

Witness Name: Gareth Davies

Statement No.: 2

Exhibits: GD02/01 – GD02/19

Dated: 22 May 2025

THE INDEPENDENT UK COVID-19 INQUIRY

MODULE 9 (ECONOMIC RESPONSE)

**STATEMENT ON CURRENT POLICY AND IMPLEMENTATION OF IMPROVEMENTS
ON BEHALF OF THE DEPARTMENT FOR
BUSINESS AND TRADE**

SECOND STATEMENT OF GARETH DAVIES (PERMANENT SECRETARY)

SECTION 1: INTRODUCTION.....	3
Machinery of Government Change	3
My Role and Background.....	4
Terminology Used in this Statement	4
SECTION 2: IMPROVEMENTS TO DEPARTMENTAL PREPAREDNESS AND CROSS-WHITEHALL WORKING IN READINESS FOR A FUTURE PANDEMIC....	5
Emergency Response Co-ordination Team.....	5
National Pandemic Exercise and DBT’s Pandemic Playbook	7
Economic Shocks.....	8
Cross-Whitehall Working	9
Public Sector Fraud Authority	12
Counter Fraud.....	12
Cost-effectiveness.....	16
SECTION 3: LOANS - DBT’S APPROACH TO RECOVERY UNDER THE COVID- 19 LOAN SCHEMES AND IMPROVEMENTS FOR THE FUTURE.....	18
Preparing for the Business Support Response to a Future Pandemic	18
The Emergency Finance Playbook	23
Addressing Past Fraud Under The Covid-19 Loan Schemes	25
SECTION 4: GRANTS - DBT’S APPROACH TO RECOVERY UNDER THE COVID- 19 BUSINESS GRANT SCHEMES AND IMPROVEMENTS FOR THE FUTURE... 	32
Grant Delivery Directorate (GDD).....	32
Delivery Model Considerations.....	34
Recovery of Irregular Payments	36
Data Sharing in Future Grant Schemes	38
SECTION 5: CONCLUSION	40
Statement of Truth.....	40
ANNEX GD02/01 – LIST OF DBT MINISTERS (2023 TO PRESENT).....	41

I, **Gareth Davies**, will say as follows:

SECTION 1: INTRODUCTION

- 1.1. I am Permanent Secretary for the Department for Business and Trade (**DBT**) and have been since its establishment on 7 February 2023. This is a corporate witness statement made on behalf of DBT.
- 1.2. This statement forms part of the wider Module 9 response on behalf of DBT to the Inquiry's Rule 9 request dated 20 December 2024 (the **Rule 9 request**). I have provided a detailed first statement, in response to the Rule 9 request covering the relevant economic response of the former Department for Business, Energy and Industrial Strategy (**BEIS**) (the **Corporate Witness Statement**). The Corporate Witness Statement sets out detailed critical reflections on the contribution by BEIS to the Government's economic response to the Covid-19 pandemic.
- 1.3. This second statement addresses DBT's current policies and preparedness, the implementation of improvements since the pandemic, and DBT's continuing policy development in the areas relevant to Module 9 of the Inquiry.
- 1.4. The Inquiry has asked DBT to identify and describe lessons learned and steps it has taken since the pandemic to improve readiness for a future pandemic. The Inquiry has requested a chronological list of any internal or external reviews, lessons learned exercises or similar, produced or commissioned by DBT in this regard; this was provided to the Inquiry with the Corporate Witness Statement (in Annex 5).
- 1.5. Section 2 of this statement details relevant changes at a DBT departmental level and touches on improvements across Government that are particularly relevant to DBT's current capabilities.
- 1.6. Section 3 of this statement addresses in more detail DBT's improved readiness in respect of future loan schemes.
- 1.7. Section 4 of this statement addresses in more detail DBT's improved readiness in respect of future grant schemes.

MACHINERY OF GOVERNMENT CHANGE

- 1.8. The functions of BEIS were absorbed into DBT in a Machinery of Government change in February 2023. On 7 February 2023, DBT was set up to focus on delivering economic growth opportunities across the economy, to ensure economic security and

supply chain resilience, to support free trade, and to promote British businesses on the global stage and attract high-value investment. DBT brought parts of the newly decommissioned BEIS together with the Department for International Trade (**DIT**). Annex 2 to the Corporate Witness Statement sets out ministers for BEIS up to February 2023; ministers for BEIS and DBT since February 2023 are set out at Annex GD02/01 to this statement.

MY ROLE AND BACKGROUND

- 1.9. As Permanent Secretary, I have overall responsibility for the effective running of DBT, in addition to my responsibilities as Accounting Officer.
- 1.10. I was previously the Permanent Secretary of DIT (from 9 January 2023 to 6 February 2023). I have also held roles in the Department for Transport (as Second Permanent Secretary and at Director General level); in BEIS (as a Director General); and leading the Prime Minister's Strategy Unit. My earlier experience outside the Civil Service included work with PricewaterhouseCoopers and AIA insurance.

TERMINOLOGY USED IN THIS STATEMENT

- 1.11. In this statement, I refer to 'the Department' or 'BEIS' when referring to the former functions and areas of responsibility of the Department for Business, Energy and Industrial Strategy, and 'DBT' when referring to the current department.
- 1.12. I use 'economic measures' to refer to all economic schemes (whether involving loans or grants). I use 'Covid-19 loan schemes' to refer collectively to all government-backed loan guarantee schemes deployed on an emergency basis during the Covid-19 pandemic, as set out in Part B of the Corporate Witness Statement. The Future Fund was not a loan guarantee scheme and is referred to by name, where relevant. I use 'Covid-19 business grant schemes' to refer collectively to all grant schemes deployed on an emergency basis during the Covid-19 pandemic, as set out in Part C of the Corporate Witness Statement.
- 1.13. In preparing this statement, I have relied on the work of DBT's Covid-19 Inquiry Response Unit. DBT officials have coordinated and liaised with colleagues with relevant knowledge and experience across DBT and their contributions have informed the content of this statement. I have made clear where I have put forward my personal reflections, below. However, this is for the most part, a 'corporate' statement insofar as I have drawn and relied upon extensive input from colleagues.

SECTION 2: IMPROVEMENTS TO DEPARTMENTAL PREPAREDNESS AND CROSS-WHITEHALL WORKING IN READINESS FOR A FUTURE PANDEMIC

2.1. I set out below changes made within DBT, and to arrangements between departments, to implement knowledge gained during the Covid-19 pandemic in preparation for a future all-systems emergency, including another pandemic, which might require DBT to deploy urgent economic measures.

EMERGENCY RESPONSE CO-ORDINATION TEAM

2.2. Under the Machinery of Government changes in 2023, most BEIS central emergency response staff moved to the Department for Energy Security and Net Zero (**DESNZ**) to form a new emergency response structure for energy critical national infrastructure. During this transition period, DESNZ maintained an emergency rota on behalf of DBT and the Department for Science, Innovation and Technology, as an interim measure, until April 2024.

2.3. In April 2024, DBT established a new Emergency Response Co-ordination Team (the **ERCO Team**) to provide central co-ordination of emergency response, resilience, and preparedness. Existing organisational knowledge from BEIS was transferred into the new DBT ERCO Team, and the team has been fully staffed with six full-time employees since April 2024. With a dedicated ERCO Team, DBT is better prepared to:

- a) fulfil its responsibilities as Lead Government Department for the Critical National Infrastructure sectors for which it is responsible: chemicals and postal services; and
- b) contribute to the wider government response to national emergencies, including the economic measures that would need to be part of the response to any kind of all-systems emergency, including a future pandemic.

2.4. The ERCO Team has developed a departmental Concept of Operations {GD02/01 – INQ000596719}, which is aligned with best practice as set out in central Government's Concept of Operations {GD02/02 – INQ000096875} and Resilience Framework {GD02/03 – INQ000576418}. The DBT Concept of Operations provides a guide for all staff in the department on how emergencies are managed within DBT, detailing the concepts and principles of emergency response in the UK. This includes:

- a) roles, responsibilities, and structures during an emergency response, both across government and within DBT; and
 - b) ways of working during an emergency response (including staffing and shift arrangements, information management, and wellbeing arrangements).
- 2.5. The ERCO Team has also developed a training and exercising plan, which includes the delivery of multiple departmental exercises and has been delivered to about 100 staff to date from a variety of different areas (including policy, analysis, and legal). These individuals are now prepared and available to support DBT's response during a large-scale emergency, with Gold, Silver, and Bronze command structures which set out levels of responsibility from senior civil servants to operations and policy. This pool of volunteers will be regularly refreshed and training will run every six months.
- 2.6. The Business Resilience Board, chaired by the Director of Business Intelligence and Engagement, provides oversight of the creation and subsequent implementation and maintenance of emergency response structures and processes in DBT, including the ERCO Team. It also provides assurance on DBT's response preparedness and capabilities. The Board has met quarterly since September 2024.
- 2.7. The ERCO Team has already been deployed. Between 2024 and 2025, it co-ordinated DBT's response to incidents in the Middle East and the CrowdStrike IT outage. This included bringing relevant teams across DBT together to map the impacts on departmental interests, communicate information about them, liaise with COBR and other government departments, and ensure DBT was prepared, if required, to deliver further support. These deployments enabled the ERCO Team to build its corporate and practical knowledge; for example, in respect of how information is collated from various teams in DBT.
- 2.8. The ERCO Team is preparing an Enduring Response Operational Guide, which sets out practical arrangements for how DBT would adapt to a longer-term emergency within the framework set out in the central Government's Concept of Operations {GD02/02 – INQ000096875}. The Guide includes arrangements for moving staff into new structures and adapting existing governance structures in order to make these decisions. The Guide complements the departmental playbook, discussed below, by making sure DBT can mobilise new structures to meet the requirements of any large-scale emergency. The arrangements are applicable to any major long-running emergency that requires a government-wide response.

NATIONAL PANDEMIC EXERCISE AND DBT'S PANDEMIC PLAYBOOK

- 2.9. DBT has worked with the Department of Health and Social Care in preparation for a national pandemic exercise, announced on 16 January 2025, which will take place over several months in autumn 2025 {GD02/04 – INQ000576432}. The exercise will be led by senior ministers, and will test capabilities, plans, protocols, and procedures in the event of another major pandemic across all regions and nations of the UK. To further support response capability, a tabletop exercise will be delivered for DBT's Executive Committee during the summer of 2025.¹ This tabletop exercise will assist the Executive Committee to prepare for the national pandemic exercise and will take place again after its conclusion. The Executive Committee will consider the lessons identified during the tabletop and national pandemic exercises and create an action plan to address these.
- 2.10. In preparation for this exercise and as part of the lessons learned, DBT is currently developing a comprehensive document (the **Pandemic Playbook**), which focuses on intelligence and information gathering, guidance, and support for business. It will be based on the BEIS Covid-19 Response Meta Evaluation {GD02/05 – INQ000576425}. The Pandemic Playbook sets out the tools and capabilities DBT will draw upon in the event of a future emergency, including a pandemic.
- 2.11. DBT has identified four primary objectives, which it is likely to need to achieve during a future pandemic, and which have informed the drafting of the Pandemic Playbook. The objectives, which are subject to change during preparation for, and completion of, the exercise, include:
- a) **Maintain situational awareness** by using analysis and business engagement. Providing decision makers with an understanding of impacts on businesses, consumers, supply chains, trade, and workers.
 - b) **Design, implement, and evaluate support and mitigation measures** to UK businesses and consumers to reduce the payoff between economic harm and pandemic response, ensuring support is responsive to real-world impacts.
 - c) **Enable collaboration with businesses** to provide solutions and support to government efforts to combat the pandemic.

¹ As will be familiar to the Inquiry, a 'tabletop' exercise is a simulated exercise, completed on the basis of a scenario – in this case, a major incident affecting DBT and the wider business community – which is discussed during a meeting of the Executive Committee.

- d) **Ensure DBT staff members are safe and supported** in the UK and overseas during the pandemic.
- 2.12. To achieve these objectives, the Pandemic Playbook contains knowledge and guidance on spending, elements of competition between grant applicants (where applicable), templates for designing and deploying economic measures (including high-level information on loans and grant schemes), and guidance to businesses. At the time of this statement, the Pandemic Playbook is in draft; it will be tested during the course of the national pandemic exercise and will incorporate knowledge gained in that context. DBT will finalise the Pandemic Playbook shortly after the conclusion of the exercise.
- 2.13. Although the Pandemic Playbook will focus on knowledge gained during and since the Covid-19 pandemic, and in the course of the upcoming national pandemic exercise, DBT intends for the Pandemic Playbook to be relevant to, and adaptable for, any major emergency situation.

ECONOMIC SHOCKS

- 2.14. DBT is a lead department for special situations, together with HM Treasury's (**HMT**) special situations team and sector-owning departments. The term 'economic shocks' in this context refers to issues arising in respect of individual companies, which are strategically important for the UK economy, and not to planning for macro-economic shocks. HMT retains responsibility for the economy overall and all departments have responsibility for resilience within the sectors for which they are responsible. DBT's economic shocks team is responsible for horizon scanning and planning for potential shocks as early as possible, assessing the impact of a potential shock. Together with sector teams who lead the response to economic shocks in their areas, the economic shocks team in DBT ensures proportionate contingency arrangements are in place for significant company insolvencies and supports planning for the Government's response from the relevant department. DBT's economic shocks team collaborates with government departments and the Devolved Administrations to ensure there is an appropriate local economic response to individual shocks provided by the relevant department, for example support from the Department for Work and Pensions rapid response service can be offered to help people find new jobs.
- 2.15. The economic shocks team uses data on sector and company trends to identify risks of business distress and consider mitigations, where feasible and appropriate. The

economic shocks function does not specifically cover the response to economy wide business distress caused by events such as pandemics. However, this capability is important, because the data would be used in a pandemic scenario to help judge the 'baseline' of sector resilience to the disruption and would assist in planning any response measures needed. Although the Department had arrangements in place in relation to economic shocks before the pandemic, this function has been strengthened following the Machinery of Government change and is a continuous source of learning and development, directly relevant to future crises of an economic nature to which DBT will need to respond.

CROSS-WHITEHALL WORKING

- 2.16. As set out in Section 6 of Part A of the Corporate Witness Statement, a key area of learning from the pandemic was the collaboration between departments in decision making and the implementation of those decisions. In particular, the speed with which decisions were made and announced by HMT meant that BEIS officials found it challenging to ensure the support schemes were fully ready for delivery with clear accompanying guidance for businesses and local authorities.
- 2.17. Since the pandemic, DBT and HMT have cooperated closely on coordinated responses to several specific and challenging events. To illustrate the close working of the two departments, I have summarised DBT's role in the cross-government response to the collapse of Silicon Valley Bank:

Silicon Valley Bank Collapse

- a) On Friday 10 March 2023, the Bank of England announced that it intended to apply to the Court to place Silicon Valley Bank UK Limited (**SVBUK**) into a Bank Insolvency Procedure. At the time, SVBUK had a significant customer base in the UK tech sector (around 4,600 business banking customers) with business deposits thought to be in the region of £7.4 billion. Government considered there was a pressing case to support SVBUK's customers, who could otherwise become insolvent through no fault of their own.
- b) On 11 March 2023, HMT commissioned DBT and the British Business Bank (**BBB**) to design an economic measure based on the existing Recovery Loan Scheme and options for its delivery, to provide initial emergency short-term liquidity support to businesses (through a network of accredited lenders),

followed by a medium-term funding scheme to bridge between SVBUK's collapse and the outcome of the Bank Insolvency Procedure. HMT, DBT, and BBB met at Director and Deputy Director level that day to discuss the announcement and the options for supporting businesses, and to agree roles and responsibilities, all with a delivery deadline of 8:00am on Monday 14 March 2023.

- c) DBT worked on the policy design, approval mechanism, and Accounting Officer and Ministerial advice. BBB worked on the guarantee agreement, terms of borrowing, and lender engagement. HMT worked on the financial parameters of the scheme and balancing the objective of the scheme with the potential taxpayer cost. The DBT Director and Deputy Director took the lead in providing updates to the Permanent Secretary and Secretary of State, and to the relevant sector lead, the Director General for the Department of Science, Innovation and Technology.
- d) In the event, the emergency loan scheme was not required, as potential buyers of the failing SVBUK were identified in the days following the Bank of England's announcement. SVBUK was ultimately sold to HSBC UK Bank Plc. No taxpayer money was involved, and all losses were to be borne by SVBUK's creditors.
- e) The SVBUK event led HMT to consult on enhancing the Special Resolution Regime to give the Bank of England increased flexibility to help manage the failure of smaller banks and limit risks to public funds. HMT's response to the consultation, the Bank Resolution (Recapitalisation) Bill, is currently progressing through Parliament. Once enacted, the amended Special Resolution Regime will mitigate against a future event of this kind and its need to consider an emergency loan scheme.
- f) DBT captured lessons learned from this event, including emergency submission and Accounting Officer advice templates, and these will be incorporated into the Emergency Finance Playbook, discussed in Section 3, below. By retaining this corporate, practical knowledge, DBT has a framework for responding to a similar event in the future, which includes the key steps and challenges likely to be encountered, and the documents prepared during the SVBUK event for use as templates to facilitate speed of response.

2.18. DBT is working closely with other government departments on growth and strategy within the sectors for which it has responsibility. This work has taken a number of

forms, including the examples set out below, and is intended to strengthen DBT's relationships with those departments, share knowledge, and deliver on the Government's priorities. This work and these structures will be relevant in the event of a future emergency requiring a government-wide response.

- a) The **Government's Industrial Strategy** is inherently collaborative in nature, jointly led by DBT and HMT, involving the work of many government departments and agencies, and is a core component of the Government's 'Growth Mission'. The Strategy is being developed to deliver the certainty and stability businesses need to invest in the UK's growing and high potential sectors. The Government identified eight growth-driving sectors, specific areas of comparative advantage for the UK within them, and the barriers and challenges that needed to be addressed. These plans are being developed by the relevant government department (such as the Ministry of Defence for the Defence sector, and DESNZ for clean energy industries). A number of policy areas necessary to create a pro-business environment apply to all the sectors – from skills and access to finance, to innovation and energy – and these are led by departments across government. These policies have been worked through closely with relevant departments at every stage of the Industrial Strategy development, including through boards within Whitehall, co-chaired by DBT and HMT, and wider groups of business leaders and other stakeholders. Through the Growth Mission, clear and transparent objectives have been established, accompanied by metrics to track their progress, as set out in the Plan for Change. This helps to embed growth throughout the Government's work, reporting into a 'Growth Mission' board, the Cabinet-level decision making body. It also highlights how the Growth Mission will complement and benefit other missions. For example, clean energy industries are a key sector for the UK economy and central to ensuring the success of the UK's net zero mission.
- b) The **Permanent Secretary Business Growth Group** is a cross-Whitehall meeting of departmental Permanent Secretaries, Director Generals, and CEOs of government agencies. It meets every month, and chairing alternates between DBT and HMT. The group is focused on delivering the Government's Growth Mission and driving investment. There have been 12 meetings of the group since June 2023.

PUBLIC SECTOR FRAUD AUTHORITY

- 2.19. Since the pandemic, DBT has formed a strong working relationship with the Public Sector Fraud Authority (**PSFA**) within the Cabinet Office, which was launched in August 2022 to act as the UK government's Centre of Expertise for the management of fraud (and associated error) against the public sector.
- 2.20. The Public Authorities (Fraud, Error and Recovery) Bill is currently going through Parliament and is anticipated to enter into force in autumn 2025. This legislation will have a significant impact on DBT's future counter fraud arrangements. The Bill will expand the powers and role of the PSFA in tackling fraud against the public sector; for example, through powers of entry, search, and seizure and the imposition of a civil penalty on both persons and bodies for failing to comply with fraud investigations and recovery.
- 2.21. DBT meets at least monthly with the PSFA, including with the CEO, through the DBT-chaired Covid Debt Schemes Counter Fraud Programme Board (see paragraph 2.27), in which the PSFA participates. In the event of a future crisis requiring economic measures, including a pandemic, DBT would make immediate contact with the PSFA to engage them in preparations to deliver those measures and work closely with them through their implementation. This would include, for instance, building data collection, sharing, and analysis requirements into the design of any new scheme, as appropriate, to minimise fraud risk and impact.
- 2.22. DBT will continue to work closely with PSFA as it rolls out its expanded enforcement powers, to help detect and prevent suspected fraud, and take action against it.

COUNTER FRAUD

Resourcing

- 2.23. Before the formation of DBT, BEIS had already significantly increased its counter fraud team from two full-time employees in 2020 to 10 in 2021. The team undertook counter fraud training with the Chartered Institute of Public Finance and Accountancy, and a dedicated senior civil servant was appointed to oversee its function. As part of the Machinery of Government changes, this team was retained and provides a shared counter fraud service for DBT, Department for Science, Innovation and Technology, and DESNZ.

- 2.24. DBT's current counter fraud function consists of this shared service and an internal counter fraud team. There are trained Fraud Risk Assessors and Investigators in both the shared service and internal counter fraud team, who provide support and expertise on key counter fraud activities, including identifying fraud risks, reporting, and compliance with functional standards.
- 2.25. Alongside this central counter fraud function, DBT has a team dedicated to working on Covid-19 fraud recoveries through the Grants Delivery Directorate (see Section 4) and a dedicated Covid-19 loans team (see Section 3). DBT has also been working with its enforcement partner, the National Investigation Service (**NATIS**), to recover funding. However, DBT announced on 15 May 2025 that NATIS's viable outstanding investigations will be transferred to the Insolvency Service given its previous success of effectively tackling fraud. The Insolvency Service has a proven track record tackling fraud and misconduct connected to Covid-19 economic measures since 2020, using its powers to investigate trading companies, prosecute criminal offences, disqualify directors and impose bankruptcy restrictions.
- 2.26. DBT's arm's length bodies are responsible for maintaining their own counter fraud functions. However, DBT works closely with both BBB and the Insolvency Service in the recovery of fraud and error relating to Covid-19 grant and loan schemes. Further details on DBT's Covid-19 fraud recovery activity are set out in Section 3.

Governance

- 2.27. DBT has developed key governance arrangements in line with Government Functional Standard GovS 013: Counter Fraud {GD02/06 – INQ000576411} to strengthen the Department's capability to prevent, identify, and recover fraud. This includes:
- a) the establishment of strategic oversight boards:
 - i. the Counter Fraud Steering Board, chaired by the Chief Finance Officer, which first met on 19 October 2020. It oversees compliance with functional standards and assurance on activities across key schemes in DBT;
 - ii. the Covid Debt Schemes Counter Fraud Programme Board, which first met on 13 December 2022, and is responsible and accountable for the ongoing programme to recover funds under the Bounce Back Loan Scheme; and

- iii. the NATIS Programme Board, which provides oversight and assurance on the delivery of the NATIS service and programme workstreams. The NATIS Programme Board will continue until viable live cases are transferred either to the Insolvency Service or to other law enforcement agencies, as appropriate, or closed down;
- b) a DBT Counter Fraud, Bribery and Corruption Strategy 2024-2027 {GD02/07 – INQ000596720}, which sets out our overarching approach to countering fraud, bribery, and corruption over the next three years. The Strategy details strategic aims and supporting principles, which inform how DBT operates and invests in managing the main areas of fraud risk. The three key priorities under the Strategy are:
 - i. to drive cultural change in DBT's approach to countering fraud and error, bribery, and corruption;
 - ii. to support delivery of value for money in policy outcomes; and
 - iii. to build counter fraud capability across DBT; and
- c) using Initial Fraud Impact Assessments and Fraud Risk Assessments to identify fraud risks. Initial Fraud Impact Assessments have already been completed for major programmes in the Spending Review 2025. Fraud Assessments that are underway align with project life cycles, to ensure fraud exposure is considered and mitigations are put in place.

Planned developments in 2025

- 2.28. Following the Machinery of Government change and the establishment of DBT, the Department commissioned Deloitte on 19 April 2024 to review and propose a target operating model for counter fraud, to further improve the Department's counter fraud capability {GD02/08 – INQ000596715}. Recommendations included redesigning responsibilities in the counter fraud function, including creating a dedicated 'Head of Investigations' role and providing more support to the Grant Delivery Directorate. DBT is working through these recommendations and will implement them by April 2026.
- 2.29. Initial Fraud Impact Assessments and Fraud Risk Assessments will be built into the process for obtaining approval for economic measures that involve a significant public cost, to ensure counter fraud risks are identified early in the planning and design stages and risks are appropriately managed.

- 2.30. DBT is enrolling in PSFA training programmes to ensure the latest training is adopted by the DBT counter fraud team.

Data Sharing

- 2.31. Better use and management of data, including data sharing (both internally and externally, for instance with DBT's counter fraud partners and BBB) and fraud analytics, has been a key lesson learned in the deployment of the Department's economic response to the Covid-19 pandemic. Fraud analytics are a vital tool in identifying, preventing, detecting, and investigating fraud. The process requires the matching and cross referencing of data sets drawn from a variety of sources, including, for example, original borrower applications and various government datasets.
- 2.32. As sourcing information of this kind involved the use of personal data, the Department needed to ensure that data sharing to support this programme was lawful and protected individual data subjects. The management of extensive levels of personal data also brings about increased data protection and data governance considerations. This is particularly the case where the data involves special category data, sensitive processing or data derived from confidential sources, such as HM Revenue and Customs (**HMRC**) tax records. These attract additional legal burdens and restrictions on their subsequent use. Consequently, this often involves navigating complex legal and ethical questions which can result in operational delays or a lack of alignment between partner organisations (as acknowledged by the Government's Data Sharing Framework {GD02/09 – INQ000576433}).
- 2.33. At the outset of the pandemic, the Department lacked experience in data sharing in this sphere. There was very limited access to legal support from experienced data protection lawyers to resolve legal issues around data sharing to support analytics. This contributed to some delays, as there were uncertainties regarding the legalities of analytics phases and initiatives. For example, it took some time for DBT to develop all the systems needed to manage lender data to seamlessly connect BBB's portal to each of the accredited lender systems, which are all different. DBT has had to undergo approval processes several times and ensure security, privacy and legal requirements are met and technical infrastructure remains compliant. These regulatory complexities can hinder the efficient exchange of information between individuals, organizations, and across government bodies.

- 2.34. DBT officials have developed greater experience of developing data sharing agreements with a wide variety of private and public sector organisations. Since its formation in 2023, DBT has a new, dedicated Information Law Team, who are part of the Government Legal Department and can provide specialist data sharing advice. In addition, DBT has a new, embedded Information Risk Assurance Process service for assessing and assuring risk when initiating new activity which processes personal or sensitive information.
- 2.35. Fraud analytics have helped BEIS and DBT identify counter fraud measures and target enforcement. For example, when BEIS discovered that some companies had dissolved through the company strike off process shortly after receiving loans, the Department developed and implemented the Dissolution Objection Programme to object to the dissolution of companies with outstanding loans. This has been addressed in the Corporate Witness Statement in Section 6 of Part B. This process uses data sharing between DBT, Companies House, and PSFA. This data also guided subsequent enforcement activity. For example, in Operation Pneuma, DBT worked with the Insolvency Service to use this data to target those directors who had caused their companies to be struck off to avoid repaying their loans. This led to the successful prosecution of defendants for offences under the Companies Act for strike off offences and fraud. An example of this can be seen in the first criminal prosecution undertaken on behalf of BEIS {GD02/10 – INQ000576437}.
- 2.36. Specific improvements in relation to data sharing are set out in respect of loan schemes from paragraph 3.8 and in respect of grant schemes from paragraph 4.23, below.

COST-EFFECTIVENESS

- 2.37. As explained in Section 6 of Part A of the Corporate Witness Statement, assessing long-term cost effectiveness of an economic measure is very challenging in the early stages of an all-systems emergency, particularly where the duration of that emergency is unknown, but its effects are anticipated to last for many months or years, as was the case during the Covid-19 pandemic. However, DBT's improved data capabilities mean that a greater volume of information, and information of a better quality, is available not just for the purposes of mitigating fraud, as discussed above, but also for the purposes of assessing value for money when designing and implementing economic measures in future.

- 2.38. In its response to the pandemic, the Department analysed data collected by the analytical company Experian (as to which, see paragraph 4.1 of Part A of the Corporate Witness Statement). DBT now has access to data sources that were not available when policy decisions on the Covid-19 loan and grant schemes were implemented. For example, DBT now has access to better and more bespoke data through Experian, which helps to assess business financial vulnerability and to better understand the viability of SMEs. It is collated and compiled in a way that allows the DBT policy teams to monitor businesses' financial and economic health, and thereby inform future policy making, if economic interventions are required. This also means that DBT now has better knowledge of the impacts of periods of financial and economic stress on firms' payment times, levels of distress ('Distress Warning Score') and credit scores, which will help when there is a need to calibrate future economic measures and ensure that they are targeted and scaled appropriately with the level of taxpayer funds used. The contract with Experian was renewed on 15 August 2024.
- 2.39. DBT also has access to BusinessIQ and CrossCore, which it procured through Experian in July 2023 (and which remain in place, renewed as above). These are invaluable tools that are available to teams across DBT to better monitor economic interventions and delivery of economic schemes.
- a) BusinessIQ is a data analytical tool, which can be used:
 - i. to check that a business is trading;
 - ii. to assess its financial stability, checking the risk that the business may cease trading before the outcome intended by the economic measure is achieved; and
 - iii. to provide details on its ownership or Directors, to inform due diligence and minimise risk to investment.
 - b) CrossCore is a data analytical tool for the purpose of verifying an individual's identity and bank account details, to identify potential fraud risk indicators.

SECTION 3: LOANS - DBT'S APPROACH TO RECOVERY UNDER THE COVID-19 LOAN SCHEMES AND IMPROVEMENTS FOR THE FUTURE

- 3.1. A detailed explanation of the Covid-19 loan schemes and the Future Fund is provided in Part B of the Corporate Witness Statement: Section 2 covers the Covid Business Interruption Loan Scheme (**CBILS**), Section 3 covers the Coronavirus Large Business Interruption Loan Scheme (**CLBILS**), Section 4 covers the Bounce Back Loan Scheme (**BBLS**), Section 5 covers the Future Fund, and Section 8 covers the Recovery Loan Scheme (**RLS**).

PREPARING FOR THE BUSINESS SUPPORT RESPONSE TO A FUTURE PANDEMIC

- 3.2. I would emphasise the following five areas, where DBT and BBB are now better prepared to deliver loan support schemes in the event of a future emergency.

(1) The design of any future loan guarantee schemes

- 3.3. DBT (and government more widely) now has practical, operational knowledge of how fraud and error materialised under the Covid-19 loan schemes, and the trade-offs in scheme design between speed of response, ease of application, and vulnerability to fraud and error. DBT retains clear working knowledge of how the Covid-19 loan schemes were developed as the pandemic progressed, and the unacceptably high levels of fraud and the need to tackle this more effectively in future. The Emergency Finance Playbook, discussed below, will not only set out the steps required to implement an emergency loan scheme, but will also capture the corporate knowledge described above so that it can be applied to DBT's emergency response in the event of a future crisis.
- 3.4. BBB and DBT have the contractual agreements, Accounting Officer advice and supporting analysis used to implement the Covid-19 loan schemes, together with management information and independent evaluation reports on the outcomes of these schemes. As demonstrated by DBT's experience of the preparatory work around the Silicon Valley Bank collapse, described above in Section 2, these resources can be adapted within a relatively short timeframe (weeks rather than months) to put in place emergency support in the event of an economic crisis. These include provisions

that were not in place at the start of the pandemic, for example the current process to check for duplicate applications before loans are issued. There have been lessons learned exercises completed, the results of which have been built into existing BBB programmes and can inform future ones. For example, (a) the data sharing protocols that have been developed for all new guarantee-based loan schemes, discussed below, and (b) all lenders now go through a proportionate risk-based accreditation approach. This is in contrast to the CBILS, where lenders who were previously accredited for the Enterprise Finance Guarantee were automatically brought into that scheme.

(2) The design of a future scheme for emergency equity investment

- 3.5. DBT has also gained a better understanding of how to design and implement an equity scheme in the event that markets were to close down in a similar manner to 2020. The legal agreements that were used to underpin the Future Fund are available and could therefore be adapted in future to address specific impacts on business finance to support equity-backed companies. The legal documentation includes terms such as the maximum and minimum loan size, repayment terms, and co-investment requirements. These terms would be adapted according to the scheme requirements.
- 3.6. The exact nature of the response, and extent of business finance support, would depend on circumstances at the time. However, as with learning from the Covid-19 loans schemes, any future equity investment scheme would incorporate improvements and learning from the Future Fund. This would include consideration as to how the eligibility criteria could be defined to mitigate any potential reputational risk and more prescriptive requirements on the identification and management of potential conflicts, noting the impact this can have on confidence in the impartiality of the scheme.
- 3.7. As discussed above, DBT now has access to new data sources to inform policy decisions on loan schemes. Some of these data sets are based on Covid-19 loan scheme information, enabling DBT to draw on experience when supporting ministerial decision making in this context. These data sets include:
 - a) take-up and scheme size for different loan schemes (e.g. BBLs, CBILS) including in relation to the variations to these schemes;
 - b) interest rates paid on loans by scheme participants;

- c) repayment performance (on-time repayments and early repayments) and defaults; and
- d) take-up of forbearance options, such as “Pay as You Grow”.

(3) Reducing fraud and irregularities in equity and loan schemes

- 3.8. The design of any future loan schemes will incorporate the lessons learned from the Covid-19 loan schemes as part of the fraud detection, mitigation, and enforcement measures that would be put in place.
- 3.9. A number of aspects of a loan scheme’s design could impact the volume and value of potential fraud, including the size of the loans, the guarantee level, the length of time and depth of due diligence for lender checks, eligibility criteria, and data sharing arrangements. However, a number of measures to reduce potential fraud would be implemented no matter what the scheme design. These would include:
 - a) enhanced measures against duplicate applications, learning from the problems encountered in BBLs, and the improvements that were later introduced. The early implementation of data sharing between lenders using Cifas² would prevent loans being granted to the same company by multiple lenders; and
 - b) building in Initial Fraud Impact Assessments and Fraud Risk Assessments, setting out clear requirements for lenders relating to credit and affordability checks, and early engagement with key stakeholders such as the PSFA, Insolvency Service, and Companies House.
- 3.10. The importance of data sharing to effective counter fraud is discussed in paragraphs 2.31 to 2.36, above. The proper management and use of data in this context arose as a point of learning from BBLs, in particular. It has informed how DBT now manages the BBLs portfolio and has been drawn upon when delivering other loan schemes, including the RLS, or the Growth Guarantee Scheme, as it later became. In BBLs, the Department used government datasets (such as Companies House data and HMRC records) to match against the loan book data, which derived from original borrower applications, provided by lenders. A specific lesson has been the need to ensure that there is adequate transparency information, to alert borrowers to the possibility that their personal data may be shared as part of fraud analytics and matched with other

² Cifas is a not-for profit membership organisation providing access to tools and databases for fraud prevention. Its use in BBLs is addressed in the Corporate Witness Statement in Section 6 of Part B.

government datasets. To ensure there was adequate transparency for borrowers, BEIS and BBB worked together in March 2021 to deliver a revised privacy notice to borrowers to ensure it was fully understood that data was being shared across relevant government stakeholders to identify and tackle fraud. These lessons were incorporated into later schemes, such as the RLS (and then the Growth Guarantee Scheme, as it later became), where greater transparency information was provided at scheme launch and led to a detailed privacy notice being embedded in the application process.

3.11. Additionally, DBT would incorporate feedback from enforcement partners on the design of the scheme and in particular, definitions contained in the scheme design. At the outset of a future scheme, DBT would seek input from those enforcement partners to understand whether loan guidance, including application forms, posed any future difficulties from an enforcement perspective. Two examples of difficulties encountered in the Covid-19 loans schemes demonstrate the importance of better liaisons with enforcement partners:

- a) BBLs loans were intended for business use only. In the publicly available materials, there was no expanded guidance within the loan application form or associated public guidance to define “economic benefit to the business.” Where loans were used for personal expenditure and benefited individual directors personally, such transactions posed no difficulties in proving dishonesty. However, there were cases where establishing dishonesty was more finely balanced. For example, using BBLs loans to pay off a director’s loans account or repaying previous finance that involved discharging previous director’s personal guarantees. In smaller companies, BBLs loans were used to pay the director’s own salary or expenses; and
- b) the definition of “Business” gave rise to uncertainty in scenarios where a going concern changed its legal structure in the relevant period. For example, a sole trader that had been trading prior to 1 March 2020 that subsequently incorporated after the cut-off dates. Regardless of whether such a scenario was allowed under scheme rules, determining the question of dishonesty required assessment of the available guidance to borrowers and surrounding circumstances.

3.12. A future equity scheme design would be better targeted to reduce fraud or irregular payments. Specific examples include ensuring that the co-investor is genuinely

independent, and that they do not seek to claw back all or part of their investment in fees from the company.

- 3.13. Nevertheless, in a future response to a severe economic shock, lenders, with the backing of Government guarantees, still have an advantage in making decisions on the allocation of credit in any individual case. They have access to more advanced credit bureau data than is typically allowed to government. Lenders have access not only to products offered to government, but also to other underlying data sources. Leading lenders and financial institutions typically have enhanced access to controlled or restricted data assets and apply such data, analytics, and software across their services, including for the purpose of:
- a) credit checking or decision making at the point of a business customer contracting with the lender;
 - b) in-life credit management; and
 - c) in some instances, collections activities.

(4) The relationship with lenders

- 3.14. Relationships between BBB and accredited delivery partners for loan guarantee schemes are now established with a wider range of lenders. The pre-pandemic scheme, the Enterprise Finance Guarantee, had between 10 and 12 accredited lenders. The post-pandemic Growth Guarantee Scheme had 50 accredited lenders as of 3 February 2025. BBB meets accredited lenders on a quarterly basis to review portfolio performance, with additional ad hoc engagement as required on a lender-by-lender basis, as well as monthly meetings with lenders administering residual matters under the Covid-19 loan schemes. Staff in a wide range of institutions are therefore familiar with the operation of these schemes and could implement an exceptional scheme more quickly, in response to a future pandemic.
- 3.15. This greater diversity of lenders is expected to be permanent as it reflects a structural shift in finance markets. The main benefits of a wider pool of accredited lenders are that businesses would have a wider choice of finance provider (and therefore of precise lending conditions and terms), and delivery of any emergency scheme would be less constrained by the capacity of a small number of lenders.

(5) The operational delivery of future finance schemes

- 3.16. Operational processes for the Enterprise Finance Guarantee (the predecessor to the Recovery Loan Scheme) lacked automation and the scheme was unpopular with bank staff as a result, since it involved additional work to complete a guaranteed transaction. Entering data manually into the BBB portal was cited as a significant obstacle by lenders. A project to modernise the BBB portal was underway but had not been completed when the pandemic started. BBB and lenders worked together during the pandemic to improve data exchange and validation. Data exchange now happens automatically and this change is permanent, which means that for any future schemes, data exchange protocols would already be in place, speeding up data entry and validation processes. Automating data exchange has also removed a barrier for smaller lenders, who lack the resources to undertake manual data entry.
- 3.17. The data sharing arrangements and protocols that are now in place would form an integral part of any future design of an emergency loan or equity scheme from the outset, ensuring that the right data is collected and shared and is GDPR-compliant, to help mitigate against the risk of potential fraud.

THE EMERGENCY FINANCE PLAYBOOK

- 3.18. DBT's Director of Small Business Growth has commissioned a Playbook for intervening to provide emergency loan or equity schemes (the **Emergency Finance Playbook**). The first draft is due to be completed in summer 2025. The Emergency Finance Playbook will provide an overview of the steps that would be taken to launch a loan guarantee scheme or equity scheme as part of a response to an all-systems emergency, including a future pandemic. The Emergency Finance Playbook will incorporate knowledge from the pandemic, including the financial measures that were considered and rejected. It is intended to incorporate all of the lessons learned from previous schemes, including challenges relating to lender behaviour, borrower access and fraud prevention. It will be written with input from key people involved in the design and implementation of early schemes, including the BBB, the PFSA and the Insolvency Service. The Emergency Finance Playbook will incorporate feedback (from borrowers, lenders and other stakeholders) that formed part of the evaluation of the earlier Covid-19 economic response schemes.
- 3.19. It is designed to complement the Pandemic Playbook, discussed in Section 2, above, which covers the departmental response and steps to take in an emergency event.

Although the Pandemic Playbook will refer to the Emergency Finance Playbook as the source of more specific guidance on loan or equity schemes as part DBT's emergency response, the two documents are distinct. The Pandemic Playbook is aimed primarily at facilitating swift and informed decision making at a senior level - for example, with reference to options for ministers and senior policy officials in certain situations - whereas the Emergency Finance Playbook sets out policy and procedural knowledge for those implementing ministerial and other senior decisions concerning loan schemes.

3.20. The objectives of the Emergency Finance Playbook are subject to change during the progress of this work, however, the objectives as they currently stand include:

- a) to capture information from the point of a potential emergency event being identified, to understand the financial impacts of the emergency on UK businesses through utilisation of data analysis, and business intelligence networks;
- b) to facilitate effective collaboration across Whitehall and with relevant delivery partners to identify the need for, and to develop, loan or equity finance support measures for UK businesses in the event of an emergency;
- c) to design, implement, and evaluate finance support measures to UK businesses based on the nature of the emergency and the required response. This would include consideration of key aspects such as the cost-benefit analysis of supporting businesses against credit losses and fraud, key risks, counter fraud measures, approvals, governance processes, subsidy control procedures, monitoring, data sharing, and communications strategy; and
- d) to work with relevant partners to manage effective recovery of finance and implement counter fraud and enforcement measures.

3.21. The Emergency Finance Playbook will include examples of analysis and Accounting Officer advice, checklists, and process flow charts for putting measures in place and a menu of options for measures, including both loan guarantee and equity schemes. It will also include:

- a) the type of event for which the Playbook may be relevant;
- b) the roles and responsibilities of different government departments (particularly DBT and HMT), arm's length bodies (including BBB, PSFA, and Insolvency Service) and third-party delivery bodies (including banks);

- c) the governance arrangements that would be put in place to facilitate effective and timely decision making;
- d) the basic outline of the schemes and approach that would be implemented;
- e) details on the options outside of those basic outlines and the trade-offs associated with different decisions (for example, the balance to be struck on the percentage of loan guarantees, and on the time allocated to lender checks);
- f) counter fraud measures that would be implemented as a matter of course (such as due diligence checks and data sharing arrangements to enable simple eligibility checks) and what further counter fraud considerations would be required, depending on the design of the scheme;
- g) key legal and financial considerations;
- h) communication plan with businesses, and broader media plans; and
- i) templates for key documents including decision making documents such as draft Accounting Officer advice, analysis, checklists, and flow charts as well as key legal documents, such as term sheets (which set out the key terms of the loan or equity scheme).

3.22. The Emergency Finance Playbook will be reviewed on an annual basis including considering scenario-based practical exercises to test the plans it contains with key stakeholders, as appropriate. If the Playbook were to be implemented in an actual future emergency response, DBT would likely conduct similar evaluations to that undertaken for BLS, to understand where further lessons had been learned and refresh the Playbook guidance accordingly.

ADDRESSING PAST FRAUD UNDER THE COVID-19 LOAN SCHEMES

3.23. Alongside preparedness for a future emergency, DBT continues to address the need to recover losses due to fraud under the Covid-19 loan schemes.

3.24. Using knowledge gained during and since the pandemic, BBB updates its guidance on its expectations of lenders for managing debt and suspected fraud in the Covid-19 loan schemes. This is done to clarify requirements under the guarantee agreement (for example, the addition of debt recovery principles), or for matters outside the agreement with lender approval (such as the provision of additional data to support monitoring

and analysis). BBB supplement this with the sharing of good practice such as that learned through the 'Additional Recovery' pilots, discussed below.

3.25. To address fraud specifically in BBLs, DBT has been delivering a Counter Fraud Programme. The vision is to implement a collaborative approach to tackling fraud in BBLs by taking principled, fair, appropriate, and effective actions to protect taxpayers' money. This approach aligns with the Summary Counter Fraud Strategy 2022-2025, 'Tackling Fraud in the Bounce Back Loan Scheme: A Collaborative Approach'³ {GD02/11 – INQ000596721}. Enforcement activity to date, particularly through our enforcement partner NATIS, has focused on more serious and organised crime. Lender performance and assurance (discussed below from paragraph 3.27) has focused on suspected fraud where there is greater possibility of recovering funds.

3.26. The Counter Fraud Programme delivers counter fraud activity through three core pillars set out in our Strategy:

a) **Data and Analytics Programme** which DBT delivers in partnership with the PSFA. This programme helps identify and recover suspected fraud in the Covid-19 loan schemes. The programme identifies further loans where there is a risk that the loans were obtained fraudulently, for example, network analytics, applying data science techniques, and using wider government data to support lenders and enforcement partners to act against fraud. This programme has resulted in a greater awareness and expertise within DBT of how to share data fairly and lawfully whilst meeting accountability obligations and legal obligations under the General Data Protection Regulation and Data Protection Act 2018. It has also resulted in:

- i. a £143.2 million reduction in government exposure realised after sharing high-risk fraud flags with lenders for review. After the results of data analytics were shared with lenders, the government exposure to loss was reduced by the removal of guarantees from loans, repayment of loans, and recovery of money after guarantees were paid out;
- ii. a £191.0 million reduction in government exposure through the Dissolution Objections Process, which prevents companies with outstanding loans from dissolving;

³ Although this document appears to be a late draft, it was signed off by ministers under the previous Government and its publication was interrupted due to the general election. This final draft is the version currently in use.

- iii. three live analytics projects to detect further suspected past acts of fraud in BBLs where:
 - sole traders inflated their turnover;
 - sole traders may be linked to suspected fraud networks; and
 - borrowers took multiple loans against the Scheme policy;
 - iv. enforcement partners have used data from the Programme to target certain identifiers of fraud risk, including multiple loans and company strike-off abuse; and
 - v. expertise within DBT in data sharing through numerous legal gateways, including under Part 5 of the Digital Economy Act 2017. This has led to a number of initiatives to share data with other government departments under section 56 of the Act, for the purpose of “taking of action in connection with fraud against a public authority.”
- b) **Working with lenders:** Lenders have the primary responsibility to recover the loans through their usual processes. Lender performance and assurance is addressed in more detail below.
- c) **Working with enforcement partners:** Drawing on the data analytics outputs and actions taken by lenders, enforcement partners have taken action in a range of cases, including some of the most egregious cases of fraud. As stated at paragraph 2.25 above, this work to date has been undertaken by NATIS and will be delivered by the Insolvency Service going forward.

Fraud recovery under the Covid-19 loan schemes through lenders

- 3.27. Lender recovery activity is monitored by BBB and reported to DBT. This addresses fraud in three main ways:
- a) following their usual processes under the guarantee agreement, lenders identify and report suspected fraud;
 - b) where lenders have not met their obligations, BBB engages with lenders to agree the removal of guarantees from those relevant loans. To date, around £449 million in BBLs loans has been removed from the guarantee; and
 - c) lender-led Additional Recovery pilots, which involve lenders suggesting additional action that could be taken against suspected fraud (e.g. compulsory

liquidation) and piloting these approaches with a small number of suspected fraud cases to determine efficacy. These additional actions are voluntary and go beyond the lender obligations in the guarantee agreement with the aim of maximising recoveries for the taxpayer. To date, two pilots have been completed and six are underway.

- 3.28. Whilst there have been significant losses through BBLs, repayments are higher than was expected at the outset of the scheme. Loans are categorised into 'on schedule', arrears, defaulted, claimed, settled, fully repaid (where the loan has been repaid in full), and outstanding balance reductions (usually where repayments have been made to date). As of 31 December 2024, of the total £76.9 billion drawn value on all schemes, £24.3 billion have been fully repaid, there has been a reduction of £24.5 billion in outstanding balance (usually due to repayments), and £14.4 billion of loans are repaying on schedule, together representing 82% of the book. For BBLs, the equivalent figure is 73%. Across all schemes, £11.47 billion has been paid out on the government guarantee after loans defaulted, of which £1.58 billion was on loans flagged as suspected fraud. For BBLs, £10.48 billion has been paid out after loans defaulted, of which £1.56 billion was on loans flagged as suspected fraud.
- 3.29. BBB monitors and incentivises lender performance through a number of methods, including the legal agreements signed at scheme outset, public release of lender performance data, audits and assurance, data interrogation, cross-governmental fora, and the ability to remove guarantees where agreement terms have not been met.
- 3.30. BBB's audit assurance programme is the main route by which government can be assured that lenders are abiding by business-as-usual guarantee scheme rules. The programme currently utilises three scheme auditors (RSM, KPMG, and BDO) to obtain professional firms' independent opinion and assurance.
- 3.31. The programme supports improving lender behaviour, reducing the potential for systemic error, thereby reducing the risks and liability to government. Evidence from the audits that have taken place for the Covid-19 loan schemes suggests the programme is successful in increasing compliance with scheme rules.
- 3.32. The audit and post-claims assurance programme, for instance, verifies appropriate administration of Covid-19 loan scheme portfolios by lenders in line with their contractual obligations. On completion of an audit or post-claims assurance, management findings and remedial actions are agreed with lenders to rectify areas failing to meet guarantee requirements. The use of these mechanisms at scale is

informing BBB's management of its other schemes and would also be a crucial part of any future emergency scheme.

- 3.33. BBB also conducts in-depth scrutiny of lender performance data, and compares this with data from the PSFA, the Insolvency Service, and Companies House. BBB maintains strong working relationships with lenders to ascertain reasons for discrepancies or perceived anomalies. Where causes for concern arise, either scheme-wide or at lender level, these can be escalated at regular governance fora, such as the Lender Performance Scrutiny Committee (an internal BBB forum) and the Lender Performance Advisory Board (a cross-governmental forum with DBT, BBB, HMT, and PSFA), to decide if follow-up actions are needed. Regular reporting is provided to DBT as part of the Lender Performance Advisory Board governance process and enables DBT to scrutinise (and where appropriate, challenge) the actions that BBB are taking in relation to lender performance.
- 3.34. If there is need for further action, BBB will speak with lenders and investigate if any remedial actions are needed. In some cases, where concerns have been validated, this has resulted in lenders either voluntarily removing, or negotiating the removal of, guarantee cover on affected loans.
- 3.35. Removing the guarantee means that the government is no longer responsible for paying for the default on the loan. Guarantee removals protect taxpayer money and the integrity of the scheme, and ensure there is deterrence in case of any future scheme against lenders not fulfilling their duties. The intensive analysis of data and lender compliance is a new process for this scheme. BBB has a robust lender audit and assurance programme in place for checking lenders' processes and investigating further where concerns are raised. BBB also looks at statistics for each lender, such as suspected fraud levels, duplicates, and defaults. Where further investigation is warranted, this may for instance look at controls in place (particularly fraud checks at onset of a scheme or in the early stages) and assess whether they met the guarantee agreement's requirements. Further evidence of compliance may be requested alongside a discussion to clarify the processes that have been undertaken. The aim of this is to have a robust but collaborative approach to ensure lenders are not claiming for any cases where there were errors sufficiently serious to breach the agreement, and to encourage remedial actions for any issues going forward. Where lenders fail to comply with minimum standards set out in the guarantee agreement and the breach is considered material, BBB is not obliged to provide a guarantee. However, alleged

breaches may be examined on a case-by-case basis to determine whether there was a breach and, if so, whether it is material. Examples of breaches sufficient to remove the guarantee are included in 3.37, below. The assurance programme has also prompted lenders to undertake certain reviews themselves which have led to self-identification of non-compliant cohorts.

- 3.36. Guarantee removals will usually occur where it is assessed that criteria explicit in the guarantee agreement have not been followed. A guarantee removal will not typically occur where lenders' processes could simply have been more robust. However, experience has demonstrated that lenders are also mindful of the propriety of claiming on the guarantee where elements of their processes may have been lacking, even if not breaching the guarantee agreement.
- 3.37. The following are examples of issues that would be deemed sufficient to warrant removal of the guarantee:
- a) lenders not fully conducting fraud checks required in the guarantee agreement;
 - b) data entry errors, i.e. lenders incorrectly entering information relating to borrowers' outstanding amounts;
 - c) where data analytics have established that the lender granted a loan to a borrower who had already received a loan and the lender would have been able to identify that; or
 - d) where there was a difference of opinion over whether sufficient fraud checks were undertaken and an agreement was made between BBB and the lender over an appropriate amount to remove from the guarantee in order to resolve the situation.
- 3.38. BBB and lenders work collaboratively to ensure a constructive and balanced approach to maintain the letter and spirit of the guarantee agreement. In extremis, BBB could unilaterally withdraw the guarantee from loans, but always seeks to agree an amount to be removed voluntarily by the lender, where possible.
- 3.39. As at 30 December 2024, the government guarantee has been removed from 13,552 loans to a total value of £1.11 billion with the following breakdown for each scheme:
- a) BBLs - the government guarantee has been removed from 12,919 loans to a total value of £448.76 million. As set out in the Corporate Witness Statement, the most recent evidence indicates that, in total, accredited lenders have

flagged around £1.88 billion of lending as suspected cases of BBLS fraud, 4% of the total value of BBLS-backed loans. For BBLS, £1.56 billion has been paid out to lenders against loans with a suspected fraud flag.

- b) CBILS - the government guarantee has been removed from 619 loans to a total value of £155.34 million. For CBILS, £23.52 million has been paid out to lenders against loans with a suspected fraud flag; and
- c) CLBILS - the government guarantee has been removed from 14 loans to a total value of £504.72 million. There are no cases of lender-reported suspected fraud in CLBILS.

3.40. As at 30 December 2024, the government guarantee has been removed for the following reasons:

- a) lender discussion. This means a discussion with the lender about potential non-compliance with the guarantee agreement, to ascertain the scope or population of loans affected by the issue and to agree an appropriate number of loans to be removed from the guarantee. Lender discussion would also take place where there are differences of opinion over whether a breach has been committed and to agree a suitable amount that is reasonable to both parties. The government guarantee has been removed from 6,466 loans to a total value of £687.62 million following lender discussion; and
- b) data entry error. The government guarantee has been removed from 7,086 loans on this basis to a total value of £421.20 million. It should be noted that lenders are best placed to identify such errors, so determination of guarantee removal for this reason is likely to involve lender discussion.

3.41. Lender performance data, broken down by scheme, number, and value of loans in each performance state (e.g. 'on schedule', 'defaulted'), and suspected fraud levels, are published on a quarterly basis. The detail of this publication has expanded over time, for instance from December 2023 it has included guarantee removals. This provides transparency to the public about lender performance, and an incentive for lenders to improve repayments.

SECTION 4: GRANTS - DBT'S APPROACH TO RECOVERY UNDER THE COVID-19 BUSINESS GRANT SCHEMES AND IMPROVEMENTS FOR THE FUTURE

GRANT DELIVERY DIRECTORATE (GDD)

- 4.1. Following the Machinery of Government change in 2023, DBT created a Grant Delivery Directorate (**GDD**), the successor entity to the Business Grants and Investment Directorate (as to which, see paragraph 17.43 in Part C of the Corporate Witness Statement). Building on the development of the wider grant delivery profession across government, DBT's GDD has enhanced its focus on compliance by implementing the knowledge acquired within BEIS during the pandemic on the delivery of grants. GDD is part of DBT's Corporate Services Group and works closely with policy teams, acting as a grants 'centre of excellence' to ensure grant standards are set effectively. GDD oversees the development and delivery of grant schemes in DBT, ensuring consistent and proportionate approaches, recovering funds (where necessary), monitoring awards, and working to combat fraud. GDD would lead any grants element of DBT's response to a future all systems emergency, utilising the grant skills and expertise now held within the team.
- 4.2. The GDD has responsibility for:
- a) developing new grant schemes;
 - b) overseeing the delivery of grant schemes, including
 - i. assessing applications; and
 - ii. ensuring due diligence processes are in place, to ensure the information given by the applicants is correct;
 - c) finalising awards and monitoring each award to ensure they meet agreed outcomes;
 - d) reconciliation, assurance, and recovery of government funds, as necessary; and
 - e) ensuring DBT schemes meet all Cabinet Office grant standards.
- 4.3. When a grant scheme is being developed and designed, GDD actively works with the relevant policy team to consider the 'end-to-end' implementation of the scheme. This

aims to limit changes to the model for delivering the grant scheme or changes to the associated guidance during delivery. As a result of lessons learned from the Covid-19 grant schemes, the standard guidance and templates that would be deployed in emergency response situations already contain assurance and reporting requirements. This means expectations are set out clearly at the outset and limits the need to update and change guidance during the delivery phase of a scheme.

- 4.4. DBT currently has 60 members of staff in the GDD. This reflects an increase of approximately 50% on those deployed in equivalent roles pre-pandemic. The GDD current portfolio covers 20 DBT-led grant schemes. By the end of 2025/26, the GDD will assume responsibility for the majority of existing grant schemes being delivered by DBT and will deliver any new grant schemes. It is already responsible for recovery under the Covid-19 business grant schemes. By the end of 2025/26, GDD will cover schemes with a total cumulative lifetime budget of over £30 billion.
- 4.5. DBT is compliant with the Government Functional Standard GovS 015: Grants {GD02/12 – INQ000096919}, which is a set of management standards that promote consistent ways of working across government to provide a basis for assurance. It is also compliant with the Cabinet Office's Grants Functional Blueprint, a guidance document to create a template for a functional structure in government grant-making organisations, including key requirements, and roles and responsibilities for the relevant teams. GDD actively engages with the Government Grant Management Function, which coordinates the activities of teams in all government departments that deliver grants, to support them and to develop existing standards for the delivery of grants across government.
- 4.6. DBT was awarded a "best" maturity rating (top category) in its assessment under the Government Continuous Improvement Assessment Framework 2024 {GD02/13 – INQ000576434} and {GD02/14 – INQ000576436} (DBT's Individual Report for 2024 under the Framework). This cross-government exercise involved departmental grants functions self-assessing against criteria set by the Government Grant Management Function. It was validated by the Government Internal Audit Agency. The assessment recognised GDD as having the right processes in place for effective and compliant grant management with an overall scoring of 93.5%, a top position when compared to other departments.

- 4.7. As of March 2025, all GDD team members have completed mandatory Cabinet Office Grants training, and a number have completed the Cabinet Office's 'Licence to Practice' online pilot as part of their continuing professional development.
- 4.8. DBT has established specific governance arrangements covering the delivery of its grants portfolio to ensure senior oversight and appropriate routes for escalation. The DBT Grant Delivery Board held its first meeting on 17 October 2024. Under its Terms of Reference, the Board's role is to provide oversight and assurance of grant delivery performance in DBT and to perform scrutiny and approval of business cases for grant schemes with a lifetime value of £1 million to £20 million {GD02/15 – INQ000576420}. The Board is chaired by DBT's Chief Finance Officer who is also a member of the DBT Executive Committee. It includes representatives with relevant areas of key expertise: grant delivery, finance, fraud-prevention, commercial expertise, and those with business support policy expertise. In any future all systems emergency, DBT would use the Grant Delivery Board, as an already established governance mechanism, to provide oversight of the delivery of the necessary business grants response. This would provide oversight by the relevant policy and corporate directors and would be aligned to the wider governance structures in DBT, which are set out above in Section 2.
- 4.9. By creating the GDD and the Grant Delivery Board and devoting significant resource to both, DBT has improved its emergency response in respect of grant schemes since the pandemic. In this way, DBT is working to meet the need for action to address the challenges of under-resourcing and lack of formal governance arrangements that arose in delivery of the cohort one Covid-19 business grant schemes.

DELIVERY MODEL CONSIDERATIONS

- 4.10. Drawing on our learning from the Covid-19 business grant schemes, in any future pandemic, clear guidance involving mandated pre-payment eligibility checks would be very strongly recommended to ministers as a requirement for grants. Our advice would be informed by our significant learnings from the pandemic, including our increased understanding of the availability and accuracy of data within local authorities to help inform ministerial decisions.
- 4.11. DBT has already implemented this learning in its delivery of Business Recovery Grants under the Flooding Recovery Framework {GD02/16 – INQ000576435}. In the response to Storms Babet (October 2023) and Henk (January 2024), DBT was responsible for

the Business Recovery Grants given to SMEs whose premises were impacted by the flooding. DBT revisited the approach to the administration of these grant schemes in light of lessons learned from the pandemic and, as part of this, refreshed the guidance to local authorities. In particular, clear guidance and templates were provided to local authorities on the requirements around pre-payment eligibility checks. Over £1.1 million was paid out by way of the recovery grants and almost 500 SMEs were supported during a three-month period. In respect of the DBT's response to Storm Babet, most SMEs received funding within days of submitting their application to the relevant local authority. This model could be replicated for any future emergency grant scheme; although it would need to be adapted to respond to scale and speed requirements of any future response, there is now a clear basis from which to build.

- 4.12. As set out at 2.39, above, DBT has invested in data analytical tools, namely BusinessIQ and CrossCore. These have been used to identify, and maximise recovery of, irregular payments. In particular, BusinessIQ was recently used by the GDD for due diligence checks in respect of applications submitted to the Music Export Growth Scheme. It allowed DBT to ensure grant awards were made on an informed basis. BusinessIQ validated each applicant business as being active or trading, not linked to actual or suspected fraud, and meeting the eligibility criteria for the scheme. DBT used BusinessIQ to better understand the risk associated with making an award under the Music Export Growth Scheme, and to design and deploy the appropriate mechanisms for reporting and monitoring of the grants, particularly where there was risk that information would be lost in the event of a business closing. By strengthening reporting and monitoring, DBT has also improved its ability to evaluate the success of the grant scheme, in due course.
- 4.13. CrossCore is being used by GDD to support payments to individuals on the Post Office Compensation scheme (the Horizons Convictions Redress Scheme).
- 4.14. DBT has notified the National Audit Office (**NAO**) of its acceptance of all recommendations set out in the Covid-19 Business Grant Schemes Report, which was published on 24 March 2023 {GD02/17 – INQ000576430}. DBT and the NAO are in regular correspondence in respect of all recommendations which remain open. In parallel with the Emergency Finance Playbook, discussed below, DBT is developing a playbook for grants that will be completed by the end of September 2025. It will set out the steps required for operationalising grant schemes as emergency economic measures.

RECOVERY OF IRREGULAR PAYMENTS

- 4.15. Given the urgency of response required, and the priority given to speed of payments to businesses, guidance relating to recovery of irregular payments was not available at the start of the Covid-19 business grant schemes. This caused delays and difficulties in the later recovery of funding. DBT therefore now recognises that it is essential that guidance on recovery of grant payments made in error, or as a result of fraud or non-compliance, is made available from the outset in the event of any future pandemic.
- 4.16. Established instructions and processes on assurance and reporting are now held by GDD as demonstrated by those included in the guidance issued to local authorities in the responses to Storms Babet (October 2023) and Henk (January 2024).
- 4.17. As regards the irregular payments already incurred under the closed Covid-19 schemes, the latest version of the Covid-19 schemes recovery framework is set out in “Covid-19 Business Grant Funding Schemes – Debt Recovery, Returning Reclaimed Grants and Referring Outstanding Debts to the Department: Guidance for Local Authorities” {GD02/18 – INQ000576415}. This Guidance is actively being used by local authorities and DBT to continue recovery of irregular grant payments and now acts as a blueprint for recovery activities in the event of a future pandemic. It can be adapted for specific schemes easily, allowing it to be issued at the launch of any future intervention.

Recovery under the closed Covid-19 Local Authority Grant schemes

- 4.18. The GDD is working to, and will continue to work to, recover irregular payments including those related to error (for example, duplicates paid by local authorities), non-compliance (for example, ineligible awards paid), or payments made to businesses as a result of fraud. Within GDD there are currently seven full-time staff members working on recovery, supported by Shakespeare Martineau LLP to help GDD recover funds via litigation where this is appropriate. The BEIS Annual Report and Accounts estimated, based on a methodology agreed with the NAO and Office for National Statistics, a total of £1.032 billion of irregular payments through the Covid-19 business grant schemes. Based on information received from local authorities to date, they have identified approximately £64.17 million in irregular payments. As at 31 January 2025, over £46.02 million has been recovered. Further detail on irregular payments is given in Section 15 of Part C of the Corporate Witness Statement. The Pathfinder project,

detailed below, is aimed at supporting DBT to build a more accurate understanding of the final value of irregular payments.

- 4.19. DBT's approach is to pursue recovery of all debts linked to fraud, as this is seen as a critical deterrent to fraudsters, unless specialist advice from litigation experts determines that there is no chance of recovery. In addition, local authorities have referred suspected fraud activity to the National Anti-Fraud Network.
- 4.20. DBT commissioned a non-Executive Director (**NED**) review, "Covid-19 Business Grants – Cohort 1 – Review of Fraud Recoveries" {GD02/19 – INQ000596714} to reflect on and critically assess our approach to recovering irregular payments under the Covid-19 business grant schemes. This was finalised in August 2023. The review identified opportunities to improve recovery of irregular payments overall, including payments made as a result of fraud, and to improve value for money. Following the review and to implement its recommendations, DBT made the following improvements:
 - a) all local authorities were re-contacted to request engagement, increasing the volume and accelerating the flow of irregular payments cases;
 - b) recovery processes were streamlined with appropriately deployed skills and new resource was allocated;
 - c) a pilot digital tool, BusinessIQ (discussed at 2.39 above and further below) was introduced to help assess the viability of recovery from grant recipient businesses, ensuring recovery effort was focused on recoverable debt; and
 - d) fast-tracking referrals of actual and suspected fraud payments for litigation, which is still ongoing. This work is expected to continue to the end of the 2025/26 Financial Year (subject to court schedules).

Pathfinder Project (Recovery)

- 4.21. In spring 2024, DBT launched a Pathfinder project working with five volunteer local authorities to test a different approach to identifying and recovering irregular payments. Local authorities were engaged on the design of the scheme over the spring and summer and then began checks in the autumn, with their data returns due to DBT before the end of the 2025/26 financial year. In this project, each local authority is completing assurance checks on 100% of grants issued under the cohort one Covid-19 business grant schemes. This will be verified by DBT and, where appropriate, DBT will commence recovery action against identified irregular payments. Any funding

recovered will then be passed back to local authorities, who will redirect this funding in support of local businesses. DBT is compensating participating local authorities for each re-check they undertake, in recognition of the resources required to undertake this additional voluntary work. The Pathfinder project is due to conclude in December 2025, with all relevant cases to be subject to litigation by this point. However, this remains subject to court schedules, and ongoing recovery activity is anticipated beyond this date.

- 4.22. Where relevant, GDD intends to use both the Business IQ and CrossCore tools, discussed at 2.39 above, during the Pathfinder project. The data gathered from the Pathfinder project will also be used to increase DBT's understanding of the estimated value and type of irregular payments made under cohort one Covid-19 business grant schemes, and to arrive at a more accurate final estimate of irregular payments across all grant schemes: currently an estimated total loss of £1.032 billion. If the project proves to be successful in significantly increasing recovery of irregular payments, DBT will consider how to use the evidence to incentivise other local authorities to increase assurance and recovery activities.

DATA SHARING IN FUTURE GRANT SCHEMES

- 4.23. One of the most significant challenges in the Covid-19 business grant schemes was sharing data. Data sharing and General Data Protection Regulation compliance must be addressed at the outset of any grant scheme, with appropriate data sharing arrangements agreed between all parties. DBT now has standard terms and conditions set out in the grant funding agreement or memorandum of understanding documentation for each specific scheme, which also directs the grant recipient to DBT's privacy notice.
- 4.24. The Cabinet Office Government Grant Management Function owns the template content for grant funding agreements. DBT has suggested that Cabinet Office includes a standard privacy notice across all government departments with responsibility for grant schemes, which would cover the full life cycle of a project or programme (from application to debt recovery) in the template. Such a notice could be published at the inception of the grant scheme and would be a substantive improvement, as it would establish protocols for sharing data across organisations and enable swifter identification of irregular payments. DBT is supporting the Cabinet Office to draft this proposed 'standard notice' so that it meets all the needs of each stage of a grant

scheme. In this way, the notice will also assist to manage risks identified by both DBT and across government.

SECTION 5: CONCLUSION

5.1. As will be apparent from the content of this statement, work to improve our preparedness for the economic response to a future pandemic is ongoing and important. I have provided this statement to meet the Inquiry's Rule 9 request timescales. If it is helpful to the Inquiry, I will provide a written update on progress before the oral evidence phase of Module 9.

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: 

Dated: 22 May 2025

ANNEX GD02/01 – LIST OF DBT MINISTERS (2023 TO PRESENT)

7 FEBRUARY 2023 (MACHINERY OF GOVERNMENT CHANGE) TO JULY 2024 (UK GENERAL ELECTION)

Role	Name	Time in Post
Secretary of State for Business and Trade	Rt Hon Kemi Badenoch MP	February 2023 to July 2024
Minister for Services, Small Business and Exports	Lord Offord of Garvel	April 2023 to July 2024
Minister of State for International Trade	Nigel Huddleston MP	February 2023 – November 2023
Minister for Industry and Economic Security	Nusrat Ghani MP	February 2023 - March 2024
Minister for Small Business, Enterprise and Markets	Kevin Hollinrake MP	February 2023 – July 2024
Minister for Investment	Lord Johnson of Lainston CBE	February 2023 to July 2024

JULY 2024 (FOLLOWING UK GENERAL ELECTION) TO PRESENT

Role	Name	Time in Post
Secretary of State for Business and Trade	Rt Hon Jonathan Reynolds MP	July 2024 (incumbent)
Minister for Services, Small Business and Exports	Gareth Thomas MP	July 2024 (incumbent)
Minister for Trade Policy and Economic Security	Rt Hon Douglas Alexander MP	July 2024 (incumbent)
Minister for Industry	Sarah Jones MP	July 2024 (incumbent)
Minister for Employment Rights, Competition and Markets	Justin Madders MP	July 2024 (incumbent)
Minister for Legislation	Baroness Jones of Whitchurch	July 2024 (incumbent)
Minister for Investment	Baroness Gustafsson of Chesterton CBE	October 2024 (incumbent)