

Annex C: Covid-19 Loans Guarantee Schemes

1. One of the government's key economic interventions was the provision of financial support to businesses by way of loan guarantee schemes. This section of the statement deals with specific loan guarantee schemes (see Table 1), namely the Coronavirus Business Interruption Loan Scheme ("CBILS"), the Coronavirus Large Business Interruption Loan Scheme ("CLBILS"), the Bounce Back Loan Scheme ("BBLs") and the Recovery Loan Scheme ("RLS"). I did not have any direct involvement in the design or delivery of these schemes.
2. From late February, internal analysis and advice was provided to the Chancellor on the impact of Covid-19 ahead of the Budget on 11 March 2020. This covered how the spread of Covid was impacting the UK economy, modelled different scenarios, and noted that the Organisation for Economic Development had revised global growth downwards. There was an expectation that the spread of the virus would impact the UK economy and its ability to produce goods and services as a result of the dislocation of activity due to a public health emergency; in time, this evolved into the very direct impact on the UK's economy of 'non-pharmaceutical interventions' designed to curtail the spread of the pandemic through lockdown measures. One transmission mechanism for this economic impact was through increased difficulties business would have in accessing finance.
3. The Covid-19 loan guarantee schemes were designed to be UK-wide. One of their main aims was to ensure that businesses within the UK, who met the eligibility criteria for the schemes, would be able to access finance through banks (as well as non-bank lenders) who were participants in the schemes. Indeed, the economic value of the schemes was to inject liquidity quickly into UK businesses, so that they remained solvent and able to survive disruptions caused by the pandemic. Equalities impacts were not produced for these schemes at the time, as the policies were demand led and focused on businesses, and as such equalities concerns were considered less of a risk. Additionally, all businesses meeting the schemes' eligibility were able to access the schemes.
4. Retrospectively, an analysis of the Covid loan guarantee schemes was carried out by the British Business Bank ("BBB") which showed that the breakdown of lending across the UK correlated fairly well with the distribution of business activity and concluded positively as to the social impact of the schemes in preventing unemployment [BR/C/01 – INQ000096931].

5. In order to address the gaps in financing for businesses due to the ongoing pandemic, there were four business loan guarantee schemes developed and launched. Each targeted a different business size, or stage of the pandemic, to ensure adequate market coverage and that the government was responding to the evolving situation and the needs of businesses to access finance:
- a) The CBILS was initially announced in the Budget speech on 11 March 2020 and subsequently went live on 23 March 2020. The scheme was designed to provide access for businesses with a turnover less than £45 million affected by Covid-19. This initial policy intervention focused on small and medium-sized enterprises (“**SMEs**”) since a liquidity scheme to support larger business – the Covid Corporate Financing Facility (“**CCFF**”) – was separately developed. SMEs were also likely to have fewer finance options available to them and needed access to regular loan finance in the face of economic pressure. CBILS provided term loans and other kinds of finance of up to £5 million per business, through selected lenders. The government guaranteed 80% of the finance to the lender and paid interest and any fees for the first 12 months of any loan agreement through the scheme.
 - b) The CLBILS was announced on 16 April 2020 and went live on 20 April 2020. It was designed to provide access for medium and large businesses (with a turnover greater than £45 million) to loans and other types of financial support up to £200 million per business, through selected lenders. As with the CBILS, the government guaranteed 80% of the finance to the lender. The scheme was developed in response to the economic reality of the pandemic unfolding, and in particular to address a financing gap for businesses falling in-between the CBILS and the CCFF scheme.
 - c) The BBLS was announced on 27 April 2020 and went live on 4 May 2020. It was designed to assist SMEs to borrow between £2,000 and £50,000 (capped at 25% of turnover) at a fixed interest rate, with a 100% guarantee to the lender by the government. The scheme was designed as the pandemic deepened, in response to concern that money was not reaching businesses quickly enough via CBILS, threatening their survival and risking long-term economic scarring.
 - d) Finally, the RLS went live on 6 April 2021, in the first of three phases, as a business recovery scheme for SMEs. It was an important part of the government’s exit strategy having provided unprecedented economic support, ensuring that this support was withdrawn carefully, and the marketplace transitioned back towards a

more traditional loan guarantee scheme, complementing regular commercial lending. The scheme was designed to incentivise growth and investment, providing SMEs with access to finance which could be used for any legitimate business purpose, including working capital or investment. Initially, the maximum loan available to a business through the scheme was £10 million, backed by an 80% government guarantee to the lender, and subsequently reduced to a 70% government guarantee for a maximum loan size of £2 million per business. (From Phase 3, the maximum loan size in Northern Ireland was £1 million.) At Phases 2 and 3, no evidence was required to demonstrate that a business was affected by Covid.

6. Under all the schemes, the borrower remained 100% liable for the debt.

Scheme Design

Initial design process

CBILS

7. On 26 February 2020, the Chancellor commissioned urgent advice across HM Treasury as part of scenario planning for the spread of Covid-19 and to identify triggers for government intervention [BR/C/01a – INQ000625746]. As part of this work, officials considered what would be needed to ensure adequate support for small and medium sized businesses. This was followed up by internal discussions at official level on various possibilities, among which was the option to expand the existing Enterprise Finance Guarantee scheme (“EFG”) [BR/C/02 – INQ000609071] which had been in place since 2009 to facilitate bank loans for smaller viable businesses that may have been struggling to secure finance. The EFG, which was administered by the BBB, had also been discussed at a high level as a possible emergency credit support scheme during the contingency planning for a ‘No Deal’ Brexit.
8. Options floated included adding a temporary new ‘Covid-19’ eligibility, increasing the amount available to lend under the scheme, considering whether or not to remove guarantee scheme fees, changing the percentage guaranteed by the government, and keeping the parameters of the loan type as broad as possible to ensure maximum flexibility [BR/C/03 – INQ000609218]. Similar expansion options had previously been explored in the context of Brexit. The Chancellor was interested in ways to adapt the

EFG scheme to make it applicable to the situation of Covid, with speed being a particular priority, and the emphasis being on providing working capital to businesses in difficulty [BR/C/04 – INQ000609217] **BR/C/02** - INQ000609071] [BR/C/06 – INQ000609797].

9. The proposed changes to the existing EFG scheme were seen as a viable option in the light of existing precedent, knowing the scheme to be workable, the time pressure [BR/C/03 – INQ000609218], and the need to achieve uninterrupted access to finance for businesses at more generous rates on a temporary basis. The main objectives were to establish a scheme extremely quickly to enable access to finance for Covid-19 affected businesses which were otherwise viable. It was also to ensure maximum flexibility in scheme design and level of support, in the context of a fast-developing situation in which it was impossible to predict the required uptake or duration of the scheme.
10. During the scheme design process, HM Treasury officials considered existing mechanisms for the delivery of the scheme, discussing with a variety of stakeholders both within and outside of government and synthesising views obtained in order to present options to ministers [BR/C/07 – INQ000609220]. Given the urgency, there was limited opportunity to consider alternative schemes and mechanisms of delivery. Ultimately, the quickest approach was deemed to be to change the parameters of the EFG scheme, as described above. In addition, the guarantee was designed to work within existing State aid restrictions imposed on the EFG product, in the interest of speed and practicality.
11. On 19 March 2020, the EU relaxed State aid rules temporarily to help Member States deal with the Covid outbreak and ensure that sufficient liquidity remained available to businesses of all types. This included allowing State guarantees for commercial loans provided by banks, as well as allowing loans to be granted with favourable interest rates (later to be used under the BBL design). At various points, the European Commission revisited and extended its temporary State aid regime.
12. CBILS was initially announced on 11 March 2020, and went live on 23 March 2020. The Scheme was implemented and delivered by the BBB as an arm's length body of the Department for Business, Energy and Industrial Strategy ("BEIS"). Early estimates were that losses might be similar to that of the Small Firms Loan Guarantee, the precursor SME lending scheme to the EFG scheme, which was 36% of the total amount lent.

13. At the time of going live, the parameters of the loan scheme were:
- a) Loan amount up to £5 million per business, with a term of up to six years for term loans and asset finance.
 - b) Interest and fees charged by lenders would be paid by government for the first 12 months (lenders still paid a fee to access the loan guarantee scheme).
 - c) Facility types included term loans, overdrafts, asset finance and invoice finance.
 - d) The government provided an 80% guarantee to lenders.
14. The eligibility parameters were:
- a) The business had to be based in the UK and had to have an annual turnover of up to £45 million.
 - b) Borrowers needed to demonstrate that the business was viable, if it were not for the pandemic, and that the business had been adversely impacted by coronavirus.
 - c) If the lender could offer finance on normal commercial terms without the need to make use of the scheme, they would do so.
15. Usual commercial processes applied in relation to lenders assessing the creditworthiness of the borrower and their eligibility to apply for the scheme. Given that the process was largely commercial and closely modelled on an existing loan guarantee scheme, the scheme did not pose heightened fraud risks to the Exchequer, as is evidenced too in the subsequent performance of the Scheme. In the most recent data published on the government's website, lenders have flagged £0.06 billion of the £25.83 billion of CBILS drawn value as suspected fraud (to date, £0.02 billion has been paid out to lenders by the government against loans with a suspected fraud flag). More widely across CBILS, the government has to date paid out a total of £0.94bn to settle guarantees.
16. Modifications were made to CBILS subsequent to the scheme going live, firstly on 3 April 2020 and then at the time of announcing the BBLs, on 27 April 2020. These and other changes across the Covid loan guarantee schemes are expanded under the section on scheme developments below.

CLBILS

17. In early April 2020, the Chancellor received advice on the establishment of a new version of CBILS for bigger firms with larger loan sizes, initially referred to as CBILS+ and subsequently rebranded as CLBILS. The objective of the CLBILS was to complement the existing CBILS, ensuring that businesses of all sizes could access support with government-backed loans, and thus, it was designed on a similar basis to the existing CBILS scheme. Analysis by the Bank of England (“**BoE**”) had showed that there were around 4,830 businesses that were ineligible for either the CBILS or CCFF,¹ creating a gap in the market which required economic intervention. HM Treasury’s analysis showed that of these, there were around 3,100 firms with sufficiently strong credit that banks would lend to, assuming there was some government support.
18. The advice provided to the Chancellor was based on feedback, analysis and views from the four largest business lenders (Royal Bank of Scotland, Barclays, HSBC and Lloyds), the Confederation of British Industry, and followed consultation with the BoE [**BR/C/08 – INQ000609791**]. Data, analysis and feedback from stakeholders was crucial in informing the design of the scheme, especially in terms of how to target support for businesses which did not qualify for the CBILS or CCFF but required financial assistance to continue trading.
19. Similar to CBILS, as businesses had to undergo the normal Know Your Customer, Anti-Money Laundering and loan checks that they would have to complete if they were applying for a typical bank loan, it was accepted that there would be limited fraud risk from CLBILS as these were standard bank-led processes. In turn, this is reflected in the most recent data published on the government’s website about the performance of the loan guarantee schemes, which notes that there are no CLBILS loans currently subject to the guarantee that have been flagged as suspected fraud by lenders. In addition, the government required the BBB to complete additional checks on accredited lenders for the provision of CLBILS loans in excess of £50 million, which confirmed that they had an internal risk model approved by the Prudential Regulatory Authority or comparable regulator for lending at this scale. Lenders wishing to offer CLBILS facilities for a business loan in excess of £50 million also had to notify the BBB in advance of agreeing the facility.

¹ This was designed to support liquidity for larger, investment-grade businesses, by allowing them to bridge cash flow disruptions through the purchase of short-term debt in the form of commercial paper. See Annex D.

20. As with the main CBILS scheme, it was recommended that banks apply a 'business viability' test to assess the prospects of applicants. Following the CBILS model, applicants had to demonstrate that their business would be viable if it were not for the pandemic, that the pandemic had affected their business, and that the loan provided would allow them to trade out of any short/medium term difficulties resulting from the pandemic. Eligibility checks on turnover would fall within the remit of individual lenders; any business or group could apply for up to £25 million of finance or up to £50 million, as long as they had a turnover of above £45 million or £250 million respectively. It was further suggested initially that the CLBILS guarantee would only come into play where it was needed to make the difference between a bank being able to lend and not being able to provide the facility to a particular business [BR/C/09 – INQ000611606]. Based on HM Treasury research with lenders and the CBI, the maximum facility of £50 million was initially recommended as being sufficient to ensure businesses would continue trading through the period of disruption. However, this was later changed to a maximum loan size of £200 million for larger businesses.
21. Ultimately, by the time of going live with the scheme, CLBILS mirrored even more closely the design of CBILS. In particular, early thinking about restricting the scheme to only apply in cases where the lender would not make the loan under their own commercial risk appetite was dropped. As with CBILS, the scheme provided the lender with a government-backed, partial guarantee (of 80%). Finance terms ranged from three months to three years.
22. Due to the need to get cash to business quickly, HM Treasury did not consider a wide range of alternative schemes for delivering targeted economic support to larger businesses. However, the Chancellor was interested in understanding analysis on international comparisons, to help inform the design of the UK interventions [BR/C/10 – INQ000609339].
23. On 16 April 2020, the Chancellor officially announced his intention for CLBILS to proceed [BR/C/11 – INQ000065332]. It went live for applications on 20 April 2020, administered by BBB on behalf of BEIS through a range of accredited lenders.
24. Due to the design of CLBILS and the target businesses, the fraud risk was minimal and there are currently no CLBILS loans subject to the government's loan guarantee that have been flagged as suspected fraud by lenders in the government's latest published loan performance data. All companies were required to go through the usual checks and

diligence when applying for a loan through an accredited lender for this scheme which helped mitigate fraud in this instance. In addition, overall losses to date have been minimal, with the guarantee being settled on only 1.81% of loans by volume.

BBLs

25. Initial verbal feedback on the CBILS scheme, provided through bilateral calls between trade bodies, banks and the Chancellor, in mid-April 2020 noted that there was a delay in SMEs obtaining funding through the scheme. This was due to the affordability and security checks carried out by the lenders that took a number of weeks to complete, as per their standard process in normal times. Lenders used a BBB online portal to track the loan guarantees given for CBILS. This recorded the date of application, facility offer date and the draw down date. This could then be accessed by the BBB and was required to be kept up to date by the lenders as a loan application progressed. It was becoming clear that for some of the smallest firms 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. This initial feedback from the CBILS scheme, including a written submission from UK Finance [BR/C/11a – INQ000625751] outlining gaps in the support package, enabled HM Treasury to identify the specific cohort of small businesses which required additional targeted support. Streamlining the provision of financial support for smaller businesses through the CBILS scheme would be challenging because of the combination of the Consumer Credit Act and Financial Conduct Authority (“FCA”) rules. In many cases, this made it very difficult for the banks to lend to small traders in amounts below £25,000 for fear of contravening the rules [BR/C/12 – INQ000610868].

26. It was therefore recommended on 21 April 2020, in advice sought by the Chancellor, that rather than making further significant architectural changes to the CBILS scheme, a new quick-to-deploy loan guarantee scheme could be introduced that better targeted the cohort of small firms seeking small loans (incorporating a 100% guarantee). The main objective was being able to deploy access to finance rapidly. It was recommended that the most effective way to achieve this was by creating a streamlined self-certification process that removed the need for affordability checks, whilst providing comfort to lenders. This would be accompanied by a government guarantee which was introduced to give lenders the confidence needed to lend in light of the removal of certain counter fraud and affordability checks. The design of the scheme, including the self-certified application process, was intended to respond directly to the need to facilitate the rapid

delivery of loans to the UK's smallest businesses. It also built on the experience of designing and modifying CBILS, notably by banning personal guarantees at launch (and extending the prohibition from taking recovery action over a principal private residence or a primary personal vehicle for sole traders and small partnerships) [BR/C/13 – INQ000609356] [BR/C/14 – INQ000609355].

27. The proposed design was based on similar Swiss and German models [BR/C/14 – INQ000609355] [BR/C/15 – INQ000609725]. The scheme was intended to operate through a simple online form for applicants through the use of self-certification (similar to the Swiss model), whereby lenders would look to rapidly disburse loans within 24 hours of the application. Under the Swiss model, government guarantees of 100% for small firms were available on small loans of up to 10% of their turnover. Initial policy thinking was that BBLs would be capped at £25,000 or £50,000, with interest rate and fees for the first year paid by the government, with a loan term of five, six or 10 years. Various design elements of the BBLs were considered between late April to early May 2020, including the term of the scheme, the possible cap of either £25,000 or £50,000 and the possibility of a 10% - 25% turnover cap or no turnover cap at all. In relation to the applicable interest rate, internal HM Treasury advice was that a reasonable interest rate in the longer term would be between 2% and 6%, depending on a number of factors, including the size and length of the loan [BR/C/16 – INQ000609365].
28. The decision was ultimately made by the Chancellor, following receipt of advice on 1 May 2020, to introduce a standardised six-year term. Borrowers were entitled to pay the loan off within the six-year term without incurring an early repayment fee. In addition, the interest rate was fixed at 2.5%, which was deemed to be sufficiently low and attractive - a 2.5% rate would incentivise banks to lend to borrowers with an average market turnover, assuming they borrowed the maximum they could [BR/C/17 – INQ000609367]. The turnover cap was set at 25% and the maximum loan size was set at £50,000 to ensure widespread accessibility for businesses.
29. One of the difficulties faced by HM Treasury during the design process was the lack of specific data from some lenders, such as on their administrative costs, to determine how to price the fixed interest rate of the scheme. Given that the government was providing a 100% guarantee for BBLs, it was appropriate that the interest rate was fixed in the scheme design, to price this as low as possible to benefit SME borrowers while still being economic for the lenders concerned. The fixing of the interest rate in the scheme design

was novel compared with partial guarantee schemes which preserved commercial lending checks and pricing.

30. The BBB was chosen by the Chancellor as the administrator of the BBLs, as it was considered that finding an alternative administrator would be a lengthy process and would thus undermine the purpose of the scheme. HM Treasury's preliminary costing estimates suggested that the scheme could cost BEIS and BBB an additional £10 million in administrative costs to run the scheme and that the anticipated losses due to error and fraud were expected to be approximately £6 billion over the course of its 6-year term [BR/C/18 – INQ000609376].
31. In addition to HM Treasury's preliminary analysis, analysis provided to the BEIS Accounting Officer from PricewaterhouseCoopers and the BBB informed the government's collective understanding of the risk and scale of likely losses due to fraud. These risks were clearly understood at the time by HM Treasury, BEIS, and the BBB, for example as shown through a Reservation Notice sent by the BBB to the Secretary of State for BEIS detailing these concerns [BR/C/18a – INQ00062755]. A Reservation Notice is a mechanism in the British Business Bank's constitution through which the Bank may raise concerns on particular grounds (such as managing public money considerations). Additionally, as with all the loan guarantee schemes, the BEIS Accounting Officer sought a direction to proceed with the launch of the Bounce Back Loan Scheme, with the risk of fraud being one of several factors that made it necessary to do so. Further evidence is provided in the section on fraud and error later in this document [BR/C/18b-COVXXXXXXXXX].
32. The Chancellor, alongside the Secretary of State for BEIS, made the decision to proceed, with the Chancellor then providing the Secretary of State for BEIS with formal consent to launch the scheme. This was due to the severity of the economic situation at the time and similar interventions being introduced by other jurisdictions facing similar pressures [BR/C/19 – INQ000593968] [BR/C/20 – INQ000564002]. BBLs carried a higher risk of fraud to the Exchequer as it dispensed with usual commercial lending process (via the self-certification of eligibility by the borrower), favouring speed and requiring only standard fraud checks to be completed by lenders. This was inherent in the delivery of a different type of scheme that would very rapidly deliver finance to SMEs in an emergency.

33. In turn, this is reflected in the performance of the scheme. In the most recent data published on the government's website, lenders have flagged £1.88 billion of the £46.52 billion of BBLs drawn value as suspected fraud. Of loans already settled, £1.56 billion has been paid out to lenders against loans with a suspected fraud flag. While difficult to determine with accuracy on a lifetime basis, Department for Business and Trade (formerly BEIS until 2023) also model the fraud risk in the scheme as part of its annual reports and accounts, with the anticipated loss due to fraud of BBLs estimated to be 6.8% (equivalent to £1.941 billion).
34. The development of the BBLs faced significant time pressures due to the need to urgently address the emerging challenges highlighted by stakeholders and evident in the economy. Analysis and feedback from lenders at the time showed that following the launch of CBILs, many businesses were still facing a liquidity crisis due to gaps within the design of CBILs and due to lender backlogs in processing applications. This was primarily due to lenders still needing to undertake the standard affordability and credit checks as part of every CBILs application [BR/C/11a – INQ000625751] [BR/C/20b – INQ000625752]. The strong relationships and partnerships across government and with various others, such as banks and regulators, enabled the BBLs to be delivered rapidly and it went live to businesses on 4 May 2020, just seven days after the announcement of the scheme on 27 April 2020, and three days after final design approval by the Chancellor on 1 May 2020.

RLS

35. The final Covid-19 loan guarantee scheme, the RLS, was introduced later in the pandemic in April 2021. This followed an assessment and advice to ministers by HM Treasury officials in October 2020 on whether to extend the existing Covid-19 loan guarantee schemes. In response, the Chancellor was keen to announce a new 'successor' scheme based on CBILs, which later became the RLS. This was alongside decisions to extend BBLs, CBILs and CLBILs beyond the initial November 2020 closing date (announced in the Winter Economy Plan in September 2020) to January 2021, and then later to March 2021. The Chancellor was keen to ensure that the closure of the existing schemes was aligned with the opening of the new successor scheme [BR/C/21 – INQ000609793].
36. The proposed design for RLS was for a scheme based on CBILs, retaining the 80% guarantee, with a minimum loan size of £25,000 and applying the lightest possible

viability assessment [BR/C/21 – INQ000609793], while shifting back to more usual commercial lending checks. The scheme was set to commence on 6 April 2021, following the closure of the existing schemes to new loan applications on 31 March 2021, and was anticipated to run until 31 December 2021 (subject to review/extension as appropriate). The scheme was intended to operate UK-wide, providing an 80% guarantee to lenders for term loans, overdrafts and invoice and asset finance.

37. At launch (although reduced in later phases), the maximum loan size across all products was £10 million, the minimum loan size was £25,000 for term loans and overdrafts and £1,000 for invoice and asset finance. The scheme would be administered by the BBB via a network of accredited commercial lenders [BR/C/22 - COV01920625].
38. One of the issues identified at the design phase of RLS was in relation to applicable State aid measures in the wake of the transition period ending in December 2020, following the UK's Exit from the European Union. In particular, the implementation of the scheme in Northern Ireland would have to comply with State aid rules put in place by the European Commission [BR/C/23 – INQ000609794].
39. Whilst HM Treasury did not consider specific alternative schemes other than the existing BBB schemes, the design of the RLS was informed by looking at similar schemes in other countries [BR/C/24 – INQ000609796]. In assessing what design would be most suitable, HM Treasury also relied on evidence from officials and stakeholders such as relevant lenders, including evidence relating to the uptake of previous Covid-19 loan guarantee schemes and the impact these had had on efforts to support businesses throughout the pandemic, as well as on the gaps identified throughout the implementation of the previous schemes [BR/C/22 – INQ000609795] [BR/C/24 – INQ000609796]. This enabled HM Treasury to effectively target economic support to those businesses most in need.
40. The RLS was announced as part of the Winter Economy plan in September 2020 and subsequently went live on 6 April 2021.

Consultation at the initial design stage

41. Prior to the announcement and implementation of the CBILS, CLBILS and BBLS, HM Treasury communicated and consulted with stakeholders responsible for delivering support, by seeking feedback from the relevant lenders on what an ideal scheme would

look like in circumstances where the fast-developing nature of the pandemic required swift and practical implementation [BR/C/25 – INQ000610816] [BR/C/26 – INQ000609818] [BR/C/27 – INQ000609363]. Lenders in relation to the scheme also included a significant cohort of non-banks (for example Funding Circle). Extended calls, workshops and feedback sessions were held with main contact groups, senior executives from several lenders, and CEOs of challenger banks. This also included alternative finance providers with product/Enterprise Finance Guarantee scheme expertise [BR/C/07 – INQ000609220] (including Lloyds Banking Group, UK Finance, BBB, and the BoE [BR/C/28 – INQ000610822]) as well as other banking partners that would be involved in delivering and operating the schemes when launched [BR/C/03 – INQ000609218].

42. One of the most important partners to HM Treasury in determining the initial design of CBILS (and subsequent loan guarantee schemes) was the BBB and by extension BEIS, drawing on their expertise of administering loan guarantee schemes. The BBB is a state-owned economic development bank under the control of DBT, previously BEIS. The Covid-19 business loan guarantee schemes were ultimately delivered by commercial lenders accredited by the BBB [BR/C/29 – INQ000625777]. To be accredited under the schemes, lenders had to meet certain criteria. These criteria were not designed for the pandemic, rather they mirrored those exactly from the EFG scheme and had been in operation for over a decade. Criteria included: the ability to demonstrate a track record of lending to businesses; provision of evidence-based forecasts; a viable business model, robust systems and no unreasonable lender-levied fees and interest; and evidence of all the necessary authorisations and permissions to operate the scheme [BR/C/30 – INQ000609780]. The Accounting Officer for the loan guarantee schemes was the Permanent Secretary for BEIS – originally Alex Chisholm, then from April 2020 Sam Beckett, and from July 2020, Sarah Munby.
43. Working closely with BEIS and the BBB, HM Treasury led the policy design of each of the Covid-19 loan schemes, determining their scope, support mechanisms and risk parameters. BEIS and the BBB were responsible for operational delivery and implementation of the schemes. The BBB was also responsible for lender guidance and legal documentation.
44. More widely, HM Treasury sought and received advice, data and analysis from various internal and external parties, including potential lenders. For example, at the initial design phase of the CBILS, HM Treasury relied on internal analysis on what sectors

were anticipated to be more severely affected, as well as feedback from relevant stakeholders, such as potential lenders. Generally, stringent value for money assessments were not undertaken in the initial phase of planning due to the speed at which the relevant schemes were developed. This was also due to the overall consensus across all stakeholders that without these interventions, many thousands of businesses would face irreversible financial damage, which would prolong economic difficulties in the longer term.

45. In relation to the CLBILS, HM Treasury relied on data, analysis and feedback from major lenders [BR/C/26 – INQ000609818], as well as analysis prepared by the BoE [BR/C/28 – INQ000610822]. For example, the BoE’s analysis was crucial in identifying the ‘missing middle’ gap which left larger businesses ineligible for the CBILS and CCFF, creating a gap in the market, and in alerting HM Treasury to the need for targeted economic intervention.
46. Because the main objective of the BBLs was to create a streamlined self-certification process for the faster approval of loans with a 100% guarantee, this resulted in more extensive consultation with the relevant stakeholders. HM Treasury sought feedback, engagement and advice from major lenders on the development of the BBLs product and its delivery mechanisms. In particular, HM Treasury was keen to understand whether the major lenders considered the scheme to be capable of attaining the objective of helping small businesses access loans quickly, whether they foresaw any constraints and risks, and whether they had any concerns regarding capacity [BR/C/27 – INQ000609363]. In addition, HM Treasury engaged BlackRock (alongside the BoE) for loan pricing analysis to inform the BBLs pricing structure for the scheme [BR/C/31 – INQ000609369]. One of the matters that BlackRock advised on was whether a floating interest rate option could be an option posed to the Chancellor. However, the advice received by HM Treasury on this point was that the introduction of a floating interest would add complexity for lenders, which could in turn counteract the pricing savings they may achieve [BR/C/32 – INQ000610825]. This option was subsequently dropped.
47. The BoE’s ability to run analysis on behalf of HM Treasury was central in helping appropriately design the parameters for the BBLs ahead of the scheme going live. In addition, the BoE announced changes to its ‘Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises’ (“TFSME”) to support the introduction of BBLs, allowing eligible participants to extend their TFSME funding to align with the 6-year term of BBLs loans. The TFSME had been launched by the BoE in

March 2020, aimed to incentivise banks to continue lending, especially SMEs, as part of wider measures to respond to the economic shock from Covid-19.

48. A number of risks were also identified at the design stage of the BBLs, with the most significant being the risk of fraud and abuse, negative effects on the alternative finance sector, a possible distortion of the finance market, as well as a number of implementation challenges for the lenders brought on by the required speed of implementation [BR/C/33 – INQ000610825] [BR/C/34 – INQ000563990]. This resulted in some stakeholders asking HM Treasury for reassurances prior to the launch of the scheme. For example, UK Finance requested that HM Treasury agreed to indemnify lenders against potential losses under the scheme. It was argued that while the 100% guarantee protected lenders against default, other losses could arise as a result of the streamlined lending process, which would bypass much of the lender's due diligence and compliance processes [BR/C/35 – INQ000609371].
49. Recommendations were also made for the introduction of fraud checks, as well as the need to avoid overlap with the CBILs and other existing schemes [BR/C/27 – INQ000609363]. HM Treasury remained alive to the various risks described above during the design process and throughout the implementation of the scheme and was open to any proposals that could further reduce the fraud risk without undermining the fundamental principles of the scheme [BR/C/37 – INQ000609491]. Advice containing the initial concerns regarding potential fraud risk in BBLs was submitted to the Chancellor on 1 May 2020. As noted above, there had been ongoing collective engagement on this issue with the BEIS Secretary of State and the BBB [BR/C/19 – INQ000593968] [BR/C/20 – INQ000654002] [BR/C/37a – INQ000625755].
50. Work on successor schemes was underway by autumn of 2020 and to inform the likely shape of any such scheme, HM Treasury consulted the BoE on their view of the likely market conditions for early 2021. In the development of RLS, HM Treasury was able to draw upon the feedback garnered from the various stakeholders and lenders involved in the operation of CBILs. In particular, UK Finance, Innovate Finance, and the Finance Leasing Association all shared proposals for the new loan guarantee scheme. They proposed a scheme with an 80% guarantee that could be provided by a wide range of lenders and a term sheet broadly similar to CBILs, all of which were incorporated into RLS. Work continued throughout the development phase consulting with the BBB, BEIS as well as lenders and various industry associations to develop the department's evidence base.

51. Following implementation, consultation continued to inform assessment of the impact of the RLS scheme and the need for extension beyond the initial end date of 31 December 2021, which was later extended in the first instance to 30 June 2022. This was undertaken by way of surveys sent to lender types such as banks, providers of property and development finance, and asset backed lenders, allowing for internal analysis to be produced covering the impact of the scheme.

Scheme evolution and delivery

CBILS

52. By the end of March 2020, 471 CBILS loans had been approved, and 39 lenders had been accredited under the scheme, rising to over 22,000 loans and 52 accredited lenders by the end of the following month [BR/C/06 – INQ000609797].
53. On 30 March 2020, the Chancellor received advice from officials on the feedback from borrowers - in particular, it was advised that the scheme be widened to remove personal guarantees for loans under £250,000 that previously could be required by lenders and cap the calling of personal guarantees for loans above £250,000 to 20% of the outstanding balance [BR/C/06 - INQ000609797]. These modifications went further than the prohibition at launch of the scheme from taking a personal guarantee on a CBILS loan against a borrower's home. The Chancellor agreed and, on 3 April 2020, an announcement was made that the use of personal guarantees was to be curtailed.
54. In addition, the eligibility criteria for the scheme were widened. To maximise the support available, the Chancellor extended CBILS so that all viable small businesses affected by Covid-19 (and not just those unable to secure regular commercial financing) were eligible for the scheme, should they need finance to keep operating during the pandemic. The BBB summarised the changes to eligibility as requiring: the business activity to be UK based, with a turnover of no more than £45 million per year and the business to have a borrowing proposal which, were it not for the pandemic at the time, would be considered viable by the lender. The business was also to self-certify it had been adversely impacted by Covid-19.
55. Following feedback from industry on remaining frictions in the design of the CBILS scheme, officials then advised in late April 2020 on a 5-point plan: removing the previous

60% portfolio cap; speaking to the Prudential Regulatory Authority, part of the BoE, about capital relief for CBILS lending; removing the requirement for a forward-looking viability assessment; and providing lenders with a letter of comfort on HM Treasury's expectations of them under the scheme (notably on viability); as well as securing a supporting statement from the FCA and Prudential Regulatory Authority. The Chancellor agreed with the recommendations on 23 April 2020 [BR/C/06 - INQ000609797] and the five-point plan was announced on 27 April 2020, coinciding with the announcement of the BBLs.

CLBILS

56. On 14 May 2020, officials advised the Chancellor that the maximum CLBILS loan size should be increased, having identified companies ineligible for the CCFF but that required loans larger than the £50 million limit under CLBILS. The Chancellor agreed and the size of the loan was increased from £50 million to £200 million. This was subsequently announced on 19 May 2020. As a result of the increase, additional restrictions on loans over £50 million were considered and put in place. Borrowers were restricted from making dividend payments or distributing cash bonuses to senior management during the term of the loan. Additionally, share buybacks were also prohibited. The BBB had to be notified when any lender anticipated providing an aggregate loan in excess of £50 million given the government guarantee.

BBLs

57. In July 2020, following advice from officials on early thinking about how to support BBLs borrowers through forbearance and maximise recoveries, the Chancellor asked for universal and standardised forbearance options (noting the precedent of the German and French schemes for 10-year loan terms). In early August 2020, officials put forward three standardised support options for BBLs borrowers – later named Pay as you Grow (“PAYG”). These were the extension of the term to 10 years (by reducing monthly payments by almost half), the introduction of six-month interest only periods and a six-month payment holiday [BR/C/06 - INQ000609797] [BR/C/38 – INQ000609792]. The Chancellor agreed and these were announced in September 2020, with some additional changes announced in February 2021.
58. In late August 2020, mirroring the policy approach taken to mortgage holidays, the Chancellor asked for use of PAYG options to ensure borrowers' credit scores were not impacted. Regarding BBLs recoveries, the Chancellor asked for a 'code of conduct',

noting the importance of considering where HM Treasury could go further to protect borrowers [BR/C/06 - INQ000609797]. Guidance was subsequently issued by the FCA in January 2021 following consultation in December 2020. The purpose of the guidance was to explain to firms how to use and offer PAYG in compliance with Chapter 7 of the Consumer Credit Sourcebook, recognise and respond to customer vulnerability and help borrowers who needed debt advice.

59. On 10 September 2020, the Chancellor agreed with a recommendation by officials to ban doorstep visits for BBLs recoveries [BR/C/06 - INQ000609797]. In November 2020, options were explored to adjust BBLs to allow borrowers who had taken out less than the full loan amount to top up to the maximum they were allowed on the basis of their originally stated turnover. Following confirmation that borrowers were unable to take out a second BBLs facility, the Chancellor asked the relevant policy teams to enact changes to allow one-off BBLs top-ups to the maximum allowed [BR/C/39 – INQ000609544]; this was enacted by the BBB. Furthermore, the Chancellor asked that existing loan guarantee schemes had their window for applications extended until the end of December 2020. This was ultimately changed to the end of January 2021, to align with the end of mortgage payment holidays [BR/C/40 – INQ000609531].

60. As part of the Spring Budget in March 2021, the Chancellor announced a counter-fraud package which was intended to – among other things – target BBLs fraud with additional funding for enforcement activities and interventions to prevent company directors from taking out a BBLs loan and then folding the company to escape liability [BR/C/41 – INQ000114447] [BR/C/41a – INQ000625787] [BR/C/41b – INQ000625776][BR/C/41c – INQ000625786]. This was a cross-government effort, drawing in particular, on expertise in the Cabinet Office. Further information on the governments approach to fraud in BBLs can be found in paragraph 88 onwards.

61. On 24 September 2020, the Chancellor announced the extension to, initially, 30 November 2020 of CBILs, CLBILs and BBLs, as well as the intention to introduce a successor scheme, namely the RLS. In November 2020, the CBILs, CLBILs and BBLs were extended until the end of January 2021, with a further extension until the end of March 2021 agreed by the Chancellor in December 2020. As at the end of March 2021, a total of 100,245 loans had been approved through CBILs, 728 loans had been approved through CLBILs, and 1,540,767 through the BBLs [BR/C/06 – INQ000609797].

RLS

62. Following the closure of the CBILS, CLBILS and BBLs on 31 March 2021, the RLS scheme was launched [BR/C/42 – INQ000609635]. The scheme operated in three phases: 6 April to 31 December 2021, 1 January to 30 June 2022, and 1 July 2022 to 30 June 2024 [BR/C/43 – INQ000609798] [BR/C/44 – INQ000609799]. The third phase also included the renaming of the scheme as it was no longer for ‘recovery’ purposes. After 2024, the RLS changed to the Growth Guarantee Scheme and is now intended for a different purpose, but still aiming to support finance to SMEs.

Communication

63. The schemes were communicated to the public, businesses and stakeholders through articles published on the government website, BBB press releases and during news conferences. Banks also had their own messaging to the public.

Accessibility and unintended gaps

64. HM Treasury worked with other government departments and stakeholders to identify and target support where it was needed the most. Where gaps were identified during the design or implementation of specific schemes, HM Treasury looked at options to mitigate the gap following advice from industry and other stakeholders, such as the BoE. For example, when HM Treasury identified that the design of CBILS and CCFF had resulted in a ‘missing middle’, leaving larger mid-market businesses ineligible for support through these schemes, the Chancellor agreed to additional action, ultimately resulting in the establishment of CLBILS. Similarly, it was noted that CBILS was not providing adequate support to small businesses given the need for lenders to apply their typical criteria and other frictions. This led to the introduction of BBLs to ensure that as much of the SME population was covered as possible.

Monitoring

65. Whilst HM Treasury led on the policy design of the loan guarantee schemes, it was BEIS who was ultimately the legal body responsible for operationalising the scheme, with the BBB acting as the responsible delivery body. BEIS and the BBB therefore took primary responsibility for operational delivery and implementation, including the systems required to deliver the schemes and their ongoing monitoring. Whilst HM Treasury did

not monitor individual schemes directly, officials and ministers took a close interest in take-up and feedback provided by BEIS and the BBB to inform decision making on changes to the schemes as the pandemic developed.

66. This was especially the case with regards to the monitoring of fraud levels and recoveries. BEIS, along with the BBB, led work with the National Investigative Service to combat the recovery of fraudulent loans, and with the Insolvency Service regarding enforcement action on directors or companies with fraudulent loans. Whilst BEIS assumed overall responsibility, it was the BBB who collected and provided the data on overall scheme performance to BEIS and HM Treasury, across the loan guarantee schemes, and undertook to audit lender performance. BEIS was responsible for reporting on scheme performance, as covered in its Annual Reports and Accounts. The BBB produced a formal evaluation of the loan guarantee schemes' performance in a multi-year piece of analysis conducted by London Economics and Ipsos.
67. During the first few months following the launch of BBLs, HM Treasury received data directly from participating lenders (rather than through the BBB, although noting BBB received the same data under the contractual requirements of the guarantee) to allow HM Treasury to directly and rapidly understand the picture across the BBLs portfolio. This was requested by the Chancellor given the contingent liability of the loan guarantee portfolio that could fall on the Exchequer **[BR/C/44a – INQ000625782]**. Data received from lenders was in a standard format, and covered: the number of applications across the different stages (approved, received, processing, declined, withdrawn and drawn), the total value of each of these stages, the size of facilities approved, the term of the loan, and some metrics on the businesses themselves, such as turnover and number of employees **[BR/C/44b – INQ000625785]**. In addition to this, for CBILs and CLBILs, HM Treasury also received information on the interest rate charged and the type of facility provided. This allowed HM Treasury to understand the rate of uptake and therefore the effectiveness of the schemes across the industry.
68. The data was used for internal monitoring purposes by HM Treasury, notably by the Chancellor and the policy team, to understand the speed of deployment and coverage across businesses, to ensure the schemes were meeting their goals. Each day, a high level summary was produced, and a more detailed dashboard on a weekly basis. The dashboards looked at trends for each of the three schemes including; lender deployment figures, the number of applications approved and denied, the cumulative value of the facilities and total number of each facility deployed **[BR/C/44c - INQ000625757]**. This

data was shared with BEIS on a daily basis alongside the Chancellor's office, noting that BEIS would also be receiving data from BBB as their sponsor department. In addition, it was agreed that a weekly summary containing aggregated headline data (number and value of applications and number and value of facilities approved) for all three schemes, would be published on gov.uk (which is now maintained by the Department of Business and Trade on a quarterly basis).

69. The Treasury - in partnership with BEIS - used this data to refine the schemes in response to events on the ground (monitored in part through the data received by lenders, and additional verbal and stakeholder feedback).

Reflections and Lessons Learnt

Delivery mechanisms

70. The mechanisms of delivery adopted enabled the government to achieve the macroeconomic objectives it had set of providing the necessary financial assistance for businesses during a period of uncertainty and volatility. The three loan guarantee schemes described above cumulatively supported businesses by providing over 1.6 million loans to businesses, with a total drawn value of £76.89 billion (see Table 1 for breakdown). The National Audit Office has concluded that the BBLs alone reached a quarter of SMEs.
71. The speed at which some of these schemes were announced and became operational is an example of how existing relationships within government enabled a swift and efficient response to an unprecedented event. It is notable that CBILS was announced as part of the 11 March 2020 Budget and became operational on 23 March 2020, only 12 days after the announcement. BBLs was announced by the Chancellor on 27 April 2020, and went live on 4 May 2020, just 7 days after the relevant announcement. That would not have been possible were it not for a shared sense of purpose and collaboration between government departments, especially HM Treasury and BEIS, as well as the benefit of having the expertise of the BBB and a pre-existing scheme (EFG) on which the government was able to draw in the first instance.

Benefits and drawbacks

72. HM Treasury was able to leverage an existing wealth of knowledge held internally, as well as its relationships with the financial sector, the BBB, and the regulators (both the FCA and BoE), all of which were critical components to a successful outcome in the midst of an unprecedented global health emergency. The above supported HM Treasury's efforts during the design and rollout of the schemes, introducing a crucial and useful feedback loop, which enabled the schemes to be refined post-implementation (for example, by resolving issues surrounding the application of the Consumer Credit Act, and the initial challenge for lenders to advance loans below £25,000), whilst also allowing HM Treasury to deliver much needed support at pace.
73. In addition, the willingness of all relevant parties to adapt the schemes in response to feedback, as well as to implement learnings and improvements at a continuous pace, were some of the strengths identified by HM Treasury. Notably, the BBB invested in its existing systems, with a view to supporting increased automated processing, with Application Programming Interfaces reducing the burden on lenders, thus increasing efficiency. Steps were also taken to help reduce known fraud risks, notably by tackling duplicate loan checking through the fraud prevention service, Cifas.
74. Furthermore, the BBB introduced relationship managers for participating lenders, which allowed for better handling of challenging conversations regarding BBLs and ensured that the BBB received honest feedback. It also ensured that it was properly notified of any challenges faced by lenders.
75. The formalisation of the counter fraud strategy, involving the Cabinet Office, further provided clarity regarding the scale and the nature of work required for each scheme. This mechanism had not existed previously and served to increase confidence that fraud was being tackled appropriately and consistently. The above resulted in a renewed mechanism for the identification of possible fraudulent claims, through the utilisation of government data sources and by sharing the relevant information with lenders to ensure proper verification of suspected fraud claims. For BBLs, the government was also able to draw in wider private sector expertise where this was needed, such as the involvement of lawyers, and others critical to the management of public money, fraud risk mitigation and counter-fraud efforts, in particular running audits of the lenders to ensure the schemes were being properly administered. This was reflected too in the fraud package announced at Spring Statement in March 2022, where HM Treasury provided £48.8 million of funding over three years, in part to enhance the BBB's counter-fraud work.

76. On the other hand, HM Treasury identified a number of limitations and challenges, some of which became apparent during the design phase of the schemes. One significant challenge was that the CBILS struggled to deliver the required level of financing to meet economic demand at pace (ultimately resulting in the launch of the BBLs). The view was taken that some of the limitations identified by HM Treasury could be remedied within the existing CBILS scheme, such as by only enabling the taking of personal guarantees for loans in excess of £250,000 and capping the recovery amount at 20% of the outstanding loan for the personal guarantee (going beyond the prohibition at launch of the scheme from taking a personal guarantee on a CBILS loan against a borrower's home.) This extended too to relaxing the requirements so all viable small businesses affected could access a CBILS loan (rather than limit this only to those unable to secure routine commercial finance). However, some of those barriers were of a more fundamental nature. For example, HM Treasury was aware that some businesses were not used to borrowing and may lack an existing financial relationship with a lender. As such, it was a priority to ensure that those businesses were able to access debt through the scheme with ease and at pace.
77. The typical turnaround for approval through CBILS was five weeks; this was a result of the level of checks being undertaken on applicants. Based on this experience, as well as learning from other jurisdictions (some of which had 100% guarantee schemes in place to help expedite funds more quickly, such as Germany and Switzerland), it became apparent that continuing to refine the existing CBILS scheme would not be a sufficient measure to address the severity of the escalating situation. In particular, in April 2020, a survey by the Institute of Chartered Accountants in England and Wales registered that a third of businesses had liquidity concerns; in particular, businesses were concerned that they would not have sufficient cash to survive for more than two weeks in lockdown. It is very difficult to model with accuracy the impact of the BBLs in preventing business failure. However, further reports since the pandemic have confirmed the severity of the situation, particularly regarding SMEs and smaller businesses, with one analysis estimating that limited cash balances by SMEs could have caused significant hardship, as around half of SMEs had less than one month's worth of sales as cash in the bank [BR/C/01 – INQ000096931].
78. HM Treasury noted fewer fundamental issues with the CLBILS design. This largely reflects the nature of the loan applicants and it being of lower risk lending to larger and more established businesses, as would be the case in any conventional lending relationship. As described above, prior to the launch of the scheme, the government had

revised the scheme so that it applied to all viable businesses with a turnover above £45 million where, previously, it had been decided that there would be a cap for the scheme at £500 million turnover. In addition, the amount available to borrowers was extended, as the impact and duration of lockdown measures persisted, to £200 million in May, from the initial £50 million at launch.

79. The main limitation identified in relation to BBLs was the obvious trade-off between speed and assurance, especially as eligibility on BBLs was contingent on a process of self-certification by the relevant applicants. The lack of a duplicate loan check was deemed to be a particularly vulnerable aspect for fraud – this and other useful counter-fraud measures that could have assisted in offsetting some of the risks of self-certification were absent at launch, as they required systems to be built which would require additional time. The relevant risks were known to HM Treasury at the outset; these risks were accepted by ministers to ensure the swift implementation of the scheme, with a view to delivering much needed assistance and mitigating competing risks. Importantly, the required fraud systems were ultimately built and operating by the BBB in approximately six weeks which mitigated the ongoing fraud risk.
80. There were additional limitations in relation to the BBLs, for example on what could reasonably be expected of the financial sector, which in turn had to significantly expand its operations with a view to providing these new facilities at a point of unprecedented demand. This included the provision of services to ‘new to bank’ borrowers, such as those operating businesses out of personal accounts without any business facilities. The demand for finance exceeded expectations, with the BBB estimating that nearly half (45%) of SMEs applied for external finance in 2020, compared to 13% in 2019. At the same time, gross bank lending (excluding overdrafts) to smaller businesses rose to £104 billion in 2020, 82% higher than in 2019, driven by use of the government loan guarantee schemes [BR/C/45 – INQ000609927]. Even if the BBLs had been designed with increased checks – which would in turn have resulted in slower approval rates – it is unclear that the financial sector could have absorbed these requirements and kept up with the demand for loans at the pace required.
81. BBLs applicants faced the highest repayment challenges, either due to continued financial struggles, or due to a lack of understanding of the facility in the first place. However, the government adjusted to the situation in hand, in particular through the introduction of PAYG forbearance measures to aid businesses further in meeting loan repayments. Through the introduction of PAYG, the government sought to balance

fairness to struggling businesses and supporting their long-term recovery with taxpayer value, giving businesses a chance to repay through a more realistic payment schedule for their needs.

82. Throughout the lifetime of the Covid-19 Loan Guarantee Schemes, a total of £76.89 billion was deployed across CBILS, CLBILS and BBLS. Repayment data is available on the government's website as of 31 December 2024, as published on a quarterly basis by DBT:
- a) CBILS has a total drawn value of £25.83 billion, of which £0.06 billion has been flagged as fraud. 89.01% of the total facilities by volume are either fully repaid or on schedule, with 2.13% by volume in arrears or defaulted. In total, the guarantee has been settled (paid out to the lender following standard recovery procedures) on 8.34% of cases by volume, equating to £0.94 billion.
 - b) CLBILS has a total drawn value of £4.542 billion, with no loans flagged as suspected fraud. 97.64% of the total facilities by volume are either fully repaid or on schedule, with only 0.42% by volume in arrears or defaulted. In total the guarantee has been settled on 1.81% of cases by volume.
 - c) BBLS has a total drawn value of £46.52 billion, of which £1.88 billion has been flagged as fraud. 69.68% of the total facilities by volume are either fully repaid or on schedule, with 5.54% by volume in arrears or defaulted. In total the guarantee has been settled on 23.65% of cases by volume, equating to £10.48 billion.

Future policy making and lessons learnt

83. The experience of designing and operating the loan guarantee schemes has enabled HM Treasury to establish a 'toolkit' on which to draw in the future. Across the design of the various loan guarantee schemes, HM Treasury experienced first-hand the different issues that come into play in designing a scheme and the relative degrees of government intervention in the mechanics of loan-making. For example, HM Treasury has more experience of the extent to which it is appropriate for personal guarantees to be permitted, the impact of the Consumer Credit Act on lenders' appetite to advance credit, the degree to which it is right or desirable to fix the rate of a loan, as well as the role of portfolio caps and fees on accessing guarantees.
84. Should the government face a similar crisis in the future, HM Treasury would therefore have more experience from the outset, with many of the learnings from the set-up of the

different Covid loan guarantee schemes documented for any future interventions, through internal records, and various reports and institutions, such as the BBB and Public Accounts Committee reports. In a perfect world, a partial guarantee scheme which would allow lenders the responsibility to make their own affordability and credit assessments, as well as run the recovery process, would be adequate. In the case of Covid and the need for credit to be advanced as quickly as possible, it is difficult to envisage how even a perfectly calibrated CBILS scheme at the outset would have met demand at the requisite scale and pace, as well as achieving ministers' desire for speed and certainty for businesses.

85. The majority of our reflections relate to the BBLs, given that CBILS was closely modelled on a pre-existing and successful SME loan guarantee scheme of government.
86. On the operational side, a much wider span of government and the BBB have the benefit of experience when it comes to financial crime controls and recovery. In the future, this would make it easier to determine and communicate expectations around fraud recoveries sooner rather than later. In addition, public datasets could be better utilised from the outset to mitigate fraud risk as far as possible, and HM Treasury would benefit from both the experience and the systems built during the pandemic, so counter-fraud measures would be in place sooner. Further learnings from the design and utilisation of the Covid-19 loan guarantee schemes include the involvement of officials from the Public Sector Fraud Authority early so an initial Fraud Risk Assessment could be completed, as well as working closely with BBB to explore what could be put into potential guarantee agreements in terms of obligations for lenders on fraud prevention. On data-sharing, one of the key lessons learnt from the pandemic schemes was to build into the guarantee agreement arrangements for data sharing between lenders and government bodies to identify fraud and support ongoing recovery efforts.
87. The experience of the pandemic has highlighted the importance of delivering through others by engaging in open and clear communication between the private and public sectors, as well as the need to better streamline approval processes, and publish data about future schemes as soon as possible, to keep the public informed. Finally, in a future scenario, HM Treasury would need to again consider early whether there are any State aid subsidy implications requiring engagement with BEIS and the European Commission with respect to Northern Ireland and the rest of the UK.

Fraud and Error

88. The CBILS and the CLBILS schemes were designed to ensure that a business's application would closely resemble the normal process when applying for a traditional loan from a bank. As part of this application process, lenders undertook traditional affordability and counter fraud checks that ensured that the relevant fraud risks would remain low. However, these checks significantly slowed the process of distributing loans to businesses and, after the launch of CBILS in March 2020, HM Treasury began receiving feedback from stakeholders that finance was not being provided to businesses quickly enough. This came at a time where data showed that many businesses were a short time away from failing due to lack of funds. It was also noted that some businesses were finding CBILS applications very challenging because of unfamiliarity with traditional credit and affordability checks. This ultimately meant that the businesses the government had wanted to support were not able to access CBILS due to either not passing affordability checks, or not able to access CBILS quickly enough due to the time taken to complete the checks. Finally, as already outlined above, the support offered by CBILS did not support the smallest businesses, due to the challenges for lenders of providing facilities below £25,000. All this ultimately led to the establishment of the BBLS.
89. The 'streamlined' application process for the BBLS meant that the risk of fraud under the scheme was significantly higher than under CBILS and CLBILS. HM Treasury, BEIS and the BBB were aware of this before introduction, and it was considered by ministers as part of the wider decisions taken on the scheme.
90. Critically, other mitigations against fraud were kept in place, such as the requirement for banks to conduct Anti-Money Laundering and Know Your Customer checks, a minimum set of fraud checks, and further restrictions on loan eligibility. Businesses registered after 1 March 2020 were not eligible for finance under the scheme. Those that also had an existing facility under the CBILS, CLBILS, or the Bank of England run CCFF, were also not allowed to apply for a loan under the BBLS.
91. In their first year report on the Covid Loan Guarantee Schemes, the British Business Bank explained how efforts were taken to ensure at the outset that essential counter-fraud initiatives were in place, notably Know Your Customer and Anti-Money Laundering, and that applications could be swiftly checked against fraud bureaus like Cifas. They estimated that this prevented a high number of frauds, estimated at £2.2 billion [BR/C/46

– [INQ000626462] Efforts were also taken to improve data analytics which has underpinned the government’s counter-fraud recovery efforts, and to delineate different typologies of fraud and understand how best to treat those different cohorts.

92. The Permanent Secretary of BEIS, who was responsible for the delivery of the BBLs, sought a Ministerial Direction to implement the BBLs, noting that even with mitigations in place, the residual fraud risk remained “very high”. The BEIS Secretary of State provided the Ministerial Direction, noting that the “risks are outweighed by the need to get support to small businesses as quickly as possible”. Such Directions were sought for all the Covid loan guarantee schemes.
93. Specifically for the BBLs, and as highlighted above, a Reservation Notice was also served by the BBB directly to the Secretary of State for BEIS. This was despite the Permanent Secretary of BEIS having already received a ministerial direction from the Secretary of State for BEIS to launch the scheme, which had in turn been relayed to the BBB. [BR/C/37a INQ000625755] [BR/C/48 – INQ000625756]. This reservation notice noted concerns over the “extensive reliance on customer self-certification and the corresponding fraud risk” resulting from that reliance. [BR/C/49 - COVXXXXXXXXX]
94. Due to the need to get money to businesses as quickly as possible, the window for scheme development was necessarily limited. However, additional design features of the BBLs were subsequently introduced with a view to limiting the risk of fraud. These included:
 - a) On 26 June 2020, a duplicate application database was implemented, enabling lenders to upload loan applications to check against other lenders’ registered applications and duplicates were flagged.
 - b) In July 2020, a change of director flag was introduced as a key flag used to identify potential fraudulent cases, which identified previously registered companies that were inactive and had been subject to a director change since the scheme was launched.
 - c) In November 2020, a newly incorporated business flag was introduced so lenders would be able to verify if a business has been incorporated after 1 March 2020 and were therefore ineligible for the scheme.
 - d) In December 2020, turnover figure checks with tax records from HMRC were introduced, which allowed lenders to verify turnover declarations with HMRC using

the Mortgage Verification System and was specifically targeted to high-risk applications.

- e) In March 2021, a bulk dissolution objection process was introduced, preventing companies with a current outstanding government loan liability from being removed from the Companies House register until lenders were able to investigate for any fraud.

95. These additional controls were relevant only in respect of the BBLs, and all other schemes required lenders to undertake full credit, counter fraud, and affordability checks as part of their application.

96. Concern around the risk of fraud was a key focus across government and within HM Treasury, both prior to launch and thereafter, with multiple sets of advice provided throughout 2020-2022 by officials to ministers concerning fraud within BBLs). Early advice on the risks of fraud in the scheme was provided to ministers in late April 2020, informed in part by early concerns expressed by the BBB to the Permanent Secretary of BEIS [BR/C/50 – INQ000625753]. There was also a detailed residual risk summary included in Chancellor advice produced by HM Treasury in late April 2020 [BR/C/51 – INQ000625754], which included not only fraud risks and checks, but other residual risks such as legal, operational, eligibility and post-delivery. This outlined fraud and other and other risks associated with; the self-certification which lacked verification, Know Your Customer / Anti Money Laundering checks required for those with Personal Current Accounts adding delay to release of funds, and ways in which BBLs could be open to fraudulent use, for example multiple applications and use by dormant entities.

97. Reports from PricewaterhouseCoopers (“PWC”), the first drafts of which were received in late April 2020, detailing the results of a fraud risk review into the scheme were also provided to the BBB and shared with officials in HM Treasury and BEIS. These reports were used to inform the department Accounting Officer’s (AO) assessment of the scheme, and ultimately informed the decision for the Permanent Secretary of BEIS to seek a ministerial direction from the Secretary of State for BEIS to launch the BBLs [BR/C/52 – INQ000564002].

98. At the beginning of May, prior to the BBLs launch, Ministers were advised on multiple occasions on decisions around the previously raised fraud concerns. This included

advice on additional funding for BBB to operationalise the scheme, as well as cover for any losses, given that the PWC report highlighted these could be high due to fraud [BR/C/53 – INQ000609376]. The CX confirmed that he was comfortable providing budget cover for all losses. Additional advice [BR/C/54 – INQ000625754], included fraud as a key risk to the scheme and taxpayer. It highlights how the self-certification process was open to fraud, as well as the speed at which banks were being asked to deploy funds, which necessitated fewer checks being carried out.

99. Following the launch of the scheme, work continued across government on fraud risks within the scheme. On 5 October 2020, Lord Agnew and the Minister of Security, James Brokenshire, wrote to the Economic Secretary expressing their concern about the fraud risk associated with the BBLs [BR/C/55 – INQ000625780], which was later responded to by Economic Secretary [BR/C/56 – INQ000625781]. In particular, they referenced the National Crime Agency's BBLs Threat Assessment, which indicated that organised criminal gangs had targeted the scheme. In response, the Economic Secretary confirmed that a number of initiatives had been implemented, working alongside officials in the Home Office, Cabinet Office, BEIS and BBB. This included the duplicate application database referenced above, as well as the contractual engagement of the National Investigation Service to investigate high priority cases of suspected fraud [BR/C/57 – INQ000625775] implementation of a Fraud Analytics Programme to identify suspicious applications, and focus on the highest risk cases and investigate them; a Covid-19 fraud hotline [BR/C/58 – INQ000625769], enabling anybody in the UK to ring up and share information; a detailed Fraud Risk Assessment, drafted by the BBB, to shape wider counter-fraud work; and guidance on recoveries, including a dedicated section advising lenders on what action to take where they suspected that a customer had exploited the scheme.
100. Counter-fraud boards at official level were also set up to co-ordinate and monitor fraud management efforts, with the BBB holding the first counter-fraud forum between accredited BBLs lenders, the BBB and Government on 6 May 2020. A ministerial level fraud board was also set up to discuss fraud across the different interventions across Government in response to Covid-19 [BR/C/59 – INQ000625759] [BR/C/60 – INQ000625760]. Advice also continued to flow to the Economic Secretary, updating him on new measures being launched to combat fraud after the launch of the scheme [BR/C/61 – INQ000625758] [BR/C/62 – INQ000625761]. The Economic Secretary was also advised by officials on 9 June 2020 on a number of proposals made by the BBB to further counter-fraud measures. This included recommendations to allow the mandatory

use of the CIFAS counter fraud system as well as allowing further time to investigate suspicious applications [BR/C/63 – INQ000625762].

101. The Chief Secretary was also involved in scheme counter-fraud work post launch, and on 3 August 2020, approved three business cases from BEIS allowing for investigations on fraudulent loans from National Investigation Service [BR/C/64 – INQ000625766]. The Chancellor announced measures at Budget 2021 to tackle BBLs fraud, which included funding for law enforcement agencies to detect and investigate fraudulent BBLs facilities, new powers for the Insolvency Service to investigate and disqualify directors of dissolved companies with a BBLs facility, as well as a 'blanket objection' for any company with a BBLs facility to be struck off the Companies House register [BR/C/41b – INQ000625776] [BR/C/41a – INQ000625787].
102. Ministers and officials continued to work on counter-fraud activities after scheme closure and worked across Government and with external organisations on counter-fraud. This included an agreement from the Economic Secretary approving the public release of lender performance data under the BBLs, ministerially agreed positions on fraud recovery strategies, as well as further counter-fraud funding accounted at Spring Statement 2022 [BR/C/67 – INQ000625779] [BR/C/68 – INQ000625778] [BR/C/69 – INQ000625788]. Fraud recovery work remains ongoing across Government to ensure that funds obtained fraudulently through Covid Loan Guarantee Schemes are returned to the taxpayer where possible, and that appropriate enforcement action is taken.
103. Outside HM Treasury, several external evaluations were undertaken. These covered, amongst other things, the fraud levels of the schemes and provided recommendations to government. These reports include Public Accounts Committee, the National Audit Office and BBB submissions. These often criticised the speed of delivering finance via BBLs above protecting the taxpayer from fraud. The government responded by confirming that the risks relating to fraud were communicated to ministers prior to launch (for example, as per advice to the Chancellor on 1 May 2020), and that without that speed many businesses would have gone into insolvency.
104. Initial loss estimates were included in the Annual Reports and Accounts for BEIS (2019-2020), although noting that these were estimated prior to any repayment data being available. The government continued to focus on the level of fraud following the launch of the schemes, ensuring that continued developments in this space were implemented, such as the Cifas solution for duplicate loans and enlistment of enforcement agencies

to pursue serious cases. The latest assessment of fraud levels for each scheme is provided above.

Table 1: performance of Covid loan guarantee scheme

105. The below table shows the different loan guarantee schemes, comparing their key repayment statistics and structure of the guarantee schemes. Please note that this does not include the RLS, given that this was more of a post-pandemic 'recovery' measure.

106. Please note that repayment data is quoted as of 31 December 2024 and percentages are of total volume of facilities. This data is published on a quarterly basis by DBT on the government's website.

<u>Loan Guarantee Scheme</u>	<u>Coronavirus Business Interruption Loan Scheme (CBILS)</u>	<u>Coronavirus Large Business Interruption Loan Scheme (CLBILS)</u>	<u>Bounce Back Loan Scheme (BBLs)</u>
Key Repayment Statistics			
<u>Total drawn debt</u>	£25.83bn	£4.54bn	£46.52bn
<u>Total fully repaid</u>	45.43%	95.83%	14.64%
<u>Total guarantees settled</u>	8.34%	1.81%	23.65%
<u>Total outstanding</u>	46.23%	2.36%	61.71%
<u>Total flagged as fraud</u>	£0.06bn	None	£1.88bn
Key Facility Terms			
<u>Guarantee %</u>	80%	80%	100%
<u>Interest rate</u>	Set by lender	Set by lender	2.5% Fixed
<u>Tenor</u>	Up to 6 years	Up to 3 years	Up to 6 years initially, later extended to 10 years with PAYG
<u>Max loan amount</u>	£5m	£200m	£50k
<u>Security</u>	Personal Guarantees possible, only on loans above £250k only	Personal Guarantees possible, only on loans above £250k only	Personal Guarantees not permitted

Definitions

107. **'Settled'** is the amount paid out under the guarantee to lenders, therefore equivalent to losses to the Exchequer. Sometimes recoveries are made even once a guarantee has been settled and so some of these losses can be recouped. Settled includes those guarantees that have been paid out to lenders but are suspected fraud.
108. **'Fully repaid'** is the repayment of the full loan amount and therefore there are no further obligations on the borrower.
109. **'Outstanding'** refers to all other life events, including in default, in arrears, on schedule and claimed (prior to settled).
110. **'Flagged as fraud'** refers to the amount of loans subject to the guarantee that have been flagged as suspected fraud by lenders.