HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Covid-19: Bounce Back Loans, HC 687

Thursday 5 November 2020

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Watch the meeting

Members present: Meg Hillier (Chair); Gareth Bacon; Geoffrey Clifton-Brown; Barry Gardiner; Dame Cheryl Gillan; Peter Grant; Craig Mackinlay; James Wild.

Gareth Davies, Comptroller and Auditor General, NAO, Simon Reason, Director for BEIS, NAO, Gregor Botlik, Audit Manager, NAO, and David Fairbrother, Deputy Director, HM Treasury, were in attendance.

Questions 1 - 85

Witnesses

I: Sir Tom Scholar, Permanent Secretary, HM Treasury; Katharine Braddick, Director General, Financial Services, HM Treasury; Sarah Munby, Permanent Secretary, BEIS; Catherine Lewis La Torre, Chief Executive Officer, British Business Bank; Patrick Magee, Chief Commercial officer, British Business Bank.

Report by the Comptroller and Auditor General

Investigation into the Bounce Back Loan Scheme (HC 860)

Examination of witnesses

Witnesses: Sir Tom Scholar, Katharine Braddick, Sarah Munby, Catherine Lewis La Torre and Patrick Magee.

Chair: Welcome to the Public Accounts Committee on Thursday 5 November 2020. We are here today to talk about how the Bounce Back Loan Scheme has worked. We are looking at the development of the scheme, the rollout and the performance of this scheme, which has given businesses much-needed cash to get them through the first lockdown and the general challenges of dealing with the pandemic. There are big challenges ahead for the taxpayer. The scheme provides loans to businesses until next May, where the Government, or taxpayers, are paying the interest. From next May, businesses will be expected to pick up that interest rate.

We want to look at how it has worked: how it has worked from the banks' point of view, in terms of getting the money out to businesses, and how it has worked from the businesses' perspective. Particularly, as you would expect for the Public Accounts Committee, we will be probing the risks to the taxpayer and looking at fraudulent applications and what might be done there.

I would like to welcome our witnesses. In the room physically, we have Sir Tom Scholar, who is Permanent Secretary at the Treasury. Welcome back to you. We have Katharine Braddick, who is the director general for financial services at the Treasury, in the room, and we have Sarah Munby, who is the Permanent Secretary at the Department for Business, Energy and Industrial Strategy. Catherine Lewis La Torre, the chief executive of the British Business Bank, is joining us online, and Patrick Magee, who is the chief commercial officer at the British Business Bank, is online. Of course, the British Business Bank had a very major role in drawing up the scheme and administering and licensing the lenders to do the work.

We have a declaration of interest from one of our members. Mr Craig Mackinlay, would you like to declare your interest, please?

Craig Mackinlay: Thank you, Chairman. I am a partner in a firm of chartered accountants and it has benefitted from a bounce-back loan. I just wanted to make that clear.

Q1 **Chair:** Thank you very much, Mr Mackinlay. You have skin in the game and knowledge of the process, so that is very helpful to us all. Before we get into the main session, Sir Tom, I would just like to ask you about something. We have gone into a further lockdown today. There have been announcements by the Chancellor about extended support. From your point of view as Permanent Secretary, watching what the challenges are to the Exchequer, what do you think are the biggest risks now, given that we have this further national lockdown period? What are your top worries about the impact on the taxpayer?

Sir Tom Scholar: To state the obvious, the progress of the pandemic over the last few months has been more serious than was anticipated earlier in the year. As a consequence, we are now, as you say, entering into a further month of national lockdown, which was certainly not anticipated when the forecasters were preparing all their forecasts earlier in the year. It is certainly too soon to quantify what the impact of this lockdown will be on the economy and the public finances.

There are good reasons to think that it will be less severe than the lockdown in the spring, partly because the time anticipated is shorter, but also because the nature of the lockdown is less severe. In particular, schools will remain open. A number of sectors of the economy, for example construction, that were almost entirely closed in March, April and May will remain open. Many workplaces have used the last few months to make themselves Covid-secure, so many people will be able to work safely now who were not able to work safely in the spring.

For all those reasons, it is reasonable to think that the impact will be less severe, but it will still inevitably be significant. Then that will have a further knock-on impact on the public finances. We do not yet have a forecast of what that will be. As you know, it is not the Treasury that prepares forecasts. It is the Office for Budget Responsibility. They will be publishing their next forecast on 25 November. That is just under three weeks away. That will be on the day that the Chancellor sets out the spending plans for next year. I am sure that in that forecast they will have a full analysis of what they expect the impact of all these measures to be on the economy and the public finances.

Q2 **Chair:** Sarah Munby, businesses are obviously very concerned that suddenly their businesses, with very short notice, had to go into lockdown again. What is your Department's engagement like with different business sectors? Where do you think the biggest risks are? What sectors are you particularly worried about?

Sarah Munby: Just to start with the first part of your question and reflecting on what Tom just said, while obviously this has extremely serious implications for business, the good news is we have been able to roll out the support package in a faster and clearer way than the first time around, because essentially we have had the opportunity to learn from what happened last time. Businesses already know what is available and what they can lean on, and have had experience in working through that.

In terms of closed businesses, clearly the retail sector has had a very hard time, as has hospitality, in terms of restaurants and particularly nightclubs, which have been closed throughout. There are a series of businesses where we cannot at the moment do much more than hold them in a safe pattern for now. That is what the schemes are able to deliver. We know that because we very closely watch what is happening with insolvencies. Despite the very serious events across the economy, we have not seen a pick-up in insolvencies.

We engage with businesses every day, and from a business point of view, what they want to know is, "When will I be able to begin again? When will I be able to start looking at the next set of opportunities? When will I be able to start creating more jobs and investing again?" Of course, we cannot answer those questions at the moment. That is a very hard message. We keep talking, we try to share as much information as we can and give people as much clarity and forward-look as we can. Without knowing the path of the virus, we are not able to outline the journey back to normality with the level of clarity that businesses would like.

Q3 **Chair:** There has been some discussion about the fact there are four people—senior Ministers—who make the decisions on this. Obviously, it is for Ministers to decide, but what evidence are you putting in from your Department about the impact on different hospitality sectors? Have you been analysing with your Health colleagues what the spread of the virus is in, for example, gyms and hospitality, where many of them have said, "The virus has not spread because we have been very careful about what we have done"? Have you looked at that and have you fed that information and advice into the Ministers that are deciding on these issues for the nation?

Sarah Munby: The prime role of our Department in terms of gathering the data to inform these decisions is on what will be the economic impact. We have undertaken a very large amount of analysis that looks at how vulnerable different sectors are, how much cash on hand they have, for example, and those sorts of questions. Indeed, we did that very early on, which actually is one of the reasons why we felt quite confident that this package in totality was relatively effective at maintaining that stasis that I talked about, because that was what our analytical work showed quite near the beginning of this.

In terms of the health question, it is not ultimately for us to analyse the question of which locations are driving spread. It is important to say that we do not always know all the answers on that. We know that what we have to do is bring down contact overall, so there is a curve of going after the highest contact places. We should be honest that that is not always because you can pin every case to an individual location. We do as much as we can on that, but we are never going to be at that point, because we do not always know where every person has picked up the virus.

Q4 **James Wild:** It is certainly the case that generous support has been put in place for the pubs and hospitality sector. However, this week, the British Beer and Pub Association, UKHospitality and other trade associations warned that up to 20,000 venues and pubs would not be able to receive this support that the Chancellor has allocated to them due to the state aid cap. They are urging the Treasury to increase the cap and take advantage of the changes that the EU has already made that prevent groups of multiple sites from claiming that support. Sir Tom, do you understand the importance of this and will you act now to increase that cap so these firms get the support that the Chancellor intends?

Sir Tom Scholar: Mr Wild, can I just clarify the question? Which is the cap in particular that is at issue here?

James Wild: The hospitality sector has said that the current cap on the amount that firms can receive prevents multiple sites from getting support. The EU has increased the cap to €3 million from an earlier level of €800,000. My understanding is that the Treasury has not taken advantage of that. All of those trade associations wrote to the Chancellor this week, warning that a million jobs would be affected by this.

Sir Tom Scholar: I have not seen the letter that you are referring to. If they have written this week, we will certainly be analysing it as we speak and preparing advice to the Chancellor on it. I am not aware of a state aid problem that has this effect. It is the first time it has been brought to my attention. If I may, I will go back to the Department and see where we have got to on the advice on this letter. The Chancellor of course will be replying and I will then also write to this Committee, if I may.

Q5 **James Wild:** Yes, that would be good. The British Beer and Pub Association has been making this point since January, so I am a bit surprised you are not aware of the issue. If you could look at it urgently, that would be appreciated by these businesses.

Sir Tom Scholar: I am sure it is the case that somebody in the Treasury is aware of it. It is just that I personally have not seen the letter or the issue. I will certainly look into it for you.

Chair: Although Mr Wild has raised pubs, there may be other businesses with multiple branches, such as gym chains and so on, that might be affected. If you could look at it in the round, that would be very helpful. I am sure, as you say, someone in the Department must be aware of this.

Q6 **Sir Geoffrey Clifton-Brown:** Good morning, Sir Tom. If I heard correctly on the BBC this morning, it was announced—or it is going to be announced—that on the macroeconomic situation you are going to be putting £100 billion into the economy in quantitative easing. First, can you confirm that? Secondly, can you give some indication of how that will be done?

Sir Tom Scholar: Yes, the Bank of England's Monetary Policy Committee announced at 7 am today its decision for its November meeting. It has left interest rates unchanged, but has decided to increase the size of its quantitative easing programme. That is its purchases of Government bonds, which it has been doing, as you know, for many years. It is increasing the size of that programme by £150 billion, in fact. That is a Bank of England decision. It announced that this morning.

Q7 **Craig Mackinlay:** Reference has been made to the quad team that made the decision over the weekend that the second lockdown was necessary. This is probably a question to Sarah Munby. Was any input made to that team on the bounce-back loans, and on how many of those that might be hovering on the brink, which we might have been able to put our finger on last week, would now probably go bad, at a greater cost to the taxpayer? Was any of that information formulated and fed into No. 10 and the Cabinet Office over the weekend?

Sarah Munby: That information would have been used as part of the discussion about what to do about the Bounce Back Loan Scheme, rather than necessarily as specific input into the broader discussion about lockdown, which is clearly a bigger question than just the Bounce Back Loan Scheme. In terms of what analysis we did in thinking about the Bounce Back Loan Scheme, you will have seen of course that the extension and also the ability for businesses to top up to that maximum amount if they did not take it all the first time have both been announced, which means that we are seeing that this scheme is adjusting to a new set of restrictions.

Q8 **Craig Mackinlay:** I am sorry. I am not quite sure I have got the answer I was looking for there. No feed-in was made from BEIS or HM Treasury about the effect of another month's lockdown on the recoverability of a perhaps precarious existing bounce-back loan book. All we seem to have done is doubled down and extended it. Is that a fair summary?

Sir Tom Scholar: The decision that Ministers took at the weekend was certainly informed by considerations of the economic impact, including on businesses. There were two routes through which that information was provided. First of all, Treasury officials and BEIS officials worked very closely with the taskforce at the centre of Government that prepares the advice to the Prime Minister. The papers that go to Cabinet and to ministerial committees are prepared in the normal way, in the Cabinet Office, but they take full account of all the information that we provide and the analysis that we and other Departments provide on, in our case, economic impact and, in the case of BEIS, business impact. That is one route.

The other route is that the Chancellor himself was present in these discussions and fully on top of all the information and with all the analysis at his disposal. We constantly brief him for those meetings. I can certainly assure you that the decision was made with a full view of the economics. The question, which is a very difficult judgment, is how to balance the competing considerations and to try to resolve those very difficult tensions.

Chair: We will be coming back to some of the points that Mr Mackinlay was raising there in the main hearing.

Q9 **Peter Grant:** I have a question first for Sarah Munby. Ms Munby, why did you not have this scheme and other schemes ready to go in March?

Sarah Munby: It is worth reflecting on what we did have. The British Business Bank and the Department in conjunction with HMT had actually done a really quite considerable amount of planning for what would happen in the case of an economic downturn, including setting up a framework for how we would adjust the bank's KPIs and targets. As part of that, we were very well aware of the issue that we will discuss today about the potential impact on competition in the market, given that the bank usually has very strict targets about making sure that there is diversity of lending. As part of that, we were very clear that the Enterprise Finance Guarantee scheme, a well evaluated and ongoing scheme run by the British Business Bank, would be the foundation of any scheme. Indeed, that turned out to be true.

Why did we not have a detailed plan of how we would implement a specific set of measures in a case of a pandemic with this scale and this characteristic? It is because that is such a rare event and also because the response needs to be specific to exactly those characteristics: these types of business and this pace of lockdown. It would not have been realistic to have an off-the-shelf plan for all eventualities of different kinds, paces and focuses of economic crisis. We had the right frameworks for thinking and the core approach ready to go. That is why we were able to act so quickly.

Q10 **Peter Grant:** We have known for probably 10 years that a pandemic of this type was coming. During that 10-year period, at what point did you start to prepare for the need to support a significant number of businesses as a result of lockdown? Was it 10 years ago, five years ago or one year ago?

Sir Tom Scholar: We discussed this in a previous session. As the Committee is aware, because we discussed this in June, the Government in 2016 did a round of contingency planning for a public health pandemic. It was called Exercise Cygnus and a number of Committee members asked about that in our last hearing.

The scenario that it set out obviously was determined by the public health professionals and it set out a scenario of a severe influenza-type epidemic or pandemic. The purpose of the exercise was to consider what the impacts would be, in particular on public services, of an influenza-type epidemic when at any point in time 10% or 20% of the workforce would be unwell with influenza or something similar.

That was the nature of the exercise but, by design, that is not a kind of pandemic that would have required a lockdown of the sort that we have experienced this year. There are certainly questions to be asked and they will be asked no doubt by other Committees at other times about whether the UK Government as a whole were looking sufficiently broadly at the kind of public health emergency that we might see. It is fair to say that it is not for the Treasury or BEIS to speculate on that kind of thing. It is our job to think of contingency plans for what are identified as plausible contingencies.

In the case of the contingency identified by Exercise Cygnus, there would not have been a lockdown. There would not have been a need for all of these huge schemes that we are discussing. They could have been dealt with through much more conventional policy responses. As we discussed this our last session, it is certainly true that it was only in March, in the Treasury and in BEIS, that we started preparing huge-scale interventions. That is because until that point, including over previous years, the risk registers and the pandemic planning operation had not identified a pandemic that might lead to that kind of national emergency.

Chair: Obviously, this is part of what we will be discussing now, but we want to be looking at how the bounce-back loans have been working and what the risks are.

Q11 **James Wild:** Figure 1 on page 14 of the Report sets out the various timelines for the schemes. CBILS launched on 23 March, then a little over a month later the Chancellor announced the Bounce Back Loan Scheme. Sir Tom, why did you not realise that CBILS would not work for the smaller businesses?

Sir Tom Scholar: I cannot put a precise date on it, but that became apparent in early April. We were learning at that point day by day that there were particular issues for the smallest businesses in accessing the CBILS scheme. It was through that experience, which was, as I say, day by day, that the Chancellor asked us to work up a further scheme: the one that eventually got announced and became known as the one we are discussing today, the Bounce Bank Loan Scheme. The operational difficulties became apparent in those early days and weeks of the operation of CBILS.

Q12 **James Wild:** Do you think if there had been more planning, along the lines that Mr Grant has been testing, you would have appreciated that it was really the consumer protection legislation here that was going to prevent firms getting money quickly? I am surprised that the British Business Bank or other people you spoke to did not advise you that that was going to be the outcome here.

Sir Tom Scholar: There were two factors or two important changes that were made to the original CBILS scheme that turned it into the Bounce Back Loan Scheme. The first was to move from an 80% to a 100% guarantee for those small loans to the very smallest business. In fact, at the time that the CBILS scheme was announced and launched, it actually would not have been possible at that point to go to 100% guaranteed, because at that point the EU-wide state aid restrictions did not allow 100%. They were then relaxed and we were then able to take advantage of that and go to 100%.

The other important change was to reduce very significantly the whole process of loan application and approval. On the one hand, that certainly made it easier and quicker for businesses to make their applications and for lenders to approve them. On the other hand, as I am sure we will discuss during this session, it reduced the checks that lenders were able to make, and it reduced their ability to apply all their normal conditions and to minimise the risk of fraud, error and so on. That was not a decision that the Chancellor took lightly. In the end, it was a calculated decision that, given the needs of businesses and the urgency of the situation, it was appropriate to accept a higher degree of risk.

It was a reasonable decision to try first of all with a more conventional approach and then, very quickly—in a matter of a couple of weeks—to move to a more unconventional approach, which is the one that we ended up with in the Bounce Back Loan Scheme.

Q13 **James Wild:** I just wonder if there was enough attention on the needs of micro-businesses. Evidence I have had from UK Finance talks about how the way the scheme was designed meant that they would not have been able to access loans quickly. That is what transpired and we got to a position where a million loans had been provided to micro-businesses. This seems like something that should have been predicted and would have been addressed if there had been better planning. Is that not fair?

Sir Tom Scholar: To go back to my earlier answer, if we had been planning for a whole raft of support measures, including business support measures, to help the economy through a prolonged period of total or near-total lockdown, we would have certainly done many things differently.

The point I was trying to make earlier was that that was not part of this Government's pandemic planning in general. As far as I am aware, it was not part of any Government's pandemic planning in general, because no Government foresaw the development of this new and unexpected virus. I cannot speak to the health or the scientific sides of things, but I am not aware of any Government that were expecting to have to put their economy into total lockdown and who therefore had done the years of planning that you would normally need to deal with such an eventuality. There is not a single example of such a Government.

Q14 **James Wild:** If we look at the National Risk Register going back to 2010, the global pandemic is one of the highest-impact risks. I appreciate you are talking about a flu pandemic, but section 2.2 of that register talks about causing significant wider social and economic damage and disruption. In some sense, it does not really matter whether it is Covid or whether it is flu. Massive disruption to the economy and the need to get finance out to businesses is something that it would be reasonable to say that the Treasury and Government should have been focused on. Obviously, we had had SARS as well.

Sir Tom Scholar: With respect, whether it is Covid or flu does make a great deal of difference. Again, I am speaking on things that I am not authoritative on, but, as I understand it, the planning assumptions given were that in the case of an influenza epidemic, which of course is much less serious, you might expect 20% of the workforce to be off at any point in time over a period of however long. Clearly, that would have, in the words that you used, a significant impact, but an impact that it would be reasonable to expect to deal with through conventional policy measures. What we see under Covid is just quite different, and different also from the SARS experience. What we have seen under Covid is a global lockdown and that is unprecedented.

Q15 **James Wild:** I just want to talk a bit about the other elements of the scheme. With bounce-back loans you limited interest payments to 2.5%. Why did you allow much higher interest rates to apply to CBILS when they were underwritten by 80% by the taxpayer?

Sir Tom Scholar: Perhaps I will say a few words and then Katharine might want to add to that. As I said earlier, we started with the CBILS scheme. The CBILS scheme uses or supports lending through existing lending channels and through existing standard lending procedures. It is not a completely commercial operation, as you say, because of the presence of a partial Government guarantee. It tries, as far as possible, to keep the lenders acting and making all of the credit checks and loan assessments that they would normally make on a commercial basis. For that reason, it was thought that a pricing structure more closely based on a commercial pricing structure was the right one.

In the case of bounce-back loans, as I was just saying, one of the things we learned in those couple of weeks was that for a large number of the business looking for loans they are very small businesses indeed, micro-businesses. In the end, 90% of the bounce-back loans have gone to micro-businesses, in a very large number of cases to businesses that had never before had a loan of any sort, that struggled to provide the detailed financial modelling, turnover projections and so on that a bank or a lender would normally require for commercial lending. I am sure you know this very well.

In order to get funds quickly to those businesses, a different approach was needed, hence the 100% guarantee and the significant reduction of the normal processes. Because of that, it really does not look very like a commercial operation anymore, so we felt that it was appropriate for the Government to set the lending rate, including the 12-month interest-free element to that. That is the overall picture. Katharine, I do not know if you would like to add about either decision.

Katharine Braddick: All I would add is to build that out by making probably the rather obvious observation that it is about the ability to price the risk, both for the firm and for the lender. For larger businesses using the CBILS mechanism, they are typically better known to their bank. They might have a business banking relationship of some long standing. They are businesses with more management capability within the business, because they are typically larger. The bank may have therefore not just knowledge of that business but of that sector and that region that enables them effectively to price the risk and to judge the affordability of any particular loan. You can have a much more relationship-managed style of lending model and more accurately price the risk.

It was completely apparent with the population accessing bounce-back loans that the businesses themselves very often have very little history of using bank lending to support businesses. They are cash-generative businesses. They self-fund. It was very hard for businesses themselves to make judgments around their borrowing, and certainly very hard for their banks, who may never have lent money to that business before.

Indeed, more broadly, the data available for borrowing behaviour in this sector of the commercial economy is very thin, because they do not tend to use bank borrowing. On that basis, we needed to ensure that the borrowing was affordable and available, that it could be provided by the banks and that they could recover their costs sufficiently that they would not be funding the borrowing by effectively using the profits made or the services provided to other customers. It is quite a different pricing approach and that is why it worked the way that it did.

Q16 **James Wild:** That is all useful context, but the taxpayer is paying the first year of interest for CBILS on £14 billion worth of loans. Is there a cap on the level of interest that lenders can charge on those loans?

Patrick Magee: I can help on a number of Mr Wild's questions there. First, in terms of CBILS and getting money to micro-businesses, in the initial version of CBILS we did some quite close and collaborative work with the lenders and with the FCA. We actually came up with an adjusted definition of viability to look through and take account of the pandemic. We also worked with the banks to confirm that they could rely on automated checks. In the earlier versions of CBILS we did quite a bit of work to seek to customise for micro-businesses, which was a question you were asking earlier. Hopefully that helps. Given more time, that would have worked better, but given the pressing needs, we did need to move forward into bounce-back.

In terms of the pricing of the loans under CBILs, we have an obligation under state aid law to make sure that the economic benefits of the guarantee are passed through to the borrower. In accrediting lenders we work very closely with them. We look at their funding models and funding costs. We take account of the capital costs and the credit costs that they can save by using the guarantee, and we require them to forward them through.

It is right, as Ms Braddick was saying, that there is a range of credit appetites out there and therefore some higher-priced lenders have come in, but eventually we have come in, consulted with Treasury and BEIS and put in a cap of 14.99% for the highest-risk lenders. That will be significantly below what they otherwise would pay. We have certainly been doing a lot of work and I hope that helps with context.

James Wild: It does, thank you.

Q17 **Peter Grant:** Can I come back to Sarah Munby, please? Ms Munby, could you tell us what the objectives of the scheme were when it was set up, how much uptake you anticipated, how much money you thought would be involved and what level of potential losses or irrecoverable loans were anticipated?

Sarah Munby: Just to start on your last question about losses, before the scheme was launched, we had a combined estimate of what we thought the credit loss and potential fraud loss would be. I will refer to my paperwork but we were in the realms of 35 to 60—those sorts of numbers. In fact, it was very similar to the numbers that we see now. We did not fundamentally change our mind about what the likely loss rate was.

You know, because it is featured in the report at some length, that our estimates of how much money would go out of the door were lower than what we saw in reality. The scheme was taken up faster, with very large numbers going out in the first weeks and months—it has now started to flatten—significantly more than what we anticipated. Do you read that as meaning there was a very real need for this scheme, it was more successful than we thought, there were more companies out there who needed our help and we were able to deliver that rapidly and at pace? Do you see that, or do you see that we underestimated the amount of money that would be spent? Both are true.

Q18 **Peter Grant:** For the benefit of those watching our proceedings that may not have read the report, you referred to estimated losses at the start of the scheme of around 35 to 60. Are we talking billions there or tens of billions?

Sarah Munby: They are percentages, because we did not know what the absolute size of the scheme was, because that is not how the scheme was built. The scheme was built up to respond to demand, so we did not set a pound cap on the scheme when we started.

Q19 **Peter Grant:** What criteria did you set at the start of the scheme that would allow you to know afterwards whether it had delivered value for money?

Sarah Munby: At the start of the scheme, when it was originally put out, if we say value for money is about making sure you deliver the objective with the best use of resources, the key objective when we began this scheme was to get money out at scale, quickly and to a broad range of businesses. That last point is important—a broad range of businesses in terms of region, sector and also size, including the very smallest of businesses.

Against all those measures, which were the things that we set out to do at the start of this scheme, it is fair to say the scheme has been a very considerable success. Money went out quickly, it went out at scale—indeed more than we thought—and it has also gone to a very broad range of businesses, including the smallest businesses.

Of course, we had in mind at that point the question of the future return of the scheme and how much money it would ultimately cost. The objective at the start was to get the money out and we did that. The analysis in the round of what impact this will have on the public purse will depend on how many of the loans get paid back. Part of the reason why, at the point of launch of the scheme, a ministerial direction was required was simply that the question of how many of these loans will ultimately be paid back is one with extremely high uncertainty.

It is worth reflecting on why there is so much uncertainty. It is not really because of details of the design of the scheme or something that could be easily mitigated. It is because, fundamentally, we were launching a very large loan scheme into a very uncertain economic environment at the time, where we did not know what the future evolution of the virus would be, how effective the lockdown would be or how business would react. We did not have the full picture of all of the other schemes that might come in over time, et cetera. That was why there was so much uncertainty.

There continues to be much of that uncertainty in play, which is why we are not able to sit here today and tell you how many of the loans will be paid back, which means we are not able to sit here and say what the ultimate cost of this programme will be and hence whether it will ultimately deliver a high cost-benefit ratio, which is what we would all like to be able to do, and indeed what we can do that for the historic schemes of the British Business Bank that have been running long enough to properly evaluate them.

Q20 **Barry Gardiner:** Sir Tom, you used the word that has been much used in the debates lately about how this whole thing was "unprecedented" and you did so specifically in referring to a lockdown. What had happened in China, what had happened in Italy, and when did that happen?

Sir Tom Scholar: What happened in Italy happened with a lead time of—I cannot remember now how many days.

Q21 **Barry Gardiner:** The point, Sir Tom, is that there were lockdowns in both China and Italy, were there not, and those were substantially in advance of the lockdown here, so to say it was "unprecedented" is not quite accurate? Let us go to page 18 of the Report. If you recall what happens there, it details similar schemes upon which the bounce-back business loans were modelled, and it details those for Germany and Switzerland. Would you care to read out when it was that the German and Swiss schemes started?

Sir Tom Scholar: Perhaps I could add that the—

Barry Gardiner: Could you read it out, just so the public are aware of when those schemes started?

Sir Tom Scholar: I will start with the UK Government CBIL scheme that was announced on 13 March.

Barry Gardiner: We are talking about the bounce-back, so let us just focus on that.

Sir Tom Scholar: What I am saying is fair because the German and Swiss schemes that you refer to would involve a substantial overlap with our CBIL scheme. It is not as if the Germans and Swiss had done their own CBIL equivalent earlier on. The two schemes that you are looking at equate to both our CBIL scheme and the Bounce Bank Loan Scheme. Our CBIL scheme was announced by the Chancellor on 13 March. The German scheme, according to this table, started on 15 March, and the Swiss scheme on 25 March. As I said earlier, in those early days, we were monitoring extremely carefully and realised that there was a need to do more for the micro-businesses, and very rapidly developed the Bounce Bank Loan Scheme.

Q22 **Barry Gardiner:** If you go to the top of the page, it says that those "international comparators are similar to UK's Bounce Back Loan Scheme but contain more detailed application checks and are more restrictive in the use of proceeds". Given that you had a month and a half to see what the Germans and the Swiss had done in those comparable schemes, why did you not incorporate some of those checks in the Bounce Back Loan Scheme that you adopted?

Sir Tom Scholar: We did incorporate those checks in the CBIL scheme, which we announced before the German and Swiss schemes came into effect. Katharine may want to add something on this, but one of the points of learning in the very early days of the CBIL scheme was that the structure of our industry and business sector, in an important respect, is quite different from that of some continental European countries, including Germany and Switzerland, in that, as we were discussing earlier, we have this very large number of very small businesses with, in many cases, no history of borrowing or bank lending and no business-customer relationship with a bank.

Q23 **Barry Gardiner:** You are disputing what an agreed report said, and that is that these international comparators are similar to the UK's bounce-back scheme.

Sir Tom Scholar: No, I am not disputing it at all.

Q24 **Barry Gardiner:** You are stating that there are significant, relevant differences that mean that you did not need to make the same checks and restrictive use of proceeds. That is your argument.

Sir Tom Scholar: I am not disputing anything in the report at all. The sentence in full reads, "International comparators are similar to UK's Bounce Back Loan Scheme but contain more detailed application checks and are more restrictive in the use of proceeds". The UK Government scheme that contains more detailed application checks is the CBIL scheme, as I said earlier.

Q25 **Barry Gardiner:** Yes, but you were using the rationale that the business structure here is so substantially different from that in Switzerland and Germany that it would not have been appropriate to have had those same checks in place or to adopt the checks and practices that they had imposed upon their businesses for those loans.

Katharine Braddick: There are differences in the regulatory regimes applying to commercial lending here than in both those jurisdictions, and differences in the legislative framework around the way companies are established in all three jurisdictions, but it was the existence of the sorts of checks in the German and Swiss schemes that was preventing micro-businesses accessing the lending under the CBIL scheme. That is what swiftly became apparent in the early weeks of the scheme and, therefore, very deliberately, in designing the scheme with BEIS and with the British Business Bank in particular, we took out the elements of the process at the point of lending that were inhibiting those very small firms accessing what they needed to support their liquidity.

We may want to talk more later about how we built in mitigation, therefore, to handle those risks, but it was the existence of that process in CBILS and in the Swiss and German schemes that made clear we needed to create something different. The Swiss and German schemes, where they have schemes that are more comparable to BBLS, have seen lower take-up. I am not an expert in either jurisdiction and in the lending practices of either jurisdiction, but certainly part of the explanation is that the composition of their commercial sector is different than ours.

Q26 **Barry Gardiner:** Thank you. That seems at least clear. Why was it not possible to get a subsequent due diligence process in play that would have not been as restrictive as the one that you have just outlined, Ms Braddick, from the CBILS and the German and Swiss schemes but one that was tailored to the needs of small businesses? Are you saying that it was so late in the day when you woke up to the fact that small businesses were not able to access the scheme that you could not get a proper process of due diligence in place?

Katharine Braddick: I will talk a little bit about the due diligence that there is in place, but Patrick is very well-placed to talk about the constant iteration, as the scheme has been operated, to ensure that we continue to address risks. There are risks in both directions, of course. There are risks to businesses of affordability, and risks of fraud.

In terms of ensuring that there were effective checks that we could put in place that did not inhibit the speed of getting the lending out of the door, there were checks to ensure that businesses exist. If you have a tax return from April 2019 and before that, a lender can establish that you exist as a business. You may already have a business current account with the lender, in which case the lender will have done know-your-customer checks. Lenders are required to do fraud bureau screening. It would not be true to say that there were no fraud checks at the point of lending; what we did is cut those back. There is then ongoing monitoring that lenders do throughout the servicing of the loan, which includes fraud monitoring.

I know the British Business Bank has been working very closely with lenders on fraud throughout the scheme, so Patrick might be able to comment on how that has been developed.

Patrick Magee: I am very happy to do that and build on that. It is right to look at page 18 of the Report and at the bottom-right box. The UK regulatory system has very strong checks in terms of knowing your customer, anti-fraud and anti-money laundering. That is, in many ways, equivalent to what happens in Germany and Switzerland, because they are checking the details. To have a business current account, you have gone through quite a rigorous process. Our SME Finance Monitor tells us that 89% of all businesses have a business current account. Some 99% of business current account providers are now represented in the Bounce Back Loan Scheme and, therefore, they check the identities and they are checking the very similar things that are happening in Germany and Switzerland.

When we were asked to work very collaboratively with Government and the lenders to design those schemes, we built around the existing infrastructure that works within the banks and, therefore, we were able to deliver the objective that Ms Munby was talking about: to get out at scale and pace while having appropriate know-your-customer checks, fraud checks, etc. We are absolutely building on those through fraud prevention.

Q27 **Barry Gardiner:** That is helpful, and you have emphasised that that was in order to meet this overarching objective of speed, but subsequently, on 3 November, you also wrote to the Chair of this Committee and pointed out that you believed that you had prevented a number of fraudulent loans—almost 27,000 of them—and you believed that they represent a fraud that is £1.1 billion. It is clear that those checks that are there at the bottom of page 28 did not deter a huge amount of fraud.

We can look at the anticipated losses on page 40 of the Report. My colleague, Peter Grant MP, was alluding to the percentage of those losses. It has been quantified on page 40 of the Report and, again, I stress it is an agreed Report. We are talking about a potential loss of £15 billion to £26 billion. Ms Munby, I would come back to you. You insisted on a ministerial direction to proceed with the scheme. Perhaps you could tell us why you did that.

Sarah Munby: As a matter of fact, it was not me but my predecessor, but I will absolutely discuss why.

Barry Gardiner: Your position as the Permanent Secretary.

Sarah Munby: Yes, indeed, but I was just being clear. Just before we do that, can I come back to the £1.1 billion, just to be very clear on the facts? That is prevented fraud; that is not fraud that has taken place but fraud that has not happened. I wanted to clarify that for viewers.

In terms of the losses, first of all, let us just be clear that, when we are looking at that number in the Report, that is not fraud. That will include some fraud, but the majority of that is people not paying back their loans, which is part of the risk that you take in a loan scheme. Clearly, that risk is fairly high in a loan scheme like this, because it is going into a challenging economic environment. As you would expect, fewer loans will be paid back than you would normally expect. That is why the scheme was necessary.

If these loans had had a very clear commercial reason for banks to do them, because there was a really solid sense that they would all have been paid back, we would not be in this territory in the first place. As you look at that number, it is really important to emphasise that most of the loss that we expect here is credit loss—i.e. loans not coming back in because the company is unable to repay—not fraud.

As to the question of why the direction, I mentioned already the first point, which was just a real uncertainty about that number. It is very hard to confidently sign something off as meeting the standards of managing public money when there is such a high level of uncertainty. Faced with uncertainty, you have a choice whether to act or to not act and, clearly, in this case, Ministers took the view—and one can well understand why—that to act was better than to not act but, from the point of view of managing public money, that was a concern.

The second thing is that we were absolutely concerned about fraud. It is important to say, though, that we have talked a lot about mitigations and, indeed, the success of those mitigations. That is the £1.1 billion we were just discussing.

Chair: We are talking about the ministerial direction in particular.

Sarah Munby: I will come back to the fraud question. It is important to say we consciously understood that there would be fraud because of choices made about the design of the scheme. That was what we were concerned about, not a lack of ability to implement the checks, for example.

The third reason mentioned in the letter that you will see for asking for a direction was because of concerns about the impact on competition in the business lending market.

Chair: We know about ministerial directions and we will have a whole separate analysis as a result of what has happened with Covid-19.

Q28 **James Wild:** There are quite a few *Top Gun* references going around about the need for speed here. I just want to focus on that a bit more. What lay behind the 24 to 48-hour timeframe that lenders had to get the money out of the door?

Katharine Braddick: It was because there were a very large number of very small businesses that were, by that stage, about to run out of liquidity in a fortnight to three weeks, so it was clear that they needed access to the money very quickly in order to have confidence that they could continue to run their businesses. It was quite straightforwardly that reason.

Q29 **James Wild:** You just said that they had a fortnight to three weeks' worth of cash so, again, why would you then need to get the money out in 48 hours? What compromises were made as a result of that decision?

Katharine Braddick: It was very clear that there were firms that were experiencing a very high level of stress, where it was turning into a broader confidence problem. They were really anxious that they were not going to be able to continue to run their businesses, to deal with their suppliers and, where they had staff, to deal with their staff. If you have only two weeks' money left and you have to wait 10 days to know if you are going to get your loan, it did not feel that helpful.

The changes that we made to ensure that that could take place were to have a very short application form that we worked on with the lenders. The affordability and viability checks became self-certification. Those were the principal changes that we made to make it a very swift process.

There was then also a good deal of lender activity, and the British Business Bank worked with them very closely to set up automated processes so that they could process the request as swiftly as possible. It was partly about removing checks and partly about volume process.

Q30 **James Wild:** I have a number of constituents who sought to get the loans but they were not existing customers of some of the providers. I had to intervene personally on a number of cases, which the banks did respond to, in order to get their bank accounts approved and then for them to be able to make the application. They were facing the same cash-flow crisis that you have just said justified getting the money out in a 48-hour timeframe. Was there a timeframe for approving new lending to new customers?

Katharine Braddick: We did agree with the lenders, and Patrick will want to confirm this, but my recollection is that, where lenders wanted customers to open business accounts—where they were using personal accounts, they had to open a business account, essentially so that they could conduct the necessary money-laundering and know-your-customer tests—we did say that they could take longer. My recollection is it was three to four days, but Patrick might correct that.

Patrick Magee: There was an initial aspiration to get the cash disbursed in 24 hours. If there were checks to take you across, it was 72 hours, and the NAO Report confirms that the vast majority of loans went out in that timetable.

Q31 **James Wild:** I certainly had constituents who were waiting two to six weeks to get the transfer from a personal account to a business account. Is the urgency still there in terms of the 48-hour timeframe necessary? Today, a huge amount of money has been paid out under these loans. Is it still appropriate for that 48-hour timeframe to be in place?

Patrick Magee: The systems have been set up. As I was saying earlier, building on that bank infrastructure, in that two-week window that we laid out in the report to launch the report, it may not have been possible for the banks to incorporate all those AML and KYC checks, so I am very pleased that we were able to work with them to develop those online systems to give that fast transmission and give that certainty to SMEs. The systems are now built. You can see the chart on, I think, page 14 or something in the Report, and it shows the curve. The deployment of capital has slowed down, but given the system is working, we do not see a need to slow it down, as it were.

Q32 **Chair:** You might be referring to figure 8, Mr Magee. For anyone following this, it is helpful for them if we refer to a figure.

Patrick Magee: Yes, it is. It is figure 8; that is absolutely correct.

Chair: The pictures help.

Patrick Magee: Yes, I have them all flagged.

Chair: They speak a thousand words.

Q33 **James Wild:** I am afraid I do not have a page reference, but paragraph 3.12 says, "The Bank accredited most lenders under the scheme using an 'accelerated lender accreditation process'". How did you assess lenders' ability to make the loans quickly? Also, only three new lenders were introduced in this scheme. Could you have done more to open it up to more lenders?

Patrick Magee: The accredited acceleration is not so much the ability to get the money to the SME quickly; it is about moving those lenders onto bounce-back loans. When we started the CBIL scheme, we had 43 accredited lenders on EFG. We moved them over on to CBILS and then, over the course of the last six months, we have gone from 43 to 107. A lot of those have been new lenders. We have had pressure from lenders to make that quicker, but given that these lenders are benefiting from a substantial Government guarantee, it is appropriate for us to do very rigorous due diligence on those lenders and their processes. The accelerated accreditation process is to move lenders from, say, CBILS on to the Bounce Back Loan Scheme, and, again, because they have been working with us on the rails of our guarantee programmes and we have been working with them on their due diligence, we can move them across. That is what that paragraph is referring to. Hopefully, that helps.

Q34 **James Wild:** It does. As a final one from me, I understand that the changes that the Chancellor has announced to bounce-back loans enable people to top up if they have borrowed below the maximum amount. Is consideration being given to increasing the total amount that people can borrow beyond the £50,000, and are there any state aid issues with doing that?

Sir Tom Scholar: The Chancellor said, at the end of September, when introducing his winter economy plan, that he would be considering and then announcing, in the early part of next year, a further lending scheme. Clearly, we are providing advice on that at the moment and working through all the choices. In doing that, one of the things we will use as a contribution to that will be everything we have learned through the operation of the various schemes that we have had this year. That is for an announcement next year.

Sarah Munby: On the state aid question specifically, for the vast majority of businesses that were not undertakings in difficulty at the relevant date, which is a technical test, under the temporary framework there is a lot of headroom, so the state aid regime is not an immediate constraint to the size of the loan, for the vast majority of businesses.

Q35 **Peter Grant:** First of all, can I come back to Sarah Munby and follow up on part of the comments she made in answer to my earlier question? Ms Munby, I asked you what the success criteria were. Everything that you said was about getting money out of the door, getting money paid over and loans to as many businesses and as diverse a range of businesses as possible. Does that mean that there were no success criteria at all at the start of the scheme to measure how many businesses were kept going that would otherwise have closed, or to measure how many jobs were saved? Was there no measure at all at the start of the scheme as to the impact that it was going to have on keeping businesses going or on keeping people in work?

Sarah Munby: As you can imagine, that was absolutely clear in everyone's mind at the start of the scheme. In terms of turning that into a technical definition of objectives, you can see them listed in the Report at figure 5, and that was done after the launch of the scheme because, at the moment of the launch of the scheme, speaking extremely frankly, people's focus, knowing that that was the goal, was on making sure that we met those criteria around responding quickly enough and acting for the businesses that needed help urgently.

You will see, in those objectives, objective 5, "Debt structure should take account of long-term business survival"; objective 6, "Debt structure should allow firms with long-term growth potential to continue to grow"; and objective 7, "Long-term economic benefits realised from 5) and 6) exhibit value for money against government-incurred losses". That is absolutely our long-term framework for thinking about the objective of these loans which, of course, is to enable those businesses to thrive.

Q36 **Peter Grant:** It seems to me that objective 7, which you just mentioned, just goes round in a circle. The way you measure value for money for this scheme is, presumably, by comparing the benefits to businesses of keeping businesses going and keeping people in work, and you measure that against the short-term outflow of cash from the Treasury and, particularly, against the amount of money that does not come back in. You measure the net cost of the scheme to the taxpayer with the benefit of businesses staying in business and jobs still being supported. How could you assess value for money at the start of the scheme if you had not even set a target for the number of businesses you wanted to support or the number of people you wanted to keep in employment?

Sarah Munby: As I said, assessing value for money at the start of the scheme was extremely challenging because of the uncertainty about how many businesses we would be able to save, and that was reflected in the uncertainty about the likely loss rates, and hence the uncertainty about value for money.

In terms of the process question of how we would go about measuring value for money and understanding the cost-benefit of the scheme, we have a lot to lean on in terms of previous evaluations of BBB schemes that have operated under different circumstances. This one will be particularly challenging because it is quite hard to look at what the counterfactual was. We do not have a test group of businesses, for example, that did not suffer through this particular pandemic. We will always find it challenging to exactly analyse what would have happened without the scheme and what did happen with the scheme, which is the gold standard for thinking about its ultimate value for money.

Q37 **Peter Grant:** You are saying, in effect, that because of the exceptional circumstances in which this scheme had to be put together, it is unlikely that there will ever be a time when anybody can say with any confidence how many jobs have been protected or how many businesses have been protected as a result of the scheme.

Sarah Munby: We will be able to reflect on how many of the businesses that received the loans ultimately survived the pandemic, very clearly, and that would be a really important part of evaluating the scheme. The question of exactly how many of those businesses would have survived were it not for this scheme, particularly in the complexity of the broader package of Government measures, is quite a difficult one to answer. That is why we are going to do some very serious work on our evaluation framework in the current months.

I wonder if it might be worth bringing in Patrick, just to understand if there are any particular reflections from previous evaluations that we will be bringing to bear when we do this.

Patrick Magee: A good parallel would be the work that we have done in looking at the Enterprise Finance Guarantee and the growth and survival rates of those businesses, and similarly, with start-up loans, which have a vulnerable customer base and where the losses are higher. Because it is a guarantee scheme, EFG is higher value for money, but we should think of the inclusion benefits and helping more vulnerable customers. Again, we will be looking very closely at the lessons learned from the evaluations of those two programmes and applying them to the evaluation of bounce-bank loans, in collaboration with colleagues from BEIS and Treasury.

Q38 **Peter Grant:** Between you, you have probably led in nicely to the next set of questions that I want to ask, and they were particularly for you, Mr Magee. Clearly, the only way we can tell whether a business has directly benefited from the loan is if we can know what the loan has been used for. What information do you have as to what use businesses are making of the loans once they receive them?

Patrick Magee: That is a good question. That is what we will be evaluating through the monitoring and evaluation framework. When we go out and do survey work to estimate the impact of EFG and start-up loans, we look at what they have used the money for and what impact that has had on the business. That will be done during the survey work, which we will encapsulate through the monitoring and evaluation framework, so we will absolutely be looking at that.

Q39 **Peter Grant:** One particular thing that has been suggested as happening—I would appreciate your comments on it—is that businesses are using this loan scheme to pay off their existing debt, which means that it makes very little difference to their balance sheet, but it does benefit their lenders, because it gives the lenders greater security over the loan and it would be normal commercial terms. Have you done any work to assess the extent to which that practice might be going on?

Patrick Magee: It would be economically rational for businesses to pay down debt. I was speaking to one small business within the last week and they had various business credit cards out that they were paying between 15% and 20% on. They have refinanced their debt on to bounce-back loans, so rather than paying 15% to 20% on all that capital, they are now getting an interest-free period from the Government, so Government are giving that small business a significant benefit.

It is a disbenefit to the lender, because they are going from getting 15% to 20% down to 2.5%. This is providing emergency liquidity, and that business genuinely thanked me for being part of the Bounce Back Loan Scheme because they are significantly better off on their short-term cash than they otherwise would have been. That is my personal reflection on the benefits of the scheme.

Q40 **Peter Grant:** There must also be a benefit to the banks. If you think back to the banks in the previous crash in 2007-08, it did not matter what rate of interest they were entitled to get on the loan. If the business went bust, the bank was likely to lose a significant amount of money. Is it likely that the banks are benefiting from the security that the scheme gives them? Faced with the possibility that a significant number of customers might have gone under and taken their debts with them, the banks may be getting a slightly lower rate of interest but they are getting it and they know that, if the company fails, the taxpayer will pay them out. Is it not the case that there is also quite a significant benefit for the banks as well as the benefits for the small businesses?

Patrick Magee: That may be one for BEIS and Treasury, but certainly there was a lot of work done. Paying 2.5% interest to a bank is not a profit-making venture for them, because they would have to pay their funding costs and their operating costs. In terms of the saved businesses going bust, that is more for Government to be concerned about in terms of what the impact on the economy would be if we lost tens or perhaps hundreds of thousands of those businesses. That is my reflection but I am very happy for the Department or Treasury to comment.

Q41 **Peter Grant:** The reason I am particularly following up this apparently small point, Mr Magee, is that, in evidence earlier on, you reminded us that one of the rules of state aid is that the benefits have to flow through to the borrower. If it transpires that there has been a significant, if unintended, benefit to the lenders, how can we be sure that it still complies with the state aid rules?

Patrick Magee: We did work on that initially. Treasury perhaps led on the work in terms of the profitability of operating the bounce-back loan product for them. They did a lot of work on that and got comfortable on that. Certainly, in terms of passing the benefit on to the SMEs, because the rate is standardised and that 2.5% is much lower than they probably otherwise would have got, the benefit is going to the SME. That has been considered in detail both by ourselves and by the Department and Treasury.

Q42 **Peter Grant:** I have one final question. You mentioned the monitoring and evaluation framework. Can you tell us when the Public Accounts Committee can expect to see the results of that exercise?

Patrick Magee: I am happy to start, but maybe Ms Munby might want to comment. We are finalising the work on the monitoring and evaluation framework in the months ahead. We would expect to do initial evaluations of the Bounce Back Loan Scheme during next year but, as usual with our programmes, because they are multi-year programmes, we do an initial mid-life and then towards the end of the scheme. The first piece of work will be done during 2021, I imagine.

Sarah Munby: Yes, early results will be in 2021. You will then see further updates to that over time, with the final answer emerging further into the future. There is a 10-year payback period here, so it is hard to close the books until that point.

Q43 **Chair:** But we will have some early lessons to shape things through the ongoing pandemic.

Sarah Munby: Yes, absolutely.

Q44 **Craig Mackinlay:** Mr Magee, you are proving very knowledgeable on these schemes as the debate has progressed. In my mind, we have had four types of borrower. The first is the out-and-out fraudster who has tried to game the system, and hopefully measures within the banks and the way the scheme is designed have stopped some of those. We have heard that £1.1 billion has been prevented, but time will only tell which ones crept through.

The second group is those businesses that were, under any circumstances, probably teetering on the brink. They did not have a very good business plan and were probably going to fail on a good day or a bad day.

There are others that the bounce-back scheme was really for: those with a sound business, that were usually good and perhaps had cash-flow and liquidity problems even on a good day, but the bounce-back loan would see them through.

Then we have the very important ones, which Mr Grant has been trying to pull out of you, which are those that really did not need it in the first place but thought, "What a whizzbang plan. Let us have £50,000 with no interest. Why not?"

Do we have any stratification of those twos, threes and fours: the teetering failures no matter what, which are going to be the credit-risk ones; the ones that it was properly for; and those that have just thought, "I will have it because it is there"?

Chair: That is a useful summary of views.

Patrick Magee: We will absolutely be doing significant fraud-sampling work to identify category 1 and, hopefully, we have prevented the vast majority of those in the £1.1 billion. If there are more, we will be taking action on those. It is difficult because the credit checks have not been done and, therefore, have not been centrally collated, but certainly, through the monitoring and evaluation work, we will be looking at those businesses that would be teetering.

Remember how much the economy was moving in March and April. Many businesses probably did not know if they were a 2, a 3 or a 4, but they just thought, "I will take this money and put it in my bank account. If I do not need it, I will pay it back next May", and I think that is fine. Given the circumstances here, it was appropriate to offer that money certainly to the threes and fours. Many people did not know whether they were a 2 or a 3. That is my sentiment on your stratification. In terms of giving you an accurate percentage of that, I could not give that to you today, because that is subjective and requires detailed credit analysis on all borrowers to break them into the four.

Q45 **Craig Mackinlay:** The application form and self-certification was available to all of those. 1, 2, 3 and 4 could all self-certify. I just would have thought that the banks are fairly full of advanced and competent staff, and the direction from Treasury and perhaps yourselves could have helped some of this. Surely, the volume of banking transactions in the prior year would have given a decent idea of the size of these organisations, whereas it seems to me that all you needed to do was self-certify and that not too many questions were asked by anybody about what your real turnover was.

I do not see that it would have caused much of a delay for a requirement on the banks to say, "They say they have a £300,000 turnover likely ahead. What did they do last year? Yes, that seems about right." If it was not about right, it perhaps could have been pushed up the scale to a more senior bank executive to make that decision. None of that seems to have been in place and I really wonder why. I am trying to get to the bottom of why some of these credit risks and fraud risks were not ironed out as part of the design process.

Katharine Braddick: I will just say a couple of things about that and then Patrick will also want to, from his operational perspective. It is exactly the existence of those checks in the CBIL scheme that it rapidly became clear was preventing very small businesses and new businesses from being able to access the lending. That is because they will have had no credit history whatsoever. They may not have a business account with their bank, so their bank will not know what their turnover is. They may be so new that it is very hard to tell what their turnover is likely to be. There are a very large number of businesses in that position. That is why self-certification was introduced.

Also, any kind of relationship-banking model of exactly the kind you described, which is completely conventional and represents ordinary responsible commercial lending that is relationship-based and perhaps involves a chain of command in the bank, introduces the kind of delay that was particularly serious for this cohort of firms.

It was that combination of issues. As I said before, that generates risk around fraud and it also generates risks around affordability for the firm. We had to think about how to head off both those risks in other design aspects of the scheme. I do not know if Patrick wants to add anything to that.

Patrick Magee: I absolutely support everything Katharine said there. Just to build on that, from an operational perspective, we saw the wall of CBILS applications that came in, and the banks were really struggling. They were dealing with the new reality too. Their staff were dispersed across the country, back in their homes and dealing with the new ways of working. We talked about the need to get this capital to people within a short number of days or weeks, so that they could survive the pandemic; therefore, operationally, if we had gone to them and said that they had to do a check on every one of what has now turned out to be 1.4 million applications, they knew that they could not do that and deliver the objectives of getting the capital out at scale and pace. That was why we focused on fraud, KYC and AML to know that those businesses existed and that they understood who they were. That was the operational discussion around this.

Q46 **Craig Mackinlay:** I can understand that but I am afraid, Katharine, that I have to take you a little bit to task there. I am sure that the stratification of who was applying would have been primarily standard banks, primarily with a reasonable track record of being in existence for some years. There would obviously have been a few start-ups and a few oddities but my guess would be that 80% of applications were very run-of-the-mill, long-term relationships. I cannot understand why it was not in place to do that very basic relationship-checking. It seems like we have asked the taxpayer to be on the hook for poor processing within the bank because their staff were working at home and they had not really got themselves together. I am not terribly happy with that.

Katharine Braddick: Micro-businesses are very rarely relationship-managed by the bank. Their banking is, generally speaking, deposit accounting. They use it to manage their cash. The information was not available. That was what the firms themselves were tell us was the problem with trying to access money through the CBIL scheme. It was a reaction to the feedback from the businesses that were frustrated.

Chair: We all know about that as constituency MPs.

Q47 **Craig Mackinlay:** I want to move on pretty quickly. I have quite a bit to cover. This scheme was perfectly available to the class 4 businesses—those that had plenty of cash—but they really did not need it at all. Surely, the check within the bank was, "Mr X or Mr & Mrs X Company, you have £1 million in the bank. It has been accumulating nicely. You really do not need this scheme." We have asked the taxpayer to pay the quasi-interest to the bank on loans that were not needed. Why was that little basic check not in place? It may not amount to much but, in these days, a few hundred millions pounds are going to be needed by the Treasury.

Katharine Braddick: I would say two things to that. The first is to go back to Patrick's point. Firms themselves did not know which of these categories they were in and, indeed, have continued to move between them in the course of the pandemic so far and they continue to do so. Even if you are a cash-rich business, it may be rational, on the basis of your business model and your understanding of risk, to ensure that you have further insulation beyond your cash deposits to weather whatever is about to come.

Ministers were clear that they did not want banks to be deciding who a worthy recipient was on the basis of an understanding of the business model, both because that would introduce delay into the process and also because they wanted businesses to make a decision about what they needed to be able to support them through the crisis, not for it to be a credit-risk decision.

If you look at what we did, a lot of the credit-risk decision-making was taken out. That was the purpose of the scheme. It was a deliberate part of the design to give businesses access to what is lending, to enable them to support themselves through a stress, depending on their understanding of their own business.

Q48 **Craig Mackinlay:** Just sticking with you, if I may, Ms Braddick, looking at recoverability, when some of these bounce-back loans, come next May, are not being repaid, we are going to be asking the banks to "take appropriate recovery processes" to try to recover amounts for the taxpayer. I understand there is a route in place via which recovery can be made from the Treasury back to the banks before or after it becomes clear that these loans are irrecoverable. How much onus are you going to be putting on the banks, and how extensive is that appropriate recovery process going to be? Have you codified that or discussed that with them yet? What is that going to look like?

Katharine Braddick: We, BEIS and the British Business Bank are in the process of codifying expectations for recoveries. In the terms of the scheme, there are some expectations already in place. Recoveries for the smaller loans are captured and overseen by the FCA and, for larger loans, by the Lending Standards Board. There is already a structure around how recoveries should take place. We are working on codification in more detail in terms of how that should be operated. It is the case that, if lenders do not pursue recoveries in line with that collection of expectations, they will not be able to collect the guarantee.

Q49 **Sir Geoffrey Clifton-Brown:** I have a question for Katharine Braddick, please. You have been very clear that the whole objective of the scheme was to get it out quickly and, therefore, any credit checks or anything like that would have delayed it. Surely there must have been some criteria of checking these self-certifications; otherwise, you are just giving money away, effectively. We have this huge estimated loss figure of £15 billion to £26 billion. Were you satisfied that this very low level of checks was acceptable?

Katharine Braddick: We had to strike a balance between getting money to firms swiftly and through a process that they and the lenders could support, while maintaining the protection to the firms themselves that they were not overextending in terms of their leverage, and protection for the taxpayer and against fraud. We talked with Ministers in both Departments around all the details of the design of the scheme in an attempt to strike that balance.

It is important to say that there are consequences. First, it is very clear on the application form that, if you give false information, it is criminal. It is also very clear that it is a loan and there are consequences of non-repayment. For a sole trader and a limited company, if you default on your loans, that will show up in your business credit history and there will be consequences of that.

Again, there is a very delicate balance to be struck between enabling businesses to support themselves and protecting the taxpayer. In every element of the design of the scheme, the operation of the scheme and the recovery of the lending, we are trying to strike that balance.

Q50 **Sir Geoffrey Clifton-Brown:** Mr Magee, you and your staff were responsible for processing these loans. Was there any sort of check done on these self-certifications at all, or could any business self-certify anything? I accept what Ms Braddick has just said. Were there any sort of checks at all and, if so, how many loans did you refuse?

Patrick Magee: The first thing to clarify is that the lenders are responsible for processing the loans. We put in place minimum standards for them to do the checking upfront, as appropriate. As well as the AML and KYC in the agreement, if there are other things that come to their attention and look odd, they have the ability—and we suggest that they do—to stop the loan. What we were saying was, "This is self-certification but you must know your customer, you must do your AML and you must do your fraud-checking. If anything comes to your attention, you should stop that." I thank Mr Gardiner for drawing out our supplementary evidence earlier and we are proud of having putting those checks in place. Some £1.1 billion worth of fraud has been prevented in 26,000 cases, so hopefully that answers the question.

Q51 **Craig Mackinlay:** Something has just come to mind that I think is a really important point. This is for Sarah Munby. I am putting a bit of an accountancy hat on here. Under IFRS 9—soft loans to businesses—has any instruction been given as to how businesses are going to account for this free interest over the year? There are obviously state aid implications. To the Treasury, is this something you might want to tax? There might be an opportunity here around ongoing profitable businesses. I have the taxpayers' best interests at heart here.

Sarah Munby: I am afraid I will have to come back to you in writing on the accountancy point.

Chair: If you could do that, I am sure businesses and the accountancy profession will be very interested.

Q52 **Craig Mackinlay:** Given where we are today and what Parliament did yesterday—I was not part of it, I am very happy to say—whatever the current thoughts on the recoverability of bounce-back loans are, they will be taking a hit with a further month of lockdown. I started the session rather intrigued that any estimation of that had not been fed into the quad group at the weekend. I know it was perhaps all rather quick and on the hoof, but where are we today and what are your thoughts for the future? Has an estimate been made of how much extra this is going to cost the taxpayer in bad loans because of another month's lockdown?

Sir Tom Scholar: Perhaps I can answer that. The next official estimate of the likely losses under the Bounce Back Loan Scheme will be made by the OBR when it publishes its forecast on 25 November. That will include its best estimate of the cost of all the different support measures. It is independent and it is for it to do. I do not quite know how it is going to present it. My guess is that it will present a total cost rather than try to disaggregate it into which bit was caused by which set of restrictions, because that is almost an impossible task, but it will provide an updated estimate of the overall cost of the scheme.

Q53 **Craig Mackinlay:** I am a bit intrigued at that. You seem to be passing on the problem to the OBR to report at a later date. Surely HMT must have quite a grip on these things on a day-to-day basis, I would have thought, but perhaps I have got the role of HMT completely wrong over the years.

Katharine Braddick: I have a couple of observations generally about assessing likely defaults under the scheme. The first is that the first repayments will not be due until 4 May next year. Even without the uncertainty that we are currently dealing with, it is not until people start to go into repayment periods that you can start to gauge levels of default. Also, the Chancellor announced on 24 September a series of measures to help firms manage their repayments, including pushing out the tenure of the loan, having the possibility of a six-month payment holiday, and also up to three periods of up to six months during which they can make just the interest payments. As we gauge likely default patterns, we need to understand how firms are going to use those fairly recently announced measures.

Senior officials meet weekly between the three organisations to discuss the operation of the scheme. They speak informally much more frequently than that to discuss what is going on with the operation of the scheme. We will be constantly talking about firm behaviour, likely repayment and the use of these options, and we will be talking to lenders about it. This will be a matter of constant engagement and discussion and, as Tom says, there are, periodically, formal points at which forecasts and assessments are published, and we will inform those as well.

Q54 **Craig Mackinlay:** Let us put our mind forward to once the repayment dates are here. They are not being performed and we are asking the banks to make their appropriate recovery processes, although, as yet, what we are expecting of them is a little bit unknown. They say, "They are just not paying. It is not performing. Can we have our 100% guarantee, please?" HMT will pay them their 100%. We are still a bit unsure as to whether that is a good loan or a bad loan. For self-employed people and partnerships, you have the potential to chase liabilities a little bit further. With limited companies, there is a bit more of a wall once they go into insolvency. What role will HMT play in trying to recover loans where the bank just said, "That is it. We have had our money. We have washed our hands of them. Thanks very much"? What is the process going to be?

Katharine Braddick: I will say a little bit about the Treasury role but it is very important that we hear from Patrick because the British Business Bank is engaging directly operationally. The Treasury will not pursue recoveries. The lenders purse recoveries. That is their legal obligation. It is their obligation under the contract. They will either forfeit their guarantee or the Treasury will claw back the guarantee, where it has been paid, if the lender is not discharging their responsibilities under the contract. The extent to which they are discharging those responsibilities in line with the guidance is audited by the British Business Bank through a process that you may or may not want Patrick to describe.

Q55 **Peter Grant:** Mr Magee, are you able to tell us how many applications you rejected at the outset because you were satisfied that the application was fraudulent?

Patrick Magee: That equates to the number I was discussing earlier: the 26,000 and £1.1 billion. That is an estimated number in the letter to the PAC Clerk, because different banks have been estimating the amount of fraud they have prevented. Of the applications they have rejected, they reckon 26,000. We are refining the methodology with them but that is the best current estimate.

Q56 **Chair:** Those are rejected ones, just to be clear.

Patrick Magee: Those are prevented/rejected. They may have rejected other people because they were not eligible; for example, the business started after 1 March or they were not eligible for some other reason.

Q57 **Peter Grant:** That sounds like a small proportion of the total number of applications and it is probably quite a small proportion of the total number of fraudulent applications. Although I appreciate you may be limited as to what you can say in a public session, you may want to write to the Committee with more details in confidence afterwards. Could you outline what steps you intend to take retrospectively in order to identify fraudulent applications and make sure you get the money back?

Patrick Magee: I have described so far what we did pre-launch in terms of putting in the minimum fraud checks. The report sets out in quite some detail what we have done since the launch in terms of duplicated accounts and changing-director flags, but the ongoing work really is a significant collaboration effort between ourselves, the lenders and colleagues across Government.

We have a weekly HMG and lender fraud prevention and collaboration working group. We have developed what we call a fraud risk assessment. We are working through our post-event assurance plan. We are doing significant data-analytics work with Cabinet Office. We have audits in the field with 80% of the lenders, which are due to compete by December, across BBLS and CBILS. I imagine most bounce-back loans are being audited pre-Christmas. We are doing a significant project on fraud-sampling. We are leading on that with PwC, but BEIS, Cabinet Office and others are feeding into that. We are collaborating very significantly with the investigation and enforcement authorities across Government, and any evidence of fraud that we find is passed on and they take action.

That gives you a sense of the very significant work that is ongoing on fraud prevention and enforcement but, if you would like more detail, I would be very happy to follow up.

Chair: It is something we are going to keep a very close eye on, so certainly that is a helpful offer, thank you.

Q58 **Peter Grant:** Your answer appeared to suggest, Mr Magee, that the British Business Bank has not prepared a standard definition of fraud. There is not a standard definition of a potentially fraudulent application for the individual banks to use. I can appreciate that, being a commercial loan, it is up to the bank to decide how to protect themselves against fraudulent applications, but given that, ultimately, the risk here is borne by the taxpayer, why has the British Business Bank not set out even a minimum set of requirements or checks for banks to undertake, either before they approve the loan or, if they need to approve the loan, to approve the loan and then immediately flag it to you for further investigation?

Patrick Magee: Sorry if I have given that impression. Schedule 8 of the guarantee agreement sets out minimum fraud standards, and we are working in detail with the banks and have given detailed guidance in terms of fraud protocols and the different types of fraud, et cetera. We are absolutely working with them and I am happy to revert in writing with more detail on that. We are absolutely working very closely with the lenders on that.

Katharine Braddick: Perhaps if I might add one thing in answer to your question, of course it is not only for the bank, partly because there is real benefit from collaboration here: the meetings that Patrick was talking about, working closely across the banks, HMT, the Department and the Cabinet Office's fraud team. Something like the analytical work that Patrick was talking about is about bringing to bear the full might of Government in terms of data and analytics to this problem to support banks in their efforts. I just wanted to say that we are working together with the banks, and the banks have recognised that.

Q59 **Peter Grant:** Mr Magee, one practice that is, unfortunately, quite common among the shadier end of the business community is for a business to close down when HMRC or another regulator is getting a bit too close to them, and everything that is worth anything is transferred to a different business owned by the same people or, alternatively, it is all hidden offshore, so that neither HMRC nor the UK courts can get hold of it. How much of a risk do you see that as presenting to the business Bounce Back Loan Scheme?

Patrick Magee: As we had flagged in our letter to Ms Munby's predecessor, we do see that risk and we did see very high residual fraud risks. That is why we have been going through the very significant work that Sarah was just discussing there in terms of bringing the full might of Government's expertise in fraud to this. There is absolutely that risk but there is always that risk when people feel they are in financial difficulties or, as you say, are at the shadier end of business practice. While Government may have credit risk to assist businesses through this difficult time, it has a minimal risk appetite for fraud, so we will be taking action on that.

Q60 **Peter Grant:** Is the existing legislation enough for you to be able to pursue individual directors who are guilty of fraud, even after they have liquidated the business that was the legal entity in the first place?

Patrick Magee: That is not a question I have an immediate view on. I do not know if policy colleagues may have. If we feel that there is insufficient work on that, we would flag that to colleagues in government, and if further changes in legislation or changes in practice are required, that would certainly be something we would seek to recommend from our collaborative effort that is ongoing across Government. That is my initial thought but I am very happy for others to have thoughts.

Q61 **Peter Grant:** I will maybe ask Ms Munby to respond to that. Given the vast amount, potentially, of taxpayers' money that has been handed over within such a short time to so many businesses, have you considered the possibility that the existing legislation about holding individual directors to account for their actions is still adequate, or do we need to consider new legislation to address this particular set of circumstances?

Sarah Munby: I am very happy to take that question away and come back to you with an answer. It is worth saying, though, that, in all of our discussions here about fraud, we should remember that there is a very big spectrum of activity, ranging from serious organised crime, on the one hand, through to minor misstatements in application, at the other end.

There is a balance to be struck here about the extent to which we criminalise the full range of activity. That is the discussion that is ongoing as we think about the recoveries framework and how we treat different types of cases. Clearly, exactly as Patrick has said, where fraud has taken place, that is something we will come down on very seriously, and you will have seen that arrests have already been made in that context.

Q62 **Peter Grant:** I have a final question for Ms Munby, which ties in earlier questions with what we are talking about now, which is the potential risk of fraud and the steps that have been or might have been taken in order to address that. Given that we saw, in 2003-04, what could have turned into a global pandemic of an airborne virus very similar to the present Covid-19, it should have been obvious at that time that the only way to protect against a highly infectious virus such as coronavirus was going to be some kind of lockdown.

Is it not the case that, by not planning for the economic impact of a lockdown from that time and by ending up in the situation where you had to put this scheme together in a very short time and then get the money out of the door as quickly as possible, that failure to plan across

Government has substantially increased the risk of fraud and has, ultimately, substantially increased the cost to the taxpayer of this scheme?

Sarah Munby: I would come back to what I said earlier, which is that, for most of the fraud that we are discussing here, the choice to take a degree of risk around fraud in order to allow people to get money quickly—and I do not mean to launch the scheme quickly but I mean for an individual business to access money quickly—was a conscious choice, not taken because we had not thought about or had not planned it, but taken because, at the time, that was the right reaction to the circumstances that were faced. That was not particularly related to the discussion that you had earlier with Tom about pre-pandemic planning.

Chair: You can gather from Mr Grant's questions that we will be watching some of these issues particularly over the next few months up to 4 May.

Q63 **Sir Geoffrey Clifton-Brown:** Sir Tom, paragraph 23 of the Report indicates that you have not yet finalised a recovery protocol. Can you tell us where you have got to with that? This is clearly fairly critical to what Mr Grant has just been describing in terms of fraud and other criminal activity.

Sir Tom Scholar: I will start with that one and hand over to my colleague, Katharine, who is involved in this. We are in the middle of doing this now, in discussion with the lenders, the British Business Bank and BEIS, and with the FCA as the regulator of the lenders. We are in the middle of that process. It is not complete yet. We have a little time to do it, since no repayments are due, in any case, until May next year, so we will make sure that, ahead of that time, we are ready with that agreed guidance and we will able to give, at that point, some public indication of the approach that we expect to be taken.

Q64 **Sir Geoffrey Clifton-Brown:** Will this be in different categories, such as fraud, criminal activities and business failures? Will there be different protocols for different types of default?

Sir Tom Scholar: The basic expectation is that the lenders are required to follow their normal procedures in ensuring that the money that they have lent is paid back to them and that they recover their loans. I am not the expert on what normal procedures mean for a commercial lender. You might want to turn to Patrick at that point. It is not just an intention but a contractual obligation on the lender to undertake their normal processes because, if they do not do that, the guarantee becomes invalid.

Q65 **Sir Geoffrey Clifton-Brown:** I will turn to Mr Magee in a minute, but I have one further question, while we are on this subject, for you, Sir Tom. Who is going to pay for this work?

Sir Tom Scholar: Do you mean the recoveries?

Sir Geoffrey Clifton-Brown: Yes.

Sir Tom Scholar: The lenders. It is their responsibility to recover the loan.

Q66 **Sir Geoffrey Clifton-Brown:** Which lenders?

Sir Tom Scholar: The 29—or however many it is—accredited lenders under the scheme: banks and other financial sector enterprises.

Q67 **Sir Geoffrey Clifton-Brown:** What would be the incentive for them to want to recover this money?

Sir Tom Scholar: If they do not, the guarantee is no longer applicable. That is written in the contract between the Government and the lenders.

Q68 **Sir Geoffrey Clifton-Brown:** Mr Magee, do you want to talk about the criteria?

Patrick Magee: You asked whether there are different protocols and different processes. Indeed, there are. We have been working on the recoveries protocol. Again, we have been monitoring lenders recovering debt for years under the Enterprise Finance Guarantee and, therefore, we are adapting the approach to be appropriate here. Originally, the agreement sets out that they need to act appropriately, in line with the FCA's CONC 7 guidelines. If a customer is struggling, they should discuss with them what the appropriate steps for them to take would be.

The Chancellor's announcements in the winter economy plan and the pay-as-you-grow options are very helpful and welcomed by small-business groups and lender groups, because there is a standard set of offers. You can extend a loan out to 10 years; you can take a further three interest-only periods; or you can have one further period of capital and interest-free-payment holiday, providing you have made six regular payments.

That recoveries protocol is working down through the detail of those processes. We are having very collaborative discussions with lenders, who are looking at putting in place—perhaps, although it has not been confirmed yet—some form of recoveries protocol. That is the first stage.

It is only once they have gone through that process that they can issue a demand. On that demand, we would potentially pay out, but they are then obliged to recover for a further 12 months, and any money that comes to them then comes to us to offset any guarantee claim. Hopefully, that gives you a sense of the recoveries protocol.

The fraud protocol is different because you have then identified that it is not a business that is struggling but one that has been potentially fraudulent, and then you go down your normal enforcement procedures. Hopefully, that gives a sense of the discussions as they are ongoing and building on the initial principles.

Q69 **Sir Geoffrey Clifton-Brown:** On this recovery protocol, are you just waiting until May to work out from which businesses you are going to be able to recover it or not, or are you monitoring any of your businesses as to whether they have ceased trading? Clearly, if they have ceased trading, they are not going to be able to recover and you should be writing the debt off now. Can you just tell us about that work?

Patrick Magee: There have been a very small number of claims so far where businesses have ceased trading, and we are working through a tactical procedure to look at that, but the more important thing is to look at the longer-term recovery process. I mentioned earlier some data analytics that we are doing with the Cabinet Office, which would identify businesses that are potentially ceasing trading. The topic of IFRS 9 came up earlier and, of course, that is a huge exercise for us. We are gathering data through our now automated reporting with the banks. We are looking at whether there are defaults on the existing facilities or on the wider customer accounts. Through various lenses, we are absolutely monitoring the performance of the book of loans.

Q70 **Chair:** Before I bring in Mr Gardiner, can I ask you, Mr Magee, how you are making sure that all borrowers are going to be treated fairly? Different banks—there are 29 of them—will have different criteria for chasing up repayment. Are you monitoring those differences and making sure that there is some fairness across the board? I can see challenges ahead on that.

Patrick Magee: Clearly, there are industry standards and Lending Standards Board standards, but perhaps more important are the FCA CONC 7 standards. That is a slightly colloquial name for it, but it is the FCA CONC 7 standards, so we will be looking to make sure that the lenders are acting appropriately towards the borrowers and then having what most people call customer care discussions, if people are struggling. We are absolutely looking for those to be done in line with the appropriate industry and regulatory standards.

Q71 **Chair:** The customer care discussions can range from the formal legal bit to the early discussion. If you have a known client, if you are a bank that has already been lending to this business, it is perhaps a slightly different conversation to some of the small cash-based businesses that Ms Braddick was describing earlier. What are you going to provide? Just talk through it. Are you setting out new rules or new guidance? How are you going to make sure? We will be the people who get the constituency businesses coming to us, saying, "I was treated differently to the business down the road", so how are you going to make sure that it gets through to the banks?

Patrick Magee: Maybe if we take it down in tiers, at the highest levels you have the regulatory standards and the industry codes of conduct. Then we have the recovery standards, which are in the guarantee agreement. Then we will be issuing recovery guidance and protocols, and we are in drafting stages, exchanging drafts with the banks on that. Hopefully, that gives you a sense of the tiers: you set a high-level principle and then put in procedures under those high-level policies, so we are working down through that taxonomy.

Q72 **Chair:** When will that be ready?

Patrick Magee: As the NAO Report says, we are looking to finalise that over the winter with HMT.

Q73 **Chair:** The Report says that, yes. That is over the winter. That is quite a long range, so do you have a more precise date than that? It was a good try, but I am going to push you a bit.

Patrick Magee: We have already exchanged a number of copies of the protocol, so it could be weeks, but it certainly should not be a long number of months.

Q74 **Chair:** It will be in good time before 4 May.

Patrick Magee: Yes, absolutely.

Chair: Thank you. Sometimes being ready is different from your perspective than from the banks' perspective, but I am glad to hear you are on it.

Q75 **Barry Gardiner:** Ms Munby, these companies had only two to three weeks of cash flow. What estimate was made of the anticipated loss to the economy if you had delayed putting in those greater checks for a further two weeks? Would it have equated to your minimum anticipated loss of £15 billion?

Sarah Munby: Would the delay have mattered enough to offset the additional risk? It is a good question and I do not know the answer to it. What I would say is that, at that time, it would have been a very surprising response had we said to the very large number of businesses that were facing a daily cash call that they could not afford, in an extremely fast-moving crisis, that, on the basis of a paper analysis, we were going to make it impossible for them to access funds for a further series of weeks. It is important to place yourself back at that time, when things were moving so quickly in terms of the virus and in terms of business mood and sentiment. I am happy to go and look back at what that question might have looked like but, in reality, we were working in an environment in which we wanted to act quickly.

Q76 **Barry Gardiner:** Ms Munby, my question was about what estimate was made of the anticipated losses by delaying for those two weeks. The answer that you have given me is that it was a chaotic and panic-filled time, and the need to get it out was so great because action had not been taken early enough. That means that speed had become a political criteria rather than a value-for-money one, so I would urge you to answer the question I asked.

Sarah Munby: The estimates that we used at the time around the potential loss rising up to 60% were very clear and understood, and that was a risk that people were prepared to take.

Q77 **Barry Gardiner:** What was the estimate of the potential loss to the economy if you had delayed? You already told us in the Report that they had cash flow for two to three weeks, and yet you insisted on getting money out within one to two days.

Sarah Munby: In the Department, to my knowledge, we did not carry out that analysis. I do not know whether it was done in HMT.

Sir Tom Scholar: Let me repeat what I said earlier, which was that—

Barry Gardiner: I would rather have an answer to the question.

Q78 **Chair:** Sir Tom, was there any analysis done?

Sir Tom Scholar: The answer to the question is that, yes, of course, an analysis was done. The Chancellor had already decided on the need for a CBIL scheme. As I said earlier, we were monitoring, on a daily basis, once that scheme was introduced, the experience of people making applications under it. There were extremely widespread—I would say universal—calls for a further intervention that would address the difficulties under that scheme. The Chancellor's concern was that, without further intervention, a very large number of businesses—maybe hundreds of thousands of businesses—would go bust.

Q79 **Barry Gardiner:** We know this, Sir Tom. We are very short of time and I do not want you to filibuster the Committee out here. Please could you write to us and send us the estimate that was made of the anticipated losses by delaying putting in those checks for a further two weeks? You have said that time was available to those companies. They had cash flow up to that period. We want to know what estimate you made of the anticipated losses by that delay.

Sir Tom Scholar: I will, as always, be happy to write to the Committee following this hearing.

Chair: Thank you very much, Sir Tom. It is something that we will explore. Some of it, you may believe, will be advice to Ministers but we are keen to hear what analysis was done. As the NAO Report highlights, this was a very speedy process, which we have all acknowledged in the room today.

Q80 **Barry Gardiner:** Ms La Torre, what led to your board producing a reservation notice?

Catherine Lewis La Torre: First of all, we are a centre of expertise for small business finance and we, therefore, were collecting evidence and insights from the market. We did have concerns about the design of the scheme that we felt we had a duty to escalate to the Department. As has come up this morning, you can see that those concerns that we were raising were pretty well understood, so we were not taking any information that was not understood. We could perhaps provide some depth in terms of the discussions that we were having with the small-business community to elucidate in those areas.

One of the big concerns we had was the speed at which we had to stand the scheme up. We did have those reflections in terms of whether we could have more time, which feeds back to the previous question here. We were receiving so much data, information and insight that any day of delay would lead to businesses going out of business. That was very clear.

Q81 **Barry Gardiner:** Could you quantify that? You are absolutely right that it does relate to the previous question. Would it have amounted to £1 billion?

Catherine Lewis La Torre: We were receiving surveys, and it is quoted in the NAO Report as well. The association of chartered accountants gave the estimate that one third of the businesses that they surveyed would not have enough cash to survive the lockdown for more than two weeks. It is really important to understand that that is an average number, and there is no average company in this experience. We were very concerned about those businesses that we knew would not survive another week and that we needed to stand the scheme up quickly.

How did we know that? We knew that because 90% of these loans have gone to micro-businesses. One in five of them have been sole traders. We know that those businesses usually do not fund themselves with loans. They max out their credit cards and they use overdraft facilities that are very expensive, so we could see the stress in the small business finance system anyway. One of the things that we have tried to do at the British Business Bank over many years is to provide information to the market that there are better ways to fund yourself than maxing out on your credit cards. We did have those insights from the market and from smaller businesses that we felt it was really imperative to take back to the Department.

Feasibility was one of the big things because we thought it was probably the right call that we should deliver this quickly. Our concern was whether we could deliver it quickly.

Q82 **Craig Mackinlay:** I want to pick up on a couple of things. Mr Magee, it seems like this recoveries protocol is going to be very important. You have the experience of other loan guarantee schemes. I would really rather like a paper assessment of how they have looked in the past, because I am guessing that your recoveries protocol for bounce back is going to look very similar. That is very important.

The other thing we have identified in this conference this morning is that the start point was perhaps not where we wanted it to be. I will apologise: PAC is always having a go at people after the event, but that is our role. The question is: would you do this all over again or would you, at the front end, have put in a little bit more control and a very small bit of delay?

What we are talking about is a minimum of £15 billion, or probably more, especially after another month of lockdown. When you put into focus that our defence budget in the UK is £40 billion, we are talking about a big proportion of that on one support scheme for the Covid period. This is big money. I can but guess that the Chancellor, I am sure, is looking at different options. We have seen extensions of old schemes. We are almost back to the old furlough again. It could be he is reaching for the bounce-back loan or something similar again. Would you strongly recommend that something different happens, or are you happy with where we are?

Chair: Who is that to, Mr Mackinlay—Sir Tom or Mr Magee?

Craig Mackinlay: From Mr Magee, I would want some sort of clarity on the recoveries programme, and the rest from Sir Tom, please.

Patrick Magee: On the recoveries protocol, we will be building on the work that we have done around EFG. There are some differences here because there is that 12-month period thereafter. EFG has never been enforceable against a principal private residence. We extended that to make sure that it cannot be enforced against a principal private vehicle. We are working on those things but we can absolutely provide an update on the recoveries protocol, once finalised. I am very happy to do so.

Sir Tom Scholar: Mr Mackinlay, you gave a figure of £15 billion as the minimum losses. Of course, as a number of people said earlier, that incorporates credit losses as well as fraud. The credit losses are to businesses that subsequently fail and cannot repay the loan. Most of the conversation around checks and due diligence has related to preventing fraud.

Say this process had all the normal lending procedures such as exist under the CBIL scheme, it still could be the case, depending on what happens to the economy over the coming months and, indeed, years, that there would be losses under the scheme because it is inherent in the nature of any large scheme to support businesses in an extremely severe downturn that you are looking at the risk of significant losses there.

Q83 **Craig Mackinlay:** If I can help, it is obvious where I am going with this. There is a level of unavoidable losses. That is fine; that is the world we are in. What I am trying to get to is what the avoidable losses, which may not have happened if we had done things a little differently, are likely to be.

Sir Tom Scholar: To go back to the earlier conversation, had we had perfect foresight and had we had several years to plan how to get, as the objectives of the scheme required us to do, money very quickly to a very large number of businesses that have no history of business banking and which, as Katharine was saying earlier, use a personal deposit account to manage cash, with the need to do a whole lot of checks on them to assess the honesty of application, cash-flow projections and all of that, we may have to think about this and come back to you but I imagine we would have to have built an entire system, in effect, to create a banking relationship where there was not one in order to then allow the lenders to make the normal checks that they would against the people who they normally lend to for a group of people and businesses that they do not normally lend to.

That, even just saying it, sounds like quite a complicated operation, but maybe I can help by giving a rather simpler answer, which is that, as I said earlier, the Chancellor’s intention is to announce, in the early part of next year, a further lending scheme, which we are working on at the moment. In preparing that, we are trying to learn all of the lessons. If I may put it like this, we will try to answer your question through the design of that new scheme, to be announced and brought into effect next year.

Q84 **Chair:** Thank you, Sir Tom. You are setting our work programme for the future because there are, as Mr Mackinlay has rightly highlighted, eye-watering sums of money involved, although, in the Treasury, you are now probably rather used to these eye-watering sums of money on this issue.

Earlier, a question was raised about the law relating to fraud and criminal activity. Are there any plans to change the law? What you just described there are people with deposit accounts running businesses. It almost sounded, from what you and Ms Munby said—and I am not trying to put words into your mouth—that there will be some low-level fraud that you will never pursue. Is that the intention, or are you going to look at watering down or, indeed, stiffening the law in this area to make sure that the taxpayer is protected?

Sir Tom Scholar: I did not mean to give that impression. I go back to our earlier discussion on recoveries, which is that we expect lenders to undertake their normal recovery processes, and we and lenders expect that people who have borrowed money should repay it in entirely the normal way.

Chair: No changes in criminal sanctions are planned, just to be absolutely clear. It is useful to get that on the record.

Thank you very much indeed for your time. The transcript will be up on the website in the next couple of days, uncorrected, and our Report will be out before Christmas. This is the beginning of some of our heavy-lifting work on Covid-19, which is preoccupying the time of this Committee more than anything else over the next few months.

Can I pass on the Committee’s thanks to Ms Munby and Mr Scholar, and to the British Business Bank, for this hard work? Whatever our concerns are about this scheme, which you have heard outlined today, the efforts that your civil servants put into dealing with some of these issues at such pace is appreciated. The economy would have tanked without them, whether or not we all agree with the detail of everything, but our thanks to those staff who suddenly had to work from home and deliver all of this. That hard work is, I know, much appreciated by the country as well as this Committee. Thank you very much indeed.