Witness Name: REINALD DE MONCHY

Statement No: FIRST

Exhibits: RDM/1 – RDM/400

Dated: 15 September 2025

UK COVID-19 INQUIRY

WITNESS STATEMENT OF:

REINALD DE MONCHY

Co-Chief Banking Officer, Products

British Business Bank PLC

UK COVID-19 PUBLIC INQUIRY

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

BRITISH BUSINESS BANK PLC

Contents

WITNESS STATEMENT OF REINALD DE MONCHY

1 I, Reinald de Monchy, Co-Chief Banking Officer, Products [1], of British Business Bank PLC (**the Bank**) make this statement in response to the request from the UK Covid-19 Public Inquiry (**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 at the Bank. I have been in that position since November 2024. This role oversees the Banking Products function, which designs, executes and manages wholesale lending products. We transact with banks and non-banks to help them increase their Small and Medium Enterprise lending activities. Our products include various types of guarantees and funding facilities as well as the Start Up Loans programme. I joined the Bank prior to inception to set up Wholesale Solutions, which later became Guarantee and Wholesale Solutions. This included the ENABLE programmes as well as the direct guarantee initiatives such as the Enterprise Finance Guarantee scheme, Coronavirus Business Interruption Loan Scheme (**CBILS**) and Coronavirus Large Business Interruption Loan Scheme (**CLBILS**) which were then followed by Recovery Loan Scheme (**RLS**) and the Growth Guarantee Scheme. Before joining the Bank, I was an Executive Director of the Shareholder Executive at the Department for Business, Innovation and Skills from July 2013 to November 2014 where I worked on the Business Bank project.

3 Prior to joining the Business Bank programme team in 2013, I was Head of Small and Medium Enterprise, Corporate and Leveraged Loan Securitisation at Lloyds Bank and had 15 years' experience securitising a wide variety of asset classes including Small and Medium Enterprise Loans and Leveraged Finance. Before joining Lloyds, I worked for MeesPierson (later merged and renamed Fortis Bank and now part of ABN Amro Bank) and Rabobank in a range of securitisation, loan syndication and interest rate derivatives trading roles.

[1] As of July 2025, my role changed to Chief Banking Officer but the responsibilities remain the same as set out in paragraph 2.

4 In order to address the topics raised by the Rule 9 Request, the Bank has identified two witnesses - me and Richard Bearman, Co-Chief Banking Officer, Relationship Management, of the Bank. I set out below the sections that will be covered in this statement, the remaining sections will be covered in the witness statement of Richard Bearman.

5 Whilst I make this statement on behalf of the Bank, I do not have first-hand knowledge of all of the matters covered in this statement. I therefore rely on information provided by other individuals involved in the delivery of the five Covid-19 schemes covered by the Rule 9 Request (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 privilege in relation to such advice and therefore any documents containing such advice are not referred to in this statement.

SCOPE OF THIS STATEMENT

6 This statement will respond to the following sections of the Rule 9 Request and is structured as follows:

(a) Part A - Bank's role and function and economic response to pandemic

(b) Part B Coronavirus Business Interruption Loan Scheme (**CBILS**)

(c) Part C Coronavirus Large Business Interruption Loan Scheme (**CLBILS**)

(d) Part D Recovery Loan Scheme (**RLS**)

(e) Part E Accreditation of delivery partners

(f) Part F Monitoring of Support

(g) Part G Communications

(h) Annex 1 Scheme data

REFLECTIONS

7 Much of this statement describes the interactions between the Bank and different departments in HM Government (**the Government**), especially those which took place during the early days of the COVID-19 pandemic guarantee response. It also provides detail around the internal governance and high-level policy decisions that had to be taken during a very short period of time. A point one cannot highlight enough, at least in my opinion, is the speed at which decisions had to be taken and processes had to be implemented. For example, CBILS was launched in just a few weeks during which little time was available for detailed economic assessments of the potential impacts on the economy and corresponding risks. For the Bank, this was amplified by the speed at which changes to the planned schemes were made and announced.

8 One area which is perhaps less emphasised in this statement is the impact this had on the Bank and lenders in terms of operationalising the schemes and their employees. There were many practical issues which understandably would not have been the primary focus of policy makers. These included

systems and processes, speed of accrediting lenders and the time it took to get the schemes operational at such short notice.

9 At the start of the pandemic, our systems and processes were not built for the scale of the guarantee schemes we were about to launch. CBILS and later CLBILS and BBLS were launched on what was effectively the Enterprise Finance Guarantee system. The latter was designed to manage several thousands of guaranteed facilities per year, but not a million plus. For example, the amount of data lenders had to provide for Enterprise Finance Guarantee was a fraction of the data required for the guarantee schemes. Neither the Bank's nor most delivery partners' systems were set up for a massive increase both in amount and complexity. Also, Enterprise Finance Guarantee was only one of the schemes my team was running next to other initiatives such as the ENABLE Funding programme. The launch of the guarantee schemes meant that almost everything else had to be run on a minimum and that colleagues from different areas of the Bank were pulled in to help out in areas including Legal, other Product areas, Policy, IT, etc.

10 One of the important processes was the accreditation of delivery partners at pace, as well as supporting them joining the guarantee schemes after we provided the green light. The delivery partners understandably had numerous urgent questions in a wide range of areas as they were very nervous of misinterpreting the scheme in areas such as eligibility. They also had many legal, operational and systems questions and issues which needed urgent answers from our teams. These conversations did help us to have a grasp of the issues which allowed us to feed back to the Government. The Bank had to ensure that all delivery partners understood and followed the scheme rules. This included, for instance, obtaining evidence that all the lenders passed on the benefit of the guarantee to the borrowers (which was a key requirement). Doing this via an audit would have been too late so we created pricing matrices which lenders had to fill in and which we challenged where necessary.

11 Many lenders beyond those who participated in Enterprise Finance Guarantee wanted to join the scheme immediately because the Government had decided that it would pay the first year of interest and fees for borrowers under CBILS. We accredited more than a hundred for CBILS, but we had to turn down many others for various reasons. This resulted sometimes in very

strong reactions towards the Bank. We also had to make sure that for some lenders, protections for the borrowers and the guarantor were put in place in case the lender failed. This included requiring ring fenced Special Purpose Vehicles to hold the guaranteed facilities and for some lenders to put in place back-up servicers. Fortunately, we did have experience in my team but did not have the capacity to deal with so many cases which is why we had to obtain help from other teams in the Bank and hire external support to deal with the sheer amount of work. All of this had to be done at pace.

12 The points above highlight just some of the numerous practical issues that had to be dealt with while the terms of the scheme were still in flux and new schemes were being launched.

13 Understandably, during the early days there was criticism, including from the media, on the speed at which the Schemes were established and funding was made available. This was then followed by a short period of positive news as lenders became operational, which was then followed by negative stories about misuse of the guarantee schemes and how things could have been done differently. The Bank reflects on how things could have been done differently in the section on Lessons Learned in Richard Bearman's statement, however we should not forget the pace at which we had to move with very limited resources.

14 During these first months, like many people across the Government, the NHS and in other sectors, many colleagues were working seven days a week from early mornings to late evenings. We had significant key personnel risks and one of my worries was the impact it would have if one or more of them became ill, not only because of the pandemic but simply because colleagues were exhausted. It was therefore a great relief when my colleague, Richard Bearman, was able to take on the launch and implementation of BBLS as it would have been impossible to add this on top of CBILS and CLBILS.

15 Looking back on the early days of the crisis, I do think that we could have done things better in terms of preparing the organisation for a crisis such as this one. We now have the infrastructure in place to deal with a crisis much better than we did in February 2020. We currently run the Growth Guarantee Scheme and other guarantees on a scalable platform. As such, it is essential

that we keep our current guarantee schemes 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.

Part A: Introduction, Co-operation and Joint Working and Economic Policy

1 Introduction

16 The Bank is an economic development bank that was established in 2014 in response to the Breedon Review, which looked at the financing of Small and Medium Enterprises in the UK. [RDM/1 - INQ000593107]

17 The Bank consists of British Business Bank PLC which is the holding company of the Bank's various operating subsidiaries. Its principal operating subsidiaries are set out below in paragraph 40. The Bank's headquarters are in Sheffield and the Bank has a London office. The Bank currently employs around 600 people compared to 250 at the start of the pandemic.

18 British Business Bank PLC is wholly owned by the Secretary of State for the Department for Business and Trade of the UK Government (the **Shareholder**) and, before February 2023, was owned by Secretary of State for the Department for Business, Energy and Industrial Strategy and, before 13 July 2016, was owned by the Secretary of State for the Department for Business, Innovation and Skills. The relationship between the Bank and Department for Business and Trade is governed by a Shareholder Relationship Framework Document (**Shareholder Framework)**. This was entered into between British Business Bank PLC and the Department for Business, Innovation and Skills when the Bank was set up in November 2014. It was subsequently updated in 2018 and December 2022.[2] [RDM/2 - INQ000593113] The Bank has an independent Board (**the Board**) which includes a member of UK Government Investments as the Shareholder representative. UK Government Investments support the Government's effective ownership of its Arm's Length Bodies, enhancing Departments' ability to effectively discharge their responsibilities in relation to their Arm's Length Bodies and promoting those assets' successful organisational performance. The Bank is classified as a Central Government body by Office

[2] References to the Shareholder Relationship Framework Document in this statement are to the 2022 version.

for National Statistics and is an Arm's Length Body in view of its separate legal personality to Department for Business and Trade and operational independence.

19 During the pandemic, the Bank delivered the Schemes on behalf of the Government and, in particular, the Secretary of State for the Department for Business, Energy and Industrial Strategy. The functions related to these schemes were transferred to Department for Business and Trade in February 2023 in accordance with the Transfer of Functions Order 2023 (SI 2023/424).[3] The schemes were:

(a) CBILS – announced on 11 March 2020 and launched on 23 March 2020;

(b) CLBILS – announced on 2 April 2020 and launched on 20 April 2020;

(c) Bounce Back Loan Scheme (**BBLS**) – announced on 27 April 2020 and launched on 4 May 2020;

(d) Future Fund (**FF**) – announced on 20 April 2020 and launched on 20 May 2020; and

(e) RLS – announced on 3 March 2021 and launched on 6 April 2021.

20 With the exception of FF, all the schemes were loan guarantee schemes. These are referred to as the **Guarantee Schemes** in my statement. FF involved the issuance of convertible loans notes as described in Richard Bearman's statement.

2 Executive Summary

21 One of the strategic objectives of the Bank in 2020 was to be the centre of expertise for smaller business finance in the UK, providing advice and support for HMG. During the design and delivery of the Schemes, the Bank provided its expertise on the smaller business financing market to the Government. CLBILS fell outside the Bank's usual remit as it concerned the provision of

[3] The Secretaries of State for Energy Security and Net Zero, for Science, Innovation and Technology, for Business and Trade, and for Culture, Media and Sport and the Transfer of Functions (National Security and Investment Act 2021 etc) Order 2023.

finance to larger businesses. However, its delivery was permissible under the Bank's articles of association.

22 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 advice given in relation to the Guarantee Schemes, details of key meetings, and governance within the Bank during and after the pandemic are described in detail below. The use of "*advice*" in this statement means the views / expertise provided by the Bank to Government colleagues unless otherwise stated.

23 The Schemes themselves were, and continue to be, administered through the Service Arm of the Bank (see paragraphs 45 and 55) which holds relevant data, makes or directs appropriate payments, and exercises certain rights (each as required on behalf of the Government), supported by teams from across the Bank.

24 At the close of the schemes, CBILS, CLBILS, BBLS and FF had delivered £80.4 billion of finance to 1.67 million businesses – more than a quarter of the UK's business population at the time of the pandemic. CBILS supported almost 110,000 loans worth £26.4 billion. CLBILS supported more than 750 loans worth almost £5.6 billion. BBLS provided 1.56 million loans worth more than £47 billion. FF issued 1,190 companies with convertible loans worth £1.14 billion in total. The published Bank data at the end of December 2024 shows those schemes delivered £78.03 billion of finance to around 1.63 million businesses. The difference in data is due to the adjustments over time, for example the demerger of companies within FF or data corrections on the Guarantee Schemes.

25 The CBILS, CLBILS and BBLS Year 3 Evaluation (the third report of the multi-year evaluation of CBILS, CLBILS and BBLS) was published in May 2025. [RDM/388A – INQ000609061]. This finds that hundreds of thousands of businesses could have closed between March 2020 and December 2020, accounting for up to 3.5 million jobs, without the lending guaranteed under CBILS, CLBILS and BBLS. Further, the report finds that CBILS, CLBILS and BBLS resulted in tens of billions of additional Gross Value Added in the UK economy, with an estimated range of between £27 billion to £77 billion in total. It also finds that the benefits of CBILS, CBILS and BBLS outweigh their costs.

3 The Bank

26 The Bank's current mission is to drive sustainable growth and prosperity across the UK and to enable the transition to a net zero economy, by improving access to finance for smaller businesses. Its remit is to design, deliver and manage access to finance programmes for smaller business across the UK that address gaps in the market. As well as increasing the supply and diversity of finance, the Bank raises awareness of the finance options available and works through more than 200 delivery partners which then engage with smaller businesses.

27 The Bank works closely with the finance sector and other participants in the market to make finance markets work better - so businesses in the UK can start, scale and stay in the UK. The Bank provides improved access to financing, supplies useful information and tools, and builds strong regional networks – to enable the success of tens of thousands of smaller businesses across the UK.

28 The Bank's strategic objectives are:

(a) driving sustainable growth: ensuring smaller businesses can access the right type of finance they need to start, survive and grow;

(b) backing innovation: ensuring innovative businesses can access the right capital to start and scale;

(c) unlocking potential: unlocking growth by ensuring entrepreneurs can access the finance they need regardless of where and who they are; and

(d) building the modern, green economy: financing groundbreaking solutions to climate change and helping smaller businesses transition to net zero so they thrive in a green future.

29 The activities of the Bank are set by the Board within the parameters set by its articles of association, the Shareholder Framework, a financial framework agreed between the Government and the Bank, financial authorities set out in financial delegation letters from Department for Business and Trade and the joint working protocol. The Executive has day-to-day responsibility for the delivery of these activities and is responsible for all decision making, unless a matter is reserved to the Board (under the schedule of matters reserved to the board) and/or the Shareholder under the Shareholder Framework or the financial delegations.

30 The Bank generally does not lend directly to smaller businesses, but instead works through over 200 delivery partners. The Bank does invest directly in businesses through its direct investment and co-investment programmes, as well as indirectly through funds. At the time of the pandemic, it delivered the majority of its funding to smaller businesses through third parties, including banks, non-bank financial institutions and fund managers. These are termed "delivery partners" or lenders. Generally speaking, these delivery partners apply for funding through the Bank's programmes and then use that funding to invest in or lend to smaller businesses. In the case of the Start Up Loans programme, it contracts with a finance partner which makes personal loans to entrepreneurs for business purposes.

4 Key People

31 Lord Smith of Kelvin was the Chair of the Board between 1 January 2020 and 28 June 2022. Irene Adams was a Special Adviser to the Chair during that time. Neeta Atkar was a Senior Independent Non-executive Director and was the Non-executive Chair of the Risk Committee throughout the period. Jonathan Britton was the Chair of the Board Audit Committee and a member of the Board Risk Committee until July 2021. Jenny Knott was appointed in

December 2020 and became Chair of the Board Audit Committee in December 2020. In addition, throughout the period, the Board comprised Piers Linney (until September 2021), Nathaniel Sloane (from March 2020), Dharmash Mistry (until April 2022), Barbara Anderson (from October 2021 and Chair of the Remuneration Committee) and Amanda Rendle (until September 2021) as Non-executive Directors. James Connelly was appointed in January 2022, and Matthew Elderfield and Eilish Jamieson were appointed in November 2022.

32 Ceri Smith was the UK Government Investments representative Non-executive Director on the Board until James Carter took over that role on 19 April 2021 and he stayed in post until after June 2022.

33 Keith Morgan was the Bank's Chief Executive Officer between January 2020 and August 2020 and provided transitional support until December 2020. Catherine Lewis La Torre was the Chief Executive Officer of British Patient Capital Limited and British Business Investments Limited between January 2020 and the end of August 2020, when she became the Chief Executive Officer of the Bank. She held that role until September 2022. The Chief Executive Officer is an Executive Director of the Bank.

34 Patrick Magee was Chief Commercial Officer and an Executive Director of the Bank until June 2022.

35 Shanika Amarasekara was the General Counsel until February 2021, when Elizabeth O'Neil took on that role. Shanika Amarasekara then took on the role of Chief Impact Officer until she left the Bank in July 2023. The General Counsel is an Executive Director of the Bank.

36 Between 1 January 2020 and 31 March 2020, Christopher Fox was the Chief Financial Officer and was then replaced by Philip Piers who remained in post until December 2022.

37 Helen Norris was the Chief People Officer until 31 December 2021 and thereafter Lauren Hickey became the interim head of Human Resources.

38 In addition to those listed above, the following people and posts at the Bank's Executive Committee level were held, throughout the relevant period from January 2020 to June 2022:

(a) Angelene Woodland - Chief Marketing Officer;

(b) Edward O'Hara - Chief Risk Officer; and

(c) Paddy Lye - Chief Operating Officer.

39 I was the Managing Director of the Guarantee and Wholesale Solutions team and led on CBILS, CLBILS and RLS. Richard Bearman was the Managing Director of Start Up Loans and then Small Business Lending and led on BBLS. Patrick Magee was the Senior Responsible Officer for all of the Guarantee Schemes and as such had the overall lead on all guarantee initiatives.

5 Legal Structure and Regulation

40 British Business Bank PLC is a public limited company registered in England and Wales with registration number 08616013, registered office at Steel City House, West Street, Sheffield, S1 2GQ. British Business Bank PLC is the holding company of a group of companies that comprise the Bank. The Bank's current principal operating subsidiaries are [RDM/3 - INQ000609059]:

(a) British Patient Capital Limited ;

(b) British Business Investments Limited ;

(c) Nations and Regions Investments Limited;

(d) BBB Patient Capital Advisory Services Limited (now referred to as BBB Investment Services Ltd);

(e) British Business Finance Limited;

(f) The Start-up Loans Company; and

(g) British Business Financial Services Limited.

41 The Bank entities are not banking institutions and do not operate as such. Accordingly, and at all relevant times for the purposes of this statement, none

of the Bank entities were authorised by the Financial Conduct Authority or the Prudential Regulation Authority for the purposes of conducting regulated activities under the Financial Services and Markets Act 2000.

42 However, some of the Bank's subsidiaries are within scope of supervision under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 (as amended) (**Money Laundering Regulations**) and are registered with the Financial Conduct Authority accordingly.

43 For the purposes of this statement, the only relevant entity which is registered under the Money Laundering Regulations is UK FF Nominees Limited. UK FF Nominees Limited is the entity which issued convertible loans to private companies under FF. In doing so, UK FF Nominees Limited activities fall under the definition of an "Annex 1 Financial Institution" under the Money Laundering Regulations, and it is registered with the Financial Conduct Authority for supervision under the Money Laundering Regulations. British Business Financial Services Limited acting as Managing Agent on behalf of UK FF Nominees Limited, is responsible for implementing the Anti-Money Laundering Framework (Policy, Controls and Procedures) within which FF operates.

44 British Business Bank PLC houses the shared services, including functions such as Finance, HR, IT, Risk and Compliance, Legal and Governance (Non-executive Directors and meetings) and Commercial and Procurement. It directly employs all staff in the Bank (other than those employed by The Start-up Loans Company). It does not provide products or services to third parties. British Business Bank PLC also houses the Board whose members are the same across British Business Bank PLC, British Business Finance Limited and British Business Financial Services Limited. The Board sets the strategy for these companies and also confirms the Commercial Arm strategy.

(i) The Bank's operational structure

45 The Shareholder Framework sets out the common strategic framework for the Bank which is organised into three "arms". Each operating subsidiary operates one or more programmes. Each programme is designed to address a market gap or failure. The Bank was originally designed in this way to

comply with the then State aid framework and currently the Subsidy Control principles following European Union (**EU**) Exit.

(a) The **Commercial Arm** (which is made up of three operating companies, British Business Investments Limited, British Patient Capital Limited and Nations and Regions Investments Limited and a service company, BBB Investment Services Limited (formerly BBB Patient Capital Advisory Services Limited. The shares in all these companies are held by British Patient Capital Holdings Limited. British Patient Capital Holdings Limited does not operate any programmes. The Commercial Arm makes commercial investments into private companies;

(b) The **Mandated Arm** (which is made up of British Business Finance Limited and its various subsidiaries including The Start-up Loans Company). The Mandated Arm has a more policy driven focus and can make both commercial and subsidised investments (although where it makes commercial investments certain additional restrictions apply); and

(c) The **Service Arm** (which is made up of British Business Financial Services Limited). The Service Arm provides services to the Government (principally Department for Business and Trade) - by administering certain programmes that sit on the Government's balance sheet (for example the Schemes).

46 The programmes delivered by the Commercial and Mandated Arms sit on the Bank's balance sheet. The Commercial and Mandated arms were not involved in the Schemes.

47 The Shareholder Framework Company Operational Independence Undertaking (Annex 1 paragraph 2) sets out the circumstances when the Principal Accounting Officer of the Department for Business and Trade can instruct or direct the Bank's Service Arm to undertake certain activities on its behalf and the process that needs to be undertaken to do so.

48 Where an instruction is issued to the Service Arm, the Board, acting through the Chief Executive Officer and taking into account any Ministerial Direction that has been issued, may issue a Reservation Notice if they reasonably

believe carrying out that instruction would or may require undertaking an action that would broadly:

(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 is unethical;

(d) be contrary to the Bank's objects or those of any member of the group or would result in the Affected Company being in breach of its objects;

(e) be contrary to the Overarching Purposes;

(f) result in the directors of the Bank or any relevant Affected Company being in breach of their legal duties to the relevant company; and/or

(g) not be in the best interests of the Bank or any relevant Affected Company for any other material and demonstrable reason.

49 On receipt of a Reservation Notice, the Shareholder (or their delegate) will provide a written direction to proceed if that is the decision made. Where the specific details of an instruction are modified, a further instruction is required.

50 The Government instructed the Bank to implement CBILS, CLBILS and RLS and directed the Bank to implement BBLS and FF in accordance with the Shareholder Framework. The Bank has continued to administer the Schemes since their closure, has produced data on the Schemes which has been published, and has engaged with the Government in activities related the Schemes e.g., audit and assurance of the lenders, recoveries and enforcement actions.

6 Relationship with the Government

51 As noted above, the Bank entered into the Shareholder Framework in 2014 (which was subsequently amended in 2022). This sets out the broad parameters and common strategic framework within which the Bank and the Shareholder work. [RDM/2 - INQ000593113] The overarching purposes are supplemented through the five-year business plan reviewed by the Board annually and approved by the Shareholder. The Financial section of the Shareholder Framework sets out a number of high-level principles that enable

the Bank to manage its business and to recognise its need for operational independence.

52 The Bank (on behalf of itself and its group) has agreed in the Shareholder Framework at Annex 2 to comply with certain Government-wide corporate guidance and instructions, including Managing Public Money.

53 Paragraph 5.3 of the current Shareholder Framework also sets out that the primary contact for the Bank will be UK Government Investments but that the Bank is expected to maintain close working relationships with Department for Business and Trade officials for example in policy, finance and corporate governance areas.

54 There is no formal direct engagement by the Bank with the devolved nations in Scotland, Wales and Northern Ireland (**Devolved Nations**). However, the Bank does engage across all regions of the UK as part of its activities, especially with similar organisations and stakeholders to ensure that schemes are complementary. For example, there was close liaison with Scottish Enterprise, Scottish National Investment Bank, Invest Northern Ireland and the Development Bank of Wales, which continued throughout the pandemic and beyond, by the Chair and senior members of the Bank.

55 The Bank administers programmes on behalf of the Department for Business and Trade and other Government departments through the Service Arm under the terms of various servicing agreements and other delegation agreements. The risks and budgets for the programmes administered through the Service Arm remain on the Government's balance sheet, and ultimate decision-making rests with the government department that is the principal for the particular service under various services deeds. The Service Arm receives fees under the services deeds and other delegation arrangements it has entered into with relevant Government departments to enable it to meet the running costs it incurs providing services to the Government.

56 The Service Agreement between British Business Bank PLC, British Business Financial Services Limited and the SoS agreement was signed in 2014. The Service Agreement contains "*Programme Information Sheets*" which, reflect the core terms and responsibilities set out in the instructions and written directions for the Guarantee Schemes, set out in broad terms the nature of

the Guarantee Schemes and the limits of the Bank's discretion in relation to them. The Programme information sheets for CBILS, CLBILS, BBLS and RLS are produced at RDM/5A – INQ000595002, RDM/5B – INQ000595001, RDM/5C – INQ000595000and RDM/5D – INQ000594999. There was no programme information sheet for FF as the delegations from the Department for Business and Trade in relation to this scheme were set out under a separate deed of delegation.

57 Under the Shareholder Framework, a joint working protocol was agreed in 2014 which set out the detailed working relationship between the Department for Business and Trade and the Bank. It remains valid and, in broad terms, sets out when and how the Bank's expertise can be drawn upon by the Department for Business and Trade, whilst respecting the Bank's operational independence. It identifies five areas of common interest where policy coordination is required:

(a) access to finance policy, for example banking conduct, regulation and competition;

(b) local access to finance, for example implementation of schemes developed by Devolved Nations;

(c) analysis and data including coordination of data collection and research;

(d) State aid issues / subsidy control issues; and

(e) communication and briefing of Ministers.

58 In accordance with the protocol, under each of those headings, in broad terms, the Bank, Department for Business and Trade Policy and Finance teams, and Shareholder teams coordinate their work in areas of common interest. For example, the Department for Business and Trade Policy team will coordinate requests for the Bank to conduct specific research and evaluation of potential products, and the Bank will decide whether it can take forward those requests in the light of resources, relevant framework documents and independence principles. As noted in the introduction, the Department for Business and Trade policy team will lead on advice to Ministers and work closely with the Bank to ensure advice is fully informed.

59 The protocol also sets out potential mechanisms for effective coordination, including stakeholder and senior official engagement, and regular policy working group meetings.

7 Relationship with Other Bodies

60 The Bank engages with other Government departments and Arm's Length Bodies on a regular basis. For example, in 2018, the Bank launched the National Security Strategic Investment Fund, a joint initiative between the Bank and the Government, to support development of advanced - dual-use technologies. Another example is in 2019, following an announcement by the then Chancellor, Rishi Sunak (**Chancellor**) in the budget in Autum 2018, the Bank launched the ENABLE Build programme which it operates on behalf of the Secretary of State for Housing, Communities and Local Government. The guarantee covers a proportion of losses on a portfolio of primarily development finance facilities made to Small and Medium Enterprise house builders.

61 The Bank, as it is not regulated, does not generally engage with regulators such as the Prudential Regulation Authority, Bank of England or the Financial Conduct Authority. Any engagement tends to be on specific issues, for example there were regular meetings with the Financial Conduct Authority in relation to BBLS dealing with, for example, Consumer Credit Act 1974 and lender standards of care in relation to recoveries, led by Richard Bearman. Another example is the engagement with the Prudential Regulation Authority, facilitated by HM Treasury (**HMT**), in relation to the regulatory capital treatment of the Guarantee Schemes, and the publication of the Prudential Regulation Authority statement in relation to the schemes.

8 Pre-pandemic Governance

62 Prior to the pandemic, the Bank employed about 250 people. The Bank's staff were usually office based, although some were well equipped to work remotely as many teams were split across both office locations. The Bank had been through periods of steady growth as an organisation, moving from a start-up to a scale-up phase before the pandemic.

63 The boards of the Bank, British Patient Capital Limited and British Business Investments Limited had a mix of Executive and Non-executive Directors. The

Board had a Shareholder representative from UK Government Investments. The Executive Committee individuals in attendance were British Business Bank PLC Chief Executive Officer; Chief Finance Officer; Chief Operating Officer; Chief Commercial Officer; Chief Risk Officer and General Counsel. The Non-executives were directors who are not employees of the Bank. The boards met four times a year as a group and separately at least twice a year. [RDM/4 - INQ000595003]

64 The Board had four subcommittees which are now named:

(a) Audit Committee – to oversee financial decision-making and controls;

(b) Risk Committee – to oversee risk framework and controls;

(c) Remuneration Committee – to ensure directors' remuneration is aligned with corporate objectives; and

(d) Governance and Nomination Committee – to ensure the company has the right mix of directors and skills on the Board.

65 The Executive team had its own Committee which met regularly and was the escalation point for all matters relating to the operation of the Bank's business.

66 There were also four executive committees:

(a) Investment Committees for British Business Investments Limited, British Patient Capital Limited, British Business Finance Limited and British Business Financial Services Limited for making investment decisions. Each Investment Committee has terms of references setting out how meetings are convened, membership, quorum, approvals and thresholds above which decisions have to be escalated to the relevant entity board and/or the Board and/or the Department for Business, Energy and Industrial Strategy. Terms of reference are available on the external website.

(b) Product Development Committee meeting six times a year to approve new products and changes to existing products. It has its own terms of reference and processes.

(c) Senior Leadership Team Forum for the Bank's Executive Committee and the Managing Directors to discuss matters relating to the business.

(d) Executive Audit and Risk Committee .

67 Quarterly meetings with the Shareholder were held, in accordance with the Shareholder Framework and the Shareholder was represented by UK Government Investments. In addition, Quarterly Policy Meetings were held as a forum to engage in strategic forward-looking matters as well as reviewing current themes. Between around July 2020 until December 2021, the Policy and Shareholder meetings moved to a more flexible timetable and were often combined. Thereafter, the meetings reverted to the previous format and Scheme-related matters were discussed in other fora.

68 Other groups reporting to the senior governance meetings included a Quarterly Portfolio Review, which assessed the programmes and escalated significant issues to the Bank's Investment Committee. Prior to the establishment of the Lender Performance Strategic Committee (below), any material matters or concerns raised at Quarterly Policy Review were escalated to the Bank's Executive Committee.

69 In 2019, the Bank and the Government agreed an Agile Cooperation Framework to be used in the event of a downturn which comprised a cyclical economic downturn or a sudden economic shock. The document set out that Government would look to the market to provide support for the continued flow of lending to businesses, but that additional support from the Bank might be required. It was recognised that there would be a consequent impact on the Bank if this was the case, for example on the Bank's KPIs and other performance measures, its business plan, and the design of its interventions (e.g., a relaxation or a targeting of eligibility criteria designed to address the situation). [RDM/6 - INQ000594564]

70 The Board sets the principles and standards for the management of risk through approval of the Risk Management Framework [RDM/7 - INQ000595927]. The Chief Executive Officer as Accounting Officer is personally responsible for safeguarding public money; for ensuring propriety, regularity, value for money and feasibility in the handling of that

public money, and for the day-to-day operations and management of the Bank. The CRO partners with the Chief Executive Officer and the Bank's Executive Committee in creating a culture and environment of strong and appropriate risk management and control, ensuring a robust risk management framework is embedded, based on the three lines of defence, supported by the Executive Committee members of each business area.

71 The Bank operates a three lines of defence model that determines roles and responsibilities for the management of risk and control whilst also ensuring conflicts of interest and segregation of duties are managed and understood. In this model, the First Line of Defence, has direct accountability for the identification, escalation, assessment, and management of risks. They are also responsible for the provision and maintenance of an effective control environment and compliance with risk-related policies and appetite limits. The Risk and Compliance Team, as the Second Line of Defence, provide the risk frameworks and policies in which the business operate to meet its objectives. The team deliver objective independent oversight, monitoring, and appropriate challenge of the operation of the First Line of Defence, including the effectiveness of functions in managing risk, and the controls in place. The Bank's Internal Audit function is the Third Line of Defence which is separate from both the business areas First Line of Defence and the Second Line of Defence and provides assurance through a programme of risk-based audits covering all aspects of both first and second Line of Defence risk management and control activities. The Head of Internal Audit reports to the chair of the Board Audit Committee and to the Chief Executive Officer for administrative matters and tactical support.

72 The Fraud and Financial Crime Steering Group was initially established in December 2019 to support the Executive Audit and Risk Committee by providing a bank-wide forum to coordinate and monitor the implementation of the Bank's Fraud and Financial Crime Risk Management policies, controls and action plans, and monitor the Bank's position relative to its Risk Appetite. Its members were drawn from the Bank's First Line of Defence and the Second Line of Defence teams, with Internal Audit in attendance, and the Steering Group provided the necessary oversight and monitoring of the Bank's Financial Crime risk profile, policies, procedures and controls.

9 Pandemic Governance

73 When the pandemic struck, as for many businesses, the Bank had to move their staff online to work fully remotely, including becoming accustomed to using Skype (and, later, Microsoft Teams) for meetings.

74 The speed, scale and, to a lesser extent, the value of the Schemes to be delivered and their operationalisation meant that the Bank had to bring in additional capacity and particular skill sets to deliver the Schemes. It was therefore necessary to procure additional services through the existing procurement frameworks and available exemptions to provide advice and support and operational delivery such as fraud assessments, development work on the lender portal on the Guarantee and Wholesale Solutions Guarantees Platform and to provide capacity in areas where the Bank had a shortage, provision of additional systems, and legal advice. The Bank also redeployed existing colleagues to increase capacity in areas such as the accreditation of new lenders to provide loans under the Guarantee Schemes.

75 On 25 February 2020, the Bank was asked to contribute to a departmental submission to the Department for Business, Energy and Industrial Strategy Secretary of State on the potential impact of the pandemic on UK business and potential support the Department for Business, Energy and Industrial Strategy could provide. [RDM/9 - INQ000594566] There followed a series of meetings with Government officials and progress was discussed at both Board [e.g., RDM/10 - INQ000594710] and Executive Committee level as matters and issues developed.

76 On 8 March 2020, Keith Morgan emailed Name Redacted at HMT in relation to using the Enterprise Finance Guarantee with certain adaptations, in particular the removal of the scheme guarantee fee and an increase in the percentage cover of the guarantee. [RDM/11 - INQ000594567]

77 From this point, the Bank worked collaboratively with HMT and the Department for Business, Energy and Industrial Strategy, in line with the Agile Cooperation Framework. On 19 March 2020, the Chief Executive Officer wrote to the Department for Business, Energy and Industrial Strategy's Permanent Secretary seeking suspension of the Bank's diversity of provision and financial returns targets, amendment of the Bank's spending control

totals, and amendments to the Bank's Business Plan. [RDM/12 - INQ000563879] This was agreed in so far as they were not consistent with the immediate needs. [RDM/13 - INQ000563889]

78 CBILS was the first of the Schemes delivered by the Bank and it was based on the Enterprise Finance Guarantee rails. The development of the schemes delivered by the Bank is set out in the following sections (for CBILS, CLBILS and RLS) and in the statement of Richard Bearman (for BBLS and FF). Ministers imposed strict time constraints on the design and implementation of the Schemes and staff were adapting to these requirements at the same time as moving themselves to remote working. 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.

79 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. The senior level meetings and how they evolved are set out in the following paragraphs.

(i) Internal Governance

80 At the start of the pandemic, in line with policy, the Bank established an incident response team of senior bank colleagues, in conjunction with a business continuity planning meeting, to discuss the possible impacts of the pandemic on the Bank.

81 In July 2020, this led to the establishment of the **Debt Schemes Programme Board** 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, the Enterprise Finance Guarantee 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.

82 It was attended by members of the Bank's Executive Committee, me, and Richard Bearman and met every fortnight (for example, RDM/14 - INQ000594858 are the minutes of a meeting on 13 January 2021). In May 2022, its work was taken into the Lender Performance Programme Board – see paragraph 104 below.

83 At the launch of the Covid-19 loan schemes, there was a fraud and financial crime function within Risk and Compliance, consisting of 2 people. On 29 March 2021, following the recruitment of a new Director of Fraud and Financial Crime at the Bank, the enhanced Fraud and Financial Crime team was established under Richard Bearman's line management (who was the head of the Product team for BBLS). The Bank also supplemented that team with additional fraud and financial crime specialists. The Fraud and Financial Crime team took ownership of the Fraud and Financial Crime Steering Group and it became the Fraud and Financial Crime Risk Forum. The first meeting was held on 23 September 2021 [RDM/15 - INQ000594918] when its new Terms of Reference were approved. [RDM/16 - INQ000594917] The membership was scaled down and the remit of the forum was amended to cover the Schemes only, prioritising Government risk management processes, i.e., the completion of Fraud Risk Assessments and Post Event Action Plans for the Schemes and reviewing delivery partner onboarding. The Fraud and Financial Crime team moved to being managed by the General Counsel of the Bank, Elizabeth O'Neill, in April 2022.

84 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, after the schemes were launched, there was a considerable volume of questions, and the Bank was updating its FAQs daily, dealing with telephone calls from Small and Medium Enterprise advisors and running a dedicated mailbox. 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 (**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.

(ii) Engagement with lenders on the Guarantee Schemes

85 Very active engagement with the lenders took place through the accreditation process which is described at Part E below.

86 In addition, the product teams regularly engaged with lenders through formal and more informal calls, workshops (for example on processes around the guarantee, guarantee fee payments, Coronavirus Business Interruption Payments, and information sessions on State aid. The Bank also engaged industry bodies and associations, for example with UK Finance (an industry body representing 300 financial services firms), Finance and Leasing Association, and the Federation of Small Businesses. These contacts continued throughout the pandemic. The Bank also published "*frequently asked questions*" (**FAQs**) plus answers on the Schemes on its website. For the Guarantee Schemes, the lenders were able to raise specific queries with the product teams through a "*lender inbox*" and they would be answered through policy fora on the specific Guarantee Schemes involving product teams, legal and risk colleagues.

87 Additionally, on 27 May 2020, Richard Bearman instigated the first Bank Fraud Collaboration Working Group call and invited UK Finance to cohost.

The purpose of the call was for the group to share fraud related intelligence to assist with developing good practice and identify and agree appropriate mitigation. The group met weekly thereafter and later included colleagues from the Department for Business, Energy and Industrial Strategy, HMT and Cabinet Office Counter Fraud Function **(Government Counter Fraud Function)** officers, Cifas and National Investigation Service as standing attendees [e.g., RDM/17 - INQ000594717, RDM/18 - INQ000594749]

88 The Audit Review Panel was established in August 2020 to provide direction and subsequent actions based on findings, escalating as required [RDM/19 - INQ000594754]. The Audit Review Panel managed the external resources, reviewed the results and agreed future audit and assurance plans. [RDM/20 - INQ000594906]

89 The Audit programme which had originally been set up to deal with Enterprise Finance Guarantee 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. [RDM/21 - INQ000594798]

90 Using the scheme data from the Guarantee and Wholesale Solutions Guarantees Platform, a risk-based approach was taken to the audit and assurance process. In Years 1 and 2, aligning with financial years 2020/21 and 2021/22, origination of the loans and compliance with various aspects of BBLS, CBILS and CLBILS was the focus. If there was non-compliance with particular key terms, the Bank had the ability to "*claw back*" claims paid under the "*errors in payment*" provision in the Guarantee Agreements. Positive results emerged, with just under 80% of all audit reports receiving a green or yellow outcome in both years, indicating that, on average, lenders were only in breach of a small number of scheme rules tested. In Year 1, 8% of audit reports were Red whereas in Year 2 this reduced to 5%. As BBLS, CBILS and CLBILS approached their third year, the Bank approved a methodology for the Year 3 audit plan with additional focus on recovery activity and BBLS fraud, and introducing RLS. A risk-based approach was adopted to determine which lenders should be audited in Year 3 and the frequency of audit coverage based on their status. [RDM/22 - INQ000594964] In 2022, as a part

of the restructuring of governance for the Schemes, a new Lender Audit and Assurance Forum was started at which all audit matters are now discussed.

91 The results of these audits have been used to provide insight into loan scheme performance and to challenge lenders where it is felt that they have not met the standard of care required in the Guarantee Agreement relevant to the particular scheme. This has contributed to the removal of a substantial number of guarantees in relation to facilities made under the Guarantee Schemes (in particular, for BBLS). [RDM/23 - INQ000593148] The overall total for the removal of a guarantee due to data error entry or through lender discussion is £1.11 billion as at December 2024 for CBILS, CLBILS and BBLS.

92 In addition, the data analytics programme led by the Government Counter Fraud Function has enabled lenders to focus their enquiries on facilities which appear to be at a higher risk of fraud and for the Bank to challenge where the requirements to claim under the guarantee have not been met. This is set out in the lender assurance and enforcement section of Richard Bearman's statement.

(iii) Engagement with the Government

93 The Bank discussed the Schemes with Government throughout their life in various meetings. The regular formal shareholder and policy meetings continued, although at the height of the pandemic they were at different intervals and, to a certain extent, their usual business was suspended. However, there were other ways in which the Bank and the Government (especially as Shareholder) were engaged on a regular basis, for example there were fortnightly Bank/Government meetings [RDM/24 - INQ000594974] and the Covid-19 Business Finance Governance meetings.

94 The most substantial Government engagement following the initial launch of the Schemes, however, was on issues relating to fraud, particularly in the BBLS. That commenced in May 2020 and continues, under various iterations, today. See separate section below.

10 Evolution of Governance in Early 2022 and Current Position

95 The Bank continued with its high-level structure. However, as the Schemes had evolved, so the governance around them also needed to change to respond to different matters. In early 2022 (following the Bank taking a number of steps as set out in section 11 below, as well as Lord Agnew's resignation and a number of Parliamentary committees and reports) Chancellor Duchy of Lancaster, Jacob Rees-Mogg and the Prime Minister wished to see three key areas of progress delivered by the Bank in relation to the Schemes (principally BBLS) as follows:

(a) to produce a data dashboard to show fraud losses;

(b) to establish an oversight board, reporting to Cabinet Office and associated other departments; and

(c) to establish an independent panel to review guarantee cases to scrutinise lender proposals.

96 Initially, the "*oversight board*" was intended to bring together Director Generals from HMT, Cabinet Office and the Financial Conduct Authority, with Sarah Munby (Permanent Secretary, the Department for Business, Energy and Industrial Strategy) chairing, to advise and support the Bank on balancing wider reputational, legal and financial risk relating to lender management. It was not intended to direct the Bank.

97 On 22 February 2022, Catherine Lewis La Torre wrote to Sarah Munby in response to the proposals, following discussion with Lord Smith of Kelvin. The Bank was supportive of the proposal for an enhanced data dashboard and noted that a new version was to be presented at the cross-government counter fraud strategy meeting on 7 March 2022. The Bank did not however support the establishment of an independent panel and the letter set out the "*structured and robust scrutiny on lender performance*" which was then in existence. This included the involvement of the Board, a Quarterly Portfolio Review and a Lender Review Decision and Escalation Committee which escalated significant issues to the Bank Investment Committee, Executive Committee and the Board. The Bank was considering increasing the frequency of the Quarterly Portfolio Review. The Bank also pointed to the

regular engagement with the Government through monthly shareholder meetings and the Counter Fraud Strategy Forum. [RDM/25 - INQ000564250]

98 The Bank also considered that a cross-government oversight board would be a substantial shift and significantly affect the Bank's relationship with the Government. However, the Bank supported closer cross-government working, the format of which was to be decided in further discussions. [RDM/25 - INQ000564250] The issue was discussed by the Board in March 2022 and in May 2022. Catherine Lewis La Torre informed the Board that the new governance structure, with appropriate escalation including Ministerial sign off, had given the Government assurance on how the Bank was responding to fraud and financial crime. [RDM/26 - INQ000594978]

99 In response to the second recommendation, the Lender Performance Advisory Board was established and first met on 23 March 2022 [RDM/27 - INQ000594965, RDM/27A – INQ000595921, RDM/28 - INQ000594948] 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). The Lender Performance Advisory Board continues today.

100 The Lender Performance Advisory Board supplemented the existing Government / Bank coordination mechanisms for the Guarantee Schemes. Attendees included representatives from the Department for Business and Trade, HMT, Government Counter Fraud Function and UK Government Investments. Its purpose was to provide oversight and strategic advice to the Bank on lender performance management. The Lender Performance Advisory Board would also offer suggestions, support on escalation of issues or assist on cross-Whitehall coordination.

101 In response to the third recommendation, 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 guarantee decisions [RDM/27 - INQ000594965, RDM/27A – INQ000595921]. It first met on 29 April 2022 [RDM/29 - INQ000594992]. 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.

102 The Lender Performance Strategic Committee refers material matters to the Lender Performance Advisory Board to obtain recommendations or guidance where appropriate. The Lender Performance Strategic Committee, the Bank's Executive Committee or the Board are not obliged to follow recommendations from the Lender Performance Advisory Board, however the Lender Performance Strategic Committee must inform the Lender Performance Advisory Board if they do not. Its terms of reference set out how meetings are convened, membership, quorum, approvals and thresholds above which decisions have to be escalated to the British Business Financial Services Limited board and/or the Board and / or the Department for Business, Energy and Industrial Strategy.

103 Reporting into the Lender Performance Strategic Committee were five internal bank groups:

(a) Audit and Assurance Forum;

(b) Covid Scheme Portfolio Review;

(c) Two Covid Scheme Policy Forums (for CBILS and CLBILS, and for BBLS); and

(d) Fraud and Financial Crime Risk Forum.

104 Around May 2022, there was an internal Bank change programme to bring together all the work undertaken through Guarantee Assurance Programme, Operationalising Key Processes Steering Group and Covid Debt Scheme Programme Board, as well as the new Fraud and Financial Crime Initiatives into one governance forum, resulting in the Lender Performance Programme Board being established on 13 May 2022. The focus of the forum was on BBLS, although other Guarantee Schemes were able to be brought into scope. It was noted that as decisions were to be made for BBLS, the forum would actively consider the other Guarantee Schemes and note where those Guarantee Schemes were consciously not included.
[RDM/30 - INQ000594951]

105 The intention was to bring together the various strands of work on pre-claims screening, Audit and Assurance (developing and implementing a Lender Audit Strategy, Guardrails, and an Enhanced Audit Strategy on Lender Claims where there is suspected fraud, and Post Claims Assurance), and Triage and Enforcement and Enhanced Recoveries. The Programme Board kept the knowledge and oversight from past achievements in Lender Engagement, Data Management, Dashboard and Insights production (Monthly), the Quarterly Publication Strategy, stakeholder engagement, and the management of the Department for Business, Energy and Industrial Strategy, HMT, UK Government Investments and Cabinet Office relationships. The workstreams were realigned, for example the Audit and Assurance Forum took over the work of the Audit Review Panel and Decisions and Escalation Committee (on lender queries).
[RDM/31 - INQ000594949]

106 The Lender Performance Programme Board met again in June 2022 after which it became the Covid Scheme Change Forum.
[RDM/32 - INQ000594976] [RDM/33 - INQ000594975] In January 2023, the Covid Scheme Change Forum workstreams were revised because the various groups had each extended their remits and it was necessary to reduce duplication of subject matter discussions, clarify lines of escalation and the boundaries between different decision-making forums. The revised programme focused mainly on development of initiatives such as Pre-Claims Screening, Post Claims Assurance and Recoveries and Enforcement, whilst embedding into Business As Usual Audit, Guardrails and Enhanced Audit

frameworks. The Covid Scheme Change Forum was closed in 2024 and the work moved to Business As Usual in the different teams.

107 At senior level, today, the Bank continues with the main Board structure and Executive Committee. The Executive Committee structure now includes the following groups which are unrelated to the Schemes:

(a) Executive ESG Board;

(b) Strategic Change Oversight Board; and

(c) Policy Review Group.

108 The Fraud and Financial Crime Risk Forum, noted above, now reports to the Executive Risk Committee which also has additional subgroups, unrelated to the Schemes. The forum continues although the focus has developed over time.

109 The Future Fund Forum was established to consider emerging risks from ongoing screening of the FF portfolio, the potential for companies to enter insolvency as the loans reached maturity and the need to engage with the Department for Business, Energy and Industrial Strategy and other stakeholders through a single forum. [RDM/34 - INQ000594967] It met for the first time on 28 April 2022 [RDM/27 - INQ000594965] and was reviewed in 2024 once the maturity extension process had been completed.

110 A range of engagement is maintained with the lenders with respect to the Guarantee Schemes. It is now often in smaller groups or specific lenders relating to recoveries or particular issues.

11 Governance in Relation to Counter Fraud, Lender Assurance and Enforcement

111 As the Guarantee Schemes were delegated, the Bank's role in relation to these areas was as follows: organising and leading fora to monitor fraud and develop counter fraud strategies, developing and implementing risk-based audits for the Guarantee Schemes and implementing remediation plans where appropriate, undertaking pre-claims screening in relation to claims made by accredited lenders (**Accredited Lenders**) under Guarantee Agreements, post-claims assurance work, and reviewing Guarantee Scheme data to aid enforcement. As described further in relation to each of the

Schemes, the Bank was cognisant of the risks of fraud, and played a key role in bringing this to the attention of Government.

112 The governance in relation to counter fraud, lender assurance and enforcement is set out below; Richard Bearman's witness statement sets out further detail on this work with regard to the Schemes. 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.

113 CBILS, CLBILS and BBLS have tended to be dealt with together. Since RLS had a longer launch time and less generous terms, it signified a more general return to "*BAU*" (Business as Usual) lending.

114 On 27 April 2020, the Bank hosted an initial discussion with lenders, PricewaterhouseCoopers, and others about potential issues relating to counter fraud and enforcement activity, as set out in Richard Bearman's witness statement. [RDM/35 - INQ000594704, RDM/17 - INQ000594717, RDM/36 - INQ000594689]. PricewaterhouseCoopers were commissioned to conduct a fraud risk review – named Project April – and, after further workshops, produced a draft report dated 30 April 2020. This was subsequently updated on 1 May 2020 [RDM/38 - INQ000609064]. This meeting with the lenders evolved into the Bank Fraud Collaboration Working Group which first met formally on 27 May 2020 [RDM/18 - INQ000594749], jointly hosted by the Bank and UK Finance, to share fraud related intelligence to assist with developing good practice and identify and agree appropriate mitigation. Colleagues from the Department for Business, Energy and Industrial Strategy, HMT and the Government Counter Fraud Function attended. The meetings continued throughout the pandemic period and eventually evolved, blending with a recoveries collaboration group in 2022, and is still active.

115 On 6 May 2020, two days after the launch of BBLS, PricewaterhouseCoopers led the first cross-government counter fraud workshop, including nearly all of

the BBLS lenders, Cifas and the Government Counter Fraud Function [RDM/39 - INQ000564013]. The remit was to identify potential frauds. An update to their Project April report was prepared, dated 1 June 2020 [RDM/38A - INQ000594764]. The Government Counter Fraud Function offered support from their National Fraud Initiative which was involved in reducing fraud in other pandemic schemes. [RDM/39 - INQ000564013].

116 On 26 August 2020, the Covid-19 Counter Fraud Forum met. The terms of reference [RDM/40 - INQ000594755 and RDM/41 - INQ000594741] set out that "*membership will be drawn from British Business Bank (BBB), Department for Business, Energy and Industrial Strategy (*the Department for Business, Energy and Industrial Strategy*), HM Treasury (HMT) and the Cabinet Office CO) and will comprise, but not be limited to, staff with an operational, counter fraud or policy role in relation to the* [Guarantee Schemes]." [RDM/40 - INQ000594755] Its purpose was to ensure the counter fraud strategies, initiatives and actions of HMT, the Department for Business, Energy and Industrial Strategy, Government Counter Fraud Function and the Bank were developed, coordinated and monitored to optimum effect and aligned with Government policy objectives for the delivery of the Schemes.

117 The Covid 19-Counter Fraud Forum had a working group for BBL Fraud Analytics (also referred to as an Oversight Board) which, in addition to the above, also included representatives from National Investigation Service, National Economic Crime Centre, HM Revenue and Customs and other appropriate departments. This met weekly and set up a fraud analytics programme in September 2020 (example fraud analytics slides - RDM/42 - INQ000594760 on 16 September 2020, RDM/43 - INQ000594787 on RDM/44 - INQ000594822 on 17 November 2020).

118 The Covid-19 Counter Fraud Forum met monthly from then until June 2021. At that time, four working groups were to be set up to meet monthly and feed into the Strategy Board. [RDM/45 - INQ000594910]

119 The Covid-19 Counter Fraud Strategy meeting first took place in October 2020, chaired by the Department for Business, Energy and Industrial Strategy and was responsible for fraud risk management oversight of the Schemes. It became known as the Covid-19 Counter Fraud Strategy Board. It

met monthly and had four working groups that fed in covering (i) National Investigation Service operations; (ii) Data Analytics and Governance; (iii) Policy; and (iv) Communications [RDM/46 - INQ000609055].

120 The Covid-19 Debt Schemes Policy Steering Group (PSG) met regularly and discussed various workstreams which fed into the Strategy Board.

121 As noted above, in March 2021, the Financial Crime team was established within the Bank and, to feed into the Strategy Board, a Fraud Risk Assessments and post-event action plan for each of the Schemes was put in place. This was discussed on 4 October 2021 [RDM/48 - INQ000595906]. The first format of a scheme performance dashboard was shared with the Counter Fraud Strategy Board on 7 March 2022 [RDM/50 - INQ000594955].

122 In early 2022, the National Audit Office had recommended that the Department for Business, Energy and Industrial Strategy produce a formal strategy for managing the BBLS fraud by April 2022 [RDM/51 - INQ000594971 paper for June 2022 meeting]. After June 2022, when the strategy was finalised, there was a transition period to the Covid Debt Schemes Counter Fraud Programme Board to deliver what had been agreed [RDM/52 - INQ000594970]. This Programme Board continues today, led by the Department for Business and Trade and still has representatives from Government Counter Fraud Function, HMT, the Insolvency Service and the Bank.

12 Economic Advice

123 The Bank has a role as a centre of expertise for Small and Medium Enterprise finance and it supports the Government's thinking in a variety of areas, drawing both on its expertise from operating and deploying capital in small business finance markets and from its economic and other insights. The function has two parts: a Strategy and Policy team considering policy options based on insights and policy objectives; and an Economists' team that provides extensive market insights. The Department for Business and Trade also has significant teams for those topics.

124 Prior to the pandemic, there were a number of ways new schemes might be generated and implemented. For example, HMT might have a particular focus or may have commissioned a review, with an independent chair, which would

make recommendations for policy interventions to narrow a market gap. The Patient Capital Review is one such example.

125 Once a report or review is concluded and recommendations confirmed by Ministers, there would be discussion between HMT, the Department for Business and Trade as sponsoring department and the Bank on how to appropriately design and implement those recommendations. To date it has been more usual for HMT to approach the Bank with a view to developing specific interventions, although the Bank frequently provided input to the Department for Business, Energy and Industrial Strategy, and later the Department for Business and Trade, on policy matters under the Joint Working Protocol. [RDM/53 - INQ000594899]

126 Alternatively, the Bank might generate its own ideas having identified particular gaps, for example from market interactions or based on the Bank's own economic research. The Regional Funds and ENABLE programmes are examples of this.

127 The Economics team in the Bank has three broad roles. Firstly, they evaluate the impact of a scheme and whether it met its objectives. As they are external to the Product teams, they are able to provide objective evaluation, using industry standards, especially for example on value for money. They also engage external consultancies and some specialist firms, for example London Economics or Ipsos Mori for surveys and interviews. Secondly, they complete publications on behalf of the Bank such as the Small Business Finance Markets Reports Monitor, which is a joint Bank and UK Finance report, and an equity tracker report. Lastly, they provide more general economic analysis, for example, to assist fiscal bids and ad hoc policy development, both within the Bank and for the Government and through publications. This will broadly comprise an economic assessment of the gaps in the market, identification of what could be done to reduce those gaps by making the market work better and consideration of what types of products might close the gap. They will contribute to an assessment of the financial impact and costs, and consideration of operational feasibility, i.e., how those products might be delivered to a lesser extent.

128 The evaluation of a policy proposal for the Bank or the Government might include for example value for money, (comparing different schemes against

each other), cost weightings (considering the reach of the scheme to specific sectors or areas) and the impact of the scheme (considering the specific characteristics of an area and the societal benefits schemes might bring). Once the product is mature, an evaluation would focus on the process, impact and value for money.

129 As part of informing the Bank's approach across its programmes, the economics team also monitors a wide range of Small and Medium Enterprise-related indicators to assess the overall health of Small and Medium Enterprise finance markets. That helps inform programmes and feeds into the risk assessments within the Bank. That includes a broader look at the macroeconomic outlook, such as economic growth, interest or inflation rates, or more specific data related to Small and Medium Enterprise markets (levels of equity transactions or net bank lending for example). The team presents this information to colleagues in the Bank for example to inform Board and Executive Committee strategy discussions and the senior leadership team. The Bank also sits on the Department for Business and Trade-led Organisation for Economic Co-operation and Development Small and Medium Enterprise committee and steering group, engaging with wider groups and representatives across the developed countries.

130 In line with the priorities agreed for the Bank's annual business plan and spending, each year the Bank agrees a programme of research, dependent on costs and other emerging priorities. For example, the Business Finance Survey has been an annual survey since 2014 which explores Small and Medium Enterprise awareness of different types of external finance and their experience of raising finance or the annual Small Business Finance Market Report. These reports may include results from surveys conducted by the Bank or externals consultants, or economic data sourced from external firms such as Beauhurst or from the Bank of England such as bank lending data.

131 The focus of these reports is Small and Medium Enterprise financial markets themselves, identifying trends and any gaps in finance availability for Small and Medium Enterprises and then delivering schemes to minimise those gaps. This then informs wider policy discussions. The results of this research are shared and discussed regularly with a small economics team (4-12) within the Department for Business and Trade, led by a SCS1 Deputy Director who is responsible for this and other areas. These two teams have regular

discussions and work closely and collaboratively. The reports are also discussed at more formal meetings, e.g., Quarterly Policy Meetings and events.

132 All the reports are shared with the HMT lead on Small and Medium Enterprise policy before publication. Their level of engagement depends on the topic.

133 Overall, the ongoing research and insights created by the Bank, Department for Business and Trade and HMT are discussed and inform ongoing policy discussions around the Bank's suite of interventions and how they might support the Government's priorities.

134 Any fundamental decisions arising from the research, for example to change existing products or launch new ones, would require a business case (drafted by the policy team) for approval by the Product Development Committee and escalation and final approval by the relevant board(s) and/or Shareholder approval (where required).

135 The Bank's Policy and Strategy team's role is to act as the main interface between the Government and the Bank, both on day-to-day questions and more strategic policy issues, for example around introducing new programmes or fiscal events. These interactions often draw on the insights from across the Bank.

136 In this role, the Strategy and Policy team had been involved in assessing the possible options if there were a hard economic downturn following the UK's exit from the EU (**EU Exit**). Looking across the Bank's activities, this identified what tools might be available and what aspects of them might be leveraged or adapted, for example the speed of delivery or the coverage of any Government guarantee.

137 During the pandemic, the key contact for the teams was HMT who commenced discussions on the required business support schemes. Although colleagues within the Bank spoke to their international networks, the Bank did not carry out any specific or formal analysis or comparison of responses or specific interventions by other countries, although details of those schemes were noted.

138 The individual sections on each scheme are set out below and explain the background to the design and implementation of each scheme, including the consideration of economic policy objectives. The objectives were consolidated in July 2020.

13 Data, Modelling, Advice and Analysis (during the pandemic period) on Guarantee Schemes

139 As noted above, prior to the pandemic, the Bank would conduct research, primarily focused on the access to finance of Small and Medium Enterprises, which was shared with the Government prior to publications and discussed at regular meetings.

140 The Economics team conducted some analysis on the Schemes in July 2020 evaluating the delivery and impact of the Schemes and making recommendations for improvement where appropriate. This is different to the monitoring of the data within the Guarantee and Wholesale Solutions Guarantees Platform, which is done by the Product teams, though the economist would use that to inform their analysis. Generally, the first evaluation after one to two years is influential in tweaking products.

141 As noted above, there was contact with the Bank of England, although this was at a working level on specific things as required. That type of informal contact increased during the pandemic, seeking any insights into the impact of the pandemic on Small and Medium Enterprises.

142 Prior to the pandemic, the Bank provided the Guarantee and Wholesale Solutions Guarantees Platform for the Enterprise Finance Guarantee scheme, 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). The Guarantee and Wholesale Solutions Guarantees Platform was also used to generate the "*State aid letter*", which was provided to the borrower to inform them of the amount of *de Minimis* aid they had received under the scheme and was also used by the third-party collection agent appointed by the Bank in relation to the scheme to determine the guarantee fees due from the borrower.

143 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.

144 Due to the volume of data that came from increased lending under the Guarantee Schemes compared to Enterprise Finance Guarantee, 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.

145 This issue became apparent and was further highlighted to the Bank by certain large lenders with a large volume of lending under the Guarantee Schemes from April 2020 and into May 2020.

146 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.

147 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.

148 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.

149 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.

150 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).

151 By way of illustration of the step up required to get the Platform Application Programming Interfaces launched, in a six-week period, 12 lenders were on boarded and in one week details around 1.3 million facilities loaded.

152 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.

153 From the Guarantee and Wholesale Solutions Guarantees Platform, it was possible to provide detailed analysis and insight into the Guarantee Schemes' performance and lender portfolios. This information was then used by those working on particular workstreams, for example the estimating processes for credit and fraud losses which had existed previously but which had to be refined as the Guarantee Schemes progressed.

154 The Bank had previously published data relating to the usage of the Enterprise Finance Guarantee. The publication of statistics relating to the Guarantee Schemes was more complex, due to the volume and complexity of the information available. The information is published quarterly and can be found on the gov.uk website.

155 Additionally, an extract of some of the data from Guarantee and Wholesale Solutions Guarantee Platform was shared with the Department for Business, Energy and Industrial Strategy, and later the Department for Business and Trade, under an existing Memorandum of Understanding and it was used to inform the counter fraud work, matching facility level detail against other information. A further Memorandum of Understanding between the Department for Business, Energy and Industrial Strategy, the Cabinet Office, Government Internal Audit Agency, National Audit Office, National Health Service Counter Fraud Authority and Department for Work and Pensions was signed in February 2022 to facilitate sharing of Guarantee Scheme information. [RDM/54 - INQ000594946] This formed part of the data analytics programme, matching data from the facilities to other Government information such as Companies House. Data was also shared by the Department for Business, Energy and Industrial Strategy under the Digital Economy Act 2017. This information has been used to inform fraud risk assessments and assist lenders to identify and review suspected high risk cases of fraud. It has also been used to target potential enforcement action.

156 There has been close working between the Bank team and the Government Counter Fraud Function teams to understand the data and to obtain the best results for counter fraud work, for example on identifying high risk potential multiple applications and networks for lenders to consider. The Bank draws a distinction between its counter fraud and enforcement activities. It considers that actions it takes in the pre-launch and application stages fall within counter fraud, whereas actions it takes as part of its ongoing portfolio management amount to enforcement.

157 A separate new system, Salesforce, was procured, designed and delivered through a third-party to manage FF, and recorded scheme correspondence and management information. The management information was used to provide insight to the performance of the scheme.

14 Preparedness for the pandemic

158 In 2018, the Bank had given thought to the possible impacts, on the economy and the Bank, in the event of a downturn caused by a macro dislocation, banking crisis, foreign trade shock or exogenous shock. [RDM/55A – INQ000594746]. It considered the options it would be able to deploy and

concluded that there were five key considerations for the Government under all scenarios:

(a) regional (micro) finance infrastructure;

(b) level of resources for the Bank;

(c) approval of changes to the Bank's programmes if required;

(d) approval of transactions if required (e.g., EF); and

(e) State aid.

159 The Bank also identified operational / market based indicators which might show a downturn and concluded that while there was no single indicator to predict one, they were unlikely to all predict a failure which was false at the same time. A Composite Leading Indicator of economic and financial measures was identified as the most likely to assist and three were identified, the Organisation for Economic Co-operation and Development, Conference Board Leading Economic Index and Economic Cycle Research Institute. The last was not taken up due to the subscription costs. [RDM/56 - INQ000594563] [RDM/55A – INQ000594746]

160 In May 2018, an Economic "Policy Playbook" for responding to a macroeconomic shock was set out. [RDM/57 - INQ000594966]

161 During 2019, the Bank engaged with the Department for Business, Energy and Industrial Strategy and HMT to consider what policy actions might be taken to counter any economic shock from the EU Exit, especially if there was no agreement at the end of 2019.

162 As part of this, the Bank considered:

(a) a potential new ENABLE programme guarantee scheme variant – a loan guarantee scheme, but which operated on lenders being approved for a guarantee on a proposed portfolio-by-portfolio basis, i.e., lenders making proposals for specific types of lending, being approved, and a guarantee being provided in relation to that specific portfolio;

(b) potential changes to the Enterprise Finance Guarantee scheme (discussed below); and

(c) increased spending to increase market awareness of the Bank's offerings to increase demand. [RDM/67 - INQ000595764 (summary) and RDM/69 - INQ000595766]

163 Enterprise Finance Guarantee was one of the key access to finance programmes that the Bank operated at this time. This was a loan scheme introduced in 2008 to assist viable businesses that had been turned down for a normal commercial loan due to a lack of security and operated as follows:

(a) the Bank assessed and accredited private lenders to be able to provide loans under the scheme;

(b) the Bank agreed an overall limit to their lending under the scheme (the annual lending limit). The borrower paid a fee to the Government for the provision of the guarantee. The fees were fixed;

(c) the Bank set the conditions and eligibility criteria required for a borrower to be eligible for the scheme, for example turnover, number of employees etc. (as set out in the Guarantee Agreement referred to below – much of this was based on applicable State aid regulation at the time);

(d) the lender was then trained on the scheme portal (which later became the lender portal on the Guarantee and Wholesale Solutions Guarantees Platform) and the guarantee became "*effective*" (i.e., the lender was able to utilise the scheme after that time);

(e) the lender then was able to lend to the borrower in accordance with the terms of the scheme, following their own lender policies for pre-application checks on the borrowers. This was the loan relationship, and the borrower always remained liable for repayment of the full amount of the facility borrowed (notwithstanding the lender could claim under the Guarantee Agreement). The lender provided the funding;

(f) the scheme operated from 2014 and the Bank signed a standard form Guarantee Agreement on behalf of the Government with Accredited

Lenders. Under this, if private lenders suffered loss from the loans and had met the scheme terms, the Government (operating via the Bank), would reimburse loss up to 75% of the total amount outstanding on the facility at default. For most lenders, the maximum claim amount was subject to an overall portfolio cap per phase of 15% net (20% gross); and

(g) the scheme had different "*variants*" and could be used to guarantee different types of facility, these included term loans, revolving credit facilities, invoice financing facilities and asset finance facilities. A lender would be accredited for one or more of these variants. The guarantee covered interest and principal in some variants and just principal in others.

164 The accreditation process for Enterprise Finance Guarantee was facilitated through a request for proposals issued by the Bank. That request set out a number of minimum criteria that the lender had to satisfy to be eligible for accreditation under the scheme covering such matters, as demonstrating their ability to deploy facilities under the scheme, the capital they had available to deploy, a viable business model and robust operations and systems and a suitable tax and regulatory status (where relevant). The lender would in response provide information through a standard form expression of interest, the form would be assessed by a minimum of two people, and a decision would be taken as to whether to take the lender through to the second stage and invite the lender to submit a formal proposal. This would also be assessed and, if the lender was successful in this stage, they would take the lender through a formal due diligence phase. If successful, the Bank would enter into the standard form Guarantee Agreement with a lender. The lender would undergo training and once the training had been completed, the lender's guarantee would become effective and the lender would be allocated an annual lending limit. The process of accreditation could take several months.

165 A further feature of the Enterprise Finance Guarantee programme was the Bank's Lenders Assurance Programme, under which an external provider would undertake a programme audit of Accredited Lenders delivering Enterprise Finance Guarantee to provide the Bank with assurance that these lenders were delivering and administrating the scheme in accordance with

prescribed scheme requirements. The audit plan was risk-based and did not test every aspect of the lender's activity under the programme.

166 The Enterprise Finance Guarantee (which closed to new applicants in 2020) was considered the most suitable scheme to flex to respond to an economic shock. Enterprise Finance Guarantee was recognised and understood in the market and could be expanded relatively quickly. Around 40 lenders participated in Enterprise Finance Guarantee and, as such, these lenders were familiar with the scheme and had established processes for lending under it. Additionally, the template / pro-forma nature of the Guarantee Agreement, the existing infrastructure for reporting through (at that time) the scheme portal which later became the lender portal on the Guarantee and Wholesale Solutions Guarantees Platform, the established Lender Assurance Programme and the Bank's existing network of relationship management with lenders under the scheme meant that it had established "*rails*" on which it could be administered. In EU Exit planning, modelling of an ENABLE programme (ENABLE Guarantees) variant was noted to be at a relatively early stage and would require a meaningful amount of internal work and engagement with delivery partners (meaning it could take at least 12 weeks to close a transaction under EF). [RDM/69 - INQ000595766]

167 The UK was subject to State aid and, accordingly, Enterprise Finance Guarantee had to comply with the relevant State aid laws at the time. Enterprise Finance Guarantee was run under the *de Minimis Regulations* (which are the EU-wide State aid regulations). State aid rules were a significant factor impacting what could be done with Enterprise Finance Guarantee. The *vires* for the scheme was Section 8 of the Industrial Development Act 1982 which also contained certain requirements on any financial assistance given under that section of the Act.

168 The amendments to Enterprise Finance Guarantee contemplated in EU Exit variant involved reworking the scheme to comply with the limits of what could be achieved under the *de Minimis Regulations*, with an 80% guarantee and removal of the guarantee fee (which in Enterprise Finance Guarantee was paid directly by the borrower under the facility). The Bank drafted amendment letters (**Amendment Letters**) and FAQs which sat "on the stocks" to be rolled out if required. Further detail is provided under Part B in relation to CBILS.

169 There was no precedent for the FF convertible loan note scheme.

Part B: Coronavirus Business Interruption Loan Scheme

1 Summary

170 The Coronavirus Business Interruption Loan Scheme or in short 'CBILS' was the first Covid guarantee response scheme and was announced by the Chancellor on 11 March 2020. Its purpose was to support smaller businesses who were negatively impacted by the pandemic and were badly in need of finance. The quickest and most efficient way to reach these businesses was to work via existing lenders as they had the required relationships and systems to do so relatively efficiently and at short notice.

171 The scheme design considered, at least initially, was based on the then existing Enterprise Finance Guarantee scheme. However, it changed substantially between February 2020, at the start of the discussions between the Government and the Bank, and the launch on 11 March 2020. More changes were made after this date as the pandemic developed and further requirements became apparent.

172 Under CBILS lenders had a financial interest in the loan via a 20% risk retention. They also followed their normal lending policies when advancing financing under the scheme, to the extent possible while meeting policy objectives. The benefit of both of these features was that losses to the Government and the lenders were relatively limited (lifetime credit losses to the Government are estimated to be approximately 5p in the pound, ignoring income for the Government from the scheme lender fee).

173 Two other important features of the scheme were that the economic benefit of the guarantee had to be passed on to the borrowers by way of a reduction in the interest charged by the lenders and the first year of interest payments and upfront fees payable by the borrower were covered by the Government.

174 After launch, the speed at which borrowers were able to obtain CBILS funding was deemed to be too slow. This was due to several reasons, including the time it took to onboard new borrowers in accordance with existing credit policies and processes. Another reason was the sheer number of borrowers asking for finance at the same time. Although the final deployed amount of

lending under CBILS was substantial, at circa £26 billion, it did not include much sub £50,000 lending. This area of the market was later covered by BBLS which launched soon after to address this specific £50,000 gap, as well as speed of deployment.

175 CBILS served an important purpose for businesses needing larger amounts of funding and/or more bespoke instruments such as asset or invoice finance.

2 Introduction

176 British Business Financial Services Ltd is a wholly owned subsidiary of the Bank. It is the "*service arm*" of the Bank; it administers the Schemes that sit on the Government's balance sheet. British Business Financial Services Limited implemented, manages and administers CBILS on behalf of the Department for Business, Energy and Industrial Strategy initially and now the Department for Business and Trade. References in this statement to the Bank when acting on behalf of the Government in relation to the Schemes should be construed as the Bank acting by British Business Financial Services Limited.

177 On 11 March 2020, the Chancellor announced his intention to launch a loan guarantee scheme – CBILS – to be delivered by high street banks and commercial lenders, to support businesses across the UK that were facing financial disruption due to the pandemic. [RDM/59 - INQ000236874]

178 The Bank formally launched CBILS on 23 March 2020, meaning businesses could apply for loans with lenders accredited under CBILS from that date, and, shortly after that date, further lenders could apply to the Bank to become accredited. CBILS closed to new applications on 31 March 2021, and was replaced by RLS which launched on 6 April 2021 (further details of which are provided in Part D section 2).

179 CBILS is a loan guarantee scheme. Broadly speaking, the Bank partners with lenders on behalf of the Government, and these lenders make facilities available to borrowers eligible under the scheme; there are four types of lending available under CBILS, namely term loans, revolving credit facilities, asset finance and invoice finance. The Government provides a guarantee to these lenders on eligible lending. This means that, if a borrower is unable to

repay the lender all or part of a facility made under the scheme, the Government will cover a portion of the lender's losses.

180 More specifically, the way this worked for CBILS (and the other Guarantee Schemes) was that lenders applied to the Bank to be permitted to make facilities available to borrowers under the scheme. At or before the launch of each scheme, the Bank would publish a Request for Proposal document which set out criteria for lenders to become "*accredited*" under the relevant scheme. The Bank would assess these lenders to ensure they met these criteria and, if they did, they would be accredited and provided with an allocation limit (this is the total value of money they were allowed to lend under the scheme). Further details on accreditation, including the significant volumes of lenders applying to be accredited and the process, are set out in Part E section 1.

181 Lenders that had been accredited under the Bank's pre-pandemic Enterprise Finance Guarantee scheme and who had an allocation limit under that scheme were automatically accredited under CBILS.

182 The Bank, as agent for the Secretary of State for the Department for Business, Energy and Industrial Strategy (i.e., the Government), entered into Guarantee Agreements with these Accredited Lenders, which set out the terms of the scheme – including the level of guarantee that the Government provided to lenders, the borrower eligibility, and the guarantee fees that Accredited Lenders would need to pay to the Government, calculated by reference to each facility made under the scheme. For scheme launch, the existing Enterprise Finance Guarantee lenders were provided with an amendment letter (**Initial Amendment Letter**) that modified their existing Enterprise Finance Guarantee scheme Guarantee Agreements and **Enterprise Finance Guarantee Agreement Supplement** (which provided additional terms for the different types of facility a lender could be accredited to provide under Enterprise Finance Guarantee i.e., term loans, revolving credit facilities, asset finance and invoice finance). The Initial Amendment Letter suspended the Enterprise Finance Guarantee scheme and reflected the terms of CBILS (including carrying over the allocation limits that had recently been given for the new phase of Enterprise Finance Guarantee). Lenders that were accredited to CBILS following the launch of the scheme received a CBILS supplement that sat alongside an Enterprise Finance

Guarantee scheme Guarantee Agreement. By mid-May 2020, a consolidated CBILS Guarantee Agreement was used for new-to-Bank Accredited Lenders and, existing Accredited Lenders were moved on to a consolidated Guarantee Agreement during July 2020, the agreement having an effective date of 30 July 2020.

183 A high-level summary of the key features of CBILS (in its final iteration, following all amendments) is as follows:

(a) **Borrower eligibility:**

(i) the applicant or the applicant's group was or would be engaged in "*trading activity*" (other than applicants that were registered charities or further education colleges) in the UK at the initial draw down date. Where an applicant received income from sources other than trading activity, more than 50% of that income (together with its group) had to be derived from trading activity at the initial drawdown date (other than applicants that were registered charities or further education colleges);

(ii) maximum turnover £45 million;

(iii) not a credit institution / bank, building society, insurer, or classified to the public sector by the Office for National Statistics;

(iv) for proposed facilities above £30,000 where the offer date of a facility was prior to 30 July 2020, the applicant was not, on 31 December 2019, an "*undertaking in difficulty*" pursuant to Article 2(18) of Commission Regulation (EU) No 651/2014;

(v) for proposed facilities above £30,000 where the offer date of a facility was after 30 July 2020:

(1) for "*micro or small enterprises*" (fewer than 50 employees and less than £9 million in annual turnover), such undertaking was not (a) subject to collective insolvency proceedings under national law, or (b) in receipt of rescue aid (which has not been repaid)

or restructuring aid (and are still subject to a restructuring plan); or

(2) if an applicant was not a micro or small enterprise, either (a) if the applicant's undertaking was an Undertaking in Difficulty as at the date they applied for the scheme facility, the undertaking was not an Undertaking in Difficulty as at 31 December 2019; or (b) the applicant's undertaking was not an Undertaking in Difficulty as at the date on which the applicant applied for a scheme facility;

(vi) the applicant had confirmed to the lender it had been impacted by the pandemic and the lender considered that the applicant or the applicant's group had a viable business proposition determined according to its underwriting policies in place from time to time, without regard to any concerns over its short-to-medium term business performance due to the uncertainty and impact of pandemic;

(b) **Support offered per business group:** £50,001 to £5 million (for term loans and revolving credit facilities). The minimum amount for asset and invoice finance was £1,000;

(c) **Security:** lenders were entitled to take security in accordance with their normal lending policies except over a borrower's / guarantor's Principle Private Residence. Lenders were entitled to lend under CBILS even where there was sufficient security to cover the loan. This differed to Enterprise Finance Guarantee where a borrower was only eligible where a lender would, in the absence of the scheme, be prepared to offer the relevant applicant a loan in the amount requested and the only reason it could not do so is because the applicant either had (i) no collateral available or (ii) insufficient collateral available to secure the loan. In summary, if borrowers had sufficient security for a lender to provide a loan, they were not eligible for borrowing under the Enterprise Finance Guarantee scheme;

(d) **Personal guarantees:** lenders could not take personal guarantees for CBILS facilities below £250,000. Lenders could take personal guarantees from individuals for lending to an entity under CBILS where the facility was over £250,000, but could not take security over a Principle Private Residence in respect of the guarantee. Recoveries under any such personal guarantees were capped at a maximum of 20% of the outstanding balance of the CBILS facility after the proceeds of business assets had been applied;

(e) **Interest rate:**

(i) interest rate varied by lender; and

(ii) the Government paid the first year of interest and fees;

(f) **Repayment period:** Up to six years for term loan and asset finance facilities, and three years for revolving credit and invoice finance facilities;

(g) **Finance type:** Term loans, revolving credit facility, invoice finance, and asset finance;

(h) **Early repayment:** Varies by lender; and

(i) **Government guarantee:** Up to 80% of losses for loans made under the scheme. Accredited Lenders had to pay a lender scheme fee to the Government for each facility made under the scheme.

184 Data for the period ending 31 December 2024 shows that, for CBILS, over 97,000 facilities were provided, totalling around £25.83 billion in value.

3 Scheme Design

(i) Introduction

185 CBILS was designed using the Enterprise Finance Guarantee scheme as a starting point, which was a loan guarantee scheme that the Bank administers and manages on behalf of the Department for Business, Energy and Industrial Strategy. Enterprise Finance Guarantee was an active scheme (open for new lending) from 2008 to 23 March 2020. It has been administered

by the Bank since November 2014 (when its administration moved from Capital for Enterprise Limited to the Bank).

186 The design, development and implementation of CBILS was a collaborative effort between HMT, the Department for Business, Energy and Industrial Strategy, the Bank and external legal advisors. In terms of general roles:

(a) the Chancellor / HMT made the decision to launch CBILS, and set the high-level policy, including the scheme parameters. These parameters were influenced by the requirements of State aid rules and the Department for Business, Energy and Industrial Strategy and the Bank provided advice and input. HMT also had contacts within the Financial Conduct Authority and Prudential Regulation Authority and engaged in discussions with them in relation to financial services regulatory considerations. I understand this involved discussions around regulatory capital relief and application of the Consumer Credit Act 1974 to business loans up to a value of £25,000 made to individuals (although this issue fell away in relation to CBILS following the launch of BBLS – details of how this was dealt with in relation to BBLS are set out in the statement of Richard Bearman);

(b) The Department for Business, Energy and Industrial Strategy was the Government department with overall responsibility for the Guarantee Schemes, was the Bank's Shareholder and provided formal instructions to the Bank on implementing the Schemes. Alongside HMT, they were responsible for assessing value for money of the Guarantee Schemes and deciding whether to provide an instruction to the Bank to proceed. They were engaged in discussions with HMT and the Bank around policy and implementation; and

(c) The Bank shared its expertise, analysis and advice with HMT and the Department for Business, Energy and Industrial Strategy prior to launch of the scheme and also in relation to amendments, although was ultimately bound by policy decisions made at HMT and the Department for Business, Energy and Industrial Strategy level. The Bank led on delivery, including amendments to the Enterprise Finance Guarantee scheme Guarantee Agreements to reflect the parameters of CBILS. Prior to launch, the Bank led on the negotiation of the State aid notifications under the State Aid Temporary Framework (see below for further details) to the European Commission with the Department for Business, Energy and Industrial Strategy. However, the Government did this for subsequent amendments to CBILS. The State aid rules impacted the practical operationalisation of the scheme as envisaged by the Chancellor / HMT. The Bank also organised and led on discussions with stakeholders such as lenders and industry bodies such as UK Finance, considering their comments on Guarantee Agreements and Amendment Letters, and points they had in relation to how the scheme would be operationalised.

187 Expertise and analysis was typically requested and shared between HMT, the Department for Business, Energy and Industrial Strategy and the Bank by email or conference call. Given the speed with which CBILS had to be implemented, there are numerous emails covering a variety of issues, and there is no compendious document covering all advice given and decisions taken. I refer to material correspondence and advice in this statement.

(ii) Objectives

188 CBILS, CLBILS and BBLS had to be implemented at rapid pace following the onset of the pandemic and the decisions by the Chancellor to launch them. Accordingly, there were no formally agreed objectives between the Department for Business, Energy and Industrial Strategy and the Bank prior to launch.

189 Generally, however, there was a clear direction from the Chancellor / HMT that the Schemes needed to be implemented at speed. The overarching aims of the CBILS, CLBILS and BBLS were to offer support to businesses experiencing disruptions in cashflow and losses in revenue due to the outbreak of the pandemic through rapidly accessible finance, and ensuring lenders maintained liquidity to offer this.

190 Following launch of the CBILS, CLBILS and BBLS, from around June 2020, the Bank's Policy and Economics teams began working with the Department for Business, Energy and Industrial Strategy to develop formal objectives for CBILS, CLBILS and BBLS [RDM/61 - INQ000594740].

191 These were developed iteratively with the Department for Business, Energy and Industrial Strategy into July 2020. A final version was circulated for the Deputy Directors' C19 Business Governance meeting (also referred to as the Business Finance Meeting) on 16 July 2020 (note slide four of the Department for Business, Energy and Industrial Strategy's Covid-19 Business Finance Governance Meeting agenda for 16 July 2020 confirming the CBILS, CLBILS and BBLS objectives had been finalised (albeit FF objectives had not at that stage)). [RDM/62 - INQ000595839, RDM/63 - INQ000595840, RDM/64 - INQ000609048]

192 The short, medium and long-term objectives as agreed were as follows:

Term	Objectives
Short term (pandemic restrictions place significant limits on business operations)	<u>Strategic</u> 1. Access to finance schemes complement other Government support and initiatives aimed at businesses [this included initiatives such as the Covid Corporate Financing Facility, Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme] 2. Unlock finance at scale and pace such that businesses disrupted by the pandemic still have access to finance

Term	Objectives
Medium term (pandemic restrictions lifted)	<u>Strategic</u> 3. Businesses are given maximum opportunity to maintain liquidity up until lockdown measures are lifted (given what was known about the pandemic at scheme launch date) <u>Financial</u> 4. Scheme design should incentivise appropriate risk taking by lenders (n.b. 'appropriate' will vary across products)
Long term (over the life of the loan)	<u>Strategic</u> 5. Debt structure should take into account long term business survival 6. Debt structure should allow firms with long term growth potential to continue to grow <u>Financial</u> 7. Long term economic benefits realised from 5 and 6 exhibit value for money against any Government incurred losses

(iii) Chronological development of the scheme to launch on 23 March 2020

a. <u>Planning for EU Exit and Enterprise Finance Guarantee</u>

193 On 12 February 2020, before the full impact of the pandemic had taken hold, the Department for Business, Energy and Industrial Strategy contacted Policy

colleagues at the Bank to obtain input on business transition support following the UK's departure from the EU [RDM/65 - INQ000594565]. The Bank provided the work undertaken in 2019 to the Department for Business, Energy and Industrial Strategy by way of email on 17 February 2020; the attachments to the covering email provide a helpful background to the work the Bank had undertaken in this regard. [RDM/66 - INQ000595763, RDM/67 - INQ000595764; RDM/6 - INQ000594564; RDM/69 - INQ000595766; RDM/70 - INQ000595767]

194 As noted at paragraphs 166 to 169, the Enterprise Finance Guarantee scheme was considered the most suitable scheme to deal with any issues following EU Exit because it was recognised and understood in the market, and could be expanded quickly. Lenders were already accredited, were familiar with the scheme and had built this into their processes and could lend immediately. Additionally, the template / pro-forma nature of the guarantees and the existing infrastructure for reporting, audit and marketing made it easy to administer.

195 The Bank proposed to push the Enterprise Finance Guarantee scheme to the limits of what could be achieved under the *de Minimis Regulations*, including an 80% guarantee for lenders (up from 75%) and removing the 2% annual fee that businesses borrowing under the scheme had to pay to the Government on an annual basis.

196 Enterprise Finance Guarantee accordingly became the basis for the Guarantee Schemes.

197 Key aspects of the Enterprise Finance Guarantee scheme which came up for discussion as part of CBILS design are set out below:

(a) Maximum amount of facility – under the *de Minimis Regulations* a business or a group could receive no more than €200,000 of State aid (or lower where specific sector ceilings applied) over a rolling three year period. For Enterprise Finance Guarantee this equated to a facility £1.2 million over five years and £600,000 over ten years (unless a sectorial ceiling applied);

(b) Level of Government guarantee – the level of Government guarantee provided to lenders under the Enterprise Finance Guarantee scheme was 75%, subject to the portfolio loss cap (**Portfolio Cap**);

(c) Portfolio Cap – under the Enterprise Finance Guarantee scheme, the Government would cover up to 75% of losses in respect of a single loan made under the scheme. However, this was also subject to a Portfolio Cap. In summary, this meant that the Government would only cover a lender's losses up to a certain capped amount of the aggregate portfolio.

(d) Guarantee Fee – under the Enterprise Finance Guarantee scheme, all borrowers had to pay a 2% per annum fee (against the outstanding loan balance) to the Government in advance quarterly instalments;

(e) Businesses in difficulty (sometimes referred to businesses in financial difficulty) – under Enterprise Finance Guarantee, lenders were not entitled to lend monies to a "*business in difficulty*". This was described in the Enterprise Finance Guarantee scheme Guarantee Agreement and Lender Manual as "*a Business which is unable, whether through its own resources or with the funds it is able to obtain from its shareholders or creditors, to stem losses which, without outside intervention by the public authorities, will almost certainly condemn it to going out of business in the short or medium term*", and was derived from Rescue and Restructuring Aid guidelines (European State aid guidelines for rescuing and restructuring firms in difficulty);

(f) Security – under Enterprise Finance Guarantee, lenders were required to investigate all available security that a borrower could provide in accordance with their standard credit and security assessment policies (Principal Private Residences – were not eligible). If borrowers had sufficient security, a loan under Enterprise Finance Guarantee was not permissible. If borrowers had no security, but were otherwise eligible under the scheme rules and the lenders' own criteria, a loan under Enterprise Finance Guarantee was permissible. If borrowers had some security, but not sufficient to cover the full amount of the loan, a hybrid approach could be taken;

(g) Personal guarantees – as part of assessing the security position under the Enterprise Finance Guarantee scheme, lenders were required to consider whether obtaining personal guarantees from directors, shareholders or third parties was appropriate in accordance with their own standard credit policies; and

(h) Industry sector limitations – the *de Minimis Regulations*, Industrial Development Act 1982, and other national policy decisions meant that businesses within certain sectors were not eligible for loans under the Enterprise Finance Guarantee scheme; this varied over time.

198 In relation to CBILS, as discussed below, amending the parameters of these terms shifted the balance of (i) how generous facilities under the scheme could be, (ii) the friction for lenders in making facilities under the scheme (and therefore the speed at which they could make them), and (iii) the apportionment of the risk of loss between lenders and the Government. Generally speaking, the Chancellor / HMT were keen to make the scheme more favourable to lenders to give them the confidence to lend and remove friction to lending. The Bank provided their assessment of the risks that could arise if the Enterprise Finance Guarantee parameters changed.

199 The planning in relation to EU Exit and identification of an existing programme for rapid deployment in an economic downturn enabled the Bank to implement CBILS at pace following the decision by the Chancellor / HMT in this regard (as set out below).

b. <u>Background to CBILS and early discussions</u>

200 In early 2020, the full potential impact of the pandemic was not yet clear. However, the Bank was conscious of the potential impacts and was keeping in touch with the Department for Business, Energy and Industrial Strategy / HMT to understand whether its assistance might be required.

201 Indeed, on 25 February 2020, the Policy team at the Bank had a call with the Department for Business, Energy and Industrial Strategy to discuss potential interventions in response to the pandemic. Following this call, on the same day, William Salt (Business Finance at the Department for Business, Energy and Industrial Strategy) emailed the Bank Policy team to explain that the Department for Business, Energy and Industrial Strategy had been asked to

contribute to a submission to the Secretary of State for the Department for Business, Energy and Industrial Strategy on the potential impact of COVID-19 on UK business, and the potential support the Department for Business, Energy and Industrial Strategy could provide. [RDM/9 - INQ000594566] In this regard, William Salt noted:

"*We and others in the department have been asked to draw on existing work that was done during preparations for a disorderly EU exit. For us, that means the Enterprise Finance Guarantee work.*"

202 William Salt also explained that the submission to the Department for Business, Energy and Industrial Strategy would include:

"*A brief explanation of the Enterprise Finance Guarantee and how it works (SoS will have read high-level information about this in his day one briefings)*

An explanation of the sequencing of any activity around EFG in the context of Covid-19:

first, highlighting the availability of EFG as part of wider comms to businesses encouraging them to have early conversations with their bank if they think they might experience cash flow issues.

second, the potential changes to EFG that we looked into as part of preparations for a disorderly EU exit, noting that these could not be made in time to deal with impacts materializing over the next 2-4 weeks as above.

A note that we are working with [the Bank] *to consider our options as part of a BEIS response to Covid-19 related economic impacts.*"

203 In light of the prior EU Exit work the Bank had undertaken, it appeared that the Department for Business, Energy and Industrial Strategy had taken the decision that Enterprise Finance Guarantee was the best option for CBILS without any further advice or input being required. As noted above, Enterprise Finance Guarantee could be adapted and rolled out quickly, whereas the alternative ENABLE programme scheme required more time and work to operationalise at scale.

204 This was further discussed at the Bank's Board meeting on 5 March 2020. At this meeting, Ceri Smith raised a query regarding the role of the Bank in case

of an economic slowdown. In response, Keith Morgan confirmed that the Bank would continue to work closely with the Department for Business, Energy and Industrial Strategy, HMT and UK Government Investments, and advised that there may be similarities to the situation of an economic slowdown anticipated by a no-deal EU Exit; accordingly, much of the preparatory work done for this may become relevant.
[RDM/10 - INQ000594710]

205 Discussions between the Bank and the Department for Business, Energy and Industrial Strategy and HMT continued into March 2020 in relation to the use of the Enterprise Finance Guarantee scheme as the basis for economic intervention.

206 On 8 March 2020, Keith Morgan had a discussion with Charles Roxburgh (Second Permanent Secretary at HMT) about using Enterprise Finance Guarantee as the basis for an economic intervention in response to the pandemic. [RDM/11 - INQ000594567] Charles Roxburgh followed up via email, introducing Keith Morgan to others at HMT. Keith Morgan then copied in Patrick Magee and me explaining that we had responsibility for the Enterprise Finance Guarantee scheme. Keith Morgan noted that it was helpful that the Bank had an action plan being discussed as a starting point for a response to the pandemic (i.e., the Enterprise Finance Guarantee scheme). In addition, Keith Morgan noted that there were a small set of parameters that could be changed in the Enterprise Finance Guarantee scheme, including:

(a) removal of Guarantee Fee;

(b) increase the level of Government guarantee from 75% under Enterprise Finance Guarantee to 80%;

(c) change or removal of the Portfolio Cap; and

(d) changes in other policies such as refinancing or eligibility criteria. (Refinancing related to how much of a CBILS loan could be used to refinance a borrower's existing lending, and was subject to a cap under CBILS).

207 This email also noted that HMT intended to send advice out later that day – which I understand was advice that HMT were proposing to send to the Chancellor on proposed options.

208 On 10 March 2020, in an update to Keith Morgan and other individuals at the Bank, a member of the Policy team at the Bank provided a summary of the updates that the Bank had from HMT on their plans for an Enterprise Finance Guarantee response to the pandemic as part of the upcoming budget. [RDM/74 - INQ000594568]

209 A member of the Policy team at the Bank noted "*The Chancellor has made a number of firm decisions, which give us a* "*package of changes to EFG as follows, with a few points to be pinned down*", and explained the changes to the Enterprise Finance Guarantee scheme that the Chancellor was proposing. Amongst these was a "*Name change/rebrand – "Business Interruption Loans Scheme" is a current frontrunner*".

210 A member of the Policy team at the Bank also noted various other matters which were being considered by the Chancellor / HMT, including:

(a) removal of the Guarantee Fee (which was payable by borrowers), increasing the level of the Government guarantee to 80%, and removal of the Portfolio Cap;

(b) an additional £1 billion of lending capacity; and

(c) new / stretched eligibility criteria – HMT's intention was to expand this to firms who were "*experiencing Covid-19 related interruption*". However, the detail of this was still to be decided by HMT, and the Chancellor's proposed budget speech / text would note the same.

211 The Bank, including me, Patrick Magee, and a member of the Policy team at the Bank then had a virtual meeting with HMT on the afternoon of 10 March 2020, and the Bank Policy team member followed up by way of email to set out actions and key points from the discussion.

212 One of the key points, and what ultimately became a key design feature of CBILS, was that "*HMT are ideally looking to be able to use this to support businesses who were previously considered viable, but for whatever reason, as a result of coronavirus, are experiencing difficulty and are temporarily*

considered unviable. It's clear that Treasury are not yet themselves clear on this point yet [...]".

213 On this point, the Bank Policy team member noted that the Bank had flagged to HMT:

"• *that this is reliant on a judgement call by the Banks; so there's an extreme degree of trust placed on the Banks to use this appropriately.*

• *Mis-selling risk; if we're relying on the Bank's judgement to make loans to companies that are experiencing difficulty that would otherwise be considered viable. If that company goes under, they're then in further difficulty. So the issues around affordability criteria and the subjectivity around that (which will be entrusted to the banks).*

• *Helpful if any announcement could say something like, there's a presumption that there'll be some forbearance for the c. 6 months that the temporary package/variant is running for.*"

214 These discussions formed part of the genesis, from the Chancellor / HMT, of CBILS and the other Guarantee Schemes that were subsequently implemented. However, at this stage, much technical work was still required to be done around adapting Enterprise Finance Guarantee into a scheme that could work as a pandemic intervention package and in line with the Chancellor's / HMT's requirements. This involved understanding which of the Chancellor's / HMT's proposals were workable in light of State aid rules (which changed over the period – see below), and updating Amendment Letters and other scheme documentation which would be sent out to lenders accredited under Enterprise Finance Guarantee, to reflect the terms of CBILS (I deal with implementation below in section 6).

c. Chancellor Announcement of CBILS

215 On 11 March 2020, the Chancellor announced the UK budget for 2020. The Chancellor's speech for the budget stated:

"[...] *today, I am announcing a new, temporary Coronavirus Business Interruption Loan Scheme.*

Banks will offer loans of up to £1.2m to support small and medium sized businesses.

The government will offer a generous guarantee on those loans, covering up to 80% of losses, with no fees, so that banks can lend with confidence.

This will unlock up to £1bn of attractive working capital loans to support small businesses, with more as needed."[RDM/59 - INQ000236874]

216 As noted in paragraph 197(a), £1.2 million was the maximum facility size that could be granted to borrowers in compliance with the *de Minimis Regulations*.

d. <u>Amendments following announcement and pre-launch</u>

217 Following this and until launch on 23 March 2020, the Chancellor / HMT proposed a number of changes to CBILS as previously contemplated and announced on 11 March 2020.

218 Pre- and post-launch, the Bank had many discussions internally and with industry (which included lenders and UK Finance); discussions with industry were led by Patrick Magee and other Bank colleagues (depending on the subject). It was an iterative process through workshops, meetings and informal calls. I am unable now to recall any additional detail to that within my statement. In addition, there were many discussions with HMT and the Department for Business, Energy and Industrial Strategy, on policy related, legal and various other sometimes technical subjects such as the increase or removal of the Portfolio Cap and the restriction in the Enterprise Finance Guarantee scheme Guarantee Agreement on lending to businesses in difficulty (noting the definition at this stage under the *de Minimis Regulations* could have been prohibitive in the context of the pandemic, where businesses were suffering from uncertain impacts) – this was addressed in part through introduction of new State aid rules described below. As explained below, there were many changes to CBILS over time and in quick succession. These changes all had potential financial and operational impacts, of which lenders were understandably conscious, and were dealt with via FAQs and/or adjustments to the lender manuals. Accordingly, the Bank had to ensure lenders were onboard with the plans to ensure they would seek to lend under the scheme.

219 I provide an overview of key events below. Work at this stage was underway by the Bank to draft an Amendment Letter which would be sent to Enterprise Finance Guarantee Accredited Lenders to reflect the terms of CBILS – which is dealt with in the Implementation section at paragraphs 351 to 358.

220 On 12 March 2020, the Bank had a meeting with HMT, following which the Head of Business Lending at HMT) emailed around with actions and an agenda for a meeting the next day. [RDM/75 - INQ000594569] In terms of actions, two of these noted:

"***BBB to share initial thinking on potential risks/issues to sort regarding opening CBILS to unsecured lending.***

BBB to share initial thinking on the portfolio cap*, and in particular whether there's any modelling/analysis that could inform an approach to where to set it.*"

221 Accordingly, on 13 March 2020 at 11:36, one of the Policy Directors followed up to provide the Bank's views on these points. In summary, the Policy Director noted that opening CBILS to unsecured lending meant that the £1.2 billion headroom for CBILS lending (at that point) could be consumed by lower quality lending, which could lead to increased capacity to meet demand throughout the year. On the Portfolio Cap, the Policy Director noted CBILS may already see £1.2 billion of demand with existing changes to CBILS (increase in guarantee to 80% and removal of fee), and changes to the cap could cause issues with capacity. The Policy Director also noted changes to the Portfolio Cap would represent a large transfer of risk to the Government and, coupled with other changes, and the potential implications (in volume and quality of lending and likely cost to the Government) was unquantifiable [RDM/75 - INQ000594569].

222 At 15:32 on 13 March 2020, the Policy Director provided an update internally to various colleagues within the Bank, noting (in part) that "*It's now clear that HMT are contemplating going significantly beyond the changes to EFG announced at Budget, in three key ways:*

1. *They may well increase the cap beyond the current 20% (which we knew);*

2. *They are very clearly minded to extend the scheme to unsecured lending to some significant extent (which we suspected but it's increasingly clear that this is a priority); and*

3. *They are aware that doing so could open the floodgates, but believe the Chancellor is in a position of wanting to do what it takes and being willing to provide funding to increase volumes significantly beyond £1.2bn if required in due course.*"

[RDM/76 - INQ000594570]

223 Further, at this point, noting the conditions of uncertainty, the Policy Director queried what kind of instruction / Ministerial Direction to act the Bank would need from the Government – particularly where there may be insufficient evidence to support the amended parameters noted.

224 On 13 March 2020, the European Commission published a communication to the European Parliament, European Council, Council, European Central Bank, European Investment Bank and EuroGroup on the "*Coordinated economic response to the COVID-19 Outbreak*". [RDM/77 - INQ000593109] This set out the European Commission's immediate response to mitigate the economic impact of the pandemic, and set out the measures Member States could take in line with existing State aid rules. This communication also noted:

"*the Commission is preparing a special legal framework under Article 107(3)(b)* [of the Treaty on the Functioning of the European Union] *to adopt in case of need.*" – this became the **Temporary Framework**.

225 Article 107(3)(b) of the Treaty on the Functioning of the European Union provided that (my emphasis) "*aid to promote the execution of an important project of common European interest or* ***to remedy a serious disturbance in the economy of a Member State***" was compatible with the internal market (and therefore could be compatible with restrictions on State aid)[4]. [RDM/78 - INQ000593108]

226 On Monday 16 March 2020, there was a meeting between the Bank, lenders, UK Finance, HMT and the Department for Business, Energy and Industrial

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[4] Article 107(1), Treaty on the Functioning of the European Union.

Strategy. Patrick Magee of the Bank sent out an email with his notes of the meeting, including commentary on setting the Portfolio Cap at a level of 25% gross (20% net at a guarantee level of 80%), noting that the Bank would seek clarity on CBILS eligibility, viability test, and the "*business in difficulty*" State aid restriction. [RDM/79 - INQ000594574 and RDM/80 - INQ000594573] There was much follow-up around the "*business in difficulty*" test which, at that stage, was determined by the *de Minimis Regulations*. The note also explained that HMT was to work with the Financial Conduct Authority and Lending Standards Board to provide comfort on the Consumer Credit Act 1974 / Lending Standards Considerations – which were applicable to business loans to individuals and certain small partnerships below the value of £25,000. These requirements added additional formalities to lending and caused concern with lenders.

227 The Department for Business, Energy and Industrial Strategy separately set out their own notes of the meeting to the Bank and HMT, with a project planning call between them organised for later that day. [RDM/81 - INQ000594571]

228 Following this meeting **Name Redacted** (Head of Business Finance at the Department for Business, Energy and Industrial Strategy) circulated his notes of the meeting covering the same points discussed above. [RDM/82 - INQ000594572] The Bank's response notes that an action should be added in relation to a letter to be sent by Keith Morgan to Alex Chisholm (Permanent Secretary at the Department for Business, Energy and Industrial Strategy) and a response by Alex Chisholm. This was further to considerations on 13 March 2020 around what type of instruction / Ministerial Direction the Bank would be required to implement with CBILS (see paragraph 223 above). There were also a number of actions arising out of this meeting relating to HMT's contingent liability checklist, and the Department for Business, Energy and Industrial Strategy's advice to their Accounting Officer – on which I provide details at paragraphs 264 and 266.

229 The Department for Business, Energy and Industrial Strategy received an advanced copy of the Temporary Framework to be established under Article 107(3)(b) of the Treaty on the Functioning of the European Union and this was sent to the Bank in confidence on 17 March 2020.

e. Chancellor announcement of 17 March 2020

230 On 17 March 2020, announced the following proposed amendments to CBILS (as was originally envisaged on 11 March 2020):

(a) maximum loan facility increased from £1.2 million to £5 million; and

(b) no interest on loans made under CBILS would be due from borrowers for the first six months. [RDM/83 - INQ000086739]

231 The Chancellor made the announcements about the interest free period and the facility size before the Bank was able to work through how this could be operationalised under State aid and also more practically from an operational perspective. The parameters of the Temporary Framework became a key factor in how this was delivered, as explained below.

f. Temporary framework and resulting amendments

232 On 19 March 2020, the European Commission adopted the Temporary Framework pursuant to Article 170(3)(b) of the Treaty on the Functioning of the European Union, to supplement the existing State aid rules in place across the EU.

233 In relation to businesses in difficulty, the Temporary Framework as then enacted allowed aid to be provided to businesses that (i) were not in difficulty, and (ii) those that were not in difficulty on 31 December 2019, but that faced difficulties or entered in difficulty thereafter as a result of the pandemic. [RDM/84 - INQ000594586] This in part resolved the prior issues with the "*business in difficulty*" test under Enterprise Finance Guarantee, which would have impacted deployment of the guarantee.

234 At 13:37 on 19 March 2020, Angelina Cannizzaro (Deputy Director, Business Finance, International and Insight (Small and Medium Enterprises) at the Department for Business, Energy and Industrial Strategy) emailed Patrick Magee, copying others at the Bank (including the Policy Director and Shanika Amarasekara), stating:

"*Just so you are aware, appetite from ministers and chancellor to make the effective portfolio cap much higher, we're testing 60% at the moment. This is to encourage the banks to lend more to businesses and take more risk. So* *we may need to run some scenarios on the analysis and definitely think through what this means in practical terms."* [RDM/85 - INQ000594583]

235 This was higher than the Bank had previously understood, and accordingly Patrick Magee responded to Angelina Cannizzaro at 13:46 on 19 March 2020 stating:

"***That is really not necessary and create significant risks****– banks such as [...] are asking for massive allocations based on last night's term sheet – the scheme will work at huge scale without this move.*

Other banks / UKF are seeking to do a massive risk transfer to HMG and by moving to that type of cap will risk incentivising inappropriate lending, ongoing conduct issue and reputational risks both for HMT and Banks.

On the call with UKF yesterday [a number of lenders] *were all very clear 20% was an appropriate balance, we moved to the 25% increase to accommodate* [a lender] *and UKF.*

I think you should caution Ministers firmly against a massive move such as this.

We are your centre of expertise – please take on board. " [RDM/85 - INQ000594583]

236 Patrick Magee then forwarded the email to Keith Morgan at 14:01 on 19 March 2020, cc the Policy Director and Shanika Amarasekara to explain that the "*portfolio cap looks like it may be moving massively*" and stating "*Angie has come back and noted my comments, do you feel we should do more ? I think this is going to the top of the shop my only suggestion would be do you try to reach Charles Roxboro (sic)?*

I think we can and will end up moving but we have had an impact in anchoring this so far…" [RDM/85 - INQ000594583]

237 The Policy Director responded at 14:07 on 19 March 2020, stating (in part):

"*Apparently the Chancellor wants to remove the cap entirely.*

I have offered anything we can do to strengthen Ministers' resolve. I think one thing we could do would be to make clear that if they want to go this far a *direction would be required. BEIS / HMT may not have played that card. Are you happy for me to play that in?* ***I think we should.***

[...]

Keith I have not yet sent your letter to Alex and will hold pending this. I have another comment on the state aid point too." [RDM/85 - INQ000594583]

238 Following this, at 18:37 on 19 March 2020, the Policy Director provided an updated draft of the letter Keith Morgan was to send to Alex Chisholm outlining the Bank's concerns with CBILS as envisaged by HMT / the Chancellor (this had been drafted within the Bank over 16 to 19 March 2020). In this email, the Policy Director stated:

"[...] *Keith as accounting officer for BBB you yourself alongside the Board should consider whether to submit (or make this into) a "reservation notice" as envisaged by the operational independence undertaking. In normal times we would definitely be in this territory here, I think, although of course you may choose to take a different approach under current circumstances.*

The other thing I wonder is whether, given that you weren't able to speak to Alex earlier, we should use this letter (or perhaps the covering e-mail) to make some of the points that Patrick makes below in a bit to influence at that level. It may be that the seriousness of this is being fully considered, but it's hard to tell. I think Ministers' resolve out to be tested hard on this, and asking for direction does tend to do that." [RDM/85 - INQ000594583]

239 At 23:00 on 19 March 2020, the Policy Director (on behalf of Keith Morgan) sent the letter outlining the Bank's concerns with CBILS and requesting a Ministerial Direction to Alex Chisholm (**19 March 2020 CBILS Letter**). [RDM/86 - INQ000594584, RDM/87 - INQ000563879] This more fully outlined the proposed changes to Enterprise Finance Guarantee that the Chancellor / HMT proposed in implementing CBILS, and stated:

"*[...] In this context, in the days following Budget, my officials have worked quickly and constructively with government officials, in conjunction with accredited EFG lenders, to finalise the set of specific parameters and eligibility criteria for the new scheme to best deliver the Chancellor's policy* *objectives. Relative to EFG, this concerns the following temporary changes which of course remain provisional and subject to Ministerial approval:*

1. *removal of the two percent facility fee on all variants;*

2. *an increase of the -loan level guarantee from 75% to the maximum of 80% allowable;*

3. *an increase of the gross portfolio level cap on losses from 20% to 75% (which taken together with the -loan level guarantee increase, would take a lender's net portfolio cap on losses from 15% to 60%);*

4. *an increase in the annual delegated lending capacity from £500m to £1.2bn, whilst stating publicly that there is no limit to the lending that may be supported under the scheme;*

5. *an increase in the maximum loan size from £1.2m to £5m (which will require a new State aid notification);*

6. *a six-month "fee free" period for businesses (covering interest and any lender fees) from the point of facility drawdown (also subject to the state aid notification); and*

7. *an expansion of the scheme's eligibility criteria to include the following:*

   Viability: *You must still establish that the SME borrower has a viable business proposition assessed according to your normal commercial lending criteria. However, where there are some concerns over the short-to-medium term business performance due to the uncertainty and impact of the coronavirus, provided you reasonably believe that (a) the finance will help the SME trade-out of any short-to-medium term cashflow difficulty, and (b) if the facility is granted, the SME should not go out of business in the short-to-medium term, then the proposition may be considered eligible under the CBIL Scheme; and*

   Lack of Security: *(A) for facilities above £250k, the eligibility criteria for a lack or absence of collateral will continue to apply; (B) for facilities up to to (sic) £250k, the CBILS Guarantee may be used for unsecured lending at the discretion of the Lender, providing the lender has confirmed that the use of the CBILS Guarantee has enabled them* *to provide a facility to the business that it otherwise would not have been able to provide.*

In addition to this, we seek the same additional re-financing flexibility as sought in the less extensive package of changes to EFG you considered in preparation for EU Exit, and on which you received additional advice:

8. Flexibility for the Bank to approve increases to lenders' refinancing limits from the current 20% up to 40% of their portfolios on a case by case basis (although this proportion is not to be made public). [...]"

240 The 19 March 2020 CBILS Letter also highlighted various concerns around State aid. At this point, it was understood that Government officials would be drafting the State aid notification under the Temporary Framework (the Bank ultimately did this – see below), which would cover the increase in the maximum loan size from £1.2 million to £5 million and the six-month interest and fee free period. In this regard, the letter stated (**emphasis added**):

"*We have been told that the intention is for a notification to be submitted and turned around by the European Commission within 24 hours, though there is a real chance approval is not granted ahead of planned launch (on Monday 23rd March).* [...] *HMT have been clear that the Chancellor is fully aware of the State Aid risks and is willing to go ahead with launching the scheme, subject to the State Aid notification being submitted ahead of launch.*

Noting the Chancellor's stance, your confirmation that you are content to progress despite the clear State Aid risk borne by BEIS and the uncertainty as to the eventual budget cover that may be required is then very important. While we are content with delivering at the government's request, given the legal issues and, in the case of a gross portfolio level cap significantly exceeding the current level in the EFG scheme, the difficulty of making a value for money case for that incremental expenditure, we require formal instruction to implement the scheme with the desired parameters set out above. ***We have discussed these matters in detail with your officials and we understand that you plan to request a Ministerial Direction before instructing us.*** *That is our preferred course of action as it will obviate the need for us to consider whether we should provide a Reservation Notice as described in our Company Operational Independence Undertaking. [...]*"

241 On 20 March 2020, the Chancellor announced that loans made under CBILS would be interest free for 12 months, rather than for six months as previously announced on 17 March 2020. [RDM/88 - INQ000593134] Only the day before, as demonstrated by Keith Morgan's letter of 19 March 2020 CBILS Letter, the Bank was operating under the assumption that the interest free period would be six months. This demonstrates the speed at which policy decisions were being made by the Chancellor / HMT, and that the Bank had to react to when taking steps to operationalise CBILS (see paragraphs 351 to 375 below on implementation).

242 On 21 March 2020 at 16:05, Alex Chisholm responded to Keith Morgan's 19 March 2020 CBILS Letter to acknowledge it, and to provide reassurance on budget cover and performance monitoring. [RDM/13 - INQ000563889]

243 Later, on 21 March 2020 at 18:21, the Policy Director responded on behalf of Keith Morgan to explain that the Bank would need Alex Chisholm's confirmation of the following points before the Bank could issue any legally binding documentation to delivery partners (i.e., lenders) to implement CBILS:

"*1. You are instructing us to proceed with the CBILS scheme as it stands now, having been further iterated with your officials since I wrote to you, rather than precisely as set out in my letter;*

2. This instruction is backed by a Ministerial Direction (without which, as I said in my letter, our Board would need to consider whether they could act on your instruction without raising a Reservation Notice on their own account); and

3. BEIS bears the State Aid risk of proceeding.

[...]

I gather from your officials that you are planning to seek Direction from the Secretary of State this evening. If you are able to confirm on these points as soon as, you have that, then we will still be able to issue the documentation first thing tomorrow morning."

244 At the same time, from 21 March 2020 and through to the early morning of 23 March 2020, on separate email chains the Policy Director was engaged in a discussion with various people at the Department for Business, Energy and

Industrial Strategy around choreographing and agreeing the wording of a substantive response from Alex Chisholm to Keith Morgan's 19 March 2020 CBILS Letter and the email of 21 March 2020. [RDM/90 - INQ000594592] [RDM/91 - INQ000594591]

g. The European Commission State aid notification

245 Also, throughout the weekend of 21 and 22 March 2020, in conjunction with the Department for Business, Energy and Industrial Strategy and HMT, Shanika Amarasekara and another member of the legal team were working on the State aid notifications to the European Commission under the Temporary Framework to be able to offer CBILS as was then contemplated by the Chancellor.

246 This involved discussions with the European Commission to work out the nuances of how certain parts of the scheme could be offered – such as the 12-month interest free period. As set out in an update from Keith Morgan to the Board on the evening of 21 March 2020, under the Temporary Framework, the guaranteed loan was required to be legally separate from payments the Government makes to lenders to cover the cost of interest and fees for the agreed period. [RDM/92 - INQ000594590] Accordingly, loans under CBILS could not be referred to as "*interest and fee free loan*", but the 12-months interest and fee free element had to be referred to as a "*Coronavirus Business Interruption Payment*".

247 Shanika Amarasekara sent drafts of the notification to the European Commission on 21 March 2020, the European Commission raised a number of queries – including around the mechanism for passing through the advantage of the guarantee to borrowers, the guarantee fee that lenders had to pay, the definition of Small and Medium Enterprises, entities facing difficulties, and maximum facility size – and noted they were available for a call.

248 On 23 March 2020, Gareth Evans (Deputy Director, Industry, Investments and Subsidies Team, the Department for Business, Energy and Industrial Strategy, Government Legal Department) followed up attaching two State aid submissions that the Department for Business, Energy and Industrial Strategy was notifying to the European Commission – for approval of the Government

guarantee to be offered under CBILS and a payment of a grant to cover interest and fees for the first year (i.e., the Coronavirus Business Interruption Payments). [RDM/93 - INQ000594595, RDM/94 - INQ000594596, RDM/95 - INQ000594597, RDM/96 - INQ000594598]

249 During this time, Shanika Amarasekara and another member of the legal team (the Director of Legal and Governance atthe Bank) also made changes to the Amendment Letters which were to be used to implement CBILS (see section 6 for further details on implementation).

h. Ministerial Direction and Instruction – launch of CBILS

250 On 22 March 2020, whilst the Bank were not party to this, we understand that Alex Chisholm requested a Ministerial Direction from Alok Sharma (Secretary of State for the Department for Business, Energy and Industrial Strategy) and received this on the same day. These are publicly available documents, and I have therefore exhibited them for context. [RDM/97 - INQ000065992] and [RDM/98 - INQ000064753]

251 On 23 March 2020 at 07:00, following discussions between the Bank and the Department for Business, Energy and Industrial Strategy over the weekend to choreograph the wording of the response, the Bank's work on the State aid notification, and receipt of the Ministerial Direction from the Secretary of State for the Department for Business, Energy and Industrial Strategy, Alex Chisholm responded to the 19 March 2020 CBILS letter and email of 21 March 2020 stating:

"*Dear Keith,*

Thank you for your email below. I am pleased to confirm that the situation is as you describe it and in particular that further financial cover will be forthcoming to the British Business Bank as necessary to honour the open-ended commitments you are being instructed to make, and that I am content for you to award up to £2.5 billion of allocations to delivery partners as of now.

On the three points that you have raised:

1. *The Secretary of State has now given the go-ahead for the CBIL Scheme, so please take this message as an instruction to proceed*

with the CBILS as it stands now, with the modifications that have been made since you wrote.

2. *This instruction is given following a Ministerial direction which I have now received. I confirm that BEIS is empowered to instruct you in this way, and in particular that it can rely on the parliamentary exceptions regime to inform Parliament after CBILS has gone live.*

3. *BEIS would be responsible, as the Department responsible in government for State aid policy as well as the sponsor of the British Business Bank, for supporting the British Business Bank in any challenge arising in respect of non-compliance with State aid rules. I would of course expect the Bank to comply with the commitments made in the notification of the State aid to the Commission.*

Thank you once again to you and your staff for the exceptional work that as allowed us to make progress so quickly" [RDM/13 - INQ000563889]

252 In light of the approval from the Department for Business, Energy and Industrial Strategy, the Bank was in a position to launch CBILS on 23 March 2020 – with the terms reflecting the Enterprise Finance Guarantee scheme as iterated / amended in relation to CBILS as discussed above. I exhibit a copy of the amendment letter as sent out to Enterprise Finance Guarantee lenders, in addition to new-to-Bank documents that would be sent at that time (consisting of a Guarantee Agreement, CBILS supplement, and supplement depending on the type of financing being offered under the scheme e.g., term loan, revolving credit facility, invoice finance, asset finance). [RDM/100 - INQ000563893, RDM/101 - INQ000594604 (Enterprise Finance Guarantee, Guarantee Agreement), RDM/102 - INQ000594605 (CBILS Supplement); RDM/103 - INQ000594606 (Term Loan Supplement), RDM/104 - INQ000594607 (Revolving Credit Facility Supplement), RDM/105 - INQ000594608 (Invoice Finance Supplement), RDM/106 - INQ000594609 (Asset Finance Supplement)]

253 CBILS was launched was before the formal European Commission approval of the State aid notification came. Implementation and delivery of the scheme are dealt with in section 6 of this statement. Throughout the process of negotiating the Guarantee Agreements, there were countless discussions

with lenders and UK Finance on very technical wording. Lenders were also very nervous about the State aid position and were keen to ensure they were protected.

254 The formal response from the European Commission on the Bank's notification under the Temporary Framework came on 25 March 2020. [RDM/107 - INQ000593160] [RDM/108 - INQ000594600] This contained a number of points that had to be reflected in scheme documentation and lender processes.

(iv) Economic analysis, value for money, and contingent liability checklist

255 The Department for Business, Energy and Industrial Strategy had primary responsibility for assessing the value for money of CBILS, with HMT / the Chancellor approving the budget for the Department for Business, Energy and Industrial Strategy (as the responsible Governmental department for CBILS), who in turn provided cover and a direction to the Bank to implement CBILS as described above. The Chancellor / HMT in conjunction with the Department for Business, Energy and Industrial Strategy were ultimately responsible for setting policy and instructing the Bank.

256 Within HMT, they approved budget for CBILS using the "*contingent liability approval framework*". To do this, they had to complete a "*contingent liability checklist*". Within the Department for Business, Energy and Industrial Strategy, they had to provide advice on CBILS to their Accounting Officer, which included various value for money considerations.

257 The Bank provided input to both the Department for Business, Energy and Industrial Strategy and HMT as set out below, which included estimated costs of the interventions (which would be funded by HMT or the Department for Business, Energy and Industrial Strategy). However, these were inherently uncertain in light of the unprecedented nature of the pandemic.

258 The potential economic value of the Guarantee Schemes was that they allowed businesses to access finance from Accredited Lenders. This would support them through uncertain times and allow them to continue trading once the negative impacts of the pandemic had lessened. Without the support, they might not have been able to continue. However, the risks were that those businesses would not survive in any event, would not be able to

pay back monies borrowed to Accredited Lenders, and Accredited Lenders would be able to claim losses from the Government under the Guarantee Agreements.

a. Input for the Department for Business, Energy and Industrial Strategy to prepare Accounting Officer advice

259 On 16 and 17 March 2020, the Bank provided input on the expected market gap for CBILS to the Department for Business, Energy and Industrial Strategy and HMT. [RDM/109 - INQ000594577] As the Bank's Senior Economist and colleagues noted in these emails, "*It's worth reiterating that the market gap estimates are assumption driven, and outcomes are highly uncertain. For example, following last nights announcement about further restrictions on social contact, many more industries will be at or close to full shut down, and that this may last much longer than previous expected, and hence their financing needs will be much higher.*"

260 On 17 March 2020, the Senior Economist provided some high-level forecasts on economic benefits of CBILS assuming the approval of £1.2 billion of loans, increase in Portfolio Cap to 25%, and removal of the 2% fee. [RDM/110 - INQ000594578] As explained above, these assumptions quickly became obsolete as the Portfolio Cap was increased to 60% and the assumed amount of lending under CBILS was increased to £6 billion.

261 The Senior Economist provided further updates on 18 March 2020, with additional scenarios assuming a six-month interest holiday and with some additional stress testing i.e., assuming increased defaults. [RDM/111 - INQ000594579] Also as explained above, this quickly became obsolete when the Chancellor increased the interest free and fee free period to 12 months on 20 March 2020.

262 On 19 March 2020, the Department for Business, Energy and Industrial Strategy asked the Bank to provide figures on value for money assuming a 60% Portfolio Cap and gross value add. [RDM/112 - INQ000594580 and RDM/113 - INQ000594581]

263 The Department for Business, Energy and Industrial Strategy provided further assumptions on 20 March 2020, including increasing the interest and fee free period to 12 months, and the Senior Economist responded on 20 March 2020

in tabular format covering a range of scenarios. [RDM/114 - INQ000594587] Depending on the scenarios modelled, the benefit-cost-ratios ranged from -0.4 to 2.4.

b. <u>Contingent liability checklist</u>

264 On a call between the Bank, the Department for Business, Energy and Industrial Strategy and HMT on 16 March 2020, it was decided that the Department for Business, Energy and Industrial Strategy and the Bank would work on the contingent liability checklist. [RDM/82 - INQ000594572]

265 On 17 March 2020, a member of the Policy team at the Bank provided Francis Evans, with a draft contingent liability checklist for CBILS. [RDM/115 - INQ000594575 and RDM/116 - INQ000594576] This had been revised from a prior version which the Bank had prepared for proposed amendments to the Enterprise Finance Guarantee scheme as part of EU Exit planning. This included high level estimates of contingent liability for CBILS as then envisaged.

266 The Department for Business, Energy and Industrial Strategy sent this to HMT on 17 March 2020, following which there were discussions on 19 and 20 March 2020 around expected lending capacity for CBILS (£6 billion), maximum claim amount assuming 60% Portfolio Cap (£3.6 billion), and the estimated claim amount i.e., losses that might actually be suffered and guarantee claims made (£1.8 billion). On 21 March 2020, HMT circulated the copy of the contingent liability checklist that had been approved by their fiscal colleagues containing these figures. [RDM/117 - INQ000594588, RDM/118 - INQ000594589 and RDM/119 - INQ000594582]

4 Amendments to CBILS

(i) Introduction

267 Following launch of CBILS on 23 March 2020, the Bank, the Department for Business, Energy and Industrial Strategy and other stakeholders sought continuous feedback from the business community, which led to a range of adjustments to the scheme from the Chancellor / HMT.

268 Lending under CBILS was initially slow, and from early to mid April 2020 there were public criticisms that funds were not reaching businesses quickly

enough. [RDM/120 - INQ000594995] This was unsurprising, given that lenders had to get their processes established following the rapid launch of CBILS and were inundated with demand from applicants in light of the exceptional circumstances. As demonstrated below, Accredited Lenders were also concerned about financial loss exposure, in case they inadvertently misinterpreted the scheme rules and lending was deemed not eligible and they were unable to claim under the Guarantee Agreement for any losses.

269 Accordingly, various adjustments were made during April through to May 2020, and in July and December 2020, as the scheme progressed. A summary of key adjustments to CBILS were (with further details provided below):

(a) 3 April 2020 – (i) removal of ability of lenders to take personal guarantees for loans under £250,000, and claim under personal guarantees for loans above £250,000 were capped at 20% of the total loss after all business assets had been applied; (ii) removal of the requirement that Accredited Lenders must establish a lack of security for facilities over £250,000; (iii) for facilities under £250,000, removal of the requirement that a lender could only use CBILS if the Accredited Lender would have been able to provide a facility to the applicant that it otherwise would not have been able to provide; (iv) removal of certain restrictions on eligibility of the applicant and the purposes that funding under a CBILS facility could be applied for; and (v) changes to the requirements on Accredited Lenders around notification of in-life events;

(b) 27 April 2020 – (i) removal of the Portfolio Cap; (ii) changes to the eligibility criteria concerning "*borrower viability*"; (iii) changes to the standard of care owed by Accredited Lenders, (iv) changes to permit a lender to claim under the Guarantee Agreement within a reasonable period of serving a formal demand on a borrower; (v) clarification of certain eligibility requirements, particularly for exporters and (vi) inclusion of a specific requirement to pass on the economic benefit of the guarantee to borrowers;

(c) 4 May 2020 – (i) increase in the minimum facility size for term facilities and revolving credit facilities from £1,000 to £50,001; and (ii) addition of an eligibility criterion that applicants could not be using or applying to similar schemes, namely BBLS, CLBILS or the Bank of England's Covid Corporate Financing Facility , unless the proposed CBILS facility would refinance the whole of the facility provided by the other scheme;

(d) 30 July 2020 – amendment to the Undertaking in Difficulty test to reflect revisions to EU State aid law; and

(e) 23 December 2020 (announced September 2020) – CBILS lenders given the ability to extend the length of loans from a maximum of six years to ten years if it will help businesses to repay the loan i.e., the provision of forbearance. [RDM/121 - INQ000593135] This was announced at the same time as the extension of the scheme length (see below paragraphs 342 to 348).

(ii) 3 April 2020 - Personal Guarantees, Security and Eligibility

a. <u>Chronological developments</u>

270 On 26 March 2020, only three days following launch of CBILS, HMT emailed the Bank in relation to lenders requesting that no personal guarantees be required from borrowers for facilities below £250,000 made under CBILS. [RDM/122 - INQ000594602] In this email, HMT stated:

"*I wanted to drop you an email to set out where I think we are coming out with the Chancellor (although waiting confirmation):*

-no personal guarantees at all for loans below £250k. This seems to be where banks are moving towards voluntarily (and I know you have been discussing with them) so hopefully doesn't cause an issue.

-for loans above £250 a tweak to the scheme rules so that ***if a business defaults on a CBILS loan, after seeking to recover any outstanding debt from business assets held as security, <u>they may call on personal guarantees only up to the value of 20% of the outstanding balance</u>. The lender will then be entitled to claim the 80% government guarantee on what remains of the loss after this.***"

271 Patrick Magee responded that day, noting that the Bank had severe reservations about the short and long term impact of these proposals. In particular:

"*If it is imposed on all lenders then many will pull in their credit appetite and* ***lend less short term***

Long term *– losses will be much higher and higher (sic) VFM lower, also the collection and settlement process will be infinitely more complicated*

We already have had one Ministerial direction on this and enforcing these changes would in my view, potentially require a separate Ministerial direction

As our consistent advice has been: we should continue to allow PGs, at lenders discretion, (never to be enforced against PPR) but to put a blanket ban on use of PGs would be counterproductive. The banks – RBS, HSBC and LBG all moving to £250k, which alleviates the lobby group pressure but may have unintended consequences. However given the CBILS generous cap this is probably ameliorated." [RDM/122 - INQ000594602]

272 Patrick Magee then updated Keith Morgan, and Keith Morgan had a call with Charles Roxburgh at HMT that day. Keith Morgan responded to Patrick Magee at 15:15 on 26 March 2020 noting "*I spoke with Charles – CX was apoplectic last night around PGs and it's likely he will make the decision trailed by HMT to us. Advice is with him now. Charles understands the risks and was grateful for the call. He is hugely grateful for everything we are doing. And we will be asked to do more …*" [RDM/122 - INQ000594602]

273 There were a range of email discussions on 27 March 2020 in relation to the personal guarantees issue. [RDM/129 - INQ000594626]

274 On 28 March 2020, Gwyneth Nurse (Director, Financial Services Group at HMT) emailed Patrick Magee to instruct the Bank to amend the Guarantee Agreements to remove personal guarantees for facilities under £250,000 and, for loans above £250,000, capping recoveries 20% of losses after recovery of business assets. [RDM/124 - INQ000594617]

275 On the same day, Patrick Magee provided a spreadsheet showing some examples of the impact of changes to policy costs to the Government and

lenders. [RDM/125 - INQ000594612, RDM/126 - INQ000594613] On 29 March 2020, Patrick Magee provided an update, including on potential implications of the change to policy regarding personal guarantees, in particular the requirement for internal lender staff to be retrained and impacts on customer journey. [RDM/124 - INQ000594617] However, Patrick Magee stated:

"***At the end of the day, if instructed to do so, we will make this change but I think it is important that Ministers are advised of the potential downsides of the key issues highlighted yesterday and the points above.***"

276 On 29 March 2020, the Bank was asked by the Department for Business, Energy and Industrial Strategy to provide input into their advice to their Accounting Officer (i.e., Alex Chisholm) in relation to changes to the use of guarantees under CBILS, which were to apply retrospectively to CBILS. [RDM/127 - INQ000594618, RDM/128 - INQ000594619] The Policy Director from the Bank reiterated value for money concerns as a result of the changes, and that an instruction based on a Ministerial Direction would likely be needed to obviate the need for the Bank to consider whether it should provide a Reservation Notice.

277 On 30 March 2020, Patrick Magee emailed HMT and the Department for Business, Energy and Industrial Strategy noting "*We have been alerted by you, late this afternoon, to potential significant further shifts on the CBILS Policy / structure that are being discussed with Ministers*" and that the Bank stood ready to assist and "*would appreciate being brought up to speed as soon as possible, so we can consider what steps we would need to take to implement any changes that are determined necessary*". [RDM/129 - INQ000594626]

278 Patrick Magee then had a call with HMT and the Department for Business, Energy and Industrial Strategy on 31 March 2020, and regrouped with others at the Bank to consider implementing next steps. The Policy Director then

emailed various considerations to the Bank, HMT and the Department for Business, Energy and Industrial Strategy, noting (in part):

"*We understand that the Chancellor is proposing the following changes to the CBILS scheme, for potential announcement on Thursday. We also heard from you on the call Gwyneth that these are decided and are not optional, and that CX has discounted the option of splitting the CBIL Guarantee from BIP and making BIP more widely available than Guarantee.*

1. *Remove additionality clause below £250k (still requires CoVid 19 on liquidity – this is a State Aid requirement)*

2. *Remove ability to take PGs up to £250k*

3. *Continue to allow* [later corrected to "require"] *security above £250k, but PGs limited to 20% post recoveries*

4. *All lending to be eligible for CBILs, even if there is sufficient security (so no additionality requirement, but still subject to there being a CoVid 19 impact on liquidity)*" [RDM/129 - INQ000594626]

279 The Policy Director raised a number of other points, including whether a new State aid notification was required and value for money calculations. He also set out further ways the scheme could be expanded in future, including extending it to beyond £45 million turnover businesses, considering removal of the Portfolio Cap, and increasing loan size. The Policy Director noted "*<u>We are not proposing any expansion to the scheme beyond existing levels – either as envisaged by CX or beyond that.</u> However, it is important that we capture all the issues now and satisfy ourselves that, having made another large scale announcement, CX will not want to re-open the question again in the coming days. The reputational damage to BBB and Government of this would be considerable.*" [RDM/129 - INQ000594626]

280 On 1 April 2020, HMT sent an email to the European Commission in relation to the proposed changes to understand if they were compatible with the Temporary Framework. [RDM/130 - INQ000594629] On 2 April 2020, the European Commission confirmed that they were compatible and that no amendment to the prior State aid decision was required.

281 On 2 April 2020, Alex Chisholm sent two letters to Alok Sharma in relation to the changes to CBILS and requesting a Ministerial Direction. Alok Sharma responded on the same day providing that Direction. Whilst the Bank was not copied to these letters, they are now a matter of public record, and I therefore exhibit them to this statement. [RDM/131 - INQ000065315] [RDM/132 - INQ000594736] [RDM/133 - INQ000594632]

282 Accordingly, on the evening of 2 April 2020, Alex Chisholm emailed Keith Morgan noting the changes to CBILS, explaining that he had received a new Ministerial Direction, and instructing the Bank to implement the changes (according to the terms set out in letters the Bank had been working on to give effect to the changes – see section 6 on Implementation below). A further formal letter came on 7 April 2020. [RDM/134 - INQ000594644, RDM/135 - INQ000594645]

283 On 3 April 2020, the Chancellor announced the changes to the permitted use of personal guarantees by lenders for lending under CBILS. [RDM/136 - INQ000593136] These were announced the prior evening by the Bank, and the Bank sent out further Amendment Letters on 3 April 2020. [RDM/137 - INQ000593137] [RDM/138 - INQ000594633]

b. <u>Economic input for the Department for Business, Energy and Industrial Strategy regarding amendments</u>

284 On 28 March 2020, for the purposes of preparing advice to their Accounting Officer on the CBILS changes, the Department for Business, Energy and Industrial Strategy asked the Bank for input on revised CBILS costs as a result of the following proposed changes to CBILS (as described above):

(a) prohibiting personal guarantees for CBILS facilities under £250,000; and

(b) for facilities over £250,000, limiting personal guarantees to 20% of losses. [RDM/139 - INQ000594614] [RDM/140 - INQ000594615]

285 The Senior Economist that day provided a spreadsheet exploring cost scenarios based on (i) claims on personal guarantees by lenders being capped at 20% post business recoveries; (ii) personal guarantees being able to cover all shortfalls; (iii) as with (i) but assuming business assets are sold at

25% value; and (iv) personal guarantee fixed at 20% of the overall loan amount (rather than merely 20% post recoveries). [RDM/139 - INQ000594614, RDM/140 - INQ000594615] The Department for Business, Energy and Industrial Strategy confirmed that they would work with the information provided. [RDM/141 - INQ000594616]

286 On 30 March 2020 Name Redacted (Head of Business Finance, Small and Medium Enterprise International and Late Payment Analysis at the Department for Business, Energy and Industrial Strategy) provided the Senior Economist with advanced notice that the Chancellor wanted to potentially open CBILS to all Small and Medium Enterprises, not just those without collateral. Petr Simeck followed up on 31 March 2020 requesting input on the maximum the proposed changes might cost, and for considerations on value for money. [RDM/142 - INQ000594621]

287 Following email discussions over 31 March 2020, a member of the Financial Planning team at the Bank provided a spreadsheet containing costs analysis based on various scenarios. [RDM/142 - INQ000594621, RDM/143 - INQ000594622]

288 Separately on 31 March 2020, the Senior Economist provided "*gross value add*" analysis versus total credit losses for lenders and the Exchequer. [RDM/144 - INQ000594625] The Senior Economist noted that the analysis had been produced at speed, there were possible modelling errors, and the model was assumption driven and highly simplified. On the analysis, he concluded:

"*These show that with 75% defaults (60% of which is paid by the Exchequer, 15% by the banks), the cost of the defaults exceeds the GVA saved. But note that this is a catastrophic sencario (sic) – 2 million SMEs apply and are judged to be viable, but 1.5 million of them fail to survive the first year. And for those firms that do survive the turnover will continue in future years, which is not captured in this calculation.*

For 25% defaults scenario (20% met by the Exchequer, 5% by the banks), the picture is much better, the turnover saved in the first year alone exceeds the total default costs (and any plausible first year interest and fee subsidy). In this case the challenge is how much of the lending is additional."

c. Revised contingent liability checklist

289 On 1 April 2020 at 23:39, following the proposed changes described above, Name Redacted of HMT emailed the Bank and the Department for Business, Energy and Industrial Strategy noting:

"*Unfortunately (but unsurprisingly) Fiscal colleagues agree that we'll need a new CLC for CBILS that reflects:*

- *The new, relaxed security requirements.*
- *The new caps on personal guarantees over £250k.*
- *The expansion of the programme to support all businesses affected by Covid (not just businesses struggling to borrow on normal commercial terms).*" [RDM/145 - INQ000594638]

290 On 2 April 2020, the Department for Business, Energy and Industrial Strategy confirmed they would be taking responsibility for the contingent liability checklist, and that the new liabilities would sit on the Department for Business, Energy and Industrial Strategy's balance sheet and it was the Department for Business, Energy and Industrial Strategy's Accounting Officer and Ministers who would be answerable. [RDM/145 - INQ000594638]

291 On the same day, a member of the Policy team at the Bank provided the Bank's view on expected deployment / claim rate / expected losses in light of the proposed changes, namely:

"***New claim rate: 30%*** *(unchanged from last CLC update) – although there's a case that the overall standard of borrower may be improved given those eligible for commercial facilities now being brought in, we don't think there's enough certainty on this point to inform a reduction of this figure.*

New expected scheme deployment: £30bn

New Expected Loss: £9bn (30%*£30bn)

New Total Exposure: £18bn (60% net portfolio cap*£30bn)" [RDM/145 - INQ000594638]

292 The Department for Business, Energy and Industrial Strategy shared the revised contingent liability checklist with HMT (copying the Bank) on 4 April 2020. [RDM/145 - INQ000594638, RDM/146 - INQ000594640]

(iii) 27 April 2020 – (i) Eligibility, (ii) removal of the Portfolio Cap, changes to "business in difficulty" test, borrower viability test, and standard of care (iii) passthrough benefit of guarantee

a. Sectoral eligibility

293 Following the launch of CBILS, the Bank received numerous queries from Accredited Lenders on CBILS eligibility, in particular around:

(a) the exclusion for banks, building societies and insurers, and whether this prevented provision of a CBILS facility to smaller non-bank lenders, credit brokers and intermediaries;

(b) the eligibility criteria that more than 50% of the income on an applicant (together with its group) must be derived from its Trading Activity – which was defined as any activity that generates turnover (whether or not such activity is carried on with the intention of making a profit);

(c) the eligibility criteria that the applicant must be engaged in Trading Activity in the UK;

(d) the restriction that a CBILS facility could not be provided to support export related activities;

(e) restrictions on state funded primary and secondary schools and further educational colleges which are partly or mainly grant funded; and

(f) restrictions on provisions of a CBILS facility to those operating within the public sector.

294 A number of these queries required further guidance to be issued to Accredited Lenders and / or further amendment of the CBILS Guarantee Agreement.

295 Following discussions from 6 April 2020 to 26 April 2020 between the Bank, HMT and the Department for Business, Energy and Industrial Strategy

[RDM/148A - INQ000595793], the following decisions were confirmed from HMT and the Department for Business, Energy and Industrial Strategy:

(a) building societies were to be explicitly excluded from being eligible for a CBILS facility;

(b) the definition of Trading Activity was to include "*commercial activity*";

(c) the eligibility restrictions in relation to exporters where the facility is above £30,000 was to be removed; and

(d) the requirement for registered charities and further education colleges to show that at least 50% of their income derives from Trading Activity was to be removed.

296 Details of the wording of the amendments made can be viewed in the Amendment Letters sent out on 27 April 2020 (see below).

b. <u>Portfolio Cap, changes to "business in difficulty" and borrower viability test, and standard of care</u>

297 The presence of the Portfolio Cap impacted the treatment of the guarantees in relation to loans made under CBILS for regulatory capital purposes. Accordingly, and to encourage lenders to lend, in late April 2020, there were discussions around removing this completely.

298 On 22 April 2020, the Head of Business Lending at HMTemailed Patrick Magee, myself, and one of the legal team at the Bank noting a number of CBILS points that the Chancellor had raised, including:

"*1. He's likely to want to remove the portfolio cap. Is it worth us referring to that in the letter as well? I think so – not as something that needed clarity, but because it would look funny if we didn't. (If he chooses to change it.)*

2. He wants to remove the part of the viability assessment that talks of the lender needing to reasonably believe the finance will help the SME trade out, and that the SME won't go out of business.

[…]" [RDM/147 - INQ000594678] [RDM/148 - INQ000595790]

299 On 22 to 24 April 2020, there were then further discussions between and within the Bank, HMT and the Department for Business, Energy and Industrial Strategy over how this could operationally be achieved under CBILS, and other key amendments to the Guarantee Agreements and points regarding regulatory capital. [RDM/147 - INQ000594678, RDM/148 - INQ000595790, RDM/150 - INQ000594682 and RDM/151 - INQ000594683]

300 In summary, the key points arising from those discussions were that:

(a) HMT noted that there had been a discussion about a joint Ministerial Comfort Letter from the Chancellor and the Secretary of State for the Department for Business, Energy and Industrial Strategy to all CBILS lenders to give comfort and reassurance that there was no intention for the Government not to stand behind the guarantee. This was because "*lenders have frequently raised concerns about this in the context of eligibility – particularly for viability and the including the Undertaking in Difficulty test – and we do not want that concern to be an impediment to lenders' approach to CBILS lending*". The Bank provided input to HMT on that letter on 24 April 2020, and I understand HMT were to send the letter to the Chancellor and Secretary of State for the Department for Business, Energy and Industrial Strategy on the evening of 25 April 2020;
[RDM/150 - INQ000594682 and RDM/152 - INQ000594687]

(b) HMT noted that the Chancellor had confirmed the decision to remove the Portfolio Cap, and wanted to remove the future looking element of the viability test;

(c) amendments to the Guarantee Agreements allowing lenders to accept a self-certification from an applicant that they were not an Undertaking in Difficulty as at 31 December 2019 (which would make them ineligible for the scheme);

(d) amending the viability test. The CBILS Amendment Letter sent to lenders on 23 March 2020 stated:

"*You must still establish that the SME borrower, or the SME borrower's Group has a viable business proposition assessed according to your normal commercial lending criteria. However, where* *there are some concerns over the short-to-medium term business performance due to the uncertainty and impact of Coronavirus (COVID-19), provided you reasonably believe that (a) the finance will help the SME trade-out of any short-to-medium term cashflow difficulty, and (b) if the facility is granted, the SME should not go out of business in the short-to-medium term, then the proposition may be considered eligible under the CBIL Scheme.*"

The proposed amendments from HMT were to remove conditions (a) and (b) to lending where a lender had concerns about the short-to-medium business term performance of an applicant due to the uncertainty and impact of COVID-19. Also, to amend the wording "*normal commercial lending criteria*" to "*according to your underwriting policies in place from time to time*".

In relation to the latter amendment, Patrick Magee noted that this could mean opening the "*floodgates to abuse. The further we go down this path the less like credit and more like grant this becomes!*";

(e) ensuring all consequential amendments are made to reflect the change to the viability test. In this regard, HMT noted that one lender had raised the "*raised the '**standard of care**' element of the agreement (paragraph 3.1), which requires banks to act in a manner that* "*would be deemed to be reasonable by a prudent lender etc.*"; and

(f) removing the Portfolio Cap may not by itself provide regulatory capital relief to lenders. Some additional changes were ultimately required, such as the Government not being entitled to cancel the Guarantee Agreement except where the Accredited Lender was at fault, and aligning the obligation in relation to recoveries with CLBILS – i.e., an Accredited Lender was able to make a claim under the Guarantee Agreement within a reasonable period of making a formal demand on the borrower, with removal of reference to specific recoveries actions that had to be taken prior to claim.

c. Passing through the benefit of the guarantee

301 On 24 April 2020, HMT emailed the Bank stating they would need to inform the European Commission that the Portfolio Cap was being removed, and that the benefit of this would be passed on to borrowers. [RDM/153 - INQ000594684]

302 Accordingly, this was a change that needed to be made to CBILS by way of Amendment Letter.

d. The European Commission submission

303 Separately, at the same time, the Department for Business, Energy and Industrial Strategy were in the process of preparing a submission on these proposed changes for the Secretary of State for the Department for Business, Energy and Industrial Strategy. The Bank was not copied to these emails, but on 23 April 2020 received a copy of the submission that was ultimately sent. [RDM/154 - INQ000594679 and RDM/155 - INQ000594680] The Bank had been involved in providing comments on that advice earlier that day. [RDM/156 - INQ000594677]

304 On 25 April 2020, HMT provided an update to the European Commission in relation to the proposed changes and requesting feedback on their assessment of compatibility with the Temporary Framework. The European Commission provided preliminary views on 26 April 2020 and on 29 April 2020 confirmed the position that the changes were consistent with the Temporary Framework. [RDM/157 - INQ000594696]

e. HMT Instruction

305 HMT announced the changes on 27 April 2020 and instructed the Bank to issue the Bank Amendment letters, which the Bank did that evening. [RDM/158 - INQ000593159] [RDM/159 - INQ000594690] The wording as finally arrived at, covering all of the amendments noted above, can be viewed in that letter. [RDM/160 - INQ000594692]

(iv) 4 May 2020 - Increase in minimum facility size, changes to eligibility criteria

306 As a result of the implementation of CLBILS and the proposed launch of BBLS, there were a number of changes to CBILS made by way of letter on 4 May 2020.

307 On 27 April 2020, there was a call involving the Bank, HMT and the Department for Business, Energy and Industrial Strategy which discussed the policy risks around increasing the minimum facility size under CBILS.

308 Following this call, Patrick Magee wrote to HMT to raise the Bank's concerns and the principal risks of this decision, namely (i) a loss of diversity in the market; (ii) loss of business support; (iii) a reputation risk for the Bank and HMT around distorting the market and causing losses; (iv) an inability to blend finance under CBILS; and (v) pushing out more appropriate forms of finance in the market. Patrick Magee noted, however, the benefit of simplicity and targeting of having the minimum facility size under and over £50,000 for BBLS and CBILS respectively.

309 The Bank advised that an "*opt-in*" model be adopted, whereby a lender who is accredited under BBLS would give up all CBILS lending, but other lenders could offer CBILS below £50,000. [RDM/161 - INQ000594691]

310 On 28 April 2020, HMT communicated that the Chancellor "*wants CBILS and BBL to be kept separate, but for asset finance and invoice finance to be carved out and continue to operate below £50k in CIBLS* [sic]". Patrick Magee raised his concerns that this option will "*still cause issues*", but is "*better than the straight cut off*". [RDM/162 - INQ000594694]

311 On 3 May 2020, lenders were informed that, from 4 May 2020, there would be (i) an increase in the minimum facility size for term facilities and revolving credit facilities to £50,001, excluding asset finance facilities and invoice finance facilities which would continue to be offered with a minimum facility size of £1,000; and (ii) a new eligibility criterion would be added to the CBILS Guarantee Agreement that applicants could not also be using or applying for CLBILS, BBLS or the Bank of England's Covid Corporate Financing Facility schemes unless the proposed CBILS facility would refinance the whole of the facility provided by the other scheme. [RDM/163 - INQ000594706]

312 These changes were made to take account of the introduction of CLBILS, BBLS and the Bank of England's Covid Corporate Financing Facility and to minimise overlaps with those schemes, particularly the minimum facility size under BBLS. It was noted in the letter to lenders that term facilities below £50,001 may be made available to borrowers under BBLS.

(v) 30 July 2020 – Undertaking in Difficulty test

313 In June 2020, the European Commission amended the definition of Undertaking in Difficulty. Following instructions from HMT and discussions with the Department for Business, Energy and Industrial Strategy and the lenders, the Bank proceeded to amend the eligibility criteria in the CBILS Guarantee Agreement to reflect the changes [RDM/163A - INQ000594747].

314 The Bank announced this on its website on 16 July 2020, with changes to take effect on 30 July 2020. Broadly speaking, this meant that, "*smaller businesses with fewer than 50 employees and less than £9,000,000 in annual turnover and/or annual balance sheet will not be considered undertakings in difficulty unless they are (a) subject to collective insolvency procedure under national law, or (b) in receipt of rescue aid (which has not been repaid) or restructuring aid (and are still subject to a restructuring plan).*"
[RDM/164 - INQ000593163]

(vi) 23 December 2020 – Term extension

315 The maximum term for loans under CBILS was originally six years. However, on 24 September 2020, the Chancellor / HMT announced the "Winter Economy Plan". In this announcement, the Chancellor / HMT stated:

"*We also intend to give Coronavirus Business Interruption Loan Scheme lenders the ability to extend the length of loans from a maximum of six years to ten years if it will help businesses to repay the loan.*"
[RDM/121 - INQ000593135, RDM/165 - INQ000593138]

316 Any extension, beyond the six-year tenure, related to the provision of forbearance only. The tenure for new CBILS-backed facilities was to remain at six years for term loans and asset finance facilities and three years for revolving credit and invoice finance facilities.

317 Whilst this was announced on 24 September 2020, the process for formally deciding to implement this had not yet been finalised within the Department for Business, Energy and Industrial Strategy and HMT.

318 On 2 October 2010 Name Redacted (Covid-19 Debt Schemes, Exit Strategy and Reporting Lead at the Department for Business, Energy and Industrial Strategy) shared with the Bank an extract of advice the Department for Business, Energy and Industrial Strategy were sharing with their Accounting Officer. [RDM/166 - INQ000595871]

319 On 28 October 2020, HMT confirmed that they were awaiting on budget to instruct an external consultancy firm to proceed on economic analysis to support the term length decision. [RDM/167 - INQ000595873]

320 The external consultancy's advice was completed by 20 November 2020, considering whether (based on various assumptions) the term extension as a matter of forbearance would be in line with the "*market economy operator*" test [RDM/168 - INQ000595881] (meaning it would likely not be an issue from a State aid perspective).

321 There were then various emails from 26 November 2020 to 1 December 2020 between the Bank and the Department for Business, Energy and Industrial Strategy agreeing wording for an instruction letter that would come from Sarah Munby to Catherine Lewis La Torre. [RDM/169 - INQ000595883]

322 The finalised wording was agreed and sent from the Department for Business, Energy and Industrial Strategy to the Bank on 2 December 2020. [RDM/170 - INQ000594833and RDM/171 - INQ000594834]

323 Separately, papers surrounding the CBILS term extension decision were sent to the Bank Investment Committee on 27 November 2020 for a decision to be made on 30 November 2020. [RDM/172 - INQ000594829and RDM/173 - INQ000595882] The Investment Committee resolved to allow Accredited Lenders to grant forbearance under CBILS by extending facility terms for up to a maximum of ten years. [RDM/174 - INQ000594853]

324 Accordingly, on 9 December 2020, Catherine Lewis La Torre confirmed receipt of Sarah Munby's letter and that the Bank was content to proceed in line with instructions. [RDM/175 - INQ000594837] The Bank therefore took

steps in relation to Accredited Lenders to make the necessary adjustments – this was done through issuing guidance to lenders on 23 December 2020, which the Bank was working on throughout this time.
[RDM/176 - INQ000594847]

5 Extensions and cessation of support

(i) Extensions of CBILS to 30 November 2020

325 CBILS was initially due to close on 30 September 2020.

326 By 17 August 2020, the Department for Business, Energy and Industrial Strategy were considering next steps regarding extensions of CBILS, CLBILS, BBLS and FF and contacted the Bank to understand various operational considerations regarding extensions, which the Bank shared by email on 18 August 2020, also attaching a paper discussing the same. [RDM/177 - INQ000595847, RDM/178 - INQ000595848, RDM/179 - INQ000595849] Some of the key points noted across the communications were that:

(a) the Temporary Framework was due to end on 31 December 2020, and that offers by Accredited Lenders under CBILS, CLBILS and BBLS would need to be made by then (absent of advice from the Department for Business, Energy and Industrial Strategy that the 31 December 2020 deadline related to borrower applications);

(b) the Guarantee Agreements for CBILS, CLBILS and BBLS stated facilities could not be offered after their respective termination dates. However, applications had approval lead times, with Accredited Lenders feeding back in relation to the various schemes as follows:

(i) CBILS – up to four weeks to ensure all applications were processed in time;

(ii) BBLS – two weeks to two days, depending on whether applicants were new-to-lender or not; and

(iii) CLBILS – up to two months depending on customer base,

accordingly, Accredited Lenders had to plan for closure of CBILS, CLBILS and BBLS well in advance of the formal termination date;

(c) ending the CBILS, CLBILS, BBLS and FF from an operational perspective was straightforward for the Bank; and

(d) Accredited Lenders suggested the lead time for reopening CBILS, CLBILS, BBLS and FF in their current form could take around two weeks.

327 The Department for Business, Energy and Industrial Strategy and the Bank had a discussion on 21 August 2020, following which Name Redacted on 27 August 2020 emailed me and others at the Bank requesting input on cost estimates for extension of CBILS and BBLS, the potential impact of not extending CBILS, and enduring market need.

328 A Senior Manager in Policy and Strategy provided a response on 1 September 2020 noting (in part) that extending the scheme by five weeks may increase the total size of CBILS by £1.5 billion and providing comments on enduring market need. [RDM/180 - INQ000595854]

329 Separately, on 27 August 2020, the Bank also shared with the Department for Business, Energy and Industrial Strategy and HMT feedback from lenders in relation to CBILS and CLBILS scheme extensions. [RDM/181 - INQ000595850 and RDM/182 - INQ000595851 and RDM/182A - INQ000595852] The Bank provided further operational advice regarding the extension into early September 2020.

330 Using the inputs from the Bank, the Department for Business, Energy and Industrial Strategy prepared advice to their Secretary of State and provided the Bank with a draft of that advice on 3 September 2020. [RDM/183 - INQ000594757, RDM/184 - INQ000564096]

331 By 17 September 2020, the Chancellor had confirmed to HMT (who subsequently informed the Bank and the Department for Business, Energy and Industrial Strategy via email) that he would like to extend CBILS, CLBILS and BBLS to 30 November 2020. [RDM/185 - INQ000594761]

332 Accordingly, on 18 September 2020, the Board was asked to approve a Written Resolution to accept the Department for Business, Energy and Industrial Strategy's anticipated instructions to extend the scheme without issuing a Reservation Notice, which were confirmed as approved on 20 September 2020. [RDM/186 - INQ000594765, RDM/187 - INQ000594766, and RDM/188 - INQ000594767] [RDM/189 - INQ000594769]

333 From 16 to 18 September 2020, the Department for Business, Energy and Industrial Strategy and the Bank agreed wording to come from the Permanent Secretary for the Department for Business, Energy and Industrial Strategy to the Bank in relation to an extension of the scheme. [RDM/190 - INQ000594762] This was formally sent on behalf of Sarah Munby to Catherine Lewis La Torre on 23 September 2020, with Catherine Lewis La Torre confirming receipt on the same day explaining that the Bank were content to proceed on that basis. [RDM/191 - INQ000594776 and RDM/192 - INQ000594777]

334 On 24 September 2020, the Chancellor / HMT announced the "*Winter Economy Plan*". [RDM/121 - INQ000593135] [RDM/165 - INQ000593138]

335 The announcement for the plan stated:

"[...]

In addition, the Chancellor also announced he would be extending applications for the government's coronavirus loan schemes that are helping over a million businesses until the end of November."

336 The Bank therefore sent out documentation to Accredited Lenders to give effect to the extension.

(ii) Extensions of applications under CBILS and CLBILS to 31 January 2021, with agreements to be finalised by 31 March 2021

337 On 2 November 2020, the Prime Minister announced that CBILS and CLBILS would be kept open for applications up to 31 January 2021 [RDM/193 - INQ000593158], and loan agreements were to be finalised by 31 March 2021.

338 This extension was much more straightforward than the prior one, and on 6 November 2020, the Department for Business, Energy and Industrial Strategy confirmed that they would provide advice to their Accounting Officer in relation to the extension and issue the Bank with an instruction to proceed. [RDM/194 - INQ000594803 and RDM/195 - INQ000594804] We obtained a copy of that advice on the same day. [RDM/196 - INQ000594805, RDM/197 - INQ000594806]

339 Accordingly, on 9 November 2020 at 08:37, the Board were asked to approve a Written Resolution to accept the anticipated instructions from the Department for Business, Energy and Industrial Strategy without issuing a Reservation Notice. [RDM/198 - INQ000594807, RDM/199 - INQ000594808 and RDM/200 - INQ000594809] This was approved by 15:12 the same day. [RDM/201 - INQ000594810]

340 Accordingly, at 20:14 on 9 November 2020, the Policy Director on behalf of Catherine Lewis La Torre sent a letter to Sarah Munby to obtain an instruction to proceed with the changes to CBILS. [RDM/202 - INQ000594811 and RDM/203 - INQ000564139]

341 This instruction came from Sarah Munby on the same day and the Bank accordingly took steps in relation to Accredited Lenders to extend the scheme. [RDM/204 - INQ000594814 and RDM/205 - INQ000564143]

(iii) Extensions of applications under CBILS and CLBILS to 31 March 2021, with agreements to be finalised by 31 May 2021 (30 June 2020 for CLBILS if lenders were unable to process the volume of applications in time)

342 The further extension of CBILS and CLBILS was also fairly straightforward.

343 On 10 December 2020, David Raw informed the Department for Business, Energy and Industrial Strategy and the Bank that the Chancellor was minded to extend the existing schemes to the end of March 2021. [RDM/206 - INQ000594838]

344 From 11 December 2020 to 18 December 2020, the Bank and the Department for Business, Energy and Industrial Strategy discussed the choreographing of the Bank receiving an instruction from Sarah Munby in relation to the extensions, and the Board being required to approve this.

[RDM/207 - INQ000594846] This included the Department for Business, Energy and Industrial Strategy sending across drafts of the instruction that were to be sent.

345 On 17 December 2020, the Chancellor announced plans to extend the Guarantee Schemes. [RDM/208 - INQ000593157] [RDM/209 - INQ000593156] However, at this stage, formal Bank approval and instruction from the Permanent Secretary of the Department for Business, Energy and Industrial Strategy was required to formally implement the extension.

346 On 18 December 2020, the Bank's Deputy Company Secretary circulated advice prepared by the Policy Director and the Policy and Strategy Senior Manager to the Board on the extensions, and a draft Written Resolution to accept the Department for Business, Energy and Industrial Strategy' instructions. [RDM/210 - INQ000594842, RDM/211 - INQ000594843 and RDM/212 - INQ000594844]

347 The advice had been prepared with input from the Bank's economics team and included details on value for money considerations. It stated (in part):

"*We do not think these announcements materially affect our existing views on the value for money (vfm) of the schemes themselves. The combined changes are expected to increase the total size of the debt schemes by between £2bn and £6bn, from between £73bn and £101bn to between £75bn and £107bn. The expected loss rate percentages (covering both credit and fraud losses) have not changed as they assume a level of turbulence, and the extensions do not increase the proportionate fraud risk under the schemes. Cumulative expected losses across the full BBB portfolio are currently estimated to be between c35% and 65% for both existing pre-Covid and Covid response programmes – this amounts to total losses of between £32bn and £59bn*[1]*. Should the business interruption and economic impact from longer lockdown and no negotiated trade deal further worsen, then we will consider whether to revise these estimates.*"

348 On 23 December 2020, the Bank received Sarah Munby's instructions in relation to the extensions of CBILS, CLBILS and BBLS. [RDM/213 - INQ000594848, RDM/214 - INQ000585726 and

RDM/215 - INQ000585727] The Board Resolution in relation to the same was confirmed as passed on 24 December 2020, and accordingly the Bank took steps to in relation to Accredited Lenders to extend the scheme. [RDM/216 - INQ000594851]

(iv) Ending of CBILS and CLBILS

349 There were no further extensions to CBILS and CLBILS, and these schemes came to an end as above and were replaced by RLS – details of which are contained in Part D.

6 Implementation and Delivery

350 The implementation and delivery of CBILS (and the other Guarantee Schemes) can be broken down thematically as follows:

(a) drafting / amending various scheme documentation;

(b) accreditation of lenders;

(c) training and setting up Accredited Lenders on the Guarantee and Wholesale Solutions Guarantees Platform;

(d) Accredited Lenders assessing borrower applications and lending where eligible under the scheme. Accredited Lenders uploading data to the Guarantee and Wholesale Solutions Guarantees Platform on facilities granted for review by the Bank;

(e) operations for payment of the Coronavirus Business Interruption Payments to Accredited Lenders, and payment of scheme fees by Accredited Lenders;

(f) ongoing monitoring of Accredited Lenders;

(g) post-accreditation audit of Accredited Lenders; and

(h) guarantee claims and challenge process.

(i) Drafting scheme documentation

351 Given the tight timeframe from announcement of CBILS on 11 March 2020 through to launch on 23 March 2020, the Bank undertook work to design and

implement CBILS concurrently. Various scheme documentation was available to Accredited Lenders, potential applicant lenders, and potential borrowers on the day of launch, however other documentation came later.

352 The suite of key documentation that was produced to implement CBILS includes:

(a) Initial Amendment Letters which amended and sat alongside the Enterprise Finance Guarantee scheme Guarantee Agreement, Enterprise Finance Guarantee Agreement Supplements (covering the different types of facilities which an Accredited Lender could provide to borrowers under Enterprise Finance Guarantee), and Enterprise Finance Guarantee Lender Manual. The Initial Amendment Letters suspended the Enterprise Finance Guarantee scheme and reflected the terms of CBILS;

(b) Further Amendment Letters as terms of the Guarantee Schemes changed;

(c) Consolidated Guarantee Agreement and Agreement Supplements – by mid-May 2020, a consolidated CBILS Guarantee Agreement and CBILS Agreement Supplements were used for new-to-Bank Accredited Lenders, rather than the Enterprise Finance Guarantee scheme Guarantee Agreement, Enterprise Finance Guarantee Agreement Supplements and CBILS Amendment Letters. During July 2020, Accredited Lenders that were signed up using the Enterprise Finance Guarantee scheme Guarantee Agreement and CBILS Amendment Letter were moved on to a CBILS Consolidated Guarantee Agreements and CBILS Agreement Supplements having an effective date of 30 July 2020;

(d) Lender Manuals for the different variants of facilities Accredited Lenders could provide to borrowers under CBILS – these were binding on Accredited Lenders under the terms of the Guarantee Agreements, and Accredited Lenders had numerous queries on them given that they were such important documents for implementation of the scheme;

(e) Guide to the CBILS legal documentation for Accredited Lenders;

(f) The Bank website with details of the CBILS and the other Schemes;

(g) Borrower and Accredited Lender FAQ documents;

(h) Expression of Interest and formal proposal forms and Request for Proposal documents, inviting lenders to apply for accreditation under CBILS; and

(i) Various guides to the Guarantee and Wholesale Solutions Guarantees Platform.

353 Prior to launch, on the evening of 21 March 2020, the Bank held an all-parties call with lenders accredited under Enterprise Finance Guarantee and that would be accredited under CBILS (around 300 individuals on the call in total) to explain what CBILS involved and what documentation lenders would get to implement it.

354 Once the Bank obtained the approval / direction from the Department for Business, Energy and Industrial Strategy on 23 March 2020 to implement CBILS, the Bank sent out the various documents to lenders.

355 The Bank had to draft further Amendment Letters as the terms of the scheme changed.

356 Drafting and amendments to the scheme documentation (in particular the guarantees documentation reflecting the primary terms of the scheme) was an iterative process. Documentation was prepared in negotiation with relevant stakeholders – including the Department for Business, Energy and Industrial Strategy, HMT, lenders, and UK Finance on behalf of lenders. These would then be circulated to the Department for Business, Energy and Industrial Strategy, HMT and UK Finance (on behalf of lenders) for comments, which the Bank would consider, implement and / or respond to as required, and recirculate.

357 There were a significant number of such rounds of negotiating and amending the documentation, including many calls and emails, noting the various changes to the parameters of the scheme over time, and queries from and differing viewpoints of stakeholders. The Bank acted as an intermediary between lenders and the Government.

358 Within the policy parameters of CBILS as set by HMT / the Chancellor, it was important to ensure the various agreements and other scheme documentation were suitable and workable for lenders as the on-the-ground delivery partners of CBILS. If such documents were not workable, delivery partners may not have been willing to provide lending under the scheme, which would have undermined the initial, informal policy objectives and the formal objectives developed post-scheme (see paragraphs 188 to 192 above).

359 Over time, including before and post-scheme launch, there were a countless number of queries from lenders (directly, or indirectly through UK Finance, the Department for Business, Energy and Industrial Strategy or HMT) to ensure they understood the parameters correctly and could benefit from the guarantee provided by the Government. These lenders were being asked to lend monies at pace in extraordinary times, and they were keen to ensure they would be protected.

360 The Bank made amendments to documents such as Lender Manuals, FAQs, its website and other guidance to take into account these queries.

(ii) Accreditation, onboarding, ongoing monitoring, post-accreditation audits, claims process

361 The Bank accredited lenders under the Schemes and took steps to onboard them – including the signing of Guarantee Agreements on behalf of the Department for Business, Energy and Industrial Strategy, setting them up on the Guarantee and Wholesale Solutions Guarantees Platform, and training lenders on various topics. Further details are provided in Part E section 2.

362 Once the Guarantee Schemes were implemented and loans made under them, Accredited Lenders had to upload data to the Guarantee and Wholesale Solutions Guarantees Platform – as set out in paragraphs 143 and 152.

363 The Bank undertook ongoing monitoring using data uploaded to the Guarantee and Wholesale Solutions Guarantees Platform – details are set out in Part F section 2.

364 The Bank also engaged third party auditors to undertake post-accreditation audits of Accredited Lenders – details are set out in Part E section 3.

365 Finally, if Accredited Lenders suffered loss in relation to facilities made under the Guarantee Schemes, they were entitled to claim under the Guarantee Agreements in certain circumstances as set out in the statement of Richard Bearman.

7 Accessibility and targeted support

(i) Delegated scheme

366 In the design of CBILS, policy making decisions occurred at HMT / Chancellor level in conjunction with the Department for Business, Energy and Industrial Strategy. Although the Bank provided input into the design of CBILS, the Bank was primarily instructed to implement it. The Bank was therefore not involved in identifying those who required support in response to the pandemic and how targeted that support could be in the design.

367 In implementing CBILS, the Bank's role included the accreditation of lenders. This involved assessing applications by lenders and making decisions as to which lenders could be involved in the scheme.

368 CBILS was a demand-led and delegated scheme. The assessment of (i) applications from borrowers, and (ii) the relevant data provided by borrowers, was carried out by the Accredited Lenders outside of the Bank's purview. The Bank was not involved in any decisions to include or exclude individual borrowers over and above providing guidance around certain eligibility criteria, nor was it involved in the order in which borrowers received support through the scheme or making facilities available to certain groups.

(ii) Scheme Design

369 As set out above, in order to deliver CBILS at pace, the Bank used the delivery template and infrastructure of the existing Enterprise Finance Guarantee scheme. The parameters of CBILS were therefore largely based on the Enterprise Finance Guarantee scheme – with which many lenders were already familiar. Targeted support, such as consideration of socially and economically vulnerable groups, was not a specific consideration in the scheme's design.

370 Although targeting was not a specific consideration in the design of the scheme, prompt access to support was a key consideration following the

launch of the scheme. As explained in paragraph 268 above, lending under CBILS was initially slow. Accordingly, HMT and the Department for Business, Energy and Industrial Strategy made various policy decisions to remove barriers to lending and enhance the speed at which Accredited Lenders could make facilities available to applicants. The Bank was involved in that process and was responsible for operationalising the changes required.

(iii) Interaction with stakeholders

371 In addition, prior to and after the launch of CBILS, the Bank was in regular engagement with stakeholders such as lenders and UK Finance (on behalf of lenders) to consider their views in relation to how the scheme could be operationalised; if the scheme was not practically workable for lenders, this would inhibit whether they would seek to become accredited and lend under it.

372 The Bank also fielded queries from Accredited Lenders on various aspects of the scheme, and published FAQs and Lender Manuals to help support them in providing facilities under the scheme (as discussed above under "Implementation").

(iv) Speeding up accreditation

373 The Bank considered that accrediting a wide range of lenders would provide choice within the market and increase the speed at which eligible borrowers could access facilities under the scheme.

374 Following launch, the Bank received a significant number of applications from lenders to be accredited under the scheme. As set out in Part E section 2, the Bank took steps to speed up the accreditations process and ensure it could process these as effectively as possible.

375 The more and greater variety of Accredited Lenders there were, the faster facilities could be made to applicants and the more diverse the potential pool of borrowers (noting different lenders serve different demographics).
Post -implementation reporting on CBILS did include data on the demographics of borrowers under the scheme, meaning the Bank could understand the impact of its accreditation decisions and facilities being made

by Accredited Lenders. However, the Bank had no direct input to the approval of individual facilities or the types of borrowers Accredited Lenders targeted.

(v) Impact

376 As explained in further detail at paragraphs 694 to 704, following closure of the CBILS, CLBILS and BBLS, in March 2021, the Bank commissioned London Economics and Ipsos to undertake a three-year evaluation of the CBILS, CLBILS and BBLS.

377 In relation to accessibility and targeted support, the Year 1 evaluation provided (in summary):

(a) Evidence from a survey of businesses did not highlight any systematic issues with differential access, although this looked at only facilities approved and no data was available on applicants declined for funding;

(b) "*There was a reasonable correlation between the size of the economic shock caused by the first lockdown and the level of guaranteed lending provided to the sector (despite the absence of sector targeting) (Figure 11). The two sectors benefitting from the largest volumes of lending (wholesale and retail, and construction) were amongst the biggest contributors to the overall contraction in GDP between April and June 2020 (on a year-on-year basis). There were, however, some sectors that benefitted from large volumes of lending that were more modestly affected by the Covid-19 pandemic (the professional services sector in particular). The proportion of lending by each region and devolved nation of the UK through BBLS and CBILS was largely in line with the distribution of businesses across the UK. The proportion of facilities offered was within two percentage points of the proportion of businesses located in the region or devolved nation for all regions and devolved nations in the UK.*" [RDM/217 - INQ000146545]

8 Unintended Gaps

378 The eligibility criteria – as noted above in paragraph 183 – defined the intended gaps within CBILS, including the financial requirements for

businesses to be eligible, sectoral restrictions, and the Undertaking in Difficulty definition.

379 As noted above, many of these criteria stemmed from State aid restrictions, or policy decisions from HMT / the Department for Business, Energy and Industrial Strategy on which businesses should be eligible.

380 To address the provision of finance to businesses of a smaller size than those eligible under CBILS, BBLS was designed and implemented (as described in the statement of Richard Bearman). To address the provision of finance to those business which were too large to be eligible for CBILS, but not large enough to be eligible for the Bank of England's Covid Corporate Financing Facility, CLBILS was developed (as set out in the CLBILS section of this statement).

381 However, there were a number of unintended gaps in CBILS following launch, with HMT and the Department for Business, Energy and Industrial Strategy taking policy decisions to close these off through scheme amendments (as described in the Amendments section above). In particular:

(a) initially, broadly speaking, to be eligible for a loan under CBILS, borrowers had to be unable to secure financing on normal commercial terms. However, this meant that more creditworthy borrowers were excluded from obtaining financing on more favourable terms, noting that the Government guarantee could bring down the cost of lending of an Accredited Lender, and also because the Coronavirus Business Interruption Payments under CBILS offered a 12 months interest and fee free period;

(b) the viability test initially included a look-forward element (see paragraphs 212 to 214 above), but this was difficult for Accredited Lenders to assess in light of the uncertainty caused by the pandemic;

(c) the definition of "*Trading Activity*" (as noted at paragraphs 293 to 295 above) caused some Accredited Lenders to raise various queries and was preventing them from lending. Accordingly, the definition had to be clarified;

(d) the initial eligibility criteria provided restrictions on the eligibility of export businesses, and was difficult for Accredited Lenders to interpret. Accordingly, this was clarified; and

(e) the eligibility criteria, that more than 50% of the income of an applicant (together with its group) must be derived from its Trading Activity, created issues for registered charities and further education colleges. Accordingly, the terms of the CBILS Guarantee Agreement were amended to remove this requirement for those types of businesses.

382 The Bank also received a large number of queries from Accredited Lenders on interpreting the terms of the Guarantee Schemes and what was or was not included. Given the volume of these it is not possible to set them all out here.

9 Risk of Fraud and Error

383 The Bank's approach to fraud prior to the pandemic is set out in the statement of Richard Bearman, as is the approach to fraud for the Bank's Guarantee Schemes (including CBILS).

384 During the design of CBILS, it was not generally considered to be high risk from a fraud perspective. Accredited Lenders had to comply with the standard of care in the Guarantee Agreement which, broadly speaking, meant they would conduct the following checks / actions on applicants in accordance with their Business As Usual procedures and applicable regulatory obligations:

(a) Anti-fraud (including automated checks via various fraud agencies (such as Cifas) for known fraudsters);

(b) Anti -money laundering and / or know-your-customer checks;

(c) Business viability;

(d) Loan affordability;

(e) Obtain and review documentation to support the above, and eligibility with scheme criteria.

385 In addition, Accredited Lenders were liable for 20% of losses suffered in relation to facilities made, which meant they were incentivised to ensure lending was appropriate.

386 Whilst CBILS was designed at speed, the prior Enterprise Finance Guarantee scheme was used at the basis for this. The Enterprise Finance Guarantee scheme had systems and process in place to lessen the risk of financial loss and fraud, such as the requirement for lenders to meet certain criteria before being accredited.

387 Accordingly, from the Bank's perspective, the need to design CBILS at speed did not impact its approach to managing financial risk. However, as demonstrated in the section on design of CBILS, HMT / the Chancellor made policy decisions which increased the risk of financial loss and which the Bank advised against – for example, removal of the Portfolio Cap and the change in position regarding the use of personal guarantees.

388 As noted in data published by the Government as at 31 December 2024, 89.01% of CBILS facilities by volume are either fully paid or "*on schedule*". Accredited Lenders have flagged £0.06 billion (£60 million) of £25.83 billion drawn as suspected fraud. [RDM/23 - INQ000593148]

Part C: Coronavirus Large Business Interruption Loan Scheme

1 Summary

389 The Coronavirus Large Business Interruption Loan Scheme or in short 'CLBILS' was the second Guarantee Scheme and launched after CBILS. It was announced by the Chancellor on 20 April 2020. As with CBILS, its purpose was to support businesses but, in this case, larger businesses in need of facilities of up to £50 million and in some cases up to £200 million. The term of the facilities was limited to three years which made it a shorter intervention. The facilities could be extended for instance in case of forbearance. As for CBILS, the benefit of the guarantee had to be passed on from the lenders to the borrowers by way of a reduction in the interest rates charged to the borrowers.

390 There were also some other differences between CBILS and CLBILS. An important one was that CLBILS borrowers did not get the first year of interest

and up-front fees paid by the Government. Another difference was that CLBILS facilities had to be senior or *pari-passu* with a borrower's other senior facilities and there were dividend restrictions. These differences may at least partially explain the more limited uptake by borrowers although still substantial at circa £5 billion in total.

391 The number of delivery partners accredited under CLBILS was more limited (less than 30). This was as expected as only the larger lenders were able to provide these larger, typically more structured, facilities.

2 Introduction

392 British Business Financial Services Limited implemented, manages and administers CLBILS on behalf of the Department for Business and Trade.

393 On the evening of 2 April 2020, the Chancellor announced his intention to launch the CLBILS loan guarantee scheme. The Government webpage announcing the details of this was published on 3 April 2020. [RDM/218 - INQ000593145] As with CBILS, this was to be delivered into the market by high street banks and commercial lenders, to support businesses across the UK that were facing financial disruption due to the pandemic.

394 CLBILS was designed to provide support to the so-called "*squeezed middle*", which comprised UK companies that were too small to be eligible for support via the Bank of England's Covid Corporate Financing Facility, but too big to apply for a loan under the CBILS.

395 CLBILS was launched on 20 April 2020, and borrowers were able to apply for loans with lenders already accredited at that stage (noting that some lenders were accredited under CBILS and were able to apply for CLBILS accreditation pre-launch). Lenders new to the Bank were able to apply for accreditation under CLBILS from 17 April 2020.

396 A summary of the key features of CLBILS (in its final iteration, following all amendments) is as follows:

(a) **Borrower eligibility:**

(i) the relevant applicant or the applicant's group was or would be engaged in trading activity in the UK at the initial draw down date. Where an applicant received income from sources other than its trading activity, more than 50% of that income (together with its group) had to be derived from trading activity at the initial drawdown date;

(ii) minimum turnover of £45 million;

(iii) not a credit institution / bank, building society, insurer, or classified to the public sector by the Office for National Statistics;

(iv) either:

(1) if the applicant's undertaking was an Undertaking in Difficulty as defined in Article 2(18) of the Commission Regulation (EU) No 651/2014 as at the date they applied for the scheme facility, the undertaking was not an Undertaking in Difficulty as at 31 December 2019;

(2) the applicant's undertaking was not an Undertaking in Difficulty as at the date on which the applicant applied for a scheme facility;

(v) the applicant had confirmed to the lender it had been impacted by the pandemic and the lender considers the Applicable to be viable. Viable meant that the applicant or the applicant's group has a viable business proposition assessed according with the lenders' normal commercial lending criteria, provided that, if the lender has some concerns over the short-to-medium term business performance due to the uncertainty and impact of the pandemic, the lender reasonably believes (a) the Proposed Scheme Facility will help the applicant trade out of any short-to-medium term cashflow difficulty and (b) if the Proposed Scheme Facility is granted, the applicant should not go out of business in the short-to-medium term;

(b) **Further restrictions:** companies borrowing more than £50 million are subject to further restrictions on dividend payments, senior pay and share buy-backs;

(c) **Support offered per business group:**

(i) minimum of £50,000;

(ii) maximum of £50 million borrowing from lenders with standard accredited under CLBILS; and

(iii) maximum of £200 million borrowing from certain lenders accredited under the **Larger Scheme Facility** of CLBILS – Lenders offering Larger Scheme Facilities had to undergo an additional accreditation process to check suitability. Loans above £50 million had to be reviewed by the Bank's Investment Committee;

(d) **Security:** lenders were entitled to lend under CLBILS even where there was sufficient security to cover the loan;

(e) **Seniority:** lending provided under CLBILS had to be ranked as "*senior*" or *pari passu* with other senior lending to the same borrower, with some carve outs for asset financing facilities;

(f) **Personal guarantees:** lenders could not take personal guarantees for CLBILS facilities below £250,000. Lenders could take personal guarantees from individuals for lending to an entity under CLBILS where the facility was over £250,000. Recoveries under any such personal guarantees were capped at a maximum of 20% of the outstanding balance of the CLBILS facility after the proceeds of business assets had been applied;

(g) **Interest rate:** interest rate varied by lender;

(h) **Repayment period:** up to three years;

(i) **Finance type:** term loans, revolving credit facility, invoice finance, and asset finance;

(j) **Early repayment:** varied by lender; and

(k) **Government guarantee:** Up to 80% of losses for loans made under the scheme. Accredited Lenders had to pay a lender scheme fee to the Government for each facility made under the scheme.

397 As noted above, it fell outside the Bank's usual remit as it concerned the provision of finance to larger businesses. However, its delivery was permissible under the Bank's articles of association.

398 Data for the period ending 31 December 2024 shows that, for CLBILS, 720 facilities were provided, totalling around £4.54 billion in value. This was lower than in relation to CBILS. The reason for this is that the total number of large companies that met the eligibility criteria was lower than the number of small-to-medium sized enterprises that met the eligibility criteria for CBILS or BBLS – as shown below in relation to demand forecasting.

2 Scheme Design

(i) Introduction

399 As with CBILS, the design, development and implementation of CLBILS was a collaborative effort between HMT, the Department for Business, Energy and Industrial Strategy, the Bank and external legal advisers. In summary:

(a) the Chancellor / HMT made the decision to launch CLBILS, and set the high level policy, including the scheme parameters;

(b) The Department for Business, Energy and Industrial Strategy, as the Shareholder of the Bank, was responsible for providing instructions to the Bank on implementation – including providing related advice and seeking clearance from the Secretary of State for the Department for Business, Energy and Industrial Strategy. The Department for Business, Energy and Industrial Strategy was also responsible for making an umbrella notification on behalf of the UK to the European Commission under the State aid Temporary Framework (**Umbrella Notification**). The umbrella notification was not specific to CLBILS, however it meant that CLBILS could be offered; and

(c) the Bank shared its expertise, analysis and advice with HMT and the Department for Business, Energy and Industrial Strategy during the design stage which followed announcement of the scheme, and led on delivery, including drafting the Guarantee Agreement to reflect the parameters of CLBILS.

400 Following the work undertaken on CBILS, the parameters of the Temporary Framework being known pre-launch, and the European Commission's approval of the Umbrella Notification on 6 April 2020, CLBILS was more straightforward to implement than CBILS (which involved multiple changes from the Chancellor / HMT).

401 CLBILS was designed to address the gap between businesses that were too large to be eligible for CBILS, but not large enough to access financing from the Bank of England's Covid Corporate Financing Facility – the so called "*squeezed middle*". The maximum turnover for eligibility under CBILS was £45 million and the minimum under CLBILS was £45 million – accordingly, there was no gap between the two schemes.

402 Key aspects of CLBILS design which came up for discussion throughout April 2020 and prior to launch (as described more fully below) included:

(a) whether to use CBILS / Enterprise Finance Guarantee as the foundations for CLBILS, or to use the ENABLE guarantee programme (the foundations for the scheme are referred to as the "*rails*" in the documentation);

(b) ensuring that the Guarantee Agreement was in a form that would allow lenders to claim regulatory capital relief under the Capital Requirements Regulation. This was done in conjunction with the Bank of England and meant that the scheme did not contain a Portfolio Cap or the requirement that lenders need to have exhausted recoveries efforts to claim under the Guarantee Agreement);

(c) removing the condition that lending be "*additional*" to lending which a borrower could secure on commercial terms;

(d) removing the £500 million revenue eligibility cap, but adding a requirement that businesses that had obtained support under the Covid Corporate Financing Facility were not eligible; and

(e) clarifying the restrictions of a single loan per group in the context of companies which were owned by private equity groups.

403 The Bank was instructed by HMT / the Department for Business, Energy and Industrial Strategy on policy in this regard, and the CLBILS Guarantee Agreements were drafted to reflect these requirements. This was done in discussion with the Department for Business, Energy and Industrial Strategy, HMT and large lenders that would look to become accredited under the scheme.

(ii) Objectives

404 There were no formal objectives defined for CLBILS prior to launch although, as explained, the intention was for this to address the gap between the Covid Corporate Financing Facility and CBILS.

405 I refer to paragraphs 188 to 192 for a discussion of the other informal objectives of the CLBILS scheme prior to launch, and the formal objectives developed post-launch in conjunction with the Department for Business, Energy and Industrial Strategy.

(iii) Chronological development of the scheme to launch on 20 April 2020

a. <u>Early consideration</u>

406 By 27 March 2020, there were already discussions in the press about the "*squeezed middle*" – being those companies that were too large to obtain financing under CBILS but too small to be eligible for the Bank of England's Covid Corporate Financing Facility. [RDM/219 - INQ000594603]

407 However, I am not aware of much information being provided to the Bank around this time and until 2 April 2020 in relation to policy thinking.

408 By 2 April 2020, following a discussion about value for money and forecasting (which I set out separately below), the Department for Business, Energy and Industrial Strategy noted that "*the situation has crystallised into the current parameters:*

- *Loans up to £25m*
- *SME Turnover £45m £500m (working assumption is that around 3,700 will be eligible)*
- *HMG loan guarantee of 60%*

- *No portfolio cap (not for CBILS just for this population)*
- *No interest relief (e.g. like in the case of CBILS)*
- *No PG whatsoever (so even for £250k+)*

Re-financing cap of 20%" [RDM/220 - INQ000594628]

b. Announcement and "*rails*" options

409 On 2 April 2020 at 11:33, the Policy Director took a call from HMT in which they stated the Chancellor / HMT would make a decision within the next hour on "*C Large BILS*". [RDM/221 - INQ000594627]

410 On the evening of 2 April 2020, the Chancellor announced his intention to launch the CLBILS loan guarantee scheme to address the "squeezed middle" gap. The Bank were notified earlier that day that this announcement was going to be made. [RDM/222 - INQ000594630 and RDM/223 - INQ000594631]

411 The Government webpage in relation to CLBILS was published on 3 April 2020. [RDM/218 - INQ000593145] At this stage, key aspects of eligibility included that the annual turnover of the business was between £45 million and £500 million, and the borrower would be unable to secure regular commercial financing (i.e., any lending under CLBILS had to be "*additional*" – also referred to as "*additionality*" in the documents).

412 On 3 April 2020, following a call with the Bank and the Department for Business, Energy and Industrial Strategy the prior day, HMT circulated an early draft term sheet to the Bank. [RDM/224 - INQ000594634] [RDM/225 - INQ000594636] [RDM/225A - INQ000594635] At this stage, the maximum amount of finance to be offered under the scheme was £25 million and the £500 million revenue eligibility cap applied, however there was to be no use of personal guarantees and no Portfolio Cap.

413 The Policy Director responded on 4 April 2020 to confirm that the Bank was working on a slide deck that set out a path to implementation, including the pros and cons of the different approaches. [RDM/226 - INQ000594637]

414 Patrick Magee provided this to the Department for Business, Energy and Industrial Strategy and HMT on 5 April 2020. [RDM/227 - INQ000594641 and RDM/228 - INQ000563929] The two "*rails*" (foundations) discussed for the basis of CLBILS were "*loan level guarantee rails, including CBILS Portal and CBILS documentation*", or "*wholesale guarantee rails, including data warehouse and capital market documentation*". The latter, broadly, aligned with the Bank's existing ENABLE guarantee scheme, under which the Bank provided guarantees on a portfolio basis to lenders rather that in relation to individual eligible loans.

415 The document provided highlighted a number of concerns with using the "*CBILS rails*", including lenders struggling with the limitations of the Guarantee and Wholesale Solutions Guarantees Platform (as discussed above at paragraphs 144 to 145), and also in relation to regulatory capital relief.

416 HMT raised various queries over 6 April 2020, noting that engagement with lenders was needed to decide on which rails to use, and noting that the issue of regulatory capital would be the same either using the Enterprise Finance Guarantee / CBILS rails or the ENABLE programme rails. [RDM/229 - INQ000594643]

c. <u>Capital relief and decision on "*rails*"</u>

417 From 6 April 2020 to 8 April 2020, there were various discussions between the Bank, the Department for Business, Energy and Industrial Strategy, HMT and the Bank of England around the changes that would need to be made to any CLBILS Guarantee Agreement to allow lenders to benefit from regulatory capital relief (there are multiple chains of the relevant emails, and I exhibit unique chains). [RDM/230 - INQ000594646, RDM/231 – INQ000609062, RDM/232 - INQ000595775, RDM/233 - INQ000595776, RDM/234 - INQ000595777]

418 As summarised by Name Redacted (Head of Asset Management Policy, seconded to Business Lending at HMT) on 7 April 2020 at 15:57:

"*We discussed the tweaks needed to make the EFG model CRM-able:*

- *The guarantee needs to be amended such that it covers fees and interest, with some work to define "excessive fees"*
- *Clarity on how much effort the lender should expend in trying to recover the money before the guarantee can be called*
- *Clarity that the guarantee no longer applies where lenders breach their annual lending limit (noting that the claims limit is a function of this previous limit)*
- *Comfort that the timing of any payout is consistent with CRR, noting that even if this time limit was set quite short (e.g. 3 months), the lender would still have skin in the game to recover the unguaranteed portion of the loan, and any additional funds could be repaid to HMG*

We agreed that none of these are showstoppers, although the first point on fees will require ministerial cover given the fiscal impact, and further detailed discussions would be required. The other issues, while clearly important, are contractual/operational matters and don't require ministerial cover.

*If the more detailed conversations that follow our call throw up any problems we will need to know by **8pm tonight** to feed into advice which we're intending to put to ministers late tonight.*

If there is anything meaningful you can provide by way of analysis to estimate the fiscal impact of this tweak – e.g. the proportion of fees and interest as a percentage of a typical loan – it would be a great help."

419 Following these discussions, it was fairly clear what needed to be done to ensure lenders could benefit from regulatory capital relief under CLBILS. In relation to recoveries, as shown in the CLBILS Guarantee Agreement, Accredited Lenders did not have to exhaust specific recoveries processes before being entitled to claim for losses under the Guarantee Agreement but could claim within a reasonable period of making a formal demand. The

Government was not entitled to cancel the Guarantee Agreement except where the Accredited Lender was at fault.

420 Accordingly, on 7 April 2020 at 17:12, Patrick Magee emailed me and others in the team stating:

"*See below, Gwyneth called around 4.15 and she said on CLBILS:*

- *Deciding to go with CBILS rails, given Bank and BOE feedback*
- *Agreed it was OK to have a separate CLBILS agreement so as not to pollute the CBILS processes and create separate caps etc*
- *She is asking David Raw to do more on additionality, think he is speaking to RBS and other*
- *In the CLBILS agreement we should incorporate*
    - *BOE feedback to get CRR treatment*
    - *20% PG limit as per CBILS*
    - *Ability to include syndicated loans*
    - *Option for people to use portfolio reporting*
- *I cautioned her that I thought banks were looking for largest possible scheme and didn't want additionality limitations, I thought the policy restrictions would make that politically difficult.*"
  [RDM/235 - INQ000594647]

d. Refining the terms to launch

421 From around 7 April 2020 and until 19 April 2020, the Bank worked with the Department for Business, Energy and Industrial Strategy and HMT, with input from lenders and UK Finance (as an industry body on behalf of lenders) in preparing the CLBILS Guarantee Agreement. There were numerous chains of emails between the parties noted, and I exhibit key email chains to this statement and provide a summary below.

e. <u>Discussions with the Department for Business, Energy and Industrial Strategy and HMT</u>

422 From 10 April 2020 to 17 April 2020, in discussions with HMT and the Department for Business, Energy and Industrial Strategy, HMT / the Chancellor made the below policy decisions and communicated these to the Bank [RDM/236 - INQ000595778, RDM/237 - INQ000595779, RDM/238 - INQ000594650, RDM/240 - INQ000594661, RDM/244 - INQ000594667]:

(a) the additionality of lending requirement was removed;

(b) CLBILS debt was not to be subordinated to pre-existing debt – it must rank as "*senior*" or *pari passu* with senior debt (see term sheet circulated by the Bank to HMT on 10 April 2020) [RDM/237 - INQ000595779];

(c) the ability for lenders to use personal guarantees for loans of above £250,000, but in relation to no more than 20% of the outstanding debt after applying business assets to recoveries, was reiterated;

(d) the turnover cap of £500 million was removed, meaning businesses could be eligible for either Covid Corporate Financing Facility or CLBILS. Accordingly, wording was added to make them mutually exclusive; and

(e) wording regarding direct data collection by HMT from lenders was to be included in the CLBILS Guarantee Agreement.

423 There were also a number of specific discussions in these emails, including on the private equity exemption from the group lending restrictions.

424 On 16 April 2020, David Raw emailed Patrick Magee in relation to the private equity exemption, noting:

"*Any company with a private equity backer (even where the backer has a dominant stake) will be treated as a separate company for the purposes of assessing turnover.*

In addition each of these separate companies should be eligible to a separate loan (of £5m in CBILS and £25m or £50m in CLIBILS (sic) depending on whether the turnover of that company is above or below £250m).

This only applies to private equity. For all other company structures (including joint ventures) I would expect turnover to be assessed at the level of the group and for each group to be eligible for one loan under either CBILS or CLBILS depending on size of the group." [RDM/246 - INQ000594666]

425 David Raw acknowledged Patrick Magee's concerns around the lack of an established definition to use for the private equity exclusion and the risks of other groups claiming they fell within the exclusion.

426 On 16 April 2020, as CLBILS approached launch, David Raw emailed Patrick Magee, the Commercial and Products Director (Director, in Guarantee and Wholesale Solutions at the Bank) and me at the Bank with the subject title "*Confirmation of Final Decisions from Chancellor*" to capture various technical decisions made around the scope of CLBILS. [RDM/247 - INQ000595781]

427 Separately on the same day, HMT announced the expansion of CLBILS as originally intended to remove the maximum £500 million revenue eligibility cap. [RDM/248 - INQ000593139] All firms with a turnover of more than £45 million would therefore be able to apply for up to £25 million of finance, and up to £50 million for firms with a turnover of more than £250 million. This condition was already in circulation in the draft term sheets being discussed at this time.

f. Discussions with / input from lenders

428 On 9 April 2020, Gwyneth Nurse emailed various large lenders that intended to seek accreditation under CLBILS, copying the Bank and HMT, noting that the Chancellor had taken the decision that CLBILS should be delivered on Enterprise Finance Guarantee rails. [RDM/249 - INQ000594651] Gwyneth Nurse also noted the Bank would be circulating a draft term sheet.

429 On 13 April 2020, Patrick Magee responded to Gwyneth Nurse's email, attaching a draft term sheet for comment by lenders, with a call to be

scheduled for the following day. [RDM/249 - INQ000594651 and RDM/250 - INQ000594652]

430 Following this call, on 14 April 2020, David Raw circulated a list of outstanding questions from lenders. [RDM/251 - INQ000595780] This included:

(a) confirmation from HMT that the policy was for CLBILS loans to be ranked as "*senior*" and *pari passu* with other senior obligations (and therefore higher ranking for repayment than other subordinated debt);

(b) Patrick Magee had recommended that CLBILS' loan length be three years, rather than two;

(c) up to 20% of facilities granted could be used to refinance existing debt, in line with the position on CBILS;

(d) noting that there were outstanding queries in relation to exporters; and

(e) querying whether turnover should be captured at group level in relation to private equity owned companies, and restrictions on loans to such groups (this was resolved as noted above).

431 Following the inputs from HMT noted above, various additional drafts of term sheets went to lenders for their comments on 15 and 16 April 2020; I do not set out all of these comments here, noting that they did not fundamentally change overall policy on CLBILS. [RDM/249 - INQ000594651, RDM/250 - INQ000594652, RDM/252 - INQ000594657, RDM/253 - INQ000594658, RDM/254 - INQ000594659]

g. <u>Ministerial Direction and Instruction</u>

432 On 16 April 2020, Sam Beckett (the then Acting Permanent Secretary and Accounting Officer at the Department for Business, Energy and Industrial Strategy) sent a letter to Alok Sharma, noting that CLBILS had features in common with CBILS (as was anticipated at that date), "*with several key*

changes that seek to meet the needs of businesses and lenders while paying regard to value for money", including:

(a) no turnover cap (as previously announced on 2 April 2020, companies with turnover of over £500 million would have been ineligible for a loan under CLBILS, however this changed with HMT's announcement on 16 April 2020);

(b) maximum loan size of £25 million for businesses with turnover of less than £250 million p.a. and £50 million otherwise;

(c) maximum loan term of three years;

(d) no business interruption payment; and

(e) no Portfolio Cap. [RDM/255 - INQ000563960]

433 However, Sam Beckett noted that there was little robust data to rely on to judge that the scheme parameters were optimal, stating "*I appreciate that these weak data and therefore large range of possible outcomes does not provide for a solid basis for a decision, but reflects the position we find ourselves in.*"

434 Sam Beckett noted a number of additional safeguards that had been considered, including:

(a) reducing the level of guarantee, for example to 75% (which was the level under Enterprise Finance Guarantee);

(b) reinstating the additionality test (i.e., by restricting eligibility to businesses who are unable to access finance on fully commercial terms); and

(c) announcing funding in tranches and subject to an overall cap, to allow for reviewing the actual market impact of the scheme progressively and, if necessary, introducing refinements or acting to limit further losses to the taxpayer.

435 Sam Beckett further stated:

"*the above do carry additional downside risk either in terms of requiring additional time or reducing the attractiveness of the scheme to recipients or lenders. […] To sum up, the potential for economic damage created by the coronavirus pandemic creates a strong case for Government intervention. My assessment is that risks around regularity, propriety and feasibility are manageable. However, the uncertainty around value for money and risks regarding additionality of the proposed scheme means that Managing Public Money requires that I ask for a written direction from you if you wish to proceed with CLBILS. On receipt of your direction I will then proceed accordingly to implement the scheme.*"

436 On the same day, Sam Beckett received a response from Alok Sharma stating (in part):

"*Whilst I note your suggestion of potential additional safeguards for the scheme, I agree with your assessment that given the severity and urgency of the situation facing businesses, these proposals cannot be considered any further before the scheme is announced in detail and taken live. As you note in your letter, to respond to the crisis in a timely fashion, this intervention has been developed at speed and currently there is not enough robust information that you can rely upon to judge that the scheme parameters are optimal. As you say, the prospect of very substantial losses in the worst cases is not a scenario you anticipate and there will be opportunities to take action if there are signs that we might be heading in that direction.*

The Chancellor has given me approval to proceed and I am prepared to provide support for the introduction of this scheme as soon as practicable. I am therefore formally directing you as Accounting Officer to take this forward with immediate effect." [RDM/256 - INQ000563962]

437 Accordingly, on the same date, following advance notice from the Department for Business, Energy and Industrial Strategy, Sam Beckett instructed the Bank to proceed with the implementation of CLBILS (see section 6 below on Implementation). [RDM/257 - INQ000594662, RDM/258 - INQ000563963]

h. Finalising CLBILS Guarantee Agreement

438 Following the direction from the Department for Business, Energy and Industrial Strategy, and discussions with the Department for Business, Energy and Industrial Strategy, HMT and lenders over the prior weeks, on 17 April 2020, the Commercial and Products Director sent a final draft term sheet and draft CLBILS Guarantee Agreement to lenders, along with details on the accreditations process. [RDM/259 - INQ000594668]

439 The Bank received various comments from lenders, which I do not set out here since they did not change CLBILS policy, and made adjustments to the draft CLBILS Guarantee Agreement.

440 CLBILS officially launched on 20 April 2020. I exhibit examples of the versions of the Guarantee Agreements and supplements as were sent out. [RDM/260 - INQ000595786 (CLBILS Term Loan Supplement), RDM/261 - INQ000595787 (Revolving Credit Facility Supplement), RDM/262 - INQ000595788 (Guarantee Agreement)]

(iv) Economic analysis and value for money

441 The Department for Business, Energy and Industrial Strategy had primary responsibility for assessing the value for money of CLBILS, with HMT / the Chancellor approving the budget for the Department for Business, Energy and Industrial Strategy (as the responsible Governmental department for CLBILS), who in turn provided cover and a direction to the Bank to implement CLBILS as described above.

442 The Bank conducted its own internal analysis and provided a range of economic analysis and value for money commentary in relation to CLBILS. However, these were inherently uncertain in light of the unprecedented nature of the pandemic. The Bank was a centre of expertise for Small and Medium Enterprise financing, and a scheme intended to target much larger companies was not within our Business As Usual operations. I provide an overview below.

443 On 27 March 2020, Patrick Magee asked who within the Bank could provide some assistance on sizing demand from the "*squeezed middle*". A Senior Manager responded later that day and provided estimates of potential

demand from firms earning between £45-100 million using two methods – the Business Finance Survey and the FAME. [RDM/263 - INQ000594610 and RDM/264 - INQ000594611] It was noted that, given the speed at which the estimates were produced, it was difficult to arrive at a point estimate and there were risks of modelling errors.

444 On the evening of 31 March 2020, following discussions on CBILS, Name Redacted emailed the Senior Economist stating (my emphasis):

"*As we briefly discussed on the phone I wanted to pre-warn people that there will be another commission on the forgotten middle.*

So vfm and costs for extending the now CBILS+ for the cohort of those SMEs who's turnover is >£45m. Working assumption is that this is around 3,000 businesses.

I have already warned people this ***end of the building that BBB are unlikely to be able to model such a niche change****, but grateful for your conformation. Also if not possible, can we have some* ***qualitative assessment*** *of both vfm and cost implications tomorrow?*"
[RDM/144 - INQ000594625]

445 Separately on 31 March 2020, Laurence Pawley (Strategy and PMO at the Department for Business, Energy and Industrial Strategy) contacted the Policy Director to obtain some analysis on the "*stranded middle*". The Senior Economist was copied into this chain by the Bank, and the Department for Business, Energy and Industrial Strategy acknowledged that the Senior Economist was going to provide some outputs that will "*most probably be qualitative as the current model is not equipped for such a niche change involving 3,000 – 5,000 companies*". [RDM/220 - INQ000594628]

446 The Senior Economist provided input on 1 April 2020, setting out analysis of the number of UK firms within the turnover bands of £0-49 million, £50-99 million, £100-499 million, £500-199 million and £1,000+ million. He also provided some qualitative analysis of value for money, noting that arguably the value for money ratio would be better or at least no worse than the Small and Medium Enterprise focused CBILS. [RDM/220 - INQ000594628]

447 By 2 April 2020, following a discussion about value for money and forecasting (which I set out separately below), the Department for Business, Energy and Industrial Strategy noted the intended parameters of CLBILS and requested if that would fundamentally change the Senior Economist's assessment in terms of value for money, to which the Senior Economist responded that it would not.

448 On 9 April 2020, HMT asked the Bank to provide them with costings based on a two and three year tenor for CLBILS. HMT were to prepare the contingent liability checklist for CLBILS and I understand the Bank's input would assist with this. [RDM/265 - INQ000594654] I have not seen a copy of the contingent liability checklist HMT ultimately prepared for CLBILS.

449 Following discussions between them, the Bank provided this input by 14 April 2020. [RDM/265 - INQ000594654]

(v) State aid

450 CLBILS was developed in accordance with the umbrella notification made by the Department for Business, Energy and Industrial Strategy. This is not a Bank document, and I understand that it is publicly available.

3 Amendments to CLBILS

(i) Notification of amendments

451 On 12 May 2020, **Name Redacted** emailed Patrick Magee, stating:

"*Over the last couple of weeks we have been engaging with banks and businesses and it has become clear that there is a need for further government support in the gap between CCFF* [the Bank of England's Covid Corporate Financing Facility] *and CLBILS.*

Without wanting to be the bearer of bad news, the CX is minded to increase the cap under CLBILS – the other options being explored elsewhere in HMT were unfortunately not workable.

We are hopeful that this can be an addendum to CLBILS, rather than an entirely new scheme – which hopefully reduces the amount of work for all involved!

Some of the issues we will need to work through include:

- *Restrictions/conditions – CX wants tighter restrictions on recipients of these larger loans. In particular he wants to ban dividend payments for the duration of the loan and also have constraints on executive remuneration. We're working this up internally and should have a clearer view of the desired policy outcome soon.*

- *Loan cap – we are minded to go for the maximum permissible under the State Aid framework, subject to an overall ceiling of, say, £100-200m.*

- *But with these bigger loans we are exposed to more risk and therefore even more reliant on lenders credit decision – so we would welcome a discussion of whether the accreditation could be (or needs to be) enhanced, to make sure we are only allowing the highest quality lenders to lend this big sums.*

It would also be good to touch base on accreditation more broadly – is it still just 7 banks which are accredited under CLBILS? We would assume that others would want to come on board too, including JPM and Standard Chartered, particular if we lift the cap.

Could we get together for a discussion at some point this today or early tomorrow to discuss the way forward?" [RDM/266 - INQ000594723]

452 Patrick Magee responded and copied various people from the Policy and Legal teams at the Bank. Following this, the Bank spoke with HMT on the same day, and **Name Redacted** of HMT followed up later to set out what was discussed. In this email, he stated:

"*A quick email to capture our discussion just now:*

Restrictions

There are a range options for restrictions:

- *Ban on paying dividends (CX request)*

- *Executive pay restraint (CX request)*

- *Restrictions on share buy backs*

- *Adherence to the prompt payment code*

There will be some challenges about monitoring and enforcement for lenders – particularly as the only available sanction is to call the loan in default. We should consider whether this is appropriate for all these restrictions – such as the non-binding prompt payment code.

We also need to consider whether these apply only to loans in excess of the existing £25/50m caps. The benefit of doing so would be:

- *We avoid giving the impression that we got the scheme "wrong" in the first place and we are having to correct our mistakes*
- *We avoid complicated issues with determining the cut-off for lending still in the pipeline, and accusations of unfairness for businesses which have already got CLBILS loans under more lenient rules (restrictions will not be retrospective)*

Laurence – could you find out who are the right people in BEIS who should engage on this issue? We will need to dive down into each of the 4 issues above to consider how workable they are. For example there are already challenges with applying the CLBILS restrictions to UK subsidiaries of international groups (does the restriction apply at group level?)

Loan size

We will need to decide on the appropriate loan size (note summary of BoE analysis at the bottom of this email). Bigger loans to larger corporates means we may need to consider whether restructuring constitutes a guarantee trigger – Reinald/BBB, you were going to consider this point further.

Accreditation

There is some nervousness in HMT about outsourcing credit decisions for such large loans entirely to banks, and we want to make sure they are up to the grade. This is not BBB's normal territory, so some thought should be given to how we can ensure that accredited lenders have the appropriate track record – possibly including some consultation with HMT about accreditations going forward.

Timing

CX (as ever) is keen to move swiftly and HMT noted challenges, particularly as regards the launch of FF which is launching [this week?].

State Aid

Noted that £6bn of 10bn headroom has already been used in the SA umbrella notification. BEIS – can you take this forward and do the necessary arithmetic?

Summary of BoE analysis

BoE think there are 6,500 firms with turnover greater than £45m (note this revised baseline up from 4,800, as they have used a combination of different databases to produce a more reliable estimate)

Of these, around 400 are eligible for the CCFF.

And around 1900 are likely outside of banks' risk appetites (representing 12.6% of turnover and 7.7% of employment). Not all of these firms will will (sic) need additional funding. Of this 1,900, around 1,670 are expected to need additional funding (10.3% of total turnover and 6.9% of employment)

This leaves around 4,200 eligible for CLBILS ~ 70%

In total, BoE think around 570 will need more finance than the CLBILS limits – note that this is the figure before the creditworthiness/risk appetite filter has been applied. Of these, they think that around 200 of these are within risk appetite – around 35% Doubling the loan caps to 50/100m roughly halves the number which bump up against the cap." [RDM/266 - INQ000594723]

453 Laurence Pawley (Strategy and PMO at the Department for Business, Energy and Industrial Strategy) responded that day, noting the Department for Business, Energy and Industrial Strategy would need to consider the impact the changes would have on contingent liability, and whether the changes would materially impact the Department for Business, Energy and Industrial Strategy's prior Accounting Officer advice. They also identified certain persons within the Department for Business, Energy and Industrial Strategy

that could assist HMT with the proposed restrictions that would come with the increased lending amount. [RDM/266 - INQ000594723]

(ii) *Economic analysis and value for money*

454 The Bank then discussed this via email internally on 12 and 13 May 2020. [RDM/266 - INQ000594723, RDM/267 - INQ000594714 and RDM/268 - INQ000594722] In summary, the Policy Director stated he had asked for more data, and noted HMT did not appear to be decided on how high to cap the loans under CLBILS. Accordingly, the Policy Director noted that whilst HMT appeared to have made a decision on increasing the loan cap, this was an area that the Bank could still provide input, in addition to discrete elements such as share buybacks and prompt payment. The Policy Director also noted that the Board would need to consider the expansion, and the extension "*will be instruction / direction territory again*". The Policy and Strategy Senior Manager also provided some comments internally on the Bank of England's analysis for increasing the maximum value of individual loans under CLBILS. In summary, the Policy and Strategy Senior Manager noted that the changes would increase facility limits above £50 million for those businesses with a turnover of above £250 million, but queried whether many firms in the £45 million to £250 million revenue bracket were also constrained by the CLBILS limits – for which the lending cap at that stage was £25 million. The Policy and Strategy Senior Manager commented that average facility size under CLBILS appeared to be only £10 million on aggregate, and noted:

(a) if average facility size was only £10 million, whether extending the scheme for lending values beyond £50 million would make a difference;

(b) whether there was a case for extending the £25 million cap for firms with revenue up to £250 million; and

(c) that doubling the £50 million overall cap (for firms with over £250 million in revenue) would help only a quarter of firms hitting the current cap. Accordingly, the Policy and Strategy Senior Manager suggested going beyond £100 million to avoid piecemeal increases in the overall cap.

455 By 19 May 2020 on the same email chain with the Department for Business, Energy and Industrial Strategy and HMT, the Policy Director noted that the Department for Business, Energy and Industrial Strategy was preparing advice to their Accounting Officer and checked whether the Bank's economists were in touch with the Department for Business, Energy and Industrial Strategy economists. [RDM/266 - INQ000594723] The Policy Director stated also that the Board would need to form a view on the potential scale of the changes and how significant any value for money issues were likely to be.

456 The Senior Economist responded on 20 May 2020 noting that he had spoken to the Department for Business, Energy and Industrial Strategy analysts, and they were preparing the Accounting Officer advice, which would be "*largely qualitative*". He noted that the Department for Business, Energy and Industrial Strategy would share a draft that afternoon, which would allow consistency when the Bank prepared material for the Board.

457 Later that day, the Department for Business, Energy and Industrial Strategy provided a short write-up of their numbers for their Accounting Officer advice, and the Senior Economist provided comments in a draft on the same day. [RDM/269 - INQ000594724, RDM/270 - INQ000594725]

(iii) HMT announcement

458 On 19 May 2020, HMT announced that, from 26 May 2020, CLBILS would be expanded for certain large businesses to increase the maximum loan size under the scheme from £50 million to £200 million, to "*help ensure those large firms which do not qualify for the Bank of England's Covid Corporate Financing Facility (CCFF) have enough finance to meet cashflow needs during the outbreak*". [RDM/271 - INQ000593144]

459 HMT stated: "*Companies borrowing more than £50 million through CLBILS will be subject to restrictions on dividend payments, senior pay and share buy-backs during the period of the loan, including a ban on dividend payments and cash bonuses, except where they were previously agreed*". HMT noted that these changes were to be introduced "*following discussions with lenders and business groups*".

460 This announcement was made without consultation with the Bank.

461 On 21 May 2020, Graeme Fisher (Managing Director, Policy at the Bank) spoke to Gemma Peck (then Co-Director of Business Growth at the Department for Business, Energy and Industrial Strategy) about a possible letter of concern to be sent from the Board to the Department for Business, Energy and Industrial Strategy in light of the proposed expansion of CLBILS. the Policy Director followed up on that day to provide the text of the proposed letter to the Department for Business, Energy and Industrial Strategy. [RDM/272 - INQ000594730]

462 This was discussed at a Board Meeting on 22 May 2020, at which a paper prepared by the Policy Director on the CLBILS amendments was considered. [RDM/273 - INQ000595905] [RDM/274 - INQ000594728, RDM/275 - INQ000594729] This Board paper included an annex on value for money, noting that "*Analysis of the CLBILS extension loans strongly suggests that this positive conclusion on vfm remains valid. Economic benefits are measured by the additional contribution to the economy from businesses who receive an extended CLBILS loan which enables them to survive and recover.*"

463 The Board Minutes noted, in summary, that:

(a) the Board was being asked to note the proposed expansion and associated changes an decide on the Bank's preferred response to the expected instruction from the Department for Business, Energy and Industrial Strategy;

(b) there were no issues surrounding value for money, the programme was feasible (albeit complex) and sat outside the Small and Medium Enterprise space (which was the Bank's Business As Usual area of expertise); and

(c) the content of the draft letter from Keith Morgan should be amended with input from Ceri Smith to note these points and was to be approved by the Chair prior to being sent. The letter should include "*reference to the Chancellor making a public announcement regarding the programme prior to consultation with the Bank*".

464 The Policy Director provided an updated letter to the Department for Business, Energy and Industrial Strategy on 22 May 2020.

[RDM/272 - INQ000594730] This was sent on the same day on behalf of Keith Morgan to Sam Beckett. [RDM/276 - INQ000594731and RDM/277 - INQ000564043] This letter stated:

"*I understand that you expect to issue an instruction to us to extend the CLBILS scheme from 26 May for loans up to £200m. I also understand that this will confirm that the extension falls within the remit of the Ministerial Direction originally provided to you to implement CLBILS. In light of that, I can reassure you at the outset that the Bank's Board has agreed its intention to accept your instruction without raising formal reservations.*

This instruction has followed the Treasury announcement of 19 May committing the Bank to extend the scheme. This sequencing clearly limits the scope either of us have to influence the policy direction or commercial negotiations in accordance with our respective responsibilities, as negotiations on policy details and delivery are taking place with the large banks in the context of an announcement already having been made. There may have been no alternative to this sequence in this instance, given the urgency of required policy responses, but I feel I should record that it places the Bank in an uncomfortable position. We believe we would achieve better outcomes if we were fully engaged before announcements are made. We have discussed this with your officials and they agree with this and to work with us towards it, recognising the constraints that unique circumstances can impose.

This has been a rapid piece of policy, product and operational thinking. We have worked with colleagues in BEIS and HMT to put together the outline of how an extended scheme might work, together with some improvements to the operation of the underlying CLBILS scheme, taking into consideration:

- *the design parameters outlined by the Chancellor;*
- *our assessment of the risks of lending significantly larger sums to mid-cap and large cap businesses, and the likely complexity of those facilities;*
- *feedback from current CLBILS scheme operations; and*
- *discussions with the larger banks.*

This work will form the basis of the scheme's implementation on Tuesday.

I am writing at the Board's request to ensure that you are fully aware of some key risks. If these are not adequately mitigated, there could be significant consequences for the Bank and Government, as well as a risk of the product not having the desired effect in the market.

Whilst we have guarantee structuring skills that will be helpful in advising on the design and implementation of the scheme and are confident that we can deliver it next week, this does take us into areas of ongoing operation outside the remit defined in our Shareholder Relationship Framework Document, which is SME and small mid-cap (with the latter being in the commercial arm only). We note, however, that this is intended to be a temporary scheme.

In our core area of SME lending, the loans and financing products are more standardized and suitable for support under delegated lending schemes such as EFG and CBILS. Loans and financing structures in this CLBILS segment will be more complex and there is greater risk that lenders and borrowers will design bespoke structures which could seek to unduly transfer risk to HMG. One option would be to structure the intervention on a more situation specific basis with an ex ante check within Government before a guarantee is approved. But that would be time intensive, may require expertise which is not currently a core skill of the Bank and would involve HMG getting involved at the inception of major transactions. We are pleased that BEIS and HMT have already accepted some proposals from the Bank to protect Government's position.

In running a delegated scheme, the absence of ex-ante approval will increase the importance of scrutiny when guarantees are called. We will likely need to recruit additional staff with financial restructuring expertise, for example, to scrutinise claims to ensure that the guarantee was called upon appropriately and reduce the prospect of the scheme being gamed. There will be a cost implication to this which I would appreciate your assurance will be covered in the usual cost recovery way.

We have been working with BEIS to flesh out and size the target market for the CLBILS extension. Although there is some limited Bank of England data as to the potential number of borrowers, and your analysts have been able to provide us with an associated headline default risk calculation which we have subsequently been able to finesse, we have not been able to develop a value *for money calculation to our preferred standard and level of depth before launching a product. We have taken some reassurance that the likely loan size and changes to the nature of accredited lenders mean that adequate due diligence is likely to precede the granting of any significant facility, but nonetheless we feel obliged to make the point that we have not been able to fully complete the value for money analysis.*

Whilst this initial work does suggest that value for money may be acceptable, the size of individual losses may be significant and high profile. An examination of the top hundred companies below investment grade, which could potentially qualify for the extended scheme, includes several which have very publicly been associated with ongoing and controversial discussions about Government assistance. Clearly, all lending decisions will be made in accordance with lenders' normal practices and risk appetite, but this is a more complex area of lending and there must be a risk that, in extending into this market, the Government is at risk of taking greater losses in ways that are not additional in achieving the policy objective.

In light of these points, I believe we will need to keep the programme under close review. As you know, work is in progress with UKGI to put in place appropriate monitoring of the allocations, exposures and progress of all of the Coronavirus response schemes. In summary, however, the Board has asked me to convey that the Bank stands ready to accept your instruction, and we look forward to working at pace with your officials, UKGI and HMT to make the expanded CLBILS a success."

465 On 24 May 2020, Sam Beckett responded to Keith Morgan's letter acknowledging the concerns raised, explaining that no funding limit had been set by HMT in relation to CLBILS, and that the prior delegated authority provided to the Bank to implement CLBILS remained and further financial cover would be forthcoming to the Bank as necessary to honour the open-ended commitments the Bank were being instructed to make. [RDM/278 - INQ000594733, RDM/279 - INQ000564047] Sam Beckett also stated that the Bank would be permitted to conduct *ex ante* assessments of

proposed facilities that would take a borrower's CLBILS borrowing over £50 million and that:

"*You remain responsible for ensuring that there are robust controls and governance around these financial commitments that, as far as reasonably practicable, ensure public funds are being used appropriately in the context of the agreed parameters of the scheme. Capacity should be allocated at the level that lenders reasonably require to ensure that the scheme is demand-led, as ministers intend it to be, but not beyond that.*"

466 In relation to the *ex ante* checks, for each loan above £50 million, the Bank obtained separate advice from external consultants covering various points, such as the structure of the facility and seniority in relation to other debt.

467 In relation to these robust controls, I refer to Part E section 1 of this statement which deals with accreditation generally, accreditation under CLBILS for the Larger Scheme Facility (noting HMT made the final decision for such lenders), and post-accreditation audits, and Part F in relation to monitoring. Richard Bearman's statement covers work in relation to guarantee claims.

468 As announced by the Bank, the changes took effect from 26 May 2020. [RDM/280 - INQ000593140]

469 Only CLBILS Accredited Lenders that had been approved for the "Larger Scheme Facility" could offer loans of over £50 million and up to £200 million under CLBILS. This was directly responsive to Sam Beckett's comment around allocation of capacity noted above.

4 Extensions and cessation of support

470 I refer to the CBILS section of this statement, which deals with extensions to both CBILS and CLBILS (which were dealt with together).

5 Implementation and Delivery

471 I refer to the CBILS section of this statement, which deals with implementation and delivery.

472 Slight differences include that:

(a) there was an enhanced accreditations process for CLBILS for lenders that wanted to be able to make individual facilities above £50 million available to borrowers, given the larger facility sizes, increased risk of loss in relation to individual facilities, and accordingly the need to ensure only appropriate lenders were able to deliver these loans into the market; and

(b) no separate Lender Manual was prepared for CLBILS, with Accredited Lenders having to rely on the CBILS Lender Manual.

6 Accessibility and targeted support

473 I refer to paragraphs 366 to 377 in relation to CBILS, which covers the same points in relation to CLBILS.

474 A few differences to note include:

(a) For CLBILS, the total universe of potential borrowers and the number of lenders that could service those borrowers was much smaller than CBILS or BBLS because it captured the larger businesses;

(b) These borrowers were likely to be more sophisticated than smaller borrowers, and potentially more able to take steps to obtain support as required;

(c) In relation to CBILS, the Bank had no input on which borrowers Accredited Lenders approved for a facility. In relation to CLBILS, the Bank a right to object to lending over £50 million to a borrower. However, the Bank was not involved in targeting those borrowers.

7 Unintended Gaps

475 The eligibility criteria – as noted above in paragraph 396 – defined the intended gaps within CLBILS, including the financial requirements for businesses to be eligible, sectoral restrictions, and the Undertaking in Difficulty definition.

476 CLBILS was a much larger scheme for a much smaller subset of borrowers. It was designed to cater for those businesses which were too large to be

eligible under CBILS, but too small to be eligible for the Bank of England's Covid Corporate Financing Facility.

477 One gap that existing post launch was Accredited Lenders only being able to provide facilities up to £50 million. This was remedied through the introduction of the Larger Scheme Facility as described above.

8 Risk of Fraud and Error

478 The Bank's approach to fraud prior to the pandemic is set out in the statement of Richard Bearman.

479 During the design of CLBILS, it was not generally considered to be high risk from a fraud perspective noting that Accredited Lenders had to undertake their own eligibility checks on applicants and were liable for up to 20% of losses suffered in relation to facilities made.

480 Whilst CLBILS was designed at speed, CBILS had already been operationalised and formed the basis for this.

481 Accordingly, from the Bank's perspective, the need to design CLBILS at speed did not impact its approach to managing financial risk.

482 As noted in data published by the Government as at 31 December 2024, 97.64% of CLBILS facilities by volume are either fully paid or "*on schedule*". As at that date, there were no CLBILS loans that have been flagged as suspected fraud by Accredited Lenders. [RDM/23 - INQ000593148]

Part D: Recovery Loan Scheme

1 Summary

483 The Recovery Loan Scheme or 'RLS' was launched on 6 April 2021 just after the three initial Guarantee Schemes (CBILS/CLBILS/BBLS) ended on 31 March 2021. Whereas those three initial schemes were mostly focussed on business survival, RLS was more focussed on transitioning towards a business recovery footing.

484 We were aware of the ongoing uncertainty in the Small and Medium Enterprise finance markets which meant that continued intervention was necessary but not at the same scale as before, as the peak impact of Covid

and accompanying public health measures had passed. Changes to the scheme relative to CBILS were therefore made to reflect this adjusted objective.

485 The most important changes were perhaps dropping the Coronavirus Business Interruption Payments (which covered the first year of interest and fees under CBILS) and significantly increasing the scheme lender fee, both of which helped to direct the scheme towards borrowers who could not access the commercial funding that was increasingly available again. Some other changes included an increase in the maximum amount of finance under RLS to £10 million and allowing borrowers who already had a Guarantee Scheme facility to obtain further funding under RLS. Further iterations were made at later stages to adjust the scheme as the market continued to recover and the size of the scheme was tapered down and additionality further increased.

2 Introduction

486 RLS was launched on 6 April 2021 as a successor scheme to the then existing Guarantee Schemes (**RLS 1**). It was due to close to new applications at the end of December 2021.

487 RLS 1 was extended in January 2022, on revised terms (**RLS 2**), and in August 2022, a successor scheme was launched (which, for ease, retained the name "RLS") (**RLS 3**).

488 The approach to the design and implementation of RLS 1 was markedly different to the then existing Guarantee Schemes, being far less fast-paced, due to the easing of the pandemic on the UK economy.

489 On the basis of the impending closure of the then existing Guarantee Schemes, there was urgency in respect of the design and implementation of RLS 1, although this process benefitted from more time than there was available for the Guarantee Schemes. Subsequently, the extension of the Guarantee Schemes resulted in more time being available to focus on the design of the scheme.

490 With improved economic conditions and less urgency for Government support, the Bank was better able to proactively make proposals for the economic intervention, such as driving forward RLS 2 and RLS 3, as well as

discussing proposals with HMT and the Department for Business, Energy and Industrial Strategy, and seeking input from lenders and industry bodies.

491 RLS 3 eventually closed to new applications on 30 June 2024. It was rebranded as the Growth Guarantee Scheme, which remains ongoing today.

492 Key features of RLS 3 were as follows:

(a) borrower eligibility criteria:

(i) must be engaged in trading activity in the UK, when the initial drawdown is made by the borrower;

(ii) minimum turnover of £45 million (on a group basis, where a company was part of a group);

(iii) must have had a borrowing proposal that the lender considered viable under normal circumstances;

(iv) must not have been a business in difficulty, including not being in relevant insolvency proceedings; and

(v) must have provided written confirmation that the receipt of the RLS facility would not have meant the business exceeded the maximum amount of subsidy they were allowed to receive;

(b) lending:

(i) up to £2 million for borrower groups outside the scope of the Northern Ireland Protocol; and

(ii) up to £1 million for borrower groups within the Northern Ireland Protocol.

(c) products: term loans, overdrafts, asset finance and invoice financing facilities;

(d) term length:

(i) from three months up to six years for term loans and asset finance facilities; and

(ii) from three months up to three years for overdrafts and invoice finance;

(e) pricing: varied by lender;

(f) use of proceeds: lenders checked that the loan was for any legitimate business purpose; and

(g) lender guarantee: 70%. Accredited Lenders had to pay a lender scheme fee to the Government based upon the volume of lending under the scheme.

493 Data for the period ending 31 December 2024 shows that, for RLS 1 and RLS 2, over 20,000 facilities have been provided, totalling over £4.3 billion in value.

3 Scheme Design

(i) Introduction

494 A design phase took place for each iteration of the Recovery Loan Scheme:

(a) the successor to the existing Schemes (RLS 1);

(b) the extension of the Recovery Loan Scheme (RLS 2); and

(c) the successor to the Recovery Loan Scheme 1 and 2 (RLS 3).

495 The design of RLS 1 began whilst the existing Schemes were still in operation but were soon due to close. The design, development and implementation of all phases of RLS were a collaborative effort between HMT, the Department for Business, Energy and Industrial Strategy, the Bank and external legal advisers.

496 The Bank was alive to industry concerns about a "cliff edge" in lending support due to the impending closure of the existing Guarantee Schemes. The term “cliff edge” was used to describe the potential economic impact of a sudden complete end of guarantee support to Small and Medium Enterprise lending. The result of this drop in support could have been that lenders would significantly rein in or even stop their supply of credit to Small and Medium Enterprises. This, in turn, would trigger a high level of uncertainty and an

increase in Small and Medium Enterprise defaults which would trigger other lenders to follow suit. This would further exacerbate the problems facing Small and Medium Enterprises creating a so called "cliff edge". The Bank therefore communicated these concerns to HMT and the Department for Business, Energy and Industrial Strategy and subsequently drew up initial proposals for a successor scheme.

497 The design proposals were based on the parameters of CBILS, though it incorporated changes to account for the existing economic circumstances.

498 Due to the extensions of the existing Guarantee Schemes until the end of November 2020 and then 31 March 2021, the launch of RLS 1 was delayed, affording more time to its design. This permitted more collaboration between HMT, the Department for Business, Energy and Industrial Strategy and the Bank on the design of the scheme, including weekly steering group meetings, during which the Bank received policy steers.

499 On 3 March 2021, the Chancellor announced his intention to introduce RLS 1, once CBILS and BBLS had closed.

500 RLS 1 was launched and open to applications from 6 April 2021.

501 In October 2021, the Department for Business, Energy and Industrial Strategy and the Bank provided recommendations, ahead of the Autumn Budget on 27 October 2021, regarding an extension of RLS 1, in connection with the continuing need for economic support for Small and Medium Enterprises, as they adjusted in a post-pandemic economy.

502 The Chancellor was supportive of a six-month extension (from 1 January 2022 to 30 June 2022), provided that the maximum facility size was reduced to £2 million and the guarantee coverage reduced to 70%.

503 The Chancellor announced RLS 2 at the Autumn Budget.

504 The Bank's thinking with respect to continuing economic support, known as a successor scheme, similarly began long before the close of the existing scheme. Between January to May 2022, weekly steering group meetings, between HMT, the Department for Business, Energy and Industrial Strategy and the Bank, to discuss the scheme, took place.

505 From January 2022, an Small and Medium Enterprise lending review was carried out by HMT, the Department for Business, Energy and Industrial Strategy and the Bank to assess future market needs. This identified that, due to market conditions, there was a continued need for Government support. The Bank, therefore, prepared proposals for a successor to RLS and presented them at the weekly steering group meeting on 25 March 2022.

506 The scheme was approved by the Department for Business, Energy and Industrial Strategy on 18 July 2022 and subsequently announced on 20 July 2022, in a written Ministerial Statement, by the Secretary of State for the Department for Business, Energy and Industrial Strategy (for ease, the scheme retained the name "RLS").

507 RLS 3 was launched with updated terms on 1 August 2022. It remained open until 30 June 2024, after which it was rebranded as the Growth Guarantee Scheme, which remains ongoing today.

(ii) Successor to the existing Schemes (RLS 1)

508 On 13 August 2020, Patrick Magee wrote to HMT and the Department for Business, Energy and Industrial Strategy, following on from a call earlier that day, regarding industry feedback on the future of the Guarantee Schemes and/or the possible re-introduction of an Enterprise Finance Guarantee product. This was summarised as an "*end / extend / evolve*" debate. Patrick Magee noted that, in his view, lending support would be significantly reduced if the decision was taken to end these schemes, and there was a risk of creating a "*cliff edge*" for support to Small and Medium Enterprises if the Government defaulted to an "*end*" position on all Guarantee Schemes. He added that lenders had indicated a desire to see some form of evolution of the CBILS/Enterprise Finance Guarantee schemes. [RDM/281 - INQ000594752] The future of the debt schemes continued to be discussed at meetings between HMT, the Department for Business, Energy and Industrial Strategy and the Bank over the course of August/September 2020. [RDM/282 - INQ000594756]

509 On 8 September 2020, a Quarterly Policy Meeting took place, which was attended by HMT, the Department for Business, Energy and Industrial Strategy and the Bank. At the meeting, a scheme to succeed the existing

Guarantee Schemes was proposed and discussed.
[RDM/283 - INQ000594759]

510 At this time, the existing Guarantee Schemes were due to close in less than a month, on 4 November 2020. In light of this, the meeting considered the financial outlook for Small and Medium Enterprises and the likely future impact of the pandemic. Patrick Magee pointed out that there was likely to be a gap between what Small and Medium Enterprises needed and what lenders were able to provide. I shared feedback, which I had received from lenders in the market, that the risk appetite of the larger lenders was likely to have been impacted by the pandemic, and that this would equally have affected lending to lower-risk Small and Medium Enterprises. [RDM/283 - INQ000594759]

511 Ceri Smith encouraged those present to be more thoughtful *"about how we are supporting strategic sectors/areas"*. Angelina Cannizzaro stated there was a need to make a link between the "*short-term response and the medium to long term strategy*" and that "*the possibility that emergency, short-term measures are required"* could not be ruled out. In response to this, the Bank outlined some considerations as to solutions. I reminded those present that the Bank had the infrastructure in place to be able to provide a quick response; whereas more complex responses would clearly have required more time. Alice Hu Wagner (Managing Director for Strategy, Economics and Business Development at the Bank) agreed and highlighted *"that evidence from previous recessions suggests that launching new programmes takes too long and comes too late, ultimately representing poor value for money".* In this case, the timelines were very tight. Name Redacted (Senior Policy Adviser at HMT) added that the lessons learned from designing CBILS at pace should be kept in mind in this process. [RDM/283 - INQ000594759]

512 The Quarterly Policy Meeting resulted in two actions relating to these discussions, both due two weeks later, on 22 September 2020:

(a) HMT were tasked with establishing lender appetite for an Enterprise Finance Guarantee / CBILS successor scheme; and

(b) the Bank were tasked with preparing proposals on an end-of-transition-period downturn response for a discussion.

513 The Bank began work on preparing a formal proposal for discussion. On Thursday 17 September 2020, an internal Bank call took place, which discussed potential options for future interventions in the Small and Medium Enterprise debt markets. [RDM/284 - INQ000594773] As a follow up to the call, an options paper outlining the Bank's views, in terms of potential future interventions in the Small and Medium Enterprise debt markets, was produced. There was a particular focus in the paper on an evolution of CBILS in the medium-term (from 1 January 2021), and a range of potential options for future intervention, in the longer-term. [RDM/284 - INQ000594773] The focus on an evolution of an existing scheme was driven by the need to consider speedy intervention, in the context of the financial outlook for Small and Medium Enterprises discussed at the Quarterly Policy Meeting, as well as the impending "*cliff edge*", as noted in paragraph 508 above.

514 The Senior Manager for Product Development explained that the intention was to share the options paper setting out the Bank's views with HMT and the Department for Business, Energy and Industrial Strategy (as the Government's centre of expertise), in order to contribute to the discussions ahead of a Quarterly Policy Meeting follow-up meeting. [RDM/284 - INQ000594773]

515 During a meeting between Catherine Lewis La Torre and Charles Roxburgh, Charles Roxburgh stated that the Chancellor had very strong views regarding reverting to the Enterprise Finance Guarantee or a similar new scheme, with lessons from CBILS. At the meeting it was also stated that BBLS would not be extended further and that it would be unlikely for CBILS to be extended. In fact, both schemes were eventually extended a number of times and beyond the end of 2020, as noted below. [RDM/285 – INQ000594771] [RDM/286 - INQ000594772]

516 On the morning of 23 September 2020, Patrick Magee emailed Gwyneth Nurse and David Raw, referencing Catherine Lewis La Torre's conversation with Charles Roxburgh. Patrick Magee referenced comments made in that meeting about the political sensitivities around potential scheme extensions, and he also noted that this aligned with a conversation that he had shared previously with both of them. Patrick Magee explained that, due to industry feedback and requests, the Bank had undertaken work on an options

analysis and offered to share this with HMT on a formal basis to inform debate. [RDM/286 - INQ000594772]

517 Gwyneth Nurse responded to welcome the options analysis, which the Bank had prepared. Following HMT's response, in an internal email chain, Patrick Magee commented that the HMT Financial Services team were conscious of the political sensitivity, yet were open to considering options. [RDM/286 - INQ000594772] Therefore, later that day, the Product Development Senior Manager shared the options paper with HMT and the Department for Business, Energy and Industrial Strategy, noting that it was designed to initiate further conversation. The Product Development Senior Manager also asked both HMT and the Department for Business, Energy and Industrial Strategy if they had any update on when the scheme extensions might be announced. [RDM/287 - INQ000594774] [RDM/288 - INQ000594775] The following day, on 24 September 2020, the Chancellor announced that he would be extending CBILS, CLBILS, BBLS and FF until the end of November 2020.

518 A week later, the Bank's options paper was discussed at a meeting on 30 September 2020, attended by the Department for Business, Energy and Industrial Strategy, HMT, UK Government Investments and the Bank. [RDM/289 - INQ000594781]

519 In the options paper, the Bank concluded that it expected Small and Medium Enterprise borrowing demand to remain high, resulting in a need to intervene in the Small and Medium Enterprise debt market. It stated that any intervention should:

(a) address the breadth of Small and Medium Enterprises;

(b) have a broad distribution network;

(c) be simple;

(d) preserve productive capacity; and

(e) be able to taper from addressing cyclical challenges to structural failures.

520 The paper assessed a long list of options, and concluded that Bank intervention would be required, potentially alongside the Bank of England or other measures. In addition, it stated that it would be important to consider delivering a scheme to the market from 1 January 2021 to prevent a "cliff-edge" in Government support, once the existing loan schemes closed (as, in line with the scheme extensions announced at that time, no more applications would be processed beyond 31 December 2020). The Bank's analysis suggested that:

(a) the most suitable and deliverable option would have been to evolve and rename CBILS, incorporating adjustments for policy decisions and the State aid / domestic subsidy framework, and potentially other options considered alongside this; and

(b) in the longer-term, it suggested that more work should be undertaken in the subsequent months to amend and refine existing products and assess the need for any new interventions to meet the financing needs of Small and Medium Enterprises. [RDM/290 - INQ000585683]

521 At this time, the UK was in the transition period of its EU Exit, and it was negotiating the Trade and Cooperation Agreement (which would be eventually signed on 30 December 2020 and effective from 1 January 2021), establishing the framework for trade and cooperation between the UK and the EU, after the end of the transition period. The Schemes were launched in compliance with the EU State aid rules, and in particular, the EC's Temporary Framework that was implemented in response to the economic consequences of the pandemic, and which applied across the UK. Under the terms of the Trade and Cooperation Agreement, State aid in the UK would be replaced with subsidy control. However, certain provisions of EU law continued to apply to the UK with regard to measures supporting the production of, and trade in, agricultural products in Northern Ireland, in respect of measures which affect that trade between Northern Ireland and the EU through Article 10 of the Northern Ireland Protocol. This provided that subsidies to certain businesses had to be in compliance with EU State aid rules. Therefore, there was a choice to be made in the design of the new scheme: to continue to run an intervention that had the same terms across the whole of the UK (which would need to be compliant with EU rules); or to run a scheme which had a divergence in terms between those businesses

that were in scope of the Northern Ireland Protocol and those outside of the scope of the Northern Ireland Protocol. This meant that there would have been variations in the economic support available to businesses (depending on whether or not they were captured by the Northern Ireland Protocol). At the time, the policy concerning the scope of the protocol and its application to businesses was not fully settled. [RDM/291 - INQ000609053]

522 The Bank produced a question set to identify Northern Ireland Protocol affected companies, which it shared with the Department for Business, Energy and Industrial Strategy for comment. Due to the nature of the questions, it was intended that the question set would be used as a questionnaire, given to the borrower; and as such, the lender would be relying on self-certification. Identifying borrowers inside or outside the scope of the Northern Ireland Protocol was necessary, whether or not different criteria applied in the scheme, as the reporting regime under the Temporary Framework required reporting on aid granted under the framework above a certain amount. Ultimately, the questionnaire was refined to have three gating questions designed to filter the majority of applicants into broader buckets "*outside the Northern Ireland Protocol*" and "*potentially subject to the Northern Ireland Protocol*". Those in the latter bucket completed an additional questionnaire to determine if they were ultimately subject to the Northern Ireland Protocol. The aim of this was to allow lenders to continue to process applications in a timely fashion, as the majority of businesses would be outside of the Northern Ireland Protocol and, as such, lenders could ingest them to their normal "business as usual" lending journey. [RDM/292 - INQ000594860]

523 The options paper also:

(a) provided data explaining the market context, including Small and Medium Enterprise borrowing and demand, and the economic uncertainty;

(b) set out the case for intervention and indicated that, without intervention from a risk-neutral party (the Government), the country would likely suffer compounded economic costs. In addition, it noted that lenders had requested a new loan guarantee scheme. An abrupt end to the existing interventions could have created a severe dislocation in the market, as lenders would likely have tightened their credit criteria in the face of economic uncertainty, a premise which was accepted by the Bank, HMT and the Department for Business, Energy and Industrial Strategy in late 2019 / early 2020, in connection with discussions around support mechanisms for an EU Exit;

(c) outlined principles to guide interventions;

(d) set out a long list of options for proposed support mechanisms; and

(e) set out proposed options according to different timescales: short, medium and longer term (October 2020, January 2021 and H2 2021 respectively); and detailed the most suitable and deliverable options for the medium and longer term timescales (as noted above). [RDM/290 - INQ000585683]

524 At the meeting, HMT and the Department for Business, Energy and Industrial Strategy agreed with the Bank's proposal that work should be carried out on a new guarantee scheme to replace Enterprise Finance Guarantee / CBILS. The successor scheme was styled as "CBILS 2.0".

525 During the discussion, a number of points were raised, including:

(a) that the options paper was considered to be helpful because it suggested how to taper from the cyclical (short-term) to the structural (long-term) by varying the premium;

(b) the need to make sure the scale of the need was not underestimated, given CBILS was initially thought to be enough, but quickly needed to be adapted, with new schemes launched, in response to the evolving nature of the pandemic;

(c) the need to involve as many lenders as possible, including alternative lenders (such as non-banks);

(d) that re-introducing a Portfolio Cap would not have been good news for the smaller, "standardised" lenders who would not have been able to access capital relief;

(e) that the new scheme should be available from 1 January 2021, so that businesses would be able to protect themselves ahead of the 1 January cliff-edge; and

(f) whether the Bank's ENABLE programmes could still play a role. [RDM/293 - INQ000564113]

526 Also, at this time, the UK Finance Recovery and Growth Taskforce had been developing proposals on future guarantee schemes. The proposal was shared with the Bank on 1 October 2020. [RDM/294 - INQ000594784] The document outlined the existing and forecasted economic backdrop and concluded that a guarantee scheme, in some form, would be necessary for most small business lending for the medium-term, to restore lender confidence and facilitate investor funding. The document suggested a range of options to balance the need for further funding with a smooth transition back to commercial lending. One of the options suggested an extension of the current Guarantee Schemes, an Enterprise Finance Guarantee scheme, or a new scheme combining the two. The Bank took the UK Finance proposals into account in considering its own analysis. [RDM/295 - INQ000594785]

527 Following from the 30 September 2020 meeting, a scheme design workshop, attended by HMT, the Department for Business, Energy and Industrial Strategy and the Bank, was organised on 15 October 2020. The purpose of the workshop was for the Bank to receive policy steers on product features, in order to permit the Bank to develop proposals for CBILS 2.0. [RDM/296 - INQ000594783, RDM/297 - INQ000594789, RDM/298 - INQ000594794]

528 On 22 October 2020, the Product Development Senior Manager shared a draft transaction outline for CBILS 2.0 with Name Redacted and others from the Department for Business, Energy and Industrial Strategy, HMT and the Bank who were present at the 15 October 2020 meeting. He clarified that the draft was in response to an earlier request from the Department for Business, Energy and Industrial Strategy, and that it was not final and subject to refinement. Moreover, he emphasized that Ministers and senior colleagues should be clearly informed of the logic that led to the proposal: that CBILS and BBLS would be closing; that these would be replaced by one scheme; and the impact of the State aid considerations connected with the Northern

Ireland Protocol, as noted in paragraph 521 above.
[RDM/299 - INQ000594793]

529 There were then various discussions regarding state aid, and the impact of the Northern Ireland Protocol [RDM/299 - INQ000594793] Weekly scheme design workshop meetings continued after this point.
[RDM/300 - INQ000594799]

530 On 29 October 2020 Name Redacted shared a copy of the Ministerial Submission for the proposed new loan guarantee scheme, which had been "*cleared*" by the Department for Business, Energy and Industrial Strategy senior officials. The Bank had provided comments on the submission.
[RDM/301 - INQ000594792, RDM/302 - INQ000594796,
RDM/303 - INQ000594823and RDM/304 - INQ000594797]

531 The Ministerial Submission:

(a) noted that the existing loan schemes were due to close for new applications at the end of January 2021 and that the Chancellor had announced a new scheme to be available from 1 February 2021;

(b) noted that final advice would be submitted in early December 2021, on the basis of the terms, which had been agreed in principle with HMT, and following engagement with lenders;

(c) recommended implementing a single, new scheme based on Enterprise Finance Guarantee and CBILS, rather than using the UK's new freedom from the EU State aid rules to design a scheme that could not be replicated for businesses within scope of the Northern Ireland Protocol. Provisional terms for the proposed new scheme were provided, aimed at striking a balance between maximizing value for money for taxpayers, managing credit and fraud risk, and addressing the failure of the market to deliver sufficient volumes of commercial loans to viable businesses at pace; and

(d) suggested that the proposed new scheme could be implemented by the Bank and lenders by the beginning of February 2021, and that this scheme could be adapted, at a later date, in response to potential fluctuations in the economy and business finance markets. [RDM/305 - INQ000594824]

532 At a meeting on 13 November 2020, the Bank's Product Development Committee was updated on the Bank's discussions with HMT and the Department for Business, Energy and Industrial Strategy regarding a successor loan scheme (CBILS 2.0). The Product Development Committee was asked to endorse the general outlined product parameters and delegate authority to finalise the scheme design. [RDM/306 - INQ000594819] The Product Development Committee is an executive committee at the Bank. Proposals for new programmes, and material changes to existing programmes, are presented to the Product Development Committee for decision, as gating criteria for the item to be presented for decision at the relevant (higher level) Board.

533 The Product Development Committee was informed of the market context, which led to the thinking around CBILS 2.0: the impact of the time available (as well the upcoming Christmas period) to design the intervention and deliver it to market meant that it was prudent to base it on an existing product. [RDM/306 - INQ000594819] Moreover, the time required for lenders to implement a brand-new scheme would have resulted in delays in implementation. An explanation of the State aid / subsidy control considerations was given to the Product Development Committee, and the available four options were outlined: a UK alignment with an extended EU Temporary Framework; a return to an alignment with the *de Minimis* State aid rules; designing a new product under the UK's new domestic subsidy regime; or a new option, which would build on the latter three. [RDM/306 - INQ000594819]

534 At a meeting of the Board, on 26 November 2020, the Board resolved to approve the outlined CBILS 2.0 product parameters and to delegate its authority to finalise the scheme design and launch in conjunction with the Government. [RDM/307 - INQ000594861]

535 The Bank's understanding was that the successor scheme would be launched on 1 February 2021. [RDM/306 - INQ000594819] On 10 December 2020, HMT informed the Bank that the Chancellor was minded to extend the existing schemes to the end of March 2021, thereby pushing the start date of

the proposed scheme to the beginning of April 2021. [RDM/308 - INQ000594839] This was confirmed, on 17 December 2020, when the Chancellor announced that CBILS, CLBILS, BBLS and FF would be extended to accept applications until 31 March 2021.

536 In preparation for a meeting of the Department for Business, Energy and Industrial Strategy's Projects and Investments Committee, the Department for Business, Energy and Industrial Strategy and the Bank began working on a business case for a long-term credit guarantee scheme. [RDM/309 - INQ000594867] The Department for Business, Energy and Industrial Strategy Projects and Investments Committee had to provide their approval for the scheme to proceed. Between December 2020 and February 2021, leading up to the meeting, the Department for Business, Energy and Industrial Strategy and the Bank discussed the parameters of the scheme. [RDM/310 - INQ000595894, RDM/311 - INQ000594868]

537 The final version of the business case was shared by Nick Allen (Policy, Business Finance at the Department for Business, Energy and Industrial Strategy) on 16 February 2021, who thanked Bank colleagues for "*putting an unbelievable amount of effort [...] in such a short time*". He added that the work achieved by those involved had contributed to avoiding the need for a Ministerial Direction. [RDM/312 - INQ000594869] [RDM/291 - INQ000609053] The document sought approval for a first phase of the proposed new credit guarantee scheme, to be delivered by the Bank and continuously monitored ahead of transition to a second phase by 1 January 2022. Version 1 of the business case was approved by Tom Child (Senior Civil Servant, the Department for Business, Energy and Industrial Strategy) and Patrick Magee.

538 In response to the State aid / subsidy control considerations, as noted in paragraph 521 above, Ministers stated a preference, in principle, for not being bound to EU rules, and thus allowing for differences in the scheme depending on whether or not a business fell under the Northern Ireland Protocol. In practice, this would have resulted in an Undertaking in Difficulty test being applied to businesses falling within the ambit of the Northern Ireland Protocol. The numbers of cases where this would have applied were deemed limited. The business case acknowledged that there might not have been enough time to implement the "*NI variant*" in time for launch, and considered the fallback option to have been to apply the Undertaking in Difficulty test across

the whole of the UK, until the change could be implemented. [RDM/291 - INQ000609053]

539 Generally, Undertaking in Difficulty was a challenge as including the test across the UK would have meant that certain businesses, that would otherwise have been considered viable, would have been excluded due to the technical nature of the test. This would have impacted a number of different types of businesses, including those that were at a pre-profit stage.

540 In addition to this, there were discussions between HMT, the Department for Business, Energy and Industrial Strategy and the Bank concerning whether the ENABLE programmes could be run alongside CBILS 2.0. Name Redacted queried whether an ENABLE programme delivery partner could have made use of its Government funding for guaranteed lending under the new scheme. He emphasised that the rationale in doing so was to ensure that alternative finance providers (who may otherwise have struggled to obtain funding) could have participated in the new scheme, mitigating the risk that everything would have gone through the major lenders. He added that this was allowed for CBILS. Name Redacted explained that the increase in diversity of providers was a really important development of the UK market since the financial crisis, and supported smaller lenders in accessing wholesale funds, including via ENABLE programmes. [RDM/314 - INQ000594872] The Product Development Senior Manager highlighted that the ENABLE programme was thought to have led to a small, but tangible expansion of coverage of CBILS, serving borrowers, many of whom may not have otherwise had access to the scheme through other lenders. [RDM/315 - INQ000594878]

541 HMT confirmed that lenders participating in the Bank's ENABLE programmes were permitted to use the programme to make loans under the new scheme. This decision was to be kept under review, as the scheme evolved. [RDM/316 - INQ000594882]

542 The business case noted that lessons learned from Enterprise Finance Guarantee and CBILS were addressed in the proposed new scheme. This included:

(a) a wider eligibility criteria, to ensure access to the scheme was available to businesses (subject to the eligibility criteria), including non-commercial organisations (such as charities and further education colleges);

(b) a simplification of the Undertaking in Difficulty test to minimise administrative overheads for lenders and ensure viable businesses were not locked out of the scheme;

(c) no re-introduction of the Portfolio Cap on claims by lenders, to provide benefit from capital relief;

(d) removal of the business interruption payment to focus the scheme on businesses that could afford to take on additional debt;

(e) incorporation of a specific additionality requirement (**Additionality**). Additionality was a key feature re-introduced in RLS. In principle, Additionality was aimed at maximising the impact of RLS by supporting borrowers who were most in need. The requirement for Additionality meant that in the absence of RLS, a lender would not have been prepared to offer the applicant a facility on similar terms as the RLS loan in the amount of the RLS loan, or would only have been prepared to offer the applicant a facility on similar terms as the RLS loan, at pricing that was higher than the pricing applicable to the RLS loan;

(f) maintaining the requirement that personal guarantees were not permitted for lending below £250,000 to avoid negative publicity and avoid deterring potential borrowers, in line with Ministerial steers from the Department for Business, Energy and Industrial Strategy and HMT;

(g) a proportionate risk-based accreditation approach;

(h) ensuring alternative finance providers were able to assign the guarantee to a third-party funder or investor, or use ENABLE programmes to finance facilities with the Bank's consent; and

(i) the utilisation from before scheme launch of more robust fraud risk management processes, by the Bank and the Government, such as detailed Fraud Risk Assessments, quarterly portfolio review processes and the development of a monitoring and evaluation plan. [RDM/291 - INQ000609053]

543 Noting that Small and Medium Enterprises accounted for 99.9% of the UK business population, the business case affirmed the need for the Government's economic intervention in the Small and Medium Enterprise credit market, in light of the forecasted continuing demand. It advised that support should be:

(a) available to as many viable Small and Medium Enterprises as possible, with wide eligibility criteria and a broad delivery network; simple to understand for both Small and Medium Enterprises and lenders. It also noted that, although there were no known Public Sector Equality Duty issues with CBILS and BBLS, the implementation and take up of the proposed scheme would be monitored to ensure that any issues could be acknowledged and mitigating actions proposed;

(b) be able to minimise unnecessary insolvencies, by preserving product capacity; and

(c) tapered from addressing cyclical challenges when the economy recovers, to avoid crowding out the market under normal conditions.

544 The Department for Business, Energy and Industrial Strategy and the Bank specifically advised against the Chancellor's steer that the new scheme should have a minimum facility size of £25,001 for term loans and revolving credit facilities. HMT explained that, having learned from the issues faced by CBILS, which led to the introduction of BBLS, the Chancellor was concerned about lenders' willingness to provide lending below £25,000 (because of the difficulties in assessing borrower viability, and the requirements of the Consumer Credit Act 1974 for lending to sole traders and small partnerships). In the Department for Business, Energy and Industrial Strategy's and the Bank's view, given that many small businesses were likely to have had a liquidity need, and that several lenders may have been able to meet some of that need (if incentivised to do so by a Government guarantee (especially for companies)), this approach was inadvisable in the absence of a clear alternative solution (whether under this scheme, or a separate intervention).

545 In Annex H to the business case, a submission to the Minister dated 2 February 2021, the Department for Business, Energy and Industrial Strategy and the Bank highlighted that in addition to the fact that a large number of companies may have had liquidity needs below £25,000, debt finance may have not been the most suitable solution for the majority of these companies, many of whom were already heavily indebted. Their recommendations included exploring the possibility of a new grant scheme with HMT, allowing lenders to offer lending, under the new scheme, below £25,000, or expanding SUL. The recommendations acknowledged that each of these required HMT consent and suggested that a conversation between the HMT and the Department for Business, Energy and Industrial Strategy Special Advisers took place. [RDM/317 - INQ000564180 (submission and Annexes A &B) and RDM/318 - INQ000594864 (Annex C of the submission)] The business case noted that the Secretary of State for the Department for Business, Energy and Industrial Strategy agreed that a conversation on this issue was required by HMT and the Department for Business, Energy and Industrial Strategy Special Advisers, and that this was ongoing.

546 The business case noted that in considering a proposal, the new scheme was selected above three other main options, including: not implementing any new scheme; returning to the previous Enterprise Finance Guarantee scheme; or extending CBILS and/or BBLS. The new scheme was versatile and could be used with four types of debt product: term loans, invoice finance facilities, asset finance facilities and overdrafts / revolving credit facilities (committed and uncommitted). It was designed to improve the terms on offer to borrowers; however, if a lender was in a position to offer the option of a commercial facility on better terms than those offered under the new scheme, then, the facility would not be eligible for the guarantee.
[RDM/319 - INQ000594900]

547 The issues addressed included:

(a) value for money, affordability, and feasibility;

(b) additionality;

(c) subsidy control; and

(d) preparation of lenders to begin lending promptly. [RDM/321 - INQ000593116]

548 The proposed scheme, CBILS 2.0, was renamed as RLS from the beginning of March 2021. [RDM/322 - INQ000594874]

549 RLS was forecast to run as a first phase until 31 December 2021, and expected to be reviewed after the initial six months. It was anticipated that a decision would then be taken as to whether the scheme should be amended from 1 January 2022, in line with economic circumstances at that time. [RDM/323 - INQ000594940] Moreover, as the Temporary Framework was set to expire on 31 December 2021 (although this was subsequently extended to the end of June 2022 by the EU), it was likely that RLS would have needed amending from 1 January 2022, on the basis that the EU rules affecting the businesses captured by the Northern Ireland Protocol would have changed substantially when the Temporary Framework ended. [RDM/291 - INQ000609053]

550 RLS retained many features of CBILS, including:

(a) an 80% guarantee for lenders on each loan and no Portfolio Cap on claims against the guarantee; and

(b) the scheme fee being paid by the lender, rather than the borrower (as for Enterprise Finance Guarantee).

551 However, notable differences from CBILS included:

(a) the removal of the Coronavirus Business Interruption Payments;

(b) a higher fee that lenders must pay for the guarantee, to incentivise lenders to begin moving back to normal commercial lending as the economy recovered. Much effort was spent determining the pricing of the new scheme, and the Bank made proposals to the Government regarding this;

(c) a minimum facility size of £25,001 for term loans and revolving credit facilities and £1,000 for asset finance and invoice finance facilities; and

(d) no limit on borrower size by turnover, with the usefulness of the scheme for larger enterprises limited by other parameters (maximum facility size and pricing). [RDM/323 - INQ000594940]

552 In addition to this, RLS included the following criteria:

(a) a pandemic impact and viability test for eligibility. The borrower had to confirm to the lender that it had been impacted by the pandemic, and the lender must have considered the borrower (or its group) to have a viable business proposition;

(b) no exclusion to eligibility for borrowers who were being supported by the Guarantee Schemes;

(c) borrowing across one or multiple facilities was limited at a maximum of the lesser of £10 million or the borrower specific limit per borrower; or £30 million per group;

(d) facilities were to last no less than three months and no more than six years for term loan and asset finance variants, and no more than three years for invoice finance and revolving credit facility variants, in each case subject to an ability to extend up to ten years in certain forbearance situations; and

(e) a Undertaking in Difficulty test, depending on whether or not borrowers were an Northern Ireland Protocol applicant. [RDM/324 - INQ000594895]

553 The objectives for RLS were set prior to the launch of the scheme. Following a weekly scheme design workshop meeting on 18 March 2021, the Bank, in consultation with HMT and the Department for Business, Energy and Industrial Strategy, produced a set of slides detailing the agreed objectives for RLS, which were later reviewed and signed off by the Department for Business, Energy and Industrial Strategy. [RDM/325 - INQ000609052] The overarching objective of RLS was to provide financial support to UK businesses, as part of recovery and growth following the pandemic. It aimed to unlock finance for cashflow and/or investment where businesses were impacted by the pandemic; yet could still afford external finance. Sitting underneath this were four subset objectives, which each represented either

an extension or evolution of the objectives for BBLS, CBILS and CLBILS. The scheme would:

(a) unlock finance, such that those businesses able to afford more debt, but were disrupted by the pandemic, could satisfy working capital needs and/or invest in productive capacity;

(b) complement other Government support and initiatives aimed at businesses;

(c) incentivise appropriate risk taking by lenders; and

(d) aim to deliver high value for money. [RDM/321 - INQ000593116]

554 On 29 March 2021, Sarah Munby wrote a letter to Catherine Lewis La Torre to instruct the Bank to proceed with the implementation of RLS. [RDM/326 - INQ000564210]

555 The letter noted that, on 3 March 2021, the Chancellor had announced his intention to support small businesses via RLS, once CBILS and BBLS had closed, and that RLS would launch on 6 April 2021. [RDM/326 - INQ000564210] Although RLS had many features in common with CBILS, key changes had been incorporated to ensure better value for money in the existing economic circumstances. [RDM/327 - INQ000594879]

556 The letter also noted that, due to the demand-led nature of the scheme, no funding limit had been set by HMT; therefore, allocations to lenders was to be delegated to the Bank, at a level reasonably required by lenders. The Bank were expected to ensure that robust controls and governance were in place, to ensure public money was being used appropriately in the context of the agreed parameters of the scheme [RDM/326 - INQ000564210] [RDM/291 – INQ000609053]

557 RLS launched and was open to applications on 6 April 2021. It was due to close to new applications at the end of December 2021.

558 The Bank hosted a general call with lenders to present information on RLS and the impact of the Northern Ireland Protocol on 9 April 2021. [RDM/328 - INQ000594892]

559 At a meeting of the Bank Executive Valuations Committee, on 15 July 2021, it was noted that RLS had a lower-than-expected take-up. Initial analysis suggested that the large banks were not making use of the facility. In fact, smaller banks, non-banks and Community Development Finance Institutions were relatively larger users of the Schemes. [RDM/329 - INQ000594915]

(iii) Extension of the Recovery Loan Scheme (RLS 2)

560 The Bank began its consideration of an extension well before the close of RLS 1. On 5 October 2021, in an email chain with HMT and the Department for Business, Energy and Industrial Strategy, the Product Development Senior Manager provided the Bank's emerging views to the Government on why RLS should be extended beyond 31 December 2021, ahead of a review of the scheme on 11 October 2021. The Bank's rationale included that:

(a) Small and Medium Enterprises would need finance in the ensuing months to help them adjust and grow in a post-pandemic (and post-EU Exit) economy. The Product Development Senior Manager noted that around 6,000 Small and Medium Enterprises had received offers for around £900 million of finance, especially in sectors most impacted by the pandemic;

(b) the impact of the pandemic and other economic challenges meant that it was likely that more lending would be required than pre-pandemic levels;

(c) different lenders served different parts of the Small and Medium Enterprise population, who were outside of the risk appetite of big banks; and

(d) around 80% of RLS 1 lending was provided to Small and Medium Enterprises by challenger banks and non-bank financial institutions, as RLS 1 was used to stretch risk appetite and to increase the funding lines needed to increase lending to meet the higher demand for finance. [RDM/330 - INQ000594919]

561 Therefore, in the Bank's view, a short extension was required, as:

(a) with offers approaching £1 billion to around 6,000 Small and Medium Enterprises in six months, it was supporting significant lending, and the existing Bank programmes would not have been able to address the issues in the short-term and no other intervention could have been brought to market quickly and at scale; and

(b) it would have allowed the Bank to monitor economic and Small and Medium Enterprise-finance market data and give time to address longer-term questions. [RDM/330 - INQ000594919]

562 On 13 October 2021, the Ministerial Submission, which had been prepared by both the Department for Business, Energy and Industrial Strategy and the Bank, was shared by Name Redacted for review by the Special Advisers, requesting comments by 19 October 2021, ahead of a potential announcement at the Autumn Budget on 27 October 2021. [RDM/331 - INQ000594922]

563 The submission:

(a) noted that, between launch (on 6 April 2021) and the date of the submission (13 October 2021), almost 6,000 facilities had been offered, totalling around £1 billion, with around 80% of facilities offered by challenger banks and non-bank financial institutions. Though, it noted that the £1 billion figure was significantly lower than the initial the Department for Business, Energy and Industrial Strategy/Bank estimate of £12 billion for the first nine months;

(b) recommended the extension of RLS 1 for a further six months. It explained that the Department for Business, Energy and Industrial Strategy, HMT and the Bank had conducted a review of the market and made this recommendation, on the grounds that the economic impacts of the pandemic and other issues in the economy continued to create a need for recovery finance that, without a loan guarantee scheme, would otherwise go unmet;

(c) proposed reducing the maximum loan size from £10 million to £5 million and removing the restriction on personal guarantees for loans under £250,000. It was suggested that personal guarantees were part of usual lending practices, and removing the restriction could reduce lenders' perceived financial risk by increasing the borrower's "*skin in the game*";

(d) suggested a possible eligibility restriction to only Small and Medium Enterprises with turnover below £45 million, as for CBILS, with the intention of more clearly demonstrating that Government was returning to a "business as usual" approach; and

(e) in relation to the Public Sector Equality Duty , highlighted that a full equalities impact assessment had been carried out ahead of the launch of RLS 1 in April 2021 and did not find any reason to suspect issues. [RDM/332 - INQ000564224]

564 On 15 October 2021, HMT provided an update following a meeting with the Chancellor to discuss the RLS extension. The Chancellor was supportive of a six month extension, provided that the maximum facility size was reduced to £2 million and the guarantee coverage was reduced to 70%. HMT explained that this was an important step-down in the level of support from the Government, and that, even with the potential for some disruption in January 2021, an extension of six months was generous. [RDM/333 - INQ000594924]

565 The Bank and the Department for Business, Energy and Industrial Strategy had been working on a business case, underpinning the proposed extension of RLS 1. [RDM/334 - INQ000594927] I was aware from conversations at that time that the business case was updated to reflect the Chancellor's steer.

566 The business case highlighted that Small and Medium Enterprise credit markets suffered from structural failures under normal macroeconomic conditions, meaning viable businesses could not access the finance they needed to grow, and these failures were only exacerbated in periods of economic difficulty (such as the pandemic). Therefore, it explained that Small and Medium Enterprise credit guarantee schemes were a common feature of market economies around the world. The main structural failure relates to "*information asymmetries*", where the cost of assessing a Small and Medium Enterprise's creditworthiness made commercial lending uneconomic, creating a large market gap. The Bank estimated the total structural market gap at between £2.4 billion and £4.6 billion per annum. Demand was expected to remain high in the ensuing months, despite the gradual lifting of pandemic restrictions, and without intervention by the Government, it was unlikely that demand would be met, likely resulting in more business failures.

567 On 27 October 2021, at the Autumn Budget, the Chancellor announced that RLS 1 would be extended until 30 June 2022, with changes to the scheme parameters. The announcement mirrored the HMT update provided on 15 October 2021. The Bank contacted RLS lenders to inform them of the update. [RDM/336 - INQ000594925]

568 On 15 December 2021, the Bank raised concerns with HMT and the Department for Business, Energy and Industrial Strategy, in connection with the fact that the proposed extension of RLS 1 (insofar as it related to borrowers in scope of the Northern Ireland Protocol, and therefore subject to the EU State aid rules) had not yet received the EC's approval under the Temporary Framework. [RDM/337 - INQ000595911]

569 The Bank understood that HMT's and the Department for Business, Energy and Industrial Strategy's suggestion was for the Bank to inform lenders that the scheme would launch across the UK, but then subsequently inform lenders that they could not launch the scheme for Northern Ireland Protocol borrowers if European Commission approval had still not been received by 31 December 2021. The Product Development Senior Manager noted that the Bank had concerns with that approach and strongly encouraged that lenders should be informed no later than 17 December 2021, thereby allowing them to adjust their systems accordingly, rather than a last-minute change. [RDM/337 - INQ000595911]

570 The following day, on 16 December 2021, the Bank contacted lenders to inform them of HMT's and the Department for Business, Energy and Industrial Strategy's suggested approach. [RDM/338 - INQ000595912] [RDM/341 - INQ000594939] I was aware that the lenders had communicated a discomfort with this proposed approach; namely, that some lenders may have been unwilling to lend prior to receiving formal approval. The Bank relayed this response to the Department for Business, Energy and Industrial Strategy. [RDM/339 - INQ000594936]

571 On 17 December 2021, Jo Shanmugalingam (Acting Permanent Under-Secretary, the Department for Business, Energy and Industrial Strategy) wrote a letter to Catherine Lewis La Torre, to instruct the Bank to proceed with the implementation of the extension of RLS 1 across the whole

of the UK, from 1 January 2022 until 30 June 2022. The letter outlined the additional changes to RLS 2, which were to come into force:

(a) access was to be open to Small and Medium Enterprises only (with an annual turnover of less than £45 million);

(b) the maximum amount of finance available was limited to £2 million per business; and

(c) the Government guarantee coverage provided to lenders was to be reduced to 70% (from 80%).

572 In addition, the letter outlined that borrowers in scope of the Northern Ireland Protocol were subject to the EU's State aid rules, as noted in paragraph 521 above. It was considered that the extended scheme was compliant with the extended Temporary Framework; yet Jo Shanmugalingam acknowledged that, at that time, no formal European Commission approval had been received, although indications had been given that approval was imminent. [RDM/340 - INQ000594937]

573 The letter also noted that, due to the demand-led nature of the scheme, no funding limit had been set by HMT. Therefore, allocations to lenders was to be delegated to the Bank, at a level reasonably required by lenders. The Bank were expected to ensure that robust controls and governance were in place, to ensure public money was being used appropriately in the context of the agreed parameters of the scheme. [RDM/340 - INQ000594937]

574 Catherine Lewis La Torre acknowledged the Department for Business, Energy and Industrial Strategy's letter on the same day and also acknowledged the advice of the Department for Business, Energy and Industrial Strategy's legal and added that the Bank had a high degree of confidence that the parameters of the extended scheme were compliant with the Temporary Framework. Catherine Lewis La Torre noted that the Bank would inform the lenders of the approach and of the small risk of consequential changes being required. She added that the Bank had already highlighted to the Department for Business, Energy and Industrial Strategy the potential for deliverability risks, in the short term, because it would ultimately have been a lender's decision as to their appetite to lend prior to receiving formal approval from the EC. [RDM/339 - INQ000594936] On 22

December 2021, lenders were notified that the European Commission had adopted a decision in relation to the Recovery Loan scheme and that no consequent changes to the scheme were required.
[RDM/341 - INQ000594939]

575 On 1 January 2022, RLS was extended until 30 June 2022.

(iv) Successor to the Recovery Loan Scheme (RLS 3)

576 In November 2021, the Bank began a review of its debt interventions aimed at reassessing the support needed by the market. The Policy and Strategy Senior Manager noted that the Bank wished to undertake this task in a structured and coordinated way, over a number of months, so that it could subsequently obtain an agreed internal house view to be presented to HMT and the Department for Business, Energy and Industrial Strategy, ahead of the Spring Budget in March 2022, and comfortably before the close of the extended RLS. [RDM/342 - INQ000594930] In order to achieve this, the Bank set up a Small and Medium Enterprise lending project.
[RDM/343 - INQ000594929] [RDM/344 - INQ000594931]

577 On 6 December 2021, Name Redacted contacted the Bank to request a meeting to discuss plans for a "*successor scheme*". The Policy and Strategy Senior Manager welcomed the request, noting that in his view, the considerations had to be broader than simply a new scheme and should take account of the wider Bank debt programmes, in order to determine whether the policy issues identified could be addressed. He added that proposals should be prepared ahead of an end-February 2022 deadline and that the Bank had already begun considering the issue. [RDM/345 - INQ000594933]

578 From January 2022, HMT, the Department for Business, Energy and Industrial Strategy and the Bank therefore undertook and Small and Medium Enterprise Lending Review. The Small and Medium Enterprise Lending Review was divided into two stages, with a first phase looking at the future of RLS, which involved a survey being sent to Accredited Lenders to seek their feedback, and a second phase, which analysed longer-term issues such as the future of EF.

579 The Small and Medium Enterprise Lending Review concluded that:

(a) Small and Medium Enterprises (particularly the smallest borrowers) continued to need external funding, as the market had not yet reached a steady state;

(b) there was a higher likelihood of unmet demand for finance from businesses facing an increasing need for finance and tight credit conditions;

(c) Supply-side market failures were likely to continue to impact Small and Medium Enterprise borrowers, which would have given rise to negative outcomes for them, including higher rates of finance rejection and higher rates of interest charged; and

(d) non-bank lenders faced disproportionately higher funding costs than bank lenders, when compared to the credit profile of the underlying lending. [RDM/347 - INQ000595922]

580 HMT provided draft terms of reference and an engagement plan for the Small and Medium Enterprise lending project, on 13 January 2022, requesting input from the Department for Business, Energy and Industrial Strategy and the Bank. [RDM/348 - INQ000595916]

581 The terms of reference explained that HMT were planning to conduct a review, jointly with the Department for Business, Energy and Industrial Strategy and the Bank, of the credit conditions and availability of finance for Small and Medium Enterprises, with a view to understanding:

(a) the then-existing and near-term market failures, and the Government's view of its role in correcting these, and how it should define the "new normal" in business lending markets; and

(b) what role the Bank could play in helping the business lending market transition towards the "new normal" and whether a first-loss guarantee scheme would have been part of this. [RDM/349 - INQ000595917]

582 The objective of the review was to support recommendations for Ministers on:

(a) whether RLS 2 should close on 30 June 2022 or be further extended (either in its existing form or replaced by another first-loss guarantee scheme);

(b) whether any adjustments to other schemes (notably ENABLE programmes and second-loss guarantee schemes) were needed; and

(c) the contingency plans that would have been required following RLS 2 – if no successor first-loss guarantee scheme was deemed necessary – to revive such a programme in future crises (should that have been necessary). [RDM/349 - INQ000595917]

583 The Bank led the initiative in preparing the groundwork and final proposals for a future economic intervention, by way of a successor to RLS 2. Weekly steering group meetings, between HMT, the Department for Business, Energy and Industrial Strategy and the Bank, took place from January to May 2022. [RDM/350 - INQ000594958]

584 At the 25 March 2022 steering group meeting, the Bank presented proposals for a successor scheme. The presentation outlined the latest available data and how that shaped the proposal to address market demand, as well as setting out suggested parameters in detail. [RDM/351 - INQ000594989]

585 Following the 29 April 2022 steering group meeting, HMT contacted group members to provide an update. The Chancellor and the Economic Secretary to HMT (then, John Glen) had agreed to all recommendations. [RDM/350 - INQ000594958]

586 Notwithstanding the work undertaken and the proposals made, the Department for Business, Energy and Industrial Strategy emailed HMT and the Bank on 3 May 2022, to provide an update. It was reported that the Secretary of State for the Department for Business, Energy and Industrial Strategy was not convinced that a successor scheme was needed and asked for further information on the rationale. In addition, the Secretary of State for the Department for Business, Energy and Industrial Strategy thought that the closure of RLS 2 presented a good opportunity to close the scheme and put money towards helping businesses with the costs of bills in a more targeted

way. Therefore, the Secretary of State for the Department for Business, Energy and Industrial Strategy asked for suggestions on alternative options for replacing the scheme. [RDM/352 - INQ000594961]

587 The Bank recognised that this update could have threatened the critical path to delivery and requested whether the issues could be resolved promptly. The following day, on 4 May 2022, the Department for Business, Energy and Industrial Strategy responded to note that they would address the Secretary of State for the Department for Business, Energy and Industrial Strategy's questions; however, that they had been made aware that the Chancellor was supportive of a successor scheme. [RDM/353 - INQ000594962] Later, HMT and the Bank were informed, by the Department for Business, Energy and Industrial Strategy, that the Secretary of State for the Department for Business, Energy and Industrial Strategy's questions had been resolved. [RDM/354 - INQ000594963]

588 State aid and the Northern Ireland Protocol continued to challenge those designing the scheme; in particular, in respect of those borrowers who were caught by the Northern Ireland Protocol, as noted in paragraph 521 above. [RDM/350 - INQ000594958]

589 HMT confirmed that the Chancellor had signed off on:

(a) a successor scheme for Small and Medium Enterprises that should run until June 2024;

(b) maintaining the 70% guarantee level and fee structure;

(c) retaining the minimum loan size of £25,000;

(d) removing the ban on personal guarantees;

(e) a total lending cap of £6 billion, over a two-year period;

(f) a (low-key) announcement of the new scheme in May; and

(g) retaining the name "Recovery Loan Scheme", for simplicity [RDM/355 - INQ000594960]

590 The Bank's Product Development Committee met on 9 May 2022 to discuss RLS 3, also styled as "successor scheme". The Product Development

Committee was presented with a paper, which explained that HMT had agreed to a scheme being launched for an initial two-year period and outlined the proposed parameters for the scheme. [RDM/356 - INQ000594968 and RDM/347 – INQ000595922]

591 The proposed RLS successor scheme was based on RLS 2 (which was still in operation at that time). The main differences from RLS 2 included:

(a) a removal of the ban on lenders taking personal guarantees for facilities below £250,000;

(b) a move from a demand-led scheme to a capped scheme; and

(c) the scheme being initially launched for a period of two years.

592 The Product Development Committee approved the draft parameters and delegated its authority to finalise the scheme design, noting that its decisions would be shared with the Bank's Executive Committee and Board for further approval. [RDM/356 - INQ000594968 and RDM/347 - INQ000595922]

593 On 10 May 2022, the Bank's Executive Committee was updated with respect to the Small and Medium Enterprise Lending Review and the associated proposals for RLS 3. The new scheme was considered to be different from RLS (despite bearing the same name), insofar as it did not address an emergency situation. This permitted more time for design, including for a robust re-accreditation process for lenders and robust environmental, social and governance (ESG) and fraud and financial crime checks. The Bank's Executive Committee were informed that the Secretary of State for the Department for Business, Energy and Industrial Strategy had confirmed it was comfortable with the proposed parameters. [RDM/357 - INQ000594972]

594 Following on from a meeting of the Board, on 17 May 2022, the Bank's Executive Committee expressed support for RLS 3 in its meeting of 24 May 2022. [RDM/358 - INQ000594973]

595 On 20 June 2022, the Department for Business, Energy and Industrial Strategy informed the Bank that the Department for Business, Energy and Industrial Strategy Projects and Investments Committee had not provided approval for the business case relating to RLS 3, and that they were working

to address the substantive points raised, ahead of a follow-up meeting to take place two weeks later. [RDM/24 - INQ000594974]

596 The business case was approved by the Department for Business, Energy and Industrial Strategy Projects and Investments Committee on 7 July 2022, and the proposed scheme received final Department for Business, Energy and Industrial Strategy approval on 18 July 2022. [RDM/359 - INQ000594980]

597 The business case explained that the Department for Business, Energy and Industrial Strategy had commissioned its own independent empirical research to determine the size of the structural Small and Medium Enterprise lending gap, estimated at £5 billion. An additional "cyclical" market gap stemming from the economic instability caused by the pandemic was estimated at up to £1 billion. The document highlighted that these market failures were giving rise to negative outcomes for Small and Medium Enterprises, including higher rates of finance rejection, higher rates of interest charged, and sub-optimal levels of market resilience. Therefore, RLS 3 aimed to address the market gap identified by incentivising commercial lenders to lend. [RDM/360 - INQ000609056]

598 The business case outlined the various options, which had been assessed and considered; however, it noted that the preferred option – the RLS successor scheme – provided value for money to the taxpayer. [RDM/360 - INQ000609056]

599 The business case outlined the lessons learned, which built on and developed those outlined for RLS 1. The lessons learned were based on the previous schemes, including the Enterprise Finance Guarantee scheme and CBILS, as well as RLS 1 and 2:

(a) ensuring wide eligibility criteria so that the scheme would have been, in principle, available to all businesses who wanted to access it, rather than only those businesses that had been turned down for a commercial loan for a limited number of reasons;

(b) simplifying the Undertaking in Difficulty test, ensuring that viable businesses would not be locked out of the scheme;

(c) removing the Portfolio Cap on claims by lenders so they could benefit from capital relief, enabling them to lend to more businesses or at better rates;

(d) adding an explicit additionality requirement, to ensure that lending under the scheme represented lending that either would not have been offered or would have been offered at a higher interest rate;

(e) ensuring lenders went through a proportionate risk-based accreditation approach;

(f) ensuring alternative finance providers were able, with the Bank's consent, to assign the guarantee to a third-party funder or investor, or use ENABLE programmes to finance facilities;

(g) ensuring that a Fraud Risk Assessment was in place from the beginning of the scheme, and that significant resource was invested in counter fraud activities, both within the Bank and in collaboration with the Department for Business, Energy and Industrial Strategy and the Government Counter Fraud Function;

(h) reintroducing the ability of lenders to take personal guarantees (if that was part of their usual lending policy), to further mitigate the risk that RLS displaced lending that may have been done commercially; and

(i) changing the Bank's allocation processes such that lending would be allocated in the best way to achieve the objectives of the scheme (as amended from phase 2 of RLS) rather than based on lenders' forecast needs. This was a direct consequence of reintroducing a cap on overall lending for the scheme. [RDM/360 - INQ000609056]

600 In a written Ministerial Statement, dated 20 July 2022, the Secretary of State for the Department for Business, Energy and Industrial Strategy announced that RLS would be extended by two more years.

601 On 1 August 2022, RLS 3 was launched, and remained open until 30 June 2024.

602 There was an unintended gap in the provision of RLS between the closure of RLS 2 (30 June 2022) and the launch of RLS 3. This was due to the

sequencing of the approvals obtained. I am aware that the Bank had made suggestions to the Government that there should be no gap in the provision of RLS.

603 RLS was rebranded as the Growth Guarantee Scheme and extended from 1 July 2024. It is still ongoing.

4 Implementation and Delivery

(i) Introduction

604 Due to the easing of the pandemic restrictions, the implementation of RLS, as well as its subsequent extension and successor, were significantly different to the fast-paced approach, which was taken with respect to the other Guarantee Schemes. The key stages of implementation and delivery included:

(a) the Guarantee Agreement;

(b) Accreditation; and

(c) the Lender Manuals.

605 From 4 March 2021, lenders were able to apply to lend under the new scheme. Given the market circumstances at this time, a greater degree of confidence was sought to demonstrate that lenders were within risk appetite than that, which was required previously.

606 A two-stage accreditation process was adopted to launch RLS at pace, allowing the process to be much quicker than that under CBILS.

607 Following the implementation of the scheme, the Bank commissioned a process evaluation and early impact assessment of RLS 1. In summary, this found a positive impact on a lender's ability to deliver the scheme due to the changes incorporated in the design of RLS 1 and the two-stage accreditation process, as well as a positive impact on the borrower's turnover.

(ii) Guarantee Agreement

608 The Bank sought input on the Guarantee Agreement from industry bodies (such as UK Finance, Innovate Finance, Responsible Finance and the

Finance and Leasing Association). [RDM/361 - INQ000594875, RDM/362 - INQ000594876, RDM/363 - INQ000594877RDM/364 - INQ000595896] UK Finance provided comments on the Bank's draft, in relation to legal, commercial and operational issues. [RDM/365 - INQ000594880]

609 On 23 March 2021, the Guarantee Agreement was approved internally by the Bank. The drafting process represented a truly collaborative effort, and it was specifically noted that the draft incorporated lessons learned from having operated the prior schemes. This was requested by the Government and the Board. In addition, the drafting team had focused on key elements of the agreement, including in respect of fraud and financial crime. [RDM/366 - INQ000594885] The Bank shared the document with UK Finance and the industry bodies on the following day, requesting that the agreement was circulated among lenders. [RDM/367 - INQ000594887, RDM/368 - INQ000594888, RDM/369 - INQ000594889, RDM/370 - INQ000594890]

610 The Guarantee Agreement was amended in connection with RLS 3.

(iii) Accreditation

611 At a meeting on 13 November 2020, the Bank's Product Development Committee was asked to approve the design and implementation of the RLS (at this time, still named CBILS 2.0) accreditation process and asked to delegate authority to finalise the accelerated accreditation criteria and request for proposals. [RDM/306 - INQ000594819]

612 The Product Development Committee was told that in order to ensure that RLS had a sufficient volume of lenders with the ability to deploy at pace and operationally ready to lend on 1 February 2021, a two-stage accreditation process was being proposed:

(a) an accelerated accreditation process, which involved CBILS lenders who had satisfied the relevant criteria; and

(b) a standard accreditation process, which followed the (then-existing) CBILS process, with lenders (including any CBILS lenders who did not meet the criteria for accelerated accreditation) applying through the application process outlined in the Request for Proposal.

613 From 4 March 2021, accredited CBILS lenders could apply to lend under the new scheme. [RDM/371 - INQ000594884]

614 Provided that these lenders satisfied certain criteria, they were prioritised and subjected to an accelerated approval process, which excluded the need for a submission of interest and the associated formal proposals. Instead, these lenders provided a self-certification form. [RDM/371 - INQ000594884]

615 Lenders that qualified for the accelerated accreditation process were divided into "*simple*" and "*complex*" cohorts. Acknowledging that the circumstances around the launch of RLS were less exceptional than for CBILS, a greater degree of confidence was sought to demonstrate that lenders were within risk appetite. Lenders in the complex cohort required additional information and analysis compared with that which was obtained from the self-certification form or was on file from previous schemes. These lenders were more complex to analyse, frequently because they did not have a traditional banking model.

616 The British Business Financial Services Limited Investment Committee approved the accreditation of the initial tranche of lenders that required simpler analysis on 19 March 2021. This committee was informed that 28 CBILS lenders, who had distributed 72% of CBILS by drawn amount, had applied for RLS accreditation and met the requirements for simpler analysis. Accreditation was recommended and approved for 26 of these lenders, with further analysis recommended for the remaining two that were not approved at that time. A further four CBILS lenders submitted self-certification forms later and were approved in a similar manner through simpler analysis by the same committee on 1 April 2021. The analysis of these lenders included benchmarking of financial risk scores, CBILS credit performance, operational capacity and borrower pricing. It also covered capital sufficiency, funding arrangements, business models, management experience, conduct history, and regulatory and legal status.

617 The remaining lenders that met the accelerated accreditation criteria were individually considered by the British Business Financial Services Limited

Investment Committee or its Managing Director Forum sub-committee (**Managing Director Forum**), depending on size and according to delegated authorities. The analysis of each of these lenders was bespoke according to their specific circumstances, although always aligning with the lender eligibility criteria. Typically, these lenders had complex legal entity structures requiring analysis of how cash flows between different parties, who had what rights and obligations in different situations and how stable these structures were. Depending on the analysis performed, a variety of different protections were required to protect taxpayer money. These included having recourse to multiple entities for amounts owed to the Government, arrangements to run the loan portfolio if the lender failed, arrangements to segregate the portfolio from the lender to protect it and restrictions on credit policies.

618 From 22 March 2021, all other lenders, who did not satisfy the accelerated accreditation criteria, were able to apply and were subjected to the standard accreditation process. [RDM/371 - INQ000594884 and RDM/319 - INQ000594900]

619 Other lenders were required to apply via the Request for Proposal route, which included a four-stage accreditation process, involving an expression of interest followed by a formal proposal, a due diligence process to scrutinise the applicant and its proposal, presentation of the proposal to the relevant governance committee (the British Business Financial Services Limited Investment Committee or Managing Director Forum, as mentioned above) and completion of the process, including execution of agreements and fulfilling conditions precedent. [RDM/371 - INQ000594884 and RDM/319 - INQ000594900]

(iv) Lender Manuals

620 The Bank drafted two Lender Manuals, each addressing two of the four RLS debt products. The term loan and revolving credit facilities manual was shared with lenders on 30 March 2021, and the asset finance and invoice finance manual was shared with lenders on 21 April 2021. [RDM/374 - INQ000594891]

621 The Lender Manuals were updated and reissued in connection with the extension of RLS until 30 June 2022.

5 Reflections on Timing

622 The design of RLS began whilst the existing economic support schemes were still in operation. Due to timescales for the design and delivery of those schemes, there had been significant pressure on the Bank colleagues involved (as well as on lenders, HMT and the Department for Business, Energy and Industrial Strategy) – see Richard Bearman's statement for further detail. Colleagues working on the design and implementation of RLS were acutely aware of this, as they had been personally involved.

623 By August 2020, although pressures on Bank colleagues had lessened, the impact of the extreme demands, which colleagues had faced only a couple of months earlier, were not forgotten. However, in contrast with the few weeks, in which those schemes had to be designed and implemented, the thinking on RLS evolved over two months. As such, there was comparatively more time to assess market demand and the potential options to address borrower need. Yet, with the then-impending closure of those schemes, in early November 2020, the Bank was acutely aware that there was likely to be a gap between what Small and Medium Enterprises needed and what lenders were able or willing to provide. Therefore, the time available to implement an appropriate solution was limited. In light of this, at various points throughout the RLS 1, 2 and 3 timelines, the Bank took steps to drive forward the response required to achieve delivery and often led on making proposals.

624 Notwithstanding this, the (later) announced extensions to the Schemes at the end of September 2020, and again in December 2020, provided more time for RLS 1 to be designed. The eased timeline (as well as the eased timelines leading up to RLS 2 and 3) permitted a highly collaborative process, as well as various meetings to explore and discuss options. Moreover, the design phase of RLS 1 (as well as RLS 2 and 3) was able to benefit from the lessons learned from the existing schemes. [RDM/321 - INQ000593116]

625 Likewise, the Bank began its thinking on RLS 2 well before the end of RLS 1, driven by its view, principally, that Small and Medium Enterprises were in need of finance in the ensuing months to help them adjust and grow in a post-pandemic economy. There was recognition of the need to undertake a refreshed analysis of the market condition, at that time, in order to determine borrower need. [RDM/321 - INQ000593116]

626 The Bank's thinking with respect to RLS 3 similarly began early, with a review of its debt interventions and an associated market analysis, in November 2021. This occurred in a structured and coordinated way, aimed at presenting its views to HMT and the Department for Business, Energy and Industrial Strategy, ahead of the Spring Budget in March 2022, and well before the close of RLS 2. This led to the Small and Medium Enterprise Lending Review in January 2022; and subsequently, the ongoing steering group meetings, which led to the drafting of the business case. [RDM/321 - INQ000593116]

627 The design and implementation phase for RLS 3 was markedly different, in comparison with the other schemes. The Bank's approach to this phase was much more similar (although, not identical) to how the Bank operated in normal non-pandemic times: due to the easing on the UK economy, the Bank took responsibility for driving forward the proposals for the economic intervention as well as seeking policy steers from HMT and the Department for Business, Energy and Industrial Strategy, because there was not a need for an emergency scheme to be instructed by the Government. Therefore, the design and implementation phases for RLS 1, 2 and (in particular) 3 are a sharp contrast to the frantic approach taken with respect to the other Schemes.

628 The Bank's interaction with the Government and the associated policy considerations were only a part of the Bank's wider experience of, and involvement in, RLS. In addition to this, in the time available, the Bank undertook important work in relation to:

(a) accreditation, ensuring that taxpayers were protected in the case of the failure of a lender. In particular, this was achieved via requiring ring-fenced Special Purpose Vehicles for non-bank financial institutions, putting in place back-up servicers, analysis of lenders' corporate structures, changes requested by lenders, and support for community development financial institutions. Moreover, lenders were re-accredited for RLS, ensuring more time was taken than was available for the CBILS accreditation process, and in more detail where necessary;

(b) operations, ensuring that processes, such as for data and payments, were more efficient for lenders and the Bank;

(c) the Guarantee Agreement, making structural improvements, such as in respect of forbearance and restructuring;

(d) the approval processes, ensuring these were streamlined and made more efficient; and

(e) its engagement with lenders, which was extensive, resulting in the Bank responding to questions and providing its opinion in relation to specific cases.

629 The Bank reduced its dependency on external advisors as quickly as possible, in order to limit costs.

6 Lessons Learned

630 The Bank and the Government applied a number of lessons learned from the Enterprise Finance Guarantee programme and the Guarantee Schemes in the design of the RLS. The RLS business case was explicit in highlighting these lessons and it will now become a likely template in the event of future economic interventions for these types of schemes.

631 It is helpful to emphasise these aspects of RLS:

(a) RLS maintains wider eligibility criteria so that the scheme is available to more businesses who want to access it, rather than only those businesses that have been turned down for a commercial loan for a limited number of reasons, as was the case for the Enterprise Finance Guarantee programme;

(b) maintaining lenders' ability to claim against all facilities in their portfolio (in the highly unlikely event every business they lent to defaulted on their loans), rather than reinstating a 'portfolio cap' under which claims cannot exceed a fixed amount of scheme lending per vintage, as was the case for Enterprise Finance Guarantee. This change means that banks can benefit from regulatory capital relief – enabling them to lend to more businesses (or lend at better rates) and be more comfortable to continue providing funding to non-bank lenders as well;

(c) ensuring the premium paid to the Government to provide the guarantee continued to be paid by the lender rather than by the borrower (as had been the case for Enterprise Finance Guarantee) to reduce the complexity of the customer journey;

(d) introducing a lower Scheme Lender Fee for responsible finance providers (i.e., those who are accredited for Community Interest Tax Relief or Social Investment Tax Relief) and invoice finance providers. The lower scheme fee is a way of helping the finance facilities remain affordable to the business given the higher costs these lenders face. Invoice finance was identified as an important way to support businesses' demand for working capital;

(e) RLS was launched after going through the usual governance routes within HMT and the Department for Business, Energy and Industrial Strategy, including approval of a Green Book-compliant business case by the Department for Business, Energy and Industrial Strategy's Projects and Investments Committee. These processes represent an important opportunity to test scheme design and proposed risk mitigations with a range of stakeholders, and we would expect to follow this approach in all normal circumstances;

(f) in the accreditation process, it quickly became apparent for CBILS that a "one-size fits all" approach delayed delivery because it did not take sufficient account of different business models. The Bank instead took a risk-based approach with some moving faster than others, depending on the nature of the underlying lending, accepting any potential short-term negative impacts on competition. A risk-based approach enables the requirements and costs of accreditation to be more proportionate and to mitigate the practical and reputational risks of accrediting lenders that may subsequently become insolvent, for example by using the process to learn more about the lender specific processes and organisational resilience. Lenders accredited for CBILS and CLBILS were re-accredited, if they wished, for RLS;

(g) it brings relevant experts such as counter fraud specialists into the design process where possible;

(h) an acknowledgement that where significant risks cannot be mitigated before scheme launch a plan to iterate the scheme design post-launch where practicable should be made;

(i) engagement with new types of lenders so they understand the terms of the schemes and apply for accreditation; and

(j) there is sustained and ongoing coordination with industry regulators, including the Financial Conduct Authority, Prudential Regulation Authority and the Lending Standards Board.

632 The Bank now has better links with fraud experts across 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. In sum, the lessons learned from the past were fully taken into account during the design of RLS.

7 Risk of Fraud and Error

633 The RLS 1 evaluation stated that the forecasted lifetime default rate, for any reason, was at around 17.5%.

634 The final default rate for RLS is not yet available. The default numbers for RLS are in line with normal commercial lending.

635 The risk of fraud and error was assessed, during the design phase, to be significantly lower than for BBLS. The RLS 1 evaluation noted that the research did not find any evidence that this assessment of risk of fraud was inaccurate as lenders were obliged to undertake Business As Usual checks on borrowers and no fraud risks that were not in the original business case were highlighted by lenders or stakeholders. Moreover, the accreditation process was noted to have aimed to ensure that lenders committed sufficient resources to fraud detection and debt recovery.

Part E: Accreditation, post-accreditation set-up, post-accreditation audit

1 Accreditation

(i) Introduction

636 The purpose of accrediting lenders was to ensure they met certain standards prior to being permitted to lend under a Guarantee Scheme and benefit from a Government guarantee for losses suffered from loans made under the relevant scheme. This was intended to reduce the risk of potential losses that might ultimately rest with the Government under the Guarantee Agreements.

637 The CBILS accreditation process adopted many elements of the Enterprise Finance Guarantee scheme and, in turn, CLBILS and BBLS schemes adopted much of the documentation and process from CBILS. Most of the CLBILS lenders had already been accredited under the CBILS scheme and so the process was generally quicker and further requirements imposed only where the lenders applied to be able to lend up to £200 million (the enhanced process as described below). For BBLS, the majority of lenders had already been accredited under CBILS and the BBLS team looked at any BBLS specific requirements, although mostly the lenders under BBLS were high street lenders and specific requirements were less likely to apply and so had well established fraud and recoveries processes.

638 One of the key differences, between Enterprise Finance Guarantee and the Guarantee Schemes, is that the early Guarantee Schemes (i.e. CBILS, CLBILS, BBLS and RLS 1 and 2) were "*demand led*". This meant that, rather than having a set amount of lending that could be done under Enterprise Finance Guarantee, the Bank were asked to accredit a large number of lenders provided they complied with the criteria, because the pot of guarantee capacity was potentially unlimited – see paragraph 251 covering the Permanent Secretary for the Department for Business, Energy and Industrial Strategy's email of 23 March 2020, which stated "*I am pleased to confirm that the situation is as you describe it and in particular that further financial cover will be forthcoming to the British Business Bank as necessary to honour the open-ended commitments you are being instructed to make*".

639 Additionally, because CBILS had the Coronavirus Business Interruption Payments (covering a borrower's interest and fees for the first year), lenders

were keen to be involved, recognising that borrowers would gravitate towards this scheme rather than other borrowing. The impact of CBILS (and BBLS) was such that, if a lender was not accredited, they were unlikely to be lending much at all during this time.

640 Due to the high number of applicants for CBILS, there was increasing pressure from the Government and lenders to speed up the process, and there was a lot of media coverage on this issue. As a result, there was redeployment of staff from other areas of the Bank to assist with accreditations, and the process was reviewed and a risk based approach adopted as set out below.

(ii) Redeployment

641 Before the pandemic, the Enterprise Finance Guarantee accreditations team consisted of two people and the process could take between three to six months. [RDM/376 – INQ000609063]

642 To increase capacity in accrediting new lenders under CBILS, the Bank redeployed staff from the UK Network team, which usually engaged with businesses and finance providers across the country, and whose activities had been constrained by the pandemic and lockdown.

643 Resources were also procured into accreditation teams from external consultants.

644 Overall, the accreditation teams increased from two members to around 30, and the UK Network team stayed in place until the end of June 2020 to assist with dealing with the initial volume of applications.

645 Broadly, over time there were three separate teams dealing with the accreditations for CBILS, BBLS and CLBILS as follows:

(a) initially, CBILS accreditations were handled by the UK Network team. By around June 2020, the UK Network team were able to return to their other roles within the Bank and the CBILS accreditations applications were handled by Guarantee and Wholesale Solutions. The UK Network team was managed by Judith Hartley;

(b) CLBILS accreditations were handled by Guarantee and Wholesale Solutions and, from June 2020, the same applied for CBILS. This team was managed by me; and

(c) BBLS accreditations were handled by the BBLS team, managed by Richard Bearman. Some members of UK Network team also assisted as required. However, there were fewer applicants to lend under BBLS because the requirements of the scheme were prescribed and more stringent for the lenders, for example lenders could only charge 2.5% interest, therefore many lenders could not make BBLS work from an economic perspective.

(iii) Revising the accreditations process

646 Prior to the pandemic, the Bank operated only a standard accreditation process in relation to the Enterprise Finance Guarantee scheme.

647 Towards the end of March to early April 2020, the standard Enterprise Finance Guarantee accreditation process was reviewed by Judith Hartley (as head of the UK Network team) to see how it could be streamlined and a proposal was put forward as to improving the speed of accreditation whilst maintaining appropriate levels of enquiry [RDM/377 - INQ000594601]. These initial changes were discussed at an Executive Committee meeting on 6 April 2020. [RDM/378 - INQ000594698].

648 The changes to the accreditation process had three broad themes:

(a) firstly, a risk-based approach to the CBILS accreditation process was taken whereby all outstanding applications were risk assessed and the lower risk were dealt with on a fast track basis. Low risk lenders were those which were Prudential Regulation Authority regulated, and those with which the Bank already had a prior relationship. Those lenders which were accredited under Enterprise Finance Guarantee and had an active lending limit were automatically migrated for CBILS. The standard stream was for all other lenders. There was further segmentation within the fast and standard track, including:

(i) priority cases – those lenders which the Bank believed would have a big impact on the market (for example a large lending volume) and in relation to which the Bank believed they could complete accreditation quickly and easily;

(ii) complex cases – those applicants whose business models did not neatly fit with existing CBILS legal documents and / or operating systems and hence further design / legal work would potentially be required; and

(iii) majority cases – all those that did not fall within the categories mentioned above;

(b) secondly, the accreditations governance was amended to allow the Managing Director Forum to sign off allocations (i.e., the amount to which the lending of the finance provider would be guaranteed) requests for lending allocation of up to £250 million before referral to an Investment Committee (where previously it had been lower); and

(c) thirdly, lenders were all subject to audit after being accredited, which tested their obligations under scheme documents to ensure that the scheme rules were being followed correctly (as explained below). Under Enterprise Finance Guarantee, a lender's ability to operate the scheme was subject to specific assessment prior to accreditation; however, for CBILS, more reliance was placed on audit after the accreditation decision. Accreditation could be suspended if the audit was unsatisfactory and, whilst this was a higher risk approach, it was considered within risk appetite for the scheme.

649 In May 2020, the Bank also introduced a self-certification by Prudential Regulation Authority regulated banks that they complied with the CBILS accreditation criteria, in place of the Bank performing due diligence to confirm compliance. This was proposed to the Department for Business, Energy and Industrial Strategy in late April to early May 2020 [RDM/379 - INQ000594707, RDM/380 - INQ000564009] and approved by the Department for Business, Energy and Industrial Strategy on 13 May 2020 [RDM/381 - INQ000543223]. This was also discussed and approved by the Bank's Executive Committee on 7 May 2020 [RDM/382 - INQ000594715] and at the Bank shareholder meetings [RDM/382A – INQ000594709]. The aim was to accredit within

five days. By around May 2020, there were over 120 new-to-Bank lenders seeking accreditation for CBILS.

650 As discussed at paragraph 468, from 26 March 2020, Accredited Lenders could apply under the "Larger Schemes Facility" to be approved to provide single facilities in an amount above £50 million and up to £200 million (described further below).

(iv) Accreditations process

651 At around the time a loan scheme was launched, the Bank put out a Request for Proposal and lenders had to submit an expression of interest in response. For CBILS, for example, the response were assessed against various criteria such as track record, whether the lender had a record of lending to Small and Medium Enterprises, whether they would be able to lend a minimum amount under the schemes, whether lender levied fees and interest would be reasonable based on their normal pricing framework and whether pricing would take into account the economic benefit of the guarantee, suitable tax and regulatory status, suitable processes to administer the programme etc. The Bank would make a decision to progress an applicant to the next stage if they were suitable.

652 The focus of the assessment against these criteria evolved over time as new lenders applied; for example, several new lenders applied who did not have a track record. The original CBILS request for proposal required lenders to either be able to demonstrate their track record in the provision of term loans, overdrafts, asset finance or invoice finance to CBILS-eligible UK Small and Medium Enterprises; or if they were a newer lender or a lender entering a new market segment, to be able to demonstrate a clear intention and strategy to lend to qualifying UK Small and Medium Enterprises.

653 Lenders that were successful at the first stage were invited to make a formal application and the relevant accreditations team would conduct a review, requesting specific information, and preparing a standardised accreditation paper which was assessed against the eligibility criteria – for example, the lender's financial stability or a justification of the interest that they charged.

654 In relation to fees and interest, this justification had to be presented via a standardised pricing matrix which the Bank designed and which spelled out

the different components that make up the interest they charge (broadly speaking: expected loss plus cost of capital plus funding costs plus scheme lender fee). The reason for doing this was two-fold. Firstly, to make sure that the Government was not charged too much for the Coronavirus Business Interruption Payments and secondly, to make sure that the lenders passed on the full benefit of the guarantee to the borrowers in the subsequent years.

655 Once complete, for allocations up to £250 million, the accreditation paper would be presented to the Managing Director Forum, which met around three times a week and made the final decision on these accreditation applications. For allocations above £250 million or more complex structures, the papers were presented to the Investment Committee, who met around once a week and made the final decision for these accreditation applications. Only rarely would the Bank's Executive Committee need to be involved. Approvals were published on the Bank's website.

656 The first set of Accredited Lenders received Initial Amendment Letters, amending the terms of their Enterprise Finance Guarantee scheme Guarantee Agreement and Enterprise Finance Guarantee Supplemental Agreement. Amendments were stated and deemed to take effect if Accredited Lenders purported to lend under CBILS; no signing of these Initial Amendment Letters was required.

657 As noted above, from mid-May 2020, onwards self-certification was permitted for Prudential Regulation Authority regulated banks.

658 Under CLBILS, Accredited Lenders could apply under the "Larger Schemes Facility" to be approved to provide single facilities in an amount above £50 million and up to £200 million. To do this, they would need to undergo an enhanced accreditation process by the Bank, which included satisfying the requirements noted above, as well as demonstrating that they had permission from their regulator to use the "*Internal Ratings Based*" approach to calculate minimum capital requirements, which is generally only available to larger banks.

659 The final decision as to accreditation would then be made by HMT (who would only undertake independent due diligence on the lender if it had specific concerns).

660 Once a lender was approved, it would need to notify the Bank before providing loans of more than £50 million and the Bank's Investment Committee would consider and had the right to veto any such proposed loans. In this regard, to inform its decision, the Bank obtained separate advice from external consultants covering various points, such as the structure of the facility and seniority in relation to other debt.

661 When lenders became aware that they did not meet the lender eligibility criteria, it was common for them to simply suspend their applications rather than continuing with their application process and being formally declined. An informal Declines Forum or catch up was set up which discussed proposed accreditation declines before such a decision was made. The Managing Director Forum or Investment Committee (as relevant) would have made any formal decisions.

662 The General Counsel set up a daily discussion at which recurring issues arising through the initial operation of the schemes by lenders could be aired. Those issues which were within the Bank's scope were dealt with, while those outside scope, such as eligibility criteria or the nature of borrowers eligible for the scheme, were collated by the legal team, a pros and cons analysis provided and then referred by email to the Government for a policy decision.

663 At the launch of the scheme, these policy queries were collated and provided to HMG on an ad hoc basis. Those decisions were sometimes delayed within the Government.

664 A Projects Management team assisted with management information and reporting, especially monitoring the pipeline of accreditations applications and when decisions on accreditation might be made, which also impacted on the post accreditation audits work. A working group also met regularly to discuss operational issues. [RDM/383 - INQ000594753, RDM/384 - INQ000594742]

665 However, new-to-Bank Accredited Lenders had to sign up to a suite of Guarantee Agreement documentation.

2 Post-accreditation set-up

666 Once approved, a lender would sign the Guarantee Agreement. This was a standard document, and lenders had to "*take it or leave it*". However, there

were bespoke side-letters for lenders with non-traditional lending models (such as platform lenders and lenders who funded themselves via securitisation type structures) dealing with issues such as priority of payment (covering the payment of recoveries and the scheme lender fee to the Government), rights of set off, restrictions on assignment etc., to ensure that the Government's position was not disadvantaged by virtue of the structure of the underlying lender.

667 Following accreditation, a member of the post-accreditation team within Guarantee and Wholesale Solutions would liaise with the due diligence team to understand more about the Accredited Lender and would then engage with the Accredited Lender to train them on the Guarantee and Wholesale Solutions Guarantees Platform to which data about facilities made under the scheme was to be uploaded. An assessment at the end of the Guarantee and Wholesale Solutions Guarantees Platform training was required for some Accredited Lenders, although there was some flexibility around this noting the pressure to get Accredited Lenders set up at speed.

668 The post-accreditation team also met with senior people at Accredited Lenders to explain the terms and conditions of the Guarantee Agreement and the scheme to ensure they knew how it worked, and their obligations as the Accredited Lender.

669 A designated relationship manager would be appointed within the Bank to assist the lender.

670 An additional post accreditation check for BBLS lenders was that the Bank confirmed that the lender understood recoveries and fraud and that the minimum fraud standards were understood. This also enabled the Bank to understand the lenders' Business As Usual collection and recoveries processes.

671 Under the terms of CBILS, Accredited Lenders had to provide training to their staff, including around eligibility criteria, aims and objectives of the scheme, State aid rules, the Undertaking in Difficulty test (see paragraph 183 above),

and data sharing arrangements with the Bank. Guidance and material provided by the Bank came in two main forms:

(a) scheme documentation e.g., Lender Manuals, FAQs, Lender Guidance, and the legal agreements and related documents; and

(b) training materials around State aid compliance and the Undertaking in Difficulty test. [RDM/217 - INQ000146545]

3 Post-accreditation audit

672 An Audit Assurance Programme Steering Group was established and took forward the process which evolved following the post accreditation phase. It was refocused to provide a rolling operational programme of risk based audits across the BBLS, CBILS and CLBILS portfolio. [RDM/21 - 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 Steering Group concluded, and the work transitioned to Business As Usual in the Audit team. The results of the audits were discussed at the Audit Review Panel, set up in August 2020) at senior Bank level. [RDM/386 - INQ000594790]

673 The post-accreditation audit used data from the Schemes to identify patterns of risk among lenders and to use that to direct audit resources. The audits helped to highlight how different aspects of the Schemes were being administered from a lender process. The scope of the audits was specifically constructed by reference to the lender obligations in the scheme documents.

674 Further details are provided in the statement of Richard Bearman.

4 Business interruption payments and scheme fees

675 The operational mechanism for payment of the Coronavirus Business Interruption Payments was not fully developed when CBILS was launched. The Initial Amendment Letters merely explained that the Bank would be in touch within three months post-launch, detailing how lenders could claim the Coronavirus Business Interruption Payments and scheme fees. [RDM/100 - INQ000563893]

676 Further, each of the Guarantee Schemes required Accredited Lenders to pay scheme fees to the Bank calculated by reference to facilities made under the schemes.

677 Given the increased volume of lending across all Guarantee Schemes compared to Enterprise Finance Guarantee (which did not have a Coronavirus Business Interruption Payments and where the scheme guarantee fee was paid by the borrower and not the lender), the Bank had to take steps to operationalise being able to process Coronavirus Business Interruption Payments claims from Accredited Lenders and payments by Accredited Lenders of scheme fees and to ensure the amounts were correct.

678 Accordingly, following a tender process, the Bank appointed PricewaterhouseCoopers to design and implement this process. PricewaterhouseCoopers did this through setting up an operations centre in Belfast and recruiting into this and building out their systems.

679 The process for conducting these checks, broadly, involved PricewaterhouseCoopers obtaining datafiles from each Accredited Lender. PricewaterhouseCoopers then did various reconciliation checks, including against data on the Guarantee and Wholesale Solutions Guarantees Platform, and various cross calculations at a facility level and portfolio level.

680 Where there were discrepancies, PricewaterhouseCoopers could raise queries with Accredited Lenders or Guarantee and Wholesale Solutions, or request remediation of data on the Guarantee and Wholesale Solutions Guarantees Platform if that turned out to be incorrect. If there were large discrepancies, PricewaterhouseCoopers could raise the issue with the Bank to have the discussion with the Accredited Lenders.

Part F: Monitoring of support

1 Introduction

681 The objectives of CBILS and CLBILS, as set out at paragraph 192 above, were not formally set prior to implementation of the schemes. However, it was understood that the purpose and intention behind the schemes was to provide access to finance to businesses affected by the pandemic, and therefore success of the schemes was broadly defined as such.

682 The overarching objective for the RLS, as set out at paragraph 553, was to continue to support businesses disrupted by the pandemic and therefore the success of the RLS, during the operation of the scheme, was broadly defined as such.

683 CBILS, CLBILS and RLS were primarily monitored through the data shared with the Bank by Accredited Lenders through the Guarantee and Wholesale Solutions Guarantees Platform and through various governance structures and forums at the Bank and with Government stakeholders. Success of the schemes was also monitored in this way.

2 Data Sharing

684 Accredited Lenders were required to share data with the Bank about their scheme lending portfolio through the Guarantee and Wholesale Solutions Guarantees Platform in order for the Bank to monitor the overall size and scale of the schemes.

685 The data sharing requirements required Accredited Lenders to report the value of repayments made, whether repayments were on schedule, the number and value of facilities in arrears, and any cases of default, on an ongoing basis. Additionally, Accredited Lenders were required to provide information on the number of facilities that were suspected cases of fraud, and the value of these facilities.

686 There were some initial difficulties for sharing data in bulk through the Guarantee and Wholesale Solutions Guarantees Platform which were addressed by changes to it. Accredited Lenders also provided similar data in parallel to HMT, while scheme monitoring systems were being established in the initial periods of the CBILS. [RDM/217 - INQ000146545]

687 During the operation of the CBILS and CLBILS, the Bank frequently provided HMT with data to allow HMT to closely monitor the functioning of the schemes. On 20 April 2020, the Treasury Committee wrote to Keith Morgan requesting that the Bank (in conjunction with UK Finance as necessary)

provided certain data on the CBILS, CLBILS on a daily basis to the Treasury Committee for publication, including:

(a) the number of enquiries by scheme (including, if possible, the number of these enquiries that are unique as opposed to the same enquiry but to multiple lenders);

(b) the number of enquiries where the lender actively discourages any application;

(c) the number of applications by scheme;

(d) the number of acceptances by scheme;

(e) the number of rejections by scheme; and

(f) the total amount loaned under each scheme.

688 The Treasury Committee asked for more granular data to be provided on a weekly basis for publication, including:

(a) the number of loans banded by amount provided, and by turnover of firms;

(b) the terms of the loans provided, including average and maximum interest rates by scheme;

(c) average number of days from application to decision; and

(d) total amount loaned under each scheme, by provider.
[RDM/387 - INQ000594674]

689 HMT published certain of this data on a weekly and monthly basis, see paragraph 744 below.

3 Governance

690 An overview of the various governance structures and forums within the Bank and with Government stakeholders is set out at the beginning of my statement (see paragraphs 62 -110). Several of these governance structures

and forums were used to monitor the schemes in real time and to review scheme delivery, performance and risk.

691 In addition, other regular meetings with the Bank and the Government which covered the schemes included:

(a) weekly Covid-19 scheme governance meetings;

(b) weekly Design meetings;

(c) monthly Shareholder Meetings, Quarterly Policy Meetings, and Quarterly Shareholder Meetings;

(d) Covid Debt Schemes Counter Fraud Programme Board (excluding RLS); and

(e) Counter fraud working group (excluding RLS).

692 These governance forums have continued and evolved as administration of the schemes has transitioned from a focus on lending to recoveries and counter-fraud work.

4 Evaluations

693 As set out above, there was some consideration of economic and value for money analysis at certain points:

(a) amendments to CBILS – paragraphs 284 to 292, and 323;

(b) extensions to CBILS and CLBILS – paragraphs 328, 346 and 347; and

(c) amendments to CLBILS – paragraphs 454 to 457 and 462.

(i) CBILS and CLBILS

694 Following closure of the CBILS, CLBILS and BBLS, in March 2021, the Bank commissioned London Economics and Ipsos to undertake a three-year evaluation of the CBILS, CLBILS and BBLS. The evaluation aimed to assess

whether the objectives of these schemes had been satisfied and was split into:

(a) a process evaluation, focusing on scheme design, scheme delivery, debt recovery and fraud processes, and variations in processes;

(b) an impact evaluation, focusing on the extent to which the CBILS, CLBILS and BBLS affected business outcomes (for example, whether having received funds under a scheme was associated with a higher likelihood of business survival, or greater turnover or employment);

(c) an economic evaluation, focusing on the value for money of the schemes, taking into account both costs and benefits.

695 The first evaluation report, published in June 2022, focused on the process evaluation and early impact of CBILS, CLBILS and BBLS based on primary research tools and other secondary datasets, including the Bank's management information. [RDM/217 - INQ000594603]

696 The second evaluation report, published in November 2023, provided an update on the impact of CBILS, CLBILS and BBLS on borrowers and evaluated the processes used for scheme monitoring, repayment and counter fraud. [RDM/388 - INQ000593115]

697 The third evaluation report was published in May 2025 and consists of an economic evaluation, which looks at value for money across CBILS, CLBILS and BBLS, and an updated process and impact evaluation [RDM/388A - INQ000609061].

698 The Inquiry have asked a number of questions relating to whether CBILS, CLBILS and BBLS met their economic objectives, amongst others. I direct the Inquiry to the evaluation reports which respond to those questions in further details. A more fulsome summary of the evaluations is provided in the statement of Richard Bearman.

699 A summary of key points from the Year 2 evaluation include:

(a) Evidence from the first and second reports suggests that the short-term objectives of the schemes were achieved – namely to unlock finance at scale and pace such that businesses disrupted as a result of the pandemic still have access to finance, and to offer businesses access to finance schemes complementing other government support and incentives.

(b) Findings also suggest that one of the schemes' two medium-term objectives was achieved – namely to give businesses maximum opportunity to maintain liquidity until lockdown measures were lifted.

(a) Based on businesses' survey responses this Year 2 report suggests that, by the second year of the pandemic, the CBILS, CLBILS and BBLS prevented business closures among borrowers.

(c) Secondary analysis of Inter-Departmental Business Register (IDBR) to assess the findings from the Year 1 early impact evaluation reaffirms the Year 1 findings that, in the first year of the pandemic, the CBILS, CLBILS and BBLS prevented business closures among borrowers.

(b) The secondary analysis of Year 1 impacts found that the schemes had a positive impact on borrowers' turnover and employment in addition to survival impacts.

(ii) Evaluations of RLS

700 The business case noted that the intention in respect of the evaluation of RLS was to hire an external contractor to evaluate the scheme. In addition, a monitoring and evaluation plan would be developed and submitted for scrutiny by the Department for Business, Energy and Industrial Strategy Internal Evaluation Experts Group in mid-2021. The evaluation was to include a process, impact and economic evaluation. [RDM/291 - INQ000609053] [RDM/389 - INQ000609051, RDM/321 - INQ000593116].

701 In February 2023, the Bank commissioned London Economics and Ipsos to undertake a process evaluation and early impact assessment of RLS 1. An evaluation steering group was set up to guide and, finally, review the report. The evaluation was published on 22 March 2024 and aimed to assess whether the objectives of RLS were satisfied. [RDM/321 - INQ000593116]

702 The evaluation of RLS 1 used a mixed methods approach combining a quantitative survey, qualitative interviews as well as primary and secondary sources. It consisted of two distinct strands:

(a) an impact evaluation, which relied mostly on a primary data collection exercise, as well as Bank management information and interviews with lenders, covering Additionality, product market displacement, the impact of lending on businesses and the lender response to scheme parameters; and

(b) a process evaluation, which included a review of programme documentation (including a description of how the schemes had been designed); management information (including data around the scheme portfolio and lenders); and secondary datasets (such as the Bank's Small and Medium Enterprise finance survey and Bank of England data on commercial lending interest rates). The review of information and data was supplemented with stakeholder consultations, incorporating input from the individuals involved with the design and delivery of RLS 1 and the Accredited Lenders delivering the scheme. A descriptive analysis was used for the quantitative data collected and the qualitative data was analysed thematically. [RDM/321 - INQ000593116]

703 The evaluation document set out its key findings in respect of RLS 1's:

(a) process, which concluded that the:

(i) changes incorporated in the design of RLS 1 (such as Additionality and the consideration of lessons learned) had a positive impact on lenders' ability to deliver the scheme alongside commercial lending;

(ii) accreditation process was much quicker than had been the case for CBILS; and

(iii) the scheme had not provided facilities to as large a proportion of the UK economy, as had originally been expected. 0.2% of businesses in the UK (mostly from sectors, which were most impacted by ongoing restrictions) used RLS 1, resulting in almost £2.8 billion in lending facilities to around 10,000 businesses; and

(b) impact, which reported that:

(i) the majority of finance provided during the lifespan of RLS 1 would not have been provided without the scheme, as an estimated 83% of RLS 1 loans were deemed to be additional;

(ii) the scheme had had a positive impact on borrowers' turnover, with analysis estimating that RLS 1 borrowers had a 17% higher turnover than they would have had without the support of RLS 1;

(iii) without the economic support received, 12% of surviving RLS 1 borrowers would have ceased trading, and a further 47% would have been very or fairly likely to have ceased trading; and

(iv) the most common use of RLS 1 was for day-to-day expenses and purchasing goods and materials, as well as permitting borrowers to undertake innovative activities and reducing carbon emissions. [RDM/321 - INQ000593116]

704 The evaluations of RLS 2 and RLS 3, as well as a longer -term evaluation of RLS 1, will be commissioned in future years. [RDM/321 - INQ000593116]

Part G: Communication

1 Coronavirus Business Interruption Loan Scheme

705 The Bank communicated the purpose, eligibility and application process for the CBILS across a broad range of channels to end-user businesses, including media, its website and social media channels, and through its Accredited Lenders, via stakeholder channels and paid marketing.

706 As the CBILS was a delegated scheme, its Accredited Lenders were a key channel to reach borrowers/applicants and so the Bank briefed participating lenders on the scheme in advance of the launch. Each Accredited Lender was provided with a marketing toolkit including FAQs, videos and packs to help promote the scheme and to ensure that it was being delivered consistently within the constraints of each Accredited Lender's procedures.

707 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, the Confederation of British Industry and specialist finance and trade bodies, so they could share details of the scheme with their members.

708 On 23 March 2020, following the Chancellor's announcement at the 2020 Budget announcement, 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, noting that the Government had since announced that the scheme would be demand-led rather than the initial £1.2 billion of government-backed lending previously announced.

709 The Bank's Chief Executive Officer was interviewed live on BBC Radio 5 Wake Up to Money and BBC Radio 4 Today, discussing the features and benefits of the scheme. He also provided on-the-record briefings to national newspapers the *Daily Mail* and *The Times*, and newswire services *Bloomberg* and *Press Association* in order to reach as wide an audience across the UK as possible.

710 The Bank published a scheme page on its website with links to dedicated content for both Accredited Lenders and borrowers, including an explanatory video, quick eligibility checklist, comparison with the Enterprise Finance Guarantee, and detailed FAQs. This was regularly updated as the scheme developed, ensuring that businesses and Accredited Lenders were always able to access the most up to date information available, including which lenders were offering the scheme.

711 A further press release was issued on 2 April 2020, announcing that the CBILS had been expanded and changes had been made to the eligibility criteria and scheme features, meaning that even more small businesses across the UK which had been impacted by the pandemic could access funding. In particular, personal guarantees could not be taken for facilities below £250,000, personal guarantees may be required for facilities above £250,000 but capped at 20% of the outstanding balance after business asset recoveries, insufficient security was no longer a condition to access the

scheme, and Accredited Lenders were to apply these changes retrospectively for any CBILS facilities offered since 23 March 2020.

712 Subsequent to the launch activity, the Bank issued weekly press releases about new lender accreditations, and updates on the scheme to ensure that businesses, media and stakeholders were provided with the latest information about scheme lenders.

713 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.

714 Accredited Lenders also received a Lender Manual for each scheme variant 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 Guarantee Schemes available through all their usual publicity, marketing and communication channels.

715 The CBILS Lender Manuals set out the 'Visibility and Promotional Guidelines' for Accredited Lenders to help raise general awareness of the Guarantee Schemes and to ensure branding, communications and marketing initiatives were co-ordinated across the Accredited Lender network.

716 Due to a significant number of inbound telephone enquiries from businesses, Bank staff were given a script to answer the most common queries and referred callers to the online content if there were more in-depth questions. Over time, this function was assigned to a new dedicated customer service team put in place by the Bank.

717 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.

718 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) the communication of a new context for the Bank (suite of new products and interventions responding to the pandemic) to drive awareness of the Bank to new audiences, which also required a broadening of our historic segmentation approach; and

(b) digestible and easy to navigate content resulting in clear product sign-posting.

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

2 Coronavirus Large Business Interruption Loan Scheme

720 On 16 April 2020, following the Chancellor announcing CLBILS, 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: *Coronavirus Large Business Interruption Loan Scheme to open on Monday*. The communication set out the key features of the new scheme and how to apply, highlighting that the CLBILS was targeted at mid-sized and larger UK businesses with turnover above £45 million, with facilities available up to £50 million.

721 As the CLBILS was a delegated scheme, its Accredited Lenders were a key channel to reach borrowers/applicants. Before launch, the Bank therefore briefed participating lenders, and provided FAQs, videos and information packs to help promote the scheme and to ensure consistent delivery within the constraints of each Accredited Lender's procedures.

722 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 Confederation of British Industry and specialist finance trade bodies so they could share details of the scheme with their members.

723 The Bank issued a further press release on 26 May 2020 announcing changes to the CLBILS: *Changes to Coronavirus Large Business Interruption Loan Scheme from 26 May*. In particular, the increase in maximum amount available to a borrower and its group from £50 million to £200 million for term loans and revolving credit facilities, with the maximum amount for invoice finance and asset finance facilities remaining at £50 million. The communication also highlighted that companies borrowing more than £50 million will be subject to further restrictions on paying dividends, senior pay and share buy-backs during the period of the loan.

724 For CLBILS, Accredited Lenders were provided with the CBILS Lender Manuals due to the operational similarities between the two schemes and the limited time available to create a CLBILS Lender Manual. Accredited Lenders were requested to make information about the scheme available through all their usual publicity, marketing and communication channels.

725 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. 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

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(b) digestible and easy to navigate content resulting in clear product sign-posting.

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

3 Recovery Loan Scheme

728 On 3 March 2021, the Bank issued a press release, *Budget 2021: British Business Bank Response*, which announced that RLS would launch on 6 April 2021 following the closure of CBILS, CLBILS and BBLS. The press release announced that the new scheme, which was scheduled to run until 31 December 2021, aimed "*to help businesses affected by Covid-19 and [could] be used for any legitimate purpose, including managing cashflow, investment and growth*" and was "*designed to appeal to businesses that [could] afford to take out additional debt finance for these purposes*". Further details of the scheme and eligibility criteria were also included in the communication. [RDM/391 - INQ000593155]

729 A further press release was issued by the Bank, once RLS had opened, on 6 April 2021: *Recovery Loan Scheme opens to support businesses as they recover from the pandemic.* The communication set out the key scheme features, eligibility criteria, and how to apply. [RDM/392 - INQ000593154]

730 Following the 2021 Budget announcement, the Bank issued a press release on 27 October 2021, *Spending Review and Autumn Budget 2021: British Business Bank Response*, announcing the extension of the RLS to 30 June 2022 (RLS 2). [RDM/393 - INQ000593153]

731 Following the closure of RLS 2, the Bank issued a press release on 20 July 2022, *Recovery Loan Scheme offers over £4.5 billion of lending to*

smaller businesses, announcing the third iteration of RLS to open for applications in August 2022. [RDM/394 - INQ000593152]

732 Once the third iteration of RLS had launched, the Bank issued a press release on its website on 1 August 2022 setting out details of the new iteration, scheme features, eligibility criteria, and how to access the scheme. [RDM/395 - INQ000593151]

733 The RLS Lender Manuals set out the "Marketing and Promotional Guidelines" for Accredited Lenders to support and enable Accredited Lender-led marketing activity to raise awareness and drive demand for the RLS. The Marketing and Promotional Guidelines were the same for all iterations and variants of the RLS and were akin to the "Visibility and Promotional Guidelines" for CBILS and CLBILS.

734 Once accredited for the scheme, the Bank also provided lenders with access to the "RLS for Lenders" website. This allowed Accredited Lenders to access the Lender Marketing Welcome Pack, Bank Brand Guidelines, logo, and core scheme documents, which detailed how to raise awareness of the Schemes to prospective borrowers. The RLS for Lenders website was kept up to date and any changes or updates to the scheme were clearly communicated to Accredited Lenders so that these could be communicated to prospective borrowers.

735 As a minimum, each Accredited Lender was required to create a dedicated scheme webpage using core messages about the scheme and which directed users to the Bank Finance Hub, which offers a range of guidance and support to prospective borrowers.

736 Each media announcement was accompanied by extensive social media activity, with dedicated social media assets to communicate the features of the scheme to followers.

737 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

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(a) the communication of a new context for the Bank (suite of new products and interventions responding to the pandemic) to drive awareness of the Bank to new audiences, which also required a broadening of our historic segmentation approach; and

(b) digestible and easy to navigate content resulting in clear product signposting.

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

4 Ongoing communications about the Schemes

740 As the Schemes became more established, various other press releases were issued by the Bank with respect to the Guarantee Schemes, informing the public which new lenders had been accredited to these and general updates on their delivery and performance.

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.

Personal Data

SIGNED Reinald de Monchy

DATED 15 September 2025

Annex 1: Data

1 Introduction

741 The Bank holds various types of data in relation to the Guarantee Schemes, including (but not limited to) data in respect of:

(a) borrower information;

(b) facilities offered;

(c) performance of facilities (whether repaid, on schedule, in arrears, or in default);

(d) in-life events (e.g., term extensions, Pay as You Grow (for BBLS) etc);

(e) facilities drawn;

(f) defaults;

(g) claims and recoveries;

(h) facilities where the Government guarantee has been settled;

(i) facilities where the Government guarantee has been removed; and

(j) facilities flagged by Accredited Lenders as suspected fraud.

742 The data that the Bank holds for the Guarantee Schemes is collated from the information submitted to the Guarantee and Wholesale Solutions Guarantees Platform by Accredited Lenders in accordance with the data sharing requirements. As such, the data is dependent on Accredited Lenders submitting accurate and timely data to the Guarantee and Wholesale Solutions Guarantees Platform.

5 Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme and Coronavirus Large Business Interruption Loan Scheme

743 The Bank, HMT and the Department for Business, Energy and Industrial Strategy, and then the Department for Business and Trade, have regularly published data on the performance of the BBLS, CBILS and CLBILS based

on the information submitted to the Guarantee and Wholesale Solutions Guarantees Platform by Accredited Lenders.

744 Following the launch of the Schemes, HMT published the management information for the BBLS, CBILS and CLBILS, as set out at paragraphs 687 above, including the total number of applications, the number of approved applications and the value of loans approved. The management information published by HMT includes data from 10 May 2020 up until 31 May 2021, which captures all applications received by closure of the schemes in March 2021. [RDM/396 - INQ000593150]

745 The Bank and the Department for Business and Trade (previously undertaken by the Department for Business, Energy and Industrial Strategy) publish quarterly performance updates on the performance of the BBLS, CBILS and CLBILS. Following the publication of the Department for Business, Energy and Industrial Strategy Annual Reports and Accounts 2021/22, the Bank published the first set of performance data which contained information on the performance of facilities as at 30 September 2021. [RDM/397 - INQ000593162]

746 Following the first publication, the Bank began working with the Department for Business, Energy and Industrial Strategy to develop a process for regular reporting on the performance of the BBLS, CBILS and CLBILS in early 2022. the Department for Business, Energy and Industrial Strategy then began publishing quarterly updates on the performance of the schemes, with the first set of data containing information on the performance of the facilities as at 31 March 2022. [RDM/398 - INQ000593149]

747 Since the first publication, the quarterly performance update has been refined over time with data points being added and amended as the scheme portfolios mature. The publication currently includes data on:

(a) the total value of facilities drawn;

(b) the facilities by volume that are fully repaid, on schedule, in arrears or in default;

(c) the volume of facilities where the Government guarantee has been settled;

(d) the number of facilities and total drawn value where the Government guarantee has been removed;

(e) the number of facilities and total drawn value identified as suspected fraud (for BBLS and CBILS);

(f) the total drawn value which has been paid out to lenders against facilities identified as suspect fraud;

(g) the proportion of businesses which have used one or more of the Pay as You Grow options (for BBLS); and

(h) the aggregate data across all schemes for sub-paragraphs (a) to (f) above.

748 The Department for Business and Trade has continued to publish this data on a quarterly basis and the data include in this statement is for the period ending 31 December 2024. The published figures for BBLS, detailing performance as at 31 December 2024, showing that:

(a) businesses have drawn a total of £46.52 billion;

(b) 14.64% of facilities by volume are fully repaid;

(c) 55.04% of facilities by volume are on schedule;

(d) 4.67% of facilities by volume are in arrears;

(e) 0.87% of facilities by volume are in default;

(f) the Government guarantee has been removed from 12,919 facilities with a total value of £448.76 million;

(g) the Government guarantee has been settled on 23.65% of facilities by volume, totalling £10.48 billion;

(h) £1.88 billion of drawn value has been flagged by lenders as suspected fraud;

(i) of the £10.48 billion settled amount, £1.56 billion has been paid out to lenders against facilities flagged as suspected fraud; and

(j) 36.12% of borrowers have used one or more of the Pay as You Grow options.

749 The published figures for CBILS, detailing performance as at 31 December 2024, show that:

(a) businesses have drawn a total of £25.83 billion;

(b) 45.43% of facilities by volume are fully repaid;

(c) 43.57% of facilities by volume are on schedule;

(d) 1.25% of facilities by volume are in arrears;

(e) 0.88% of facilities by volume are in default;

(f) the Government guarantee has been removed from 619 facilities with a total value of £155.34 million;

(g) the Government guarantee has been settled on 8.34% of facilities by volume, totalling £0.94 billion;

(h) £0.06 billion of drawn value has been flagged by lenders as suspected fraud; and

(i) of the £0.94 billion total settled amount, £0.02 billion has been paid out to lenders against facilities flagged as suspected fraud.

750 The published figures for CLBILS, detailing performance as at 31 December 2024, show that:

(a) businesses have drawn a total of £4.54 billion;

(b) 95.83% of facilities by volume are fully repaid;

(c) 1.81% of facilities by volume are on schedule;

(d) 0.14% of facilities by volume are in arrears;

(e) 0.28% of facilities by volume are in default;

(f) the Government guarantee has been removed from 14 facilities with a total value of £504.72 million;

(g) the Government guarantee has been settled on 1.81% of facilities by volume; and

(h) no facilities have been flagged as suspected fraud.

751 The Department for Business and Trade does not publish quarterly updates on the performance of the RLS. Instead, this is published by the Bank and further information is provided below.

752 On 6 July 2021, following closure of the schemes, the Bank published a press release with respect to BBLS, CBILS and CLBILS: *Analysis of final Coronavirus loan scheme data shows £79.3bn of loans to 1.67m businesses, evenly distributed across the whole of the UK*. The publication included a detailed breakdown of the regional and sectoral distribution of loans under BBLS and CBILS, [RDM/399 - INQ000593147] as well as the final data on breakdowns by constituency, sector SIC code, county / district and LEP area. [RDM/400 - INQ000593146]

753 Regional and sectoral data for CLBILS was not included in the publication due to data protection and commercial considerations at the time of publication. However, the Bank does hold this data and it is included below at paragraph 757

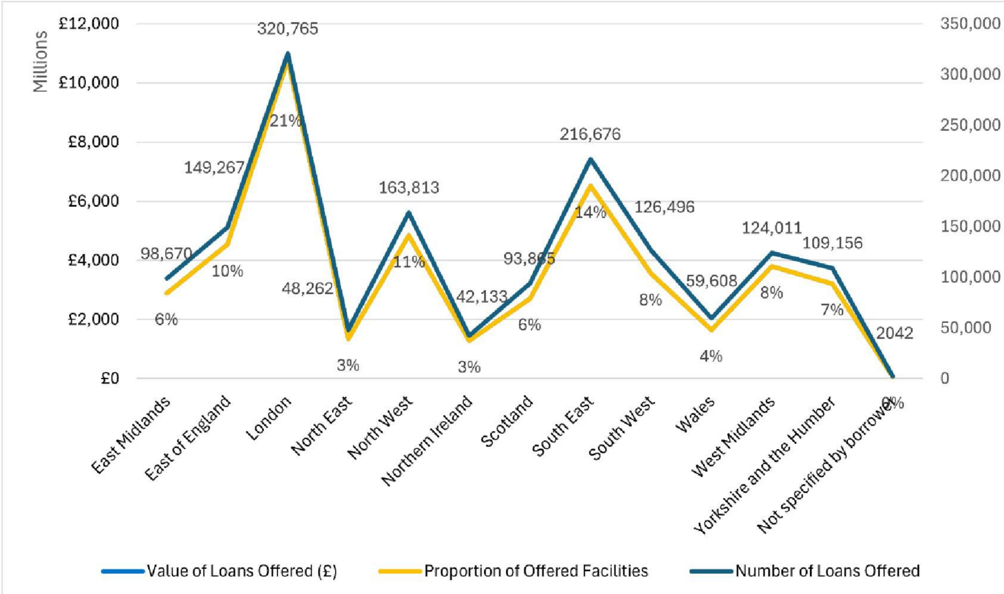
754 Further, neither the Bank nor the Department for Business and Trade has previously published data on the types of businesses that received a loan under BBLS, CBILS and CLBILS. However, the Bank does hold this data, and it is provided at paragraphs 761 to 763 below.

(i) Regional distribution – BBLSI

755 The regional data revealed that the proportion of overall BBLS loans in each of the nine English regions and Devolved Nations closely matches their respective shares of the UK business population. Of the total amount of 1,560,309 loans totalling £47.36 billion, 22% of loans were made to the South (South East and South West), 21% to the North (North East, North West and Yorkshire and the Humber), 21% to London, 14% to the Midlands (East Midlands and West Midlands), 13% to the Devolved Nations (Scotland, Wales

and Northern Ireland), and 10% to the East of England. A full regional breakdown is included in the table and graph below.

Region	Value of Loans Offered (£)	Number of Loans Offered	Proportion of Offered Facilities
East Midlands	2,894,632,656	98,670	6%
East of England	4,529,815,087	149,267	10%
London	10,789,608,981	320,765	21%
North East	1,341,695,001	48,262	3%
North West	4,840,708,102	163,813	11%
Northern Ireland	1,281,693,938	42,133	3%
Scotland	2,711,960,401	93,865	6%
South East	6,518,116,797	216,676	14%
South West	3,554,828,669	126,496	8%
Wales	1,648,042,395	59,608	4%
West Midlands	3,796,501,647	124,011	8%
Yorkshire and the Humber	3,211,734,914	109,156	7%
Not specified by borrower	63,748,279	2,042	0%

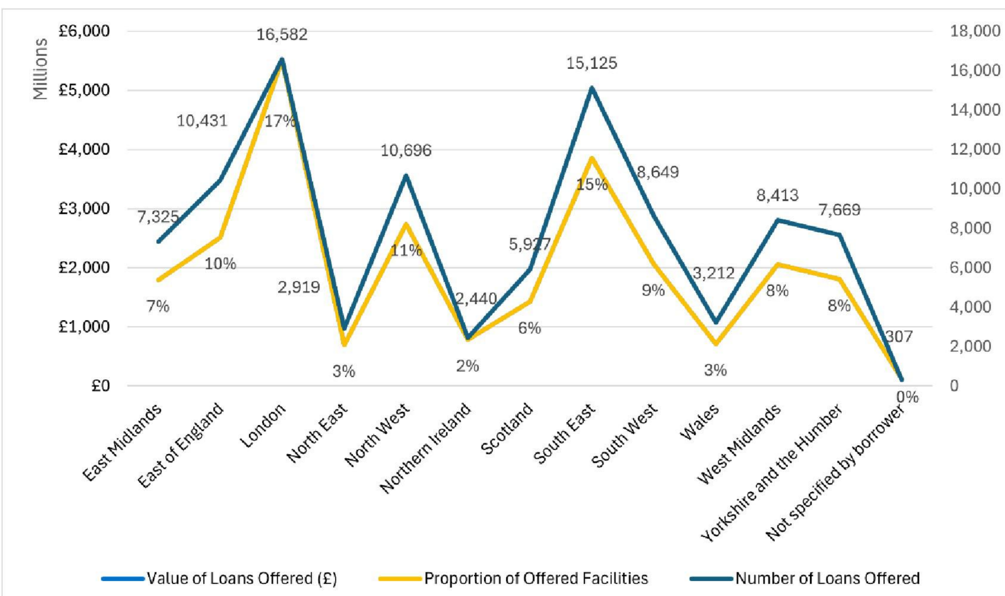


(ii) Regional distribution – CBILS

756 The regional data again revealed that the proportion of overall CBILS loans in each of the nine English regions and Devolved Nations closely matches their respective shares of the UK business population. Of the total amount of 109,877 loans totalling £26.39 billion, 24% of loans were made to the South (South East and South West), 22% to the North (North East, North West and Yorkshire and the Humber), 17% to London, 15% to the Midlands (East Midlands and West Midlands), 11% to the Devolved Nations (Scotland, Wales and Northern Ireland), and 10% to the East of England. A full regional breakdown is included in the table and graph below.

Region	**Value of Loans Offered (£)**	**Number of Loans Offered**	**Proportion of Offered Facilities**
East Midlands	1,793,811,546	7,325	7%
East of England	2,512,442,752	10,431	10%
London	5,517,195,172	16,582	17%
North East	694,592,700	2,919	3%

Region	Value of Loans Offered (£)	Number of Loans Offered	Proportion of Offered Facilities
North West	2,738,411,003	10,696	11%
Northern Ireland	784,751,771	2,440	2%
Scotland	1,425,477,706	5,927	6%
South East	3,855,543,025	15,125	15%
South West	2,063,373,529	8,649	9%
Wales	712,911,765	3,212	3%
West Midlands	2,056,434,006	8,413	8%
Yorkshire and the Humber	1,803,458,437	7,669	8%
Not specified by borrower	121,669,133	307	0%

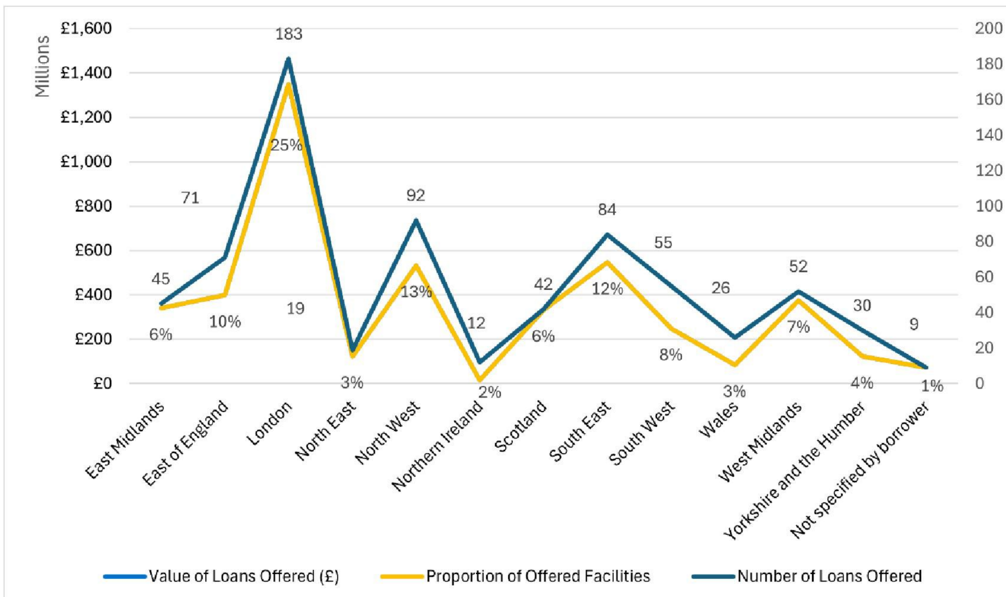


(iii) Regional distribution – CLBILS

757 The regional data for CLBILS, extracted from the Guarantee and Wholesale Solutions Guarantees Platform on 10 March 2025, shows that of the total amount of 720 loans totalling £4.54 billion, 25% of loans were made to London, 20% to the South (South East and South West), 20% to the North (North East, North West and Yorkshire and the Humber), 13% to the Midlands (East Midlands and West Midlands), 11% to the Devolved Nations (Scotland, Wales and Northern Ireland), and 10% to the East of England. A full regional breakdown is included in the table and graph below.

Region	Value of loans offered (£)	Number of Loans offered	Proportion of offered facilities
East Midlands	340,139,997.99	45	6%
East of England	398,303,332.00	71	10%
London	1,349,998,646.78	183	25%
North East	123,500,000.00	19	3%
North West	532,720,000.00	92	13%
Northern Ireland	15,378,800.00	12	2%
Scotland	332,750,000.00	42	6%
South East	546,349,999.00	84	12%
South West	248,600,000.00	55	8%
Wales	83,875,000.00	26	3%
West Midlands	374,416,666.00	52	7%
Yorkshire and The Humber	122,250,000.00	30	4%

Region	Value of loans offered (£)	Number of Loans offered	Proportion of offered facilities
Not specified by borrower	71,700,000.00	9	1%



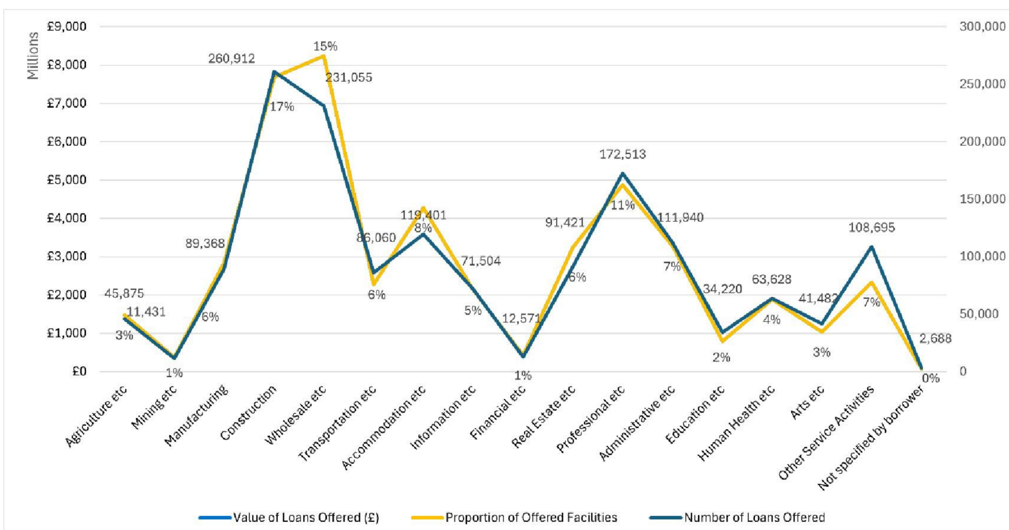
(iv) *Sectoral distribution - BBLS*

758 The sectoral data revealed that loan uptake across sectors with construction and wholesale and retail received the highest proportion of total BBLS loans of 17% and 15% respectively. The data also revealed that the wholesale and retail sector accessed a significantly higher proportion of loans than its share of the business population (15% v 9%). A full sectoral breakdown is included in the table and graph below.

SIC Group Description	Value of Loans Offered (£)	Number of Loans Offered	Proportion of Offered Facilities
Agriculture, Forestry and Fishing	1,474,477,665	45,875	3%

SIC Group Description	Value of Loans Offered (£)	Number of Loans Offered	Proportion of Offered Facilities
Mining and Quarrying; Electricity, Gas and Air Conditioning Supply; Water Supply; Sewerage, Waste Management and Remediation Activities	368,339,204	11,431	1%
Manufacturing	2,841,461,426	89,368	6%
Construction	7,684,762,143	260,912	17%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	8,234,342,759	231,055	15%
Transportation and Storage	2,280,611,009	86,060	6%
Accommodation and Food Service Activities	4,276,463,494	119,401	8%
Information and Communication	2,121,404,486	71,504	5%
Financial and Insurance Activities	421,094,101	12,571	1%
Real Estate Activities	3,238,644,323	91,421	6%
Professional, Scientific and Technical Activities	4,874,562,882	172,513	11%
Administrative and Support Service Activities	3,269,345,759	111,940	7%
Education	788,508,857	34,220	2%

SIC Group Description	Value of Loans Offered (£)	Number of Loans Offered	Proportion of Offered Facilities
Human Health and Social Work Activities	1,881,659,889	63,628	4%
Arts, Entertainment and Recreation	1,030,041,420	41,482	3%
Other Service Activities	2,333,709,344	108,695	7%
Not specified by borrower	63,658,105	2,688	<1%

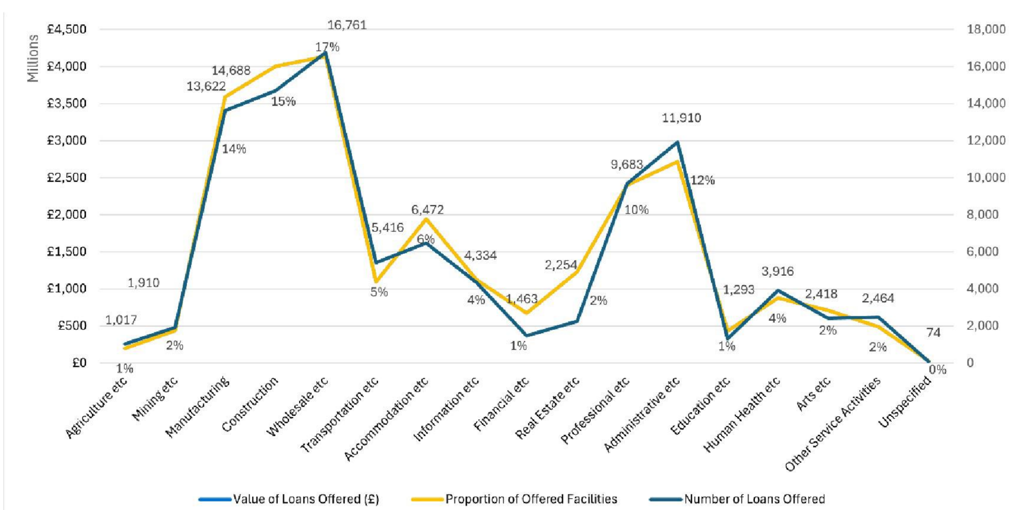


(v) *Sectoral distribution - CBILS*

759 The sectoral data revealed that loan uptake across sectors with construction, wholesale and retail, and manufacturing received the highest proportion of total CBILS loans of 17%, 15% and 14% respectively. The data also revealed that the manufacturing sector accessed a significantly higher proportion of loans than its share of the business population (14% v 5%) as well as wholesale and retail (17% v 9.2%). A full sectoral breakdown is included in the table and graph below.

SIC Group Description	Value of Loans Offered (£)	Number of Loans Offered	Proportion of Offered Facilities
Agriculture, Forestry and Fishing	195,838,375	1,017	1%
Mining and Quarrying; Electricity, Gas and Air Conditioning Supply; Water Supply; Sewerage, Waste Management and Remediation Activities	437,234,410	1,910	2%
Manufacturing	3,590,742,492	13,622	14%
Construction	4,000,950,460	14,688	15%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	4,137,852,068	16,761	17%
Transportation and Storage	1,093,863,125	5,416	5%
Accommodation and Food Service Activities	1,940,456,114	6,472	6%
Information and Communication	1,124,034,994	4,334	4%
Financial and Insurance Activities	674,199,199	1,463	1%
Real Estate Activities	1,226,814,433	2,254	2%

SIC Group Description	Value of Loans Offered (£)	Number of Loans Offered	Proportion of Offered Facilities
Professional, Scientific and Technical Activities	2,402,718,979	9,683	10%
Administrative and Support Service Activities	2,716,524,071	11,910	12%
Education	433,739,905	1,293	1%
Human Health and Social Work Activities	876,525,620	3,916	4%
Arts, Entertainment and Recreation	711,896,841	2,418	2%
Other Service Activities	487,851,521	2,464	2%
Unspecified	28,829,940	74	<1%

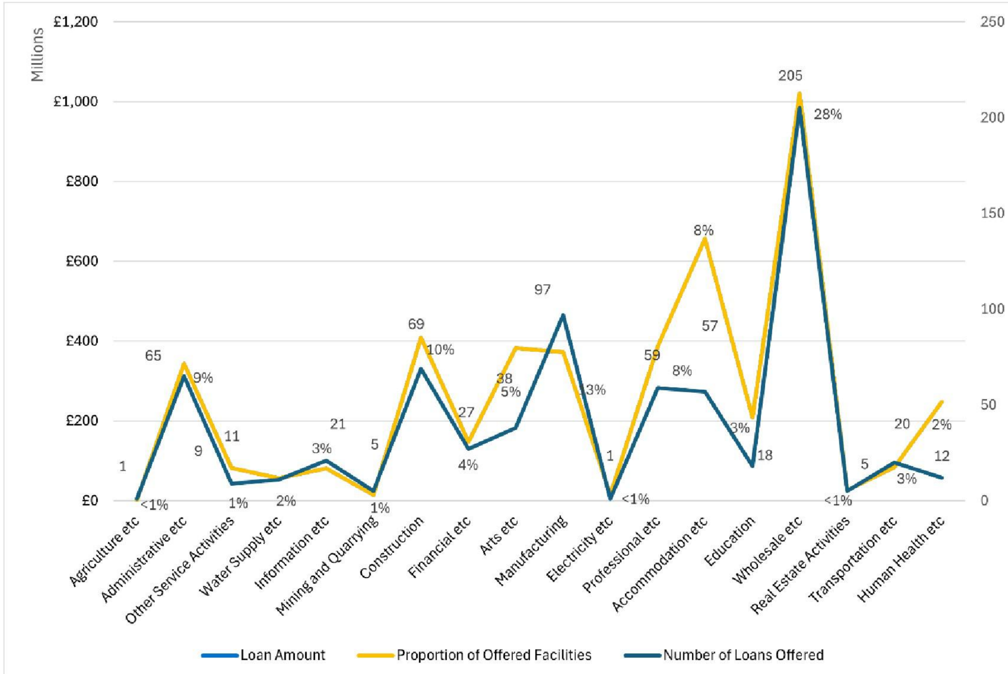


(vi) Sectoral distribution - CLBILS

760 The sectoral data for CLBILS, extracted from the Guarantee and Wholesale Solutions Guarantees Platform on 10 March 2025, shows that loan uptake across sectors with wholesale and retail trade; repair of motor vehicles and motorcycles and manufacturing received the highest proportion of total CLBILS loans of 28% and 13% respectively. A full sectoral breakdown is included in the table and graph below.

SIC Group Description	**Loan Amount**	**Number of Loans offered**	**Proportion of offered facilities**
Agriculture, Forestry and Fishing	2,500,000.00	1	<1%
Administrative and Support Service Activities	343,755,000.00	65	9%
Other Service Activities	82,000,000.00	9	1%
Water Supply; Sewerage, Waste Management and Remediation Activities	57,000,000.00	11	2%
Information and Communication	81,409,255.82	21	3%
Mining and Quarrying	15,000,000.00	5	1%
Construction	409,097,333.33	69	10%
Financial and Insurance Activities	147,056,594.00	27	4%

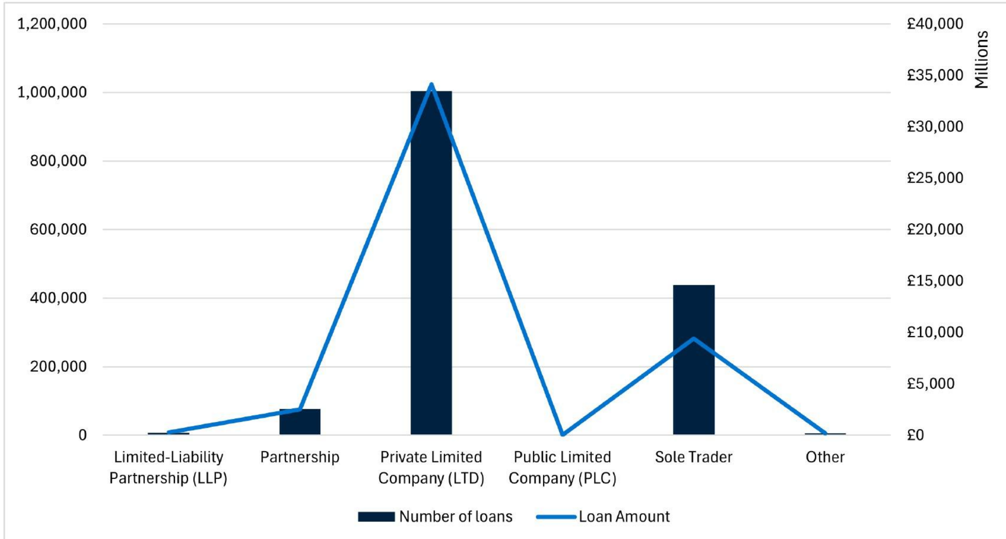
SIC Group Description	Loan Amount	Number of Loans offered	Proportion of offered facilities
Arts, Entertainment and Recreation	382,200,000.00	38	5%
Manufacturing	372,319,999.00	97	13%
Electricity, Gas, Steam and Air Conditioning Supply	15,000,000.00	1	<1%
Professional, Scientific and Technical Activities	387,618,794.62	59	8%
Accommodation and Food Service Activities	656,832,332.00	57	8%
Education	208,400,000.00	18	3%
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	1,021,243,133.00	205	28%
Real Estate Activities	26,500,000.00	5	<1%
Transportation and Storage	83,900,000.00	20	3%
Human Health and Social Work Activities	248,150,000.00	12	2%



(vii) *Distribution per business type – BBLS*

761 The table and graph below set out data on the number of BBLS loans and total value per business type, extracted from the Guarantee and Wholesale Solutions Guarantees Platform on 17 March 2025.

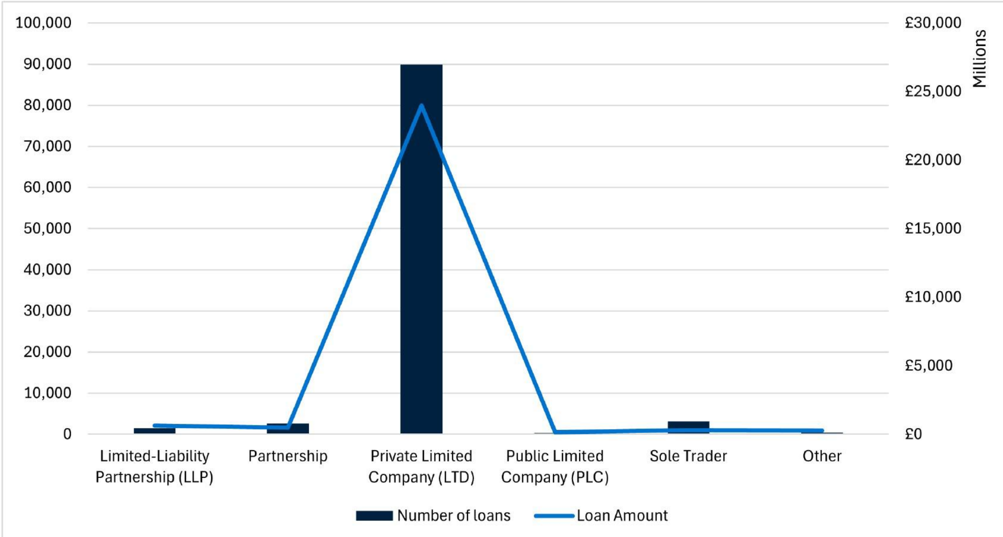
Legal form	Loan Amount (£)	Number of loans
Limited Liability Partnership (LLP)	280,125,572.00	7,535
Partnership	2,503,021,155.50	76,853
Private Limited Company (LTD)	34,115,513,780.30	1,004,480
Public Limited Company (PLC)	19,767,960.00	544
Sole Trader	9,404,557,705.30	438,782
Other	193,041,016.53	6,016



(viii) Distribution per business type – CBILS

762 The table and graph below set out data on the number of CBILS loans and total value per business type, extracted from the Guarantee and Wholesale Solutions Guarantees Platform on 17 March 2025.

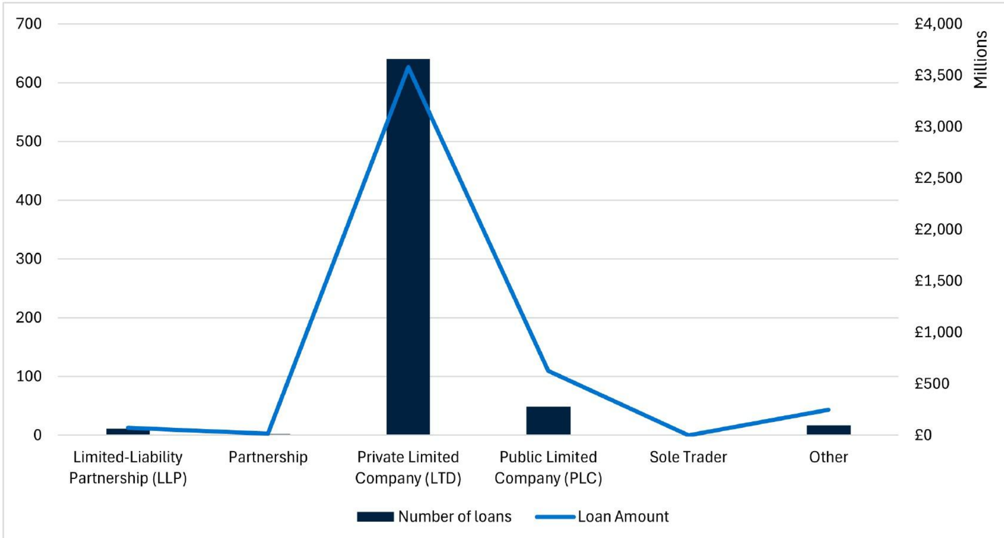
Legal form	**Loan Amount (£)**	**Number of loans**
Limited Liability Partnership (LLP)	628,280,196.99	1,493
Partnership	496,215,430.66	2,596
Private Limited Company (LTD)	23,964,844,481.86	89,857
Public Limited Company (PLC)	159,727,739.74	283
Sole Trader	314,110,384.82	3,155
Other	270,976,747.61	372



(ix) *Distribution per business type – CLBILS*

763 The table and graph below set out data on the number of CLBILS loans and total value per business type, extracted from the Guarantee and Wholesale Solutions Guarantees Platform on 17 March 2025.

Legal form	Loan Amount (£)	Number of loans
Limited Liability Partnership (LLP)	72,334,000.00	11
Partnership	16,600,000.00	2
Private Limited Company (LTD)	3,579,615,109.77	641
Public Limited Company (PLC)	624,633,332.00	49
Sole Trader	0	0
Other	246,800,000.00	17



6 Recovery Loan Scheme

764 Since the launch of RLS, the Bank has frequently published quarterly performance data for RLS 1 and RLS 2, and RLS 3 separately. As with the preceding schemes, the publications rely on information submitted to the Bank by the Accredited Lenders, in line with the data sharing requirements. Unlike with BBLS, CBILS and CLBILS, the Department for Business and Trade does not publish quarterly performance updates on the RLS.

765 The publication is subject to refinement, addition, and correction over time and is dependent on Accredited Lenders submitting accurate and timely data to the Guarantee and Wholesale Solutions Guarantees Platform. The publication currently includes data on:

(a) the total value and number of facilities drawn;

(b) the facilities (by number of drawn facilities) that are fully repaid, on schedule, in arrears or in default;

(c) the value of lender claims, which have been settled by the Bank against the Government guarantee;

(d) the number of facilities and aggregate drawn value identified as suspected fraud;

(e) the number of facilities and total value drawn and settled per Accredited Lender;

(f) the number of facilities and total value drawn by region;

(g) the number of facilities and total value drawn by sector; and

(h) the number of facilities and total value drawn by RLS variant.

766 The published figures, detailing performance of iterations 1 and 2 as at 31 December 2024, show that:

(a) businesses have drawn 20,078 facilities, totalling £4.33 billion;

(b) 16.18% of facilities by volume are fully repaid;

(c) 59.41% of facilities by volume are on schedule;

(d) 2.75% of facilities by volume are in arrears;

(e) 1.56% of facilities by volume are in default;

(f) £325.39 million has been settled against the Government guarantee, equating to 7.51% of the total drawn value or 18.70% of the total number of drawn facilities; and

(g) 90 facilities with an aggregate drawn value of £32.49 million have been flagged as suspected fraud, equating to 0.75% of the total drawn value or 0.45% of the total number of drawn facilities.

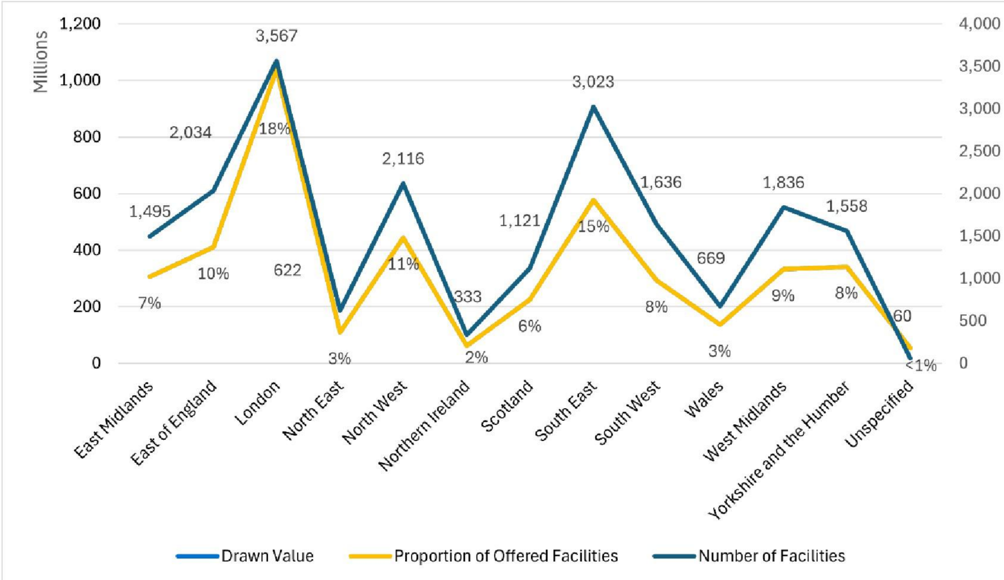
767 In the same publication, the Bank published a detailed breakdown of the regional and sectoral distribution of loans under RLS 1 and 2.

(i) Regional distribution – RLS 1 and 2

768 The regional data revealed that of the total amount of 20,070 RLS 1 and 2 loans worth £4.33 billion, 23% of loans were made to the South (South East and South West), 18% to London, 2122% to the North (North East, North West and Yorkshire and Humber), 18% to London, 16% to the Midlands (East

Midlands and West Midlands), 11% to the Devolved Nations (Scotland, Wales and Northern Ireland) and 10% to the East of England.

Region	**Drawn value (£million)**	**Number of facilities**	**Proportion of offered facilities**
East Midlands	305.76	1,495	7%
East of England	410.27	2,034	10%
London	1,040.11	3,567	18%
North East	109.60	622	3%
North West	443.88	2,116	11%
Northern Ireland	61.87	333	2%
Scotland	224.67	1,121	6%
South East	577.00	3,023	15%
South West	293.01	1,636	8%
Wales	136.10	669	3%
West Midlands	332.58	1,836	9%
Yorkshire and The Humber	341.38	1,558	8%
Unspecified*	54.76	60	<1%



(ii) *Sectoral distribution – RLS 1 and 2*

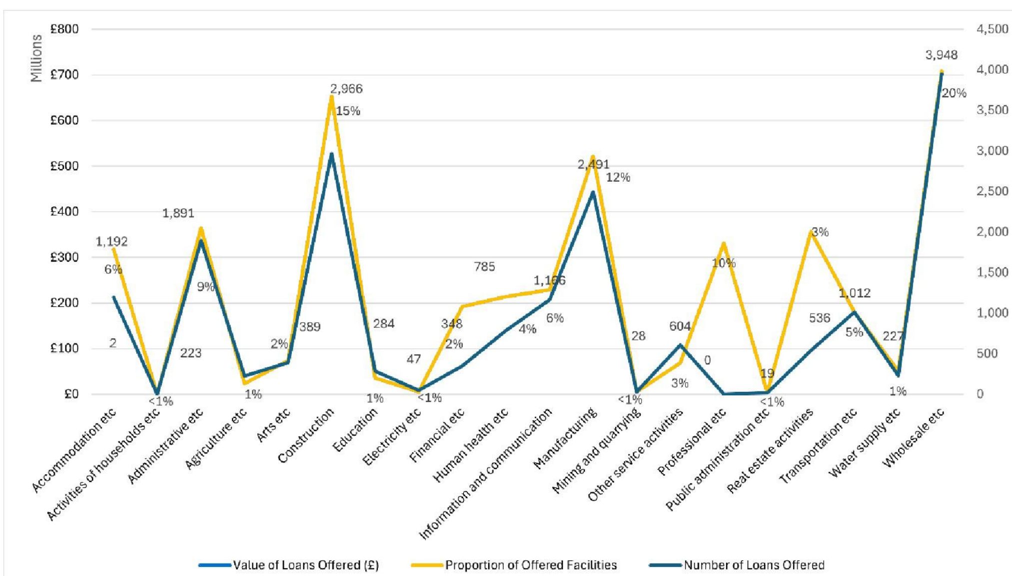
769 The sectoral data for CLBILS revealed that loan uptake across sectors with wholesale and retail trade, repair of motor vehicles, and motorcycles and construction received the highest proportion of total RLS loans of 20% and 15% respectively.

SIC Group	**Drawn value (£million)**	**Number of facilities**	**Proportion of offered facilities**
Accommodation and food service activities	317.69	1,192	6%

SIC Group	Drawn value (£million)	Number of facilities	Proportion of offered facilities
Activities of households as employers; undifferentiated goods-and services-producing activities of households for own use	0.11	2	<1%
Administrative and support service activities	364.20	1,891	9%
Agriculture, forestry and fishing	23.39	223	1%
Arts, entertainment and recreation	73.59	389	2%
Construction	652.77	2,966	15%
Education	35.44	284	1%
Electricity, gas, steam and air conditioning supply	5.62	47	<1%
Financial and insurance activities	191.74	348	2%

SIC Group	Drawn value (£million)	Number of facilities	Proportion of offered facilities
Human health and social work activities	213.44	785	4%
Information and communication	228.65	1,166	6%
Manufacturing	521.78	2,491	12%
Mining and quarrying	5.41	28	<1%
Other service activities	68.15	604	3%
Professional, scientific and technical activities	331.35	1,912	10%
Public administration and defence; compulsory social security	3.09	19	<1%
Real estate activities	356.27	536	3%
Transportation and storage	179.85	1,012	5%

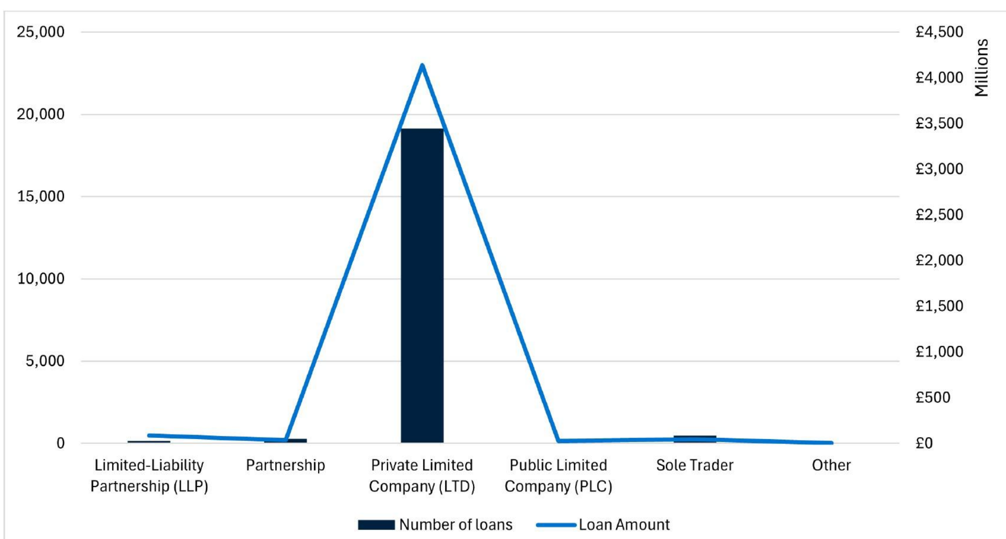
SIC Group	Drawn value (£million)	Number of facilities	Proportion of offered facilities
Water supply; sewerage, waste management and remediation activities	50.66	227	1%
Wholesale and retail trade; repair of motor vehicles and motorcycles	707.81	3,948	20%
Grand Total	**4,331.01**	**20,070**	



(iii) Distribution per business type – RLS

770 The table and graph below set out data on the number of RLS loans and total value per business type, extracted from the Guarantee and Wholesale Solutions Guarantees Platform on 17 March 2025.

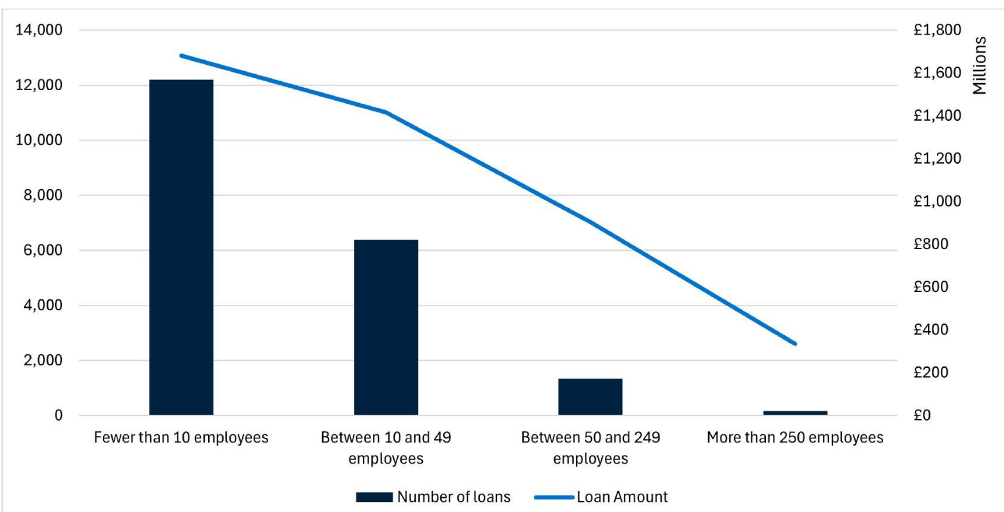
Legal form	Loan Amount (£)	Number of loans
Limited Liability Partnership (LLP)	86,163,117.92	152
Partnership	35,105,919.74	264
Private Limited Company (LTD)	4,135,998,411.58	19,146
Public Limited Company (PLC)	28,130,241.59	20
Sole Trader	43,523,282.52	478
Other	2,035,092.60	9



(iv) Distribution per size of business – RLS

771 For RLS, Accredited Lenders were required to report the size of the business applying to the scheme, based on the number of employees employed at the time of application. A table and graph setting out this data, extracted from the Guarantee and Wholesale Solutions Guarantees Platform on 10 March 2025, is included below.

Company Size	Loan Amount	Number of Loans
Fewer than 10 employees	1,679,622,616.28	12,196
Between 10 and 49 employees	1,415,119,499.97	6,385
Between 50 and 249 employees	901,794,607.94	1,329
More than 250 employees	334,419,341.76	159



772 The Bank does not hold the following data for BBLS, CBILS, CLBILS and RLS:

(a) the proportion of successful applicants whose businesses remain trading to date. Accredited Lenders are not required to report this data to the Bank. Further, it would be difficult for Accredited Lenders to accurately collect this data considering a large proportion of the scheme facilities are fully repaid and therefore lenders will not be aware which of these businesses remain trading.

(b) the total number of applications made and how many of these were rejected. Accredited Lenders may hold this data but were not required to collect or report this data to the Bank.

773 The Bank does not hold the following data for BBLS, CBILS and CLBILS:

(a) the size of business in receipt of the schemes. Lenders were not required to collect or report this data to the Bank. Each scheme did however have specific turnover eligibility criteria which meant that only certain size businesses could apply to the schemes.

Annex 2: Organogram

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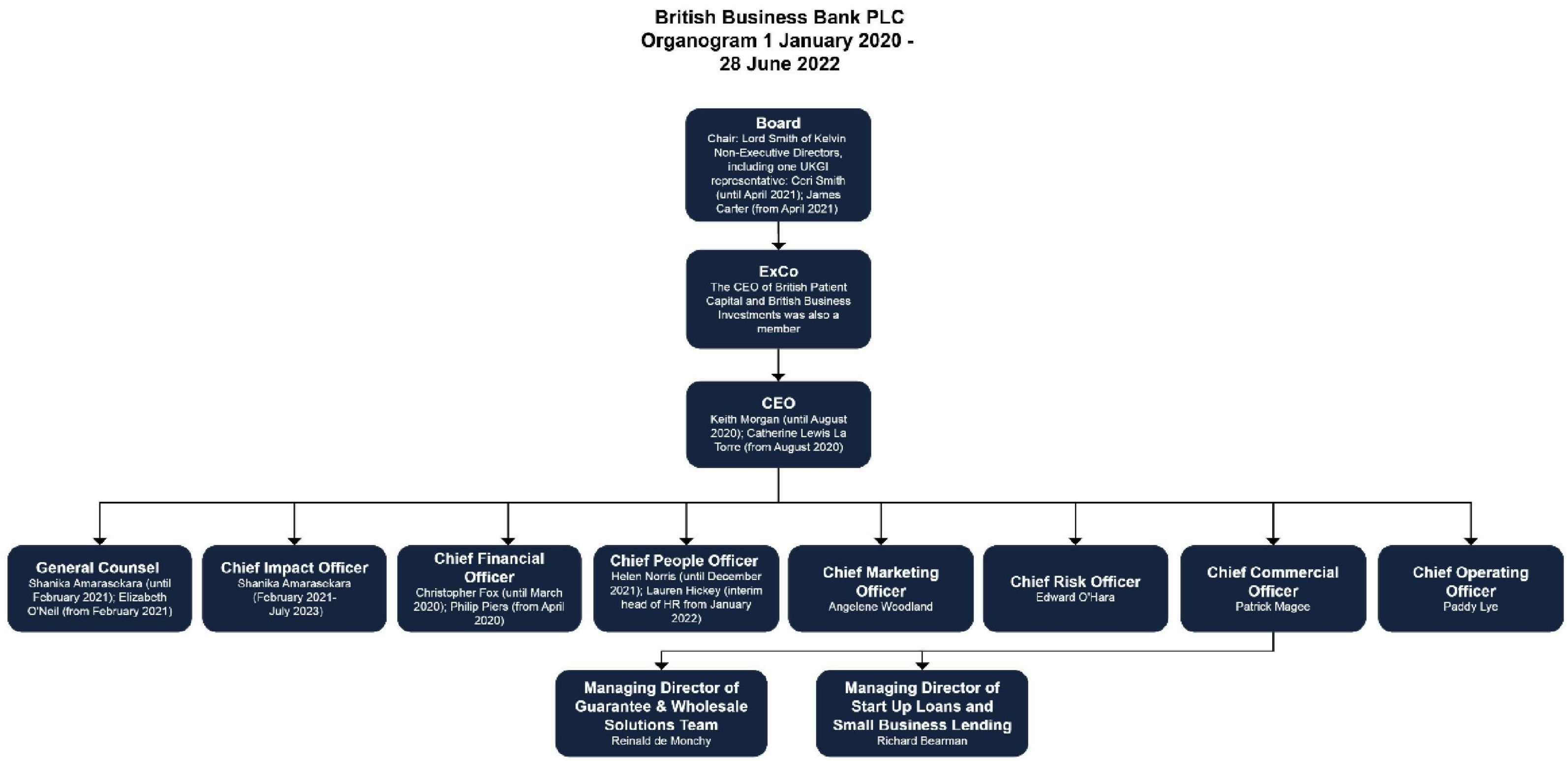

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