

Witness Name: Sir Alex Chisholm

Exhibits: AC03/001 – AC03/122

Dated: 16 October 2025

**UK COVID-19 INQUIRY**

**MODULE 9**

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**THIRD WITNESS STATEMENT OF SIR ALEX CHISHOLM**

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## **Section 1: Introduction**

- 1.1. I am providing this written statement in response to the Inquiry's Rule 9 request directed to me, dated 19 June 2025 (**the Rule 9 request**).
- 1.2. I was Permanent Secretary of the Department of Business, Energy and Industrial Strategy (**BEIS**) (or **the Department**) from September 2016 to 13 April 2020, then starting in my new role as Permanent Secretary at Cabinet Office on 14 April 2020. Accordingly, this statement focuses on a narrow window of time in early 2020, until 13 April 2020.
- 1.3. This is my third witness statement in the Covid-19 Inquiry. I provided witness statements in both Module 1 and Module 5. Both witness statements were provided in my capacity as the Permanent Secretary of Cabinet Office. They did not address matters relevant to my role at the Department, or the Government's economic response to the pandemic. This is my first statement relating to my role in the Department.
- 1.4. As I expressed in my first statement for Cabinet Office in Module 1, I wish to express my condolences to all those affected by the Coronavirus Disease 2019 (**Covid-19**) pandemic and to all the families who lost loved ones. Although my involvement with the Department in the economic response was short in duration, I was acutely aware of the severe impacts the pandemic could have on businesses and people's livelihoods.

### *Structure and Scope of Statement*

- 1.5. This statement has the following structure:
  - a) Section 1: Introduction - sets out the scope and structure of this witness statement in response to the Rule 9 request.
  - b) Section 2: Roles and Responsibilities - addresses my professional background, my roles and responsibilities as BEIS Permanent Secretary (until 13 April 2020), and an assessment of pandemic preparedness and strategies.
  - c) Section 3: Joint Working - considers my working relationships with the Secretary of State, a range of ministers, officials, other government departments and public bodies.
  - d) Section 4: Coronavirus Business Interruption Loan Scheme (**CBILS**) - sets out my involvement in CBILS.

- e) Section 5: Coronavirus Large Business Interruption Loan Scheme (**CLBILS**) - sets out my involvement in CLBILS.
- f) Section 6: Bounce Back Loan Scheme (**BBLs**) - sets out my involvement in BBLs.
- g) Section 7: Includes my further reflections on the Covid-19 loan guarantee schemes (CBILS, CLBILS, and BBLs).
- h) Section 8: Business Rates Relief (**BRR**) - sets out the Department's work on BRR during the pandemic.
- i) Section 9: Business Grants Schemes - sets out my involvement in the Covid-19 business grant schemes, including the Small Business Grant Fund (**SBGF**) and Retail Hospitality and Leisure Grant Fund (**RHLGF**), and my reflections on the grant schemes.
- j) Section 10: Changes to Insolvency Rules - sets out the Department's work on reforms to the Insolvency Rules.
- k) Section 11: Data and Modelling - I provide a high-level summary of how I used data, economic modelling, and other scenario analysis in the advice I provided.
- l) Section 12: Inequalities and Vulnerable Groups - addresses the Department's work to consider the needs of inequalities and vulnerable groups, including the public sector equality duty (**PSED**).
- m) Section 13: Lessons Learned and Reflections - sets out my further thoughts on the pandemic response and recommendations for the future.
- n) Section 14: Relevant Documents.

- 1.6. Many of the matters raised within the Rule 9 request are addressed in detail in the first Departmental Corporate Witness Statement (**CWS**) provided by Gareth Davies, in his capacity as current Permanent Secretary for the Department for Business and Trade (**DBT**) [AC03/001 – INQ000653217] [AC03/001a – INQ000653218] [AC03/001b – INQ000653219] [AC03/001c – INQ000653220]. As requested in the Rule 9 request, I will replicate the relevant content in this statement, indicating where that has been done and including references as appropriate using the following format: 'CWS, Part X, §XX' though I do not repeat exhibit numbers throughout for ease.
- 1.7. My statement has been prepared based on my personal recollections, emails, and documents made available to me. As indicated above, I have also seen the CWS of

the Department provided in Module 9. My legal team have provided me with material from my individual email inbox, the Permanent Secretary email inbox and calendar, and documentary material saved on the Department's SharePoint system.

- 1.8. I am aware that my legal team has informed the Inquiry Legal Team that I am not in a position to answer a number of the Rule 9 request questions as I left my role in the Department on 13 April 2020. I very much wish to assist the Inquiry with its investigations where possible, however, this statement does not address in any detail matters which arose after 13 April 2020. While at Cabinet Office, I continued to have some awareness of the package of economic support being developed and provided by the Government, but my direct involvement in and therefore, detailed knowledge of the Department's economic response ended on 13 April 2020 (indeed, 10 April 2020 was my last working day at the Department, as over the Easter weekend of 11 to 13 April 2020 I focused on preparing for my new role at Cabinet Office, while my successor at BEIS, Sam Beckett, took over ongoing issues for the BEIS Permanent Secretary). Where I am asked for my views and reflections in relation to matters after that date, I have offered opinions to the extent I feel able. In doing so, I have had access to documents from this time which have helped to refresh my memory of events that took place over five years ago, and also drawn on the CWS which is obviously a much more detailed and definitive account than I can offer from a personal point of view and based on only a few weeks of relevant experience. Most of what I did at that time was as part of a collective effort in which we worked closely as a team rather than adopting personal positions on issues or adopting individual strategies. It is also the case that, as Permanent Secretary of a large department with extensive ongoing responsibilities unrelated to Covid-19, I could not devote more than a part of my time to the subject of this module. Nonetheless, to assist the Inquiry as much as possible, I have endeavoured in this statement to highlight my direct personal involvement and opinion wherever possible, with references to relevant supporting documents below.

## **Section 2: Role and Responsibilities**

### *Professional Background*

- 2.1. I read history at Oxford University and later obtained a Masters in Business Administration at INSEAD business school. I began my career as a civil servant in 1990. I worked in various roles at the Department of Trade and Industry and the Office of Fair Trading until 1996. These roles mostly involved competition policy and the media, communications, and financial service sectors. I then worked for Pearson plc, The Financial Times, and several technology companies. In 2006, I returned to public service, when I was appointed Commissioner at the Commission for Communications Regulation in Ireland. In 2013, I was appointed as Chief Executive to the newly formed Competition and Markets Authority. I held that position until 2016. I then served for a short period as Permanent Secretary at the Department of Energy and Climate Change (**DECC**) from 4 July 2016. In July 2016, the DECC was merged with the Department for Business, Innovation and Skills (**BIS**) to create BEIS. Each of the merging departments had its own Permanent Secretary; me from DECC and Martin Donnelly from BIS, so we each became Joint Permanent Secretary for BEIS.
- 2.2. On 5 September 2016, I was appointed as Permanent Secretary of BEIS. Martin Donnelly moved to the Department for International Trade (**DIT**). The CWS lists 14 April 2020 as my last day as Permanent Secretary (CWS, Part A, §1.6). Although, my last working day in my BEIS role was Easter Monday, 13 April 2020. I gave a practical hand-over to Sam Beckett on 10 April 2020, Good Friday. I was then appointed as Chief Operating Officer for the Civil Service and in parallel, Permanent Secretary for Cabinet Office. I started in these new roles on Tuesday 14 April 2020 and remained in those roles until April 2024.
- 2.3. In July 2024, I was appointed Chairman of EDF Energy UK. I remain in that role. In addition, I am currently a Non-Executive Director at BT Group, and a Senior Advisor at CPP Investments and at Boston Consulting Group. I am also a Trustee and Board Member of Breadline Africa.

### *Role and Responsibilities as BEIS Permanent Secretary*

- 2.4. A summary of the Department's roles and responsibilities and functions prior to the pandemic is included in the CWS, Part A, §§2.9 – 2.13, and outlined below:
  - a) Prior to the pandemic, the Department held key responsibility for the following policy areas: business, industrial strategy, science, research and innovation, energy and clean growth and climate change.

- b) The Department was the designated Lead Government Department (**LGD**) for emergencies affecting the Critical National Infrastructure (**CNI**) sectors of energy, civil nuclear, chemicals, space, and postal services. CNI sectors are critical elements of infrastructure, the loss or compromise of which could result in a major detrimental impact on the availability, integrity, or delivery of essential services. If an emergency occurred in these sectors, the Department would lead on the cross-government response and Cabinet Office could request the Secretary of State for the Department to chair Cabinet Office Briefing Rooms (**COBR**). For emergencies where the Department was not the LGD, such as a pandemic, it would provide assistance within the scope of its policy responsibilities.
- c) The Department also had responsibility for the majority of wider, non CNI business sectors. These included: automotive, manufacturing, construction, steel, hospitality, retail, personal care, and professional and business services. The Department also had an interest in the food retail sector which was sponsored by the Department for Environment, Food and Rural Affairs (**DEFRA**) as well as supply chain logistics. The Department also held responsibility for employment rights and employer responsibilities.
- d) At the time of its creation in July 2016, the Department established an executive committee (**ExCo**) to oversee internal governance. The Energy Resilience and Emergency Response (**ER2**) team was also created at this time and was responsible for ensuring teams across the Department were prepared for an emergency. ER2 provided a network of trained staff who could be mobilised in an emergency.
- e) A sub-team of ER2, the Emergency Response - Capabilities and Operations team (**ERCO**) was created in July 2017 to function as a single, central team covering the Department's interests. This followed a July 2017 internal review which recommended that the Department could improve its emergency response through standardisation across the Department.

2.5. As Covid-19 emerged in January 2020, the Department, together with the rest of Government, quickly became aware of the 'gathering storm'. In the very early weeks, consideration of the impact of Covid-19 outside epidemiology and healthcare was necessarily only in broad terms. It was too early to fully envisage, much less plan for,

the scale and duration of the economic and financial impact of the pandemic and the effect of non-pharmaceutical interventions (**NPIs**).

- 2.6. During January 2020, officials in the Department's Business Sectors Group began to assess the spread of the disease. While there was insufficient information at this stage to consider the relative merits of any specific policy response, officials were aware of an established menu of business support options including loan guarantees and grants. The data analytics firm Experian provided information which enabled the team to identify potential business vulnerabilities by analysing cashflows. Alongside the Business Sectors Group, the Department's Analysis Directorate had an effective Economy and Strategic Analysis team which was responsible for assessing the impact of UK and global economic movements on operations and policy. The Department also drew upon international data and intelligence gathered by the Foreign, Commonwealth & Development Office (**FCDO**) and DIT. Taken together, there was a major effort to gather relevant data and seek opinions on business issues, concerns and potential impacts.
- 2.7. The Department drew heavily on its prior emergency planning experience. The then Department for Business, Innovation and Skills (**BIS**) Economic Shocks team, which continued to operate as part of BEIS, had been established following the 2008 financial crisis to coordinate the Department's response to economic shocks. It collaborated with departments and agencies across Whitehall, including the Department for Work and Pensions (**DWP**) and the Insolvency Service (**INSS**). The BEIS Economic Shocks Team was responsible for:
  - a) Business Intelligence - the Business Intelligence Unit (**BIU**) worked across Whitehall to collect information about potential shocks and investment opportunities, and circulated insights and early warnings to ministers, No 10, senior officials, and sector teams.
  - b) Building Capability - the Economic Shocks team worked with sector teams across BEIS and Whitehall to support handling of emerging shocks. Various other departments and agencies played key roles in supporting this activity, for example DWP, No. 10, the Ministry of Housing, Communities and Local Government (**MHCLG**), or the Civil Contingencies Secretariat in Cabinet Office for more serious shocks.
  - c) Response - the development and deployment of tools, templates, and contingency plans, covering economic shocks activities. This could include

business-specific taskforces, providing advice and support through local partners, and managing supply chain impacts.

- d) Learning - the Economic Shocks team ran workshops and prepared guidance documents for Sector teams on preparations for major economic shocks. Prior to the pandemic, the Department also undertook planning exercises to consider the impact of potential economic shocks and develop a proposed response. This work informed planning in sector sponsorship teams, including considering how best to co-ordinate a response, the most appropriate mitigation measures, and how best to communicate with business sectors in the event of a shock. These planning exercises were predominantly focused on EU Exit in the period immediately preceding the pandemic. Nonetheless the lessons learned were applied to the Covid-19 response. Exercises were conducted focusing on sector specific impacts, such as Exercise NOBLE PANTHER which was based on a furnace malfunction at a steel company site; the experience gained in this exercise meant that the steel team were well prepared for British Steel's insolvency in April 2019.

- 2.8. In addition to simulated exercises, the Department had real experience of engaging with industry and communities affected by the insolvency of critical businesses. For example, the construction and facilities management services firm Carillion went into liquidation in January 2018 and BEIS staff were deployed at short notice to assist under the overall direction of Cabinet Office.
- 2.9. The Department had prior experience of delivering financial support packages both directly and through partner organisations. These included the Regional Growth Fund (**RGF**) and the Enterprise Finance Guarantee (**EFG**) scheme.
- 2.10. The RGF was created in June 2010 with three key aims: to leverage private sector investment, to create/safeguard jobs, and to support economic growth in lower income regions in the UK. The RGF committed £2.6 billion over the period 2011 - 2012 to 2016 - 2017 to a range of projects and programmes including subsidies for capital investment, research, and development and training.
- 2.11. The EFG scheme operated from 2009 to 2021. Its rationale was to address the market failure in the provision of debt finance, whereby viable businesses were unable to obtain normal commercial loans, because they lacked adequate security or a proven financial track record. The scheme supported the provision of over £3.3 billion of finance to more than 35,000 smaller businesses in the UK before its closure in 2021.

The EFG scheme provided the lender with a government-backed 75% guarantee against the outstanding facility balance in order to encourage more loans to be made. The scheme was managed by British Business Financial Services Ltd, a subsidiary of the British Business Bank (**BBB**), on behalf of BEIS, and was the model for CBILS, to which I turn below.

- 2.12. The EFG provided a model for the creation of government backed additional loan capacity seen in CBILS, as set out in the CWS, Part B, from §2.3, and described further below. This led to numerous efficiencies. For example, it allowed lenders who were accredited to provide loans under the EFG to be automatically accredited for CBILS.
- 2.13. In addition, the Cities and Local Growth Unit (**CLGU**), a joint unit between BEIS and MHCLG, delivered different grant programmes prior to the Covid-19 pandemic. For example, following significant flooding across multiple local authorities in November 2019 and following storms Ciara and Dennis in February 2020, the Government activated the Flood Recovery Framework, which set out in detail the core package that was designed to help meet the recovery needs of communities and businesses following a severe weather event. The core package was comprised of several schemes including the Business Recovery Grant. The CLGU also acted as the delivery mechanism for the RGF and (with the then DLUHC) the Growing Places Fund and Local Enterprise Partnerships, which were designed to foster economic growth through collaboration between local authorities and the private sector.
- 2.14. As described in the CWS, Part D, §§3.4 – 3.12, on 23 March 2020 the Government's Economic and Business Response Ministerial Information Group (**EBRIG**) proposed that the Government should bring forward insolvency reform intended to improve the position of firms that were commercially viable but were in financial difficulties because of the pandemic. These insolvency easements had been announced but paused prior to the pandemic and were designed to align the UK insolvency regime more closely with the US Chapter 11 bankruptcy code, which had a reputation for helping viable firms trade through temporary financial difficulties to enduring recovery.
- 2.15. Drawing on the existing work of Her Majesty's Revenue and Customs (**HMRC**) and Her Majesty's Treasury (**HMT**) to allow flexibility on tax payments under HMRC's 'Time to Pay' arrangements, from early March 2020, HMRC considered extending its flexibility to include business rates, in particular in relation to sectors and roles where staff could not work from home [AC03/001d – INQ000585483].

- 2.16. As set out in the CWS, Part A, from §4.2, BEIS officials kept ministers updated on developments daily from 29 January 2020, with the early focus of situation reports (**SitReps**) being the possible impact on CNI. A Business Intelligence Pack (known as the dashboard) was developed following the creation of a weekly cross-Whitehall business intelligence group.
- 2.17. The Department's existing Energy Resilience and Emergency Response team co-ordinated engagement with Cabinet Office. A separate Emergency Response Team was established from mid-February 2020 to focus on Covid-19, tasked with coordinating BEIS inputs into planning work across Government [AC03/002 – INQ000585477]. I received an initial note regarding the work of the Emergency Response Team on 12 February 2020 from Mark Prouse (Deputy Director, Energy Resilience & Emergency Response, BEIS) and a follow-up submission and research note from officials on 20 February 2020, which I address in the detailed chronology below.
- 2.18. By late February, it was clear that Covid-19 was highly infectious and harmful. It was also clear that the Government's initial strategy to 'contain' the disease, by trying to catch cases early and trace all contacts to avoid spread, was no longer feasible and the Government moved to the 'delay' phase, that is the emphasis moved to delaying the spread of Covid-19. At this stage, officials were aware that severe disruption was in prospect and the planning for the economic response was therefore escalated, particularly from 11 March 2020 when a pandemic was declared by the World Health Organisation (**WHO**) and the Chancellor announced significant interventions in the Spring Budget, which I discuss further below.
- 2.19. The following four weeks after the WHO declaration on 11 March 2020 was an intense period of development of new interventions and delivery, alongside the refinement of schemes. We also wrestled with the consequences of NPIs, particularly the need to provide safe working conditions for essential workers, including some personnel in the Department.
- 2.20. By the time I finished in the Department on 13 April 2020 the following had occurred:
- a) CBILS was announced on 11 March 2020;
  - b) SBGF was announced on 11 March 2020;
  - c) RHLGF was announced on 17 March 2020;
  - d) CBILS opened to applications from 23 March 2020;

- e) Funding for the SBGF and RHLGF was transferred to local authorities on 1 April 2020; and
  - f) CLBILS was announced on 3 April 2020.
- 2.21. During the whole of the period from 29 January 2020 to 13 April 2020, but especially in the more intense Covid-19 economic response period from 13 February 2020 onwards, the Department focused on the potential and actual impacts of the virus on economic activity and the consequential impacts for businesses. Initially, these impacts came in the form of disruption to international supply chains and specialised professional resource, affecting some but not all sectors and firms in the economy. This extended to wider macroeconomic impacts including reduced economic activity and enhanced perception of risk, which weakened cashflows and the availability of credit to the wider business community.
- 2.22. These impacts were exacerbated by the reduced availability of the business workforce due to the impact of the disease itself. From 23 March 2020, the first national lockdown caused a collapse in economic demand and severe limitation on production in most businesses, requiring very large scale and comprehensive economic intervention from Government to allow businesses to survive. In Q2 2020, UK GDP fell by 20.4%, the worst ever fall experienced by the UK economy. Economic interventions at a large scale were therefore urgent and necessary.
- 2.23. As time progressed, we were also able to develop a more differentiated picture of current and future harms for specific sectors and types of firms, for example developing CLBILS to fill a gap in the financial support available to medium enterprises, and introducing more targeted support schemes, for instance for the retail and hospitality sector.
- 2.24. As NPIs were introduced, BEIS led on what this meant in practice for safe working conditions in office, factory, and retail settings.
- 2.25. The guiding light for the Department as a whole and for me personally was economic preservation, that is the need to preserve the economic capacity of the country in the face of unprecedented threats and impacts, such that otherwise healthy firms would not be driven to failure by the onset of Covid-19.
- 2.26. Steps were taken to lock down the Department from 17 March 2020 and to ensure that it could still operate effectively even with many employees affected by the virus and most working from home.

- 2.27. As well as this external focus, a key task for me and my senior colleagues in this period was to ensure that the Department as an organisation was able to function effectively in response to Covid-19. This required early steps to reorganise teams to focus on this new threat. The Covid-19 specific Emergency Response Team was established in February 2020 and resources were reallocated to help strengthen the Business Sectors and Business Growth teams which ultimately worked on the loan guarantee schemes and grants which I address below. On 19 March 2020, the Department established a Covid-19 Hub Project Management Office (**PMO**) team to provide daily updates to BEIS ministers, including the Secretary of State, the BEIS Covid-19 Executive Committee on the impacts of Covid-19, and to Cabinet Office.
- 2.28. A common thread linking the external policy and delivery focus, and the internal reorganisation and reprioritisation, was the need to keep up with fast moving events and a constantly changing information picture. Every day, there would be critical new information and most days we were developing new interventions or refining existing ones to help mitigate the impacts on business.
- 2.29. As Permanent Secretary of BEIS I had overall responsibility for the effective running of the Department. I was the senior civil servant with lead responsibility for the management and oversight of the Department and its resources. I was a senior adviser to ministers and a public representative of the Department in dealings with Parliament, other government departments (**OGDs**), other governments, and other stakeholders. I was responsible for chairing the Department's ExCo and representing the Department before the Public Accounts Committee (please note that I was not called on to do that in relation to the economic response). I was also the Department's Principal Accounting Officer and so ultimately responsible to Parliament for Departmental expenditure. This covered funds directly spent by the Department, for example the funds needed to employ the approximately 4,000 staff who worked at BEIS. It also covered the funds spent by over 40 Arm's Length Bodies (**ALBs**) sponsored by the Department, both in respect of resources and capital programmes. In BEIS, ALBs were known as Partner Organisations. BBB was one such Partner Organisation; others included UK Research & Innovation, Ofgem, and the Nuclear Decommissioning Authority. In 2018/2019, the last full year prior to the impacts of Covid-19, the expenditure of the core Department and agencies was £13.6 billion [AC03/003 – INQ000096898].
- 2.30. I have been asked whether I consider that there was sufficient clarity in the role and guidance given to Accounting Officers. As Accounting Officer I was able to rely on various guidance and advice, which greatly assisted me in this role. Foremost in this

was the guidance on the role of Accounting Officers which was, and is, contained in 'Managing Public Money', an HMT publication, periodically revised [AC03/003a – INQ000496882]. Additionally, a long-standing piece of practical guidance for Accounting Officers is the 'Accounting Officer's Survival Guide' [AC03/003b – INQ000655386]. I was also able to draw on the considerable expertise and experience of the Department's finance staff and especially its Finance Director. The HMT Officer of Accounts also provided expert advice when needed. I felt well supported in my role as an Accounting Officer and consider the guidance and expert advice provided to Accounting Officers to be suitable.

- 2.31. As Permanent Secretary, I would typically have around eight meetings per day between around 09.00 – 19.00, mostly pre-scheduled but with some squeezed in at short notice to address a specific issue or request that had arisen. These meetings could be formal governance and management meetings cross-government or within the Department. They could be review meetings with ministers or officials to discuss advice or intelligence, or more informal meetings with senior officials from the Department or Partner Organisations, or a key external stakeholder (e.g. a Business Representative Organisation (**BRO**)). In the weeks before 13 April 2020, I am likely to have had brief meetings or discussions with senior officials at times, which may not have been scheduled. During those we would have discussed aspects of the business support schemes. There would not be minutes of these conversations, although where relevant and necessary my private office would have ensured that the contents of the discussions were subsequently set out in emails or other documents. I had good working relationships with senior officials in the Department, and frequent conversations with them. I could rely on them to 'bring me' issues as needed, seeking my guidance and approval where needed.
- 2.32. I would also have short meetings with my private office staff for a variety of reasons, for example, a briefing before a meeting, to give feedback on an item in my 'overnight box', or to check on latest developments on a particular issue. Such meetings would not have been, in the main, formally minuted. Where necessary, however, my views, requests, or decisions communicated in such meetings would have been recorded by my private office in 'read-out' emails to the relevant teams within the Department.
- 2.33. Before the start of the daily meeting schedule, I would prepare for the day ahead by reading briefs on scheduled meetings. At the end of the day, I would work through documents in my 'overnight box'. This would contain, for example, written submissions either sent or copied to me, records of meetings, correspondence, and business and

media reports, where relevant. This would also include updates on issues affecting the Department and its work (e.g. on Departmental spending and resourcing, and key developments in Parliament and across Government, in business sectors and energy markets). The material in my 'overnight box' at the relevant time was obviously not limited to the Government's economic and business response to the pandemic.

- 2.34. The documents in the 'overnight box' fell into three broad categories. First, there were matters that required a decision from me. Secondly, there was correspondence or other documents to be sent out in my name, which I needed to approve (or amend as required). Thirdly, there were 'for information' documents that were copied to me, where I did not necessarily need to take action. As will be clear from later parts of my witness statement, many of the submissions to the Secretary of State were sent to me for information, and not requiring input from me.
- 2.35. There was inevitably a need to prioritise the material in the 'overnight box', although I would always seek to read everything necessary (perhaps picking up documents the following day, if needed). I had a good working relationship with my private office team. They understood the need to prioritise certain documents and issues and also knew the issues I was likely to be most concerned about. They were very adept at identifying and steering me to priority documents or issues.
- 2.36. For the third category of documents referred to above (i.e. documents sent to me 'for information', or 'to note/comment', which may include submissions to ministers), if I had a comment or suggestion, or wanted to discuss an issue with officials or others, then my practice was to make a record of that and communicate it. For example, I raised concerns with BEIS and HMT officials in response to the submission dated 27 March 2020 which I address below at §2.39.h) and §5.2.c). If I simply read the document, and had no feedback or questions, then I would not necessarily record that.
- 2.37. There was a BEIS Permanent Secretary private office 'WhatsApp' group. Typically, this was used for logistical things, such as trying to arrange meetings, locating information, confirming attendance at meetings and so on. It is possible that, at this time, I occasionally gave feedback or a steer on an issue relevant to business support on this forum, with the intention that this would be formalised by my private office and put into an email or written document. As noted already, the BEIS Permanent Secretary private office was very professional and assiduous in briefing me, and recording and relaying decisions, requests, and feedback.

2.38. Later in my statement I explain various submissions and other documents on business support schemes that I received. For some of these, I am aware that document searches have not identified a written response from me. In line with the information above, that may be because I had no substantive comments to make, or because I provided responses by way of notes to hard copy documents or steers in discussions with officials or my private office, and no record has been located, or perhaps because a response was contained in the private office WhatsApp group and for whatever reason did not get formalised, as intended. That said, from the Departmental documents I have seen, which the Inquiry also has, there is a substantial record of every material matter relevant to this Module, at least during my time in the Department, including the arguments and evidence in support of every substantive decision. My own contributions to proceedings are all well documented and from my recollections there is no substantial consideration or development outside of the official record.

2.39. Below I have summarised key steps taken in relation to the economic response schemes while I was Permanent Secretary. To give context to my involvement, I have included some dates and steps after I left post:

#### Coronavirus Business Interruption Loan Scheme

- a) 11 March 2020: The Chancellor announced the creation of CBILS in the Spring Budget [AC03/004 – INQ000236913]. HMT informed BEIS that HMT would work closely with BEIS, BBB, and lenders to agree the exact terms of CBILS [AC03/005 – INQ000563870].
- b) 17 March 2020: The Chancellor announced changes to the initial parameters of CBILS: increasing the maximum loan from £1.2 million to £5 million and a six-month interest-free period for businesses [AC03/006 – INQ000585498].
- c) 22 March 2020: I requested a ministerial direction from the Secretary of State in relation to CBILS [AC03/007 – INQ000065992]. The Secretary of State provided a ministerial direction on the same day [AC03/008 – INQ000064753].
- d) 23 March 2020: CBILS was launched and opened to applications. This was also the date on which the first lockdown was announced, to come into force on 26 March 2020 [AC03/009 – INQ000563889].
- e) 2 April 2020: I requested a further ministerial direction from the Secretary of State in relation to proposed changes to CBILS relating to personal guarantees

and extending eligibility [AC03/010 – INQ000065315]. On the same day, the Secretary of State gave a ministerial direction to introduce the changes [AC03/011 – INQ000064780].

- f) 3 April 2020: The further changes to CBILS, relating to personal guarantees and extension of eligibility, were announced by HMT [AC03/012 – INQ000593136].

#### Coronavirus Large Business Interruption Scheme

- g) 25 March 2020: I attended an Extraordinary Business Investment Committee meeting to discuss business investment issues in the UK. Officials from BEIS and OGDs reported that businesses in key affected sectors had raised concerns that they were too large to benefit from CBILS [AC03/013 – INQ000563894]. This issue was also raised at the daily ministerial call, which I attended, on 26 March 2020 ([AC03/014 – INQ000563896], I note the document is incorrectly dated 16 March 2020) and various submissions were prepared, which are set out at CWS, Part B, §§3.4 – 3.8.
- h) 27 March 2020: BEIS officials sent a submission to the Secretary of State providing an update on support measures for large companies [AC03/015 – INQ000596661] [AC03/016 – INQ000563901] [AC03/017 – INQ000596660] [AC03/018 – INQ000563899]. This submission was also provided to me and I subsequently exchanged correspondence with BEIS officials and HMT in respect of my concerns, as set out at §5.2, below.
- i) 1 April 2020: At a meeting between BEIS and HMT officials, I highlighted concerns about the operational capacity of BBB to deliver a proposed new scheme to help the ‘missing middle’ (which later became CLBILS). These concerns are detailed further below in **Section 5**. HMT officials acknowledged these concerns. They said that the Chancellor intended to announce the proposed new scheme on 2 or 3 April [AC03/019 – INQ000563916].
- j) 2 April 2020: Officials sent the Secretary of State, copying me, an urgent submission about the proposed new scheme (i.e. CLBILS) [AC03/020 – INQ000064782].
- k) 3 April 2020: CLBILS was announced by the Chancellor. [AC03/012 – INQ000564286].

- l) 8 April 2020: Officials sent me Accounting Officer advice in relation to CLBILS and recommended that I seek a ministerial direction [AC03/021 – INQ000563939]. I have no specific recollection of my response to the advice and nothing to add to the written record of my communication with the Secretary of State as set out in this statement.
- m) 16 April 2020 (i.e. **after** I left BEIS): Sam Beckett, as acting Permanent Secretary, requested a ministerial direction from the Secretary of State in relation to CLBILS [AC03/022 – INQ000563960].
- n) 20 April 2020: CLBILS was launched and opened to applications.

#### Bounce Back Loan Scheme

- o) 27 April 2020 (i.e. **after** I had left BEIS): BBLs was announced.
- p) 4 May 2020: BBLs was launched and opened to applications.

#### Small Business Grant Fund and Retail Hospitality and Leisure Grant Fund

- q) 7 to 8 March 2020: HMT contacted BEIS and MHCLG seeking options for providing grants to support small and medium enterprises (**SMEs**). Save for the WhatsApp exchange and conversation with Sarah Munby (Director General, Business Sectors) on 8 March 2020 to which I refer below, I do not recall having any involvement at this stage.
- r) 10 March 2020: I had contact with the MHCLG Permanent Secretary and HMT about whether BEIS or MHCLG should be the lead department for the proposed local authority grant scheme [AC03/023 – INQ000543061].
- s) 11 March 2020: I obtained the Secretary of State's agreement to BEIS taking on the Accounting Officer responsibility for the proposed local authority grant scheme.
- t) 11 March 2020: SBGF was announced by the Chancellor in the Spring Budget.
- u) 17 March 2020: RHLFG was announced by the Chancellor.
- v) 23 March 2020: I requested a ministerial direction in relation to the SBGF and the RHLGF [AC03/024 – INQ000543099] [AC03/025 – INQ000543109] [AC03/026 – INQ000543110]. The Secretary of State provided these on the same day [AC03/027 – INQ000064764] [AC03/028 – INQ000064763].

- w) 23 March 2020: the SBGF and RHLFG Guidance was circulated to local authorities [AC03/029 – INQ000064765].
  - x) 1 April 2020: first grant funding transferred to local authorities.
- 2.40. I requested four ministerial directions in total in relation to the Covid-19 support schemes: for CBILS (original design); for CBILS (changed design); for the SBGF; and the RHLGF.
- 2.41. By way of explanation, by seeking a formal ministerial direction the Accounting Officer is indicating to the Minister that there is a deficiency in a proposed policy measured against the standards specified in *Managing Public Money*. That is, the proposal does or may not meet one or more of the required standards of Regularity, Propriety, Value for Money or Feasibility (the components under *Managing Public Money*). In a request for a ministerial direction, the relevant concerns are set out to help the decision-maker weigh them in the balance. Alternatives are considered and, where relevant, advocated.
- 2.42. As BEIS Principal Accounting Officer, the Department's Finance Director (at the time, Tom Taylor), his team and the officials with the policy responsibility for particular schemes and spending, would provide me with advice on the extent to which the proposed policy met the *Managing Public Money* requirements. Exceptionally, officials would recommend that a ministerial direction should be sought. I would also consider that advice and whether a proposed policy was the best approach in the circumstances, even accounting for concerns about complying with *Managing Public Money*, or whether an alternative approach would be better. If I considered that a ministerial direction was required, a submission would go to the Secretary of State, along with the request.
- 2.43. The consequence of a ministerial direction is that the minister and not the Accounting Officer becomes responsible for the way the money is spent, although officials remain responsible for mitigating the relevant risks to the extent possible. This is also set out in the CWS, Part A, §2.31.
- 2.44. In the context of an emergency response such as Covid-19, seeking a ministerial direction should not be equated with advice that the measure in question should not be taken. Rather, it indicates that the Accounting Officer (usually the Permanent Secretary) is not satisfied on one or more of the *Managing Public Money* components. It is then a political decision for the Secretary of State whether or not to proceed, weighing *Managing Public Money* considerations alongside the policy imperative for

the measure in question. While infrequent, the process applies appropriate scrutiny to ensure officials are discharging demanding fiduciary duties to use public money responsibly. Measures that are novel, contentious or repercussive require express consent from HMT, which officials should obtain before the request for ministerial direction is finalised. To ensure accountability, whenever a ministerial direction is made *Managing Public Money* requires that the direction, together with the request and any relevant papers, be disclosed to the Public Accounts Committee and the Departmental select committee. There is also a presumption that the request for a ministerial direction and the direction itself will be published on the Government's website, save for exceptional cases where the public interest requires confidentiality.

*Assessing the Impact of the Pandemic, Preparedness and Strategies in Response to the Pandemic*

- 2.45. I am asked to provide a chronology of my involvement, between January 2020 and April 2020, in monitoring and assessing the anticipated and initial economic impact of the pandemic, and preparedness and strategies in the economic response.
- 2.46. Before doing so, I emphasise that the Department was acting throughout this period in close concert with OGDs, agencies, and Partner Organisations such as BBB. EBRIG was established in March 2020 and considered the economic and business impacts of Covid-19 and the response. EBRIG was chaired by the Chancellor and reported to the Prime Minister. Prior to the establishment of EBRIG, the response was coordinated by COBR, and by Cabinet Office via Cabinet Secretary Officials (**CABSEC-O**) meetings that were chaired by the Cabinet Secretary. The Secretary of State, other BEIS ministers, the members of ExCo and I attended daily meetings across Government at which we would share the Department's perspective on what was happening, and which measures were working effectively, recommend next steps and seek agreement on the appropriate actions.
- 2.47. At a high level, once the possibility of a lockdown was raised, I consider that there were three key priorities:
- a) Avoiding the failure of otherwise healthy businesses. The Government's response was the economic support schemes. An important early issue in the development of such schemes was determining what delivery mechanisms should be used.
  - b) Maintaining employment links between businesses and employees. This would enable businesses to continue to function as a source of income for employees

and also facilitate recovery. The key response was HMT's Coronavirus Job Retention Scheme.

- c) Identifying the types of work that could and could not be done from home, and then preparing appropriate rules and guidance for workers who could not work from home. The key response was Working Safely guidance. Prior to the development of this guidance, the Department had maintained lists of essential workers who could not work from home because of their role, for example the operating staff in nuclear plants.

2.48. Turning to a chronology of events, I agree with CWS, Part A, §5.3 that, by mid-February 2020, the Department had assessed the outbreak of Covid-19 as having the potential for significant impact across its areas of interest. At this time, the primary concerns were disruption to CNI operations through staff absenteeism within BEIS sectors and impacts to supply chains, and wider implications to businesses and other BEIS sectors from disruption to supply chains, personnel or organisational structures overseas. Following the initial note sent to me on 12 February 2020 by Mark Prouse, to which I refer above, officials sent me a submission and research note dated 20 February 2020 summarising the latest situation, with a focus on the impact of Covid-19 upon industrial supply chains [AC03/030 – INQ000596652 and AC03/031 – INQ000596651]. I agree with the CWS's summary of the key points from this submission (CWS, Part A, §§5.5 – 5.6). The submission stated that the Department was "*reigniting*" the joint BEIS/HMT Project Kingfisher, which had been designed to consider bespoke support for the economy in the event of a 'No Deal' exit from the European Union, to determine which elements could be repurposed towards businesses impacted by Covid-19. One element was the possibility of providing short-term cashflow support to businesses. However, the submission stated that, in the first instance, banks should in principle be willing to provide temporary support to assist viable firms in riding out the disruption and would also be best placed to assess which businesses did or did not require assistance. Should support from banks be unavailable or not appropriate, then existing tax relief schemes would provide support to businesses in temporary distress.

2.49. The submission also drew attention to the EFG scheme which, as explained above, became a template for CBILS. The submission stated that it was unclear whether the EFG would be an effective mechanism to deliver emergency financial support to business at scale and it was estimated that it would take two weeks to effect any necessary changes to the EFG.

- 2.50. I am also aware that officials in BEIS were seeking to better understand the challenges that businesses were facing and to liaise with BROs. The Secretary of State requested regular updates and asked officials to prepare a letter to be sent from him to the Prime Minister, setting out the potential scale of the problem and the companies affected, with Government interventions which might be introduced [AC03/032 – INQ000625233]. I would have reviewed a draft letter and the proposed final letter setting out the Department’s Covid-19 preparations that was subsequently sent to the Secretary of State’s office on 27 February 2020, along with a submission [AC03/033 – INQ000625234], [AC03/034 – INQ000626048].
- 2.51. This letter did not describe the potential for wide-ranging financial support for businesses. In relation to industry and supply chains, it referred to encouraging businesses to seek out short-term support from their banks, HMRC tax forbearance measures, and BBB programmes which would be used to offer improved access to finance for small businesses. The letter was amended by officials and circulated on 2 March 2020, being read by the Secretary of State in advance of a meeting of COBR on the same date [AC03/035 – INQ000625241].
- 2.52. As stated in the CWS, Part A, §5.7, from 27 February 2020, after advice from the Scientific Advisory Group for Emergencies had been received, the Government began planning a move from the ‘contain’ phase into ‘delay’.
- 2.53. BEIS took proactive steps to anticipate challenges, consider contingencies, and shape work on the Government’s economic response to Covid-19. On the morning of 2 March 2020, I emailed officials referring to an emergency statement from the Bank of Japan on a macroeconomic response to the pandemic and a stimulus package for businesses announced by the Italian government. I asked whether the Secretary of State had the necessary advice ahead of a COBR meeting that day, and that we had explored options for government intervention to help businesses with liquidity challenges [AC03/035 – INQ000625241]. Sarah Munby replied that “*We haven’t bottomed out with HMT what the options are their side...once we are mass economic impact the most important levers (a la Japan) are in their hands.*” She suggested additional discussions with HMT to ensure close co-ordination and prompt sharing of information. She set out potential interventions or assistance that BEIS could provide. On the larger economic impacts, she anticipated that State aid constraints might be relaxed which would open up broader policy options. She also referred to targeting support regionally and/ or sectorally (e.g. scaled up versions of flood support or support provided following an outbreak of ‘foot and mouth’ disease). By email I wrote: “*Great and don’t forget we*

*have BBB and options identified and activated there to help ease SME liquidity pressures. Would be good to give flavour [of] this in SoS briefing so he looks appropriately forward leaning”.*

- 2.54. There was a COBR meeting on 2 March 2020. After this the Secretary of State requested advice on the response to the impacts of Covid-19, including options for Government to help firms with liquidity challenges [AC03/035 – INQ000625241]. He also asked for a hotline for businesses with queries to be made operational as soon as possible. My private office was copied into this email. In response, BEIS officials sent two submissions to the Secretary of State that day, copied to my private office. The first provided a brief overview of expected impacts of a worst-case scenario outbreak of Covid-19 in the UK, initial proposals for macroeconomic and microeconomic interventions and next steps for BEIS. Officials advised that the first port of call for a business facing cashflow issues should be commercial lending, but there were likely to be companies that struggled to access lending support. The submission is at [AC03/036 – INQ000625242]. The second submission advised how BEIS proposed to implement a telephone helpline as a route for providing advice to businesses on issues they may experience in relation to Covid-19 [AC03/037 – INQ000625244]. I recall that the Secretary of State was keen on the helpline. I was sceptical of the telephone helpline as opposed to web-based information but could see there was some good in having both.
- 2.55. I can see from the documents that the Secretary of State sought further advice on potential Government interventions [see e.g. AC03/038 – INQ000625247, AC03/039 – INQ000625255]. The advice he received was also sent to me “*to note/ comment*”. On 4 March 2020, officials sent a submission providing an update on the known and potential impacts of Covid-19 on businesses, further details on potential macroeconomic and microeconomic measures which could be used to mitigate impacts on business, and a recommended package of support for businesses [AC03/040 – INQ000585485]. This submission is described in detail at CWS, Part A, §5.13. Further submissions on other issues were sent on 5 March 2020 [AC03/041 – INQ000625256], [AC03/042 – INQ000625253].
- 2.56. At this early stage, the Department was exploring and encouraging a largely macroeconomic and broad-based response to the potential impact of the unfolding situation. For example, as I discuss further below, we encouraged cross-cutting tax forbearance schemes such as BRR to ease the financial pressure on businesses, rather than developing bespoke schemes for particular sectors and firms as these

would need longer to develop and deliver. We were also focused on how, through BBB, we could ensure that the banking sector was catalysed into providing businesses with access to sufficient capital in a timely fashion so as to ‘weather the storm’. From the outset, we realised that the only way to effectively provide financial assistance to the approximately five million enterprises in the UK was to utilise the existing extensive infrastructure and resources of the UK banking sector. We never considered direct loans from Government, rather BBB acting as a facilitator with lenders to deliver the policy response. Such measures were considered likely to be more effective than microeconomic responses because of the broad, urgent and unpredictable nature of the situation. This is reflected in the read-out from the BEIS ministers’ meeting on 4 March 2020, which included [AC03/043 – INQ000585482]:

*“Business Support - Sarah [Munby] said that we are focusing on macro interventions (HMT); Access to Finance (standing up previous no deal preparedness e.g. Enterprise Finance Guarantee, working with banks; Emergency localised measures, e.g. if a town is in lockdown, to provide support to businesses via small emergency grants, akin to those provided for flooding; and serious situations/ critical or concentrated impact, where we are improving cross Whitehall intelligence sharing. Action Sarah M: SoS requested a Dear Colleague letter, after Budget, setting out all the support available to businesses at this time... Minister Zahawi said there’s an urgent need to look at sectors already affected; Sarah concurred but noted that new sectors are feeling the effects every day...”*

- 2.57. On 7 March 2020, BEIS officials sent the Secretary of State a draft paper on ‘Business Impacts Assessment’ for Cabinet Office Briefing Rooms (Officials) (**COBR(O)**), copied to my private office [AC03/044 – INQ000625260]. The covering email stated that it only covered intelligence about impacts and did not discuss the potential policy response [AC03/045 – INQ000625259]. In accordance with Budget conventions, the policy formulation had been taken out at the Chancellor’s request until after the Budget announcement. The paper shows that the Department was focused on supply side, demand side, and labour supply impacts. It demonstrates the considerable uncertainty at this time in respect of the severity and duration of those impacts, and the then hope that there would only be a short ‘V shaped’ impact followed by a quick economic recovery. The Department tried to think through differential sectoral, regional and size based impacts, and make an early assessment of NPIs and what their possible impacts

might be. The paper illustrated the Department's clear focus on the adequacy of and impact upon business cashflow, recognising that cashflow is the lifeblood of businesses.

- 2.58. The Secretary of State's response on 8 March 2020 is at CWS, Part A, §5.19 and I do not repeat this. I am unable to determine from the documents I have seen what specific involvement or input I had at this time.
- 2.59. As set out above, over the weekend of 7 to 8 March 2020, HMT communicated with BEIS and MHCLG officials on options for providing grants to SMEs. The days leading up to the Chancellor's Budget announcement on 11 March 2020 are summarised in the CWS, Part A, §5.20. This included announcing what became CBILS and grant funding for small businesses. I do not repeat the detail here. As set out below at §9.4, on 8 March 2020, I spoke with Sarah Munby about the proposed Budget announcements and exchanged messages with her on WhatsApp.
- 2.60. On 9 March 2020, my private office was copied into an email summarising the announcements, relevant to BEIS, that the Chancellor intended to make in the Budget [AC03/046 – INQ000585493]. The email stated that the Chancellor wanted *"...to announce on weds that there will be an EFG-type scheme delivered by BBB: larger scale, more generous % of portfolio, zero fee, more generous on purpose so wider range of eligible firms can be supported"*. As explained in the CWS, Part A, §5.26, this was the first notice the Department received of the Chancellor's intention to announce an EFG-type scheme. To the best of my recollection, I had no prior notice and have seen no evidence in the documents to suggest otherwise. Later that day, Philip Duffy (Director General, Growth and Productivity, HMT) emailed me directly to inform me that HMT officials were due to meet the Chancellor shortly *"...to discuss a £1bn pot of funding to be allocated to Local Authorities at Budget to spend on "microbusiness" grants to businesses that are facing impacts from CV19"*. I responded by return email in support of this proposal, agreeing that *"...it has the merit of directly helping microbusinesses at a local level"*. I gave my initial thoughts on the *Managing Public Money* standards, writing *"The MPM compatibility may indeed be challenging because of the lack of evidence, the lack of targeting, and the likely high level of deadweight costs. But this is an emergency and we do not have the luxury of gathering full evidence or bespoke needs assessment. So I can well see why such action could be justified even if falling short of the necessary normal standards of MPM..."* [AC03/047 – INQ000626049].

- 2.61. On 10 March 2020, I was copied into a submission from BEIS officials to the Secretary of State which set out HMT's potential budget measures relating to Covid-19 [AC03/048 – INQ000543056]. This included proposed changes to the EFG and a grant funding scheme for microbusinesses in England. Information on this is contained in the CWS, Part A, §5.27.
- 2.62. On 11 March 2020 the Chancellor announced in the Budget a range of business support measures, including £1 billion for CBILS and £2 billion for grants for small businesses to be distributed by local authorities [AC03/004 – INQ000236913]. On 11 March 2020, following the correspondence which I address in detail at Section 9 of this statement, I agreed with the MHCLG Permanent Secretary that Accounting Officer responsibility for the loan and grant schemes should rest with BEIS [AC03/023 – INQ000543061].
- 2.63. Over this period, my private office was copied into very many emails and submissions. I have described my typical day and the operation of my private office above, at §2.30.
- 2.64. As Permanent Secretary, it was not my role to originate advice, and I only rarely did so. Advice and briefings came to me from Departmental Directors General, Directors and Deputy Directors, and the expert teams who worked to them. In practice, in relation to business response matters, I recall working closely with Sarah Munby (Director General, Business Sectors), Jo Shanmugalingam (Director General, Industrial Strategy, Science, Innovation and Growth) and Sam Beckett (Director General, EU Exit, Economics and Analysis).
- 2.65. In the sections of my statement that specifically cover CBILS, CLBILS, and the early grant schemes, I give more information on my involvement in monitoring and assessing the anticipated and initial economic impact of the pandemic and preparedness and strategies in the economic response.
- 2.66. As set out in the CWS, Part A, §§5.30 – 5.31, the HMT Second Permanent Secretary and I invited the Devolved Administrations to participate in a workshop to consider the challenges the Covid-19 presented for the UK economy and how the UK Government and the Devolved Administrations could coordinate on future economic responses. The workshop took place on 2 April 2020. Weekly calls with the Devolved Administrations were planned and a second workshop was held on 13 May 2020. The second workshop was held after I had left the Department. I have been asked to provide my view on whether these workshops were an effective forum for engaging with the Devolved Administrations. As I only attended the first workshop, I don't consider it

possible to form a view of the overall effectiveness of the forum. However, I can say that, in my view it was necessary and timely to have such a forum. Further, the forum as I experienced it had appropriate attendance, and the discussion was open and in good faith. The forum represented a promising start, and it rightly continued.

- 2.67. In relation to preparedness for an economic response, the Department had developed an approach to monitoring and planning for economic shocks prior to the pandemic, including measures to support businesses in financial distress and wider economic interventions. I have been asked to set out, at a high level, what this approach consisted of, and how it was utilised at the start of the pandemic. The first of these questions is dealt with in detail in the Departmental Corporate Witness Statement for Module 1 provided by Sarah Munby at §§4.8-4.27. I have also addressed this above at §§2.7 – 2.12. I would further say that BEIS and its predecessor departments, notably BIS, had recent and extensive experience in dealing with economic shocks, particularly in relation to the steel industry. Dealing with previous economic shocks such as the administration of MG Rover in 2005, the pressures arising from the global financial crisis in 2007-2008, and the liquidation of SSI Redcar steel works in 2015 had taught the Business Department valuable lessons in how to handle large-scale economic shocks in terms of financial and other support required for affected workers and suppliers. BIS (later BEIS) had also learnt from such experiences to fear the lasting economic and social 'scarring' effects associated with the collapse of large employers - in the case of MG Rover, across the West Midlands, for SSI Redcar, across the Teesside region. BEIS also had good economic intelligence and analysis capabilities, and many points of contact and engagement with businesses across the UK.
- 2.68. BEIS was able to draw on these capabilities in the early weeks and months of the pandemic to draw up a composite picture of the economic impacts and ramifications of the virus, working with HMT, DIT and other economic departments, coordinated by Cabinet Office. Further, it was understood from the outset that preserving economic activity by averting business failure was essential to limit the human hardship and social and economic scarring effects that can arise from large-scale business collapse. The differences in the case of the pandemic were principally of scale and complexity; the effects were being experienced simultaneously, but not identically, across all sectors and in all parts of the UK. These skills and insights were built up over time in the various previous versions of the Business Department but continued into BEIS. In my time in the Department, we were very much engaged with managing the British Steel situation, and the collapse of Carillion, among other economic shocks.

- 2.69. I have been asked to provide examples of the measures developed to support businesses in financial distress and wider economic interventions prior to the pandemic. This is addressed in detail in the Departmental Corporate Witness Statement for Module 1 at §§4.28-4.57. I have also commented at §§ 2.9 - 2.12 above, highlighting the role of the Regional Growth Fund and Enterprise Growth Fund. The Department generally deploys a variety of economic interventions to help strategic sectors of the economy to prosper. These are set out in the Industrial Strategy published in November 2017 (the most recent version of which was published in 2025, under the title 'The UK's Modern Industrial Strategy'), and in the Department's Annual Plans and Annual Reports and Accounts. In most cases the Department cannot step in to avoid business failures, which like business successes are part and parcel of any market economy. However in certain circumstances, such as where there is a strategic case for the firm in distress to be protected from failure, and where the costs of intervention are judged less than the costs of non-intervention, the Department can step in, typically using powers provided under the Industrial Development Act 1982, which empower the government to provide financial assistance, such as grants and loans, to support business investment and growth across the UK.
- 2.70. I am asked for my reflections on whether I could have done more or done things differently to prepare for the initial economic response to the pandemic.
- 2.71. First, I acknowledge that the Department and Government could have been better prepared. As set out in the CWS, Part A, §6.11 (reflecting and accepting the findings of the Chair's report in Module 1), the Government lacked a full 'playbook' of potential measures to provide emergency financial support to business in a pandemic of the type we faced with Covid-19. It is correct to say that the Department's response was therefore largely reactive and required the development and implementation of novel policies and interventions at considerable pace and under pressure.
- 2.72. That said, we were able to draw upon the work of our Emergency Response capability, including ERCO (originally developed for responding to energy emergencies and subsequently extended across the whole economy) and the Department's Economic Shocks team as set out above in §2.7, including the enhanced understanding of supply chains and sectoral vulnerabilities which we had gained as a result of EU Exit planning. Close coordination with business and financial services allowed us to respond quickly and effectively.

- 2.73. In reflecting on the economic support schemes, my view is that the Department responded quickly and generally in the right way. I have some regret about the high costs of the interventions, but nonetheless it is not apparent to me that there was any clearly 'better' course of action. If we had failed to provide essential and timely support to UK businesses, I would feel much more regret. In this respect, I note that (as set out in the CWS, Part A, §§6.19 - 6.20), the Ipsos Evaluation Report [AC03/049 – INQ000610872] estimated that hundreds of thousands of direct jobs were saved by the grant schemes, and nearly a million jobs could have been lost in the absence of the loan schemes.
- 2.74. Further, in reflecting on that period, in my opinion the Department remained calm and focused, and was not overwhelmed by the enormity or intensity of the crisis. Reviewing the exchanges and submissions from the time, I consider that they show that well-supported advice was provided to our ministers, and across Government. Further, the Department worked hard, and well, together to gather and share intelligence with business sectors.
- 2.75. As demonstrated by the documents disclosed to the Inquiry, in particular in relation to the design and delivery of the support schemes and my Accounting Officer advice, considerable care was taken, even under extreme pressure of time, to gather and compile relevant data (where possible) and arguments, then present options and risks to help ministers to make the best informed decisions possible.

### **Section 3: Joint Working**

- 3.1. I am asked questions about the nature and extent of my working relationships with the Secretary of State, and with a range of other ministers, officials and OGDs.
- 3.2. The Rt Hon Lord (Alok) Sharma became Secretary of State on 13 February 2020 and held that post beyond 13 April 2020 when I left to take up my Cabinet Office post. We had a normal professional relationship of the kind to be expected between Secretary of State and Permanent Secretary. He was newly appointed as the BEIS Secretary of State and obviously arrived at an exceptionally challenging time. Despite the unprecedented challenges, our relations remained good. His previous experience working as a chartered accountant in the banking sector was an asset in my view, because he readily related to the financing needs of business and to the processes and conditions associated with bank lending. In these unprecedented circumstances, more information and decisions were escalated to the Secretary of State than would happen in 'normal' times. I found him to be a highly conscientious Secretary of State, who diligently and carefully considered the issues and advice given to him.
- 3.3. As stated above, I requested a number of ministerial directions from the Secretary of State. The Inquiry will appreciate ministerial directions were not often sought in government, but this reflected the unprecedented nature of events and ministers' understandable wish to respond at speed. I saw the Accounting Officer process as a valuable way of testing the quality of analysis and evidence in support of substantial commitments of taxpayer money, highlighting risks and options to aid the Minister in decision-making, and to provide transparency and accountability to Parliament.
- 3.4. My recollection is that the Secretary of State seemed sometimes a bit frustrated by the last minute nature of consultation/information from HMT and or the Chancellor, but at the same time we both accepted this was a fast-moving situation and the Chancellor had to take policy and expenditure decisions based on a much wider range of input than BEIS alone, and was also responsible for considering the economy and public finances as a whole, and not simply from a 'business' perspective. There were also some limits on what information HMT could share - such restrictions being imposed by, for example, the rules around fiscal statements.
- 3.5. As to the other BEIS ministers in post at the time, as the Department's structures were repurposed in response to the pandemic, we had regular meetings and calls with the whole ministerial team and the whole of ExCo – these were daily during the peak periods – and in these the lead minister and the lead Director General would speak to

a particular item with others commenting and questioning as necessary. In addition, Cabinet Office coordinated daily meetings across Government on Covid-19 matters, of which the economic response was one important part. These meetings would be attended as necessary by the Secretary of State, other ministers, me, and other senior officials. In addition, I had interactions with other ministers as necessary according to their portfolios, coordinated through private offices, for example with the energy minister on potential impact of key worker absences on the operation of energy infrastructure, or with the small firms Minister on the needs of that part of the business community. I had sound working relationships with the BEIS ministers in post during my tenure as Permanent Secretary.

- 3.6. By the time of the pandemic, the Department had existed for almost four years and the mutual understanding and work rhythms were well established, notwithstanding relatively recent changes in ministerial appointments. In the exceptional circumstances of Covid-19, the number of ministerial meetings increased considerably, and many of mine were with the Secretary of State and his ministerial team together with the executive leadership in full. This proved an efficient way of keeping abreast of a fast-developing situation and strengthened mutual understanding and commitment to the Department's shared agenda.
- 3.7. I am asked about my relationships with other Permanent Secretaries in BEIS. Other than a brief period in 2016 when DECC and BIS merged, as explained at §2.1, BEIS was a department with only one civil servant of Permanent Secretary rank.
- 3.8. I wish to make some general comments on working relationships and practices with BEIS ministers and officials, particularly senior officials. In very general terms, as Permanent Secretary I needed to adopt strategies and practices to enable me to provide sufficient oversight and input, but without slowing down policy development and decision making or inhibiting initiative through micro-management. Part of achieving this was working well with ministers and my executive team so there was a strong shared understanding of goals, priorities, responsibilities, risk, and resources. I sought to ensure that BEIS officials felt properly informed and engaged in their work and were empowered to work with confidence and independently. During the early days of Covid-19, this took on more importance as officials were needing to act at extraordinary speed and under pressure, based on incomplete information and with limited relevant 'playbooks' or experience to draw on. They also were acting in the knowledge that the measures being considered could be critical to the economy and the lives of individuals.

- 3.9. The Permanent Secretary should act as a source of guidance, oversight, and constructive challenge. Policy decisions should be taken by ministers based on the best available information and advice from officials. Where needed, the Permanent Secretary will take decisions, but these typically relate to staffing or other organisation management issues. The Permanent Secretary rarely originates advice but can provide input and assurance as to quality (and I have set out in this statement to the Inquiry occasions when I did so in relation to the economic response). As Accounting Officer, there was and is a specific responsibility and duty to Parliament that vests in the individual personally as regards the use of public funds and as defined in *Managing Public Money*, the *Accounting Officer's Survival Guide*, *Accounting Officer Assessments Guidance*, and other such guidance documents (again, the Inquiry can see through this statement and the CWS how I and my successors as Accounting Officer exercised this responsibility). In addition to the Director Generals, Directors and Deputy Directors in the Department, and the expert teams who worked to them, I also worked with and received information from other officials, such as Gemma Peck (Director, Business Growth), Angelina Cannizzaro (Deputy Director, SME Finance and International), Name Redacted (Head of Business Finance, Business Growth Directorate, BEIS), Tom Taylor (Director, Finance and Portfolio & Chief Financial Officer, BEIS) and officials in the CLGU.
- 3.10. As to relationships with ministers and Permanent Secretaries in OGDs, I would engage with the other Permanent Secretaries most days and sometimes more than once at cross-government meetings.
- 3.11. My recollection is that the working relationships between departments was essentially the same in nature as pre-pandemic. However, because events were so fast-moving, there would have been more frequent contact between BEIS officials and officials in OGDs, particularly HMT; and between BEIS officials and BBB. There was also a need to take decisions quickly, often based on incomplete information and without the normal full processes of deliberation and consultation.
- 3.12. Alongside various officials from BEIS, I participated in regular cross-departmental meetings to help ensure a coordinated and cohesive approach to addressing the challenges presented by the pandemic. This included the economic response.
- 3.13. The Inquiry asks specifically about relationships with HMT. To my recollection, I did not meet directly with the Chancellor at this time, nor with the other HMT ministers. On economic response issues, I dealt primarily with my counterpart at HMT, the Second

Permanent Secretary, Charles Roxburgh. This was on general economic response matters, and specific sectoral or company situations. I had some contact with the First Permanent Secretary at the Treasury, Tom Scholar, on a small number of Accounting Officer matters.

- 3.14. The CWS, Part A, §6.10 states that in general, BEIS had productive and collaborative working relationships with HMT colleagues. I agree with this, and this applied to my working relationships with those in HMT. I also agree with the observations made in the CWS that, at times, the speed at which HMT made decisions regarding the nature and design of the support schemes I was involved in created challenges for BEIS officials. Specifically, the speed of these decisions occasionally made it difficult to ensure the schemes were fully prepared for timely delivery.
- 3.15. In regard to my relationship with BBB senior officials, I communicated on a number of occasions with Keith Morgan, BBB CEO and Accounting Officer. Examples are below. I am aware that other BEIS' officials worked closely with BBB officials. The Department's team working on the loan guarantee schemes, led by Gemma Peck, reported good cooperation with BBB and I was not aware of any concerns about the competence or commitment of BBB. To the contrary, I received positive reports about BBB's know-how about banking practices and requirements and their willingness to respond quickly and professionally to the new requirements of the situation. I was, however, aware that there was a risk of BBB, as a relatively small organisation, being overwhelmed by the sheer volume of work in connection with the pandemic response and I did raise this concern with ministers and with HMT, as set out below at §5.2. I discussed these concerns with Keith Morgan and separately, at his request, his need for clear authority to enter into the new loan schemes which required operating outside of BBB's established framework and funding.
- 3.16. On 19 March 2020, Keith Morgan wrote to me about BBB's role in delivering CBILS [AC03/050 – INQ000563879]. The letter recorded the relevant issues that BBB needed to address to ready itself to implement CBILS at the speed the Chancellor expected. He expressed concern that due to the speed of implementation, BBB would need to relax its targets in relation to certain strategic objectives, namely, to enhance the diversity of provision in the small business finance market and to provide a return equivalent to the Government's medium-term cost of borrowing.

- 3.17. Keith Morgan sought confirmation, that I would, in my capacity as Principal Accounting Officer, temporarily suspend certain targets with immediate effect and consider amendments to BBB's business plan.
- 3.18. On 20 March 2020, I was advised by BEIS officials to send Keith Morgan an email confirming that the terms proposed by BBB in his letter of 19 March 2020 were broadly accepted. BEIS officials noted that officials from BEIS, HMT, and BBB had been working "*flat out*" to ensure CBILS was ready for launch on 23 March 2020, demonstrating effective interdepartmental working under pressing circumstances. BEIS also collaborated with UKGI to prepare a detailed response to Keith Morgan's letter [AC03/051 – INQ000626055].
- 3.19. On 21 March 2020, I responded to Keith Morgan's letter of 19 March 2020 [AC03/052 – INQ000563883]. I confirmed that a more formal response would be sent in the coming days and gave reassurance the BEIS Business Finance Team would work with HMT, BBB and UK Government Investments (**UKGI**) to address the delivery concerns. There was further correspondence with Keith Morgan on 21 March 2020 seeking to finalise details relating to CBILS [AC03/053 – INQ000563884].
- 3.20. On 23 March 2020, I responded to Keith Morgan's email of 21 March 2020 and instructed BBB to deliver CBILS [AC03/009 – INQ000563889]. I also thanked him and his staff for the exceptional work that had allowed such quick progress on CBILS.
- 3.21. Regarding my engagement with my counterparts in the Devolved Administrations, I recall that from the early stages of the pandemic officials in the Devolved Administrations were actively consulted and invited to participate in various initiatives, including workshops focused on assessing the economic impact of Covid-19 and exploring coordinated responses between the UK Government and Devolved Administrations [AC03/054 – INQ000585521]. As outlined in the workshop agendas, HMT led discussions on economic interventions (loans and grants), while BEIS focused on "*Sectoral impacts, regulatory easements, guidance and support*". These efforts complemented the frequent cross-governmental meetings that were taking place, including Minister Zahawi's weekly teleconference with his ministerial counterparts in the Devolved Administrations. I believe that good personal relationships with colleagues in the Devolved Administrations contributed positively to effective coordination and consultation. The Department and the Devolved Administrations shared a key focus on the timely flow of information and the need to ensure that our separate authorities and practices did not inadvertently create gaps or

problems in the availability of economic support. A secondary, albeit important, concern was to gather feedback on the differences in impacts and future needs between different regions and communities within the UK.

- 3.22. I do not consider that I encountered any major challenges in working with the individuals or bodies referred to above. Collaboration was generally constructive and professional throughout. The only notable difficulty arose from the pace at which decisions were sometimes made, particularly in relation to the design and implementation of support schemes. This occasionally placed pressure on delivery timelines, making it challenging for BEIS officials to ensure readiness. However, these issues were mitigated through close coordination and ongoing communication. Large-scale support was designed and delivered very quickly and I consider this was, in part, due to effective working relationships.
- 3.23. I am asked if I consider HMT should have been more open and transparent in its approach to sharing information and economic analysis during the pandemic. As explained above, there were occasions where the limited notice or consultation from HMT led to some frustration. Indeed, I raised this with the Secretary of State, who wished to remain closely informed in daily briefings. I recall that he made his views known to the Chancellor in writing as well as verbally in Cabinet and Cabinet Committee meetings. However, this should be understood in the context of HMT's central role in leading on economic matters, as well as the constraints around sharing information related to formal fiscal events. Overall, I believe that HMT ministers and officials acted with commitment and professionalism in what was an exceptionally fast-moving and uncertain environment.
- 3.24. I do not recall using informal or 'back channels' to engage with OGDs to discuss views and share analysis on the economic impact of the pandemic. The overwhelming majority of business was transacted, as would be expected, in formal meetings or by memoranda and submissions. There were occasional phone calls, but these were not "back channels" but normal business. I am not aware of WhatsApp groups or other forms of group chats being used as a substantive means to communicate with OGDs about decisions or advice relating to the business interventions I was involved in.
- 3.25. I have explained above that there was a BEIS Permanent Secretary private office WhatsApp group, and how it was used. At §9.4, below, I refer to a relevant WhatsApp exchange that I had with Sarah Munby in March 2020.

- 3.26. Rarely I may have had WhatsApp communications with officials on matters relating to the economic and business support schemes. Again, this would not have been used as a substantive way to communicate decisions or advice about the interventions I was involved in. That would have been done via submissions, emails and official meetings or calls.
- 3.27. I do not have access to any such messages. When I left Cabinet Office, all government-related data was wiped from my mobile telephone. This, as I understand it, is usual practice. I understand that Cabinet Office has retained data considered relevant to the Inquiry in relation to my Cabinet Office role, but not in relation to my BEIS role.

#### **Section 4: Coronavirus Business Interruption Loan Scheme**

- 4.1. My understanding of the rationale behind the decision to introduce CBILS mirrors that contained in my request for a ministerial direction for the scheme, dated 22 March 2020 [AC03/007 – INQ000065992]. Covid-19 was a severe public health emergency that represented a major shock to the UK economy. The Government wished to offer urgent financial relief to SMEs, many of whom were experiencing acute trading pressures. The financial sector on its own could not take on the risks of providing debt finance to businesses. The Government guarantee was intended to encourage finance providers to lend more and to more businesses.
- 4.2. The policy objectives were clear to me. CBILS' design and how it was intended to meet the needs of businesses at that time is contained in detail in the CWS, Part B, §§2.2 – 2.43. In summary, CBILS was designed to provide emergency debt finance to businesses that would have been commercially viable were it not for the pandemic. By guaranteeing up to 80% of commercial loan and asset finance facilities up to the value of £5m for 6 years (3 years for overdrafts and invoice financing), the Government aimed to enable private finance to step in without assuming the full risk of default. While interest was charged at market rates, a business interruption payment was available to firms to cover the first 12 months of interest payments and any lender charges. The Government's risk was capped at 75% of each accredited lender's CBILS debt portfolio. The net effect of this was an effective portfolio cap of 60%, comprising 75% of the lender's overall portfolio cap multiplied by 80% of the Government guarantee (75% x 80% = 60%). This meant that the Government's liability under each lender's CBILS portfolio could not exceed 60% due to the portfolio level cap in place for every lender. I address the portfolio cap further in §§4.35 – 4.36 below.
- 4.3. I do not think I can add anything to the explanation set out in the CWS, Part B, §2.18 – 2.28, which describes the design, features, and timetable of work. I set out below the key characteristics of CBILS and the aspects with which I was involved.
- 4.4. I can confirm the Inquiry's understanding that CBILS was a collaborative effort between HMT, the Department, and BBB. I had limited personal involvement in the actual design of CBILS. On CBILS, the Department's work alongside HMT and BBB was led by senior officials such as Jo Shanmugalingam, Gemma Peck, Lawrence Pawley, and Angelina Cannizzaro. Naturally, I was kept informed of the initial outlines of the scheme and how the design developed, for example in the following communications:

- a) Submission from BEIS officials to the Secretary of State, dated 4 March 2020 (copied to me) which advised that the EFG was the most relevant scheme to help SMEs with potential cashflow issues [AC03/040 – INQ000585485]. The submission emphasised that EFG was the most relevant existing programme to which BEIS had access through BBB and which could be adapted for the pandemic. EFG had been designed to support viable businesses that wished to access working capital but lacked the security against which to borrow. The scheme was underwritten by a government guarantee to cover up to 75% of losses arising on a default. Since the EFG scheme was operational on an established legal basis and understood by officials, it provided a ready template for CBILS.
- b) Correspondence in copy that explained the Chancellor’s intention to introduce a loan guarantee scheme to support SMEs, modelled on the EFG [see email dated 9 March 2020 at AC03/046 – INQ000585493]. Notwithstanding the submission dated 4 March 2020, this was the first notice the Department had received of the Chancellor’s intention to introduce an EFG-type scheme (see the CWS, Part A, §5.26). I was not directly involved in this decision and find it hard to judge whether CBILS would have been developed in a different form, or at all, in the absence of the EFG scheme. Given the emergency circumstances of the pandemic, I do not think it was feasible to design and implement an entirely new scheme to support the immediate needs of businesses adversely impacted by Covid-19. The EFG scheme was both the best available model and the one which presented least risk because it was established, proven, and well known in Government.
- c) Submission from BEIS officials to the Secretary of State, dated 10 March 2020 (copied to me), which recommended that the Secretary of State should inform the Chancellor’s office that he agreed an expansion of the EFG scheme, stated that BEIS would need full budget cover for this and also stated that there were Accounting Officer risks associated with the proposed scheme [AC03/048 – INQ000543056];
- d) Correspondence from Gemma Peck to me dated 18 March 2020, in which she provided an update on the development of CBILS following the Chancellor’s announcement on the previous day of changes to the initial parameters of the scheme in light of changes to the State aid framework [AC03/055 – INQ000563877]. Emphasising the urgency, Gemma Peck informed me that the

Chancellor was “...determined to launch on Monday [23 March 2020], come what may”. She wrote that:

*“...[the Chancellor] Wants to guarantee loans <£5m, which is above the limit in the temporary framework for aid published by the Cion this week (that allows up to £3.25m)...*

*·This means we need to notify the C[ommiss]ion and seek approval. CX wants to launch scheme and operate at risk. This requires law officers to confirm it is lawful for the scheme to proceed...*

*·HMT officials are giving CX further advice tonight on the risks. If C[ommiss]ion does not approve the scheme, money will need to be clawed back; also possible that the uncertainty over state aid puts a dampening effect on the scheme. General opinion from lawyers is that C[ommiss]ion likely to approve loans <£5m; bringing into scope protected sectors much less likely. Note anything they agree for UK must be rolled out across the bloc...”*

- e) Officials had been engaged in urgent work with HMT, BBB, and legal advisors to finalise the scheme parameters. I was not directly involved in these discussions in respect of the parameters of CBILS or the initial scheme eligibility criteria and was not consulted prior to the announcement. Nonetheless, I responded to Gemma Peck later on 18 March 2020, writing:

*“... looks like you are covering all the bases.*

*With EC, maybe worth emphasising/advocating temporary suspension of sectoral carve outs? And how about in two stages - up to £3.25 m now and £1.75 m more likely to follow if you say you may need it?*

*Keep us posted and let me know if need to be do[ing] anything.*

*NB if the legal opinion [from law officers on whether it would be lawful to proceed with the scheme] is very likely to [find that the scheme would] be contrary to legal obligations my understanding is we cannot act on that even with the present emergency situation and a ministerial direction, you will no doubt address that if and as necessary tomorrow.”*

*[AC03/056 – INQ000626053]*

- f) Gemma Peck provided an update the following morning in advance of a call with the Secretary of State, writing:

*“• HMT doing round of calls with bank leads, who have been presenting to boards today. All but one pushing back on portfolio cap, otherwise won't move needle on risk appetite; wouldn't shift the £ out the door; banks pushing for anything from 50% to no cap.*

*• As illustration, on risk scale of 1-10, if normal EFG enables them to support loans with risk of 3; current proposal gets them to 4-5; but if we want them closer to 7-8 then need big shift. Clearly puts costs up and has a big impact on ability to determine vfm of the scheme for AO advice. TBC whether moves us into direction territory, team looking at vfm analysis now...*

*• No readout yet from CX on sector exclusions; awaiting response from law officers on state aid issues.*

*• Once calls with banks finished, HMT will consider what they think art of possible is on cap and set up call with us and BBB.*

*• HMT recognise that big change in cap puts much more risk on govt, but CX likely to want to support; HMT will make sure we have cover.”*

- g) Gemma Peck and I then discussed the CBILS proposal before briefing the Secretary of State [AC03/056 – INQ000626053].
- h) I set out below in §§4.5 – 4.27, the advice I received from officials and my role in obtaining the requisite ministerial directions.
- i) On 19 March 2020, I exchanged correspondence with Keith Morgan, CEO of BBB, in relation to the delivery of CBILS, as described above at §§3.16 – 3.20.
- j) Submission from BEIS officials to the Secretary of State, dated 19 March 2020, which sought the Secretary of State's agreement to proceed with and launch CBILS based on parameters proposed by the Chancellor [AC03/057 – INQ000585501]. The submission indicated that the details of CBILS had largely been determined in advance by HMT, with some input from BEIS and BBB. The Secretary of State was subsequently invited to agree to the scheme. The submission presented the State aid assessment and outlined the negotiations conducted between HMT officials and the European Commission to ensure the terms of CBILS adhered to the State aid framework. The submission also highlighted that the situation was highly dynamic, with lack of data and stated,

*“You are seeing this advice before all the final pieces of the jigsaw are in place. But speed is of the essence and so your in principle approval is being sought”.*

- k) On the evening of 19 March 2020, Gemma Peck sent a draft Accounting Officer advice on CBILS to me for consideration. She recommended that I consider seeking a ministerial direction and that it was a *“finely balanced judgement”* as to whether a direction was required. As I explain further below on the question of State aid, the European Commission announced a more generous regime, and it was hoped this would mean the Commission would approve the UK’s proposed loan scheme. I replied to Gemma Peck later that evening, as follows:

*“... I understand and fully support the policy goal of offering urgent financial relief to SMEs, many of whom are experiencing severe trading pressures.*

*I also recognise it makes good sense to use the proven vehicle of the EFG and channelling the funds through the banks.*

*I am pleased we have kept the 80% limit and so the banks have real skin and the taxpayer not bearing all.*

*The proposed effective cap of 60% is clearly a lot better from risk perspective than no cap at all.*

*I acknowledge the Chancellor has already announced key aspects of the scheme and had little choice on the timing...*

*All of which said, it is clear there are big risks in paying all the bank charges and interest costs for six months, as the advice acknowledges. We have very little robust data to act on and so the evaluation is hard to complete reliably...*

*So this leads me to conclude that I cannot vouchsafe the scheme in its adapted form to the standards expected of me as AO under MPM [Managing Public Money]. I therefore consider it would be appropriate to seek a Direction tomorrow. Please plan on this basis and line up with SoS office.” [AC03/058 – INQ000626054]*

- l) Officials sent the final Accounting Officer advice on CBILS to me on 20 March 2020 [AC03/059 – INQ000563882].

- m) I sought a ministerial direction in relation to CBILS on 22 March 2020 (see below) [AC03/007 – INQ000065992].
- n) On 23 March 2020, I instructed BBB to deliver CBILS [AC03/009 – INQ000563889].
- o) Submission from BEIS officials to the Secretary of State (copied to me), dated 27 March 2020, seeking the Secretary of State’s approval for BEIS officials to work urgently with HMT and BBB on changes to the design of CBILS [AC03/060 – INQ000563900].
- p) As set out in the CWS, Part B, §2.68, on 28 March 2020, Gemma Peck emailed the Secretary of State’s private office and me with an urgent update on the Chancellor’s proposed changes, saying:

*“HMT officials have been in touch to say CX wants to announce two changes to CBILS rules on Personal Guarantees (PGs) on Monday [30 March 2020]. I recommend that, via private office, SoS push back firmly on this to CXO this morning, on the basis that we need more time to properly understand the impacts, and prepare the BBB and the banks to operationalise it effectively. As we have seen this week [in respect of CLBILS], there are risks with launching major schemes like this at pace and without chance to really prepare and test deliverability.”* (Original emphasis) [AC03/061 – INQ000563905].

- q) On 28 March 2020, I exchanged correspondence with Charles Roxburgh in respect of the proposed changes to CBILS, expressing support for the planned moves to strengthen the scheme by clarifying expectations in relation to personal guarantees and risk allocation between the Government/BBB and lenders. I expressed concern at the pace of the changes to the personal guarantee rules, emphasising the need for preparation, writing:

*“Keen that we analyse this properly to make sure eyes fully open to increased losses and no unintended consequences. Also need to work with banks so they are ready to go ahead of announcement...”*

*I don’t think we can do all of this properly over the weekend given reduced availability and access to banks and a lot of exhausted colleagues - can we aim to optimise this on Monday and Tuesday”.* [AC03/062 – INQ000626061]

- r) Submission from BEIS officials to the Secretary of State, dated 30 March 2020, which sought his agreement to changes to CBILS that had been proposed by the Chancellor, as set out below at §§4.39 – 4.40 [AC03/063 – INQ000563909].
- s) Supplementary Accounting Officer advice to me, dated 30 March 2020: this addressed the Chancellor's wish to announce the changes to CBILS set out below at §§4.11 – 4.14 and whether I should seek a further ministerial direction [AC03/064 – INQ000563910].
- t) Correspondence with officials between 30 March 2020 and 1 April 2020 in respect of the Chancellor's proposed amendments to CBILS, as detailed at §5.2, below [AC03/065 – INQ000626064]. The correspondence shows that I had discussed BEIS officials' work on the amendments with Charles Roxburgh on or around 31 March 2020. While I do not now recall the contents of my discussions with Charles Roxburgh, I gave my detailed written views on the proposals in response to officials, as set out later in this Section.
- u) Submission from BEIS officials to the Secretary of State, dated 1 April 2020 (copied to me) which sought agreement to the proposed changes to CBILS [AC03/066 – INQ000563918].
- v) Officials sent me further Accounting Officer advice on 1 April 2020 regarding the proposed changes to personal guarantees and extending eligibility for CBILS [AC03/067 – INQ000563917].
- w) I sought a ministerial direction from the Secretary of State on 2 April 2020 in relation to the proposed changes to CBILS [AC03/010 – INQ000065315].
- x) Later on 2 April 2020, the Secretary of State issued a ministerial direction to introduce the changes [AC03/011 – INQ000064780].

*CBILS Accounting Officer Advice and Ministerial Direction*

- 4.5. My most significant involvement in the launch of CBILS and then the changes in its design came via my requests to the Secretary of State for ministerial directions and the consideration I gave to preparing such requests. I therefore address this in more detail.
- 4.6. On 20 March 2020, BEIS officials sent me an Accounting Officer advice on CBILS [AC03/059 – INQ000563882]. It set out the changes to the proposed scheme that the Chancellor had recently requested, along with the rationale for each change and the estimated cost of the changes and included an Accounting Officer assessment. I refer

the Inquiry to the advice and annexed Accounting Officer assessment. I was also informed that there was limited time to make a detailed assessment due to the planned launch date of 23 March 2020. Officials recommended that I consider whether to seek a ministerial direction to implement CBILS. This was because the proposed scheme carried risks to each of the components that I, as Accounting Officer, needed to consider under *Managing Public Money*. Officials informed me there were particular concerns about affordability and value for money.

- 4.7. The Secretary of State was aware that a ministerial direction was likely to be requested (see email 20 March 2020 from the Secretary of State's private office to HMT, copied to me [AC03/068 – INQ000563890]).
- 4.8. I determined that I needed to seek a ministerial direction and so wrote to the Secretary of State on 22 March 2020 [AC03/007 – INQ000065992]. In general terms, I sought a ministerial direction because of concerns that the scheme did not comply with the requirements in the *Managing Public Money* conventions, such as in relation to value for money, feasibility, and regularity. The reasons for seeking a ministerial direction are summarised in my letter.
- 4.9. In my letter of 22 March 2020, I stated that I believed the proposed scheme struck “...a sensible balance between maximising support for SMEs whilst being mindful of taxpayer interests by limiting the increase in the loan guarantee, as permitted in the State Aid framework”. I then wrote:

*“However, there is currently very little robust data that I can rely upon to judge value for money (vfm). The EFG is currently considered to represent good vfm with the most recent evaluation stating that it creates significant economic benefits to society. However, the proposed amendments to the scheme, in particular the increase to the effective portfolio cap to 60%, and the economic context mean that it seems likely that benefits for CBILS will be lower.*

*In addition, whilst I am confident that HM Treasury will honour the Chancellor's announcement by providing the budget cover for the immediate costs of this scheme, I currently have incomplete assurance that all future costs will be affordable given uncertainties over the likely demand and losses and therefore future costs.*

*Importantly there remain legal risks around the proposed parameters for the scheme. The temporary state aid framework introduced by the*

*European Commission authorities and the UK's ongoing dialogue with the Commission provide a degree of comfort. Ongoing discussions with the Commission have provided comfort that we can expect the Schemes to be approved. However, at this time the UK has not received formal notification from the Commission that it is content with the scheme as currently proposed. Therefore, whilst the Government is entitled to act at risk in breach of the State aid standstill period...there remains a low medium risk that State Aid will not be granted and the scheme might be found in breach.*

*It is my responsibility as Accounting Officer to ensure that the use of [the] Department's resources offers value for money, and proposals are regular, proper and can be feasibly delivered. Absent formal State aid approval there remains a medium low (but medium high impact) risk around the appropriate use of resources and potential impact this might have on its deliverability if banks and recipients consider the scheme not to be State Aid compliant. I also lack the evidence I would need to make a sufficiently robust judgment on the value for money of the scheme, in part because of the speed at which it was developed.*

*Consequently, Managing Public Money requires that if you wish to progress with the option to fund CBIL Scheme I will require a written direction from you to do so. I will then proceed accordingly..."*

- 4.10. The same day, 22 March 2020, the Secretary of State replied issuing the ministerial direction for CBILS [AC03/008 – INQ000064753]. I am asked for my view on the factors which influenced the Secretary of State's decision to issue a ministerial direction before formal European Commission approval of the State aid notification had been given. I consider that factors influencing the Secretary of State are evidenced from his reply, which stated:

*"...there are a number of good reasons to justify the introduction of this scheme. Without the Government intervening, there are very real risks faced by a large number of businesses in the UK. This would result in a large number of jobs being lost, which would have a significant long-term impact on the national economy. As you note in your letter, the speed at which events have unfolded has not allowed sufficient time for*

*a full value for money assessment to be undertaken. Nevertheless I believe the economic case for action is compelling.*

*Whilst agreement for some of the elements of this Scheme are subject to State Aid approval, I believe in the current set of circumstances that we cannot afford to delay introduction of this scheme even for a few days. I note that these are temporary measures, being implemented in extraordinary circumstances. In light of this, and of the advice I have received from officials, I believe that there is sufficient likelihood that the Commission will ultimately support the steps that the Government is taking to provide support to businesses affected by the Coronavirus pandemic....”*

- 4.11. On 30 March 2020, BEIS officials sent me a supplementary Accounting Officer advice in response to the Chancellor’s plans to adjust CBILS [AC03/064 – INQ000563910]. This was followed, on 1 April 2020, by another Accounting Officer advice as the Chancellor had requested a further change to CBILS [AC03/067 – INQ000563917]. Together, the proposed changes were:
- a) Lenders would no longer be permitted to require a personal guarantee for loans or other facilities in CBILS under £250,000 (under the scheme as launched, lenders had a discretion to require a personal guarantee).
  - b) For loans over £250,000, lenders could continue to seek a personal guarantee and, in the event of default, the lender would first seek to recover the loan from business assets and then would look to the personal guarantee for a maximum of 20% of the remaining debt, claiming 80% of the residual loss under the guarantee agreement.
  - c) Removing the requirement for borrowers to show that they would have been unable to secure finance on commercial terms.
- 4.12. Officials advised that the third proposed change had the “*effect of removing a condition that safeguarded the additionality of the scheme*”, and officials expected this change to mean that nearly all new SME lending would fall within CBILS. Further, the stock of existing SME lending could be brought within the scheme through refinancing. This proposed change would increase the likely scale of the scheme from £3 - 6 billion to £30 - 60 billion. I refer the Inquiry to the full terms of this document, including for the rationale behind this proposed change [AC03/067 – INQ000563917]. Officials highlighted concerns about the legal, operational, and financial risks, and the lower

additionality and reduced value for money to the taxpayer, and raised the possibility of recommending to the Secretary of State against proceeding with the revised scheme as proposed by HMT. Instead, the recommendation would be to approach the Chancellor with an alternative proposal, involving a widening of Business Interruption Payments. However, I was advised that HMT officials were clear that there were no alternative proposals that would deliver the Chancellor's policy objectives.

- 4.13. I was also advised that the proposed change to the scope of CBILS (i.e. the change to eligibility) would require a fresh ministerial direction. BEIS officials also sent a submission to the Secretary of State, copied to me, on 1 April 2020, setting out the Chancellor's proposed changes, and referring to significant concerns about affordability, value for money, and deliverability given the pace at which the changes had been developed. Officials explained that they had sought, as far as possible, to improve the design of the proposal to mitigate these risks but they considered that significant concerns remained [AC03/066 – INQ000563918]. Officials proposed an alternative, namely, to approach the Chancellor with a scheme that reduced risk and offered better value (an option was set out in an Annex). The submission stated that the proposal had been shared with HMT officials whose view was that it would not deliver the Chancellor's objectives.
- 4.14. In addition to the Chancellor's proposed revisions to the personal guarantee and eligibility requirements under CBILS, the submission of 1 April 2020 explained that the Chancellor *"would also like to announce the intention to launch a new version of the scheme for those businesses with a turnover over £45m, the 'stranded middle'"*. This new scheme later became CLBILS. While the amendments to CBILS and the development of CLBILS occurred in parallel, I will address CLBILS separately in Section 5 of this statement.
- 4.15. Meanwhile, I gave my detailed written views on the CBILS related proposals in response to officials, on 31 March 2020, as follows:

*"This is a huge change in the scope of the scheme and indeed in the role of BBB. It would certainly merit a fresh Direction. However before seeking one I think we need to improve the proposition.*

*I see the case for removing the requirement for Personal Guarantees. This will increase financial losses for taxpayers by making the scheme more attractive to borrowers and by removing an important source of collateral for lenders. Some of this will be offset by increase in benefits*

*side of equation with more businesses preserved by the increased take-up, but we have nothing reliable with which to compute this...*

*I also see the case for extending the scheme to cover all SME loans, not just those unable to attract commercial loans. This would as the submission notes increase the availability of government-backed bank funding to help all SMEs facing into severe economic pressures which we can see are mounting daily, with no clear end in sight..." [AC03/069 – INQ000626063].*

- 4.16. On the morning of 2 April 2020, I reviewed officials' draft Accounting Officer assessment and a draft Accounting Officer letter to the Secretary of State seeking a ministerial direction [AC03/070 – INQ000626066]. I also discussed the proposals with Charles Roxburgh [AC03/071 – INQ000626065]. I confirmed my agreement with the advice and the need for a ministerial direction. I also requested amendments to the draft letter to the Secretary of State as follows:

*"... please highlight that there are a number of ways in which the regularity, feasibility and VFM of the scheme can be improved if the Business Secretary and Chancellor were willing to accept a short delay: (1) we could confirm the new scheme is consistent with the temporary State Aid scheme of the European Commission (2) we could test the scheme further with BBB and their financial partners, in particular regarding the deliverability through the portal and the consequences of removing certain current requirements eg to update for 'in-life events' (3) we could consider adopting alternative ways to remove the perceived distortion between commercial and non-commercial borrowers, notably by applying the BIP to all qualifying SMEs as set out in the attached note, which would achieve a similar effect but with much lower risks to additionality and 'deadweight' costs (4) we could provide this funding in tranches and subject to an overall cap, to allow for reviewing the actual market impact of the scheme progressively, and if necessary introduce refinements or act to limit further losses to the taxpayer. I strongly recommend all four of these steps are taken before the scheme is announced in detail and taken live.*

*please add at the end that I would suggest the Secretary of State share this letter and the attached note with the Chancellor this morning. The*

*SoS will in any case under the requirements of MPM need Treasury to provide consent for this action which is clearly novel, contentious and repercussive, together with an assurance of funding for BEIS meeting all costs and losses, which as set out in the analysis are very likely to be very substantial and quite beyond any current understanding of affordability...”*

- 4.17. On 2 April 2020, I requested a further ministerial direction from the Secretary of State [AC03/010 – INQ000065315]. I advised that the proposed changes surrounding personal guarantees did impact on value for money but, in themselves, did not represent a material change to my original assessment (i.e. a ministerial direction in relation to those changes was not needed). However, I advised that the broadening of CBILS to include SMEs that would otherwise have access to commercial loans did represent a material change because of the increase in funding required to cover the guarantee. I explained that the businesses able to obtain finance on normal commercial terms considered the current scheme to be unfair and “...*whilst they might be in a better position currently to cope with the impact, their resilience is limited and could be eroded the longer the crisis persists, increasing the risk to jobs. The intention is therefore to pre-empt a spread in financial distress to more businesses as the impact of the pandemic increases*”.
- 4.18. I identified risks impacting on propriety. The proposed changes would create an incentive for lenders and businesses to refinance existing borrowing onto CBILS, albeit this was mitigated to some extent by the inclusion of a refinancing cap of 20% in the agreement with each lender.
- 4.19. There was also a risk that BBB and lenders’ systems had not had adequate time to prepare for the changes and I noted that it had not been possible to complete consultation with the European Commission in relation to State aid.
- 4.20. I also advised that the economic benefits remained difficult to assess but the expected increase in costs and the risk that the expanded scope would see CBILS being used where lending would have taken place in any event, may lead to a further reduction in value for money. I advised the Secretary of State about four steps that could be taken to improve the regularity, feasibility, and value for money of the scheme, if a short delay could be accepted, namely:
- a) Confirming that the new changes were consistent with the temporary State aid scheme of the European Commission;

- b) Testing the changes further with BBB and their financial partners;
- c) Considering adopting alternative ways to remove the perceived distortion between commercial and non-commercial borrowers, notably by applying business interruption payments to all businesses that met the sectoral and turnover criteria for CBILS; and
- d) Providing funding in tranches and subject to an overall cap.

4.21. I refer the Inquiry to my ministerial direction request letter at §4.17 for further detail of the risks I identified [AC03/010 – INQ000065315]. I wrote:

*“While fully understanding the severity and urgency of the situation facing SMEs and the good intent behind the proposed changes to the CBIL scheme, I strongly recommend all four of these steps are taken before the scheme is announced in detail and taken live.*

*In light of all these considerations, I cannot, as Accounting Officer, support the specific proposals to change the eligibility criteria. Managing Public Money therefore requires that if you wish to progress with the further changes to CBILS as detailed above, I will require a written direction from you to do so. On receipt of your direction I will then proceed... accordingly to implement the changes.”*

- 4.22. I also suggested that the Secretary of State should share my letter and a note on an alternative approach with the Chancellor.
- 4.23. As explained in the CWS, Part B, §2.94, the Secretary of State and I discussed the contents of my letter [AC03/072 – INQ000064864]. While I do not now recall the contents of my conversation with the Secretary of State (and understand that call notes have not been located), I think he was concerned by the warning tone in my advice and therefore wanted to know more before finalising his decision. The Secretary of State asked for further advice on the level of confidence about the likely further financial losses and countervailing economic benefits, and on the strength of current demand from the business community for loans to help get through the challenging economic circumstances. Ultimately, it was for me to give an opinion on the Accounting Officer risks with the benefit of advice from Policy and Finance colleagues.
- 4.24. Later that day, I wrote again to the Secretary of State providing further advice about the implications of the changes and addressing the issues we had discussed earlier that day and I refer to the Inquiry to that document [AC03/072 – INQ000064864] and

to the CWS, Part B, §§2.95 – 2.99. I sent a copy of my letter to Charles Roxburgh with the following comments:

*“As discussed on Tuesday and again this morning, I have considerable reservations about the proposed set of changes to CBILs which we understand the Chancellor proposes to announce tomorrow – though every sympathy with the underlying policy intent. We have identified a number of plausible ways in which we think the expected risks and losses can be reduced, without a matching reduction on the benefits side of the equation. The essence of my concerns I shared with you on Tuesday, and these are now formally set out in AO advice which has gone to our Secretary of State this morning, together with those possible refinements and alternatives.*

*I have not yet had the SoS’s response, so please treat this as internal only and confidential for now. I expect he will want to share with the Chancellor directly later today, but I am sending you, Katherine [Braddick] and Gwyneth [Nurse] this advanced copy at official level, given the urgency and gravity of the situation. In doing so let me say I appreciate the extraordinary time and work pressures that Treasury colleagues have been facing as you - like us - rush to respond to the dire economic realities we see unfolding, and to meet the Chancellor’s wish to extend the benefit of CBILS to SMEs more generally. I realise you may have already considered and rejected some of the possible alterations to the scheme we set out...” [AC03/073 – INQ000626068].*

- 4.25. I am aware that the Secretary of State wrote to the Chancellor on 2 April 2020 [AC03/074 – INQ000563921]. That letter referred to issues and concerns about the value for money and feasibility of the proposed changes to CBILS that I had spoken to the Secretary of State about on the same day. His letter included:

*“I am fully aware of the high expectations about a change to the scheme amongst the business community and clearly time is of the essence in providing support to businesses struggling to survive from day to day. There is a judgment to be made about how realistic it is to take further time in re-designing and testing the scheme as my Accounting Officer has proposed to me, or to proceed with these important changes tomorrow as planned.*

*I wanted you to be aware of the concerns raised by officials in my Department before you finalise your formal decision to allow us to proceed.*

*My current understanding is that you wish to proceed at this time, and in order to be able to do so I will need to issue an Accounting Officer Direction. I also need confirmation that the Treasury gives its consent to proceed with these changes to the existing CBILS scheme, which my officials inform me are novel, contentious and repercussive under the terms of Managing Public Money...*"

- 4.26. The Chancellor's office responded to the Secretary of State's office later that day (2 April 2020) [AC03/075 – INQ000563925]. My office was copied in. The Chancellor was content to expand the eligibility of CBILS and to make changes to the provisions about personal guarantees. He was aware of the concerns I had raised and was of the view that there should be no delay in providing support.
- 4.27. Accordingly, on 2 April 2020 the Secretary of State issued a ministerial direction, directing me as Accounting Officer to proceed with the proposed changes to CBILS [AC03/011 – INQ000064780]. I refer the Inquiry to the full terms of that letter. The changes were implemented from 3 April 2020.
- 4.28. I now turn to some specific features of CBILS.

#### *State Aid Considerations*

- 4.29. There were concerns raised by SMEs in relation to the 'undertaking in difficulty' State aid rules. I refer the Inquiry to the CWS, Part B, §§2.60 – 2.64 which sets out the concerns encountered by businesses and lenders, in particular the matters raised in correspondence from officials at DIT and directly from SMEs to BEIS [AC03/076 – INQ000596659], [AC03/077 – INQ000563927]. Concerns included that SME start-ups faced difficulties as they often had relatively weak balance sheets. Therefore, the undertaking in difficulty rules could prevent start-ups from obtaining CBILS.
- 4.30. The issues arising from the 'undertaking in difficulty' State aid restrictions were not addressed in the CBILS scheme changes during my tenure. However, I refer the Inquiry to the further amendments to CBILS addressed by my successor in late April 2020, as set out in the CWS, Part B, §§2.105 – 2.112. This later work resulted in the introduction of BBLs, which was designed to address the initially slow rate of progress of CBILS.

- 4.31. As to the State aid regime more generally, I am asked by the Inquiry for my views as to whether the UK's interpretation of State aid rules acted as a constraint in designing the loan schemes. As explained in the CWS, Part B, §§2.14 – 2.17, on 15 March 2020, BEIS officials confirmed to the Secretary of State (copying me) that BBB was initially restricted by the State aid framework such that existing schemes were limited to SMEs and a maximum loan size of £1.2m [AC03/078 – INQ000563873]. There was scope to modify the eligibility criteria to be more helpful to SMEs (and BEIS and BBB were working together to consider those options) but the State aid provisions did not allow for the scheme to extend to larger businesses.
- 4.32. The position changed when, on 17 March 2020, the European Commission proposed its State aid Temporary Framework. That was adopted on 19 March 2020. The Temporary Framework permitted types of aid that would not previously have been permitted under State aid rules, including safeguards for banks channelling State aid into the real economy [AC03/079 – INQ000563880]. In light of the changes, the Chancellor decided that the Government would provide additional support to protect businesses, including by increasing the maximum CBILS' loan value from £1.2m to £5m.
- 4.33. While the Temporary Framework allowed State aid of up to £3.25 million without approval from the European Commission, the Secretary of State's ministerial direction of 22 March 2020 nonetheless formally directed me as Accounting Officer to proceed with CBILS, as outlined above, with an upper limit of £5 million [AC03/008 – INQ000064753]. As Gemma Peck explained in her email to me on 18 March 2020, this was a decision made by the Chancellor, with HMT officials advising him that if the Commission did not approve the scheme, money would need to be clawed back [AC03/055 – INQ000563877].
- 4.34. As confirmed in correspondence between Keith Morgan of BBB and me, the Department took the responsibility for the risks of proceeding in these circumstances [AC03/053 – INQ000563884], [AC03/009 – INQ000563889].

#### *Lender Portfolio Cap*

- 4.35. I am asked by the Inquiry to give an account of the origin of the CBILS lender portfolio cap, its effectiveness and limitations. Under the EFG, the cap on gross government liability at the level of each individual lender's debt portfolio was fixed at 20% of losses. Given the circumstances of the pandemic, borrower default risk was materially increased. The Government wished to encourage lending to achieve the objective of

saving businesses which would have been commercially viable were it not for the pandemic. Therefore, the Chancellor made the decision to increase the cap on gross Government liability at the level of each lender's CBILS portfolio to 75% [AC03/057 – INQ000585501]. As described in the CWS, Part B §2.25, the net effect of the change was an effective portfolio cap of 60%. This comprised 75% (i.e. the maximum proportion of each lender's overall portfolio which was subject to Government guarantee) multiplied by 80% (the level of the Government guarantee in respect of each individual loan) ( $75\% \times 80\% = 60\%$ ). This meant the Government's liability under each lender's CBILS portfolio could not exceed 60% due to the portfolio level cap in place for every lender. By comparison, the effective portfolio cap of EFG was 15%, comprising the lender's overall portfolio cap of 20% multiplied by the Government guarantee of 75% ( $20\% \times 75\% = 15\%$ ).

- 4.36. As a means of limiting the Government's potential liability and sharing risk with lenders, the CBILS portfolio cap seemed to me at the time to be reasonable and effective. I have not, however, since had the opportunity to study the detailed financial effects of the cap or its impact on lending appetites and the public finances. I am aware that (as described in the CWS, Part B, §2.121) the initial portfolio cap was lifted on 27 April 2020, so after I left my BEIS role. My successor will be in a better position to give informed views on the reasons for this change.

#### *Personal Guarantees and Eligibility*

- 4.37. On 27 March 2020, I was copied into a submission from officials to the Secretary of State which sought the Secretary of State's approval for BEIS officials to work urgently with HMT and BBB on changes to the design of CBILS [AC03/060 – INQ000563900]. The proposed changes arose in response to concerns that had arisen in relation to accrediting new lenders, personal guarantees, and limitations to CBILS eligibility criteria.
- 4.38. The submission of 27 March 2020 recommended that BEIS officials should work jointly with HMT and BBB on proposals to i) prohibit personal guarantees for CBILS facilities under £250,000 and ii) change the scheme rules for facilities over £250,000 so that in an event of default, the lender would be entitled to claim under the 80% Government guarantee before calling upon any personal guarantee in place, limiting the personal guarantee to 20% of the facility. These changes were reflected in the amendments to the scheme rules which I have described.

- 4.39. As explained in BEIS officials' further submission to the Secretary of State (copied to me) on 30 March 2020, the Chancellor was strongly in favour of the proposed changes to the scheme rules in relation to personal guarantees on the basis that they were likely to be more attractive to business owners and company directors "*...who may feel that a [personal guarantee] heightens the personal consequences of failure to an unfair extent.*" The changes were also designed to address the criticism from some businesses that the lenders were not taking on enough risk [AC03/063 – INQ000563909]. The Chancellor considered that the requirement to provide a personal guarantee was fundamentally problematic in the context of a Government scheme and believed that the requirement should not form part of the scheme in principle. The Chancellor was aware and relaxed that a potential consequence of the change might be that some lenders no longer considered CBILS to be commercially attractive.
- 4.40. As set out in the CWS, Part B, §§2.73 – 2.76, officials advised the Secretary of State that the Chancellor's proposed changes in respect of personal guarantees were likely to increase the size of guarantee claims because the contribution from private assets to making up any shortfall would be reduced. The proposals were also believed likely to lead to a further reduction in value for money, albeit there was uncertainty as to whether this could be offset by the effect of the change in widening access to finance for businesses which would otherwise have been dissuaded from applying for support due to some lenders seeking a personal guarantee.
- 4.41. I am asked to comment on the impact of the changes, in particular in relation to personal guarantees, on the volume and speed of lending under CBILS. I left my post one week after the changes took effect and did not therefore assess their impact on lending in any detail. I am aware that concerns persisted in the business community that the pace of lending to SMEs under CBILS was too slow to ameliorate the adverse financial impact of the pandemic restrictions on business. I was aware of delays in processing CBILS applications and that there was a backlog. I can see from the documents (although I did not see this report at the time) that there was a backlog of circa. 15,000 CBILS applications by late April 2020 [AC03/080 – INQ000543164]. I have read and agree with the reflections in the CWS, Part B, §10.12. There were real challenges arising from the very high volume of CBILS applications in a short timeframe, with lenders struggling with the level of demand and being restricted by their own processes and regulatory obligations in progressing applications at the desired rate.

4.42. There is always a trade-off between operational efficiency in getting money to borrowers and the value for money considerations, particularly when considering the lending conditions imposed on borrowers. I am not in a position to comment on the commercial lending policies of individual lenders or any conditions imposed by them in addition to those set out in this statement. The Government benefited from using the existing commercial lending infrastructure and was certainly aware of the need to reach the right balance between operational efficiency and genuine practical and regulatory constraints. Ultimately, the concerns over the pace and scale of CBILS led to the development of BBLs, which I briefly address below.

#### *Risks and Reflections*

4.43. With CBILS there was an inherent risk that businesses which did not survive would be unable to pay back borrowed monies to the accredited lenders. The effect of the Government's guarantee was that the lenders would nonetheless be able to claim 80% of their losses from the Government under the terms of the scheme. The 60% net portfolio cap limited the total size of the Government's liability under each lender's CBILS portfolio to 60%. The Government accepted the risk that some businesses would fail despite receiving CBILS loans. This was a known risk which was considered in the Accounting Officer advice I received on 20 March 2020 [AC03/059 – INQ000563882]. I would have preferred to have been able to take more time to consider the viability of alternative solutions which might have carried less risk. In particular, I was concerned at the prospect that loans which preceded the pandemic or were entirely unrelated to Covid-19 would fall within scope of the guarantee, partly as a consequence of raising (and ultimately removing) the lender portfolio cap. That said, I recognised that the scale of the crisis and the urgency meant that it was not feasible to follow the conventional processes with their inherent caution and safeguards.

4.44. CBILS was designed and launched incredibly quickly. I consider that to be a major achievement. Speed was considered to be critical and being able to use the EFG as a quasi-template and adapt it, and working with BBB, made it possible to launch the scheme so rapidly.

4.45. A feature of designing and implementing a loan guarantee scheme in the context that existed in March 2020 and early April 2020 was that support for businesses was needed quickly in order for it to be effective. In my view it was inevitable that this urgency impacted the approach to managing financial risk. The tolerance for increased financial risk was increased because of the unprecedented circumstances. I have already explained the reasons for seeking ministerial directions in relation to CBILS.

- 4.46. The need to act quickly meant that Government did not have time to obtain robust data to make judgments on value for money (if, in fact, robust data would have been available in the early days of the pandemic). I have described above my first letter to the Secretary of State on 2 April 2020, in which I recommended that there were a number of ways to improve regularity, feasibility, and value for money if a short delay to the proposed changes to CBILS was possible [AC03/010 – INQ000065315]. Very difficult judgements needed to be made with limited and imperfect information, and without knowledge of the likely counterfactual.
- 4.47. Further, at points there were concerns about the feasibility of delivering CBILS, which could impact on its effectiveness (see my letter dated 2 April 2020 at [AC03/010 – INQ000065315]).
- 4.48. The speed at which CBILS was designed and implemented necessarily meant that there were no bespoke arrangements made for the Devolved Administrations. That said, as I set out at §3.21 above, Devolved Administrations were consulted from the early stages of the pandemic and invited to participate in initiatives, including workshops focused on assessing the economic impact of Covid-19 and exploring the coordination of their responses with the UK Government [AC03/054 – INQ000585521]. Ultimately, BBB operated UK-wide and the guarantees from BBB to banks lending to businesses were not contingent on the location of the enterprise. In this way CBILS was an inclusive and comprehensive scheme.
- 4.49. The changes to CBILS made at the start of April 2020 (prohibiting personal guarantees for loans under £250,000, restricting lenders from recovering defaulted payments against a personal guarantee for loans over £250,000 and removing the requirement for borrowers to show they would have been unable to secure finance on commercial terms) would have increased the risk of financial loss. At the same time, these changes would have increased throughput of borrowing. Ministers were aware of these consequences.
- 4.50. I am also asked about the consequences of the removal of the portfolio cap. I understand that this happened on 27 April 2020 and so I do not feel well placed to comment.
- 4.51. On the other hand, the design of CBILS, even at pace, did include a number of protections in relation to financial risk. For example, the Government only backed 80% of loan values. This meant that lenders were exposed to risks of lending and therefore

conducted due diligence checks. In turn, that led to concerns that loans were not getting to businesses as quickly as was needed.

- 4.52. I am asked for my views as to whether CBILS was value for money. As set out in my letter to the Secretary of State on 22 March 2020 (summarised at §§4.8 – 4.9, above), my view at the time was that CBILS struck a reasonable balance between maximising financial support for SMEs and being mindful of the impact on public finances. That said, there was little robust data about the costs and benefits of CBILS at that early stage that I could rely on to judge its value for money [AC03/007 – INQ000065992]. The EFG, on which CBILS was modelled, was considered to represent good value for money and to create significant economic benefits for society. It is important to note that while the EFG acted as a template, the EFG and CBILS were delivered on vastly different scales. It could not be assumed that the far larger CBILS would meet the value for money requirements of *Managing Public Money* just because that could be said of the EFG. As set out above at §4.35, the Government’s potential liability under the CBILS guarantees also was far higher than that for the EFG (which was limited to 15% of each lender’s portfolio).
- 4.53. My views were and remain in accordance with the Accounting Officer advice I received on 20 March 2020, which recognised the exceptional circumstances of the pandemic and its impact on the UK economy, meaning that intervention which would not ordinarily have been contemplated was justified. There was “*significant uncertainty as to whether the economic benefit of the full package [would] justify*” the costs but I was nonetheless advised that doing nothing would have been worse value because increased take-up of financing by SMEs during an economic downturn would be economically beneficial [AC03/059 – INQ000563882].
- 4.54. I am asked whether the scheme adequately safeguarded public funds and mitigated the risk of fraud and error. Unlike DWP and HMRC, BEIS did not have prior responsibility or experience of paying out very substantial sums of money. Therefore, the Department did not have an expert counter-fraud team at the outset of the pandemic.
- 4.55. As described in the CWS, Part B, §§6.3 – 6.4, prior to the pandemic and the implementation of the business support schemes, the BEIS counter-fraud team comprised two full time employees. This reflected the relatively low level of fraud risk and exposure across the Department. The Department was resourced to focus on policy rather than delivery and did not initially have the systems in place to deliver the

business support schemes required by the pandemic. Inevitably, that focus changed during the pandemic. CBILS (and subsequently CLBILS) were built upon the existing infrastructure and processes of EFG. One advantage of using the existing commercial banking system to deliver the schemes was the ability of Government to benefit from the lenders' systems, resources, and experience. Accredited lenders had delegated responsibility to carry out counter-fraud checks, enhancing the early capacity in the system beyond what could have been achieved by Government alone.

- 4.56. I am asked whether CBILS achieved its aims. I have read and agree with the reflections set out in the CWS, Part B, §§10.11 – 10.15 insofar as they relate to CBILS. CBILS was designed to provide essential support to SMEs at pace and at scale, drawing upon the existing EFG and mirroring commercial lending. My view is that CBILS performed well and did achieve its policy aims. In particular, I would record that CBILS was successfully deployed within 12 days of its announcement, a speed which was only made possible thanks to the EFG template and use of commercial lenders' existing delivery mechanisms. Continuous stakeholder feedback enabled the Department to be responsive and to adapt. Amendments to the scheme were swiftly implemented in response to concerns that the initial volume of approved loan applications was lower than we had anticipated. As I have set out, the Department's good working relationships with HMT and BBB, in particular, enabled the effective delivery of CBILS.

## Section 5: Coronavirus Large Business Interruption Loan Scheme

- 5.1. I am asked about the nature and extent of my involvement in the design, operation and timing of CLBILS. First, it is important to note that I left my BEIS Permanent Secretary role before the request for a ministerial direction for CLBILS was sent on 16 April 2020, and before CLBILS was launched on 20 April 2020.
- 5.2. I have sought to summarise my involvement in the early development of CLBILS. Much of what follows is also addressed in the CWS, Part B, §§3.2 to 3.32:
- a) 25 March 2020: I attended an Extraordinary Business Investment Committee meeting to discuss investment issues in the UK [AC03/013 – INQ000563894]. One issue discussed was concerns about the ‘squeezed middle’, companies that were too large to access CBILS but also could not access the Covid Corporate Financing Facility (CCFF). The notes of this meeting record that companies in the ‘squeezed middle’ were an identified gap “*and the terms of the CCFF may be able to flex to mitigate this*”. At this meeting, I also noted that the ‘Get Ready for Brexit’ newsletter, which was distributed to over a million companies, had been repurposed to provide information to businesses on Covid-19. To the best of my recollection, it was around this date that I first became aware of a problem with support available to the ‘squeezed’ or ‘missing middle’, to which I subsequently referred in correspondence with BEIS officials on 31 March 2020, when I referred to the Chancellor’s initial proposals to amend CBILS [AC03/065 – INQ000626064].
  - b) 26 March 2020: This issue was also raised at the daily ministerial call, which I attended on 26 March ([AC03/014 – INQ000563896], I note that the document is incorrectly dated 16 March 2020). Officials identified two categories of companies falling into the ‘squeezed middle’, namely healthy companies that were not eligible for existing schemes due to their size, and companies that were not investible as at 1 March 2020, regardless of their size.
  - c) 27 March 2020: BEIS officials sent a submission to the Secretary of State providing an update on support measures for large companies [AC03/015 – INQ000596661] [AC03/016 – INQ000563901] [AC03/017 – INQ000596660] [AC03/018 – INQ000563899]. This submission was sent to me “*to note/comment*”. The CWS, Part B, §3.4, summarises this submission. Key points were that BEIS had received a growing number of requests for additional support for larger companies (and gave examples of companies facing cash

flow issues) and summarised HMT's proposed '*Principles for Intervention*'. Under these, HMT would take a case-by-case approach to requests for company support.

d) Also on 27 March 2020: BEIS officials sent a second submission to the Secretary of State on current financial support schemes and addressing the 'missing middle' [AC03/081 – INQ000563902]. This was sent to me "*to note/comment*". The detail of this submission is set out in the CWS, Part B, from §3.5. Officials explained that there were over 5,000 firms with a turnover above £45 million but not being investment grade, accounting for circa 21% of the turnover and 20% of the employment of all UK-incorporated firms. The submission referred to the fact that BROs and businesses were raising questions about support for this 'missing middle'. This was also getting media coverage. The submission explained that HMT was working on a possible solution and the Chancellor wished to find a solution, but that was likely to be weeks away. Officials suggested potential solutions, which included creating a new scheme, "*run either through the banks and specialist lenders, or directly from HMG*". The submission explained that officials had raised concerns with HMT about the lack of direct support for the 'missing middle' and recommended the Secretary of State should write to the Chancellor offering to work collaboratively to find a solution (a draft letter to the Chancellor was annexed to the submission). This submission reinforced to me the importance of this issue.

e) 31 March 2020: I wrote to officials as follows:

*"... there is clearly a gap in current provision for 'squeezed middle' above £45M but below entry level for BoE commercial credit facility...*

*However I have serious concerns about launching a scheme with a possible size of £100B with so little analysis, so little preparation and planning, through an under-resourced BBB, with not enough consultation, and inadequate safeguards and stop-loss protections. I do not recommend we proceed until these defects can be addressed..."*  
[AC03/069 – INQ000626063].

f) On 1 April 2020, I expressed concern about BBB's capacity to deliver the proposed CLBILS because it was already under huge pressure to deliver and administer CBILS [AC03/019 – INQ000563916]. I had extensive correspondence with officials between 30 March and 1 April 2020 in respect of

the Chancellor's proposed amendments to CBILS [AC03/065 – INQ000626064].

- g) On or around 31 March 2020: The documents record that I discussed BEIS officials' work on the amendments with Charles Roxburgh. I do not now recall the contents of my discussions with Charles Roxburgh but our discussion would have been reflected in the concerns I raised in writing to officials.
- h) 1 April 2020: At a meeting between BEIS and HMT officials on a potential further loan guarantee scheme, my concerns about BBB's capacity were noted. There was a plan to discuss the challenges with BBB. There was also discussion about the possibility of needing a ministerial direction for a new scheme and scheme design. The meeting attendees are not expressly listed but I do not think I attended this meeting; I was not sent the email readout and the meeting does not appear in my MS Outlook diary for this date. A BEIS official later clarified that my (and others') concerns were not just about BBB's operational capacity, but also the capacity of BEIS teams to do sufficient policy and analytical work in the proposed timescales, and the cumulative impact of the changes proposed to CBILS and the new scheme on the potential risks/liabilities for Government. HMT officials said that the Chancellor intended to make an announcement about the proposed new scheme on 2 or 3 April 2020. [AC03/019 – INQ000563916].
- i) 2 April 2020: BEIS officials sent the Secretary of State a submission about the proposed new scheme [AC03/020 – INQ000064782]. Again, this was sent to me "*to note/ comment*". The submission stated that the Chancellor wished to announce a new support scheme for the 'missing middle' of firms too large for CBILS but too small, or without adequate credit rating, for CCFF. The Chancellor wished to make this announcement on the morning of 3 April 2020. The submission stated that BEIS officials had "*...significant concerns about the pace at which this has been developed which has inevitably limited out ability to test the design of the scheme with the BBB and banks, and assess affordability, value for money, feasibility and regularity*". Officials stated they would provide advice to me as Accounting Officer and that a further ministerial direction from the Secretary of State would likely be needed.
- j) Later on 2 April 2020: A BEIS official notified me (and other officials) about changes to CLBILS which had been confirmed by HMT, subsequent to the

submission earlier that day. I refer to the CWS, Part B, §3.17, for these changes. In summary, the level of Government guarantee for CLBILS was increased to 80%, bringing it in line with CBILS and CLBILS would have an additionality element, which meant the scheme would only be available to businesses unable to access a loan on commercial terms.

- k) HMT had agreed that the Chancellor's announcement of the scheme the following day would not provide details of when or how it would be implemented, giving officials more time to work with HMT and BBB on implementation and any outstanding policy issues. This also meant there was no need to seek an immediate ministerial direction, although one might still be required [AC03/082 – INQ000563926].
- l) 3 April 2020: The Chancellor announced that the Government would launch a new loan guarantee scheme, i.e. CLBILS.
- m) Also on 3 April 2020: The Secretary of State's private office contacted HMT stating that officials were working closely together on CLBILS and highlighting that the Secretary of State was keen to be involved from an early stage in decisions around scheme design, operation and timing of the launch [AC03/083 – INQ000563928]. He was keen to be more involved directly in policy-making as a partner to the Chancellor. If BBB was to be used, then the risk and deliverability of the scheme would sit with the Secretary of State.
- n) 3 – 7 April 2020: There was further work between HMT, BEIS, and BBB officials in relation to the design and terms of CLBILS is summarised at CWS, Part B, §§3.21 – 3.23. I was not directly involved in this.
- o) 8 April 2020: BEIS officials sent a submission to the Secretary of State on the design and implementation of the new loan guarantee scheme, i.e. CLBILS [AC03/084 – INQ000563938]. This was sent to me "*to note/ comment*". Of significance, the submission explained the officials were providing advice to me on the scheme, as Accounting Officer, as set out below.
- p) 8 April 2020: BEIS officials sent me an Accounting Officer note. The content of this note is set out in detail in the CWS, Part B, from §3.27, and I do not repeat it all. I was informed that the design of CLBILS may still change but was advised to seek a ministerial direction in respect of the scheme as it then was, and to do so before 15 April 2020 to meet the target date for scheme delivery. The submission summarised the (then) key features of CLBILS, the eligibility

criteria, and the potential cost of the proposals. I was advised that the key risks were affordability and value for money. BEIS had not yet secured confirmation from HMT that HMT would fund the scheme. On value for money, the key consideration from the perspective of *Managing Public Money* principles was whether an alternative proposal (including doing nothing) would offer better value for money in achieving the policy objective. Here the policy objective was increasing the availability and take-up of financing by medium sized firms in an economic downturn, due to a severe public health emergency. Officials advised that doing nothing would provide worse value for money. They also considered that CLBILS could provide better value for money than CBILS on the basis that CLBILS-eligible firms would tend to be at less risk of running into economic difficulties than smaller SMEs and so less likely to create a liability under the loan guarantee. There was also no business interruption payment. But, because loan amounts would be higher than for CBILS, the Government's total potential exposure under CLBILS would be higher. Demand for the scheme was also uncertain. In addition, I was advised there was a considerable 'deadweight' risk. The 'deadweight' risk or cost refers to the loss that occurs when an intervention does not change anything or when some of the intended outcomes would have happened in any event, regardless of the intervention. Many businesses which were eligible for CLBILS could have survived without Government support and others may have failed notwithstanding the support; in such cases the cost of providing funds to these businesses was a 'deadweight' cost. A full Accounting Officer assessment was annexed to the note, which also identified a feasibility risk, i.e. whether CLBILS could be delivered for a launch date of 20 April 2020.

- q) 9 April 2020: Following a meeting with the Secretary of State, BEIS officials informed the Secretary of State's private office, Sam Beckett and me about changes to the parameters of CLBILS, after feedback from the Chancellor [AC03/085 – INQ000563940]. Officials also indicated that the changes provided more time to work through Accounting Officer advice, to provide further information to the Secretary of State, and for the Secretary of State to engage with the Chancellor.
- r) Also on 9 April 2020: There was a meeting between officials and the Secretary of State. I cannot now recall whether or not I attended this meeting. Meetings between officials and the Secretary of State were diarised daily at this time and

my MS Outlook diary indicates that I also had numerous meetings with Cabinet Office officials on and around this date in relation to my new role. Noting the date and the fact that Sam Beckett is copied into the correspondence at this time, it is likely that the issues arising were addressed in my handover conversations with her, in which I set out my approach to the Covid-19 loan and grant schemes to date and how I had exercised my Accounting Officer responsibilities, which were transferred to her at the end of my tenure. The Secretary of State had queries about the CLBILS scheme design. Officials later provided a note addressing these [AC03/086 – INQ000585554]. The detail is set out in the CWS, Part B, §3.32. The note also set out a timeline for next steps, with Accounting Officer advice to be sent to the Permanent Secretary on 14 April 2020.

- 5.3. On 14 April 2020, Accounting Officer advice, revised to take account of changes since 8 April 2020, was sent to the acting Permanent Secretary, i.e. Sam Beckett [AC03/087 – INQ000563950]. I was no longer involved. On 16 April 2020, the acting Permanent Secretary requested a ministerial direction from the Secretary of State in relation to CLBILS. This was provided. The scheme was launched on 20 April 2020.
- 5.4. I now turn to some specific matters on which the Inquiry asks for my views.
- 5.5. Following BEIS officials' submission to the Secretary of State on 27 March 2020, the Department liaised with BBB to assess the businesses which fell in the 'missing middle' and on 1 April 2020, BBB provided an analysis of potential demand [AC03/088 – INQ000585518]. With the caveat that the analysis had been produced at speed and accordingly there was a risk of modelling error, demand was estimated at between £6 billion and £88 billion based on the British Finance Survey method or £14 billion and £147 billion based on the "Financial Analysis Made Easy" or "FAME" method (FAME is a database containing financial and geographical data for SMEs) [AC03/089 – INQ000585519]. This analysis supplemented the data gathering work and assessments of known sectoral vulnerabilities by the Department's Business Sectors Group, described at §2.6, above. As set out in the CWS, Part B, §§9.2 – 9.5 the BEIS Omnibus Survey, comprising a monthly survey of 1,200 businesses, was repurposed to gather data on the impact of the pandemic on businesses, including questions on the effectiveness of the Government's access to finance interventions.
- 5.6. CLBILS had many features in common with CBILS, with modifications for firms with higher turnover. On 8 April 2020, officials sent me an Accounting Officer advice which

set out the key scheme features and summarised the changes from CBILS (as revised) following the Chancellor’s announcement on 3 April 2020 that the Government would launch a new loan scheme to address the issue of the ‘missing middle’ [AC03/021 – INQ000563939].

- 5.7. For ease of reference, I set out below the table contained in that Accounting Officer advice which summarised the differences between the two schemes. The information contained in the table in respect of CLBILS is accurate as at the launch of the scheme on 20 April 2020 but does not take account of the subsequent changes to the scheme criteria that occurred in May 2020, after I left my post as Permanent Secretary. The developments in May 2020 are set out in the CWS, Part B, §§3.53 – 3.73. A full overview of the final features of each scheme can be found in the CWS, Part B, §1.5.

Feature	CBILS (as revised)	CLBILS
Eligibility Criteria	Business must have viable proposition for lending were it not for Covid-19  UK based  Turnover up to £45m p.a.	Business must have viable proposition for lending were it not for Covid-19  UK based  Turnover up to £500m p.a.
Exclusions	Banks, Insurers and Reinsurers (but not insurance brokers); public sector bodies; further educational establishments if they are grant funded and state funded primary and secondary schools	As CBILS
Product Coverage	Debt facilities (including e.g. overdrafts, loans, asset/invoice finance) up to £5m	Debt facilities as CBILS, from £100k-£25m
Level of Guarantee	80%  Portfolio cap at 60%	80%  No portfolio cap

Security Requirements	No personal guarantees up to £250k facilities, personal guarantee may be taken for up to 20% over £250k, lender required to take other available security	As CBILS
Interest Treatment	Business interruption Payment to cover first year's interest payments	No interest relief
Refinancing	Lender allocations can include maximum of 20% refinancing	As CBILS
Capital Relief	Ineligible	Eligible

- 5.8. Officials advised me that, based on the information available at the time “...and bearing in mind that the scheme design may yet change due to further feedback from lenders and decisions made by HMT”, a new ministerial direction would be required. The advice anticipated that “...[.]ending volumes will be lower than under CBILS, but the loan values will be much higher and expose HMG to further liabilities with a lack of robust VfM assessment. This will also represent another operational challenge to BBB who are not experienced in this segment of the market, while uncertainty remains around State Aid.”
- 5.9. As with CBILS loans, applicants under the CLBILS needed to:
- a) Self-certify that they were adversely affected by the pandemic; and
  - b) Provide financial evidence that they would have been viable but for the pandemic.
- 5.10. Participating lenders under CLBILS were backed by a government guarantee of 80% of the outstanding loan balance. As with CBILS, a borrower under CLBILS remained liable for repayment of the entire loan. In contrast to CBILS, CLBILS did not have a lender portfolio cap, therefore the Government's risk exposure was proportionally greater. A lender portfolio cap for CLBILS was viewed as less helpful because of the larger maximum loan size, leading to a 'lumpier' risk profile. A single CLBILS loan default could more easily cause a lender to exceed its portfolio cap.

- 5.11. As noted in the table above, there was no interest relief under CLBILS, unlike the 12 months of interest relief provided under CBILS. Officials determined that larger businesses would be better placed to deal with interest payments, and that interest relief would be a disproportionate measure in the case of CLBILS.
- 5.12. The value for money implications for CLBILS were particularly difficult given the uncertainties in the demand analysis and uncertainties about whether the additional costs of the scheme would be outweighed by benefits. As Accounting Officer, I was advised and agreed that increasing the financing available to medium enterprises in a downturn was economically beneficial and offered greater value for money than taking no action to address the 'missing middle', not least because in general large businesses were less likely to encounter difficulties than SMEs and therefore less likely to incur a liability under the guarantee [AC03/021 – INQ000563939].
- 5.13. Due to the significant uncertainties, BEIS officials were unable to confirm with any confidence that the scheme would represent value for money. Accordingly, in my capacity as Accounting Officer I was advised that a ministerial direction should be sought [AC03/021 – INQ000563939].
- 5.14. I am asked if I had concerns about the pace at which CLBILS was being developed and the limited opportunity to test its design with stakeholders. As will be apparent from the timeline above, I did have concerns. The readout of the meeting between BEIS and HMT officials on 1 April 2020 and the subsequent email exchange between officials record that I was concerned about BBB's delivery capacity and the capacity of BEIS teams to do sufficient policy and analytical work in the proposed timescales. The new scheme had the potential to materially and adversely affect the potential risks and liabilities for Government and the cumulative impact of CLBILS and the proposed changes to CBILS was significant [AC03/019 – INQ000563916].
- 5.15. The Department's concerns over the pace of the development of CLBILS were reflected in the submission from BEIS officials to the Secretary of State on 2 April 2020, which I read [AC03/020 – INQ000064782]. In an email dated 2 April 2020, I replied to officials as follows: *"Thanks. I agree with the advice on 'CBILS+' [i.e. CLBILS], and appreciate the haste with which it had to be produced... A small point on tone upfront. I think we can and should be more supportive of the intent to try to extend loan support to the squeezed middle. There is a real problem there as we ourselves have been saying and it is right of CX and SoS to be trying urgently to address it"* [AC03/090 – INQ000626067]. In the submission of 2 April 2020, officials stressed that they had not

yet seen the details of the proposed announcement and that the Secretary of State's agreement was required because BBB was the only delivery route available for the new scheme with the required urgency.

- 5.16. Accounting Officer advice was being prepared for me which would set out the uncertainties and recommend that a further ministerial direction be obtained once the final scheme parameters were agreed.
- 5.17. I considered the risks identified by officials in the Accounting Officer advice dated 8 April 2020, the full details of which are set out in the CWS, Part B, §§3.27 – 3.30 and summarised at §5.2, above.
- 5.18. My main concerns from the perspective of the *Managing Public Money* principles were affordability and value for money. In respect of affordability, at the time of that initial CLBILS Accounting Officer advice, HMT had not yet provided confirmation that it would fund the scheme. As to value for money, the question for me was whether any reasonable alternative (including doing nothing) would be better value while achieving the policy objective of increasing the availability and take-up of emergency pandemic financing by medium sized firms. In the event, officials advised that doing nothing would provide worse value for money and I accepted that advice.
- 5.19. As in relation to CBILS, there was a political judgement to be made by Government as to the balance of risk. The risk that otherwise healthy businesses might fail without intervention was prioritised over the risk that public money might be spent without meeting *Managing Public Money* principles. My view at the time was that the policy choices made by ministers were justifiable in the emergency circumstances of Covid-19. That remains my view.
- 5.20. I am asked if I had concerns that BBB was being pushed to work outside its core expertise, in particular by needing to work with the larger businesses which were the target of CLBILS and with which it had few existing relationships. As set out in the CWS, Part B, §§3.10 – 3.11, I was concerned about BBB's capacity and resources because it was already under enormous pressure to deliver and administer CBILS. The proposal for it to also act as the delivery mechanism for CLBILS raised questions about its capacity to deliver the new scheme effectively. These issues were discussed in the meeting between HMT and BEIS officials on 1 April 2020, as reflected in the readout [AC03/019 – INQ000563916]. There were discussions as to whether there were any alternative organisations which could deliver the scheme but HMT officials advised that "...the Chancellor's priority is to get the scheme up and running as quickly

*as possible, which meant plugging into existing structures wherever possible, and effectively ruled out any other options, such as schemes delivered via BEIS or BoE”.*

- 5.21. As described in the CWS, Part B, §3.12, BBB had concerns about its own capacity and the pace of development of CLBILS, stating that it “...cannot develop policy of this sort rigorously in an afternoon, so we’ve simply done our best to identify red flags that could manifestly cause insoluble implementation problems...” [AC03/091 – INQ000585523].
- 5.22. One of BBB’s key concerns, which I shared, was that its board would have to accept that BBB was allowed to operate outside its risk management framework. The decision was driven by urgency because the Chancellor planned to announce the new loan scheme for businesses with a turnover of above £45 million in the same week. The submission from BEIS officials to the Secretary of State on 2 April 2020 reflected officials’ concerns in relation to the role of BBB, which were factors in the advice that a new ministerial direction was required for CLBILS [AC03/020 – INQ000064782]. Officials advised the Secretary of State as follows:

*“We recommend that you note:*

*... that the new scheme will enable larger companies to access borrowing on CBILS-like terms, addressing criticism that the Government has neglected the ‘missing middle’...*

*that the new scheme will need to be delivered through the BBB and that the proposal increases operational pressures and risks on the BBB, which is simultaneously being asked to implement significant changes to the original CBILS scheme. The new scheme moves the BBB further out of their area of expertise, and they will need to work with new counterparties; and*

*there is still a risk that some larger businesses will not be supported by CBILS, the new scheme or the CCFF. Such firms will be large (>£500m turnover) and are likely to be private (as listed firms in this space are more likely to be Investment Grade and hence supported by CCFF) and/or part of larger groups which rule them ineligible for the new scheme.*

*Advice from BBB is that it will not be possible to implement the scheme until later in the month. We will provide further advice on design, costs,*

*value for money, legal considerations, implementation and communication in due course...*

*The scheme is new territory for the BBB and as such, we expect a new process to accredit the broader range of institutions that will wish to use the guarantee to make loans to larger businesses. While this will include the four main retail banks (for whom the BBB hope to port over quickly) it will also extend to some investment banks (Citi, JPMorgan, BoAML) who already have private equity lending arms in the UK and private credit funds such as Alcentra, Permira, Pemberton and ICG, which will not have worked with the BBB before. We do not expect this to be a problem, though it will take longer to accredit as a new process (and team) will be required within the BBB.”*

- 5.23. I am asked to reflect on the extent to which CLBILS would have differed if there had been more time to test its design before launch and whether, looking back, I would have done anything differently in the “*design, implementation or delivery of*” CLBILS. By the time that CLBILS was launched on 20 April 2020, I had left my post as BEIS Permanent Secretary. Therefore, others will be in a better position to give a view on these questions. I have read and agree with the reflections set out in the CWS, Part B, §§10.11 – 10.15 as they apply to CLBILS.
- 5.24. CLBILS was, however, a good example of an effective policy change made as a result of Government engagement with stakeholders. It was necessarily developed and implemented at pace, and in the circumstances, there was little realistic alternative to using the existing BBB delivery mechanism. I have already set out the extent and rationale for the features of CLBILS insofar as they differed from CBILS and in my view CLBILS was an effective scheme which worked as intended to provide much needed emergency finance to medium enterprises.
- 5.25. As the Inquiry is aware, uptake for CLBILS was lower than that of CBILS. I have read and agree with the comments in the CWS, Part B, §3.75, on this point. CBILS targeted SMEs, which both comprise the majority of businesses in the UK and were disproportionately impacted by the pandemic, relying upon Government support to maintain regular cashflow. CLBILS received lower uptake because smaller numbers were eligible and larger businesses were likely to have access to alternative sources of funding and so not be dependent on government support.

- 5.26. I am asked about the extent to which CLBILS took account of the specific needs and conditions of the Devolved Administrations. There were no bespoke arrangements for the Devolved Administrations in the design or implementation of CLBILS. As I set out above at §2.66 in relation to the pandemic response more generally, the Devolved Administrations were invited to participate in a workshop to consider the challenges the Covid-19 presented for the UK economy and how the UK Government and the Devolved Administrations could coordinate on future economic responses. This took place on 2 April 2020. One of the results of this was the establishment of the UK Covid-19 Economy Directors Forum, which first convened on 17 April 2020 after I had left my post as BEIS Permanent Secretary. As set out above in relation to CBILS at §4.48, there was no distinction between the way in which BBB operated in constituent parts of the UK.
- 5.27. As with CBILS, there were no bespoke arrangements for the Devolved Administrations in the design or implementation of CLBILS, not least because of the speed at which the scheme was developed.
- 5.28. I am asked to reflect on whether CLBILS was value for money and whether it achieved its aims. By the time that CLBILS was launched on 20 April 2020, I had left my post as BEIS Permanent Secretary. My views on CLBILS' value for money in the design phase are in accordance with the Accounting Officer advice which I received on 8 April 2020, discussed above.
- 5.29. I note the commentary in the CWS, Part B, §§7.97 - 7.105, which considered the findings of three reports by the London School of Economics, commissioned by BBB in 2021 to assess whether the objectives of the Covid-19 loan schemes were met and analyse the benefits and costs of the schemes. In summary, the final report found that:
- a) The schemes met their short-term objectives by providing businesses with finance at a scale and pace that could not have been otherwise achieved and providing support that was complementary to other support schemes such as the Coronavirus Job Retention Scheme; and
  - b) The medium-term objectives were met by offering funding that in most instances would not otherwise have been obtained and which was used by most businesses to continue daily operations.
  - c) With respect to the long-term objectives, the report recommended a further evaluation in a few years' time was required to assess how the schemes impact business survival and growth in the long term. However, the report found that

the finance provided by the schemes had played an important role in ensuring business survival and boosted the turnover of participating businesses.

## Section 6: Bounce Back Loan Scheme

- 6.1. I am asked about the nature and extent of my involvement in the design, operation and timing of BBLs.
- 6.2. I left my position at the Department on 13 April 2020. BBLs was announced on 27 April 2020 and launched on 4 May 2020. BBLs was established to address the concern that CBILs was taking too long to deliver vital cash to struggling SMEs. As set out in the CWS, Part B, §§4.5 – 4.23, there were discussions about amending CBILs to include features later adopted in BBLs that were aimed at resolving this issue. These discussions about amending CBILs occurred in parallel with discussions about the creation of BBLs. These discussions began shortly after I left, around 16 April 2020, following the Chancellor's decision that CBILs would change to a 100% guarantee [AC03/092 – INQ000563964] (see CWS, Part B, §§4.13 – 4.14).
- 6.3. I do not recall being involved in any discussions about what later became known as BBLs. The documents I have reviewed support this.
- 6.4. The Department received feedback from various sources about CBILs. I was aware that the business community had raised concerns about the availability of vital loans and that CBILs was not providing financial support to businesses quickly enough, as applications were taking too long to process. Lenders reported that it took time to process applications because they were obliged to carry out assessments and follow processes set by the scheme. Those assessments and processes were designed to prevent false claims, unnecessary funding, and non-repayable loans (bad debts). I was aware of proposals to address issues with CBILs including increasing the government guarantee and a simpler/standardised application process which later became features of BBLs [AC03/093 – INQ000626071] [AC03/094 – INQ000626072] [AC03/095 – INQ000626073].
- 6.5. On 20 March 2020, prior to the launch of CBILs, BEIS officials and I attended a call with management consultants, Oliver Wyman. The consultants advised that, although lenders were willing to extend CBILs to all viable businesses, that might not occur fast enough at delivery level. This was for two reasons. Firstly, because lenders were becoming more risk averse due to Covid-19 and secondly, because the 20% liability that sat with lenders in the event of a default was a material risk for them [AC03/096 – INQ000585506] [AC03/097 – INQ000626056]. They recommended asking BBB for its views on accrediting alternative lenders to add to the pool of lenders delivering the scheme. In addition, the consultants advised ongoing monitoring of vulnerable regions

and sectors of the economy to assess whether they were benefitting from CBILS roll-out and whether additional tailored financial support schemes were required.

- 6.6. As set out in the CWS, Part B, §4.8, on 5 April 2020, Stephen Jones (Chief Executive, UK Finance) emailed Charles Roxburgh and me with his concerns about the ability of CBILS to cope with anticipated volumes of applications [AC03/098 – INQ000563930]. He stated that:

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

- 6.7. On 8 April 2020, I received a Covid-19 business insight bulletin circulated by the Confederation of British Industry (**CBI**) [AC03/099 – INQ000626070]. It reported that CBILS loans had started to reach businesses, helping to ease immediate cashflow pressures, after the changes to the scheme were announced on 3 April 2020. However, some challenges remained. In particular, lenders were awaiting clear guidance from Government in relation to the interest rates chargeable on CBILS loans following the end of the initial 12-month interest-free period.
- 6.8. I have been asked a series of questions relating to BBLs. As explained in §6.1 above, I had left the Department by the time discussions began about creating BBLs from around 16 April 2020. In the brief section above, I have sought to provide some information relevant to some of these questions. But beyond this lies outside my direct experience and I do not feel I am in a sufficiently informed position to answer the specific BBLs-related questions that are posed.

## Section 7: Further Reflections on Loan Guarantee Schemes

- 7.1. I am asked to give my reflections on the Government's loan guarantee schemes. In line with my evidence above, my reflections in this section focus on CBILS and CLBILS during the period I was BEIS Permanent Secretary, to the extent that I have not already addressed them in Section 4 and 5, above. In particular, in response to the Inquiry's question as to the effectiveness of the loan schemes in supporting businesses, I refer the Inquiry to §4.56 in relation to CBILS and §5.24 in relation to CLBILS, above.
- 7.2. First, I am asked about the effectiveness of the communication between the Department and HMT during the design and development phase. There were inherent risks in the development of policy at speed. By a combination of constrained timeframes and the fact that HMT necessarily led on the policy development, the Department's input and my own personal contributions came relatively late in the process. The Chancellor's views were largely shaped by the advice he received from HMT officials. At BEIS, we usually had no visibility over the means and extent to which our concerns were conveyed to the Chancellor. As I have set out in the narratives above, on those occasions when the Secretary of State did formally write to the Chancellor, this occurred at the 'eleventh hour', by which time, there was little willingness or opportunity to start over or make substantial changes to the proposals under consideration.
- 7.3. The limitations on consultation and the tight timeframes were inherent in the circumstances at the time and should in no way be interpreted as evidence of bad intent or practice by HMT officials. Indeed, HMT officials made genuine efforts to involve both BEIS and BBB. See, for example, the collaborative work referred to in Gemma Peck's email to me of 28 March 2020, referred to above at §4.4 [AC03/061 – INQ000563905]. I also experienced this myself at Permanent Secretary level when dealing with my counterparts.
- 7.4. I am asked about the Department's Accounting Officer responsibility for the loan guarantee schemes and any challenges which arose from this in delivery, scrutiny, and oversight. In contrast to the initial position I set out in my correspondence with Jeremy Pocklington of MHCLG on 10 and 11 March 2020 about Accounting Officer responsibility for the grant schemes (discussed below at §§9.10 – 9.16), my view from the outset was that the Accounting Officer responsibility for the loan guarantee schemes "*squarely falls to BEIS*" [AC03/023 – INQ000543061]. I set out the relevant experience of the Department in Section 2 of this statement, not least its responsibility

for delivery of the EFG on which CBILS was expressly modelled. While the circumstances in which the loan guarantee schemes were developed and implemented were challenging, the Department worked effectively with OGDs and partner organisations such as BBB as I set out in Section 3. In this statement, I have focused on my role as Accounting Officer in respect of each scheme and do not repeat my comments here but refer the Inquiry to the advice, correspondence, and ministerial directions I have outlined above, which set out my concerns and the position at the time.

- 7.5. I am asked to reflect on how the Government dealt with the balance between the need to provide urgent financial support to business and the need to mitigate the risk of fraud and error in the schemes.
- 7.6. The Government acted to address the immediate risk that commercially viable enterprises might fail unnecessarily in the pandemic without government support.
- 7.7. As set out in the CWS, Part B, from §6.27, BBB assessed and monitored the fraud risk across the Covid-19 loan guarantee schemes and in 2021 the level of post-lend fraud experienced by lenders in relation to CBILS was retrospectively assessed in 2021 to be 'nominal'. I have read and agree with CWS, Part A, §§6.15 – 6.17 which set out the Department's work in responding to and mitigating the risk of fraud and error in the Covid-19 loan guarantee schemes.
- 7.8. For the reasons set out in the CWS, Part B, §§6.30 – 6.31, the levels of fraud for CBILS and CLBILS were substantially mitigated through the controls and countermeasures included within the scheme rules, namely:
  - a) BBB's accreditation procedure for scheme lenders;
  - b) Relevant scheme legal agreement and obligations;
  - c) Lenders' appropriate fraud checks (customer due diligence, 'know your client', and anti-money laundering), credit checks (credit decisioning and credit reference agency), and lenders knowledge of their customers;
  - d) Ongoing obligations under the scheme legal agreement;
  - e) BBB's audit assurance programmes; and
  - f) Ongoing lender and scheme portfolio or allocation monitoring control and reporting.

- 7.9. This is in contrast to the higher levels of fraud resulting from BBLs, which had fewer controls and countermeasures in place.
- 7.10. As stated in the CWS, Part B, §6.31, as at 31 December 2024 lenders had not flagged any CLBILs' loans subject to the guarantee as suspected fraud.
- 7.11. The main policy objective of the loan schemes was to prevent one category of risk, in which healthy businesses might fail unnecessarily in circumstances where they would have been commercially viable were it not for the disruptions brought about by Covid-19, most especially the consequential restrictions on trading activity. There was another category of risk, which was the risk that healthy businesses would receive public money inappropriately because they did not need it or did not meet a strict set of eligibility criteria. Had the Government given priority to resolving the second category of risk over the first, it would have been required to spend significant time developing and implementing systems of checks and due diligence. In my view, that would have taken a period of months, during which many businesses would have failed. We cannot know the impact of the counterfactual scenario on the economy and livelihoods. Ultimately, there were important political judgements to be made that were difficult, with potential negative consequences to any given decision. While acceptance of the second category of risk would not have been an option in ordinary times, in my view, it was justifiable in the emergency circumstances of the pandemic.

## **Section 8: Business Rates Relief**

- 8.1. As set out in the CWS, Part D, §2.2, the Department was not directly involved in the design or scope of BRR. MHCLG was the lead department in respect of its design and policy direction, with HMT responsible for the funding. MHCLG was responsible for the delivery of BRR during the pandemic, which was administered by local authorities, who in turn received full compensation from the Government for the costs incurred. The Department engaged with MHCLG through the CLGU, which was a joint BEIS and MHCLG unit.
- 8.2. The Department's role was limited to giving support to HMT by providing stakeholder feedback and intelligence to shape the policy, engaging with HMT on behalf of the business sectors for which we were responsible, in particular retail and hospitality.
- 8.3. I played no direct role in the development of BRR. I received a submission from BEIS officials to the Secretary of State on 4 March 2020. It set out the Department's early thinking on potential macroeconomic and microeconomic measures that might mitigate the impact of the pandemic on businesses, including consideration of BRR which was thought likely to be of particular benefit to the most vulnerable sectors, such as manufacturing and retail [AC03/040 – INQ000585485].
- 8.4. The Department's view was that BRR would be an obvious tool which could be implemented relatively easily, and which would quickly ease the cashflow burden for businesses. The submission stated that, subject to agreement with HMT in respect of BRR, this immediate support could be augmented by emergency support grants drawing on the experience which the CLGU had in providing exceptional support to businesses, such as those affected by flooding, and the Department's wider experience of economic shocks, as set out at §§2.67 – 2.75.
- 8.5. As set out in the CWS, Part D, §§2.7 – 2.8, on 11 March 2020, the Chancellor announced an initial package of BRR measures, including 100% BRR for small businesses in the retail, hospitality, and leisure sectors with a rateable value below £51,000. On 17 March 2020, the Government expanded the BRR measures in response to the acuteness of the economic impact of the pandemic.
- 8.6. Covid-19 related BRR measures were only in place for four and half weeks before I left the Department. I took no further part in the Department's discussions in respect of BRR before I left my post at the Department.

- 8.7. I am asked to provide my views on the Department's role in the design and development of BRR. I am also asked to reflect on whether BRR achieved its aims and whether there is anything I would have done differently in relation to it. As set out above, my involvement in BRR was very limited and others will be better placed to assist the Inquiry. However, during my time at the Department, a 100% BRR was in place for all businesses within the retail and hospitality sectors. As the pandemic progressed and following my departure from the Department, a more differentiated approach was introduced for these sectors, with additional time used to refine and improve the support available.
- 8.8. In relation to BRR, I am asked if I consider that the level of engagement and responsiveness from HMT when the Department raised concerns or highlighted sector specific needs was adequate. I have no recollection of specific instances beyond that the Department identified BRR as an obvious tool that would be relatively easy to implement to ease cash flow burden for SMEs, and HMT responded positively to the suggestion.

## **Section 9: Covid-19 Business Grants Schemes (SBGF and RHLGF)**

- 9.1. I was not involved in the early design of the SBGF or RHLGF. The Department's work, together with HMT and MHCLG, was led by senior officials such as Jenny Dibden (Director, Cities and Local Growth Unit) and Tony Bray (Deputy Director, Cities and Local Growth Unit). I received some information about the initial parameters and how these grant schemes developed, primarily through submissions from BEIS officials to the Secretary of State.
- 9.2. I did receive Accounting Officer advice and sent requests for ministerial directions in relation to the SBGF and RHLGF. I received the submissions below in relation to SBGF and RHLGF.
- a) Submission dated 10 March 2020, providing an update on a grant funding scheme for small businesses [AC03/048 – INQ000543056].
  - b) Submission dated 20 March 2020, recommending publication of SBGF and RHLGF guidance and issuing an accompanying letter to local authorities [AC03/100 – INQ000543092] [AC03/029 – INQ000064765].
  - c) Submission dated 22 March 2020, providing further advice to the Secretary of State on how the Department proposed supporting local authorities to get grant money to businesses, and asking the Secretary of State to agree steps aimed at getting money to local authorities [AC03/101 – INQ000543108].
  - d) Submission dated 26 March 2020, seeking a steer from the Secretary of State on how much priority to give to speed in the payment of the SBGF and RHLGF [AC03/102 – INQ000543129].

### *Early Development*

- 9.3. As detailed in the CWS, Part C, §2.2, HMT led the policy development and decision making to provide grant support to small businesses.
- 9.4. The CWS, Part C, §§2.3 – 2.11, sets out the preliminary communications between HMT and MHCLG in respect of the grant scheme options under consideration. To the best of my recollection, I was not involved in this correspondence but received a verbal briefing from Sarah Munby in relation to the Chancellor's planned Spring Budget announcements on 8 March 2020, to which I referred in a WhatsApp exchange on the same date. I do not have the original WhatsApp material, but I understand it has been made available to the Inquiry.

- 9.5. I believe that my first involvement in relation to Covid-19 business grants occurred on or around 8 March 2020.
- 9.6. At 12.24 on 10 March 2020, I was copied into an email exchange between Will Garton (Director of Public Services, HMT), CLGU and Department officials. At that time, CLGU was already well-established as a joint unit, and BEIS was working in close partnership with MHCLG. Responsibilities were divided, with BEIS leading on businesses and sectors, and MHCLG focusing on regions and communities.
- 9.7. Will Garton wrote:
- “We met the Chancellor this morning to discuss support to businesses at the Budget. He was persuaded that allocating [1bn] pounds to local government to pass onto micro businesses was unlikely to be deliverable in any meaningful timeframe. Instead, he would like to offer a grant to all businesses in receipt of Small Business Rates Relief and Rural Rates Relief, irrespective of whether they can demonstrate that they have been affected by coronavirus. With customary (but sincere) apologies, we would be very grateful for your assistance in working this up over this afternoon...”* [AC03/103 – INQ000543063]
- 9.8. Also on 10 March 2020, officials prepared an urgent submission to the Secretary of State, which I cleared, outlining a grant funding scheme for microbusinesses [AC03/048 – INQ000543056] [AC03/104 – INQ000626050].

*Accounting Officer Responsibility*

- 9.9. Later the same day, I corresponded with Jeremy Pocklington (acting Permanent Secretary, MHCLG) and HMT in relation to the Accounting Officer responsibility for the SBGF, as I discuss below.
- 9.10. Between 10 and 11 March 2020, Jeremy Pocklington, Philip Duffy and I discussed Accounting Officer ownership of the SBGF [AC03/023 – INQ000543061]. Initially, I considered that MHCLG, rather than BEIS, should hold the Accounting Officer role for the following reasons that were recorded contemporaneously in an email at 16.34 to Jeremy Pocklington, and copied to Philip Duffy:

*“ There is limited BEIS policy involvement in setting up and running the scheme. Instead it represents the simple transfer of a pre-determined amount of funding to small businesses;*

- *The scheme will be run through Local Authorities, and the risk of failure sits with them;*
- *MHCLG are responsible for the effective administration and resourcing of LA's and for comms and relationship management issues with them;*
- *The proposal uses an MHCLG scheme (business rates relief) as the basis for who receives funding; and*
- *MHCLG own all of the relevant data that will inform decisions on funding."*

9.11. Philip Duffy responded to my email on 10 March 2020, putting the HMT perspective:

*"The ambits - voted by Parliament at the Main Estimates – for both departments arguably allow this spend: business support is listed for BEIS, and supporting communities listed for MHCLG. So that does not resolve the matter...*

*But as a matter of precedent in general we do not support MHCLG taking on AO responsibility for all money routed through Local Authorities – otherwise MHCLG's accountabilities could become very broad – transport, care, environment etc.*

*Where there is a dispute of this sort, it falls to the PM and team to decide."*

9.12. I asked my private office to *"check with legal and finance folk [that there were] no show-stopper arguments/objections"* and commented *"realistically I expect to lose this debate"* in view of the HMT disposition that the Department should hold Accounting Officer responsibility.

9.13. Jeremy Pocklington responded to my email timed at 16.34. He identified the MHCLG considerations set out below:

*“ • While MHCLG has been active in designing a scheme that is deliverable in its role as the department responsible for the local government sector, as Phil suggests, policy responsibility for a business support scheme more naturally sits with BEIS as the department for business.*

*• While local risk of failure sits with the relevant local authority (as it would with any policy), the accountability framework, the PAC and the public are clear that*

*national responsibility for policies such as this sits with the relevant government department. So DHSC is responsible for adult social care and DfT is responsible for roads.*

- *MHCLG’s responsibility in the accountability framework is for the sustainability of the system as a whole, not for the individual service areas; otherwise, as Phil suggests, we could end up responsible for everything that local government does. So DCMS lead the relationship on libraries and Defra leads on the effective delivery of waste policy.*

- *The scheme uses entitlement for small business rates relief to determine eligibility because that is the best available proxy for the group we are trying to support, but it is not a business rates relief scheme and has no relationship to the functioning of the business rates system. The grant is self-contained and independent.*

- *MHCLG do have data on the number of businesses eligible for small business rates relief, as we do for many other areas of local government such as spending by service area, and departments use that data for their own purposes.*

- *I’m not sure this can really be seen as a place-based scheme – it is more a generic support for small businesses to help manage fixed costs during the forthcoming economic shock.” [AC03/023 – INQ000543061]*

9.14. On the morning of 11 March 2020, I obtained the Secretary of State’s agreement to BEIS taking on Accounting Officer responsibility for SBGF for the reasons set out in my email at §9.16 below [AC03/023 – INQ000543061].

9.15. Later on the morning of 11 March 2020, I responded to Jeremy Pocklington and Philip Duffy. I compared the position on this grant scheme with that of CBILS, saying that the “*Accounting Officer (AO) role on the proposed BBB scheme squarely falls to BEIS*”. By contrast, my view remained that “*the case for MHCLG leading the emergency grant scheme is stronger than it is for BEIS*”.

9.16. Nonetheless, given the urgency of the circumstances, I did not wish to see the Government’s response delayed by an internal argument over responsibility. I therefore wrote as follows:

*“... at such a time of impending economic peril, we must not use up valuable time and energy in internal disputes about responsibility. We need clarity and*

*we need to get ready to deliver the scheme effectively and efficiently. For these reasons I proposed to my Secretary of State this morning that BEIS take on Accounting Officer (AO) responsibility for the emergency grant scheme and he has agreed to do that...*

*In doing so I have relied on HMT assurance that this falls within the BEIS ambit and that the proposed delivery mechanism will use s.31 (Local Government Act) powers to distribute funding via local authorities (BEIS Legal and Finance teams concur with this)...*

*... based on my current understanding of the proposal, the emergency grant scheme looks most unlikely to pass the value for money test because of uncertain benefits to set against the known costs. We cannot know at the moment how much of the amount spent is going to be dead-weight in that it either gives money to businesses that would have carried on regardless, without any palpable net growth stimulation effect, or it gives money to businesses that fail anyway. No doubt there will be some cases where this is a welcome lifeline that prevents a business failure, and no doubt there are wider benefits in terms of animal spirits being preserved and sense of national action and cohesion. However, these benefits do not lend themselves to measurement on an emergency ex-ante basis.*

*So while I accept this is a necessary measure, and by addressing SMEs by using the existing category of rates relief it can be targeted and deliverable quickly, I struggle to see how we can assure this to the usual Managing Public Money standards of evidence and confidence in value for money. Hence, unless the facts change materially, it is likely that I will conclude I need to seek a Ministerial Direction for the emergency grant scheme..."*

- 9.17. Accordingly, I became Accounting Officer for the proposed SBGF scheme. Jenny Dibden became the Senior Reporting Officer (**SRO**) in her role as co-director of CLGU. The role of the CLGU is set out in the CWS, Part C, §§2.25 – 2.26. I subsequently also became Accounting Officer for the RHLGF announced on 17 March 2020, to which I turn to later in this section.
- 9.18. The Inquiry has asked me whether the concerns about value for money that I articulated in this email correspondence, dated 11 March 2020, were adequately addressed in the final design of the SBGF. I have answered that question below.

*Submissions between 10 March 2020 and 23 March 2020*

- 9.19. Following the email from Will Garton received from HMT on 10 March 2020 to which I referred above, officials prepared an urgent submission to the Secretary of State [AC03/048 – INQ000543056]. Officials informed the Secretary of State that HMT officials had offered the Chancellor two options. The first was a scheme with an application process for businesses in England with fewer than 10 employees and the second was a scheme targeted at all micro-businesses in receipt of Small Business Rate Relief (**SBRR**) regardless of evidence going to the impact of Covid-19 on the business.
- 9.20. The Secretary of State was advised that the first option was not deliverable because it would require individual applications for grants to be reviewed, evidenced, and verified, and local authorities simply did not have the capacity to run grant schemes of this scale. As a result, there was a risk that negative reaction from local authorities could lead to the scheme being swiftly withdrawn.
- 9.21. The advantages of the second option were that *“It would be much simpler to administer as LAs already know who gets SBRR so the only “review” required for each individual application would be ensuring basic checks such as avoiding duplicate payments. There would be a need for some central oversight (from BEIS and/or MHCLG) to assess how Local Authorities have delivered the scheme, whom they have supported, and the amounts involved.”*
- 9.22. An email from Name Redacted to the Secretary of State’s private office timed at 13.11 on 10 March 2020 records that I had cleared the submission [AC03/104 – INQ000626050].
- 9.23. The RHLGF was announced by the Chancellor on 17 March 2020 (together with an increase in the value of the SBGF). As set out in §9.49 below, the Department had not prior notice of this announcement. On 20 March 2020, Jenny Dibden sent a submission to the Secretary of State together with draft SBGF and RHLGF Guidance for approval, copied to me [AC03/100 – INQ000543092]. The submission recommended that the Guidance be published and confirmed that the Department had *“...worked closely with the MHCLG Local Government Business Rates team to develop this guidance ... [the] Local Authority [Advisory] group has given feedback on the principles of our guidance, and are content that the schemes are deliverable and can be delivered at pace.”*
- 9.24. Following a request for clarification from the Secretary of State’s private office on the delivery of the schemes and how the Department would assist local authorities in

getting funds to businesses [AC03/105 – INQ000543093], Jenny Dibden circulated a revised submission on 22 March 2020. It explained that local authorities had reported that the schemes would be practicable, and that the Department would contact every local authority to establish whether the SBGF and RHLGF Guidance had been received and actioned. The submission recommended that the Secretary of State *“Agree to write to the banks early next week, to ensure they are aware of the grants being launched and urge understanding for small businesses who present in distress. Reinforce with a telephone conference call to the sector”*.

- 9.25. I believe I would have read the submission dated 20 March 2020. I reviewed the revised submission before it was circulated back to the Secretary of State’s office on 22 March 2020 [AC03/106 – INQ000626057]. I provided advice in relation to the proposal to implement a central registration process for businesses to provide their bank details. The suggestion had been made that a digital form be published to allow small businesses to proactively send in their bank account details, to supplement direct contact by local authorities. I was strongly against this proposal and suggested that the submission more clearly recommend against it. I agreed with the submission that it would cause confusion and delay for local authorities, but also considered it would increase the risk of fraud by allowing businesses to self-declare details. I stated that the submission should strongly set out the fraud risk of this option. I instead suggested that the Department provide local authorities with a template email they could issue to businesses to assist in collating bank details. The final submission provided to the Secretary of State addressed these concerns and while detailing the option, specifically stated the Department would not recommend it [AC03/101 – INQ000543108].

*Accounting Officer Advice: SBGF and RHLGF*

- 9.26. On 23 March 2020, I received Accounting Officer advice regarding the SBGF and RHLGF [AC03/024 – INQ000543099]. The key points were as follows.
- 9.27. I was advised that the value for money risk was very high. The advice stated:

*“The primary rationale for the scheme is to help small businesses with their cash flow. Small businesses often have the least ability to withstand sudden shocks to their demand and supply chains. Covid-19 will have an adverse impact on many small business (i.e. supply chain, fall in demand, staff absences, uncertainty etc). This scheme, along with interventions by the Bank of England and private banks on SME lending,*

*could help provide some temporary easing of cashflow issues for eligible small businesses. At this point in time, it is not possible to confidently estimate the extent to which this funding will help small businesses successfully navigate the impacts of Covid-19. There is no available evidence on which to base a reliable assessment of the likely net impact of the fund. It could be that it has significant benefit and helps many vulnerable companies. However, there are uncertainties around the extent to which this funding will either go to companies that would have carried on regardless, without any palpable net growth stimulation effect, or gives money to businesses that may fail anyway.*

*However, the absence of evidence at this stage means that weighing possible benefits against costs cannot yield a reliable measurement of value for money on an ex-ante basis.”*

- 9.28. The Accounting Officer assessment of propriety for the SBGF was rated at medium risk and stated:

*“The proposed scheme is novel, contentious and potentially repercussive. As such Managing Public Money requires that HMT consent is secured for the principle to send (as well as for the budget cover to do so). The scheme is novel as we have not previously run an emergency business scheme of this kind, which provides a pre-determined grant amount on a significant scale. We do provide small (£2,500) grants to businesses through the flooding framework, however, this is only to those who can evidence they have been impacted by the event and there will be no such criteria for this Covid-19 scheme. The flooding response is also localised and far smaller (low £millions, not £billions).*

*It is contentious as it may give rise to challenges from businesses that are not receiving support, but which are being, or stand as much risk of, being impacted by Covid-19. It is repercussive as it sets a precedent for HMG intervention in similar scenarios. It may also create an expectation that HMG should pay further grants should disruption continue for a significant period of time or worsen.”*

- 9.29. The Accounting Officer assessment of regularity for the SBGF was rated at medium risk. The funding was to be delivered to local authorities under Section 31 of the Local

Government Act 2003. HMT had agreed to provide the Department with additional budget for the grants for the 2020/2021 financial year and the monies would be transferred to MHCLG on 1 April 2020 for onward transmission to local authorities. It was estimated that the quantum of funding required would be in the region of £7.26 billion, based on the assumption that 726,000 businesses would each receive £10,000 because they were within scope of either SBRR or Rural Rates Relief (RRR). HMT had *“...agreed to provide £5m of additional admin and £70m of additional New Burden funding to help both BEIS and the LA’s deliver this scheme and the new grant scheme for the retail, hospitality and leisure sectors.”*

- 9.30. The feasibility of the SBGF was rated as medium-high risk. This was due to the Department’s concerns surrounding local authorities’ ability to deliver the funding to businesses accurately and in a timely manner. Local authorities had been asked to deliver the scheme at very short notice and at pace, while also carrying out their statutory activities. It was likely that their capacity to do so, and their ability to recruit and expand at short notice, would be impacted by Covid-19. The Department planned to send the money to MHCLG first via the Government Banking Service and then MHCLG would make payments to local authorities on the Department’s behalf. The advice stated that this would mitigate a number of *“delivery risks as MHCLG [had] established processes for paying LAs.”*
- 9.31. The advice to me in relation to the feasibility of the SBGF stated that the eligibility of businesses to receive a grant would be dictated by whether they were in scope of SBRR or RRR. Existing systems would be utilised, and billing authorities would *“...write to them to ensure they have correct payment details. Each business receives £10,000 so there is no complexity in calculating individual payments.”* At the same time, officials were preparing draft guidance for local authorities, including a monitoring and reporting framework, on how the grant funding should be administered. Associated advice would be prepared for ministers and for me. On funding, HMT had agreed *“£70m of New Burdens Funding to help Local Authorities to deliver both new Covid support grant schemes; a detailed assessment of this need is being prepared. They have also provided an additional £5m admin to BEIS to help deliver this.”*
- 9.32. The RHLGF was also addressed in this Accounting Officer advice, dated 23 March 2020. Many of the risks of the RHLGF were common to the SBGF. In particular, there was a very high risk in relation to value for money. The advice to me stated:

*“There is no available evidence on which to base a reliable assessment of the likely net impact of the fund. It could be that it has significant benefit and helps many vulnerable companies. However, there are uncertainties around the extent to which this funding will either go to companies that would have carried on regardless, without any palpable net growth stimulation effect, or gives money to businesses that may fail anyway.*

*However, the absence of evidence at this stage means that weighing possible benefits against costs cannot yield a reliable measurement of value for money on an ex-ante basis.”*

9.33. On 23 March 2020, and in parallel with the Accounting Officer advice, I wrote to the Secretary of State in my role as Accounting Officer in relation to each scheme [AC03/025 – INQ000543109] [AC03/026 – INQ000543110].

9.34. In my letter to the Secretary of State in relation to the SBGF, I wrote:

*“...the Chancellor has announced a fund that Local Authorities in England will administer to help protect small businesses from the adverse impact of Covid-19. This fund will provide a £10,000 grant to around 730,000 businesses currently eligible for either Small Business Rate Relief (SBRR) or Rural Rate Relief (RRR)...*

*There is a good policy rationale for this announcement. Many of the small businesses that will receive this grant are likely to face significant cost and cash flow pressures as a result of the disruption caused by Covid-19. There is limited scope to help many of these businesses manage these problems through the tax system because they pay little or no business rates (as a result of SBRR and RRR). The design of this fund will help to address this and will provide many small businesses with valuable and timely relief from the impact of Covid-19.*

*However, it is my personal responsibility as Principal Accounting Officer to ensure that the Department’s use of resources is consistent with the criteria set out in Managing Public Money (MPM). I have considered whether, based on current information, it is possible to construct a business case that demonstrates ex-ante that this fund is likely to represent value for money to the standards expected by MPM.*

*At this point in time, it is understandable that it is not possible to confidently estimate the extent to which this funding will help small businesses successfully navigate the impacts of Covid-19. Given the unique circumstances we find ourselves in, there is no evidence on which to base a reliable assessment of the likely net impact of the fund. It is likely that for some of the eligible small businesses this fund will be a welcome lifeline that prevents their business failing. However, there are uncertainties around the extent to which this will be the case and it is inevitable that some funding will end up with companies that would have carried on regardless, without any palpable net growth stimulation effect, or will go to businesses that will eventually fail anyway.*

*The absence of available evidence means that weighing possible benefits against costs cannot yield a reliable measurement of value for money on an ex-ante basis. This means that I cannot give you the necessary assurances that this proposal represents value for money within the tight confines of MPM. MPM therefore requires me to seek your written instruction to proceed.*

*There must also be doubts about the full feasibility of this scheme, given the speed at which we are expecting local authorities to make payments, and the operational difficulties they will experience in trying to administer efficiently and error-free a new scheme during a pandemic. The guidance and support that MHCLG and BEIS will provide will seek to mitigate these difficulties but realistically cannot expect to eliminate them.*

*There are, however, legitimate reasons for you to direct me, which cannot form... part of my assessment, including the important role that government has... to do whatever it can to support vulnerable small businesses, and the need to try and maintain business confidence at this time of crisis.” [AC03/025 – INQ000543109].*

- 9.35. My letter to the Secretary of State in relation to the RHLGF similarly advised that I was unable to provide the Secretary of State with the necessary assurance that the proposals represented value for money to the usual standards of evidence and confidence that are expected by *Managing Public Money*. As with the SBGF, I expressed doubts as to the feasibility of the scheme in view of the pace at which

payments would be made and the associated operational difficulties. Nonetheless, I wrote:

*“Businesses in the retail, hospitality and leisure sectors are particularly exposed to the substantial supply and demand side disruption being caused by Covid-19.*

*As a result, many are facing immediate financial pressures, including on their cash flow, and are having to take difficult decisions in order to manage. These decisions will have a significant impact on both the short- and long-term prospects of these businesses and the economy as a whole. This grant scheme, in addition to the decision to cancel business rates for these businesses this year, will go some way to helping them to alleviate the many financial anxieties that they face and to bridge through this period of economic turmoil...*

*... there are clearly compelling reasons for you to choose to proceed which government has in supporting these sectors and of providing them with a much-needed confidence boost at this time of economic upheaval” [AC03/026 – INQ000543110].*

#### *Ministerial Directions*

9.36. I have nothing further to add to the explanations provided in my letters of 23 March 2020, save to note that prior to this, I had discussed the requirement for a ministerial direction in relation to the SBGF in a meeting with the Secretary of State on the morning of 16 March 2020 and that he was “*very understanding*”. I do not recall my discussion with the Secretary of State independently of the documents now shown to me [AC03/107 – INQ000626051] [AC03/108 – INQ000626052]. My considerations of the *Managing Public Money* standards are as set out in the documents I have referred to.

9.37. The ministerial direction letter from the Secretary of State issued in respect of the SBGF included the following [AC03/027 – INQ000064764]:

*“I recognise the Managing Public Money issues that this proposal causes for you as the Principal Accounting Officer. However, as you set out in your letter to me, there are broader issues that I am able to weigh in my decision that you are not able to accommodate in your own assessment. We know that many small businesses are suffering as a result of the unexpected economic shock caused by Covid-19. Government has a responsibility to support these businesses and this*

*grant funding will, as you point out in your letter, provide many small businesses with valuable and timely financial relief from the impact of Covid-19. This is a key component in the Government's comprehensive response to the evolving economic situation which is designed to support the economy through this time of crisis."*

- 9.38. The ministerial direction letter from the Secretary of State in respect of the RHLGF included the following [AC03/028 – INQ000064763]:

*"I acknowledge that the absence of available evidence means that you are unable to provide me with the necessary assurances that this proposal represents value for money to the standards expected by Managing Public Money (MPM) and must therefore seek my direction to proceed. However, as you highlight in your letter, there are clearly compelling reasons to justify the introduction of this fund, which fall outside the confines of MPM. These are extraordinary economic circumstances and businesses in the retail, hospitality and leisure sectors are particularly exposed to the disruption being caused by Covid-19. As your letter notes, this grants fund will go some way to helping to alleviate financial anxiety that businesses face through this economic turmoil. Without such prompt action, businesses and jobs will be at acute risk."*

#### *Fraud and Error*

- 9.39. On 26 March 2020, so after the ministerial directions had been given, Jenny Dibden emailed me and other officials about the SBGF and RHLGF [AC03/109 – INQ000543130]. She referred to a "...*potential tension between speed of payment (to enable eligible businesses to survive in real time) and mitigating the risk of error and fraud*". She explained that the Grants Management Function and Cabinet Office counter-fraud specialists had been giving encouragement to do more to prevent error and fraud in the new schemes. She also explained the local authorities had been clear that any upfront data collection would slow down payment of grants by "*a number of weeks*".
- 9.40. Jenny Dibden set out her proposed plan of action: reconfirming with ministers that "*the primary objective is speed*", offering the use of Spotlight to local authorities for pre and or post payment checks but not mandating this, including in the grant letters to local authorities a requirement to do post payment checks, retrospectively collecting data

for post payment assurance, including details of post payment checks in subsequent guidance but focusing initially on local authorities getting money to businesses, and requiring local authority section 151 officers to assure themselves that local authorities were managing the grants effectively and would be alert to fraud and the need to protect the local authority. She sought my views on these issues and the proposed plan.

- 9.41. My private office replied that day, setting out my response [AC03/109 – INQ000543130]:

*“Please tell Jenny ASAP I sympathise with predicament and I sense her way forward might be best in all the circumstances but given this has been a subject of ministerial direction and is highly material I need (a) a view from our FD [Finance Director] Tom T[aylor] and (b) Jenny to seek ministerial view of how much priority to accord to speeding noting that if prioritised consequence that pre-checks normally advisable won’t be done (but other ex post protections in place.”*

- 9.42. It was important to not only weigh up this predicament, but to also ensure that was done clearly and transparently. There was a policy decision to be taken in respect of the prioritisation of speed, and it had serious financial implications. Therefore, it was right and proper that, having been provided with all available information and considerations, the decision be taken by ministers.
- 9.43. Tom Taylor agreed that there should be a ‘re-check’ with ministers but also stated that the requests for ministerial directions addressed this issue.
- 9.44. Jenny Dibden sent a submission to the Secretary of State dated 26 March 2020 [AC03/102 – INQ000543129]. I was copied in. The submission sought a “...steer on how much priority to accord to speed in the payment of [the SBGF and RHLGF] noting that if speed is prioritised the pre-checks normally advisable will not be done in all cases, there will be a reliance on post-payment checks and the degree of fraud and error in payments is likely to be higher”. The submission set out steps that were planned if speed of payment was determined by ministers to be the primary objective (see above).
- 9.45. An email I have seen suggests that the Secretary of State gave his steer to pay at speed, remind recipients of their responsibility in respect of accepting the grant and relying on post payment checks for assurance rather than pre-payment [AC03/110 – INQ000543131].

- 9.46. The CWS, Part C, §§14.24 – 14.30 refers to provisions that were included in the guidance for the SBGF and RHLGF as to steps local authorities were required to take, and mitigations in relation to fraud and error. I do not repeat that.
- 9.47. I now turn to some specific questions which the Inquiry directs to me.
- 9.48. As stated above, I am asked if the issues I raised on 11 March 2020 about value for money of the SBGF were adequately addressed in the final design and implementation of the scheme. I had then stated that the SBGF was unlikely to “*pass the value for money test*”. This was not addressed before the scheme was implemented but I did not have an expectation that it would be. Put simply, I did not think at the time that there was a reasonable alternative way of delivering funds quickly to small businesses. In my email dated 11 March, I also wrote that I accepted the grant scheme was a “*necessary measure*” and recognised that the scheme could be delivered quickly by using the existing categories of rates relief. But that would also mean some small businesses would receive the grant when the support was not needed, or when the businesses would fail anyway. I have also referred above to my request for a ministerial direction dated 23 March 2020. As I have explained, I wrote that there was a “*good policy rationale*” for the announcement and that the proposed design of the scheme would help provide many small businesses with valuable and timely relief from the impact of Covid-19. However, at that point, likely value for money could not be demonstrated and that was a key reason for seeking the ministerial direction. I also highlighted that local authorities would have operational difficulties when trying to administer the scheme efficiently and error-free. My letter stated that there were legitimate reasons for the Secretary of State to issue the direction which I, as Accounting Officer, could not take into account.
- 9.49. I have been asked about when and how I first became aware of the Chancellor’s announcement of the RHLGF. The CWS, Part A, §3.24, states that the Department had first become aware of the RHLGF when it was announced on 17 March 2020. This fits with my understanding. To my knowledge, the Department was not consulted in advance and did not have any influence over the Chancellor’s announcement. To my knowledge, those of us working at the Department, including myself, were not given any opportunity to provide input into the design of RHLGF prior to its announcement. I do not believe I have actual knowledge of why the Department was not consulted prior to the Chancellor’s announcement but recalling the pace of events and the timeline of events, I think these were probably the underlying reasons. In normal times, the Department would have been involved and consulted on the design of the policy, not

least because we held the Accounting Officer responsibility for it. The first grant scheme had been announced in the Budget on 11 March 2020. The RHLGF was then developed rapidly by HMT to provide support specifically for small businesses in retail, hospitality, and leisure that would be ordered to close and so would see a complete or significant drop in their income. On the evening of 16 March 2020, the Prime Minister recommended that people work from home. Thereafter, there would have been discussions about lockdown, which was announced on 23 March 2020 and came into force on 26 March 2020. I would also note that, at that time, the Department had detailed knowledge, information, and expertise about some sectors, for example, the energy sector, but did not have the same level of knowledge and expertise for retail, hospitality, and leisure. Accordingly, given the pace of events, HMT may not (not unreasonably) have considered it essential to notify and consult with the Department in advance of the announcement.

#### *Working with OGDs*

- 9.50. I am asked if I encountered any challenges working with HMT and MHCLG to deliver the SBGF and RHLGF. As I have explained above in §§9.9 - 9.17, there were some initial challenges about which department would take Accounting Officer responsibility for the SBGF. I had been very aware that taking on this Accounting Officer responsibility would hugely increase the size of the Department's budget, and there would be pressures to get money to local authorities very quickly. This was naturally somewhat daunting. It was not clear to me that there was an obvious 'right' answer as to which department should hold responsibility and Jeremy Pocklington from MHCLG and I both made reasoned arguments about this. The issue was resolved promptly and cordially, and I sought and obtained the Secretary of State's agreement. The joint CLGU was then used to administer the grants.
- 9.51. I have already addressed the challenges for BEIS officials in responding at short notice to HMT policy decisions. But I do not say this in a spirit of complaint. HMT had overall responsibility for and oversight of the economy and supportive measures. HMT ministers and officials were working extremely hard and under time pressures. I think both I and other officials were able to raise concerns when we had them, for example, as was done when changes to CBILS were proposed.

#### *Local Authority Engagement*

- 9.52. It is my understanding that there was not engagement with businesses and local authorities in the design of the SBGF or RHLGF. The SBGF was developed by HMT at speed. It was also announced in the Budget and so there would not have been

discussions about the scheme design prior to this due to the confidentiality that surrounds Budget announcements. However, after the SBGF was announced, I believe that the Department was actively engaged with representatives from businesses and local authorities on delivery and making the scheme operational. This included discussions with the Local Government Association. The Department also developed accompanying strategies for communications and engagement. This work was led by Sarah Munby and Jenny Dibden, as set out in the CWS, Part C, §§3.8 – 3.21.

- 9.53. As also set out in the CWS, Part C, from §3.22, in mid-March 2020, the Department became increasingly aware of significant concerns in relation to hospitality and retail sectors, including from BROs. HMT then announced the RHLGF on 17 March 2020, responding to such concerns. As I have explained above, it is my understanding that HMT developed this scheme rapidly and the Department was not consulted on RHLGF in advance of it being announced by the Chancellor. As I understand it, local authorities were in the same position as the Department in this regard and therefore, had no prior knowledge of the RHLGF. Following the announcement, the CLGU and officials from the MHCLG Local Government Business Rates team engaged with the Local Authority Advisory Group (**LAAG**) to refine guidance for local authorities regarding delivery of both grant schemes. I was not involved in these discussions and meetings, which are set out in the CWS, Part C, §§3.67 – 3.72. However, officials kept me informed and shared drafts of correspondence with local authorities and draft guidance with me by email. I reviewed and sometimes questioned officials on the drafts [AC03/111 – INQ000626059]. I have summarised the key points at which I was involved above.
- 9.54. I appreciate that it would have been challenging for local authorities to respond to and deliver the early grant schemes when they did not have prior knowledge of the policy plan and at short notice. Obviously, in an ideal scenario that would not be the case, but I have done my best to explain the reasons for this in these unprecedented, fast moving, and highly uncertain circumstances.

*Further Reflections on the Covid-19 Business Grants Schemes*

- 9.55. I am asked questions going to my reflections on the grant schemes. A number of reflections have been set out above in this section and I do not repeat them.
- 9.56. As a general point, because I left my role in BEIS on 13 April 2020, there is a limit to the meaningful reflection that I can provide and I will focus on the SBGF and RHLGF, in particular, the early days of these schemes.

- 9.57. I have read the CWS, Part C, Section 17, which describes the context for the grant schemes, their positive impact, and then critical reflections. I agree with the key points made in that section as they apply to the SBGF and RHLGF during my tenure.
- 9.58. I am asked if the grant schemes achieved their aims. Given when I left the Department, I feel I can only comment on this in relation to the SBGF and RHLGF and, even then, in quite general terms. In addition, these were HMT-designed schemes and so HMT ministers and officials will be well placed to assist the Inquiry.
- 9.59. However, the guiding aim of these grant schemes was economic preservation. The Government wanted to preserve small businesses which, through no fault of their own, were under economic pressure. An important aspect of achieving economic preservation was getting money to small businesses quickly. In my view, that was done and done with impressive speed. It was recognised at the time (and is evident on the face of contemporaneous documents) that the broad and inclusive nature of the early schemes would mean that some businesses receiving grant money would have survived anyway, i.e. the business did not need the money and there would be 'deadweight'. It would also mean that some businesses receiving grant money may have failed in the future anyway. The RHLGF was targeted at small businesses in sectors that would be hit hard by NPIs, including trading restrictions, and again was working towards the aim of economic preservation.
- 9.60. I am aware from the CWS, Part C, §17.5, that the cohort one schemes reached over 90% of the eligible population of businesses. I am also aware that it is difficult to provide robust, quantitative evidence of a positive impact, including due to the challenge of establishing a counterfactual. The Ipsos Grant Schemes Report, dated 1 October 2024, estimated that the grant schemes may have safeguarded over 300,000 jobs by preventing the closure of workplaces and a further 100,000 jobs in business that would otherwise have survived but may have been required to reduce employment levels [AC03/112 – INQ000585832].
- 9.61. I am asked if the grant schemes were value for money and whether they adequately safeguarded public funds and reduced the risk of fraud and error. Again, I answer only in relation to my early involvement in the SBGF and RHLGF.
- 9.62. I do not repeat the evidence I have already given above on the concerns that I and officials had about value for money and the risks of fraud and error. These were recognised and articulated at the time. The understandable focus on speed and making delivery feasible meant that the early grant schemes were relatively untargeted. It also

meant that that usual eligibility or pre-payment checks were not mandated. In turn, that increased the risk of irregular payments. I believe that these drawbacks had to be and were weighed and balanced in ministers' decision-making.

9.63. These features had an impact on value for money. I have already referred to 'deadweight'. In addition, if money went to businesses in error or resulting from fraud, that too would reduce value for money. But, taking steps to address these issues would have risked delivering support too late, thus undermining the aim of the schemes. I agree with the CWS, Part A, §6.13, which says that the grant schemes were designed and implemented at huge speed, not allowing for the usual degree of analysis and challenge, and once implemented they were designed with fewer checks built in. Insufficient data, changing guidance, and higher risk of error and fraud were all consequences of prioritising speed of delivery. I also agree with the consequences of prioritising getting money to businesses as quickly as possible that are set out in the CWS, Part C, §17.13. In summary:

- a) The cohort one schemes were designed without sufficient knowledge and understanding of the accuracy of the local authorities' data on rateable businesses.
- b) The speed at which the schemes were implemented contributed to the extent of irregular payments.
- c) The assurance controls in place at the outset were not as tight as they could have been. I have already explained that this was recognised at the time, the reasons for this, and how this was accepted by ministers.
- d) Additional pressure was put on local authorities who themselves had to respond at pace.

9.64. I have read the CWS, Part C, §§17.14 – 17.15 and understand from it that a sampling analysis was agreed with the Office for National Statistics and National Audit Office (and included in the Department's Annual Report and Accounts for 2022/2023), which estimated that the level of irregular grant payments was £1.032 billion (4.6% of the value of grants paid to businesses).

9.65. The impacts of acting with such speed could probably have been reduced somewhat with improved preparedness. I agree with the CWS, Part A, §6.11, which says that the grant schemes were developed and implemented based on existing structures and

relationships but rapidly expanded, and design templates and improved underlying data would have been beneficial.

- 9.66. I reflect on whether the grant schemes were unequal in their impact in Section 12: of this statement.
- 9.67. I am asked to reflect on whether, in retrospect, I would have done anything differently in the design, implementation, or delivery of the grant schemes. I have referred above to some of the evaluation work that has been undertaken since the pandemic and commented on its findings. Given the urgency of the crisis of the early days of the pandemic (March 2020 and April 2020), while I made my own views known on the proposals and amendments, in the emergency circumstances and pressures of the pandemic, the Department could not (and did not have sufficient capacity to) identify a better alternative scheme. In an ideal world, we would have had more time to develop and implement the response. Based on my recollection of circumstances as they actually were, I cannot say I would have taken any different decisions.
- 9.68. In planning for the future, it is important to note that the next crisis will be different. In a pandemic, the response must be appropriate to the epidemiological assessment of the properties of the virus, which will inform the pharmaceutical response, any NPIs, and the consequent impact on business.
- 9.69. Reflecting on my relatively brief tenure as Permanent Secretary in the first four to six weeks of the pandemic, I do not have a great deal of experience in the delivery of emergency financial support to business.
- 9.70. By necessity, the early grant schemes in which I was involved were relatively straightforward and could be developed and implemented quickly as the circumstances required. This meant that they covered broader categories of businesses than were strictly necessary, a risk that was acknowledged at the time. By contrast, the later grant schemes were more targeted, which added complexity and made it more difficult for businesses to access funds owing to stricter eligibility criteria and controls. The aim for the future must be to strike the best possible balance between the accessibility and timeliness of financial support, weighed against targeting and proper due diligence.

## **Section 10: Changes to Insolvency Rules**

- 10.1. I am asked about the nature and extent of my involvement in reforms to the UK's insolvency framework, and what advice I provided to the Secretary of State in relation to the changes. The CWS, Part D, §§3.1 - 3.31, details the Department's role in the introduction of the Corporate Insolvency and Governance Act 2020 (**CIGA**). CIGA was emergency legislation developed in partnership between the INSS and the Department as its sponsoring department. It was primarily a vehicle for the delivery of temporary, non-financial assistance measures to support businesses impacted by the pandemic. It also included permanent updates to the UK insolvency regime that had been in consideration prior to the pandemic.
- 10.2. As set out in the CWS, Part D, §3.3, the INSS is an executive agency of the Department and is responsible for administering liquidations, bankruptcies, and debt relief orders. The INSS operates under a specific statutory framework with its duties and powers principally originating in the Insolvency Acts 1986 and 2000. The Secretary of State is the responsible minister. As BEIS Permanent Secretary, I was the Principal Accounting Officer for the INSS. The INSS is the de facto 'owner' of the legislative framework within which it operates. The INSS devises its own policy interventions and legislation, and is responsible for developments and changes to that framework, while remaining ultimately accountable to Departmental ministers, as well as dependent upon them for the presentation and management of legislation through its parliamentary processes. The INSS is not accountable to the Department Permanent Secretary on policy, and I did not have direct input into or provide advice to the Secretary of State on the proposed changes to the insolvency regime. Submissions and updates on progress were provided to my office. I recall noting that they were an obvious part of the Department's economic response to the pandemic, and that I considered data pertaining to actual company failures that were being taken into account as part of the policy development.
- 10.3. A Bill Team was established in the middle of March 2020, with the purpose of delivering expedited primary legislation to provide various forms of non-financial assistance in support of businesses likely to be impacted by lockdown and the disruption caused by the pandemic. While it was recognised that most provisions in the Bill would come under the purview of the INSS, a Departmental official was appointed as Bill Manager, with Deputy Bill Managers from each of the Department and INSS to assist the passage of the Bill through Parliament. Departmental ministers were responsible for

guiding the legislation through the parliamentary process. The Bill Team reported directly to the Secretary of State, not through me as Permanent Secretary.

- 10.4. As set out in the CWS, Part D, §3.6, BEIS officials prepared a briefing for the Secretary of State for an EBRIG meeting on 23 March 2020. The briefing proposed that the Department should bring forward previously announced, but paused, insolvency measures that would align the UK framework more closely with the US Chapter 11 Bankruptcy Code [AC03/113 – INQ000585504]. The changes were intended to improve the prospects for those businesses that were viable but struggling because of the pandemic. I was advised of the proposals in advance of the meeting, which I read and acknowledged but provided no input, nor did I ‘clear’ the briefings [AC03/114 – INQ000626058]. I did not attend the EBRIG meeting. My office was provided with a readout of the discussion, which recorded that the Secretary of State had raised the issues pertaining to the insolvency framework as set out in the briefing [AC03/115 – INQ0006060]. Further discussion was to take place at the next EBRIG meeting.
- 10.5. On 25 March 2020, I jointly chaired an Extraordinary Business Investment Committee meeting, during which potential changes to the insolvency framework were discussed [AC03/013 – INQ000563894]. I explained that the Department was working on amendments to insolvency law which would help support businesses through the pandemic and asked whether John Mahon (Director General, Exports, DIT) would be able to provide expert quality assurance on the new measures. John Mahon confirmed that DIT was happy to assist the Department in this work.
- 10.6. On 27 March 2020, the Secretary of State chaired the next meeting of EBRIG. I did not attend the meeting [AC03/116 – INQ000475288]. My office was included in follow up communication [AC03/117 – INQ000626062] but I did not have any input into the discussion. During that meeting, the Secretary of State noted that the proposed reforms to the UK’s insolvency framework would provide breathing space for companies struggling as a result of the impact of the pandemic [AC03/116 – INQ000475288]. As described in the CWS, Part D, §3.11, the attendees discussed the proposed package of easements, including primary legislative proposals on insolvency and company law. The minutes note that it was acknowledged that the proposed relaxation of wrongful trading rules was quite a “*radical measure*”. The minutes do not indicate who offered that assessment. It was further noted that the Government should explore more permissive and temporary measures rather than legislating for enduring change; and that Government should strike a balance between moving quickly in response to the economic situation and consulting further. In response, the Secretary

of State confirmed that that the wrongful trading rules proposals were not intended to be permanent. The proposals were approved. In relation to the scope of the application of the proposals, it was noted that insolvency law was a reserved matter for Wales and Scotland but devolved to Northern Ireland. The minutes indicate it was noted that the Government should work closely with the Devolved Administrations in relation to the delivery of the proposals.

- 10.7. On 2 April 2020, I chaired a Departmental Covid-19 Executive Committee meeting during which Jaee Samant, Director General for Market Frameworks BEIS, reported that a Bill Team had been created to draft insolvency reform legislation, take-over protections, and company law. It was noted that other Directors Generals should notify the Bill Team by the end of the week if there was anything else required in terms of Covid-19 legislation [AC03/118 – INQ000626069].
- 10.8. On 8 April 2020, BEIS officials sent the Secretary of State, Minister Scully, and Lord Callanan a submission with information about other measures which could be added to the Bill [AC03/119 – INQ000585556] [AC03/120 – INQ000585557]. The submission sought a steer on whether ministers wanted to expand the scope of the Bill and make it subject to wider amendment. It noted that a draft Bill and accompanying documents would be prepared by 27 April 2020, so they could be sent to the Parliamentary Business and Legislation Committee for clearance and introduction in the week commencing 4 May 2020. The submission was simultaneously sent to my office for noting. I understand no record has been located showing that I commented.
- 10.9. After my last day at BEIS on 13 April 2020, I was not involved in preparing or considering the Bill or resulting CIGA provisions.
- 10.10. I am asked to consider why, in my view, the relaxation of wrongful trading rules was considered to be a 'radical measure'. I believe that this question is linked to a description of the measure advanced during the EBRIG meeting on 27 March 2020 [AC03/116 – INQ000475288], described above in §10.6. I was not at the meeting so cannot comment on who advanced the description or comment on their rationale. However, looking back, I think that it would have seemed a radical or exceptional step to consider suspending actions on wrongful trading because the framework was designed to protect people from harms and therefore, consideration would not normally be given to suspending such protective mechanisms.
- 10.11. I have been asked to consider if the right balance was struck between the speed of action and the need for more thorough consultation before changing the rules, and if

the suite of proposed insolvency reforms provided breathing space for companies struggling due to the pandemic. As I had such limited involvement in the design of the scheme and left the Department on 13 April 2020, I do not have detailed knowledge of or insight into the decision-making processes, or the impact of the scheme. I believe that the Inquiry and others who were involved are better placed to determine if an appropriate balance was achieved.

## **Section 11: Data and Modelling**

- 11.1. I am asked to provide a high-level summary of how I used data, economic modelling, and other scenario analysis in the advice I provided during the pandemic. In the role of Permanent Secretary, I rarely generated advice. Advice was developed by specialist officials and provided to me in my role for consideration and review ahead of decision-making or prior to onward provision to ministers and/or stakeholders. Therefore, I did not work directly with primary data sources. My main use of data was consideration of it in the products and analysis that had been compiled by officials and provided to me in relation to policy matters. As I left the Department on 13 April 2020, my response below is limited to how I used such material up to that date.
- 11.2. The Department sought to consider information from a range of different sources to inform decision making, which included both internal and external sources and analysis. Information was sought and provided by sources such as Experian, Oliver Wyman, the INSS, the outcomes of sectoral consultations and intelligence-gathering, and engagement with BROs. We sought to triage information and expand the sources of information where possible. For example, the Department drew on commercial data from Experian to monitor businesses' financial health. As set out in detail in the CWS, Part B, §§9.6 - 9.8, Experian provided the Department with company-level data, proprietary credit scores, distress scores, late payment indicators, and information on births and deaths. The data was used to monitor the financial health of the UK's business population and to identify any changes in trends. I recall being supportive of getting as many different sources of information as possible, to help with triaging and to provide as comprehensive a picture as possible.
- 11.3. I have been asked if there were any significant limitations in the availability or quality of data used to design economic support schemes, and if, in my view, DBT and HMT made adequate use of data, economic modelling, and other scenario analysis in its economic response to the pandemic. I am unable to comment in detail on the adequacy of the Department's and HMT's use of data, modelling, or scenario analysis. However, as noted above, the Department sought to present the fullest information picture when providing advice to ministers, highlighting where we lacked reliable data that would have assisted in the consideration of value for money assessments for the schemes. For example, as noted at §4.9 and §4.46 above, I highlighted the incompleteness of data in the context of Accounting Officer advice and requests for ministerial directions.

- 11.4. I have been asked to assess the quality and availability of data that the Department had access to during my tenure to inform decisions about the design, targeting, and monitoring of business support schemes, if the quality of data and data sharing improved over time, and if it did, to explain how. As acknowledged in the CWS, Part C, §§17.13(a) and 17.27, in hindsight the Government did overestimate the accuracy and completeness of the data held by local authorities in their respective areas in relation to the early grant schemes. According to the CWS, this did contribute to difficulties in identifying eligible recipients and ensuring appropriate targeting of support. However, at that time, delivery at pace had to be prioritised due to the scale of the economic pressures caused by the Covid-19 pandemic. We did recognise that the data held by local authorities was imperfect, but it was still the best *available* source for the grant schemes. Compiling a comprehensive new database of those eligible (and intended to be eligible) for the grant schemes would have taken months when we were trying to deliver vital cash flow to businesses within days to ensure their survival. Likewise, the amount of data requested on loan applications was initially limited by the desire for speed of delivery. If we had sought to use the data to try to favour one group over another it would have defeated the inclusive intentions of the schemes, and further the data available was not of a quality or richness to support detailed analysis even if time had been plentiful.
- 11.5. I am asked what improvements I recommend to ensure that, in the event of a future pandemic, DBT is better equipped with timely and reliable data to support effective policy design and delivery. Please see my comments on sources of information in §13.2.f) below. It is axiomatic that good data supports good policy making and delivery, so improving the quality and accessibility of data held by Government is a worthwhile goal, independent of any future pandemic.

## Section 12: Inequalities and Vulnerable Groups

- 12.1. I am asked how inequalities and economically vulnerable groups were considered, whether, in my view, the UK Government adequately considered these groups in its economic response to the pandemic, and what lessons the Department has taken forward to improve any future response to addressing inequalities and economically vulnerable groups in the event of an economic crisis. I will respond to the extent of my knowledge and experience up to my departure from the Department on 13 April 2020. I have considered the information contained in the CWS and the Ipsos Evaluation Report that was published in May 2025 [AC03/049 – INQ000610872]. I have read the Ipsos Evaluation Report and note its finding that the financial support provided to businesses in response to the pandemic may have helped avoid the closure of up to 100,000 to 150,000 workplaces and saved up to 1 million jobs. I have also read the Lessons Learned in the Ipsos Evaluation Report (summarised at table 6.1 on pages 93 to 95) and regard these as credible.
- 12.2. I have read in the CWS that the Department conducted public sector equality duty (**PSED**) assessments for the various economic responses (i.e. CBILS, CLBILS, SBGF and RHLGF), but they were conducted after I had left the Department and moved to Cabinet Office.
- 12.3. The PSED is a statutory duty imposed under section 149 of the Equality Act 2010. As reflected in the CWS, Part B, §10.23, and Part C, §§13.1 – 13.11, equalities' assessments are important when developing and delivering policies to identify and consider the needs of those potentially facing disadvantage or inequality. The Department has acknowledged that equalities' assessments should have been conducted prior to implementation of the above schemes. I agree that it is better practice to conduct assessments during the development phase, or otherwise at least prior to policy implementation. In my opinion and in my experience, the Department took the PSED very seriously and under normal circumstances such assessments would have been completed during development and prior to implementation.
- 12.4. The Department's commitment to improving its fulfilment of its PSED obligations is demonstrated by a letter that I sent to all BEIS Directors General and Directors on 6 February 2020, setting out the findings of Ernst & Young's (**EY**) Diversity and Inclusion Maturity Assessment [AC03/121 – INQ000626047]. In January 2019, the Department launched the 'Shaping our Future Programme' that aimed to embed diversity and inclusion (**D&I**) in all of the Department's key decisions on policy, procedure, and

process. EY conducted a D&I Maturity Assessment on the Department's policymaking process, including an assessment of its compliance with the PSED [AC03/122 – INQ000626046]. The report identified areas requiring improvement to further embed the PSED into Departmental processes. Neither the original report nor the letter were linked to the Covid-19 pandemic but instead formed part of my 'business as usual' Departmental management, so it is clear that in normal times, PSED assessments would have been undertaken during policy development or prior to implementation.

- 12.5. However, the incredible time pressure and the necessarily rapid delivery of a response to the economic emergency meant that bold steps had to be taken. Due to the scale and extent of the economic issues resulting from the Covid-19 pandemic, there was a need for pace and very limited time to fully consider the approach. Our preference was for inclusive schemes as we were focussed on feasibility of delivery. We accepted the reality of the situation, which was that further research and tailoring required time and would have resulted in delays that would likely have been fatal to businesses lacking the cash to survive. In relation to equalities, the Department undertook assessments after the early schemes were implemented. We were conscious that more differentiated and targeted schemes would reduce the risk of lending or granting money to businesses who did not strictly need it. But we also appreciated that such differentiation risked excluding worthy candidates. In the first phase of the crisis, we thought, and I continue to be of the view, that the broad-based, inclusive approach was appropriate. By its nature, this was less dependent upon detailed equalities' assessments as it aimed to deliver equally to a broad range of beneficiaries.
- 12.6. Had that basic premise been different (that is, not prioritising speed of delivery), we would have had time and capacity to develop differentiated schemes. Then equality concerns would have been more to the fore because we would have needed to see how inclusions and exclusions impacted businesses, communities, groups, and individuals.
- 12.7. I am asked if the loan or grant schemes were unequal in their impact, if any economically vulnerable groups were unable to access the schemes, and whether more could or should have been done to address inequalities and economically vulnerable groups in the design and delivery of the schemes. As I left the Department on 13 April 2020, I do not have detailed knowledge of the impact of the schemes. However, I understand that the take-up of the schemes was very high, which I consider to be a strong indicator of their success in reaching those in need of support and reflective of our broad-based approach.

- 12.8. Further, the issue of equalities must be considered in relation to entitlement and access. As such, the Department's communication strategy reflected the need to ensure the existence of the schemes was well known. It is my understanding that the schemes were extremely well covered across the media and in various communication platforms.
- 12.9. The CWS, Part C, §13.2, states that the Department did not think earlier equalities' assessments would have made any major changes to the early schemes. I have also been shown the Ipsos Evaluation Report [AC03/049 – INQ000610872], published in May 2025, which considered the Department's economic response to the pandemic (including all loan and grant schemes). The Report found that there *"was no evidence of inequitable access to the support programmes, and the government was quick to adjust where eligibility criteria led to apparently equivalent businesses being treated differently. However, allowing delivery agents discretion created some perceived inequities (though not discrimination) where similar businesses or researchers were treated differently in different areas or institutions."*
- 12.10. I am asked for any recommendations that I consider would be appropriate for the Chair of the Inquiry to consider making to improve the way in which the UK Government/DBT makes decisions with regard to inequalities and economically vulnerable groups at a time of national economic emergency. As above, I echo the view in the CWS, Part C, §13.2, that PSED assessments are appropriate to inform the development and implementation of suitable and considered government policy. Ideally, PSED assessments would be conducted during the development phase, or before implementation at a minimum. However, where rapid delivery is required, taking a broad approach to the application of the policy, as was the case with the economic schemes delivered during the early stages of the Covid-19 pandemic, will assist to reduce inequalities and support economically vulnerable groups during a period of widespread or national economic crisis. Further, specific consideration should be given to the impact of the policy entitlement and/or eligibility, and also to access and communication of the policy.

### **Section 13: Lessons Learned and Reflections**

- 13.1. I am asked by the Inquiry to consider lessons learned, what (if any) changes I would recommend to improve how support is targeted, and to set out any recommendations for the Chair to consider to improve the economic response, as relevant to the scope of this Module, in the event of a future pandemic.
- 13.2. In the context of my departure from the Department during the very early stages of the economic response, I consider that the following critical reflections and lessons learned relating to the economic response may assist the Inquiry (in agreement with those parts of the CWS, Part A, §§6.9 - 6.21, that are most relevant to my tenure):
- a) Cross-Whitehall working: the effective collaboration between departments in decision making and the implementation of decisions is a key area for continued development for the Department. The Department and HMT colleagues did have a productive and collaborative working relationship generally. But on occasion, it was challenging for BEIS officials to ensure schemes were fully ready for delivery due to the speed at which ministerial decisions were made and then announced by HMT.
  - b) Preparedness: I accept the findings of the Chair's report in Module 1 and agree with the reflections of the CWS, at Part A, §6.11, the Department and the Government could have been better prepared for the Covid-19 pandemic. A pandemic with a major economic impact was foreseeable. The Government had to introduce novel schemes at significant speed because it did not have a collection of potential business support responses ready to be deployed. The Department was, however, able to draw on pre-existing systems and templates as the foundation for some of the individual business support responses, for example, CBILS and CLBILS.
  - c) Priority given to speed of action: the Chancellor and BEIS ministers prioritised rapid action. The schemes were designed and implemented at huge speed. The pace of work did not allow for the usual degree of analysis and challenge, and were implemented with fewer checks built in. Ministers made difficult political decisions to proceed quickly to support businesses in an unprecedented economic crisis. The need for rapid action must be balanced against the lesson that, even under intense pressure, it is crucial to be disciplined and take the time to do things properly. CBILS' amendments provide an example of where extra time could have allowed for a more loss-resistant

scheme to be extended. As stated above in §7.11, I note that while decisions were sometimes taken at pace – and if decisions were less rushed, the design of the schemes may have been improved – the trade-off was that taking more time would have meant more businesses failing. The delivery of significant funds to businesses in a very short period of time was highly unusual and I regard it as an achievement, but the process and schemes were not without their weaknesses, as set out in the CWS and this statement.

- d) Fraud and losses due to error: I recognise the considerable public concern at the estimated costs of fraud and error in relation to the business support schemes. I note that this is especially pertinent in relation to fraud in BBLs and the level of non-compliance in the cohort one grant schemes. BBLs largely post-dated my tenure as Permanent Secretary, but I know that difficult trade-offs had to be made. Policy decisions were taken by ministers across the whole of Government in extremely challenging circumstances: balancing rapid delivery, ease, and speed of access to finance with mitigations against fraud, error, and better targeted support. As recognised above in §7.11, it was ultimately a political decision for ministers as to the risk they were willing to accept to ensure support was in place for those who needed it and to ensure overall confidence in the economy at a national level. The Department and BBB were criticised at the time for CBILs being too slow in delivery. This no doubt created the pressure that helped lead to the speedy introduction of BBLs. One of the reasons that CBILs and CLBILs took longer to implement loan decisions was because the banks considered it necessary to conduct checks because they themselves had some risk exposure in the schemes. The features of CBILs and CLBILs required extra attention from banks in the loan making process. The subsequently nominal fraud for CBILs and CLBILs should be weighed alongside the slower delivery of the loan awards to recipients.
- e) BEIS' counter-fraud capability: I agree that if the Department or wider Government had had access to more counter-fraud specialists then strategies to mitigate against fraud risks could have been identified and implemented more quickly. I understand that DBT now has its own counter-fraud function, to assist policy teams with current and future schemes, as well as a team to manage the ongoing work on the Covid-19 loan schemes. That is a positive development for the Department, and I believe that the creation of the function within DBT will assist in reducing fraud in future crises.

f) Information: The Department drew on a range of information sources to inform policy responses to Covid-19. In my view, there is significant value in having multiple and diverse information points and sources, but in also putting in place systems to obtain and scrutinise raw data. I suggest it is a lesson for government that it must increase the availability of real time information to assist in assessing the impacts and true nature of the situation. This mitigates against the risk of over-reliance on opinions of stakeholders, such as BROs. It would be ideal if data systems were put in place to easily and quickly integrate useful and diverse data sources that could then provide valuable visual analysis using up to date data. The sources of data would necessarily change depending on the nature of the pandemic or emergency. In my view, the Department worked well under the circumstances using slideshows, spreadsheets, tables etc. But it would be more advantageous to be able to collate, integrate, and view relevant 'live'/real time' data on one platform to assist decision-making in a crisis. For example, the National Situation Centre (**SitCen**), established in 2021 within Cabinet Office to bring together data, analysis, and expertise for crisis management, can receive information on credit card spending and mobile phone usage to analyse economic activity and the impact of economic shocks in real time. Such systems allow SitCen to scrutinise and interrogate data rather than rely on interpretations and analyses of data that have been produced by others.

- 13.3. In respect of the loan guarantee schemes, my own view at the time was to favour keeping some 'skin in the game' for banks, which was the case for CBILS and CLBILS, the schemes with which I was involved (although my involvement with CLBILS was to a lesser degree). I was not directly involved in BBLs, but I know that the issue that BBLs was trying to address was throughput – at the time it was seen as taking too long to get funds to struggling businesses. The amendments made had the effect of raising the scale and pace of loans, but did also increase the risk of future bad debts and so potential losses for the taxpayer. The Accounting Officer advice relating to CBILS set out my concerns about CBILS representing good value for money. The advice noted reduced safeguards compared to a standard loan guarantee structure. These concerns were even more applicable for BBLs, which had fewer safeguards and offered a 100% government guarantee.
- 13.4. In handling the amendments to CBILS, I questioned whether we were striking the right balance between fast delivery and the risk of future bad debts. I highlighted the risks

and contemplated what alternatives might be available. I understand my successor did the same for BBLS, and the Secretary of State considered the same for both CBILS and BBLS. I was also concerned that CBILS would underwrite all types of SME lending, not only Covid-19 related loans, and potentially extend to loans issued before the pandemic. This issue was clearly relevant to BBLS as well. However, I was no longer working at the Department when what became BBLS was being considered so I was not part of the analysis or debate around alternative schemes. Therefore, I cannot say whether a better alternative to BBLS was available or feasible. The approach to BBLS was ultimately a decision for the Chancellor who will have been provided with a lot of information and advice to inform his decision-making at the time.

- 13.5. I have not seen all the evaluations in respect of BBLS and I do not know enough about the detail of BBLS to formulate informed and well-thought-out lessons learned. I believe that the Inquiry is better placed to judge any lessons learned, or recommendations, in respect of that scheme.
- 13.6. In my general view, implementation of the schemes could have been better conducted by applying a staged approach. I expressed my concerns at the pace of implementation and changes to scheme rules at the time, as I set out above at §4.4 and §4.16, in relation to the amendments to CBILS. This is a key consideration in crisis management; when under extreme pressure to provide instant reassurance, there is an understandable temptation to deliver a 'full' response immediately. However, that can mean missing the opportunity to assess if a more moderate response is actually sufficient, and to modify or course-correct in light of feedback.
- 13.7. In relation to grants, my general reflections are, and it is easy to make such assessments in hindsight, that the availability of more accurate data and information in relation to eligible recipients would have improved the accuracy of the initial delivery of the schemes and reduced the risk of errors and losses. It is impossible to eliminate *all* irregular payments, but the capacity and necessity to determine appropriate eligibility, scope, and safeguards underlines the importance of keeping good quality, contemporary, and sufficiently detailed data records, and also having the capacity and expertise to interrogate and analyse the material. As noted in the CWS, Part C, §17.51, data monitoring was improved for cohorts two and three, and the schemes were more targeted.
- 13.8. The Government's preparation for EU Exit was relevant and helpful in responding to the economic shock caused by Covid-19, particularly in relation to our enhanced

knowledge of supply chain disruption. I have also set out some examples of specific sectoral preparations which the Department drew upon in developing the pandemic response and the relevance of previous work on BRR and insolvency easements.

- 13.9. To enhance the government's broad capabilities to respond to future economic shocks, recognising that the next crisis may well be entirely different and any pandemic on the scale of Covid-19 could have very different characteristics, the government must be prepared to adapt. This will include planning for the deployment of a variety of resources and the agile integration of data from different sources. The experience of the pandemic ought to assist in future crisis response and the Inquiry is well placed to assess this in overview and provide practical recommendations.
- 13.10. In my opinion, alongside important lessons for improvements, the key achievement was the delivery of business support at such unprecedented scale and pace, and the contribution this made to business survival and jobs retention. As I noted earlier in this statement in §12.1, it is likely that the Department's Covid-19 response had a significant impact in protecting jobs. I note that the Ipsos Evaluation Report has estimated that hundreds of thousands of direct jobs were saved by the grant schemes, and nearly a million jobs could have been lost in the absence of the loan schemes [AC03/049 – INQ000610872] (as set out in the CWS, Part A, §§6.19 - 6.20). I have read the Ipsos Evaluation Report and note the table 1 Key Lessons Learned. They all seem sensible to me, and I commend these to the Inquiry.

## **Section 14: Relevant Documents**

- 14.1. I have been asked to confirm the messaging platforms I used to communicate about the economic response to the Covid-19 pandemic between 1 January 2020 and 28 June 2022. My communications during my tenure in the Department (up to 13 April 2020) were via email, telephone calls and video calls, and mobile phone messages. As set out in Section 9, above, I had a short exchange of WhatsApp messages with Sarah Munby in advance of the Chancellor's announcements in the 2020 Spring Budget. I also had short exchanges of WhatsApp messages with the acting Permanent Secretary, Sam Beckett, in April and June 2020, that occurred after I left my post as BEIS Permanent Secretary. I do not have the original material, but I understand they have been made available to the Inquiry.
- 14.2. My email communications included communications with various government officials, and civil servants. At Annex B, I set out a list of Department ministers and key senior officials in BEIS who I dealt with as part of the economic response to the pandemic.
- 14.3. Records of my mobile phone communications (such as text messages and WhatsApp chats) were removed from my device when I left Cabinet Office in April 2024. As I did not keep any record of the communications, I am unable to provide them to the Inquiry or provide more detail. Cabinet Office has confirmed that it does not hold material from my tenure as BEIS Permanent Secretary.
- 14.4. I do not have any diary or notebook records (neither physical nor electronic) relevant to the provisional outline of scope for 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: **Personal Data**

**Dated:** 16 October 2025

## Annex A: Acronyms used within this statement

Acronym	Description
ALBs	Arm's Length Bodies
AO	Accounting Officer
BBB	British Business Bank
BBLS	Bounce Back Loan Scheme
BEIS	Department of Business, Energy and Industrial Strategy or the Department.
BIP	Business Interruption Payment
BIS	Department for Business, Innovation and Skills
BIU	Business Intelligence Unit
BRO	Business Representative Organisation
BRR	Business Rates Relief
CABSEC-O	Cabinet Office via Cabinet Secretary Officials
CBI	Confederation of British Industry
CBILS	Coronavirus Business Interruption Loan Scheme
CCFF	Covid Corporate Financing Facility
CIGA	Corporate Insolvency and Governance Act 2020
CLBILS	Coronavirus Large Business Interruption Loan Scheme
CLGU	Cities and Local Growth Unit
CNI	Critical National Infrastructure
COBR	Cabinet Office Briefing Rooms
COBR(O)	Cabinet Officer Briefing Rooms (Officials)
Covid-19	Coronavirus Disease 2019
CWS	Corporate Witness Statement
DCMS	Department for Digital, Culture, Media and Sport
DBT	Department for Business and Trade
DECC	Department of Energy and Climate Change
DEFRA	Department for Environment, Food and Rural Affairs
D&I	Diversity and Inclusion
DIT	Department for International Trade
DLUHC	Department for Levelling Up, Housing and Communities ( <i>previously the MHCLG, see below</i> )
DWP	Department for Work and Pensions
EBRIG	Economic and Business Response Ministerial Information Group
EFG	Enterprise Finance Guarantee
ER2	The Energy Resilience and Emergency Response Team
ERCO	The Emergency Response – Capabilities and Operations Team
ExCo	Executive Committee
EY	Ernst & Young
FAME	Financial Analysis Made Easy
FCDO	Foreign, Commonwealth & Development Office
HMRC	Her Majesty's Revenue and Customs

HMT	Her Majesty's Treasury
INSS	Insolvency Service
LAAG	Local Authority Advisory Group
LGD	Lead Government Department
MHCLG	Ministry of Housing, Communities and Local Government (now the DLUHC, see above)
MPM	Managing Public Money
NPIs	Non-pharmaceutical Interventions
OGDs	Other Government Departments
PGs	Personal Guarantees
PMO	Project Management Office
PSED	Public Sector Equality Duty
RGF	Regional Growth Fund
RHLGF	Retail, Hospitality and Leisure Grant Fund
RRR	Rural Rates Relief
SBGF	Small Business Growth Fund
SBRR	Small Business Rate Relief
SitCen	National Situation Centre
SitReps	Situation Reports
SMEs	Small and Medium Enterprises
SRO	Senior Reporting Officer
UKGI	UK Government Investments
VFM	Value for Money
WHO	World Health Organisation

## Annex B: Key Persons

NAME	ROLE	PERIOD
<b>Ministers</b>		
Alok Sharma MP	Secretary of State for BEIS	February 2020 to January 2021
Kwasi Kwarteng MP	Minister of State for Business, Energy & Clean Growth	July 2019 to December 2021
Amanda Solloway MP	Minister for Science, Research and Innovation	February 2020 to July 2021
Paul Scully MP	Minister for Small Business, Consumers and Labour Markets	February 2020 to February 2022
Lord Grimstone of Boscobel	Minister of State for Investment	March 2020 to July 2022
Lord Callanan	Parliamentary Under-Secretary of State for Business, Energy and Corporate Responsibility	February 2020 to February 2023
<b>Officials</b>		
<b>Permanent Secretaries</b>		
Alex Chisholm	Permanent Secretary, BEIS	July 2016 to April 2020
Sam Beckett	Acting Permanent Secretary, BEIS	April 2020 to July 2020
Sarah Munby	Permanent Secretary, BEIS	July 2020 to February 2023
<b>Directors General</b>		
Sarah Munby	Business Sectors	July 2019 to July 2020
Jo Shanmugalingam	Industrial Strategy, Science, Innovation and Growth	Pre-January 2020 to February 2023
<b>Directors</b>		
Gemma Peck	Business Growth	March 2020 to February 2023

Jenny Dibden	Cities and Local Growth Unit	March 2020 to March 2021
Rachel Merelie	Business Investment	Pre-January 2020 to October 2020
Tom Taylor	Corporate Services, CFO	Pre-January 2020 to February 2023
Emily Bourne	C19 Coordination Hub	March 2020 to July 2020
Catherine Bremner	C19 Coordination Hub	March 2020 to July 2020
Ben Golding	C19 Coordination Hub	March 2020 to July 2020
Chris Thompson	Labour Market	Pre-January 2020 to February 2020
Tom Griffiths	Labour Market	February 2020 to August 2020
Mike Keoghan	LAG – Chief Analyst	Pre- January 2020 to January 2022
Carl Cresswell	Services	Pre-January 2020 to February 2023
<b>Deputy Directors</b>		
Tony Bray	Cities and Local Growth Unit	March 2020 to March 2021
Stephen Greenwood	Local Authority Grants - Funding Delivery	January 2020 to March 2021
Laurence Pawley	Business Finance	March 2020 to February 2023
Angelina Cannizzaro	SME Finance and International	Pre-January 2020 to February 2023
Adam Harmon	Local Authority grants – Business Growth Analysis	Pre-January 2020 to January 2022
Andrew Paterson	Business and Local Growth Analysis	Pre-January 2020 to November 2020
Leah Sparks	Corporate Services, Counter Fraud	Pre-January 2020 to February 2023
Laura Higgins	Corporate Services, Counter Fraud	Pre-January 2020 to February 2023

**Annex C: Exhibit Schedule**

*Please see attached.*

**Annex D: Table identifying responses to each Rule 9 question**

<b>Question Number</b>	<b>Has this question been answered in the statement?</b>	<b>If yes, what is the paragraph reference?</b>	<b>If not, why not?</b>
<b>Part A: Role and Responsibilities</b>			
3	Yes	2.1 - 2.3	
4	Yes	2.4 - 2.43	
5	Yes	2.44 - 2.65	
6	Yes	2.66 - 2.71	
<b>Part B: Joint Working</b>			
7	Yes	3.1 - 3.21	
8	Yes	3.23	
9	Yes	3.24 - 3.27	
<b>Part C: Coronavirus Business Interruption Loan Scheme ('CBILS')</b>			
10	Yes	4.4, 4.8, 4.11	
11	Yes	4.17 - 4.25	
12	Yes	4.1 - 4.3	
13	Yes	4.4	
14	Yes	4.4	
15	Yes	4.37 - 4.38 4.29 - 4.30	
16	Yes	4.4	
17	Yes	4.4	
18	Yes	4.46	
19	Yes	4.35 - 4.35	
20	Yes	4.31 - 4.32	
21	Yes	4.33 - 4.34	
22	Yes	4.42	
23	Yes	4.10	
24	Yes	4.11 and 4.39	
25	Yes	4.39 - 4.40	
26	Yes	4.41	
27	Yes	4.42	
28	Yes	4.41	
29	Yes	4.43	
30	Yes	4.44 - 4.45	
31	Yes	3.15 - 3.20	
32	Yes	4.4 and 7.2	
33	Yes	4.48	
34	Yes	4.56	
35	Yes	4.52 - 4.53	
36	Yes	4.54 - 4.55 7.7 - 7.8	
37	Yes	4.55 - 4.56	

38	Yes	4.56 and Section 7	
<b>Part D: Coronavirus Large Business Interruption Loan Scheme ('CLBILS')</b>			
39	Yes	5.1 - 5.2	
40	Yes	5.2	
41	Yes	5.5	
42	Yes	5.6 - 5.7	
43	Yes	5.14 - 5.16	
44	Yes	5.17 - 5.19	
45	Yes	5.20 - 5.22	
46	Yes	5.23 - 5.24	
47	Yes	5.25	
48	Yes	5.26 - 5.27	
49	Yes	5.28 - 5.29	
50	Yes	5.28 - 5.29	
51	Yes	7.5 - 7.10	
52	Yes	5.2	
53	Yes	5.24 and Section 7	
<b>Part E: Bounce Back Loan Scheme ('BBLs')</b>			
54	Yes	Section 6	Sir Alex Chisholm left his post at BEIS on 13 April 2020. BBLs was announced on 27 April 2020 and launched on 4 May 2020.
55	Yes	6.1 - 6.3	
56	Yes	6.4 - 6.7	
57	No		
58	No		
59	Yes	6.4 - 6.7	
60	Yes	6.4 - 6.7	
61	No		
62	No		
63	No		
64	No		As set out in Section 6, Sir Alex does not recall any involvement in discussions about BBLs. He has provided some comments to the extent that he is able to do so.
65	No		
66	No		
67	No		
68	No		
69	No		
<b>Part F: Reflections on Loan Schemes</b>			
70	Yes	7.2 - 7.3	
71	Yes	7.4	
72	Yes	4.54 - 4.55 13.2	
73	Yes	7.5 - 7.10 13.2	
74	Yes	7.11	

75	Yes	11.4	
76	Yes	11.5	
77	Yes	4.56 and 5.24	
78	Yes	12.7 - 12.9	
79	Yes	13.1 - 13.2	
<b>Part G: Business Rates Relief</b>			
80	Yes	8.1 - 8.6	
81	Yes	8.3	
82	Yes	8.8	
83	No		Save for the initial 4 ½ weeks during which BRR measures were in place, Sir Alex played no further role in BRR.
84	Yes	8.7	
85	Yes	8.7	
<b>Part H: Covid-19 Business Grant Schemes</b>			
86	Yes	9.3 - 9.17 9.26 - 9.35	
87	Yes	9.52 - 9.54	
88	Yes	9.49	
89	Yes	9.10 - 9.14	
90		9.14 - 9.16 9.48	
91	Yes	9.33 - 9.38	
92	Yes	9.50 - 9.51	
<b>Part I: Reflections on Grant Schemes</b>			
93	Yes	9.58 - 9.60	
94	Yes	9.61 - 9.65	
95	Yes	9.61 - 9.65	
96	Yes	12.7 - 12.9	
97	Yes	9.67	
98	Yes	9.68 - 9.70	
<b>Part J: Changes to Insolvency Rules</b>			
99	Yes	10.1 – 10.9	
100	Yes	10.10	
101	Yes	10.11	
102	Yes	10.11	
<b>Part K: Data and Modelling</b>			
103	Yes	11.1 - 11.2	
104	Yes	11.3	
105	Yes	11.3	

<b>Part L: Inequalities and Vulnerable Groups</b>			
106	Yes	12.1 - 12.6	
107	Yes	12.1 - 12.6	
108	Yes	12.1 - 12.6	
109	Yes	12.1 - 12.6	
110	Yes	12.10	
<b>Part M: Lessons Learned</b>			
111	Yes	13.1 - 13.10	
<b>Part N: Request for documents</b>			
112	Yes	14.1 - 14.4	
113	Yes	14.1 - 14.4	
114	Yes	14.1 - 14.4 Annex C	
115	Yes	14.1 - 14.4	