).

20 HMRC's initial assessment was that it must divert resources from tax compliance activities to tackle fraud on these schemes. HMRC estimates it could deploy around 500 staff to recover £275 million on 10,000 of the most high-risk CJRS grants awarded. While this offers a high rate of return, HMRC estimates that redeploying staff will come at a cost to tax revenue because HMRC's tax compliance work offers even higher rates of return. In June 2020 HMRC concluded that its only option to address grant fraud and error was to redeploy existing, trained staff. It concluded it could not bring in additional staff because they would take up to 18 months to recruit and train to undertake complex compliance work, and this would be too long. In October 2020 HMRC told us that with the announcement of new schemes, and better understanding from the operation of SEISS and CJRS, it was now planning to use private contractors to supplement its compliance capacity where necessary. HMRC does not yet know the scale of fraud and error it needs to tackle to any degree of certainty, and it is not yet clear for how long its compliance activity will be affected by the COVID-19 pandemic (paragraphs 3.29 to 3.31 and Figure 19).

Conclusion on value for money

21 HM Treasury and HMRC met their objective to rapidly implement the schemes and the Departments should be commended for making these available ahead of schedule. The schemes were relatively straightforward to apply for, and payments quickly reached those who applied. Indications are that this has helped to protect jobs in the short term and the numbers of people moving from furlough arrangements back to work are encouraging. However, many other people have lost earnings and have not been able to access support. The long-term impact of the schemes will also depend on wider financial support and the ongoing impact of COVID-19.

22 A key value-for-money test for these schemes will be how far the Departments can mitigate fraud and error. The pace at which the schemes were designed and implemented meant the Departments had to accept a greater risk than normal. As such, there are likely to be considerable amounts of fraud and error, particularly on the furlough scheme. Limiting applications to existing taxpayers should have reduced the fraud risk, but HMRC could have done more to make clear to employees whether their employer was part of the furlough scheme. In future, the Departments should do more while employment support schemes are running to protect employees and counter acts of fraud. The Departments will need to ensure sufficient resources are committed to recover money where it is cost-effective to do so.

Recommendations

23 To learn from their experience in implementing the employment support schemes, and to protect taxpayer interests **HM Treasury and HMRC should:**

a consider how to ensure that reliable data covering as many people as possible can be used to determine eligibility so that fewer people suffering loss of income are excluded from future similar schemes;

b monitor how far employment support schemes protect jobs, recognising that the approach may need to adapt rapidly in response to how the pandemic evolves over the coming months;

c increase the emphasis on using preventative controls for tackling fraud and error in the new schemes. Where appropriate for future schemes, carry out more direct work with employees to ensure employers treat them according to scheme rules, and increase visibility of which employers use employment support schemes;

d more quickly assess the total value of error and fraud; and explore the feasibility of commencing assessment activity earlier for future schemes so that some testing is undertaken while schemes are live;

e review whether a faster programme of recruitment and training can be provided for grant compliance staff, recognising that the activity may differ to tax compliance work; and

f review how to organise HMRC's compliance response to ensure that sufficient resources are committed to recover overpayments and fraudulent payments on both schemes where it is cost-effective to do so.

24 As the COVID-19 pandemic continues, leading to ongoing uncertainty, the Departments may need to develop longer-term plans to support businesses and jobs which will involve balancing speed of response with risks to value for money. This includes targeting support to those who need it, treating employees in accordance with the scheme rules, and reducing fraud and error. In balancing these, the Departments should:

g ensure that their consideration of options, including under the JSS and extended schemes, are sufficiently well-documented to demonstrate how risks to value for money have been considered and resultant risks are clearly understood and managed;

h specify how performance and value for money will be judged as the schemes progress, monitoring outcomes and adapting arrangements quickly if required; and

i consider how HMRC should organise its systems and capabilities to provide this targeted support, which may require different choices in digitising the tax system, more frequent filing of tax return data, better linking of customer records, and changes to customer services.