

In Witness Name: RICHARD BEARMAN

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UK COVID-19 INQUIRY

WITNESS STATEMENT OF:

RICHARD BEARMAN

Co-chief Banking Officer, Relationship Manager

British Business Bank PLC

UK COVID-19 PUBLIC INQUIRY

MODULE 9 RULE 9 REQUEST - REFERENCE M9/R9R/BBB

BRITISH BUSINESS BANK PLC

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WITNESS STATEMENT OF RICHARD BEARMAN

- 1 I, Richard Bearman, Co-Chief Banking Officer¹, Relationship Management of the British Business Bank (**the Bank**), make this statement in response to the request from the UK Covid-19 Public Inquiry, dated 30 January 2025 under Rule 9 of the Inquiry Rules 2006 (SI 2006/1838), to provide the Inquiry with a witness statement in respect of specified matters relating to Module 9 (**Rule 9 Request**).

- 2 My role, at the time of writing this statement, is Co-Chief Banking Officer. I have been in that position since November 2024. This role oversees a new Relationship Management function, which helps to support and service a consistent and holistic approach towards the Bank's delivery partners and enable them to create a seamless growth pathway for business across the Bank's products. I joined the Bank on 24 June 2019 as Managing Director - Start Up Loans and my key responsibilities in that role were management of the ongoing Start Up Loans programme (for businesses under three years' old) and to develop microfinance lending products to build a portfolio of lending products to aid small businesses. I also took responsibility for the Bounce Back Loan Scheme (**BBS**) and my job title evolved to Managing Director Small Business Lending. Prior to joining the Bank in 2019, I was UK Head of Small Business at HSBC, where I led and supported 1,200 colleagues serving the UK Small and Medium Enterprise market, set the strategic direction, and led the business to involve its channels and grow its customer basis. Previously to that role, I led various Mid-Market and Business Banking Relationship Management teams.

- 3 In order to address the topics raised by the Rule 9 Request, the Bank has identified two witnesses - Reinald de Monchy (Co-Chief Banking Officer, Products at the Bank) and me. I set out below the sections that will be covered in this statement, the remaining sections will be covered in Reinald de Monchy's statement.

- 4 Whilst I made this statement on behalf of the Bank, I do not have first-hand knowledge of all of the matters covered in this statement. In particular, I was not directly involved in the Future Fund scheme (**FF**) (which is set out in

¹ As of July 2025, my role changed to Chief Development Officer.

Section B of this statement). I therefore rely on information provided by other relevant individuals who were part of the Bank's delivery of the five Covid-19 loan schemes covered by the Rule 9 Request (BBLs, FF, the Coronavirus Business Interruption Loan Scheme (**CBILS**), the Coronavirus Large Business Interruption Loan Scheme (**CLBILS**) and the Recovery Loan Scheme (**RLS**)) (the **Schemes**), as well as reviewing contemporaneous records (e.g., emails, minutes of key Bank fora and information published on the Bank's website) to prepare this statement. During this period, the Bank had the benefit of in-house and/or external legal advice. The Bank is not waiving legal professional in relation to such advice and therefore any documents containing such advice are not referred to in this statement.

- 5 A final point of note is that the Bank does not generally provide formal advice directly to Ministers - final advice given to Ministers was in the control of civil servants. Instead, the Bank provides expertise to Government colleagues through a number of means, including discussions and meetings and in writing. The Bank provided views on the Schemes as proposed to it, including how the objectives of the Schemes might be met and how any risks might be mitigated, during various senior and working group level meetings and through correspondence (often email) throughout the design and launch of the Schemes and subsequently through a series of ad hoc working groups which were later formalised into a more coherent structure. The use of "*advice*" in this statement means the views / expertise provided by the Bank to Government colleagues unless otherwise stated.

SCOPE OF THIS STATEMENT

- 6 This statement will respond to the following sections of the Rule 9 Request and is structured as follows:
- (a) **Section A: Bounce Back Loan Scheme**
 - (b) **Section B: Future Fund Scheme**
 - (c) **Section C: Lender Assurance and Enforcement**
 - (d) **Section D: Inequalities and Long Covid**
 - (e) **Section E: Internal and External Reviews**

- (f) **Section F: Lessons Learned and Reflections**
- (g) **Annex 1 Annex 1: Future Fund data**
- (h) **Annex 2 Annex 2: Costs**

REFLECTIONS

- 7 My involvement with the Schemes came following the launch of CBILS and was due to the emerging requirement for a larger, scaled-up scheme with quick delivery of funds, ultimately this became BBLs. My Start Up Loans team and I were drawn into this, in part, because the Guarantee and Wholesale Solutions team looking after CBILS and CLBILS were beyond capacity but also because the team and I had experience of running a high volume, lower value “retail/commercial” type product. That said, no one in financial services had experience of setting up and running a scheme of this size and scale, not to mention in these timelines.
- 8 This was an immensely challenging time, not least because of our personal circumstances, much like everyone else in the UK trying to adapt to home working, health issues, family concerns etc. In the early months I had to draw on the Start Up Loans team to support BBLs and it is of note that we also had to continue to manage the Start Up Loans programme. This meant we had to support our delivery partners and ultimately the tens of thousands of Start Up Loans borrowers. We had multiple delivery partners who are Community Development Financial Institutions and so key for community and social impact funding across the UK who were very worried about the sustainability of their businesses through Covid, plus we had to work with our Finance Partner to consider what special arrangements we should be making for the Start Up Loans borrowers. Ultimately, along with launching BBLs, we were also having to consider and agree creative solutions to keep Start Up Loans as a viable product and support the existing and prospective Start Up Loans borrowers.
- 9 While 2020 remains one of the most stressful and at times traumatic periods of my life, I remain hugely proud of the work that we did to support the launch and then administration of BBLs. While the final decision makers for the scheme were ultimately HM Treasury (**HMT**) and the Department for Business, Energy and Industrial Strategy, we were able to inform, provide

expertise and, where appropriate, advocate/challenge on behalf of Small and Medium Enterprises and/or the lenders. Despite the challenges, it was also very rewarding as there was a real “blitz spirit” between us, HM Government (**Government**) and the lenders. At the time, the general view from business groups, the press, general contacts and common sense was that by having full shut down, Small and Medium Enterprises, without some sort of funding, would not survive and the mantra, repeated on a number of occasions, was that the Small and Medium Enterprise eco-system had less than four weeks’ cash left before they went bankrupt. This created a real sense of purpose leading to the Government and the lenders all taking risks and operating at extreme pace to see a solution created to ensure that the UK Small and Medium Enterprise eco-system survived the pandemic. It is worth noting that the lenders themselves took considerable operational and reputational risks. To create BBLs, the more established banks were having to unpick and redesign decades of process maps, operational flows, systems and risk appetite to meet the expectations of the scheme. Given time, I have no doubt the scheme would have been different and acknowledge that mistakes were made, but considering the circumstances, I believe it was a really collaborative piece of work.

- 10 Throughout the launch and then the ongoing administration of the scheme, I have seen our role as being the interconnect between the lenders and the Government; to ensure that the lenders are fairly dealt with, public law principles are followed and that the commitments given to lenders in the extreme duress of early 2020 are maintained. Lenders took risks based on promises and often verbal commitments. However, the Bank’s role is to also ensure that the contracts are complied with, public money is protected and where appropriate lenders are challenged and, if necessary, guarantees are removed and, if claims have been paid, they are refunded. It has been, and remains, a delicate balancing act; but essentially, I see us as trying to ensure we hold lenders to account, minimise losses to the public purse and challenge when we believe a lender has not acted appropriately; while at the same time maintaining the integrity and reputation of the Government within the financial services industry to ensure that trust is maintained so that, should ever the banks be needed again, they will step in on verbal assurances and trust the Government. I have heard it said on a number of occasions that in 2008 the

banks needed the Government and in 2020 the Government needed the banks.

Section A: Bounce Back Loan Scheme

1 Introduction

- 11 On 27 April 2020, the (then) Chancellor, Rishi Sunak (**Chancellor**) announced a proposed new scheme - the Coronavirus Small Business Interruption Loan Scheme - to supplement the then existing **CBILS** and **CLBILS**. Later, ahead of its launch, the scheme was renamed as BBLs.
- 12 BBLs was designed and implemented in 13 days (nine business days) and formally launched on Monday 4 May 2020. The scheme was initially open to applications until 4 November 2020, but was later extended until 30 November 2020 and, again, until 31 March 2021.
- 13 BBLs was developed by HMT and the Department for Business, Energy and Industrial Strategy with input from the Bank. The scheme was delivered through the Bank, which was considered the only realistic delivery option for the extremely short timeframe, notwithstanding the fact that the Bank was working at full capacity to deliver CBILS and CLBILS, as well as carrying out work to launch FF.
- 14 BBLs was a delegated scheme, meaning that decisions as to how to operationalise the scheme were delegated to the lenders within the framework of the contractual agreement (**Guarantee Agreement**) between them and the Government.
- 15 Several lenders, reflecting the UK's largest lenders, were accredited on the same day as the launch of BBLs (**Accredited Lenders**).
- 16 Lenders were accredited to BBLs via a similar process to that of CBILS, involving lenders submitting a request for proposals, which was assessed by a team within the Bank and then, for those that met the relevant criteria, submitted for approval.
- 17 The Guarantee Agreement under BBLs, which was supplemented by additional information for lenders (**Lender Manual**), was based on the agreement for CLBILS with various amendments to reflect the differences in

the schemes. This set out the borrower eligibility criteria for the scheme and the contractual obligations, with which lenders needed to comply, such as counter fraud processes.

- 18 The key features of BBLs (in its final iteration) were as follows:
- (a) borrower eligibility criteria:
 - (i) UK based and adversely impacted by the pandemic;
 - (ii) no business size restrictions;
 - (iii) not a bank or a building society, an insurer or reinsurer (except insurance brokers), public sector body, or state-funded primary and secondary schools;
 - (iv) businesses self-certify that they were not a "business in difficulty" on 31 December 2019;
 - (v) applicant must be carrying on a business on 1 March 2020;
 - (b) facility size: up to 25% of turnover or a maximum loan of £50,000 (minimum of £2,000);
 - (c) interest rate:
 - (i) 2.5% fixed per annum;
 - (ii) the Government pays first year of interest (Business Interruption Payment);
 - (d) repayment period: six years with an option to extend to ten years;
 - (e) finance type: term loan;
 - (f) early repayment: free of charge;
 - (g) lender guarantee: 100% Government-backed guarantee.
- 19 In total, there were 25 Accredited Lenders, who provided 1.5 million BBLs facilities worth over £46.52 billion, in the ten months across the scheme's lifespan.

2 Scheme Design

(i) Introduction

20 The key stages in the design of BBLS leading up to launch included:

- (a) the inception of the scheme and policy drivers;
- (b) the Ministerial Submission;
- (c) fraud risks and operational challenges; and
- (d) the Reservation Notice and Ministerial Direction.

21 HMT, the Department for Business, Energy and Industrial Strategy, and the Bank were collaboratively involved in the design of BBLS.

22 Further to a request from the Chancellor for advice on establishing a new scheme, HMT developed the initial proposals for the launch of BBLS. The Department for Business, Energy and Industrial Strategy and the Bank provided their views on these proposals by way of a Ministerial Submission. The Bank were asked by the Department for Business, Energy and Industrial Strategy to feed into this Submission, albeit within a very short timeframe.

23 The primary motives of BBLS were to substantially increase the volume of loans being delivered at the lower end of the market and the speed of delivery.

24 An important consideration in the design of BBLS was the evidence that many businesses required up to £25,000, as noted in paragraph 48 below, as well as the fact that lending under £25,000 was considered overly burdensome for lenders, being subject to the numerous requirements and consumer protection controls under the Consumer Credit Act 1974. The proposals for the scheme design sought to address this gap.

25 A further key consideration was the conflict between the speed of delivery and the fraud risks inherent in the design of the scheme, in connection with HMT's suggestion that the only way it would have been possible to provide economic support to Small and Medium Enterprises quickly was with the removal of checks on businesses. The Bank proposed the re-inclusion of checks to minimise fraud. The Bank's proposals were accepted; however, it

was made clear that the priority was the speed of delivery and that checks slowing down the 24-hour delivery expectation would not have been permitted.

26 Notwithstanding this, significant fraud, credit and reputational risks remained in the design of the scheme. These concerns were raised to the Department for Business, Energy and Industrial Strategy by the Bank, including by sharing externally commissioned advice. This led to the Bank issuing a Reservation Notice to the Secretary of State for the Department for Business, Energy and Industrial Strategy.

27 Noting the Bank's concerns, a Ministerial Direction was issued to the Bank to implement BBLs.

(ii) Inception of the scheme and policy drivers

28 From the end of March, the Department for Business, Energy and Industrial Strategy and the Bank exchanged emails regarding requests to understand the options for making the existing CBILS more effective for businesses requiring smaller loan sizes. On 16 April 2020, Keith Morgan (the then Chief Executive Officer at the Bank) requested information regarding the addressable market for CBILS and insight on a Swiss economic support scheme providing 100% guarantee, in preparation for a meeting that he was due to have with the Chancellor the following day. [RB/1 - INQ000594624] [RB/2 - INQ000594663]

29 On Monday 20 April 2020, Patrick Magee (the then Chief Commercial Officer at the Bank) made me aware of a telephone call, which he had received from HMT. From recollection, I believe the call was from Gwyneth Nurse (the then Director of Financial Services at HMT), though I cannot be certain.

30 I was made aware that it had been explained to Patrick Magee during the call that, over the weekend of 18 and 19 April 2020, the Chancellor had met with chief executives and senior members of six of the larger banks, as HMT wished to discuss and gain support for a new scheme, which was intended to be operational within two weeks. He added that the lenders were informed of the policy direction to provide support to Small and Medium Enterprises quickly and that the lenders had advised that the only way this would have been possible was with the removal of checks on businesses. I was informed

that those present expressed discomfort with the approach, because the removal of checks would expose lenders to significant risk. I was also advised that the lenders had suggested that they could only agree to this approach if the new scheme had a 100% guarantee.

- 31 After recounting his conversation with HMT, Patrick Magee asked me, as Managing Director of the Bank's Start Up Loans programme, whether Start Up Loans and its infrastructure could be scaled up to allow for hundreds of thousands of loans to be provided to small businesses, despite Start Up Loans having only provided around 10,000 loans a year at that time.
- 32 The Bank's Start Up Loans programme provides microfinance lending products for businesses under three years old. Although the Bank was experienced in structured and larger lending, the Start Up Loans programme was the Bank's only "volume" business and the Bank lacked expertise in volume-flow type lending, the operational delivery process of which is arguably its most critical element.
- 33 I engaged the Start Up Loans team to explore whether it would be possible to scale up Start Up Loans to deliver 100,000 loans. Following a quick review and some conversations with our Finance Partner it was agreed that Start Up Loans could be scaled up, but it would take some time to achieve this. Therefore, the Start Up Loans option was quickly discounted as being too time consuming to achieve and not able to deliver the required volume, which was anticipated as being hundreds of thousands of loans, if not more.
- 34 Patrick Magee subsequently invited me to a meeting on 20 April 2020. I was informed that the meeting was organised to address the concerns raised by the lenders at the meeting with the Chancellor, which had taken place over the weekend. The meeting on 20 April 2020 resembled a workshop and was attended by representatives from the Government as well as lenders and Patrick Magee, others from the Bank and me. Although the Chancellor was not present at the meeting, representatives from HMT conveyed his suggestions; namely, that if a loan was to be provided rather than a grant, that the majority of funds should be delivered to borrowers within 24 hours of a completed application, which was a challenging request, as well as his preference for an application form that had to be straightforward for borrowers to complete.

- 35 The aim of the meeting was to discuss the potential design of the new scheme and included conversations around the potential use of grants or of the Start Up Loans model (though this was quickly discounted, as noted in paragraph 33 above). Numerous discussions followed, which focused on determining the potential fraud and loss rates, using informal calculations. In conclusion, loans were determined to be preferable because, in contrast with grants, loans allowed for recovery (notwithstanding the risk of some losses).
- 36 At this stage, the conversations were very much conceptual and focused on considering what the high-level options might have been. We were not designing the scheme but considering how we might have achieved the delivery of funds in the timescales being proposed, including whether this was even feasible. From the outset, the Bank highlighted its capabilities and the possibility of using the "rails" that were already set up for the Enterprise Finance Guarantee programme (and subsequently used for CBILS and CLBILS). In addition to this, the Bank also underlined the much higher risk inherent in a scheme with a 100% guarantee, which required no checks on borrowers. It also emphasised that much higher risk would, therefore, mean much higher losses.
- 37 In the days following the workshop, the Bank was involved in numerous meetings (internal, with Government colleagues, and engagement with lenders) aimed at trying to work through the demand for, potential implications of, and options available for, delivering a new scheme. CBILS was used as the base for the product itself and CLBILS for the Guarantee Agreement. Over time, as the model and the way forward solidified, the Bank started to highlight concerns, raise questions (sometimes its own and other times on behalf of prospective lenders), suggest product features or make challenges. These were raised with HMT, and then the Bank was involved in discussions on how these would be resolved. For example, discussions took place around how to approach company groups, clarifications over sole traders who had multiple businesses, and how to confirm a business existed, if the business operated via a personal bank account. Discussions between the Department for Business, Energy and Industrial Strategy and the Bank continued on 23 and 24 April 2020, in particular regarding the self-certification risk and value-for-money of the proposed scheme. [RB/3 - INQ000594693]

(iii) *Ministerial Submission*

38 At 09:55 on 23 April 2020, Laurence Pawley (the then Deputy Director of Business Finance at the Department for Business, Energy and Industrial Strategy) shared a draft copy of a Ministerial Submission with the Bank. The Ministerial Submission set out the Department for Business, Energy and Industrial Strategy's view of HMT's proposal to launch a new scheme called Coronavirus Small Business Interruption Loan Scheme (though, this was later re-named as BBLs) alongside proposed tweaks to CBILS.

[RB/4 - INQ000594676]

39 In his email, Laurence Pawley welcomed any urgent comments from the Bank; in particular, any factual corrections, as well as anything the Bank wanted to add about deliverability risk (noting that the Department for Business, Energy and Industrial Strategy had already requested input from UK Government Investments on the issue). Moreover, the Bank was alerted to the fact that the document was to be sent in draft to Ministers at 10:45, and as such, any comments would be required before then, giving the Bank less than one hour to review the draft Submission and provide any comments to the Department for Business, Energy and Industrial Strategy.

[RB/4 - INQ000594676]

40 Patrick Magee responded to Laurence Pawley at 10:30 with initial thoughts, noting that the Bank would be providing more detailed comments. He also commented that the Submission contained little detail by way of policy objectives and options analysis. At 11:20, one of the Policy Directors provided the Bank's further comments, acknowledging that, by that time, the Department for Business, Energy and Industrial Strategy may have already sent the draft to Ministers. The Policy Director recommended the inclusion of additional details on the following issues:

- (a) that there were a range of delivery options;
- (b) the existence of competition issues posing a challenge; namely that non-accredited CBILS providers could have been eradicated from the market; and
- (c) that Banks/accredited CBILS lenders may not have taken up the scheme if on set Government terms. [RB/4 - INQ000594676]

- 41 In addition to this, the Policy Director reminded the Department for Business, Energy and Industrial Strategy that the normal practice for the Department for Business, Energy and Industrial Strategy's Submissions – in respect of issues, which concern the Bank – was co-authorship with the Bank, followed by dual sign-off in both institutions. At 13:25, Laurence Pawley provided an updated draft and requested clearance from the Bank in respect of the section regarding delivery, which referred to the Bank, and requested essential comments only on the remainder of the document. Laurence Pawley noted that any of the Bank's comments would be required by 15:00, in advance of sharing the Submission with Ministers at 16:00. [RB/4 - INQ000594676] Within that 1 hour 35 minute window, the Bank did provide comments. [RB/5 - INQ000594677]
- 42 At 10:11, on the same day, David Raw (Deputy Director, Banking and Credit Team at HMT) contacted the Department for Business, Energy and Industrial Strategy and the Bank by email, noting that there had been developments, following a late-night call with the Chancellor, which David Raw wished to discuss with the Department for Business, Energy and Industrial Strategy and the Bank. He explained that the Chancellor wished to proceed with a 100% guarantee scheme for the smallest loan sizes and that he had expressed views regarding scheme design. [RB/6 - INQ000594998]
- 43 The Ministerial Submission was presented to the Secretary of State for the Department for Business, Energy and Industrial Strategy, by the Department for Business, Energy and Industrial Strategy officials, that evening. [RB/7 - INQ000594679]
- 44 The Submission noted that it had been prepared as the Chancellor had sought advice on establishing a new loan scheme following negative press coverage and criticism of CBILS. The criticism concerned the initial slow rate of processing applications, which led to negative comparisons to international equivalents. It was proposed that the new scheme would adopt aspects of models from Swiss and German schemes. [RB/8 - INQ000594680]
- 45 I was made aware by Patrick Magee that CBILS lenders were inundated with applications. The processing and assessment of these applications was taking a number of weeks, and in some cases, lenders expected this might take six weeks or longer; and in addition to this, many applications were being

declined. I was aware at the time from discussions with HMT that they were also concerned that a lot of businesses were operating without a business account and therefore had no access to CBILS. HMT (David Raw and Gwyneth Nurse) estimated that about one million businesses used a personal account. HMT also advised that there was a growing fear, supported by business groups (I recall the Federation of Small Businesses being quoted), that the pandemic lockdown had resulted in the majority of Small and Medium Enterprises having less than four weeks of cash. Therefore, there was a working presumption that, if we were not to have found a way to support them quickly, there would have been millions of Small and Medium Enterprises that would have gone out of business. With full lockdown, it was difficult not to agree with this conclusion, although it was difficult to prove. From conversations with prospective lenders, I was aware that it was generally recognised that CBILS was not a successful option for all smaller loan sizes, and that another option was required. It was intended that the new scheme would address this gap.

- 46 At this time, the only policy objective stated in the Ministerial Submission was to increase the speed at which applications for smaller loans were processed to deliver lending to smaller businesses, in connection with the overarching aim of the schemes to support businesses through the pandemic lockdowns by preventing business failure. [RB/8 - INQ000594680]
[RB/9 - INQ000146545] The focus on timescales is consistent with the need for speedy delivery, which was outlined at the workshop meeting of 20 April 2020. The Submission considered that an alternative to a new scheme would be to make amendments to the CBILS scheme; however, it noted that the Chancellor had confirmed that he wished to progress both suggestions simultaneously, the proposed streamlining of CBILS and the introduction of a new scheme. [RB/8 - INQ000594680]
- 47 The Submission explained that the proposed new scheme would facilitate faster lending by removing credit check obligations on lenders, which slowed down the delivery of loans to borrowers, and to offset the considerable increase of risk to the lender by providing a 100% guarantee for these smaller value loans. These proposals targeted a subset of businesses that were unable to access CBILS due to credit-scoring processes, as well as those

able to access CBILS, though struggling to do so, as there were few lenders with appetite to offer lending below £25,000. [RB/8 - INQ000594680]

- 48 The Consumer Credit Act 1974 applied to regulated small business loans of £25,000 or less to certain business types, including sole traders and some partnerships. Under the Consumer Credit Act 1974, lending was subject to numerous requirements and consumer protection controls, such as credit-worthiness checks, the provision to borrowers of clear information on the terms of a loan, as well as complexities with lenders' abilities to recover debts in cases of borrower default. As such, very few lenders offered Consumer Credit Act business-lending for CBILS. Moreover, it would have taken lenders time to build a new Consumer Credit Act-compliant business line. The proposed scheme aimed to address this gap. The Submission referred to the Bank's analysis, which suggested that up to 800,000 businesses might have required loans of £25,000 or less during the ensuing three months. [RB/8 - INQ000594680]
- 49 The Submission expressed the Chancellor's intention that the scheme be introduced as soon as possible, and preferably before mid-May 2020 (a date suggested to him by officials). The proposed terms comprised:
- (a) a term loan of up to 10% of business turnover, to a maximum of £25,000, aimed at preventing small businesses from taking on excessive debt in the absence of credit checks;
 - (b) no interest for the first year (as a Business Interruption Payment would apply), and capped at around 2-3% in future years, aimed at preventing excessive lender profits;
 - (c) a 100% Government guarantee, with no portfolio cap, aimed at removing risk for lenders;
 - (d) a term limit of five to ten years, to align with the CBILS six-year term limit;
 - (e) no personal guarantees;
 - (f) self-certification by the applicant that a business was trading before, and impacted by, the pandemic; excluding forward-looking viability checks;

- (g) a standardised one-page application, aimed at ensuring speed and consistency among lenders; and
- (h) the need for borrowers to acknowledge that they would not benefit from the normal Consumer Credit Act 1974 protections, in respect of the loan, for the purposes of enabling the self-certification aspect of the application. [RB/8 - INQ000594680] In order to achieve this, legislative and regulatory amends were made to the regulatory perimeter and to the Consumer Credit Act 1974, for the purposes of the lending. HMT made a statutory instrument that amended the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 and the Government introduced primary legislation to amend the Consumer Credit Act 1974. I have been made aware from sight of the document exhibited to the Inquiry [RB/10 - INQ000083343] that the legislative and regulatory amends were discussed, and given support, at a meeting of the Covid-19 Economic and Business Response Implementation Group attended by the Chancellor and other members of the Government.

50 The Ministerial Submission highlighted that the 100% guarantee would likely come at the cost of an elevated risk on a per loan basis to the Government. For example, reliance on self-certification could result in large numbers of non-viable businesses being unable to repay their debts in future. [RB/8 - INQ000594680]

51 The Submission stated that the only realistic, and the fastest, delivery option would be through the Bank. Notwithstanding this, the Submission acknowledged that the Bank was working at full capacity to deliver the existing schemes (CBILS and CLBILS) as well as formulating the newly announced convertible loan scheme (FF) and that this would impact the Bank's ability to deliver a new scheme at the pace envisaged. [RB/8 - INQ000594680]

(iv) *Fraud risks and operational challenges*

52 Concerns in relation to the proposed scheme were raised within the Bank from very early on. Following discussions between the Bank and lenders, as to potential action that could be taken, I recall that Patrick Magee discussed

these concerns with Gemma Peck (then Co-Director of Business Growth at the Department for Business, Energy and Industrial Strategy) and invited her to commission the Bank to obtain external advice regarding fraud risks and operational challenges. On 24 April 2020, Gemma Peck contacted HMT to discuss commissioning external advice in relation to how to ensure validity of claims on the guarantee and mechanisms for limiting fraud, based on various scenarios (from the scheme having no checks at all through to "light touch" checks). Gemma Peck then suggested the parameters for the commission and invited comments from HMT and the Bank. Patrick Magee suggested that PricewaterhouseCoopers would be best placed to provide the advice (because they were already assisting with setting up CBILS). HMT and the Department for Business, Energy and Industrial Strategy confirmed that they had no preference as to who was instructed [RB/11 - INQ000594685]. Therefore, on the same day, the Bank engaged the assistance of PricewaterhouseCoopers to provide urgent advice on the proposed new scheme; in particular, to produce:

- (a) a framework analysis of the implications of the scheme applying varying degrees of checks on borrowers (no checks, minimal checks, or moderate checks); and
 - (b) an assessment of how much additional assurance the level of checks would provide, the degree of risk remaining, and the amount of friction that the level of checks would introduce into the delivery process.
- [RB/12 - INQ000594686]

53 PricewaterhouseCoopers developed a repository of fraud risks (covering eligibility, fraud, Know Your Client, and Anti Money Laundering risks) and assessed the mitigation of these risks by the proposed level of checks (none, minimal or moderate); and also provided input on possible additional checks to further reduce the level of risk. The development of fraud risk mitigation is discussed further in Section C below.

54 During 24 and 25 April 2020, in a series of internal discussions and emails, senior figures from the Bank (Keith Morgan, Patrick Magee, Shanika Amarasekara (the then General Counsel), the Policy Director and Graeme Fisher (Managing Director, Policy)) considered whether their concerns, with respect to the proposed scheme, were serious enough to

merit expressing these concerns to the British Business Bank PLC's Board (the **Board**) and relevant Accounting Officers (a process, which has previously occurred in circumstances where concerns gave rise to a need to do so, and before the Government Instructions were accepted). Their collective concerns encompassed the following issues:

- (a) difficulties in reconciling the proposed scheme with the Bank's Objective B (to help create a more diverse finance market for smaller businesses with a greater choice of options and providers);
- (b) the impact on incentives by the introduction of a 100% guarantee;
- (c) disapplication of the Consumer Credit Act 1974 rules, which together with a misalignment of incentives, could lead to poorer customer treatment and borrowers becoming more encumbered;
- (d) a major impact on a lender's ability to operationalise the scheme at pace, with a product, price and application process that is standardised across all lenders;
- (e) diversity in the market, in terms of reliance on the larger banks;
- (f) significant adverse consequences in terms of competition for non-bank lenders;
- (g) challenges for lender recovery processes and lender incentives;
- (h) the exclusion of a significant proportion of smaller businesses, if policy follows a banking route, with more than 20% likely to come from underserved communities. It was expected that some borrowers would not have accounts with Accredited Lenders, or simply did not have an account (as noted in paragraph 34 above); and
- (i) the potential for alternative delivery models, as well as the issues identified with the proposed scheme, to be overlooked in favour of a desire to design and launch the scheme by the timeframe suggested (4 May 2020). [RB/13 - INQ000594688]

55 In addition to this, Patrick Magee outlined the Bank's concerns regarding fraud and credit checks. He remarked that the Bank had to "*push HMT hard*

to have basic fraud checks allowed", provided that the checks did not slow down delivery, due to the focus on permitting a loan to be delivered to a borrower's account within 24 hours of an application being submitted.

[RB/13 - INQ000594688] I was made aware, through discussions with Patrick Magee, that HMT intended to remove all checks, including fraud checks, not just credit checks. Patrick and I repeatedly challenged HMT's intention to remove all checks - insisting on basic minimum fraud checks - at a number of meetings with David Raw, which took place between 20 and 27 April 2020.

56 The Bank was not alone in its concerns. Graeme Fisher noted that some colleagues at HMT commented that they shared the same concerns and would be making representations regarding the issues.

[RB/13 - INQ000594688]

57 Patrick and I insisted on the inclusion of the checks, and were consequently asked to propose checks which would not slow down HMT's 24-hour delivery expectation. We consulted with some lenders in order to confirm that the checks, which we wished to propose were indeed plausible in the circumstances; notably, including the retention of an automated Cifas (a not-for-profit membership organisation that brings different sectors together to share data and intelligence for the common goal of eliminating fraud and financial crime) or other bureau check, whilst other checks were disappled. We agreed the proposed minimum standards, which would strike an appropriate balance between reducing fraud risk and delivering fast finance, with HMT officials, who presented our proposal to the Chancellor, to request his approval that these checks could be incorporated to the Guarantee Agreement. We were informed that the Chancellor had agreed with our proposal; however, HMT reiterated on a number of occasions - in discussions around incorporating additional checks both during the design stage and once the scheme was live - that the inclusion of any measure which would have slowed down the delivery of the loans could not be permitted.

58 In light of the significant concerns which the Bank had expressed in relation to the proposed scheme, there was discussion as to whether the Bank would need to operate under Ministerial Instructions and/or Direction.

[RB/13 - INQ000594688]

59 Following this internal discussion, Keith Morgan sent a letter of concern to Sam Beckett (the then Permanent Secretary at the Department for Business, Energy and Industrial Strategy), on 26 April 2020, highlighting the risks that the Bank felt needed further consideration before the proposed scheme could be launched (as set out in more detail at paragraph 60). The Bank noted that a lack of proper mitigation of these risks could have profound and long-term impacts on the market; in particular, but not limited to, the alternative finance sector and competition in the Small and Medium Enterprise finance market. [RB/14 - INQ000563990] The letter was copied to HMT and the private secretaries of the Secretary of State for the Department for Business, Energy and Industrial Strategy and of the Chancellor. [RB/15 - INQ000595795]

60 The letter of concern noted that the policy objectives driving the scheme had not been clearly articulated to the Bank, resulting in difficulties in producing an options analysis and, notwithstanding this, the Bank's understanding was that the primary motive underpinning the proposed scheme was to substantially increase the volume of loans being delivered at the lower end of the market and the speed of delivery of the same. On this basis, the Bank stated its concerns were:

- (a) a significant risk of fraud and abuse, due to:
 - (i) the application of only basic checks on borrowers by lenders;
 - (ii) self-certification by borrowers;
 - (iii) the possibility for borrowers to apply through multiple business entities (by virtue of a business current account or HM Revenue and Customs (**HMRC**) self-employment registration);
 - (iv) the significant blurring between personal and business activities, at that end of the market, which meant loans could be used for non-business purposes. I recall that the Chancellor was said by officials to have been very clear in his intention that every business should be able to have a loan. This led to some challenges relating to the definition of a group. In particular, this highlighted our concerns that, where a sole trader had a number of different businesses, they would potentially be able to access a significant number of loans.

Patrick Magee asked HMT to clarify this point. HMT subsequently confirmed that it was the Chancellor's intention that, where companies were structured as a group with a holding company, they could only access one loan for the group; however, where a sole trader owned several businesses, each business was entitled to a loan; and

- (v) the lack of direct incentive for lenders to assess borrowers' creditworthiness or seek to recover debt in the event of default;
 - (b) the impact on the UK's alternative finance sector and distorted competition in the Small and Medium Enterprise finance market; and
 - (c) the challenge for lenders to implement and deliver an additional scheme, beyond CBILS and CLBILS, within the timescales proposed by the Government. [RB/14 - INQ000563990]
- 61 In addition to this, the Bank also highlighted the availability of alternative options for the Government to address the concerns and criticisms of CBILS, rather than proposing a new scheme; noting that part of the issue lay with lenders' systems. [RB/14 - INQ000563990]
- 62 The Board met on 27 April 2020 to discuss the proposed new scheme and to note that the Bank had formally raised its concerns with the Department for Business, Energy and Industrial Strategy via a letter of concern. At the meeting, Patrick Magee noted that the Chancellor had confirmed that some fraud checks would remain and serve to mitigate some of the risk (as noted in paragraph 57 above). Moreover, due to the proposed simplified application process, it was expected that there would be a high number of applications, which may have an impact on the ability to pursue defaulting loans in the future. [RB/16 - INQ000595828]
- 63 During the course of the board meeting, the Chancellor announced the proposed new scheme to the public in parliament. The scheme had been renamed as BBLS. In addition to this, the Chancellor announced that the scheme would permit loans of up to £50,000 (in contrast to the £25,000 limit, which had previously been set out in the Ministerial Submission). [RB/16 - INQ000595828] [RB/8 – INQ000594680] My colleagues and I were made aware of this policy change, for the first time, when it was announced

by the Chancellor. I was made aware from conversations with some colleagues at HMT, that they were also not aware of this change. I received calls and emails from senior members of some of the lenders who also were not aware of the change.

64 I organised and hosted a Fraud Collaboration call (a workshop) with representatives from lender institutions, on 27 April 2020. The workshop was also attended by the Department for Business, Energy and Industrial Strategy, HMT and UK Finance, together with PricewaterhouseCoopers. The decision to host the workshop arose from the Bank's and lenders' concerns about fraud. The purpose of the workshop was to explore how to handle fraud in certain scenarios. It considered:

- (a) adopting a standardised approach to decision making, where an "amber flag" was raised by checks, and lender judgment was required;
- (b) whether County Court Judgments should be considered forming part of anti-fraud measures, and to agree a collective view on whether applications would be declined or referred onwards;
- (c) the controls available in respect of multiple applications;
- (d) the controls available in respect of groups; and
- (e) restricted and/or prohibited sectors. [RB/17 - INQ000594689]

65 As noted in paragraph 52 above, PricewaterhouseCoopers were commissioned to conduct an analysis of the fraud risks, in connection with BBLS. A final report in draft was shared with the Bank, for comment, on Thursday 30 April 2020. [RB/18 - INQ000594702]

66 Edward O'Hara (the Bank's then Chief Risk Officer) emailed Keith Morgan, at 13:21, to note that PricewaterhouseCoopers had completed the fraud risk review (named Project April), which categorised the residual level of fraud risks in BBLS as "*very high*" (on the basis of seven of the larger lenders, whose fraud controls were likely to be more sophisticated than other delivery partners). Residual risk is determined by identifying the initial risks and the controls implemented to mitigate them and then assessing what remains as

residual risk. The key residual risk categories identified by the Project April report were:

- (a) multiple applications from a borrower to different lenders, or to the same lender;
- (b) self-certification, which would have permitted ineligible applicants to apply or for others to borrow amounts in excess of that to which they were entitled;
- (c) applicants with a lack of legitimate business, and companies being used to facilitate fraud (consistent with a recent spike in company formations); and
- (d) organised crime. [RB/18 - INQ000594702]

67 In his email, on the basis of the PricewaterhouseCoopers Project April report, Edward O'Hara recommended that Keith Morgan should write another letter to the Department for Business, Energy and Industrial Strategy (in addition to the letter of concern of 26 April 2020), reiterating the - now, independently assessed - risk of the significant level of fraud and abuse, in order to ensure that Ministers had full knowledge of the risks before instructing the Bank to implement BBLs. [RB/18 - INQ000594702]

68 The Project April report essentially confirmed the Bank's fears, highlighted the importance of the minimum standard fraud-checks, but also raised concerns about the viability and potential losses, to which the scheme would be exposed. The report also crystallised the Bank's concerns, in particular, about duplicate application risk (multiple applications from the same borrower) and we, therefore, began to spend time thinking about what could be done, including discussing the issues with some of the lenders. The lender workshop on 27 April was the first focused fraud meeting and this led to the regular fraud collaboration workshops, which have continued until this day.

69 A discussion of the report followed Edward O'Hara's initial email, as further colleagues from the Bank were added to the email chain. Keith Morgan requested input on the most effective manner for sharing the analysis with the Department for Business, Energy and Industrial Strategy, adding that the analysis calibrated and, potentially, quantified the risks, which had been

previously flagged in the Bank's letter of concern. Patrick Magee added that the risk was not simply a fraud risk, but an enhanced credit risk, as well as a potential reputational risk. Whilst acknowledging the strong policy drivers (caused by the pandemic and the unprecedented economic downturn), Patrick Magee reminded colleagues of the Bank's expertise objective, which was to assist the Department for Business, Energy and Industrial Strategy on the development of programmes, including by providing clear risk assessments. [RB/18 - INQ000594702]

- 70 At 10:56, on Friday 1 May 2020, Keith Morgan emailed Sam Beckett, attaching the PricewaterhouseCoopers draft Project April fraud risk report. [RB/15 - INQ000595795] [RB/19 - INQ000609064]
- 71 Keith Morgan's email outlined the considerations noted in paragraph 66 above and also noted that, in addition to the significant fraud risks, there were also enhanced credit and reputational risks inherent in the proposed scheme. In addition, the email proposed the estimated quantification for fraud and credit losses on BBLs as between 30% to 50% (with the lower end of the range coming from the larger seven lenders and the higher end from the Bank's experience, in particular drawing from the Start Up Loans programme). In terms of value of loans, the estimate represented an anticipated £3 billion to £5 billion loss on a £10 billion portfolio. This was based on the assumption that 50% of the estimated 800,000 small businesses facing liquidity issues would borrow on average £25,000. [RB/15 - INQ000595795]
- 72 At 20:55, later that day, in response to Keith Morgan's email, Sam Beckett responded to confirm that the Chancellor had given the Secretary of State his agreement for BBLs to go ahead and, subsequently, the Secretary of State had issued a Ministerial Direction for the Department for Business, Energy and Industrial Strategy to implement the scheme. As such, Sam Beckett requested the Bank to consider her response as an instruction to proceed with BBLs. [RB/20 - INQ000564002]
- 73 In her response, Sam Beckett acknowledged the PricewaterhouseCoopers report and the Bank's concerns. She stated that it would be vital for the Bank, the Department for Business, Energy and Industrial Strategy and HMT to

monitor the risks closely during the lifetime of the scheme.
[RB/20 - INQ000564002]

(v) *Reservation Notice and Ministerial Direction*

74 On Saturday 2 May 2020 at 10:00, there was a meeting of the Board, to discuss whether the Bank should issue a Reservation Notice in relation to BBLs. [RB/21 - INQ000595842] The Shareholder Relationship Framework Document provides that, where the Secretary of State instructs the Bank to undertake any action that would, amongst other things:

- (a) infringe the requirements of propriety or regularity;
- (b) not represent good value for money for the Exchequer as a whole;
- (c) be of questionable feasibility or unethical,

then the Board may make their reservations in respect of such matter clear to the Secretary of State in writing (by way of a Reservation Notice).

75 At the meeting, Patrick Magee outlined the Bank's concerns with BBLs; namely, the risk of fraud and abuse, the likelihood that competition in the Small and Medium Enterprise finance market would have been distorted; and the implementation challenge that would have been faced by lenders. He noted that the Bank's concerns had been raised with the Department for Business, Energy and Industrial Strategy Permanent Secretary, copying HMT and Ministers' offices, and that whilst some issues had been addressed, significant issues remained. I was not at the Board meeting so do not know exactly what Patrick Magee said in relation to the issues that had been addressed, however, lenders were raising multiple small operational issues on a regular basis, which we were working with the Department for Business, Energy and Industrial Strategy and HMT to address. We had also been working to address larger issues such as the definition of "Group", implementing some form of minimum recovery obligations and working on some minimum fraud standards. Ordinarily these issues would all have been documented; however, we were operating at such pace that this did not always happen.

76 Keith Morgan referenced the PricewaterhouseCoopers Project April report and the associated estimated quantification of losses. He also relayed

lenders' concerns, including the ability to recover loans in the future and the disapplication of the Consumer Credit Act 1974. [RB/21 - INQ000595842]

77 Keith Morgan stated that BBLs presented a different context for the Board, compared with CBILs and CLBILs. He explained that all concerns relating to CBILs and CLBILs had been raised before the Bank received an instruction, and a Ministerial Direction was issued alongside the instruction, obviating the need to issue a Reservation Notice. Conversely, it was "*felt that the reservations about BBLs were of a different order and if it were the decision of the Bank, a period of time would have been allowed to elapse to monitor the increase in deployment rate of CBILs, or at the least a slower launch with more robust checks in place*". [RB/21 - INQ000595842]

78 Keith Morgan outlined the implications of issuing a Reservation Notice. Furthermore, he explained that the Department for Business, Energy and Industrial Strategy and HMT officials were aware that the Bank was considering whether to issue a Reservation Notice, and that it was the Department for Business, Energy and Industrial Strategy's and HMT's preference for a Reservation Notice not to be issued. Keith Morgan relayed that, in the Department for Business, Energy and Industrial Strategy's and HMT's view, this was because:

- (a) the Bank's reservations had already been made clear;
- (b) the suggestion for a Ministerial Direction had already been raised (and the Ministerial Direction was in place);
- (c) raising a Reservation Notice, in this context, would have seemed inconsistent with the approach to previous Directions; and
- (d) a Reservation Notice could have potentially aggravated the ongoing relationship with Ministers. [RB/21 - INQ000595842]

79 Keith Morgan advised that "*issuing a Reservation Notice was [a] constitutional mechanism at the disposal of the Board to register its concerns in a situation where there were significant misgivings*". [RB/21 - INQ000595842]

80 Having considered the issues, as set out in paragraphs 75 to 79 above, it was unanimously agreed (with the exception of one director, Ceri Smith, who had

recused himself from the decision) that, given the level of risk involved in the scheme and in order to protect itself from reputational risk, the Board resolved to agree to issue a Reservation Notice to the Secretary of State for the Department for Business, Energy and Industrial Strategy, in respect of BBLs. [RB/21 - INQ000595842] Ceri Smith was a Non-executive Director of the Bank and a member of the Board, as a representative of the Department for Business, Energy and Industrial Strategy, the Bank's shareholder. Ceri Smith recused himself from the decision, noting a conflict, since he agreed with the Board that the Reservation Notice should be issued. [RB/22 - INQ000595827]

81 On 2 May 2020, the Bank issued a Reservation Notice to the Secretary of State, in respect of BBLs. [RB/23 - INQ000564005]

82 The Reservation Notice clarified that the Bank had been working with the Department for Business, Energy and Industrial Strategy and HMT and referenced the communications exchanged between the Bank and Sam Beckett. The Bank's grounds for raising a Reservation Notice were:

- (a) propriety, noting the reliance on borrower self-certification, the potential for market distortion and the implications of borrowers signing-away their Consumer Credit Act 1974 rights;
- (b) value for money, referencing the analysis included in the Bank's email to Sam Beckett, including the vulnerability of the scheme to abuse by borrowers and by organised crime, and the considerable credit risk; and
- (c) feasibility, underlining the operational challenges presented by the compressed timetable for implementation of the scheme.

[RB/23 - INQ000564005]

83 On 3 May 2020, Sam Beckett issued a written Ministerial Direction to the Bank, requesting that the Bank take all necessary actions to implement BBLs. The Ministerial Direction acknowledged the Bank's concerns and noted that the Secretary of State had read the PricewaterhouseCoopers Project April report, which had been shared by the Bank. Sam Beckett also noted that, whilst Reservation Notices and Ministerial Directions are ordinarily to be published; in this instance, the Bank was directed that these not be

published at that time, given the potential impact that publication may have on the confidence in, and the take up of, the scheme. [RB/24 - INQ000564006]

84 BBLs was launched on Monday 4 May 2020. The scheme was initially to be open to applications until 4 November 2020. The volume of applications for BBLs was considerable, with around £2 billion worth of applications reported by just four lenders after the first day of launch. [RB/25 - INQ000594705]

85 In the first week of operation of BBLs, 268,000 loans were approved, totalling £8.4 billion.

3 Implementation and Delivery

(i) Introduction

86 Despite the very short timeframe to implement BBLs, several lenders were accredited and were able to begin lending immediately, upon the launch of BBLs. The key aspects of implementation and delivery included:

- (a) the Guarantee Agreement;
- (b) Accreditation;
- (c) Eligibility and State aid;
- (d) the timescales for delivery;
- (e) the scheme objectives;
- (f) fraud prevention; and
- (g) recovery actions.

87 Having been designed on existing rails, lenders were accredited to BBLs via a similar process to that of CBILs and were familiar with the relevant concepts and documents.

88 From its launch, certain businesses were excluded from the scheme due to either the purpose and design of the scheme, or State aid rules. The scheme was designed to support businesses with trading income. This meant that certain organisations without trading income, such as public sector bodies, were excluded. Further, some businesses were excluded if they were not

eligible to borrow under the European Union's (EU) Temporary Framework or the amount of support received would exceed the *de Minimis* amount permitted under State aid rules.

- 89 During the course of the scheme, there was a focus from the Bank on minimising fraud and on recovery actions.
- 90 The Bank took steps to minimise fraud and, following lender feedback, proposed additional counter fraud actions to the Department for Business, Energy and Industrial Strategy. Some of these proposals were agreed by the Secretary of State and the Economic Secretary to the Treasury – see Section C below.
- 91 Guidance and support on recovery actions was offered to lenders through various channels. For example, HMT, the Department for Business, Energy and Industrial Strategy and the Bank, in collaboration with UK Finance, the Lending Standards Board and the Financial Conduct Authority, prepared a document that contained supplemental guidance on recoveries actions.

(ii) *Guarantee Agreement*

- 92 The Guarantee Agreement, setting out the terms of the scheme as between the Accredited Lenders and the Secretary of State for the Department for Business, Energy and Industrial Strategy, was drafted and finalised before the launch of BBLs. The Guarantee Agreement was based on the agreement for CLBILS with various amendments to reflect the differences in the schemes. In addition to the Bank's input, the drafting of the Guarantee Agreement included contributions from various stakeholders, including HMT, the Department for Business, Energy and Industrial Strategy, UK Finance and some lenders, as well as the Financial Conduct Authority, who initially provided comments via HMT, and subsequently made representations on behalf of consumers.
- 93 The Guarantee Agreement set out the Eligibility Criteria for the scheme (making clear that a borrower could not receive a bounce back loan if it had received a loan via CBILS, CLBILS or the Covid Corporate Financing Facility unless that loan would be refinanced in full using the bounce back loan); the terms of the guarantee to be provided to Accredited Lenders by the Government; and various standards, with which the lenders were required to

comply. It also appended a copy of the BBLs application form, which was drafted by HMT. The Guarantee Agreement went through various iterations during the life of the scheme and lenders signed the version of the agreement that was current at the time they were accredited, between May and November 2020. [RB/27 - INQ000609058]

- 94 As a result of the extremely short timeframe in which the scheme was developed and deployed, colleagues from the Bank worked through the night on Sunday 3 May 2020 and into the early hours of Monday 4 May 2020 (the day of the launch of the scheme) to obtain executed versions of the Guarantee Agreement from the lenders who were accredited at launch. Some lenders signed the agreement as late as around 02:00 on Monday 4 May 2020 and then had to be ready to receive and process applications at 09:00, later the same day.
- 95 The Guarantee Agreement stipulated that lenders were required to carry out Know Your Client/Anti Money Laundering checks in line with their business as usual practices and also in line with the Financial Conduct Authority statement on CBILs and BBLs (first published on 27 April 2020) , which confirmed that, where a lender had already carried out client due diligence on an existing customer, it was not required to carry out further checks unless it had information suggesting that the customer posed a higher risk. [RB/28 - INQ000593143] Furthermore, for new-to-lender customers, lenders were required to apply Business As Usual onboarding processes, in accordance with regulatory requirements.
- 96 The Guarantee Agreement was supplemented with a Lender Manual (published on 15 May 2020), which provided more detailed guidance to lenders as to how to implement the scheme. The guidance accounted for the fact that each lender might discharge its obligations under the scheme slightly differently, because BBLs was a delegated scheme, meaning that, within the framework set out in the Guarantee Agreement, decisions as to how to operationalise the scheme (including lending decisions) were delegated to the lender. The Lender Manual was also revised several times to take account of various changes to the scheme. In addition, the Lender Manual incorporated guidance provided by the Bank to lenders, as a result of ordinary Q&As with lenders. Each version of the Manual was updated with additional guidance issued since the last iteration. [RB/29 - INQ000609060]

(iii) *Accreditation*

97 On the same day as the BBLs launch, Monday 4 May 2020, the first eight lenders were accredited to BBLs. These eight lenders² represented the six larger banks that attended the meeting with the Chancellor, on the weekend of 18 and 19 April 2020, with two additional lenders. These lenders were existing delivery partners and were all accredited CBILS lenders. As noted in paragraph 94 above, these lenders had received and signed a copy of the Guarantee Agreement between Sunday 3 May 2020 and early on Monday 4 May 2020, so that they could begin lending immediately, following the launch of BBLs. The Bank's Investment Committee met on 1 May 2020 to ratify and approve the accreditation of these lenders.

[RB/31 - INQ000594745]

98 Following launch, additional lenders were accredited to BBLs via a similar process to that implemented for CBILS. A request for proposals was issued, which set out the minimum criteria required by lenders to be approved to deliver the scheme. This included a requirement to be able to deliver a minimum value of £10 million of new lending under the scheme. Prospective lenders submitted a response to the request for proposals, which was then assessed by a team within the Bank and those responses that met the criteria were submitted to either the Investment Committee or Managing Director Forum for approval.

(iv) *Eligibility and State aid*

99 Some sectors were excluded from accessing BBLs by design. These sectors were specified in the Eligibility Criteria contained in the Guarantee Agreement and included banks, building societies, insurance companies, public sector bodies and state-funded primary and secondary schools. The scheme was designed to support businesses with trading income and so certain organisations not considered to fall within this definition were excluded. Charities and further educational colleges could access the scheme through the Coronavirus Act 2020.

2

The first lenders accredited for BBLs (all of which were CBILS Accredited Lenders) were (1) Barclays Bank PLC, (2) HSBC UK Bank PLC, (3) Lloyds Bank, (4) Bank of Scotland, (5) NatWest Group plc, (6) Santander UK, (7) Clydesdale Bank PLC, and (8) Danske Bank. [RB/30 - INQ000594701]

100 The design of the scheme was also constrained by the fact that the UK was subject to State aid rules and was designed to fall under the Department for Business, Energy and Industrial Strategy's Umbrella Notification (SA5684), which was amended on 3 April 2020 to take account of the updates to the EU's Temporary Framework and had been amended to allow for 100% guarantee schemes and the *de Minimis* regulations. Furthermore, under the provisions of State aid, some businesses would be excluded from accessing support under BBLs, if they were not eligible to borrow under the Temporary Framework (principally if they were an "undertaking in difficulty") and if the value of State aid received meant that the business exceeded the amount that it was entitled to receive in any rolling three-year period beyond the relevant *de Minimis* amount (which depended on the sector in which the business operated) under the *de Minimis* regulations.

101 Prompted by the challenges raised by applicants, the Bank and HMT exchanged emails in relation to the BBLs application form and eligibility requirements, in particular the definition of a corporate "group" and the corresponding State aid position. [RB/33 - INQ000595809] Following HMT's confirmation about applications submitted by different businesses with common ownership, lenders were provided with formal guidance on 16 June 2020 clarifying the definition of "group". The guidance widened the definition of "group", for the purposes of BBLs, while keeping within the State aid parameters and was stated to be effective from 2 June 2020. Lenders were then provided with an updated application form and State aid declaration (to be completed by applicants) on 1 July 2020. [RB/29 - INQ000609060]

(v) *Timescales for the delivery of BBLs*

102 Given the Direction from the Government as to the parameters of the scheme and the timescales for delivery, there were significant pressures on the Bank and on lenders.

103 In light of this, BBLs was built on existing rails, as this was the only feasible option. Although necessary amends were made, BBLs retained the same infrastructure and there was a familiarity for lenders with the concepts and documents, as well as for some borrowers with previous experience of a

guarantee scheme; although, many borrowers had no prior experience of business borrowing.

(vi) *Scheme Objectives*

104 After the schemes had been up and running for a few weeks, the Bank worked with the Department for Business, Energy and Industrial Strategy and HMT to design a set of objectives, common to all three existing guarantee schemes (CBILS, CLBILS and BBLS). A final version was circulated for the Deputy Directors' Covid-19 Business Governance meeting (also referred to as the Business Finance Meeting) on 16 July 2020, containing seven overarching objectives for the schemes, that:

- (a) access to finance schemes complemented other Government support and initiatives;
- (b) finance be unlocked at scale and pace such that businesses disrupted by the pandemic would still have access to finance;
- (c) businesses were given maximum opportunity to maintain liquidity up until lockdown measures were lifted (given what was known about the pandemic at scheme launch date);
- (d) scheme design should incentivise appropriate risk taking by lenders (which would vary across products);
- (e) debt structure should take into account long term business survival;
- (f) debt structure should allow firms with long term growth potential to continue to grow; and
- (g) long term economic benefits realised from paragraphs 104(e) and 104(f) exhibit value for money against any Government incurred losses. [RB/36 - INQ000595839] [RB/37 - INQ000595840]

(vii) *Fraud prevention*

105 From inception and throughout the lifecycle of BBLS, the Bank took steps to minimise the possibility of fraud, within the confines of the agreed parameters of the scheme. The Bank's approach included:

- (a) requiring lenders to conduct fraud checks using Cifas (or another reputable bureau) and perform Know Your Client/Anti Money Laundering checks, as set out in the Guarantee Agreement, and conform with the other fraud minimum standards in the schedule;
- (b) engaging with lenders through regular working group meetings to encourage additional anti-fraud measures;
- (c) supporting the creation of the Cifas duplicates database to track multiple applications, which became mandatory for lenders from 25 June 2020;
- (d) commissioning an initial and additional PricewaterhouseCoopers report to identify fraud risks, which led to further engagement with lenders and Government bodies;
- (e) approving additional fraud controls, including mandatory database use and extended fraud check time for high-risk cases, which were approved by the Secretary of State on 22 June 2020;
- (f) responding to a Government pilot that identified fraudulent loans by increasing monitoring and introducing a "change of director" flag in the Cifas database to help identify suspicious applications; and
- (g) engaging positively with the Cabinet Office Counter Fraud Function (**Government Counter Fraud Function**) and the Department for Business, Energy and Industrial Strategy fraud teams to collaborate on additional ideas and HMG actions and, when actions had been agreed, engaging lenders to ensure their support and contribution.

106 The Guarantee Agreement included a contractual obligation for the lenders to comply with appropriate fraud processes, during the loan application process and, subsequently, during the life of the loan. This included a requirement to screen applications using a reputable fraud bureau to screen against potential

or known fraudsters and to ensure ongoing transaction fraud monitoring for all facilities. Lenders were also required to reject all applications that failed their fraud checking process. For new-to-Bank relationships, they were expected to undertake standard Know Your Client/Anti Money Laundering checks and to take into account any fraud concerns raised by Know Your Client/Anti Money Laundering processes in deciding whether to proceed with an application. These requirements were included in the Guarantee Agreement, following requests by the Bank, as the initial instruction from HMT was that there were to be no checks in order to speed up delivery of funding (see paragraph 57 above). Over the course of several calls between the Bank and HMT, the Bank articulated the difference between basic fraud checks and credit checks. The Bank also explained that numerous County Court Judgments may be indicative of fraud. HMT took this advice to senior officials and it was confirmed that minimum fraud checks would be permitted, but that County Court Judgments were considered to be a credit check issue and would not be a bar to receiving a loan.

- 107 In addition to the mandatory fraud checks, the Guarantee Agreement also stipulated that lenders were at all times required to comply with their legal and regulatory obligations.
- 108 On 1 June 2020, PricewaterhouseCoopers delivered an update to the Project April report, which was shared with senior colleagues at the Department for Business, Energy and Industrial Strategy and HMT. [RB/38 - INQ000594763] [RB/39 - INQ000594764] Having raised clear concerns in respect of fraud risks and having noted these in the Reservation Notice, the Bank took all the steps it reasonably could to minimise potential fraud. Therefore, the Bank thought it was important to commission the updated report, in order to gain a clearer understanding of the issues post-launch.
- 109 The updated report provided further granular detail and clarifications about the risks and also provided suggested actions to address these. In response to the report, the Bank's main action was engagement with lenders. As noted above, in addition to inviting the lenders to an initial workshop with PricewaterhouseCoopers prior to scheme launch, the Bank instigated and co-hosted (with UK Finance) a regular fraud collaboration working group with the Accredited Lenders, which was also attended by HMT, the Department for Business, Energy and Industrial Strategy and the Government Counter Fraud

Function. These meetings continued and the Bank highlighted the concerns and the risks (drawn out in the Project April report and updated report) and engaged lender support in minimising fraud. The Bank encouraged lender action, noting that as long as the speed of funds delivery did not slow down, the Bank would support all additional actions taken by lenders to minimise fraud over and above the minimum standards.

- 110 These meetings were an opportunity to share experiences of known attempts at fraud on the scheme, to discuss potential counter fraud measures and to update on the additional steps being implemented to address fraud.
- 111 The working group meetings were attended by a representative from Cifas. During the 27 May 2020 meeting, the idea of creating a database, aimed at capturing duplicate applications (a risk identified in the Reservation Notice, as noted in paragraph 66(a) above), was discussed. As described in paragraph 52 above, the Bank subsequently worked with Cifas, the Accredited Lenders, HMT, the Department for Business, Energy and Industrial Strategy and the Cabinet Office (Government Counter Fraud Function) to enable Cifas to build a bespoke common database to allow lenders to upload details of the BBLs applications received. This enabled lenders to cross-reference any new applications received against the database, in order to identify whether duplicate applications had been made to other lenders or to themselves. [RB/40 - INQ000594749]
- 112 The Cifas duplicates database went live on 2 June 2020 [RB/42 - INQ000594750]. An email was sent to Accredited Lenders confirming that use of the Cifas duplicates database was mandatory from 25 June 2020 and it was included as Scheme Guidance in September 2020. Resource was dedicated to identifying ineligible facilities and seeking agreement from lenders to remove the guarantee from these. While implementing these checks at the design stage would have removed the need for additional resource later down the line, this would have delayed the launch of BBLs and negated the overriding objective of speed. [RB/43 - INQ000593115] [RB/29 - INQ000609060]
- 113 The Bank had ongoing conversations with lenders, in respect of fraud prevention and also discussed ideas and options for combatting fraud. Lenders highlighted their concerns and also gave examples of instances of

fraud, which they were encountering. In addition to this, on 21 May 2020, I was made aware, by a fraud expert from the Government Counter Fraud Function, that it was possible to purchase a UK business account on the 'dark web', and that the prices for these accounts were rising.

[RB/44 - INQ000594726] [RB/45 - INQ000594727]

- 114 In light of ongoing conversations with the Government Counter Fraud Function and lenders, the Bank made a proposal to the Department for Business, Energy and Industrial Strategy regarding additional counter fraud actions. By virtue of the fraud collaboration working group meetings, the Government Counter Fraud Function and lenders were able to contribute to the shaping of the proposals, and the Bank directly contributed its recommendations.
- 115 On 11 June 2020, a Ministerial Submission was presented to the Secretary of State, by the Department for Business, Energy and Industrial Strategy, with respect to a proposal for further actions to mitigate fraud risk in BBLs. The Submission noted that, considering the initial uptake of the scheme and the latest macroeconomic data, the estimated total size of BBLs would be around £36.5 billion; resulting in potential credit and fraud losses between £14.6 billion and £21.9 billion. [RB/46 - INQ000564055] This represented 40-60% of the total sum lent under the BBLs scheme (and is an overlapping but higher estimate as compared to the earlier estimate of 30-50% provided by the Bank on 1 May 2020 for fraud and credit losses, as noted in paragraph 71 above).
- 116 The Ministerial Submission noted that in order to mitigate risks, the Bank had undertaken a number of actions prior to the launch of the scheme; and, following launch, the Bank continued to undertake activities aimed at fraud prevention. The Ministerial Submission proposed the implementation of additional actions to further strengthen fraud prevention:
- (a) mandating the use of the Cifas duplicates database solution, aimed at combating multiple applications;
 - (b) empowering lenders to take up to 48 hours for fraud checks, in respect of high-risk groups, while other applicants would continue to be processed within 24 hours; and

(c) enabling lenders to decline applications with three or more material County Court Judgments. [RB/46 - INQ000564055]

117 In an email exchange between the Department for Business, Energy and Industrial Strategy, HMT and the Bank, on 22 and 23 June 2020, the Department for Business, Energy and Industrial Strategy confirmed that its Secretary of State had now approved all three of the proposed fraud mitigations outlined in the Submission. HMT then confirmed that the Economic Secretary to the Treasury had approved the first two mitigations; but not the third. HMT clarified that their view was that lenders already had discretion to reject an application where the borrower had three or more significant County Court Judgments, if they deemed this to be an indicator of fraud. The Economic Secretary to the Treasury fully supported lenders using their judgement on this issue; but was not minded to prescribe that lenders should take a particular approach. [RB/47 - INQ000595845] From conversations with lenders, I understood that they largely did not view themselves as having the discretion to reject an application if it had three or more significant County Court Judgments, because they viewed this as a credit check, which they were not permitted to undertake. In addition, in terms of the operation of the scheme, I thought it unlikely that lenders would wish to use their discretion (if they thought they had one, which I do not think they had) because doing so would have required them to make significant changes to their systems to implement this check (given that any such automatic check was 'switched off' or omitted from the system for onboarding). The Bank's preference would have been for a specific instruction to decline applicants with multiple County Court Judgments.

118 On 14 July 2020, the Government Counter Fraud Function and Companies House issued a joint summary, detailing the outcome of pilot activity to identify companies where there had been a change of director post 1 May 2020 and where there was no evidence of trading activity. Such actions had the effect of giving the fraudulent impression that a company was active (and therefore able to apply for a BBLs loan), whilst it was in fact not. This data analytics pilot identified almost 700 suspected fraudulent Bounce Back Loans. The Government Counter Fraud Function had proposed the pilot to the Bank, who supported in its delivery, by ensuring it was communicated to, and acted upon by, lenders. [RB/48 - INQ000609047]

119 A "change of director" flag was then added to the Cifas duplicates database to enable lenders to identify applications that may require further investigations. By 29 June 2020, all lenders had implemented a flag to alert them to a change of directorship. Additionally, the Government Counter Fraud Function provided lenders with the results of the data analytics review to enable them to carry out a back-book review to identify any facilities that may require further investigation as a result of the change of director status. [RB/48 - INQ000609047].

(viii) *Recovery actions*

120 On 9 December 2020, a document titled "Collaborative Statement of Agreed Principles" was introduced. This document was prepared by HMT in close collaboration with the Bank, as well as UK Finance and the Department for Business, Energy and Industrial Strategy. The Collaborative Statement of Agreed Principles was reviewed by the Lending Standards Board and the Financial Conduct Authority, who fed comments through HMT. It contained a set of principles in relation to collections and recoveries and the treatment of fraud. It provided supplemental guidance in relation to the recoveries obligations already contained within the Guarantee Agreement and Lender Manual and reflected an agreed industry approach in relation to BBLs. [RB/50 - INQ000651726]

121 The Bank formed a small group to work on the document, following its desire to implement consistency, aimed at ensuring effective recovery, together with a number of lenders that had raised concerns around a perceived lack of clarity in the Guarantee Agreement in respect of recovery actions. It took a long time to agree the contents of the Collaborative Statement of Agreed Principles, which was agreed by all the lenders accredited for the scheme at that time.

122 In addition to this, UK Finance led a project, which intended to create a utility for recoveries, permitting all lenders to collaborate and to route collections and recoveries through one central entity. The Bank supported the initiative and endorsed proposals. However, due to insufficient buy-in from lenders, the project did not proceed.

- 123 The Guarantee Agreement also contained a contractual obligation for lenders to follow their own business as usual recoveries processes for each BBLs facility and to comply with the relevant regulatory requirements (as well as the minimum recovery standards set out in the Guarantee Agreement). Lenders were required to continue to actively pursue recoveries (regardless of whether or not it had received payment under the Government guarantee) for a minimum of 12 months following a repayment demand being issued to the customer, unless the lender would usually cease recovery activity earlier than this, in line with its business as usual processes or regulatory obligations (as set out in the Guarantee Agreement). [RB/27 - INQ000609058]
- 124 Lenders have been, and continue to be, active in pursuing recoveries, both pre- and post-default and also before and after payment under the guarantee, in accordance with their obligations. Many lenders have been going above and beyond their contractual obligations. [RB/50 - INQ000651726]
- 125 On 11 January 2021, at a BBLs Counter Fraud Strategy meeting, attended by representatives from the Department for Business, Energy and Industrial Strategy, the Government Counter Fraud Function, the National Investigation Service, the National Crime Agency, the Home Office, the Insolvency Service and the Bank, the Bank commented on the scale of companies entering liquidation. The Bank pointed out the need to be clear with lenders regarding their obligations. [RB/51 - INQ000594859]
- 126 At a subsequent Bank Fraud Collaboration Working Group meeting on 20 January 2021, the Bank noted that discussions were ongoing with the Insolvency Service and Companies House to create practical guidance on voluntary dissolution and compulsory strike-off scenarios. [RB/53 - INQ000594908]
- 127 The Bank was working together with the Government Counter Fraud Function and Laurence Pawley at the Department for Business, Energy and Industrial Strategy in respect of this issue. On 5 February 2021, the Bank wrote to all lenders providing guidance. The Bank shared a flowchart to assist lenders by setting out actions required where a loan has been advanced to a company that has subsequently requested voluntary dissolution. [RB/29 - INQ000609060]

4 Communication

- 128 The Bank communicated the purpose, eligibility and application process for BBLS widely, across a broad range of channels to smaller businesses and the self-employed, including media, its website and social media channels and through finance delivery partners, via stakeholder channels and paid marketing. The steps taken by the Bank, in relation to communication, were intended to promote confidence and certainty amongst scheme users.
- 129 As BBLS was a delegated scheme, with the lenders making loans to borrowers rather than the Bank, its Accredited Lenders were a key channel to reach borrowers/applicants. Before launch, the Bank therefore briefed the larger seven banks, who were the lenders accredited from commencement of the scheme, and provided FAQs, videos and information packs to help promote BBLS and to ensure consistent delivery within the constraints of each lender's Business As Usual procedures.
- 130 Shortly before the scheme launch, the Bank briefed the major business groups, such as the Federation of Small Businesses, the British Chambers of Commerce, the Institute of Directors and the CBI and specialist finance trade bodies, so that they could share details of the scheme with their members.
- 131 On 4 May 2020, the Bank distributed a press release to broadcast, national, trade and regional media announcing the commencement of the scheme, its purpose, eligibility criteria and application process [RB/54 - INQ000593118], achieving blanket media coverage.
- 132 Shortly after scheme launch, lenders also received a Lender Manual, which provided further guidance to ensure that they understood how the scheme operated and could effectively communicate information about the scheme to prospective borrowers. In addition, they were requested to make information about the schemes available through all their usual publicity, marketing and communication channels.
- 133 The Bank published a scheme page on its website with links to specific content for both lenders and borrowers, including an explanatory video, quick eligibility checklist and detailed FAQs for each group. This was regularly updated as the scheme developed, ensuring that businesses and lenders were always able to access the most up to date information available,

including which lenders were offering the scheme. The many hundreds of businesses making telephone enquiries were directed to the online content.

- 134 Subsequent to the launch, the Bank issued frequent press releases about new lender accreditations, as well as each time the scheme was amended or extended, to ensure that media, businesses and stakeholders were provided with the latest information about scheme lenders.
- 135 Each media announcement was accompanied by extensive social media activity, with dedicated social media assets to communicate the features of the scheme to followers. Social media channels were also used to publicly and directly answer queries that businesses had about the scheme.
- 136 To effectively launch the suite of Guarantee Schemes to market, the creation of a paid marketing go-to-market strategy was required. The key objectives of the strategy were:
- (a) to get businesses (nationally and regionally across the UK) who were worried about their survival, to recognise the Bank as a brand they could trust to light the way; and
 - (b) informing, enabling and reassuring them through difficult economic times and beyond, by promoting the Bank's products (BBLS, CBILS, CLBILS, FF, etc) and the information services that support them.
- 137 Key customer insights at the time evidenced that smaller businesses urgently needed access to working capital, information and support so they could continue to be viable businesses and contribute to the UK economy. To deliver against this customer-need, the resulting campaigns met the following design principles:
- (a) to communicate a new context for the Bank (suite of new products and interventions responding to the Coronavirus pandemic) to drive awareness of the Bank to new audiences and also required a broadening of our historic segmentation approach, and
 - (b) digestible and easy to navigate content resulting in clear product sign-posting.

138 The marketing campaigns over this period encompassed multiple paid channels, including paid search, paid social and radio and digital audio.

5 Accessibility

139 Early estimates suggested that, from May to July 2020, the:

- (a) addressable market would have been 1.3 million businesses, who may have been viable; but financially distressed; and
- (b) effective demand would have been from 0.5 million credible applications, with a total loan value of approximately £41.5 billion.
[RB/55 - INQ000594681]

140 BBLS was launched at pace with a small number of the UK's largest lenders. This meant a broad span of businesses had access to the scheme. Bespoke arrangements were also made to ensure businesses without a business bank account, trading through a personal account (estimated by the Department for Business, Energy and Industrial Strategy to be one million businesses), could also access the scheme. This included permitting lenders - who were not obliged to do so - to allow applications via a personal bank account and then move the customer from a personal account to a business services account (though, there was no requirement on the lender, nor the borrower, to set up a full business account under the scheme).

141 However, there were many businesses whose accounts were with smaller lenders, that were not immediately accredited to the scheme and so could not access a BBLS loan. It also became apparent early on that most lenders decided, for operational reasons and due to their risk appetite, to serve their own existing customers and chose to close account switching services. This meant that, if a business did not already bank with one of the Accredited Lenders, it would be far more challenging for it to access a BBLS loan unless its bank became accredited. In some cases, a borrower could approach one of the main lenders (HSBC and, to a lesser degree, Barclays) who stayed open to new customers. Clearly, new-to-bank customers had to go through the additional checks, associated with opening a business current account, which took time.

- 142 The key step the Bank took to address the accessibility issues was to quickly expand the number of accredited BBLs lenders, which meant the number increased very quickly in the weeks after launch. In addition to the eight lenders accredited at scheme launch, between 5 May 2020 and 2 November 2020, a further 17 lenders were accredited to BBLs.
- 143 A fast-track accreditation process was designed to ensure that lenders, who were already accredited for CBILS, could apply and be approved for BBLs with a minimal amount of additional work and time, albeit certain additional due diligence was put in place, which focused on areas where there were differences between CBILS and BBLs (i.e., the greater concerns about fraud and recoveries associated with BBLs, and the BBLs application form). Senior leadership met with lender-applicants to discuss the requirements of the scheme and to obtain confirmation that the minimum fraud standards were clear to them, and that they used Cifas (or a comparable bureau) for fraud checks. The lender-applicants were then invited to outline their business-as-usual recovery process, to ensure that this aligned with the Bank's expectations. This gave the Bank a clear overview as to the lender's approach.
- 144 A change was made to the scheme allowing a lower minimum expected scheme size. This had the effect of allowing smaller specialist providers (and their customers) to take part in BBLs.

6 Monitoring of Support

(i) Data sharing and governance

- 145 As BBLs was devised, designed and deployed in an extraordinarily short period of time, there was not enough time to implement a new system for the purposes of monitoring the scheme. However, Accredited Lenders were able to share data and provide reports via the lender portal of the Guarantee and Wholesale Solutions Guarantees Platform, which had already been implemented for CBILS (as set out in more detail below). In addition, Accredited Lenders manually reported data to HMT. Therefore, up to date data regarding the operation of BBLs was available.
- 146 Prior to the pandemic, the Bank provided the Guarantee and Wholesale Solutions Guarantees Platform for the Enterprise Finance Guarantee

programme, where details relating to the facilities were entered manually by lenders who lent under the scheme. This (broadly speaking) tracked the amount of lending under the scheme, types of facility, sectors lent in and geographical spread of borrowers (amongst other things).

- 147 When CBILS was set up, Accredited Lenders were required to upload data about facilities granted under it (and other Guarantee Schemes) to the lender portal on the Guarantee and Wholesale Solutions Guarantees Platform.
- 148 Due to the volume of data that came from increased lending under the Guarantee Schemes compared to the Enterprise Finance Guarantee programme, it became impractical for high volume lenders to enter the data manually. This was time consuming for Accredited Lenders, and accordingly there was a delay between lending and data becoming available on the Guarantee and Wholesale Solutions Guarantees Platform about facilities made. The manual process also increased the risk of data error.
- 149 Additionally, business interruption payments and scheme lender fees paid by the lenders were new requirements and required new processes and data points to enable verification, reconciliation and payment. The system also needed to transition from engaging with around 40 to 133 lenders.
- 150 To address this, a small internal team worked with the lenders and external resource during May and June 2020 to scope a Platform Application Programming Interface and design processes and templates for each new activity. This also required Accredited Lenders to develop systems at their side. For certain large lenders, whilst work in relation to developing a Platform Application Programming Interface was ongoing, the Bank agreed to pause the requirement for them to upload data manually onto the lender portal on the Guarantee and Wholesale Solutions Guarantee Platform. Instead, we asked them provide data on aggregate via spreadsheets until the Platform Application Programming Interface was launched and they could upload all of the data required in bulk.
- 151 The run phase started in July 2020, and envisioned what came to be known as the Guarantee and Wholesale Solutions Guarantee Platform as a central log of all facility details.

- 152 Once the CBILS Platform Application Programming Interface was deployed, the Accredited Lenders for whom manual upload had been paused were able to bulk upload data. Development work then started on the BBLs Platform Application Programming Interface. A steering group met weekly to monitor this work.
- 153 There were ongoing requirements to engage with lenders as they became accredited. Not all Accredited Lenders were or have been able to integrate with the Platform Application Programming Interface system and some continued to manually upload details of facilities. The reasons Accredited Lenders may have been unable to integrate the Platform Application Programming Interface system could have been, for example, due to technology and cost constraints, or cost-benefit when compared to the number of facilities granted (for example, small lenders with a limited number of facilities granted under the schemes).
- 154 The design of processes to capture arrears data and to deal with the processing and payment of payment claims submitted by lenders under the Guarantee Schemes began in September 2020. The intent was to deliver an automated scalable solution with the ability to gather arrears information on an automated basis for larger volume lenders across the portfolio. The scoping of this work also had to consider the introduction of Pay as You Grow, top ups and the extension of the Schemes, often requiring clarification.
- 155 The Bank's governance structures also permitted the Bank to monitor BBLs. The Bank's governance structures evolved over time. Due to the pace at which the Bank needed to deliver the Schemes, much of the initial work was done through ad hoc phone calls, emails and conversations and the Bank utilised its existing structure and processes, where possible, for example to discuss information and, in some cases, make decisions relating to the Schemes. However, the Bank worked collaboratively with HMT and the Department for Business, Energy and Industrial Strategy.
- 156 Whilst the governance structure at the Bank remained broadly the same, as the Schemes developed, it became clear that, during the initial period of the pandemic, some of those fora would need to meet more frequently and additional fora were required to manage the volume and scale of the Schemes. As the pandemic progressed, those structures were reviewed and

fora adapted as required. At the strategic level, the Board, which had previously met four to six times a year, were updated on an ad hoc basis when required, held out-of-course meetings and made decisions via written correspondence where necessary. Additionally, the Bank attended a range of meetings with organisations outside the Bank including lenders, industry bodies (such as UK Finance, Responsible Finance, Innovate Finance, and the Federation of Small Businesses), and Government departments and teams.

- 157 In July 2020 the Debt Schemes Programme Board was established which enabled the Bank to deal with the required changes due to the pandemic, as well as the various changes which were required to implement the Guarantee Schemes. On 5 August 2020, its key objective was stated to be to provide oversight of milestones, key risks / issues, escalation and decisions across projects and workstreams. Highlight reports were produced each week and covered issues such as amendments to the Guarantee and Wholesale Solutions Guarantees Platform, Platform Application Programming Interface (API), the Enterprise Finance Guarantee programme Database, the Bank's own transition to remote working, scheme launches, external website, operationalisation of key processes, accreditation, and audit and assurance. Each of those workstreams had subgroups.
- 158 The Debt Schemes Programme Board was attended by members of the Bank's Executive Committee, Reinald de Monchy and me and met every fortnight. In May 2022, its work was taken into the Lender Performance Programme Board.
- 159 There were also working level groups which held regular meetings at varying frequencies - daily stand ups at the outset, moving to weekly or bi-weekly at a later stage. At first, these largely focused on the internal resources and processes required to ensure the effective operationalisation of the Schemes. For example, the Policy Forum would provide guidance on loan scheme related matters (other than audit and lender accreditation) and provide recommendations as to appropriate escalations to those involved in the day-to-day administration of the Schemes, including delivery partner management, and interpretation of the various guarantee agreements. As time progressed, other working groups focused, for example, on the operationalisation of data provision and websites or data publication and

scheme valuations. At various stages, new staff directorates and new groups were established to bring this work together.

- 160 The Lender Performance Advisory Board was established and first met on 23 March 2022 to meet the perceived need for increased Government participation in and visibility of the Bank's fraud risk management approach for the Guarantee Schemes. The Lender Performance Advisory Board was advisory, the decision-making capabilities in relation to the management of lenders and individual guarantee decisions remained with the Bank, Department for Business and Trade Accounting Officer and the Shareholder, with approval from HMT (as appropriate, for example financial approvals).
- 161 The Lender Performance Strategic Committee for British Business Financial Services Limited was also established in 2022, with a similar role to the Investment Committee but with the remit of considering the strategic management of the Guarantee Schemes and facilitation of guarantee decisions. It first met on 29 April 2022. It considered trends emerging from the lender dashboard and the Audit and Assurance Forum (for all the Guarantee Schemes), escalations from working group level committees, and Covid Debt Schemes Counter Fraud Strategy Board (later Programme Board). It considered and approved appropriate actions (as necessary) to manage lenders, provide appropriate challenge and consider any escalations as to the validity of guarantee claims. It sits side-by-side with the British Business Financial Services Limited Investment Committee. The Terms of Reference identified decision making members of the committee from the Bank and optional attendees from the Bank, the Department for Business, Energy and Industrial Strategy, UK Government Investments and Government Counter Fraud Function. The Lender Performance Strategic Committee continues today, although UK Government Investments ceased attendance in August 2022.
- 162 In addition to this, the Bank designed audit programmes and undertook assurance reviews in respect of BBLs. The Audit Review Panel was established in August 2020 to provide direction and subsequent actions based on findings, escalating as required. The panel managed the external resources, reviewed the results and agreed future audit and assurance plans. The Audit programme which had originally been set up to deal with the Enterprise Finance Guarantee programme was reviewed and developed for

the Schemes. Initially, the programme delivered "early accreditation" audits for lenders. Thereafter, a rolling operational programme of risk-based audits, using external resources, was designed to provide consistent, confidential, reliable and independent oversight of the lenders participating in BBLs, CBILs and CLBILs.

(ii) *Evaluation*

163 In June 2020 the National Audit Office gave a presentation to the Executive Committee of the Bank regarding the investigation it proposed to carry out in relation to BBLs. The proposed investigation would consider why BBLs was developed, what it offered to businesses, performance of the scheme to date, the main risks inherent in the scheme and how these were being managed.

164 Over the next few months, the Bank assisted the National Audit Office in relation to its investigation which included the provision of various documents and several colleagues from the Bank being interviewed by National Audit Office staff.

165 On 7 October 2020, the National Audit Office published its report into BBLs.

7 Adjustments and Cessation of Support

(i) *Introduction*

166 Detailed discussions took place between HMT, the Department for Business, Energy and Industrial Strategy and the Bank regarding the extension of the Guarantee Schemes.

167 The decision to extend the schemes, also included amendments to BBLs, such as introducing "top-up" options and "Pay as You Grow" measures aimed at supporting borrowers.

168 These changes had significant operational impacts on lenders and the Bank and reflected the Government's evolving response to the economic situation. BBLs eventually closed to new applications on 31 March 2021.

(ii) *Extension of the Guarantee Schemes*

169 During a call between the Bank, the Department for Business, Energy and Industrial Strategy and HMT, on 15 September 2020, HMT suggested

extending the Guarantee Schemes. In a subsequent email exchange on 15 and 19 September, the Bank suggested that it would not be advisable to extend BBLS beyond 4 November 2020 and that the deadline for processing any applications submitted under all the Guarantee Schemes should not be extended beyond 31 December 2020. In the Bank's view, the market circumstances had sufficiently changed to justify not extending and no longer continuing the credit and fraud risks associated with the scheme. This was because there was talk at the time about society "opening up" again. There was a feeling that businesses had got through the worst of it and had adapted. They had worked out how to trade in the new conditions. The word "pivoted" was used regularly.

170 On 17 September 2020, HMT confirmed that the Chancellor wished to extend the closing date for all three schemes to 30 November 2020. There was further discussion as to when this would be publicly announced with a final decision from Number 10 that the announcement would be made on the Monday morning (21 September 2020). [RB/57 - INQ000595860]

(iii) *Amendments to BBLS to introduce "top-up" and Pay as You Grow measures*

171 On 24 September 2020, the Chancellor announced an extension of the scheme until 30 November 2020. At the same time he announced various measures aimed at assisting borrowers with repaying their loans. A borrower could avail themselves of any or all of the Pay as You Grow measures. The measures provided borrowers with the following options, to:

- (a) extend the term of the loan from six to ten years, at the same fixed interest rate (2.5%);
- (b) take a repayment holiday for up to six months (available once during the life of the loan and only after six repayments had been made); and
- (c) make interest only repayments for six months (available up to three times during the life of the loan).

172 On 2 November 2020, following the announcement of a second lockdown in England, BBLS was extended until the end of January 2021. [RB/58 - INQ000594802]

- 173 The announcement also noted that BBLS would be adjusted to provide the ability for borrowers to "top-up" their BBLS loan, where they had applied for less than the maximum permitted (up to 25% of their stated turnover, capped at £50,000). This was due to the fact that the limit of one loan per borrower was perceived to be causing problems for borrowers who did not apply for the maximum amount, as they had not anticipated the pandemic lasting for as long as it had and the associated consequences. The top-up was not considered a contravention of the limit of only one loan per borrower. [RB/59 - INQ000594881]
- 174 Though providing flexibility to borrowers in disruptive economic circumstances, Pay as You Grow and top-ups, as well as the amendments made to these, added considerable operational burden and cost to the lenders. The 2.5% interest rate cap may also have deterred lenders from seeking accreditation, as they may have considered participation in BBLS to be economically unattractive. [RB/9 - INQ000146545]
- 175 In an internal discussion on 3 November 2020, Catherine Lewis La Torre (the then interim Chief Executive Officer at the Bank), the Policy Director and Graeme Fisher considered whether the Bank could accept a new instruction in relation to changes to the schemes without issuing a Reservation Notice. Following the discussion, the Bank concluded that it could do so, because the Shareholder Relationship Framework Document gave the Bank the option, but not the obligation, to raise formal reservations. Given that the Bank's reservations had already been formally raised, it was not felt necessary to do so again. [RB/60 - INQ000594801]
- 176 On 9 November 2020, the Bank wrote to the Permanent Secretary for the Department for Business, Energy and Industrial Strategy to notify that, with the extension of BBLS, the Bank did not intend to raise a Reservation Notice again; however, it wished to make clear that its previous reservations continued to apply, in particular regarding value for money. [RB/61 - INQ000594813]
- 177 In response to the Bank's letter, the Permanent Secretary for the Department for Business, Energy and Industrial Strategy responded to the Bank on the same day, acknowledging the Bank's previously communicated concerns and agreeing that these continued to remain significant. The letter also referenced

the measures undertaken to mitigate fraud risk, including the minimum standard fraud checks, as well as the post-launch interventions, such as the Cifas duplicate application check and change in director flag. The Permanent Secretary for the Department for Business, Energy and Industrial Strategy noted that the scheme changes to BBLs were covered by the Ministerial Direction, as well as the Written Direction issued to the Bank, and instructed the Bank to proceed with implementing the changes to BBLs.

[RB/62 - INQ000564141]

- 178 On 8 December 2020, the Permanent Secretary for the Department for Business, Energy and Industrial Strategy wrote to the Bank to instruct it to proceed with the implementation of the Pay as You Grow measures for BBLs. The letter confirmed that the scheme change was covered by the earlier Written Direction issued to the Bank on 3 May 2020. [RB/63 - INQ000564166]
- 179 On the same day, the Bank wrote to all BBLs Accredited Lenders giving notice that amendments to scheme facilities that were made in order to implement Pay as You Grow options were permitted variations in accordance with the terms of the BBLs Guarantee Agreement. [RB/64 - INQ000595887]
- 180 On 10 December 2020, HMT notified the Bank and the Department for Business, Energy and Industrial Strategy that the Chancellor was considering extending all of the Schemes to the end of March 2021, given that the country was still in the middle of the pandemic and taking into account that this would align with the end of the furlough scheme. [RB/65 - INQ000594839]
- 181 On 17 December 2020, the Chancellor announced that all the Schemes would be extended to accept applications until 31 March 2021.
- 182 On 3 February 2021, the Bank issued guidance to lenders in relation to the Pay as You Grow options, which were first articulated in the Collaborative Statement of Agreed Principles (as noted in paragraph 120 above). This included standardised compulsory wording for lenders to include in their communications with borrowers where lenders were making Pay as You Grow options available and, indeed, all but one lender did provide Pay as You Grow options. [RB/29 - INQ000609060]
- 183 The channel for communication was at the discretion of lenders. Lenders were to take into account the particular needs of their vulnerable customers

and adapt their communication approach to meet those needs. For example, if digital channels were used, firms were to make it easy for customers less able to use those channels to access alternatives. [RB/50 – INQ000651726]

184 On 4 February 2021, at a Board meeting, the Chief Executive Officer informed the Board that a further change to the Pay as You Grow options was expected to be announced in the coming days. Although the change was not anticipated to add significantly to the risk associated with the scheme, it would require a revised instruction from the Department for Business, Energy and Industrial Strategy. An instruction was requested by Tom Child (Senior Civil Servant at the Department for Business, Energy and Industrial Strategy) and received on 6 February 2021. [RB/68 - INQ000564183]

185 On 8 February 2021, the Chancellor announced that the Pay as You Grow options would be amended, such that the six-month payment holiday would be available at any time, from the first repayment date, rather than requiring six repayments to have been made.

(iv) Closure of BBLs

186 In the Budget, on 3 March 2021, as pandemic-related lockdowns ended, the Chancellor announced that BBLs, together with the other Guarantee Schemes, would close to new applications on 31 March 2021 and would be replaced with a successor scheme.

187 On 31 March 2021, BBLs closed to new applications. Lenders were given until 31 May 2021 to process any applications that had been submitted by the 31 March deadline. [RB/29 - INQ000609060]

188 Following the processing of all applications received by the closing date of the scheme, 1.5 million loans had been provided to businesses with a total value of £47 billion.

8 Impact of the scheme

189 At a time of unprecedented economic uncertainty, BBLs was devised, designed and deployed in an extraordinarily short period of time, in order to address perceived problems with CBILs, which had resulted in delays in delivering funding and many businesses being unable to access the scheme quickly. The Bank worked with Government stakeholders, lenders and other

third parties, under extreme pressure, to deliver the support scheme. The lenders put themselves at considerable reputational risk and immense operational pressure and cost to deliver a novel scheme, with an unprecedented level of demand.

190 The specific objective of BBLS - to provide economic support to Small and Medium Enterprises in shorter timeframes than could be delivered by CBILS - was met. By 12 July 2020, a total of £31.7 billion was loaned to just over one million applicants. This support went directly to the businesses that needed it, with 97% of BBLS borrowers facing some challenges as a result of the pandemic, and 75% reporting major challenges. Recipients used the loan proceeds primarily to cover operational expenses, pay suppliers or pay wages; around a third of borrowers used the funding to provide financial security throughout the pandemic, and a minority used the loan to adapt their business model or working practices to respond to the pandemic. The support also went, as intended, to smaller businesses, with a majority of borrowers having a turnover of £100,000 or less in the latest financial year, and almost nine in ten having eight or fewer employees prior to the pandemic.

[RB/9 - INQ000146545]

191 In providing this support, according to the second-year evaluation report carried out by London Economics and Ipsos, the Bank, along with private and public sector stakeholders, helped save between 175,000 and 618,000 businesses.

192 The report stated that BBLS, along with the other Schemes, "*unlock[ed] finance at scale and pace*" and "*may have helped to restore business confidence relatively rapidly*" with important macroeconomic effects through the stimulation of supply chains and consumer spending, "*potentially leading to impacts on business survival beyond the businesses that directly benefitted from loan guarantees.*" The report similarly concluded that the scheme also gave businesses "*maximum opportunity to maintain liquidity until lockdown measures were lifted.*" [RB/9 - INQ000146545]

Section B: Future Fund

1 Introduction

193 British Business Financial Services Limited manages and administers FF and is a wholly owned subsidiary of the Bank.

194 FF³ was announced on 20 April 2020 and launched on 20 May 2020 [RB/70 - INQ000593119] [RB/69 - INQ000593120]. It was initially set to close on 30 September 2020, before being extended to 30 November 2020 and then ultimately closing to new applications at the end of January 2021.

195 In total, there were 1,851 applications which were considered by the Bank. 1,190 of these were successful and FF provided funding of £1,137 million to 1,192 companies with 28,000 employees.⁴ [RB/71 - INQ000593121].

196 FF was fundamentally different to the Bank's Guarantee Schemes which (a) were debt based and (b) involved the Bank working with delivery partners that loaned monies to borrowers with benefit of a government guarantee for certain losses. In contrast, FF allowed the Government to co-invest in high-growth UK companies, in conjunction with the private sector, through a Convertible Loan Agreement. A Convertible Loan Agreement is a debt instrument that may, if certain conditions are met, convert into shares of the company receiving the loan at a later date. UK FF Nominees Ltd entered into the Convertible Loan Agreements as a counterparty to a company, and in doing so, holds the interests in the loans and shares on bare trust for the Government.

197 The objectives were not formally set in writing prior to launch. However, **Name Redacted** (Special Adviser to the Chancellor of the Exchequer and the Prime Minister) stated that the policy objectives/intended outcomes of the scheme were to *"help start-ups/scale-ups that "deserve" to survive (because*

³ During its design and development, FF was known by various names including the "Coronavirus Equity Bridge", "Project Future" "Convertible Loan Note Scheme", "Venture Bridge Fund" and "Coronavirus Bridge Fund". As such, some documents exhibited in this statement refer to these names, instead of the FF.

⁴ As noted in Annex 1, due to the de-merger of some companies, the final number of companies supported by FF differs slightly than the overall number of successful applications. Additionally, there were also a number of applications that were not progressed (for example, due to being incomplete or duplicates). As these were not considered by the Bank, they have not been included in this figure.

they are good companies that will be responsible for a lot of UK job creation in future), but which are likely to go bust without government intervention (because they will not be able to raise enough capital from their investors)".
[RB/72 - INQ000594660]

- 198 The economic objectives that FF was ultimately assessed against were formally articulated in October 2020. These were to:
- (a) increase the supply of finance to potentially viable UK equity backed companies that would otherwise have problems raising finance, or have been underfunded, due to adverse market conditions (short term objective);
 - (b) reduce risk of business closures caused by potentially viable businesses running out of cash in the short run (medium term objective);
 - (c) reduce the risk of companies' long-term prospects being damaged due to adverse economic conditions (medium term objective);
 - (d) ensure the long-term pipeline of equity backed companies was not damaged due to adverse economic conditions (long term objective);
 - (e) within the constraints of a standard set of eligibility criteria, to ensure that the funding provided is used for the purposes intended; and
 - (f) provide value for money for the taxpayer and net economic benefit to the wider economy (long term objective). [RB/72A - INQ000609050]
- 199 Under FF, eligible companies could receive funds of between £125,000 - £5 million, subject to raising at least equal matched funding from private investors. FF was open to eligible companies operating in all sectors. Applications were made by potential investors, as opposed to the investee company, and were assessed and allocated funding on a first-come-first served basis.

200 The detailed terms of FF are set out in the relevant Convertible Loan Agreements.⁵ [RB/74 - INQ000651727] [RB/75 - INQ000594835]. The key terms were:

- (a) Eligibility: the company must have raised at least £250,000 in equity from third-party investors in previous funding rounds over the past five years (i.e., from 1 April 2015 to 19 April 2020 inclusive); if the company was a member of a corporate group, it was required to be the ultimate parent company; with no shares or other securities listed or quoted; a UK incorporated limited company or an eligible non-UK parent company⁶; incorporated on or before 31 December 2019⁷ and must have had (i) half or more of its employees UK based and/or (ii) half or more of its revenue from UK sales;
- (b) Matched funding: The Government's contribution would constitute no more than 50% of the funding;
- (c) Loan size: £125,000 - £5 million;
- (d) Use of proceeds: The loans were to be used solely for the purposes of operating expenditure and/or capital expenditure in respect of the company's business. The loans could not be used to repay shareholder or related party loans (other than any bank or venture debt facilities); pay dividends, bonuses or discretionary payments that were non-contractual or not in the ordinary course of business for 12 months; pay advisory, placement or similar corporate finance type fees in relation to the Convertible Loan Agreement; and/or to lend to, invest in, or otherwise provide finance to companies or persons that are not part of the company's group. In the case of non-UK parent companies, the loans were to be used in respect of the UK business;

⁵ There were two Convertible Loan Agreements in operation during the FF. The first was in force for the period 20 May 2020 – 30 November 2020. The second, with a change to the use of proceeds clause which is covered in more detail in paragraphs 338-345, was in force from 1 December to the FF's closure.

⁶ The eligibility of non-UK parent companies was introduced post launch of the FF. See paragraph 327 for more detail.

⁷ In the case of non-UK companies, this criterion only applied to at least one UK subsidiary operating company. For more details on the eligibility criteria for non-UK companies see paragraph 327.

- (e) Warranties: the company had to provide limited warranties regarding meeting the eligibility criteria, compliance with the law, borrowing facilities, litigation and insolvency events; and
- (f) Covenants: the company was required to provide limited covenants to the Government, including undertaking to treat the lenders and the holdings of the conversion equity fairly and equally.

201 The design, development and implementation of FF involved HMT, the Department for Business, Energy and Industrial Strategy, the Bank, PricewaterhouseCoopers and external legal advisors. In terms of general roles:

- (a) HMT decided on the creation of FF, set the policy and agreed the design principles;
- (b) The Department for Business, Energy and Industrial Strategy was responsible for assessing how the scheme could be implemented in line with the objectives;
- (c) The Bank, as the centre of expertise, input during the design stage after HMT had decided on the broad parameters of the scheme and led on delivery, in conjunction with its appointed delivery agent, PricewaterhouseCoopers; and
- (d) PricewaterhouseCoopers's role as delivery agent, in addition to providing its advice and expertise at the design stage, was to process enquiries and applications, carry out due diligence and have ongoing dialogue with investors and companies on application information, supporting documentation and points of clarification.

[RB/73 - INQ000146532] [RB/76 - INQ000594673]

202 The model used for FF was novel to the Bank. As such, there were no existing models of support which could be adopted. However, as FF was developed after CBILS, CLBILS and BBLs, the Bank was able to consider the lessons learned from the development of these schemes and apply these to the design of FF.

203 For example, advice, analysis and modelling was typically requested, and shared, by email between the Bank, the Department for Business, Energy

and Industrial Strategy and HMT. Building on its experience of designing the other schemes, the Bank decided to compile all relevant advice, analysis, modelling and decisions into one document (this was known as the **Policy Document**) to ensure all key decisions were captured despite the pace and circumstances they might have been made under (e.g., late night phone calls). [RB/78 - INQ000595826]

204 FF needed to be developed in a short timeframe of six weeks which was set by HMT. This resulted in staff at the Bank working exceptionally hard over long hours (often overnight) and as such, key decision making was fast-paced and informal when compared to business as usual (for example, the Bank is aware of several conversations which took place orally between the Department for Business, Energy and Industrial Strategy, HMT and the Bank, however, due to the pressures at the time, minutes of these calls were not always made⁸). The Bank shared its concerns about the challenging nature of this timeframe and the risks it carried [RB/79 - INQ000563966] [RB/80 - INQ000594671] [RB/81 - INQ000594648] (see also paragraphs 227-230 below). For example, on 11 May 2020 the Bank's Executive Committee noted that "*given the pace of delivery the usual levels of diligence as per the supplier risk management framework were not being applied*". [RB/82 - INQ000595823]

205 As set out in more detail in paragraphs 224-226 below, the Bank raised numerous concerns about FF during the design stage. This culminated in the Bank issuing a Reservation Notice shortly before the launch of FF on 18 May 2020.

2 Scheme Genesis

206 After the launch of CBILS, consideration turned (within the Bank, HMT and the wider private sector⁹) to what additional products could be developed to support Venture Capital backed businesses.

⁸ Although as set out at paragraph 203, all key decisions were recorded in the Policy Document.

⁹ See Annex A in the Bank's Equity Companies Response options paper dated 29 March 2020 for a summary of the options provided by industry. [RB/83 - INQ000595770]

- 207 Prior to the pandemic, equity funding had increased significantly. However, data available to the Bank at the outset of the pandemic showed that equity funding fell between 34% between January and March 2020. Such companies were unlikely to be suitable for CBILS, CLBILS, BBLs or traditional business loans, which required an applicant to demonstrate their trading track record. [RB/73 - INQ000146532]
- 208 The Bank held initial phone calls with HMT on or around 25 March 2020 and was asked to provide a proposal on an option for supporting Venture Capital backed businesses. A paper, titled "*Proposal for a scheme to support High Growth, Venture backed companies that fall outside of the scope of existing measures*" was subsequently provided on or around 26 March 2020 and the Bank proposed a scheme based on convertible loans with terms broadly analogous to CBILS. It was proposed that the funds would be distributed via ~50 Bank delivery partners, with a set cap for each on what they could deploy, on the basis that due diligence had been carried out and there was an established mechanism for making and receiving payments. These partners would be used for loans within their own portfolios but also loans to other venture backed Small and Medium Enterprises. As allowing managers to invest in their own portfolios could give rise to a conflict of interest, the paper proposed several options for mitigating this. [RB/84 - INQ000595768]
- 209 The Bank subsequently carried out further research and analysis (summarised in paragraphs 210-211 below) of the problems likely to be faced by Venture Capital backed companies due to the pandemic and presented an updated options paper to HMT on or around 29 March 2020.¹⁰ [RB/83 - INQ000595770] [RB/85 - INQ000595769]
- 210 The Bank's analysis suggested that between 230 - 440 seed and venture stage companies and up to 95 later stage venture companies needed funding of up to £880 million imminently due to a cash flow crisis. The Bank's analysis also identified that over 285 seed and venture stage companies and 30 later stage venture companies would need funding within the next few months due to failed equity fundraising. The Bank also identified further challenges, in that

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An initial copy was provided on 26 March 2020, but was later revised following a call with HMT.

early-stage companies may experience defaults on drawdown commitments and that they were likely to see a reduction in fundraising ability.

- 211 The Bank noted that whilst it was rapidly exploring its ability to adapt its existing programmes to safeguard these organisations and the wider Venture Capital ecosystem, it believed that a novel solution was required. It identified five potential options, three of which were amendments to existing programmes and two new options [see RB/83 - INQ000595770]. One of the suggested new options was the "*Coronavirus Venture Interruption Bridge Scheme*", which was also suggested in the proposal for a scheme to support High Growth, Venture Capital backed companies referred to at paragraph 208 above. The Bank's recommendation was that all give measures should be executed, for a total package of ~ £2 billion.
- 212 HMT raised a number of questions in response to the options paper including:
- (a) if the Bank only took forward some of the measures, which ones would it prioritise?
 - (b) which target sectors are currently least represented amongst the Bank's delivery partners?
 - (c) how long did the Bank envisage the amended parameters for existing programmes being in place?
 - (d) whether any alternative delivery mechanisms had been considered.¹¹
- 213 Following a call with HMT and the Department for Business, Energy and Industrial Strategy on 31 March 2020, it was agreed that work on developing the 'Bridge Scheme' should be prioritised as this was HMT's preference. [RB/86 - INQ000594623]
- 214 As such, a subsequent paper was prepared in early April 2020 setting out the options for a bridging convertible loan fund to support venture-backed high growth companies. The (then called) Venture Coronavirus Bridge Fund was initially proposed for a period of six to nine months at an estimated size of £500 million - £1 billion. However, the Bank noted that "*such approach*

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See 31 March 2020 email at 11:10am from HMT in Exhibit RB/86 - INQ000594623 for the list of questions.

requires a direct-to-business capability which can provide convertible loans and manage the resulting portfolio of investments. The Bank does have such a capability, nor the skills, experience or resources to create one at short notice". The paper also noted that whilst there was a choice between the scheme operating on a purely rules based approach or whether a credit/investment decision is made at the same time, the current proposal considered a rules-based approach *"given the challenges with appropriately incentivising an agent to make appropriate investment decisions, the presentational/reputational risks around perceived fairness...and speed/rate at which companies receive funds"*. [RB/87 - INQ000594997]

- 215 During the same time period, HMT and the wider Venture Capital industry were also considering options for supporting the market. HMT provided the Bank with details of its proposals versus the proposals it had been sent by industry on 8 April 2020. The majority of these were also Convertible Loan Agreements (with different terms), however, there was also a proposal for a Simple Agreement for Future Equity scheme [RB/88 - INQ000594649].
- 216 The decision as to which model would be developed was ultimately taken by HMT, as were the decisions about the extent to which operational considerations informed the design of FF. The Bank understands that the Convertible Loan Agreement model was chosen to provide speed, volume and funding on a *"take it or leave it basis"*, relying on due diligence undertaken by the co-investor and also because it was believed to *"be a more effective approach the untapped capital held by equity funds"*. [RB/89 - INQ000585566] [RB/73 - INQ000146532]

3 Scheme Design

- 217 On 14 April 2020, the Department for Business, Energy and Industrial Strategy confirmed that the Chancellor was *"of the view that a new convertible loan scheme is the right solution and has commissioned rapid work from the BBB to develop this, ahead of an announcement"*. [RB/90 - INQ000585565]
- 218 The Bank was subsequently invited to a meeting with the Chancellor and the law firms supporting the design of the term sheet in mid-April 2020 where there was a clear steer from the Chancellor and HMT as to what FF would

look like and how it would operate. [RB/72 - INQ000594660] Following this meeting, the Bank was asked to advise on the Department for Business, Energy and Industrial Strategy Ministerial Submission about FF and also provided HMT with advice on the draft eligibility criteria.

[RB/89 - INQ000585566] [RB/90 - INQ000585565] [RB/91 - INQ000594653] [RB/92 - INQ000595783].

- 219 As noted at paragraph 214 above, from an early stage the Bank understood that a third-party agent would be needed to deliver FF as there was not the capability to do so within the Bank. The Bank also highlighted the potential long-term impact of such a scheme on the Bank if it was left to manage a portfolio of investments. [RB/93 - INQ000595797] As such, it was agreed that the Bank would need to appoint a delivery agent and following a competitive process, PricewaterhouseCoopers was chosen [RB/16 - INQ000595828].
- 220 During the design stage, the Bank was using historic market information to make assessments of the likely uptake for FF, the potential market impact and the sort of companies and investors (and therefore individuals) who might utilise FF. Using historic data is common across the market and for the Bank's other work in the equity space. However, such data can never predict future market behaviour with absolute accuracy, particularly in a situation where there is an element of unpredictability due to the unseen market conditions created by the pandemic. For example, whilst the Bank consistently predicted that demand would be higher than the initial £250 million allocation (see paragraphs 239-241, the initial uptake was significantly higher and quicker than expected.
- 221 The data was limited in some contexts. For example, when predicting the likely ethnicity mix for FF, the Bank noted that the market data (which was not collected by the Bank) was not as widespread as data relating to gender and as such, this was difficult to estimate (see paragraph 250 for more detail). The Department for Business, Energy and Industrial Strategy and HMT were aware of this as this information was included in the Policy Document. Whilst the Bank is not aware of the internal views at the Department for Business, Energy and Industrial Strategy and HMT, the Policy Document notes the following response from HMT "*HMT officials confirmed on 15th May that Ministers have been advised of potential impact*". [RB/78 – INQ000595826].

- 222 Another key element of the design was to ensure FF operated on a commercial basis. This was because FF was not intended to provide State aid and instead relied on the Market Economy Operator Principle (i.e., the Government was making an investment that a private investor could be prompted to make). This advice was primarily provided by an economics and finance consultancy who were commissioned by the Department for Business, Energy and Industrial Strategy and HMT to undertake a State aid assessment of FF, although the Bank's advice contained in the Policy Document also took the relevant State aid considerations into account. [RB/78 - INQ000595826]
- 223 During FF design period, the Bank was cognisant that part of its role was to identify possible risks and vulnerabilities of the proposed approach. It similarly acknowledged the importance of having its views heard and taken into account in order to mitigate reputational risk [RB/94 - INQ000594698].
- 224 The Bank raised concerns (summarised in paragraphs 227-257 below) about the proposed approach with the Department for Business, Energy and Industrial Strategy and HMT on a number of occasions throughout April and May 2020. Generally, concerns were raised and responded to by way of formal letters between senior Bank individuals (for example, Keith Morgan (Chief Executive Officer at the Bank)) and senior Department for Business, Energy and Industrial Strategy officials (for example, Alok Sharma MP (the then Secretary of State at the Department for Business, Energy and Industrial Strategy) and Sam Beckett (the then Permanent Secretary at the Department for Business, Energy and Industrial Strategy)). The Bank's concerns fell into eight broad categories:
- (a) timeline for launch;
 - (b) feasibility;
 - (c) lack of alternatives considered;
 - (d) £250 million allocation cap;
 - (e) diversity;
 - (f) anti-gaming;

- (g) fraud; and
- (h) value for money.

225 As a result of these concerns being raised, the Bank was formally instructed by the Department for Business, Energy and Industrial Strategy on two occasions:

- (a) on 19 April 2020 to develop proposals for how FF would be delivered (including an assessment of the feasibility and State aid risks) [RB/95 - INQ000563976]; and
- (b) on 26 April 2020 to put in place (i) the necessary operational system and procedures, (ii) undertake a feasibility and State aid risks assessment of the delivery model, (iii) to continue to work with the Department for Business, Energy and Industrial Strategy and HMT to finalise the programme design and (iv) develop a co-ordinated communications plan. [RB/96 - INQ000563991]

226 The culmination of these concerns led to the Bank issuing a Reservation Notice, and subsequently receiving a Ministerial Direction, in respect of FF as explained in more detail in paragraphs 258-264.

(i) *Timeline for launch of FF*

227 The Bank consistently had concerns about the challenging nature of the short timeframe to launch FF which were raised with the Department for Business, Energy and Industrial Strategy on several occasions.
[RB/79 - INQ000563966] [RB/80 – INQ000594671]

228 In particular, the Bank was concerned that it was not possible to confirm that FF could be delivered within that timeline and that the timeline fell outside of its risk appetite.

229 The Department for Business, Energy and Industrial Strategy and HMT acknowledged the challenging timescale and the Department for Business, Energy and Industrial Strategy confirmed that it had reiterated to HMT that launching FF in May was not the same as investments being made in that month (e.g., it would become fully operational in June) and had updated the press release to clarify this. [RB/95 - INQ000563976]

230 As FF design progressed, the Bank still considered the timeline highly ambitious and requested a commitment from the Department for Business, Energy and Industrial Strategy that the Bank would not be cost constrained in its efforts. [RB/97 - INQ000563979]

231 In response to this request, the Bank was asked to prepare an estimate for its initial costs for the programme. The Bank estimated that running costs might be up to £5 million for the period prior to launch, which was to meet the Bank's own costs of delivery, professional fees (for example legal), the cost of the delivery agent and room for contingency given the pace the teams were working at. When sharing this estimate, which was accepted and approved by the Department for Business, Energy and Industrial Strategy, the Bank noted that due to the time pressures in place the estimate represented a maximum estimate. [RB/98 - INQ000595789] [RB/96 - INQ000563991].

(ii) *Feasibility*

232 The Bank acknowledged that the eligibility criteria were kept intentionally broad by HMT in order to ensure that funding could reach companies quickly to meet the emerging need. However, the Bank was concerned that without more clarity around the objectives and a clearly articulated target market and delivery mechanism, there was a risk of Government funds flowing to companies who were not the intended target and FF being seen to support the Venture Capital industry, as opposed to the underlying businesses. [RB/93 - INQ000595797] [RB/79 - INQ000563966] [RB/97 - INQ000563979]

233 The Bank also raised concerns that the criteria as drafted risked FF not supporting the target companies. [RB/79 - INQ000563966] [RB/99 - INQ000594669] [RB/80 - INQ000594671] [RB/191 - INQ000594670] In particular, the Bank noted that:

- (a) the maximum loan size of £25 million was too high given the likely availability of alternative financial options to larger growth companies;
- (b) the requirement of previously raised equity of £1 million (minimum) would disqualify a significant number of earlier stage businesses;
- (c) the eligibility criteria (in particular the minimum loan size and minimum prior equity raising requirements) could exclude a significant number

of earlier stage companies and the term sheet could be amended (i.e., to reduce these amounts) to ensure better targeting.

- 234 The Bank was also concerned that the rules-based nature of FF meant that there was no method to drive the investment to the types of companies targeted including those which may be better suited by other Government interventions or which were already facing challenging trading conditions without the pandemic. It was concerned that the approach risked investment in companies that may not be suited and conversely not reach those which it should. [RB/100 - INQ000594675] However, the Bank believed that these concerns were mitigated to some extent by the need for co-investors. [RB/78 - INQ000595826]
- 235 Additionally, the Bank was aware that FF may be unattractive for certain groups, for example business angel investors, as there was no Seed Enterprise Investment Scheme or Enterprise Investment Scheme relief.¹² To mitigate this, FF was designed so that investors would not lose any prior Seed Enterprise Investment Scheme relief. [RB/78 - INQ000595826]
- 236 The Bank requested that its concerns relating to the trade-offs in the design of FF (i.e., between mitigating risks and reduced bureaucracy (which was a particular aim of HMT)) be raised with the Secretary of State. The Bank also requested that the eligibility criteria should not be concluded until further design work had progressed with PricewaterhouseCoopers. [RB/80 - INQ000594671]

¹² HMT and HM Revenue and Customs are responsible for all decisions concerning Seed Enterprise Investment Scheme. It is the Bank's understanding that the structure of the Convertible Loan Agreement did not meet existing rules for (Seed) Enterprise Investment Scheme relief eligibility. However, the Government later confirmed that such previous investments would not be affected where the convertible loan converts into shares and that it intended to make changes to the rules to clarify that this is compatible with such previous investments.

237 As a result of the concerns raised by the Bank, there were material changes to the proposed rules of FF:

- (a) the eligibility criteria were amended as follows which meant that smaller companies would be eligible:
 - (i) the previous equity raising requirement was lowered to £250,000;
 - (ii) the minimum round size was lowered from £500,000 to £250,000 (making the minimum Government contribution per deal £125,000); and
 - (iii) the maximum loan size provided by Government was reduced from £12.5 million to £5 million (i.e., total loan size was reduced from £25 million to £10 million); and
- (b) The Department for Business, Energy and Industrial Strategy provided assurance that the headline terms were flexible following publication (which took place when FF was announced).
[RB/101 - INQ000595802] [RB/102 - INQ000595794]

(iii) *Lack of options/risk assessment*

238 The Bank raised concerns that the details of FF had not been sufficiently developed to enable a comprehensive assessment of the risks.
[RB/79 - INQ000563966] The Bank advised the Department for Business, Energy and Industrial Strategy that ordinarily any proposed schemes would be progressed to a much greater level of detail ahead of public launch.
[RB/97 - INQ000563979] In particular, the Bank was concerned that there were outstanding questions relating to the feasibility of delivery and that this meant that the Bank was highly exposed to reputational risks and that it was operating outside its designated risk appetite. [RB/103 - INQ000564017]
[RB/104 - INQ000595808]. The Bank also noted that it had been impossible to determine whether the proposed intervention represented the best value for money, particularly as the underlying policy objectives had not yet been clearly articulated. [RB/80 - INQ000594671]

(iv) *£250 million allocation*

239 The Bank raised concerns that the demand for FF would be significantly larger than the initial £250 million allocation. [RB/97 - INQ000563979]. There was a risk that demand would significantly outstrip supply and investments would be made into lower quality proposals because FF was match funded and no decision had been made on investment viability [RB/100 - INQ000594675]

240 The Bank conducted several pieces of analysis into the anticipated uptake of FF. At its highest, the Bank's analysis suggested that approximately 7,000 companies met the criteria of having raised at least £250,000 in the last five years and could reasonably be seeking to raise more than £125,000. Whilst it was not possible to know which of these 7,000 companies would participate, the Bank noted that if all the eligible companies were able to make use of FF, this would lead to a commitment of £6 billion - £8 billion by the Government. [RB/78 - INQ000595826] A more conservative estimate produced by the Bank suggested around 400 businesses may use FF. Assuming a 50% funding match this estimate indicated a Government commitment of at least £320 million. [RB/105 - INQ000595807]¹³

241 The Bank acknowledged that HMT officials had indicated that £250 million was an initial allocation and should not be considered finite for decision making purposes. However, as budgetary approval in excess of £250 million had yet to be obtained, the Bank remained concerned that the funding for FF was not sufficient. [RB/103 - INQ000564017]

(v) *Diversity and inclusion*

242 The Bank gave advice to the Department for Business, Energy and Industrial Strategy and HMT on diversity and inclusion within FF on several occasions. PricewaterhouseCoopers also assisted by preparing an inclusion framework to consider and address inclusivity in FF during the design stage. [RB/106 - INQ000594697] During this time, the Bank was also made aware of

13 The Bank regularly updated its anticipated uptake for FF once it was in operation. For example, when it was initially launched and each time it was extended.

concerns sent to the Chancellor around the diversity implications of FF and proposals to address these. [RB/107 - INQ000594695]

243 The Bank was of the view that it was likely that, because FF required a matched investment, beneficiaries of FF would reflect the demographics of current equity investments by way of business size, sectors, regional spread, ethnicity and gender (which tend to be male, white and London-centric). The Bank noted to the Department for Business, Energy and Industrial Strategy and HMT that it was unlikely to be possible to completely address this through the FF rules considering public law duties (i.e., fairness and compliance with the Equality Act 2010) and the need to operationalise the programme quickly. For this reason, the Bank considered it important to have FF open to a wide section of the population when setting the eligibility criteria. It considered that if the criteria were set too tightly, for example in deciding what is a sensible amount of previous equity raised to eligible for FF, this would reduce the ability of underrepresented groups to access the support, as smaller investment sizes tended to have better representation of those groups. As such, the Bank suggested a number of changes to the eligibility criteria to allow smaller companies to access FF (see paragraph 237). [RB/100 - INQ000594675] [RB/78 - INQ000595826].

244 The Bank advised that the most effective way to increase access for underrepresented entrepreneurs was to have as broad a range of investors as possible. It also proposed the following mitigating actions:

- (a) allowing as many types of Sophisticated Investor¹⁴ as possible to provide matched funding as these earlier stage investors generally have better diversity than Venture Capital firms;
- (b) recording, and publishing, statistics on gender mix, ethnicity mix and region for each company;
- (c) subject to compliance with the Equality Act 2010, allowing FF to set internally defined concentration limits (e.g., rules which govern the

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As defined in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005/1528 paragraph 2.

order in which investments are made) to allow the building of a diverse portfolio; and

(d) asking investors to sign HMT's Investing in Women Code in order to support diversity in future. [RB/78 - INQ000595826]

245 The Department for Business, Energy and Industrial Strategy and HMT confirmed that they were happy for the Bank to explore the option listed at paragraph 228(c) further and recommended approaching the stakeholders to discuss. [RB/78 – INQ000595826]

246 As a result of this further work, the Bank proposed to build in a "*protected minimum allocation*" into FF which involved the setting of a minimum percentage of the total Government commitment to be delivered as smaller loans. The rationale was that it would stop larger loans from taking up a significant amount of FF at the expense of smaller loans, thus allowing a more diverse portfolio of companies.¹⁵

247 The Bank also proposed to "*reserve*" a portion of FF, e.g., 20%. This was on the basis that once the first 80% is almost fully invested, the diversity characteristics of the portfolio would be reviewed to identify any concerns. If there were any, the remaining 20% would be deployed into companies to increase the portfolio diversity using a rules-based approach. [RB/78 - INQ000595826].

248 It was agreed with the Department for Business, Energy and Industrial Strategy and HMT that the Bank would build in the above functionality, but would not switch it on. If the Bank wanted to switch on the functionality, it would need to present another paper. The Bank noted that a first come first served approach, without an allocation strategy in this respect, may result in outcomes which conflicted with its regional and diversity objectives. [RB/103 - INQ000564017]

249 However, as the funding for FF increased shortly after opening (due to exceeding the initial allocation- see paragraphs 314-316 for more

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The Bank identified that many companies outside London/the South East required lower amounts of funding because their costs would be lower. It also identified that higher sex diversity is observed in smaller deal sizes and earlier funding stages.

information), the "reserve" and "minimum allocation" functionality was never switched on.

250 However, it is of note that the Bank's concerns in this respect were not borne out. The Bank had initially estimated that only 5% would be provided to all female teams, 13% to mixed gender teams and the remaining 82% to all male teams. Whilst the Bank considered that there was insufficient data to show the estimated spread for ethnicity, it expected the skew to be similar in magnitude to gender but starting from a lower base point (approximately 13% for BAME¹⁶ versus 50% for women). [RB/78 - INQ000595826] In contrast, the final gender and diversity statistics showed 78% of funding was to companies with mixed gender senior management teams and that 61.6% of funding went to companies with mixed ethnicity (or solely BAME) senior management teams (see Annex 1).

(vi) *Anti-gaming*

251 Throughout April and May 2020, the Bank made the Department for Business, Energy and Industrial Strategy and HMT aware of possible concerns around suitable investors, e.g., those using illicit finance or those seeking to game the rules to achieve an unintended advantage, and advised on including allocation rules (referred to as the **Carousel Approach**) to mitigate this [RB/78 - INQ000595826]:

- (a) a 'first come first served approach' could mean that the most organised investors rapidly secure the majority of the funding. This would not reduce the effectiveness of FF in terms of funds deployed but could result in the perception of significant unfairness. Whereas allocation rules could help ensure that the benefits were not received only by a small group;
- (b) companies should be queued for investment, one company from each investor. An investor's second company would only be considered once all investors first companies have received investment; and

¹⁶ Black, Asian and or Other Minority Ethnic background. This was the descriptor used at this point in time to track the differential impact on ethnic minority groups. Whilst public bodies now collect data against a different definition, this terminology has been retained for the purposes of this statement.

- (c) ultimately, whilst this functionality was built into the system, the Carousel Approach was not utilised given that HMT's budget for FF rapidly increased shortly after opening.

(vii) *Fraud*

252 The Bank also proposed that the lead investor and the borrower should be subject to Know Your Client/Anti Money Laundering and other appropriate checks, but that co-investors would only be subject to sanction checks. The Bank also noted that solicitors involved in the transaction would also be carrying out Know Your Client and Anti Money Laundering checks in accordance with their own regulatory requirements. [RB/78 – INQ000595826] However, the Bank flagged its concerns with this approach in terms of the:

- (a) risks due to the fact that there were a number of areas of self-certification within the customer journey;
- (b) limited enforcement mechanisms for the Bank to pursue without damaging the value of its investments; and
- (c) risks that because co-investors will not be subject to checks, FF provides investment to companies which undertake activities which are undesirable or embarrassing to Government.

[RB/103 - INQ000564017]

253 The Bank also noted that the "anti-embarrassment" clauses in the Convertible Loan Agreement should capture illicit activity and allow Government to remote itself from investment if necessary. [RB/78 - INQ000595826]

(viii) *Value for money*

254 On or around 10 May 2020, an economic analysis was conducted by the Bank for FF which suggested the potential for good value for money. This analysis was based on the initial allocation of £250 million (it was noted that it was not possible to assess the expected value for money of an enlarged programme). It was also noted by the Bank that the estimates in the analysis were highly sensitive to assumptions and if the downside scenarios of the various assumptions were combined, there was a possibility that FF could be poor value for money. Furthermore, it was noted that the Bank had not had the opportunity to undertake a comprehensive options analysis on other

interventions to address the target market. Therefore, it could not be certain that another option would not produce better value for money.

[RB/103 - INQ000564017]

255 At the recommendation of the Board [RB/108 - INQ000595838], a revised Value for Money Assessment was produced on or around 15 May 2020. In contrast, the revised assessment showed that when concerns around the high risk of adverse selection were taken into account, the analysis showed that the economy would be negatively affected from the operation of FF on a net basis. [RB/109 - INQ000595810] [RB/110 - INQ000595832]

256 This revised assessment was circulated to the Board (as well as the Department for Business, Energy and Industrial Strategy)¹⁷ alongside a recommendation that a Reservation Notice be issued. [RB/109 - INQ000595810].

257 On 15 May 2020, Sam Beckett responded to the revised Value for Money Assessment confirming that a Ministerial Direction was now being sought. [RB/112 - INQ000594719].

(ix) *Reservation Notice*

258 The Bank first considered the possibility of issuing a Reservation Notice approximately ten days into the formal development of FF and this was regularly discussed during Board meetings [RB/93 - INQ000595797] [RB/102 - INQ000595794] [RB/104 - INQ000595808] [RB/82 - INQ000595823] [RB/108 – INQ000595838].

259 A Reservation Notice and/or a Ministerial Direction was also raised repeatedly in correspondence between the Bank and the Department for Business, Energy and Industrial Strategy (for example [RB/80 - INQ000594671] [RB/95 – INQ000563976]) with both preferring to avoid issuing a Reservation Notice if possible. However, in contrast to the Bank, the Department for Business, Energy and Industrial Strategy felt that once there was confirmation that a

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The Department for Business, Energy and Industrial Strategy also commissioned the economics and finance consultancy, who provided the State aid assessment, to produce an alternative Value for Money Assessment dated 19 May 2020. The Bank subsequently produced an updated value for money report with an annex comparing its analysis against the independent consultant's. [RB/111 - INQ000595812].

Ministerial Direction was being sought, issuing a Reservation Notice would be seen to be a "redundant step".

260 As such, during the early stages of the design of FF, the Bank considered that the best approach was to engage in formal correspondence explaining its concerns and to ask for reconsideration of key elements of FF.
[RB/93 - INQ000595797].

261 Despite a number of the Bank's concerns being resolved and the Department for Business, Energy and Industrial Strategy's confirmation that it would be seeking a Ministerial Direction on value for money grounds (as detailed at paragraph 257 above), the Board ultimately agreed at its meeting on 15 May 2020 that a Reservation Notice should be issued in respect of FF. This was on the basis of the Bank's concerns around: value for money, reconciling the rules-based nature of FF and the public announcements that have been made regarding the fixed £250 million budget and, the contrast of FF with the Bank's objectives on regionality and on operation within a robust risk management framework. [RB/22 - INQ000595827]
[RB/113 - INQ000594720]

262 The Board was not unanimous in its agreement to issue the Reservation Notice as Ceri Smith, the Shareholder Representative, did not agree that one was necessary in light of the forthcoming Ministerial Direction and was concerned about the possible impact on the Bank. There was also discussion at the meeting as to whether Ceri Smith should recuse himself, as he had done for the meeting relating to the BBLs Reservation Notice citing a conflict as Shareholder Representative. It was explained by Ceri Smith at the meeting that in relation to the BBLs Reservation Notice, he felt conflicted as he agreed with the Board that it should be issued, whereas for FF he did not agree that it would be in the best interests of the Bank to issue such a notice so was therefore not conflicted as Shareholder Representative.
[RB/22 - INQ000595827]

263 On 18 May 2020, the Bank issued the Reservation Notice in respect of FF to the Secretary of State. The Bank's primary concern was that the value for money outcome for FF was highly uncertain. As such the Bank was not confident that FF provided good value for money, and it was possible that other alternatives may provide better value for money. The letter also raised

two further concerns in relation to propriety and the Bank's objectives. In relation to propriety, the Bank noted its concern about the likelihood of exceeding the £250 million cap and the fact that this may lead to a pause in delivery before the end date of FF if further budget cover could not be provided in advance. In relation to its objectives, the Bank considered that the design of FF ran counter to the objectives on regionality (as recipients were more likely to be based in London and the South East), and on operating within a robust risk management framework. The Reservation Notice also drew attention to the fact that it had not been possible within the short timeframe available to conduct the breadth of testing that would normally underpin the launch of a substantial new programme and automated platform for its delivery. [RB/114 - INQ000564030].

264 On the same date, Sam Beckett wrote to Keith Morgan acknowledging receipt of the Reservation Notice, confirming that these risks had been raised with the Secretary of State and to issue a Written Direction to implement FF. The letter noted that the Department for Business, Energy and Industrial Strategy and the Bank should monitor FF closely over the coming weeks, particularly for evidence of adverse behavioural effects, and be prepared to propose changes to Ministers if it became evident that FF was not operating as intended. In relation to the Bank's concerns around propriety, it was noted that concerns about the initial £250 million allocation could be mitigated by close monitoring and that it was appropriate that any conversations about funding for follow-on investments to take place at a later date. [RB/115 - INQ000564031]

4 Communication

265 The Bank did not take a lead role in the launch communications for FF as the Bank considered this primarily HMT's responsibility. [RB/108 - INQ000595838] Instead, the communication from the Bank focused on the technical aspects of FF, for example the eligibility criteria for companies and investors and the process for applying, which the Bank considered was the most appropriate way of informing users (and potential users) about, and promoting confidence in, FF.

- 266 The main communication strategies fell into five broad categories:
- (a) press releases;
 - (b) FAQ's;
 - (c) stakeholder engagement;
 - (d) customer service call centre; and
 - (e) regionally focused communications.
- 267 Additionally, the Law Society for England and Wales, the Law Society of Scotland and the Law Society of Northern Ireland were fully briefed ahead of launch, and provided with information about FF which they sent to every registered solicitor in England, Wales, Scotland and Northern Ireland. This meant that solicitors had the information they needed so that they could act and respond swiftly if approached by clients (i.e., smaller businesses) for legal advice on applying for FF. [RB/116 - INQ000595870]
- 268 FF was also launched in a two-stage process. Technical information was provided on 18 May 2020 and included issuing all the essential information to the media for companies, investors and solicitors (e.g., the eligibility criteria and FAQs). The FF portal was then open for applications on 20 May 2020. The intention behind this two-day period was to allow the market sufficient time to digest the information, understand the role of the lead investor and the role of solicitors in FF prior to making an application once the portal opened. This also allowed the Bank to be prepared for the speed of incoming FF applications once open. [RB/117 - INQ000594718]
- 269 Due to the nature of FF, it was not specifically targeted to the socially and economically vulnerable. However, as noted at paragraph 278, the Bank engaged with various stakeholder groups prior to launch (for example the Council for Investing in Female Entrepreneurs) and it was anticipated that these stakeholders would share details of FF within their networks.

(i) *Press releases*

270 The Bank issued a series of press releases communicating key details about FF (with similar updates shared on social media). These included:

- (a) a press release announcing FF on 20 April 2020, which was referred to as a "*government scheme*" developed in partnership with the Bank. The headline terms were also published alongside this announcement to generate interest in FF; [RB/70 - INQ000593119] [RB/118 - INQ000594672]
- (b) a press release on 18 May 2020 providing further details on the eligibility criteria and highlighting that FF was developed by the Government and delivered by the Bank; [RB/119 - INQ000593125]
- (c) a press release on 30 June 2020 when FF was expanded to include US accelerators; [RB/120 - INQ000593122]
- (d) various press releases to coincide with the publication of monthly diversity data and other published statistics about FF [RB/121 - INQ000593124] [RB/122 - INQ000593123] [RB/71 - INQ000593121] [RB/123 - INQ000593126] [RB/124 - INQ000593127]; and
- (e) press releases in relation to extensions to, and closure of, FF [RB/125 - INQ000593141] [RB/126 - INQ000593142].

(ii) *FAQs*

271 The Bank published a number of FAQs on its website, prior to FF being open for applications to clarify any misconceptions that existed in the market around how FF platform would work: [RB/78 - INQ000595826]

- (a) Company FAQs [RB/127 - INQ000593111];
- (b) Investor FAQs [RB/128 - INQ000593110]; and
- (c) Solicitor FAQs [RB/129 - INQ000593117].

272 In line with changes to FF (as set out in more detail in paragraph 321-327, the Bank later published further FAQs on its website, for applications involving non-UK parent companies. [RB/130 - INQ000593129]

273 The Bank also published a number of FAQs on its website in relation to the closure of FF [RB/131 - INQ000593130].

(iii) Stakeholders and customer service call centre

274 As set out in paragraph 269, the Bank also engaged with stakeholders prior to the launch of FF including holding a call on the Friday before launch. The primary purpose of which was to ensure they were fully informed about FF and any questions could be raised.

275 The PricewaterhouseCoopers customer service call centre was also made available to ensure everyone understood the application process and could raise any issues they were encountering. [RB/78 - INQ000595826]
[RB/117 - INQ000594718]

(iv) Regionally focused promotional activities

276 At the launch of FF, the Bank carried out a range of regionally focused promotional activities which included:

- (a) communicating the launch via its UK Network, which had team members based within each of the English regions and the three devolved nations (**Devolved Nations**); and
- (b) a social media campaign. [RB/116 - INQ000595870]

5 Accessibility

277 As set out in paragraph 244 the Bank considered that the best way to ensure FF could be accessed by a diverse range intended recipients was to encourage as broad a range of investors as possible. Additionally, a number of suggestions (whilst ultimately not utilised) were made to ensure that FF could be better targeted if necessary. To assist with assessing the diversity and impact of FF, the Bank chose to collect, monitor and publish the gender mix, ethnicity mix and region of company.

278 The Bank consulted a great deal with stakeholders throughout the design process. This was because the Bank was keen to design and deliver a product that was credible in the market and be user friendly. The engagement fell into two broad categories: consultative and informative. For example, in early May 2020, there were discussions with angel investors to get their input on the useability of the system [RB/133 - INQ000609046], as well as groups which had particular interests with regards to diversity in FF (for example, the Council for Investing in Female Entrepreneurs). In comparison, there were also engagement activities to keep key stakeholders informed of the development of FF and what to expect when it launched.

(i) *Speed of payments*

279 Overall, the Bank was not aware of any systemic issues with the speed or access to payment. HMT was clear in its instructions that FF needed to be launched and operationalised as quickly as possible so funding could get to companies in need. The Bank met this goal by developing and launching FF in an exceptionally short time period.

280 An internal timeframe of 21 days for processing application was set. The actual time of processing varied depending on how straight forward the application was, for example, more complex cases or those at the boundaries were discussed at the daily case clinics between the Bank and PricewaterhouseCoopers. The average total time between the start of the application process and funding being approved was 17 days.
[RB/73 - INQ000146532]

281 The Bank is aware of some individuals who raised concerns over the length of time it took to process applications. The Bank considers that one reason for this is because unlike its usual equity programmes (both at the Bank and generally in the industry), FF was an automated process where there was not a direct personal relationship with someone. As such, there was a sense that customers found the lack of personal interaction frustrating.

282 Where applicants or companies raised concerns or formal complaints, some of which related to timings, the Bank actively investigated this. If it identified that there had been an issue in the application process (not due to the

applicant), the Bank would request that PricewaterhouseCoopers resolve the issue and process the application as quickly as possible.

283 There was also a short period of time (approximately three to four weeks) where certain investors faced a delay in processing their applications due to additional verification the Bank and PricewaterhouseCoopers were undertaking due to fraud concerns during that time (see paragraphs 364-367 for more information). Otherwise, the Bank is not aware of any widespread or systemic concerns over speed or access to FF, although it acknowledges that despite funds being dispersed very quickly (compared to business as usual) some companies were desperate for funding and so may still have been dissatisfied at the time taken to access support.

284 Similarly, the Bank is not aware of concerns being raised over the length of time between an application being approved and the funding drawn down. This is likely for two reasons: first, this was generally quick (and the target processing timeframe was regularly exceeded) and in line with industry norms. Second, companies could use the commitment of funding straight away, as such, delays (if any) had less of an impact.

6 Unintended Gaps

285 During the operation of FF, the Bank was not aware of the exclusion of specific groups in FF other than those identified before it launched as set out below:

(a) those excluded intentionally by virtue of the eligibility criteria. For example, listed companies were excluded on the basis of not being part of the target for FF as they had alternative resources available to them and due to the other complexities/regulatory risks in the Government holding shares in these companies;
[RB/78 - INQ000595826]

(b) those excluded (or dissuaded) by the delivery mechanism for FF. For example, the Bank was aware that some FinTech's would not be able to use FF to support their regulatory capital requirements as a Convertible Loan Note would not meet the requirements of the Financial Conduct Authority for regulatory capital. Similarly, as set out

at paragraph 235, the Bank was aware that a Convertible Loan Note would be unattractive for some investors; and

- (c) the initial exclusion of companies involved with US accelerators, which whilst not possible to amend prior to launch of FF, was resolved shortly after (see paragraphs 325-331).

286 The Bank was also not aware of any concerns over unintended gaps being shared with other Government bodies, e.g., HMT or the Department for Business, Energy and Industrial Strategy.

287 The Bank was aware of some applicants not having sufficient evidence to demonstrate that they met the eligibility criteria, for example because they had not updated the relevant documents with Companies House. However, to mitigate this, the Bank allowed them to provide alternative evidence such as bank statements. Additionally, if an applicant was ultimately refused on that basis, their application would be reopened if appropriate evidence was provided at a later date.

288 For completeness, the Bank was aware of concerns raised on an individual level by companies and investors who may have felt they were excluded from FF if their application was declined due to not meeting the eligibility criteria. The Bank treated the eligibility criteria strictly due to their importance in ensuring the companies met the policy aim and that all applications were treated fairly. For example, the Bank declined applications by companies who had narrowly missed the previous equity fundraising requirement. As such, this is not considered to amount to an exclusion from, or an unintended gap in, FF.

7 Monitoring of Support

289 The objectives of FF, as articulated in the Year 1 Early Assessment report into FF [RB/73 - INQ000146532], were not formally set at the outset. However, broadly speaking these were understood to be the purpose and intention behind FF (see paragraph 197). As such, success was broadly defined as getting money to the companies most in need and supporting them through the pandemic.

290 During the operation of FF, the primary mechanism of monitoring success was via the data collection as set out below in paragraphs 292-306. There was also a series of regular meetings to monitor the scheme (see paragraph 307 below), as well as impact evaluations post closure (see paragraph 309).

(i) *Data collection*

291 The information fell into three categories which are covered in more detail below:

- (a) Management Information at the application stage;
- (b) diversity statistics; and
- (c) information on individual companies, including those in which FF held equity stakes or which had failed.

a. Management Information at the application stage

292 This information was obtained via the FF portal and was shared between HMT, the Department for Business, Energy and Industrial Strategy, UK Government Investments, the Bank and PricewaterhouseCoopers.

293 The frequency for monitoring this information changed overtime. When FF first launched, this information was shared on an hourly basis before moving to daily, twice weekly and then finally weekly.

294 Initially, the Management Information reporting contained the following cumulative information: number of investor registrations; number of applications; total loan amount from the Government; total loan amount from investors; the number of business registrations; matched ratio (i.e., how similar was the funding being offered by investors to that of the Government); total value approved; total number of applications approved; application per investor type (broken down into regulated entity, non-regulated entity, unregulated high net worth, regulated high net worth); application per investor type (broken down into investor versus investment manager); application Government Loan Size (broken down into £2 - 5 million, £1 - 2 million, £500,000 - £1 million, £250,000 - £500,000 and under £250,000).
[e.g., RB/134 - INQ000595822]

- 295 From 22 July 2020, the Management Information reporting contained the following information: cumulative applications for the non-UK top company/accelerator variant; number of registered investors; number of applications made; value of match funding offered; number of applications completed (broken down into those being processed, withdrawn or lapsed, rejected, approved); value of applications approved; number and value of applications drawn down; and value of applications withdrawn, lapsed or rejected. [e.g., RB/135 - INQ000595880]
- 296 It was agreed with HMT that the headline application figures would be published weekly [RB/78 - INQ000595826] on Tuesdays on the relevant gov.uk webpage.
- b. Diversity data
- 297 It was agreed that statistics on the gender and ethnicity should be captured at the point of application. [RB/78 - INQ000595826]
- 298 This information was then published by the Bank on a monthly basis on its website between June 2020 and February 2021.
[e.g., RB/121 - INQ000593124]
- 299 The material published contained the following information:
- (a) data by region (in terms of percentage approved outside of London and percentage break down of amount in the South, North, East of England, Midlands, Devolved Nations and London and number and value of approved funding for each region);
 - (b) data by gender mix of senior management team (in terms of percentage and number and value of funding approved to all female teams, all male teams, mixed teams and those who did not provide the data); and
 - (c) data by ethnicity mix of senior management team (in terms of percentage and number and value of funding approved to solely BAME teams, all white teams, mixed ethnicity teams and those who did not provide the data).

c. Information on individual companies

- 300 Companies who had received a Convertible Loan Agreement were required to submit initial Management Information within 90 days and then quarterly thereafter via the FF portal as set out in Schedule 4 of the Convertible Loan Agreement. This included submitting information on their revenue (previous, current and estimated), current cash balance and valuation for the most recent funding round. This enabled the Bank to:
- (a) monitor compliance with quarterly Management Information (and take action as necessary in the event of non-compliance); and
 - (b) proactively reach out to companies whose quarterly Management Information suggests they were at risk of failure¹⁸.
- 301 The Bank also monitored and published information about individual companies. This was broken down into two categories: details of companies that had converted into equity and details of companies that had defaulted.
- 302 This information was first published on 13 September 2021 and continues to be published on a quarterly basis by the Bank on its website.
[e.g., RB/136 - INQ000593128]
- 303 The information published included: number and value of loans, number and value of equity interests (i.e., the number of investments in the form of a share); number and value of cash realisations (i.e., an investment that has been realised for cash as a result of a company being required, as such there is no longer a loan or equity interest in these companies); number and value of insolvencies (i.e., those which have entered administration, liquidation or another formal insolvency process); a list of all company names and regions where an equity interest is held; and a list of all companies (and reasons for removal) for all companies removed from the list of equity interests.
- 304 The data listed above was published for the relevant quarter, alongside a comparison against the previous quarter.

¹⁸ The Bank was also actively reviewed companies who were identified by the bulk objections process as set out in more detail at paragraph 397.

305 There were two main limitations in terms of the monitoring of this data. Firstly, as FF was operating on a Market Economy Operator basis (for State aid reasons as set out at paragraph 222), it needed to be as similar to a market led scheme as possible. As such, it was considered difficult to ask for data and updates which other investors would not ordinarily request. Therefore, it was agreed that the data collected should only be that which is necessary to operate FF (for example, that set out at paragraph 295 above). As such, there was not the same level of reporting as for the Bank's other schemes.
[RB/78 - INQ000595826]

306 Secondly, some of the information, for example the names of companies who held a Convertible Loan Agreement, was considered to be commercially sensitive (to both the fund managers and the company itself). As such, whilst there were requests for this information, the Bank chose only to name companies either when the Convertible Loan Agreement had converted into equity or when the company had failed. This was on the basis that this information would be in the public domain (albeit difficult to find without direct and specific knowledge) and the fact that the commercial sensitivities were generally no longer relevant at that point.

(ii) *Operations*

307 There was also a series of daily, weekly and monthly meetings between the Bank and PricewaterhouseCoopers to monitor FF. These meetings covered any escalated cases, complaints and progress against key performance indicators. [RB/137 - INQ000595895]

(iii) *Assessments and evaluations*

308 The Bank did not undertake any formal assessments of FF prior to any changes, extensions or its closure. However, it did provide advice on the state of the equity market, the quality of applications and the perceived initial impact of FF (see paragraph 339 below).

309 Following closure of FF, RSM UK Consulting LLP was commissioned by the Bank to undertake a three-year impact evaluation of FF. The overall purpose of the evaluation was to monitor the success of FF against the stipulated

objectives. The findings of these reports are summarised in more detail in paragraphs 378 and 470-473 below. However, in summary:

- (a) The Year 1 report, published in November 2022, aimed to derive early indicative signals on the impact of FF. [RB/73 - INQ000146532]
- (b) The Year 2 report, published in October 2023, provided an update on the portfolio health and to continue assessing FF's progress against its objectives. [RB/138 - INQ000593114]
- (c) The Year 3 report is due to be published in Spring/Summer 2025.

8 Adjustments and Cessation of Support

310 During the operation of FF, there were a number of changes including:

- (a) the increasing of the operating cap from £250 million (see paragraphs 314-320);
- (b) the inclusion of companies who had non-UK parent companies due to participation in an accelerator programme (see paragraphs 323-327);
- (c) extending the operation of FF in September and November 2020 (see paragraphs 328-345); and
- (d) an amendment to the Convertible Loan Agreement to clarify the permitted use of proceeds in FF (see paragraphs 339-345).

311 The above decisions, alongside the decision to close FF, were ultimately made by HMT. Whilst the Bank cannot specifically confirm what criteria the Department for Business, Energy and Industrial Strategy or HMT applied, or what assessments were undertaken when making these decisions, the Bank can explain its involvement in and its understanding of these decisions.

312 Additionally, as these decisions were not made by the Bank, the Bank was not aware of the extent that the developing understanding of the impact of the pandemic (for example the national lockdowns) was factored into HMT decision making. However, the Bank noted the difficulty in updating its Value for Money Assessment in light of the possibility of further lockdowns (see paragraph 333) and understood that the rationale behind extending FF was generally because businesses were still in need in light of the ongoing impact

of the pandemic on the equity market and that closure was because the market had recovered sufficiently (see paragraph 333 below).

313 Given the consideration already given to increasing diversity and inclusion within FF (see paragraphs 242-250 above), the Bank was not aware of any further consideration being given to social and economically vulnerable individuals when decisions were taken to amend, extend or close FF.

(i) *Refinement of FF: Increasing the operating cap*

314 On 20 May 2020 at approximately 08:00, FF opened to new applications. [RB/69 - INQ000593120]. There was higher than anticipated demand and by 08:45 the Bank alerted HMT to the fact that the operating cap was going to be rapidly exceeded [RB/139 - INQ000595818]

315 By 10.25 the £250 million cap was exceeded and the Bank were anticipating approximately £100 million an hour of interest. As the Bank was not able to approve spending above this level it put in place a queuing system (but this was not publicly known at the time). The Bank emailed HMT and the Department for Business, Energy and Industrial Strategy recommending that it be given unlimited delegations to operate FF, which aligned with the approach with CBILS, CLBILS and BBLs. It noted that this approach would still allow HMT to retain control of the demand for the programme as they could choose to announce the premature closure of FF or revised eligibility criteria at any point.

316 At approximately midday, HMT agreed to provide additional budget coverage of £750 million, increasing the operating cap to £1 billion. The Bank was asked to provide hourly updates on the volume and value of applications to allow this to be closely monitored. [RB/139 - INQ000595818] In total, on day one, over £500 million of applications from approximately 350 investors were received. [RB/140 - INQ000585648]

317 On 21 May 2020, noting that the average FF deal size applied for was £1.7 million, the Bank estimated that the Government's share could be between £2 billion - £6 billion, with a theoretical maximum of £12 billion if all eligible equity backed businesses applied. The Bank further noted that FF

reaching and exceeding the delegation of £1 billion was a real possibility. As such, the Bank proposed two options:

- (a) operating FF on an uncapped basis, allowing any eligible company who put in an application before the closing date to be funded. This was considered to be the fairest option and would ensure that companies with less sophisticated investors would not be disadvantaged, however the Bank was aware that this was not the Department for Business, Energy and Industrial Strategy's preferred approach; and
- (b) continuing with a funding allocation cap. If this option were to be chosen, the Bank advised against a policy where the principle of first come first served is from the point of funding as many perfectly valid applications can take longer than others. Additionally, the Bank recommended that if FF reached its new cap, it should be closed to new applications. [RB/141 - INQ000595820]

318 On 22 May 2020, the Bank notified HMT that FF applications to date indicated that the cap of £1 billion could be exceeded in the coming days. [RB/142 - INQ000595821] By 27 May 2020 (at the end of its first week) FF had received £639 million in applications. [RB/134 - INQ000595822].

319 The cap was subsequently increased and HMT and the Department for Business, Energy and Industrial Strategy agreed a process for increasing the allocation beyond £1.5 billion should it be required. It was also agreed that HMT be kept updated on the performance of FF on a monthly basis, with further details on any significant changes provided. This information was designed to inform HMT considerations of how long FF would remain in operation. [RB/143 - INQ000595869]

320 As such, once FF launched the Bank was asked to provide further analysis on likely uptake based on the behaviour to date. For example, on or around 22 June 2020, the Bank prepared a *"take up update"*, detailing the characteristics of FF applications. [RB/144 - INQ000595831]

(ii) *The refinement of FF: The Accelerator Variant*

321 In late April 2020, concerns began to be raised with the Bank, the Department for Business, Energy and Industrial Strategy and HMT about organisations which may be excluded from FF due to having a non-UK parent company, as a result of participating in a non-UK based accelerator programme. The proposed eligibility criteria, which required a UK parent company, excluded these companies but it was felt they should be included due to their contributions to the UK economy. [RB/145 - INQ000594699] [RB/146 - INQ000594700] [RB/147 - INQ000594713]

322 The Bank advised the Department for Business, Energy and Industrial Strategy and HMT that:

- (a) the requirement for a UK parent company was necessary as it was not possible to enter into a Convertible Loan Agreement with a foreign parent company as it would be operating in a different jurisdiction;
- (b) it was important to issue the Convertible Loan Note to the parent company to prevent the extraction of value through a company's capital structure and therefore to avoid supporting activity outside of the policy intent;
- (c) without very careful design to mitigate risks, removing the UK parent company requirement would dilute the target of the intervention;
- (d) if HMT and the Department for Business, Energy and Industrial Strategy were comfortable with the associated risks, it would be possible to accommodate specific companies which do not have a UK parent company by developing principles for specific jurisdictions and their legitimate accelerator programmes, and then making decisions on a case-by-case basis; and
- (e) whilst such a change was possible, it could not be done prior to launch in May 2020. [RB/78 - INQ000595826]

323 HMT subsequently confirmed that the eligibility requirements for FF should include a carve out for accelerator programmes, with no geographical exclusions (other than those countries on the sanctions list) (the **Accelerator Variant**). Noting that this could not be done prior to launch, HMT requested

that any communications were explicit that these companies would be eligible (albeit not immediately). [RB/133 - INQ000609046]

324 The Bank provided further advice on the changes required to implement the Accelerator Variant, and the associated tax and presentational risks, including that:

- (a) FF would need to invest in the non-UK parent companies rather than the UK Subsidiaries;
- (b) there would need to be a bespoke assessment and adaption for the Convertible Loan Agreement for each jurisdiction which would require additional resources;
- (c) there would be a material amount of manual due diligence resulting in the process becoming less streamlined and much longer; and
- (d) an additional contractual requirement to use the funds in the UK business. [RB/78 - INQ000595826]

325 On 23 June 2020, the Bank sent an email to the Department for Business, Energy and Industrial Strategy in respect of the Accelerator Variant, requesting an additional instruction to proceed. This was on the basis of: (i) the potential tax consequences; (ii) the risk that investments may fall foul of foreign investment regulations in certain jurisdictions; (iii) the costs to build and process such applications versus the likely number of applications;¹⁹ and (iv) the risk that the Accelerator Variant may result in a broader international spectrum of companies than HMT may be targeting and some of which may carry reputational risks. On the same date, the Bank also provided an updated Value for Money Assessment in respect of the Accelerator Variant. [RB/148 - INQ000595867] [RB/149 - INQ000595835] [RB/150 - INQ000595837] [RB/151 - INQ000595836]

326 On 30 June 2020, it was announced that FF was to be expanded to accommodate businesses that contribute significantly to the UK economy, but

¹⁹ Ultimately only nine companies received funding under the variant, representing 1.8% of the portfolio. [RB/73 - INQ000146532]

do not have their parent company based in the UK because they participated in a non-UK based accelerator programme. [RB/120 - INQ000593122]

327 The eligibility criteria for the Accelerator Variant were as follows:

- (a) the company must have raised at least £250,000 in equity from third-party investors in previous funding rounds in the last five years;
- (b) if the company is a member of a corporate group, it must be the ultimate parent company;
- (c) the company is the equivalent of a UK limited company in the relevant non-UK jurisdiction;
- (d) the company does not have any of its shares or other securities listed or quoted;
- (e) it participated in an accelerator programme, on or before 19 April 2020, and participation in the accelerator mandated incorporation of the ultimate parent company in a non-UK jurisdiction;
- (f) if the group (or any entity within the group) was in existence before the company was incorporated, the ultimate parent company of the group (or the sole entity, if applicable) must have been incorporated in the UK;
- (g) the company is the ultimate parent company of a group which has half or more of its (i) employees based in the UK and/or (ii) its revenues from UK sales;
- (h) it is the ultimate parent company of a group which contains at least one subsidiary operating company incorporated in the UK on or before 31 December 2019; and
- (i) the company received investment from the accelerator programme on or before 19 April 2020. [RB/120 - INQ000593122]

(iii) *Extension to 30 November 2020 (the First Extension)*

328 FF was initially set to close on 30 September 2020, before being extended to 30 November 2020 (**First Extension**), and again extended until closure of

FF, being 31 January 2021 (**Second Extension**). As noted in paragraph 312, the decisions to extend FF (and how long for) were ultimately made by HMT.

- 329 At this time, the first version of the Convertible Loan Agreement was in place. [RB/74 - INQ000651727]
- 330 On 19 September 2020, HMT confirmed to the Bank that there would be a simple extension to FF (i.e., no changes to the rules), in line with CBILS, CLBILS and BBLs. [RB/152 - INQ000594768]
- 331 On the same date, the Department for Business, Energy and Industrial Strategy shared its Accounting Officer advice note in relation to the First Extension of FF. It noted that given there will be no changes to the parameters of FF and since no risks have materialised that were previously unaccounted for, the Department for Business, Energy and Industrial Strategy were of the view that this extension was covered by the previous Ministerial Direction. [RB/153 - INQ000595861]
- 332 Around this time, the Bank also prepared an update to its Value for Money Assessment. The key changes to the assumptions in the assessment were the increased number of businesses involved (due to the increase in the allocation cap), the average deal size (based on the actual figure of £1.1 million as opposed to the original estimate which was lower) and increased business starting turnover. The combined result of these changes alone is that the central Benefit Cost Ratio for FF increased to 0.91 up from -0.13 (i.e., it showed a small positive benefit to the economy). [RB/154 - INQ000595866]
- 333 However, the Bank informed the Department for Business, Energy and Industrial Strategy that it was too early to substantively re-evaluate the Value for Money Assessment as the performance of the investments would take a long time to become clear. This coupled with the possible economic impact of a second wave of the pandemic indicated that there was no reason to adjust the prudent assumptions made at the start of FF. [RB/155 - INQ000595876]
- 334 On or around 19 September 2020, the Board agreed via written correspondence to accept the Department for Business, Energy and Industrial Strategy's instruction to implement the First Extension without issuing a further Reservation Notice.

335 On 23 September 2020, Sarah Munby, then Permanent Secretary for the Department for Business, Energy and Industrial Strategy, wrote to the Bank instructing the First Extension of FF until 30 November 2020. It was also confirmed in the same letter, that this change was to be covered by the earlier Ministerial Direction, as well as the Written Direction issued by the Department for Business, Energy and Industrial Strategy to the Bank on 18 May 2020. [RB/156 - INQ000594778]

336 The First Extension was subsequently announced on the Bank's website on 24 September 2020. [RB/125 - INQ000593141]

(iv) *Further extension to 31 January 2021 (the Second Extension)*

337 On 29 October 2020, the Bank was notified by the Department for Business, Energy and Industrial Strategy that Ministers were considering the option of a Second Extension and requested advice in relation to:

- (a) the current state of the equity market, including how this has changed since FF was launched;
- (b) how might the FF rules need to change if it were extended at all; and
- (c) whether there were other options other than ceasing FF or extending it (for example tightening the rules). [RB/157 - INQ000595877]

338 On or around 2 November 2020, it was announced that FF would be extended to run until 31 January [RB/126 - INQ000593142]. On this date, the Department for Business, Energy and Industrial Strategy request for advice (as set out above) was updated to include a question on whether the financial cover for FF would be adequate in the event of a Second Extension and/or changes.

339 The Bank provided the requested advice on or around 6 November 2020. In relation to the current state of the equity market, the Bank noted that application volumes had been trending downwards over time and that there were some indications that the quality of applicants/recipients had also decreased. The advice further noted that the need for FF remains broadly as it was when launched. The advice also provided analysis of the risks and benefits of offering second loans under FF, but ultimately concluded that *"given the limited the evidence of market appetite/need for this change, and*

the potentially risks and implications" changing the rules to allow the companies to receive multiple loans was not recommended. Finally, the advice also included a summary of four potential options for FF: (i) extending with existing criteria; (ii) extension with slight tightening of the rules; (iii) extension with an increased matched funding requirement; and (iv) extension with an introduction of a quality threshold. The Bank recommended option (ii). [RB/158 - INQ000595875].

340 On or around 13 November 2020, in response to an additional request from the Department for Business, Energy and Industrial Strategy, the Bank provided further information and advice in respect of the Second Extension and changes to FF. With the Bank advising:

- (a) not to make any changes to FF to improve the quality of applications at this point but to introduce a cut-off date of two months from closure (with longer in individual cases where there is sufficient justification from the applicant);
- (b) that the £250,000 threshold for prior equity raising should be retained due to possible impacts on potential applicants and because of its usefulness in preventing fraudulent applications; and
- (c) that due to the nature of equity investments and the impact of the pandemic there is considerable uncertainty with any Value for Money Assessment. However, it noted that its updated assessment submitted as part of the Spending Review process that the net economic benefit is £1.1 billion, with a Benefit Cost Ratio of 2.2 (higher than previous estimates set out at paragraph 332).
[RB/159 - INQ000595878].

341 Around this time, the Bank was also asked to input into a draft Department for Business, Energy and Industrial Strategy Ministerial Submission on the Second Extension of FF. This draft Submission set out the rationale which was said to be to *"allow more businesses to benefit [from] the scheme at a time when uncertainty remains...It is prudent to extend the scheme given the uncertainties around the continued spread of the pandemic, and the economic reaction to this... If the support from the Future Fund were now removed, it is possible that the recovery in funding seen in the Summer would*

not be sustained, especially as we have now entered a period with a substantial tightening in economic restrictions." The draft Submission also noted the proposed change to the rules of FF due to the Bank's observations that some companies were using a portion of the proceeds to finance and back other companies, who then in turn applied to FF. The advice noted that this was *"against the spirit of this intervention which was launched to ensure firms affected by COVID-19 were able to access capital from investors to finance their own growth ambitions."* Finally, the advice noted that the *"unique nature of this scheme and the current economic conditions and uncertainty make it extremely difficult to assess value for money"* but that the Bank's recent assessment estimated the Benefit Cost Ratio at 2.2.

[RB/160 - INQ000594826]

- 342 A Board meeting, which took place via correspondence on 19 November 2020, sought written agreement to accept the Department for Business, Energy and Industrial Strategy's instruction to implement the Second Extension to FF to 31 January 2021 without issuing a further Reservation Notice. The accompanying Board paper noted:
- (a) that the Second Extension to FF would be accompanied by an amendment to the Convertible Loan Agreement to include a new term prohibiting recipients from using FF capital for the purposes of onward investment, with the intention that this would reduce the risk of the funding being used for unintended purposes;
 - (b) that the Second Extension was estimated to give rise to increased operating costs for the current financial year and resulting in estimated total costs of £24 million;
 - (c) the revised forecast for FF is between £1 billion and £1.2 billion (up from £900 million if it ended in November) which was still within the delegated funding allocation of £1.5 billion; and
 - (d) as it was anticipated that the Department for Business, Energy and Industrial Strategy would consider the Second Extension to also fall under the existing Ministerial Direction, the Value for Money Assessment had not been revisited but recent analysis suggested it had improved. [RB/161 - INQ000595879].

- 343 On 27 November 2020, Sarah Munby sent an email to the Bank, explaining that the Chancellor had given the Secretary of State his agreement for the Second Extension to go ahead to 31 January 2021 and that this would be covered by the earlier Ministerial Direction and Written Direction issued on 18 May 2020. [RB/162 - INQ000594830]
- 344 A further email was sent by the Department for Business, Energy and Industrial Strategy to the Bank on 30 November 2020 informing the Bank that the Chancellor had now given the Secretary of State his agreement for FF to be amended to clarify that the permitted use of proceeds excluded onward investment by FF beneficiaries. It was confirmed that this would also be covered by the earlier Ministerial Direction and Written Direction issued on 18 May 2020. [RB/163 - INQ000594831]
- 345 As such, FF was extended to 31 January 2021 and an amended second version of the Convertible Loan Agreement was brought into force effective of 1 December 2020. [RB/75 - INQ000594835]
- (v) *Potential Third Extension and Closure of FF*
- 346 The decision to end support was made by HMT and the Bank was not involved in this decision (other than as set out below).
- 347 On 10 December 2020, the Department for Business, Energy and Industrial Strategy requested advice on "*how a non-negotiated deal (NNO) might affect the UK equity financing market, and what this means for the future of Future Fund and other support*". The Bank understood that the context of this advice was to assist the Department for Business, Energy and Industrial Strategy in providing advice on to HMT on a potential third extension to FF (**Potential Third Extension**). [RB/164 - INQ000594841] This advice was subsequently provided on 11 December 2020 with the Bank concluding that "*the specific impact of NNO on UK SME equity finance is highly uncertain...the most immediate impact we expect to come from investors pausing from making new investments whilst they wait and see how the economy will be impacted. This suggests that the Future Fund could continue to have a role in supporting equity finance*". [RB/165 - INQ000595889]
[RB/165A - INQ000594840]

- 348 On 16 December 2020, the Department for Business, Energy and Industrial Strategy emailed the Bank to say that the situation regarding a Potential Third Extension to FF was still ambiguous. HMT responding to this email clarifying that the Chancellor wanted to take a decision at the point there was an outcome on the EU trade negotiations. The following day, the Bank provided estimated costs for a Potential Third Extension of FF. In the same email thread, the Department for Business, Energy and Industrial Strategy also requested advice from the Bank in respect of an analysis of FF portfolio which would be required (if it was not extended) to enable Ministers to make a decision on future portfolio management. [RB/166 - INQ000595891]
- 349 Having not had an update since 16 December 2020, the Bank emailed HMT and the Department for Business, Energy and Industrial Strategy on 4 January 2021 to ask whether there was any objection to rolling out "*closure communications*" in respect of FF. The Department for Business, Energy and Industrial Strategy confirmed it was content, but HMT confirmed that the position with the Chancellor would have to be checked. [RB/167 - INQ000594852]
- 350 On 8 January 2021, HMT confirmed that the Chancellor had approved the Bank issuing closure communications for FF and on 11 January 2021, the HMT press team confirmed that a decision had been made to close FF on 31 January as planned. [RB/168 - INQ000594854]
- 351 Around this time, in response to the request at paragraph 349 the Bank provided an up-to-date portfolio analysis providing data on the investor type, sector, growth stage, revenue and employees. The key findings were that (i) the main investor type had been broadly consistent; (ii) the technology sector represented 41% of the portfolio, followed by business and professional services (26%); and (iii) the companies supported were largely Small and Medium Enterprises with an average of 24 employees and a turnover of £1.5 million. [RB/169 - INQ000595893]
- 352 On 31 January 2021, FF closed to new applications. It was agreed that if an application was not completed correctly and submitted by FF closure, it was rejected as an incomplete application. However, the FF portal was to remain open to existing applications that had been correctly completed and submitted prior to FF closure. All existing applications had to be accepted and legally

completed (i.e., with the relevant Convertible Loan Agreement executed by all parties including UK FF Nominees Ltd) by the end of 31 March 2021. [RB/131 - INQ000593130].

9 Risk of Fraud and Error

353 The Bank's approach to fraud prior to the pandemic is set out in Section C of this statement, as is the approach to fraud for the Guarantee Schemes. In contrast, FF was a directly managed scheme and so the approach to fraud is set out in more detail below.

354 In respect of FF, the Bank broadly considered its role in relation to fraud to cover three distinct stages:

- (a) pre-launch – including working alongside the Department for Business, Energy and Industrial Strategy and HMT to identify and mitigate fraud risks through the design of FF (see paragraphs 359-362);
- (b) application - including the due diligence conducted on companies and lead investors prior to approval of the application and amending the scheme rules in light of concerns (see paragraphs 363-370); and
- (c) ongoing portfolio management - the Bank considered any information received during the course of the Convertible Loan Agreement and actioned appropriately (as set out in more detail at paragraphs 371, 373-374).

355 As set out in Section C, the Bank draws a distinction between its counter fraud and enforcement activities. It considers that actions it took in the pre-launch and application stages fall within counter fraud, whereas actions it took as part of its ongoing portfolio management amount to enforcement. Additionally, in the context of FF, the Bank also had a separate workstream considering breaches of the Convertible Loan Agreement. Although some behaviour by investors/investee companies could amount to both a breach of the Convertible Loan Agreement and fraud.

- 356 The Bank considers there are two primary types of potential fraud within FF:
- (a) deliberate misrepresentation at the application stage to secure funds to which company would not ordinarily be entitled to (for example, by asking a spouse to set up a company in order to act as an investor or by providing false documents); and
 - (b) misuse of funds by using the Convertible Loan Agreement to provide matched investment for another company (from 1 December 2020 this became a breach of the Convertible Loan Agreement).²⁰
- 357 The first type of potential fraud was anticipated prior to the launch and was addressed at the design stage (see paragraphs 252-253). In contrast, misuse of funds in this manner was not anticipated prior to scheme launch and instead was identified during the operation of FF in approximately October (i.e., between the First and Second Extensions) through the activities set out at paragraphs 364-367. Once identified, steps were taken to prevent this type of fraud and/or the Convertible Loan Agreement being breached in this manner (see paragraphs 365-366).
- 358 As FF was an emergency response scheme and, making access to funds as quick and simple as possible was vital, the Bank was aware that Government was trying to strike a careful balance between speed and access to funding, and financial risk. [RB/92 - INQ000595783] For example, the rules-based and investor-led nature of FF meant there were limited checks (i.e., not full commercial due diligence or credit checks) on the lead investor and investee companies and only sanctions checks on co-investors. Whilst this carried a risk around unsophisticated and otherwise unsuitable investors investing alongside, this was considered an acceptable risk to the Government as including all checks would have significantly impacted the speed of deployment of FF (and may have limited the range of companies which could have received support).²¹

²⁰ This is in addition to the general risk of the Government's schemes being targeted by organised crime.

²¹ However, it was considered that these risks could be mitigated to some extent by the presence of the lead investor and solicitor who would be conducting their own due diligence, as well as the 'anti-embarrassment' clause in the Convertible Loan Agreement.

(i) *Pre-launch fraud activities*

359 As noted above (in paragraphs 252-253) the Bank raised concerns over vulnerabilities of FF during the design stage. This included on the reliance on self-certification which could give rise to the type of fraud at listed paragraph 356(a) and the limited enforcement mechanisms available should issues occur.

360 Additionally, the Bank advised in respect of a number of eligibility criteria which were aimed at reducing the risk of fraudulent or erroneous claims as set out in paragraph 356(a). This included:

- (a) **the requirement that the company had previously raised a minimum of £250,000 prior to the announcement of FF.** The Bank considered this to be one of the most important criteria for ensuring companies were legitimate; and
- (b) **the requirement that the company had to have been created prior to 31 December 2019.** Again, this was an important mechanism for ensuring companies were legitimate.

361 Additionally, the following checks were incorporated into the application process for companies and lead investors: Anti Money Laundering, Know Your Client, confirmation of whether the individual was a Politically Exposed Person, sanctions²², adverse information screening, and anti-impersonation checks. The FF portal was also designed to assist with identifying multiple applications from the same individual/entity and these could be escalated for further review.

362 FF also required evidence to be provided to prove that some of the eligibility criteria were satisfied.

22

Sanction checks were also performed on co-investors.

(ii) *Application stage*

363 The Bank also undertook a range of activities whilst FF was open to applications to reduce the risk of fraudulent or erroneous applications.²³ This included:

- (a) responding to identified suspicious patterns and introducing additional checks in light of these where required;
- (b) undertaking an impact assessment in relation to the publication of the Reservation Notice;
- (c) amending or clarifying the FF rules;
- (d) completing a Fraud Risk Assessment and Post Event Assurance Plan (PEAP) (see paragraphs 386-396); and
- (e) including FF within Cifas and Quantexa networks (see paragraphs 397 and 420).

a. Identifying suspicious patterns

364 As set out at paragraph 307, there were daily and weekly meetings between the Bank and PricewaterhouseCoopers to discuss the operation of FF. This allowed any issues or themes to be spotted quickly and dealt with appropriately.

365 For example, suspicions were raised in relation to individuals who appeared across multiple applications as it seemed that they may have been attempting to use Convertible Loan Agreement funds in a manner not consistent with the policy intention behind FF (as set out at 356(b)).

366 As such, a decision was made to carry out additional verification on any applications which had an individual (e.g., a company director, investor or applicant) identified as being involved in another FF application. This allowed the Bank and PricewaterhouseCoopers, to perform further checks to ascertain the legitimacy of the application.

23

PricewaterhouseCoopers also prepared a summary of the key exercises that had been undertaken in relation to FF in respect of fraud. [RB/171 - INQ000609057]

367 The Bank considers that this approach allowed the rejection of a number of fraudulent or erroneous applications. It also led to changes in the FF rules as set out in further detail below.

b. Reservation Notice impact assessment

368 The Bank made a decision not to publish the Reservation Notice and Ministerial Direction contemporaneously. This was on the basis of an impact assessment, completed in June 2020, which concluded that publication at that point could be detrimental due to fraud and financial crime risks.
[RB/172 - INQ000595857]

c. Changes and clarifications to the FF rules

369 As set out in paragraph 341, the Bank identified suspicious behaviour in respect of a limited number of applicants and recommended an amendment to the Convertible Loan Agreement to make clear that FF capital was not to be used for onward investment. This amendment was brought into force on 1 December 2020.

370 Similarly, after spotting issues with connected persons (for example, spouses) acting as investors in applications, the FAQs were also amended to clarify that the investment had to be genuine-third party money.
[RB/78 - INQ000595826]

(iii) *Ongoing portfolio management*

371 On 27 May 2021, the administration of the portfolio was delegated to the FF team by the British Business Financial Services Limited Investment Committee in accordance with an Authorisation Matrix which set out the relevant authorities and escalations for various events during the life of the Convertible Loan Agreement. [RB/173 - INQ000595904]

372 The Bank's approach to ensuring the effective detection and investigation of potential fraud as part of its ongoing portfolio management of FF included (and still includes to this day²⁴):

- (a) an external reporting process to deal with issues raised by third parties;
- (b) ongoing Know Your Client/Anti Money Laundering checks which includes periodic review of ownership structure, sanctions, Politically Exposed Persons and adverse media;
- (c) trigger reviews where new information is identified from screening;
- (d) monthly reviews of cases (as set out at paragraph 307 in the monitoring section);
- (e) including FF within the Bulk Objection process (see paragraph 397); and
- (f) setting up a cross-Government group to review cases (see paragraph 374).

373 As set out in paragraph 300, the Bank has a role in monitoring FF recipients. It utilises the mechanisms set out at paragraphs 372(c)-372(f) above to monitor the portfolio from a fraud perspective and to take action appropriately. Where the Bank suspects that potential fraud has taken place, it will liaise with the relevant Government fraud team for an initial discussion as to whether the Convertible Loan Agreement should be terminated or whether it meets the bar for further referral.²⁵

374 Additionally, to ensure that Government stakeholders had greater oversight of potential fraud cases in FF, the Bank established the Future Fund Forum in April 2022. As set out in the terms of reference, its purpose was to enable information sharing and collaboration between the Bank and Government stakeholders (the Department for Business, Energy and Industrial Strategy,

²⁴ The recoveries and counter fraud strategy was formally put in place in Autumn 2022.

²⁵ Under the authorisation matrix, the FF team could also put the borrowers into a collections and recovering process, using a debt management service.

HMT, the Government Counter Fraud Function and UK Government Investments) in relation to matters within the FF portfolio. [RB/174 - INQ000595926] [RB/175 - INQ000594965]

10 Reflections

- 375 Overall, the Bank considers FF a success. There were challenges in terms of the timescale it was developed under, as well as the Bank's concerns about the scheme as set out in paragraphs 227-259. However, factors including definitive instructions from Government, a collaborative working relationship between the Bank and Government, clearly defined scheme criteria for applicants, and the eventual speed of delivery contributed to the overall high uptake of the scheme.
- 376 As set out above, the ultimate policy decisions were not made by the Bank. However, the Bank considers it was a missed opportunity to not to provide follow-on funding to the most successful FF recipients, as this would have provided these businesses with further growth opportunities with all the consequent economic benefits²⁶.
- 377 The decisions on timing for FF were also not made by the Bank. However, as noted above, the fact that initial demand was significantly higher than expected coupled with the gradual decline in number of applications towards the end, suggests that the timings for FF were appropriate.
- 378 As set out above, FF impact evaluations were designed to assess the performance and impact of the scheme. Whilst it is difficult to assess the final performance of FF, as the Year 3 report is not yet finalised²⁷, the Year 1 and 2 reports note that:
- (a) there was early evidence that the objective to increase the supply of finance to potentially viable UK equity backed companies had been met, although it was too early to tell for some of the objectives with immediate trends tending towards the negative;

²⁶ However, it is worth noting that the term for the Convertible Loan Agreement was extended (as opposed to allowing the loan to mature) which in a sense provided additional funding to FF recipients.

²⁷ The Year 3 report is due for publication in Spring / Summer 2025.

- (b) recipient businesses increased their employment and experienced robust revenue growth, however firmer conclusions would be drawn in the Year 3 report and beyond;
- (c) 62% of respondents reported that they did not think they would have been able to raise similar funding elsewhere and only 26% stated that they could have raised similar finance elsewhere (but the vast majority of these considered that it would have taken longer and a third thought they would have secured less finance);
- (d) that stakeholders agreed that FF was effective in generating demand from investors in an emergency situation which was evidenced by the value of applications on the first day and the increase in funding for the programme. Additionally, only 36% of investors would have invested without FF;
- (e) that 72% of Convertible Loan Agreement funded firms used the investment to maintain their Research and Development activities which suggest that financed the innovative and growth-orientated businesses. Additionally, the reports noted that funding broadly went to early-stage companies (85%);
- (f) that half of Convertible Loan Agreement funded business were looking for funding around the same time FF was open for application which suggests the scheme was introduced at an opportune moment. Although it was also noted that nearly a third of Convertible Loan Agreement funded businesses decided to bring forward their funding rounds to make use of FF and that 20% of firms had planned to raise funds earlier (the latter of which may indicate that there was already a degree of disruption in the market);
- (g) that the portfolio had a higher growth performance than the comparison group (with total fundraising growing by 97% compared to 54%) and the difference in survivability prospects was only weakly significant (97% compared to 92% in the FF portfolio);
- (h) that most stakeholders surveyed considered FF provided much needed finance to high growth early-stage firms that would not have otherwise survived, however, the extent to which the survey indicated

that FF increased survival was more nuanced. Again, firmer conclusions will be drawn in the Year 3 report and beyond; and

- (i) that it was largely too early to tell whether the scheme represented good value for money and that this would be a focus of the Year 3 report.²⁸ [RB/73 - INQ000146532] [RB/138 - INQ000593114]

Section C: Lender Assurance and Enforcement

1 Introduction

379 In this part of the statement, I explore the Bank's involvement and approach to safeguarding public money. It was recognised that the provision of these Schemes presented financial risks, to a greater or lesser extent depending on the Schemes and their conditions, especially the risk that a loan would default and a claim be made under the guarantee for the Guarantee Schemes or the loan would be lost for FF.

380 Firstly, I will address the management of financial risk which involved:

- (a) lenders meeting accreditation criteria and immediate post accreditation "audit" or walkthrough of processes, standards etc;
- (b) FRAs for each scheme; and
- (c) further counter fraud work to prevent fraudulent applications by borrowers, predominantly in BBLs.

381 Secondly, I will address the management of issues when those identified risks crystallised, namely:

- (a) ongoing audit programme for lenders;
- (b) claims made by lenders under the guarantee – pre claim screening and post claims assurance;

²⁸

Although as set out above, the Bank's analysis of the Benefit Cost Ratio increased from -0.13 to 2.2. Additionally, the Bank is aware of the report produced by an economic and financial consultancy commissioned by the Department for Business, Energy and Industrial Strategy in 2022 which suggested the Government's expected financial returns are likely to range between 1.26x and 1.62x.

- (c) enforcement through lender action to obtain recoveries against borrowers (including enhanced recoveries);
- (d) enforcement through data analytics – identification of facilities which were believed to be at higher risk of being fraudulent for further action by lenders, for example networks, duplicates, or companies which had applied to be dissolved; and
- (e) enforcement through disqualification or prosecution action.

382 FF, as it is a different scheme, is dealt with separately to the Guarantee Schemes at the end of this section.

383 The Bank in this section draws the distinction between counter fraud and enforcement activity. Counter fraud activity is that which prevents fraudulent applications from being made or being accepted and monies being paid as a result. Enforcement action covers a much broader range of activity after the facility has been granted which occurs after nonpayment of the debt which might include debt recovery action, civil proceedings for fraud, insolvency processes, regulatory action (such as disqualification of directors) and criminal prosecution and confiscation.

2 Management of financial risk

(i) Accreditation

384 There was an accreditation process for lenders to authorise them to deliver the Guarantee Schemes, ensuring that they met a number of criteria; ensuring they had the capability and capacity to deliver the schemes, including appropriate systems and training; and protecting public money in the event of lender insolvency.

385 An additional post accreditation check for BBLs lenders was that the Bank confirmed that the lender understood the minimum standards, especially concerning fraud. The Bank also understood the lenders' Business As Usual collection and recoveries processes.

(ii) *Fraud Risk Assessment*

386 The schemes were "delegated" schemes, meaning the Bank had no direct relationship with borrowers and relied on Accredited Lenders to properly discharge their responsibilities imposed by the Guarantee Agreement – indeed, the purpose of the accreditations process was to ensure that Accredited Lenders met certain requirements in this regard.

387 Each scheme section sets out the pre lending checks that Accredited Lenders were required to undertake to mitigate the risk of fraudulent applications being made and accepted by the lenders, together with ongoing monitoring in line with business as usual processes. In summary:

388 In relation to CBILS and CLBILS, Accredited Lenders completed the following checks:

- (a) anti-fraud (including automated checks via various fraud agencies (such as Cifas) for known fraudsters);
- (b) Anti Money Laundering and/or Know Your Client, in accordance with Business As Usual processes and regulatory requirements;
- (c) business viability;
- (d) loan affordability; and
- (e) obtaining and reviewing documentation to support the above, and eligibility with scheme criteria.

389 In relation to BBLS, Accredited Lenders completed the following checks :

- (a) anti-fraud; and
- (b) Anti Money Laundering and/or Know Your Client, in accordance with Business As Usual processes and regulatory requirements.

390 Accredited Lenders would also, throughout the life of the loan, complete ongoing monitoring as required by their Business As Usual practices and regulatory requirements.

- 391 In BBLs, the extensive reliance on customer self-certification made the scheme especially vulnerable to fraud by borrowers and third parties and also presented considerable credit risk in that economic environment, which would be exacerbated by removing significant elements of the credit checks that would otherwise have been undertaken. The Bank were therefore aware of the potential fraud risks, engaged PricewaterhouseCoopers to conduct an initial analysis of fraud risks relating to the scheme, reflected concerns in the Reservation Notices and, from the outset, engaged with lenders and the Government to identify and manage those risks.
- 392 Fraud can be generally defined as any activity which relies on a deception in order to gain for oneself or cause loss to another. The fraud takes place at the time of the application, not after the monies have been drawn down. There are different burdens of proof depending on the action to be taken, for example to close a customer's account or to succeed in civil proceedings or to convict in the criminal courts. One of the difficulties in defining when a fraud has happened is the level of proof required. Lenders in general will refer to suspected fraud unless and until an individual is found by a court to have committed it.
- 393 Prior to the launch of BBLs, on 20 April 2020, I organised a fraud workshop with BBLs lenders that would be seeking accreditation as a forum for the exchange of views and intelligence on the fraud risks identified in the loan schemes and how to mitigate them.
- 394 The forum was felt to be a useful one and became the Bank Fraud Collaboration call, co-chaired by UK Finance, and it continued on a weekly basis. The Government Counter Fraud Function joined the Bank Fraud Collaboration calls from 13 May 2020.
- 395 As a result of this work, an initial Fraud Risk Assessment was completed by the Fraud and Financial Crime team in the Bank. At this time, the Bank had two people with fraud and financial crime capability within Risk and Compliance, who worked alongside product teams, to support £3 billion in assets under management or potentially at risk (such as debt guarantees). As set out earlier, the Fraud and Financial Crime Steering Group was set up in December 2019 with a remit to support the Executive Audit and Risk Committee and provide a Bank-wide forum to coordinate and monitor the

implementation of relevant policies, controls and action plans and consider the position in comparison to risk appetite.

396 From September 2020, the Department for Business, Energy and Industrial Strategy required the Bank, as part of the post event action plan, to update the Fraud Risk Assessment for each of the relevant schemes, setting out who might defraud the schemes, how they could do it, and the likelihood and impact. These were to be provided to the Ministerial Fraud Board and would also inform whether any further actions needed to be taken in relation to each scheme to manage the fraud and financial crime risk going forwards. The Bank, Government Counter Fraud Function and the Department for Business, Energy and Industrial Strategy completed these by August 2021 and they are periodically reviewed to ensure they remain up to date.

(iii) *Further counter fraud work*

397 As noted, following the fraud collaboration calls with the lenders, the Bank also engaged with the Government Counter Fraud Function and the Department for Business, Energy and Industrial Strategy to seek to mitigate those risks during the life of the scheme. These mitigating steps are set out in the BBLS section, delivered collaboratively by the Bank, lenders and the Government, and included the following measures put in place after launch:

- (a) establishing the Cifas duplicates database;
- (b) a Covid Fraud Hotline, run in conjunction with Crime-Stoppers [RB/176 - INQ000594816];
- (c) a process to object to the dissolution of companies with unpaid facilities which would prevent recovery; and
- (d) identifying high risk fraud indicators, such as disqualification of directors or a recent change of director or dormant companies and adding them to the Cifas duplicates database.

3 Management of issues

398 Once the risks had crystallised, they were dealt with and managed as specific issues. The Bank put in a number of actions to reduce the impact of those

issues and facilitated actions by the Government in those areas which were not its responsibility, especially in relation to enforcement issues.

(i) *Lenders' ongoing audit*

399 Once the lenders had been accredited, there was a post-accreditation audit programme which originally covered all three schemes, BBLs, CBILs and CLBILs, and was later extended to RLS. Patrick Magee was the Senior Responsible Officer and an Audit Assurance Programme Steering Group was set up with the programme commencing in September 2020. The programme was focused on providing a rolling operational programme of risk-based audits across the BBLs, CBILs and CLBILs portfolio.

[RB/177 - INQ000594798] In the first year, the focus was on the origination of facilities, as well as the broader origination process and in the second year, it moved to looking at recoveries and fraud and financial crime metrics. In October 2020, the Audit Assurance Programme Steering Group concluded and the work transitioned to the Audit team. [RB/179 – INQ000594790]

400 The post-accreditation audit used data from the schemes to identify patterns of risk among lenders and to use that to direct audit resources. Each audit examined lender performance by reviewing a sample of loans. The focus of the audits changed with the lifecycle of each scheme. For example, initial audits focused on the processes and procedures for issuing loans, while later audits reviewed default and debt recovery policies.

401 The audits helped to highlight how different aspects of the schemes were being administered from a lender perspective. The scope of the audits were specifically constructed by reference to the lender obligations in the scheme documents.

402 Accredited lenders were audited once within the first year post-accreditation and typically within three months after accreditation, and were then subject to ongoing audits, the frequency of which depended upon the Accredited Lender's risk level as perceived by the Bank.

403 The results of the audits were discussed at the Audit Review Panel at senior level. [RB/179 - INQ000594790]

404 Once an audit was complete, any findings were discussed with the lender and, where required, a remediation plan was put in place. This could range from creation of an action plan with a lender's management team to address issues, to potential withdrawal from or removal of a guarantee on a specific facility if there were serious failings or a failure to remedy issues found. This resulted in reducing the burden on the taxpayer.

(ii) *Claims – pre claims screening and post claims assurance*

405 The claims process is still ongoing and therefore this witness statement describes previous and current processes.

406 Where a borrower fails to make payments, lenders apply their own arrears and recovery processes. These are set out below. Where Accredited Lenders suffer loss, they are entitled to make a claim under the government guarantee where they meet certain conditions. The key conditions are broadly as follows:

- (a) the relevant scheme facility was an eligible facility on the date it was offered;
- (b) the Accredited Lender has made a repayment demand, served on the borrower; and
- (c) in relation to CBILS and CLBILS – in making a scheme facility, the Accredited Lender has not acted contrary to applicable legislation or public or regulatory policies pursuant to the "standard of care" that was applicable to them under the Guarantee Agreement. Broadly, the standard of care is to act in a reasonable manner (for CBILS) or in a way that would be deemed reasonable by a prudent lender of a similar nature (for CLBILS) including in respect of origination, servicing and enforcement, and to act in good faith and not behave in a manner which could reasonably be expected to bring the scheme the Bank into disrepute;

(d) in relation to BBLs – the lender has complied with the “Qualifying Fraud Processes” in respect of a scheme facility which are:

"1. The Lender used a reputable fraud bureau which are widely used within the industry (such as CIFAS/SIRA) (automated or manual batch) to screen against potential or known fraudsters.

2. If the relevant application for the Scheme Facility failed the Lender's fraud check process, the Lender rejected such application.

3. If, during the Lender's AML and/or KYC processes, such processes raised concerns about potential fraud in relation to the Scheme Facility, these were taken into account in the Lender's decision to proceed with the application.

4. Prior to origination of the Scheme Facility and subsequently, the Lender had established Lender internal fraud checking procedures.

5. The Lender had established ongoing transaction fraud monitoring in respect of the Scheme Facility."

407 Other than as set out above, whilst Accredited Lenders are required to undertake their own recoveries actions, they are not required to have exhausted these prior to making a claim. This is to allow lenders to be able to claim regulatory capital relief as a result of the government guarantee, which in turn allowed them to use more of their capital to provide lending into the market.

408 The Accredited Lenders must submit any claim within a reasonable time period (which is not later than 18 months for CBILS and CLBILS and 12 months for BBLs) following the first demand date and also submit a claim invoice which aggregated various claims over different periods.

409 In view of the conditions in the Guarantee Agreement, the scale involved and the requirement to pay a claim within 30 days, the Bank limits its pre claims screening to verifying data points relating to the eligibility of the scheme facility and the timing of submission of claims. Where errors are found, the Bank will challenge or reject claims.

- 410 The Bank also undertakes post-claims assurance work in-house on claims which have been settled i.e., paid by the Government, to seek assurance on compliance with the conditions for payment under the Guarantee Agreement. This work was initially bespoke and ad hoc, for example looking at claims in respect of companies formed after 1 March 2020 and potential duplicate applications.
- 411 As more data has become available, it has been possible to refine this work, and assurance is now sought using a risk based approach to identify facilities which are at higher risk of being fraudulent. In late 2023, the Bank moved this to a formal post claims assurance programme, using external consultants to assist. It is now the only form of assurance on BBLs and all BBLs facilities are risk scored for potential sampling.
- 412 The results of the audits and assurance work inform a range of work to encourage lenders to continue to comply with their obligations under the Guarantee Agreement, especially in respect of BBLs.
- (iii) *Enforcement – recoveries by lenders against borrowers (including enhanced recoveries)*
- 413 Recoveries is not a function of the Bank and is a matter for the lender. In order to make a claim under the guarantee, the Accredited Lender must comply with the minimum recoveries standards. If the Accredited Lender does not, this triggers a right to clawback payments made in error.
- 414 Where a borrower fails to make payments, each Accredited Lender will have an arrears and recovery process, and these may vary across Accredited Lender. At a high level (although modified by each scheme) these might include:
- (a) offering forbearance options, as Business As Usual e.g., repayment plan, or Pay as You Grow options for BBLs;
 - (b) if facility defaults, pursuing recovery after issuing a formal demand;
 - (c) reporting any missed payments or forbearance (other than Pay as You Grow) options to credit reference agencies, which can impact a borrower's ability to obtain further finance;

- (d) excluding PPR/PPV but these may, if volunteered by the borrower, form part of Business As Usual repayment option; or
 - (e) not pursuing insolvency in BBLs unless fraud present;
- 415 The obligation to pursue recoveries continues on the Accredited Lender for a contractual minimum period, regardless of whether the guarantee claim has been settled.
- 416 Some Accredited Lenders in respect of BBLs have also participated in an enhanced recoveries pilot, taking steps beyond what was required under the respective Guarantee Agreements in order to recover monies from borrowers.
- (iv) *Enforcement through data analytics - identifying facilities which are higher risk of being fraudulent - networks, duplicates dissolutions for further action by Accredited Lenders*
- 417 The Bank is in a unique position as the administrator for the Guarantee Schemes to review Guarantee and Wholesale Solutions Guarantee Platform data across the lenders and on over 25% of the UK's business population. The enforcement work used to and continues to use that data to provide insight on the facilities and to enable further action to be taken where appropriate to assist with the identification and investigation of fraud.
[RB/180 - INQ000594944]
- 418 By the end of July 2020, the Government Counter Fraud Function were drawing up a data analytics programme and data sharing agreements which the Bank understands were agreed with the Department for Business, Energy and Industrial Strategy. Once the Guarantee and Wholesale Solutions Guarantees Platform was capable of receiving automated updates via an Application Programming Interface (noting data upload was manual during the early stages of the schemes), the Bank was able to share a small number of data points with the Department for Business, Energy and Industrial Strategy. The Bank provided the first data set on around 21 September 2020 under its then existing data sharing arrangements to the government Cloud Based Analytical System and continues to do so. The Bank does not have access to that system.

- 419 This data set was subsequently used by the Government Counter Fraud Function and was "matched" to information from other Government sources, such as Companies House, HMRC and the Insolvency Register. The results of that work were reported to the Fraud Fora (defined below), discussed and appropriate action identified.
- 420 As a result of this, it was decided that the Bank should share the following information with the Accredited Lenders to enable them to conduct enquiries into the facilities they held:
- (a) quantexa networks – facilities connected by addresses, individuals or businesses (companies or sole traders);
 - (b) phase 1 flags – shared in June 2021 and refreshed in March 2022 - related to companies which had filed dormant accounts or a backdated change of director, had been incorporated after 1 March 2020 or where there was other suspicious activity;
 - (c) companies which were not incorporated pre-1 March 2020;
 - (d) multiple facilities held by a single borrower.
- 421 The Accredited Lenders were then able to direct their resources to reviewing the facilities to which this information related, effectively having identified facilities which were more likely than others to be fraudulent. Following further enquiries, the Accredited Lenders were then able to decide that these were not fraudulent or that they were and marked them in the lender portal of the Guarantee and Wholesale Solutions Guarantees Platform as suspected fraud or removed them from the guarantee if they had failed to comply with eligibility criteria.
- 422 A significant part of the administration of the schemes was to gain further insight into the portfolio. The fraud risk assessments did not take account of whether the facility was in repayment or not, and it was necessary to estimate credit and fraud losses for the life of the schemes for the purposes of completing the Department for Business, Energy and Industrial Strategy annual accounts for 2020/2021 reporting year.
- 423 This was driven by the International Financial Reporting Standard 9 and the requirement to include appropriate estimates for Expected Credit Loss (a

component that is adjusted for the probability of fraud). The Bank and the Department for Business, Energy and Industrial Strategy contracted consultants (PricewaterhouseCoopers) to undertake sampling exercises which provided the modelling for the estimated losses with project names Hastings (in relation to BBLs) and Tapestry (in relation to CBILS and CLBILS). These estimates have been refined over time as we have collected more data and developed an understanding of BBLs.

- 424 The data has been used to compare and contrast lenders and potentially identify wider issues.
- 425 Throughout the life of the schemes, the Bank encouraged and worked with Accredited Lenders to ensure where possible they went over and above the minimums within the contract. While we could not insist, most Accredited Lenders did do this. Depending on their own systems, processes, capabilities and excess resource, they brought in their own additional counter fraud measures, provided those did not breach the core remits of the scheme i.e., no credit checks and no delays to the delivery of the funds. They also reported fraud to relevant authorities, for example through suspicious activity reports.
- 426 Engagement with the lenders has continued throughout the scheme and they have worked closely with the data analytics work provided by the Government Counter Fraud Function.
- (v) *Enforcement through disqualification or prosecution action*
- 427 The Bank does not have any statutory investigative or regulatory powers, and so enforcement through civil or criminal courts is not within the Bank's remit. The Government was aware of this position.
- 428 As set out in the Introduction to this statement, there were a number of groups which met regularly at senior and working levels to discuss CBILS, CLBILS and BBLs, which included the Cabinet Office Government counter Fraud Function, the Bank, the Department for Business, Energy and Industrial Strategy and HMT. The names changed as the purposes of these fora were adapted to emerging issues and actions required. They include, for example, the Covid 19 Counter Fraud Forum, Covid 19 Strategy Board and Covid 19 Debt Schemes Programme Board (together, the **Fraud Fora**).

429 As a part of those discussions, the Bank is aware that the National Investigation Service, a local authority team specialising in fraud and financial crime, was contracted by the Department for Business, Energy and Industrial Strategy from 22 September 2020 to lead on the enforcement of criminal investigations for the BBLs. The Department for Business, Energy and Industrial Strategy also engaged with the Insolvency Service Criminal Investigation and Prosecutions team and Civil Director Disqualification teams, which were part of the department. The Insolvency Service were involved in dealing with companies and individuals brought to their attention through the insolvency process and the Department for Business, Energy and Industrial Strategy discussed their capacity to assist in BBLs related fraud.

430 This workstream was led by the Department for Business, Energy and Industrial Strategy, which owned the policy and which, at the time of the pandemic, had a small counter fraud team of two people. The Department for Business, Energy and Industrial Strategy was supported by the Government Counter Fraud Function (later to become the Public Sector Fraud Authority) which provided counter fraud expertise and data analytics.

4 Future Fund (FF)

431 In respect of FF, the scheme was a rules-based one, with no individual assessments of company viability, leading to a number of risks in relation to the type of companies which would receive funding, resulting in the future risk of reduced returns and poor value for money. There are continuing evaluations of the schemes which assess whether those risks have in fact materialised.

432 The scheme section has set out the identification of fraud risks and the amendment to the scheme to prohibit the recycling of funds to support applications by other companies. FF also became a member of Cifas. As this was a directly managed scheme, there was ongoing monitoring of the companies through the terms of the Convertible Loan Note, for example on the quarterly management information; new assessments, for example in relation to new persons sanctioned; and periodic reviews using open source material and intelligence received.

- 433 On 27 May 2021, the administration of the portfolio was delegated to the FF team by the British Business Financial Services Limited Investment Committee in accordance with an Authorisation Matrix which set out the relevant authorities and escalations for various events during the life of the Convertible Loan Agreement, for example dealing with financing events and conversions. As a part of that matrix, where events of default occurred, the FF team could put the borrowers into a collections and recoveries process, using a debt management service. Other cases of default such as insolvency or breach of the use of proceeds clause were reported to the Risk and Compliance team until this was further refined and the results reported to the Quarterly Portfolio Valuation meeting from September 2021. [RB/181 - INQ000594934] The team also had discretion to escalate to the British Business Financial Services Limited Investment Committee where necessary. [RB/173 - INQ000595904]
- 434 There was also engagement on FF with the Government Counter Fraud Function and the Department for Business, Energy and Industrial Strategy. Information about companies who had entered a Convertible Loan Agreement was shared with the Department for Business and Trade and, for example, the Government Counter Fraud Function shared information about companies which had applied to dissolve or which had received money under the Schemes.
- 435 Where irregularities were found, the cases were considered and appropriate action escalated to discussion with the Shareholder for example to take proceedings to terminate the loan agreement or to report the case to the Department for Business, Energy and Industrial Strategy's Counter Fraud team for further consideration.
- 436 As the loans moved to maturity on their three-year anniversary, a Recoveries and Counter Fraud Strategy was formally put in place in 2022.
- 437 Looking back and given the pandemic, the Bank considers that its approach to the risk of fraud and error and measures to reduce such risk were proportionate. The Bank understood that the policy decision by the Government was to get the money out as quickly as possible. As such, there was a balance to be reached, between reducing risk and getting the money out to companies quickly, who were in fact at risk of failure. The Bank

considers that it put in place the appropriate mitigations where this was possible within the overall policy intent of the scheme.

Section D: Inequalities and Long Covid

1 Public Sector Equality Duty and Equality Impact Assessments

438 The Bank is not designated as a public authority in Schedule 19 of the Equality Act 2010. However, it nevertheless considers that it is subject to the Public Sector Equality Duty in the context of its public functions only.²⁹

439 As set out elsewhere in this statement, the Bank was not responsible for the underlying policy decisions behind the Schemes, nor was it responsible for any decisions to introduce, extend, amend or end the Schemes.

440 When it came to the underlying policy decisions, the duty to have 'due regard' to the factors set out in section 149 of the Equality Act 2010 lay with the Department for Business, Energy and Industrial Strategy and HMT. For example, the Bank is aware that Public Sector Equality Duty was considered by the Department for Business, Energy and Industrial Strategy when submissions were being put to Ministers.³⁰ The Bank is also aware that Equality Impact Assessments were conducted by the Department for Business, Energy and Industrial Strategy.³¹

441 Additionally, the Bank was aware of a number of concerns being raised directly with the Chancellor regarding the impact of the accessibility of the Schemes on minority groups. [RB/107 - INQ000594695]
[RB/185 - INQ000594739]

442 Notwithstanding this, the Bank did more broadly consider equality and diversity within the Schemes to the extent that it was possible within the overall policy intent set by the Government (which was to distribute the funds

²⁹ As per S149(2) Equality Act 2010

³⁰ For example, the Department for Business, Energy and Industrial Strategy reference to Public Sector Equality Duty being considered in relation to BBLS when the proof-of-concept tests/pilot was designed [RB/182 - INQ000595923]; and the Department for Business, Energy and Industrial Strategy Ministerial Submission on the RLS extension [RB/182A - INQ000564224]

³¹ For example, one was included in the business cases for the introduction of RLS and subsequent extensions. [RB/183 - INQ000609053] [RB/184 - INQ000609054].

as quickly as possible and to as wide a group as possible). Some ways in which the Bank considered equality and diversity in the implementation of the Schemes are set out below.

443 Additionally, the Bank is developing its Environmental, Social and Governance strategy and actively considers how best any data gathered from its Schemes can be used to better understand the impact of Bank programmes on individual characteristics. For example, the diversity statistics gathered from FF have played a role in the Bank's other programmes such as the Regional Angels Programme.

(i) *The Guarantee Schemes*

444 As set out above, the primary purpose of the Guarantee Schemes was to ensure access as quickly as possible to as many eligible businesses as possible.

445 The Bank considers that increasing accessibility generally to a scheme likely also increased accessibility for those in underrepresented groups. For example, to ensure that as many businesses as possible could access BBLs the Bank:

- (a) rapidly expanded the number of Accredited Lenders, including those that would reach sections of the market not currently being reached (for example, those who did not hold a bank account with one of the larger banks); and
- (b) found ways to support those without a business bank account (for example by allowing them to utilise the scheme with a personal bank account).

446 Additionally, the terms of lending for the BBLs took into account vulnerable customers. Under the terms of BBLs, lenders were required to comply with the Financial Conduct Authority handbook or the Lending Standards Board Standards for Business Customers in terms of their treatment of vulnerable customers during the recoveries process. [RB/50 - INQ000651726]

447 Additionally, the Bank began to monitor the diversity impacts of the Guarantee Schemes and collected data which formed part of the impact evaluations referred to in paragraph 454 below. [RB/186 - INQ000594901]

There were also contractual obligations placed on the Bank's contractors to assist the Bank with its compliance with Public Sector Equality Duty.

(ii) *The Future Fund Scheme*

448 As set out in more detail in paragraphs 242-250, the Bank gave advice to the Department for Business, Energy and Industrial Strategy and HMT on supporting diversity and inclusion within FF on several occasions (although it was not a specific objective of the scheme) [RB/78 - INQ000595826]. This would have assisted the Department for Business, Energy and Industrial Strategy and HMT in discharging their duties. The Bank also engaged with relevant stakeholders to discuss these issues (see paragraph 278).

449 Whilst the Bank acknowledged that it was unlikely to be possible to completely address issues of inequality in the Venture Capital market through the scheme rules, it considered that the most effective way to increase access for underrepresented entrepreneurs was to have as broad a range of investors as possible. As such, the Bank proposed a number of changes to the eligibility criteria to ensure that smaller companies (which tend to have better representation of underrepresented groups) could access FF.

450 As a result of the Bank's advice, the Department for Business, Energy and Industrial Strategy and HMT also agreed that:

- (a) statistics on gender mix, ethnicity mix and region for each company should be recorded and published; (see paragraphs 299 for what data was collected)
- (b) investors should be asked to sign HMT's Investing in Women Code in order to support diversity in future.

451 The final data published in respect of FF published by the bank on 6 July 2021 (**Final Data**) (as set out in more detail in Annex 1) showed that 78% of funding was to companies with mixed gender senior management teams and that 61.6% was to mixed ethnicity (or solely BAME) senior management teams. This was higher than the original estimate of 82% of FF funding going to all male teams.

452 Additionally, as a consequence of FF, 31 Venture Capital firms and angel groups became signatories to the Investing in Women Code.
[RB/71 - INQ000593121]

2 Impact Evaluations

453 The Bank carried out impact evaluations in respect of the Schemes. These are set out in more detail in Section E of this statement but are briefly summarised below.

(i) *BBLs, CBILs and CLBILs*

454 The Bank commissioned London Economics and Ipsos MORI to undertake a multi-year evaluation of the BBLs, CBILs, and CLBILs. The purpose of this evaluation was to assess whether the objectives of the three schemes were satisfied. Part of this assessment also looked to explore whether results varied across sectors geographically, or if there were varying impacts for ethnic minority and female led businesses. The evaluations noted that:

- (a) the analysis did not find statistically significant impacts of BBLs, CBILs and CLBILs on turnover or employment when considering impacts at a sector and region level, or for ethnic minority or female led businesses;
- (b) one in three BBLs borrowers who were sole traders were women;
- (c) for BBLs borrowers who were not sole traders, 39% said at least 50% of their business was owned by women and 15% said that at least 50% of their business was owned by people from ethnic minority backgrounds;
- (d) 30% of CBILs borrowers/CLBILs borrowers with turnover under £45 million were owned by women and 8% said that over 50% of their business was owned by people from ethnic minority backgrounds;
- (e) the proportion of survey respondents who expected they would have permanently closed in the absence of funding from BBLs was higher for businesses majority owned by ethnic minority individuals than it was for other businesses;

- (f) similarly, the proportion of survey respondents who expected they would have permanently closed in the absence of funding from CBILS/CLBILS was higher for businesses majority owned by ethnic minority individuals than it was for other businesses;
- (g) the proportion of respondents who expected they would have permanently closed in the absence of funding from BBLs was broadly the same for businesses majority owned by women as it was for other businesses; and
- (h) the proportion of respondents who expected they would have permanently closed in the absence of funding from CBILS/CLBILS was lower for businesses majority owned by women than it was for other businesses.³² [RB/9 - INQ000146545]

(ii) *FF*

455 RSM UK Consulting LLP was commissioned by the Bank to undertake an impact evaluation of FF. Reports were published in 2022 and 2023, with the final report due for publication in 2025. These reports noted that:

- (a) participating companies showed a considerable degree of ethnic and gender diversity within the overall management team, with 52% of firms having at least one management team member from an ethnic minority background;
- (b) 69% of firms had at least one female management team member, 42% of firms had at least one female founder and 5% had all-female founder teams;³³
- (c) in comparison with the counterfactual group, FF portfolio had a marginally higher representation of women in leadership roles; and
- (d) there was a difference of views between stakeholders as to FF's ability to address pre-existing regional, ethnic and gender disparities in the Venture Capital market with some pointing to the increased amounts

³² The findings were broadly similar in the Year 2 report – [RB/43 - INQ000593115]

³³ In comparison, the Bank's Equity Tracker (2022) showed 76% of funded equity deals in 2021 went to all male founded teams.

of funding available to these groups due to the automated nature of FF, and others citing the difficulty faced by ethnic minority and women-led businesses in raising enough funds to meet the eligibility criteria. [RB/73 - INQ000146532] [RB/138 - INQ000593114]

3 Long Covid

456 As noted elsewhere in this statement, the Bank was not responsible for the underlying policy decisions behind the Schemes. As such, the Bank is unable to comment on the extent to which Long Covid was taken into account by the Government when reaching those decisions.

Section E: Internal and external reviews

1 Introduction

457 The Schemes have been the subject of extensive scrutiny. The Bank has undertaken a continuous improvement approach to its role in delivery and administration of the Schemes. This was a repeated, iterative learning process that started with scheme design and launch, and has continued throughout the life of the Schemes. The Bank has responded to ongoing feedback on the Schemes from the Government, lenders and industry bodies in the meetings described, as well as from the published reports listed below.

458 The National Audit Office and Public Accounts Committee have published the following reports:

- (a) 7 October 2020 National Audit Office Investigation into the Bounce Back Loan Scheme;
- (b) 16 December 2020 PAC Covid-19 The Bounce Back Loan Scheme;
- (c) 19 May 2021 National Audit Office Initial Learning from the Government's response to the Covid-19 pandemic;
- (d) 30 June 2021 PAC Fraud and Error;
- (e) 7 July 2021 National Audit Office Accreditation of Greensill Capital;
- (f) 25 July 2021 PAC Initial lessons from the Government's response to the Covid-19 pandemic;

- (g) 20 November 2021 PAC Lessons from Greensill Capital: accreditation to business support schemes (Twenty-Sixth Report of Session 2021-22);
- (h) 3 December 2021 National Audit Office Bounce Back Loan Scheme: an update; and
- (i) 27 April 2022 PAC Bounce Back Loans Scheme: Follow up.

459 Treasury minutes in response to these reports by the Government and the Bank were provided on 25 March 2021, 2 February 2022, 2 September 2022. In addition, the Bank wrote separately to the committee on 24 November 2020, 18 December 2020, 16 February 2021, 17 December 2021, 27 January 2022, 20 July 2022, 30 November 2022, May 2023 and 13 November 2023.

460 The Bank has commissioned external organisation to undertake multi-year evaluations of the Schemes which have been published as follows:

- (a) 24 June 2022 Year 1 Evaluation of CBILS, CLBILS and BBLS [RB/9 - INQ000146545];
- (b) 11 November 2022 Year 1 Early Assessment of FF [RB/73 - INQ000146532];
- (c) 25 October 2023 Year 2 Early Assessment of FF [RB/138 - INQ000593114];
- (d) 28 November 2023 Year 2 Evaluation of CBILS, CLBILS and BBLS [RB/43 - INQ000593115];
- (e) 22 March 2024 Evaluation of RLS 1 (as defined below) [RB/187 - INQ000593116];
- (f) 9 May 2025 Year 3 evaluation of CBILS, CLBILS and BBLS [RB/188A - INQ000609061]; and
- (g) Due for publication in Spring/Summer 2025 Year 3 Early Assessment of FF.

2 Summary of the Scheme Evaluations

(i) *CBILS, CLBILS and BBLS*

461 In March 2021, the Bank commissioned London Economics and Ipsos to undertake a multi-year evaluation of CBILS, CLBILS and BBLS to assess whether the objectives of CBILS, CLBILS and BBLS were satisfied. The focus of the key research questions was divided as follows:

- (a) Year 1 - The process evaluation considered scheme design and delivery, debt recovery processes, and variations in processes.
- (b) Year 2 - The impact evaluation considered the extent to which the schemes affected business outcomes.
- (c) Year 3 - The economic evaluation considered the value for money of the schemes, taking into account both its costs and benefits.

462 On 24 June 2022, the first-year evaluation was published. [RB/9 - INQ000146545]. The report found that:

- (a) the schemes met their primary short-term objectives of unlocking credit for businesses at scale and speed;
- (b) although there was no explicit targeting, sectors more severely impacted by the pandemic made proportionately greater use of the schemes;
- (c) the effectiveness of the immediate response was facilitated by the existence of a pre-existing delivery template and infrastructure and effective engagement with the lending community;
- (d) the schemes were successfully adapted on several occasions to widen access and to increase the speed of lending decisions; and
- (e) between 0.5 million to 2.9 million jobs and 150,000 to 500,000 businesses could have been lost in the absence of the schemes. These estimates were to be refined in future evaluations.

463 The evaluation identified four key lessons for future emergencies as follows:

- (a) **"Loan guarantees:** *The establishment of a large-scale loan guarantee programme proved an effective mechanism of providing rapid cashflow support to businesses facing financial distress during the Covid-19 pandemic. It is unlikely that the public sector could have delivered a programme of similar scale or at a similar speed from within its own resources.*
- (b) **"Targeting:** *One threat to value for money arose from the removal of measures to target loan guarantees at businesses whose survival or stability was threatened by the Covid-19 pandemic. Mechanisms to target funding at businesses have the potential to significantly reduce the scale of the contingent liability assumed by the public sector.*
- (c) **"Pre-planning and pre-accreditation:** *It was only possible to establish the Covid-19 Loan Guarantee Schemes quickly because there was an existing delivery template (the Enterprise Finance Guarantee programme), although there were some short-term adverse effects on competitive dynamics for challenger banks and alternative finance providers from using this approach as EFG was originally tailored to bank lenders with traditional business models. The establishment of an on-going emergency loan guarantee scheme that could be activated in the event of a future emergency (with a rolling accreditation process) could enable rapid intervention while reducing pressure on the public sector.*
- (d) **"Real-time information on financial health:** *The government did not have access to detailed real-time information on the financial health of businesses applying for guaranteed loans through the Covid-19 Loans Guarantee Schemes (such as the depth of their reserves or their Process evaluation and early impact assessment that could have provided greater insight into the effects of social distancing restrictions. Putting in place mechanisms to gather real-time data on the financial health of businesses could provide critical information to inform decision making in future crises. The most relevant real-time information is likely to be held by banking institutions, such as cash balances in current accounts and income and expenditures. Data*

sharing arrangements under Open Banking were not sufficiently progressed by March 2020 to provide the government with access to this type of information at the time it was needed. However, this could provide a fruitful avenue for exploration to aid future emergency planning and response."

- 464 On 28 November 2023, the second-year evaluation was published and used survey data to assess the impact of the schemes on business outcomes in 2021/2022 and in 2022/23. The analysis of self-reported impacts of the schemes on business survival two years on from the pandemic suggested that an extra 12% - 42% of BBLs, and 6% - 35% of CBILs/CLBILs borrowers could have permanently closed between April 2020 and December 2021 in the absence of the schemes. This compares to 10% - 34% of BBLs, and 7% - 28% of CBILs/CLBILs borrowers reported in the year one evaluation. [RB/138 - INQ000593114]
- 465 Those results were validated using secondary data sources from the Inter Departmental Business Register which found that the schemes prevented closures among 5.0% - 6.5% of BBLs and 4.0% - 4.7% of CBILs/CLBILs borrowers between April 2020 and March 2021. These impacts were thought to be statistically significant and lower than businesses' self-reported estimates from the Year 1 and Year 2 evaluation, particularly for the BBLs. The report thought it was possible that business closure rates in the counterfactual group for this analysis may be artificially low due to temporary measures introduced during the pandemic which may have delayed the closure of certain businesses. It was thought that estimated impacts on business survival may therefore increase in the third evaluation should these delayed closures, if any, materialise. For businesses that would have continued trading regardless of the schemes, econometric analysis of Inter-Departmental Business Register data found that turnover was between 9.7% and 11.5% greater for BBLs and CBILs/CLBILs borrowers respectively in the first year of the pandemic than it would have been without the schemes.
- 466 The evaluation also estimated 0.7 million total extra jobs could have been lost among BBLs and CBILs/CLBILs borrowers in the first year of the pandemic without the schemes. This is due to (i) schemes preventing business closures and (ii) higher employment for those borrowers who would have continued operating even in the absence of the schemes. Related to the latter, it is

estimated that BBLs and CBILs/CLBILs borrowers respectively had 5.7% and 9.0% higher employment than they would have in the absence of these schemes. However, in the third-year evaluation, the figures from the second-year evaluation were analysed using secondary data with some differences (see below).

467 The third-year evaluation was published on 9 May 2025, and completes the CBILs, CLBILs and BBLs process evaluation. It consists of a value for money assessment across CBILs, CLBILs and BBLs, and an updated process and impact evaluation [RB/188A - INQ000609061]. Its key findings are:

Economic Evaluation

- (a) The schemes resulted in tens of billions of additional Gross Value Added in the UK economy (£15 billion to £36 billion for BBLs, £12 billion to £33 billion for CBILs and £0.4 billion to £8 billion for CLBILs). The range of the Gross Value Added estimates reflect statistical uncertainty as well as uncertainty around future benefits and the level of product market displacement.
- (b) The evidence suggests that the benefits of the schemes outweigh their costs. The evidence is particularly compelling in the case of the CBILs scheme. Taken collectively, the benefit to cost ratios of the schemes are estimated to be between 1.24 and 3.78 across different modelling scenarios.

Year 3 impact evaluation

- (c) Analysis of borrowers' survey results suggests that an extra 11% - 48% of BBLs, and 7% - 38% of CBILs/CLBILs borrowers could have permanently closed between April 2020 and December 2022 in the absence of the schemes. This compares to the Year 2 estimations of 12% - 42% of BBLs, and 6% - 35% of CBILs/CLBILs borrowers which would have permanently closed between April 2020 and December 2021. These borrowers reported that the reasons they would have permanently closed without access to finance through the schemes were primarily lockdown rules, cashflow issues and changes in market conditions as a result of the pandemic.

- (d) Depth interviews with borrowers highlighted the difficulty that borrowers face when assessing their hypothetical likelihood of permanent closure in the absence of the schemes. Indeed, when asked to assess their likelihood of closure in the absence of the schemes at the end of the depth interview, the majority of respondents gave a different answer to that they had given to the same question in a survey previously. As a result, there is a strong case to be made that the estimates for the impact of the schemes on business survival using secondary data are more robust.

Secondary analysis of Year 2 impacts

- (e) The second-year impacts of the schemes on survival, turnover and employment were analysed using secondary data – the Inter-Departmental Business Register³⁴ (a comprehensive list of businesses used by Government for statistical purposes) – and found that the schemes prevented closures among an additional 5.9% - 8.0% of BBLs borrowers and 5.8% - 6.8% of CBILS/CLBILS borrowers between April 2020 and March 2022. These estimates are slightly larger than the Year 2 estimates from April 2020 to March 2021 of 5.0% - 6.5% of BBLs borrowers and 4.0% - 4.7% of CBILS/CLBILS borrowers.
- (f) Econometric analysis of Inter-Departmental Business Register data found that turnover was 6.8% higher among BBLs borrowers and 6.8% higher among CBILS/CLBILS borrowers in the second year of the pandemic than it would have been in the absence of the schemes. This impact compares to the corresponding impact from the first year of the pandemic of 9.7% for BBLs and 11.5% for CBILS/CLBILS borrowers.
- (g) An estimated 1 million total extra jobs likely would have been lost among BBLs and CBILS/CLBILS borrowers in the second year of the pandemic without the schemes. It is estimated that BBLs and CBILS/CLBILS borrowers respectively had 7.9% and 12.0% higher

³⁴ The Inter-Departmental Business Register is a database of around 2.7 million businesses primarily compiled from Value Added Tax and Pay As You Earn records from HMRC.

employment than they would have in the absence of the schemes. This highlights that the schemes likely had a positive social impact during the time of crisis as well as an economic impact.

- (h) There is some evidence to suggest that the schemes may have had different impacts for different kinds of businesses depending on their level of finance need. For businesses with a substantial finance need, the largest impact of the schemes was likely related to business survival, whereas for businesses with less of a finance need the impact of the schemes was likely more related to increased growth.

Process Evaluation

- (i) **Repayments and recoveries:** The Bank's management data (as of September 2024, published in November 2024) suggests that 61% of the schemes' portfolio value has been repaid or removed from the guarantee schemes and is not at risk of loss to the public purse. A further 22% is on schedule to be repaid (although this could fall into arrears or default). The value of facilities that have defaulted (including facilities that have been settled and claimed) or are in arrears is 17%, with the BBLs representing the largest value (91% of the total default value for CBILS, CLBILS and BBLs, 26% of the value of BBLs, or £12 billion). Stakeholders and lenders reported that in general, lenders have utilised Business As Usual approaches to secure repayments and recoveries, which is in line with the lender agreements for the schemes. These approaches, alongside the lender challenge process, assurance activities, enforcement activity and exploration of new recovery strategies, were reported in stakeholder interviews to be effective.
- (j) **Enforcement activities** undertaken by the Insolvency Service and the National Investigation Service have had key successes in punishing and recovering money from individuals committing fraud.
- (k) **Governance:** The governance approaches were reported to be largely appropriate and had some key successes around information sharing and coordination, relationships with lenders, and independent oversight. However, there were some challenges with governance,

with the main one being the reported slow decision-making within the Department for Business and Trade, impacting various aspects of the schemes, particularly concerning fraud and recovery efforts.

3 Recovery Loan Scheme

468 In 2023, the Bank commissioned London Economics and Ipsos to evaluate the RLS. On 22 March 2024, the first assessment of the first iteration of the RLS (**RLS 1**) was published. The report's key findings are summarised below:

- (a) **RLS 1.0 had a positive impact on borrowers' turnover** - RLS 1.0 borrowers had an estimated 17% higher turnover than they would have had without the scheme.
- (b) **RLS 1.0 supported business survival** - 12% of surviving RLS 1.0 borrowers reported that they “definitely” would have ceased trading and a further 47% said they would have been “very or fairly likely” to have ceased trading without the scheme.
- (c) **Finance was additional** - the majority of finance extended under RLS 1.0 would not have been provided without the scheme, with an estimated economic additionality rate of 83%.
- (d) **Scheme finance was used for a variety of reasons** - the most common use of RLS 1.0 finance was for day-to-day expenses and purchasing goods and materials. There was also evidence to suggest it enabled borrowers to undertake innovative activities such as developing new products and processes, research & development and reducing carbon emissions.
- (e) **Learnings from the Coronavirus Business Interruption Loan Scheme (CBILS) were used in scheme set-up** - learnings taken from the delivery of CBILS include data collection and data sharing which supported the implementation of RLS 1.0. This appears to have positively impacted lenders' ability to deliver the scheme alongside commercial lending.
- (f) **Accreditation was relatively quick** - the accreditation process for RLS 1.0 was much quicker than CBILS. Anecdotal evidence from

interviews with accredited lenders suggested the process could be completed in under a month.

- (g) ***Scheme design supported objectives*** - RLS 1.0 provided just under £2.8bn in guaranteed lending facilities to c.10,000 businesses. This was lower than expected. However, some of the sectors which were more impacted by pandemic restrictions, for example retail and accommodation and food, had slightly higher proportions of businesses supported. [RB/187 - INQ000593116]

469 The Year 2 report is expected to be published in 2025 with the Year 3 report following in 2026.

4 Future Fund Scheme

470 On 11 November 2022, the first evaluation of FF by RSM UK Consulting LLP was published. [RB/73 - INQ000146532] The evaluation, also summarised at paragraph 378, found that:

- (a) pandemic uncertainty reduced the supply of equity finance for early-stage companies;
- (b) the speed with which finance was supplied was seen as key in supporting companies during the pandemic slump;
- (c) companies and investors considered the application process and features of FF to be clear;
- (d) key short-term objective of increasing the supply of finance to potentially viable UK equity backed companies was broadly met;
- (e) Research and Development was a key focus for recipient firms while revenue rose on average, though broad investment trends are less clear;
- (f) early evidence suggests the programme may have met its short-term objectives; and

- (g) in comparison with similar schemes in Europe, FF provided greater funding to more businesses.³⁵

471 The second report was published on 25 October 2023.

[RB/138 - INQ000593114] The main findings were:

- (a) there was a mixed picture across indicators over 2021 and 2022 - suggesting it was too early to measure the impact of FF investment. This would be explored further in the Year 3 report;
- (b) portfolio companies showed higher fundraising growth over 2021 and 2022, with total fundraisings increasing by 97% compared to 54% for the counterfactual, though momentum was lost in 2022;
- (c) the share of portfolio firms that raised funds over 2021 and 2022 was higher than for the counterfactual (43% and 47% respectively for the portfolio group, compared to 36% and 33% respectively for the counterfactual);
- (d) one measure of the growth prospects of the portfolio group in 2022 signalled improved longer-term growth expectations compared to the counterfactual, but the picture was mixed when looking at other valuation measures;
- (e) the turnover growth of the portfolio group across 2021 and 2022 was lower than the counterfactual (16% and 34% respectively), but funded firms may be prioritising Research and Development;
- (f) higher portfolio employment growth in 2022 could be seen as an encouraging longer run indicator; and
- (g) slightly better survival prospects for counterfactual firms, with 97% of active firms compared to 92% for the portfolio, but this result is only weakly significant.

35

For example, the Business Angel Syndication Loan Scheme in Denmark, the Tech Bridge Scheme in France and TOPPS in the Netherlands. In particular, in comparison to Denmark, which had the next largest schemes, FF delivered five times the amount of funding to three times as many companies.

472 From the initial matched data analysis assessment, four hypotheses were explored through additional data analysis and interviews with six FF portfolio companies:

- (a) The Convertible Loan Agreement structure may be impacting on portfolio investment - there was insufficient evidence to support this from the limited number of interviews undertaken and generally positive sentiment expressed towards the Convertible Loan Agreement structure.
- (b) FF investment may have affected the timing of follow-on fundraising - there was insufficient evidence to support this hypothesis.
- (c) Portfolio firms were more Research and Development focused compared to the counterfactual, so funding supported salary payments and IP development. There were some signals of this through analysis of additional data on fundraising for Research and Development and self-reported evidence in all six interviews, but the evidence is not yet conclusive.
- (d) Portfolio performance could be driven by overperformers and not captured in modelling - to be investigated further in Year 3 report.

473 The third report (and final) evaluation is due to be published in Spring/Summer 2025.

Section F: Lessons Learned and Reflections

1 Lessons learned

474 The Bank's approach is one of continuous improvement to its role in delivery and administration of the Schemes. The Bank's policy has been and remains one of transparency and openness, borne from the desire to learn from its role in meeting the economic crisis inflicted by the pandemic so as to ensure that, if the like of the pandemic should ever happen again, the Bank will be as well prepared as possible to meet the demands made of it by the Government.

- 475 The Bank considers that valuable points were learnt from its role in the economic response to the pandemic and, properly addressed, those challenges in delivery might be ironed out of any similar response in the future which may make the Bank's role more effective and streamlined than was the case here.
- 476 The context must, of course, be understood, and as has been said time and time again, the situation confronting society was unprecedented. Therefore, any lack of planning, of stress testing the systems in place, and determining whether the Bank had the operational capability or plans to deal with the demands placed upon it must be read and reviewed against this background.
- 477 It should also be borne in mind that ultimately the Bank was asked to deliver the Schemes in a certain way within specific and tight timescales. Given those constraints and the knowledge available to it, the Bank did what it was able to do to identify risks and mitigate them where possible, and to articulate the concerns relating to the Schemes. These economic interventions were only a small and focused part of the wider economic landscape to which the Bank was not a party.
- 478 There were a number of problems which the Bank had to overcome or later remedy and summarising these in headline form provides part of the lessons learned by the Bank from the pandemic:
- (a) While we were prepared for an economic downturn, the Bank was unable to predict the severity and scale of the pandemic and its economic consequences. The Bank is now in a stronger position based on its experience of the multi-agency response to the pandemic. It is, however, important that the Bank embed this experience in its corporate memory in case of a future emergency with such significant economic impact on Small and Medium Enterprises.
 - (b) Whilst the "fraud capability" was proportionate to the Bank as it was pre-pandemic, the fact is that when the pandemic broke, there was then insufficient capacity for the more extensive fraud risk assessments required and parts of these were therefore outsourced and often done after the launch of most schemes. The Bank has now

increased capacity and expertise within this area and is, therefore, better prepared for similar challenges in the future.

- (c) Similarly, whilst the Bank's largely manual upload systems were sufficient for around 20,000 pre-pandemic scheme facilities, the systems needed to develop capacity and automated data uploads from many different lenders to cope with the increase to 70,000 CBILS facilities and then 1.5 million BBLs facilities. The system is now more robust for future schemes, providing ongoing insight, facility and lender monitoring, and data publication as a single version of the truth.
- (d) Relatedly, it was and continues to be essential to have in place appropriate privacy notices in relation to the collection and use of data and mechanisms for sharing any such data with relevant stakeholders.

2 Response and reflection

479 As the Bank reflects on its response to the pandemic, three main themes emerge.

480 First, key to ensuring effective cross government action are (i) the existence of a singular collaborative approach within a framework that stipulates the defined and coherent role of each stakeholder, whether within or outside of the Government; (ii) maintaining and retaining a clarity of each entity's role and responsibilities is essential to maintain focus; (iii) the ability to adapt, to accept feedback and act on it quickly is central to ensuring ever improved delivery and rapid responses to specific issues as they emerge.

481 Secondly, the ability to respond quickly in any future emergency situation is likely to be much improved if existing infrastructure and frameworks are extant and used. This means that they must be built from the outset in such a way that they are robust and scalable. It is notable that in this instance, the preparation that had been done for a no deal EU Exit meant that the Bank had identified a scheme which was well understood by the market and by lenders and its existence meant that it was possible to deliver in a very short space of time. This was key, as the Bank was the only organisation which was able to deliver the type of loan guarantee schemes that were required to meet the urgent demands of the pandemic.

482 Thirdly, having a clear legal route which allows the collection, analysis and sharing of data can prove very beneficial as a tool to focus activity to achieve specific results in the moment.

483 Overall, the experience and knowledge the Bank has developed in successfully delivering the Schemes, has put it in a good position to deliver similar programmes during any future emergency where Government guarantees are required.

484 For any future, emergency, however, it is important to restate and emphasise the Bank's normal remit which, with hindsight, during the pandemic became somewhat blurred because of the level of direction provided by Government.

- (a) First, the Bank's products are developed to address specific market failures in Small and Medium Enterprise finance markets, with business cases developed for all interventions as standard practice.
- (b) Secondly, the Bank had and has an ongoing role as the Government's centre of expertise in Small and Medium Enterprise access to finance with a concomitant duty to ensure its programmes are supporting the needs of Small and Medium Enterprises. In this regard, the Bank has continued to review and revise its structure to ensure the scalability of products and services and is improving its infrastructure, especially relating to the management and use of data.
- (c) Thirdly, following the launch of the Schemes, the Bank acted primarily as an administrator, providing scheme specific advice, consideration of policy objectives and assistance to officials within the Government, delivering the Schemes to the market and managing them on an ongoing basis.
- (d) Fourthly, the Bank, the Department for Business, Energy and Industrial Strategy, HMT and UK Government Investments had developed an Agile Cooperation Framework which sets out the approach for determining whether a downturn response is required and the governance approach to implementing any response.

485 Within those confines, the reasons for the introduction of these particular Schemes were conveyed to the Bank by the Government and were well

understood. Equally, the Reservation Notices issued in respect of BBLs on 2 May 2020 [RB/23 - INQ000564005] and FF on 18 May 2020 [RB/114 - INQ000564030] set out the Bank's concerns at the time of setting up the Schemes. Particularly the concerns for BBLs of value for money, propriety (given the potential market distortion) and feasibility in relation to the ability to launch to such a compressed timetable and the concerns of propriety (given the set policy objectives and possible conflict with the Bank's overarching objectives), value for money and feasibility of delivery (at pace and outside the Bank's usual processes and controls) for FF.

486 Since economic crises can arise in a multitude of ways, it is hard to predict what the most appropriate response would be for the Bank in the future. However, the Bank's response will of course be primarily directed by the Government and within that role it will advise as to which resources or mechanisms are available which will help to mitigate the specific impacts on Small and Medium Enterprises and their access to finance. As part of this process the Bank will continue to develop its business model, including identifying the underlying market failure(s) in real time, and the objectives of the proposed intervention(s), thereby designing a scheme to meet these objectives, whilst modelling the scheme's ability to demonstrate value for money. It should be noted that the Bank's Small Business Finance Market Report indicates that the Small and Medium Enterprise market has essentially been restored to its pre-pandemic state, reversing the market distortion the Guarantee Schemes might have introduced. The Bank has continued its efforts in improving the diversity of finance products and providers.

487 The Bank has reflected that, as a consequence of there being some public misunderstanding about the Bank's role, a large amount of resource during the pandemic was required to explain and re-explain the Bank's normal remit and the limits of its capabilities and functions. In a future emergency, more consideration should be given to communication and explanation of how the Bank is operating.

488 The Bank has reacted in a proactive way, both during the pandemic in response to the evolving demands placed upon it, and in response to the

many reports produced and the extensive feedback it has received. In particular, the Bank has:

- (a) redeployed resources, adapted and refined the accreditation process to deal with significant numbers of responses to provide the Schemes;
- (b) collaborated with the Government on the detection of fraud;
- (c) collaborated with lenders to improve fraud prevention and detection, providing guidance to lenders on action to be taken when fraud was identified, particularly through the use of data analytics to identify potentially higher risk facilities and/or networks of associated individuals and companies for further lender review;
- (d) developed, with the Government, analytical and forward-looking expected credit loss models that are compliant with International Financial Reporting Standard 9, utilising granular data and extended sampling work;
- (e) engaged with the lenders and regulatory bodies to understand and enhance the recoveries landscape, issuing a Collaborative Statement of Agreed Principles for collections and recoveries which takes account of the Financial Conduct Authority's Consumer Credit sourcebook and the Lending Standard Board's Standards of Lending Practice for business customers. The purpose of the document is to facilitate consistent and fair treatment for the BBLs borrower, provide clarity for the Lender, and deliver value for money in terms of successful collections and recovery;
- (f) commissioned, in collaboration with the Government, a series of independent evaluations of the Schemes' long-term impact;
- (g) developed its counter fraud and assurance work programme, working closely with the Government Counter Fraud Function to design a lender performance dashboard for internal reporting purposes and conducted a risk-based approach to lender assurance;
- (h) worked with lenders following audit and assurance work to implement remedial action where necessary, ranging from creating an action plan

with the lender's management team through to cancellation of a guarantee; and

- (i) put the lessons learned into practice in the development of RLS and also the Growth Guarantee Scheme, as set out in the RLS section in Reinald de Monchy statement.

489 The Bank continues to work for additional diversity in supply within the lending markets for Small and Medium Enterprises and considers Small and Medium Enterprise behaviours in terms of awareness and different forms of finance and finance providers. During the pandemic, accrediting a broad range of lenders was a key tool in enabling greater access to the Schemes, and it remains valuable for Small and Medium Enterprises. Supporting a range of challengers and specialist providers through specific intervention helps to create a more diverse finance market.

490 The Bank has continued to work with the Devolved Nations and regional bodies. The Schemes were UK-wide and so the Devolved Nations were not excluded although there were specific restrictions on Devolved Nation-funded funds being eligible for accreditation driven by the Government's policy.

491 The Bank has played a key role in collecting and managing data in relation to Schemes. It has:

- (a) developed systems to support the efficient bulk upload of information and to improve its accuracy, which was a significant achievement in such a short period and has facilitated the subsequent administration of the Schemes;
- (b) provided a single source of truth for scheme data which has informed the forecasting/modelling for the estimations of credit loss and fraud, the costs of the Schemes and assessment of their long term value for money. The Bank has also informed the monitoring of lenders, e.g., allocation limits and pricing matrix, and provided informative dashboards for meetings;
- (c) improved routes for data sharing through revised privacy notices and data-sharing agreements across the Government to improve insights.

The mechanisms of collection, management and sharing of data are a key feature of any scheme;

- (d) adopted a risk-based approach to the audit and assurance programme lifecycle and developed a new Delivery Partner monitoring programme to provide greater visibility of financial stability and better contingency planning, using public information and insights from Bank engagement and data; and
- (e) used the granular data to gain insights to support its work relating to the Small and Medium Enterprise finance markets and in the development of new products: for example, to support Small and Medium Enterprises to transition to net zero.

492 The Bank has been engaged in the overall fraud response, drawing a distinction between, on the one hand, counter fraud work, i.e., the prevention of fraudulent applications being granted, and, on the other hand, enforcement which covers a much broader range of activity resulting from nonpayment of debt, which might include usual debt recovery action, civil suits for fraud, insolvency processes, regulatory action (such as disqualification of directors), and criminal prosecution and confiscation.

493 One of the key collaborations has been between the lenders (which were the first line of defence against fraud for the Guarantee Schemes), the Bank and the Government in framing the response to fraud. The weekly collaboration calls with lenders enabled the sharing of experience and facilitated creative discussions with practical responses such as the duplicates database. The collaboration has continued in the ongoing efforts to ensure recovery processes are robust and appropriate. The Bank played a key role in bridging the gap between the lenders and the Government to enhance recovery activities and deal with the fraud. However, ultimately, enforcement beyond the lenders' Business As Usual process was a matter for the Government.

494 Internally, the Bank has developed a deeper knowledge of fraud risk assessments and recovery processes to assist with scheme design, lender accreditation and the terms and conditions of legal agreements. Fraud risk assessments enable the Bank and delivery partners to identify potential fraud risks inherent in a scheme and manage the residual risk through additional

controls and preventative measures during the life of the scheme. The Bank now has better links with fraud experts across the Government and enforcement agencies and appreciates the value of high-quality data and its use in identifying facilities where there is a high risk of fraud for further action. It is actively working with the Government and lenders to enhance recovery activities.

3 Recommendations

495 The Bank offers these concluding thoughts that we would respectfully ask the Chair to consider when framing the Inquiry's recommendations as to the future.

496 First, as noted above, the Schemes delivered by the Bank were primarily focused on Small and Medium Enterprises and the Bank's engagement with the Government has been set within that context. That engagement was productive and collaborative, but there may be room for an established economic crisis governance framework, including arrangements for wider multiparty stakeholder engagement that allows key parts of Government to work together to review real time insights where the Bank may contribute its view. This would help to inform the Government of the wider strategic considerations which may be at play in a complex economic environment and market, and how different delivery mechanisms might be combined or leveraged to better effect, rather than working in isolation. The work would also inform comparisons with other competing economic interests, the trade-offs which may be required, and how the impacts of those decisions can be mitigated and managed. This forum would then also be able to step forward at times of national crisis as a source of knowledge on which those difficult decisions could be made.

497 Secondly, whilst fraud risk assessments assisted in managing counter fraud activity and reducing fraud occurrence, the lack of a comprehensive Government enforcement strategy has had an impact on the public perception of the Schemes. A better understanding of the wider enforcement landscape would enable the Government to fully understand the consequences of decisions. Any future planning should identify the roles and responsibilities of public sector bodies, and the capacity and capability constraints through engagement with civil advisory services, law enforcement

agencies, Crown Prosecution Service and other Whitehall Prosecutors, and other Criminal Justice Agencies, such as the Prison and Probation Service, to ensure that a full enforcement strategy is considered from the outset. Such a strategy would also allow for improved clarity and impact for the activities that are expected of lenders.

498 Finally, it is essential that we keep our guarantee schemes and other key programmes active, not only because of their positive impact on the economy today, but also to have the option of scaling them up quickly if another crisis comes our way. Despite all the challenges and complexities, it is critical to acknowledge that none of this would have been possible in the timescales that were required without the pre-existing infrastructure around the Enterprise Finance Guarantee programme. A key lesson learned is we must continue to maintain guarantee scheme infrastructure so we can react in a similar way in a future crisis. In addition, such active guarantee schemes ensure that lenders retain the required processes and the ability to scale up at pace.

Statement of Truth

I believe that the facts stated in this witness statement are true. I understand that proceedings may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief of its truth.

SIGNED Personal Data

Personal Data

DATED 15 September 2025

Annex 1: Future Fund Data

1 Introduction

499 The Bank holds various types of data for FF, including data in respect of:

- (a) the number of applications made, accepted and rejected;
- (b) the uptake generally for FF, including companies where the Convertible Loan Agreement has converted into equity and those which are no longer trading;
- (c) regional distribution of funds;
- (d) the type and sector of business; and
- (e) diversity of applicants.

500 When FF was open to applications, data on the number of applications was published by HMT on a weekly basis (with the data provided by the Bank) and diversity statistics were published by the Bank on a monthly basis.

501 The Final Data in respect of FF (for example in terms of applications, sector breakdown etc) was published by the Bank on 6 July 2021.
[RB/71 - INQ000593121]

502 Data on the current FF portfolio is published on a quarterly basis and the data included in this statement is for the period ending 31 December 2024 (**December Portfolio**) [RB/136 - INQ000593128].

2 Number of applications

503 There were 1,851 applications for FF which were considered by the Bank. 1,190 of these were successful and 661 were rejected. As mentioned at paragraph 288, the eligibility criteria for FF were treated strictly and as such applications were rejected if they did not meet all eligibility criteria.
[RB/71 - INQ000593121]

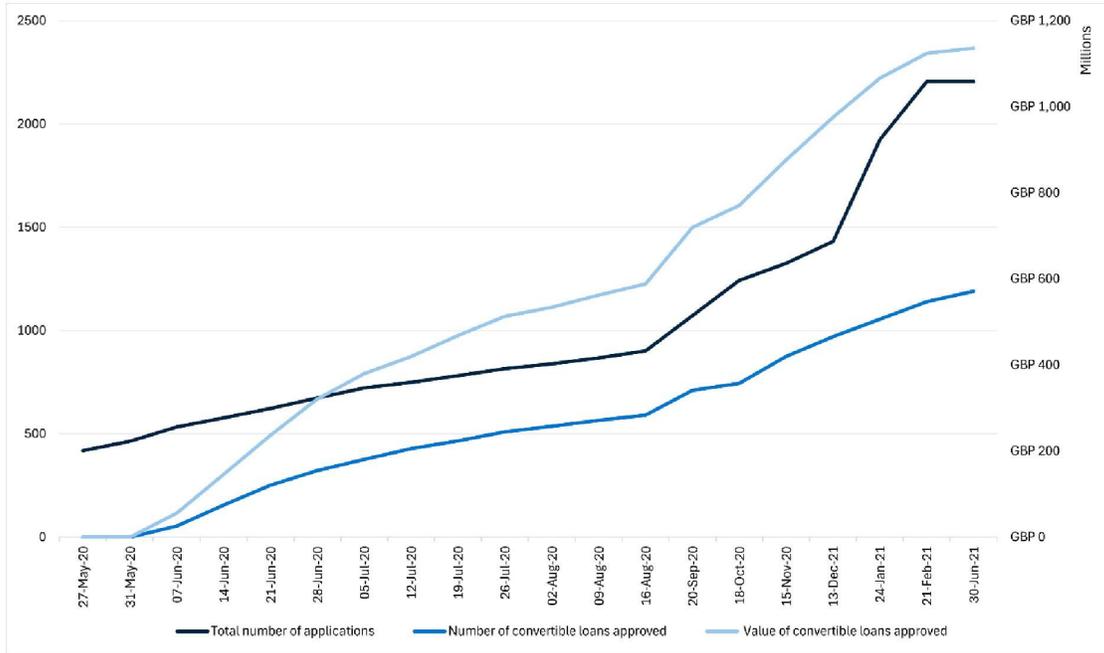
504 There were also a number of applications which were entered into the system but not ultimately considered (**Un-progressed Applications**). For example, this could be because they were:

- (a) duplicates (e.g., an investor had two of the same applications in the system because they made a mistake and started the application again);
- (b) incomplete (e.g., an investor no longer wanted to proceed with the application); or
- (c) the application related to a company which already had another application in the system (as FF operated on a one per investment per company system).

505 Un-progressed Applications were not included in the statistics published by the Bank as the data was intended to capture the number of unique applications considered by the Bank. However, the weekly data published by HMT was not adjusted to account for Un-progressed Applications. [RB/189 - INQ000593150] As such, the number of applications appears slightly higher in the below data.

Data up to close of business	Total number of applications	Number of convertible loans approved	Value of convertible loans approved
27 May 2020	419	n/a	n/a
31 May 2020	464	n/a	n/a
7 June 2020	533	53	£55.9 million
14 June 2020	577	155	£146.0 million
21 June 2020	623	252	£236.2 million
28 June 2020	674	322	£320.6 million
5 July 2020	722	376	£379.9 million

Data up to close of business	Total number of applications	Number of convertible loans approved	Value of convertible loans approved
12 July 2020	750	429	£419.6 million
19 July 2020	781	465	£468.7 million
26 July 2020	816	510	£512.9 million
2 August 2020	839	537	£534.0 million
9 August 2020	868	565	£562.3 million
16 August 2020	902	590	£588.3 million
20 September 2020	1,072	711	£720.0 million
18 October 2020	1,243	745	£770.8 million
15 November 2020	1,325	874	£875.8 million
13 December 2021	1,432	971	£975.5 million
24 January 2021	1,925	1,055	£1,066.6 million
21 February 2021	2,206	1,140	£1,124.3 million
30 June 2021	2,206	1,190	£1,136.7 million



3 General uptake

506 The total amount of the loans was £1,137 million which went to 1,190 companies. However, as of 31 December 2024, the number of FF investments increased from 1,190 to 1,192. This increase was a result of the demerger of two companies.

507 The December Portfolio shows that there are:

- (a) **117 outstanding loans, with an original loan value of £99 million.**

This are the number of FF investments in the form of a Convertible Loan Agreement;

- (b) **680 equity interests, with an original loan value of £689 million.**

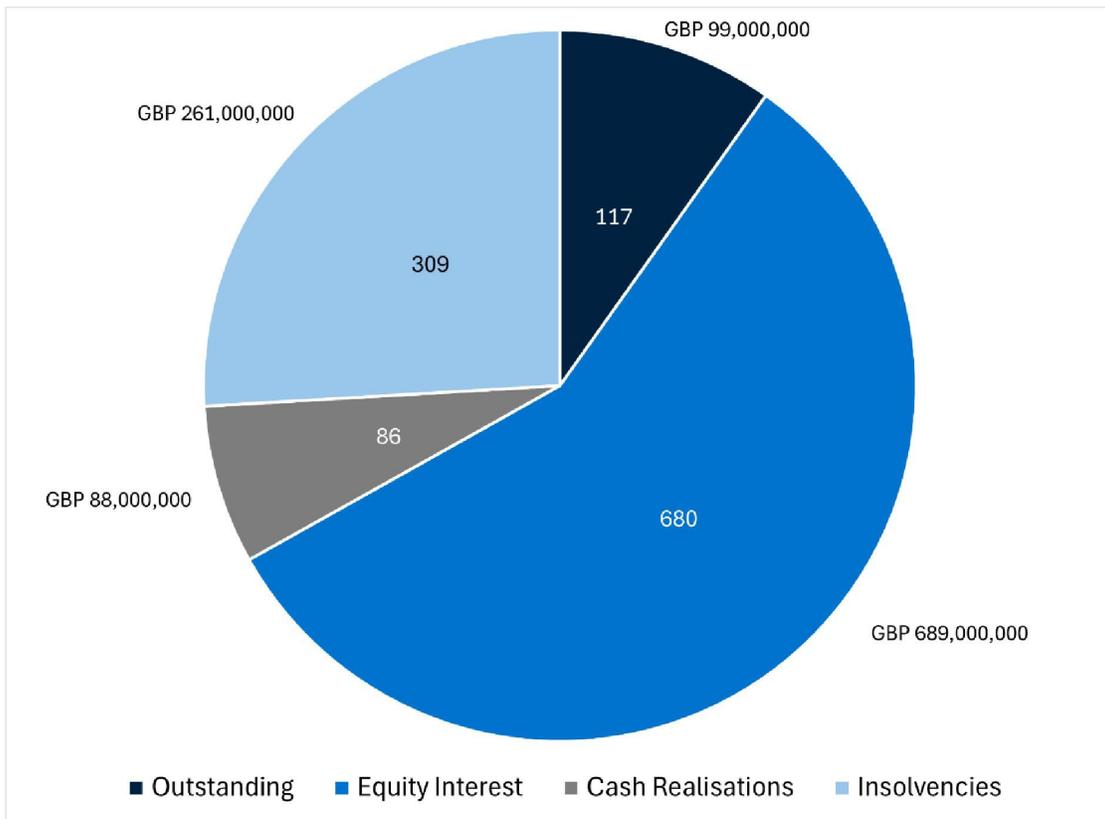
This is the number of FF investments in the form of a share. This arises primarily as a result of a Convertible Loan Agreement converting into shares following a financing event. Equity interests can also arise following sale or an Initial Public Offering in which investors, including UK FF Nominees Ltd, received share consideration in the form of shares in the acquiring entity;

- (c) **86 cash realisations, with an original loan value of £88 million.**

This is the number of FF investments that have been realised for cash

as a result of the company being acquired. Consequently, UK FF Nominees Ltd no longer holds an equity interest or a loan in those companies; and

- (d) **309 insolvencies, with an original loan value of £261 million.** This is the number of FF investments in respect of companies which have entered administration, liquidation or another formal insolvency process as disclosed in Companies House filings.
[RB/190 - INQ000593131]



508 As noted above, following the closure of FF, RSM UK Consulting LLP was commissioned by the Bank to undertake a three-year impact evaluation of FF. The Year 3 report will consider the proportion of successful applications whose businesses remain trading to date. As this report is not yet finalised, the Bank is not yet in a position to provide this information. However, as set out above, the published data for the December Portfolio shows that 309 companies (out of 1192) are no longer trading.

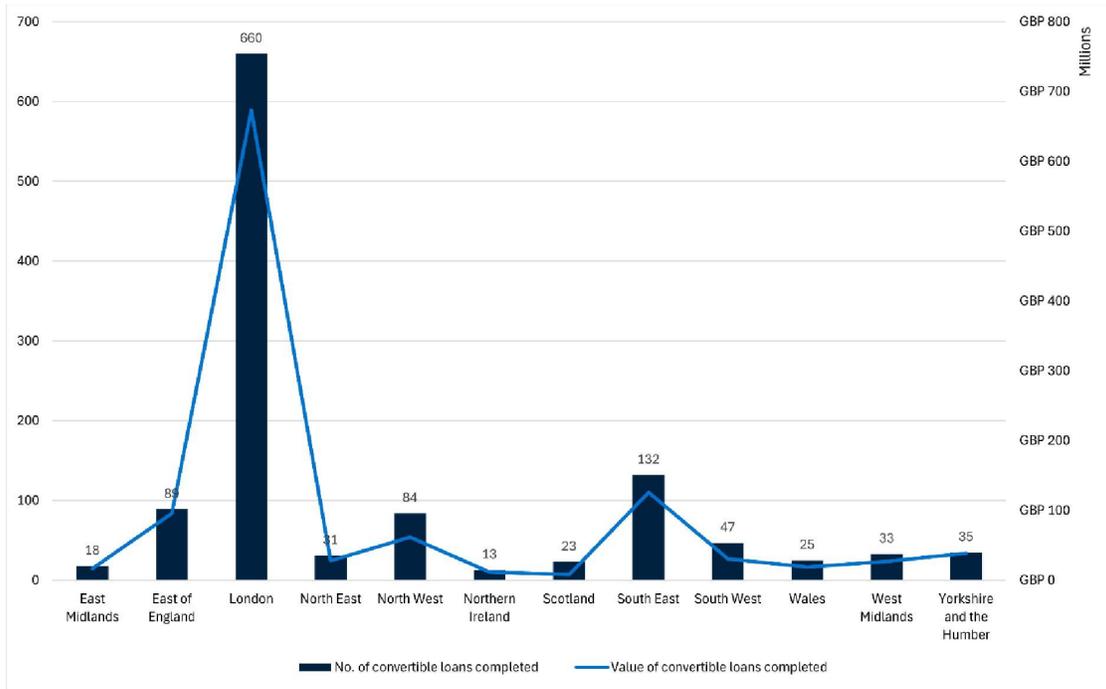
4 Regional distribution of funds

509 FF reached a significant number of businesses in a short space of time. The relatively broad eligibility criteria and rules-based approach for allocating funding meant that the sector and geographic characteristics of the Convertible Loan Agreement funded businesses was largely influenced by wider market trends.

510 The Final Data showed that 41% of funding was to companies with their headquarters located outside of London, with 14% to companies headquartered in the South (South East and South West), 11% in the North (North West, North East and Yorkshire and the Humber), 8% in the East of England, 4% in the Midlands (East Midlands and West Midlands) and 3% in the Devolved Nations (Scotland, Wales and Northern Ireland). London accounted for 59% of companies, in-line with the wider market trends for equity investments. [RB/71 - INQ000593121] This data is set out in more detail in the table and graphs below.

	No. of convertible loans completed	Value of convertible loans completed
East Midlands	18	£17.1 million
East of England	89	£95.7 million
London	660	£673.0 million
North East	31	£28.0 million
North West	84	£61.6 million
Northern Ireland	13	£11.6 million
Scotland	23	£8.3 million
South East	132	£125.7 million
South West	47	£30.8 million
Wales	25	£18.7 million

	No. of convertible loans completed	Value of convertible loans completed
West Midlands	33	£27.2 million
Yorkshire and the Humber	35	£39.0 million
Total	1190	£1,136.7 million

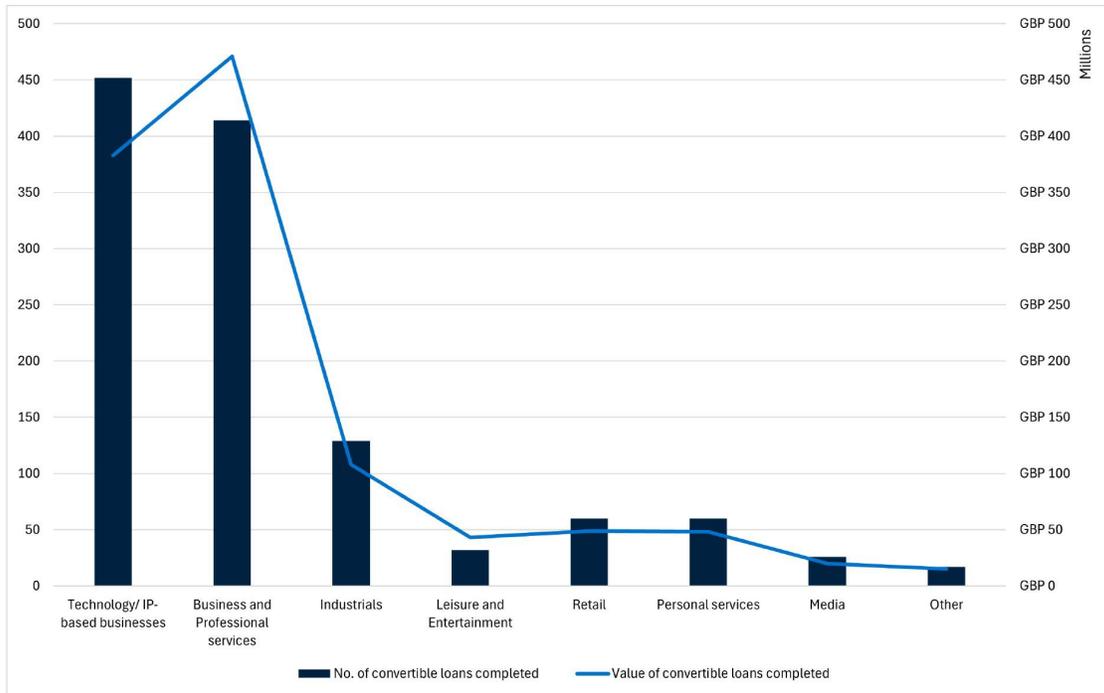


5 Type and sector of business

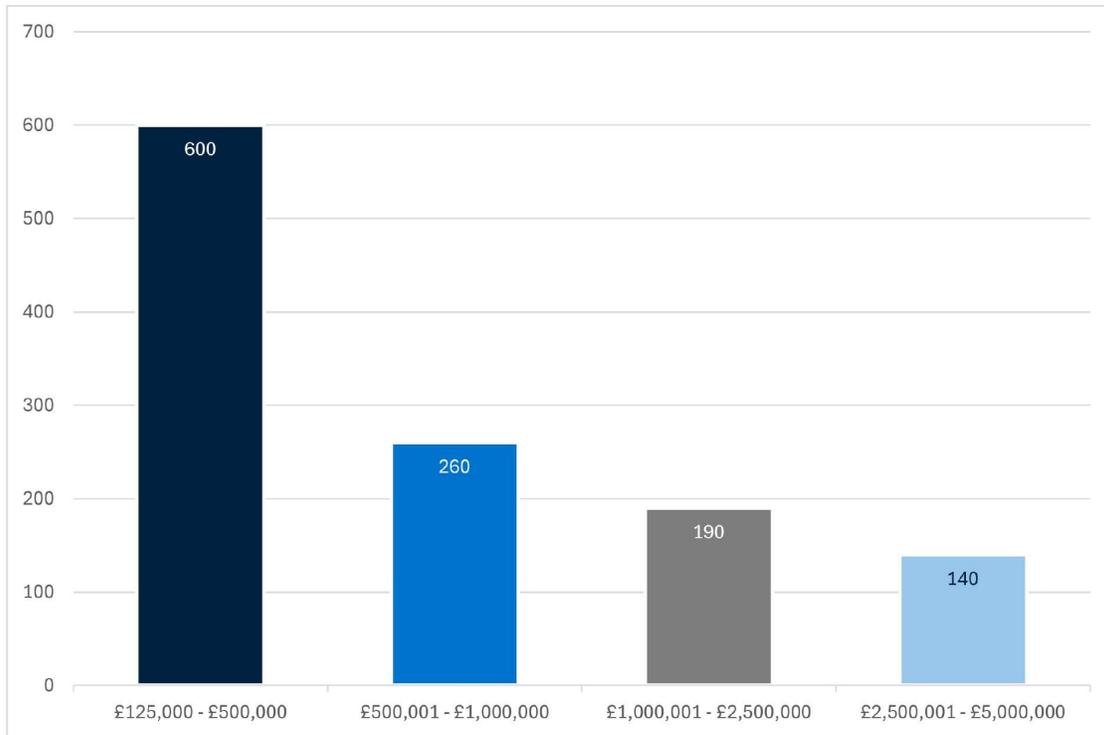
511 The Final Data also showed that 38% of companies were technology and IP-based businesses and 35% were Business and Professional services firms. It also showed that over 50% of Convertible Loan Agreements were

valued between £125,000 and £500,000. [RB/71 - INQ000593121] This data is set out in more detail in the table and graphs below.

Sector	No. of convertible loans completed	Value of convertible loans completed
Technology/ IP-based businesses	452	£382.9 million
Business and Professional services	414	£471.1 million
Industrials	129	£107.9 million
Leisure and Entertainment	32	£43.0 million
Retail	60	£48.7 million
Personal services	60	£48.3 million
Media	26	£19.8 million
Other	17	£15.1 million
Total	1,190	£1,136.7 million



Investment Range	No. of companies
£125,000 - £500,000	600
£500,001 - £1,000,000	260
£1,000,001 - £2,500,00	190
£2,500,001 - £5,000,000	140
Total	1,190

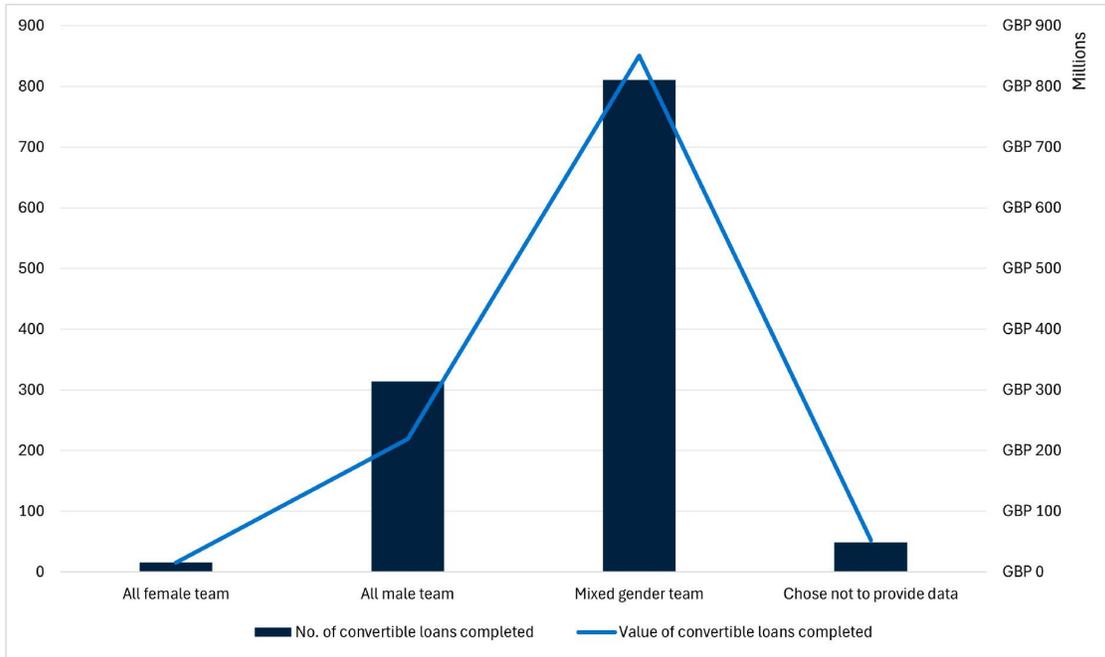


6 Diversity

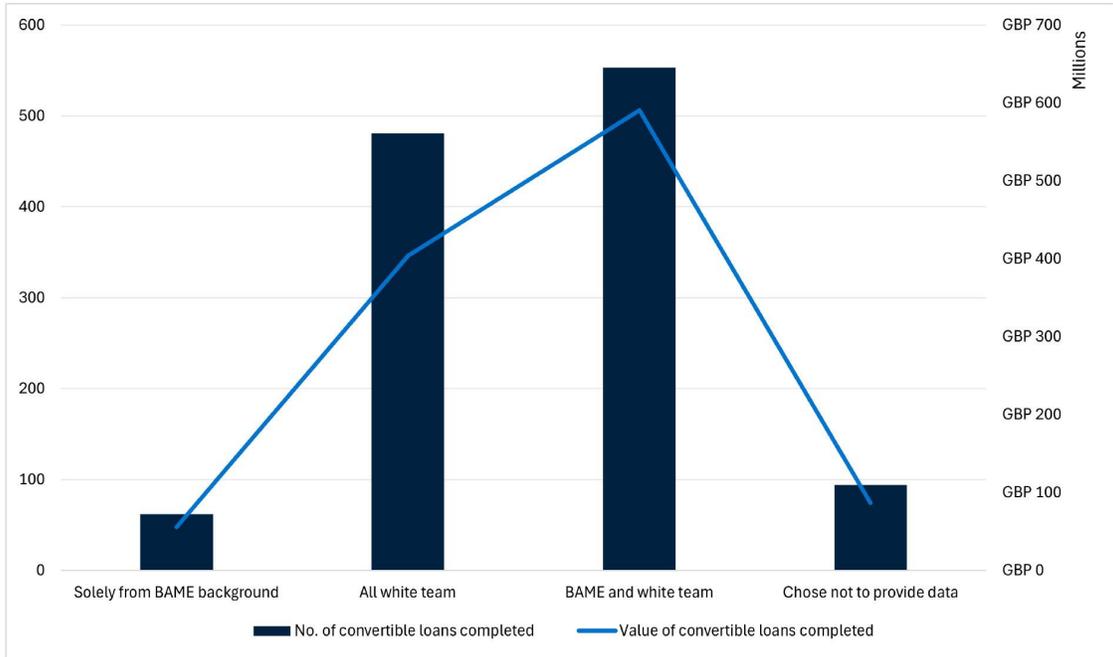
512 The Final Data showed that 78% of funding was to companies with mixed gender senior management teams and that 61.6% of funding (worth £646.5 million) was to mixed ethnicity (or solely BAME) senior management teams. Additionally, as a consequence of FF, 31 Venture Capital firms and angel groups became signatories to the Government's Investing in Women Code. [RB/71 - INQ000593121] This data (self-reported by the applicant) is set out in more detail in the table and graphs below.

Management Team	No. of convertible loans completed	Value of convertible loans completed
All female team	16	£15.1 million
All male team	314	£219.1 million
Mixed gender team	811	£850.2 million

Management Team	No. of convertible loans completed	Value of convertible loans completed
Chose not to provide data	49	£52.2 million
Total	1190	£1,136.7 million



Management Team	No. of convertible loans completed	Value of convertible loans completed
Solely from BAME background	62	£55.7 million
All white team	481	£403.7 million
BAME and white team	553	£590.8 million
Chose not to provide data	94	£86.5 million
Total	1190	£1,136.7 million



Annex 2: Costs of Covid Response Schemes general information

- 513 The published data for the Guarantee Schemes (referred to in Annex 1 in Reinald de Monchy's statement) set out the level of money drawn, repaid, in arrears and defaulted for BBLs, CBILs, CLBILs and RLS. It also sets out the amounts settled in respect of the covid loans guarantees. Similarly, Annex 1 in my statement sets out the amount of Government funding provided as part of FF.
- 514 The London Economics Year 3 evaluation (to be published in April 2025) will set out overall costs of the CBILs, CLBILs and BBLs schemes, based on six factors, including unrecovered loans (working on estimated failure and fraud rates), opportunity cost of capital, lender administration costs, one off application costs (for borrowers), ongoing costs for borrowers, and Bank administration costs only (excluding the Government departments). FF and RLS will address this issue in their Third Year evaluations expected in Spring/Summer 2025 and 2026 respectively.
- 515 The Bank's pandemic scheme direct expenditure is set out in its Annual Reports and Accounts which are published on the website each year. Together with the total number of staff employed, the figures are as follows:

Annual Reports and Accounts year	Total Number of staff	Service fee for Covid Loan Schemes
19/20	Payroll 346, seconded/agency 4	None
20/21	Payroll 391, seconded/agency 6	Direct expenditure £50.574 million staff costs £7.150 million and direct operating expenditure £43.424 million

Annual Reports and Accounts year	Total Number of staff	Service fee for Covid Loan Schemes
21/22	Payroll 508, secondes/agency 30	Direct expenditure £49.149 million staff costs £2.722 million and direct operating expenditure £46.149 million
22/23	Payroll 562, secondes/agency 39	Direct expenditure £42.966 million staff costs £9.684 million and direct operating expenditure £33.282 million
23/24	Payroll 588, secondes/agency 27	Direct expenditure £35.530 million staff costs £12.004 million and direct operating expenditure £23.526 million