

9 November 2020

PRIVATE AND CONFIDENTIAL

Sarah Munby
BEIS Permanent Secretary
1 Victoria Street
London
SW1H 0ET

Dear Sarah

Covid-19 guarantees schemes extension and Bounce Back Loan Scheme top-up

Over the past week, we have been working at significant pace with officials across government to prepare to implement changes to the debt guarantee schemes (**'the schemes'**), announced by the Prime Minister last week to support the wider economic and public health response to the Coronavirus pandemic. These announcements reflect the extremely challenging current economic circumstances. With a second lockdown well underway, businesses who may have thought they could weather the pandemic without accessing a loan may now welcome the extended opportunity to do so. The British Business Bank is proud of the collaboration that has taken place in delivering the schemes and, as always, stand ready to deliver these changes to the very best of our ability.

It is important to note that the combined changes to the debt schemes could, on current estimates, increase the scheme size by between £11bn and £20bn. The Bank has so far implemented the schemes under instruction from BEIS, and I understand that you are preparing to instruct us again. In the case of the Bounce Back Loan Scheme (**'BBLs'**), the Bank's Board raised a reservation notice on 2 May 2020, citing concerns with propriety, value for money and feasibility, before accepting the instruction. The Board are not raising a reservation notice again now, but given the significant increase in exposure that is likely to be created by the combination of the scheme extension and top-up option they have asked me to write and remind you that reservations they previously expressed regarding BBLs – particularly concerning value for money – continue to apply.

Significant steps have been taken to address our concerns around propriety and value for money. The Bank has worked hard to accredit 28 lenders for BBLs, ensuring an element of competition within the scheme. Nevertheless, the overwhelming majority of loans have been delivered by the big five banks, and as work for the successor to the schemes takes place we will need to further consider how best to ensure that diversity of provider is maintained.

There has also been an exceptional amount of collaboration between government, the Bank, lenders and law enforcement agencies to combat and reduce fraud across the schemes, in particular in relation to BBLs. Through the minimum standards in place at launch and the work across government since then, as of late October accredited lenders have so far prevented an estimated £1.1bn of fraud relating to almost 27,000 cases. However, there remains a high level of residual fraud risk within BBLs due to the self-certified nature of the scheme. The proposed extensions and top-up option will increase government's exposure and are expected to correspondingly increase fraud losses to government.

Finally, there has also been significant progress made regarding feasibility, with more robust governance procedures put in place internally, across government and with lenders, for example through the commencement of our lender audits. These processes will remain in place and we have much greater confidence that delivery is feasible than we did in May. We believe that the scheme changes can be implemented effectively and to the agreed timetable, but the speed at which the BBLs 'top-up' element has been required to be implemented does entail some heightened risk, which we have been working with the lenders to address as they seek to operationalise the "top-up" element of the Bounce Back scheme.

The Bank looks forward to continuing collaboration to ensure the needs of smaller businesses are met in the face of the pandemic. We will continue our work to further develop effective mechanisms to ensure the schemes are successful, for instance through our work with your team on a fair and consistent recoveries framework. We have responded quickly to last week's announcement and stand ready to implement your instruction as soon as we receive it.

Yours sincerely

Personal Data

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