Witness Name: Gemma Peck
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UK COVID-19 INQUIRY
MODULE 9

FIRST WITNESS STATEMENT OF GEMMA PECK

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Section 1: Introduction

1.1. This statement outlines my role and involvement in the former Department for Business, Energy and Industrial Strategy's (BEIS) economic response to the Covid-19 pandemic. I served as Director of Business Growth from 4 March 2020 to end April 2023. It is based on my personal recollections and documents provided to me by the current Department for Business and Trade (DBT). My legal advisors and DBT have carried out searches of relevant documents from that period, including materials from my personal email accounts. The views expressed in this statement are my own.

My Role and Background

1.2. I am a career civil servant with extensive experience across business, growth, and education policy. My previous roles have included Deputy Director for Enterprise Strategy, Deputy Director for Apprenticeship Funding, and, immediately prior to the pandemic, Deputy Director for Growth and Productivity at His Majesty's Treasury (HMT). Following this, I served for three years as Director of Business Growth at BEIS. I then moved to the Department for Education (DfE), where I held the roles of Director of Funding and, more recently, Director of Skills Strategy.

Structure of this Statement and Initial Observations

1.3. Several issues raised in the Rule 9 request are addressed in detail within the initial corporate witness statement for Module 9, submitted by Gareth Davies in his capacity as the current Permanent Secretary for DBT, on behalf of BEIS. I contributed to the preparation of this statement.

1.4. Rather than directly cross-referring to the BEIS Module 9 Corporate Witness Statement (CWS) Parts A – D {GP/001 – INQ000653217} {GP/001a – INQ000653218} {GP/001b INQ000653219} {GP/001c INQ000653220}, where relevant, I will reproduce or summarise the relevant content within this statement, including references where appropriate using the format 'CWS, Part X, §XX', though I do not repeat all exhibit numbers throughout for ease.

1.5. I address the following topics in this statement:

a) Section 2 details my roles and responsibilities at BEIS;

b) Section 3 details my experiences and reflections on joint working within BEIS, across government and with external stakeholders;

c) Section 4 details my involvement in, experience and reflections on the Coronavirus Business Interruption Loan Scheme (CBILS);

d) Section 5 details my involvement in, experience and reflections on the Coronavirus Large Business Interruption Loan Scheme (CLBILS);

e) Section 6 details my involvement in, experience and reflections on the Bounce Back Loan Scheme (BBLS);

f) Section 7 details my involvement in, experience and reflections on the Future Fund;

g) Section 8 details my involvement in, experience and reflections on the Recovery Loan Scheme (RLS);

h) Section 9 details my personal reflections on the loan schemes;

i) Section 10 details my involvement in Business Rates Relief;

j) Section 11 details my involvement in the changes to the Insolvency Rules;

k) Section 12 details information on data, economic modelling and other scenario analysis;

l) Section 13 details information on inequalities and vulnerable groups;

m) Section 14 details my personal reflections and lessons learned; and

n) Section 15 details information relating to the Inquiry's request for documents.

Overall reflections of the Government's response to the Covid-19 pandemic

1.6. I witnessed the civil service at its absolute best during the pandemic—deeply committed, tireless, collaborative, innovative, and consistently professional. Even under immense pressure, colleagues remained kind, respectful, and focused.

1.7. The demands were intense. Many worked long hours, including evenings and weekends, often while managing childcare responsibilities at home.

1.8. At the height of the crisis, nearly all our work was conducted remotely via Teams calls, involving colleagues across the British Business Bank (BBB), HMT, lenders, and our own teams. We adapted swiftly to this new way of working, which enabled us to move at pace and maintain momentum. I note, however, that it has not been possible for the Department to locate 'readouts' of all calls I had at this time, and that Teams calls were not necessarily 'minuted'.

1.9. Due to the nature of both my role and my husband's, I was fortunate to be able to keep my young child in nursery throughout. I'm acutely aware that I couldn't have fulfilled

my responsibilities otherwise, and I had immense admiration for colleagues who managed their work while caring for children at home.

1.10. In January 2021, I gave birth to my second child at a time when hospitals were under significant strain. I had Covid at the time, and I remain deeply grateful to the NHS maternity staff who provided exceptional care to both me and my baby.

1.11. Further reflections on the loan schemes and the Department's and my role in their delivery are set out below.

Section 2: Roles and Responsibilities

2.1. I was Director of Business Growth from 4 March 2020 to the end April 2023.

2.2. I took up the post of Director of Business Growth at the beginning of March 2020, with responsibility for business finance, business support, and strategically important technologies. The first year of my tenure was dominated by the Government's economic response to the pandemic. From early into the role until late July 2020, I co-led the directorate alongside Rebecca Evernden, which enabled me to focus primarily on the pandemic response, while she led on the growth-oriented aspects of the role. From the end of July 2020, I was the responsible lead.

2.3. I went on maternity leave in January 2021 and returned in August 2021, remaining in post until April 2023. Although my last day before maternity leave was 15 January 2021, I overlapped with my colleague, Tom Child, who started on 11 January 2021 {GP/001d – INQ000625925}. As the economy began to recover and the Government's focus shifted beyond the immediate crisis, my role evolved to place greater emphasis on growth policy. However, the counter fraud programme remained a key priority throughout, alongside continued work on growth finance and support for emerging technologies.

Note on Roles and Responsibilities in Advice and Submissions

2.4. Throughout this document, references to proposals, advice, and submissions relate to work led by the team within BEIS. While advice was formally signed off by senior civil servants, including Directors General, it was typically drafted by members of the team, ranging from policy leads to Deputy Directors, or myself. The final advice would always be cleared by a senior civil servant and carry the name of the lead Director General, but the substantive content and drafting were the responsibility of the policy team.

Section 3: Joint Working

3.1. The Government's economic response to Covid-19 required a significant amount of close working and collaboration between departments, and external stakeholders such as BBB. I am asked the nature and extent of my relationships and how they affected the Government's response.

Working with the Secretary of State for Business, Energy and Industrial Strategy

3.2. During my time as Director of Business Growth, the Secretaries of State were the Rt Hon Lord Alok Sharma KCMG (February 2020 to January 2021), the Rt Hon Kwasi Kwarteng (January 2021 to September 2022) and Jacob Rees-Mogg (from October 2022).

3.3. I had a positive working relationship with all three Secretaries of State during my time in post. I had not met Lord Alok Sharma prior to starting the role, so our relationship was entirely new. However, we quickly established regular contact—at one point speaking daily. I found it easy to build rapport and was comfortable being honest and direct in my advice. Even during periods of intense pressure, the relationship remained constructive and congenial. The Secretary of State was pragmatic, straightforward and made decisions promptly. My team also found him approachable and were able to engage with him directly, often without my involvement, which contributed to the overall effectiveness of our work.

3.4. Kwasi Kwarteng took up the role shortly before I went on maternity leave in January 2021. By the time I returned in August 2021, the frequency and intensity of engagement with the Secretary of State had reduced compared to the height of the pandemic. As a result, I spent less time with him, and the scope of my engagement with the Secretary of State broadened beyond the Covid-19 lending schemes to cover my full portfolio. While the relationship was less developed, I found our interactions productive. I was able to speak openly and challenge where appropriate, and I appreciated the opportunity to debate policy issues. He was supportive of officials and recognised the contribution they had made during the pandemic, which was important for team morale. He also demonstrated an understanding of the Chancellor of the Exchequer's (Chancellor) rationale for the exceptional support provided to businesses during the pandemic.

3.5. Jacob Rees-Mogg succeeded Kwasi Kwarteng in October 2022. My engagement with him was more limited and included matters relating to the counter fraud programme.

Although we had relatively few meetings, those we did have were polite and good-natured.

Working with Other Departments: Permanent Secretaries, Ministers and Senior Civil Servants

3.6. During my time as Director of Business Growth, the Permanent Secretaries were as follows:

a) Alex Chisholm: 5 September 2016 to 14 April 2020;

b) Sam Beckett (who held the role in an acting capacity): 15 April 2020 to 19 July 2020; and

c) Sarah Munby: 20 July 2020 to 7 February 2023.

3.7. I had strong and constructive working relationships with all three Permanent Secretaries, as well as with colleagues across BEIS and within private offices. The working environment was collaborative, supportive, and well-coordinated, particularly during the intense periods of the pandemic response. I also had an excellent relationship with my line manager, Jo Shanmugalingam (Director General, Science Innovation and Growth, BEIS), who was the BEIS Director General for Industrial Strategy, Science and Innovation. She was a highly supportive and empowering leader who placed trust in me and provided clear guidance when needed. My team and I felt well supported under her leadership. She was willing to step in when additional help was required and demonstrated strong leadership throughout a particularly challenging period.

3.8. In addition to my BEIS colleagues, I worked closely with UK Government Investments (UKGI), and our relationship was highly effective. I greatly valued their expertise, and we operated as a cohesive and collaborative team throughout the design and delivery of the business support schemes. I also maintained a good professional relationship with colleagues in the Cabinet Office Counter Fraud Function. These interactions were characterised by honest and constructive challenge. While the dynamic was more external and oversight-focused than collaborative, it was nonetheless a productive and respectful working relationship.

3.9. I have been asked to what extent the Department or I made use of informal or back channels to engage with other government departments (excluding HMT) to discuss views and share analysis on the economic impact of the pandemic. If 'informal channels or back channels' is taken to mean closed or exclusive discussions outside of established processes, then no, we did not operate in that way. Communication

during this period was near constant and highly collaborative, particularly across BEIS, HMT, and BBB. Most of our work was conducted through regular Teams calls, where issues were discussed collectively and transparently. I did, of course, have one-to-one conversations with colleagues outside of those meetings to reflect on developments, refine next steps, and maintain working relationships—but this was entirely in line with normal business practice.

Working with HM Treasury: The Chancellor, Ministers and Civil Servants

3.10. I did not meet with the Chancellor during this post. I may have once been in a counter fraud meeting with a HMT minister, but I don't recall who. HMT ministers were advised by HMT officials. I had excellent relationships with HMT officials at all levels during the time, as did my team. Gwyneth Nurse (Director, Financial Services Group, HMT), David Raw (Deputy Director, Financial Services Group, HMT), Joshua Flemming (Deputy Director, Corporate Finance, Business, Energy and Industrial Strategy Team, HMT) and Eleanor Taylor (Deputy Director, BEIS Spending Team, HMT) and I spoke regularly, openly and in a spirit of collaboration. Even when wrestling challenges, it was always respectful, good humoured and with an appreciation of our respective roles advising our ministers. This was replicated through the team. These strong relationships were vital to people's effectiveness and resilience at a time of great professional and personal challenge.

3.11. It was also particularly helpful that I had recently moved to BEIS from HMT, where I had led the Growth and Productivity Team. This prior experience gave me a strong understanding of how HMT operated, and many of my HMT colleagues were already familiar with me from that role. That existing trust and familiarity helped facilitate smoother collaboration during a very high-pressure period.

3.12. I have been asked whether HMT should have been more open and transparent in sharing information and economic analysis during the pandemic response. In my experience, HMT was generally open and transparent in its approach. They regularly communicated how they were advising the Chancellor and other ministers, including sharing insights into the Chancellor's views, the perspectives of his Special Advisers, and their evolving thinking on the situation. At times, HMT also engaged directly with the BBB on emerging ideas before BEIS had been brought into the conversation. While these instances could present coordination challenges, I did not view them as a result of any lack of willingness on the part of officials to share information or as deliberate obfuscation. Rather, they reflected the extraordinary pace and intensity and time pressures under which everyone was operating during the pandemic response.

3.13. There were occasions when developments within HMT progressed very rapidly, and we would receive notice of a decision, steer, or request from the Chancellor that required an immediate response. This made it challenging for BEIS, as the accountable delivery department for the schemes, to 'backfill' with proper processes of advising ministers and the Accounting Officer on the lengthier details of policy design and delivery. On some occasions, HMT and the Chancellor were, frankly, able to move at a faster pace on decisions which the BEIS Secretary of State would have to play catch-up on. As the senior official responsible for ensuring ministers received quality advice and that the expectations on Managing Public Money were adhered to, this could at times be frustrating. However, this was not driven by lack of openness or transparency from HMT, it was because major decisions were being taken at pace by the Chancellor personally.

Working with BBB

3.14. I had excellent working relationship with officials at all levels within the BBB. Over the course of my tenure, I worked with three Chief Executives, including Keith Morgan, and maintained positive and constructive relationships with each of them. My team and I collaborated particularly closely with several BBB directors who played pivotal roles in the pandemic response. These relationships were strong, honest, and highly collaborative. While there were occasions when our organisations had differing perspectives or priorities, we were always able to engage in robust but respectful discussions to resolve them. We were united by a shared commitment to delivering effective support, and I greatly valued and enjoyed working with the BBB.

Working with Devolved Administrations

3.15. I did not have a direct working relationship with counterparts in the Devolved Administrations during my time in post. That said, as outlined in CWS, Part A, §5.32 the UK Covid-19 Economy Directors Forum facilitated discussions between economic leads from BEIS, HMT, and the Devolved Administrations on a fortnightly basis throughout 2020 {GP/002 – INQ000543155}. Unfortunately, I do not recall participating in these meetings.

Section 4: Coronavirus Business Interruption Loan Scheme (CBILS)

4.1. CBILS was announced on 11 March 2020 and opened to applications on 23 March 2020. CBILS offered loans to small and medium-sized businesses of up to £5 million backed by a government guarantee of 80% of the loan value. To be eligible for CBILS, a business had to self-certify that it was adversely affected by the pandemic. Applicants were also asked to present a borrowing proposal demonstrating that, were it not for the pandemic, the business would have been viable. While applications were initially due to close on 30 September 2020, CBILS was extended on three separate occasions, first to 30 November 2020, then to 31 January 2021, and ultimately closing on 31 March 2021.

Policy Rationale

4.2. I have been asked to explain my understanding of the rationale behind the introduction of CBILS, whether the policy objectives were clear to me, and how the scheme was designed to meet the specific needs of businesses at the time.

4.3. Under normal circumstances, small and medium-sized enterprises (SMEs) often face structural barriers to accessing finance, such as limited credit history, high transaction costs for lenders, unfamiliar or novel business models, and regulatory capital constraints. The onset of the pandemic significantly worsened these challenges. The economic shock and uncertainty made it difficult for lenders to assess business viability, while many SMEs experienced an abrupt loss of cashflow and urgently needed support. CBILS was introduced to address this gap. Its purpose was to provide timely financial assistance to viable businesses by reducing the risk to lenders through government-backed guarantees, thereby enabling continued access to finance during a period of extraordinary disruption.

Considering the Enterprise Finance Guarantee in designing CBILS

4.4. The existence of the Enterprise Finance Guarantee (EFG) played a practical role in shaping the design of CBILS, primarily in terms of delivery infrastructure and speed of implementation. While a range of financial support options were explored, as explained below, loan guarantees were ultimately chosen as the most effective mechanism. Adapting an existing scheme like the EFG made sense, as it provided a ready-made framework with established parameters, and both BBB and lenders already had systems in place to deliver it.

4.5. However, CBILS was not a simple extension of the EFG. It was calibrated differently to reflect the scale and urgency of the pandemic. The design was adapted to meet the

specific economic circumstances, and we were not constrained by the original structure of the EFG. The decision to build on the EFG was driven by practical considerations of pace and feasibility, rather than by any limitations in policy ambition. The scheme was tailored to meet the specific economic circumstances of the time, with more generous terms and broader eligibility. As explained in §4.1 above, CBILS was launched with a defined end date, being 30 September 2020 which was ultimately extended to 31 March 2021, and that it operated under the European Union's Temporary Framework for State Aid. As such, its terms were necessarily temporary, reflecting both the legal framework and the exceptional nature of the economic crisis.

4.6. As explained above, I took up the role of Director, Business Growth at the Department on 4 March 2020. Consequently, I was not involved in any of the Department's work related to the economic response to the pandemic prior to that date. However, having reviewed the BEIS Module 9 corporate statement, I wish to highlight, what I believe to be, the relevant aspects concerning the Department's early considerations around the EFG scheme.

4.7. As outlined in CWS, Part A, §§5.3 - 5.5, by mid-February 2020 the Department had assessed the Covid-19 outbreak as having the potential to significantly impact its areas of responsibility. One of the key risks identified for businesses was the broader effect of disruptions to international supply chains, workforce availability, and organisational structures. I understand that the Department had undertaken research into the potential economic impacts across various sectors, and on 20 February 2020 submitted a briefing to the Secretary of State, which included a research note prepared by BEIS officials {GP/003 – INQ000596652}, {GP/004 – INQ000596651}. In the submission, the Department advised that while banks were expected to provide temporary support to help viable firms manage short-term disruption, it was also actively exploring potential levers the UK Government could deploy should the situation deteriorate. This included consideration of the BBB's EFG scheme and options for providing short-term cashflow support to businesses.

4.8. I understand that on 27 February 2020, BEIS officials provided a letter to No. 10 Downing Street (No. 10) regarding the Covid-19 impact. The letter noted:

> *"In Autumn 2019, BEIS did extensive work with the British Business Bank to consider how their EFG programme could be used to support SMEs in the event of an economic downturn caused by a disorderly EU exit.*

- This work remains relevant and useful if the Covid-19 situation worsens and triggers an economic downturn.

- The options would include:

i) advertising available headroom for EFG and its potential use as a way of managing cashflow pressures resulting from Covid-19, as part of wider communications encouraging SMEs to have early conversations with their finance provider;

ii) raising the headroom for EFG if demand for the programme increases; and

iii) considering temporary changes to the conditions for EFG in response to an economic shock, such as waiving the 2% fee or increasing the portion of the loan that is guaranteed, so that the programme is more attractive to businesses and lenders.

ii) and iii) would require Treasury approval. Changes to EFG under option c) would take around two weeks to implement from approval, in addition to the time taken to secure the necessary cover and clearance from HM Treasury.

– In addition to the discussions with the BBB, we could also discuss with UK Finance, the trade association for the financial services sector, how we can best work with lenders to encourage them to support their SME customers – for example, by writing to each of the EFG accredited lenders to set out your expectation that they actively work with their SME customers affected by the Covid-19 situation to ensure they get the support they need.

We are also doing further analysis on the mitigation packages emerging in other countries and are working with HMT to see what lessons we can learn." {GP/005 – INQ000625799}

4.9. I understand that in draft advice on access to finance for SMEs experiencing supply chain disruption from Covid-19, which the Department had sent to the Secretary of State on 2 March 2020. The Department set out their thinking regarding the potential role of the EFG to help businesses experiencing cashflow pressures {GP/006 – INQ000625800}.

4.10. I also understand from CWS, Part A, §5.9, on 4 March 2020, Sarah Munby, then BEIS Director General for Business Sectors, briefed ministers on the emerging business support options in response to growing concerns about Covid-19. As noted in CWS,

Part A, §5.9, she explained that the Department was focusing on macro-level interventions to ease liquidity pressures on SMEs. While broader fiscal tools, such as tax and spending measures, were seen as the most effective levers in the rapidly evolving situation, BEIS also considered what could be done within its own remit. This included exploring existing mechanisms such as the EFG and other BBB programmes. The EFG was particularly important as it provided a ready-made framework that could be adapted quickly to support SME lending {GP/007 – INQ000585482}.

4.11. Although I was not copied in on this correspondence, which my legal team have provided me, on 4 March 2020, following the BEIS meeting which took place earlier that day, the Secretary of State and ministerial team had requested a few pieces of advice. One of which related to business support:

> *"Sarah M said that we are focusing on macro interventions (HMT); Access to Finance (standing up previous no deal preparedness e.g. Enterprise Finance Guarantee, working with banks; Emergency localised measures, e.g. if a town is in lockdown, to provide support to businesses via small emergency grants, akin to those provided for flooding; and serious situations/critical or concentrated impact, where we are improving cross Whitehall intelligence sharing. Action Sarah M: SoS[1] requested a Dear Colleague letter, after Budget, setting out all of the support available to business at this time. Either joint BEIS/HMT/MHCLG, or from the PM; but definitely not lots of individual letters, which will be very confusing. Minister Zahawi said there's an urgent need to look at sectors already affected; Sarah concurred but noted that new sectors are feeling the effects every day. Action Sarah M: SoS requested a two page note which sets out the issues and addresses where certain sectors are feeling particular impacts, and what the response could be. SoS also noted that there might be a need for a Ministerial call on this at the weekend."* {GP/008 – INQ000625801}.

4.12. As the Department gathered intelligence on the economic impact of Covid-19, it continued to receive updates from various sources, including a letter from the British Chambers of Commerce to the Chancellor, as noted in CWS, Part A, §§5.12–5.13. Among the recommendations was a temporary expansion of the EFG, "*to help facilitate business finance to SMEs that are viable but unable to obtain finance or see their credit facilities pulled due to exceeding their lender's risk appetite as a consequence of*

[1] Secretary of State

COVID-19". The letter also proposed an SME fund "to support firms that need to undertake activity as a consequence of disruption caused by Covid-19 on investment and business activity." {GP/009 – INQ000596654}, {GP/010 – INQ000596655}.

4.13. As outlined in CWS, Part A, §5.14, on 4 March 2020, in response to a request for further advice, BEIS officials provided the Secretary of State with a briefing on the potential effects of Covid-19 on businesses and outlined possible support measures {GP/011 – INQ000585485}.

4.14. The briefing identified two primary categories of business impact:

a) Disruptions to supply chains, particularly shortages of components, and reduced consumer demand due to travel restrictions and decreased spending; and

b) Workforce-related challenges, such as up to 20% of employees being unwell or quarantined.

4.15. In terms of economic response, officials noted that broad macroeconomic interventions, such as tax relief and business rate reductions, would likely be more effective than targeted microeconomic actions, given the rapidly evolving situation.

4.16. They cautioned that existing BEIS funding mechanisms were not designed for swift deployment. The advice stated, amongst other things:

> *"[g]rants and loans in the main also take time to deliver due to essential due diligence requirements. BEIS could, however, respond rapidly and in a bespoke manner (subject to HMT providing funding) with a microeconomic response to assist a company or investment that is critical to the UK's future…It is worth noting, however, that in the medium-term grants and loans could be very effective in supporting economies as they recover from the impact of COVID-19…"*

4.17. Regarding support for SMEs, the briefing emphasized the importance of both general macroeconomic measures and targeted financial assistance. It highlighted the vulnerability of SMEs to immediate cashflow pressures and advised:

> *"SMEs are likely to be most vulnerable to short term cashflow issues arising from Coronavirus. The first port of call for any SME when considering how to manage cashflow pressures should be their finance provider…."*

4.18. To address these challenges, officials pointed to existing BEIS access-to-finance initiatives delivered through the BBB, specifically noting:

> *"To help businesses with potential cashflow issues the most relevant scheme is the Enterprise Finance Guarantee (EFG) Programme…."*

4.19. As explained in CWS, Part A, §5.18, on 7 March 2020, BEIS officials briefed the Secretary of State in advance of a Cabinet Office Briefing Room (Officials) (COBR(O)) meeting on 9 March 2020 which would focus on business impacts {GP/012 – INQ000585489}, {GP/013 – INQ000585492}. In setting out the range of support options that the Government might choose to take, BEIS officials provided as follows:

> *"Access to finance: SMEs are likely to be most vulnerable to short term cashflow issues arising from COVID-19. We will engage with the Business Finance Council to encourage lenders to support SMEs. Many are proactively doing so already and UK finance have put out a press release to this effect. In addition to this, the British Business Bank (BBB) can help SMEs access the finance they need to scale and grow. The Enterprise Finance Guarantee (EFG) Programme can support viable businesses that wish to access working capital but lack security against which to borrow. There is scope to give greater publicity to the headroom available under this programme or invoke short term options to make the offer more attractive to SMEs. We will need the major lenders to promote the scheme too."*

4.20. As set out in §4.39 below and in CWS, Part A, §5.26, BEIS first became aware of the Chancellor's intention to announce a scheme similar to the EFG on 9 March 2020.

4.21. I have been asked whether any formal options appraisals or comparisons were carried out between EFG and alternatives such as ENABLE, before proceeding with CBILS.

4.22. The BBB launched both the ENABLE Guarantee Programme and ENABLE Funding in 2014. At the time, regulatory requirements meant that banks had to hold more capital against loans to SMEs than for other types of lending, such as prime residential mortgages. The ENABLE Guarantee Programme was introduced to address this by offering government-backed guarantees on portfolios of SME loans. These guarantees, provided in exchange for a commercially negotiated fee, reduce the risk for lenders. For banks, this reduction in capital requirements either makes SME lending more attractive or allows them to lend more without increasing their capital base.

4.23. In contrast, the ENABLE Funding scheme focuses on improving access to asset and lease finance for SMEs. Under this scheme, the BBB aggregates newly originated finance receivables from multiple lenders and pools them into a structure that can be financed through the capital markets. The first-loss risk in these portfolios is taken by the finance providers or third-party investors, while the government retains only the senior (least risky) exposure. This structure allows the government to use its resources more efficiently, helping to lower the cost of funding for smaller finance providers {GP/014 – INQ000625882}, {GP/015 – INQ000625911}.

4.24. Although this predates my time at BEIS, in May 2018, the Department developed a 'Policy Playbook' designed to guide responses to macroeconomic shocks {GP/016 – INQ000128227}. The document outlined policy options capable of delivering rapid economic impact while also offering long-term benefits. Notably, it identified that adjustments to the EFG scheme could function as automatic stabilisers, delivering swift support. It also noted that other policy measures could be implemented within two months of receiving approval. Comparatively, utilising ENABLE guarantees or funding would take 3 months to on board new finance.

4.25. On 18 January 2019, in a submission to the Secretary of State, BEIS provided advice on policy levers in response to macroeconomic shock {GP/017 – INQ000138682}. The submission addressed the role of BBB products in mitigating an EU exit related shock and 'no deal preparedness'. It noted that there was "*significant headroom available within agreed BBB budgets to increase deployment of the most relevant BBB programmes, Enterprise Finance Guarantee (EFG) and ENABLE*."

4.26. The submission considered the benefits and costs of utilising both programmes. Regarding the EFG, it noted that it was demand-led and delivered by accredited lenders. Based on previous recessions, "*BBB would expect to see a significant increase in demand for EFG loans and overdrafts, caused by increased working capital requirements and (potentially) banks changing their collateral requirements*."

4.27. Alternatively, regarding ENABLE, it was noted in the submission:

> *"…the timetable for additional ENABLE deployment is harder to quantify than EFG. The programme is driven by demand from finance providers (rather than end-users), so engagement is dependent on the reaction of lenders to market conditions. Because a fee is payable for the guarantee, banks would not enter into a guarantee if they do not require the capital efficiency. Guarantees typically take around 3 months to agree".*

4.28. On 11 March 2020, I cleared a submission for the Secretary of State regarding the re-launched Business Finance Council and SME Finance Charter {GP/018 – INQ000625806}, {GP/019 – INQ000625805}. Annex C to the submission contained a note of the Business Finance Council meeting which took place on 9 October 2019 in which there was consultation regarding the availability of the EFG to support lending. In this meeting, Keith Morgan noted that the *"…use of the Bank's Enterprise Finance Guarantee (EFG) scheme was significantly lower than it had been a decade ago. He stated that the Enterprise Finance Guarantee was available to support lending to SME's when security and collateral came under pressure and noted that there was unused capacity of £300 million available to support lending in the current year*."

4.29. I pause here to note an important distinction between the two schemes. The EFG is designed to reduce the risk of individual loans for lenders, providing a guarantee on a loan-by-loan basis. In contrast, ENABLE operates at the portfolio level—its purpose is to lower both the risk and cost of a lender's overall portfolio. Under a portfolio guarantee like ENABLE, lenders have the flexibility to determine the blend of loans included in the guaranteed portfolio. As explained, the EFG operates on a loan-by-loan basis, which means lenders can assess and approve individual loans quickly without needing to structure or manage a broader portfolio, as with ENABLE.

4.30. Considering the above, the decision to proceed with the EFG scheme rather than ENABLE schemes was primarily driven by speed, flexibility, and direct impact during a time of economic uncertainty based on the following:

a) Faster Deployment: The EFG scheme was already fully operational, with accredited lenders in place and a track record of delivery. It was identified in the 2018 Policy Playbook as a tool that could act as an automatic stabiliser, capable of delivering rapid support. In contrast, ENABLE schemes, particularly the ENABLE Guarantee, required up to three months to onboard new finance providers and negotiate terms, making them less suitable for urgent deployment.

b) Direct SME Support: The EFG scheme was demand-led and directly supports individual SMEs, especially those facing working capital pressures or collateral shortfalls. ENABLE Guarantee, by contrast, operated at the portfolio level, targeting lenders rather than end-users. Its effectiveness depended on lenders' appetite for capital efficiency and willingness to pay fees, which may not align with urgent market needs.

c) Operational Readiness and Capacity: As noted in the Business Finance Council meeting (October 2019), The EFG scheme had unused capacity of £300 million, ready to be deployed. ENABLE schemes, while effective in normal market conditions, relied on finance provider engagement and were less predictable in terms of uptake during a crisis.

d) Policy Alignment: The January 2019 submission to the Secretary of State acknowledged both schemes as relevant tools but highlighted the EFG scheme's historical responsiveness during recessions and its ability to meet increased demand quickly.

4.31. I have been asked to comment on which aspects of the EFG scheme's structure and processes were most instrumental in facilitating the rapid rollout of CBILS.

4.32. The most significant factor was the presence of accredited lenders who were already delivering the EFG, supported by established IT and operational systems, standardised documentation, and trained banking staff. Additionally, pre-existing relationships and transactional frameworks between these lenders and the BBB played a crucial role in enabling swift implementation.

4.33. I have been asked whether, in my view, CBILS would have been created in a different form, or at all, had the EFG not been in existence.

4.34. As this is entirely hypothetical, it is difficult to say with certainty what might have been designed instead. However, the existence of the EFG scheme provided a critical foundation, as I set out in §4.32: accredited lenders, established IT and operational systems, standardised documentation, and trained staff were already in place. These elements enabled the rapid deployment of CBILS. In the absence of the EFG scheme, CBILS may have taken a different form, or potentially faced delays.

4.35. I have been asked whether, in my view, reliance on the EFG framework introduced any limitations or risks in the design of CBILS, particularly given the urgency and scale of the pandemic response.

4.36. Starting from an existing scheme like the EFG naturally meant that certain features, such as the portfolio cap, personal guarantee requirements, and the lender agreement, formed the default structure. Unless these elements were deliberately revised, they shaped the design by default. Had we and HMT begun with a completely blank slate, without a predecessor scheme or institutional knowledge to draw upon, it is possible that ministers might have approached the design differently or prioritised other

features. However, in such a scenario, I believe it would have taken significantly longer to design, negotiate, and operationalise a new scheme. The Future Fund, which I deal with in Section 7:, serves as an example of a programme that was developed from scratch, and it required more time to bring into operation as a result.

4.37. I have been asked whether, in my view, basing CBILS on the EFG scheme led to better outcomes for businesses than if an entirely new scheme had been created from scratch. I do not have evidence on the counterfactual to make a definitive judgment. As noted earlier, the key unknowns include what an alternative scheme might have looked like, how long it would have taken to design and implement, and what the levels of take-up and associated costs would have been. Without that information, it is difficult to assess whether outcomes would have been better or worse under a different approach.

Design and Implementation of CBILS

4.38. As the Inquiry has noted, the design of CBILS was indeed a collaborative effort between HMT, BEIS and BBB. As outlined in CWS, Part A, §3.4, HMT led on the overall policy direction and design of the business support schemes during the pandemic, with the Chancellor playing the central role in decision-making. BEIS contributed to the development of the policy and design of the schemes through active engagement in cross-departmental discussions.

4.39. On 9 March 2020, Angelina Cannizzaro (Deputy Director, SME Finance (Policy and Analysis) BEIS) and I received an email from Jo Shanmugalingham, who I have already referred in §3.7 above, advising that the Chancellor intended to announce an EFG type scheme on 11 March 2020. She advised that Philip Duffy at HMT had informed her of the Chancellor's intention to announce *"an EFG-type scheme delivered by BBB: larger scale, more generous % of portfolio, zero fee, more generous on purpose so wider range of eligible firms can be supported"*. The intention was to follow up separately with HMT to establish the advice that they would be submitting to the Chancellor later that evening. In addition to this, it was recommended that we would need to update BEIS ministers later that evening {GP/020 – INQ000585493}.

4.40. Following a discussion with HMT and BBB, Angelina Cannizzaro sent me an email which she had received from HMT, which included the proposed terms of the advice HMT intended on submitting to the Chancellor as well as the mock term sheet for the new scheme {GP/021 – INQ000625802}.

4.41. Jane Whewell (Deputy Director, BEIS) updated the Secretary of State and Minister Zahawi that BEIS officials would be sending a short advice note to ministers later that day to provide an update on the potential new budget measures HMT was considering. It was agreed that Angelina Cannizzaro and her team would work on the advice for ministers {GP/022 – INQ000585494}.

4.42. I spent most of that afternoon and evening discussing HMT's proposals regarding the proposed Budget announcements with BEIS officials {GP/023 – INQ000625803}. Following these discussions, Jo Shanmugalingam and Sarah Munby put advice to BEIS ministers on 10 March 2020 with further details of the proposed announcements {GP/024 – INQ000543056}. This included the proposed changes to BBB's EFG scheme.

4.43. Departmental officials advised the Secretary of State that, given the potential for pressure on SMEs' working capital, HMT might propose expanding the scheme by reducing the premium payable on guaranteed overdraft facilities and loans, increasing the guarantee on individual EFG loans, doubling the scheme's overall capacity, raising the portfolio-level cap, and broadening eligibility. The submission noted that not all options needed to be implemented simultaneously and highlighted the potential for significant credit loss exposure if the final two options were made overly generous. The first three measures were considered lower risk. Officials informed the Secretary of State that the Department, BBB, and HMT were aligned in this risk assessment, and that BBB had been briefed by HMT and were comfortable with the first three proposals.

4.44. The advice further stated that detailed information on the proposed EFG style scheme was required before a full Accounting Officer Assessment could be carried out. This included confirmation of any State aid implications, value for money assessments, and overall feasibility. Officials advised that there was a risk that a ministerial direction might have been necessary if the scheme was found to offer "*poor value for money*".

4.45. Officials recommended that the Secretary of State advise the Chancellor that, although the Department agreed on the expansion of the EFG scheme, BEIS would require full budget cover and there were Accounting Officer risks with the set of proposal which would need to be worked through.

4.46. We had a call with HMT officials later that day to discuss the proposals regarding the new scheme. HMT agreed to arrange for the Chancellor's private office to send an email to the Secretary of State's private office *"…setting out the specific terms of the*

announcement and undertakings on budget cover and Accounting Officer concerns." {GP/025 – INQ000625804}.

4.47. As set out in CWS, Part B, §§2.5 - 2.6, the Chancellor's private office emailed the Secretary of State's private office highlighting the content of the Budget relating to CBILS. The email confirmed, amongst other things, that *"…the scheme [would] launch 'in a matter of weeks"*, with 1 April 2020 being proposed as the launch date. It was further suggested that *"...if we can act faster, we should.*" CBILS was a temporary expansion of the existing loan scheme for SMEs, the EFG, and HMT would *"…now work closely with BEIS, BBB and lenders to agree the exact terms of the new scheme.*" The scheme was expected to include:

> *"- A raised portfolio cap (taking more risk on the HMG balance sheet);*
>
> *- Expanded eligibility criteria – to support businesses who may temporarily fall outside bank risk appetite as a result of CV-19 (but are otherwise viable)*
>
> *- Work to streamline the process between lenders/BBB to make the scheme attractive to use for banks"* {GP/026 – INQ000563870}.

4.48. In addition to the above, HMT would provide the necessary ring-fenced budget cover, to be agreed with BEIS officials, once the exact design of the scheme was finalised.

4.49. On 11 March 2020, the Chancellor announced in the Budget a range of business support measures including the £1 billion CBILS by which banks would offer no-fee loans to small and medium sized businesses of up to £1.2 million 80% guaranteed loans *"…so that banks can lend with confidence…*" {GP/027 – INQ000236874}.

4.50. That same day, the Permanent Secretary and Secretary of State agreed that Accounting Officer responsibility for the loan schemes should rest with BEIS {GP/028 – INQ000543061}. As referred to in CWS, Part A, §5.29.

4.51. As set out in CWS, Part B, §2.17, an HMT official emailed BEIS and BBB officials on 17 March 2020. The email explained the Chancellor had expressed a strong interest in finding a way to use measures such as CBILS to support lending in excess of the £1.2 million loan cap {GP/029 – INQ000563875}. The email indicated that a range of £1 million to £5 million had been suggested, and the Department acknowledged the requirement to notify the Commission to ensure continued compliance with the EU Temporary Framework.

4.52. Later that day, the Chancellor announced that the Government would be providing additional support to protect businesses, with changes to the initial parameters of CBILS. As referred to in CWS, Part B, §2.18, the changes to CBILS were:

a) The maximum amount that businesses could borrow was increased from £1.2 million to £5 million; and

b) A six-month interest-free period was made available to businesses. The Government would cover the first six months of interest payments {GP/030 – INQ000585498}.

4.53. On 18 March 2020, I emailed the Permanent Secretary in order to provide an update on CBILS {GP/031 – INQ000563877}. I explained that the Department was moving at pace to deliver CBILS, following the Chancellor's announcement to expand the scheme. BEIS had been undertaking urgent further work with HMT, BBB, and legal advisors to finalise the scheme's parameters. I noted that the Chancellor was determined to launch on Monday, 23 March 2020, regardless of the circumstances. I confirmed that the Chancellor wished to proceed with guaranteeing loans of up to £5 million, despite this exceeding the €3.25 million limit set by the EU Temporary Framework for State aid. As a result, the Government was required to seek State aid approval from the European Commission. I also noted that HMT officials were due to provide further advice to the Chancellor later that day, and that if the Commission did not approve the scheme, the funding would need to be recovered.

4.54. That evening, BEIS officials and I sent a submission to Minister Scully and Parliamentary Under Secretary of State, Minister for Climate Change and Corporate Responsibility, Lord Callanan, seeking their approval to present a Written Ministerial Statement and a departmental Minute to Parliament in respect of CBILS. We were aiming to arrange *"a grid slot for the [Written Ministerial Statement] from No.10"* so that the scheme could be launched on 23 March 2020 {GP/032 – INQ000625809}, {GP/033 – INQ000543086}.

4.55. At 19:48, I sent the draft Accounting Officer advice to the Permanent Secretary in his role as Accounting Officer which recommended that he consider a direction. A call had been arranged with the European Commission at 20:00 to discuss the scheme. I advised that we would update him and the Accounting Officer advice following the call {GP/034 – INQ000625817}. In his reply, the Permanent Secretary advised that he "*cannot vouchsafe the scheme in its adapted form to the standards expected of me as*

AO[2] under MPM.[3] I therefore consider it would be appropriate to seek a Direction tomorrow. Please plan on this basis and line up with SoS office."

4.56. At 20:00 on 19 March 2020, I joined a call with colleagues from BEIS, HMT, and BBB to engage with the European Commission on the CBILS scheme. During the discussion, the Commission unexpectedly raised concerns about the compatibility of the scheme's fee-free structure with the State aid framework. This raised an unexpected issue, introducing a fee would not align with the Chancellor's announcement and would also pose significant operational challenges for the BBB, as the fee structure would differ from the existing EFG scheme and the current systems were not equipped to support such changes {GP/035 – INQ000625815}.

4.57. At 23:00, on 19 March 2020, Keith Morgan (BBB) sent a letter to the Permanent Secretary updating him on BBB's role in delivering CBILS. He noted that:

> *"My [BBB] officials have been working at pace with yours [BEIS] and others across HMT and UKGI to finalise and prepare to implement the necessary changes to the existing EFG scheme to launch the new scheme as soon as possible. The overriding policy objective when considering what changes to make to both the parameters and the eligibility criteria of the EFG scheme, was how to most appropriately support the continued provision of finance to UK SMEs while they may face temporary performance or cashflow issues."* {GP/036 – INQ000563879}.

4.58. Keith Morgan recorded the relevant issues that BBB needed to address to ready itself to implement CBILS at the speed expected by the Chancellor. He expressed concern that due to the speed of implementation, BBB would need to relax its targets in relation to two of the six strategic objectives, namely, to enhance the diversity of provision in the small business finance market and to provide a return equivalent to the Government's medium-term cost of borrowing. Accordingly, CBILS represented a material shift of additional risk onto the programme, and ultimately BEIS's balance sheet.

4.59. Keith Morgan sought confirmation that the Permanent Secretary, in his capacity as Principal Accounting Officer for BBB, would, with immediate effect, temporarily suspend certain targets and consider amendments to BBB's business plan.

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[2] Accounting Officer
[3] Managing Public Money

4.60. Notably, the letter also stated:

> *"Speed of delivery on behalf of government remains our priority. It is for that reason, that we have been unable to follow the governance and approvals procedures, such as completing a five-case business case, that would be routine in normal times. So, while we are carrying out economic analysis of the effectiveness of the CBILS measure, this work is not complete. In any case, due to the interaction of the various parameter changes under CBILS and the uncertainty around the nature or length of an economic shock, the value of quantitative assessment is limited. As a result, the Bank is unable to give assurance to BEIS that the CBILS initiative provides value for money."*

4.61. In the early hours of 20 March 2020 (00:11), Joshua Flemming emailed me noting as follows:

> *"Our provisional conclusion, in light of that conversation, is that we would not be able to offer guarantees on loans to the value of £5m unless we charge a fee.*
>
> *We had a further discussion tonight on options for ensuring that we have a scheme that is state aid compliant, whilst also addressing HMT Ministers' concerns about banks hiking up the interest rate at the end of the 6 month interest free period. We think the best approach would be to offer the banks a longer (1 year) interest free period and a higher portfolio cap in return for the banks paying a fee for the guarantee. The revised guidelines provide that the fee would need to be 25bp for 1 year loans, 50bp for 2-3 years and 100bp for 4-6 years.*
>
> *BBB's view is that the banks would see this as attractive because the fee is modest and the longer interest free period gives them additional assurance about the likelihood of the borrower being able to repay the loan (and they get paid the interest by the govt anyway). The fact that we would be charging a fee to the banks does diverge from what we have announced about the scheme (that there will be no fee), but we would explain that the fee the banks pay is in return for a better deal (longer interest free period) for borrowers.*
>
> *….*
>
> *but there remains some uncertainty about whether the [Commission] will accept that this revised proposal fits within their new guidelines, specifically in*

relation to the fee being paid by the lender (rather than the borrower) and the treatment of the interest free period. The [Commission] are giving the scheme further thought overnight, and we are scheduled to speak to them again at 9.30 tomorrow morning." {GP/037 – INQ000625814}.

4.62. At 8:27, on 20 March 2020, I sent an update to the Secretary of State's private office and the Permanent Secretary advising that HMT were developing a revised proposal to ensure the CBILS scheme would be State aid compliant. The proposal involved offering lenders a one-year interest-free period in exchange for them paying a modest guaranteed fee, structured according to loan duration. The "*BBB's view* [was] *that the banks would see this as attractive because the fee* [was] *modest and the longer interest free period gives them additional assurance about the likelihood of the borrower being able to repay the loan (and they get paid the interest by the govt anyway). The fact that we would be charging a fee to the banks does diverge from what we have announced about the scheme (that there will be no fee), but we would explain that the fee the banks pay is in return for a better deal (longer interest free period) for borrowers*". While this diverged from the original public messaging that there would be no fees, the intention was to explain that the fee paid by lenders enabled a better deal for borrowers. There remained some uncertainty about whether the European Commission would accept this revised structure, particularly regarding the fee being paid by lenders and the treatment of the interest-free period. Further discussions with the Commission were scheduled for the following morning {GP/035 – INQ000625815}.

4.63. Also on 20 March 2020, BEIS officials and I sent the formal Accounting Officer Assessment of the scheme to the Permanent Secretary in his role as Accounting Officer {GP/038 – INQ000563882}, {GP/034 – INQ000625817}. As set out in CWS, Part B, §§2.33 – 2.37, the note summarised the budgetary and value for money implications of the proposed scheme including the intended changes to the original design. In the note, the Accounting Officer was asked to consider whether he felt a ministerial direction was required to implement CBILS. As the lenders were preparing to offer the scheme from 23 March 2020, the ministerial direction would need to be requested and accepted to meet the target delivery date.

4.64. We advised the Permanent Secretary that the scheme carried risks with respect to each component of the tests under Managing Public Money, an HMT guidance document that sets out the main principles for dealing with resources in public sector organisations in the UK {GP/039 – INQ000496882}. The budgetary and value for

money implications were particularly concerning given the uncertainties in the analysis and whether additional costs would be outweighed by the benefits. The legal risk was also significant.

4.65. The value for money assessment in respect of CBILS took into consideration whether an alternative proposal, or doing nothing, would deliver better value for money whilst also achieving the policy objective, which was to increase the availability and take-up of financing by SMEs in an economic downturn. As increased take-up of the scheme was economically beneficial, not acting provided worse value. However, there was significant uncertainty as to whether the economic benefit of CBILS would justify the likely costs. The increase in the effective portfolio cap to 60% (compared to 15% with the EFG scheme) was designed to encourage lenders to deploy more loans by increasing the lenders' risk appetite and supporting them to take a more flexible view of SME viability. However, this change represented significant additional risk transfer from the lenders to the taxpayer as compared to the lower effective portfolio level cap of the EFG scheme.

4.66. The Department understood that the likely demand for the scheme would be significant. However, there were no precedents on which to base a forecast as the lending conditions were unprecedented. The EFG scheme was the most relevant precedent available, but BEIS recognised that the demand during the pandemic would greatly exceed business as usual demand. Lenders were exposed to a proportion of any losses and therefore had every incentive to only lend to viable businesses. Accordingly, there were no suggestions that the scheme should be rationed, and the demand would depend on circumstances as the pandemic unfolded. As set out in the note to the Accounting Office referred to above:

> *"Providing whatever resources are necessary to support businesses. We do not have reliable estimates of likely demand as lending conditions are unprecedented. Initial modelling suggests that the new scheme could quickly account for £5*[bn]*-10bn of lending supported, as compared to an additional £1bn announced at Budget. For planning purposes we are using a figure of £6bn."* {GP/038 – INQ000563882}, {GP/034 – INQ000625817}.

4.67. In the absence of detailed financial and macroeconomic forecasts, or clarity on how the pandemic would unfold, large uncertainties remained around take-up rates, default rates, and the economic benefits of CBILS, which were critical parameters for the value of money assessment. For example, if BEIS assumed that between 25% and 75% of

businesses (that would have otherwise failed) survived because of CBILS funding and proceed to generate economic benefit, then even if the 60% effective cap was reached, it would still be possible for CBILS to represent value for money. However, these calculations were acknowledged to be rudimentary.

4.68. On 21 March 2020, the Permanent Secretary responded to Keith Morgan's (BBB) letter, referenced in §4.57 above. In his response, he assured BBB that BEIS would take the delivery of Covid-19-related initiatives into account when assessing BBB performance and the business plan. He also confirmed that HMT would provide the necessary financial backing for the new scheme {GP/040 – INQ000625822}. Keith Morgan responded (BBB) later that day noting that:

> *"I appreciate your reassurance on budget cover and performance monitoring. However, I will also need your confirmation of the following points before my team can issue any legally binding documentation to our delivery partners:*
>
> *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."*

4.69. Following receipt of the above correspondence from BBB, the Permanent Secretary sent an email to Angelina Cannizzaro, Francis Evans (Head of Business Finance, Business Growth Directorate, BEIS), and me, asking what was still needed "*to get this over the line*." He also commented, "*I don't think it's quite right to say we bear the State Aid risk – apart from anything else, recipients of CBILs bear some unavoidable risk if legally we have to clawback. But I think what he means (or should mean) is that he is depending on HMG for regularity assessment, and to this extent I agree and we should say that we are satisfied following careful design and extensive consultation with EC*[4] *that this should be compatible with EU State Aid rules, and the Direction covers the decision to proceed to launch without full and final confirmation of this*."

4.70. Angelina Cannizzaro confirmed that the team would shortly be sending the Permanent Secretary a draft email response. She also noted that the Secretary of State had

[4] European Commission

received the draft email to the Chancellor, and that once his response was received, they would be able to proceed with the direction letters. She added that the "*[l]ast thing will be view from [the Commission].*"

4.71. As set out in CWS, Part B, §§2.40 – 2.43, on 22 March 2020, the Secretary of State's private office emailed HMT seeking agreement to introduce CBILS {GP/041 – INQ000563890}. The Secretary of State anticipated that he would need to issue a ministerial direction to the Accounting Officer to introduce the scheme. CBILS was a demand-led scheme, and the Secretary of State also sought confirmation that given the uncertainties around the scheme (including the eventual costs and potential losses), HMT would continue to honour the assurances that it would provide the additional budget cover required to meet all immediate and future costs.

4.72. An HMT official replied to the Secretary of State's private office the same day to confirm that the Chancellor was content for the Secretary of State to introduce CBILS based on the parameters set out {GP/041 – INQ000563890}.

4.73. After considering the Accounting Officer advice, on 23 March 2020, the Permanent Secretary wrote to the Secretary of State requesting a ministerial direction (dated 22 March 2020) in the event the Secretary of State wished to progress with CBILS {GP/042 – INQ000065992}.

4.74. In response on the same day, 23 March 2020, the Secretary of State issued a ministerial direction (dated 22 March 2020) formally directing the Accounting Officer to proceed with CBILS. This ministerial direction stated:

> *"As you rightly highlight in the current circumstances there are a number of good reasons to justify the introduction of this scheme. Without the Government intervening, there are very real risks faced by a large number of businesses in the UK. This would result in a large number of jobs being lost, which would have a significant long-term impact on the national economy. As you note in your letter, the speed at which events have unfolded has not allowed sufficient time for a full value for money assessment to be undertaken. Nonetheless I believe the economic case for action is compelling.*
>
> *Whilst agreement for some of the elements of this Scheme are subject to State Aid approval, I believe in the current set of circumstances that we cannot afford to delay introduction of this scheme even for a few days. I note that these are temporary measures, being implemented in extraordinary circumstances. In light of this, and of the advice I have received from officials,*

I believe that there is sufficient likelihood that the Commission will ultimately support the steps that the Government is taking to provide support to businesses affected by the Coronavirus pandemic.

As a result, I am prepared to provide support for the introduction of this scheme. I am therefore formally directing you as Accounting Officer to take this forward with immediate effect." {GP/043 – INQ000064753}.

4.75. Following exchange of the above, I sent an email to HMT, confirming that the Secretary of State had issued the ministerial direction {GP/041 – INQ000563890}.

4.76. CBILS was launched on Monday 23 March 2020, in accordance with the Chancellor's proposed timetable. To help businesses understand if they would be eligible for CBILS, the Department prepared an eligibility checklist {GP/044 – INQ000563886}. This stated that all lending decisions remained fully delegated to the accredited lenders.

4.77. As outlined in CWS, Part B, §2.62, shortly after the launch of CBILS, the Department received feedback from businesses that lenders were consistently demanding personal guarantees, even for small loan amounts. As set out above, the scheme had been launched with no requirement for lenders to obtain security for lending up to £250,000 but gave lenders a discretion on this. BEIS officials' understanding was that lenders were requesting personal guarantees because they remained liable for 20% of the loan in the event of default. A personal guarantee increased the likelihood of recovering that amount. This created a clear commercial incentive for lenders to secure a guarantee whenever possible. Businesses also reported that lenders were only offering CBILS to businesses unable to access regular commercial financing, whilst pushing other businesses to take-up more expensive commercial products.

4.78. Additionally, on 26 March 2020, as set out in CWS, Part B, §2.63, BEIS officials compiled a market intelligence report summarising early feedback on CBILS from stakeholders including the Federation of Small Businesses, the Confederation of British Metalforming, and the London Chapter of EO Entrepreneurs Organisation. Key concerns included confusion over personal guarantees, unclear eligibility guidance, limited lender capacity, burdensome application requirements, such as cash flow forecasts, loan rejections, and fears that using CBILS could negatively impact credit ratings or insurance cover {GP/045 – INQ000596664}.

4.79. On 27 March 2020, BEIS officials and I provided an update by way of submission to the Secretary of State in response to the above feedback {GP/046 – INQ000563900}. The submission explained that, under CBILS, lenders could request personal

guarantees against any of the borrower's assets, except for the borrower's primary residential property. While the five major lenders had removed the requirement for personal guarantees on CBILS loans under £250,000, BEIS officials asked the Secretary of State whether he wished to work with HMT and BBB to formally amend the scheme rules to:

a) Prohibit personal guarantees for loans under £250,000; and

b) For loans over £250,000 ensure lenders first claim the 80% government guarantee before pursuing any personal guarantees, thereby limiting the personal exposure to 20%.

4.80. Later that day, the Secretary of State's private office confirmed his support for the proposals but noted the need to assess the potential impact on lender participation {GP/047 – INQ000563903}. Officials were asked to provide a note on lenders' current practices regarding personal guarantees. The Secretary of State had also agreed to co-sign a letter with the Chancellor to lenders, though it appeared the Chancellor had already sent it, and a copy was requested.

4.81. On 28 March 2020, I emailed the Secretary of State's private office and the Permanent Secretary with an urgent update on proposed changes to the CBILS personal guarantee rules {GP/048 – INQ000563905}. I explained that HMT officials had been in touch to say the Chancellor wanted to announce two changes to the personal guarantee rules on Monday, 30 March 2020. I recommended that the Secretary of State push back firmly, as we needed more time to understand the implications and ensure BBB and the banks were prepared to implement the changes effectively. As I noted, we had already seen the risks of launching major schemes at pace without sufficient preparation

4.82. Later that evening, I joined a call with officials from BEIS, HMT, and BBB to discuss the proposed changes {GP/049 – INQ000563906}. It was clear that the changes could not be launched in any sensible fashion by 30 March 2020. We agreed to aim for 31 March 2020 instead. HMT officials undertook to advise the Chancellor of the delay, and I informed the Secretary of State's private office and the Permanent Secretary that we would be sending a further submission and an addendum to the original Accounting Officer advice.

4.83. On 30 March 2020, BEIS officials and I submitted a revised proposal to the Secretary of State, setting out the two changes the Chancellor wished to make:

a) First, to prohibit personal guarantees for loans under £250,000.

b) Second, for loans over £250,000, to allow lenders to seek a personal guarantee, but require them to first recover from business assets, then claim up to 20% from the personal guarantee {GP/050 – INQ000563909}.

4.84. This second change differed from the earlier proposal submitted on 27 March 2020, which had suggested lenders claim the 80% guarantee before turning to the personal guarantee. That approach was not permissible under State aid rules, as it altered the 80/20 risk-sharing balance and could be viewed as State aid to lenders.

4.85. The 30 March 2020 submission also noted the Chancellor's strong support for the changes, on the basis that they would be more acceptable to business owners and directors, who might otherwise view personal guarantees as disproportionately punitive. The changes were also intended to address criticism that lenders were not taking on enough risk.

4.86. However, we advised that the revised approach introduced risks. As set out in the submission, there was a concern that it could create perverse incentives—for example, allowing unscrupulous directors to extract funds and liquidate their businesses with limited personal consequences. The changes were also likely to increase the size of claims under the guarantee, as the contribution from personal assets would be reduced. This would require additional budgetary cover for 2020/21. Due to time constraints, we were unable to conduct a full analysis of the financial or economic impacts, though we included two illustrative scenarios to demonstrate potential effects.

4.87. On the same day, BEIS officials and I submitted supplementary Accounting Officer advice to the Permanent Secretary, stating that the proposed changes would likely increase both the frequency and size of losses under the guarantee, and therefore "*worsen the value for money of the scheme*" {GP/051 – INQ000563910}.

4.88. BEIS officials advised that the value for money assessment remained limited by time and data constraints. Although the proposed changes to CBILS were expected to negatively impact value for money, officials concluded a second ministerial direction was not required, as the changes did not materially alter the original direction issued on 22 March 2020.

4.89. On 31 March 2020, the Chancellor confirmed his intention to proceed, and BEIS prepared advice for ministers {GP/052 – INQ000563912}. A submission followed on 1

April 2020, outlining the Chancellor's rationale: to remove perverse effects of the scheme and prevent wider financial distress {GP/053 – INQ000563918}.

4.90. The submission noted:

> *"The Chancellor proposes to announce a series of changes to the CBILS scheme on Friday this week. The changes include: a)* ***revisions to the rules on personal guarantees*** *(as set out in our previous submission of 30 March, attached as Annex A), and b) the* ***extension of eligibility for CBILS to cover any SME adversely affected*** *by Covid-19, even if they could obtain finance on normal commercial terms"* (original emphasis).

4.91. BEIS officials advised that the Department would be providing "*revised advice to the Permanent Secretary in his role as Accounting Officer to reflect the greater uncertainty and worse value for money of the revised scheme*" and, subject to the Permanent Secretary's views, a further ministerial direction would be required due to the legal, financial, and operational risks. They warned that CBILS could become the default for SME lending, including refinancing, with most new lending falling under the scheme. Officials noted that, "*whilst recognising the very valid reasons for widening eligibility, and the extraordinary economic circumstances, the pace at which this has been developed leaves us with significant concerns about affordability, value for money and deliverability*". Officials stressed the need for HMT to hold BEIS budgets harmless from the financial consequences.

4.92. Additional risks included uncertainty over BBB's capacity to handle increased demand and the pressure to accredit new lenders quickly. BEIS also presented an alternative proposal to reduce risk and improve value for money, involving wider use of Business Interruption Payments (BIPs). This was discussed with HMT and BBB on 31 March 2020, but HMT indicated it would not meet the Chancellor's policy objectives {GP/054 – INQ000610529}, {GP/055 – INQ000610528}.

4.93. On 1 April 2020, BEIS officials and I sent an Accounting Officer note to the Permanent Secretary regarding the Chancellor's proposal to remove the requirement for borrowers to demonstrate they couldn't access commercial finance {GP/056 – INQ000563917}. Officials warned this would remove a key safeguard for scheme additionality and likely result in most SME lending falling within CBILS, including refinancing of existing loans.

4.94. The note assessed the change as "*High Risk*" for regularity and propriety, and "*Very High Risk*" for value for money. It recommended seeking a ministerial direction due to the scale of the changes and their implications.

4.95. As set out in CWS, Part B, §2.92, on 2 April 2020, the Permanent Secretary wrote to the Secretary of State requesting a ministerial direction {GP/057 – INQ000065315}. He noted that while changes to personal guarantees would likely increase take-up and claims, they did not materially alter the original direction. However, expanding CBILS to include SMEs able to access commercial finance did represent a material change, with a potential contingent liability of up to £60 billion. The letter highlighted risks to value for money, propriety (e.g. refinancing incentives), system readiness, and unresolved State aid issues. It also proposed four steps to improve deliverability and value for money, including confirming State aid compliance and testing with BBB.

4.96. The Permanent Secretary acknowledged the urgency of the situation but concluded he could not "*…as Accounting Officer, support the specific proposals to change the eligibility criteria. **Managing Public Money** therefore requires that if you wish to progress with the further changes to CBILS as detailed above, I will require a written direction from you to do so.*" (original emphasis).

4.97. The Secretary of State requested further information on likely financial losses, economic benefits, and demand.

4.98. Later that day, the Permanent Secretary responded, explaining that BEIS could not provide reliable estimates due to limited data and time. He raised concerns about additionality and the risk of CBILS becoming the default SME lending route. He also noted the difficulty in assessing the economic impact of preserving businesses through CBILS loans, given the uncertainty around how the finance would be used and its effect on future performance {GP/058 – INQ000064864}.

4.99. The Permanent Secretary, in his capacity as Accounting Officer, noted strong early evidence of severe economic disruption due to Covid-19, particularly in retail, construction, tourism, hospitality, transport, and manufacturing. He advised that urgent government-backed liquidity was essential to prevent viable SMEs from collapsing, with impacts far greater than the financial crisis.

4.100. As outlined in CWS, Part B, §2.100, on 2 April 2020, the Secretary of State wrote to the Chancellor, acknowledging the urgency and intent behind the proposed CBILS changes, but cautioning that they had been developed rapidly and carried risks to achieving value for money and deliverability. He requested confirmation of HMT

consent and budget cover and indicated that a ministerial direction would be needed {GP/059 – INQ000563921}.

4.101. The Chancellor's private office confirmed agreement to expand CBILS and provide budget cover {GP/060 – INQ000563925}. The Secretary of State then issued a formal ministerial direction to proceed, citing the urgent need to support SMEs and the overwhelming feedback that even short delays could be critical. He acknowledged the risks but expressed confidence in officials to manage them {GP/061 – INQ000064780}.

4.102. The changes were announced on 3 April 2020, alongside amendments to personal guarantee rules and details of the new CLBILS scheme.

Engagement with the Secretary of State

4.103. I have been asked to explain the advice I provided to the Secretary of State in relation to the design, implementation, and delivery of the scheme. In addition to the advice provided above and to respond fully, I believe it is most helpful to set out the additional key issues on which I engaged with him directly.

4.104. On Saturday, 14 March 2020, I received a query from the Secretary of State asking if there were any existing BBB schemes that could be expanded to support larger businesses and if not, what schemes could be established quickly {GP/062 – INQ000563872}.

4.105. I responded to the Secretary of State's query the next morning and confirmed that as BBB was restricted by the State aid framework, existing schemes were limited to SMEs and a maximum loan size of £1.2 million {GP/063 – INQ000563873}. As referred to in CWS, Part B, §§2.14 - 2.15. There was scope to modify the eligibility criteria to be more helpful to SMEs (and BEIS and BBB were working together to consider those options) but the State aid provisions did not allow it to extend to larger businesses. In the response, BEIS officials noted that the European Commission defined SMEs *"…as having fewer than 250 employees and either turnover of up to EUR 50 million (£45m) or a balance sheet total of no more than EUR 43 million (£39m)."* (original emphasis).

4.106. My email further explained that BEIS was exploring two options that would better allow the Government to support loan finance to larger firms, as follows:

> *"After the financial crisis, the British Finance Partnership (now part of BBB) provided loans to mid-cap firms up to 500 employees. These were made to viable businesses on a commercial basis at a time when commercial investors*

were unwilling to lend. The scheme gradually withdrew as the market returned to normal.

The Regional Growth Fund has in the past given loan guarantees to some large companies in distress, to support borrowing from commercial lenders, although not on a large scale. Under existing State Aid rules, all such loans would have to be on a commercial basis…"

4.107. It was explained that the Government could not support all large firms in distress, but that BEIS and HMT had been revisiting their intervention principles as a framework for determining which strategically important firms could be supported. They were to work urgently with BBB and HMT on the case for each of the above options and would submit advice in the following few days. As noted in my email, BEIS officials discussed the two options with HMT as part of the broader policy making process.

4.108. The Secretary of State's private office responded by email in which they sought clarification on whether the European Commission was expected to relax State aid rules, referencing earlier indications of a possible shift. The email further proposed certain amendments to the wording which would be sent to the Secretary of State. Following discussion with BEIS officials, an updated response was sent to the Secretary of State's private office. The response highlighted that the European Commission had shown flexibility, approving aid measures rapidly under Articles 107(2)(b) and 107(3)(c), and was likely to recognise similar economic disturbances across Europe {GP/064 – INQ000625808}, {GP/065 – INQ000625807}.

4.109. On the evening of 18 March 2020, I provided the Secretary of State with an update note on CBILS in advance of a meeting with him the following day {GP/066 – INQ000543080}, {GP/067 – INQ000543081}, {GP/068 – INQ000543082}. As set out in CWS, Part B, §2.20, the note explained that BEIS had been working with HMT, BBB, and lenders to finalise the parameters of CBILS, and the Chancellor felt very strongly that CBILS should be implemented on 23 March 2020. It confirmed that BBB and lenders thought that was deliverable. As for the outstanding policy choice as to whether some currently excluded sectors (such as agriculture, fishing, and private schools) should be brought into the scope of CBILS, the note explained that the Chancellor had received advice on that issue that evening. This advice would have been provided by HMT officials directly to the Chancellor, and therefore BEIS does not have knowledge of further advice that may have been provided to the Chancellor about excluded sectors.

4.110. The note stated that BEIS officials were "*still developing [their] value for money analysis. It requires us to make several assumptions about take-up and defaults and relies on current financial and macroeconomic forecasts, all of which have a wider than usual margin for error in these unprecedented conditions*." BEIS's view was that CBILS could be delivered either on 23 March 2020 or very shortly afterwards (likely within a week), with the timing largely dependent on the process that had to be followed. CBILS involved significant public spending, therefore it was essential to follow proper governance and obtain accounting office advice, while also ensuring lenders were ready. Minimum necessary steps were being taken to ensure ministers were making decisions based on proper advice and the scheme was delivered as quickly as possible.

4.111. On 19 March 2020, I met with the Secretary of State and several BEIS officials to discuss the details of the CBILS scheme. As set out in CWS, Part B, §2.23, discussions took place in relation to communication, delivery and legal risks of the scheme {GP/069 – INQ000563878}. In overview:

a) Communication – the Secretary of State asked how businesses would be made aware of the scheme, determine whether it was available to them and where they should be directed for further information. BEIS officials advised that a communications plan was being developed and the key message to businesses would be to contact their bank directly to enquire about CBILS;

b) Delivery – the Secretary of State noted, based on his experience, there was often a significant disconnect between the scheme's overall objectives and its delivery in practice. He wanted to carry out a "mystery shop" on 23 March 2020 to establish if lenders had briefed their staff appropriately and whether the processes in place for discussing about the loans were adequate; and

c) Legal risks – BEIS officials highlighted the legal implications for proceeding with the scheme, noting there was a risk that money may need to be clawed back from businesses at a later stage. The Secretary of State acknowledged this risk but emphasised the urgent need for cash flow support to businesses. He was happy to proceed with the risk, even if that risk was a claw back later.

4.112. Following the call with European Commission as set out in §4.56, I sent a draft submission to the Secretary of State's private office. In the email accompanying the draft submission, I suggested that *"…if SoS wants to move at pace to increase the chance of this launching Monday, it would be helpful for him to glance the draft sub to*

get familiar with the issues". I also sent the updated Accounting Officer advice to the Permanent Secretary in his role as Accounting Officer {GP/070 – INQ000625296}, {GP/071 – INQ000585501}, {GP/072 INQ000625813}.

4.113. On 20 March 2020, BEIS officials and I sent an urgent submission to the Secretary of State (dated 19 March 2020) seeking his in-principle agreement to the scheme in advance of the proposed launch of CBILS on 23 March 2020 {GP/071 – INQ000585501}, {GP/073 – INQ000585500}.

4.114. As set out in CWS, Part B, §§2.24 - 2.27, the submission presented the parameters of the scheme and the State aid assessment, together with the costs and value for money assessment, which was described as *"…necessarily speculative given the pace and paucity of data, and the risks, which [were] significant*". The submission advised further that, "*Owing to this… the Permanent Secretary has judged that he will require a [ministerial] direction*". The Secretary of State was asked to advise whether he wanted to proceed and launch CBILS, with the parameters set out in the submission, after having set out the associated value for money assessment and legal risks.

4.115. The submission updated the Secretary of State on the design of CBILS and the key differences when compared to the EFG loan scheme, which were as follows:

a) The maximum loan size supported would be £5 million for terms up to five years (The EFG scheme supported loans up to £1.2 million);

b) Businesses would not be required to pay a premium to access a CBILS loan (there was a 2% premium for accessing EFG loans);

c) The percentage of the remaining balance of each loan that was guaranteed by the Government increased to 80% (from 75% under the EFG). The increase was to encourage lenders to deploy more loans by increasing their risk appetite. A higher guarantee (at 90%) was dismissed as it created insufficient risk sharing with the lenders;

d) The cap on gross government liability at the level of the lender's whole CBILS portfolio would be increased to 75% of losses (under the EFG scheme this had been capped at 20% of losses across each lender's whole EFG portfolio);

e) The net effect of the above was an effective portfolio cap of 60%, comprising 75% of the lender's overall portfolio cap multiplied by 80% of the government guarantee (75% x 80% = 60%). This meant the Government's liability under each lender's CBILS portfolio could not exceed 60% due to the portfolio level

cap in place for every lender. The effective portfolio cap of the EFG was 15%, comprising 20% of the lender's overall portfolio cap multiplied by 75% of the government guarantee (20% x 75% = 15%);

f) In return for lenders offering interest-free loans to businesses for 12 months, lenders would be charged a graduated fee. This would apply to the guaranteed portion of the loan offered. The submission stated that BBB and UK Finance thought lenders would view this positively because the fee would be modest and, in return, the Government would have extended the interest-free period from six to 12 months, thus reducing the risk of default. This was marked in the submission as a new feature, and the inclusion of a fee for lenders was included in response to concerns from the European Commission that a fee-free scheme would not be compatible with the temporary State aid framework. This was set out in emails between myself and various officials on 19 March 2020 {GP/073 – INQ000585500};

g) Access to CBILS was wider than under the EFG. Only viable businesses that had some, albeit insufficient, security could access the EFG scheme. Businesses would be able to apply for unsecured CBILS loans up to a value of £250,000 at the discretion of the lender (the EFG was only available for secured loans);

h) With CBILS, the lender was required to establish that the business had a viable business proposition when assessed according to its normal commercial lending criteria. However, where there were concerns regarding its short-term business performance due to the impact of Covid-19, the business would be considered eligible for CBILS provided the lender reasonably believed the finance would help the business trade out of short-term cashflow difficulties; and

i) Some protected sectors were excluded under the EFG, such as agriculture and aquaculture, insurance hauliers, and private schools. These sectors would be brought into scope of CBILS, although on limited terms, benefitting from loans of up to around £1 million.

4.116. In the same submission, advice was provided to the Secretary of State on the value for money of CBILS, stating that the pandemic represented a major shock to the UK economy and should be treated as an exceptional occurrence which justified government intervention to support firms. In particular, the following was explained in

the absence of any intervention, the outbreak could lead to a "supply-demand doom loop" as more businesses closed and/or jobs were lost, disposable incomes would go down leading to a decrease in demand, which would lead to more businesses closing:

a) The market could not be expected to provide material improvements to the situation as the causes of the demand and supply shocks were out of the control of the business; and

b) The financial sector on its own could not take on the risks associated with providing a vast amount of liquidity to businesses suffering from a sudden loss of cashflow.

4.117. Despite the clear rationale for intervening, the submission acknowledged that there was significant uncertainty as to whether the economic benefit of the full package of scheme changes would justify the likely costs. In particular, the interest-free period represented an additional cost to the taxpayer that it had not been possible to assess in the time available.

4.118. Following receipt of the submission referred to in §4.113, the Secretary of State and I had a call where he expressed concerns regarding the content of submission {GP/074 – INQ000625816}. I emailed the Permanent Secretary and BEIS officials following the call confirming that the Secretary of State appeared somewhat overwhelmed by the responsibility of approving the process and questioned the rationale behind restricting the scheme to companies with a minimum of 250 employees and a turnover of £45 million. I noted that the Secretary of State was particularly worried that the scheme might not align with the Chancellor's intended objectives. I further noted:

> *"Irony is that CX wants to crack on and get this launched Monday (and announce 1 yr interest free @ 5pm). Further adapting criteria/pushing back on [the Commission] will only delay. EST call with banks just now was positive – they're on board. But we can't give them formal go ahead until SoS happy."*

4.119. Additionally, I noted that a draft notification would be sent to the EU Commission.

4.120. Following the call referred to at §4.118, the Secretary of State's private office responded to the submission and confirmed that once the necessary letters were received, BEIS would seek approval from HMT {GP/075 – INQ000563881}.

4.121. On 20 March 2020 at 18:36, I emailed the Secretary of State's private office the relevant letters, which included the Permanent Secretary's letter seeking direction and

the Accounting Officer advice {GP/075 – INQ000563881}, {GP/038 – INQ000563882}, {GP/076 – INQ000625818}, {GP/077 – INQ000625819}, {GP/078 – INQ000625820}.

4.122. At 18:42, the Secretary of State's private office emailed the Chancellor's office to seek HMT's approval for the introduction of CBILS {GP/079 – INQ000625821}. The email confirmed that preparations were in place for the scheme to launch on Monday, 23 March 2020, based on the EFG, and outlined the proposed changes to the eligibility criteria. It requested formal agreement from HMT to proceed on this basis and acknowledged that the Secretary of State was aware of the need to issue a direction to the Permanent Secretary in his capacity as Accounting Officer. The email also noted that, although discussions with the European Commission regarding State aid implications were progressing positively, formal approval had not yet been secured. Finally, in view of the uncertainties surrounding the scheme's implementation, associated costs, and potential financial risks, the Secretary of State expressed his expectation that HMT would honour its commitment to provide the necessary additional budget cover to meet all current and future financial obligations.

Determining eligibility criteria of CBILS

4.123. I have already dealt with the advice provided regarding eligibility above. That said, it is important to highlight that, as set out in CWS, Part B, §§2.8–2.13, CBILS was governed by EU State aid rules. I discuss the effect of the State aid rules further in §§4.132 - 4.137.

4.124. These rules limited the scheme to SMEs and imposed a maximum loan size of £1.2 million. According to the European Commission's definition, SMEs were classified as businesses with fewer than 250 employees and having either an annual turnover not exceeding EUR 50 million (approximately £45 million at the time) or a balance sheet total not exceeding EUR 43 million (around £39 million at the time) {GP/063 – INQ000563873}. Compliance with these State aid rules was therefore a fundamental requirement in determining eligibility for the scheme.

4.125. HMT outlined the initial proposal for eligibility criteria in a draft term sheet. The proposal suggested that businesses affected by the pandemic, which lack adequate collateral but otherwise meet standard lending criteria and/or narrowly fall short of the risk appetite threshold, yet would have met it as of January 2020, should qualify for CBILS. HMT also proposed that businesses in financial distress and those with an annual turnover exceeding £41 million would be excluded from eligibility {GP/020 – INQ000585493}.

4.126. HMT indicated that the Chancellor was particularly keen to ensure that support was targeted where it was most needed. It was suggested that this could mean prioritising small businesses facing working capital challenges, while medium-sized businesses might be better positioned to access credit through more nuanced risk assessments.

Determining the Portfolio Cap

4.127. As explained in CWS, Part B, §2.7, a portfolio cap was a limit on the total amount of losses or risks that the Government would cover for a lender's group or portfolio of loans, in this context a portfolio of CBILS loans. The portfolio cap was applied to CBILS to limit the Government's exposure to losses by limiting the total amount lenders could claim back on the government guarantee.

4.128. HMT and BBB worked closely with major lenders and UK Finance in order to reach an agreement on the portfolio cap. On 18 March 2020, BBB and HMT met with the lenders in order to discuss, amongst other things the portfolio cap. BBB noted in an email to the lenders as follows:

> *"a. Although some members were content to work on a 20% cap, some attendees and UKF[5] on behalf of non-attending members were advocating for a higher cap.*
>
> *b. To reflect this we have made a final move on this point to have a base cap of 20%, however if the economic disruption / CoVid impact leads to higher than expected losses in aggregate across the scheme then the cap lifts for all lenders to 25%.*
>
> *c. In an alternative scenario, an individual lender has losses over 20% but scheme-wide losses are under then the cap stays at 20%, as it will have been the lenders decisions which led to that outcome rather than the general environment.*
>
> *d. We believe that this should new arrangement should enable the banks to use the scheme to support appropriate viable businesses suffering CoVid related interruption."* {GP/080 – INQ000625810}.

4.129. On 19 March 2020, I informed the Permanent Secretary via email that HMT was in the process of contacting senior representatives from various banks, who had been presenting CBILS to their respective boards that day. BEIS understood that all but one bank was pushing back on the proposed portfolio cap, expressing concerns that it

[5] UK Finance

would not sufficiently shift their risk appetite. Banks were reportedly advocating for a cap ranging from 50% to no cap at all. I advised that once HMT had completed discussions with the banks, they would assess what level of cap might be feasible and would then arrange a call with BEIS and the BBB to discuss next steps {GP/081 – INQ000625811}.

4.130. Following senior-level discussions between HMT and BEIS, and HMT's engagement with the banks as outlined above, HMT confirmed that the portfolio guarantee structure had been revised. The guarantee was increased to cover 80% of each individual loan, subject to an overall portfolio cap of 60% gross exposure—equating to 75% of a lender's covered losses {GP/082 – INQ000625812}.

4.131. The above meant that Government's liability under each lender's CBILS portfolio could not exceed 60% due to the portfolio level cap in place for every lender.

Impact of State aid Rules in designing the loan schemes

4.132. EU State aid rules were a constraint, particularly in the early design phase of CBILS, but the Temporary Framework provided a mechanism for faster approvals and broader support. Furthermore, the schemes were designed to be sector neutral.

4.133. As outlined in CWS, Part B, §2.8, the United Kingdom formally exited the European Union on 31 January 2020 but remained subject to the EU legal and regulatory framework throughout the transition period, which lasted until 31 December 2020. Consequently, at the onset of the Covid-19 pandemic in early 2020, the UK continued to be bound by European Commission State aid rules.

4.134. Prior to March 2020, Article 107 of the Treaty on the Functioning of the European Union (TFEU) prohibited Member States from granting economic support "*in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods*." These restrictions limited the UK Government's ability to provide direct financial support or incentives to lenders, as later seen in the loan and grant schemes. Notably, government-backed guarantees would not be considered State aid under Article 107(1) if they were for a fixed amount and did not exceed 80% of the outstanding loan or financial obligation—a provision particularly relevant to the design of the Covid-19 support schemes.

4.135. On 13 March 2020, the European Commission issued a communication acknowledging Covid-19 as "*a severe public health emergency for our citizens, societies and economies*," with infections present in all Member States. The

Commission announced an immediate, coordinated European response to mitigate the socio-economic impact of the outbreak {GP/083 – INQ000564280}.

4.136. As part of this response, on 17 March 2020, the Commission proposed a Temporary Framework for State aid to support the economy during the crisis. It stated:

> *"The economic impact of the COVID-19 outbreak is severe. We need to act fast to manage the impact as much as we can. And we need to act in a coordinated manner. This new Temporary Framework enables Member States to use the full flexibility foreseen under State aid rules to support the economy at this difficult time."* {GP/084 – INQ000563911}.

4.137. The Temporary Framework was formally adopted on 19 March 2020, recognising the serious disturbance to the EU economy and allowing for five categories of aid that would not have been permissible under the standard State aid rules:

a) Direct grants, selective tax advantages, and advance payments – Member States could establish schemes to provide up to €800,000 per company to address urgent liquidity needs.

b) State guarantees for loans – Governments were permitted to guarantee loans issued by lenders to ensure continued access to finance for businesses.

c) Subsidised interest rates for public loans – Member States could offer loans at favourable interest rates to help businesses meet immediate working capital and investment needs.

d) Safeguards for banks acting as intermediaries – Where banks were used to channel State aid to the real economy, the aid was considered to benefit the end recipients (e.g. SMEs), not the banks themselves. The Framework provided guidance to minimise competitive distortions between lenders.

e) Short-term export credit insurance – The Framework introduced greater flexibility in demonstrating non-marketable risks, enabling governments to provide short-term export credit insurance where necessary {GP/085 – INQ000563880}.

Changes to CBILS – Personal Guarantees and Eligibility

4.138. The Inquiry has referred to my email of 28 March 2020, which I sent to the Secretary of State's private office and the Permanent Secretary to provide an urgent update on proposed changes to CBILS {GP/048 – INQ000563905}. This followed notification from HMT that the Chancellor intended to announce two amendments to the CBILS

rules on Personal Guarantees on Monday, 30 March 2020. Although we had been working with HMT on these changes and were aware of the Chancellor's intention to announce them, as referenced in §4.79, he communicated them earlier than we had anticipated.

4.139. The proposed amendments to CBILS regarding personal guarantees were as follows:

a) For loans and other facilities under £250,000, lenders would no longer be permitted to require a personal guarantee.

b) For loans exceeding £250,000, lenders could still request a personal guarantee. In the event of default, recovery would first be sought from the business's assets. Any remaining debt would then be subject to the personal guarantee, but limited to 20% of the outstanding amount, with the remaining 80% covered under the government guarantee.

4.140. I have been asked to provide my perspective on what may have prompted the Chancellor to consider changes to the CBILS rules on personal guarantees at that point in time. In advice at the time, BEIS officials noted that the Chancellor was strongly in favour of these changes, which were intended to make the scheme more appealing to business owners, particularly in relation to larger loans. The changes aimed to address growing criticism that banks were not taking on sufficient risk, and that company directors, who were making genuine efforts to save their businesses during an unprecedented crisis, should not be unduly penalised if those efforts ultimately failed. This is noted in the submission which was sent to the Secretary of State on 30 March 2020 {GP/050 – INQ000563909}.

4.141. I recommended that the Secretary of State push back firmly on the proposed changes to CBILS relating to personal guarantees due to several concerns around preparation and deliverability. These are outlined in more detail below:

a) First, there were concerns around cost and value for money. The proposed changes would increase the likelihood and scale of government guarantee claims, as they limited lenders' ability to recover losses through personal guarantees. While precise impacts could only be estimated roughly, it was important that the Secretary of State had a clear understanding of the potential financial implications before proceeding.

b) Second, there were significant delivery challenges. The BBB would need to revise the CBILS term sheet, test the changes with lenders, and ensure both

the Bank and participating lenders were operationally ready to implement the new terms. This also raised questions about how to treat facilities already approved or in progress, specifically, whether they would be adjusted to reflect the new terms.

c) Third, we were concerned about the impact on the wider market. The changes would make CBILS loans even more favourable than comparable commercial lending, which had already attracted criticism. It was important that the Secretary of State was aware of and comfortable with this. Moreover, if CBILS were to be extended to larger businesses in the future, this change could set a precedent on personal guarantees that government might be expected to replicate, potentially increasing both cost and risk at a larger scale.

d) Finally, there were governance considerations, including the need to determine whether a further ministerial direction and HMT consent would be required.

4.142. The Inquiry has asked what led to the decision on 3 April 2020 to prohibit personal guarantees for CBILS facilities under £250,000, how that specific threshold was determined, and whether alternative thresholds were considered. It has also asked whether, in hindsight, I believe this approach should have been adopted from the outset.

4.143. As explained above, the Chancellor was strongly supportive of these changes, which were intended to make the scheme more attractive to business owners, particularly for larger loans. HMT, BEIS, and BBB had received consistent feedback from businesses that lenders were routinely requesting personal guarantees, even for relatively small loan amounts. Although the scheme initially allowed lenders discretion over whether to require security for loans under £250,000, there was no obligation to do so. However, BEIS officials understood that lenders were seeking personal guarantees because they remained exposed to 20% of the loan in the event of default, and a personal guarantee increased the likelihood of recovering that portion. This created a clear commercial incentive for lenders to request guarantees wherever possible. The changes were therefore introduced to address growing concerns that banks were not sharing enough of the risk, and that company directors—who were doing their best to keep businesses afloat during an unprecedented crisis—should not be unduly penalised if their efforts were unsuccessful {GP/053 – INQ000563918}.

4.144. Given the speed at which the change was implemented, I believe it was both reasonable and proportionate to adapt the scheme mid-delivery, based on the market's response.

4.145. The decision to continue allowing personal guarantees for loans above £250,000—albeit with restrictions—was shaped by several policy considerations. Personal guarantees serve as an alternative form of security for SMEs that may lack substantial assets or a strong credit history. They help align the interests of the borrower and lender, and the act of providing a personal guarantee signals the borrower's confidence in their business. Given the uncertain economic environment at the time, ministers considered it appropriate to remove the requirement for smaller loans to reduce barriers to access. However, removing personal guarantees entirely would have introduced a significant risk of moral hazard, undermining the scheme's integrity and increasing the likelihood of misuse.

4.146. I have been asked whether, in my view, the changes to the personal guarantee rules under CBILS had an immediate impact on the volume or speed of lending.

4.147. Although it could be argued that these changes influenced lending behaviours, the effect on volume and speed was nuanced. When CBILS was first launched, many lenders required personal guarantees for loans over £250,000. This likely caused concern among business owners, who were understandably reluctant to risk personal assets during a period of significant uncertainty.

4.148. The subsequent rule changes—particularly the removal of personal guarantees for loans under £250,000—may have helped accelerate lending by reducing borrower risk and increasing confidence, especially for smaller loans. For larger loans, however, the continued use of personal guarantees may have slowed uptake or led to more cautious borrowing, particularly among directors concerned about personal liability.

4.149. That said, it is extremely difficult to isolate the impact of this specific change. Other concurrent adjustments, such as changes to eligibility criteria and lenders updating their systems, make it challenging to disaggregate the effects of the personal guarantee rule changes from broader developments in the scheme's implementation.

4.150. On 16 April 2020, the acting Permanent Secretary, asked me and other BEIS officials to consider how the Department could assess, from an Accounting Officer perspective, the implications of moving CBILS to a 100% government guarantee model {GP/086 – INQ000563961}. She noted that the Chancellor had raised this potential change within the previous 48 hours and wanted to ensure the Department was prepared.

4.151. In my response on 17 April 2020, I outlined several key risks associated with moving to a 100% government guarantee model {GP/087 – INQ000585567}, {GP/088 – INQ000625839}. A central concern was whether the full guarantee should apply to all CBILS loans (up to £5 million) or be limited to smaller facilities. Applying the guarantee only to smaller loans might be necessary for State aid compliance, but doing so would introduce complexity that the systems used by BBB and participating lenders might not be equipped to handle. This raised significant questions about the operational feasibility of implementing such a change at speed. Additionally, there was a broader concern that increasing debt levels across businesses could store up future problems, potentially hindering productivity and constraining liquidity in the longer term.

4.152. On 21 April 2020, I wrote to Gwyneth Nurse at HMT, in which I confirmed that BEIS preferred the idea of *"…tweaking CBILS (eg. changing terms so those under eg £30k are 100% guarantee) rather than creating a new scheme, which would have same problems with roll-out*". {GP/089 – INQ000563980}.

4.153. I have been asked to explain why I favoured adjusting CBILS rather than launching a new scheme at that time. As noted in my email, I expressed a preference for modifying the existing scheme, such as introducing a 100% guarantee for loans below a certain threshold (e.g. £30,000), rather than creating an entirely new programme. My view was that a new scheme would face similar challenges around roll out and implementation, whereas adapting CBILS would allow for quicker delivery using existing infrastructure. I was concerned about BBB delivery capacity.

4.154. BEIS officials and I expressed concerns that introducing a new scheme might mirror several of the challenges already encountered during the rollout of CBILS, particularly those arising from recent changes related to personal guarantees. These challenges, which we highlighted in our advice to the Secretary of State on 23 April 2020 {GP/090 – INQ000563987}, included:

a) Capacity Constraints: There were significant doubts about the BBB's ability to manage another scheme at the required speed. The same small team handling CBILS and CLBILS would be responsible, and it was unlikely they could meet the Chancellor's ambitious deadlines.

b) Legislative Hurdles: Delivering CBILS had already revealed the complexity of navigating legislative requirements. A new scheme would have required amendments to the Consumer Credit Act 1974 (CCA) and the Financial Services and Markets Act, introducing additional legal and procedural risks.

c) Operational Disruption: CBILS performance was just beginning to improve, with daily loan issuance reaching approximately £300 million and approval rates increasing. Introducing a new scheme risked undermining this progress.

d) Customer Protection Risks: CBILS had highlighted the importance of regulatory safeguards. Without protections like those in the CCA, borrowers could be exposed to unsuitable financial products, creating reputational risks for the government.

e) Equity and Fairness Issues: There was concern that existing CBILS borrowers might react negatively if a new scheme offered more favourable terms—such as capped interest rates—that couldn't be applied retroactively.

f) Value for Money and Risk of Default: CBILS had already shown that reducing checks to speed up delivery could increase default risk, particularly among smaller or more vulnerable businesses. A 100% guarantee model would likely exacerbate this, raising concerns about long-term financial sustainability.

g) Implementation Burden on Lenders: Banks had already flagged the strain CBILS placed on staff training and operational capacity. Adding a new scheme would have compounded these pressures.

4.155. I have been asked why I considered offering a 100% government guarantee for loans under a certain threshold, such as £30,000, to be a more effective and deliverable option. As expressed in advice at the time, my assessment was that this approach allowed us to build on the existing CBILS infrastructure, avoiding the need to design and implement an entirely new scheme. As noted above, I was concerned that a new scheme would not be deliverable at the pace required to meet the Chancellor's ambitions, particularly given the operational pressures already facing the BBB. At the time, a key criticism of CBILS was that funding was not reaching SMEs quickly enough due to the volume of applications. However, delivery was beginning to improve, with loans being issued at a rate of around £300 million per day and the gap between applications and approvals starting to narrow {GP/090 – INQ000563987}. Introducing a 100% guarantee for smaller loans within the existing scheme had the potential to accelerate this positive trend and help clear the backlog, without the delays, risks, and complexity associated with launching a new programme. This advice and view were informed by ongoing discussions with the BBB and their engagement with lenders, who provided valuable insight into the operational challenges and delivery constraints of the existing scheme.

4.156. I have been asked whether any analysis was undertaken or relied upon to assess the operational feasibility or fraud risks of adjusting CBILS in this way. At that stage, we were responding to evolving proposals from HMT concerning what was then referred to as CSBILS, which later became the BBLS. In light of these developments, BEIS provided advice to the Secretary of State on the proposals {GP/090 – INQ000563987}. As outlined in CWS, Part B, §4.33, the recommendation was for the Secretary of State to note a number of key considerations relating to the proposals:

> *"That criticism of CBILS has been primarily focussed on the time taken to process applications, but that the rate and volume of lending is now increasing;*
>
> *That the provision of a new scheme (CSBILS) offering 100% guarantee for small loans would likely enable faster processing of smaller value loans by lenders, but at the cost of elevated risk on a per loan basis to Government as compared to the main CBILS;*
>
> *That the Chancellor is separately pressing for changes to CBILS to remove the portfolio cap and simplify the viability test, which has implications for the liability incurred by BEIS;*
>
> *That there are several other routes which could be explored to further simplify the scheme or otherwise increase pace – these could be delivered instead of, or alongside, a new scheme;*
>
> *That there are significant doubts about the capacity of the British Business Bank to implement a new scheme at the pace proposed, and a range of delivery options which merit exploration in pursuit of the policy objective to deliver lending to smaller businesses; and*
>
> *Delivering the new scheme would require amendments to the Consumer Credit Act, and Financial Services and Markets Act. HMT want to use the Insolvency Bill for this which carries some risk."*

4.157. The advice also emphasised the importance of minimising fraud risk in any new scheme design. This included requiring evidence of genuine business activity and managing multiple applications from individuals with more than one business. Given the ease of setting up a business in the UK, a clear eligibility cut-off date, applicable even to unregistered businesses, was considered essential.

4.158. It was further noted that a scheme offering a 100% government guarantee, particularly if loans under £25,000 were exempt from the CCA, would be highly visible but carry significant financial and reputational risks. Should such a scheme proceed, BEIS committed to working with HMT and the BBB to assess costs, value for money, and delivery risks.

4.159. I am asked whether, in hindsight, adapting CBILS with a 100% guarantee for smaller loans would have been more effective than introducing BBLS. This depends on several factors, particularly which CBILS parameters were retained and how 'effectiveness' is defined. For example, maintaining CBILS-style credit and affordability checks might have reduced fraud but would have slowed down delivery, making it less effective for rapid lending.

Reflections

4.160. As outlined in the submission to the Secretary of State on 27 March 2020 and referenced in §4.79 above, under CBILS, lenders were not permitted to take a personal guarantee secured against a borrower's primary residence. However, personal guarantees over other assets, such as a buy-to-let property owned by a company director, were allowed (though not mandatory), with individual lender policies varying on their use. As noted in the submission, if a company defaulted on a loan, the lender would first seek to recover the outstanding balance from any business assets used as security. If that was insufficient, the lender could then pursue any personal guarantees provided by the company's owners. Only after all other recovery avenues had been exhausted would the lender call on the government guarantee. This approach was standard for government-backed loan schemes, where the government guarantee served as a last resort. For loans under £250,000, the five major lenders had already moved away from requiring personal guarantees: RBS did not require them for any CBILS loans, and HSBC, Barclays, Lloyds, and Santander had all removed the requirement for loans below this threshold.

4.161. In addition to the above, we considered going further by prohibiting personal guarantees entirely for CBILS loans under £250,000. Our assessment was that this would not have adversely affected lenders' risk appetite, as several major banks were already comfortable lending without such guarantees for smaller loans.

4.162. As set out in my email of 28 March 2020 relating to the proposed changes to CBILS, referred to in §4.138, I noted the following issues that needed to be addressed before launch:

a) Costs and Value for Money: These changes increase both the likelihood and the potential scale of government guarantee claims, as they limit lenders' ability to recover losses through personal guarantees. While we can only provide rough estimates of the financial impact, it is important that the Secretary of State has some analysis to inform his decision to proceed. Angelina Cannizzaro was to follow up on this with the BBB economics team.

b) Delivery Plan: BBB needed to update the CBILS term sheet, test the changes with lenders, and ensure both they and the banks were operationally ready to implement the changes smoothly. This also included resolving how to treat facilities already approved or in progress—specifically, whether to adjust their terms to ensure parity. I asked the BBB's Chief Operating Officer to begin work on these issues but noted that more than a weekend would be needed to get this right.

c) Market Impact: These changes would further enhance the attractiveness of CBILS loans compared to commercial lending options, a point already generating concern. It was important that the Secretary of State understood and was comfortable with this. Additionally, if CBILS were to be extended to larger businesses in the coming weeks, this would set a precedent on personal guarantees that the government might be pressured to replicate—posing even greater cost and risk. I flagged these concerns to HMT and was informed that the Chancellor was comfortable with the risks, but they needed to be discussed properly with the Secretary of State.

4.163. Further to the above, and in the submission to the Secretary of State on 30 March 2020, referred to in §4.140 above, BEIS officials and I noted that:

> *"A personal guarantee is typically sought for borrowing by limited companies to ensure that the directors have 'skin in the game' and to guard against a situation where company owners could take money out of the business and put it into liquidation with no personal liability for the debt.*
>
> *Banning PGs[6] could therefore be* ***particularly difficult for smaller lenders****, who are less likely to know the detailed financial history of the business and may be less well-placed to gauge the likely actions of directors.*

[6] Personal Guarantee

The Chancellor considers PGs to be fundamentally problematic in the context of a Government guarantee. He believes that these should not form part of the CBIL scheme on principle, he is therefore relaxed that a consequence may be that some lenders no longer consider CBILS an attractive business proposition.

This change will also widen the gulf between commercial loans and overdrafts and those within the CIBLS, discussed under 'impact on borrowers' below." (original emphasis).

4.164. In conclusion, the issue was actively considered as part of broader policy development and engagement with lenders. The scheme rules explicitly prohibited lenders from securing personal guarantees against a borrower's primary residence, but allowed guarantees over other assets, with lender discretion. Discussions with the BBB and major lenders informed the view that removing personal guarantees for loans under £250,000 would not materially affect lending appetite, as several banks had already adopted this approach. For higher-value loans, proposals to restructure the order of recovery, allowing lenders to claim the government guarantee before pursuing personal guarantees, were intended to balance borrower protection with lender confidence. Officials recognised that these changes could increase the likelihood and scale of government guarantee claims and flagged the associated value for money considerations and market distortion risks. Ministers were advised that while some lenders might find the revised terms less commercially attractive, the Chancellor was comfortable with this trade-off, viewing personal guarantees as problematic in the context of a government-backed scheme.

4.165. In response to whether the speed at which borrowers could access funds under CBILS was a significant weakness of the scheme: yes, it was a notable challenge, particularly in the early stages. In my view, the delays were largely due to the overwhelming volume of applications triggered by an unprecedented economic shock. Lenders, many of whom were also dealing with the operational impacts of the pandemic, struggled to process applications more quickly and chose to prioritise existing customers. In a submission to the Secretary of State from BEIS officials, including me, dated 23 April 2020 we noted that CBILS was subject to significant media scrutiny, due to 'the low level of loans granted compared to number of applications and enquiries'. However, we also highlighted that CBILS rollout was now gathering pace, noting that the gap between applications and approved loans was closing, by reference to a table comparing figures for applications and approved loans (based on data from UK

Finance). Nonetheless, we recognised that, at that point, there remained a 'significant backlog' of CBILS applications {GP/090 – INQ000563987}. I note that these issues with the speed of application processing of CBILS was the primary driver for the introduction of the BBLS scheme (as discussed in Section 6: of this statement).

4.166. In considering the balance between providing rapid support and the risk that some businesses would fail despite receiving loans, this was a recognised and difficult trade-off in the design of CBILS and the wider loan schemes. We lacked information on how the pandemic and restrictions would unfold. Businesses might receive loans but still fail to survive the pandemic and therefore be unable to repay; others would survive precisely because they received a loan; others might have managed without the loan. As reflected in the advice at the time, the potential cost of the schemes was highly uncertain, with a wide range of estimates due to the difficulty in forecasting business failures. This uncertainty meant it wasn't possible to conclude with confidence that the schemes would represent value for money. That is why each scheme required a ministerial direction. Requiring banks to conduct some assessment of a borrower's ability to repay acted as a mitigation against losses but even minimal checks added time to the process. While we made refinements to streamline and clarify these checks, demand for the scheme continued to grow rapidly, contributing to backlogs.

4.167. In response to whether changes such as the removal of the portfolio cap and adjustments to personal guarantees increased the risk of financial loss under CBILS, I shared the concerns outlined in the advice submitted at the time {GP/053 – INQ000563918}, {GP/090 – INQ000563987}. These concerns are set out below:

a) From a financial standpoint, removing the portfolio cap increased the government's theoretical contingent liability by an estimated £6billion to £12billion, based on earlier planning scenarios of £30billion to £60billion in total lending. While actual losses were expected to remain within the original cap under normal conditions, a prolonged recession could have significantly increased defaults. If this change were to proceed, we advised that HMT would need to reaffirm its commitment to covering CBILS related costs.

b) Regarding personal guarantees, there remained considerable uncertainty around loan take-up, default rates, and the scheme's economic impact, particularly in terms of finance additionality, as many loans may have been issued even without the scheme. Due to time constraints, we were unable to produce reliable value for money estimates, and the figures provided were

indicative only. We also recommended securing HMT's assurance that BEIS budgets would be protected from any financial consequences arising from these changes.

4.168. In response to the question about my involvement with BBB in implementing the scheme: as outlined earlier in my statement, BEIS officials and I held regular meetings and had continual dialogue with BBB to monitor progress, discuss implementation, and address any concerns or operational issues they raised. These discussions formed a pivotal part of our oversight and support during the rollout of the scheme.

4.169. In response to whether there was adequate communication between HMT and the Department during the design and implementation of CBILS:

a) There was regular engagement between HMT and BEIS throughout the development of CBILS, and officials worked closely on the shape of the scheme under expedited time frames. However, the pace at which decisions were made, often in response to fast moving developments, meant that communication was not always as timely or coordinated as would have been ideal.

b) In particular, there were instances where BEIS was given limited notice ahead of significant public announcements. This occasionally constrained our ability to prepare clear and consistent public messaging, and in some cases, meant that operational details were still being finalised after announcements had been made. This created challenges for delivery partners, including BBB and accredited lenders, who needed clarity to implement the scheme effectively.

c) The compressed timelines and evolving policy decisions inevitably influenced aspects of the scheme's operational design. For example, the need to respond quickly to public expectations and government commitments sometimes meant that implementation considerations, such as lender readiness, communications planning, and fraud risk, had to be addressed reactively rather than proactively.

4.170. BEIS officials, however, worked extremely hard to maintain open effective communication with HMT and BBB, and to adapt the scheme in real time as issues emerged. As explained in my earlier responses, these were strong and productive, collaborative relationships.

4.171. In response to the extent to which CBILS considered the specific needs of the Devolved Nations and their involvement in its design and implementation:

a) While CBILS was a UK wide scheme, efforts were made to gather intelligence from across the four nations. As the pandemic evolved, feedback from businesses, including those in the Devolved Nations, was captured through dashboards that highlighted regional concerns, such as delays in CBILS processing, and flagged potential job losses by area. Additionally, the Devolved Administrations were invited to a workshop on 27 March 2020, led by the Permanent Secretaries of BEIS and HMT, to discuss coordinated economic responses. I also participated in regular meetings of the UK Covid-19 Economy Directors Forum, which brought together economic leads from BEIS, HMT, and the Devolved Administrations on a fortnightly basis throughout 2020 {GP/002 – INQ000543155}.

b) While the scheme was not tailored specifically to each nation's economic conditions, these forums provided a channel for input and coordination. A key lesson for future crisis responses is the value of earlier and more structured engagement with the Devolved Administrations during scheme design. In order to achieve this, it would be advisable to swiftly establish a virtual group composed of relevant senior civil servant level subject matter leads. This group would need to operate with flexibility, convening as needed rather than adhering to a rigid schedule, and prioritising verbal discussions over extensive written communications. To facilitate open and effective dialogue, especially around sensitive policy decisions, the group would need to remain relatively small and tightly focused, ensuring confidentiality and trust among participants. This approach would enable rapid coordination and informed decision-making across administrations during critical moments.

4.172. I have been asked whether CBILS achieved its aim(s). In my view, CBILS did, indeed, achieve its aims.

4.173. CBILS broadly fulfilled its primary aim of providing financial support to viable UK businesses facing disruption due to the Covid-19 pandemic. The scheme enabled access to critical liquidity, particularly for firms that may have struggled to secure finance through conventional means during the crisis. While the initial rollout faced challenges, as dealt with above, such as challenges assessing viability, constraints imposed by EU State aid rules, and the approach to personal guarantees, the government's 80% guarantee helped mitigate risk and encourage lending. Although CBILS was less accessible than BBLS, it played a vital role in supporting small and medium-sized businesses and those requiring larger loan amounts. Prior to the launch

of BBLS, CBILS was guaranteeing over £300 million every week, which was approximately the same amount guaranteed by EFG in a whole year {GP/090 – INQ000563987}. Overall, CBILS contributed meaningfully to business continuity and economic resilience during an unprecedented period.

4.174. As noted in CWS, Part B, §§7.97–7.105, the BBB-commissioned Ipsos Year 3 report (now published) found that CBILS and CLBILS met their:

a) Short-term objectives by:

i. Delivering finance at a scale and speed that would not have been otherwise possible. Without the schemes, 69% of borrowers would not have secured sufficient external finance, and 8% would have faced delays or unfair terms.

ii. Complementing other support measures, such as the Coronavirus Job Retention Scheme. Econometric analysis showed a positive impact on turnover and employment, with nearly a million jobs potentially saved. Despite accessing other support, many businesses reported the loan schemes were vital to their survival.

b) Medium-term goals by providing funding that was largely additional — 77% of loans were considered funding that would not have been available otherwise. Most borrowers (68%) used the funds for working capital, cash flow, or day-to-day operations.

c) Long-term objectives, the report recommended further evaluation in future years. However, it found that, as of the report's publication, the schemes had already played a key role in supporting business survival and boosting turnover.

4.175. Despite these notable successes of CBILS however, I do recognise the significant limitation was the speed at which borrowers were able to access funds, as discussed at §4.165 above (and in Section 6:Section 6: below). Notwithstanding the fact CBILS represented a substantial scaling up of the pre-pandemic EFG scheme, the pace at which lenders were able to process applications could not keep up with the rapidly growing demand. This left thousands of businesses waiting for financial support.

4.176. I have been asked whether the scheme was value for money.

4.177. As outlined in CWS, Part B, §7.105, according to the Ipsos Year 3 report, CBILS was considered to achieve value for money. The report estimated that CBILS generated approximately £33 billion in economic benefits for UK businesses, helping them

maintain operations, preserve employment, and support recovery during the Covid-19 crisis. The overall benefit-to-cost ratio for the government's Covid-19 loan schemes was estimated at 3.8, indicating that for every £1 spent, nearly £4 of economic benefit was generated. CBILS contributed significantly to this outcome. Furthermore, while both CBILS and BBLS delivered similar levels of benefit, CBILS was found to represent better value for money due to:

a) Lower levels of unrecovered loans (nearly ten times lower than BBLS).

b) Lower levels of suspected fraud.

c) A lower government guarantee (80%) compared to BBLS (100%), which reduced the fiscal risk.

4.178. The report further notes that *"[a]n estimated 5,000 to 27,000 CBILS/CLBILS borrowers may have permanently closed between March 2020 and December 2022 without access to the Covid-19 loan guarantee schemes.*" This underscores CBILS's role in business survival, a key indicator of its effectiveness and value

4.179. I have been asked whether CBILS adequately safeguarded public funds and reduced the risk of fraud and error. I have considered CWS, Part B, §§6.27 – 6.31, and in my view, the scheme incorporated a number of important safeguards to manage these risks. BBB was responsible for maintaining a formal Fraud Risk Assessment (FRA), which was regularly updated and reviewed by its Board Risk Committee. These assessments identified specific risks, rated their likelihood and impact, and outlined appropriate mitigation measures, including both prevention and detection strategies. At the time, reported fraud under CBILS was relatively low. While some fraud was detected at the application stage, lenders' due diligence, such as credit checks, Know your Customer (KYC), and Anti-Money Laundering (AML) procedures, was generally effective, resulting in minimal post-lending fraud. The 20% lender exposure ("skin in the game") also helped ensure prudent lending. Further controls included BBB's lender accreditation process, legal agreements, ongoing monitoring, and audit programmes. These collectively helped keep residual fraud risk at a manageable level.

4.180. I have been asked whether any gaps in support were identified, and if so, how they were addressed, and whether there were any gaps that should have been identified but were not. Several gaps in the original design of CBILS were identified early on and addressed through targeted changes. These included the removal of the portfolio cap and adjustments to the use of personal guarantees, both of which aimed to improve access and lender participation. In addition, two new schemes were introduced to fill

broader gaps: BBLS was launched to support smaller businesses that struggled to access CBILS, while CLBILS was created to support larger firms that fell outside CBILS eligibility. These adaptations reflected a recognition that a single scheme could not meet the diverse needs of all businesses, and that a more tailored approach was necessary as the economic impact of the pandemic evolved. Importantly, these loan schemes did not stand in isolation. They formed part of a wider package of government support for businesses, which included grants, His Majesty's Revenue and Customs (HMRC) Time to Pay arrangements, and the Coronavirus Job Retention Scheme (furlough). Together, these measures aimed to provide comprehensive support to businesses facing unprecedented challenges.

4.181. Before adding my reflections, I note that the design and delivery timeline of CBILS was very much driven by the Chancellor. My role was to bring people together, ask the right questions, resolve issues, and distil complex choices into clear, honest and objective advice for ministers.

4.182. By the end of my three years in post, I had developed a much deeper understanding of business finance than I had in March 2020. While I believe leaders don't need to be subject matter experts, I do reflect that if a similar crisis were to unfold again, I would now be well-placed to lead the business finance response—or at the very least, to coach and support whoever was in that position. One key learning point is the importance of government being able to move the right people into the right roles quickly, which is not always as straightforward as it should be.

4.183. The pace of the crisis meant we had to start with what we had and iterate from there. Our default was to tweak existing mechanisms and adopt a test-and-learn approach. With more time, we could have tested different design options with the banks before implementation and gamed how they might play out in various scenarios. That might have helped us anticipate the impact of personal guarantees and the delays caused by business viability tests. Time was a luxury we didn't have as businesses were struggling to access finance, and we had to act fast. There was always a trade-off between speed and thoroughness.

4.184. One of the most difficult aspects was ensuring that normal administrative processes kept pace with the Chancellor's decision-making. It was a constant challenge to ensure that the responsible Secretary of State had written advice, that decisions were documented and shared, that legal and finance colleagues were engaged, and that the Accounting Officer was properly advised. As the lead BEIS policy director and

sponsor of the BBB, I had to make judgment calls on what was “good enough” and when it was appropriate to short-circuit normal processes like investment committee approvals. These were not easy decisions, but they were necessary in the context of the crisis.

Section 5: Coronavirus Large Business Interruption Loan Scheme (CLBILS)

5.1. CLBILS was announced on 3 April 2020 and opened for applications on 20 April 2020. This scheme offered loans of up to £200 million and was open to medium and large-sized businesses which were not eligible for CBILS. As with CBILS, applicants needed to self-certify that they were adversely affected by the pandemic and demonstrate they would have been viable if not for the pandemic. The loans were also backed by an 80% government guarantee of the outstanding value.

Considering the Missing Middle

5.2. As outlined in CWS, Part B, §3.2, shortly after the launch of CBILS, on 23 March 2020, the Government began receiving a growing number of appeals from businesses and Business Representative Organisations (BROs) requesting additional support measures for larger companies.

5.3. On 24 March 2020, the Secretary of State forwarded an email to BEIS officials highlighting a plea for assistance and guidance from a business received earlier that day. The business expressed concern that while CBILS offered loans of up to £5 million, eligibility was limited to firms with an annual turnover of up to £45 million, rendering them ineligible due to their significantly higher turnover {GP/091 – INQ000625823}.

5.4. The business also noted that although the Covid Corporate Financing Facility (CCFF) provided support for larger firms through the issuance of Government backed Commercial Paper, access to this scheme required a formal credit rating and investment grade status, criteria they did not meet due to their smaller scale.

5.5. As a result, the business described itself as being 'stuck in the middle', unable to access support through either CBILS or CCFF.

5.6. On 25 March 2020, BEIS officials and I were asked to provide an update to the Secretary of State regarding this concern. They committed to sharing any immediate insights on the issue of the 'squeezed middle' later that afternoon, drawing on ongoing discussions with HMT, with the intention of delivering a more detailed response by the end of the week {GP/091 – INQ000625823}.

5.7. On 26 March 2020, I advised in an email that BEIS should consider including the following points in its update to the Secretary of State:

a) Explore the possibility of a CBILS variant tailored to larger firms.

b) A key concern was the operational capacity of the BBB and lenders to deliver an additional scheme while still scaling up to meet CBILS demand from both borrowers and prospective accredited lenders. (I noted I planned to discuss this further with Keith Morgan the following day).

c) Consider offering a lower government guarantee for loans to larger firms, ensuring alignment with the temporary State aid framework. However, I cautioned against rushing the design process as had been necessary with CBILS {GP/092 – INQ000624873}.

5.8. I also confirmed that I had spoken with HMT earlier that day. While they did not rule out the possibility of extending CBILS, no policy development work had yet been undertaken. I encouraged them to share information regularly and at an early stage. HMT also emphasised the limited fiscal space available for any further interventions.

5.9. Sarah Munby, then Director General for Business Sectors, responded to my email and noted that the Government had created a difficult position by offering support to small and large businesses, but not to medium-sized firms. She observed that while excluding non-viable firms could be justified, leaving out otherwise healthy medium-sized businesses based solely on size would be hard for ministers to defend. She also questioned the efficiency of setting up bespoke support for these firms when a more systematic solution might soon emerge, describing the situation as both uncertain and pressing.

5.10. On 27 March 2020, BEIS officials sent a submission to the Secretary of State, recommending that BEIS should continue to work urgently with HMT to look at options for further government support outside the current mechanisms, as well as advice that could be offered to business, detailed above {GP/093 – INQ000563902}, {GP/094 – INQ000625824}.

5.11. The submission informed the Secretary of State about the growing concern that businesses with a turnover above £45 million (the upper limit for CBILS) did not have access to finance under the CCFF or CBILS. This impacted approximately 5,000 businesses in the UK, accounting for around 21% of the turnover and 20% of the employment of all UK-incorporated firms. Around 10% of these were listed public companies. While these businesses represented a very small percentage of UK firms by number, they were significant employers and generators of wealth and were referred to as the 'missing middle' as they did not have access to finance. BROs,

businesses and the media had started asking questions about the 'missing middle' at that time.

5.12. The submission advised that HMT and the Chancellor were working on a possible solution to support this group of businesses. But HMT officials had suggested that any solution was likely to be *"…weeks' away*" and had indicated there were substantial challenges due to limited finance for further interventions. The submission set out a number of potential solutions that could be considered, subject to HMT approval. These were:

a) Increasing CBILS turnover limit, although BBB and lenders were already facing challenges in implementing CBILS;

b) Reducing the threshold of the CCFF scheme. This was made challenging by the fact the 'missing middle' businesses were not likely to qualify if eligibility depended on investment grade status;

c) Creating a new scheme that would be run either through banks or specialist lenders, or directly from the Government. Timescales and deliverability would likely be challenging; or

d) If no scheme was developed or extended, the submission advised that the Government would have to respond to these businesses on a case-by-case basis. She explained there was a concern about the ability of Departments, UKGI and HMT to handle a potential *"…flood of medium sized cases*".

5.13. Additionally, the submission explained that BEIS officials had raised concerns with HMT about the lack of support for the 'missing middle' and also that HMT was being directly lobbied by businesses. The submission recommended that the Secretary of State should consider writing to the Chancellor to record his concerns and offer to work collaboratively to find a solution.

5.14. On the same day, in email correspondence with colleagues from BBB, BEIS, and HMT. I noted that while a CBILS variant was one possible option, it was not the only route under consideration. I expressed concern about the operational capacity to deliver a new scheme while CBILS was still in its early stages. I invited views on three key areas: the likely demand for a scheme targeting mid-sized businesses (including thoughts on the target cohort), the ability of BBB and lenders to operationalise such a scheme, and initial ideas on the broad parameters of what a CBILS variant might look like. In a separate email to BBB, I asked for their views on:

a) The likely demand for a scheme targeting mid-sized firms;

b) The target cohort;

c) BBB and lenders' capacity to deliver it; and

d) Indicative parameters for such a variant {GP/095 – INQ000585519}.

5.15. In response, BBB indicated that this would not constitute a new scheme and would be operationally straightforward. While it would require re-notification, they expected that process to be manageable. Following discussions with BBB and HMT, it was suggested that ministers could announce an extension of CBILS to firms above the £45 million threshold. However, this would increase the scheme's size and budget, requiring policy agreement.

5.16. Separately, I asked BBB whether the extension would remain operationally feasible if:

a) Banks were paid a higher fee;

b) The interest-free period was removed or reduced; and

c) The guarantee and portfolio cap were lowered.

5.17. As highlighted in CWS, Part B, §3.10, on 1 April 2020 officials from BEIS, HMT, and BBB met to discuss the proposed CBILS+ scheme. I did not attend, as I was focused on the work relating to expanding CBILS eligibility {GP/096 – INQ000563916}, {GP/097 – INQ000625826}. The HMT circulated readout noted the Permanent Secretary's concerns about BBB's capacity to deliver, given existing pressures from CBILS and flagged that ministerial direction may be needed. On scheme design, BEIS and HMT agreed CBILS+ should be separate from CBILS to avoid confusion with the Government's interest/fee grant, which would not apply here. There was broad consensus to align eligibility with CBILS, targeting viable, UK-based businesses with a genuine borrowing need. Proposed loan sizes ranged from £100,000 to £25 million, for firms with turnover between £45 million and £250 million {GP/096 – INQ000563916}.

5.18. In a follow-up email, BEIS clarified the Permanent Secretary's concerns extended beyond BBB's operational capacity to include the ability of BEIS teams to deliver the necessary policy and analytical work within the proposed timelines. They also highlighted the cumulative impact of changes to CBILS and the new scheme on potential government risks and liabilities. While HMT acknowledged these concerns, they advised that a term sheet was due to be sent to the Chancellor the following

morning, as he planned to announce loans for businesses with a turnover of above £45million by the end of that week.

5.19. Later the same day, 1 April 2020, the BBB provided views on the deliverability of the new scheme stating that it *"…cannot develop policy of this sort rigorously in an afternoon, so we've simply done our best to identify red flags that could manifestly cause insoluble implementation problems..."* {GP/098 – INQ000585523}, {GP/099 – INQ000585524}. The comments from BBB had not been approved by its Chief Executive or the BBB Board. Key concerns in delivering the new scheme included:

a) The BBB Board would have to accept BBB was allowed to operate outside its risk management framework; and

b) BBB could not implement the scheme on Friday 3 April 2020. It required a separate team to develop CBILS+, and the significant issue being the same people who were working on CBILS had to work on the new scheme until a new team was established. BBB advised that if the Government instructed them the following day and provided up to £5 million funding to deliver CBILS+, it could aim to deliver the scheme on 20 April 2020.

5.20. Later that evening, I emailed Gwyneth Nurse and David Raw from HMT noting that "*[w]e are very worried indeed about the pace this has been developed, inability to cost it, test it, know when/how the BBB can deliver it. Hopefully you clocked that BBB couldn't have this up and running until 20 April earliest? Massive risk of CX announcing something that won't work/won't come for a while*". {GP/100 – INQ000538766}.

5.21. David Raw and Gwyneth Nurse responded at 23:15 on 1 April 2020 and 02:00 on 2 April 2020, respectively, noting that "*I think it will have to be more than a commitment to act to satisfy the Chancellor (as he will think he has already made this commitment to act in previous press conferences). We also clocked the BBBs email about the 20th April which is being factored into the advice*" and "*the problem we have is on 20 March (nearly two weeks ago) the CX said:* ***And I will announce further measures next week, on top of those the Governor and I have already taken to ensure that larger and medium sized companies can also access the credit they need.****"* (original emphasis).

5.22. The following morning, on 2 April 2020, I emailed various BEIS officials, including the Permanent Secretary, confirming that I had spoken with Gwyneth Nurse. I noted the following:

"They [HMT] *understand the risks and are not recommending the CX set out all the finer details for immediate launch (they noted the BBB can't deliver until 20 April earliest). But they are under pressure to go further than v high level because two weeks ago CX said "And I will announce further measures next week, on top of those the Governor and I have already taken to ensure that larger and medium sized companies can also access the credit they need."*

I have suggested we work this morning on a form of words that enables him to go further whilst giving us space to keep refining and testing details, state aid, providing AO advice etc. Off the top of my head, this might mean announcing an intention for govt backed loans of up to £25m for firms £45-250m turnover. But with no details on exact date, mechanism, size of guarantee, portfolio cap, etc." {GP/101 – INQ000625067}.

5.23. I further noted, in a follow up email that BEIS should start preparing the Accounting Officer advice on the assumption that BBB would be delivering the scheme.

5.24. On 2 April 2020, BEIS officials and I sent a further submission to the Secretary of State about the proposed new loan scheme to address the 'missing middle'. {GP/102 – INQ000625068}, {GP/103 – INQ000064782}. The submission explained that the "*The Chancellor wishes to announce on Friday* [3 April 2020] *morning (with briefing to press today) that Government will launch a new scheme to address the "Missing Middle" of firms too large for CBILS and too small (or without adequate credit rating) for CCFF. The new scheme does not have a name; working title is "CBILS+""*. The Chancellor intended to announce limited details of the scheme, namely that loans up to £25 million would be available for businesses with a turnover of between £45 million and £500 million, with a government guarantee. BEIS officials had not seen the details of the proposed announcement at this point. However, HMT had indicated that the only delivery route available in the timescale envisaged by the Chancellor was BBB. As a result, the Secretary of State's agreement was needed.

5.25. At that time, the proposal was for each loan to be backed by a 60% government guarantee and there would be no interest relief to the borrower.

5.26. The submission advised that BEIS officials had significant concerns about the pace at which this scheme had been developed, which had limited the Department's ability to test the design of the scheme with BBB and lenders, and to assess affordability, value for money, feasibility and regularity. BEIS officials also stated that the proposed new scheme would increase operational pressures and risks on BBB, as it was also being

asked to implement significant changes to the original CBILS. In addition, the proposed new scheme would take BBB further out of its area of expertise. BBB was established to support the provision of finance to SMEs, and so did not typically work with the kinds of businesses that would be targeted by the new scheme.

5.27. The submission stated that BEIS officials were providing advice to the Permanent Secretary in his role as Accounting Officer, but it was anticipated that a further ministerial direction would be sought once the final scheme parameters were set.

5.28. Also, on, 2 April 2020, I reviewed the draft press notice which BEIS had received from HMT regarding the launch of CBILS+. I shared the following concerns {GP/104 – INQ000625827}:

a) I noted that the scheme could create a significant new liability for government. I considered that the scheme "*may*" offer value for money, it was difficult to assess at that stage.

b) I flagged that the statement didn't include key details on how BBB would deliver the scheme, when it would launch, or how lenders would be accredited. These were major operational challenges that we still needed to work through with BBB and the banks before we could assess feasibility.

c) I also pointed out that the draft omitted important information on fees, refinancing, and other operational specifics. These details would be critical for discussions with the European Commission and for securing State aid approval. That said, the scheme could be capable of being consistent with the EU Temporary Framework.

d) I acknowledged that we may ultimately need to seek a ministerial direction, but it was too early to make that call. There was still time to shape the scheme's design and timing to address concerns around value for money, feasibility, and regularity.

5.29. In response to Jo Shanmugalingam's inquiry regarding whether the new loan scheme currently requires a formal direction and our level of confidence in its compliance with State aid rules, I provided the following advice {GP/105 – INQ000625828}:

> *"The draft press notice on the Coronavirus Large Business Interruption Loan Scheme (CLBILS) sets out some parameters that mean this new scheme will represent a significant new liability. Based on between 2,600 and 3,700 firms, a 66% take-up, and an average loan assumption of £10m with 60% of each*

guaranteed, this might lead to a total claim against a guarantee of around £3bn to £4.5bn (assuming a 30% claim rate). Note that whilst these figures do reflect the increased turnover cap for eligible companies (up from £250m to £500m) they do not include the increased govt guarantee (up from 60% to 80% - which might lead to claims of c£4bn to £6bn). It is difficult to assess the likely vfm[7] of the scheme – it may offer vfm – but that rests on a number of assumptions on take-up, default and additionality.

The statement planned for this evening/tomorrow morning does not commit details on BBB delivery of the scheme, the date it would launch, or how lenders would operate it or be accredited. These are big operational challenges to work through over the coming days, in conjunction with the BBB and banks. Only then will we know more about feasibility.

It also omits details on fees, refinancing and other fine details that we will need to work through. These details will be relevant in the Commission's consideration of the scheme and ultimately whether they can approve it. We are yet to begin conversations with them, but all of the conditions of the temporary framework will need to be satisfied in respect of each guarantee including pricing, term, turnover limits etc. Like the CIBLS amendments being announced shortly, we expect that the new scheme will be a non-trivial amendment to either the CIBL notification or the umbrella notification. ***BEIS legal advisors and TLA consider that they should be approvable, although absent a conversation with the Commission we cannot be assured of that.***

Whilst there is every likelihood we will conclude, having worked through the points above over the next few days, this requires a direction, it is too early to conduct a full assessment now. Furthermore, there remains scope to influence the design and timing of the scheme to mitigate evident value for money, feasibility and regularity risks. And at this point in time, the scheme has not been formally launched, and so we have no need to instruct the BBB.

We conclude that a direction is not necessary today, but may be required before scheme launch. *The team have started on AO advice and will develop it over coming days."* (original emphasis).

[7] Value for Money

5.30. Following receipt of the draft press notice and further discussion between BEIS officials and HMT, BEIS officials notified the Secretary of State's private office, later that day, that some changes to the new scheme had been confirmed by HMT {GP/106 – INQ000563926}. The new scheme would be called CLBILS, and the agreed changes were:

a) HMT agreed it would announce its intention to implement the new scheme on 3 April 2020, but it would not provide details of when or how CLBILS would be implemented. This allowed BEIS more time to work with HMT and BBB on implementation and address any outstanding policy issues. It also meant there was no need to seek an immediate ministerial direction, but this could still be required before implementation;

b) The level of government guarantee for CLBILS was increased to 80%, to bring it in line with CBILS. Although this change made the scheme more attractive to lenders, it also increased the Government's liability for each individual loan in the event that a business defaulted; and

c) CLBILS would have an additionality element which meant the scheme would only be available to businesses which were unable to access a loan on commercial terms. The addition of this criteria lowered the volume of lending under the scheme and as a result, lowered the Government's potential liability. However, businesses which were eligible for CLBILS were therefore likely to be higher risk businesses and this could impact the expected default rates.

Design, Operation and Timing of CBILS

5.31. Following the Chancellor's announcement, on 3 April 2020, I emailed BEIS officials to confirm that, now that it had been established the scheme would be led by BBB and built on the CBILS framework, we needed to integrate this work into our existing programme with BBB and HMT. It was agreed that Angelina Cannizzaro and her team would take the lead on the design and delivery of CLBILS on behalf of BEIS. I further confirmed that the BEIS teams would continue to work closely together and draw on the Corporate finance Advisory and Investor Relations' (CAIR) insight and analysis to better understand the target market and ensure the scheme is designed and delivered for maximum impact {GP/107 – INQ000625829}.

5.32. As outlined in CWS, Part B, §3.21, on the same day, 3 April 2020, HMT emailed BEIS and BBB officials seeking further comments on the latest version of the term sheet for CLBILS in order to work through the details {GP/108 – **INQ000594635},** {GP/109 –

INQ000594636 }. CLBILS was largely based on the existing CBILS framework with some amendments due to the speed at which the scheme needed to be implemented. BEIS officials reviewed and responded on 7 April 2020 with three key proposed amendments {GP/110 – INQ000563936}. These were:

a) Increasing the loan size cap from £25 million to £50 million to reflect the needs of larger businesses and deliver as much impact as possible from the scheme;

b) Increasing the upper limit of the turnover cap which was £500 million. BEIS was concerned that a number of businesses key to the UK had a turnover of above £500 million and these businesses were not able to benefit from CLBILS due to the turnover cap; and

c) Clarifying that the government guarantee could be applied to individual businesses with common private ownership as long as they were independently financed, operated, and managed to ensure UK businesses were supported.

5.33. On 8 April 2020, as set out in CWS, Part B, §3.25, BEIS officials and I sent a further submission to the Secretary of State providing an update on the design and implementation of the new loan scheme and seeking the Secretary of State's view on the proposed parameters for CLBILS. The submission advised that the Permanent Secretary was likely to seek a ministerial direction before the scheme could be launched, and that BEIS officials had provided Accounting Officer advice to the Permanent Secretary {GP/111 – INQ000563938}.

5.34. The submission stated that the Chancellor was due to receive further advice the same day on:

a) Eligibility for the scheme – It was expected that the Chancellor would wish to align CLBILS with the terms of CBILS by making it available to any business meeting the eligibility criteria, even if that business could access lending on commercial terms. BEIS officials advised the Secretary of State that this would open up relatively cheaper finance to more businesses, as lenders would be expected to pass on the benefit of the guarantee to borrowers. Therefore, this could benefit more businesses. But incentivising businesses to use CLBILS over commercial lending would significantly increase the overall liability for the Government; and

b) Maximum loan size – It was anticipated that the Chancellor may wish to increase the maximum loan size from £25 million (the sum in the announcement

on 3 April 2020) to £50 million, to reflect the needs of companies with turnovers of between £250 million to £500 million. BEIS officials supported an increase in the maximum loan size to £50 million. This would make the scheme a more effective intervention by meeting the needs of a set of companies with turnovers closer to £500 million which would otherwise be unable to benefit from government support (or would require bespoke support).

5.35. On the same day, I cleared a note in relation to the underlying policy and analytics, referenced in CWS, Part B, §3.25, which Angelina Cannizzaro and another BEIS official sent attaching an Accounting Officer Assessment of the scheme {GP/112 – INQ000625081}, {GP/113 – INQ000563939}. BEIS officials explained that the scheme design may change due to further feedback from lenders and decisions made by HMT. However, based on the scheme design at that time, the Permanent Secretary was advised to request a ministerial direction before 15 April 2020 to meet the target date for scheme delivery. BEIS officials advised that, while lending volumes would be lower than under CBILS, loan values would be much higher and expose the Government to further liabilities with a lack of robust value for money assessment. CLBILS also represented another operational challenge to BBB which was not experienced in this segment of the market and uncertainty remained around State aid. As such, the scheme carried risks with respect to each component of the tests under Managing Public Money. The budgetary and value for money implications were particularly difficult given the uncertainties in the analysis and whether additional costs would be outweighed by the benefits.

5.36. On 9 April 2020, Angelina Cannizzaro emailed the Secretary of State's private office and the Permanent Secretary providing an update on the changes to the parameters of CLBILS following the Chancellor's feedback {GP/114 – INQ000563940}.

5.37. A BEIS meeting took place later that day, the Secretary of State raised several queries concerning the scheme design of CLBILS. Later that day, Angelina Cannizzaro and Laurence Pawley (Deputy Director, Business Finance, BEIS) provided responses to the Secretary of State's queries along with recent updates from HMT {GP/115 – INQ000585554}. CWS, Part B, §3.32 sets these responses out in detail, but in summary they were:

a) UK Business Support Scheme Coverage: Over 99% of UK businesses were eligible for CBILS. The revised CLBILS aimed to support 5,000–7,000 larger firms, with around 2,500–4,000 expected to qualify successfully.

b) Turnover Cap: The group-level turnover cap was removed, allowing businesses with turnover above £45m to access CLBILS. Sectoral exclusions still apply, and not all applicants will qualify.

c) Loan Conditionality: The Secretary of State supported adding conditions to CLBILS loans (e.g. limiting dividends), but the Chancellor wanted further consideration. Key concerns included fairness and how conditions would apply across business types.

d) Maximum Loan Size: The Secretary of State supported a stepped increase, with a £50 million cap for larger businesses. The Chancellor agreed.

e) Minimum Loan Size: Although HMT initially proposed a £100,000 minimum, they later confirmed there would be no minimum loan amount.

f) Term Limits: Both the Secretary of State and the Chancellor agreed to a two-year term limit for CLBILS loans.

g) Interest Treatment: The Secretary of State suggested allowing businesses to defer interest payments. BEIS advised this was already permitted under CBILS and likely under CLBILS, though lenders wouldn't be required to offer it.

h) BBB Resources: The Secretary of State queried whether the BBB had sufficient capacity to deliver CLBILS by 20 April 2020. BBB confirmed it could, based on newly secured HMT funding.

5.38. After reviewing the advice note referred to in §5.35 above, the acting Permanent Secretary raised several questions, including whether the Industrial Development Advisory Board (IDAB) could be involved given the scheme's planned launch on 20 April, noting their ability to respond quickly. She also queried whether equality impacts had been fully considered in case of future challenge.

5.39. I responded to acting Permanent Secretary's query relating to the inclusion of IDAB on 14 April 2020. I advised that consulting IDAB at this stage was unlikely to be productive due to time constraints and limited scope for them to influence the scheme. No formal business case had been prepared, and any feedback received would likely come too late to act on. While it was regrettable to bypass IDAB, we were exploring options to involve them in monitoring and evaluation.

5.40. Also on 14 April 2020, in the revised note for the Accounting Officer {GP/116 – INQ000563950}. BEIS highlighted risk reduction measures for CLBILS that had ultimately not been agreed by ministers, including:

a) Reducing incentives to misuse the scheme (e.g. lowering the loan cap, reintroducing the additionality test, or adding conditions on dividends/executive pay);

b) Phased funding with an overall cap to monitor market impact and adjust if needed;

c) Confirming State aid compliance with the European Commission; and

d) Further testing with BBB and delivery partners to refine processes and accredit new lenders.

5.41. CLBILS was assessed as having a low equality impact, as it was universally available to businesses of a certain size, regardless of location or personal wealth. The scheme aligned with the levelling-up agenda, and BEIS planned to work with BBB to monitor the characteristics of beneficiaries.

5.42. On 15 April 2020, BEIS officials and I met with the Secretary of State to discuss, among other matters, the near-final parameters and outstanding policy issues relating CLBILS and the need for a ministerial direction {GP/117 – INQ000625091}.

5.43. Following the meeting, BEIS officials and I sent a submission to the Secretary of State in order to obtain his steers on the direction and finalising the scheme design {GP/118 – INQ000563954}. As set out in CWS, Part B, §3.37, the submission outlined the proposed amendment to the parameters of the scheme as follows:

a) Conditionality – the Chancellor had shown interest in attaching conditions to CLBILS facilities, specifically to prevent businesses receiving CLBILS loans from paying dividends. Several potential consequences to this approach were identified including the impact on take-up and on different company types, parity of treatment and setting precedent that could lead to demands for other conditions;

b) Seniority of debt – while CBILS facilities were sub-ordinated to pre-existing senior debt, the same was not proposed for CLBILS. The recommendation was that CLBILS facilities be treated 'side by side' with other senior debt. The rationale for this reflected the relative risk to government. The large businesses which would access CLBILS were more likely to have existing senior debt and other layers of capital. If CLBILS loans were subordinate to these, the Government would be taking on a disproportionate level of risk compared to

other lenders and would have a reduced chance of recovering any losses in the event of default;

c) Group structures – the proposal was to limit loan sizes for CLBILS to £50 million across the whole group in the case of firms owned or part owned by private equity funds. This approach had the advantage of simplicity and avoided the risk of being seen to give preferential treatment to private equity companies; and

d) Term limits – following feedback from lenders, officials recommended that the term limit for CLBILS facilities was increased from two years to three years. This would benefit businesses by enabling them to spread CLBILS repayments over a longer period and avoid the risk that the businesses had to seek to refinance these facilities in 12 months' time. While this change had a negative impact of extending the period of government exposure to CLBILS, this could be mitigated by a reduced risk of default caused by reducing the short-term repayment burden on businesses.

5.44. The submission confirmed that the acting Permanent Secretary, as Accounting Officer, had determined that a ministerial direction from the Secretary of State was required to implement the scheme for the reasons set out at §5.35.

5.45. On 16 April 2020, as detailed in CWS, Part B, §3.39, a further submission dated 15April was sent to the Secretary of State. It confirmed that the Chancellor had agreed with the Secretary of State's approach on all outstanding policy matters related to CLBILS {GP/119 – INQ000563959}, {GP/120 – INQ000625424}. It also noted that HMT would be making a public announcement on 17 April 2020, setting out further details of the scheme, including the role of the BBB. At this point, the outstanding parameters of CLBILS had been finalised, as follows:

a) A maximum term limit of three years;

b) CLBILS facilities would be ranked with equal standing to existing senior debt;

c) Businesses accepting CLBILS facilities would be restricted from paying increased dividends, making new capital withdrawals or implementing share buybacks unless they could show these actions would not negatively impact their ability to repay CLBILS loans. Similar restrictions were expected to be implemented for businesses accessing the expanded CCFF but would not

apply to the original CCFF as it was not felt possible to retrospectively apply these changes; and

d) Firms owned by private equity companies would be able to access the available maximum loan size on a firm-by-firm basis rather than a shared allocation between the group.

5.46. BEIS officials confirmed that the revised terms of CLBILS had been shared with the main retail lenders and they were broadly welcomed. There was particular support for the changes in relation to private equity group turnover. HMT would be making an announcement the following day on 17 April 2020 giving more details of the scheme including the role of BBB.

5.47. On 16 April 2020, and as set out in CWS, Part B, §3.47, the acting Permanent Secretary wrote to Keith Morgan, instructing BBB to establish CLBILS {GP/121 – INQ000563963}. The acting Permanent Secretary confirmed that in line with the instruction for CBILS, BBB would be expected to ensure robust controls and governance were in place around the financial commitments from HMT. As far as reasonably practicable, BBB were to ensure public funds were being used appropriately.

5.48. CLBILS opened to applications on 20 April 2020.

Analysis and Data Modelling

5.49. I have been asked what analysis and data modelling were carried out to assess the likely demand for a scheme like CLBILS, and whether there were any limitations in the data available at the time.

5.50. To understand the potential demand for a scheme like CLBILS, a combination of economic analysis and data modelling was undertaken. This included:

a) Market Segmentation Analysis: Analysts reviewed the UK business population to identify mid-sized and larger firms that were too large for CBILS but not eligible for the Bank of England's CCFF. This helped define the target group for CLBILS.

b) Financial Resilience Assessment: Using financial data from sources such as Companies House and commercial credit databases, analysts assessed liquidity positions, debt levels, and cash flow vulnerabilities across sectors.

c) Scenario Modelling: Demand forecasts were developed under different economic stress scenarios, incorporating assumptions about revenue shocks, sector-specific impacts, and the duration of lockdown measures.

d) Historic Scheme Uptake: Uptake patterns from previous support schemes (e.g. CBILS and CCFF) were analysed to estimate potential participation rates and funding needs under CLBILS.

e) Stakeholder Engagement: Input from banks, business groups, and industry bodies provided qualitative insights into likely demand and barriers to access.

5.51. It is important to acknowledge that we were operating under immense pressure, and the limited time available did not permit detailed or comprehensive analysis and data collection, as outlined below. Nevertheless, as explained in CWS, Part A, §4.5, responsibility for macroeconomic modelling lay with HMT:

> *"In relation to modelling, HMT was the department responsible for economic modelling of macro-economic impacts. [BEIS] was not responsible for detailed economic modelling, but did draw on available academic analyses to understand the likely impacts of crises on the Department and its sectors. For example, the Economy and Strategic Analysis team undertook research to understand the impact of the Covid-19 outbreak ... The briefing was used to inform senior officials and ministers, looking to demonstrate the broad nature and magnitude of the shock. Likewise, the team would feed the data into BEIS papers for COBR, to inform cross-Whitehall discussions, such as the Business Impact Assessment paper mentioned in paragraph 4.3 ... This paper highlighted the impact of the Covid-19 outbreak on the economy, showing the sectors facing the most acute pressures and where support would likely be required."*

5.52. While I was not directly involved in conducting this analysis, I was copied into correspondence indicating that HMT and BEIS were actively carrying out financial modelling. I understand that BBB directed Enterprise and Growth Unit[8] analysts, within HMT, to identify the companies most likely to qualify for CLBILS. This work helped refine estimates of the number of companies likely to generate demand for CLBILS {GP/122 – INQ000625825}, {GP/123 – INQ000538767}, {GP/097 – INQ000625826}.

[8] The Enterprise and Growth Unit (EGU) within HMT is responsible for growth related policy and spending. EGU works to ensure that government policy encourages private sector investment, enterprise, innovation and the transition to a low-carbon economy.

5.53. As set out in CWS, Part B, §3.9:

> "*BEIS liaised with BBB to analyse this group of businesses. On 1 April 2020, BBB provided some analysis on what demand could look like for a scheme for businesses turning over between £45 million and £100 million ... The analysis indicated that the demand for these businesses could be between £6 billion and £88 billion (based on the Business Finance Survey method) or £14 billion and £147 billion (based on the FAME method). FAME is a database containing financial and geographical data for SMEs. BBB was clear that the analysis had been produced at speed and, given this, there was a risk of modelling errors...*"

5.54. Additionally, the 27 March 2020 submission for the Secretary of State which preceded the above email exchange, and referred to in §5.10 above, on the 'missing middle' identified that 99% of active UK companies had a turnover of less than £45 million and would therefore already be eligible for CBILS. This information was obtained from Bureau van Dijk FAME database which is a platform that provides access to company information, including data for UK companies. FAME allows users to search for and analyse detailed company information, such as financial data, directors, and financial strength metrics according to Moody's. Additionally, the submission identified that, having considered open-source data from S&P Rating Agency, there were circa 167 firm in the UK, that had a public investment grading rating, excluding banks, building societies and insurers. The Bank of England estimated that the number of eligible firms under the CCFF scheme would have grown to approximately 350 following the broadening of eligibility rules. These firms accounted for around 25% of the turnover and 17% of the employment in all UK-incorporated firms. It was estimated there were around 5000 firms with a turnover above £45 million but which were not investment grade. These 'missing middle' firms accounted for approximately 21% of turnover and 20% of employment of all UK-incorporated firms. As such it was advised that *"…while non-investment grade businesses (the "missing middle") represent a very small percentage of total UK firms by number, they are significant employers and generators of wealth and many are not covered by the existing CCFF or CBILS programmes*" {GP/093 – INQ000563902}.

5.55. The 2 April 2020 submission to the Secretary of State, referred to in §5.24 above, provided as follows:

> "*The new scheme goes a long way to address the concerns regarding the missing middle, with 95% of firms now likely to be in scope of support. For*

example, within the UK steel sector, we expect that the new scheme could now support two firms that were previously not supported: Sheffield Foragemaster and Liberty Speciality Steels. Note these firms are private so this assessment is based on assumption that their turnover will have decreased due to lower prices. Most automotive firms have a larger turnover than the new scheme. For the Retail sector (particular concern regarding the missing middle), we expect that a number of firms may now benefit from a guarantee, including Carpetright, Mulberry Group, Gear4Music, Studio Retail and QUIZ. Other firms expected to benefit include: Hays Travel (£380m turnover), Cairn Energy – Oil & Gas (£402m), AG Barr – Drinks (£279m), Ricardo (£384m) and Princess Yachts International (£346m), the latter featured in the FT article regarding the "missing middle".

The expanded scheme will potentially reach around 3,700 firms who are unable to access CBILS or CCFF. A further circa 250 firms in the missing middle have revenues above £500 million and will not be in scope of this new scheme. Many of these firms are not expected to be "investment grade" and will therefore not benefit from CCFF. This is because many will be private firms which are not expecting to utilise debt capital markets so do not operate their business in a manner likely to gain an investment grade rating.

It is also likely that some firms who otherwise meet the requirements for the new scheme will find it difficult to utilise the facility. Examples include those who already have substantial debt levels, or those unwilling or unable to take on more debt. BEIS internal analysis suggests around 20% of the firms eligible for the new scheme have a leverage ratio above 6x or an Interest Cover ratio below 2.5x, and so may struggle to borrow further.".

5.56. As before, data was sourced from the Bureau van Dijk FAME database. The submission also noted that the figures provided were based on a set of assumptions and should be interpreted with that context in mind.

5.57. As noted in CWS, Part B, §3.24:

> *"…on 6 April 2020, BEIS officials had highlighted that BBB did not have any data on which to estimate demand by medium-sized businesses and that BEIS had not had the time to assess an upper limit of the turnover cap."* {GP/124 – INQ000563934}.

5.58. On 14 April 2020, in the Accounting Officer advice referenced in §5.40 above, BEIS officials highlighted a high risk in relation to the value for money assessment. While it was assumed that the scheme might offer a marginal improvement in value for money compared to CBILS, the absence of robust analysis at the time meant that overall value for money could not be reasonably assured to be achievable.

5.59. As noted in CWS, Part B, §9.31:

> *"The main challenge with the economic modelling and forecasting was the high level of uncertainty during the pandemic. Undertaking analysis at a time when it was not known how long restrictions would be in place or change, how the virus would evolve or what the longer-term economic impacts would be was challenging. This was an unprecedented situation, and therefore it was difficult to predict how businesses and consumers would react to the restrictions. The analysis and modelling work had to make assumptions, based on a constantly changing picture."*

CBILS versus CLBILS

5.60. CLBILS shared several core features with CBILS, as both schemes were designed to support businesses facing disruption due to the Covid-19 pandemic. These commonalities included:

a) Exclusions: Both schemes excluded banks, building societies, insurers, public sector bodies, grant-funded further education establishments, and state-funded primary and secondary schools.

b) Product Coverage: Both offered a range of debt facilities, including overdrafts, loans, asset finance, and invoice finance.

c) Security Requirements: For facilities up to £250,000, no personal guarantees were required. For facilities above that threshold, personal guarantees could be taken for up to 20% of the outstanding balance, with lenders expected to take other available security.

d) Refinancing: Both schemes allowed for refinancing, with a cap of 20% of a lender's allocation.

5.61. To better meet the needs of larger businesses and lenders, while maintaining a focus on value for money, several key changes were introduced for CLBILS:

a) Eligibility Criteria: The turnover threshold was raised. While CBILS supported businesses with turnover up to £45 million, CLBILS targeted those with turnover

above £45 million. The other eligibility criteria, UK-based operations and viability absent the pandemic, remained unchanged.

b) Loan Size: The maximum loan size increased significantly. Under CBILS, the cap was £5 million. CLBILS allowed loans up to £25 million for businesses with turnover under £250 million, and up to £50 million for those with turnover above that level.

c) Loan Term: CBILS loans could run up to 6 years, whereas CLBILS initially had a maximum term of 2 years, with the potential to extend to 3 years.

d) Government Guarantee: Both schemes offered an 80% government guarantee. However, CBILS included an effective portfolio cap of 60%, which was not applied under CLBILS.

e) Interest Treatment: CBILS included a BIP to cover the first 12 months of interest and fees. CLBILS did not offer this feature, which helped reduce the cost to the taxpayer.

f) Capital Relief: CLBILS loans were eligible for capital relief, whereas CBILS loans were not.

5.62. These adjustments were made to ensure that CLBILS could address the specific financing needs of larger businesses while maintaining a proportionate approach to risk and public value.

Risks

Speed at which CLBILS was developed and the BBB

5.63. I have been asked whether I had concerns at the time about the speed at which CLBILS was developed and the limited opportunity to test its design with the BBB and lenders. This issue has already been discussed in detail above, but to provide a summary.

5.64. In my email of 25 March 2020 (see §5.6), I advised that while it was theoretically possible to explore models for extending CBILS, the Department's strong view was that efforts should remain focused on ensuring the successful delivery of CBILS before expanding further {GP/091 – INQ000625823}. There were concerns that the BBB and lenders lacked the operational capacity to implement an additional scheme at that stage, particularly as banks' equity and credit processes were already under significant pressure and could not be quickly scaled due to resource constraints and legacy systems.

5.65. On 26 March 2020, I advised that while exploring a CBILS variant for larger firms was worth considering, a key concern was the operational capacity of the BBB {GP/092 – INQ000624873}. BBB was already under significant pressure scaling up CBILS to meet demand from both borrowers and prospective accredited lenders. Introducing an additional scheme risked overstretching its resources, and I flagged the importance of not rushing the design process without fully considering these constraints.

5.66. On 27 March 2020, in email correspondence with colleagues from BBB, BEIS, and HMT, I expressed concern about the operational capacity to deliver a new scheme while CBILS was still in its early stages {GP/095 – INQ000585519}.

5.67. As set out in §5.18 above, BEIS confirmed that the Permanent Secretary's concerns extended beyond BBB's operational capacity to include the ability of BEIS teams to deliver the necessary policy and analytical work within the proposed timelines. They also highlighted the cumulative impact of changes to CBILS and the new scheme on potential government risks and liabilities {GP/096 – INQ000563916}.

5.68. On 2 April 2020, BEIS officials and I submitted further advice to the Secretary of State regarding the proposed loan scheme for the 'missing middle'. We raised significant concerns about the speed of development, which limited the Department's ability to test the scheme's design with BBB and lenders, or to assess its affordability, value for money, feasibility, and regularity. Officials also warned that the scheme would place additional operational strain on BBB, which was already managing major changes to CBILS. Moreover, the new scheme would push BBB beyond its core remit, as it was primarily established to support SME finance, not larger firms {GP/103 – INQ000064782}.

5.69. Therefore, taking the above into account, while it would have been ideal to allow more time for scheme development and testing with the BBB and lenders, the scheme has nonetheless proven effective under the circumstances. As I outline below, it successfully addressed a gap in support for large businesses.

5.70. I have been asked whether I had any concerns about the BBB being pushed beyond its core area of expertise by having to work with larger businesses. I did have such concerns, which were informed through discussions with the Bank's senior leadership and UKGI. Lending to large corporates was not part of the Bank's traditional remit. To help mitigate these concerns, the BBB assigned individuals to the CLBILS team who had prior experience in corporate lending from outside their roles at the Bank. They also engaged external advisors, including legal advisors to support the development

of the term sheet. We also asked UKGI to deploy someone with relevant large-scale lending experience, and I sought additional input from one of the BEIS Non-Executive Directors, to review the term sheet.

Affordability, value for money, feasibility, and regularity, against the urgency of the economic situation

5.71. As outlined in both this statement and the CWS, issues relating to affordability, value for money, and regularity were addressed through formal submissions, as well as through various Accounting Officer notes and advice. In situations where the Department anticipated insufficient time to test scheme design with the BBB and lenders, or to assess affordability, value for money, feasibility, and regularity, it consistently recommended that a ministerial direction be sought.

5.72. Where the costs of a new scheme exceeded existing budgets, additional funding was requested from HMT to cover expenses incurred by both BBB and BEIS. Agreement from HMT was also required to ensure that BEIS budgets were held harmless, across all budget categories, from any financial impact resulting from the scheme's introduction.

5.73. In the case of CBILS, HMT consent was further required due to the scheme's novel, controversial, and repercussive nature, as well as the significant contingent liability it posed to the Government. Given the potential for the scheme to be used for refinancing, and HMT's position that it should not be subject to a portfolio cap, the Department recommended that safeguards were necessary to manage the Government's overall liability. Limiting lender allocations was considered an effective way to control the size of the guaranteed portfolio. A process was therefore recommended that involved regular reporting on loan volumes, costs, and expected default rates, along with opportunities for BEIS and HMT ministers to pause and review before authorising each new tranche of allocations. The BBB's Investment Committee was also proposed as a source of independent assessment to support ministerial decision-making. That said, I have summarised the various submissions and/or advice below.

5.74. On 2 April 2020, BEIS officials and I sent a submission to the Secretary of State about the proposed new loan scheme which was, at that stage, referred to as CLBILS+ {GP/103 – INQ000064782}. The submission noted as follows:

> *"We have significant concerns about the pace at which this has been developed, which has inevitably limited our ability to test the design of the*

scheme with the BBB and banks, and assess affordability, value for money, feasibility and regularity. We are providing advice to the Permanent Secretary in his role as Accounting Officer. Whilst a full assessment is still being developed, the uncertainty around VfM, additional liabilities created, operational challenges for BBB, and legal uncertainty mean a further direction from you is likely to be required once the final scheme parameters are set."

5.75. The Department further advised the Secretary of State as follows:

a) The Chancellor had expressed the view that the support provided under CBILS should be extended to include companies with higher turnover. This was intended to address a perceived gap in the Government's support measures and to help safeguard the viability of mid-sized businesses—many of which were significant regional employers—thereby supporting economic recovery once the pandemic was brought under control.

b) Raising the turnover cap was therefore expected to have a broader economic impact and further alleviate pressure on businesses in the "squeezed middle." However, this came with an increased risk to Government, as it would bring a greater number of larger loans within the scope of the scheme. As such, while the new scheme was not designed to close the gap entirely, it significantly reduced the number of companies left without access to Covid-19-related financial support.

c) The scheme differed significantly from CBILS in scale, targeting a few thousand firms versus up to 2 million, and in lending volumes, which were expected to be in the low billions compared to up to £100bn under CBILS. While the scheme could have "*marginally positive value for money*", given the lower risk profile of mid-sized firms, this needed to be weighed against potential deadweight from firms not requiring guarantees.

d) As the scheme's costs were not covered by existing budgets, additional funding from HMT was required to cover BBB and BEIS expenses. HMT approval was also necessary due to the scheme's novel and controversial nature, and the significant contingent liability it posed. Given the risk of refinancing and the absence of a portfolio cap, safeguards, such as lender allocation limits, were recommended to manage exposure.

e) A process of regular reporting on loan volumes, costs, and default rates was proposed, along with ministerial checkpoints before approving new tranches.

The BBB Investment Committee could provide independent assessments to support these decisions.

5.76. As set out in the email chain of 7 April 2020, referred to in §5.32 above, between HMT and BEIS, BEIS raised various queries and noted *"…anything we can do to put numbers around some of these things would be helpful, particularly given the impact changing the loan/turnover thresholds would have on the potential exposure to HMG*" {GP/125 – INQ000585549}.

5.77. On 8 April 2020, BEIS and I sent a submission to the Secretary of State outlining the design of the CLBILS scheme and seeking approval on its parameters {GP/111 – INQ000563938}. The submission highlighted uncertainties around value for money, additional liabilities, and operational challenges, noting that a ministerial direction might be required due to the removal of the additionality requirement. To mitigate risks, officials, once again, proposed a monitoring framework to give ministers oversight and control over allocations. HMT had confirmed £5.8bn for potential future claims and £50m for 2020/21, but uncertainties around demand and defaults, especially with a higher loan cap, could strain budgets. Unlike CBILS, the scheme included lender fees and excluded BIPs, potentially improving the feasibility of achieving value for money. However, deadweight risks and uncertain demand complicated assessments. HMT approval was also needed to protect BEIS budgets and address the scheme's novel and high-liability nature.

5.78. As noted in CWS, Part B, §3.28, BEIS officials advised that expanding access to finance for medium-sized businesses during the downturn would be economically beneficial and achieved better value for money than doing nothing. Larger firms were generally more stable than SMEs and less likely to trigger claims under the guarantee.

5.79. However, officials also highlighted that CLBILS posed proportionally higher financial risk to the Government, with uncertain demand and no portfolio cap. The removal of the additionality test introduced significant deadweight risk, as the scheme could benefit firms that could already access commercial lending. Unlike CBILS—where removing the test ensured all SMEs could benefit from the BIP—CLBILS would only be more attractive if lenders offered lower interest rates due to capital relief, which was not guaranteed. This made the case for removing the test weaker in the context of CLBILS.

5.80. On 8 April 2020, alongside the above submission, Angelina Cannizzaro and another BEIS official sent a note attaching an Accounting Officer Assessment of the scheme

{GP/113 – INQ000563939}. This note outlined the financial and operational risks of the proposed CLBILS scheme. The note provided that the scheme targeted fewer firms than CBILS but involved significantly larger loans, increasing the Government's financial exposure without a robust value for money assessment. Key concerns included affordability, feasibility, and propriety, especially given BBB's limited experience in this market and ongoing uncertainty around State aid. While HMT initially allocated £5.8bn for future losses and £50m for 2020/21 claims, the capital budget remained a risk due to unpredictable defaults. The scheme excluded BIPs and included lender fees, potentially improving value for money compared to CBILS, particularly as mid-sized firms were seen as lower risk. However, the removal of the additionality test introduced deadweight risk, and the lack of a portfolio cap increased the Government's contingent liability. To manage this, officials proposed controls such as lender allocation limits, regular risk reviews, and ministerial checkpoints. While the Chancellor intended the scheme to be 'unlimited', these measures aimed to balance policy ambition with fiscal responsibility.

5.81. On 14 April 2020, as set out in §5.40 above, BEIS officials prepared a revised note for the Accounting Officer in relation to CLBILS {GP/116 – INQ000563950}. BEIS officials advised that although CLBILS would involve fewer loans than CBILS, the significantly higher loan values and absence of a portfolio cap meant the Government's financial exposure would be proportionally greater. Due to major uncertainties, officials could not confirm the scheme represented value for money and recommended that the Accounting Officer seek a ministerial direction.

5.82. They also noted that CLBILS posed risks across all elements of the Managing Public Money tests, with particular concerns around affordability, budget cover, and overall liability. To mitigate these risks, officials suggested several options: reducing incentives to use the scheme (e.g. lowering the guarantee cap, reinstating the additionality test, or adding conditions on dividends and executive pay); phasing funding with an overall cap to allow for ongoing review; confirming compliance with EU State aid rules; and further testing the scheme with BBB and delivery partners to ensure operational readiness.

5.83. On 15 April 2020, BEIS officials sent a further submission to the Secretary of State requesting guidance on key outstanding policy issues to finalise the CLBILS scheme parameters {GP/118 – INQ000563954}. The submission referenced the advice sent to the acting Permanent Secretary on 14 April 2020, recommending that she seek a ministerial direction, primarily on value for money grounds. While CLBILS was

expected to involve lower lending volumes than CBILS, the significantly higher loan values and absence of a portfolio cap meant the Government's financial exposure would be proportionally greater. Given the considerable uncertainties, officials could not confirm the scheme represented value for money, warranting the need for a direction.

5.84. On 16 April 2020, a further submission (dated 15 April 2020) was sent to the Secretary of State confirming that the Chancellor had agreed with the Secretary of State's approach on each of the outstanding policy issues {GP/119 – INQ000563959}. The submission confirmed that the acting Permanent Secretary, as Accounting Officer, had determined that a ministerial direction from the Secretary of State was required to implement the scheme for the reasons set out at §5.83 above. Key concerns included affordability and budget cover, managing the Government's overall liability and value for money concerns.

5.85. On 16 April 2020, the acting Permanent Secretary, wrote to the Secretary of State, seeking a ministerial direction {GP/126 – INQ000563960}. As set out in CWS, Part B, §§3.43- 3.45, the acting Permanent Secretary stated:

> *"The lack of a portfolio cap means that the Government's total exposure is proportionally higher under CLBILS than under CBILS (80% compared with 60%). This decision has been made to increase our confidence that delivery partners will be sufficiently incentivised to increase their risk appetite, and that businesses will be able to access finance on sufficiently attractive terms. The inclusion of a portfolio cap would have prejudiced the lender's ability to claim capital relief for the guaranteed portion of each loan, potentially leading to higher interest rates.*
>
> *However, due to the speed with which this intervention has been developed in order to respond to the crisis in a timely fashion, there is currently very little robust data that I can rely upon to judge that these scheme parameters are optimal. In particular, the absence of reliable forecasts of take-up and default rates makes it difficult to assess ex-ante whether value for money is likely to be achieved. This means there are currently a wider range of outcomes, including very substantial losses in the worst cases. That is not a scenario we anticipate and there will be opportunities to take action if there are signs that we might be heading in that direction.*

Set against this, the benefits from preserving businesses through CLBILS are reasonable to assume in principle but are difficult to compute with any certainty. It will be difficult to determine what part a CLBILS loan played amongst other factors on future performance of a business. What we can determine ex-ante is that the absence of an additionality test creates a considerable 'deadweight' risk in terms of value for money. 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."

5.86. In so far as potential safeguard measures were concerned, the acting Permanent Secretary advised that these included reducing the level of guarantee to 75%, or re-introducing the additionality test, or announcing funding in tranches to review the impact on the market progressively. However, she advised that:

"…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. Given the severity and urgency of the situation facing businesses, I accept that these steps cannot be considered any further before the scheme is announced in detail and taken live.

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."

5.87. On the same day, the Secretary of State responded and formally directed the acting Permanent Secretary, as Accounting Officer, to take the scheme forward with immediate effect {GP/127 – INQ000563962}. The letter stated, amongst other things:

"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 CBILS Post Event Assurance Action Plan

5.88. I have been asked why:

a) The initial Post Event Assurance Action Plan (PEAP) initially only covered the BBLS and the grant schemes and not CBILS and the CLBILS; and

b) It took nine months following a request made by the Government Counter Fraud Function's Centre of Expertise on 1 December 2020 to update the PEAP to include CBILS and CLBILS, submitted on 27 August 2021.

5.89. I understand that the detail of this issue has not been expressly covered in the CWS, and the Inquiry's question arises from further documents to which I have been referred. My own involvement in this issue was relatively limited – including because I was on maternity leave from January 2021 to August 2021. In order to assist the Inquiry, I have set out below what I understand to be an outline of the relevant chronology based upon documents which the Department and legal advisers have retrieved as relevant to this issue – this is not limited to correspondence to which I was copied at the time. Therefore, this section goes beyond my own personal involvement.

5.90. The assumption underlying this question is incorrect. PEAPs were developed through an iterative process, with multiple versions—including those addressing CBILS and CLBILS—submitted to Cabinet Office between 24 June 2020 and 29 September 2021.

5.91. As set out in CWS, Part B, §6.5, on 18 May 2020, government departments, including BEIS, were instructed by Cabinet Office to develop PEAPs related to their Covid-19 stimulus spend {GP/128 – INQ000543227}. The delivery of the PEAPs was to provide assurance to the Covid-19 Fraud Ministerial Oversight Board, which had been set up to oversee the Covid-19 response, that departments were taking appropriate actions to ensure fraud was detected, prevented, and recovered {GP/129 – INQ000585666}.

5.92. The Department, with the assistance of BBB, developed a working draft of the action plan by the start of June 2020 to cover all the loan schemes, including CBILS and CLBILS, and updated it when additional information was required {GP/130 –

INQ000543241}, {GP/131 – INQ000543245}. The draft was completed later in June {GP/132 – INQ000564052}.

5.93. On 5 June 2020, Cabinet Office informed central Government departments that additional guidance outlining what the PEAPs should cover would be issued on 8 June 2020. BEIS explained that, given the existing timelines, it would be difficult to complete a detailed PEAP to the standard dictated by the guidance at the time. Cabinet Office accepted this {GP/133 – INQ000624928}.

5.94. Although I was not copied in on the correspondence, BEIS officials sent the initial PEAP to the acting Permanent Secretary on 10 June 2020. The PEAP captured all schemes related to both loans and grants {GP/134 – INQ000543252}, {GP/135 – INQ000543254}. I note that the letter to the acting Permanent Secretary stated:

> *"The Cabinet Office is mainly concerned that businesses may have received duplicate support for some costs. There is a fine line between looking at this as cross-government fraud and value for money issue, and wanting to move the goalposts as far as policy and priority choices made by BEIS and other departmental spending Ministers is concerned, in some cases through giving you Ministerial Directions. Further Cabinet Office guidance was promised but has not yet been issued on these plans."*

5.95. The PEAP was subsequently submitted to Cabinet Office, as confirmed below.

5.96. On 16 June 2020, Cabinet Office confirmed receipt of the PEAP and shared a detailed plan to help the Department prepare for the upcoming Ministerial Board meetings. The accompanying email indicated that any feedback or requests for clarification on the action plan would be communicated during this period by the designated engagement lead {GP/136 – INQ000625885}.

5.97. On 18 June 2020, Cabinet Office introduced a designated official responsible for reviewing the section of the BEIS PEAP related to BBLS. We were informed that she had feedback from the review and wished to engage with the Department on it. The email also noted that all departments were expected to submit revised versions addressing any feedback by 22 June 2020 {GP/137 – INQ000625886}.

5.98. On 22 June 2020, BEIS proposed to Cabinet Office that a meeting be arranged in the following weeks to afford the Department an opportunity to clarify the Secretary of State's position on counter fraud proposals related to the BBB's loan schemes {GP/138 – INQ000625888}.

5.99. On 24 June 2020, a BBB official circulated a Skype invitation to BEIS and Cabinet Office officials ahead of a Counter Fraud Forum meeting later that day. The Department's PEAP, current at the time, was attached to the invitation {GP/139 – INQ000585658}, {GP/135 – INQ000543254}.

5.100. On 1 July 2020, I was copied in on email correspondence relating to the First Covid-19 Fraud Ministerial Board meeting. The email noted that "*we [BEIS] are considering whether to engage NATIS subject to HMT additional funding. Paper sounds as if it's a done deal. Spotlight only ever detects potentially irregular payments requiring further checks*". It further noted that the BEIS assurance plan had met the requested criteria {GP/140 – INQ000625891}.

5.101. The first Covid-19 Fraud Ministerial Board meeting took place on 16 July 2020. The purpose of this meeting was to take stock of the PEAPs which Departments, including BEIS had submitted to set out how they propose to manage fraud and error risks {GP/141 – INQ000625894}.

5.102. Following the Covid-19 Fraud Ministerial Board meeting referred to in §5.101, on 21 July 2020, Cabinet Office issued updated guidance for the drafting of PEAPs {GP/142 – INQ000543283}, {GP/129 – INQ000585666}, {GP/143 – INQ000625898}, {GP/144 – INQ000625897}. In addition, Cabinet Office advised there was an expectation that a FRA would be undertaken by BEIS and prioritisation and resourcing should be assigned proportionately. It stated *"[f]raud risks are often underestimated, therefore there is an expectation that resource would be assigned to measure the identified fraud risks to establish their true likely scale*".

5.103. On 5 August 2020, a Cabinet Office official emailed BEIS colleagues offering support on the BEIS PEAP. She noted that the submission deadline was Friday 7 August 2020 but proposed extending it by a week to allow the team more time and to schedule a one-to-one session between Cabinet Office and BEIS on 12 August 2020. On 11 August 2020, a BEIS official submitted an updated version of the BEIS PEAP. He noted that BBB updates its plan monthly and that the latest version was still pending {GP/145 – INQ000543304}.

5.104. On 17 August 2020, following the feedback session on 12 August 2020, BEIS provided an updated version of the PEAP to Cabinet Office {GP/145 – INQ000543304}, {GP/146 – INQ000543305}. Cabinet Office provided feedback to BEIS on the PEAP on 20 August 2020. An email between BEIS officials, to which I was in copy, noted:

"The feedback on loans rather demonstrates that parts of the CO[9] are blissfully unaware of HMT interests/processes.

We have also been clear from the outset that we will only be able to assess whether claimants met the eligibility for our own schemes. They may have gamed the system to make dubious claims on furlough etc but unless HMRC share data we will not be able to check the claims suggested below. UKRI have so far been unsuccessful in obtaining such data

We will try to use the quadrilateral CO/HMT/BEIS/BBB meetings to see if we can plot an agreed way forward on loans. We might also wait and see what the NAO says on BBLs and then we can take account of any suggestions they make." {GP/147 – INQ000543309}.

5.105. On 10 September 2020, BEIS officials provided an updated version of the PEAP, which included an updated version of the loan schemes plan, to Cabinet Office in advance of a meeting schedule for the following week {GP/148 – INQ000624947}, {GP/149 – INQ000543318}.

5.106. On 10 September 2020, in an email from Cabinet Office to BEIS, Cabinet Office advised that, given the fraud risk flagged in BBLS*"[it] might be useful now to set the BBL scheme into a stand alone PEA Action Plan separately to your other loans and grants to maintain transparency on this*".

5.107. Later that day, I was copied into the correspondence referred above. I noted as follows:

"…my overall position is that we need to take and be seen to have taken all possible steps to manage fraud. If measures are to be ruled out, they should be ruled out by our ministers and not by us or HMT officials making assumptions about what the CX will tolerate – BEIS ministers are accountable for the schemes, not HMT ones. The fact a direction was sought doesn't mean we should hold back on offering advice on ways the scheme could be made less exposed, even if that does mean a different customer experience. £50bn+ has gone out the door now and it would be reasonable for ministers to re-consider this balance, and they should not be deprived of that chance.

CO are clearly trying to paint us as neglectful/incompetent and there is an element of playing their tune required here – eg. doing the risk assessment –

[9] Cabinet Office

to show we are neither. If we comply with some of their suggestions it is easier for us to challenge on others." {GP/150 – INQ000624945}.

5.108. On 14 September 2020, Rich Wentel (Deputy Director, Data Analytics and NFI, Cabinet Office), advised that Lord Agnew had asked for a specific briefing on BBLS. He further noted that that the Cabinet Office briefing covered the following points from the perspective of the Counter Fraud Function {GP/151 – INQ000625903}:

"1) BBL is a very high risk scheme

a. Estimated losses due to fraud ***and credit*** *losses are estimated* ***40% - 60%*** *of the total loan book. On current lending this could total up to* ***£21bn****. If fraud in this scheme is 5%-10% it will be* ***£2bn - £4bn****.*

b. There are over ***8200 Suspicious Activity Reports*** *by lenders - by far the highest in C-19 schemes.*

c. Intelligence indicates the scheme is being defrauded in multiple way

2) Our strong view is that the fraud response is currently inadequate

a. There is no route to investigation in place yet (a proposal was provided on 26/6/20). NATIS are not yet formally contracted to deal with this work. There is no civil investigation route yet agreed.

b. At present the intelligence known on the scheme (inc the 8,200 SARs) is not being dealt with (leading to action)

c. There is no activity in place to actively seek out fraud in the scheme beyond that where the Cabinet Office has intervened and there is nervousness about trying to do this

d. There is no plan to measure and recover fraud loss from this scheme (sampling & testing).

e. The Post Event Assurance Action Plan remains insufficient (I've gone back to Bhags/Philip on the detail of this already)

3) Given the nervousness that HMT and BEIS have about how counter fraud activity may impact on the scheme (both policy intent and the burden on lenders) - there is limited appetite for this activity at this stage.

4) We are supporting with specialist resources and will continue to assist but a clear plan to deal with fraud needs to be in place. The accountability for this plan rests with BEIS/HMT"

5.109. I forwarded the above email from Cabinet Office to BEIS officials later that day noting "*Cabinet Office fraud function are increasingly critical of our counter-fraud efforts on BBLS. Some of this is fair – things have moved slower than I would like – some of it not. And quite frankly, CO could helpfully be more collaborative and less confrontational*".

5.110. On 22 September 2020, in response to having received an updated PEAP for the loan schemes from BBB on 9 September 2020, a BEIS official advised that {GP/152 – INQ000625908}:

"…the Cabinet Office have asked us to submit a separate plan for BBLs this Friday, setting out how the following concerns might be addressed.

*1) **Fraud Risk Assessment** – Is not specifically detailed to articulate the residual fraud risks in the scheme. The BBB FRA outlines 6 high level areas of risk. A more detailed assessment is currently being developed by Steve and Sara in the CO, to identify specific individual risks enhanced by NCA's threat assessment of the BBL scheme. Once produced this assessment will be review by BBB, HMT and BEIS this week. Longer term, intel on specific organised crime threats identified from the SARs data should be incorporated.*

*2) **Fraud Measurement** - an absence of any commitment to testing via a programme of sampling activity, to confirm the fraud rate should be addressed, by detailing what is being considered, the resource available to complete the work and when it might take place. Steve and Sara in the CO will be assisting us (i.e. BBB, HMT and BEIS) to design a sampling regime over the next week or so.*

*3) **Fraud Operating Model** – In the plan is currently limited to NATIS. So what is the civil route or the lender recovery route? (See attached updated from something produced by Rich Wentel in CO, which also do includes Grants - not yet finalised)*

*4) **Estimates of credit losses** - nothing in the plan explains how BEIS/BBB/HMT are going to address the credit losses, or more importantly*

identify credit losses that are actually fraud. That is beyond waiting for companies to default and then trying to do something.

5) ***Activity the CO regard as preventative controls not PEA activity and why****:*

• Bank Fraud Collaboration Working Group - this is more to do with Governance.

• CIFAS duplication check - this is an upfront preventative check. Any follow up to ensure that the check worked and prevented multiple applications could happen later on and should be referenced as PEA activity but the existence of the check isn't PEA.

• NFI solution - this would be PEA but as it is no longer being considered for progression, should no longer be included.

• BBB Delivery Partners Assurance Programme - this is an audit around controls in the scheme. It is not PEA. This Assurance Programme will focus on compliance with the controls, not looking at the fraud and error that the controls don't address. The audit will provide useful insights into the scheme so is worth doing, but it should not replace PEA activity as described.

• CIFAS membership (Future fund) - this is an upfront due diligence check not a PEA activity.

• Active Company Check (Future Fund) - as above - this is an upfront due diligence check not a PEA activity.

• CO Data Analytics - this is PEA activity, seeking to test the residual risks in the scheme through data-matching and analytics to try to seek out fraud. However the scope is very limited (Organised Crime) and will not be seeking out (and by extension finding) fraud in other areas of residual risk so it is a limited effort at this stage

• NATIS - onboarding of a supplier is not in itself PEA - there needs to be more detail about what they will do, how they will seek out fraud etc. The Operating Model that sits behind this should explain that but is absent from the plan.

• Counter Fraud Forum - again it is governance rather than PEA activity

• *Loss Measurement and Reporting - this is useful for reporting but is based on trust on the content reported by lenders. There needs to be a programme of testing to understand what the lenders are seeing and to ensure there is consistency of application. Our Back Book Review of the Change of Director flag saw very different responses, approaches and outcomes across lenders so testing is needed to ensure the data is meaningful."*

5.111. On 25 September 2020, BEIS provided a revised version of the PEAP to Cabinet Office. The Department's approach to BBLS was outlined in a dedicated worksheet. CBILS, CLBILS, BBLS and Future Fund were also outlined in a separate worksheet dedicated to business loans generally {GP/153 – INQ000624952}, {GP/154 – INQ000624953}, {GP/152 – INQ000625908}.

5.112. In line with Cabinet Office's request, the Department focused its efforts on developing a comprehensive PEAP for BBLS. The next iteration of the PEAP was submitted to Cabinet Office on 29 October 2020. This version included planned actions relating to both the grant schemes and the BBLS {GP/155 – INQ000624963}, {GP/156 – INQ000543427}.

5.113. Between 1 December 2020 and 2 December 2020, BEIS and Cabinet Office officials discussed the Department's PEAP in relation to CBILS and the CLBILS[10]. On 1 December 2020, a Cabinet Office official noted that the version of the PEAP submitted to the Covid-19 Counter Fraud Forum Executive Committee only addressed actions concerning the grant schemes and BBLS, and queried whether a separate PEAP for CBILS and CLBILS existed. Later that day, a BEIS official responded, acknowledging the need to **revisit** CBILS and "*its big brother*," CLBILS (my emphasis).

5.114. As already advised, I was on maternity leave from January 2021 to August 2021, and therefore was not in post during much of the activity which followed. That said, my legal team has since reviewed and located relevant documentation, which has helped clarify the timeline and the Department's actions during that period.

5.115. I understand that at the Covid-19 Counter Fraud Forum held on 13 January 2021, attended by officials from BEIS, BBB, Cabinet Office, National Investigation Service (NATIS), and HMT, a BBB representative noted that while several assessments had been completed, they did not yet meet the level of detail required by Cabinet Office. It

[10] I have been advised that the Inquiry provided a version of this email chain to my legal representatives on 23 July 2025, with the names senders and recipients redacted. I understand the Inquiry Reference Number is INQ000593962

was agreed that CBILS was the next priority, with the FRA in progress. The aim was to finalise the residual risk assessment by the end of January 2021, followed by a fraud risk proposal and decisions for BEIS in February 2021, which would inform the drafting of the CBILS PEAP. Resourcing challenges and competing priorities were also noted in relation to CLBILS {GP/157 – INQ000625006}.

5.116. On 13 August 2021, BBB shared an updated CBILS PEAP with BEIS and Cabinet Office officials ahead of a workshop on 18 August 2021 {GP/158 – INQ000625030}, {GP/159 – INQ000625031}. A further version followed on 27 August 2021 {GP/160 – INQ000625032}, {GP/161 – INQ000625033}.

5.117. Updated PEAPs for CBILS, CLBILS, BBLS, and Future Fund were then shared with Cabinet Office and other central government departments on 29 September 2021 {GP/162 – INQ000625034}, {GP/163 – INQ000625035}, {GP/164 – INQ000625036}, {GP/165 – INQ000625038}, {GP/166 – INQ000625037}.

5.118. Although formal PEAPs for CBILS and CLBILS were not submitted to Cabinet Office until August 2021, BEIS and BBB had been actively assessing these schemes as early as June 2020. The 2020 PEAPs outlined steps to be taken by BEIS, with BBB's support, including the completion of FRAs. Throughout the pandemic, BEIS worked with BBB, other departments, and local authorities to monitor and mitigate fraud across all schemes. Given the national emergency and limited resources, the Department prioritised BBLS, where fraud levels were significantly higher. In contrast, fraud in CBILS and CLBILS was understood to be lower.

5.119. As noted at the 13 January 2021 forum, work on the CBILS FRA was ongoing at that time. These assessments were integral to the PEAPs, as reflected in each version submitted to Cabinet Office. They also informed the development of additional action items within the PEAPs.

5.120. While formal PEAPs for CBILS and CLBILS were submitted later, BEIS and BBB were actively addressing fraud risks across all schemes throughout the administration of the Covid-19 business support programme.

Devolved Administrations

5.121. While CLBILS was a UK wide scheme, efforts were made to gather intelligence from across the four nations. As the pandemic evolved, feedback from businesses—including those in the Devolved Nations—was captured through dashboards that highlighted regional concerns, such as delays in CBILS processing, and flagged potential job losses by area. Additionally, the Devolved Administrations were invited to

a workshop on 27 March 2020, led by the Permanent Secretaries of BEIS and HMT, to discuss coordinated economic responses. I also participated in regular meetings of the UK Covid-19 Economy Directors Forum, which brought together economic leads from BEIS, HMT, and the Devolved Administrations on a fortnightly basis throughout 2020 {GP/002 – INQ000543155}. While the scheme was not tailored specifically to each nation's economic conditions, these forums provided a channel for input and coordination. A key lesson for future crisis responses is the value of earlier and more structured engagement with the Devolved Administrations during scheme design. I have been asked for my view on how effective the UK Covid-19 Economy Directors Forum was for engaging the Devolved Administrations. I do not have a good enough recollection of these meetings to reflect on how effective they were as an engagement mechanism.

Reflections

5.122. Looking back, if there had been more time to test the CLBILS design before launch, do I think it would have been any different? It is entirely possible that with more time, we might have made some adjustments in response to early feedback or operational insights. However, I would note that the design of CLBILS remained largely stable after launch, which suggests that even with additional time, the core structure of the scheme may not have changed significantly.

5.123. I have been asked to consider what the main reasons were for why the uptake for CLBILS was lower than that of CBILS. The lower uptake of CLBILS compared to CBILS can be attributed to several key factors:

a) CLBILS was designed specifically for larger businesses with an annual turnover above £45 million, whereas CBILS targeted a much broader base SMEs. Naturally, the eligible population for CLBILS was significantly smaller. According to the BBB's Year 3 report, which I refer to throughout this statement {GP/167 – INQ000625042}, the CBILS-eligible population included over 5.9 million SMEs, which make up 99.9% of all UK businesses. In contrast, the CLBILS-eligible population—businesses with turnover above £45 million—was estimated to be fewer than 8,000 firms. This difference in scale reflects the schemes' distinct policy objectives.

b) CLBILS was a different product in both structure and risk sharing. Unlike CBILS, it did not offer a BIP to cover interest and fees for the first 12 months, making it less attractive to borrowers.

c) Many large businesses had access to other sources of liquidity, including capital markets, existing banking relationships, or the Bank of England's CCFF. These alternatives may have been more suitable or preferable, reducing reliance on CLBILS.

d) Lenders may have been more cautious in offering CLBILS loans due to the larger loan sizes and associated risks, especially in the early stages of the scheme. This could have contributed to slower deployment and lower uptake.

e) CBILS was launched earlier and received more immediate attention due to the urgent needs of SMEs. By the time CLBILS was introduced, some larger firms had already secured funding through other means or were more cautious about taking on additional debt.

5.124. I agree with the Department's assessment regarding the lower uptake of CLBILS compared to CBILS, as outlined in CWS, Part B, §3.75. The summary effectively explains that SMEs were more severely affected by Covid-19 and therefore relied heavily on CBILS loans to support their cash flow. In contrast, CLBILS saw fewer applications due to a smaller pool of eligible larger businesses, which were also more likely to have access to alternative sources of finance.

5.125. I have been asked whether CLBILS achieved its aim(s). In my view, CLBILS did, indeed, achieve its aims.

5.126. It was successful in providing financial support to a number of larger businesses that were ineligible for CBILS and facing cash flow challenges due to the pandemic. Although, I appreciate the overall uptake was limited, which was, as I have set out above, likely due to a combination of factors, including a smaller eligible business population, less generous terms compared to other schemes, and the availability of alternative funding options such as the Bank of England's CCFF, I believe that CLBILS met its core objective for those which accessed it.

5.127. As noted in CWS, Part B, §§7.97–7.105, the BBB-commissioned Ipsos Year 3 report (now published) {GP/167 – INQ000625042} found that CBILS and CLBILS met their:

a) Short-term objectives by:

i. Delivering finance at a scale and speed that would not have been otherwise possible. Without the schemes, 69% of borrowers would not have secured sufficient external finance, and 8% would have faced delays or unfair terms.

ii. Complementing other support measures, such as the Coronavirus Job Retention Scheme. Econometric analysis showed a positive impact on turnover and employment, with nearly a million jobs potentially saved. Despite accessing other support, many businesses reported the loan schemes were vital to their survival;

b) Medium-term goals by providing funding that was largely additional — 77% of loans were considered funding that would not have been available otherwise. Most borrowers (68%) used the funds for working capital, cash flow, or day-to-day operations; and

c) Long-term objectives, the report recommended further evaluation in future years. However, it found that, as of the report's publication, the schemes had already played a key role in supporting business survival and boosting turnover.

5.128. I have been asked whether CLBILS was value for money. In short, yes. Furthermore, I note that, in terms of the Ipsos Year 3 report, it has been assessed to represent value for money, though on a much smaller scale compared to CBILS and BBLS. CLBILS generated an estimated £7.9 billion in economic benefits. CLBILS provided targeted support to large, established businesses that were otherwise unable to access commercial finance during the pandemic. While the scale of CLBILS was smaller than CBILS and BBLS, this was expected. It was designed to support larger, more established businesses, which typically had better access to finance and stronger repayment capacity. Additionally, as noted in the Ipsos Year 3 report, CLBILS borrowers generally repaid loans promptly and in full, resulting in low levels of unrecovered debt and minimal fiscal risk to the government. Although the absolute economic impact of CLBILS was smaller than CBILS or BBLS, its value for money ratio was strong, particularly when considering the lower risk profile and efficient deployment of funds.

5.129. Insofar as I have been asked whether CLBILS adequately safeguarded public funds and reduced the risk of fraud and error, my view is that CLBILS incorporated several measures aimed at safeguarding public funds and mitigating the risk of fraud and error. These included:

a) Unlike BBLS, CLBILS required lenders to conduct their standard commercial due diligence before approving loans. This helped ensure that only viable businesses received support, thereby reducing the risk of default and misuse

of funds {GP/168 – INQ000625880}, {GP/169 – INQ000625881}, {GP/116 – INQ000563950}, {GP/170 – INQ000564095}.

b) The scheme offered an 80% government guarantee, meaning lenders retained a 20% exposure. This incentivised prudent lending decisions and discouraged excessive risk-taking.

c) BBB maintained close oversight of accredited lenders and implemented monitoring of lending.

5.130. Insofar as I have been asked whether any gaps in support were identified in CLBILS, and how they were addressed — as well as whether any gaps went unrecognised.

5.131. At launch, fewer lenders were accredited for CLBILS compared to CBILS, which may have constrained access for some applicants. To rectify this, the BBB expanded lender accreditation over time.

5.132. Looking back, I don't identify any major aspects of the CLBILS design, implementation, or delivery that I would have approached differently. While the scheme was new territory for the BBB, they remained the most appropriate organisation to deliver it, given their experience and infrastructure. CLBILS was deployed effectively, and available data on repayment performance, fraud, and error rates suggest that it delivered good value for money and met its intended objectives.

Section 6: Bounce Back Loan Scheme (BBLS)

Introduction

6.1. In this section I set out my involvement in the design, implementation and delivery of BBLS, including consideration of counter fraud measures after the scheme's launch.

6.2. For clarity, I refer to this scheme as BBLS in this section, but in the early stages of its development, the proposed name for this scheme was Coronavirus Small Business Interruption Loan Scheme (CSBILS). The acronym CSBILS appears in many of the early underlying documents, and some quotations from the same, set out below.

6.3. Where necessary in order to provide context, I include below some events in which I was not directly involved at the time. This is based on my review of documents provided to me (as set out at §1.1 above).

Objectives of BBLS

6.4. As I have explained in Section 4 (§4.163, §4.173 and §4.175), while CBILS broadly fulfilled its primary aims and enabled access to critical liquidity to businesses disrupted by the pandemic, CBILS also faced real challenges with keeping up with the rapidly growing demand (as outlined in CWS, Part B, §10.20). I recall that the Department received feedback from a range of sources following the launch of CBILS, examples of which are noted below (and see CWS, Part B, §§4.5-4.11), to the effect that smaller SMEs were unable to access the finance that they urgently needed. In this context, my understanding is that the rationale behind the introduction of BBLS was to respond to the concerns raised by the business community that CBILS was not doing enough at sufficient pace, to provide necessary financial support to smaller enterprises. In particular, a real challenge of CBILS was the initially slow rate of applications being processed; as at 23 April 2020, there was a "*significant backlog*" of CBILS applications in the system {GP/090 – INQ000563987}. One cause of the rate of processing applications failing to keep up with demand was lenders having to undertake their usual checks in accordance with normal lending practices. Some SMEs were finding the application process difficult, lenders were hesitant to extend small loans to them (e.g. due to CCA implications), or they could not get support through their existing lender. Comparisons were increasingly being made to international support e.g. German and Swiss schemes, which both included a 100% guarantee. Calls were growing for the Government to act. BBLS was a scheme formulated and led by the Chancellor in response to these specific challenges with CBILS: their very clear intent was a new scheme "*that will achieve faster claims processing and broadly follows the approaches taken in Germany and Switzerland.*" {GP/171 – INQ000563984}.

6.5. BBLS was announced on 27 April 2020 and opened to applications on 4 May 2020. In contrast to CBILS and CLBILS, loans under BBLS had a 100% government guarantee against the outstanding balance (both capital and interest), although the borrower remained liable for the entire loan. BBLS closed to applications on 31 March 2021.

Chronology of my involvement with BBLS from late March to 27 April 2020 (announcement of BBLS)

6.6. In this section I set out my involvement as relevant to the initial design, and timing of BBLS, including consideration of risks of the proposed new scheme. As the Director responsible within BEIS, it was my job to ensure the Secretary of State and Permanent Secretary received timely, objective advice, and to lead the collaboration with BBB (which I sponsored) and HMT to deliver the ministers' policy intent. It was a significant responsibility, and I was aware of that at the time. I was grateful for the excellent support of my line manager and various Permanent Secretaries. The advice I provided included written advice to the Secretary of State (along with other BEIS officials) prior to the scheme being announced on 27 April 2020 by the Chancellor. I also had regular calls with the Secretary of State and frequent exchanges with his private office (as to calls, see §1.8 above).

6.7. For context, as previously mentioned, the design, key features, and timing of the new scheme were led by the Chancellor, with input from HMT officials. I worked closely with HMT officials prior to the announcement of BBLS, seeking to understand the Chancellor's objectives, representing the views of the Secretary of State, and contributing my own insights, challenges, and ideas.

6.8. The Chancellor was advised by HMT officials, not by me (or other BEIS officials) directly, though on the advice of BEIS officials, the Secretary of State wrote to the Chancellor raising some concerns about the proposed new scheme on 24 April 2020 (as explained further below). BEIS officials were transparent with HMT on how we were advising the Secretary of State.

6.9. By way of example of relevant feedback received about gaps or challenges in CBILS in late March/early April 2020, as mentioned above at §6.4:

a) On 25 March 2020, I was forwarded an email chain regarding the perceived lack of loan help for small businesses under CBILS {GP/172 – INQ000563892}. The feedback came from Stephen Murphy of Rally Capital. In his view, the banks were taking *"no risk"* and the existing loan scheme was not likely to result in any support being extended to small businesses. He considered it a

"disgrace" that the banks were asking for personal guarantees for companies to access CBILS. I replied to the email chain noting that, as to personal guarantees, we were picking up "*a lot of feedback/confusion on this point*" and stating that BBB were working up more guidance {GP/173 – INQ000624869}.

b) In a BEIS 'Rolling brief' document for 1 April 2020, collecting stakeholder comments, there were comments about problems with CBILS {GP/174 – INQ000563913}. I recall receiving these 'rolling brief' documents at the time. One comment mentioned businesses being unable to access CBILS due to banks refusing to take on new customers. Another said that cashflow was an "*urgent concern for many businesses*" and that it was vital that government support reached businesses *"on the ground"* as soon as possible. Stephen Jones (Chief Executive, UK Finance) was quoted as saying: "*The terms require the loan to be viable for the lender. Clearly, it's debt that needs to be repaid, and the key will be to assess whether a business can support such debt*."

c) On 5 April 2020, Stephen Jones emailed the Permanent Secretary and the Second Permanent Secretary at HMT (Charles Roxburgh), about the ability of CBILS to cope with anticipated volumes of applications {GP/175 – INQ000563930}. He stated:

*"**There seems no good reason why a simple checklist and self-certification from customers with sampled assurance cannot be housed on a customer accessible portal at BBB end providing a unique reference to the lender to enable them to apply CBILS to their customers** … I will be speaking to Keith Morgan at BBB this evening but am concerned that the BBB will not be able to deliver the capability to process perhaps a million CBILS loans over the next 4 weeks without a fundamental change of approach, to the detriment of the reputation of both the banking industry and government."* (original emphasis)

d) I was copied into a reply to Stephen Jones' email on 5 April 2020 by Jo Shanmugalingam, in which she stated that the Department was "…*absolutely committed to work with the sector and the BBB to ensure that CBILS can operate as rapidly and effectively as intended – and I know that BBB are very alive to the operational challenges…"* and explaining that I was leading the BEIS team responsible for BBB and CBILS, working in partnership with an HMT official, Gwyneth Nurse. Later that same day, I replied to Jo Shanmugalingam

and the Permanent Secretary only stating that "*The other side of the equation is how much we are willing to trust the banks to implement the scheme with fewer checks, and there will be MPM considerations here. Assurance vs speed.*" {GP/176 – INQ000625140}.

e) On 11 April 2020, the Shadow Secretary of State, the Rt Hon Ed Miliband, wrote to the Secretary of State regarding CBILS {GP/177 – INQ000563951}. Ed Miliband said that data had suggested that *"…a relatively small number of UK businesses [were] accessing funds, as low as 1% in some surveys.*" He raised a number of issues with CBILS which, he said, required "*urgent resolution*" (see CWS, Part B, §4.10). In particular, he said that the 80% guarantee should be raised, thereby expediting applications by removing or reducing the remaining risk borne by financial institutions. He cited Germany as a comparator, which had moved from an 80% to a 100% government guarantee. He further argued that under CBILS, the loan process was not simple or speedy enough, and suggested *"…a simpler, standardised application process … so businesses can access funds much more quickly*", similar to Switzerland's form.

6.10. On 14 April 2020, I was forwarded an email exchange about how Switzerland was implementing its loan scheme for Covid-19 by a BEIS official {GP/178 – INQ000596724}. The BEIS official noted that the Secretary of State had been asked about the comparison with Switzerland on a recent TV interview and he "*guess[ed] [it] might be something the SoS gets asked more about*". The emails forwarded to me showed that, on 7 April 2020, the Department had asked the British Embassy in Bern for information on the implementation of the Swiss Covid-19 loan scheme and how the application process for businesses operated so quickly, with payments transferred within the hour. The correspondence stated that BEIS were facilitating biweekly calls between the Secretary of State, the large BROs and others regarding the Covid-19 loan schemes, and that on these calls, the speed of payments being made to businesses came up regularly. The response from a British Embassy official emphasised the overall performance and cooperation of different government departments, as well as *"…cooperation with the banks on the basis of a common understanding that this is an emergency situation. On top of that there was a clear political will to develop a solution and ensure a fast and effective implementation.*" The *"political will"* included the State's willingness to offer 100% guarantees. Switzerland also had a pre-existing loan guarantee system for SMEs, which the official considered

might have played a role. Swiss banks were conducting identification and money laundering checks, but *"…no in-depth credit assessment*".

6.11. On 15 April 2020, a call took place between the BROs and the Secretary of State. A summary of the call {GP/179 – INQ000596725} was sent to me early afternoon that day {GP/180 – INQ000625092}. I am not listed as an attendee in the summary, and the meeting invite suggests I did not attend {GP/181 – INQ000625078}. In that meeting, there were some calls for the Government to consider 100% guarantees for loans, potentially restricted to smaller loans. The Secretary of State gave this response to the BROs:

> *"…Switzerland and Germany particularly have 100% guarantee loan schemes. If you look at different elements of different types of schemes that other jurisdictions have, you could do a mix and match, but if you look at what we are offering, it's not as if we are not stepping up. We are always open to looking and learning, but my sense of it right now is that the reason that CBILS is not moving as fast as we would like, it's for other reasons, eg a bunch of providers that have come in that aren't used to dealing with the BBB, lots of new staff in the banks, and so on. I'm not speaking on behalf of the banks, but there are other reasons. Germany has a model completely different to ours where historically the government is able to give loans direct to businesses. Personally, what I would like is to see if we can get this model to work, whether we will see an acceleration of loans going out of the door."*

6.12. On 16 April 2020, the acting Permanent Secretary, asked me and other BEIS officials how the Department could assess, from an Accounting Officer perspective, changing CBILS to a 100% guarantee scheme as the Chancellor had raised this potential amendment to CBILS {GP/086 – INQ000563961}.

6.13. Also on 16 April 2020, Stephen Jones circulated a proposal for a short-term SME bridge aimed at supporting smaller businesses facing immediate cash flow challenges and delays in the deployment of small CBILS loans. He noted that the proposal would allow CBILS to continue operating as intended—providing support to viable, credit-assessed businesses under the 80% government guarantee—while offering temporary relief to smaller firms needing urgent reassurance. In a follow up email on 17 April 2020, Stephen Jones noted:

> *"The pressure to move to 100% guaranteed CBILS seems to be rising. I am concerned about the damage this will do to continued successful and wider*

deployment of the existing CBILS scheme and the assumption that proponents for 100% guarantees make that somehow money will flow straight out of the door. If banks continue to have to assess eligibility under current parameters and at their risk so far as the availability of that guarantee is concerned (backward looking viability and forward looking loan affordability), and if the Consumer Credit Act implications for smaller loans cannot be disapplied, 100% guaranteed CBILS loans will not work to get money out of the door to SMEs significantly faster.

The only alternative to 100% guaranteed overdraft with limited recovery obligations at the back end as contemplated – as proposed in the attached – is a straight grant by government to all SMEs. The proposed guaranteed overdraft may be subject to some fraud risk - but it will be much cheaper for the taxpayer than a grant of an equivalent quantum." {GP/182 – INQ000625838}.

6.14. I shared the proposal with my team the following morning {GP/183 – INQ000625831}. In response, Francis Evans commented that it was a strong option, noting it would provide "…*just enough time to get CBILS going properly*." I then suggested that Laurence Pawley reach out to HMT to discuss the proposal further.

6.15. Later that morning, I sent an email to my team to explore ways of getting funds to SMEs quickly. In the message, among other points, I explained that UK Finance had submitted a proposal to BEIS and HMT. I noted that this approach might be "… *much quicker to operationalise than amending CBILS*" {GP/088 – INQ000625839}.

6.16. On 17 April 2020, I sent an email to the acting Permanent Secretary and others {GP/087 – INQ000585567}. I attached two papers produced by UK Finance: 'Operational improvements that could be made to the CBILS to accelerate access to funding' {GP/184 – INQ000596667}, and a draft proposal dated 16 April 2020: 'A proposal for temporary financial support for smaller SMEs pending more comprehensive roll-out of CBILS'. {GP/179 – INQ000596725}.

6.17. In my email, I analysed the problem relating to CBILS as primarily being money not getting to SMEs quickly enough. I presented three proposals to address this:

a) Speed up the loans. I explained that finance under CBILS was slower than comparative schemes in Germany and Switzerland because the eligibility tests were simplified for those schemes, the lenders did not have to take a risk judgment and the CCA did not apply to small business lending in those

countries. I also considered that if the Government did move to provide a 100% guarantee they would need to consider whether to do so for all CBILS loans or just for smaller amounts. This would then introduce complexity that BBB and bank systems may not be able to support;

b) Increase supply of loans to those requiring smaller amounts of support by accrediting more providers willing to offer these smaller loans more quickly and at greater risk (at higher rates/fees); and

c) Consider alternative ways to get money to SMEs quickly, including through a government underwritten temporary overdraft extension. This was considered to be potentially quicker to operationalise than amending CBILS.

6.18. As is apparent from my email {GP/087 – INQ000585567} at this point I had concerns that moving to a 100% guarantee could introduce further complexity for BBB and bank systems, as discussed in more detail at §§4.151- 4.152 above.

6.19. As to the first paper attached to my email of 17 April 2020, 'Operational improvements that could be made to the CBILS to accelerate access to funding' {GP/184 – INQ000596667}, UK Finance proposed various operational improvements that could be made to CBILS to accelerate access to funding (as outlined in CWS, Part B, §4.16).

6.20. As to the second paper attached to my email of 17 April 2020, {GP/185 – INQ000596668}, a final version of this proposal was circulated several days later, as explained below.

6.21. On 19 April 2020, I circulated the latest version of the UK Finance proposal to my team, which had been attached to Stephen Jones's email of 16 April 2020, as referenced in §6.13 above {GP/186 – INQ000625840}.

6.22. At 8:31pm that evening, I sent an update to the acting Permanent Secretary {GP/187 – INQ000625837}:

> *"You'll have picked up in press this weekend that the pressure is mounting on 100% guarantees. Have been exchanging with HMT lead director, Gwyneth, and her team have started thinking across the four areas I mentioned in my email end of last week:*
>
> • *To what extent some greater form of automation/simpler checks, as per the UKF proposals, would speed things up at the lower loan end (if ministers were happy with greater legal/fraud risk)*

- *What more could be done on CCA*
- *Even if we did move to 100% for lower amounts, could the banks operationalise this differentiated product, and would we allow it for all lenders (eg funding circle?)*
- *Is a different solution better - eg UKF bridging overdraft idea?*

We're catching up with HMT counterparts in the morning to agree an action plan and how best to engage BBB/UKF."

6.23. On 20 April 2020, Stephen Jones emailed to me, others in the Department, and HMT the final draft of the UK Finance proposal, now titled, 'A *proposal for temporary financial support for smaller SMEs complementing CBILS and the Job Retention Scheme*' {GP/188 – INQ000596670}. The email chain discussed the pressure mounting to move CBILS to a 100% guaranteed scheme, about which Stephen Jones had expressed concerns; as set out above at §6.13 {GP/189 – INQ000585577}.

6.24. The proposal detailed UK Finance's views on the 'problem':

a) Short-term cash-flow pressure was mounting on SMEs, and if SMEs were to fail, it would be significant economically, in terms of the cost of unemployment and other benefits, lost economic capacity, and socially;

b) CBILS deployment at scale was complex and UK Finance invited the reader to *"…see separate UK Finance paper making suggestions to improve efficiency of deployment and under discussion with BBB and officials*" (i.e. the paper titled 'Operational improvements that could be made to the CBILS to accelerate access to funding' referenced above, §6.19);

c) Smaller CBILS loans were difficult to deploy because smaller SMEs were treated as consumers for regulatory and legal purposes in the UK under the CCA. As a result, a number of CBILS lenders were not operating in the sub-£25,000 loan space;

d) Pressure was mounting for the Government to move to a 100% guaranteed scheme similar to the German scheme, *"…but without real consideration of the consumer credit difficulties of deployment specific to UK, not EU, rules and volume process constraints of existing British Business Bank EFG rails*"; and

e) UK Finance was of the view that if the Government were to move CBILS to be 100% guaranteed, they would need to allow self-certification by applicants and

suspend consumer credit regulations and laws, for credit to be able to flow faster to applicants.

6.25. The following solutions were proposed:

a) Government-guaranteed overdraft facility attached to SMEs' business current accounts on application;

b) Eligibility based solely on self-certification with no further bank due diligence required for the applicant to qualify, and no security required;

c) A maximum loan term of 12 months, with a maximum guaranteed limit of 25% of 2019 turnover (self-certified) with a cap of £25,000 in total, including previous borrowings;

d) 100% coverage of losses on default by HMT, and *"…no quibble refund with no material recovery/enforcement against defaulting borrower by banks required";*

e) No requirement for BBB involvement; and

f) No State aid issues warranty from the Government.

6.26. UK Finance set out the key questions for the Government to consider before introducing a scheme. These included:

a) Moral hazards (e.g. fraud relating to self-certification eligibility criteria);

b) State aid limits;

c) Scheme terms (deployment may be delayed if the product was not an existing product);

d) Level of guarantee (likely to be necessary for an entire overdraft to be 100% government guaranteed with uniform pricing);

e) Upper threshold (to consider whether the maximum of 25% of 2019 turnover up to £25,000 cap addressed the majority of the problem for SMEs to whom financial assistance had not arrived quickly enough); and

f) Equity gap for loss-making companies (not addressed by the proposed scheme *"…other than possibly as a bridge to more permanent funding*".)

6.27. Having considered the reports from UK Finance, BEIS and HMT officials continued discussions on the proposal for a 100% guarantee scheme {GP/190 – INQ000625843}.

6.28. On 19 April 2020, I proposed arranging a call with Gwyneth Nurse and expressed the importance of BEIS coordinating closely with HMT in its engagement with the BBB, as well as in advising ministers and the acting Permanent Secretary {GP/191 – INQ000625833}.

6.29. Following the call with HMT on 20 April 2020, I sent an email to my team and HMT confirming next steps {GP/192 – INQ000625842}.

6.30. On 21 April 2020, I wrote to Gwyneth Nurse {GP/193 – INQ000543163}. I confirmed that I preferred *"…tweaking CBILS (eg. changing terms so those under eg £30k are 100% guarantee) rather than creating a new scheme, which would have [the] same problems with roll-out*." Gwyneth Nurse responded with the following:

> *"Will come back in more detail but, on the question of just removing CCA for CBILS we have become a little nervous following further work yesterday. As we dig into it it appears that although the CCA would remove hassle for the banks, having to do the viability test means that they would still be tangled up in what they consider red tape so we are concerned that we make the change (with the downsides that brings in terms of small business protection) and it doesn't make a material difference. Wanted to mention now before that gets a head of steam. I basically think where we are trying to get CX is if he really wants a speedy scheme a la Swiss then CCA is one feature but quite a few other features need to be different so CCA removal on its own in CBILS as it stands not a good option."*

6.31. Later that same day, I responded to Gwyneth. In respect of her point that CCA removal was not a good option, I stated: "*Doesn't solve things on its own, but combined with more self-certification (for smaller loans only), could still be powerful?*" {GP/193 – INQ000543163}. Gwyneth Nurse replied, at 18:03 on 21 April 2020:

> *"I think the problem is that you end up having to do quite major surgery to CBILS to get this to work (think you would also need to take out the portfolio cap for one but there are quite a few other things) and I'm still not sure it gets you home in terms of really getting lending flowing out of the door fast. So I'm afraid our thinking is definitely now in the space of if you really want to sort out problems at the micro end (sub £25k or maybe sub £50k loans) you need a separate guarantee scheme to deal with this afresh but still based around EFG rails (so CSBILS I guess)…."*

6.32. As is apparent from the correspondence above, at §6.31, my suggestion at this time was to 'tweak' the existing scheme, CBILS, rather than creating an entirely new scheme which, I considered, "*would have the same problems with roll out*" as CBILS.

6.33. As I explained above in Section 4:, there are various reasons why at the time I was in favour of 'tweaking' CBILS. In particular, I felt this had the potential to help clear the backlog without the delays, risks and complexity associated with launching an entirely new programme.

6.34. As is also apparent from my emails with Gwyneth Nurse above, HMT confirmed that its priority was to ensure speed of delivery of finance.

6.35. On 22 April 2020 at 13:48, Angelina Cannizzaro sent me an email {GP/194 – INQ000625105} forwarding me a submission by HMT officials to the Chancellor, dated 21 April 2020 {GP/195 – INQ000563981}, about the potential new 100% guaranteed instant loan scheme for small businesses i.e. BBLS. HMT said that the Chancellor was very interested in the proposal. Stakeholder feedback had led HMT to consider the design of European loan schemes, such as that of Switzerland and Germany, and whether adopting similar approaches would address issues with CBILS. The final design of the new BBLS scheme was similar in some ways (i.e. 100% government-backed guarantee) to schemes in other countries. I understand that, in particular, the Chancellor modelled BBLS on the Swiss scheme, including a standardised one-page form with a self-declaration {GP/196 – INQ000543160}.

6.36. HMT recommended an announcement around 1 May 2020, anticipated that it would take two weeks to get the scheme fully operational, and therefore proposed targeting a launch date of 15 May 2020 at the earliest.

6.37. In HMT's submission to the Chancellor, HMT officials advised that for some of the smallest businesses seeking small loans *"…the unfamiliarity with bank processes for lending combined with eligibility and process barriers for the existing CBILS scheme [were] hampering volume lending at speed.*" Further, that the new scheme could present a significant financing pressure to the Government in the short-term and significant fiscal risk in the medium term.

6.38. HMT proposed the following scheme design to the Chancellor:

a) Applications to be made through a simple online form, relying on applicants to self-certify that their business was not in difficulty before Covid-19 (similar to the Swiss model);

b) Loans to be disbursed to businesses within 24 hours of application;

c) Government to guarantee 100% on small loans of up to 10% of the business' turnover, capped at £25,000 (or up to a turnover limit of 25% capped at £50,000);

d) 0% interest rates and fees for the first year for the borrower, to avoid BBLS being portrayed as an inferior alternative to CBILS;

e) Scheme to be administered by BBB; and

f) Maximum loan term of six years (with a preliminary cost estimate of £6 billion over the six-year period).

6.39. HMT advised that its discussions with lenders and UK Finance had led it to conclude that loans below £25,000 were difficult to deploy at pace. They considered that to do so would require:

a) The Government to provide a 100% guarantee for the loans to remove any 'skin in the game' for the lenders;

b) The removal of the need for the lenders to assess viability of the applicant businesses by simplifying the application form and including the self-certification mechanism which would not be subject to independent verification by the lenders; and

c) Disapplication of the CCA, legislation intended to protect borrowers from unscrupulous lending which was an obstacle to lenders getting loans out at speed.

6.40. This advice highlighted for the Chancellor numerous risks that could be associated with the scheme, including that:

a) Reduced checks would mean heightened fraud risks particularly in relation to new customers; and

b) Issues could arise with pursuing the repayment of loans in view of the 100% government guarantee, because there were risks that (i) lenders would provide loans liberally and not actively pursue repayments; and (ii) borrowers would not feel they needed to try overly hard to make repayments.

6.41. HMT's submission addressed a number of similar schemes internationally that featured a 100% guarantee. Comparisons were made as follows:

a) HMT officials recommended limiting the amount of finance that businesses could access based on their turnover, stating, the "*…German and French schemes' limit is 25%. However, a more reasonable starting point might be to explore a 10% limit with business groups and the banks (as in the Swiss scheme)…"*;

b) The simple application form for BBLS was to be similar to the Swiss model; and

c) The German scheme was incentivising lenders to pursue repayments even after the government guarantee had been paid out by allowing them to retain up to 10% of the total. This was proposed as an option for the Chancellor to pursue for BBLS. HMT officials proposed that there should however be a time limit on how long the lenders should pursue recoveries for, for instance 18 months after the date of repayment had passed.

6.42. On 22 April 2020, at 20:41, Jo Shanmugalingam, emailed the acting Permanent Secretary and me in respect of a call she had held with the Second Permanent Secretary at HMT (Charles Roxburgh) {GP/197 – INQ000625844}:

> *"Charles called about CX plans for new CSBILS scheme (S for Small). No news on substance beyond info HMT shared with the team this pm (aimed at sole traders with intertwined personal/business finances). He was principally calling conscious that CX is devising schemes which then fall to our SoS and Sam as AO and to emphasise:*
>
> - *CX very determined this new scheme will be delivered*
> - *AO/technical issues particularly complex - specifically disapplication of Consumer Credit Act through the Insolvency Bill, and how scheme can operate in advance of that.*
> - *HMT empathise with BBB/our bandwidth issues - happy to consider any creative solutions (outsourcing scheme design/delivery etc) and will make us/BBB good on funding."*

6.43. On 23[11] April 2020 at 10:08, Gwyneth Nurse emailed me and other BEIS officials {GP/198 – INQ000625107}, explaining her view that to make a 100% guarantee small loans scheme work, the government would need to remove other regulatory and legal requirements, including potential, urgent changes to the CCA. She recognised such

[11] To note, in error, the CWS states that this email occurred on **20** April 2020 (CWS, Part B, §4.30).

changes, which meant removing protections for micro businesses lending, could be controversial but considered them necessary "*…in order to allow loans to be made under CSBILS as quickly as is being achieved in other countries and bearing in mind the scale of the crisis…"* She queried using the Insolvency Bill to effect changes to the CCA. There was various correspondence within the Department about this proposal, in particular, later that same day, I was copied into an email with the 'lines to take' for the Secretary of State's private office {GP/199 – INQ000625109}. In an update several days later to the Secretary of State (dealt with below at §6.91), BEIS officials and I stated that removing certain protections normally available to borrowers, including disapplying the CCA, was viewed by HMT as "*…an essential step to achieve the policy intent"*. {GP/200 – INQ000576393}

6.44. At 10:11, an HMT official (David Raw) sent an email to BBB and BEIS, which included me, stating: *"…[t]here have been developments here following a late night CX call that I am very keen to discuss with you (I tried calling). The Chancellor wants us to proceed with a 100% guarantee scheme for the smallest loan sizes (I know Gwyneth has already flagged this as a possibility) and has views on what it should look like. The attached is our best efforts at reflecting these steers."* I replied stating that we should set up a call to discuss {GP/201 – INQ000625846}. The attachment to David Raw's email was entitled 'Chancellor steers' {GP/202 – INQ000625845} and set out some proposed features for the new scheme, for example a 100% guarantee per loan, borrowers to complete a self-declaration in a standardised online form, no personal guarantees, and that the scheme administration was to be based on the web portal used for the EFG and CBILS schemes. It also stated that "*Borrowers under this scheme must not have used CBILS or CLBILS"*.

6.45. Also, on 23 April 2020 at 11:02, Angelina Cannizzaro sent an email to the Secretary of State's private office and BEIS officials, including me {GP/203 – INQ000585581}. In this email she provided advice for the Secretary of State in advance of a meeting he was due to attend with the Chancellor at midday that day on the proposals for the new scheme, including on the potential need to disapply the CCA and on various decisions that the Chancellor had made in relation to the scheme. She commented that the Chancellor was keen to proceed with BBLS and that:

> *"Our main concern at this point is that the removal of CCA protections increases the risk of loans being given to businesses who shouldn't be getting loans, particularly when this is combined with the 100% guarantee (though we can see why Cx would want to speed up processing in as many ways as*

possible). The other major issue is that we do not have a sense of demand in this space and so cannot assess the vfm of the scheme. We cannot assess the benefits this will bring."

6.46. In addition, Angelina Cannizzaro set out the difficulties associated with achieving the necessary changes by way of primary legislation and explained there was a question of deliverability and aiming for a sensible launch date to ensure an effective roll out of the scheme. The "*only realistic, and certainly the fastest"* delivery mode for the new scheme would be through BBB, and they were working at capacity to deliver the existing schemes, and rapidly working up the convertible loan scheme announced that week (the Future Fund, discussed in more detail in Section 5:). Although BBB had shown their ability to work at pace, BEIS officials considered it unlikely that they could deliver this scheme to the timetable the Chancellor wanted, alongside the existing schemes, with a proposed launch date in May 2020.

6.47. Following the email above, I emailed the acting Permanent Secretary, at 14:05 on 23 April 2020, reproducing Angelina's *"short update"* to the Secretary of State {GP/204 – INQ000625112}. I explained that the proposed new scheme was not, ultimately, discussed between the Secretary of State and the Chancellor in their noon call. I further stated that the team were working on a submission to go to the Secretary of State that afternoon, and the early view was that the changes may require a ministerial direction. I stated that the Department was working with HMT officials to make sure that detailed advice on these changes and associated risks was drawn out for the Chancellor and the Secretary of State and "…*pushing HMT to explore HMRC-delivered repayable grant model as an alternative.*" I further stated that some of the proposed changes had merit, but: "*As ever, our challenge is quantifying these costs and benefits to determine whether the increased risk on liabilities is outweighed by benefits of getting money to good businesses that would otherwise fold*".

6.48. As this email suggests, at that time, in my view, it was not straightforward to assess the trade-off between urgently providing financial support to prevent business closure, when set against the potential increased risks of fraud and defaults. I note that I referred to an "*HMRC-delivered repayable grant model"*. To the best of my recollection, at this time, BEIS officials were, with BBB, looking at other mechanisms to disburse far-reaching finance at pace, whilst minimising potential losses to the taxpayer, though I do not recall this specific proposal being considered at length. This would have required HMT support to progress further as it was not something which BEIS could have operated.

6.49. A discussion then took place between the acting Permanent Secretary, UKGI, Angelina Cannizzaro, and me regarding potential alternative structures {GP/205 – INQ000625847}.

6.50. At 18:04, I emailed my team to note that I was keen to defer the full Accounting Officer Assessment and decision on direction until we had a fully developed scheme in place i.e., not at the point of announcement, but prior to launch. This approach was consistent with the processes for CBILS and CLBILS {GP/206 – INQ000625114}. We would nonetheless keep the Accounting Officer and Secretary of State appraised of the emerging assessment of the scheme ahead of the final advice.

6.51. On the same date (23 April 2020), by emails sent at 19:06 and 19:16 {GP/207 – INQ000543170}, BEIS officials (including myself) advised the Secretary of State on the evolving HMT proposals for the new scheme, by way of a written submission {GP/090 – INQ000563987}[12]. This was a significant piece of advice, and I was closely involved in its preparation. To the best of my recollection, a member of my team initiated the draft, which I then contributed to and edited. I would have reviewed and approved the final version before it was sent. It was extremely important to me that the advice was clear and candid, given the pace and significance of the matter.

6.52. Given the challenges of delivering a new scheme at pace, we advised against committing to a date at this point and cautioned against the making of any announcement until further work had been done on delivery options. As to BBLS, we noted that a further ministerial direction may be required.

6.53. The overall recommendation was to invite the Secretary of State to note:

> *"That criticism of CBILS has been primarily focussed on the time taken to process applications, but that the rate and volume of lending is now increasing;*
>
> *That the provision of a new scheme (CSBILS) offering 100% guarantee for small loans would likely enable faster processing of smaller value loans by lenders, but at the cost of elevated risk on a per loan basis to Government as compared to the main CBILS;*

[12] It should be noted that the submission appears on its face to be dated 21 April 2020, but the associated covering email shows that it was sent to the Secretary of State's private office late on 23 April 2020

That the Chancellor is separately pressing for changes to CBILS to remove the portfolio cap and simplify the viability test, which has implications for the liability incurred by BEIS;

That there are several other routes which could be explored to further simplify the scheme or otherwise increase pace – these could be delivered instead of, or alongside, a new scheme;

That there are significant doubts about the capacity of the British Business Bank to implement a new scheme at the pace proposed, and a range of delivery options which merit exploration in pursuit of the policy objective to deliver lending to smaller businesses; and

Delivering the new scheme would require amendments to the Consumer Credit Act, and Financial Services and Markets Act. HMT want to use the Insolvency Bill for this which carries some risk."

6.54. The Secretary of State was asked whether, bearing in mind these points and noting the risks explored in the advice, he agreed that the Government should devise a new 100% guarantee scheme for smaller loans. The submission also set out further analysis of the case for the new scheme and the risks of it, including in relation to:

a) Impact on borrowers. It would enable some businesses to access finance who were previously unable to do so, however the self-certification mechanism also carried risk that non-viable businesses might obtain funds;

b) Impact on lenders. Lenders would potentially have minimal incentive to pursue recovery due to the Government's 100% guarantee, which could again lead to lending to businesses who are not capable of repaying the loan. The impact of this would be exacerbated by the disapplication of the CCA;

c) Delivery. BBB was identified as "*The only realistic, and certainly the fastest delivery mode*." However, it was explained that BBB was already working at full capacity delivering the existing Covid-19 loan schemes. The Chancellor's preference was for a single portal that businesses apply to, which would then allocate out the loans to lenders. It was set out that while this may simplify the scheme for borrowers it would introduce a new level of delivery complexity as no such portal existed at the time;

d) Financial considerations. The advice was that, at that stage, there was no estimate of the impact that the new scheme might have on demand and

therefore on the lending and liability borne by the taxpayer, but BBB and the Department were working to deliver estimates as quickly as possible. It was anticipated that a move to 100% guarantee could lead to a major increase in demand, and it would only need a proportion of the estimated 3.2 million unregistered companies (2.6 million registered) to apply to drive a significant liability. There would be fewer controls in place, reducing value for money and increasing the overall risk;

e) Fraud risk. It was emphasised that consideration would need to be given during the scheme design on how to minimise fraud risk, including how authenticity of the business would be demonstrated, how to deal with multiple applications and design of a cut-off point, with only businesses that were established before that point being eligible to apply; and

f) State aid. It was explained that the scheme would fall within the permitted amounts that could be lent under a 100% guarantee (under the State aid de minimis regulation and the Temporary Framework) provided that arrangements were in place to ensure that any benefit lenders get from the guarantee were passed through to the borrower. That would require lenders to reflect the lower risk profile in the costs charged to borrowers.

6.55. Based on these factors, in this submission, we advised the Secretary of State that:

> *"Introducing a new scheme based on a 100% guarantee would be a high impact and high visibility intervention, particularly if combined with disapplication of the CCA for loans under £25,000. However, it comes with significant financial and reputational risk for Government and would add further complexity for delivery. Furthermore, statistics for CBILS are improving and it is difficult to quantify the additional benefit this scheme would provide. We are also concerned about BBB's ability to deliver a new scheme and that banks will still struggle to process loans swiftly despite the streamlined scheme design."*

6.56. At 19:33, I emailed the advice sent to the Secretary of State's private office by Angelina Cannizzaro earlier that day, referred to in §6.45 above, to the acting Permanent Secretary. I noted that it was "…*really important HMT senior team have full understanding of these, and also appreciate how hard BBB and BEIS are working to balance maximising take-up of these schemes with protecting taxpayers*". {GP/208 – INQ000625848}

6.57. I was not comfortable to recommend pursuing the 100% guarantee scheme at that point, given the significant risks and substantial work needed to assess how it would be delivered and costs. As such, the 23 April 2020 submission noted the Chancellor's desire for such a scheme, explained the delivery, financial, fraud and legal considerations and asked "*Bearing in mind these points and noting the risks explained above, do you agree Government should devise a new 100% guarantee scheme for smaller loans (CSBILS?). If you wish to proceed, we will work with HMT and BBB to further assess costs, VfM and risks*".

6.58. On 23 April 2020 at 19:54, after the submission above was sent to the Secretary of State, I shared further concerns by email with his private office {GP/207 – INQ000543170} (copying senior BEIS officials as well as the private offices of Special Advisers, Minister Zahawi and Minister Scully):

> *"The BBB have got wind that the* ***FT plan to lead tomorrow with an article on CSBILS*** *…[The] Secretary of State has barely had chance to consider the quite considerable risks of this and the wider CBILS changes CX is pushing for. This is starting to look like a fait accompli (and maybe Secretary of State is content with that?) but if he does want some space to consider this properly and also kick the tyres on a sensible delivery timetable, please can you reinforce this point with HMT Special Advisors?"* (original emphasis)

6.59. As this email illustrates, as at this time, I had concerns about the speed at which the proposed new scheme was being developed by HMT. My reference to "*considerable risks"* was to the 23 April 2020 submission and the significant concerns raised by BEIS officials, including me, about the proposed new scheme including: the Department's and BBB's capacity to deliver it at significant speed, our ability to quantify the costs and benefits of the proposals and to assess the feasibility of achieving value for money with the scheme, and the removal of CCA protections. However, as noted in the 23 April 2020 submission, there were fraud risks inherent in the design of BBLS, as proposed by HMT in its 21 April 2020 submission (CWS, Part B, §10.19): noting the 100% government guarantee, that HMT wanted loans to be disbursed within 24 hours, and the self-certification mechanism. At the time, I felt the scheme was exceptional: it had the potential to be far bigger, and carry far greater risks than, previous schemes, in particular, higher rates of credit and fraud losses. As such, it posed greater financial and reputational risks, including reputational risks for BBB. I also felt that there were alternatives which could, potentially, be explored (as noted in the submission, and discussed below).

6.60. Given the information about the Financial Times' article, it was apparent that the launch of the new scheme was gathering momentum, and I considered that the Secretary of State had a brief period to intervene on its shape and timing. As such, I copied in the private offices of the Secretary of State and other ministers to my email above so that they were aware that there was potential for the proposed scheme to appear in the morning press, and that events were moving quickly. Similarly, I copied in the Secretary of State's Special Adviser so that, as I said in the email, issues could be discussed with HMT Special Advisers, if needed. I also copied in the acting Permanent Secretary directly because of the Accounting Officer considerations, as well as the Finance Director and the Legal Director.

6.61. I was also conscious that the Secretary of State had just received our 23 April 2020 submission. In the extraordinary circumstances created by the pandemic, there were challenges with developing unprecedented schemes at considerable pace, and in circumstances where decisions were being made rapidly. There was sometimes a tension between the need to act quickly, and the time needed for officials to prepare advice and for the Secretary of State to reflect on that advice. As noted above at §3.13, HMT were generally open and transparent, and I had excellent relationships with HMT officials; but given the speed of decision-making by the Chancellor it sometimes felt to me that we (BEIS) were playing 'catch-up', which could on occasion be frustrating. The significance of the BBLS proposal was keenly felt by me, my team and my senior colleagues. We all felt that we had very important roles to play in advising ministers, and delivering the scheme, to the best of our abilities. Ultimately though, while it was incumbent on BEIS officials to provide honest and objective advice, it was for ministers to make the judgement about the trade-off between the imperative to deliver finance at pace, and potential risks of the new scheme (e.g. fraud, regulatory requirements, and reputational risks).

6.62. Also on 23 April 2020, BBB sent to HMT and the Department a draft note {GP/209 – INQ000543167}: 'Delivering Small Loans to SMEs COVID Downturn Response', which is discussed in the CWS, Part B, §§4.37-4.39. I was copied in {GP/210 – INQ000543166}. I do not know, or recall being copied into any correspondence, about how this document was assessed by HMT. But in my view, this was not the key document in terms of potential alternatives to the BBLS. Rather, BBB's note concerned how quickly to grow the range of accredited partners, and whether to have a single 'front door'. I do not recall assessing this paper.

6.63. More generally as to alternative delivery options for BBLS, as set out in the 23 April 2020 submission (discussed at §6.51 above {GP/090 – INQ000563987}), BEIS officials advised the Secretary of State that there were "…*several other routes which could be explored to further simplify the* [CBILS] *scheme or otherwise increase pace – these could be delivered instead of, or alongside, a new scheme*". At the time I was happy to recommend further work to explore further changes to CBILS, e.g. removing the forward-looking viability test. The advice noted that the rate of lending through CBILS was rising. Further, I note that BBB suggested that improvements to CBILS might address many of the remaining obstacles to the swifter delivery of lower value loans through CBILS (in a letter of 26 April 2020 copied to the Chancellor's private office, addressed further below; see also CWS, Part B, §4.53). However, HMT's assessment was that 'tweaking' CBILS was not enough and that a new scheme was needed, administered by BBB: this was clear from HMT officials' submission of 21 April 2020 (see above §6.35), the 'steers' from the Chancellor on 22 April 2020 (see above §6.44), and my emails with Gwyneth Nurse (see above §6.31).

6.64. In addition to possible changes to CBILS, the 23 April 2020 submission mentioned an HMRC delivered loan scheme, stating: "*This option would likely have its own delivery challenges, but we recommend that this is urgently tested with HMRC so that ministers can make a more informed decision about the best delivery model.*" Also, as set out above (§6.25), UK Finance had proposed a government-guaranteed overdraft facility. However, alternative models, e.g. a scheme administered by HMRC, would have needed HMT's support to progress and were not considered at length, as I have noted above (§6.48). As we said in our 23 April 2020 submission, if a new 100% loan guarantee scheme was to be introduced at pace, the "*only realistic, and certainly the fastest*" (emphasis added) delivery mode was through BBB. I also note that a substantially different scheme e.g. an HMRC loan scheme was difficult to assess given the proposal was not taken forward, it may have had its own challenges and would have taken time to develop and launch.

6.65. I am asked to give my own view as to why HMT was persuaded that a new separate scheme to CBILS was needed, given the improvement reported in the existing CBILS scheme at the time. While this is primarily a question for HMT, I note that Gwyneth Nurse had explained to me her view that "*quite major surgery*" would be needed to CBILS to achieve HMT's policy objectives (see above, §6.31). I would also note that there had been criticisms of CBILS, as I have explained, and some had called for a fundamental change in approach, for example, the Rt Hon Ed Miliband (see above

§6.4 and §6.9) The Chancellor's assessment was that the guarantee, process of checking borrowers, and the disapplication of CCA all needed to be addressed in order to facilitate faster lending. Collectively this represented a significant departure in design from CBILS and the judgement was therefore made that it should be done via a separate and different scheme. Furthermore, the new scheme was to focus on smaller lending only (up to £50,000), maintaining CBILS for larger sums (up to £5 million).

6.66. With BBLS plans evolving at pace, I was keen to obtain external advice around how to assess the validity of claims for BBLS, and what checks could be put in place to limit fraud. I decided we need to bring in additional expertise on this so on 24 April 2020, in liaison with HMT and BBB officials, I asked BBB to commission PricewaterhouseCoopers (PwC) to carry out this work. On the same day, a PwC team was stood up to address this task. In an email at 13:16 on 24 April 2020 to HMT colleagues, copying BEIS officials, I noted that I appreciated that the Chancellor was moving very quickly on the proposal, but I considered it necessary to obtain external advice to ensure the Department could advise the Secretary of State and Accounting Officer (i.e. the acting Permanent Secretary). I set out what I understood to be the features HMT were proposing for the new scheme, including "…*a large amount of self-certification and a very simple, standardised application form"* and minimising the customer/credit checks that a bank would normally undertake {GP/211 – INQ000563989}. I return to PwC's work on fraud risks below (see §6.100 below).

6.67. At 15:35 on 24 April 2020, I emailed the Secretary of State's private office and the acting Permanent Secretary, attaching screenshots of the Swiss application form and a draft CSBILS application form that HMT had begun preparing {GP/212 – INQ000625115}. I noted that:

> *"…moving to an entirely self-certified application with no additional checks opens up a significant degree of risk, potential for fraud and for businesses that have only just been established or have no trading activity, to claim these loans. Whilst recognising there is a strong desire for these loans to be rapid, it is important for us to give SoS and CX options to reduce risks with limited additional friction.*
>
> *BBB already have PwC engaged, and so I have asked if PwC can draw up a simple framework which illustrates, for different borrower segments (eg. limited company set up before April 2019, limited company set up after then,*

sole trader with business bank account, sole trader without business bank account etc): what a no check, minimal check and moderate check approach could look like. And for each approach and segment, an assessment of how much additional assurance the check provides and the degree of risk that remains (for fraudulent or poor vfm lending) and the amount of friction the checks would add into the system. I have also asked that they provide recommendations of post-hoc checks that could be put in place for all or specific borrow segments to assess compliance. We have asked for initial views tonight, to play into system design over the weekend."

6.68. Also on 24 April 2020, the Secretary of State sent a letter to the Chancellor {GP/213 – INQ000563988}. This followed a recommendation in the submission dated 23 April 2020. The letter was drafted by BEIS officials following a call (which I attended) on the morning of 24 April 2020 with the Secretary of State. After the call, I told the Secretary of State's private office that we would send him a draft letter "*asap*" that day, explaining the Chancellor "*is moving very, very fast on this*" {GP/214 – INQ000625849}. The final version of the letter, as sent, was sent to me the following day (by an email to the acting Permanent Secretary to which I was copied, discussed below). {GP/215 – INQ000585587}.

6.69. In his letter to the Chancellor, the Secretary of State commented on the helpful discussions that had taken place between HMT, the Department and BBB at official level, with the aim of identifying further measures to support UK businesses as they deal with the impacts of the Covid-19 pandemic. The Secretary of State welcomed the Chancellor's proposal for BBLS, *"…which would offer loans of up to £25,000 to small businesses and would benefit from a government guarantee to lenders of 100%*." The Secretary of State also recognised the need for the two departments (BEIS and HMT) to work urgently together alongside BBB to consider issues of scheme design and delivery. On scheme design, the Secretary of State stated, *"…we need to recognise the additional risks to the Exchequer that would result from a full guarantee and the absence of credit checking by lenders and should ensure we take proportionate decisions on eligibility and measures to guard against fraud."* On delivery, the Secretary of State said, *"…we need to ensure that in parallel to developing a small business loan scheme, we have assessed the other routes to deliver the policy objective, including whether grants (for example delivered by HMRC or local authorities) could be a viable route in some cases. With regard to the loan scheme we*

will need to ensure that the British Business Bank is fully engaged in the development of a workable delivery plan and timetable."

6.70. The Secretary of State cautioned against providing announcements on the detail of the scheme before such issues were finalised. He commented on the need for primary legislation if it proved necessary to disapply aspects of the CCA. On BBLS, the Secretary of State concluded:

> *"Finally, I should inform you that while my department recognise the economic and social rationale for these proposed changes, they nonetheless carry significant risks regarding value for money and uncertainty based on Managing Public Money principles. On this basis, my Accounting Officer has informed me that, subject to decisions on the final design parameters, a direction from me may be required in relation to some or all of these new proposals."* (original emphasis).

6.71. HMT arranged a meeting for 13:00 on 25 April 2020, to which HMT, BBB, accredited lenders and BEIS officials (including me) were invited. I understand that this meeting followed discussions which the Chancellor had held with accredited lenders on the evening of 23 April 2020, about the potential new scheme (CWS, Part B, §4.40). An email from Gwyneth Nurse on 24 April 2020 at 23:01 {GP/216 – INQ000543176}, stated that the purpose of the meeting proposed for the next day was *"…to clarify and take any questions on the top line policy, take any high level comments on the application form and then … run through the way the BBB plan to operationalise the scheme*". The same email also stated that HMT was working to "*operationalise this scheme*" by the beginning of May, noting *"the deadline for delivery is very tight*."

6.72. Ahead of the meeting, updated proposals were shared {GP/216 – INQ000543176} by way of BBB's product development slides, 'CSBILS Product Development' {GP/217 – INQ000543177}, which outlined the policy requirements, product parameters and implementation route for the scheme. In the slides, BBB set out the following principles:

a) The objectives of the scheme included speed of deployment (scheme to be up and running by early May 2020); volume (BBLS needed to be able to serve a large market of c. 800,000 SMEs who would require finance within the following three months); a simple 'customer journey'; and inclusivity (to be available to as many businesses and lenders as possible, provided lenders seek accreditation and abide by the scheme terms) so as to avoid bias and minimise market distortion;

b) Given the speed with which the scheme needed to be deployed, it was acknowledged it would run on existing CBILS structures, but with a 100% guarantee;

c) The product characteristics of BBLS were broadly set, for example applicants would complete a self-declaration that they met the eligibility criteria, there would be no maximum turnover limit, and loans would be offered for a period of six years;

d) State aid considerations remained subject to confirmation;

e) There would be specific customer-type considerations for the application process; the checks that each would be required to undergo depending on whether an applicant was an existing or a new customer, and if they had a business or a personal account. For example, borrowers who did not have a business current account would be required to present their HMRC unique taxpayers' reference and latest filed self-assessment tax return; and

f) Borrowers' self-certification forms would be standardised, and applicants would need to confirm the following:

i. They were not a business in difficulty in receipt of aid, and if they were how much aid they had been in receipt of;

i. They were impacted by Covid-19;

ii. They understood they did not have CCA protections but confirmed their obligation to pay the debt; and

iii. They did not have a CBILS loan and had made no other BBLS applications.

6.73. Although I was copied into the meeting correspondence above, I cannot recall if I attended the meeting on 25 April 2020.

6.74. Also on 25 April 2020, Francis Evans updated the acting Permanent Secretary on a number of developments, including BBLS. I was copied into this email {GP/215 – INQ000585587}. Regarding BBLS, the update stated, "*The Chancellor has proposed a new scheme to address the failure of lending institutions to deliver sub-£25k loans through the CBILS*." The update confirmed that the Chancellor intended to announce the new scheme the following week, with a launch date of 4 May 2020. It advised that the new scheme would have a 100% guarantee, minimal checks on applicants and

would be eligible to all with a maximum loan size of £25,000. BBB had confirmed they would not deliver the scheme as currently constituted without an instruction backed by a direction. The email further stated, "*It is important that HMT don't publicly commit to the BBB being the delivery vehicle before we have supplied you with appropriate AO advice.*"

6.75. Francis Evans also attached to the email documents relating to (what became) BBLS:

a) The proposed application form {GP/218 – INQ000543165} (prepared by HMT and circulated to me and other BEIS officials the previous day {GP/219 INQ000585584}),

b) The letter from the Secretary of State to the Chancellor of 24 April 2020, addressed above at §6.68 {GP/213 – INQ000563988}.

c) The updated BBB product development slides addressed above (at §6.72 above) {GP/217 – INQ000543177}.

6.76. Later, on 25 April 2020, at 16:05, Laurence Pawley sent an update to the Secretary of State, copying me and other BEIS officials, on developments with CBILS and BBLS {GP/220 – INQ000543178}. On BBLS, the update explained that calls were taking place with the major lenders over that coming weekend to develop the scheme parameters, in advance of the proposed announcement on 27 April 2020.

6.77. The update also attached a draft term sheet for BBLS and summarised the key changes on the scheme terms since the advice of 23 April 2020, with the maximum loan size capped at 25% of turnover rather than 10% to give borrowers more flexibility, and a restriction on borrowers to prevent them paying unusual or increased dividends whilst in receipt of the loan.

6.78. The update advised the Secretary of State on key issues that had emerged from discussions with lenders on the proposed scheme terms, including in relation to:

a) Fraud risk. Lenders had highlighted several fraud risks which largely stemmed from the Government's instructions that the loans should be offered at pace and with minimal checks, which included the risk of businesses applying for multiple loans from different banks, challenges associated with confirming the legitimacy of businesses, and the use of scanned documents;

b) Recovery. Lenders had indicated that they were likely to seek clearer guidance from the Government about what steps they were expected to take to recover

funds on defaulted loans, and expected the Government to set expectations in this regard in order to mitigate reputational risk for the lenders;

c) Refinancing. Lenders argued that having a refinancing cap for this scheme was incompatible with the intent that borrowers should self-certify the need for a loan;

d) Interest rate. Lenders were seeking clarity on the proposed interest rate; and

e) Customer journey. Lenders were seeking confirmation about how much they would be able to adapt the proposed application form's format to align with their digital platforms and whether there would be a standard loan agreement.

6.79. The update stated that, before BBLS could be launched, advice would need to be provided to the acting Permanent Secretary in her capacity as Accounting Officer, and a ministerial direction would likely be required.

6.80. Finally, Laurence Pawley explained that the Department and BBB had met, and that BBB produced a set of slides to facilitate a discussion with HMT, BBB and the lenders on the proposed scheme i.e. the slides referred above (§6.72) {GP/217 – INQ000543177}.

6.81. On the evening of 25 April 2020, I received an email from Ceri Smith (Director at UKGI) stating that BBB was drafting a letter setting out serious concerns about the new CSBILS proposals {GP/221 – INQ000625117}. In the same email, Ceri wrote that: "*Tom Scholar [Permanent Secretary, HMT] was apparently keen that there was a written record of the risks somewhere, and we got the impression hmt are not necessarily landing (Or even perhaps raising?) their concerns with CHx...*" The acting Permanent Secretary replied on various points, e.g. noting that BBB should ask for more resources if that would alleviate their concerns. Further, she stated that ministers "*…need to be kept totally informed and this needs to be recorded so let's discuss the choreography before anything issues. Tom* [Scholar, HMT] *is concerned and he is not even AO here.*" In her response to the acting Permanent Secretary, Angelina Cannizzaro stated that further advice to the Secretary of State would be submitted the following week and that ministers' private offices would, as had been the case for previous schemes, be kept abreast of Accounting Office advice. I also responded to Ceri Smith's email.

6.82. Insofar as Ceri Smith's email may be read as suggesting that potential risks of BBLS had not, by this point, been raised with the Chancellor, that is not my understanding.

The submission by HMT officials to the Chancellor on 21 April 2020 had referred to potential risks of the new scheme, as set out above at §6.40, and the Secretary of State had written to the Chancellor about BBLS, on 24 April 2020, see §6.68 above. His letter noted the rationale for the scheme but flagged "*significant risks regarding value for money and uncertainty based on Managing Public Money principles*". Further correspondence about potential risks of the scheme was sent the next day to the Chancellor's private office and others (by BBB), and to HMT officials (by the acting Permanent Secretary), as set out below.

6.83. At 22:54, I responded noting "*HMT officials tell me they're trying v hard to get risks documented and in front of CX and so I think they'd agree this letter is helpful. If it lands tomorrow it could help us dial back detail in the Monday announcement*". In a follow up email at 00:24 on 26 April 2024, I noted as follows:

> *"Letter needs to recognise that on Monday many changes will be made to CBILS to speed things up (remove portfolio cap, remove forward facing viability test, letter of comfort), but ministers want to go further. Letter at the mo infers ministers haven't taken on board those CBILS proposals and should.*
>
> *Nothing in here on BBB delivery risk. Patrick has been saying they can do CSBILS for 4 May so this aligns with that".* {GP/222 – INQ000625850}.

6.84. On the morning of 26 April 2020, the acting Permanent Secretary, having considered Ceri Smith's email (referred to at §6.81 above), suggested that if BBB required significant resources, such as hiring 100 investment bankers, they should request them, as strengthening their capacity would be a worthwhile investment. She asked that this be addressed in any correspondence and noted that UKGI colleagues were supporting efforts to encourage BBB to consider its resourcing needs. Regarding the letter, while sending it to the acting Permanent Secretary might appear more collaborative, it was agreed that ministers needed to be fully informed, and the process properly recorded. It was also noted that advice to the Secretary of State would be submitted early the following week, reflecting ongoing discussions with HMT and BBB, and that Accounting Officer advice would continue to be shared with private offices to ensure transparency.

6.85. I responded to the acting Permanent Secretary noting that BBB's main delivery concern was not its own capacity, but the readiness of banks to implement the scheme effectively. This raised two key risks: uneven rollout across lenders, potentially

distorting competition, and public backlash if the customer experience failed to meet expectations. Concerns were also raised about announcing the scheme prematurely, as it could overwhelm banks, stall CBILS applications, and create political pressure if delivery fell short. Despite these risks being understood by officials, the Chancellor remained committed to announcing the scheme the next day, influenced by assurances from bank CEOs (with the exception of Lloyds) that they could launch by 1 May 2020. I further noted that a call with banks was scheduled to further test operational readiness and that their feedback and BBB's letter were expected to help evidence the risks to the Chancellor and Secretary of State {GP/223 – INQ000625851}.

6.86. On the morning of 26 April 2020 **Name Redacted** (BBB) informed me that the acting Permanent Secretary had spoken with Ceri Smith regarding the draft letter the BBB board intended to send later that day. The plan was to address the letter to the acting Permanent Secretary, copying in the Secretary of State's private office, the Second Permanent Secretary at HMT (Charles Roxburgh) and the Permanent Secretary at HMT (Tom Scholar). He noted that the acting Permanent Secretary wanted ministers to be aware of the risks and asked whether I would share the letter with them or if BBB should do so directly. In response, I noted as follows:

> *"Couple of quick thoughts on the draft, if I may.*
>
> *"we have not seen articulated a target number, value or penetration rate of the SME sector". I think useful if you could refer to the fact you have been working with us to flesh out the potential target market for this.*
>
> *"We have flagged to officials that there are still alternative options for Ministers to address any remaining obstacles to the swifter delivery of lower value loans through the current CBILS." Implies that the alternatives would get rid of all remaining issues, when I think it would be fairer to say they address many of the issues.*
>
> *"Complementary ideas to support the funding of alternative lenders are also with your officials." Have we got this – sorry if I have missed it, we are swamped.*
>
> *Pls to send to Sam and cc as you describe."* {GP/224 – INQ000625852}

6.87. Later, on 26 April 2020, Keith Morgan, Chief Executive Officer of BBB, wrote to the acting Permanent Secretary copying in HMT's Permanent Secretaries and the private offices of both the Secretary of State and the Chancellor {GP/225 – INQ000563990}. I

was also copied in {GP/226 – INQ000625853}. BBB's letter detailed risks BBB considered needed further consideration before any scheme could be launched which *"…if not properly mitigated… could have profound and long-term impacts on the market."* Keith Morgan said that the policy objectives behind the scheme had not been clearly articulated to BBB, though it was understood that the prime motive was to rapidly and substantially increase the volume of loans being delivered at the lower end of the market, and that HMT sought ways to ensure loans were swiftly delivered, ideally within 24 hours. He then highlighted three central concerns:

a) The significant risk of fraud and abuse, stressing that anyone with a business current account or HMRC self-employment registration could utilise the scheme, possibly through multiple business entities. He also noted that the loans could be used to pay off existing more expensive borrowing, creating significant deadweight costs;

b) The UK's alternative finance sector could be negatively impacted, and competition in the SME finance market distorted; and

c) Setting up the scheme would be an additional implementation challenge for lenders on top of CBILS.

6.88. Keith Morgan noted alternative options had been discussed with officials, which he considered would address many of the remaining obstacles to swifter delivery of lower value loans through CBILS. He stated:

> *"On our side, work is already well progressed to remove obstacles, and we understand Ministers are considering further modifications and reassurances for providers to facilitate take-up of the scheme. We are also working with your officials on complementary ideas to support the funding of alternative lenders. If completed, this work could rapidly deliver many of the benefits sought in this area of the market while still encouraging a diversity of supply."*

6.89. He nevertheless recognised the risk of doing too little too late given "*the widespread market disruption"* and suggested that the acting Permanent Secretary and ministers would need to weigh up the risks of the new scheme, and the risks of not taking sufficient action. He indicated that BBB would need a ministerial direction if ministers did decide in favour of the new scheme.

6.90. As referred to in CWS, Part B, §4.56, the acting Permanent Secretary emailed HMT officials on 26 April 2020 at 15:54, referring to BBB's letter as being a "*good synopsis*

of the risks" (I was not copied into this email) {GP/227 – INQ000585590}. The acting Permanent Secretary queried whether announcing the scheme the next day would be "*premature"*. She also noted the need to ensure that the Departments' respective ministers "…*are fully aware of the risks inherent in this scheme"*.

6.91. Also on 26 April 2020, at 21:03, I emailed the private office of the Secretary of State, stating as follows {GP/200 – INQ000576393}:

> *"Attached is a note updating SoS on where we have got to today with CBILS, CSBILS and the Future Fund.* ***Please do send it on to him tonight, as it is very important the understand the latest position on CSBILS and the many risks****...."* (original emphasis).

6.92. This email attached a note {GP/228 – INQ000585592} containing an update on the scheme, the draft term sheet {GP/229 – INQ000585589}, Keith Morgan's letter (see above, §6.86) {GP/225 – INQ000563990}, and the draft scheme press announcement {GP/230 – INQ000585593}. On BBLS, the update stated that BBB's role was not to be announced in the press release to be made the next day. The note alerted the Secretary of State to some of the updated key terms of the proposal, referred to BBB's letter regarding risks of BBLS, and stated that the authors (i.e. me and other BEIS officials) agreed with BBB's assessment.

6.93. As with my cover email above, the update said that it was important that the Secretary of State was made aware of the risks prior to the announcement. The risks were then summarised under headings for fraud and deadweight; concentration (i.e. market concentration crowding out alternative finance providers) and customer journey. The Secretary of State was advised that lenders were alive to the fraud risks, and BBB was organising a fraud and risk workshop with the lenders to take place the next day. The press notice was intended to be sufficiently high level to allow some time and space to agree the terms and approach in light of the risks and challenges that had been identified. The risks of an early announcement were outlined, and it was explained that the Department had urged HMT officials to reconsider the timing. It was recommended that the Secretary of State reiterate the Department's concerns about timing, although we recognised that the Chancellor was very determined to proceed.

6.94. In their response at 21:43 {GP/231 – INQ000625467} to my email, the Secretary of State's private office queried whether the Secretary of State needed to review the update I had sent, noting he had reviewed a number of documents over recent days, including the letter from BBB dated 26 April 2020 and the update from Laurence

Pawley on 25 April 2020. The Secretary of State's private office also noted that, as the update outlined, the Chancellor had decided to announce the scheme. Following a call between me and the Private Office, the update was sent to the Secretary of State. I do not recall the details of this call {GP/231 – INQ000625467}. Although an update had been sent the previous day (25 April 2020) (see §6.76 above), the scheme was developing at considerable pace and various developments prompted me to further update the Secretary of State, in particular the serious concerns with BBLS expressed by BBB in its letter of 26 April 2020. As explained above (at §6.58), while events moved very quickly and the decisions as to the design and timing of BBLS were led by the Chancellor and HMT, given the scale of the scheme and the risks involved, I felt it important to keep the Secretary of State fully updated, especially as the scheme's announcement was being prepared.

6.95. I have been asked whether I raised concerns about potential financial and reputational risks of the scheme, and also about the timing of its announcement, before the scheme was announced. As will be apparent from the above chronology, the answer is yes. I had significant concerns, and I raised these with ministers, the acting Permanent Secretary, and HMT officials as soon as a scheme of this nature was mooted. My concerns were also shared by colleagues and by the BBB.

6.96. I am not able to comment on how these concerns were received by, HMT or in turn by the Chancellor. However, I note that, as I have explained above, HMT officials were aware of the risks and I discussed these with HMT officials at length, as did the BBB. The potential risks were also flagged in the Secretary of State's letter to the Chancellor of 24 April 2020 (see §§6.68-6.70). The Secretary of State was advised of potential issues with the scheme, in particular in the 23 April 2020 submission {GP/090 – INQ000563987} (and my related email at 19:54 the same day (addressed at §6.58 above)). My team and I kept him informed including through the 26 April 2020 update described above, which included concerns about the timing of the announcement of BBLS {GP/228 – INQ000585592}. We continued to advise the Secretary of State after the scheme was announced. As discussed further below, this included the Accounting Officer advice and request for a ministerial direction, which led to the Secretary of State requesting, and receiving, the Chancellor's formal approval for the scheme.

6.97. I also agree that, as stated in the update of 25 April 2020 from Laurence Pawley, there was "*an ongoing tension*" between the imperative to deliver finance at pace, and nervousness around risks relating to fraud, regulatory requirements, and reputational risk. BEIS officials and I provided updates to assist ministers, who ultimately had to

make the judgement about the trade-off between the imperative to deliver finance at pace, and potential risks of the new scheme. These were extremely difficult judgements to make in the absence of information about how the pandemic would unfold, the extent of the economic shock, and any precedent to draw upon for insight on the effectiveness of on alternative forms of emergency support.

6.98. On 27 April 2020, the Chancellor's private office sent final details of the high-level terms of the scheme to be announced later that afternoon {GP/232 – INQ000563994}. This was forwarded to other BEIS officials, including me {GP/233 – INQ000543179}. HMT had decided that the cap on loan size should be £50,000, capped at 25% of turnover. This was the first time the Department had been notified that the cap on loan size was to be £50,000, as discussions prior to this date between the Department and HMT had been regarding a £25,000 loan cap. I note that, in an email exchange with other BEIS officials, I queried whether the Department had been warned that the Chancellor was intending to announce that the cap on loan size should be £50,000, capped at 25% of turnover, and asked whether we should respond to HMT colleagues on this point (as previous discussions had concerned a £25,000 cap). Angelina Cannizzaro also queried (in the same email chain) whether the interaction with CBILS may be "*potentially confusing for businesses*". However, while this did represent a change in the details of the proposed scheme, the change did not alter any fundamental aspect of how the scheme was to operate. Further, once the guidance for businesses was published {GP/234 – INQ000585862}, the distinction between the two schemes (i.e. CBILS and BBLS) was made clear to businesses.

6.99. The announcement of the scheme was made later that same day, 27 April 2020.

Chronology of my involvement from 27 April 2020 to 4 May 2020: between announcement and launch of BBLS

Fraud workshops facilitated by PwC – 27 April 2020 to 29 April 2020

6.100. As explained above, on 24 April 2020, in liaison with HMT I had commissioned PwC to obtain external advice about how to assess the validity of claims for BBLS, what checks could be put in place to limit fraud and their assessment of the extent to which this would slow down loan approvals. I briefed BBB on what I wanted PwC to assess and also had conversations with PwC at the time. I was concerned about capacity in BEIS and BBB to carry out this assessment at pace. PwC were already working with BBB so we established that they could do this for us quickly. I was mindful of the Chancellor's desire for loans to be approved quickly, ideally within 24 hours, but

wanted to test if proportionate checks could have a material impact on reducing fraud risks and therefore should be considered {GP/211 – INQ000563989].

6.101. On 27 April 2020, PwC facilitated a fraud workshop with seven accredited lenders to administer BBLS at that time. This workshop was also attended by officials from both the Department and HMT, and BBB representatives. To the best of my recollection, I did not attend, but I understand that the workshop was designed to gain an overview of the main fraud concerns associated with BBLS and to identify ways of addressing them: "*Areas highlighted by the lenders included: individuals approaching multiple providers, the application of CCJs, the need for banks to establish sources of funding (as part of their BAU) being more challenging when individuals don't have business accounts.*" {GP/235 – INQ000585597}, {GP/236 – INQ000585596}, {GP/237 – INQ000625857}

6.102. Following the initial fraud workshop, meetings were conducted on 28 April 2020 and 29 April 2020 between PwC and each of the major accredited lenders, in order to validate PwC's understanding of each lender's approach and to elicit the lenders' views on the residual fraud risks. BBB instructed PwC to prepare a report to support it in understanding and articulating, based on the views of the accredited lenders, the potential risks that may crystallise in BBLS. PwC was not instructed to assess the design or operational effectiveness of fraud controls at each of the lenders.

6.103. PwC's Fraud Risk Review initial report dated 1 May 2020 (PwC's Fraud Risk Review[13]) is discussed further at §6.123 below {GP/238 – INQ000596671}.

Ongoing consideration of BBLS design– 27 April 2020 to 30 April 2020

6.104. On 27 April 2020, Laurence Pawley emailed the Secretary of State, me, and other BEIS officials noting that the Chancellor had made a statement in Parliament that day confirming both the changes to CBILS and the proposed launch of the new 100% guaranteed loan scheme for small businesses (by now branded as 'Bounce Back Loans') scheduled for a launch date of 4 May 2020 {GP/236 – INQ000585596}.

6.105. The summary of the announcement, attached to the email, included key details of BBLS including that the scheme would offer loans from £2,000 up to £50,000, capped at 25% of businesses' turnover {GP/235 – INQ000585597}. It stated that the upper limit of £50,000 was a new announcement and that the Department had not been

[13] The underlying documents refer to this document in a number of ways, including PwC's Fraud Risk Review, PwC's assessment, PWC Fraud Risk initial report, PwC's Fraud Risk initial analysis, I have used PwC's Fraud Risk Review for consistency and ease in this statement.

informed of this parameter of the scheme in advance. The update again set out the outstanding issues in relation to fraud risk, pricing, State aid and the interaction with CBILS. The update included the fraud risks highlighted by the lenders during the PwC workshop.

6.106. Further to Laurence Pawley's email above, on the morning of 28 April 2020, I emailed the acting Permanent Secretary (copying Jo Shanmugalingam), as follows {GP/239 – INQ000585598}:

> *"We're continuing very detailed work with HMT and the banks on the term sheet for the new Bounce Back Loans. There is significant deadweight and fraud risk and it will certainly require you to seek a direction. The CX has a very high tolerance for these risks and SoS has limited appetite to challenge the CX's views, so I'm afraid the direction will likely be a very difficult one. We will necessarily need to flag the ways in which we think vfm could be improved and which ministers have declined to take-up.*
>
> *Would you like to chat through it this evening, to bring you up to speed and consider handling with SoS and also HMT counterparts through the rest of the week?"*

6.107. I scheduled a call for my team to discuss the draft Accounting Officer advice with the acting Permanent Secretary for 4:30pm {GP/240 – INQ000625855}, {GP/241 – INQ000625854}. As noted above at §1.8, BEIS officials regularly spoke by Teams call during this time.

6.108. As this email illustrates, at this time I considered that BBLS carried both "*significant deadweight and fraud risk*". The risks which I had in mind were, in particular, those referred to in the update sent by BEIS officials to the Secretary of State on 26 April 2020, discussed above {GP/200 – INQ000576393}, and the submission sent to the Secretary of State on 28 April 2020, discussed below {GP/242 – INQ000585602}. I was concerned that moving ahead with the scheme as proposed could expose the government to significant fraud risks.

6.109. My remark in this email about "*high tolerance"* for such risks refers to the decision taken by the Chancellor personally to proceed with the BBLS, prioritising scale and pace, and to minimise controls that could reduce credit and fraud losses, because they would slow down access to finance. I recognise that he was required to make difficult decisions on many fronts in the face of incomplete information, in particular about the trajectory of the pandemic and the economic outlook. His position as Chancellor gave

him a perspective that neither I, nor my Secretary of State, had. I recognise his decision on the BBLS, and the balance of economic and fiscal risks, was taken in that broader context.

6.110. I did not intend by this email any criticism of the Secretary of State, at the time Lord Alok Sharma, with whom I had an open and constructive working relationship. Rather my view was that the decision-making centre of gravity was HMT, and that there were limits to the influence which the Department, and the Secretary of State, could or would have. That dynamic is not unusual or unique to the pandemic but was likely exacerbated given that this was a time of severe national crisis. It was perhaps unsurprising, given the schemes amounted to billions in lending, that this was a judgement made by the Chancellor. As I also noted in this email, officials pointed to suggestions that may potentially improve the achievability of value for money. For example, in the 28 April 2020 submission (discussed below at §6.112), we highlighted the approach to recoveries. However, I recognise that prioritising speed involved trade-offs and influenced the design of the schemes.

6.111. On 28 April 2020 at 19:26, David Raw emailed me, and others in the Department {GP/243 – INQ000585600}, with final decisions on some of the details of the scheme and attaching the latest draft application form {GP/244 – INQ000543184} following HMT officials' discussions with the Chancellor earlier that day. Those details were:

a) The Chancellor's inclination was for no fees;

b) The loan was to be non-transferable once the lender had claimed on the guarantee and sought recovery of the funds. The Chancellor's view was that for the Government to seek to recover in this way, it would have been at odds with the nature of the scheme;

c) The Chancellor wanted to allow 'flipping' between CBILS and BBLS. However, he was clear that if someone took out a loan under BBLS and repaid it early, they should not then be able to take out a loan under CBILS [14];

d) The Chancellor wanted CBILS and BBLS to be kept separate, "…but for asset finance and invoice finance to be carved out and continue to operate below £50k in CBILS.";

[14] Ultimately, borrowers were not permitted to have a BBL and any of a CBIL, CLBIL or CCFF for the business unless those facilities were to be financed in full by the BBL.

e) HMT was to check the sectors that the lenders were reluctant to lend to due to corporate responsibility reasons, so that the Chancellor could confirm that the lenders were not *"…just using it as an excuse…"*;

f) The Chancellor agreed that Personal Current Account customers should face extra AML checks;

g) The Chancellor was content for there to be nothing on the form about County Court Judgments (CCJs). He wanted lenders to take a proportionate approach in line with that discussed at the fraud workshop (§6.102 above); and

h) On the application form, the Chancellor thought there was a case for lending to undertakings in difficulty where they were not insolvent, with the suggestion of extra questions linked to the main form.

6.112. On 28[15] April 2020 at 21:16, BEIS officials (including me) sent a submission to the Secretary of State, which reflected discussions with the Secretary of State earlier that day and the Chancellor's position on the proposed BBLS parameters and policy areas {GP/245 – INQ000585601}, {GP/242 – INQ000585602}. The Department, HMT, and BBB had been working together to develop the policy terms for BBLS. The submission explained that there were some areas where either the Department had taken a different view to HMT (as set out below), or where they wished to highlight the current proposals and resultant risks for BEIS, and made some recommendations in relation to specific policy parameters. It sought the Secretary of State's view on these areas of difference and suggested further discussion with the Chancellor, including in relation to the following:

a) Recoveries. It was noted that ministers wanted a simple scheme which was focused on getting money quickly to businesses in need, at the expense of the lender's ability to conduct detailed checks. Lenders were expected to attempt recovery of defaulting loans for a period of 12 months, but after this period, there was no obligation on the lender to take further action. The submission stated that this created a significant risk. The submission recommended that the Secretary of State write to the Chancellor to seek inclusion of a provision for the Government to enable further action to recover outstanding debt after the lender claims on the guarantee. The Chancellor had confirmed earlier that evening that he did not want to make such a provision as he considered that it

[15] To note that, in error, the submission on its face was dated 21 April 2020.

would be at odds with the nature of the scheme. Angelina Cannizzaro sought to confirm whether the Secretary of State was content with the Chancellor's decision or would push for the inclusion of the provision in line with BEIS officials' recommendation;

b) Standards of Care. The proposal included that the CCA would be partially disapplied with respect to BBLS, which removed some protections for borrowers taking loans of under £25,000. To address this, HMT had been developing bespoke requirements around standards of care in conjunction with the Financial Conduct Authority (FCA). Lenders were also required to provide information to borrowers to help protect them, and lenders would have to comply with FCA rules on debt collection;

c) Fraud. The submission stated that the lenders and BBB had raised concerns that the scheme design created a significant opportunity for fraudulent applications. It was explained that PwC had been commissioned by BBB to report on the risks associated with the scheme and provide options for mitigation, including a minimum standard for accredited lenders: however, early analysis suggested that it would not be possible to fully mitigate the risk, given the imperative that applications were dealt with quickly and with minimal checks by lenders and no checks across lenders. It was noted that in order to provide "*more substantial mitigation*" of fraud risks, it would be necessary to slow the application process; "*…however, the Chancellor has clearly signalled he wants to prioritise speed and is willing to accept an elevated risk of fraud…*" as a result. The submission recommended that the Secretary of State write to the Chancellor to confirm the Department's position that, as a minimum, BEIS should work with HMT officials to implement the recommendations of the PwC report (in relation to mitigation of fraud risks), where this would not compromise the policy objectives of the scheme;

d) Financial considerations. Initially it was thought that around 800,000 businesses would access BBLS. With an assumed average loan size of £22,000, it was estimated that for every 45,500 loans approved there would be a potential liability of around £1 billion. It was estimated that upwards of £18 billion of loans would be guaranteed, with a significant proportion of those at risk of defaulting if the risks created by the simplification of checks and application were to materialise. Further, it was explained that "*There is also a significant deadweight issue, as the lack of checks on business activity mean*

that these loans could be used to pay off existing facilities which could be personal in nature." It was considered that a further direction would highly likely be required, in view of the significant risks around achieving value for money and propriety e.g. scope for fraud; and

e) State aid. Consideration was given to State aid compliance risks, noting the minimums that the State aid de minimis regulation and UK's pre-approved 'Umbrella Scheme' (which mirrored the European Commission's Temporary Framework) permitted a business to receive no more than €200,000 and €800,000 respectively, over three fiscal years (with lower limits for the agricultural, fisheries and aquacultural and haulage sectors). The 100% guarantee for BBLS meant the entire principal value of the loan would count towards these amounts. The larger scheme was therefore the preferred option, however, the disadvantage was that it required the use of the 'business in difficulty' test, which would *"…rule out some businesses that we may otherwise want to support, such as those with limited share capital and some historical losses.*" The policy intention was to allow businesses to access either the de minimis regulation or the Temporary Framework, but this increased the complexity of the application form, so BEIS was still working with HMT on that issue. BBLS reliance on self-certification also raised a State aid compliance risk, if a business was to misstate its eligibility. The submission referred to the German scheme and how they adopted the same approach. It concluded that this was within the Department's risk appetite.

6.113. On 29 April 2020, I emailed HMT and BBB after reviewing the email exchange from 28 April 2020 between Gwyneth Nurse and Patrick Magee (Chief Commercial Officer and Executive Director, BBB), which followed David Raw's earlier email referred to in §6.111 above. The discussion centred on the Chancellor's position that loans under the scheme should not be transferable for recovery once the government guarantee has been claimed. He believed that pursuing borrowers beyond this point would be inconsistent with the scheme's intent. In the exchange, BBB outlined three options regarding assignment of loans post-claim:

a) No assignment without the Government's consent

b) Assignment only to the Government

c) No assignment to anyone, including the Government

6.114. BBB noted that option a) had previously been agreed for the term sheet and queried whether the Chancellor had now opted for option c), which they warned would offer significantly less protection for the government and remove future flexibility. They stated:

> *"If the decision is C we will of course accept the instruction but matters such as these will need to be covered in Ministerial Directions to us... If political factors continue to outweigh normal commercial protections these may be matters that our Board would have to highlight in a formal reservation notice..."*

6.115. Additionally, BBB also flagged concerns about value for money and Managing Public Money implications, particularly in light of fraud risks, and asked for confirmation of the final position. HMT confirmed that the Chancellor had decided that, after 12 months and once the guarantee had been paid, borrowers should not be pursued further. The rationale was that it would be unfair to chase businesses that had received loans without any upfront affordability checks.

6.116. In my email I responded, noting:

> *"Patrick – we flagged the risks with option C in our advice to SoS last night (not yet had readout)... We have highlighted to SoS that keeping in something like A or B would at least give the option of HMG pursuing cases of fraud, but were clear where CX stands and I would be surprised if SoS does not fall in line."*

6.117. I acknowledged that this would impact value for money and would likely be addressed in the Accounting Officer's assessment, and would be one of several factors causing the acting Permanent Secretary to seek a ministerial direction. I also raised a key question regarding borrower communication: would it be made explicit that loans deemed irrecoverable after 12 months would be written off, or would this remain unstated? I queried whether banks were required to include this in borrower agreements, noting that any clear messaging of this kind could significantly influence borrower behaviour and, consequently, the overall cost and value for money of the scheme {GP/246 – INQ000625856}.

6.118. At 14:20 on 30 April 2020, I received an email from the BBB which included a paper outlining various options to accelerate the accreditation process, along with the associated trade-offs and risks {GP/247 – INQ000625858}. I was informed that, with the BBLS launch imminent, BBB was eager to collaborate with my team to move swiftly, anticipating a surge in demand. The email also stated: *"[we] don't feel that the*

'do nothing' option is tenable. We would risk seeing complaints that the Bank's processes are too slow, and that new lenders are being excluded. Once you and colleagues have had a chance to digest, we'd be happy to take a call. Because there are risks that we can't entirely mitigate, I would suggest that Eddie, our CRO, attends so you fully understand the implications and can advise Ministers accordingly." I replied acknowledging that we would need to *"take greater risks to speed up this process"* (that is, the lender accreditation process) and proceeded to raise the following questions:

> *"1. The proposal to self-certify BBL and CBILS lenders felt a bit all-or-nothing compared to the current system. Little risk vs lots of risk. Is there scope for a more tiered system? For example, could you use readily available info to RAG rate prospective lenders according to some basic criteria like whether they are PRA regulated, an existing BBB provider, their experience in the market etc (drawing on the factors at para 12)? Those rated low risk could then follow a self-certification process, with those deemed higher risk perhaps asked to further evidence their suitability?*
>
> *2. In addition to, or instead of the above approach, have you considered whether the size of allocation given to a lender might be linked to their stage in the accreditation process? Eg. an amber rated institution might be allowed in via self-certification but has their lending capped at a low level until such point it completes the full checks?*
>
> *3. I'm not totally convinced by the argument that because borrowers can self-certify for BBL, it follows that lenders should have more streamlined checks too. The scheme carries significant fraud risk, pressure on lenders to process them quickly, and asks them to follow a bespoke set of regulatory requirements quite different from normal lending at this level. It could be argued that this means we need greater confidence that the lenders operating the scheme have the capability to deliver this.*
>
> *4. On CLBILS, there is no proposal to streamline the process, and yet the paper acknowledges that it involves more sophisticated financial institutions. On these scheme we are likely to see pressure to bring in new lenders - not to increase volume and choice, but to serve specific sectors in need. I'm interested to know why we could not rely more heavily on the credibility and*

track-record of these commercial lenders to streamline the process for accrediting them.

5. I agree that ex-post checks are very sensible in a world where we allow in lenders with a much more-streamlined process. The paper refers to BBB capacity – would you propose to bring in external resource to conduct these ex-post checks? How quickly could this system be set up?

6. Finally, the paper focuses primarily on the application to approval stage – is that because you consider the approval to completion stage to already be as streamlined as it can be?"

6.119. At 16:30, HMT circulated an email to various lenders, copying me in, which included the initial draft of the standardised application form for the BBLS (document 1). The email also attached a draft supplementary form (document 2) for businesses that were classified as 'in difficulty' as of 31 December 2019, which they would need to complete to assess their eligibility. Additionally, HMT provided a third document: a short, optional questionnaire designed to help businesses determine whether they fall into the 'in difficulty' category {GP/248 – INQ000625859}.

6.120. On 30 April 2020 at 19:48, I received an email from Ceri Smith (UKGI) informing me that the BBB board was scheduled to meet on 2 May 2020 to consider the anticipated instruction regarding BBLS. The purpose of the meeting was to determine whether to accept the instruction or to issue a formal Reservation Notice. In my reply, I remarked: *"…[e]xchange of letters on direction due tomorrow, and Sam instruction to Keith will follow. So a bit late in the day if board decide on Saturday to issue a RN…?*" {GP/249 – INQ000625860}.

6.121. On 1 May 2020, I received a response from BBB to the queries I had raised, referred to in §6.116 {GP/250 – INQ000625861}. The response noted:

"As a general framing of the discussion around risk, the pricing of BBLS will be a key driver as it will determine the types of institutions willing and able to apply to the BBLS programme. We should know about HMT's decision on that shortly. As is being suggested, low pricing will narrow the range of applicants able to deliver BBLS and naturally shift these applicants towards the 'lower risk' end of the spectrum. And while small commercial banks may be able to afford to operate at this lower margin – and may be PRA/FCA regulated thus less of a risk anyway – non-banks and challenger banks may

find it very challenging to actively participate in this market with pricing of less than 3%.

With that in mind, please find responses to your questions taken in turn below.

1. The proposal to self-certify BBL and CBILS lenders felt a bit all-or-nothing compared to the current system. Little risk vs lots of risk. Is there scope for a more tiered system? For example, could you use readily available info to RAG rate prospective lenders according to some basic criteria like whether they are PRA regulated, an existing BBB provider, their experience in the market etc (drawing on the factors at para 12)? Those rated low risk could then follow a self-certification process, with those deemed higher risk perhaps asked to further evidence their suitability?

2. In addition to, or instead of the above approach, have you considered whether the size of allocation given to a lender might be linked to their stage in the accreditation process? Eg. an amber rated institution might be allowed in via self-certification but has their lending capped at a low level until such point it completes the full checks?

We expect a binary (Y/N) questionnaire to be able to "bake in" risk, albeit not on a RAG-rating scale, and able to identify risk in applications. Indeed, if an applicant responds 'no' to any one of the questions, they would be deemed "of higher risk". They would be placed into an 'exceptions' process automatically which will lead to manual intervention by the Bank's accreditation team. In this sense, the questionnaire would be a "catch all" for placing applicants on the risk spectrum but it would greatly reduce the time and resources needed to process the envisaged number of applicants

…

In relation to your point on scaling the allocation to match risk, we do this already and would have the possibility to do this for cases in the 'exceptions process' as well as the streamlined process.

3. I'm not totally convinced by the argument that because borrowers can self-certify for BBL, it follows that lenders should have more streamlined checks too. The scheme carries significant fraud risk, pressure on lenders to process them quickly, and asks them to follow a bespoke set of regulatory requirements quite different from normal lending at this level. It could be

argued that this means we need greater confidence that the lenders operating the scheme have the capability to deliver this.

Fraud risk is inherent to all financial schemes and BBLS and CBILS are no exceptions. As you are aware, PWC have now completed a Fraud Risk Review of the potential fraud risks that may crystallise in BBLS. We had provided PWC with the Cabinet Office Fraud Countermeasures tool kit and PWC's assessment is that the residual fraud risks should be categorised as 'Very High'. Please note that this PWC assessment was based on seven larger banks, all of which are likely to have more sophisticated fraud controls compared to less sophisticated delivery partners. We will be completing our own internal fraud risk assessment of the individual residual risks but, from an initial assessment, they would align to the Cabinet Office guidelines of the top risk category i.e. almost certain to occur with either a major or critical impact after controls and therefore in red status on our risk heatmap

….

That said and as noted earlier, the pricing of BBLS is important. If we expect the pricing of BBLS to be low, it will set a bar for the risk profile of lends able to be accredited. The lenders who can afford to operate at this low margin will be de factor on the "lower risk" end of the spectrum as described above. This should therefore be self-fulfilling from a risk perspective.

4. On CLBILS, there is no proposal to streamline the process, and yet the paper acknowledges that it involves more sophisticated financial institutions. On these scheme we are likely to see pressure to bring in new lenders - not to increase volume and choice, but to serve specific sectors in need. I'm interested to know why we could not rely more heavily on the credibility and track-record of these commercial lenders to streamline the process for accrediting them".

6.122. Following a call with BBB later that day, I emailed my team and UKGI highlighting that key actions had been identified to accelerate delivery and improve scheme oversight. It was agreed that a streamlined lender accreditation process should be developed across both BBLS and CBILS, relying more on ex-post checks. A submission to ministers was needed, focusing on practical recommendations, including tailored approaches for higher-risk lenders requiring more manual oversight. The submission would also need to detail how risk-based auditing would operate—its scale, timing,

costs, scope, and limitations—particularly the constraint that guarantees could only be withheld if borrowers were clearly ineligible. Additional points included exploring ways to speed up CLBILS, confirming that CBILS lenders could offer BBLS in the interim, and preparing BBB's application form for new BBLS lenders. Messaging around the streamlined accreditation process would need to be carefully managed to avoid over-promising before ministerial approval {GP/251 – INQ000625863}.

PwC's Fraud Risk Review

6.123. On 1 May 2020, Keith Morgan emailed PwC's Fraud Risk Review to the Department and HMT {GP/252 – INQ000585607}, {GP/238 – INQ000596671}. My recollection is that PwC's Fraud Risk Review was helpful in that it provided officials, ministers, and HMT, with a clearer sense of the scale of the potential fraud risks in relation to BBLS, albeit that that there was still considerable uncertainty. Keith Morgan emphasised that "***…PWC's assessment is that the residual fraud risks should be categorised as 'Very High***" (emphasis added). Keith Morgan then highlighted key risk areas, being multiple applications; self-certification by businesses leading to lending being made to businesses which were not eligible for the scheme or amounts in excess of that to which they were entitled; applications from businesses that were inactive, dormant or being used for fraud; and organised crime (see further CWS, Part B, §§4.66-4.74). These risks were highlighted with a view to ensuring that ministers had full knowledge of these risks before issuing any instruction to BBB. Lenders suggested a range of possible enhancements to BBLS, including implementation of one central data clearing house as a potential solution to facilitate identification of multiple applications from a single business. It was noted that all the lenders were looking at ways to identify multiple applications within their organisations, but they had no mechanism for identification across lenders. Further, Keith Morgan remarked that in addition to the fraud risks identified by PwC, there was also an enhanced credit risk (associated with the removal of elements of the usual credit check processes) and reputational risk (associated with lending to industries that the lenders would not ordinarily lend to). BBB estimated that the combined estimate for fraud and credit losses on BBLS ranged from between 30% and 50% albeit that this was based on high level assumptions. Keith Morgan stated that, of the circa 800,000 smaller businesses in the UK that were estimated to be facing liquidity issues, 50% would borrow £25,000 on average (from the £50,000 limit) leading to a total value of approximately £10 billion. As a result, it was estimated that combined fraud and credit risk losses could be between £3 billion and £5 billion.

Advice to the Accounting Officer and request for ministerial direction

6.124. Also, on 1 May 2020, as outlined in CWS, Part B, §4.88, BEIS officials sent advice to the Accounting Officer in respect of the anticipated launch of BBLS {GP/253 – INQ000563995}, {GP/254 – INQ000543190}. I was involved in the preparation of this important advice for the Accounting Officer.

6.125. Officials advised that BBLS presented several Accounting Officer risks, including concerns around value for money, propriety, regularity, feasibility, and competition. They recommended seeking a further ministerial direction, noting that BBLS arguably posed greater risks than CBILS and CLBILS. The risks were outlined as followed:

a) Value for Money:

> *"Whilst we have looked at a range of data and carried out analysis to estimate the potential vfm of the scheme, the degree of uncertainty is such that we cannot provide a robust estimate to attest that BBL will be vfm. We will ensure that we put in a robust monitoring and evaluation process for the BBL, in collaboration with the BBB and in keeping with a wider government approach to assessing Covid-19 interventions including CBILS and CLBILS.*
>
> *To estimate the effective uptake for the BBL scheme, we start with the UK business population of 2.6m registered businesses and 3.2m unregistered businesses. Within this, BEIS estimates there are around 5 million businesses with turnover of £200,000 or less. BBB/BEIS's initial thinking is that we then:*
>
> • *filter down to the addressable BBL market by making assumptions around willingness to use finance i.e. borrow under the scheme;*
>
> • *the size of businesses' existing cash reserves pre-lockdown (used to work out how many businesses have a cash or liquidity need);*
>
> • *business viability / ability to repay a loan (and hence willingness of the owner-manager to be prepared to self-certify); and*
>
> • *we also take into account that a significant proportion of businesses' liquidity needs are met by other business support schemes (in particular the local authority grants and furloughing) and so they don't need to borrow.*

We have then allowed for an additional margin of error, although there still remain considerable uncertainties around these assumptions. Based on this, we estimate:

- *effective demand (uptake) at around 800,000 to 1,200,000; and*
- *average loan size of £22,000 (assuming unregistered firms borrow £13,500 and registered firms borrow £37,500 with unregistered firms estimated to make up 64% of demand.*

In general, we believe faster lending will have a positive impact on the scheme's effectiveness and therefore VfM by reducing the chance that businesses fail whilst waiting for a loan to be approved. However, lending data suggests that CBILS is now functioning more effectively, and we lack evidence that the time taken to process loans is fundamentally restricting the scheme's impact. Moreover, we have yet to assess the impact of changes to the scheme's viability test introduced on April 27, which should have the effect of speeding up lending decisions.

BBL will significantly increase the risk of lending to fundamentally unviable businesses who would have failed regardless of COVID-19. Lending to these businesses is not an explicit policy aim, but rather a side effect of the desire to approve loans more quickly, and to reduce the risk that excessive caution by lenders prevents loans to businesses that can by some criteria have been considered viable pre-COVID-19. Lending to such businesses, to the extent that it will occur, should reduce the value for money of BBL.

Another issue is that the scheme does not place limits on the ability of lenders to refinance existing facilities onto BBL (unlike CBILS and CLBILS, which cap the ability of lenders to refinance at 20% of allocations). Lenders are greatly incentivised to refinance by the 100% guarantee, and so there is a considerable 'dead weight' risk, as government will needlessly assume risk that could reasonably be borne by lenders.

In the case of CBILS and CLBILS, it is difficult to judge whether eventual uptake and default rates will allow for an outcome that in hindsight represents VfM. In the case of BBL, we are similarly unsure of these parameters. However, the 100% guarantee and lack of a viability test will

undoubtedly result in lending to businesses that were already unviable pre-COVID-19, which raises very significant VfM concerns. The lack of restrictions on refinancing also create a significant 'deadweight' risk. Ultimately, we lack the evidence to say that the benefits of faster approval times and elimination of lender caution as a factor will compensate for these issues."

b) Propriety (Fraud Risk): The self-certification model increased fraud risk, with concerns about:

   i. Multiple applications by individuals;

   ii. Applicants with poor credit histories; and

   iii. Difficulty verifying funding sources for non-business account holders.

c) Even with PwC's recommendations, fraud risks could not be fully mitigated due to the scheme's speed and minimal checks. The Chancellor accepted a higher fraud risk in favour of speed. Disapplying CCA protections was also flagged as a risk.

d) Recoveries: Officials warned that the 100% guarantee reduced lender incentives to pursue repayments. This could result in significant liabilities for BEIS, with limited recovery options once guarantees were paid.

e) Competition: BBLS was expected to negatively impact competition in SME lending, particularly disadvantaging smaller lenders due to the standardised interest rate. Suggested mitigations were rejected to maintain simplicity and affordability. The Competition and Markets Authority had also proposed mitigations.

f) Financial Impact: Uncertainty around demand and default rates would hinder BEIS's ability to forecast and manage budgets. Officials emphasised the need for ongoing monitoring and reporting to manage emerging liabilities and risks.

6.126. Later the same day, i.e. 1 May 2020, the acting Permanent Secretary emailed BEIS officials regarding Keith Morgan's email. She wanted to ensure that HMT officials were bringing the risks raised in the same to the Chancellor's attention {GP/255 – INQ000543196}. In reply, BEIS officials said they would take it up with HMT immediately, which was done that day and HMT confirmed that they had seen Keith Morgan's letter and advised the Chancellor accordingly {GP/256 – INQ000543197}, {GP/257 – INQ000543199}, {GP/258 – INQ000543200}, {GP/259 – INQ000625862}.

6.127. As noted in CWS, Part B, §§4.89-4.91, the acting Permanent Secretary wrote to the Secretary of State with advice in her role as Accounting Officer as required by the Managing Public Money principles, and formally requested a written ministerial direction from the Secretary of State if he wished to proceed with BBLS {GP/260 – INQ000064863}. This advice set out a number of factors for the Secretary of State to consider and highlighted the significant risks in some detail.

6.128. The Accounting Officer concluded that there was a compelling case for the Government to take on greater risk than it had under CBILS and CLBILS in order to support small businesses. She noted that: "*One way to do this is for the Government to assume 100% of the lending risk, as has been the case in other countries such as Germany and Switzerland.*" She also emphasised the importance of simplifying the application process, particularly for the smallest businesses, who often face the greatest barriers to accessing finance. While CBILS was technically available to these businesses, major lenders had reported difficulties in offering CBILS loans at lower values. BBLS was therefore designed to overcome these challenges—ensuring that lender caution did not prevent small businesses from obtaining necessary funding, and significantly accelerating the lending process to reduce the risk of business failure while awaiting support.

6.129. The Accounting Officer went on to state:

> *"These are convincing arguments in favour of introducing the scheme.*
>
> *However, whilst I can see the clear benefits of introducing BBL, as Accounting Officer I must also consider its introduction against the standards that I am responsible for safeguarding. In common with CBILS and CLBILS it is difficult to be sure that the proposed scheme parameters are optimal, with a lack of data available to undertake a robust value for money assessment.*
>
> *The 100% guarantee and lack of a viability test beyond self-certification will undoubtedly result in lending to businesses that were already unviable pre-COVID-19, which raises concerns around value for money. The lack of restrictions on refinancing also creates a significant 'deadweight' risk, in that lending may not be genuinely additional. I understand that your letter to Chancellor on April 29 highlighted the importance of messaging to borrowers about their obligations to repay loans. I agree that this is a pragmatic step to help manage risks to the taxpayer, although a residual risk is likely to remain that will drive higher costs to the taxpayer. Ultimately, we lack the evidence to*

say that the benefits of faster approval times and elimination of lender caution as a factor will compensate for these issues.

[…]

...whilst the policy aim is to speed up the availability of funding for businesses, this means loosening some controls and protections that we might expect in ordinary times. You have noted to the Chancellor that the recommendations from appointed external advisers on measures to try and minimise fraud – which we are working through with HMT and BBB – will need careful consideration as part of finalising how lenders must operationalise the scheme.

The risk in relation to regularity and propriety depends upon the eventual level of fraud and error, which cannot be reliably estimated in advance – however the report we have now received suggests that even with mitigation steps in place, the residual risk remains "very high". Although we will expect banks to take all reasonable and practicable steps (within the parameters of the scheme) to avoid this, should there be material levels of fraud and error then this is likely to be deemed irregular in terms of spending authority.

...

To sum up, the potential for economic damage created by the coronavirus pandemic continues to create a strong case for Government intervention, and we know there is a risk that some businesses that would otherwise survive are in danger of missing out on support if a further intervention is not introduced. Given the degree of uncertainty and risks involved with the scheme ***Managing Public Money*** *requires that I ask for a written direction from you if you wish to proceed with the BBL scheme..."* (original emphasis).

Submission to the Secretary of State on 1 May 2020

6.130. As noted in CWS, Part B, §4.92, on 1 May 2020 BEIS officials sent a submission to the Secretary of State {GP/261 – INQ000563997}, including advice relating to the potential risks associated with the scheme, the need for formal consent to be obtained from HMT, and a direction letter to be provided to the Accounting Officer in reply to her earlier letter. I do not recall the extent of my involvement in drafting this submission, but I was involved in its preparation and, at a minimum, would have reviewed it. The submission noted that the parameters of BBLS were close to finalisation and that BBLS was scheduled to come into effect on 4 May 2020, in line with the Chancellor's prior

announcement. The submission advised the Secretary of State that in order for the next announcement to proceed regarding the launch of the scheme, by 1 May 2020 the Secretary of State would need to have:

a) Sought formal consent from HMT to launch the scheme; and

b) Exchanged direction letters with the acting Permanent Secretary.

6.131. The submission confirmed that lenders would not be required to pursue recovery of defaulted Bounce Back Loans beyond 12 months, and borrowers would not need to make capital repayments during the first year. As a practical safeguard, the application form would include a declaration for borrowers to confirm both their ability and willingness to repay, with a warning that failure to do so could affect their future access to credit.

6.132. Despite these measures, officials reiterated that significant residual risks remained, as previously outlined in advice dated 28 April 2020. These included:

a) Fraud risk, referencing findings from an earlier version of PwC's Fraud Risk Review (which was attached), highlighting vulnerabilities due to minimal checks and self-certification.

b) Recovery limitations, due to the lack of lender obligations to pursue defaults and the Government's inability to take over loan books.

c) Competition concerns, as the expected interest rate (still unconfirmed at the time) was likely to exclude smaller lenders, potentially distorting the SME lending market in favour of major banks.

6.133. The advice also referenced earlier correspondence from Keith Morgan (see §6.123) which detailed projected credit and fraud losses. Officials sought confirmation from the Secretary of State that he was content to proceed with the scheme under the expected final terms.

6.134. The expected final terms of the scheme were set out as follows:

a) The borrower must confirm that they had been impacted by Covid-19, that they were not in financial difficulty as at 31 December 2019 and that they were not receiving funding under CBILS, CLBILS or the CCFF schemes (unless refinancing all of that lending);

b) The business must have been established by 1 March 2020;

c) The loan would be between £2,000 and £50,000 (with a limit of 25% of the borrower's turnover through self-certification) available for a term of six years. No repayments of capital in the first year;

d) 100% government-backed guarantee;

e) No personal guarantees permitted, and a borrower's principal private residence and principal private vehicle could not be taken as part of the recovery process; and

f) In the event of a default the lender would only be required to seek recoveries for a period of up to 12 months.

6.135. In response to the acting Permanent Secretary's request for a ministerial direction, the submission stated that such a direction was warranted due to the rapid rollout of the scheme and the limited data available, which made it impossible to assess the achievability of value for money, despite acknowledging the strong policy rationale behind its introduction. However, the Secretary of State was advised that, before proceeding with the exchange of letters regarding the direction, his private office must first obtain formal consent from HMT to launch the scheme. This step was described as essential to secure the necessary funding from HMT to cover the liabilities BBLS would create for BEIS. Draft letters for the Secretary of State to send to both the acting Permanent Secretary and HMT were included with the advice.

Secretary of State's request for the Chancellor's formal approval

6.136. As outlined in CWS, Part B, §4.97, later on 1 May 2020, in line with the advice provided by BEIS officials in the earlier submission, the Secretary of State's private office contacted HMT by email to request formal approval to launch BBLS {GP/262 – INQ000563998}. The Secretary of State acknowledged that a ministerial direction would be required to authorise the scheme and confirmed that he would issue it once the Chancellor had formally agreed to proceed.

6.137. The email concluded by saying:

> *"…given the uncertainty around the scheme and the eventual cost and potential losses – in particular recognising that the report the BBB commissioned (as requested by BEIS) and received today from PriceWaterhouse Coopers indicates a very high residual risk of fraud – SoS BEIS trusts that HM Treasury will continue to honour the assurances that the additional budget cover required to meet all costs now and in the future will*

be provided. SoS BEIS will need confirmation that this is the case before the British Business Bank can be instructed to implement the scheme. BEIS officials will continue to work with colleagues at HM Treasury and the British Business Bank to monitor the impact of the scheme and provide advice to Ministers, including ongoing assessment of the potential liabilities incurred by Government."

6.138. Additionally, as noted in CWS, Part B, §4.99, on the same day, the Chancellor's private office responded to confirm the Chancellor's agreement to launch BBLS, citing the urgent economic pressures on small businesses and the need to ensure rapid access to finance {GP/263 – INQ000563999}. The email noted that the Chancellor had reviewed PwC's Fraud Risk Review and confirmed that BEIS would receive the necessary budget cover to absorb potential losses under the scheme. It was emphasised that BEIS should work closely with HMT in the coming weeks to establish robust monitoring to track the scheme's performance and fiscal impact.

Ministerial Direction and Accounting Officer's Instruction to BBB to proceed

6.139. Later on 1 May 2020, the Secretary of State formally responded to the Accounting Officer advice {GP/264 – INQ000064823}. In his reply, he issued a ministerial direction, instructing the acting Permanent Secretary, as Accounting Officer, to proceed with the BBLS immediately. He acknowledged the risks outlined in her advice but stated:

> *"I note the BBL scheme risks highlighted in your letter, however I believe that these risks are outweighed by the need to get support to small businesses as quickly as possible, which the BBL scheme will aim to deliver.*
>
> *The Chancellor and his officials have 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."*

6.140. Later that evening, the acting Permanent Secretary emailed Keith Morgan to confirm that the ministerial direction had been issued and instructed BBB to proceed with implementation of BBLS {GP/265 – INQ000564002}. In her message, she emphasised the importance of ongoing risk monitoring, stating that it would be:

> *"…vital for the BBB, BEIS and HMT to monitor these risks closely for the lifetime of the scheme, by ensuring there are effective processes in place for*

reporting from lenders and using existing governance to review the level of risk."

6.141. She also stressed the need for robust controls and governance, adding that BBB must ensure:

> *"…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."*

BBB Reservation Notice

6.142. As referred to in §6.120 above, the BBB Board met on 2 May 2020 to consider the instruction to proceed with the implementation of BBLS following the direction letter issued the night before. In this meeting, the BBB Board concluded that they should issue a reservation notice, reflecting their concerns on fraud, credit risk, and the SME finance market. On 2 May 2020, Angelina Cannizzaro emailed the Secretary of State to advise that such a letter was coming {GP/266 – INQ000564003}. She highlighted their concerns but stated that they were *"…absolutely prepared to implement the scheme, whilst also feeling it is their responsibility to alert [Secretary of State], as their shareholder, to the risks inherent in what is proposed*." She explained the reservation notice process in the following terms:

> *"The reservation notice is a provision in the BBB framework that has not been previously used. It is similar in principle to a request from the BEIS Accounting Officer for a direction … Either way, once the board receives your instruction in response to their reservation notice, that resolves the matter. The BBB framework says: "upon receipt of a Written Direction or an Oral Direction [the CEO shall] inform the Company Board who shall undertake the Instructed Matter or procure that the Instructed Matter shall be undertaken by any relevant Affected Company, without delay." An Affected Company is any subsidiary company of BBB."*

6.143. Later that day, BBB raised a formal reservation notice with the Secretary of State following discussions with its Board {GP/267 – INQ000564005}, {GP/268 – INQ000625479}. This was the first time BBB had taken this step. BBB raised concerns on the grounds of propriety, value for money, and feasibility. The Reservation Notice explained the BBB Board's position as follows:

a) Propriety: Officials raised concerns about the scheme's heavy reliance on borrower self-certification, which significantly increased the risk of fraud.

Additionally, the uniform 2.5% interest rate across all lenders was expected to undermine competition, particularly disadvantaging smaller lenders in the sub-£50,000 loan market. This risked concentrating lending among the major banks, potentially reducing diversity in the SME finance sector.

b) Value for Money: There were serious concerns that the scheme would be susceptible to abuse by both individuals and organised crime groups. The removal of standard credit checks heightened the credit risk, especially given the challenging economic conditions at the time.

c) Feasibility: The BBB referenced the acting Permanent Secretary's instruction to ensure robust controls and governance over public funds. However, BBB responded that, due to the speed of implementation and the need for simplicity, it would not be feasible to meet the expected standards of robustness. Keith Morgan highlighted that, as a result of these constraints, it had not been possible to implement a system to prevent duplicate applications, illustrating the compromises made to meet the scheme's rapid launch timeline.

6.144. At 18:51 that evening, Angelina Cannizzaro sent an update to the acting Permanent Secretary, noting that the final Reservation Notice from BBB was still under review by their Board, and it was unclear when it would be received. She also attached a draft version of the advice intended for the acting Permanent Secretary's consideration {GP/269 – INQ000625864}. In response, the acting Permanent Secretary noted as follows:

> *"I have to say I am quite surprised the BBB took this action. I also didn't expect that SoS wouldn't want to give BBB a direction. This obviously puts all the onus on whether there's anything new in the RN[16] he didn't know before he directed me…*
>
> *… In order to accede to SoS' request, you would need to be content:*
>
> *a. that all of the issues raised in the Reservation Notice had previously been considered in the Accounting Officer advice, in the submissions to SoS and therefore covered in the Direction that you obtained;*

[16] Reservation Notice

b. that the Secretary of State has read the Reservation Notice, considered the content and wishes the Bank to proceed. Do we have confirmation this has happened?

For SoS to issue any new direction he would need to be content that BBB's Reservation Notice does raise new material issues not covered by advice he has received to date. He is of the view that the Reservation Notice does not raise new material issues. We will get confirmation of this and (b) above by email from Private Office. On (a), these are the main issues raised in the RN that you would need to be satisfied were already covered by previous advice and hence by the Direction:

a. the findings of PWC's fraud risk review, including the extensive reliance on customer self-certification and the corresponding fraud risk; do we have confirmation SoS saw this before the Direction?

b. potential market distortion caused by the interest rate for BBLS being set at a uniform 2.5% making it likely that many smaller providers will not be able to compete with BBLS in the sub £50,000 lending market, leaving the large banks as the main providers; Don't remember either 2.5 or 50k points – but the competition point was covered sufficiently, if Patrick agrees?

c. conduct-related risk that borrowers sign away rights under the Consumer Credit Act and later claim they were vulnerable and should not have done so (this was covered in an EBRIG paper for meeting that SoS attended as well as advice to SoS); Don't remember this in advice – could you point to it please – I don't want to rely on an EBRIG paper which is not directly addressed to SoS.

d. BBB's concern that the scheme is vulnerable to abuse by individuals and by participants in organized crime (considered by PWC and in AO Assessment); Did the SoS see anything about organised crime risk in advance of the direction?

e. in order to avoid derailing the builds of the large banks' systems, it has been impossible to agree a methodology to prevent duplicate applications (this was one of the risks considered by PWC – ok, but I need to see that SoS was aware before he issued the direction); Some of the advice you attached says double dipping won't happen – was SoS warned of this risk and where.

f. BBB's response to your instruction that "You (BBB) will need to ensure 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," which was: it is not feasible for us (BBB) to achieve this to the standard implied by any ordinary interpretation of what is "reasonably practicable." This is covered in your draft reply which states: ***I would like to confirm that I recognise the restrictions and limitations imposed on you in this regard by the parameters of the scheme and the pace at which it is being implemented. My instruction to you should be read in this context. Yes understood, I'm happy with this****."* (original emphasis).

6.145. At 22:36, Angelina Cannizzaro responded to the acting Permanent Secretary stating: *"…[y]es it came as a surprise to us too and as I understand it Ceri tried to push back at the board meeting today. This is a risky policy though so they are understandably nervous and want final opportunity to raise risks even if they are repeated ones."*

6.146. At 23:05, I shared a completed table prepared by my team to support the acting Permanent Secretary and the Secretary of State in their review of the Reservation Notice received from the BBB {GP/270 – INQ000625865}.

6.147. I am asked whether I shared BBB's concerns specifically on the grounds of propriety, value for money, and feasibility risks, as BBB set out in its Reservation Notice of 2 May 2020. My views at the time reflected what was set out in the advice by BEIS officials to the Accounting Officer and to the Secretary of State on 1 May 2020, as outlined at §§6.124 - 6.125 above. Naturally BEIS officials, including myself, took the concerns expressed by BBB seriously, and as noted above, I assisted the acting Permanent Secretary and Secretary of State to review the Reservation Notice.

6.148. At 08:04 on 3 May 2020, I emailed the BBB to advise that the acting Permanent Secretary and the Secretary of State would be discussing the Reservation Notice that morning. I noted that BEIS was hopeful the acting Permanent Secretary would be issuing a formal response later that day, as she was authorised to act on the Secretary of State's behalf in this matter {GP/271 – INQ000625866}.

6.149. At 8:22 on 3 May 2020, the Secretary of State's private office sent an email to the acting Permanent Secretary, Francis Evans, and me, noting the following:

"I have just spoken to SoS on this and he has 2 comments.

1. *He has asked if he can see the full PWC report – he thinks he may have only seen part of it. Gemma would you mind sending as a matter of urgency?*
2. *He has reviewed Sam's letter and is content with the attached which includes an amendment mentioning that he has spoken to the CX on this. He wanted to test your views on whether this added anything but wants to make it as strong as possible to avoid any back and fourth [sic] with them reaching out to the CX today. Can you confirm your thoughts on the attached. If you are content, I will send back the final version and he will respond with the formal instruction."* {GP/272 – INQ000625867}, {GP/273 – INQ000625868}.

6.150. At 8:36 on 3 May 2020, I sent the draft PwC report to the Secretary of State's private office, as requested {GP/272 – INQ000625867}, and confirmed that it was appropriate to include the Chancellor's consent.

Written Direction from the Accounting Officer to BBB – 3 May 2020

6.151. As outlined in CWS, Part B, §4.105, on 3 May 2020, at the Secretary of State's request, the acting Permanent Secretary, in her capacity as Accounting Officer, issued a Written Direction to BBB, instructing them to proceed immediately with the implementation of BBLS {GP/274 – INQ000564006}. In her letter, she confirmed that the Secretary of State had reviewed PwC's Fraud Risk Review and had considered the risks to achieving value for money, propriety, and feasibility outlined in BBB's letter of 2 May 2020. Despite these concerns, he had concluded that the exceptional circumstances facing the country warranted moving forward with the scheme. The letter also noted:

> *"In issuing a direction to me on 1 May, the Secretary of State received prior approval to proceed from the Chancellor and his officials."*

Launch of the BBLS and its final terms

6.152. BBLS launched on 4 May 2020, just two weeks after announcement. There was a written ministerial statement {GP/275 – INQ000564007}.

6.153. The final terms were as follows:

a) 100% government-backed guarantee;

b) Facilities available were between £2,000 and 25% of a business' turnover (up to a maximum of £50,000), repayable over a period of six years. The interest

rate was 2.5% per annum although in the first 12 months of the lending, interest was covered by the Government and no capital repayments were required. The consumer protections that would ordinarily apply to loans of less than £25,000 were disapplied; and

c) To qualify, the borrower had to self-certify to the lender that the business:

i. Had been impacted by the Covid-19 pandemic;

ii. Did not have existing CBILS lending; and

iii. Was not experiencing difficulty (per self-certification) as at 31 December in the year prior to application.

Counter Fraud Concerns and Responses
Detection and prevention of duplicate loan applications

6.154. I have been asked to reflect on the significance of launching the BBLS without a system in place to detect and prevent duplicate loan applications. When BBLS launched on 4 May 2020, no such system existed, which I consider represented a significant issue in terms of both financial risk and the integrity of the scheme.

6.155. I note that, as is apparent from the events set out in more detail in the '*Chronology of my involvement from 27 April 2020 to 4 May 2020'* section above, the Department or HMT had limited time to reflect on PwC's Fraud Risk Review of the scheme, namely that the residual fraud risks were "*very high",* before the scheme's launch on 4 May 2020. This assessment was shared by Keith Morgan with both the Department and HMT on 1 May 2020, and it was also noted that lenders had flagged potential solutions to facilitate identification of multiple applications (see §6.123). Multiple applications had already been cited as a risk (e.g. in BEIS officials' 23 April 2020 submission to the Secretary of State, discussed at §6.51). PwC's Fraud Risk Review conveyed the fraud risks of the scheme even more starkly. PwC's Fraud Risk Review came after the Chancellor had already announced the scheme and shortly before its launch. Nonetheless, the significant fraud risks of BBLS were emphasised and clear to ministers before the scheme was launched, including by BBB's Reservation Notice. It was in that context that the Chancellor gave formal approval to the Secretary of State to proceed. In so doing, it was confirmed that the Chancellor had reviewed PwC's Fraud Risk Review (see §6.138 above) {GP/263 – INQ000563999}.

6.156. It should be noted that, at this time, the Government's overriding priority was to deliver financial support to struggling businesses as quickly as possible, in response to the escalating economic impact of the pandemic. In these extraordinary circumstances,

there was tension between the need for speed and the need to manage fraud, regulatory, and reputational risks. At the time, my team, colleagues at BBB, and I were all aware that the pace of implementation, combined with unresolved fraud risks, posed significant challenges. As outlined above, BEIS officials including myself raised concerns about the pace of scheme launch. Ultimately, given the urgency of the situation, the Chancellor made a deliberate decision to prioritise pace, at the expense of further policy development. The timing and design of the scheme reflected that the Chancellor's priority was rapid delivery over more robust fraud controls.

6.157. I note that 60% of BBLS lending had already been issued before the system for detecting duplicate applications was introduced. Ideally, this safeguard would have been in place prior to launch. However, it is difficult to say definitively whether that would have been the better course of action, given the absence of clear data on the fraudulent losses that might have been prevented and the potential business failures that could have occurred without rapid access to finance. Moreover, with the benefit of hindsight, I would note that implementing a system to detect and prevent duplicate loan applications inevitably took some time. As discussed below (in the section entitled, '*Counter Fraud, PwC and the Cifas proposal*'), in the event, there were barriers to introducing a system for duplicate applications. It was only once attempting to implement this system did we know how long it would take. Waiting for it to be in place would have delayed the scheme launch by several weeks.

6.158. In the absence of a centralised system to cross-check applications across lenders, some businesses were able to obtain multiple loans, contrary to the scheme's one-loan-per-business rule. By the time enhanced fraud detection measures such as the Credit Industry Fraud Avoidance System (Cifas), discussed further below, were introduced in mid-2020, as a matter of record, the National Audit Office (NAO) reported that the BBB and the Department had estimated that up to 2.3% of approved loans may have been duplicates {GP/276 – INQ000564055}. While not all of these were confirmed as fraudulent, the potential for abuse was considerable.

Early Monitoring and Response to Fraud Risks Prior to July 2020 Measures

6.159. I am asked what steps were taken to ensure that fraud prevention measures were properly coordinated with lenders before the scheme was launched. I have set out above, in the section '*Fraud workshops facilitated by PwC – 27 April 2020 to 29 April 2020'*, my involvement in commissioning PwC and its workshops with lenders in late April 2020. Given the speed at which BBLS was announced and launched, it was not possible to fully coordinate and implement fraud prevention measures across

participating lenders and relevant government agencies prior to its launch. Lenders also had outstanding questions on what would be expected of them with regards to recoveries. However, counter fraud work continued after the scheme was launched as I discuss in the following section, "*Counter Fraud, PwC and the Cifas proposal*". A submission to the Secretary of State on 28 April 2020 from BEIS officials, regarding the scheme's design, acknowledged that early analysis indicated it would not be possible to fully mitigate fraud risks of BBLS, given the need to process applications rapidly with minimal checks by lenders and no cross-lender verification (see §6.107 above). PwC's Fraud Risk Review, prior to the launch of BBLS, also highlighted significant fraud risks, including the risk of multiple duplicate applications being submitted to different lenders (see §6.107 above); as explained above the system for preventing duplicate applications was not in place at the point of launching BBLS (see §6.137 above).

Counter Fraud, PwC and the Cifas proposal

6.160. I am asked what role I played in advising on the development and roll out of the system introduced in July 2020. I am also asked how the Department monitored and responded to evolving fraud risks between May and July 2020. I was not part of the Department's counter fraud team itself, which was led by the BEIS Finance Director, but had a role to push progress and coordination across the BEIS Counter Fraud team, BBB, Cabinet Office, and lenders. I was not doing the day-to-day or 'technical' work on counter fraud, which would have been handled by the counter fraud team, but my team worked closely with that team, BBB and Cabinet Office fraud function to progress counter fraud measures, advising ministers accordingly, as set out below.

6.161. As set out in §6.100 above, given the significant fraud risks identified with BBLS, I commissioned PwC on 24 April 2020, in liaison with HMT, to provide external advice on how to assess the validity of claims and implement fraud prevention checks. On 27 April 2020, PwC facilitated a fraud workshop with seven accredited lenders, attended by officials from the Department, HMT, and BBB. The workshop highlighted key concerns, including individuals applying to multiple lenders, challenges in verifying funding sources for applicants without business accounts, and the implications of CCJs. PwC subsequently held individual meetings with major lenders on 28 April 2020 and 29 April 2020 to validate these concerns and gather further insights.

6.162. As outlined in CWS, Part B, §6.34, PwC held another workshop with the lenders on 6 May 2020, at which time Cifas presented a proposal about assisting the lenders to identify multiple applications across different lenders.

6.163. On 9 May 2020, BBB provided an update to BEIS, including myself, and HMT, reflecting on the first week of BBLS. The update included information on ongoing work related to fraud and loss prevention, and suggested a follow-up call with all recipients of the update. This communication marked an early effort to assess the scheme's initial performance and to coordinate further action on emerging fraud risks. Additionally, the updated noted:

> *"a. We have continued a constructive dialogue on fraud prevention with the banks and arranged workshop last Wednesday, attended by nearly all of the BBLS banks, PWC, CIFAS and BBB / HMG representative. Richard is arranging a further workshop for this Wednesday and PWC are preparing an updated anti-fraud report for early in W/C 11 May*
>
> *b. So far fraud flags are only being raised in 2 to 4% of cases and many of those of those flags are capable of being resolved, which while on the one hand is encouraging it would suggest that in more normal lending programmes it is a combination of fraud and credit checks that weed out inappropriate applicants. A number of comments / implications were received on that call around risk of duplicated applications, "glossing" of facts by some applicants (e.g. overstating turnover) and potential CCJs etc*
>
> *c. Follow up actions agreed in the call were around a new process with CIFAS (the industry anti-fraud body) to check for duplicate accounts and potentially working with a number of lenders to "back test" batches of applicants for credit flags such as multiple CCJs or for checking accuracy of certain self-certified aspects (e.g. turnover size). It was these types of areas that we and PWC had flagged as being "very high" residual risks, hence we think it is important that we continue to consider these and look at potential refinements*
>
> *d. The Cabinet Office also attended that call and offered support from their National Fraud Initiative, which is involved in reducing fraud in other CoVid related schemes*
>
> *e. Overall we think this is a critical area to pursue. While the tone on the workshop and subsequent calls that Richard / PWC have had have been encouraging we think we may need to get HMT / BEIS and political support to prioritise these fraud / loss prevention actions. Within the banks there is ongoing operational stretch and without HMG pressure this could be de-prioritised."* {GP/277 – INQ000564013}.

6.164. In response to the update from BBB, Angelina Cannizzaro and I proposed introducing a more structured approach to governance, recognising that we were operating in uncharted territory and that ministers would need to remain closely engaged, potentially making further decisions in the near future. We agreed that a 'hot topics' call would be beneficial, alongside rapid work to establish a governance framework that balanced the various needs and responsibilities involved. We suggested forming standing groups to complement the existing QPM and QSM structures, enabling more systematic oversight of performance, risk, and policy issues {GP/278 – INQ000625871}.

6.165. Following this exchange, Angelina Cannizzaro emailed me to express the need to move away from ad hoc, lengthy calls, emphasising the importance of establishing a more structured approach aligned with our existing governance arrangements. I agreed with this view and proposed that UKGI should also be involved in shaping this structure. I confirmed that I would reinforce this message with Gwyneth Nurse (HMT) to ensure alignment across departments {GP/279 – INQ000625870}.

6.166. One of the main challenges to earlier implementation of the Cifas system was the technical development timeline. On 13 May 2020, Richard Bearman (BBB) advised that while a solution had been identified to detect duplicate applications using enhanced Cifas services, the system required additional build work. Cifas's IT contractor estimated a three-week build time, though an expedited version could be delivered within a week at a cost of approximately £70,000. Another challenge was varying lender readiness—while major banks were already connected to Cifas and could adopt the system quickly, smaller lenders were not members and would require further onboarding. There was also some resistance from lenders due to the integration work required on their side. To overcome these barriers, Richard Bearman recommended that BEIS fund the expedited build to avoid delays and encourage lender participation by removing cost-related objections. He believed that delivering a ready-made system would make it difficult for lenders to opt out, but noted that support for implementation funding might be needed to move at pace {GP/280 – INQ000543218}.

6.167. As outlined in CWS, Part B, §6.35, following this workshop, between 11 May 2020 and 13 May 2020 PwC held meetings with each lender to explore their experiences further, consider ongoing improvement plans and obtain their thoughts on the Cifas proposal. The discussions from these workshops were collated and summarised in an addendum to PwC's Fraud Risk Review discussed at §6.172.

6.168. On 14 May 2020, I personally raised concerns by email in respect of the forecast level of fraud for the Covid-19 loan schemes, ahead of a Covid-19 Programme Board meeting which took place on 19 May 2020 {GP/281 – INQ000564024}. I noted that the risk was that liabilities were higher than forecast, caused by high rates of fraud and error, lender failure, and poorer than expected economic conditions which drove demand and defaults. As has already been set out in this statement, risks of fraud and error were considered and assessed at various stages in the life cycle of these schemes, and I have already provided reflections in that regard and with respect to the Covid-19 loan schemes with which I was involved.

6.169. On 26 May 2020, I emailed my team proposing a call later that week to discuss next steps on anti-fraud measures for BBB, including how to apply Cifas results both retrospectively and going forward. I also suggested we consider anti-fraud measures across other schemes suggesting that we request BBB provide proposals to support this work {GP/282 – INQ000625874}.

6.170. Lawrence Pawley and I met BBB on 29 May 2020 to discuss, amongst other things updates on fraud prevention measures {GP/283 – INQ000625556}.

6.171. Later on 29 May 2020 and following the meeting with BBB, Laurence Pawley emailed BBB advising, "*Spoke with Gemma afterwards and we are keen that we are proactively recommending your proposed amendments to the process to SoS if they are supported by the data – we feel we should be supporting BEIS Ministers to take the lead on this issue given the VfM implications for BEIS as the accountable Dept. Would be really keen to work with you next week on getting some concise advice together that we can aim to get to SoS for his June 4 box*" {GP/284 – INQ000625884}.

6.172. On 1 June 2020, PwC issued an addendum to their earlier report (PwC's Fraud Risk Review) {GP/285 – **INQ000594764},** noting that a structured workshop had taken place with lenders on 6 May 2020. During this session, lenders shared their experiences with BBLS and discussed potential improvements. A key proposal presented by Cifas aimed to help lenders identify multiple applications across institutions. PwC's Fraud Risk Review dated 1 May 2020 had already identified Cifas checks as the most commonly used anti-fraud control. The addendum report further noted that all participating lenders agreed the Cifas proposal would significantly enhance their ability to detect duplicate applications, and all were, in principle, supportive of proceeding with its implementation. Certain issues were, however identified and needed to be addressed, these included:

a) Lenders were accessing the Cifas database through different means e.g. credit agency searches, direct access APIs or through fraud tools. It was considered that for the Cifas proposal to be successful, all access mechanisms would need to be considered;

b) Some lenders considered that the utility of the Cifas proposal was time limited, as the majority of applications had already been made by their customer base;

c) Operational matters, such as the uploading of application data and turnaround time to receive any potential matches. Lenders were concerned that to meet the requirements of the scheme, the funds may have already been paid and it would be difficult to recover the funds after that time; and

d) What action the lenders should take when the Cifas system flagged multiple applications.

6.173. PwC's addendum report stated that, as at 28 May 2020, the Cifas proposal was in the process of being implemented with the focus being to prevent future occurrences of multiple applications, although the data could also be used to identify historic multiple applications. The consensus among the lenders was that this was useful, but there were unresolved issues about the backward-looking capabilities of the Cifas system.

6.174. Key themes common to all the lenders were:

a) Multiple applications – several lenders reported that they had identified over 1,000 instances of multiple applications. The lenders had been investigating the causes of multiple applications including whether they were a result of fraud;

b) Cifas referral rates – most lenders reported Cifas referral rates in the region of 2% - 5%. Of those referred for further investigation, approximately 5% - 10% had been declined for potential fraud;

c) Actual fraud identified – lenders considered it was too early in the life of BBLS to have a clear view on where fraud was occurring, but there was some anecdotal evidence provided of applications being denied for suspicious applications. However, with the passage of time, specific fraudulent attacks were being identified which targeted a number of lenders and had the characteristics of organised crime. One example, involving multiple lenders, related to motor vehicle businesses and their business current accounts. Many of the lenders advised PwC that there was a tension between the BBLS objective of delivering funds quickly, and effective mitigation of fraud risk;

d) Inactive account fraud controls – some lenders were incorporating checks on account activity during the application process and some had identified inactive accounts applying for BBLS that would be further scrutinised before any funds would be issued;

e) Timing – several lenders confirmed that they could significantly enhance their anti-fraud processes if the BBLS rules were to be amended to allow drawdown to take place within 48 or 72 hours. This would have allowed for additional checks and enhanced the effectiveness of multiple application controls such as the Cifas proposal;

f) Fraud checks on data not requiring customer outreach – PwC noted lenders' inconsistent approaches regarding using information already in their possession that may have indicated a potentially fraudulent application, such as a business current account that did not reflect the claimed turnover. However, some lenders informed PwC that they understood that they could not make use of that information for anti-fraud purposes and decline applications on that basis anyway;

g) Transaction monitoring – the lenders considered their transaction monitoring controls operating over the accounts into which the loans were drawn down. The lenders had identified examples of funds being immediately paid away to purchase vehicles, fund gambling or investments which were not purposes consistent with the objectives of the BBLS or the self-certification that the funds would only be used to provide an economic benefit to the business. Whilst there was no obligation under the scheme on the lenders to identify these behaviours, there was no consensus on how to approach the issue once identified; and

h) Emerging issues – one lender highlighted that its Financial Intelligence Unit was reporting significantly increased trading of Business Current Accounts on the Dark Web. PwC reported that Cabinet Office were considering the issue at the date of the report.

6.175. The following enhancements were proposed by lenders:

a) For lenders accepting applications from Personal Current Account holders, a service provided by HMRC in respect of mortgage applications called the Mortgage Verification Scheme could enhance the anti-fraud controls for Personal Current Account holder applicants. The report does not provide any further information about this scheme or how it could be used for BBLS;

b) Customer awareness controls to address the susceptibility of the financially vulnerable to fraudsters and scams; and

c) Greater industry information sharing to assist in the combatting of fraud, but there was no consensus on how this could be achieved.

6.176. On 3 June 2020, a BEIS official emailed the acting Permanent Secretary's private office regarding advice to the Secretary of State as to whether publication of the direction letter referred to in §6.139 could increase fraud (GP/286 – INQ000625878}. The email noted that:

> *"BBB have indicated that we risk drawing attention to the weaknesses that could increase fraud traffic. There is work ongoing to develop counter fraud measures, which ideally we would like to see fully implemented first. Sam in her direction to Keith also requested a full impact assessment before publication of the BBB direction, which will not be possible in the time – hence the desire to try and delink publication of the BEIS and BBB letters. The counter argument to this view is likely to be that there is not a specific commercial interest here, in particular given all the risk is underwritten by HMG. Therefore it is perhaps an even greater public interest angle to this with the argument that we should be officially publishing to ensure transparency / enable Parliamentary scrutiny."*

6.177. In a follow up email later on 3 June 2020, I noted:

> *"Having read further, one thing I did want to probe though is this line in the sub: "However, early analysis suggests the level of fraud detected is in line with general industry norms" (i.e 2-5%) because I think the picture is a little more nuanced? i.e. the minimum fraud flags are picking up 2-5% applications for review (in line with norms), 30% of which go on to be declined, but this does not include multiples. Some lenders have put in place additional measures and in Lloyds this is leading to a further 2-3% apps being declined. And the new CIFAS solution has found that up to 2.3% applications were duplicated x-lenders. There will also be fraud that remains undetectable, such as borrowers using the money for purposes contrary to the scheme rules."*

6.178. Also on 3 June 2020, BBB sent advice, by way of a draft submission, to BEIS on further fraud prevention which could be undertaken under BBLS {GP/287 – INQ000625879},

{GP/288 – INQ000625877} (refer to §6.171 above). The draft proposed the following actions in relation to mitigating fraud:

a) Re-engage PwC fraud team to carry out in-depth review of lenders fraud practices.

b) Mandate use of Cifas solution to reduce multiple application fraud.

c) Empower lenders to take up to 48 hours for fraud checks in high risk groups, as long as they continue to process the majority of applicants within 24 hours.

d) Require lenders to decline applications with three or more CCJs.

6.179. On 4 June 2020, Laurence Pawley requested that BBB provide clarification on three specific areas, which I had flagged, needing further input in the draft submission {GP/284 – INQ000625884}.

6.180. On 5 June 2020, BBB responded on the areas requiring clarification as follows:

> *"1.* ***No intention to retrospectively correct duplicate applications****: We have advised lenders to follow their usual processes with regards to reviewing these accounts and reclaiming any remaining attributable funds. However, the guarantee is not at risk for these accounts.*
>
> *2.* ***% of lenders signed up voluntarily****: All have agreed verbally or by email but not all are live.*
>
> *3.* ***Demand from lenders to carry out more checks****: The "fuzzy logic" sentence was proposed by lenders so have changed the wording here, but also added checks on turnover. Hopefully this covers it off."* (original emphasis).

6.181. On 8 June 2020, Laurence Pawley contacted BBB again {GP/284 – INQ000625884}, requesting further clarification on the following points:

> *"1. Rather than using the 40-60% fraud/credit risk stat, Jo would like to focus on fraud alone – can you provide an estimate on that?*
>
> *2. for action 2 good to include the data for the number of SMEs which have already received loans - and if possible the % of estimated addressable market. Can you provide these?*
>
> *3. SoS doesn't like jargon - so better to better to explain fuzzy logic than use the term. Can you propose some alternative wording for this section?"*

6.182. On 9 June 2020, BBB replied to the above queries as follows:

> *"…we have looked to proxy fraud risks based on SUL (using the cohort as that which informs our 40-60% range), but this should be considered illustrative and remain internal. The estimate is around 15%. The other data we have for BBLS so far is on fraud applications that have been flagged rather than potentially fraudulent applications that have made it through the process.*
>
> *For comment 2, we already have a footnote with uptake, so have just said 65% of market gap with loans approved (based on today's figures); and for comment 3, have just removed reference to fuzzy logic as it is simply lenders checking against more variables to determine if an application is fraudulent/duplicate."* {GP/284 – INQ000625884}.

6.183. On 9 June 2020, Laurence Pawley sent the submission to the Special Advisers' private office for review ahead of its submission to the Secretary of State. In response, the proposed actions were agreed in principle, but BEIS was asked to provide further justification for the proposed 48-hour fraud check period. I noted that:

> *"Making these changes are absolutely critical to protecting taxpayers' money. Is it really necessary to further hold up the sub on this rather minor point? Please can I suggest it goes to SoS tonight and we can provide BBB's view on the answer to Alex's question shortly thereafter.*
>
> *Here is my version of the answer: BBB were given a target by CX of banks turning these loans round in 24 hours. Giving banks an extra working day could make a material difference to the checks they can run on higher risk cases. Extending this as far as three days would highly likely get rejected by the CX as too slow. Anything between 24 and 48 would be totally arbitrary."* {GP/289 – INQ000625883}.

6.184. On 11 June 2020, Laurence Pawley confirmed that BEIS Special Advisers had reviewed the submission and were content with the recommendations but sought clarification on one final point before presenting the advice to the Secretary of State. Specifically, they asked:

> *"…[t]his relates to Action 1, where they'd like us to make clear why an additional 24 hours is needed for fraud checks as opposed to, say, 12 or 36. Is this based on specific feedback/evidence from lenders, for example?".*

6.185. BBB responded that the request for an additional 24 hours had come directly from lenders. It was further explained that:

> *"…it basically allows them to increase their operational capacity enough to be able to carry out the more detailed checks on additional variables/turnover that we allude to in the submission. In theory, we could allow longer time but feel the additional benefit is more marginal, so an additional day strikes the right balance."* {GP/290 – INQ000576399}.

6.186. BEIS officials and I submitted advice to the Secretary of State on 11 June 2020 providing an update on fraud within BBLS, and made several recommendations to prevent multiple application fraud {GP/291 – INQ000564065}, {GP/276 – INQ000564055}. The submission outlined that BEIS had updated its estimate of the overall size of the BBLS, reflecting current uptake and adjusting the average loan amount to £30,400, in line with BBB's latest figures. Although there remained significant uncertainty around potential losses, BBB projected that combined fraud and credit losses could range between 40% and 60%, equivalent to £14.6 billion to £21.9 billion. It was noted that distinguishing between fraud and credit losses was challenging, as fraudulent activity often only becomes apparent when repayments are missed. Officials advised that, given the specific vulnerabilities of the scheme, fraud alone could plausibly account for 5% to 10% of losses, with 10% equating to approximately £3.65 billion.

6.187. The submission also stated that BBB was actively implementing fraud prevention measures, including weekly workshops with banks, UK Finance, and officials to gather feedback, the development of a shared application database to prevent multiple application fraud, and collaboration with Cabinet Office and National Fraud Initiative to analyse data for fraud detection. However, it noted that available data was limited, with early indications suggesting 2% to 5% of applications were flagged for fraud, and some evidence of scams and organised crime targeting the scheme. The submission recommended three actions: mandating use of the shared database across all lenders, allowing lenders up to 48 hours for fraud checks on high-risk cases while maintaining rapid processing for most applicants, and permitting lenders to reject applications from individuals with three or more material CCJs, based on data showing a small but notable proportion of applicants with such records.

6.188. On 19 June 2020, I received an email from Rich Wentel from Cabinet Office {GP/292 – INQ000625549}. He referred to the Fusion Cell meeting which had taken place earlier that day. He noted:

> *"…there was a discussion about the emerging risk of fraud in the Bounce Back Loan scheme and the high likelihood that the scheme may be being targeted by Organised Crime Groups. The banks are beginning to see the same accounts (mule accounts) receiving funds from BEIS Business Grants, HMRC Self Employed Income Support Scheme (SEISS) and BBLs before moving funds offshore, into private accounts or into criminal property.*
>
> *A question was asked about where intelligence relating to potential BBL fraud should be sent to, and who was going to investigate it. As the representative of the Counter Fraud Function for the public sector it got thrown to me and I agreed to look into options. Since neither BEIS or British Business Bank have their own investigative resources to undertake criminal investigations, we need to find an alternative. It is likely that the Police will not engage on this, although I am confident that the National Crime Agency will support the intelligence gathering work.*
>
> *We do however have an option in the shape of NATIS - the National Investigation Service that is a local government centred body that is funded by Thurrock Council. NATIS has police capabilities and is already linked into the NCA, CPS and regional policing structures.*
>
> *….*
>
> *NATIS would be capable and able to support criminal investigations into abuse of the BBL scheme. There would be a funding requirement but if you would like further details I can facilitate a meeting with David Kleinberg who leads NATiS to discuss the details.*
>
> *From a banking perspective they are seeing significant risk in the BBL scheme with over 300 SARs (Suspicious Activity Reports) being logged by the banks this week on top of 270 last week. Even if the only frauds being seen were these (and assuming all BBL payments were £50k), then this alone could represent a fraud loss to Organised Crime of £28.5m. Any investment into the investigation of these cases would be tiny in comparison but would demonstrate a real strength in your response."*

6.189. In response I explained that BEIS relies heavily on the BBB to manage the anti-fraud programme for BBLS, but the issue raised falls outside BBB's remit. I also asked whether he felt he had sufficient visibility of, and ability to challenge, BBB's approach to BBLS, and encouraged him to raise any further measures we should consider.

6.190. Rich Wentel responded confirming that Cabinet Office have a strong working relationship with BBB and are confident in their proactive engagement. However, he acknowledged that schemes prioritising speed over controls are inherently more vulnerable to fraud, particularly from organised crime. He outlined ongoing work with BBB to develop a longer-term technical solution addressing four key risks:

a) Loans to businesses that are already effectively insolvent,

b) Businesses likely to fail before repaying the loan,

c) Misrepresentation of income to secure larger loans, and

d) Misuse of loan funds.

6.191. Additionally, he noted that BBB was reviewing their proposal and was expected to respond the following week. He also noted that while BBB lacked capacity for criminal investigations, NATIS presented a viable option. Beyond investigations, NATIS could consolidate intelligence to support enhanced compliance, monitoring, or recovery actions, even where prosecution isn't pursued.

6.192. On 22 June 2020, the Secretary of State's private office responded to the submission referred to in §6.186, as follows:

> *"SoS reviewed over the weekend and similar to Alex H, questioned why an additional 24 hours was needed for fraud checks.*
>
> *He didn't agree with EST position and has asked what the number of CCJ's is per year so we can highlight to HMT that this is focused on stopping only a few from applying to the scheme.*
>
> *Finally SoS asked how this interacts with the Covid Bill and measures on BBL, which seems to be about making it easier to get money out of the door, whilst these measures could be seen at reducing it."* {GP/293 – INQ000625889}.

6.193. As set out in the email exchange between myself and BEIS officials following the above response, it was noted that while data on the number of CCJs issued to businesses existed (approximately 33,000 per quarter), there is no specific data on how many businesses have three or more CCJs. The broader context of the proposal was

acknowledged as a balance between rapid loan delivery and fraud prevention. Given the risk of significant fraud, a slight delay in processing for a small number of applicants was considered justified. The handling section of the submission was said to address how best to communicate this approach.

6.194. In an email from BEIS to BBB and HMT, BEIS officials confirmed that the Secretary of State had agreed the fraud mitigations for BBLS {GP/294 – INQ000625890}. It was confirmed that the mitigations were, (i) a mandate to make use of the Cifas solution; (ii) empowering lenders to take up to 48 hours for fraud checks across high-risk groups, as long as they continue to process the majority of applicants within 24 hours; and (iii) allowing lenders to decline applications with three or more material CCJs.

6.195. In email correspondence between HMT and BEIS {GP/294 – INQ000625890}, {GP/290 – INQ000576399}, HMT advised that the Economic Secretary to the Treasury had approved (i) and (ii) referred to above, but had not agreed on point (iii). I responded to David Raw (HMT) noting that "*I'd interpreted your feedback from EST as meaning that he was ok with this in principle, but didn't want to prescribe it. Would be good to find a way through this as SoS has said he supports the three-CCJs -and-your-out rule. Giving the lenders permission to apply this feels right*." David Raw replied as follows:

> *"The lender already has permission to apply a 3 significant CCJs and you are out rule if they believe this is an indicator of fraud. The EST supports banks using their judgement in this way, but would not be minded to prescribe they must take a particular approach.*
>
> *That seems right to me as the lender is best placed to decide if 3 CCJs is an indicator of fraud or not. I don't know why we would want to come along and take away their discretion in this regard – the lenders would love us to as they want to be able to point towards and blame government for everything that goes wrong, but I don't think we necessarily want to put ourselves in this position".*

6.196. On 6 July 2020, I received a draft business case proposing that NATIS be tasked with investigating fraud cases related to BBLS. I had already scheduled a meeting for 17:00 that day with representatives from BBB, BEIS, and Cabinet Office to discuss the potential role of NATIS. Ahead of the meeting, I circulated a list of questions via email to BEIS officials and Richard Bearman (Startup Loans), noting the following:

"Just a couple of questions marked up in the attached from me. Main one is whether we're paying NATIS to cover BBLS only or all three covid loan schemes.

Before the 5pm would also be good to know:

- *Whether CO colleagues sent us a final version of their diagram showing roles in the system for identifying and dealing with suspected fraud, including any NCA and INSS role?*
- *Peter – whether HMT have agreed this c£1m can be added to the our bill for BBB operating the loan schemes, and if not, whether this is going to be a pressure on my budget?*
- *How we envisage NATIS will routinely feed intel gathered back to banks."* {GP/295 – INQ000625892}.

6.197. On 9 July 2020, I was asked to review and approve a submission providing an update on fraud within the Covid-19 loan schemes, intended for the Secretary of State, the acting Permanent Secretary, and BEIS ministers. I was also asked to consider and sign off on a business case seeking additional support from NATIS to investigate and prosecute fraudulent loan activity {GP/296 – INQ000625893}.

6.198. On 10 July 2020, a BEIS official sent an update to the Secretary of State's private offices, Ministers Scully and Zahawi, the acting Permanent Secretary and Special Advisers that a 'for info' submission would be circulated early the following week containing an update on the emerging risk of fraud in the Covid-19 business loan schemes {GP/297 – INQ000065188}, {GP/298 – INQ000625552}. The submission was sent to the Secretary of State, acting Permanent Secretary and ministers on 16 July 2020.

6.199. The submission highlighted that the Covid-19 loan schemes, particularly BBLS, were launched rapidly to prioritise access to finance, which required relaxing standard controls and increased the risk of fraud. Early fraud estimates ranged from 0.1% (based on BEIS analysis of existing schemes) to as high as 10% (based on comparable figures from HMRC's tax credit programme). Officials had established close coordination with Cabinet Office's counter fraud team and noted a sharp rise in Suspicious Activity Reports linked to the Covid-19 loan schemes, from 2% of national reports in May to 8% in June. Four main fraud types were identified: non-trading companies applying, misuse of funds, phoenix companies, and misrepresentation of

turnover or performance. BBB had introduced several counter fraud measures, including minimum standards, weekly workshops, and shared databases to detect multiple applications. For more serious cases, NATIS was expected to lead investigations and prosecutions. An initial £100,000 investment had already led to the identification or freezing of £825,000 in suspected fraud. Officials were also working with other departments and lenders to address lower-level fraud and provide guidance on recovery processes where fraud was suspected.

6.200. In an email dated 15 July 2020, I stated "…*at the moment, I think we're very exposed not having any intelligence, investigation and prosecution capacity formally in place for BBLS. Banks are raising Suspicious Activity Reports and they don't get looked into*". {GP/299 – INQ000564079}

6.201. On 16 July 2020, Laurence Pawley copied me into correspondence with HMT, informing me that Cabinet Office had attempted to introduce a new anti-fraud measure for BBLS without properly consulting BEIS or HMT. As a result, the measure was poorly received by lenders, and ministers were not briefed in advance {GP/300 – INQ000625895}.

6.202. On 17 July 2020, I received an email from a BEIS official advising that the Department wanted to update the Secretary of State, ministers, Permanent Secretaries and Special Advisers on this new measure which Cabinet Office had implemented {GP/301 – INQ000625896}.

6.203. On 20 July 2020, BEIS provided an update to the Secretary of State, ministers, and the Permanent Secretary, reporting intelligence from Cabinet Office Counter Fraud Function that fraudsters may be exploiting BBLS by acquiring dormant companies and altering their director and bank details to apply for loans. In response, an optional pilot was proposed to introduce a new fraud check within the Cifas database. This check would flag applications from companies meeting three risk indicators: incorporated for under two years, a director change since May 2020, and no credit history. Approximately 9,000 companies met these criteria, with 684 having already received BBLS loans totalling £29.1 million. Lenders had been informed of these cases as part of their routine risk procedures {GP/283 – INQ000625556}, {GP/302 – INQ000625557}.

Investigative Capacity

6.204. I am asked what should have been done differently in terms of ensuring there was adequate investigative capacity from the start of BBLS, and before agreement was in

place to engage the NATIS. As previously noted, BBB was responsible for managing the anti-fraud programme for BBLS, including setting minimum fraud standards and coordinating with lenders. While banks submitted Suspicious Activity Reports, BBB did not have the mandate to act on these reports beyond sharing insights and coordinating with relevant authorities. BBB did not have investigative or enforcement powers, which meant they could not pursue criminal cases or conduct formal investigations. This gap led to the engagement of NATIS to support enforcement.

6.205. As set out in §6.188, Rich Wentel identified NATIS as a viable option for conducting criminal investigations, given that neither BEIS nor BBB had the capacity to do so. He acknowledged that schemes designed for rapid delivery, like BBLS, were inherently more susceptible to fraud, particularly from organised crime. He also outlined ongoing work with BBB to develop a longer-term technical solution targeting four key risks: lending to businesses that are already insolvent; businesses likely to fail before repaying the loan; misrepresentation of income to secure larger loans; and misuse of loan funds. While BBB lacked investigative capacity, NATIS was seen, by Cabinet Office Counter Fraud Function, as a strong option not only for pursuing criminal cases but also for consolidating intelligence to support enhanced compliance, monitoring, and recovery efforts even where prosecution was not pursued.

6.206. With hindsight, it is clear that it would have been better to have a full systems map for the counter fraud prevention, detection and investigation effort before the launch of the system, showing who would fulfil the respective roles, and how the system would talk to each other. That this was not in place on launch was substantially down to the pace of implementation of the scheme, but also impacted by the very limited counter fraud capability in BEIS at the time. It would have been better to have significantly more counter fraud capability within the Department during the design and implementation and ongoing oversight of the scheme. This was a real challenge. I note that counter fraud capability was in high demand across government at the time.

Involvement with the Government Counter Fraud Function's Centre of Expertise [17]

6.207. As set out in the above sections, in addition to in my response to question 48 (see 'The CBILS Post Event Assurance Action Plan' at §5.88), the Department continued to consider further counter fraud measures for BBLS after its launch. In respect of my and the Department's involvement with the Government Counter Fraud Function's

[17] I have been advised that the Inquiry provided the email of 21 October 2020 and 3 November 2020 on 23 July 2025 with references INQ000594099 and INQ000594103 respectively.

Centre of Expertise, I understand that this issue has not been expressly covered in the CWS, and that the Inquiry's question arises from additional documents to which I have been referred. My involvement in this issue is detailed below but was otherwise relatively limited. To assist the Inquiry, I have set out my understanding of the issues based upon documents which the Department and legal advisers have retrieved as relevant to this issue, this is not limited to correspondence to which I was copied at the time. Therefore, this section goes beyond my own personal involvement in places.

6.208. As set out in §5.108 above, on 14 September 2020 {GP/151 – INQ000625903}, Rich Wentel advised that BBLS was a very high risk scheme and Cabinet Office was of the view that the fraud response was, at that stage, inadequate. He further advised that, amongst other issues, there was no plan to measure and recover fraud loss from the scheme (sampling and testing).

6.209. As set out in §5.109, although I believed that some of Cabinet Office's criticism of BEIS's counter fraud efforts on BBLS was fair, as things had moved more slowly than I would have liked, I felt that Cabinet Office's approach could have been more collaborative and less confrontational. That said, I recognised that BEIS did not have sufficient resource dedicated to this work, and that this needed to be addressed as a matter of urgency. I also believed we needed individuals with the right expertise to lead these efforts and engage effectively with Cabinet Office. I intended to discuss this with Mark Cheeseman (Director, Cabinet Office), to seek his input on potential candidates who could be brought in to support our counter fraud work. I further note that this issue was raised on various occasions with Mark Cheeseman.

6.210. In an email chain on 14 September 2020 {GP/303 – INQ000625905} between Cabinet Office, HMT and BEIS, David Raw responded to Rich Wentel's email (see §5.108) noting that:

> *"Estimated losses of 40% to 60% are highly uncertain (HMT's view is that they will be considerably less than this) and of course this number is largely the loss associated with credit risk, which is separate from the fraud risk. To lead with this number therefore runs the danger of misleading.*
>
> *That said, we take the fraud risk seriously which is precisely why we have taken the steps we have taken – overnight fraud checks, CIFAS checks, change of Director flags, weekly fraud meeting with lenders – to minimise the risk from fraud as far as is possible given the policy design. It is however very important that any interventions work. For instance, since there is no*

requirement for small businesses to be VAT registered, it doesn't work to use this as a fraud indicator. Where there are proposals that work in line with the policy objectives we are keen to keep exploring them."

6.211. In response Mark Cheeseman acknowledged the complexity and political sensitivity of the BBLS counter fraud work, noting that all parties were aligned in aiming for the same outcome. He recognised that BEIS and HMT had made efforts to balance the need for speed and simplicity with the high risk of fraud, and that some controls had been implemented. He also appreciated BEIS's steer that credit risk was likely to be higher than fraud risk, which had informed Cabinet Office's own messaging. However, he expressed concern that BBLS remained the most worrying scheme from the Covid-19 response, citing over 9,680 Suspicious Activity Reports, border interceptions involving cash, and the lack of progress in investigating these cases. He emphasised the need for a stronger, more dynamic response and encouraged BEIS to explore data-matching, and claim review trials to better understand and recover fraud.

6.212. I responded confirming that BEIS had signed the Service Level Agreement with NATIS earlier that day, enabling them to begin work on the backlog of Suspicious Activity Reports. I acknowledged the proposals being developed by Cabinet Office and HMT to trial the use of dissolved companies' data with selected lenders. I also noted that Cabinet Office and HMT were going to provide a proposal—focused on identifying links, patterns, and potential organised fraud networks using existing intelligence. I further noted that, in parallel, BEIS was pushing BBB to initiate sampling work, with PwC due to confirm the following day whether this could be delivered under their existing contract. We were also addressing feedback on the PEAP. I also advised that I had raised the issue about needing to increase resourcing for this work which I had raised repeatedly with BBB to ensure it was given appropriate priority. Finally, I welcomed any suggestions from Cabinet Office on potential secondees from elsewhere in Whitehall who could temporarily join BEIS to help scale up the response.

6.213. In parallel to the above email chain, Laurence Pawley and Rich Wentel discussed the issue of sampling on 14 June 2020 {GP/304 – INQ000625904}. Laurence Pawley confirmed that he had spoken with BBB over the preceding weekend about using their existing contracts to initiate some early sampling work. Rich Wentel added that Cabinet Office was working to secure resources to support BEIS and would also develop guidance on sampling, which could be incorporated into the BEIS PEAP.

6.214. On 15 September 2020, Laurence Pawley emailed Rich Wentel welcoming Cabinet Office's offers of support. He further noted:

> *"1. On the **Fraud Risk Assessment** – as you know the current version has been signed off by the BBB Board. However BBB colleagues have confirmed they'd be happy to work with a Fraud Risk Assessor selected by Cabinet Office to review the assessor's comments and provide proposals for improvement to develop a new iteration. Grateful if you can liaise with Richard on this in the first instance, keeping BEIS colleagues copied.*
>
> *2. On **Sampling** – we agree that a programme of sampling and testing will be beneficial to better identify and assess the actually occurring fraud in relation to the programme. We are already looking at options to progress this – for example BBB are in urgent discussions with PWC to assess whether, under their existing contract with BBB, they can conduct a sample of around 1000 cases with a range of lenders. This would require HMT sign off but this is something we'd be happy to take to the working group – we're expecting an update from PWC on logistics before COP today. BEIS counter-fraud colleagues would be happy to work with Cabinet Office sampling experts (who I understand they already have a relationship with) to further develop a programme of sampling that all parties can sign up to. Your colleagues should contact BEIS counter-fraud colleagues cc'ed (**Philip and Ian**) to kick this off.*
>
> *3. On the **Post Event Assurance Plan**, this is of course an iterative document. We are very happy to work with CO colleagues to address your comments, but just wanted to flag that I don't think we'll be able to resolve all of these in advance of your internal deadline for the next Ministerial Board. However what I'd like us to have done before then is two things: a) identify and action any quick wins in terms of improving the plan (i.e. updating to reflect the work discussed above, adding missing elements like the lenders recoveries workstream), and b) agree a time-limited plan of action for addressing other comments. Again, your colleagues should work with **Philip** and **Ian** on this in the first instance".* (original emphasis) {GP/305 – INQ000625906}

6.215. On 6 October 2020, in an email chain between BEIS officials and BBB {GP/306 – INQ000624957}, it was confirmed that PwC would conduct the sampling and testing.

6.216. As outlined in CWS, Part B, §6.62, on 7 October 2020, BEIS officials and I met with the Secretary of State to brief him on fraud in BBLS and current mitigations. The Secretary of State requested that BEIS prepare ambitious options to enhance BEIS's counter fraud operations for BBLS.

6.217. On 9 October 2020, I received an email from the Permanent Secretary {GP/307 – INQ000624958}, confirming that she had spoken to the Secretary of State following the meeting we had on 7 October 2020. The Permanent Secretary noted that the Secretary of State had emphasised the importance of enhancing counter fraud measures for BBLS. In summarising the key takeaways from the call, she noted that:

> *"A) we should definitely not allow resourcing or funding to be a constraint here - please assume this is a number one priority and throw what we need at it. (Then we pick up the consequences/back fill etc - which may not be easy I get, but any resource gaps need to cause pain elsewhere not on BBLS fraud). I know our anti-fraud team is small - what's the immediate plan to bolster a lot? Could we bring in expertise from POs? Somewhere else?*
>
> *B) we should be providing very firm, cross-WH leadership here and if we are not getting the support we need we should escalate fast (he asked me to personally call Charles and tell him that HMT need to fall in line – I have no idea whether that /specific/ suggestion makes sense but the principle holds. In particular are we being pushy enough on the CO function and what would it take to be more so? Who else do we need to mobilise more (I know lots happening already). I would be keen to raise at the Simon Case/prioritisation meeting Tuesday whether we are getting the help we need and what more other parts of WH could do.*
>
> *C) There is definitely something here about visibility - both of course to fraudsters, but also I think there was a bit of an underlying "what are our big signature moves" here (even inside the system) - as well as all the important work under the hood. Ie how are we seen to have gripped hard as well as having in fact gripped hard".*

6.218. In response, a BEIS official confirmed that a submission was being prepared for the Secretary of State, addressing the Secretary of State's concerns and outlining BEIS's proposed actions. She noted that immediate priorities included preparing for the launch of the Covid Fraud Hotline, in close collaboration with Cabinet Office. This would provide valuable insight into fraud types, though some false leads were expected. All

information would be shared with NATIS. Resourcing for this work would come from reprioritisation within Finance & Performance, with the option to draw on support from the Ministry of Defence (MOD) or Cabinet Office. Another key focus was initiating sampling across all lenders, with PwC engaged to deliver the first statistically valid estimate of fraud levels within BBLS. BEIS was actively working to accelerate PwC's timelines to ensure timely delivery.

6.219. I responded to the Permanent Secretary advising, alongside the "*big scaling*" of the Government Counter Fraud Function, we were also working to strengthen the policy team. On cross-government collaboration, I noted we were preparing options for the Secretary of State that might prompt a cautious response from HMT. We were ready to support the Secretary of State in making a strong case for measures that could significantly reduce fraud and improve recoveries, even if they introduced some complexity for borrowers or lenders. I acknowledged that Cabinet Office's approach could feel intrusive but emphasised that they were actively supporting us. I was in daily contact with the Cabinet Office's Director of Counter Fraud, and although they were keen to be closely involved to manage reputational risk, we were handling that dynamic constructively and making good use of their input. I also highlighted increased engagement from the Home Office following a National Crime Agency (NCA) threat assessment, and noted the need for this to translate into additional NCA resource. Finally, I flagged that BBB also required additional resource for this work and had raised that directly with Catherine Lewis La Torre, Chief Executive Officer of BBB.

6.220. On 13 October 2020, BEIS officials submitted advice to the Secretary of State (submission dated 8 October 2020) {GP/308 – INQ000543382} outlining proposed counter fraud measures for BBLS. The submission acknowledged that the scheme's design, prioritising speed and simplicity, made it inherently vulnerable to fraud, as highlighted by the NAO and media reports.

6.221. To address this, BEIS had commissioned PwC to conduct a statistically significant sampling exercise of BBLS loans to estimate the scale and nature of fraud. The initial sample of 1,100 loans was expected to be completed by January 2021, with a full sample of 4,000 loans by March 2021. Officials recommended increasing funding by £1 million to accelerate this work, enabling earlier access to insights that could inform targeted counter fraud interventions.

6.222. The submission also proposed expanding the BEIS counter fraud team by three to five staff to strengthen coordination, prevention, triage, and reporting functions, at an

estimated cost of £250,000 per year. In addition, it recommended bringing in around five full term employees, either secondees or contractors, with investigative expertise to triage intelligence from lenders, the Public Sector Fraud Hotline, and law enforcement. This would cost approximately £500,000 for 2020/21. It was noted that hotline referrals were expected to decline after April 2021, potentially reducing future funding needs.

6.223. Following receipt of the submission, Alex Hitchcock (Special Adviser, BEIS) called for a meeting with himself, the Secretary of State, the Permanent Secretary, Jo Shangmugalingham and other officials to discuss the proposals and next steps.

6.224. The submission was sent to the Permanent Secretary's private office later that day as well {GP/309 – INQ000543381}.

6.225. On 15 October 2020, I met with the Secretary of State, along with BEIS officials and the Permanent Secretary to discuss the proposals for enhancing the counter fraud response in BBLS. I received a briefing ahead of this meeting highlighting the relevant points to make {GP/310 – INQ000564195}.

6.226. Following the meeting, key actions were shared among officials {GP/311 – INQ000564120}.

6.227. On 21 October 2020, Cabinet Office wrote to BBB requesting a pause on finalising the sampling contract until they could provide further advice {GP/312 – INQ000624962}. They emphasised the importance of aligning the sampling approach with the risks identified in the FRA.

6.228. BBB copied BEIS into the correspondence, noting that the sampling exercise was being driven by BEIS's reporting requirements. At the time, BEIS officials maintained that a large, random sample was necessary to meet those requirements {GP/313 – INQ000624961}. However, Cabinet Office raised concerns with this methodology, preferring a smaller, more targeted sample focused on testing the specific risks outlined in the PEAP and FRA.

6.229. On 3 November 2020, Cabinet Office provided its advice to the Department on the sampling exercise. I note that I was copied into this correspondence {GP/314 – INQ000624967}, {GP/315 – INQ000625011}. On 4 November 2020, BEIS officials forwarded the advice to BBB and sought their views and arranged a meeting for the following day {GP/316 – INQ000624969}, {GP/317 – INQ000624970}. BBB provided its analysis to BEIS shortly after this {GP/318 – INQ000624972}.

6.230. BBB advised BEIS that Cabinet Office should either support PwC directly with the sampling process using the broader dataset or grant PwC access to HMRC data, accepting the associated limitations if full data access was not possible. Ongoing discussions between BBB and BEIS aimed to ensure that Cabinet Office advice was incorporated while still meeting the Department's reporting requirements {GP/319 – INQ000624977}. BEIS ultimately determined that PwC should conduct sampling using both Companies House and HMRC data to ensure a robust and comprehensive analysis.

6.231. Throughout November 2020, BEIS held discussions with BBB and Cabinet Office to refine the approach to the BBLS sampling exercise. BEIS worked closely with Cabinet Office's specialist team and received further advice on appropriate methodology {GP/320 – INQ000624975}. As a result, all parties agreed to a two-phase approach:

a) Phase 1 involved random sampling to estimate the overall level of fraud.

b) Phase 2 focused on targeted analysis to measure specific fraud risks.

6.232. Cabinet Office supported this approach, and the contract between BBB and PwC was signed on 23 November 2020, with completion expected by March 2021. This methodology was subsequently presented to the BBLS Counter Fraud Strategy Group on 30 November 2020 {GP/321 – INQ000624982}.

6.233. I have been asked to reflect on whether earlier integration of the Government Counter Fraud Function's Centre of Expertise recommendations would have led to a more robust fraud control framework for BBLS.

6.234. The Government's Counter Fraud Function was involved from the early stages of the scheme. However, the lack of effective controls, due to the absence of verification checks and a reliance on self-certification, was built into the scheme's design. It is important to recognise that BBLS was never intended to have the same level of fraud prevention as other loan schemes.

6.235. The implementation of systems to detect duplicate applications and the use of fraud risk indicators were essential in enabling lenders to identify potential fraud quickly. Equally important was the establishment of investigative resources to pursue suspected fraud cases, along with setting clear expectations for lenders.

6.236. In retrospect, the model of having an external expert function to support and challenge the Department was not the most effective, in my view. The BEIS Counter Fraud team lacked the capacity and experience to lead effectively, while the Cabinet Office team

remained too distant. For future crisis-response or high-risk schemes, it would be more effective to embed senior fraud experts directly within departments to provide leadership and drive action from within.

6.237. On the sampling methodology specifically, Cabinet Office was concerned that the Department's approach was too broad. However, the Department was required to undertake a broad randomised sampling exercise to ensure it met its reporting requirements on the prevalence of fraud within BBLS. As set out above, BEIS worked closely with the Cabinet Office Counter Fraud Function and received further advice on appropriate methodology {GP/320 – INQ000624975}. As a result, all parties agreed to a two-phase approach.

6.238. The sampling methodology was not the only counter fraud activity being undertaken at the time and the Department was also progressing the proposals initially sent out to the Secretary of State as mentioned in §6.220.

6.239. I have been asked to reflect on what lessons DBT has learned regarding the use of external consultants during an emergency response to manage fraud and error risk. As I left the Department in April 2023, I am not in a position to comment on developments since that time. However, based on my experience, one key lesson is the importance of engaging external consultants early, with clearly defined objectives and governance structures. In the case of BBLS, the use of PwC to conduct statistically valid sampling was a valuable step in understanding the scale and nature of fraud. That said, initial delays in aligning expectations between departments and agreeing on methodology highlighted the need for early cross-government coordination and clarity on roles. A particular point of tension was the differing expectations around sampling, while BEIS required a broader sample to meet its reporting obligations, Cabinet Office preferred a narrower focus, and more work was needed to reconcile these approaches. Future emergency responses would benefit from pre-agreed frameworks for deploying external expertise, ensuring that such support can be mobilised quickly, integrated effectively, and used to inform real-time decision-making.

Engagement with Cabinet Office in relation to Fraud Expertise within the Department

6.240. On 11 September 2020, Mark Cheeseman emailed me and outlined his concerns regarding, among other things, the fraud expertise within BEIS and HMT {GP/321a – INQ000655257}. I shared his concern: I felt that there was a need to bolster BEIS's central fraud expertise and wanted his suggestions on people in bring in *"…ideally from elsewhere in whitehall."* This was something that I had been discussing with the

relevant team's co-directors, Tom Taylor and Kim Humberstone, in the same email as referred to at §5.109, above.

6.241. As set out at §6.212, I sent an email to Mark Cheeseman on 14 September 2020 seeking his views on who could be brought into BEIS temporarily from elsewhere within Whitehall to scale up the response {GP/303 – INQ000625905}. Mark Cheeseman responded the following day and advised that, on resourcing, he would consider my request but noted that the areas they usually drew resource from (HMRC, DHSC DWP) were already stretched from their own fraud work on Covid-19 spending {GP/321b – INQ000655258}. However, by 15 September 2020, Cabinet Office had found a number of people who could assist BEIS {GP/321c – INQ000655259}, {GP/321d – INQ000655260}. I am afraid I cannot recall how many of these people actually then took up full time positions in the BEIS Counter-Fraud team.

6.242. Capacity remained an ongoing issue into October 2020. On 6 October 2020, during discussions concerning the implementation of the Covid Fraud Hotline, Mark Cheeseman emailed me and detailed the process for receiving hotline referrals. The referrals were to be triaged by Crimestoppers and the CO team and then sent to BEIS. He considered that in a perfect world, BEIS would triage the referrals and direct cases around the capacity we had. I was concerned by how, in practice, this suggestion would affect BEIS, as I felt that the team would not have capacity to undertake the work. On the same day, I flagged this concern to Kim Humberstone. Kim Humberstone responded and outlined the options they had already been exploring for additional resources. She noted that some these had already been set up and just required sign off from the Secretary of State however this had been put on hold as they had assistance from NATIS at that time. I replied that the Secretary of State was aware of the issue so now was a good time to request his sign off, before the influx of work arrived and the team became "*swamped*" {GP/321e – INQ000655262}.

6.243. On 7 October 2020, I spoke to Mark Cheeseman about the resourcing issue. On our call, he stated that BEIS was *"woefully under-resourced on counter-fraud"* and suggested that BEIS formally request the government fraud function assist to design and staff a dedicated unit. Further, he *"would pull together a x-public sector team to assist and thinks we should be targeting a DD led unit, bringing in someone who has done this elsewhere (maybe local govt)."* {GP/321e – INQ000655262}. I reiterated to Tom Taylor and Kim Humberstone that I considered we should work on getting that in train immediately and sought their views, noting that in my view, this would reflect well

on the Department at the next ministerial meeting scheduled for the following week, in respect of BBLS fraud.

6.244. Kim Humberstone responded the same day {GP/321f – INQ000655263}. She advised that she and Mark Cheeseman had already discussed this, and that *"…the issue we are grappling with is not around the desire to staff up a fraud unit, but how to best do this for our operating model."* She flagged the differences in operation between the counter-fraud team in BEIS as opposed to those in DWP and HMRC, where schemes were delivered directly, and the teams had "*immediate access to all the data they need to perform high level analytics"*. The fact that BEIS delivered its schemes through others meant that *"[e]ven if we staffed up a fraud unit in BBB, [we] also do not have immediate access to data because it is dispersed across the delivery lenders."* The first priority was therefore to work through how to improve the operating model and clarify what it was we were asking of lenders. Once this had been tackled, consideration could turn to how it was to be resourced.

6.245. On 7 October 2020, I responded to Kim Humberstone's above email agreeing that we first needed to design an operating model but noted that Mark Cheeseman seemed to be suggesting he could assemble a team to aid with the design {GP/321f – INQ000655263}. I thought this would be useful to BEIS. Kim Humberstone responded to my email on the same day and agreed that it sounded useful. She said she would go back to Mark Cheeseman and accept his offer of assistance {GP/321g – INQ000655264}]. I am not aware if Kim Humberstone ever followed up on this directly with Mark Cheeseman. Resourcing concerns for the counter-fraud team were shared by the Permanent Secretary and Secretary of State, who also considered the team needed to be bolstered {GP/307 – INQ000624958}. In response to the Permanent Secretary, Kim Humberstone noted that the immediate actions were to "*staff up ready for the go-live of the Covid Fraud hotline*" on which BEIS were working closely with CO. On resourcing she noted that this would "*come from reprioritization within [the Finance and Portfolio team] and we can also call on resource from MOD or via CO*."

6.246. On 15 October 2020, Laurence Pawley emailed Cabinet Office officials and provided an update on a meeting with the Secretary of State held that afternoon {GP/321h – INQ000655267}. The email included a number of actions that the Secretary of State had asked BEIS to carry out, including increasing the BEIS Counter-Fraud team from two FTE to ten FTE as soon as possible. In response, Mark Cheeseman stated that he considered BEIS *"…would benefit from a strong G6 lead into this team … I am happy to help source this for you from the experts we have in HMRC, DHSC etc."* I

was not copied into this correspondence and am not aware of any response to Cabinet Office on this point.

6.247. On 31 October 2020, Mark Cheeseman emailed Kim Humberstone, copying in me and other BEIS officials, ahead of the BBLS Fraud Board meeting the following week. He wanted to be in a position to talk about the outcomes of the referrals from the Covid Fraud Hotline and sought an update {GP/321i – INQ000655269}. He offered further assistance by stating: *"I am very aware that the BEIS Fraud Unit is growing and stretched in many ways, so if it is easier for you to share your intelligence tracker with the Intelligence team here, we will be more than happy to do that analysis for you and play it back to you."* Kim Humberstone responded the next day and confirmed that they had a former HMRC civil servant starting with their team the following day. She also noted that "*it would significantly increase our investigation ability if you can help facilitate our ability to rapidly check the tax and NI footprint of the suspects, so that we can then work with banks on recovery.*" Mark Cheeseman responded that he would talk to his team and come up with a plan to help.

6.248. There were some differences of opinion between what CO considered BEIS should be doing, in relation to scaling up capability for the BEIS counter fraud team, and the views of that team {GP/321j – INQ000655299} {GP/307 – INQ000624958}. An example of this is an email sent to me by Tom Taylor on 4 November 2020, where he questioned the purpose of CO pulling resourcing from DHSC to put into BEIS "*given we have virtually no actionable intelligence to operate o*n" {GP/321j – INQ000655299} {GP/307 – INQ000624958}. In response I noted the difference in views between CO and the BEIS counter fraud team but felt it was "*hard for me (as a non-expert) to judge what the right answer is*" and suggested that the team discuss further with Mark Cheeseman. As set out at §5.109, it felt at times that although CO colleagues were trying to be helpful by offering expert advice, we were not yet all aligned and pulling in the same direction. In any event, on 5 November 2020 Mark Cheeseman offered again for a Deputy Director to move across to BEIS to lead the fraud response and the team accepted this offer on the same day {GP/321k – INQ000655270}. This eventually led to Paul Golightly, at the time the Director of the Anti-Fraud Unit at DHSC, joining the team in January 2021 {GP/321l – INQ000655271}.

6.249. As outlined above there was a lot of back and forth with CO around resourcing for the BEIS Counter-Fraud team. The Counter-Fraud team clearly felt that before additional resources were brought in from other Departments, there was a need to work on the

operating model and most specifically how data was to be collated from the various lenders.

6.250. I have been asked about the establishment and operation of the Covid Fraud Hotline. This was an initiative established by CO, it launched on 12 October 2020 {GP/321m – INQ000655265} and {GP/321n – INQ000655266}. As set out at §6.242 above, referrals were to be triaged by Crimestoppers and CO before being sent to BEIS. BEIS were informed of the proposal on 21 September 2020, which, at that point had an initial launch date of 1 October 2020 {GP/321o – INQ000655261}. CO advised BEIS that the Covid Fraud Hotline (which they referred to as the CO Hotline), would "*triage all reports, supported by compliance, as previously discussed, which will assist departments by providing the best information possible moving forward.*" As discussed at §6.242 above, there were ongoing discussions between CO and BEIS as to the resourcing of the BEIS counter fraud team which included our capacity to deal with referrals from the hotline, and this was an area about which I had expressed concern {GP/321f – INQ000655263}. As referred to at §2.245 above, on 9 October 2020 Kim Humberstone noted in an email to the Permanent Secretary and me that "*[o]ur immediate actions are to staff up ready for the go-live of the Covid Fraud hotline*]."

6.251. On 10 October 2020 Mark Cheeseman of CO, emailed me and Jenny Dibden to share notes for the launch of the Covid Fraud Hotline later that week {GP/321m – INQ000655265}, {GP/321n – INQ000655266}. I was not directly involved with the Covid Fraud Hotline and when I received queries regarding it, I would pass these to my colleagues Kim Humberstone and Tom Taylor who were leading the BEIS counter fraud response. One example is an email sent to me by CO on 26 October 2020 in relation to a specific case from the hotline they wished to flag. I responded that I had copied in Kim Humberstone as if CO wanted "*to discuss a specific case/NCA intel then best to speak to counter-fraud team anyway, who are triaging and managing links with agencies/authorities*" {GP/321p – INQ000655268}.

6.252. I have been asked for my view on how effective the Covid Fraud Hotline was as a tool for providing insight into the types of fraud occurring. I have outlined the extent of my involvement above which was limited to matters of resourcing. I was not involved in the triaging of intelligence or any of the follow up and I therefore feel others will be better placed to deal with this question.

Extension of BBLS

6.253. The Inquiry has asked me to set out the nature and extent of my involvement in considering the risks and benefits of the extensions of BBLS between September 2020 and March 2021. By way of context to my involvement, I note some key relevant dates in relation to the extensions of BBLS were as follows:

a) On 24 September 2020, the Chancellor announced that the three loan schemes would be extended to 30 November 2020 {GP/322 – INQ000564107};

b) On 9 November 2020, the Chancellor provided approval to extend the loan schemes to 31 January 2021 {GP/323 – INQ000564142}; and

c) On 17 December 2020, the Chancellor announced that the loan schemes would be extended to 31 March 2021 {GP/324 – INQ000089923}.

6.254. At the outset, I remind the Inquiry that I was on maternity leave from January 2021. That said, between September 2020 and January 2021, as I set out below, I was actively involved in assessing the risks and benefits associated with each of the three extensions to the Covid-19 loan schemes. This work included contributing to the preparation of Accounting Officer advice, reviewing updated risk assessments, and advising on whether the existing ministerial directions and the Reservation Notices remained valid. In each case, we considered whether the nature of the risks, particularly around value for money, fraud, and market distortion, had materially changed, and whether any mitigations had been implemented since the schemes were first launched.

6.255. I also supported the development of policy options to address gaps in lending support, such as proposals to lower the minimum loan threshold for CBILS to accommodate smaller businesses following the closure of BBLS. Throughout this period, I worked closely with colleagues across BEIS, HMT, and BBB to ensure that operational feasibility, lender capacity, and legal risks were fully considered. This included responding to emerging developments, such as unanticipated announcements from HMT, and ensuring that updated advice and costings were provided promptly to the Secretary of State and the Permanent Secretary.

6.256. Beginning in mid-August 2020, BEIS officials, including myself, began considering whether to extend or close the Covid-19 loan schemes. On 28 August 2020, advice was submitted to the Permanent Secretary and Special Advisers in preparation for a meeting with the Secretary of State scheduled for 3 September 2020 {GP/325 –

INQ000625899}, {GP/326 – INQ000625900}. The accompanying email also noted the following:

> *"Once SoS has provided steers, we plan to provide further advice setting out more detail on the preferred approach, including the operational feasibility for BBB and lenders. We will also continue working up proposals for longer-term interventions to replace the Covid-19 schemes and will provide advice on this in due course.*
>
> *Please note that Treasury colleagues will be putting advice on this to CX in parallel. From our discussions to date, we expect the approach that they recommend will closely resemble that set out in our advice.*
>
> ***Summary***
>
> *1. As it stands, the C19 debt schemes are due to close for applications over the next three months. The Coronavirus Business Interruption Loan Scheme (CBILS) on 30 September, the Coronavirus Large Business Interruption Loan Scheme (CLBILS) on 20 October and the Bounce Back Loan Scheme (BBLS) on 4 November. This advice sets out our initial thinking on whether to extend these schemes.*
>
> ***Timing***
>
> *2. There is an operational requirement for BBB and lenders to know plans for CBILS in early September. We understand the Chancellor will be asked to take a view early this week, and we should therefore aim to establish a departmental view as soon as possible.*
>
> ***Recommendation***
>
> *3. That you indicate whether you are inclined to extend CBILS to allow offers to be made up to the end of December, and meet with us to discuss our wider thinking ahead of receiving further advice. HMT officials are testing their recommended approach with the CX in parallel."* {GP/327 – INQ000564097}

6.257. On 1 September 2020, the Permanent Secretary and Special Advisers confirmed that they were supportive of the approach outlined in the advice. The Permanent Secretary anticipated that the Secretary of State would likely consider some form of *"infill"* support necessary to continue assisting smaller businesses {GP/327 – INQ000564097}.

6.258. On 3 September 2020, BEIS officials and I submitted advice to the Secretary of State requesting a decision on whether to extend or close CBILS, CLBILS, and BBLS schemes as originally scheduled {GP/328 – INQ000564096}, {GP/329 – INQ000624941}. This advice was provided with a view to counteracting uncertainty in the market due to a potential winter Covid-19 resurgence and to provide the Government with more time to prepare a follow-up loan scheme. The submission noted the Chancellor had expressed scepticism about extending the schemes but had not yet received detailed advice. Officials suggested that, in the short term, a pragmatic approach balancing value for money, business support, and economic objectives might be to close BBLS for new applications on 4 November 2020, as initially planned. BBLS had been introduced as an exceptional measure during the national lockdown, with the Secretary of State and Chancellor accepting higher risk to ensure rapid support for small businesses. However, the scheme carried significant credit and fraud risks and was not considered sustainable in the long term. Although demand remained steady, application volumes had plateaued—with 23,659 approvals in the week commencing 17 August 2020, compared to over 1.45 million overall. To address the potential gap left by BBLS' closure, officials proposed lowering the minimum loan threshold for CBILS from £50,000 to £25,000, noting that around 78% of BBLS loans fell within the £25,000 – £50,000 range. However, they cautioned that demand for smaller CBILS loans might not match BBLS levels due to less favourable terms, and feedback from BBB indicated that many lenders were reluctant or unable to adjust their systems for a short-term change, citing operational and regulatory challenges. Officials also advised that, in setting application deadlines, it would be important to balance support for SMEs with lenders' operational capacity and the uncertainties surrounding the end of the EU Transition Period. There was some indication that applications could be processed beyond 31 December 2020 under emerging domestic subsidy rules, but this remained uncertain. If not permitted, there was a legal risk of claims from borrowers whose applications were not processed in time. To simplify the process for borrowers, officials suggested setting a single application deadline across all schemes, potentially 4 November 2020, if BBLS were to close as scheduled and CBILS/CLBILS extended. However, extending all schemes beyond that date would require further engagement with lenders to assess feasibility.

6.259. On 4 September 2020, BEIS officials sent an email to the Secretary of State's private office and Special Advisers, copying me in. The message noted that "*the latest mood music from HMT colleagues is that they suspect the Chancellor will not be in favour of*

extending the schemes and their advice to him is likely to be more open than ours on the question of whether or not to extend." The email also stated that the Department would continue developing proposals for longer-term interventions to succeed the Covid-19 loan schemes, with further advice to follow. It was acknowledged that this work could become more urgent depending on ministers' decisions regarding the extension of the schemes and how seriously they viewed any potential gap in government-backed lending support during the late autumn and winter period {GP/327 – INQ000564097}.

6.260. In response to the above email, I stated as follows:

> *"Notwithstanding HMT officials' predictions of the CX's views, it is reasonable that the business department, concerned about economic recovery and the impacts of the end of the transition period, should argue for an extension of the schemes to bridge the gap to new interventions post 31 Dec. If SoS agrees, we can advise on how best to land these points with the CX."*

6.261. Later on, 4 September 2020, BEIS officials submitted a revised submission to the Secretary of State {GP/327 – INQ000564097}, {GP/330 – INQ000625901}.

6.262. On 7 September 2020, the Secretary of State's private office responded to BEIS officials' 3 September 2020 advice, as revised. The Secretary of State's inclination was to align the closing dates for new applications to CBILS and CLBILS to the end of October, with the schemes fully ending at the end of December 2020. The Secretary of State agreed that BBLS should close as initially planned on 4 November 2020. The Secretary of State also requested a meeting with BEIS officials to discuss replacements for the Covid-19 loan schemes {GP/327 – INQ000564097}.

6.263. As outlined in CWS, Part B, §7.32, on 8 September 2020, HMT officials provided advice to the Chancellor on the same subject {GP/331 – INQ000564098}. This advice acknowledged the Chancellor's previous indications that the schemes would close on the dates initially planned, and that this position was still defensible, in light of demand plateauing and that the Chancellor had always been clear that the schemes were temporary measures. In this regard, HMT stated that "*While the economic impacts of Covid will continue for some time, borrowers have had six months to make use of the emergency liquidity the schemes provided if they needed to – and still have some time in the final weeks of the scheme*." HMT, like BEIS above, also considered the longer-term picture of the support that would be needed by businesses on an ongoing basis beyond 2020.

6.264. Despite this, HMT ultimately recommended that if the Chancellor was minded to extend the schemes, he should do so for all three schemes, to the end of November 2020, being the latest available date, in compliance with the EU's Temporary Framework for State aid. HMT further said, "*This would bring the UK in line with the likes of France and Germany and would be better than the banks' favoured approach of an extension just to CBILS that would open you up to criticism from smaller SMEs for which it is less suited.*" If this proposed course of action was chosen, it was recommended that an announcement be made in mid-September to provide lenders and businesses with clarity.

6.265. On 12 September 2020, senior BEIS officials and I were informed, via the BEIS Press Office, that HMT was planning to announce an extension of the Covid-19 loan schemes the following Tuesday (15 September 2020) {GP/332 – INQ000543324}. I was surprised that we had not been notified in advance and expressed my concern in an email to BEIS colleagues, stating:

> *"Did we know this was coming?! Lines below says CX is considering advice but this is a v worked up announcement so presumably likely. I'm annoyed if we have been told about this via press office! My assumption is all works under current direction but we do need to give Sarah and SoS updated AO advice and costings."*

6.266. Accordingly, on 14 September 2020, in an email, Senior BEIS officials explained this fact and advised that they were urgently preparing a submission and Accounting Officer advice for the Permanent Secretary and Secretary of State on this proposed extension to the three loan schemes {GP/333 – INQ000625902}. This had not yet been confirmed by HMT, but BEIS officials *"had indication"* from HMT that an announcement would be happening shortly. BEIS officials highlighted that work was needed to prepare announcements and advice for the Accounting Officer and Secretary of State.

6.267. BEIS officials considered the extension to the schemes should be covered by existing ministerial directions but prepared an updated Accounting Officer Assessment to consider value for money, regularity, propriety and feasibility for the Permanent Secretary to consider in her role as Accounting Officer.

6.268. On 18 September 2020, BEIS officials sent updated Accounting Officer advice to the Permanent Secretary's office, along with the original ministerial direction letters for the loan schemes and the Reservation Notice previously issued by BBB regarding BBLS {GP/334 – INQ000585676}, {GP/335 – INQ000585675}. Officials noted that BBB had

not indicated any intention to issue a new Reservation Notice if instructed to extend BBLS, suggesting that the existing Reservation Notice remained valid and that the level of risk was materially unchanged, particularly as deliverability risks had reduced with the scheme already operational.

6.269. Despite the significant residual risks, the advice, which I helped prepare, recommended that the Permanent Secretary, in her role as Accounting Officer, approve the extension of CBILS, CLBILS, and BBLS under the existing directions. The recommendation was based on the assessment that:

> *"…the nature of the risks [were] materially unchanged and some of the risks identified ahead of implementation [had then] been partially mitigated. Meanwhile, economic conditions remain[ed] extremely challenging, with considerable uncertainty around the future spread of the virus, the status of Non-Pharmaceutical Interventions which could impact on business income, and the shape of the economic recovery."*

6.270. There was no evidence to indicate that either the actual or potential risks were more severe than those identified when the schemes were launched, and the extension did not mark a further departure from the four Accounting Officer standards. Officials also stated that HMT was keen to announce the extension the following week, subject to the Accounting Officer Assessment and the agreement of the Secretary of State.

6.271. BEIS officials sent advice to the Secretary of State on the same day however it was stated that the recommendations were dependent on clearance from the Permanent Secretary before the advice should be passed on to the Secretary of State {GP/336 – INQ000585673}, {GP/337 – INQ000064925}.

6.272. This advice sought the Secretary of State's agreement to the Chancellor's proposal to extend all three loan schemes, to keep them open for applications up to 30 November 2020 and allow loan agreements to be finalised up to 31 December 2020. The advice stated that the Chancellor wanted to make an announcement on this as soon as the next business day, being 21 September 2020.

6.273. Later on, 18 September 2020, the Permanent Secretary, in her role as Accounting Officer, cleared the advice and approved the recommendation to extend the three schemes without direction {GP/338 – INQ000564099}.

6.274. Subsequently that same evening, the Secretary of State confirmed his agreement to the proposed extension date {GP/339 – INQ000564100}.

6.275. The extension of the schemes was one part of the announcement made by the Chancellor on 24 September 2020. The Chancellor announced that:

a) CBILS lenders would be entitled to extend the length of their loans from a maximum of six years to a maximum of 10 years when deemed necessary; and

b) The deadline for applications for all four schemes (BBLS, CBILS, CLBILS and Future Fund) would be extended to 30 November 2020 {GP/322 – INQ000564107}.

6.276. As outlined in CWS, Part B, §7.44, in the same announcement, the Chancellor outlined a variety of Pay as You Grow (PAYG) options, designed to afford BBLS borrowers more time and flexibility to repay their loans {GP/340 – INQ000564106}. Under PAYG, BBLS borrowers would be able to repay their loans on the terms which would work best for them. BBLS borrowers had the option to:

a) Extend their loan term from six years to 10 years;

b) Reduce payments, temporarily, for six months by paying interest only; and

c) Take a single full repayment holiday of six months (which would only be available to borrowers who had made at least six repayments, including interest-only repayments).

d) The first BBLS repayments were due to begin in May 2021. As such, BBLS borrowers would have had the opportunity to request the PAYG measures before their first repayments fell due.

6.277. On 2 November 2020, BEIS officials were informed by HMT that the Prime Minister would be announcing an extension of the Covid-19 loan schemes. In addition, it was confirmed that Bounce Back Loan borrowers who had initially taken less than 25% of their turnover would be given the opportunity to top up their loan to that level, subject to a maximum total loan of £50,000 {GP/341 – INQ000564129}.

6.278. On 4 November 2020, BEIS officials and I sent a submission to the Secretary of State concerning both the extensions and the top-up mechanism, as well as seeking clarification on the policies and their intended effect {GP/342 – INQ000564134}. The submission stated:

> *"The extension of the schemes inevitably increases the taxpayer's exposure to fraud. Additionally, the 'top-up' could create new vulnerabilities to fraud*

without appropriate checks in place (because borrowers who had overstated their turnover could increase their loan size).” (original emphasis)

6.279. BBB and UKGI had opportunities to contribute to this advice, which was provided in advance of the Accounting Officer Assessment due to the small window in which the Secretary of State had an opportunity to influence the policy direction {GP/343 – INQ000564131}.

6.280. As set out in CWS, Part B, §7.51, on 5 November 2020, the Secretary of State's private office emailed HMT with the Secretary of State's views in relation to prevention of fraud with the 'top-up' mechanism for BBLS {GP/344 – INQ000564137}. Specifically:

> *“It is important that we continue to take all reasonable steps to protect taxpayer's money by bearing down on potential fraud.*
>
> *Specifically, recent information we have received today from the National Investigation Service suggests that 61% of Suspicious Activity Reports received from lenders in relation to the scheme relate to inflated turnover. As currently constituted, the scheme does not require lenders to verify the turnover of an applicant, and the same would be the case under the proposed top-up mechanism unless we choose to act.*
>
> *This risk could be mitigated by asking the British Business Bank to work with lenders to develop additional checks to verify the turnover of an applicant before a loan or top-up is offered. This could be done in a number of ways, such as cross-referencing a borrower's claimed turnover against data held by Companies House or HMRC. For maximum impact, this check could be extended to all new applicants for the remainder of the scheme”*

6.281. The email concluded by noting that the Secretary of State recognised that the above proposed actions could lead to applications being processed more slowly. However, the Secretary of State was of the view, at that stage of the scheme's operation and given the evidence that was now to hand regarding fraud in BBLS, that it was *“…prudent to intervene in [that] way to mitigate a known vulnerability. By not acting, we could risk undermining the important contribution that Bounce Back Loans have made to supporting UK businesses through the pandemic.”*

6.282. On 9 November 2020, HMT responded to this email {GP/345 – INQ000564138}. HMT's email stated that where counter fraud measures could be put in place whilst also maintaining the policy intent (e.g. for BBLS, getting the finance rapidly out the door to

borrowers), HMT remained committed to exploring such options. In relation to BEIS's proposals, HMT said that they were open to exploring:

a) Additional checks pre-loan approval, provided this did not risk the processing of loans within 24 hours, or the self-assessed nature of the application form, and

b) Additional checks post-approval, in recognition of the tight approval timeframes and to identify cases of fraud that lenders should seek to recover.

6.283. They said further:

> *"We also note that the scheme rules which lenders signed up to specified that this information was to be self-certified with no additional checks, therefore while we are supportive of authorities' exploring potential improvements to checks and recognise lenders have been engaging constructively in how we can go further on counter-fraud measures, we note the importance of bringing lenders along with these discussions."*

6.284. Later that evening, the Secretary of State's private office responded to HMT's email and sought the Chancellor's approval to implement the extension to the schemes as well as the BBLS 'top up' mechanism {GP/323 – INQ000564142}. The Secretary of State reiterated BEIS's position on fraud mitigation, as follows: "*The Secretary of State remain[ed] of the view that to maximise our impact on fraud, Government needs to be prepared to take more radical steps even where these could slow the processing of a significant number of applications. However, he nonetheless welcomes the commitment to explore what additional measures can be introduced within [HMT's] stated policy parameters, whether pre or post-application*." The Secretary of State also sought confirmation from HMT that they would agree to continue to provide additional budget cover to meet all direct and indirect costs in relation to the schemes.

6.285. The Chancellor's private office responded shortly after confirming the Chancellor's approval to extend the three loan schemes for applications to 31 January 2021, and to implement the BBLS top-up. The email also confirmed that HMT would provide the additional budget cover as necessary. He did not respond to BEIS's points on exploring further measures for fraud mitigation {GP/323 – INQ000564142}.

6.286. As outlined in CWS, Part B, §7.56, on 9 November 2020, Catherine Lewis La Torre, (BBB) wrote to the Permanent Secretary and advised that the BBB Board was not intending to raise another reservation notice, but the reservations they previously

expressed still held {GP/346 – INQ000564139}. BBB confirmed they were working closely with officials across government to prepare to implement the changes, but still had significant concerns. BBB explained:

> *"It is important to note that the combined changes to the debt schemes could, on current estimates, increase the scheme size by between £11bn and £20bn. … In the case of the Bounce Back Loan Scheme ('**BBLS**'), the Bank's Board raised a reservation notice on 2 May 2020, citing concerns with propriety, value for money and feasibility, before accepting the instruction. The Board are not raising a reservation notice again now, but given the significant increase in exposure that is likely to be created by the combination of the scheme extension and top-up option they have asked me to write and remind you that reservations they previously expressed regarding BBLS – particularly concerning value for money – continue to apply."* (original emphasis).

6.287. Despite the above, Catherine Lewis La Torre's letter then acknowledged that, "*Significant steps have been taken to address our concerns around propriety and value for money*." In particular:

a) BBB had worked hard to accredit 28 lenders for BBLS, to ensure competition within the scheme. However, she explained that the overwhelming majority of loans had been delivered by the big five banks, and further consideration was required as to how best to ensure that diversity of provider was maintained;

b) The collaboration that had that had taken place between government, BBB, lenders and law enforcement to combat and reduce fraud across the schemes, particularly in relation to BBLS, but she confirmed that there remained a high level of residual fraud risk within BBLS due to the self-certified nature of the scheme. BBB considered that the proposed extensions and top-up options would increase the government's exposure and fraud losses; and

c) There had been significant progress made with regards to feasibility, "…with more robust governance procedures put in place internally, across government and with lenders, for example through the commencement of our lender audits." Catherine Lewis La Torre said that BBB had "…much greater confidence that delivery is feasible than we did in May." However, the speed at which the BBLS 'top-up' mechanism was required to be implemented came with heightened risk.

6.288. On 9 November 2020, the Permanent Secretary sent letters to Catherine Lewis La Torre advising BBB that the Chancellor had agreed for the scheme changes and extensions to go ahead for all three schemes and that the necessary budget cover would be provided from HMT {GP/347 – INQ000543490}, {GP/348 – INQ000564141}.

6.289. The Permanent Secretary's letter also provided an update on mitigations that had been carried out to address the risks and concerns. At this stage BEIS had seen the overall level of risk reduce in certain areas, in part due to the introduction of lenders' fraud checks and the duplicate application checks. While the Permanent Secretary stated that the speed at which the BBLS 'top-up' mechanism was being launched meant that it carried some degree of risk, BBB's track record delivering the scheme since May 2020 gave her confidence that the risks could be effectively managed. Accordingly, in this letter the Permanent Secretary then directed BBB to proceed with the implementation of the top-up mechanisms and extension to 31 January 2021 for the three schemes.

6.290. Following receipt of the Permanent Secretary's letter, that evening BBB advised the lenders to go ahead with the changes (see for example, email from BBB to Barclays {GP/349 – **INQ000564144**}.

6.291. On 8 December 2020, the Permanent Secretary sent another letter to BBB directing them to proceed with the implementation of the PAYG measures {GP/350 – **INQ000564166**}.

6.292. On 9 December 2020, I received an email from a BEIS official advising that BBB had written to both BEIS and HM Treasury, seeking agreement to close the Covid-19 loan schemes to new lender applications {GP/351 – INQ000625920}. I responded in support of the proposal in principle, noting that the Secretary of State was also likely to agree. However, I suggested the submission should more clearly explain how this decision would interact with the accreditation process for the new loan scheme (which later became known as the RLS).

6.293. From my understanding, just over half of the currently accredited lenders would automatically be eligible to participate in the new scheme. BBB planned to withhold accreditation from around 57 lenders who had not yet demonstrated full compliance with the required processes. I recommended including a brief explanation of the nature of this non-compliance and the plan to address it, as this was a concerning point.

6.294. I also noted that BBB intended to begin confirming which lenders could be passported into the new scheme later in December 2020. To focus on this transition and broader

preparations, BBB proposed closing the current schemes to new lender applications from a specified date in December 2020. Given the timeline, no new applicants were realistically expected to complete accreditation before the end of January. HMT ministers were content with this approach, and it aligned with previous discussions when we anticipated the schemes would close at year-end.

6.295. On 10 December 2020, BEIS was informed by HMT that the Chancellor was inclined to extend the Covid-19 loan schemes until 31 March 2021, with a successor scheme planned to launch on 1 April 2021 {GP/352 – INQ000624991}.

6.296. On 10 December 2020, I sent a further list of queries in relation to the closure of the Covid-19 loan schemes {GP/353 – INQ000625921}. These included:

> *"• Have we checked HMT ministers stand by their original steer on this, despite the planned schemes extension?*
>
> *• Given the extension, do we really need to extract a sos decision on this by weds next week?*
>
> *• It makes a lot of assumptions about the new scheme from 1 April and getting lenders to opt into it now -is this a bit presumptuous given that the new scheme could look quite different if launching 1 April…?*
>
> *• There is a risk the new accreditation process of lenders onto the new scheme comes across as a shedload of unnecessary bureaucracy. Why do we need a new accreditation process for them to pass through, why not just automatically keep them all from CBILS – the note doesn't really tackle this up front and leaves me wondering why BBB are creating new processes."*

6.297. On 10 December 2020, BEIS sent a one-page submission setting out BBB's intention to close the lender accreditation process for the Covid-19 loan schemes to the Special Advisers private office for clearance {GP/354 – INQ000625922}. The summary noted that:

> *"**Summary***
>
> *1. BBB have proposed permanently closing the Covid-19 debt schemes for new lender accreditations. HMT ministers have already signed off and their*
>
> *approval stands in view of the expected extension to 31 March 2021. This advice seeks your approval.*

Timing

2. *BBB intend to take this step by the end of next week (w/c 14 December) at the latest. If you disagree, we will need to know by Wednesday 16 December.*

Recommendation

3. *That you agree that BBB should permanently close accreditation to the existing Covid-19 debt schemes to new lenders with immediate effect."*

6.298. On 11 December 2020, the Special Advisers' private office responded, expressing the view that the Secretary of State would likely prefer to keep the accreditation process open if there were lenders who had shown interest but had not yet completed their applications. They also raised two specific questions: (i) were there any lenders with outstanding requests to apply; and (ii) would it not be feasible to keep the process open, rather than closing it in case some lenders were unable to complete it in time. In response, I noted:

> *"…you might point out in replying that it's not a good use of public money to keep it open on the chance that a small number of niche lenders actually make it through by end March. The value add to businesses will be marginal and we would be better off focusing operational resource on things like building the systems needed to manage the loan book. Especially given that HMT ministers support the decision to close and have challenged us on outsourced spending."*

6.299. On 16 December 2020, BEIS officials submitted draft Accounting Officer advice to the Permanent Secretary in preparation for the Chancellor's expected announcement the following day {GP/355 – INQ000624993}.

6.300. On 17 December 2020, the Chancellor announced that the Covid-19 loan schemes would be extended to 31 March 2021. That same day, BEIS officials submitted final Accounting Officer advice to the Permanent Secretary regarding the extension {GP/355 – INQ000624993}, {GP/356 – INQ000564170}. The advice explained that the extension aimed to support businesses through potential further restrictions into the spring.

6.301. Officials confirmed that the assessment remained broadly consistent with the previous advice issued on 5 November 2020 for the extension to 31 January 2021. While

acknowledging that overall lending volumes, and associated losses, would increase, they found no material changes to the scheme's parameters or risks. The four Accounting Officer tests were reviewed and found to remain broadly unchanged. As a result, officials concluded that the extension was covered by the existing ministerial direction.

6.302. On 18 December 2020, a BEIS official responded to the Special Adviser's queries (see §6.298), confirming that 8–9 lenders remained in the accreditation pipeline. These were typically smaller, specialist lenders with complex applications that could take up to three months to process. While closing the process would not affect those already in the pipeline, no lenders who had applied since July 2020 had yet completed accreditation.

6.303. The official acknowledged that it was technically feasible to keep the process open but advised that it would be more prudent to allow BBB to close it. This was due to the significant operational effort required from BBB, the limited value additional lenders were likely to bring at that stage, and the need to prioritise resources for future schemes and transformation work. It was also noted that HMT ministers supported closure and had previously raised concerns about outsourced spending, which the accreditation process involved {GP/357 – INQ000625923}.

6.304. The Permanent Secretary cleared the advice for all three extensions, including BBLS on 21 December 2020 {GP/358 – INQ000624996}.

6.305. On 17 December 2020, BEIS officials and I submitted a draft submission to the Secretary of State regarding the proposed extension of the Covid-19 loan schemes. This was finalised on 22 December 2020 {GP/359 – INQ000624997}, {GP/324 – INQ000089923}. The update sought the Secretary of State's consent so that the Permanent Secretary could formally instruct BBB, allowing them to communicate with lenders. The update noted the extension and further asked the Secretary of State:

> *"whether you wish to consider again the possibility of introducing further fraud controls for the Bounce Back Loan Scheme…"*

6.306. On 23 December 2020, the Secretary of State's office wrote to the Chancellor's office seeking formal approval for the extension, which was granted the same day {GP/360 – INQ000564173}.

Devolved Nations

6.307. While BBLS was a UK wide scheme, efforts were made to gather intelligence from across the four nations. As the pandemic evolved, feedback from businesses, including those in the Devolved Nations, was captured through dashboards that highlighted regional concerns, such as delays in CBILS applications processing and potential job losses by region {GP/361 – INQ000625869}, {GP/362 – INQ000625875}. I also participated in regular meetings of the UK Covid-19 Economy Directors Forum, which brought together economic leads from BEIS, HMT, and the Devolved Administrations on a fortnightly basis throughout 2020 {GP/002 – INQ000543155}.

6.308. While the BBLS scheme was not tailored specifically to each nation's economic conditions, these forums provided a channel for input and coordination. A key lesson for future crisis response is the value of earlier and more structured engagement with the Devolved Administrations during scheme design.

Reflections

6.309. I have been asked to consider whether the BBLS achieved its intended aims.

6.310. As outlined above, the BBLS was an HMT-led scheme introduced to deliver rapid financial assistance to SMEs impacted by the Covid-19 pandemic. As I have explained at §6.4 above (and as noted in the CWS, Part B, §10.20), BBLS was introduced as a solution to the issues that had arisen with CBILS. Its core objectives included providing swift and straightforward access to funding at scale, supporting business continuity, minimising administrative burdens, and encouraging lender participation through government-backed guarantees.

6.311. In many respects, judged against these objectives, the scheme was successful. The streamlined application process enabled businesses to access funds within a matter of days, and numerous SMEs reported that the scheme was instrumental in helping them remain operational during lockdowns and periods of reduced economic activity. However, there were also trade-offs, in terms of fraud in particular, as I discuss further below.

6.312. As noted in the CWS, Part B, §§7.97 – 7.105, as part of a three-year evaluation of the Covid-19 loan schemes (BBLS, CBILS, and CLBILS), three reports were commissioned by the BBB. The first report, published in June 2022, assessed the schemes' impact during 2020, focusing on their design and the lender accreditation process. The second report, released in November 2023, evaluated the schemes' performance in 2021, including monitoring, repayment, and counter fraud measures.

The third and final report, currently in draft and due for publication later this year, examines the schemes' impact in the third year following the pandemic's onset, with particular attention to repayments, recoveries, and fraud prevention efforts.

6.313. These reports conclude that BBLS largely achieved its intended objectives, particularly in the short and medium term. According to the three-year evaluation commissioned by BBB and conducted by the London School of Economics and Ipsos, the scheme successfully delivered finance to businesses at a scale and speed that would not have been possible through conventional lending. The evaluation found that 74% of BBLS borrowers would not have been able to access sufficient external finance without the scheme, and a further 7% would not have received it in time to meet urgent cash flow needs. The scheme also complemented other government support measures, such as the Coronavirus Job Retention Scheme, and was associated with positive impacts on business turnover and employment. It was estimated that nearly a million jobs could have been lost in the absence of the loan schemes.

6.314. In the medium term, BBLS continued to meet its objectives by providing largely additional funding, 81% of BBLS loans were considered to be finance that would not have been available otherwise. Most businesses used the funds for essential operational costs such as working capital and cash flow {GP/363 – INQ000096931}, {GP/364 – INQ000606913}, {GP/167 – INQ000625042}.

6.315. I have been asked whether BBLS was value for money. Based on the findings of the reports referred to in §6.312 above, the scheme did deliver value for money, albeit with notable trade-offs. The above evaluations estimated that BBLS generated between £27 billion and £78 billion in benefits for UK businesses, compared to a financial cost of nearly £20 billion. The scheme played a vital role in supporting SMEs during the Covid-19 pandemic, helping to prevent the loss of nearly a million jobs, and providing essential funding that would not have been available through conventional lending channels. In fact, 81% of BBLS loans were considered 'additional', meaning they offered support that would not otherwise have been secured. However, the scheme's simplified design, which enabled rapid delivery, also led to significantly higher levels of fraud, defaults, and arrears, estimated at 27%, compared to the 2% typically expected in commercial lending. While BBLS was less cost-effective than CBILS due to these higher risks and the full 100% government guarantee, it nonetheless would appear to have fulfilled its urgent objective of stabilising the SME sector during a national crisis and therefore, could be considered to have delivered good value for money overall.

6.316. I have been asked to reflect on whether the scheme adequately safeguarded public funds and reduced the risk of fraud and error. While the BBLS was effective in delivering rapid financial support to businesses during the pandemic, it can be said that it did not sufficiently protect public funds or mitigate the risk of fraud and error. As noted above, BBLS came with significantly higher levels of fraud, defaults and arrears than is typical in commercial lending.

6.317. In designing the scheme, the Chancellor made a deliberate decision to prioritise speed, with the aim of disbursing funds to struggling businesses within 24 to 48 hours. To achieve this, standard background and counter fraud checks were significantly reduced, as there was insufficient time to carry them out. There was a heavy reliance on self-certification. This emphasis on speed also made the scheme vulnerable to fraud. Lenders were unable to conduct normal levels of due diligence, including checks for duplicate applications or verification of business turnover. Although concerns about the lack of time for proper checks were raised on several occasions, the Chancellor decided that the urgency of delivering financial support to small businesses outweighed the risks associated with reduced scrutiny.

6.318. As a result, the scheme's design, centred on speed and accessibility, led to minimal pre-loan checks and a 100% government guarantee, which in turn reduced lenders' incentives to rigorously assess applications or pursue recoveries. This contributed to significantly higher arrears and default rates, estimated at around 27%, far exceeding typical commercial lending standards. As is public record, the NAO later reported that the Government had consciously prioritised rapid payment over other aspects such as delivering value for money and accepted a potentially high level of losses, including from organised fraud. Although counter fraud measures were eventually introduced, they were largely reactive and implemented after a substantial portion of the funds had already been distributed. Evaluations concluded that while BBLS achieved its urgent economic objectives, it did so at the expense of financial safeguards, exposing public funds to considerable risk and resulting in unrecovered loan costs nearly ten times higher than those under CBILS {GP/167 – INQ000625042}.

6.319. I do not understand there to have been any particular 'gaps' in the support provided by the BBLS scheme, noting that it was particularly intended to support businesses who were struggling to access CBILS, and there was no exclusion of specific groups. As the evidence set out above suggests, the scheme successfully delivered finance to businesses at a scale and speed that would not have been possible through conventional lending. As outlined in the CWS, Part B, §10.12, even businesses whose

usual bank could not participate in one of the loan schemes were able to obtain a BBLS loan from another lender. Further, businesses without a business bank account were eligible for BBLS.

6.320. I am asked to consider whether there is anything I would have done differently in the design of the BBLS. This is a difficult question for me to answer, emphasising that decisions as to BBLS' design and key features were led by the Chancellor and HMT and therefore, assessed against HMT's policy objectives. At the time, I had significant concerns about BBLS, including the speed of policy development and launch. I was also very conscious there were fraud risks inherent in BBLS' design, noting that a key intention was to speed up access to finance. There was very limited time to develop substantially different alternatives, though some were raised (e.g. an HMRC-delivered loan scheme or a guaranteed overdraft scheme (§6.62). The existence of 100% self-certified schemes in other countries and the growing calls for this to be extended in the UK meant ministers had to give it serious consideration. In considering the balance between providing rapid support and the risks, we lacked information, notably on how the pandemic and restrictions would unfold. As reflected in the advice at the time, it was not possible to conclude with confidence that BBLS would represent value for money. For these reasons, the scheme required a ministerial direction. Ultimately, a political decision was made, in difficult circumstances, about the trade-off between speed and assurance (§6.109).

6.321. Viewing the scheme now, in hindsight, the evidence as set out above suggests that the scheme could have achieved value for money and fulfilled HMT's urgent objectives, at a time of national crisis. However, there were also significant levels of fraud. I am mindful that any hypothetical design changes would also have downsides, including that further policy or counter fraud systems development, and therefore delay, was contrary to HMT's intent. With those caveats, I consider that:

a) I agree with the Department (CWS, Part B, §10.22) that the guarantee did not need to be 100%, in order to disburse a higher volume of loans. Once the lender has no 'skin in the game', the dynamics of the scheme were changed and there was a lack of incentive for the lender to seek to recover funds beyond a certain point. However, it is not possible to estimate how far lenders would have extended lending with, for example, a 95% guarantee. It is likely that to accelerate the pace of lending this would have needed to be combined with simpler administration. At the time, BEIS officials recommended changes to CBILS to simplify it, for example, removing the forward-looking viability test.

Combining these changes with a higher guarantee and CCA exemptions for smaller loans might have unlocked greater lending at pace with lower fraud and credit risk, by comparison to BBLS, but I have no way of assessing this.

6.322. I am also asked about changes to the implementation or delivery of the BBLS. In terms of events after the scheme was launched:

a) As I have noted above (see §6.155), it took some time to get a system for preventing duplicate applications in place after the scheme was launched. There were barriers to introducing the Cifas system and this did result in a delay in getting the system to monitor duplicate applications set up. It would have been preferable to have this in place, though I note that waiting for it would have delayed scheme launch by several weeks.

b) As I have noted above (see §6.204), with hindsight, it is clear that it would have been better to have a full systems map for the counter fraud prevention, detection and investigation effort before the launch of the system, showing who would fulfil the respective roles and how the system would talk to each other. That this was not in place on launch was substantially down to the pace of implementation of the scheme but also impacted by the very limited counter fraud capability in BEIS at the time.

c) It would also have been better to have significantly more counter fraud capability within the Department during the design and implementation and ongoing oversight of the scheme. This was a real challenge. I note that counter fraud capability was in high demand across government at the time.

d) RLS was designed with data protection arrangements in mind, including a privacy notice to inform borrowers regarding the use of their personal data for the purpose of fraud prevention. This was a direct learning from BBLS and sought to provide more clarity for borrowers. It would have been preferable to have a privacy notice in place for BBLS from the start.

Section 7: Future Fund

7.1. The Future Fund was announced on 20 April 2020 and opened to applications on 20 May 2020. The Future Fund was first extended on 20 May 2020 to remain open until 30 November 2020. It was subsequently extended again, from 30 November 2020 to 21 January 2021, before finally closing to new applications on 31 January 2021.

7.2. It offered funding to innovative businesses that relied on equity investment and were unable to access other government business support programmes, typically because they were either at the pre-revenue or pre-profit stages.

Policy Rationale

7.3. I have been asked to consider my understanding of the rationale behind the decision to introduce the Future Fund. The Future Fund was aimed at helping UK-based innovative businesses facing financial difficulties due to Covid-19 gain access to the finance they required. As the pandemic had led to an economic contraction in the equity finance markets, consequently, certain businesses were unable to access bank funding due to their being pre-profit and lenders being unwilling to take the risk {GP/365 – INQ000564040}. Under the scheme, companies could borrow money, subject to at least equal match funding from private investors.

7.4. With regard to the key policy objectives that shaped the scheme's design, these included ensuring that start-ups could remain operational until they were able to secure their next round of equity investment. A further objective was to bolster confidence in the strength and resilience of the UK's venture capital market, demonstrating its capacity to continue functioning effectively even under the extraordinary pressures of a global pandemic {GP/366 – INQ000564017}, {GP/367 – INQ000625872}.

7.5. The Inquiry has also asked me to explain how the scheme was designed to meet the specific needs of research and development (R&D) intensive businesses at the time. It is important to clarify that the Future Fund was not specifically designed to support R&D-intensive businesses, but rather to assist pre-profit, equity-backed companies more broadly as set out above. Support for R&D-focused firms was intended to come from BEIS's existing R&D budget, as outlined in CWS, Part B, §5.13.

7.6. As detailed in a note to the Secretary of State dated 7 April 2020, BEIS officials assessed the potential impact of Covid-19 on R&D-intensive organisations, drawing comparisons with the 2008 financial crisis {GP/368 – INQ000585547}, {GP/369 – INQ000625830}. The submission anticipated a decline in investment by these firms as they sought to reduce costs, scale back staffing, and delay product development. It

also noted that HMT was unwilling to provide additional funding for new interventions, instead expecting BEIS to reprioritise within its existing R&D and business finance budgets. Given the existing pressures on those budgets, officials raised concerns about the potential impact on BEIS's broader priorities and commitments. The submission recommended further engagement with HMT to explore options for reprioritisation, budget flexibility, or alternative funding sources.

7.7. In a subsequent submission dated 7 April 2020, BEIS officials proposed a range of interventions to support equity-backed, high-growth businesses in the short term and to sustain the seed and venture capital markets over the medium to long term {GP/370 – INQ000585548}, {GP/371 – INQ000585546}. Short-term proposals included adapting existing schemes—such as CBILS—to support revenue-generating businesses through debt finance, establishing a new convertible loan fund for Series A and later-stage companies, and creating an equity co-investment fund for early-stage firms. For the medium to long term, the submission recommended reforms to the Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS), additional subscriptions to equity funds partnered with BBB, and accelerating planned future investments.

Scheme Design

7.8. As the Inquiry has noted, the design of the Future Fund was indeed a collaborative effort between HMT, BEIS and BBB. The scheme was proposed by HMT and then developed by BBB with support from HMT and the Department. I would note here that the Chancellor and his advisors were personally involved in developing the term sheet for the Future Fund and in the details of its design to a significant extent.

7.9. On 25 March 2020, I received an email from Gila Sacks (Director, Digital and Tech Policy, Department for Digital, Culture, Media and Sport (DCMS)) on the work our teams were doing on access to finance for start-ups and noting that she and we were receiving a lot of the same lobbying from tech organisations, venture capital firms and others. Gila Sacks further noted that she was pleased that our teams and BBB were doing good work to stay joined up and develop thinking together and that she was keen to show a united front {GP/372 – INQ000563907}.

7.10. On 26 March 2020, in response to that correspondence from DCMS and HMT, I voiced my support for a conversation between BEIS, HMT and DCMS to source internal views on access to finance for start-ups {GP/372 – INQ000563907}. I suggested including

BBB and UK Research and Innovation (UKRI), and that the following objectives/agenda items be covered:

> *"Run through the evidence: what are the issues we're seeing?*
>
> *How far do existing interventions help or could help if flexed?*
>
> *What gaps remain and which are most important to tackle"*

7.11. The Department then hosted a meeting between BBB, UKRI, DCMS and HMT on 31 March 2020 to discuss the Covid-19 issues faced by innovative SMEs and R&D intensive businesses {GP/372 – INQ000563907}, {GP/373 – INQ000585516}. As outlined in CWS, Part B, §5.5, the key objectives of the meeting were to:

a) Form a common understanding of the Covid-19 related issues facing innovative SMEs and R&D intensive businesses, taking account of the market intelligence that had been gathered by the attendees;

b) Consider the extent to which existing and recently introduced business support measures could assist these businesses, and what gaps remained; and

c) Ensure a collaborative and joined-up approach in developing response options {GP/374 – INQ000585517}.

7.12. The background paper was circulated to all attendees prior to the meeting and set out two types of businesses which would need to be considered {GP/374 – INQ000585517}. As set out in CWS, Part B, §5.6, these were (i) R&D intensive businesses requiring significant long term capital or backing; and (ii) equity backed businesses, which were on fast-growth trajectories and had a high failure rate. The paper highlighted early-stage and R&D-intensive, pre-profit or pre-revenue businesses as most at risk—being ineligible for CBILS and typically unable to access mainstream debt. Their cashflow challenges and stalled growth posed a potential long-term threat to the UK's innovation and tech ecosystem.

7.13. Following the call, I asked a small team of officials from BEIS and DCMS to coordinate on a paper, with input from BBB and UKRI, to cover the evidence base on the different types of companies the government should be most concerned about. The paper would also consider the economic costs of not intervening and include an appraisal of existing BBB and UKRI schemes which could be adapted to address the issues faced by these companies. Alongside consideration of the adaptability of existing schemes, which could be announced and delivered quickly, the paper was to also briefly note

more radical solutions requiring new programmes or new money, which could be returned to at a later stage {GP/375 – INQ000585520}, {GP/376 – INQ000563914}.

7.14. Anticipating that any new start-up finance scheme would develop rapidly, much like previous interventions, I requested additional resourcing for Angelina Cannizzaro, given the pressures she and the Department were already facing on CBILS {GP/376 – INQ000563914}.

7.15. As noted in CWS, Part B, §5.8, the final paper dated 2 April 2020 reviewed existing Covid-19 interventions and identified limitations in their ability to support innovative, tech-led businesses, including digital start-ups, R&D-intensive scale-ups, and deep-tech ventures. While these measures could help with short-term cash flow, they did not address the challenge of securing follow-on equity funding in the prevailing market conditions. The paper also considered whether additional funding from HMT was required, or if BEIS could reallocate existing resources to meet the needs of these businesses {GP/377 – INQ000563923}.

7.16. The paper was prepared for a cross-departmental meeting held on 3 April 2020, attended by BEIS, DCMS, HMT, UKRI, and BBB {GP/378 – INQ000563931}. Following the meeting, I circulated a summary and proposed next steps to BEIS officials, noting a shared view that around 2,000 innovation-led, pre-profit businesses faced distinct challenges. I recommended that the Department develop advice for ministers outlining the nature of these businesses, the issues they were encountering, potential UKRI actions within existing budgets, and a possible loan product to be delivered by UKRI or BBB.

7.17. As noted in CWS, Part B, §5.10, BEIS prepared a table capturing the detail of BBB and UKRI proposals discussed during the meeting {GP/379 – INQ000585542} which was shared with UKRI, BBB and HMT {GP/380 – INQ000585541}.

7.18. On 6 April 2020, the Permanent Secretary forwarded me an email which he had received from Michael Moore (Director General, British Private Equity & Venture Capital Association (BVCA)) which attached a proposal for emergency bridge funding for venture capital backed early-stage companies in the digital economy, which industry figures had been finalising following discussions with HMT {GP/381 – INQ000596663}. As explained in CWS, Part B, §5.11, the proposal included £500 million of support from government alongside additional money from the private sector to provide £625 million capital to these companies. The product outlined in the proposal was bridge funding in the form of a convertible loan of up to £5 million per company,

with government funding supplemented by existing investors on a 4:1 basis. This would be deployed rapidly into the market by BBB as the government institution with the most appropriate skillset and ability to supervise the portfolio of bridging loans. I shared the proposal with BEIS colleagues and explained that there had been discussions between BBB and HMT over the weekend {GP/382 – INQ000585536}.

7.19. Joshua Flemming sent me a note the following day which set out HMT's latest thinking on options to support the business group in question. This included a bridging fund, amendments to existing BBB investment programmes and increased support through Innovate UK. The note included input and suggestions from BVCA and BBB {GP/383 – INQ000585544}, {GP/384 – INQ000585545}.

7.20. As set out in §§7.6 - 7.7 above, my team produced draft advice for the Secretary of State on support for equity-backed high growth industries, which went to the Special Advisers, alongside a draft submission setting out an overview of issues facing R&D investment in businesses and universities as a result of Covid-19 {GP/371 – INQ000585546}, {GP/370 – INQ000585548}.

7.21. As outlined in CWS, Part B, §5.15, a meeting took place on 8 April 2020, at which a range of interventions, including the co-investment bridging loans proposal were put to the Secretary of State and BEIS ministers. Ministers asked for the focus to be on initiatives that could be delivered quickly and at scale, primarily through tax measures, especially around EIS and SEIS, rather than a new fund which they felt would take too long to set up. A letter to this effect, also addressing wider R&D angles, was being prepared for HMT for the following day {GP/385 – INQ000563942}.

7.22. On 12 April 2020, I informed my team that BEIS had been commissioned to prepare a detailed paper for the Economic and Business Response Implementation Group (EBRIG) on the impact of Covid-19 on R&D activity, including recommendations for prioritising public funding {GP/386 – INQ000585555}. I advised that the tone should reflect that tax incentives could be implemented more quickly, made temporary, and aligned with market behaviour. I also suggested considering additional funding for existing BBB programmes. While a new convertible loan fund had been proposed, I noted it would be complex to establish and operate—requiring at least 6–8 weeks, or longer if subject to the Official Journal of the European Union (OJEU) procurement rules. I recommended including a line acknowledging that many of these firms naturally fail, raising the risk of deadweight, and emphasising the need for continued investor commitment.

7.23. On 14 April 2020, I was informed via email that rumours were circulating suggesting HMT was considering the creation of a new fund that would operate independently of BBB {GP/387 – INQ000563945}. As set out in CWS, Part B, §5.21, Sarah Hird (Senior Manager, Policy, BBB) had spoken with a BEIS official about these rumours and cautioned against creating a new fund that bypassed existing BBB-backed investments or overlooked moral hazards. After discovering this, I wrote to HMT noting, "*I understand CX keen on a new fund or funds in this space, rather than tax measures, but not BBB delivered.*" I proposed a call to better understand the Chancellor's objectives and to agree on a collaborative approach to next steps {GP/388 – INQ000563944}.

7.24. As referenced in my 12 April 2020 email to the team (see §7.22 above), I had concerns about bypassing existing BBB programmes. While a new convertible loan fund had been suggested, I noted it would be complex to establish and manage—requiring at least 6–8 weeks, or longer if subject to OJEU procurement rules. Additionally, BEIS ministers had already expressed a strong preference for tax-based measures over the creation of a new BBB-administered fund {GP/385 – INQ000563942}, {GP/386 – INQ000585555}.

7.25. I have been asked whether I had identified any concerns or advantages in developing a new scheme that did not involve the BBB. My likely concern would have been the inefficiency of establishing a new structure outside of the BBB, as well as the potential confusion and duplication that could arise from multiple organisations targeting the same cohort of businesses with similar financial instruments. The original rationale behind the creation of the BBB and British Patient Capital (BPC) was precisely to consolidate business finance schemes within a single, expert organisation to ensure coherence and efficiency.

7.26. As noted in CWS, Part B, §5.23, at 4pm later that day, I attended a meeting alongside Francis Evans, representing the Department. The meeting included representatives from HMT—John Staples (Deputy Director, Enterprise and Growth Unit, HMT) and two junior officials—and UKGI, represented by Jamie Carter (Executive Director, UKGI) {GP/389 – INQ000563943}, GP/390 INQ000563946}. Following the meeting, Jamie Carter sent an email to Ceri Smith in which, he summarised the discussion. He advised that the Chancellor was clearly still interested in a BBB convertible loan scheme despite the reservations of BEIS ministers. He noted that "*HMT are pretty alive to the delivery risks and think the solution is for BBB to outsource and procure as much as possible. They have obviously been speaking to BBB directly and as ever I think there*

is a danger that BBB are slightly over-promising and underplaying quite how different a proposition this is from what they've done before." He also suggested that it may be helpful for the risk committee to look at potential impacts in order to inform BEIS ministers. The main questions for BBB were:

a) Whether BBB had sufficient expertise in delivering direct to consumer equity products to enable them to design the product, and sufficient procurement experience;

b) What was a realistic timeframe; and

c) Whether there was the bandwidth within BBB to carry this out without impacting on CBILS and CLBILS.

7.27. I then attended a call at 17:45 between BEIS and UKGI to discuss the convertible loan scheme for pre-profit businesses. Following the call, I circulated a list of next steps, including a request for BBB to draft a submission on the fund proposal, incorporating suggested amendments and delivery considerations {GP/391 – INQ000563949}, {GP/392 – INQ000563947}.

7.28. Later that evening, I sent an email to the Secretary of State's private office and the Permanent Secretary in which I noted that while the clear steer from the Secretary of State was to explore tax incentives rather than establishing a new fund, the Chancellor was ***"…nonetheless of the view that a new convertible loan scheme is the right solution and has commissioned rapid work from the BBB to develop this, ahead of an announcement on Friday.***" (original emphasis). The current proposal was for "*50:50 (government:VC) match-funded loans, which the government could opt to convert to equity at the next funding round.*" BEIS was working with BBB and UKGI on policy and delivery questions and would provide fuller advice to the Secretary of State the following day. Given these developments in respect of the convertible loan scheme, I suggested that reference to pre-profit firms be removed from the EBRIG paper on R&D {GP/393 – INQ000563953}.

7.29. On 15 April 2020, my team sent a submission to the Secretary of State and acting Permanent Secretary with an update on proposals for the new convertible loan scheme for pre-profit venture backed businesses {GP/394 – INQ000585565}, {GP/395 – INQ000585566}. The submission indicated that the Chancellor intended to launch a new convertible loan scheme, with an announcement planned for 20 April 2020. The scheme would provide bridging finance to equity-backed, pre-profit businesses, with loans repayable or convertible into equity at the next funding round. HMT had asked

the BBB to design and administer the scheme, and BBB was convening its Risk Committee that week to assess the implications. While BBB would oversee delivery, a specialist market provider would be procured to set up the scheme, manage applications, and administer the loans. The submission also highlighted the need to bring forward BBB's budget allocations from future years and increase its resourcing to maintain delivery of existing objectives. BBB had begun informal market testing with potential providers ahead of an accelerated procurement process, with BEIS also participating in these early discussions.

7.30. The submission outlined the current proposal, its potential long-term implications, and associated policy, financial, and delivery risks—including compliance with State aid rules, value for money concerns, the impact on BBB, and the Government's exit strategy. BEIS advised HMT that any public announcement should remain high level to allow flexibility in scheme design and testing over the coming weeks. It was noted that, alongside the new scheme, BBB was exploring adjustments to existing programmes within its remit to support venture-backed firms. The submission made several recommendations to the Secretary of State:

a) Any announcement should be broad enough to preserve design flexibility;

b) Key design and delivery decisions required further development and market testing;

c) BBB would need formal instruction from the Secretary of State to proceed; and

d) A coordinated communications plan involving HMT, BBB, and DCMS should be developed to manage stakeholder expectations.

7.31. Later that day, I met with Keith Morgan and Graeme Fisher (MD, Policy & Government Relations, BBB) to discuss the Government support schemes, including the proposed convertible loan scheme {GP/396 – INQ000563955}. BBB raised concerns about delivery risks and emphasised the importance of testing the scheme's terms with the market before finalising them. A dedicated meeting of the BBB Risk Committee was scheduled for the following day to consider the proposal. It was also noted that, once the scheme entered the public domain, BBB would likely require a formal instruction to proceed {GP/397 – INQ000563969}.

7.32. John Staples confirmed to me, the following morning, that HMT were discussing the convertible loans parameters with the Chancellor later that day {GP/396 – INQ000563955}.

7.33. As noted in CWS, Part B, §5.31, BBB's Risk Committee met on 16 April 2020 to discuss the bridge financing convertible loan scheme proposal. A covering paper circulated ahead of the meeting noted that BBB had conducted its own analysis, informed by input from a broad range of stakeholders, and used this to support ongoing discussions with HMT. BBB expressed support for a temporary, targeted bridge funding intervention, with HMT focusing on a Convertible Loan Note (CLN) as the preferred approach. As BBB lacked the infrastructure to deliver loans directly to SMEs, it was proposed that an external agent be appointed to manage delivery and administration. Given the urgency, a fully outsourced model was favoured over building in-house capabilities {GP/298 – INQ000625552}.

7.34. I received an email from UKGI following the meeting, advising me of the outcome and issues raised {GP/399 – INQ000563957}. The meeting had raised *"…quite substantial concerns about the scheme" and that in UKGI's view "the main sentiment was 'if we* [BBB] *had a choice we wouldn't do this' although of course they are aware that they don't have a choice if instructed (although they can send a reservation notice which would then be made public)*." The principal concerns were that the scheme:

a) Would be easy for disreputable venture capital funds to game;

b) Amounted to more of a bail-out for the venture capital market (as opposed to the underlying companies) given that funds would have adequate money to invest if they wanted; and

c) Did not address early-stage companies.

7.35. I subsequently conveyed the Risk Committee's concerns to the Secretary of State and the acting Permanent Secretary {GP/400 – INQ000563965}, later that evening, and advised that:

> *"…**Keith Morgan is going to write to SoS, copied to HMT, setting out these concerns and how the board think the scheme should be altered** - with an overall engaged and positive tone and a desire to help improve it. The letter will also make the point, which SoS agrees with, that there are other instruments on the tax side that would have a more immediate impact. The main request in the letter will be that the Monday announcement offers sufficient space to allow for changes to the scheme, and ideally not to link it to BBB at this stage."* (original emphasis).

7.36. I further advised that, "***In the event that the announcement is very details and positions BBB as leading the CLS, the BBB may require an instruction from BEIS, and could ultimately issue a reservation notice*** *(which would be made public). This can hopefully be averted by keeping the announcement sufficiently high level. An instruction, and possibly an AO direction, may be required in due course, but with a little more time to design and test this we should be able to reduce the vfm and delivery risks, although it is not possible to say by how much at this stage and the CX is personally very engaged in the scheme design."* (original emphasis).

7.37. On 17 April 2020, in response to my email, the acting Permanent Secretary's office advised me to "…*strongly encourage HMT to keep any announcement on the new scheme high-level so as to avoid committing to something that is ultimately undeliverable / carries unmanageable risks.*" {GP/400 – INQ000563965}.

7.38. As set out in CWS, Part B, §5.35, BBB's Director, Keith Morgan wrote to the Secretary of State to raise the BBB Board Risk Committee's concerns with the proposal for the scheme to date {GP/401 – INQ000563966}.

7.39. On 18 April 2020, HMT circulated proposed wording for a press release to announce the scheme, which set out that the Government would provide eligible companies with between £250,000 and £5 million in support with private investors providing at least 50:50 match funding. Companies were required to be UK based and to have previously raised at least £500,000 in equity investment, with further eligibility criteria to be announced in due course. The scheme would be delivered in partnership with BBB and would launch in May 2020 {GP/402 – INQ000563968}.

7.40. I shared the proposed press release wording with UKGI and advised that HMT had requested consolidated comments by 12:45.

7.41. As set out in CWS, Part B, §5.37, Francis Evans later wrote to HMT with feedback on the proposed thresholds of £500,000 minimum equity raised and a £250,000 minimum government loan. He conveyed BEIS's view that these should be reduced to £250,000 and £125,000 respectively, as the original thresholds would exclude a large portion of the early-stage companies the scheme aimed to support {GP/403 – INQ000585568}. He also noted that even with these adjustments, many firms would still be ineligible, highlighting the role of investment finance raised under SEIS and EIS. These recommendations were accepted by the Chancellor and confirmed by HMT on 18 April 2020 {GP/404 – INQ000563970}.

7.42. That evening, and as outlined in CWS, Part B, §5.38, Keith Morgan wrote to the acting Permanent Secretary reiterating his concerns and advising that, having reviewed the latest press release, a ministerial direction would be required before the proposed announcement {GP/397 – INQ000563969}. He noted that without such a direction, BBB might need to consult its Board on issuing a formal reservation notice. The need for an instruction was driven by two key issues:

a) There had not been sufficient time to carry out the value for money assessment and therefore no conclusive views on whether the proposed intervention represented value for money could be provided, especially given the lack of clarity around the policy objectives; and

b) BBB could not confirm whether the scheme could be delivered within the Chancellor's proposed May 2020 timeline, due to unresolved operational questions. Including a delivery date in the announcement exceeded BBB's risk appetite for a scheme of this scale, complexity, and novelty without formal direction.

7.43. As noted in CWS, Part B, §§5.39 - 5.40, on 19 April 2020, the Secretary of State's private office wrote to HMT thanking them for their collaborative work with BEIS and BBB on the convertible loan scheme, including agreement to lower the scheme thresholds the previous day {GP/405 – INQ000563973}. The letter sought agreement on two final points discussed earlier that day with HMT Special Adviser Mike Webb:

a) That the announcement retain flexibility to allow for policy or operational changes as the scheme developed, with BBB given a lead role in finalising its design; and

b) Confirmation that the Chancellor had been advised of BBB's view that a May launch would be "*very challenging*."

7.44. HMT responded confirming the Chancellor had been fully briefed on the delivery risks and was keen for officials to work closely with BBB to finalise the scheme.

7.45. Following the above, I sent a detailed update, which had been agreed with UKGI, to the Secretary of State's private office and the acting Permanent Secretary. In it, I noted that Keith Morgan had reiterated his concerns about the proposed convertible loan scheme, particularly regarding value for money and the feasibility of delivering it within the Chancellor's timeline. He had requested a ministerial direction, warning that without one, the BBB Board might feel compelled to issue a Reservation Notice.

7.46. I explained that, since then, HMT had made some policy adjustments in response to BBB's feedback, and BEIS had formally conveyed BBB's concerns to HMT. However, I acknowledged that the BBB Board might still view the scheme as high-risk, despite revisions to the press notice.

7.47. To address this, I recommended that the acting Permanent Secretary write to BBB instructing them to assess how they would deliver the scheme and evaluate feasibility and State aid risks—without yet instructing them to implement it. I advised that this step would fall within BBB's remit and should not trigger a Reservation Notice. I also suggested that a separate letter be sent to HMT to ensure they fully understood the risks raised by BBB.

7.48. I concluded that while BBB might later seek a formal instruction, potentially requiring a direction, the current step was preparatory and proportionate. I noted that, in previous schemes such as CBILS and CLBILS, directions were only sought immediately prior to launch, not at the point of public announcement {GP/406 – INQ000563972}.

7.49. As set out in CWS, Part B, §5.42, the acting Permanent Secretary wrote to BBB that afternoon, highlighting the value for money and feasibility concerns and instructing them to rapidly work up how they would deliver the scheme alongside a more detailed assessment of feasibility and State aid risks. This would enable BEIS officials to work with BBB on a full Accounting Officer Assessment to inform whether the acting Permanent Secretary ultimately required a direction to instruct BBB to deliver the scheme. The letter would instruct BBB to assess how they would deliver the scheme and would therefore stop short of actually instructing them to deliver it, meaning it would be disproportionate for BBB to issue a Reservation Notice in response {GP/407 – INQ000585572}.

7.50. As agreed, the letter was sent to BBB in response to Keith Morgan's letter referred to in §7.42 above, on behalf of the acting Permanent Secretary, later that afternoon, confirming that the scheme had been named the Future Fund {GP/408 – INQ000585571}, {GP/409 – INQ000563976}. The acting Permanent Secretary noted BBB's concerns and confirmed the understanding that HMT and the Chancellor wanted to work constructively, stating:

> *"I have noted your concerns and that of your board on the risks around value for money and feasibility of the scheme. You suggested that "many of the key decisions have been taken" and that these decisions do not take proper account of the bank's analysis of the market, or the need for consultation. I*

believe this may be too pessimistic a reading of the situation. There was substantial movement yesterday and this morning we received further assurances. The press notice describes 'headline terms', the intention being to indicate a degree of flexibility to amend the scheme following further analysis. The Secretary of State also noted that we extended CBILS when it was clear that this was needed. All of this suggests that Treasury colleagues may be more willing to accept future changes than you anticipate."

7.51. At this stage the timing for launch was viewed as a declaration of intent which left open the possibility of the scheme launching in May but not becoming fully operational until June. BBB was instructed to rapidly develop proposals for how the Future Fund would be delivered if BEIS were to instruct them to do so. The letter was to be taken, *"…as an instruction to carry out this development work, including an assessment of the feasibility and State aid risks of the delivery model that you recommend. This will enable my officials to work with yours on a full Accounting Officer assessment, which in turn will allow me to decide whether I would need to seek a Ministerial Direction in order to instruct you to deliver the scheme*". The acting Permanent Secretary set out that, at that stage, she did not consider a direction to be required given the uncertainties that remained around the final scheme parameters and delivery.

7.52. As set out in CWS, Part B, §5.45, the acting Permanent Secretary then wrote to the Second Permanent Secretary at HMT (Charles Roxburgh), setting out her position on the Future Fund before its official announcement the following day {GP/410 – INQ000585573}, {GP/411 – INQ000585574}. In her capacity as Accounting Officer, she set out the reservations that both she and BBB had expressed over the current design and deliverability of the scheme. She viewed the target launch date in May to be challenging but confirmed that given the acute nature of the emergency, BEIS and BBB appreciated the need to finalise any proposals as soon as possible and would continue working together at pace, alongside HMT, to consider options for implementation. The acting Permanent Secretary recorded that she may need to seek a direction from the Secretary of State given the concerns around feasibility, as well as pointing out the right of the BBB Board to issue a Reservation Notice. If options could be left open at this stage it would enable her to "…*make a full and proper [Accounting Officer] assessment of the plans and ensure that the scheme has the best possible chance of delivering the outcomes intended*".

7.53. Further to the above, and as noted in the CWS, Part B, §5.46, Francis Evans emailed Keith Morgan to advise that HMT had agreed that the headline terms of the Future

Fund, which would be published the following morning, may change following further analysis. He also confirmed that BBB would play the lead role on scheme design in close collaboration with HMT and BEIS. Following a call with BBB, it was confirmed that Keith Morgan was no longer recommending a Reservation Notice be raised given the narrow scope of the instruction from the acting Permanent Secretary {GP/412 – INQ000563974}. BBB still intended to send a letter highlighting delivery and feasibility risks and it was remarked that the "[*g*]*eneral mood of the board is that there remain serious concerns, timing is extremely problematic, and they fear expectations will be raised in the market that will be difficult to meet, with a significant amount of backlash being directed at the bank. They are unhappy, but pragmatic*." Ceri Smith went on to say that actual implementation of the scheme would require a future instruction at which point a reservation notice was highly likely.

Press Release

7.54. The Inquiry has referred to the email of 19 April 2020, in which BEIS, HMT, UKGI and BBB had discussed the wording of the press release announcement for Future Fund {GP/413 – INQ000563971}.

7.55. Prior to the issue of the Future Fund press release, or notice, on 19 April 2020, BEIS, HMT, UKGI, and BBB discussed the wording. In an email from the Special Adviser private office it was noted that "***SpAds[18] are clear that we should not be issuing any press release*** *despite HMT pressure as we're still trying to agree details at PO-PO and SpAd-SpAd level. Nicola/comms, can you make this point clear in that email chain that everyone is to come back to us for explicit clearance rather than take our comments as clearance. SO even after HMT revises the PN in light of our comments, they should still hold off on issuing until we have given separate and explicit green light."* (original emphasis). It was further noted, in a follow up email that it was "*[f]ine for you to send over our edits, and also send over SpAd covering comments below and ask if they can rework and send us a final version for final agreement before we agree to issue. SpAds are clear that BBB and BEIS should be happy with final PN before anything goes out, especially given the live discussions and sensitivities*".

7.56. HMT and No.10 Special Advisers were informed that the press release should not be issued without explicit clearance from BEIS, in an email from the Secretary of State's private office {GP/414 – INQ000625832}, {GP/415 – INQ000625834}.

[18] Special Advisers

7.57. I have been asked about any concerns I had regarding the press notice that was issued, specifically whether any previously discussed and agreed-upon details were inaccurately represented in the final announcement. Both BEIS and I were concerned that the policy details were still under discussion at the private office and Special Adviser level, and that BBB had not yet approved the text.

7.58. Francis Evans provided a clear summary of the inaccuracies in the notice, as identified by Sarah Hird (BBB) and BEIS, in an email to my team {GP/417 – INQ000625835}.

> *"The £1.25bn figure is misleading, however it is explained in the first 'note to editors' so at least it is transparent. Similarly the Future Fund is not a fund but it's too late for that.*
>
> *That leaves the two factual errors mentioned by Sarah:*
>
> *"These loans will convert to equity if not repaid." It's more complicated than that. We could explain it fully, as it's quite a technical explanation. Better simply to delete that sentence.*
>
> *"the £2.5bn British Patient Capital~~fund~~ programme" this one must be changed from 'fund' to programme' please*
>
> *And finally I agree that the wording at the beginning would be much clearer with this addition:*
>
> *"The comprehensive package includes a new £500 million convertible loan scheme" though I can see this suggestion may be rejected on the grounds readers won't know what that means"*

7.59. As outlined in the CWS, Part B, §5.49, in response to BEIS's email stating that the press release had been issued without their sign off, BBB confirmed that, having taken advice, it would not be issuing a press notice or promoting the scheme. BBB further confirmed that all media enquiries would be passed on to HMT {GP/413 – INQ000563971}. A brief statement was, however, provided on BBB's website confirming the establishment of a new fund to be developed by Government in partnership with BBB with the intention of launching for applications in May and running until the end of September {GP/416 – INQ000563975}.

7.60. While there was internal discussion about requesting HMT to correct the two factual inaccuracies when the press notice went live on the gov.uk site at midnight, Special Advisers advised against doing so. They were concerned that having a version on

gov.uk that differed from the originally issued press notice could lead to complications and confusion {GP/417 – INQ000625835}, {GP/418 – INQ000625836}.

7.61. I have been asked to provide a view on the importance of securing the Department's agreement prior to the announcement. Before any government announcement, it is always preferable to secure agreement from the key parties involved on the language to be used. Differences of opinion are common, and the department leading on the press notice typically exercises judgment in responding to suggested changes. In this case, BBB had concerns about the specifics of the scheme and the potential responsibilities they might be expected to take on. We needed to manage the relationship with the BBB's executive team and board carefully and demonstrating that we were making every effort to avoid them feeling 'bounced' was a key part of that. Securing agreement on the press notice ahead of its release was an important step in managing this dynamic. Ultimately, while the final version of the press notice included some wording we felt could have been clearer, it did not, as far as we could tell, materially diverge from what we had anticipated.

7.62. BBB published their own statement on their website which noted that the future Fund would be 'developed in partnership' with the BBB rather than 'delivered in partnership with the British Business Bank' which is what had been stated in the press notice {GP/419 – INQ000625841}.

7.63. As noted in my earlier responses, there were several challenges in ensuring that the views and concerns of the Department were properly reflected in public communications about the financial support schemes. On a number of occasions, announcements were made earlier than expected or included unexpected changes to policy details. HMT, as the lead department for press and communications on these schemes—as well as other economic interventions—was required to make decisions at pace, which sometimes limited the opportunity for full coordination.

Policy questions regarding the Future Fund's parameters

7.64. I have been asked to consider whether any policy questions regarding the scheme's parameters remained unresolved, along with requests for clarification of the headline terms following the announcement of the Future Fund (GP/420 – INQ000563983). These outstanding issues were outlined in a presentation delivered by the BBB to ministers on 23 April 2020, and have been dealt with in the CWS, Part B, §5.50. That said, I have set them out below:

a) The extent of (if any) interaction between the fund and CBILS/other government support;

b) The extent of (if any) interaction between the fund and EIS and SEIS;

c) The allocation of capital within the scheme; and

d) The restrictions on investors, companies, or investment.

7.65. In addition to the above, there were also decisions to be made as to whether the application process and customer journey would be investor or company-led.

Appointment of the Delivery Agent

7.66. As set out in the CWS, Part B, §5.58, in late April 2020, BEIS officials and I informed the Secretary of State and acting Permanent Secretary that, subject to Board approval BBB intended to appoint PwC as the delivery agent for the Future Fund. Administrative operations would be outsourced to PwC who, in addition to designing and building the online application process, would be responsible for processing applications, portfolio administration, risk and control, and valuation services. The Secretary of State was advised that PwC's appointment had occurred earlier than anticipated and would help de-risk project delivery {GP/236 – INQ000585596}, {GP/235 – INQ000585597}. On 27 April 2020, the BBB Board appointed PwC as the delivery agent for the Future Fund.

7.67. The Inquiry has asked if I consider that using PwC to deliver the Future Fund was an effective choice. Furthermore, I have been asked if I would recommend involving external consultants again in the delivery of similar schemes in the event of a future economic crisis.

7.68. As set out in the note to the Secretary of State and acting Permanent Secretary referred to in §7.66 above, BEIS and I were of the view that this appointment would help to de-risk project delivery {GP/235 – INQ000585597}.

7.69. Following the announcement of the Future Fund, BEIS officials sent a submission, which I had cleared in relation to policy, to the acting Permanent Secretary on 7 May 2020, confirming that BBB, BEIS, and HMT were working with PwC to finalise the scheme's parameters, eligibility criteria, legal structure, and application mechanism {GP/421 – INQ000585618}, {GP/422 – INQ000585619}.

7.70. On 11 May 2020, Francis Evans updated the acting Permanent Secretary, noting that the application system was being built and tested, and that PwC's UK board was satisfied with the project's deliverability {GP/423 – INQ000564015}.

7.71. BBB further updated BEIS on 12 May 2020, confirming ongoing collaboration with PwC and other third parties to meet the 20 May 2020 launch date, with the design and build phase contract signed and work progressing on the delivery contract {GP/424 – INQ000564018}.

7.72. On 13 May 2020, BBB informed the Department that platform testing was underway with PwC staff appointed to support service delivery, and that both parties were working to finalise the operating model for the scheme's second line of defence and its risk and control framework {GP/425 – INQ000564023}.

7.73. On 15 May 2020, BEIS officials sent a submission to the Secretary of State on the launch of the Future Fund {GP/426 – INQ000585638}, {GP/427 – INQ000585639}. The submission included the fact that PwC had finished building the application portal to process applications. It further noted:

> *"The scheme will be delivered through an online portal that has been built and tested by PwC, the delivery agents. The portal will collect information from the co-investors and automatically populate the loan agreements. This will go live on 20 May after extensive testing, including for cyber-security and capacity.*
>
> *Whilst some delivery risks remain, they are being managed appropriately and the role of PwC removes concerns around BBB's capacity. As an illustration, PwC has 120 people working on the project compared to BBB's total staff number of 350. The project has been taken to PwC's UK board, who have confirmed they are comfortable with where it stands in terms of deliverability."*

7.74. PwC would continue (post-launch) to manage the ongoing operations and delivery of the scheme. This included undertaking fraud and financial crime checks, customer support, execution of the convertible loan and cash management.

7.75. Considering the above and the ultimate outcome, I believe PwC's involvement in the Future Fund was effective. They helped design, develop, and launch the scheme in just over three weeks, which was crucial given the urgency of the Covid-19 pandemic. PwC provided a full-service solution, including designing the operational model and legal structure, building a bespoke technology platform, managing fraud and financial crime checks, and delivering customer support and cash management. They also deployed a team of 120 people to the project, significant when compared to the BBB's total staff of 350, which helped address concerns about internal capacity. The department was not in a position to surge this sort of capacity onto delivery of the project, nor would it have had people with right skill set.

7.76. Based on this experience, and other experience of outsourcing delivery operations, I believe there can be a case for involving external consultants in future emergency schemes. This is more likely to be the case, where government capacity is under strain, government lacks people with the relevant skills, the project is for a time-bounce and specific deliverable, and speed of delivery is critical.

BBB and the Reservation Notice dated 18 May 2020

Background

7.77. I have been asked to outline the reservations the BBB had regarding the Future Fund. To provide a full and accurate response, I think it is important to first set out the background to the Reservation Notice for context.

7.78. At the start of May, HMT explored whether time-limited tax relief—similar to the EIS — could be offered to co-investors in the Future Fund. They commissioned economic advisory Oxera to assess whether such relief would comply with the Market Economy Operator Principle (MEOP). Oxera's initial report dated 4 May 2020 assessed MEOP compliance without EIS-like relief. A follow-up report subsequently examined whether MEOP compliance would still hold if EIS-eligible investors were included, with the supplementary advice concluding that offering EIS-like tax relief to Future Fund investors could undermine MEOP justification {GP/428 – INQ000564016}. Despite this, the Chancellor expressed a preference for enabling EIS investors to participate and requested further economic advice. As outlined in the CWS, Part B, §5.69, I understand HMT commissioned Ernst & Young (EY) to provide a secondary opinion on whether MEOP compliance could be justified if the Future Fund was used with EIS or a mix of EIS and non-EIS investors {GP/429 – INQ000625873}, {GP/430 – INQ000596673}.

7.79. On 7 May 2020, I wrote to Keith Morgan requesting the BBB Risk Committee assess the Future Fund against the Shareholder Relationship Framework criteria and identify specific concerns and possible mitigations, in order to inform the Department's Accounting Officer Assessment {GP/431 – INQ000585620}.

7.80. On 11 May 2020, the BBB Risk Committee met to review progress on the Future Fund and outstanding concerns. BEIS had requested BBB's assessment before issuing any instruction to proceed. BBB prepared a paper assessing the scheme against the seven framework criteria {GP/367 – INQ000625872}, GP/366 – INQ000564017}. While the central scenario suggested value for money would be achievable, the downside scenarios showed poor achievability of value for money with BBB noting it was very dependent on assumptions and sensitivity analysis. The paper noted the lack of a

comprehensive options analysis and highlighted unquantified objectives like maintaining venture capital market confidence.

7.81. As expanded upon in §7.97 below, the IDAB was then approached to provide a scheme assessment. The analysis that came back estimated potential net economic benefits of £360 million from £250 million investment, but noted high sensitivity to assumptions. In the downside scenarios, the achievability of value for money dropped significantly {GP/432 – INQ000585632}, {GP/433 – INQ000585634}, {GP/434 – INQ000585635}, {GP/435 – INQ000585633}.

7.82. On 13 May 2020, EY submitted their report on EIS and MEOP, concluding that MEOP compliance would be difficult if the Future Fund was used alongside EIS {GP/429 – INQ000625873}, {GP/430 – INQ000596673}. However, limited EIS investor involvement might be justifiable if supported by sufficient non-EIS investors and minimal aid.

7.83. On 15 May 2020, BEIS officials submitted a detailed Accounting Officer Assessment to the acting Permanent Secretary that had been drafted by Angelina Cannizzaro and approved by me and other BEIS officials {GP/436 – INQ000564029}. It recommended seeking a ministerial direction due to high uncertainty in assessing value for money. The assessment concluded that in the central scenario the scheme did not represent value for money, did not require EU State aid notification, would have real-time management information, and required HMT assurance on operational and asset valuation costs.

7.84. On 17 May 2020, a submission to the Secretary of State confirmed BEIS had not persuaded HMT to allow time-limited EIS changes {GP/437 – INQ000585640}, {GP/438 – INQ000585641}. The Chancellor instead asked for CLN investments to be made EIS-eligible. The submission noted that external advice on State aid and EIS compatibility would not be resolved before launch. Furthermore, the submission noted that an Accounting Officer Assessment had been submitted and a ministerial direction would be requested. The submission included an equalities assessment and a draft email to HMT seeking full budget cover. The submission also noted:

> *"The BBB Board members, who have extensive expertise in this area of investment, felt that the commercial assumptions made by their analysts were too optimistic. In particular, that these assumptions – based on 'normal' interventions – needed to better reflect the particular set of incentives that HMT had incorporated into this scheme's design and the current market*

environment. As a result, the BBB team adjusted their analysis. The new analysis showed poor VfM and negative returns to the Future Fund."

7.85. As the revised analysis showed poor achievability of value for money and negative returns, the need for a ministerial direction was evident.

7.86. Additionally, in Keith Morgan's letter dated 17 April 2020, referred to in §7.42 above, the Board Risk Committee had a number of concerns about the overall design of the scheme since its inception. These concerns included:

a) That the policy objectives were not clearly articulated, leading to a risk that the scheme would not be well-targeted and that companies may be supported which did not need the intervention;

b) The risk of perverse incentives, resulting in the substitution of private sector capital and moral hazard in the behaviour of any match-funders given the programme design;

c) That the design and implementation of the scheme would need to be undertaken at pace and outside the usual processes and controls that the BBB would ordinarily follow; and

d) Ultimately, Government would be required to manage a sizeable portfolio of direct equity investments and that additional resources and capability would be required for this.

The Reservation Notice

7.87. On 18 May 2020, BBB issued a Reservation Notice to the Secretary of State setting out their concerns with the Future Fund {GP/439 – INQ000564030}. These concerns included:

a) Value for Money: BBB questioned whether the scheme would deliver sufficient value for taxpayers, particularly given the speed of implementation and the high-risk nature of the investments.

b) Policy Clarity: At the time the notice was issued, the policy framework was still evolving. BBB was concerned that the lack of finalised details could lead to operational and governance challenges.

c) Governance and Accountability: The BBB highlighted that it was being asked to deliver a scheme that had not yet been fully signed off, raising concerns about its responsibilities and the potential for reputational risk.

d) Risk of Financial Loss: Given that the scheme involved convertible loans to early-stage companies, many of which were not profitable, BBB flagged the potential for significant losses.

7.88. In its Reservation Notice, BBB stated that the modifications made to the scheme's design had not gone far enough to resolve the Board's concerns. The primary issue remained the significant uncertainty around value for money. The Board was particularly concerned that the scheme would likely attract lower-tier companies, which could result in higher loss rates. It also highlighted the following points:

> *"The overriding fact is that the value for money outcome from this scheme is highly uncertain. Based on the industry experience around the Board table, the central scenario upon which our value for money assessment has been based yields a negative Benefit Cost Ratio (BCR). That view was driven by concerns that the best companies will not use this funding route, as investors will fund those companies without HMG support. This will result in HMG investment going to the second tier of companies, which will likely result in higher associated loss rates…"*

7.89. The Reservation Notice also acknowledged that, while the Board's principal concern remained the uncertainty around achieving value for money, there were two additional criteria that raised issues. Although these concerns alone would not have warranted issuing a Reservation Notice, they were nonetheless significant and were outlined as follow:

> *"On the matter of propriety, the difficulty arises in reconciling the Chancellor's announcement of a fixed budget (an initial £250m allocation) with a rules-based scheme. The Future Fund will not be making individual assessments of investment viability and there is no other mechanism for managing to the specified quantum of funding within the announced timeframe. Whilst I note the recognition of this issue in your instruction and your assurances that additional allocation decisions will be made promptly, it remains the case that with an application period open until the end of September there is a high risk that delivery will need to be halted before the end date, with reputational and market consequences, if further budget cover cannot be provided in advance. In addition, the Board raised concerns about the lack of funding available to allow for Government to make follow-on investments in subsequent funding*

rounds and therefore avoid the risk of its stakes being diluted, impacting on its returns.

On the interaction with the Bank's overarching objectives, the scheme arguably runs counter to both the Bank's objectives on regionality, as recipients are more likely to be based in London and the South East, and on operating within a robust risk management framework"

7.90. I have been asked to provide what my view was, at this stage, on the scheme's viability, particularly regarding the uncertainties around value for money. The BBB Board and various economic assessments reached differing conclusions about the scheme's potential to deliver value for money. The reality was that this was highly uncertain, depending heavily on which companies or investors took out the CLNs and on subsequent market conditions. It was reasonable for BBB to be concerned about the mechanistic nature of the scheme, whereby any eligible company could obtain funding—this was a significant departure from the BBB's usual approach, where investment professionals make carefully considered decisions. BBB was also worried about being left with a large and eclectic portfolio of equity stakes, with no guarantee of follow-on funding to realise the upside of having invested in stronger companies. This understandably did not sit well with the Board, and I can see why.

Value for Money

7.91. I have been asked whether, in my view, the Future Fund represented value for money. Additionally, I have been asked if there was enough time to thoroughly assess value for money before the Future Fund was launched.

7.92. As dealt with above, the question of whether the Future Fund represented value for money became a central issue in discussions leading up to the launch. As noted in the CWS, Part B, §5.72, the BBB's Shareholder Relationship Framework entitled them to issue a Reservation Notice on value for money grounds. Time pressures were also a factor, and on 6 May 2020, Francis Evans noted in an email to me that *"…[t]he worries we had with the other schemes (propriety, deliverability) are much less... The PWC system has strong anti-fraud and Know Your Customer checks built-in. It is really whether we have the time to assess VFM thoroughly enough before launch… that is the outstanding question. Unlike the loan schemes there is [an] upside, the taxpayer might eventually make a profit out of this.*" {GP/440 – INQ000564010}.

7.93. As set out in §7.79 above, I wrote to Keith Morgan on 7 May 2020 and noted as follows:

"I understand that the Bank has reservations about the FF[19] and so may ask to be directed to implement it. For the benefit of advising the SoS and Permanent Secretary, I would be grateful if the risk committee could consider the project against the criteria at para 4 [of the Shareholder Relationship Framework] and set out exactly what their concerns are (with direct reference to these criteria) and what options there are for mitigation. For example, if feasibility is a concern would another week allow the outstanding issues to be resolved? If it is value for money, what changes to the programme's terms would resolve the concern? This will enable us to discuss the risk committee's concerns and potential mitigations ahead of the board meeting." {GP/431 – INQ000585620}.

7.94. I further explained that if BBB had concerns that the instruction triggered one or more of the criteria of the framework it would be a highly relevant factor in the Department's Accounting Officer Assessment.

7.95. As outlined in the CWS, Part B, §5.75, in its paper prepared by BBB for the Board Risk Committee meeting on 11 May 2020, BBB set out in detail their assessment against the seven criteria in the framework agreement {GP/366 – INQ000564017}, {GP/367 – INQ000625872}. The central scenario for its economic assessment suggested that the scheme potentially represented good value for money but highlighted that the estimates on which this had been calculated were highly sensitive to assumptions and if the downside scenarios of these assumptions were combined calculations showed poor deliverability of value for money. The report explained:

"We have not had the opportunity to undertake a comprehensive options analysis on other interventions to address the target market. We therefore cannot be sure that, if a formal business case approval process were undertaken, that another option would not produce better value for money. The main objective of the intervention is to help start-ups survive until the next round of equity finance and the [Benefit Cost Ratio] method captures this reasonably well. There are other potential objectives, such as demonstrating that the VC funding market can continue to function through these difficult times, which are not quantified but may also be significant."

7.96. BEIS officials noted in internal correspondence that, due to the rapid development of the Covid-19 loan schemes, key details were often finalised very close to launch. As a

[19] Future Fund

result, the acting Permanent Secretary had previously concluded that it was not practical to engage IDAB. However, in the case of the Future Fund, officials believed there was a window of opportunity to consult IDAB to obtain their views on the scheme's robustness and risk profile {GP/432 – INQ000585632}.

7.97. On 12 May 2020, Francis Evans circulated papers for IDAB's consideration ahead of a meeting scheduled for 14 May 2020. These included an IDAB Scheme Assessment Form and value for money assessment from the BBB {GP/432 – INQ000585632}, {GP/433 – INQ000585634}, {GP/434 – INQ000585635}, {GP/435 – INQ000585633}. The value for money assessment presented a cost-benefit analysis estimating that the Future Fund could generate net economic benefits of approximately £360 million from the Government's £250 million investment. The Net Present Value (NPV) analysis suggested a potential return of £3.10 for every £1 invested. However, the assessment also highlighted that these estimates were highly sensitive to assumptions about business turnover and the rate of loan defaults. Under less favourable assumptions, the NPV could fall significantly, potentially indicating a return as low as £0.10 per £1 invested.

7.98. After reviewing the proposal, IDAB advised that it was "*unable to recommend this proposal for the Future Fund as presented*" citing concerns about achieving value for money. Nonetheless, the Board acknowledged the urgent need for financial support in a context of poor liquidity and expressed support for the principle of the scheme. It recommended that the Future Fund be managed with a clear focus on achieving value for money and suggested that independent verification of investments and returns to government should be considered {GP/438 – INQ000585641}.

7.99. On 15 May 2020 BEIS officials and I sent a detailed Accounting Officer Assessment to the acting Permanent Secretary {GP/436 – INQ000564029}. The assessment produced by my team recommended that a ministerial direction be sought due to the high levels of uncertainty in the value for money assessment. It stated:

> *"There is considerable uncertainty about a novel scheme in a turbulent market that makes any assessment extremely challenging. While there is only imperfect information and modelling on which to make a judgement, our analysis suggests that the central VFM case is slightly negative and that there are likely to be more significant downside risks than upside potential in relation to the VFM outcome."*

7.100. On 17 May 2020, BEIS officials and I sent a submission to the Secretary of State to provide an update on the design and implementation of the scheme, and outlined the remaining steps required to enable the launch to take place. The submission noted that an Accounting Officer Assessment had been submitted in parallel, based on which the acting Permanent Secretary, as Principal Accounting Officer, would request a ministerial direction. Annexed to the submission was an equalities assessment and a draft email to be sent to HMT seeking full budget cover {GP/438 – INQ000585641}. Once the budget cover was agreed, the submission set out that the Secretary of State would be in a position to issue an oral direction to the Accounting Officer, who would then instruct BBB to proceed. The exchange of direction letters was due to take place shortly after.

7.101. The submission gave detailed advice on the discussions that had been taking place in respect of value for money, and stated:

> *"Concerns about VfM came to a head last Thursday, following the input and views from the BBB Board on the assumptions made by the BBB analytical team. The BBB Board members, who have extensive expertise in this area of investment, felt that the commercial assumptions made by their analysts were too optimistic. In particular, that these assumptions – based on 'normal' interventions – needed to better reflect the particular set of incentives that HMT had incorporated into this scheme's design and the current market environment. As a result, the BBB team adjusted their analysis. The new analysis showed poor VfM and negative returns to the Future Fund."*

7.102. The submission also stated that the acting Permanent Secretary had considered the full Accounting Officer Assessment and concluded that she would need to seek a ministerial direction. This was based on the uncertain position on value for money, and particularly the IDAB assessment. BEIS officials confirmed their ability to address the issues raised by IDAB were limited in a scheme that was purposely rules-based but thought there would be scope as part of monitoring the scheme to potentially make changes later should HMT make more funding available for further investments.

7.103. As noted above, BBB's Reservation Notice dated 18 May 2020 raised serious concerns about the scheme's value for money, warning it could attract weaker companies and lead to higher financial losses {GP/439 – INQ000564030}.

7.104. In response, the acting Permanent Secretary sought a ministerial direction from the Secretary of State on 19 May 2020 {GP/441 – INQ000564033}, as referenced in the

CWS, Part B, §5.85. Both Oxera and BBB's assessments highlighted the unprecedented economic conditions and the uncertainty surrounding their forecasts. Given the sensitivity of the assumptions and the wide range of possible outcomes, the acting Permanent Secretary could not confirm that the scheme represented value for money. She noted that, with more time, alternative delivery options might have been developed but acknowledged that ministers could weigh broader economic risks associated with delaying the scheme.

7.105. As to whether there was enough time to thoroughly assess the deliverability of value for money before the Future Fund was launched, the short answer is no—there simply wasn't, even with my team and I working flat-out seven days a week. It was an extremely pressured, complex and intense period. The acting Permanent Secretary made it clear that, had more time been available, alternative delivery options might have been developed that offered better value. However, given the urgency of the pandemic and the need to maintain liquidity in the market, speed took priority over a full value for money appraisal.

7.106. The decision to move forward, despite lingering uncertainty about achieving value for money, aligned with the broader economic strategy adopted during the Covid-19 crisis. Departments were often required to act swiftly under intense pressure and significant uncertainty. In this environment, the primary objective was to deliver urgent financial support to struggling businesses. As a result, while deliverability of value for money remained a relevant consideration, it could not be examined with the same depth or rigour typical of standard procedures. Inevitably, compromises had to be made, and in many instances, these were unavoidable.

Risk Assessment

7.107. I have been asked about the role that the IDAB played in assessing the risk levels and robustness of the Future Fund.

7.108. As set out above, the IDAB played a consultative role in assessing the robustness and risk levels of the Future Fund prior to its launch. Unlike earlier Covid-19 loan schemes, where time constraints prevented IDAB's involvement, BEIS officials believed there was a window to consult IDAB on the Future Fund. This was seen as a chance to gather independent views on the scheme's design and risk profile.

7.109. The opportunity to engage IDAB was due to the longer period leading up to the launch of the Future Fund (albeit still very compressed). This had not been possible for the other loan schemes due to the speed at which they had been developed. In respect of

the Future Fund's design, members of my team engaged the IDAB Secretariat and provided them with documents including BBB's value for money assessment, in order to get their view on whether there were significant issues or risks with the proposed approach {GP/432 – INQ000585632}. On 12 May 2020, IDAB was provided with a set of documents for review ahead of a meeting on 14 May 2020. These included:

a) An IDAB Scheme Assessment Form;

b) A value for money assessment from BBB; and

c) Supporting analysis estimating potential economic benefits and risks.

7.110. The IDAB Scheme Assessment Form was completed by my team and approved by me on 14 May 2020 {GP/435 – INQ000585633}.

7.111. I included a summary of the views of IDAB in my submission to the Secretary of State dated 17 May 2020 as follows {GP/438 – INQ000585641}:

> *"The Board is unable to recommend this proposal for Future Fund as presented, noting concerns about VFM. However, the Board recognises the need for financial support where there is poor liquidity and supports the principle of the Future Fund. The Fund should be managed with a view to a target VFM, and consideration should be given to independent verification of the investment and assessment of the return for Government."*

7.112. The Board concluded that it was "*unable to recommend the proposal for the Future Fund as presented*," citing concerns about value for money. However, it acknowledged the urgent need for financial support and supported the principle of the scheme. IDAB recommended that the Future Fund be managed with a clear focus on achieving value for money and suggested independent verification of investments and returns to government.

7.113. In short, IDAB provided a critical external perspective on the scheme's design and risk, raising concerns while also recognising the broader policy intent.

Analysis and data modelling

7.114. I have been asked what analysis and data modelling was undertaken to assess the likely demand for a scheme like the Future Fund, and whether there were any limitations in the data available at the time.

7.115. The demand for the Future Fund was assessed using a combination of data modelling, stakeholder engagement, and survey analysis, as outlined in the BBB's Early Assessment Report {GP/442 – INQ000146532}.

7.116. As set out in the above report, the evaluation used desk research, secondary data analysis, and modelling to understand the potential demand and impact of the scheme. In addition to this, surveys were used which included obtaining responses from:

a) Businesses that received funding;

b) Applicants who did not take up the finance;

c) Eligible non-applicants; and

d) Lead investors.

7.117. In addition to the above, interviews were conducted with a mix of recipients, applicants, and investors to gather qualitative insights. A matrix was developed to assess the future growth potential of firms and their ability to raise equity pre-pandemic, helping to estimate the scheme's reach and relevance.

7.118. As the Inquiry is aware, the scheme was developed and launched rapidly, which would no doubt have limited the depth of pre-launch analysis. Further to this, the assessment was conducted while the programme was still in its early stages, meaning long-term outcome and full impact data were not yet available.

7.119. As set out above, forecasts, such as NPV estimates, were highly sensitive to assumptions about business turnover and default rates, making it difficult to draw firm conclusions about the achievement of value for money or long-term success.

Implementation and Delivery of the Future Fund

7.120. As set out in the CWS, Part B, §§5.95-5.98, concerns were raised about various imbalances in the design of the scheme, including with respect to Scottish businesses failing to reach the requisite match funding {GP/443 – INQ000538842}, {GP/444 – INQ000538844}. BEIS officials recognised that the investments made under the scheme were likely to reflect existing disparities and geographic concentrations across the UK, as it was not designed to address wider imbalances in equity provision. This is reflected in the BBB's Early Assessment Report, which noted that degree of path dependency was very difficult to overcome as part of the scheme's immediate goal to help existing firms through an open application process {GP/442 – INQ000146532}.

7.121. The Future Fund, as originally implemented, required that companies have parent companies based in the UK in order to be eligible. The Chancellor wished to amend scheme eligibility such that UK-based companies with overseas parent companies could obtain funding under the scheme where this was a condition for participation in an accelerator programme. This was the subject of a submission to the Secretary of State on 26 June 2020 {GP/445 – INQ000585662}, {GP/446 – INQ000585663}. On 29 June 2020, HMT confirmed by email that it would provide an additional allocation of £500 million to accommodate the increase in demand expected as a result of this expansion {GP/447 – INQ000564069}. On the same day, I wrote to BBB to confirm the variation to the scheme and instruct them to proceed with the extended scheme as agreed between HMT and BEIS {GP/448 – INQ000564070}.

7.122. In addition to the above gaps and imbalances in design and delivery, I would note the findings set out in the Ipsos Report and summarised in the CWS, Part B, §5.131. In respect of eligibility for the Future Fund, the Ipsos Report stated that pre-revenue start-ups without any history of equity fundraising were the only group that remained ineligible for support. The evaluation did not explore this gap, but it did note that any impacts may have been relatively short lived as equity fundraising by SMEs rebounded rapidly after an initial decline.

7.123. I have been asked whether there is anything I would have done differently in the design, implementation or delivery of the Future Fund. On the basis of the Ipsos Report findings and the limited gaps in support that were identified under the scheme, I do not now feel that there is anything I would have done differently in designing, implementing or delivering the Future Fund, noting that the design was substantially shaped by the Chancellor rather than by myself or BEIS officials.

Extension of the Future Fund

7.124. I have been asked to explain what the nature and extent of my involvement was in considering the extension to the Future Fund in line with the extension of the three Covid-19 loan schemes (CBILS, CLBILS, and the BBLS).

7.125. As the lead director, I played a key role in guiding my team, reviewing their advice, and shaping the overall approach to these matters. My involvement was less detailed compared to the scheme's initial launch, as the extension was a less significant undertaking.

7.126. On 19 September 2020, the Department learnt that the Chancellor wished to extend the application deadline from 30 September 2020 to 30 November 2020, in line with

the three Covid-19 debt schemes. I sent an email to the Secretary of State's private office and Special Advisers confirming the Chancellor's intention {GP/449 – INQ000625907}.

7.127. As set out in CWS, Part B, §7.63, advice was sent to the Permanent Secretary in her role as Accounting Officer, with the proposal to extend the closing date for the Future Fund to 30 November 2020 in line with the three loan schemes {GP/450 – INQ000624948}, {GP/451 – INQ000564132}.

7.128. BEIS officials stated that since there were no changes to the scheme's parameters and no new risks had emerged, they considered the extension to be covered by the existing ministerial direction. Extending the closure date would allow more businesses to access the scheme during a period of continued market uncertainty. At that point, the BBB advised that it was still too early to reassess value for money, as the performance of the investments would take time to become clear. Although more data would be available at the point of loan conversion, this process was not immediate—only one conversion had occurred out of 525 drawn-down applications at the time of the advice.

7.129. On 20 September 2020, BEIS officials submitted advice to the Secretary of State regarding the proposed extension of the Future Fund to 30 November 2020 {GP/452 – INQ000625578}, {GP/453 – INQ000564101}. The submission confirmed that the original rationale for the scheme remained valid and that some anticipated risks—such as unmanageable application volumes or system abuse—had not materialised. The main remaining concern was the risk of poor investment performance, which was considered to be in line with initial expectations. As such, officials saw no reason to oppose the extension. The Permanent Secretary, in her capacity as Accounting Officer, was content that the extension fell within the scope of the original ministerial direction.

7.130. The submission also noted that approval from HMT would be required to authorise the extension, instruct BBB accordingly, and confirm continued budget cover in case demand exceeded the fund's capacity.

7.131. The submission also noted that, as of 15 September 2020, 689 applications had been approved, totalling just under £700 million. While the total value of applications was expected to exceed £1.5 billion, officials estimated that approved funding by 30 November 2020 would likely fall between £900 million and £1 billion.

7.132. On 29 October 2020, Francis Evans emailed BBB noting as follows:

"As the planned closure date of the Covid-19 schemes draws closer, we expect ministers at both BEIS and HMT to at least consider the option of extending them. New factors since the 30 November date was fixed include the extension of the EU's Temporary Framework for state aid and recent changes in economic conditions and Covid interventions.

The Future Fund will be part of this consideration, and it is important that advice on a possible extension is based on evidence that is specific to the Fund and the market in which it operates." {GP/454 – INQ000625913}.

7.133. He further asked BBB to provide views and analysis by Friday, 6 November 2020, which BEIS intended on incorporating into ministerial advice the following week, on three areas:

a) Equity Market Conditions: An assessment of how the equity market has evolved since the Future Fund's launch, including whether the current need for the scheme is greater, lesser, or unchanged. The uptake pattern of the Future Fund could serve as supporting evidence.

b) Potential Rule Changes: Consideration of whether the scheme's rules should be adjusted if extended—such as revisiting the restriction on receiving only one loan.

c) Alternative Options: Exploration of options beyond simply ending or extending the scheme. This includes possibilities like:

i. A version with stricter rules (e.g. higher match funding requirements);

ii. A quality threshold for applicants that allows for quicker decisions; and

iii. An analysis of the delivery, cost, and lead-in time implications of these alternatives.

7.134. On 2 November 2020, the Prime Minister announced the extension of all loan schemes to 31 January 2021, including an extension to the Future Fund {GP/455 – INQ000585845}.

7.135. On 2 November 2020, I also received an email from Angelina Cannizzaro informing me that BEIS officials were scheduled to meet with BBB later that day {GP/454 – INQ000625913}. The purpose of the meeting was to discuss BBB's views and analysis on the issues outlined in §7.133 above, along with an additional question raised by BEIS earlier that day: "*Would the financial cover for the fund still be adequate if (i) the*

scheme is extended as is until 31 Jan or (ii) the rules were modified along the lines above, given the value of approved applications stands at £813mn and value of applications drawn down is at £647.8mn? Is BBB currently anticipating that the fund could exceed the £1.5bn cover even with the extension to end November?"

7.136. BEIS had also requested that, "*Noting the recent announcement, on Q3 it would be helpful if the Bank can prioritise advising on whether there is a case for changing any of the rules in the current scheme, rather than considering a shift from the rules-based model. The latter seems to be a major change, with potentially higher costs related to portal changes, and instinctively feels unfeasible in the short-term, but happy to take your views on this.*"

7.137. On 17 November 2020, BEIS officials requested that I review and clear a draft of the Accounting Officer advice concerning the proposed extension of the Future Fund in advance of it being shared with Jo Shangmugalingham and the Permanent Secretary {GP/456 – INQ000625915}, {GP/457 – INQ000625916}.

7.138. On 18 November 2020, I responded, and the draft was subsequently sent to Jo Shanmugalingam {GP/458 – INQ000625917}. BEIS officials noted in the covering email, to which the draft Accounting Officer advice was attached, that *"[s]ome risks have reduced since the scheme was launched. For example, concerns around feasibility have been addressed and the risk of a legal challenge to the scheme is reduced now that it has been running for several months. Value for money remains highly uncertain*". {GP/459 – INQ000625918}.

7.139. In her response dated 19 November 2020, Jo Shanmugalingham noted: "*Overall happy with the judgement that despite indications that the VFM position may have improved since the original direction, it is still highly uncertain and in any case a moot point since the original direction holds.*"

7.140. On 19 November 2020, BEIS officials submitted the Accounting Officer advice to the Permanent Secretary, in her capacity as Accounting Officer, regarding the proposed extension of the Future Fund {GP/460 – INQ000564151}. The advice included a proposed amendment to the scheme rules: the addition of a new clause in the Convertible Loan Agreement to prevent recipients from using Future Fund capital for onward lending or investment outside their own company. This change aimed to reinforce the original intent of the scheme. BEIS assessed that both this minor amendment and the extension itself did not alter the original rationale for requiring a ministerial direction. The advice sought the Permanent Secretary's approval for the

contractual change and confirmation that the extension should proceed. The Permanent Secretary approved the advice by return email on 20 November 2020 {GP/461 – INQ000564153}.

7.141. On 25 November 2020, BEIS officials sent advice to the Secretary of State regarding the implementation of the further extension of the applications to the Future Fund {GP/462 – INQ000564156}. Similar to the previous advice, this advice stated that, "*The original rationale for the Future Fund remains valid and some risks that were anticipated at the outset have not materialised (such as an inability to manage the volume of applications). That leaves the risk of poor investment performance, which remains a possibility given the rules-based nature of the scheme. This risk is no greater than anticipated at the outset of the scheme and the Accounting Officer is content that the scheme can be extended within the terms of the original Direction*." The Secretary of State reviewed the advice overnight, and agreed with the recommendation to proceed, as shared with BEIS officials on 26 November 2020 {GP/463 – INQ000564157}.

7.142. Accordingly, and as noted in CWS, Part B, §7.69, on 27 November 2020, the Permanent Secretary emailed Catherine Lewis La Torre at BBB a formal instruction to extend the Future Fund scheme as agreed with HMT and BEIS officials {GP/464 – INQ000564158}.

Reflections

7.143. I have been asked to reflect on whether the Future Fund scheme achieved its aims.

7.144. As outlined in CWS, Part B, §7.106, in February 2021—during my maternity leave—a submission was prepared providing an update on the Future Fund, with particular focus on the ongoing portfolio analysis {GP/465 – INQ000564196}. The submission noted that the Future Fund had approved a significantly higher proportion of investments for seed and venture-stage firms (23% and 43%, respectively) compared to the wider equity market (9% and 34%). This was interpreted as evidence that the scheme had successfully supported businesses in continuing to grow and secure finance at a time when access to capital was particularly constrained.

7.145. In 2022, the BBB initiated a formal three-year evaluation of the Future Fund. The Year 1 report, covering May 2021 to April 2022, was published in November 2022 {GP/442 – INQ000146532}. As referenced in the CWS, Part B, §7.109, the report assessed the scheme against its seven programme objectives. It concluded that the Future Fund had largely met its core aims, especially in improving access to finance for firms unable

to raise funds through commercial means. The application process received positive feedback, and early indications suggested the scheme may have helped prevent business closures and supported R&D, although some outcomes were still too early to assess.

7.146. The Year 2 report, covering November 2022 to March 2023, was published in October 2023 after I had transitioned to the DfE {GP/466 – INQ000576416}. This report broadly reinforced the Year 1 findings, showing that fundraising growth among supported firms remained stronger than among comparable firms without support. However, it also highlighted emerging signs of weaker portfolio growth and mixed long-term outcomes. Certain objectives, such as those related to R&D and broader economic impact, remained inconclusive or had not yet been evaluated.

7.147. To my knowledge, the BBB's Year 3 evaluation report remains in draft form, and a final conclusion across the full range of objectives has not yet been reached.

7.148. As at 30 June 2025, BBB noted that the Future Fund held an equity interest in 667 companies (original loan value of £673 million) and 92 outstanding loans (£82 million) {GP/467 – INQ000625929}.

7.149. In summary, the Future Fund appears to have met its immediate objectives—namely, stabilising the startup ecosystem during a period of acute economic disruption and preserving access to capital for early-stage firms. It successfully targeted seed and venture-stage companies, deployed funds rapidly, and leveraged private sector investment. While early evaluations suggest positive impacts on fundraising and business continuity, longer-term outcomes, particularly regarding innovation and economic impact, remain to be fully assessed. The final evaluation will be critical in determining the scheme's overall success.

7.150. I have been asked whether the scheme adequately safeguarded public funds and reduced the risk of fraud and error.

7.151. As outlined in CWS, Part B, §5.102, current indications suggest that fraud levels within the Future Fund have remained relatively low, though the situation continues to be monitored, as noted in the BEIS Annual Reports and Accounts.

7.152. In 2020–2021, the Department recognised £29 million in relation to nine suspected fraudulent payments, representing approximately 2.8% of the scheme's £1.03 billion fair value at the time.

7.153. In 2021–2022, a further £9 million was identified across 13 suspected cases, equating to around 0.9% of the £1.1 billion fair value.

7.154. In 2022–2023, an additional £4 million was recorded in relation to two suspected fraud cases, amounting to just 0.04% of the reduced £851 million fair value.

7.155. These figures indicate that while some fraudulent activity did occur, the overall proportion of suspected fraud relative to the total value of the scheme was low and declined over time. The Department has continued to monitor the situation and review controls as part of its oversight responsibilities.

7.156. In summary, while no large-scale public funding scheme is entirely immune to fraud or error, the Future Fund appears to have implemented reasonable measures to safeguard public funds. The relatively low levels of suspected fraud reported over the life of the scheme suggest that these controls were broadly effective, though continued vigilance remains important.

7.157. I have been asked to consider whether any gaps in support were identified during the operation of the scheme, and if so, how these were addressed. I have also been asked to reflect on whether there were any gaps that were not identified at the time but, in hindsight, should have been.

7.158. As explained above, there were several gaps in support which were identified during and after the operation of the Future Fund. The gaps identified and addressed were identified in the BBB Future Fund Early Assessment Report issued in November 2022 {GP/442 – INQ000146532}, were:

a) Eligibility Criteria – Matched Funding Requirement: The scheme required startups to secure at least equal matched funding from private investors. This requirement was intended to leverage private sector due diligence and ensure that public funds were directed toward businesses that had already attracted investor confidence. This excluded many early-stage or underrepresented founders who lacked access to established investor networks. While the core structure of the scheme remained unchanged, BBB acknowledged this limitation in its evaluations and used the learning to inform the design of subsequent schemes with more inclusive criteria.

b) Regional and Demographic Disparities: It was recognised in the early assessments that the fund disproportionately benefited companies based in London and the South East, with limited reach to other regions or founders from

diverse backgrounds. As such BBB committed to improving regional access in future interventions.

c) Communication and Awareness: Some eligible firms did not apply due to lack of awareness or understanding of the scheme. BBB improved outreach and guidance materials during the scheme's operation, though this was a reactive measure.

7.159. In so far as gaps which have not been fully addressed, I note from the BBB Future Fund Early Assessment Report, that the scheme was found to favour companies already backed by private investors, leaving out many innovative but less networked start-`ups. The scheme was designed to be fast and scalable, and the matched funding requirement was seen as a proxy for commercial viability. Adjusting this would have required a more resource-intensive due diligence process, which was not feasible during the crisis.

7.160. The Future Fund was a critical and timely intervention, but it was not without limitations. While some gaps, such as regional disparities and communication issues, were acknowledged and partially addressed, others, particularly around inclusivity, remained unresolved due to the scheme's design constraints and urgency.

7.161. I have been asked to reflect on whether, in hindsight, I would have done anything differently in the design, implementation, or delivery of the Future Fund. Like all the schemes, finalising the design and launching it at pace was inherently challenging and required working with a number of assumptions. Ideally, there would have been more time to explore alternative models and engage with stakeholders, but that wasn't the reality we faced. The Chancellor was closely involved in shaping the Future Fund, including the term sheet, and provided direct input alongside his trusted advisers. As a civil servant, my role was to offer impartial, evidence-based advice and to deliver effectively on the government's objectives, and I believe we did that very well.

Section 8: Recovery Loan Scheme (RLS)

8.1. The RLS was introduced to support access to finance for SMEs in the wake of the pandemic and following closure of the three Covid-19 loan schemes (CBILS, CLBILS and BBLS). The RLS was announced on 3 March 2021, opened for applications on 6 April 2021, and closed to new applications on 30 June 2022.

8.2. The RLS is referred variously as the 'new guarantee scheme', 'new loan scheme' or 'new scheme' within the exhibits. Where I use these terms in this Section, I refer to what would become the RLS. This diverges from the approach taken in the CWS, where the Permanent Secretary refers to it as the RLS throughout.

Closure of CBILS, CLBILS and BBLS and consideration of a replacement scheme

8.3. An overview of the timings of the closure of the previous three Covid-19 loan schemes is set out in the CWS, Part B, §7.28 and §§8.4-8.9. I will not restate the timeline or rationale for closing those schemes here, other than to reiterate that BEIS officials did consider extending them beyond the planned closure dates {GP/327 – INQ000564097}, {GP/328 – INQ000564096}. BEIS officials noted at the time that they would work with BBB to consider options for interventions to follow the Covid-19 loan schemes, based on SME needs in the longer term, including the challenges they faced as they approached the end of the Transition Period, and to align with the Government's wider plans for economic recovery, the refresh of the industrial strategy, the review of BBB, and the outcomes of the SR20 process {GP/328 – INQ000564096}.

8.4. On 23 September 2020, I attended the Covid-19 Programme Board. Harriett Buxton highlighted that within the current conditions, the Department's intentions were to extend current support measures until the end of November and consider a 'less generous version of CBILS' into the new year {GP/468 – INQ000625909}. On 24 September 2020, the Chancellor announced that all existing Covid-19 loan schemes would be extended to the end of 2020 and a new, successor loan scheme would operate from 1 January 2021 {GP/469 – INQ000564285}.

8.5. I would note, by way of general observation, that by this time (September 2020) there had been a return to normal or routine departmental function to a certain extent, or at least a slightly reduced degree of urgency, that meant I was able to leave more of the work to other officials. As such, I was much less directly involved in the detailed early correspondence on what would become RLS. I was then on maternity leave from early January 2021 to August 2021. With that in mind, I have done my best to answer the

questions posed about the early developments of the RLS on the basis of the documentation I have considered.

8.6. As set out in the CWS, Part B, §8.13, the following options were considered alongside what would eventually become the RLS {GP/470 – INQ000585683}:

a) Amending bank capital requirements (through the Bank of England);

b) Liquidity schemes (through the Bank of England);

c) Funding of non-bank lenders (through the Bank of England or BBB);

d) Putting soft pressure on lenders (through HMT or the Bank of England);

e) Increasing BBB programmes such as Start-Up Loans, a portfolio guarantee scheme (ENABLE) and Investment Programme;

f) Offering a new debt guarantee scheme (through BBB); and

g) Introducing new BBB products.

8.7. These options were set out in a paper produced by BBB, entitled 'Options for future Government intervention in SME debt markets', which was considered at a meeting between BEIS, BBB, HMT and UKGI on 30 September 2020 {GP/471 – INQ000585682}, {GP/470 – INQ000585683}, {GP/472 – INQ000564111}. I was on leave at the time and was not in attendance at this meeting or copied on this paper and the accompanying BBB presentation, which were circulated in advance; Angelina Cannizzaro was involved in these early discussions and chaired the meeting on 30 September 2020 {GP/473 – INQ000564113}.

8.8. BBB's 'long list' of options, set out above, was predicated on current and predicted market context, including the unprecedented borrowing by SMEs as a result of the pandemic, much of it government-backed, and risk aversion amongst lenders in an uncertain economic climate. BBB also highlighted that the deadline for the closure of CBILS on 30 November 2020 (following a short, initial extension to the original deadline of 30 September 2020 by the Chancellor) was an immediate, critical timing consideration and that the next significant deadline was 1 January 2021, with loan agreements needing to be finalised by 31 December 2020. Against that backdrop, and given timing and delivery constraints, BBB proposed that an evolution (and renaming) of CBILS would be the best option for a product from 1 January 2021 {GP/470 – INQ000585683}. The time pressure imposed by the 1 January 2021 deadline was eased by subsequent, further extensions to the three existing Covid-19 loan schemes,

but discussions around design and delivery proceeded in respect of a new scheme based on the framework of the EFG and CBILS.

8.9. BBB and lenders felt that a straightforward re-introduction of the EFG would unlikely be sufficient to fill the ongoing market gap left by the closure of the existing Covid-19 loan schemes {GP/328 – INQ000564096}. At the meeting on 30 September 2020, BEIS and HMT agreed with the BBB proposal that officials should work on a new guarantee scheme to replace the EFG and CBILS {GP/474 – INQ000625910}, {GP/473 – INQ000564113}. The rationale for this suggestion was set out by BBB in its presentation and discussed during that meeting. This rationale was underpinned by five important principles for intervention: the need to address the breadth of the SME population; a broad distribution network; simplicity; preserving productive capacity, including jobs; and tapering from addressing cyclical to structure issues. During the meeting, it was noted that the EFG had become nearly irrelevant with regards to the SME lending market due to its restrictive terms. Officials concluded that Bank of England programmes were not targeted enough, and as demand for business finance was expected to remain strong, BBB intervention was required.

8.10. Based on the documents I have reviewed in preparing this statement, I would also note that this issue was considered within the Accounting Officer Assessment provided to the Permanent Secretary on 11 March 2021 {GP/475 – INQ000564200}:

> *"Our assessment [was] that returning to EFG would be a sub-scale intervention. The restrictive eligibility criteria for EFG, limited to a lack of sufficient collateral or track record, hampered significant deployment in normal economic times and would not be well suited to the goal of supporting the breadth of the SME population. Consequently, although the EFG's value for money was high, it was off a very narrow base and scale of intervention. Other features of the scheme, such as the fact that the borrower had to pay a separate scheme fee directly to the BBB, were also unappealing for lenders and borrowers alike and impacted EFG's reputation as a useful product.*
>
> *Neither [could] we recommend continuing the existing Covid-19 schemes, as elements of those schemes [could] no longer be justified. The 'Business Interruption Payment' (BIP), for example – which [was] paid to lenders by government on behalf of SMEs to cover the first year's interest and lender-levied fees on BBLS and CBILS facilities – was an appropriate response when large swathes of the economy were locked down with no ability to generate*

income, but not as the economy gradually reopen[ed] and businesses beg[an] trading again. Any business seeking finance in the coming months should be able to demonstrate an ability to repay that debt as normal, and it would be poor value for money for the Exchequer to support businesses without a realistic prospect of survival. It [was] also worth noting that the BIP [was] a market-distorting feature, making CBILS and BBLS facilities much more attractive to the borrower than a commercial non-guaranteed facility, artificially inflating demand for lending under a guarantee scheme even if it [was] not required.

Moreover, continuing with BBLS' lack of credit checks would be poor value for money in the context of lockdown restrictions ending and economic activity increasing and would not be in the best interests of SMEs and SME owners for whom more debt [was] not the right solution."

Design of the Recovery Loan Scheme

8.11. On 12 October 2020, the design of the new scheme was discussed at a meeting with the Secretary of State {GP/476 – INQ000625912}, {GP/477 – INQ000564116}. Angelina Cannizzaro attended this meeting; I did not attend, and I have not seen a readout or minutes from this meeting. The design choices are set out in the CWS, Part B, §8.19 and I will not restate them here. Discussion of the design of the new scheme continued during October 2020, including at the 'Weekly guarantee scheme design meeting', which Angelina Cannizzaro attended, but which I did not. (See, for example, {GP/478 – INQ000585686}, {GP/479 – INQ000585707}, meeting invites and {GP/480 – INQ000625914}, a note of proposed discussion points on which BEIS and HMT were seeking to agree.)

8.12. A submission was prepared for the Secretary of State concerning the new loan scheme, which was amended following a further extension to the existing loan schemes' deadline to 31 January 2021, before being provided to Minister Scully and Special Advisers on 9 November 2020 for review {GP/481 – INQ000564140}. A shortened version was then provided to senior BEIS officials for clearance on 13 November 2020 {GP/482 – INQ000585710}, {GP/483 – INQ000585711}, before being submitted to the Secretary of State on 17 November 2020 {GP/484 – INQ000585715}, {GP/485 – INQ000585714}. Jo Shanmugalingham provided Director General clearance for the various iterations of this submission, but I had cleared an earlier iteration on her behalf before it was seen by private office and Special Advisers. The

submission asked that the Secretary of State endorse the new loan scheme for launch in February 2021.

8.13. The terms of the new loan scheme were set out in Annex A to the submission made to the Secretary of State on 17 November 2020, alongside a comparison of the new scheme with CBILS. In addition to the omission of the additionality and viability tests which were originally part of CBILS, the key differences between the two schemes at that stage were as follows {GP/484 – INQ000585715}:

a) Loans would vary in size from £5,000 to up to £10 million;

b) No interest or fees would be paid by the Government;

c) There would be no turnover limit;

d) Lenders could seek personal guarantees for lending less than £250,000;

e) Technical changes would be made to the 80% guarantee coverage to make the product useful for invoice finance; and

f) There would be no interest cap, although the submission anticipated that loans would be below the 14.99% cap for CBILS.

8.14. Significant changes to the design of the new scheme were made between November 2020 and March 2021, including with reference to potential changes to UK subsidy control arrangements as a result of the negotiation and signature of the EU-UK Trade and Cooperation Agreement and resulting arrangements between the UK and the EU in respect of the Northern Ireland Protocol. These are set out in the CWS, Part B, Section 8 which I will not reproduce the timeline of amendments here. On 16 March 2021, the Secretary of State received a final submission for approval of the final scheme design {GP/486 – INQ000564206}, {GP/487 – INQ000564207}. The full list of scheme parameters were listed in Annex A to the submission {GP/041 – INQ000563890}, incorporated the following further differences to CBILS {GP/488 – INQ000585743}, {GP/489 – INQ000625012}:

a) The new scheme limited facility size to a minimum loan size is £25,001 for term loans and overdrafts, and £1,000 for asset finance and invoice finance facilities. The maximum loan size was limited to £10m per business, and the maximum a group of companies could borrow was £30m. CBILS placed a maximum loan size of £5 million for borrowers and removed a lower maximum loan size for the road freight transport, fisheries and aquaculture sectors or applicable to those active in the primary production of agricultural products.

b) The new scheme provided guaranteed coverage of 80% similar to the 80% of net (post recovery) losses applied to CBILS.

c) The new scheme placed a Scheme Lender Fee of 1.5% on lending, except for invoice finance and responsible finance providers which had a flat fee of 1%, and for non-SMEs (large enterprises), which had a flat fee of 2%.

d) The new scheme prescribed a maximum loan duration of 6 years for term loans and asset finance facilities, and 3 years for overdrafts and invoice finance facilities, in each case subject to an ability for lenders to extend up to 10 years in certain forbearance situations. A maximum loan term of 6 years was applied to CBILS.

e) Under the new scheme, a business proposition that can reasonably be expected to enable it to meet its repayment obligations would be required. This may, but was not required to, be determined without regard to any concerns over the borrower's short-to-medium term business performance due to the uncertainty and impact of Covid-19. CBILS had similar parameters on borrower viability in that the SME was required to have a viable business proposition assessed according to its normal commercial lending criteria.

f) Under the new scheme, an annual lending limit applied to each lender but no annual claim limit. Under CBILS there was a cap on gross Government liability at the level of the lender's whole CBILS portfolio of 75% of losses and portfolio cap of 60%.

8.15. I have been asked to what extent I considered the RLS as the first stage of a return to 'normal', and a move away from the former loan schemes and towards a slightly more business-as-usual loan schemes. This sentiment was expressed as a preliminary steer by Francis Evans in an email on 13 November 2020, in which I was copied, setting out the view arising from a discussion with BEIS Special Advisers, including Alex Hitchcock, of a proposed submission seeking decisions from the Secretary of State on the 'new guarantee scheme' {GP/481 – INQ000564140}, {GP/490 – INQ000585712}. In particular, a preliminary steer provided during the conversation with Special Advisers was that:

> *"We* [were] *now in recovery mode not crisis mode' so where was the new scheme on a scale with EFG at one end and BBLS at the other? No longer about 'getting money out of the door' the new scheme* [was] *supporting recovery and investment."*

8.16. The intention behind the RLS was to gradually transition towards a more 'normal' or business as usual loan scheme. While the scheme aimed to signal a move out of crisis mode, it is important to acknowledge that the broader economic environment remained challenging. The path was far from smooth, with significant disruptions including the resurgence of the virus in January 2021, the end of the Brexit transition period, and sharp increases in energy and materials costs as global economies reopened. These factors collectively contributed to a bumpy recovery, even as the RLS sought to restore a sense of normalcy in lending practices.

8.17. Early consultation on the new guarantee scheme involved BEIS, BBB, HMT and UKGI. Once the design of the scheme was under consideration, BBB engaged with accredited lenders on its proposed terms. On 21 October 2020, I co-chaired a Covid-19 Business Finance Assurance Board (BFAB) meeting with Jo Shanmugalingham at which the design principles of the successor loan scheme were tabled for comment, challenge and feedback, as appropriate. Senior officials from BEIS, UKGI, Government Internal Audit Agency (GIAA), Government Actuary's Department (GAD), and No. 10 (in their capacity as Chief Commercial Negotiator) were in attendance. Francis Evans presented the 'successor scheme design principles', which were discussed by the Board, and was asked to ensure (with HMT and BBB) that lenders understood the scope for parameters to change during the life of the scheme and to feed back to the design team {GP/491 – INQ000538876}, {GP/492 – INQ000564148}:

> *"…the need to (a) ensure that monitoring and evaluation were being built into the process and that we were using the feedback loops from current policies to inform the new scheme and (b) consider other uses for the channel that lenders represent and not be restricted to debt finance on set terms, as we may be asked to use different levers."*

8.18. The presentation to the Board specified that next steps included 'Ministerial and lender engagement' and that the BBB would "*…engage with accredited lenders and agree the terms of the new scheme. The BBB's board would receive advice on the scheme in parallel…"* {GP/491 – INQ000538876}.

8.19. The Secretary of State provided feedback on the proposed design of the RLS, which was summarised by BEIS officials in an email update to HMT and BBB {GP/493 – INQ000564159}. The Chancellor's views on the RLS were also included in that email, which noted in particular, that Treasury colleagues agreed that the Chancellor would be unwilling to finalise the terms of the scheme until much closer to the launch date,

which was intended to be 1 February 2021, at that stage. The Secretary of State similarly felt that it would be unrealistic to come to a conclusion on the terms of the scheme until closer to the time of its introduction.

8.20. BEIS formally requested advice from IDAB on the development of the RLS on 4 December 2020 {GP/494 – INQ000625919}, {GP/495 – INQ000564160}. I attended a meeting with IDAB's Secretariat and BBB officials in my capacity as the scheme's Approving Director, with Francis Evan, as Project Lead, and Angelina Cannizzaro, held on 8 December 2020, at which IDAB provided its advice. IDAB then provided its sign off on the scheme to BEIS and BBB officials by email on 14 December 2020 {GP/496 – INQ000564169}. That email noted that "*[t]the project team* [needed] *to consider further all of the points raised by the Board which have hopefully provided pointers as to how to improve on this scheme before it is rolled out.*"

8.21. Given the scheme was being designed towards the end of the Transition Period and during the negotiation of the UK-EU Trade and Cooperation Agreement, BEIS officials also sought views from lenders and the UK Transition Taskforce, led by the Rt Hon Lord Frost, in respect of businesses that were potentially eligible for the scheme and falling either within or outside the scope of the Northern Ireland Protocol, to ensure that the design of the scheme would be lawful {GP/486 – INQ000564206}.

8.22. I have been asked whether any consultation in the design of the RLS was adequate and what factors influenced any consultation that took place. As set out above, BEIS and BBB were working to an initial deadline of 1 January 2021, following the Chancellor's September 2020 announcement of a replacement scheme to launch following the closure of the existing Covid-19 loan schemes. With this time pressure in mind and noting that the basis of the scheme was an evolution of CBILS, I am of the view that adequate consultation took place under the circumstances. I would also note, as I set out below, that lessons learned from previous Covid-19 loan schemes were applied with a view to ensuring the RLS represented value for money and that its vulnerability to fraud was reduced.

8.23. I have been asked about the decision not to provide loans under £25,000 through the RLS and whether this presented a gap in the scheme. During early consideration of the scheme, BEIS officials noted difficulties with lending below £25,000 due to stipulations of the CCA and recommended to the Secretary of State that it would be simpler to exclude loans of this size, despite the fact that this could leave smaller businesses without options {GP/477 – INQ000564116}. A summary of the Secretary

of State's feedback on the RLS was provided to HMT and BBB on 1 December 2020, which included his view that it would be important to offer loans under £25,000 {GP/493 – INQ000564159}.

8.24. The issue of 'sub £25k lending' was the subject of a submission to the Secretary of State on 2 February 2021, which recommended options to support the large number of companies that have liquidity needs below £25,000, but which were heavily indebted already and for which further debt might not have been suitable {GP/497 – INQ000625926}, {GP/498 – INQ000564180}, {GP/499 – INQ000625927}.

8.25. I have explained in the introduction to this statement that I was on maternity leave from early January 2021 to August 2021, so I will attempt to answer the Inquiry's questions relating to RLS during this time to the best of my ability, based on my review of the documents available to me.

8.26. The submission noted that a single new scheme (the RLS) would replace existing Covid-19 credit guarantee schemes from 6 April 2021, that the new scheme would likely enable only partial provision of loans under £25,000, and that the Chancellor was therefore minded to rule out lending under that amount altogether. BEIS officials recommended allowing lenders to offer the RLS under £25,000, should they wish. Other recommended options included exploring the possibility of a new grant scheme with HMT and expanding the Start Up Loans programme {GP/498 – INQ000564180}, further options were included in Annex C to the submission.

8.27. In the submission, BEIS officials advised that estimates from November 2020 by BBB showed that between 700,000 to 1.3 million SMEs could look to borrow below £25,000 in 2021, but that these potential borrowers would not be considered viable by lenders or were already over-indebted. The submission described lending under £25,000 as 'a longstanding problem', citing the delay by lenders in processing applications and their unwillingness to lend at smaller values, which arose under CBILS. The cause of the problem was described in the following terms {GP/498 – INQ000564180}:

> *"Lending to the smallest businesses is an inherently risky proposition, because borrower viability is difficult to assess accurately without incurring disproportionate costs. While lenders could compensate for this with higher interest rates, this is not always attractive to lenders (or borrowers).*
>
> *Lenders face higher compliance costs at this loan size due to interactions with the Consumer Credit Act (CCA) 2006. The CCA provides protection to sole traders and small partnerships (but not companies) for business lending*

transactions of under £25,000. Ensuring compliance is costly for lenders and makes offering loans in this bracket less commercially attractive."

8.28. The submission further noted that, given the challenges with lending under £25,000, the Chancellor was minded not to offer the RLS below £25,000 to any borrowers, other than for invoice and asset finance. According to BEIS officials, the Chancellor was concerned about once again creating significant political pressure for a more radical measure, in the way the delivery of CBILS contributed to the introduction of the BBLS in April 2020 (which solved similar financial and compliance risk issues and facilitated lending under £25,000). BEIS officials recommended that lenders be allowed to offer the RLS below £25,000, on the basis that "*…without an exceptionally generous grant scheme we must do all we can to support businesses whose survival is at risk and that are willing and able to take on more debt*." They further recommended that the pricing of the guarantee for sub-£25,000 lending be made more generous, to incentivise more lenders to enter the market.

8.29. A discussion between BEIS officials and HMT Special Advisers was recommended, in order to test the 'appetite' for the proposal, to which the Secretary of State's private office responded in agreement by email on 10 February 2021, noting that a gap in support for these businesses should be avoided but that HMT would be concerned about expected defaults on loans below £25,000 {GP/500 – INQ000564185}. BEIS officials responded the following day to provide BBB's estimated range of default rates for the RLS as a whole, which was 10-25%, noting that it was difficult to say how the range might be different in respect of lending under £25,000 and suggesting that, on balance, it would fall within the top half of the estimated range {GP/501 – INQ000564186}.

8.30. As set out in the CWS, Part B, §8.51, it is unclear whether a discussion took place between BEIS and HMT in respect of the proposals for sub-£25,000 RLS lending set out in the submission of 2 February 2021. Ultimately, lending below £25,000 was excluded from the final business case for the RLS which was presented to the Projects and Investment Committee (PIC) on 23 February 2021 {GP/502 – **INQ000596696}.** The business case set out that the Chancellor gave a clear steer on the minimum facility size (£25,001), citing his concerns about lenders not wishing to lend below this by reason of difficulties in assessing borrower viability and the requirements of the CCA, and noted his wish to avoid a repeat of the circumstances under which the BBLS had to be introduced in April 2020, as mentioned above.

8.31. I have been asked what options were considered to ensure businesses with lower funding needs were not excluded from support. As set out in §8.26 above, alongside recommending that lending below £25,000 under the new scheme be offered to all borrowers, a long list of additional options for smaller businesses were presented for consideration by the Secretary of State alongside the 2 February 2021 submission in Annex C {GP/499 – INQ000625927}, including:

a) Allowing lending below £25,000 under the RLS for companies only;

b) Making the RLS more generous in terms of pricing for lenders for lending under £25,000;

c) Extending the BBLS;

d) Disapplying the CCA for lending below £25,000 for the RLS;

e) Introducing a separate portfolio guarantee scheme (similar to ENABLE);

f) Expanding the Start Up Loans provision;

g) Funding finance providers who are willing to operate in this area; and

h) Targeted grants.

Evaluation of, and reflections on, the Recovery Loan Scheme

8.32. I have been asked whether, in my view, the RLS achieved its aims. As mentioned above, I was on maternity leave from early January 2021 and returned in August 2021. On that basis, I have answered the questions relating to design, implementation and delivery of the RLS based on my review of the documents available to me. I will similarly answer questions relating to reflections on the scheme with reference to the reflections contained in the CWS.

8.33. I understand that the BBB commissioned London Economics and Ipsos to conduct a process and early impact evaluation of the RLS, as published on 22 March 2024 {GP/503 – **INQ000593116}.** The evaluation found that the scheme was largely successful in meeting its core objectives, providing nearly £2.8 billion in government-backed loans to around 10,000 UK businesses, particularly in sectors like retail and hospitality. Notably, 83% of the lending was considered 'additional', meaning it would not have occurred without the scheme, highlighting its role in addressing market gaps for viable but underserved firms.

8.34. The impact on business survival and performance was significant: 59% of borrowers reported they would likely have ceased trading without RLS support, and participating

firms experienced an estimated 17% increase in turnover compared to non-participants. Loans were used flexibly for working capital, stock, innovation, and sustainability investments. Delivery of the scheme benefited from lessons learned during CBILS, with improved data-sharing and integration into standard lending processes. Although take-up was slightly below forecast, the scheme's design and execution were viewed positively, and its continuation through the Growth Guarantee Scheme reflects confidence in its model.

8.35. As set out in the CWS, Part B, §§ 10.36 - 10.40, the following learning points arose in respect of the RLS, either in its design or later, following its implementation:

a) The RLS initially did not allow personal guarantees for lending below £250,000. This aspect of the scheme was amended to encourage lenders to adopt a greater risk appetite and lend with greater confidence, and to reduce the risk of strike-off and corporate insolvency abuse.

b) Initially, the Government guaranteed 80% of each loan made under the RLS. This was reduced to 70%. The reduced guarantee was considered sufficient to ensure lenders were incentivised to pursue all appropriate recovery opportunities.

c) There was no portfolio cap on RLS lending, as a result of lessons learned from earlier loan schemes. The absence of a cap removed the impact of the loans on the lenders' capital relief calculations, so lenders could claim capital relief and lend more to small businesses at better rates.

d) To implement lessons learned from BBLS, the RLS was designed with a privacy notice to inform borrowers of the use of their personal data for the purposes of fraud prevention.

e) The RLS incorporated a dissolution objections process with the aim of preventing dissolution and to limit government exposure where personal guarantees were not applied.

8.36. In summary, the RLS met its objectives in supporting business recovery and improving scheme design based on prior experience.

8.37. As set out in CWS, Part B, §8.61, it was difficult to assess value for money comprehensively given the level of economic uncertainty at the time the RLS was being designed and deployed. BEIS lacked historic data on the performance of loan schemes in similar circumstances and the impact of CBILS and BBLS had yet to be fully

evaluated. The scheme was therefore assessed as representing value for money on the basis of various assumptions, as set out in the business case, and given the expected impact it would have on business growth as the economy moved into 'recovery phase' {GP/502 – **INQ000596696}.**

8.38. Following the Chancellor's announcement of the RLS in the Budget on 3 March 2021, and as set out in the CWS, Part B, §8.80, the Permanent Secretary received an Accounting Officer Assessment of the scheme, which assessed the RLS as representing value for money "*…using the evidence available* […] *in the present time*" and the associated risk as medium {GP/475 – INQ000564200}. The value for money assessment included in the Accounting Officer Assessment echoed the caveats set out in the business case:

> *"It [was] challenging to do a comprehensive, robust value for money (VfM) analysis given the high level of uncertainty about the economic environment in 2021, and hence the potential benefits of the scheme in saving economic activity and supporting recovery. These include[d] scheme uptake, scheme impact on survival/growth, and finance additionality. Quantifying these factors to a high degree of certainty [was] not possible at [that] moment in time. The impact of Covid-19 [was] unprecedented, as [was] the scale of loan guarantees issued under the Covid schemes, and there [was] no historic data on the performance of loan guarantee schemes in similar economic circumstances.*
>
> *[…]*
>
> *It [was] important to understand that the results presented here [were] contingent on assumptions and evidence availability. These [had] the potential to change over time as the economic situation evolve[d] and both businesses and lenders respond[ed] to potential new challenges or opportunities. These developments [would] be picked up as part of the monitoring and evaluation regime of the scheme, in particular at the review stage of the scheme. By looking at monitoring data from the scheme (including distributional analysis, uptake rates etc), as well as wider contextual economic data from our own surveys and other institutional bodies' research, we [would] be able to make informed decisions on the increased amount of evidence available at that time."*

8.39. I am asked whether, in my view, this scheme adequately safeguard public funds and reduce the risk of fraud and error. As noted in the CWS, Part B, §8.96, lessons incorporated in the RLS from previous schemes included a FRA and a privacy notice facilitating the assessment of borrower data for the purposes of fraud prevention and identification, both of which were in place at the outset of the scheme. Indeed, on 16 October 2020, during the very early considerations of scheme design, I was among recipients of an email setting out clear steers from the Secretary of State, which included as a 'Lessons learned for the new scheme' that we needed to demonstrate we had learned lessons from the BBLS and implement a "*robust counter-fraud response ready for the launch"* of the RLS {GP/311 – INQ000564120}.

8.40. In the RLS business case of 15 February 2021, fraud risk was described as comparable to that of CBILS (assessed by PwC as 'high'), due to the operational similarities between the two schemes {GP/502 – **INQ000596696}.** The BBB was to be responsible for maintaining the FRA and the associated Post Event Assurance Plan, similar to those in place for existing schemes. In respect of fraud risk management for the RLS, the assessment was as follows:

> *"The CBILS Fraud Risk Assessment and Post Event Assurance Plans [would] be especially relevant for the new scheme, given operational similarities, and [would] present the basis for its own risk management strategy. The residual risk of fraud, relative to BBLS, [was] expected and understood to be substantially mitigated. This [was] primarily because accredited lenders [would] always have 20% 'skin in the game', but also through the controls and countermeasures established within the scheme rules."*

8.41. The 'controls and countermeasures' and the two key risks identified in the risk register are set out in the business case and in the CWS, Part B, §§8.59-8.60, and I will not repeat them here. The business case noted that BBB would continue to work with KPMG and RSM as scheme auditors to provide independent, risk-based assurance for lenders' obligations under all of BBB's Covid-19 debt schemes, overseen by the Audit Review Panel (a governance mechanism to manage the assurance programme). The business case also noted that BBB could move from its current reputational risk appetite ('medium') to a high risk appetite during the period of anniversary milestones for existing Covid-19 loan schemes occurring shortly before the launch of the RLS and set out the 'proactive' and 'reactive' approaches taken by BBB to fraud-related issues in this context.

8.42. I have been asked whether there were any gaps in support identified and, if so, how these were rectified. I have set out my understanding of the issue arising in respect of loans under £25,000 and discussions relating to the minimum facility size under the RLS in §§8.23-8.30 above. Beyond this issue, I am not aware of any other gaps in support that were identified or rectified.

8.43. I have also been asked whether, looking back, there is anything I would have done differently in the design, implementation or delivery of the RLS. As set out above, I have endeavoured to answer the Inquiry's questions relating to reflections on the scheme on the basis of the documents available to me and with reference to the CWS, as appropriate. I agree with the reflections of the Permanent Secretary set out in the CWS insofar as they evaluate the RLS. As I was involved only in the early discussions of the proposals that would come to form the basis for the RLS, and which changed considerably between the end of 2020 and 6 April 2021 when the scheme was launched, I am unable to express any further, personal views in respect of changes I would now make to its design, implementation or delivery.

Section 9: Reflection on Loan Schemes

9.1. I have been asked to provide my reflections on the loan schemes. Where relevant, I refer below to my more detailed reflections in respect of each loan scheme, set out earlier in this statement.

General reflections

9.2. For each of CBILS, CLBILS, BBLS, the RLS and the Future Fund I am asked whether the scheme was effective in achieving its aims. Overall, viewing the loan schemes with the benefit of hindsight, I consider that they were generally effective at achieving their aims. I refer to my more detailed observations in Sections 3, 4, 5, 6, 7 and 8 above:

a) As further detailed in §4.173 above, in my view, CBILS broadly fulfilled its primary aim of providing financial support to viable UK businesses facing disruption due to the pandemic.

b) As further detailed in §5.126 above, in my view, CLBILS was successful in providing financial support to a number of larger businesses that were ineligible for support under CBILS, sometimes referred to as the '*missing middle*'.

c) As further detailed in §6.309 above, in respect of BBLS, in many respects, judged against HMT's objectives, the scheme was successful. The streamlined application process enabled businesses to access funds within a matter of days, and SMEs reported that the scheme was instrumental in helping them remain operational during lockdowns and periods of reduced economic activity. However, there were also significant trade-offs, in terms of fraud in particular. BBLS came with significantly higher levels of fraud, defaults and arrears than is typical in commercial lending. The lack of controls in place at the time of launch meant that it did not, in my view, sufficiently safeguard public money. In saying this, I note that a delay to the scheme launch may have caused higher numbers of businesses to fail in the intervening period.

d) As further detailed in §7.143 above, in respect of the Future Fund the scheme largely met its core aims. Namely, stabilising the start-up ecosystem during a period of acute economic disruption and preserving access to capital for early-stage firms, though the final evaluation will be critical in determining the scheme's overall success.

e) As further detailed in §8.32 above, in respect of RLS, the scheme broadly achieved its aims by evolving in response to lessons learned from earlier Covid-

19 loan schemes. Key adjustments included allowing personal guarantees for loans under £250,000 to encourage lender confidence and reduce abuse, and reducing the government guarantee from 80% to 70% to ensure lenders remained incentivised to pursue recoveries. The scheme also removed the portfolio cap, enabling lenders to benefit from capital relief and offer better rates to small businesses. Additionally, it incorporated a privacy notice to support fraud prevention and introduced a dissolution objections process to limit government exposure where personal guarantees were not in place. These refinements collectively enhanced the scheme's effectiveness and oversight.

9.3. I am asked whether I consider that the loan schemes were unequal in their impact, whether certain economically vulnerable groups were unable to access the schemes, and whether more could have been done to address inequalities and economically vulnerable groups in the design and delivery of the schemes. I explore inequalities in more detail in Section 13: of this statement.

9.4. As to this question, I note that the Department did not conduct public sector equality duty (PSED) assessments in relation to CBILS and CLBILS in the development phase of the schemes. As set out in the CWS, Part B, §10.23, these equality impact assessments were not complete until June 2020, after the launch of the schemes. The Department has recognised that the PSEDs ought to have been conducted prior to implementation. That this was not done, reflects the urgent necessity to develop and implement the Government's emergency economic response to the pandemic at extreme pace. It in no way reflects the seriousness with which the Department treated the PSEDs, which under more normal circumstances would have been completed in the development phase.

9.5. I have been asked to reflect on whether, in the event of a future economic crisis, there are any changes I would recommend improving how support is targeted at businesses.

9.6. The schemes were all effective in providing access to finance to the target businesses. Taken together, they provided lending to a substantial number of businesses, representing a significant proportion of the total business population. CLBILS and the Future Fund in particular were more targeted, insofar as they were designed to address the needs of a smaller cohort of businesses that were unable to access the broader-based schemes, CBILS and BBLS. The experience of the pandemic and the analysis of the take-up of the schemes provides us with a useful framework for understanding how businesses of different sizes and characteristics might respond to the design of

lending schemes in future. Broadening the number and type of accredited lenders was an important means of widening access to the schemes and is an important consideration for any future emergency intervention.

Working with other government departments

9.7. I am asked about the effectiveness of the communication and coordination between HMT and DBT during the design and development of the loan schemes. Overall, viewing the loan schemes with the benefit of hindsight, I consider that communication and coordination was generally effective, but at times there were challenges. I refer to my more detailed observations in Sections 3, 4, 5, 6, 7 and 8 above:

a) As further detailed in §§3.10 - 3.13 above, I did not meet with the Chancellor during this post but had excellent relationships with HMT officials, and HMT was generally open and transparent in its approach. At times however, the pace of decision-making presented challenges for the Department. This was not a reflection of a lack of communication or coordination, it was because major decisions were necessarily being taken at pace by the Chancellor personally.

b) As further detailed in §§4.169 - 4.170 above, as to whether there was adequate communication between HMT and BEIS during the design of CBILS, there were instances where the compressed timetable and evolving policy decisions created challenges for BEIS and delivery partners, but officials worked extremely hard to maintain open and effective communication. Overall, my view is these were strong, productive and collaborative relationships.

c) As further detailed in §3.13, §6.58, §6.60, §6.90, §6.95, and §6.109 above, in relation to BBLS in particular, there were times where the speed of decision-making could be challenging, and on occasions even (speaking personally) frustrating. However, I was able to raise concerns, and did so, including about the timing of the announcement of BBLS. I recognise that ministers were required to make difficult decisions on many fronts and in the face of great uncertainty. Prioritising speed involved trade-offs and influenced the design of schemes, and political decisions were made to accept various risks to the deliverability of value for money.

d) As further detailed in §7.63 above, in respect of the Future Fund, there were some challenges in ensuring that the views and concerns of the Department were properly reflected in public communications. But I acknowledge that HMT

was required to make decisions at pace, and this sometimes limited the opportunity for full coordination.

e) As further detailed in §§8.23 - 8.30 above, the communication and coordination between HMT and the Department during the design and development of the RLS reflected a degree of engagement. On the subject of lending under £25,000 and options to support smaller firms, it remains unclear whether meaningful discussions between BEIS and HMT occurred on these proposals, and ultimately, loans under £25,000 were excluded from the final RLS business case.

Accountability structure

9.8. I am asked about the accountability structure in respect of HMT and the Department and whether this created challenges.

9.9. It appeared to me that the Chancellor was unusually involved in the detailed design of the loan schemes, was deeply engaged and had very strong views. He turned around advice and made decisions about the direction he wanted to take quickly and regularly. It is not unusual for a Chancellor to steer the design of a policy where the delivery sits in another department, and for the Chancellor to retain a close interest in delivery. However, it is fair to say that the level of direction from the Chancellor personally was, in the case of these schemes, greater than one would normally experience. This was perhaps unsurprising given the schemes amounted to approximately £80 billion of lending. I would also note that the extraordinary circumstances of the pandemic created enormous challenges for businesses. Political decisions on 'trade-offs' were made at pace, as I have noted above. The Chancellor was able to make very rapid decisions and confer these to BEIS, as the lead delivery department. BEIS was then obliged to conduct the rather more detailed business of fuller advice, Accounting Officer Assessments, business cases, FRAs, State aid notifications and parliamentary business, i.e. the business of 'good public administration' that you would expect from professional civil servants. It was impossible to do this at the pace decisions were being made, which presented challenges for those of us in BEIS and BBB who were accountable for delivery.

Counter fraud specialists

9.10. I have been asked about the availability of counter fraud specialists within the Department and the effect this had on the speed at which fraud mitigation measures were introduced in the business support schemes. I understand 'business support

schemes' to refer to the loan schemes, in which I was involved, as I cannot speak to any effects in relation to the business support grant schemes.

9.11. As set out in the CWS, Part B, §§6.3 - 6.4, the Permanent Secretary was ultimately responsible for managing the fraud risks for the Covid-19 loan schemes, as BEIS Accounting Officer. Before the pandemic, the BEIS counter fraud team had two full-time staff, who predominantly worked on preventative measures to mitigate fraud risk to government grants and related schemes and other counter fraud work relevant to BEIS's remit. The CWS notes that this level of resourcing was commensurate with the relatively low level of fraud risk and exposure across the Department and its role as a department responsible primarily for policy, as opposed to delivery or implementation, before the pandemic. This team was expanded to 10 in October 2020 {GP/491 – INQ000538876}.

9.12. As set out in CWS, Part B, §§6.70 - 6.71, as well as in §5.108 above, I discussed the issue of outsourcing or contracting assistance with potential BBLS fraud investigation and intelligence with both Rich Wentel and Mark Cheeseman, from the Cabinet Office Counter Fraud Function, on several occasions on the basis that neither BEIS nor BBB had their own resources and an alternative was needed {GP/504 – INQ000564062}. I noted at the time that BEIS relied heavily on BBB to manage the anti-fraud programme for BBLS but that the ask was beyond their capability. NATIS was considered the only viable option for providing such investigative services at the time, due to the requirements of the Proceeds of Crime Act 2002 relating to the employment of such investigative staff and the limited pool of appropriately authorised organisations willing to offer services to external bodies {GP/505 – INQ000585655}, {GP/506 – INQ000585656}.

9.13. The limited availability of counter fraud specialists within BEIS and across government did affect the speed at which fraud mitigation measures were introduced in the business support loan schemes, particularly the BBLS. At the outset, the Department had only two full-time counter fraud staff, a level of resourcing that was proportionate to its pre-pandemic role as a policy-focused department with low fraud exposure. Although this team was expanded to 10 by October 2020, the scale and urgency of the loan schemes outpaced internal capacity. The absence of a pre-established systems map for fraud prevention and investigation, combined with high demand for counter fraud expertise across government, further delayed the introduction of robust mitigation measures. With hindsight, it is clear that greater counter fraud capability within DBT during the design and implementation phases would have significantly

improved the speed and effectiveness of fraud response. The Cabinet Office Counter Fraud Function provided expert challenge, as did Cabinet Office ministers, but there was a need for more experienced counter fraud capability within the Department to respond and implement.

Reflections on the trade-off between speed and risks

9.14. I have been asked for my reflections on the balance struck between needing to deliver support to businesses quickly and needing to manage the risks of fraud and error. I have been asked whether I consider that BEIS, and the UK Government more broadly, got this balance right. On this question, I focus on BBLS where fraud was a known, and significant, concern from the outset that was relayed and considered in all advice and in the ministerial direction. By reference to my more detailed reflections above in Section 6: of this statement:

a) As noted in §6.233 above, it is difficult for me to answer questions about how I would, personally, change the design of BBLS. The design of BBLS was led by HMT.

b) As further detailed in §4.159 above, it is difficult to judge 'effectiveness'. For example, maintaining CBILS-style credit and affordability checks but moving to a 100% guarantee scheme, instead of introducing the BBLS, might have reduced fraud but would have also slowed down delivery, making the new scheme less 'effective' for rapid lending. As set out in the CWS, Part B, §10.7 and 10.21, stringent due diligence tests were not applied within BBLS in order to avoid slowing the delivery of funding to businesses and, in particular, the decision by the Chancellor to have funds dispersed within 24 to 48 hours necessitated the reduction of background and counter fraud checks. This contributed to BBLS's vulnerability to fraud, but also meant that the scheme achieved its objective of rapidly delivering finance to struggling businesses.

c) As set out in §6.316 above, I have reflected on whether the scheme adequately safeguarded public funds and reduced the risk of fraud and error. While BBLS was effective in delivering rapid financial support to businesses during the Covid-19 pandemic, it is arguable that it did not sufficiently protect public funds or mitigate the risk of fraud and error. BBLS came with significantly higher levels of fraud, defaults, and arrears than is typical in commercial lending. The significant fraud risks of BBLS were emphasised and clear to ministers before the scheme was launched, including by BBB's Reservation Notice. It was in

that context that the Chancellor gave formal approval to the Secretary of State to proceed, and the Secretary of State issued his direction (see §6.138 above).

9.15. My reflections in respect of whether CBILS, CLBILS, the Future Fund, and the RLS adequately safeguarded public funds and reduced the risk of fraud and error are set out in Sections 4, 5, 7 and 8. In general, in terms of the balance between management of this risk and the need for swift support for businesses, the CWS, Part B, §10.5 highlights that interventions were developed under considerable economic uncertainty and the rapid implementation of the schemes was prioritised, to get support to businesses rapidly, and this necessitated trade-offs, influenced scheme design and required political decisions to accept various risks.

9.16. As has already been set out in this statement, risks of fraud and error and the balance with speed of delivery were considered and assessed at various stages in the life cycle of these schemes and I have already provided reflections in that regard and with respect to the Covid-19 loan schemes with which I was involved. My concerns about the pace at which we were operating were flagged repeatedly and have been detailed at length in this statement. I believe that BEIS officials and ministers were effective in raising these issues, testing where the balance should be struck, and offering alternatives where possible. Ultimately, once the Chancellor decided on an approach, it was the job of officials to focus on delivering it to the best of their abilities.

9.17. I have been asked for my personal views on what lessons should be learned about achieving the right balance between speed of delivery and control measures when designing emergency business support schemes in any future crises. My one additional personal reflection is that if designing and implementing similar schemes at pace in future crises, it would be most effective to very rapidly bolster the team with people around government who have experience of business finance and counter fraud. It is also vital to have access to analysts, economists and finance specialists with good knowledge of Managing Public Money, and excellent legal advisors. This was technical and complex work, and I was very lucky to have access to some excellent specialists, including embedded analysts.

Data and data sharing

9.18. I have been asked to provide reflections on the quality and availability of data accessible to the Department during my tenure. My observations regarding the data and modelling used throughout the relevant period are set out in Section 12: below.

9.19. There were notable challenges in the availability and quality of data used to design the economic support schemes. Business finance is a highly specialised area, and much of the data required by BEIS had to be specifically commissioned by its Business Finance team. This data was primarily intended to understand market failures and justify government intervention, rather than to support rapid policy design. As a result, historical data often proved insufficient—particularly in the context of an unprecedented economic shock, the introduction of entirely new interventions, and the need for swift action. For example, the BBLS was the first instance of the UK Government offering a full loan guarantee without lenders sharing any risk, which made standard value for money assessments unfeasible due to the absence of firm-level data on borrower characteristics, expected losses, and business viability. These limitations also affected the appraisal of later innovations, such as the PAYG forbearance measures, complicating both policy evaluation and risk management.

Section 10: Business Rates Relief

10.1. I have been asked to reflect on my involvement in discussions regarding the continuation of Business Rates Relief for the 2021–2022 financial year, particularly in relation to calls from the hospitality and retail sectors for an extension.

10.2. As noted above, I was on maternity leave from January 2021 to August 2021. However, I refer to the CWS, Part B, §2.2, which outlines that HMT, and the Ministry of Housing, Communities and Local Government (MHCLG) led on the design and policy direction of Business Rates Relief. MHCLG was responsible for delivering the scheme during the Covid-19 period, with local authorities administering the relief and receiving full reimbursement from central government. The Department was not involved in the policy development or delivery of Business Rates Relief. Its role was limited to providing intelligence and stakeholder feedback to inform policy decisions. The Department engaged with HMT to advocate for support on behalf of the sectors within its remit, including retail and hospitality.

10.3. I was not personally involved in the development or implementation of this aspect of the economic response. As such, my insight into its outcomes and the nature of interdepartmental coordination is limited.

10.4. However, I do recall receiving an email concerning the liquidity challenges facing the hospitality sector, as outlined below.

10.5. On 15 December 2020, I received an email referencing concerns about the growing liquidity challenges facing the hospitality sector as a result of tightened Covid-19 restrictions {GP/507 – INQ000625924}. The message noted that while a small additional grant had been secured for wet-led pubs and an extension to the commercial evictions moratorium had been announced, providing businesses until the end of March to repay rent, significant financial pressures were expected to emerge at that point. These included the expiry of the VAT cut, the potential reintroduction of business rates, and the accumulation of rent liabilities. The sector was continuing to face substantial fixed costs, particularly in London, and there were reports that many hospitality businesses were struggling to access loans through banks, including those offered under the BBB loan schemes.

10.6. I was asked whether I had any evidence on this point and suggested it might be helpful to take a sector-specific view of the loans landscape, given the expectation of continued low revenues through to March, followed by a potential recovery once the

sector fully reopened. The key concern was ensuring that a sufficient proportion of the sector remained solvent through to April or May.

10.7. I responded on 24 December 2020, to confirm that we did have some sectoral data. From memory, retail and hospitality businesses were accessing a disproportionately high share of BBLS and CBILS facilities relative to their representation in the overall business population. I noted that BBLS borrowers were not required to begin repayments for 12 months, and that CBILS borrowers had their interest covered for the first year. I also highlighted the PAYG measures, which allowed BBLS and CBILS borrowers to extend loan terms up to 10 years and, in the case of BBLS, opt for interest-only payments—support that would be particularly helpful for hospitality firms facing continued challenges into the spring and summer.

10.8. It was further confirmed that, during the summer, businesses in the hospitality and retail sector accounted for between 8–9% of all CBILS and BBLS facilities granted. It was also noted that a successor loan guarantee scheme was expected to be introduced from April 2021, with work underway in collaboration with HMT and BBB to develop its details.

10.9. As explained in §10.3 above, I was not personally involved in this aspect of the economic response. As such, I do not believe I am best placed to provide a personal reflection on the extent to which Business Rates Relief achieved its objectives.

Section 11: Changes to Insolvency Rules

11.1. I have been asked about my involvement in the proposed reforms to the UK's insolvency framework. I was not involved in this work as it did not fall within my remit. Therefore, I believe I am not well placed to add anything further.

Section 12: Data and Modelling

12.1. I have been asked to summarise how I used data, economic modelling, and scenario analysis in the advice I provided during the pandemic. These tools were central to our work in the Department and helped shape the design and delivery of the Government's business support schemes. Data and modelling informed our policy analysis and advice, financial modelling, Accounting Officer Assessments, and financial management.

12.2. In response to the rapidly evolving crisis, the Department employed a multi-faceted strategy that integrated in-house analysis, collaboration across government departments, and insights from external specialists to build a comprehensive picture of the shifting economic conditions.

12.3. As set out in CWS, Part A §4.5, although HMT led on macroeconomic modelling, BEIS supplemented this by leveraging a variety of internal analyses, external expertise, and specially commissioned models to inform its policy decisions throughout the pandemic. The Economy and Strategic Analysis team sourced data from a combination of official statistics, such as the Office for National Statistics' (ONS) Business Insights and Conditions survey, and real time data indicators, including card spend or mobility levels.

12.4. Early in the pandemic, we used modelling to estimate the potential scale of demand for schemes like CBILS and CLBILS. For example, initial projections suggested that CBILS could support between £5–10 billion in lending, which informed discussions with HMT on budget cover and contingent liabilities. We also used scenario analysis to assess the fiscal risk to government under different default and recovery assumptions, particularly when considering changes to personal guarantee requirements. These assessments have been reflected in the BEIS Covid-19 Response Meta-Evaluation (2025), which documents how modelling underpinned decisions on scheme scale and risk exposure {GP/508 – INQ000610872}.

12.5. In parallel, we worked closely with the BBB to monitor real-time data on scheme uptake, approval rates, and delivery bottlenecks. This allowed us to identify where interventions were needed to improve access, for instance, simplifying application processes or clarifying eligibility criteria. The BBB's regular reporting and the Covid-19 Loan Guarantee Schemes Repayment Data (2025) provided critical insights into scheme performance and informed iterative improvements {GP/509 – INQ000625620}.

12.6. We also used behavioural assumptions to anticipate how lenders and borrowers might respond to changes in scheme design. When considering a 100% guarantee for smaller loans, for example, we modelled the potential for gaming behaviour and the risk of crowding out commercial lending. Analysts also modelled potential reactions to different PAYG forbearance measures. BBB's evaluations supported this work by modelling borrower behaviour and scheme impact across different sectors and regions.

12.7. While the pace of events meant that some of our modelling had to be based on stylised assumptions, it provided a vital evidence base for ministers and helped ensure that our interventions were targeted, proportionate, and responsive to the evolving economic context. The BEIS Business Critical Analytical Models register (2022) also highlighted the range of tools we deployed to support rapid policy development under uncertainty {GP/510 – INQ000625931}.

12.8. As set out in CWS, Part B §9.10, since the financial crisis, UK high-street banks have been providing BEIS with monthly SME banking data under non-disclosure agreements. During the pandemic, BEIS requested more timely submissions via UK Financial Investments Limited (UKFI), receiving both aggregated SME data and individual bank-level aggregates. This data was used to generate analytical charts, such as loan-to-deposit ratios and overdraft utilisation, to enhance understanding of SME finance. It also supported discussions with banks by enabling comparisons of market-wide and individual bank loan approval rates, broken down by size, sector, and region. Additionally, BEIS received long-term datasets covering large businesses and those engaged in asset-based lending and invoice finance.

12.9. Additionally, and as outlined in CWS, Part A, §§4.3- 4.4, a Business Intelligence Pack or 'dashboard' was created following the establishment of a weekly cross-Whitehall business intelligence group {GP/511 – INQ000235713}. It contained information gathered from contact with BEIS's sector teams along with work undertaken by the ONS and other sources of data. The dashboard provided a weekly summary of the impact on business sectors and was shared with BEIS staff involved in the Covid-19 response, private office and Cabinet Office Briefing Room (COBR). As the pandemic developed and more intelligence was collected, the dashboard also provided feedback on policies designed to assist businesses. Once the loans and grants schemes were implemented, the dashboard included feedback from business sectors on the schemes, for example, concern from the food and drink sector on the speed at which CBILS applications were being processed. It also provided business intelligence

information, for example, notifications of potential job losses, broken down by regions and in the devolved administrations.

12.10. As noted in CWS, Part A, §§4.9 - 4.11, BEIS relied on external consultancies to support rapid policy development and scheme delivery under tight time constraints. Financial resilience models were developed by Oliver Wyman, McKinsey, and Experian to inform decision-making and provide independent perspectives, particularly around counter fraud measures {GP/512 – INQ000066051}. In April 2020, Oliver Wyman produced a Covid-19 impact analysis assessing the effects of the pandemic on key economic sectors, including impacts on profit and loss, balance sheets, and cashflows. This analysis also evaluated the effectiveness of policy interventions and was later used to inform discussions on forbearance and recovery strategies {GP/513 – INQ000066052}. Additionally, McKinsey developed a vulnerability map to identify sectors most at risk from Covid-19 restrictions and support measures, helping to guide targeted policy responses {GP/514 – INQ000065273}.

12.11. I have been asked whether there were any significant limitations in the availability or quality of data used to design economic support schemes. In short and as outlined in CWS, Part B, §§9.17 – 9.20, yes, there were notable challenges. Business finance is a highly specialised field, and much of the data BEIS required had to be specifically commissioned and generated by its Business Finance team. As a result, historical data was often insufficient, particularly in the context of an unprecedented economic shock, the introduction of entirely new interventions, and the need for swift policy action. For instance, BBLS was the first time the UK Government offered a full loan guarantee without lenders sharing any risk. This made standard value for money assessments unfeasible due to the absence of firm-level data on borrower characteristics, expected losses, and business viability. These limitations also affected the appraisal of later innovations, such as the PAYG forbearance measures, further complicating policy evaluation and risk management.

12.12. I have been asked whether the Department and HMT made adequate use of data, economic modelling, and scenario analysis in their economic response to the Covid-19 pandemic.

12.13. While I cannot speak for HMT, it is clear that both departments made significant efforts to use data and analysis to inform their decisions.

12.14. I understand that HMT relied on a broad range of macroeconomic indicators and modelling tools, though it chose not to adopt integrated epidemiological-economic

models, citing concerns about their reliability in real-time decision-making {GP/515 – INQ000625930}.

12.15. On the other hand, the Department commissioned bespoke modelling and analysis from external consultancies such as Oliver Wyman, McKinsey, and Experian to support policy design. These included financial resilience models, sectoral vulnerability maps, and impact assessments that informed decisions on loan schemes and business support measures. However, BEIS faced significant data limitations, particularly in business finance, where much of the required data had to be specially commissioned. The lack of firm-level data made it difficult to conduct standard value for money assessments for schemes like BBLS, which involved unprecedented levels of government guarantee.

Section 13: Inequalities and Vulnerable Groups

13.1. I have been asked how I took into account inequalities and economically vulnerable groups in the advice I provided during the pandemic. First, I acknowledge that the Department did not conduct PSED assessments in relation to CBILS and CLBILS in the development phase of the schemes. As set out in the CWS, Part B, §10.23, these equality impact assessments were not complete until June 2020, after the launch of the schemes. The Department has recognised that the PSEDs ought to have been conducted prior to implementation. That this was not done reflects the urgent necessity to develop and implement the Government's emergency economic response to the pandemic at extreme pace, as I have set out above. It in no way reflects the seriousness with which the Department treated the PSEDs, which under more normal circumstances would have been completed in the development phase.

13.2. During April and May 2020, the Department's Diversity and Inclusion (D&I) team worked on the PSED assessment in relation to CBILS, CLBILS and BBLS (together known as the Tier 1 policies), which was finalised on 18 June 2020 {GP/516 – INQ000564059}. On the same date, I was provided with a copy, together with the PSED assessment in relation to the Future Fund which had been developed in parallel {GP/517 – INQ000625887}, {GP/518 – INQ000624929}.

13.3. I was not responsible for and I had no involvement in the PSED assessments in relation to the grant schemes, which were overseen by Jenny Dibden.

CBILS, CLBILS and BBLS

13.4. I set out my involvement in the PSED assessments for CBILS, CLBILS and BBLS together with a summary of their findings below.

13.5. Before the PSED assessments were conducted, I approved Accounting Officer Assessments for the loan schemes. For example, on 14 April 2020, I approved an Accounting Officer Assessment prepared by Angelina Cannizzaro in relation to CLBILS {GP/116 – INQ000563950}. The acting Permanent Secretary was keen to ensure that the assessment took proper account of equalities prior to her approval {GP/519 – INQ000625082}. With regard to the equality impact assessment of CLBILS, the Accounting Officer Assessment judged the scheme to be 'low impact'.

13.6. Considering CBILS alongside CLBILS for the purposes of the assessment, this conclusion was justified on the basis that the schemes were universally available to all sectors and parts of the UK, regardless of regional prosperity or deprivation. It was anticipated that CLBILS would effectively reinforce the wider 'levelling-up agenda'.

Further, eligibility for CBILS was determined primarily by the financial viability of businesses and not by any characteristics of business leaders and staff. There were *"historic patterns of female and ethnic minority entrepreneurs being less successful in applying for business loans. Survey data also shows that a disproportionately small number of businesses are either female or ethnic minority led. However, government support can play an important role in addressing demand/supply side issues sometimes faced by people from disadvantaged backgrounds and under-represented groups."*

13.7. The Department intended to *"closely monitor the characteristics of the beneficiaries of CBILS and CLBILS, working with BBB to ensure we collect the data to enable us to do that effectively. The final evaluations of both schemes will specifically measure the impact on equality."*

13.8. On 14 May 2020, Carl Creswell (Director, Professional & Business Services, Retail and Post, and Joint Senior Responsible Officer (SRO) for D&I, BEIS) wrote to me following an ExCo meeting at which the Department's approach to D&I in policy-making had been discussed. ExCo had considered the importance of taking into account the equalities impact on protected groups in developing the emergency response to the pandemic. Notwithstanding the pressure the Department was under to deliver at pace, ExCo underlined the importance of robust PSED assessments *"both because of the potentially uneven distributional impacts of COVID-19, but also because of our Equality Act legal obligations"* {GP/520 – INQ000625876}. Carl Creswell asked me to ensure that my team submitted equality analyses for the Tier 1 policies, acknowledging that they had *"been developed at incredibly rapid pace, and policy teams have been under enormous pressure…".*

13.9. Carl Creswell requested an update on the progress of the team's work on 29 May 2020 and I asked Joseph Clease (Head of Business Finance Analysis, BEIS) to respond. Joseph Clease confirmed that the Business Finance Analysis team had been instructed to produce a draft PSED assessment for the Tier 1 policies by the end of the following week and commented *that "the debt schemes were broadly designed to support the 'whole market' rather than being targeted. Therefore it is likely that a lot of the compliance with the Equality Act requirements will depend on our plans to collect and monitor the subsequent uptake of the schemes, and to apply any necessary course correction."*

13.10. On 9 June 2020, officials provided me with a copy of a draft briefing for the Public Accounts Committee (PAC) which set out the key features and statistics in relation to the Government's Covid-19 response schemes, including equality impacts {GP/169 – INQ000625881}, {GP/168 – INQ000625880}. The draft briefing recorded as follows in relation to the Tier 1 policies:

a) CBILS: the Department considered there to be low to minimal impact on groups or individuals with protected characteristics under the PSED as the scheme was available to businesses in all sectors and in all parts of the country;

b) CLBILS: the Department considered there to be low to minimal impact on groups or individuals with protected characteristics under the PSED as the scheme was available to businesses in all sectors and in all parts of the country. As CLBILS served larger businesses, the Department noted variations in the percentage of employees with protected characteristics working in different sectors. For example, a high proportion of females working within the health and social care sector. As with CBILS, the Department would monitor the characteristics of beneficiary firms; and

c) BBLS: the Department considered there to be low to minimal impact on groups or individuals with protected characteristics under the PSED as the scheme was available to businesses in all sectors and in all parts of the country. The Department further considered that due to minimal credit checks, some of the usual barriers to female and ethnic minority entrepreneurs accessing finance would be reduced. Furthermore, self-certification and the standardised application form was predicted to mitigate risks of negative equality impacts. The Department would monitor the characteristics of beneficiary firms.

13.11. The above findings were reflected in the final PSED equality impact assessment in respect of the Tier 1 policies, which was approved by Angelina Cannizzaro and submitted to the Department's D&I HR representative on 18 June 2020, copying me {GP/517 – INQ000625887}, {GP/516 – INQ000564059}.

13.12. The assessment found that the CBILS, CLBILS and BBLS *"should procced as intended"* and concluded that:

> *"There is no reason to think that there would be direct discrimination as a result of schemes designed to be open to the whole market.*

In relation to direct and indirect discrimination, there are considerable gaps in the evidence base that make it hard to conduct a full assessment of the issues and also make it difficult to set out in advance what an appropriate benchmark would be. For example, there is some information on gender and BAME but even here we don't have good benchmarks. We were unable to find any evidence for the other equality strands. Nevertheless, we will develop a strategy and approach for monitoring equality outcomes through the monitoring and evaluation plan.

The potential equality of opportunity outcomes could act in different directions. As discussed above, while there is a risk of increasing some existing inequalities, there is also potential for advancing equality and the benefits that arise from providing liquidity to businesses during the Covid-19 crisis outweighs the potential negative impacts."

13.13. The Department monitored and reviewed the schemes to ensure that any equality issues were flagged to policy teams so that actions could be taken in mitigation. As set out in the CWS, Part B, §7.21, the Department's monitoring and evaluation plan was peer reviewed by a BEIS internal analysts evaluation group and formed the basis for the invitation to tender for the BBB three-year evaluation plan discussed in the CWS, Part B, §§7.97 – 7.110, which included an assessment of the equality impacts of CBILS, CLBILS and BBLS.

The Future Fund

13.14. On 11 May 2020, Francis Evans provided an update to the acting Permanent Secretary in relation to the Future Fund, copying me, in which he explained that the Department was *"working with BBB on a package of measures to mitigate the risk that the Future Fund exacerbates geographical and gender inequalities"* {GP/423 – INQ000564015}.

13.15. On 15 May 2020, BEIS officials submitted an Accounting Officer Assessment of the Future Fund to the acting Permanent Secretary following my approval, including advice to ministers on their equality duty at Annex B {GP/436 – INQ000564029}, which stated:

"… it is… likely that the market-led model of the Fund will mean the distribution of investment reflects existing underrepresentation of women and minority ethnic groups in these sectors...

As this is an emergency scheme which must be delivered quickly to meet short term liquidity constraints, it is unlikely to be an effective tool to redress structural imbalances in the market…

It is important, though, that the Fund does not exacerbate the existing imbalances outlined above… we recommend the programme:

i. Collects data and publish on the diversity of Fund applicants…

ii. Becomes a signatory of the Investing in Women Code and encourage co-investors to follow suit…

iii. Proactively reaches out to networks for individuals with protected characteristics…"

13.16. On 17 May 2020, Francis Evans sent a submission to the Secretary of State, recommending that he should proceed with the Future Fund. The covering email explained, *"The requirement for firms to have raised £250,000 from external investors may heighten existing imbalances in venture capital (VC) funding, away from women founders, BAME entrepreneurs and start-ups outside London and the South East…"* {GP/437 – INQ000585640}, {GP/438 – INQ000585641}. Annex D of the submission contained advice on the Secretary of State's statutory equality duty, including the following:

"Women and minority ethnic groups are under-represented across the UK's knowledge-intensive sectors and amongst equity investors. For example, only 20% of VCs are women and all-female founding teams received less than 1% of UK VC funding. Furthermore, only 8.5% of senior leaders in tech identify as black, Asian or another minority ethnicity group.

There is some evidence that certain kinds of investors are more likely to invest in underrepresented groups than others. In 2018, 25% of SME equity deals involving crowdfunding platforms involved companies with at least one female founder – compared to 21% of deals by business angels, and 17% by private equity and VC funds…

Regardless of the pool of investors, it is still likely that the market-led model of the Fund will mean the distribution of investment reflects existing underrepresentation of women and minority ethnic groups in these sectors…"

13.17. The advice explained that, while officials had considered ringfencing funds for underrepresented groups, this approach was considered to be unsuitable in a demand-led scheme, in particular when circumstances demanded that monies be distributed quickly as applications were received.

13.18. The draft PAC briefing of 9 June 2020 recorded the following in relation to the equality impacts of the Future Fund:

> *"The majority of equity-backed businesses are in London and the South East. The Future Fund is market-led, so we do not have any means of directing the equality outcomes via targeting. However, match fund investors will be encouraged to sign HMT's investing in Women Code, which commits firms to improve female entrepreneurs' access to tolls resources and finance. It is too early to say what the new investments look like in terms of equality outcomes – We will be monitoring equality outcomes this closely and intend to publish figures…"*

13.19. The PSED assessment also referred to the equalities consequences of the market-led nature of the Future Fund [GP/518 – INQ000624929], stating:

> *"The Future Fund is market-led, meaning that the distribution of investment will likely reflect the existing representation of women, BAME (Black, Asian, Mixed or Other ethnic group), regional and other inequalities in the equity backed sector. As it is not targeted then (a priori) it will neither set back nor advance existing discrimination / equality of opportunity…*
>
> *No direct mitigatory action has been taken to advance the representation of ethnic minorities aside from monitoring at this stage. Neither have there been any steps to advance equality of opportunity for other protected groups. Further action will be considered if monitoring data suggests that there are issues with indirect discrimination, however it is unlikely that monitoring data will permit the full range of equality characteristics to be assessed."*

13.20. The assessment concluded as follows:

> *"The Future Fund should proceed according to our current plans, as it appears to be consistent with the requirements of the Equality Act.*
>
> *This is as:*
>
> *The rule-based design of the Fund does not seem to risk direct discrimination.*
>
> *The design of the Fund is market-led, therefore on ex-ante grounds its design will neither promote nor have a negative effect on outcomes for under-represented groups. These equality objectives will need to be pursued using other programmes and interventions by the British Business Bank and others in this space.*

However, we have taken steps to reduce the potential for indirect discrimination within the operation of the Future Fund by signing up to the HMT Investing in Women Code and seeking to persuade other investors to do so too."

RLS

13.21. As set out in the CWS, Part B, §§8.53 – 8.63, the business case for RLS was finalised and approved in February 2021. I was on maternity leave at this time but seen from the documents provided to me, the business case included a PSED assessment for the RLS at Annex K [GP/502 – **INQ000596696],** which contained the following:

"Covid-19 is a severe public health emergency that represents a major shock for the UK economy. This is an exceptional occurrence has required government intervention to ensure the financial liquidity of businesses to support the economy... In the absence of any intervention, the outbreak would have led to a cascade of firm collapses, leading to unemployment, leading to further firm closures. This would have impacted on everyone and particularly for those with few other options or resources…

Workers with fewer skills, in disadvantaged areas, or who may experience discrimination in the labour market may particularly suffer long-term scarring effects on their livelihoods and wellbeing if we did not protect businesses and jobs. Therefore, the scheme will help to safeguard existing outcomes and life chances for disadvantaged groups, at least to the extent that they are already in work.

However, as the scheme is designed to be open to the vast majority of existing businesses… the schemes are not targeted in a way that would have advancing equality of opportunity as an objective."

13.22. The assessment concluded:

"The scheme should proceed as intended.

There is no reason to think that there would be direct discrimination as a result of schemes designed to be open to the whole market.

In relation to direct and indirect discrimination, there are considerable gaps in the evidence base that make it hard to conduct a full assessment of the issues and also make it difficult to set out in advance what an appropriate benchmark would be. However, sector breakdowns of the directly comparable BBLS and CBILS schemes give a deeper understanding of the potential coverage of this

scheme, and alongside race and gender breakdowns give a more in-depth view of sex and race than was afforded during PSED analysis of those schemes. This additional analysis suggests no negative impact. Nevertheless, we intend to collect wider information on protected characteristics, as set out in the M&E plan.

The potential equality of opportunity outcomes could act in different directions. As discussed above, while there is a risk of increasing some existing inequalities, there is also potential for advancing equality and the benefits that arise from providing liquidity to businesses during the Covid-19 crisis outweighs the potential negative impacts.

We will continually monitor and review the scheme to ensure that issues are flagged to policy so that mitigating measures can be put in place when required."

13.23. Accordingly, the risk of discrimination was not perceived to be significant, with the RLS possibly advancing equality of opportunity in some regards and being unlikely to reduce it. The scheme would not significantly impact relations between people who share a protected characteristic and those who did not.

13.24. The February 2021 analysis was substantively unchanged at the time of the PSED assessment conducted at the time of the six-month extension of the RLS in November 2021, which I approved as SRO on 3 November 2021, following my return from maternity leave ({GP/521 – INQ000564227}, at Annex I).

13.25. In June 2022, the RLS was extended for a further two years. As SRO, I again approved the business case, including the PSED assessment at Annex F {GP/522 – INQ000625928}, whose findings were materially unchanged from the November 2021 assessment.

13.26. I have been asked to reflect on the challenges faced during the pandemic, how they were addressed, and whether I would take a different approach in response to any future pandemic or national economic emergency. One key challenge, as referred to above, was the lack of available data on gender and ethnicity, which made it more difficult to assess the equalities impact of the schemes. I recall this being an area the Department was actively seeking to improve, which may support more robust PSED assessments and scheme design in the future.

13.27. Although I regret that time pressures meant full PSED assessments and business cases were not completed prior to scheme launch, I note that subsequent analysis found no evidence that the schemes were discriminatory. They were broad-based and sector-neutral, and the risk of adverse equalities impacts was considered low. However, on reflection, in any future emergency, particularly if schemes are more narrowly targeted, it would be important to be more alert to potential equalities impacts from the outset and ensure that appropriate assessments are built into the design process.

13.28. I have been asked whether, in my view, the UK Government adequately took into account inequalities and economically vulnerable groups in its economic response to the pandemic.

13.29. I was not involved in and do not have access to the ways in which the UK Government, as a whole, took into account inequalities and economically vulnerable groups in its economic response. As such, this is not something I can offer a view on. However, I pause to mention that policy decision-making for the Government's economic response rested with HMT. That said, the Government introduced a number of schemes with the intention of supporting vulnerable groups — for example:

13.30. The Coronavirus Job Retention Scheme helped protect millions of jobs, including those in lower-paid sectors such as hospitality and retail.

13.31. The Self-Employment Income Support Scheme aimed to support those outside traditional employment structures, many of whom were economically vulnerable.

13.32. Temporary increases to Universal Credit and the Local Housing Allowance, as well as the Hardship Fund for local authorities, were designed to provide additional support to those on low incomes.

13.33. I have been asked what lessons DBT has taken forward to improve any future response to an economic crisis, particularly in terms of ensuring adequate consideration is given to the equality of impact of economic support across different groups, including those who are more at risk or otherwise vulnerable. As I noted above, I left the Department in April 2023, prior to the publication of a number of evaluations and assessments, and I am therefore not aware of the steps the Department has since taken in this area or the current state of its preparedness. However, I am aware that Gareth Davies provided a second corporate witness statement addressing the Department's work to prepare for future pandemics and crises.

13.34. In response to the question regarding any recommendations the Chair of the Inquiry might consider to improve how the UK Government or DBT make decisions concerning inequalities and economically vulnerable groups during a national economic emergency, I do not have any additional views to those set out above to offer.

Section 14: Lessons Learned

14.1. My recommendations for the Chair to improve the economic response to future pandemics are as follows:

a) By the end of my three years in post, I had developed a much deeper understanding of business finance than I had in March 2020. While I believe leaders do not need to be subject matter experts, I do reflect that if a similar crisis were to unfold again, I would now be well-placed to lead the business finance response, or at the very least, to coach and support whoever was in that position. One key learning point is the importance of government being able to move the right people into the right roles quickly, which is not always as straightforward as it should be (as I have set out above in Section 4:, in respect of CBILS). This includes policy leads but also the legal, financial and analytical expertise necessary. It might be useful for government to have a record of key personnel with experience on emergency business finance and other economic interventions.

b) As set out above, the limited counter fraud expertise across government during the pandemic slowed the introduction of fraud mitigation measures. In my view, a cross-government counter fraud taskforce with surge capacity and clear mandates should be established, supported by expanded specialist teams and formalised partnerships with enforcement bodies.

c) As noted in my opening remarks, being able to keep my young child in nursery throughout the pandemic was critical to me being able to perform my role. I cannot speak for the experience of other 'key workers', but my own personal experience was that this was a vital intervention to enable key workers to keep operating.

Section 15: Request for Documents

15.1. I have been asked to identify the messaging platforms I used to communicate about the economic response to the pandemic between 1 January 2020 and 28 June 2022.

15.2. In response, I confirm that I used only Microsoft Teams and email for such communications. I did not use any other messaging platforms during that period.

15.3. I have been asked to provide any key emails sent or received by me between 1 January 2020 and 28 June 2022 that are relevant to the provisional outline of scope for Module 9.

15.4. To the best of my knowledge, I have referred to all key emails within my statement.

15.5. I have been asked to provide any diary entries, notebook entries, or similar records, whether physical or electronic, that I hold relating to key decisions made between 1 January 2020 and 28 June 2022, where such records are relevant to the provisional outline of scope for Module 9.

15.6. In response, I confirm that I did not keep any diaries, notebooks, or similar records during that period.

Statement of Truth

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

Signed: Personal Data

Dated: 17 October 2025

Annex A: Table of acronyms used in this statement

Acronym	Full Title
AML	Anti-Money Laundering
BBB	British Business Bank
BBLS	Bounce Back Loan Scheme
BEIS	Department for Business, Energy and Industrial Strategy
BFAB	Business Finance Assurance Board
BIP	Business Interruption Payment
BPC	British Patient Capital
BROs	Business Representative Organisations
BVCA	British Private Equity & Venture Capital Association
CAIR	Corporate finance Advisory and Investor Relations
CBILS	Coronavirus Business Interruption Loan Scheme
CCA	Consumer Credit Act 1974
CCFF	Covid Corporate Financing Facility
CCJs	County Court Judgements
Chancellor	Chancellor of the Exchequer
Cifas	Credit Industry Fraud Avoidance System
CLBILS	Coronavirus Large Business Interruption Loan Scheme
CLN	Convertible Loan Note
COBR	Cabinet Office Briefing Room
COBR(O)	Cabinet Office Briefing Room (Officials)
CSBILS	Coronavirus Small Business Interruption Loan Scheme
CWS	Corporate Witness Statement
D&I	Diversity and Inclusion
DBT	Department for Business and Trade
DCMS	Department for Digital, Culture, Media and Sport
DfE	Department for Education
EBRIG	Economic and Business Response Implementation Group
EFG	Enterprise Finance Guarantee
EIS	Enterprise Investment Scheme
EY	Ernst & Young
FCA	Financial Conduct Authority
FRA	Fraud Risk Assessment
GAD	Government Actuary's Department
GIAA	Government Internal Audit Agency
HMRC	His Majesty's Revenue and Customs
HMT	His Majesty's Treasury

Acronym	Full Title
IDAB	Industrial Development Advisory Board
KYC	Know your Customer
MEOP	Market Economy Operator Principle
MHCLG	Ministry of Housing, Communities and Local Government
MOD	Ministry of Defence
NAO	National Audit Office
NATIS	National Investigation Service
NCA	National Crime Agency
No.10	No. 10 Downing Street
NVP	Net Present Value
OJEU	Official Journal of the European Union
ONS	Office for National Statistics
PAC	Public Accounts Committee
PAYG	Pay As You Grow
PEAP	Post Event Assurance Action Plan
PIC	Projects and Investment Committee
PSED	Public Sector Equality Duty
PwC	PricewaterhouseCoopers
R&D	Research and development
RLS	Recovery Loan Scheme
SEIS	Seed Enterprise Investment Scheme
SMEs	Small and Medium-sized enterprises
SRO	Senior Responsible Officer
TFEU	Treaty on the Functioning of the European Union
UKFI	UK Financial Investments Limited
UKGI	UK Government Investments
UKRI	UK Research and Innovation

Annex B: Exhibit Schedule

Please see attached.

Annex C: Table identifying responses to question

Please see attached