House of Commons

Public Accounts Committee

Oral evidence: Bounce Back Loan Scheme: Follow up, HC 951

Monday 10 January 2022

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Watch the meeting

Members present: Dame Meg Hillier (Chair); Dan Carden; Mr Mark Francois; Peter Grant; Antony Higginbotham; Richard Holden; Craig Mackinlay; Sarah Olney; Nick Smith; James Wild.

Gareth Davies, Comptroller and Auditor General, Simon Reason, Director, National Audit Office, and Marius Gallagher, Alternate Treasury Officer of Accounts, were in attendance.

Questions 1 - 105

Witnesses

I: Sarah Munby, Permanent Secretary, Department for Business, Energy and Industrial Strategy; Catherine Lewis La Torre, Chief Executive, British Business Bank; Charles Roxburgh, Second Permanent Secretary, HM Treasury; Patrick Magee, Chief Commercial Officer, British Business Bank; Sheldon Mills, Executive Director, Consumers and Competition, Financial Conduct Authority.

Report by the Comptroller and Auditor General

The Bounce Back Loan Scheme: an update (HC 861)

Examination of witnesses

Witnesses: Sarah Munby, Catherine Lewis La Torre, Charles Roxburgh, Patrick Magee and Sheldon Mills.

Q1 **Chair**: Welcome to the Public Accounts Committee on Monday 10 January 2022, our first session of the new year. This is a follow-up to an inquiry we undertook in December 2020, at the height of the pandemic, into the Bounce Back Loan Scheme. People will remember that this was money that the Treasury quickly allocated to allow lenders to give out to small businesses that were struggling. This was partly on the back of many of us, as MPs, lobbying on behalf of businesses that were really struggling to survive.

We warned in that original inquiry that, while the scheme was rolled out with impressive speed, that speed meant that it has been very vulnerable to fraud and error. Since then, we have seen some businesses beginning to pay back those loans. Today, we are going to hear from a number of Government officials about how many businesses have repaying quite happily, where there have been problems and what assessment the Government have of fraud and error in the system now and as we look forward.

I would very much like to welcome our witnesses. In the room with us we have Sarah Munby, the Permanent Secretary at the Department for Business, Energy and Industrial Strategy, which has oversight of the scheme. Charles Roxburgh is the Second Permanent Secretary at the Treasury, which agreed the scheme at the beginning with the Department. Catherine Lewis La Torre, chief executive officer of the British Business Bank, which oversees the management of it, is here in the room with us. She is joined by Patrick Magee, the chief commercial officer at the British Business Bank and senior reporting officer for CBILS and CLBILS. I will not read out all the initials of those, but they are the various loan schemes that were under way at the height of the pandemic. We are also delighted to be joined by the Financial Conduct Authority, in the shape of Mr Sheldon Mills, who is the executive director of consumers and competition, which is also very pertinent to our questioning today.

Before we get into the main session, I wanted to ask you, Ms Munby, about the latest on the impact on consumers of increases in energy bills. Do you have any further information that you can provide about progress, as people are very nervously waiting for their large increased bills to arrive on their doormats?

Sarah Munby: That is understood. The next key milestone that we are expecting is Ofgem's announcement on 7 February about any changes to the price cap. We expect the price cap to go up. That is ultimately a matter for Ofgem and we will have to await its announcement. I am not going to tell you today what the response to that is. It is not the right forum for me to do that, but I can say that discussions are happening, in a very intense and focused way of course, across Whitehall with the Treasury, our Department and others, but also with the industry and Ofgem. Twice since Christmas, I have been at roundtables with the industry Ministers as well, talking about the right approaches and the right ways to address the challenges.

A significant part of that, and the absolute near-term priority, is affordability and addressing the increase in price for consumers. There is another piece, which is about thinking about long-term reform of the retail market, where we are currently taking in responses to the ask for evidence and consultation that we put out at the very end of last year. Clearly, the events raise the question about not just how we respond to the increase in prices but the right ways to reform regulation of the retail market in the longer term.

Q2 **Chair:** "Regulation of the retail market" seems like a world-weary statement, because that has been looked at many times before. I remember going round those circles at least a decade ago. You have had lots of meetings, very much a Whitehall approach, but are you actually war gaming approaches to make sure that consumers get some protection? Some people will be really driven to the edge if their bills go up by the predicted levels.

Sarah Munby: That is understood. There are various policy levers that you could use to respond. All the things that you would expect us to be looking at are being looked at in great intensity. It will be for the relevant Minister to announce the response in due course.

Q3 **Chair:** The core responsibility is your Department, but levels of poverty and how income issues can be part of it are the responsibility of other Departments, like the DWP. Are you discussing how to support households with those Departments as well?

Sarah Munby: Yes, absolutely. There are some responses that potentially fit within the energy market, but perhaps the larger set of responses are, as you say, DWP or HMT level more broadly, which is why I say it is a cross-Whitehall approach. It will be for the relevant Minister to announce whatever response there may be in due course.

Q4 **Chair:** We can expect possibly a ministerial announcement or a statement on 7 February or around, or the day after that?

Sarah Munby: That is certainly what I am expecting, but I could not go further.

Chair: We understand the limits on what you can say today, but thank you for that.

Q5 **Richard Holden:** In terms of regulation of the retail market, in my constituency, North West Durham, we have seen particular issues recently with differential petrol pricing. That is a major issue for local people; alongside energy, transport is absolutely essential to them. We are seeing price differentials of 5p to 10p higher at major supermarkets in Consett—Morrisons and Tesco—compared to 18 miles down the road in Bishop Auckland, costing people an extra £5 on average to fill up compared to nearby supermarkets. Could you reassure my constituents as to what the Department is doing to ensure that you are not allowing cartel activity in areas where there is not that level of competition, particularly around petrol stations and prices for petrol and diesel?

Sarah Munby: Clearly, any kind of collusion would be illegal and would be very aggressively pursued by the CMA, among others. In answer to your specific question about what is happening in your constituency, if I may, I will take that away and ask our teams to have a closer look. I am not close enough to give you a detailed answer to that today, but you are absolutely right to point out that, if it were to be the case that there was any collusion, that would be a very serious matter indeed.

Q6 **Antony Higginbotham:** Ms Munby, this is a slightly different topic. I wanted to touch on semiconductors and the global supply of chips, which is very constrained at the minute. That means lots of SMEs in my constituency are really struggling. I know the European Union is looking at this and is looking at legislative options, and I know the US has done an executive order. Is it something that is on the Department's radar? If it is, can you give us any reassurance that you are looking at it to try to work with the suppliers of these chips to make sure that our supply chains locally are a bit more resilient moving forward?

Sarah Munby: We certainly are thinking about the long-term strength of the semiconductor industry and particularly the question of whether you could attract further semiconductor investment into the UK. It is worth saying that, given the timelines of any of those changes, they are not going to address the immediate shortage. We expect that immediate shortage to ease in coming months as production increases globally. The UK will be a beneficiary of that. Yes, it is on our radar, but I would not want to falsely reassure that that is going to address the near-term challenges, given the timescale.

Chair: There are so many challenges.

Q7 **Richard Holden:** This is a quick question to the Treasury, please, Mr Roxburgh. It relates to an IFS report, which I believe is due to come out tomorrow. This Committee argued very strongly to support local authorities during the pandemic in the early stages, but, apparently, they have spent roughly only half of the money that was given to them for pandemic support. I wanted to know what the Treasury will be doing or whether there is a policy on what should happen if you are seeing councils shifting billions of pounds to reserves from this money that was given out from taxpayers. Is it the Treasury's approach that that should be either refunded to central Government or given back to local taxpayers via local council tax cuts?

Charles Roxburgh: Local government is not one of my areas of responsibility and, as you say, the IFS report is out tomorrow, so I have not had a chance to see it yet. Perhaps, if it would be all right, I could talk to my colleagues who handle local government finance and who have been overseeing the grant programmes for Covid support, and write back to you with an answer to your question.

Chair: We will take that for now, but we will continue to watch this and look forward to that report being published.

We now move into our main session, which is to look at the Bounce Back Loan Scheme, nearly two years on.

Q8 **James Wild:** Ms Munby, good afternoon. The scale of the scheme is pretty immense. A quarter of all UK businesses took out a bounce-back loan. We are interested in the impact that is having. As accounting officer, how do you assure yourself that the scheme is working?

Sarah Munby: This comes, at the very top of the hearing, to what we mean by the scheme working. A really important part of the scheme working has happened already. Ultimately, the criteria at the beginning of this were around getting money out quickly to people who needed it across the full range of sectors and regions. The data on that, on the pace of delivery of the money and on the diversity of firms that were supported, is all very reassuring. We know that the initial goals of the scheme were met.

What are the longer-term trade-offs here? One is about the long-term impact. What is the impact on firms' survival? Are we confident that the presence of the money has made a real difference? In so far as you can demonstrate that at this stage, the signs look very good. I say that because we know that business failure rates in the pandemic, for large portions of it, were lower than they are usually. Businesses had good survival, small businesses in particular, through the pandemic. There were very challenging conditions for many small businesses, but we did not see the big spike in failures that would have been the inevitable consequence if this scheme had not been in place.

There is the longer-term question of whether that impact is strong enough that it definitively outweighs the inevitable and necessary challenges around both credit loss and fraud, which I am sure we are going to explore in great detail in this session. That is something that will ultimately only be able to be answered in the longer term.

We have a thorough evaluation of the scheme in process. Over the coming years, as we see how the economic situation emerges and therefore what the repayment rates are, which is probably the biggest key uncertainty that drives this, we will be able to look back and assess whether the scheme—to put my accounting officer hat on for the moment—has truly been value for money. The signs are pretty good so far, but I would not want to race ahead of myself.

Q9 **James Wild:** How would you characterise the quality of information you have at the moment to judge whether it has actually made a difference?

Sarah Munby: The quality of information we have on what is happening is good. We can talk further about what BBB holds. The difficulty is that, for that kind of information—things like what the repayments look like and what we are learning so far about fraud—it is very early days on both of those, so there is very limited information. That is not because there is information that we do not have but because the time simply has not come yet where substantial repayments or substantial recoveries will take place.

That information, in and of itself, does not tell us whether the scheme is, over the long term, working. It is only as we see firms' survival rates over the longer term that we will be able to judge the success or otherwise of the scheme. I am satisfied we understand what is happening right now. Am I able to tell you that, with that data about what is happening right now, I can give a final verdict? No, and I would not expect to be able to at this stage.

Q10 **James Wild:** You mentioned the work that is ongoing to look at the impact. When can we expect to see the first report, the first fruits of that work?

Sarah Munby: We are expecting to run the evaluation in three tranches over the coming years. The first tranche of the evaluation will be coming out to us shortly. We are expecting it in the next month or so and then we will publish it in sensible good time after that. We would normally expect those things to come out within a small number of months. The first evaluation is pretty imminent, but the second and third waves are next year and the year after.

As I say, this is a long-term journey. That does not mean we should not share absolutely everything we can at this point, but we are going to be keeping a weather eye over the longer term. Given the term of some of these loans, given the pay-as-you-grow options and the term extensions that have been given to small businesses, some of these small businesses will not be paying these back until 10 years from when they took them out. This is a long-term game.

Q11 **James Wild:** In the Report, the NAO highlights that one of the problems you are going to have in terms of the evaluation is that there is not a control group of similar companies that did not take out the loans compared to those who did. Are you doing any work to address that and potentially identify such a group after the event?

Catherine Lewis La Torre: All the programmes that we run at the British Business Bank go through a series of evaluations, depending on the stage of the programme. It is true that a quarter of smaller businesses took out a bounce-back loan, but three-quarters did not. My guess is that, with the statistical analyses that we can do, we should be able to find a control group. We always work with independent specialist providers, which focus on evaluations. They run a number of sophisticated statistical analyses to try to get that proper control group to do the types of difference-indifference analysis that you need to understand if it is the programme itself that has made the difference.

Q12 **James Wild:** Will that form part of the evaluation work that we will be seeing shortly?

Sarah Munby: That is right. That evaluation work is being done by a combination of Ipsos MORI and London Economics.

Q13 **James Wild:** Do you know the proportion of businesses that used the bounce-back loan to pay back existing debt, as opposed to for cashflow or other purposes?

Patrick Magee: We have done some initial survey evidence as we have worked towards the evaluation. We have been told that, I think, 70% or 71% have used it for working capital. I would imagine it is fairly fair to assume that a significant proportion of that would have gone to pay other debt that was outstanding. People would have been paying down credit cards, for example, or doing other things to make sure their businesses was less cash-constrained, because there was an interest-free period at the start. Many businesses will find a significant saving impact through that, through the initial disbursement of the loans.

Q14 **James Wild:** Moving on to talk about repayment of some of the loans, in our previous Report and session we talked about how lenders were under duties to treat borrowers fairly in terms of following up on those loans. What evidence does the British Business Bank have that lenders are treating borrowers fairly and following the FCA guidance?

Catherine Lewis La Torre: The first thing to say is that all lenders have to comply with the rules of the scheme. It is referred to in the NAO Report as well that a very detailed set of recovery principles was put together and has been shared with all lenders. As Ms Munby said, we are actually quite early in the process in terms of repayments. The first analysis of experiences that we have is that lenders are behaving in line with what has been set out in the guarantee agreement and in the recovery principles.

To make sure that we continuously monitor how they are doing, we have a lender assurance programme. One thing that the auditors test for is adherence to those principles and, of course, to the scheme rules around recoveries.

Q15 **James Wild:** How does that work in practice? Is that looking at individual loans on a spot-check basis to identify case files and suchlike?

Patrick Magee: The recovery principles were worked up in collaboration between BEIS, Treasury, ourselves, the lenders and the FCA. Sheldon and I met several times in the first 11 days of the scheme to talk about this and have worked collaboratively around getting those recovery principles right.

In terms of the lender assurance programme, we have brought in KPMG and RSM to do significant work and design an audit programme. There are 11 modules within that audit assurance programme; recoveries is one. They will go in and do a statistically significant sample.

We have audited every bounce-back lender already, but that was largely about the origination and the disbursement. The second series of audits, which we should complete by around March this year, are a lot more focused on the recoveries, because recoveries are starting now. I believe that Sheldon and the FCA are also taking a keen interest in the appropriate treatment of customers. Sheldon, I think you have some work ongoing on that as well.

Sheldon Mills: Our approach has been to work with the British Business Bank in order to ensure that collections and recoveries, as far as they can, given that this is a unique scheme, comply with our approach to treating customers fairly. We have worked quite closely with the British Business Bank on the pay-as-you-grow repayment scheme, to ensure that it closely aligns with our approach to treating customers fairly.

In addition to that, we have been doing some multi-firm work. We are looking at the policies of a subset of firms across their SME lending activity, including BBLS. We will be publishing the results of that in the coming months. That is giving us an indication that lenders are doing their best to ensure that they are treating these customers fairly. We will have certain recommendations for some firms as that process moves forward.

Q16 **James Wild:** That all sounds quite reassuring and perhaps this is the way the incentives of the scheme are established, with the guarantee that perhaps banks are operating in a very fair way. Have you seen any examples of poor practice, anything that has caused you concern, from any of the lenders?

Patrick Magee: I will recap on the first round of audits. The vast majority of those audits have been positive audits on a four-point scale, so we have been pleased with the work we are doing. You would not go through an audit and just give everyone a clean bill of health. If there are remedial actions, we agree those with the lenders; then we monitor the follow-up of those actions. There have been minor things, largely around record keeping and the origination process, where we have asked lenders to tighten their game, but there is nothing that I would say causes huge concern.

At this point, the recoveries are still in their early days and we are in the early process of auditing those recoveries. I do not have firm conclusions on the recoveries at this point.

Sheldon Mills: From our perspective, it is early days and you raise an important question there. The thing that we will work with lenders on is their capacity to deal with the demand as it comes through. That is where the risks will flow, as people come to repayment and need either forbearance or support as they go through. That is where the risks will arise. That said, our initial indications are that we see that lenders are geared up, and are gearing up, to follow an appropriate process.

Q17 **James Wild:** Moving on to the information that you have to be able to monitor the success of the scheme, what sort of information do you have to quantify and help manage the risk to the taxpayer in this scheme?

Sarah Munby: I am trying to think about the best way to answer that question. Through the BBB, we hold a great deal of loan-level data. There are about 70 data points per loan, to give you a picture. It is quite a rich dataset. There is even further data about each loan that is held by the lenders themselves. To be clear, we do not hold every data point. For example, if you have both a bounce-back loan and a separate current account with your lender, we do not see all the data in the current account, whereas the lender would. We have a pretty good set of data and Catherine can talk to that in more detail, if that is interesting.

In terms of converting that into worrying about the risk for the taxpayer, the focus since the last time we met has been on trying to improve our quantification, particularly of the fraud risk here, so getting a better understanding of what that looks like. The reason that is different from just gathering data on an individual loan basis is that it requires a much more careful in-depth look at each individual loan. You are trying to identify, "Does this loan have specific markers that make it a high risk for fraud?"

We are now quite far through that work. That is what has been used in our annual report this year to give our latest estimates around fraud and the predicted fraud loss. Those estimates are still highly uncertain, because they are based on sampling. They connect to our latest fraud risk assessment, looking at what we think the key risks are. It is a picture that is going to continue moving. I would not suggest that we have the final answer as yet. We will be updating on that every year in our annual report, as the scheme evolves. I would expect those numbers to become more and more accurate over time.

The risk to the taxpayer is not just about fraud. I know we went over this in some depth when we last met. Whenever we talk about this, it is the difference between credit loss and fraud. Sometimes the taxpayer will have to pay out on the guarantee here, simply because the business has not been able to pay back its loan. The majority of the loss is that, rather than fraud.

The loss modelling that the BBB does, again, is continually updated to make sure we have the most up-to-date understanding of the payback rates we would expect. As I said, that is highly related to the performance of the economy overall and hence the rates of business survival. That is the major uncertainty that drives that number.

Q18 **James Wild:** At the beginning, you were saying you were encouraged because the business survival rate was encouraging. The jobs market is very strong. If we look at figure 7, £1.3 billion has been defaulted already in nearly 40,000 loans, admittedly of a very much larger number than that. At the time of this data, there was £100 million of arrears. Do you know how much of that arrears is more than one payment that has been missed?

Sarah Munby: I do not know. I do not know if colleagues from the BBB do.

Patrick Magee: We probably would have a detailed breakdown of that. We found quite an interesting trend. Quite often they go one, two, three and then down and into default. We found quite a few coming back a little bit as they get the third demand in. We could give further breakdown on that, so we are monitoring the split between 30, 60 and 90 days in arrears.

Q19 **James Wild:** One thing that came through from the NAO Report, set out a bit more in appendix 1 of the Report, is the slight challenge they had in pulling together this Report and some of these datasets to get the figures we have here. There are quite a lot of footnotes to this Report, which is a bit of a health warning as to the quality of the data and how reliable it can be. What are you doing to get more data out of the banks to have more veracity of the information to manage the risk for the taxpayer?

Catherine Lewis La Torre: On the dataset itself, we now have a pretty unique database. We are aggregating data from all the bounce-back lenders and we have that in one place. That has provided us with quite a rich source of data that we can be interrogating. We have been interrogating that data for different reasons.

That is not to say that the data is perfect and we have millions and millions and millions of data points, but we have something that is allowing us to spot trends and drive insights. That allows us either to take certain insights that we have back into the lenders to have conversations with them, or to take information back into the Department or to senior stakeholders to suggest things that we might want to look at further.

Q20 **James Wild:** Okay, that aggregation of data is bringing the data together in a more consistent format. Again, one thing that the Report draws out is that each lender categorises and reports in a slightly different way. The portal is a bit behind. It is not real-time information that you have. Are you taking proactive steps with the banks to try to make the data more real time?

Catherine Lewis La Torre: The banks have up to 10 days to feed their data into the portal. Arguably, we do not need to have minute-by-minute, hour-by-hour real-time data to do what we want to do here, in terms of looking at the overall performance of the loans. Actually, we are quite confident that we have the quantity and quality of data to do the types of analyses that we want to do on the overall portfolio.

Patrick Magee: In terms of the way we think of the holistic way that we manage the portfolio, it is not just collecting the 70 data points, which are now, by the major lenders, updated automatically through API links, which we have built largely during 2020. We then are doing a significant amount of data analytics work with colleagues across Government in terms of fraud indicators and other things. Therefore, we are bringing that back in through what we call guarantee assurance analytics.

We are sharing that analysis back out to the lenders and asking, "Are there issues here in the portfolio?" There has been a huge increase in the data that the bank holds, not just the 70 points that we get in the portal but lots of other fraud analytics that we are doing, and then looking at that as we go through the claims process.

Q21 **Chair:** Could you give us an example of something you have uncovered doing the analysis of fraud profiles that you have then fed back to the banks?

Patrick Magee: At the moment, we are in the early stages of it, because we have just got into the first year. The first year was ended, so we are beginning to expect payments. We have created, through the guarantee assurance analytics, areas where we have flags around duplicates or change of date of incorporation. We are sending those back out to the banks. They are coming back to us and saying, "Here is the evidence that we have that says it was okay because it was a pre-existing business and it has gone forward".

Q22 **Chair:** This is about specific businesses. It is not about types of business or behaviour, or profiles of loans.

Patrick Magee: We have so much data. I can go in many directions in terms of data. In terms of some of that fraud analytics, absolutely, we are taking what we are finding through some of the fraud actions that we have listed—I think it is in figure 11—and then putting that through a data analytics programme called GAA, sharing that back out with the lenders, so that they know where we have queries of discrepancies. In some cases, they are saying, "No, actually there maybe is an error there," and they will withdraw those claims voluntarily. It is a good collaborative discussion at this stage, but we want to keep a weather eye on any money that is paid out on behalf of taxpayers.

Sarah Munby: I wonder if I might add a comment, because this is a really important point and it takes me back to the conversation we had around fraud across Government. What comes out of both this and that discussion is the critical importance of using data effectively across Government. It is worth saying that, when we talk about adding value to this dataset, a lot of what we are talking about here is, for example, bringing in data from the Insolvency Service or Companies House. It is bringing the full might of Government's data to bear on the problem.

When we talk about lessons learned from this scheme, the strengthening of data capabilities, both within the British Business Bank and cross-Government, involving the counter-fraud function is something we have got out of this. If you look at the Recovery Loan Scheme, which is the nearest current live equivalent to this, in terms of BBB schemes, one thing we have done differently there, quite apart from some fundamental differences in design, is put different data requirements on lenders as part of the very original agreements for participating in the scheme. One learning from this is that, were we to ever be doing something similar to this again, we would be in a much stronger position because of that data capability.

Chair: We are certainly going to get to some of the lessons learned. Thank you for that.

Q23 **James Wild:** Coming back to the point about credit loss, as opposed to fraud loss, you said that it is an uncertain forecast but £17 billion of this may not be paid back, of which £12 billion, I think, is forecast to be credit loss. That is a high figure. We have covered this previously but I want to get a sense of how much confidence or concern we should have around that figure, given you did not have credit scores for most of these businesses. You are kind of acting in the dark a bit.

What percentage confidence would you put on that figure, which is, rightly, alarming to taxpayers? As you say, the economy is set to grow the most quickly in the G7 this year. We have not seen business failure rates that high. That figure could potentially be a massive overestimate.

Sarah Munby: I will refer you to what we say in our annual report, where we try to unpack a little bit the uncertainty, recognising the point estimate of 37% loss. We talk about a range of 31% to 48%. I think, if I remember correctly—I will reserve the right to correct myself if I have got it wrong—that is a 90% confidence interval. I think that is how we describe it. It is not that 37% is the end of it and we are completely confident, but we are narrowing the window here and starting to gain some confidence. It is in the 30% to 50% range. It is not 90% and it is not 10%. We are getting more and more accurate over time.

The range has already dropped from what you saw in our report last year, so that is the 2020 annual report, where we talked about a 35% to 60% range. The range is both narrowing and, by the way, moving downwards. That reflects the strong performance of the economy.

Q24 **James Wild:** Good, I am encouraged by that. On figure 7 again and talking about loan guarantees that have been settled, which I think are listed here as £20 million, what is the incentive in the scheme for lenders to recover as much of the loans as possible, given the guarantee that sits there?

Sarah Munby: I will maybe give a very overall answer and then turn to colleagues from the BBB. Essentially, what has already been described by Catherine and Patrick, which is the process by which the BBB ensures lenders are sticking to their obligations under the agreement, is the prime means for ensuring lenders do what they need to do. As they have said, we have been really pleased with levels of co-operation and compliance to date.

It is useful to know, by the way, that, if there was not co-operation and compliance, we absolutely have the right to not pay out on the guarantee. There is money on the table here for lenders if those audits demonstrate that they are not giving this the same level of attention that they would if their own money was on the line.

Patrick Magee: To build on that, we discussed this with colleagues from the NAO. While the Report says that there may be limited commercial incentives, we think that there are strong legal, contractual and regulatory obligations which underpin the lenders' obligations. They know the FCA is looking. They know we have the rights that Sarah just described. Overall, there is a long process here to work out what the eventual levels of claims are. We are absolutely manning the defences around that and having those discussions. There are significant legal, contractual and regulatory obligations on them, which they are listening to quite carefully.

Q25 **James Wild:** How involved is the process, for example, around that £20 million of guarantees? How rigorous is the process of actually cashing in the guarantee, as it were?

Patrick Magee: We have designed a claims process, which we have begun to go through. You might see at the time of the Report I think we had only settled £19 million worth of claims, so there is a very rigorous checking process through an outsourced operation centre that we have. Then we are shining back the light in terms of the guarantee assurance analytics, which we have talked around. We are rigorously checking.

We not only have the right to refuse to pay out at the time. If, subsequently, errors come to light through, say, the lender assurance and we say, "Actually, you did not recover that in the appropriate way; you did not take the appropriate steps," we can agree a remediation plan. There are clawback provisions within the guarantee agreement. While the lenders have provided support to the economy through this programme, they know that there is a commercial arrangement there that we will be discussing with them quite closely.

Q26 **James Wild:** Once the banks have taken their reasonable steps, they have come to you, you have paid out the guarantee, how, Ms Munby, Ms La Torre, do you then follow up to try to recover as much as possible of those outstanding funds?

Catherine Lewis La Torre: As Patrick has said, we have recoveries principles set out with all the lenders that have been agreed with major stakeholders, including the FCA. We will make sure that the recoveries process is adhered to. The ultimate penalty of course is that we refuse to respect the guarantee, or we can claw back.

There may be some recoveries processes ongoing and the guarantee has been paid. As recoveries are made post that payment, they have to be repaid to the Exchequer.

Q27 **James Wild:** Once the banks have finished their process, what are you then doing to go after that outstanding debt, or are you not doing anything?

Patrick Magee: Maybe I can take you through the series of data points and the way that we will monitor and closely evaluate this. You go through a process where a loan goes into arrears, 30, 60, 90 days, then into default, then into claimed, settled and recoveries. Through our portfolio management approach, we will be asking, "Are different lenders having different success rates, in terms of the amount of money they recover?" If we see people who are standing out and are tall poppies, we would reserve our right to go and have a discussion with them and ask, "Why are you recovering X pence in the pound?"

Q28 **James Wild:** Are you seeing any of that currently?

Patrick Magee: At the moment, it is relatively early days, as it were. We have been looking quite closely at the recovery rates by different lenders and the different types of losses, whether they are fraud losses, or insolvency or credit losses.

Sarah Munby: I wonder if I might go to a slightly different angle on your question, which I think was getting at whether there was something that we, in the British Business Bank or the Department, are doing on top of the recovery processes that the lenders themselves are undertaking. I am sure we will come to some of the things that we are doing around fraud. In the space of credit loss specifically, we have looked quite carefully at the question of whether it would make sense for us to have a secondary layer of going after recoveries. We have concluded that that does not make sense.

The reason it does not make sense is that you have the best of the best at this, which is our commercial banking sector. They know exactly how to do this. The recoveries framework is based on what they would do in an equivalent standard loan, so the same kind of process is being gone through. By the time you are getting on to what we would do more than what we have already agreed that the banks will do, you are into things where the business case for doing them is really poor. That is why banks do not do them as part of their normal process.

Either you get into the rate of recovery becoming so low that it is not worth it, or the only way you can get a good rate of recovery is by going into seriously punitive tactics of the type that we already talked about and wanting to limit earlier in this conversation. We looked at that question quite carefully. Should we be doing something on top of what the banks do? We have consciously concluded that that would not make sense, because the banks know what they are doing. We are enforcing the right approach through the processes that Patrick and Catherine have talked about.

Q29 **James Wild:** My colleague will be coming in shortly to talk about fraud in a lot more detail. Mr Mills, what incentives are there on lenders to report fraudulent loans? I think so far only £5.3 million has been reported as fraudulent loans.

Sheldon Mills: In relation to BBLS specifically, firms report any examples of fraud to the British Business Bank. Patrick has taken you through how that process works in practice. Overall, as a regulator, we expect firms to follow all the reporting requirements that they have agreed with the British Business Bank and to take the same steps in relation to these types of loans as they would in relation to any other types of lending that they carry out. Our firm expectation of the firms is that they have the right reporting procedures in place and follow through on those.

Evidently, we have powers. If there were significant, serious and material inadequacies in firms' reporting of potential fraud, we would look at that very closely.

Q30 **James Wild:** You issued some guidance in the summer on this issue, reminding firms of their obligations. Was that because you were concerned that they were not putting the amount of resource in place or acting as they should be? What response have you seen following that guidance?

Sheldon Mills: We felt it was important to issue some specific guidance relating to the way in which firms interact with the BBLS, particularly in relation to the recoveries and collections that we have discussed, but also in relation to fraud controls and reporting.

That was not because we expected firms not to do so, but we like sometimes, when there is something new and unique, to remind firms publicly of their obligations, so that, when we and the BBB start to analyse and assess what firms have been doing, we can refer back to where we have reminded firms of their obligations. Sometimes you have to clarify, specifically in relation to the scheme, what those obligations are and where they need to report to.

Q31 **James Wild:** This is probably a final one from me. Have you looked at the international evidence? I think the Swiss model, for example, was one of the ones that MPs and others were pushing as a way to adopt in order to get the money out of the door more quickly. Have you looked at the levels of fraud, the impact that has had and other evidence around the success of other international schemes as a comparator, to learn, perhaps, for the future?

Patrick Magee: I would imagine that they are at a similarly early stage of identifying things. I would imagine that that will be one of the international comparisons that we will pick up and look at, in terms of the evaluation over time.

Ours has been done through the lenders. To build on what Sarah was saying earlier, we are finding here that a bounce-back loan product will be one product of many that a borrower may have with the lender. They will therefore make sure that they make recoveries on that. There will be an impact on people's credit rating if they go into arrears or default, as you can see from the appendix. We will look over time at the impacts, but I do not think we have a good international dataset in comparison at this point in time.

Q32 **James Wild:** What are the equivalent rates of fraud in the Enterprise Finance Guarantee scheme? Perhaps you could write to the Committee with that data.

Patrick Magee: Again, a lot of what we have done here is take forward Government standards in terms of the work we do on FRAs, PEEPs and sampling. We did not necessary do that on EFG. The loss rates were significantly lower and tended to be in the single digits. Because the lenders had the skin in the game there as well and followed the normal credit process, the levels of fraud were relatively minimal, as you would expect in normal commercial lending.

Sarah Munby: For interest, it is perhaps worth adding CBILS and CLBILS, where of course we will be coming with our estimates of fraud loss on those. Every expectation is that those will be very much lower than on bounce-back loans, for the reasons we have discussed: 100% guarantee and not using the standard processes for giving out the loans. Of course, every scheme has a small level of fraud, but this one is pretty unique.

Q33 **Chair:** You talked about the breakdown of arrears, and the data and so on that you were using that is coming in through the portal. Could you write to us a bit more about that? Mr Wild referenced a figure 7, the amount of arrears. Is that just one missed payment or not? It would be helpful for us to understand what mechanisms you are putting in place. If you are a tenant and you are in arrears for a month, you soon get a letter from your landlord to tell you about that in order to try to prevent it going further. I want to know what is going to happen.

How quickly do you know that? Perhaps you could answer that now, Mr Magee. How quickly do you know that from the portal? You talked about the pace of the information coming through.

Patrick Magee: Catherine was saying earlier that it is 10 days for any event for the information to be uploaded on a best endeavours basis, so we think we get good real-time in that. As I was also saying earlier, there have been some early signs of people going a month down, getting a letter, two months down, getting another letter and going, "No, I am going to pay."

Q34 **Chair:** It would be helpful to have a proper look at the curve on that and see what is happening. You talk about recording an incident, so they will put that into the portal. There is some evidence from the NAO, when it was talking to the lenders about this, that suggested that they were having to put that in manually. There may be different ways those things are tagged. Are you picking up those differences when you are analysing that information from the portal?

Patrick Magee: For EFG, when it was 2,000 loans and a small subset of people lending, it was not efficient for them to build the API links. As I was describing earlier, we have built API links with all the main bounce-back lenders, so those are now done automatically. They are certainly done within the 10 days and some of them are done on a real-time basis.

I have taken two actions here. One is to look at the EFG fraud levels, which I think will be minimal, and then to give you some more colour in terms of the arrears and the updating of the portal around that.

Q35 **Chair:** It is not that we are pessimists on this Committee, but we are looking at all the looming problems that could be down the line and then what has already happened.

Patrick Magee: It is absolutely part of the role.

Q36 **Peter Grant:** This is a question to witnesses from the British Business Bank. I will let you decide among yourselves who wants to take it on. Figure 4 on page 19 of the Report has a brief geographical breakdown of where the loans have gone. For most of the nations and regions of the UK, the percentage of loans that has gone to area is reasonably close to the percentage of small businesses that are known to be operating there.

The NAO has provided us with information on our own constituencies. When we look at constituency data, there are some dramatic differences. I will not embarrass the Chair by saying which constituencies seem to have done very well indeed, but there are differences of factors of 10, 15, almost 20. That is within the fairly small number of constituencies that are represented on the Committee.

Have you looked at that to see whether, at constituency or town level, the number of loans going into an area matches the number of businesses registered there? Is there any evidence that particular areas, for whatever reason, have simply not taken up the loans as enthusiastically as others? Is that something you have looked at yet?

Patrick Magee: I have the data for every constituency represented around the table and there are some differences there. I can definitely see that, so I see the nature of the question. As figure 4 would say, broadly speaking, across the UK, there has not been a significant disparity. In terms of getting down in and saying, "Now the money has been disbursed and there is no new money," I am not sure that significant outcomes would be driven by doing that at this stage.

We kept a very close eye on it, largely on a regional basis, rather than by 650 constituencies across the UK. In terms of your constituencies, from what I can see, it ranges from 1,500 loans per constituency to about 7,000, but it may just be to do with density of business population, SME versus large corporate et cetera.

Sarah Munby: Could I perhaps add one other factor that I think is worth taking into account? I am sure people have seen figure 5 in the Report, which gives you the sectoral breakdown of loans. That is much more uneven. There are some sectors that have been overweight, particularly retail, as an obvious example, and hospitality, where people were more seriously affected by lockdowns earlier on. The sectoral mix of any individual business community will make a difference to how many loans that group of businesses has taken out.

Q37 **Peter Grant:** To be clear, the location of the address you are using here will be, certainly for a limited company, the registered address. I know that, especially for very small limited companies, very often they use the address of their accountant or lawyer, which might not be the same place as the business is actually being carried on. Without wanting to intrude too much on the area that I know Ms Olney is going to be looking at in a few minutes, do you use strange patterns of geographical clusters as an indicator that maybe someone is just putting in a bucketload of applications for businesses? Is that one thing you would flag up as a potential area for further examination?

Patrick Magee: Yes, and indeed, as we have been looking at the arrears and claims, we have already begun to see clusters in certain areas. I do not know if there are a lot of accountants in your constituency, Chair, or whether there is a company formation agent, which will then hold the data there. We absolutely are looking for those trends and observing those in our portfolio management approach.

Chair: Tempted as I am to go into the intricacies of the employment and businesses in my fantastic constituency, I shall save that for later.

Q38 **Richard Holden:** There are just a couple of quick questions from me. One of the submissions to the Committee has suggested that there is quite a significant difference in fraud rates from the different banks and lenders. Do we have any numbers on the differences? Ms Munby talked earlier about the trend going down over time, as people are repaying, but what are we actually seeing? Is there a significant difference between lenders?

Patrick Magee: There are differences. There are none that I would immediately call out or name and shame at this point in time. Again, there can be differences in terms of the business model. Some of the larger banks remained open for new customers; some did not. Some were newer to the market and had a slightly different business model.

Certainly in the early claims, we will have some of the clearer frauds coming through. We will be going, "Okay, is there something to look at there?" There is nothing I would draw to your attention now. Any of the differences I have seen could be explained by the business model or the way that they operated the scheme.

Q39 **Richard Holden:** Would you write to the Committee with that data you have to date, perhaps with a small explanatory note about the different business models? We do not want to call out businesses that kept open, for example, but it would be helpful to have that data as we look at this going forward.

There is another thing that I wanted to ask a little about, Mr Magee, or perhaps to you, Ms La Torre. If you look at figure 8 in the Report, we saw it a little bit when we talked about CBILS, particularly Greensill, the splitting off of the companies there and the CBIL. If we look at figure 8.7, which is group companies not applying as a single group entity, is this something that we saw in the bounce-back loans as well? Do we see any companies splitting up in order to apply for multiple loans? Also, following up from that, are we worried about cases of fraud in this situation?

Patrick Magee: There were some very interesting policy discussions with colleagues in the Treasury as we were establishing the scheme. We looked quite carefully. You can hear my accent. I come from rural Northern Ireland, which has a small, heavy SME population. You can have a business that has unique and different types of businesses. I know one local businessman who is a funeral director and also an estate agent. He is entitled to apply to two different loans there.

They are two very different businesses, but if there are two that really should be grouped together there are issues there. We look at that, in terms of checking on the duplicates and whether there are significant issues there.

Q40 **Richard Holden:** Are we aware of any businesses perhaps that may, at the earlier stages, have misunderstood these rules? Perhaps somebody had a takeaway in two different places, or something like that, and has applied. There is a difference between a business that misunderstood the rules and one that deliberately misinterpreted them or committed fraud.

Patrick Magee: The Report helpfully breaks out the different tiers of fraud. That would be a good example of someone who had perhaps misunderstood the rules and applied for two businesses that were not eligible for two loans. You find that, through the commercial discussion with their lender, they go, "It has been brought to our attention through the GAA process; the BBB has shown that you have taken two loans," or, "You have taken one loan with us and another loan for your other business from someone else." You are actually in a difficult position there. What are you going to do?

We have seen that quite a significant amount of loans have been repaid. There are people there who have misunderstood or, in the midst of the pandemic, pushed the rules a little bit. Through that commercial discussion, we are finding that the money is coming back in. Different fraud typologies will have different levels of loss given to fraud. There are those cases where people go, "I applied because I was really concerned. I pushed the rules a little bit." They now do not need the liquidity and have paid it back. Though they may have stretched the rules a little bit, there has been no loss to the taxpayer.

Q41 **Richard Holden:** Do you have any idea of how many of these companies that may be defaulting are in this multiple company situation, or is that not something that has been looked at at the moment?

Patrick Magee: As the claims come through, we will be able to see, through the GAA programme, where there may have been duplication.

Sarah Munby: As part of the sampling work that PwC did to help us estimate the fraud levels, we start to see the different typologies and risks. Without wishing to give all the detailed numbers from that, we see the potential challenge of what should be counted as one company but are being counted as separate companies, which is a significant component of the fraud that we see.

It is important to emphasise the point you are making around fraud and error. Every time we have used the word "fraud" so far in this conversation, we are really talking about fraud and error. The difference between fraud and error is, ultimately, intent. We are looking at a dataset. We might see something like, for example, a business that applied for two loans, one from one bank and one from another bank, in the very early days of the scheme, before we prevented duplicate applications. The question is whether that person was committing intentional fraud or whether they were anxious that their first loan might not come through in time, so, as a back-up, they did a second application. That was against the scheme rules and would appear as fraud in our numbers, but it is not the kind of action that we would ultimately expect to prosecute in the courts.

There is a real spectrum here from serious organised crime at one end through to what you might describe as honest error at the other end of the spectrum. It is all in the same numbers that we are describing here. We cannot break that out because would need to be able to see into the minds of the people we are talking about, which we cannot do.

Q42 **Richard Holden:** I understand that. Do we know how many companies actually applied and got more than one bounce-back loan for the same company, who did exactly the process you are suggesting?

Sarah Munby: Yes. We know from our sampling work the extent to which duplicate applications were a challenge. We also know how many bounce-back loans were given out before the controls on duplicate applications came in, which is a really significant number.

Q43 **Chair:** The answer is that you do not actually know. You do not actually know, only from the sampling.

Sarah Munby: I am looking to the British Business Bank.

Patrick Magee: From the guarantee assurance analytics programme, we will have a register. When I am writing to you in terms of some of those—

Chair: That is fine. I was a bit puzzled, a bit worried.

Q44 [1] **Richard Holden:** That would be very helpful. From that sampling, could you tell us what those numbers are? What proportion of the businesses got more than one bounce-back loan? Can you tell us now or do you not know?

Chair: Mr Magee is looking puzzled.

Patrick Magee: I do not want to give you the wrong figure.

[1] Sarah Munby wrote to the committee on 9 February 2022 with additional clarifications

Q45 **Richard Holden:** Are we looking at it being a significant proportion?

Sarah Munby: This is all within the 7.5%, which is our latest figure. To give a picture, we are not talking 60% of loans here. It is within the 7%, a meaningful fraction. To give you a picture, order of magnitude, we are going to be talking 2%.

Q46 **Richard Holden:** You mean a quarter of the 7%.

Sarah Munby: Yes, exactly.

Richard Holden: Right, okay, rather than 2% of the 7%.

Sarah Munby: Correct, it might be 1% or 3%, but it is that. It is not the majority of the 7%, but it is a meaningful fraction.

Q47 **Richard Holden:** We are talking a significant chunk of this 7% being people who applied for multiple bounce-back loans.

Sarah Munby: Yes, correct. That may have been fraud or error, as discussed.

Q48 **Richard Holden:** That is helpful to know. It was a significant portion of that. As part of the ones who may have applied as groups within your sampling, what are you looking at in that, the ones who may have been via either fraud or error?

Sarah Munby: Those are sort of the same thing. Is it two people who are part of the same group? I am not sure we can pick that apart. The challenge that each loan was fine but it was the fact that there was more than one of them is a meaningful component of that 7.5% number.

Q49 **Sarah Olney:** I am going to ask some questions about fraud, fully accepting that, when I use the word "fraud", I am encompassing all of those that may well have been error. These are all the ones that have been given out wrongfully, whether people meant to or not. The sampling that you have referred to is the work done by PwC on about 0.1%, as I understand it, of the loans given out. Its initial investigation showed that about 11.15% of the loans may have been fraudulent or in error. It has gone back and had a look at some of the ones that it classified as possible fraud, reclassified them, and now it thinks about 7.5% are either probable or possible fraud.

Sarah Munby: That is correct.

Q50 **Sarah Olney:** Let us say, for the sake of argument, somewhere between 7.5% and 11.15% is your best understanding at the moment. If it is 11.15%, that is £5 billion.

Sarah Munby: That is right, £4.9 billion.

Q51 **Sarah Olney:** That is a high number. Why do you think it is so high?

Sarah Munby: Fundamentally, it is because of the design of the scheme. We talked about this at the very top of the hearing. When this scheme was launched, the goal was to get money out quickly. Because the goal was to get money out quickly, many of the usual controls and processes that would happen when a bank is processing a loan application, which can take weeks, were consciously and deliberately suspended, in order that money could get out more quickly.

That does not mean all controls were suspended. You still had to do know your customer and anti-money laundering checks, and billions of pounds' worth of fraud has been prevented by those checks. We expected from the very beginning of this scheme—that is why a ministerial direction was required—that there would be high levels of fraud as an inevitable consequence of the suspension of some of those controls that act to prevent fraudulent applications being successful in a standard loan scheme.

Yes, the level is high. Am I surprised? Do I find the level higher than expected? Absolutely not, this is very much in line with what we thought would happen with a scheme with these kinds of parameters.

Q52 **Sarah Olney:** Mr Roxburgh, was it your expectation at the Treasury that we would be seeing these levels of fraud?

Charles Roxburgh: We knew this would be an expensive scheme by its very design, and we knew, within that, that there was a high risk of fraud. Yes, we knew that up front, but we also knew that CBILS, which had all those checks and had the full underwriting processes, was not meeting the urgent need of small businesses for help. There was not an easy option to say, "We can get money out more quickly without incurring these risks". There were additional checks like the duplicate company check. We were all aware of that as a risk up front, but the systems required to control that risk did not exist at the beginning, because the scheme had never been launched before, and were built as quickly as they could have been, and then they were brought in place as quickly as they could have been.

We were aware of the fraud risk. Ministers were advised of that. Given the urgent need to support businesses and given that the other loan scheme was not delivering money quickly enough to small businesses, it was judged appropriate to go ahead.

Q53 **Sarah Olney:** On the issue of data that you were talking a lot about at the top, exactly what data do the banks have on borrowers? Are the lenders required to submit data to BEIS to support the loans they have made?

Patrick Magee: Yes, the banks will have full customer records across all the product sets. As I was saying earlier, we have about 70 data points. You start off with the basic identifiers such as name, address, term of the loan, size et cetera, but then you get into the areas that I was discussing with Mr Wild earlier. We would collect data on the arrears, the claims defaulted and the recoveries. We do have significant data on there, and we are also checking that as part of the ECL modelling that we were talking about—the expected credit losses. We have looked at credit scores against cohorts.

We have a pretty comprehensive dataset. It has been one of the biggest priorities and lessons learned within the Bank. We have our Project DIOR, which talks about data and IT. We have really become awash with data in the last—

Q54 **Sarah Olney:** Is the data that you hold helping you address the fraud issue?

Patrick Magee: I would think so, yes. You were asking earlier whether the fraud was expected. When we were asked to launch the scheme in 11 days, we worked in parallel with Charles' team, Sarah's team and the FCA to put together the scheme, but we also put the reservation notice in, because we knew there would be fraud there.

Having raised those reservations, we have done absolutely everything within our power to identify fraud. Again, we got the banks to agree to put in core checks in those 11 days. We could have done a completely self-certified scheme, but, as Sarah was saying, we put in minimum standards for AML, KYC and fraud so that they do speak to the fraud bureaus. It stopped about £2.2 billion of fraud in about 60,000 cases.

No level of fraud is acceptable, but we put in measures at the outset of the scheme and we put in detection measures and data measures after that. We are doing a very comprehensive job; we are doing everything we can to minimise the amount of fraud.

Q55 **Sarah Olney:** Ms Munby, how much confidence do you have in that £5 billion number? It is developing and changing over time as you get better estimates. If it is going to continue changing—I guess there is an expectation that it might—at what point would the Department start to become concerned? How much fraud is tolerable?

Sarah Munby: It is fair to say that any of these numbers are well outside what we would consider tolerable, just to be clear about that. I talked about the ranges for the expected credit loss—that was the 31% to 48%. I cannot remember the exact range on the 11.15%, but it is a similar sort of setup. It is 7% to 13% or along those lines. I can write to you with the exact number, if that is helpful.

Yes, there is real and meaningful uncertainty about these numbers. For example, the PwC work at the moment is on sampling. It is looking at the indicators that a particular loan might be fraudulent. Multiple businesses at one location, for example, is a potential indicator of fraud, but it could also be an indicator of lots of people using the address of their accountant. It is about pinning down exactly which of those are fraudulent or not. We will probably never, frankly, have a precise answer to that question. There will always be a level of uncertainty in our estimates.

At what point would the Department start to be worried? We are already very worried. It is important to say that the heart of the strategy to respond to fraud here is really about mobilising the banks in the way that we have described to run their recovery and fraud processes in the usual way and making sure that actually happens.

I say that because it goes to what we would do differently if the fraud number were higher or lower. Actually, not that much. What would happen naturally out there in the system is that the banks' response would scale, because the banks' response is dependent on the data that they are seeing and what they are learning about the individual loans. There would be a lot more resourcing put into fraud if the fraud levels turned out to be higher, but that would not be because I would enormously change what we are doing in the Department, which I can talk about in more detail. It would be because the banks would scale their efforts, because they would be seeing more worrying indicators in their loan books.

Q56 **Sarah Olney:** You have said there was a trade-off in terms of the speed of getting cash out to businesses. We all appreciate that. We all represent businesses that were in dire need in March 2020. There was a trade-off between that and slowing down the implementation in order to put in more counter-fraud measures.

What I am trying to get at is this. At what point would you say, "Actually, it would have been better to have more counter-fraud measures, because we are now dealing with a level of fraud that we did not anticipate or are not prepared to underwrite"?

Sarah Munby: Yes, I understand. That comes back to what I was saying about the evaluation and the time it will take to have a really clear assessment of that. On the one hand, you have uncertainty about fraud and, more worryingly by the way, uncertainty about credit loss. If we are thinking about value for money, we care about fraud for other reasons too, but if you lose the money, even if it was not fraud, it is still pounds out.

The credit loss is uncertain, but at the same time you are balancing up how much loss we have with this question of how much benefit it had for the business community, which is huge. You have two very big uncertain numbers. How will the value for money of this play out over time? As I said at the beginning, I am optimistic that this scheme will prove to have been a good use of public money. If we had had confidence in that at the start of the process and been sure enough, we would not have needed to go through the ministerial direction process that we did. We did that because we did not know. By the way, it is still true that we do not know and we will not know for a while, because those big uncertainties still exist.

Catherine Lewis La Torre: If we take ourselves back to the first lockdown, we know that many of our smaller businesses live hand to mouth in cashflow terms. It is true that we could have introduced other controls, but we felt at that time that the pressing need was to make sure that cash got through to those businesses. We would have been dealing with a huge number of companies going out of business and a loss of productiveness in the economy, if we had decided to go down that route. I am sure other things were thought about as well. There could have been grants rather than loans, for instance, which some other countries did. Given the speed at which the loans were disbursed and the low level of failures that we saw during 2020, we are confident that the scheme achieved its intended purpose of keeping the productive economy alive.

Q57 **Sarah Olney:** Yes, I concur. As I say, we are all constituency MPs, and we know how things were in our constituencies at the time. No one here is in any doubt about the value of acting speedily.

Just for you, Ms La Torre, to what extent could lenders have done more, within the context of wanting to get money out speedily, to build in more counter-fraud measures at the beginning, given that they are all experienced in this area?

Catherine Lewis La Torre: As it says in the Report, more than 90% of the loans were delivered through the main banks. The main banks have expertise in this area built up over decades, if not centuries, so we were not dealing with novices with regards to fraud.

We wanted to make sure at the outset that those basic counter-fraud initiatives would be in place: KYC and AML, which Ms Munby talked about. It was making sure that all applications were checked against fraud bureaus like Cifas, for instance. We think there was a good core base of controls there at the outset, which has prevented a high number of frauds. The estimate from the banks is in excess of £2 billion. That was very effective.

Could they have done more? Yes, but then we would have had to have had a slower delivery of funding into the market. There would have been other consequences for the economy, had we asked the banks to do more.

Q58 **Sarah Olney:** Mr Mills, I wonder whether you could answer that question as well. Is there more that lenders could have done to bring in counter-fraud rules at the point of making the loans without threatening the speed at which cash needed to get to businesses?

Sheldon Mills: In a sense, it is a question for the lenders, but I am happy to answer it. The lenders did what was asked of them, given what was removed in terms of what they usually do in relation to lending. There was a public policy choice over speed versus carrying out the normal checks. Therefore, the lenders had to adapt their normal processes in order to follow that.

As Ms La Torre and Mr Magee have mentioned, though, we ensured through quite a lot of discussion at pace that AML and KYC were key parts of what the lenders would do in terms of their existing customers or onboarding new customers who wished to avail themselves of the scheme. Mr Magee is correct that that will have helped in countering quite a large amount of fraud, regardless of the fact that certain other measures were not in place.

Q59 **Sarah Olney:** Ms Munby, the Report identifies that BEIS was quite slow to set up counter-fraud measures. Why was that? Why did the Department take such a long time?

Sarah Munby: Without in any way wishing to dispute the Report, it is important to understand what we mean by "slow" here. There was a series of measures that we introduced in the fraud prevention element of this. A good example that we have talked about already is that on 2 June we introduced this check for multiple applications, to make it harder for you to take out a second loan with a different bank, if you had already taken out a first loan.

I am just checking how long that took. The scheme was launched on 4 May. That was introduced on 2 June.

Q60 **Sarah Olney:** Sixty per cent of loans had already been paid out before that was put in place.

Sarah Munby: Correct, yes. "Why did that take a month?" That is the heart of the question. It took a month, because a month is how long it takes to set up the process of data-sharing with a completely new interface and a completely new set of rules. We started working on that from the very beginning. It is not that we woke up and did not realise that we needed to do that for a month; it is that it took a month to implement it. We were not slow to do that. We were slow in the sense that it would have been better if that had been in place at launch. That would have been preferable. We did it as quickly as it could be done. Patrick's team were very closely involved in that.

We also scaled our counter-fraud team quickly. It is worth saying that we had a very small counter-fraud team in the Department at the beginning of all of this. There was a good reason for that: we did not have a lot of high-fraud-risk delivery. We had a right-sized team. When we found ourselves managing these loan schemes and the Covid grant schemes, we had to scale up quickly. We relied on secondees both from Companies House and the Insolvency Service and support from the Cabinet Office counter-fraud function. We really quite quickly brought in expertise from across Whitehall to scale up that team.

In terms of things that would have been better had they been different, it would have been preferable if we had had a larger fraud team at the beginning. We had to scale up quickly to make sure we had the right expertise round the table at BEIS.

Patrick Magee: To put more colour around that, if you take figure 9, which is the counter-fraud governance forums, the way I would describe the role that the Department and we play is that we are the hub at the heart of two very significant wheels. The BBB team and the BEIS team are there defining the minimum fraud standards. We got the core ones in there in the 11 days, and we got those implemented. We then linked up 28 lenders together. You used to work in a bank, so you know that i f you said, "Let us link up 28 banks within a month through their IT systems," it would not be an insignificant effort.

We jumped on this fairly quickly. The formal governance forum may not have been established until towards the end of the summer, but we jumped on those and we prioritised those activities instinctively and rapidly. We got the minimum standards in. To fill out this metaphor of the hub and the spoke that I am using, you have the counter-fraud forum with UK Finance, where we brought together the fraud resources from across all 28 lenders to share best practices in the 11 days before the scheme launched and on a weekly basis after it launched. The formal forum came later, but the actions started in the 11 days before and continued every day after the scheme was launched. We jumped on this one fairly quickly, I would say.

Q61 **Sarah Olney:** Basically, we knew from the outset that this was going to be a very risky scheme. The need to get money out speedily meant that it was really difficult to implement counter-fraud measures prior to the money going out. That suggests to me that, instead of prevention, we need to be looking at detection and post-loan activity.

Sarah Munby: Correct, yes.

Q62 **Sarah Olney:** The Report says that the Department has allocated £32 million for counter-fraud activity on an estimated fraud loss of £5 billion. Given that we have always known that a lot of the counter-fraud activity is going to have to take place post-loan, is that enough?

Sarah Munby: This goes to the point that Patrick was just making about the hub versus the spoke. Where does the vast majority of counter-fraud and recoveries effort come from in this system? It comes from the banks. Given the size of this portfolio and given the risk that sits within it, all of the banks have made really significant investments in resourcing to make sure they can follow all of the systems and processes that Patrick and Catherine have been describing and that the BBB audits. That is where the arms and legs of this operation are.

The second place where there are big arms and legs is across the whole of the policing and criminal justice system. Just to give you an example, our team is currently working with over 40 police forces across the country on bounce-back-related work. When thinking about the amount of effort put into this system, the scale is sitting out there in banks and in policing and criminal justice. We are responsible for running the hub, or the brain, as it were, across the British Business Bank, BEIS and, indeed, the rest of HMG. I have talked about the involvement of Companies House, the Insolvency Service and so on.

How much money is spent inside BEIS is a tiny fraction of the money being spent across the system and the resourcing being put in. Our job is to make sure that the overall system is functioning well. Our partnership with NATIS, for example, is talked about in the Report by the NAO. That is about going after the most serious and the most organised fraud. The Insolvency

Service is working on cases that may not meet that criminal threshold but where there is a strong case for measures to be taken against individual directors. Then you are going down to the cases that are being managed simply by the banks themselves. That is particularly where it is fraud/error and there is not really the evidence base to go through some kind of prosecution process, but you do want to make sure that recovery and getting the money back is being prioritised. That is normally being done by the bank.

Different bits of system go after different levels in that hierarchy. Our job is to make sure the overall system is going well and not to run the loan-by-loan chasing or activity.

Q63 **Sarah Olney:** I have a question for Ms La Torre or possibly Mr Magee. What are the lenders doing to make sure fraudulent loans are being recouped?

Patrick Magee: Shall I just give you a sense of some of that? Again, the Report says we could not identify the amount of resources. We have been speaking to some of the banks and they were not keen on doing a detailed cost allocation exercise. To give you a sense, most of the larger lenders would have a couple of hundred people involved in managing these loan schemes. One of them has told us that it has about 60 people focused on fraud. That gives you a sense of the significant work they are doing. They are reporting that back to the fraud forum set out in figure 9.

Significant resources are being used by the lenders. Economic crime, fraud and financial crime is a very significant issue across the UK economy. I know the Treasury is very focused on this. The collaboration between us, the organisations represented around the table today, and the lenders has been very helpful. The collaboration in the cross-Government fraud working group has been really helpful. We are increasing our expertise. Again, by turning that hub in the middle, we have significant resources and the rubber is hitting the road out with the lenders, if that gives you a sense of the resources that are being put out there by the lenders. Is that helpful?

Catherine Lewis La Torre: We have also put people into a dedicated fraud and financial crime team, which we did not have before because we did not have schemes with high levels of fraud.

That resource sitting at the hub is there to look at the data in order to give us the ammunition to go out and have those continual conversations with the lenders as well. There is a process that we have to interrogate the data we have, take it back to the lenders and have the conversations so they can go and make their own interrogations in turn. We are not passively waiting for the lenders to do the right thing, although we believe they are doing that. There is a system of follow-up that we have instigated within the bank as well.

Q64 **Sarah Olney:** Mr Mills, are the lenders doing enough on counter-fraud activity?

Sheldon Mills: Our discussions with lenders have shown us that they have scaled up quite significantly to deal with counter-fraud activity and the detection of fraud through the BBLS and other schemes. As I said earlier, we will have to discuss with the lenders the size and scale of those resources put to this task and generally put to the task of BBLS, because this will only grow and increase as people come back to repay loans and more information and data come through the system. Our initial view is that the lenders have turned to this task well and have scaled up with the right levels of resources to tackle it.

Q65 **Sarah Olney:** Ms Munby, you were talking about how the Department itself is going to be prioritising the top-end fraud, the organised crime and so forth. Are you confident that enough is being done to tackle medium and bottom-level fraud? That is just in terms of giving everybody, particularly our smaller businesses, confidence in the system and ensuring there is a sufficient deterrent for that smaller-scale fraud.

Sarah Munby: This comes back to the point about the role of the banks. I hope what we have said today, including what Mr Mills has said, gives some confidence that banks are going after recoveries. As part of that recoveries process, which is agreed, there is a whole set of systems for handling fraud within recoveries, if you see what I mean. It is not purely about going after money. Ultimately, that is where people will see the consequences for the lowest-level forms of fraud here in the system.

If you have taken out a bounce-back loan and you do not pay it back because your bank has evidence that it is in some way fraudulent, even if the bank decides there is not sufficient evidence to go after you with a criminal prosecution, that is likely still to result in your account being flagged. It is going to make it very difficult for you to get credit in the future. If you are a company director in that situation, the Insolvency Service may be going after you as an individual to prevent you taking on further directorships and disqualifying you.

There are a series of consequences for lower-level fraud that do not meet the standard of criminal prosecution. That is not because we are not interested; it is because usually in those cases there is neither sufficient evidence to get through to a criminal prosecution nor, frankly, a sensible value-for-money case in a world in which you have very large numbers of very small fraudulent claims.

The important thing is that those people who have been involved in that kind of fraud will face a personal consequence either as directors or as business owners who might wish to take out credit in the future.

Q66 **Sarah Olney:** Can I return to what we were talking about earlier? You talked about the counter-fraud checks that were not possible to implement at the beginning, but you did them as quickly as possible. Figure 10 of the Report has a number of counter-fraud checks that could have been implemented and eventually were, by and large, some time after the scheme was launched. We talked about the duplicate checks, for example, which came in after a month.

For the revenue verification checks, which is the third one down, the HMRC bounce-back loan verification scheme, which is about verifying a business's turnover, took eight months to come in. Was that as quickly as you could possibly have brought that in?

Sarah Munby: It was quite challenging to make that work. It is not as simple as it might sound. Part of why it is voluntary is that it is not that powerful. It is just important to say that it would not have made a transformative difference. The reason here is that most of the businesses we are talking about are extremely small.

The question about the right turnover number that they should have put in the box is actually quite a tricky question to answer. For example, you have companies here that were new. We asked them to give an estimate of their turnover. You have companies whose trading was really affected by the pandemic. What should you have expected to be in that box? If you look at an overall sample of loans, even in a worst-case scenario, at the top of our range, you might say 15% of those loans are fraudulent. The majority are not, but the matching between somebody's previous tax return and their current bounce-back loan application is not that high. We had to make that check effective and work, and we had to work through the protocols of sharing data with HMRC.

HMRC usually cannot just share your data around the rest of Government. Charles may want to talk about that in more detail, but that is not how HMRC works. Working through those protocols with HMRC to make sure we are protecting people's data was an important component in doing that.

Q67 **Sarah Olney:** Mr Mills, I want to go back to what you were saying there when I asked you about what lenders are doing on counter-fraud. You stated that lenders have scaled up significantly their counter-fraud measures. Since when have they started scaling up? Were you initially concerned about this? Have you had concerns in the past?

Sheldon Mills: I will not be able to be precise as to the date when they started scaling up. Mr Magee may have better knowledge of that than I. However, it is important to put the scheme into the context of the lenders' operations pre-scheme. There has been quite a significant amount of lending put to SMEs through the scheme that was not in existence pre the scheme.

If the lenders had decided commercially to expand into SME lending in that way, they would have also had to scale up various activities to support that, including on collections and recoveries, anti-fraud, et cetera. They have done that in relation to this expansion through the scheme, but Mr Magee may be able to say more about the timeliness of that.

My understanding from discussions with the lenders through my team is that they have scaled up in a way that we are comfortable with. My understanding is that we think they now have the scale of resources about right. As I said, I personally feel that it is early days, and we will need to continue to monitor that as things move forward.

Q68 **Peter Grant:** Ms Munby, you have given a few examples of counter-fraud measures that effectively had to be retrofitted, because the urgency was to get the scheme in place so the money could be paid out. There was always going to be urgency around a business needing the money and getting the money out. We can all understand why you wanted that time interval to be as short as possible. There is, however, an argument that a lot of the preparation could have been done 10 years ago, because we knew 10 years ago that at some point a pandemic was going to hit us. We did not know what it would do to the economy, but there was not the degree of forward planning and contingency planning that hindsight now tells us would have been useful.

Was there any reason why, for example, the scheme, even in its outline, could not have been designed five years ago? When somebody said "go", instead of having to spend 11 days pulling together something from a blank page, you would have had that work done. You might have had several years to refine it. With hindsight, given more time, would it have been possible to design a scheme that would have had significantly less exposure to fraud and error than the one we have now?

Sarah Munby: It would clearly have been possible to do so. We talked quite extensively at the last session about this. Cross-Government, there was not a Covid shutdown or pandemic preparedness plan, although there was a variety of pandemic preparedness steps in place. We would not have ever planned a scheme of this type. There is something about these parameters and the desperate situation that the economy found itself in, with a full shutdown. It was not like a flu pandemic; it was quite specific. It was not of the same type as what had been the overall pandemicpreparedness approach across Government.

It is also hard to imagine how, in an environment where this was not actually in front of us, we would have ended up saying, "Yes, the scheme we are going to end up with is one with an 100% guarantee and a really very serious fraud risk that is far outside of our usual risk appetite."

There is something about this scheme that means, just by its nature, it would not have been planned for unless you had had exactly this scenario, this approach, this scale, this intensity and this seriousness. We would not have come up with this in our general preparations for bad things, because we would never assumed that something quite that bad would have happened.

It is fair to say that, because of the preparations we had done for a no-deal exit from the European Union, for example, we did have various contingency plans for business support. That was where the concept of using the Enterprise Finance Guarantee, the pre-existing BBB scheme, as the foundation for an expansion of BBB lending really came from. We had a plan of expanding BBB schemes, but expanding to this extent and into this risky territory was not in the game plan.

Patrick Magee: To give some context on that, we have done a lot of work with the Department around that. When the EFG was used in the financial crisis, which we all recall as being fairly dramatic at the time, it did £1 billion worth of guarantees in the year. CBILS has ended up doing £25 billion. As I said earlier, it is larger ticket; it is slower, with the concept of doing a 100% guarantee on that scale, where it really became emergency liquidity.

Again, a counterfactual could have been about giving that amount in grant. We may well get 63% or more of that money back. Again, it was a really extreme circumstance. That gives some context. A lot of pre-planning had been done in the context of Brexit and other countercyclical events.

Q69 **Peter Grant:** I know that the Committee will be looking in detail later at the cross-Government level of preparedness for the pandemic. Something that I am still trying to get my head around is why it was that the nature the virus that eventually hit us required such a completely unpredictable response. For example, almost any serious viral pandemic at some point is going to take out a significant proportion of the workforce. You are going to have substantial numbers of people off sick and unable to work at any one time, so there is going to be that kind of hit on the economy.

I do not want to impinge on Ms Olney's next set of questions, but, looking forward, you will have learned from the experience of how businesses have behaved, the ways in which people will try to get one over on you and how you build in protection against that. If you were asked now to prepare a departmental contingency plan for a major emergency of an unspecified type, would you now be asking, "What are the three or four different sets of scenarios in which we might need to either get a lot of finance into the economy very quickly?" Is that something that you would now expect to do, simply to have it on the shelf so that you can then tailor it to the exact emergency that hits us?

Sarah Munby: Yes. The unfortunate reality of the situation we have found ourselves in over the last years is that our capability now in delivering emergency business support programmes is quite strong on both the grants and the loans side. We have gone from a circumstance where we were delivering new innovative policies and delivery mechanisms very quickly into a circumstance where we have adjusted loan schemes and different parameters for the grant schemes.

The grant schemes are a good example. We have had different sectoral make-ups and different levels of controls and restrictions through time. All of that capability is very much stronger now than it had been and it is now a toolkit that you could apply to an enormous range of different kinds of crisis.

Q70 **Peter Grant:** We all hope that none of us is around to see the next crisis of this scale, which could be taken in two different ways. The fact that something is a once-in-100-years occurrence does not mean it will be 100 years before the next one; it could be a few years. How much account have you taken of the fact that your response to attempted fraudulent claims against this scheme now is being watched by people who will be ready to move in on a very large scale on whatever the next scheme has to be?

For example, if it is seen that you do not take action against a large number of small fraudulent claims, you can guarantee that organised crime next time will put in a large number of fraudulent claims disguised so that it is not obvious they are coming from one place. Without giving too much information about how you are improving your fraud awareness and fraud precautions, is that the kind of thing that you are now taking into account? As well as you looking at what the bad people have done this time, are you taking account of the fact that they are watching your response? It may be that next time you need to respond in a different way.

Sarah Munby: The deterrent effect of going after fraud is absolutely on our minds. As I say, fraudsters in this scheme can expect to bear consequences. As usual in the case of fraud, which is a very serious accusation for which you need strong evidence, not all of them will reach the level of criminal proof. There are a series of civil and recoveries measures that hit before that. Deterrence is absolutely important.

Say that we found ourselves back in exactly the situation that we were in at the beginning of this pandemic, and we introduced a scheme with a 100% guarantee and a very fast disbursement process. Both of those things are really unlikely, by the way. They would truly require a crisis of equivalent scale; they are probably more infrequent than once-in-a-generation events. A 100% guarantee scheme is not something that we would ever advise doing lightly. It requires a very high threshold.

Even if we were doing that, we would now have all the things we have talked about in terms of data sharing, getting the duplicate flags in and the HMRC turnover checks. There is a whole series of practical things that are now done. If you were relaunching, your ability to prevent fraud up front, which is what Ms Olney was talking about as the biggest challenge here, would be quite significantly stronger than it was then.

Q71 **Chair:** That leads me into some of the lessons learned, but, before I do that, you were talking earlier about leaving it to the lenders to pursue. One of the things, when we look at this and draw back from it, is that the lenders have to pursue for 12 months and then they can call in the guarantee, as long as they have gone through certain steps.

We had some interesting evidence from Equifax. You said that it was not really your responsibility at the Department; it was for the lenders. In their evidence, they have suggested steps that you could take more usefully and more effectively in Whitehall, because of the powers you have, to recover some of the debt by getting the view of each borrower on its debt, segmenting the loan book and agreeing a strategy for each segment. We have talked about different strata of businesses already. You have quite a lot of powers.

Is that something you have ever considered? Earlier, you ruled it out. I just wondered why. We have evidence from a well-known company suggesting that you could do more.

Sarah Munby: As I say, we did look quite closely at the question of whether we should be taking recovery actions on top of what the banks do. We did not think there was a sufficiently good case for it. I would very happily take the specific Equifax suggestions and check them against what we have looked at. Without seeing them, I cannot be confident about that. If we thought there was something we should be doing in addition that would meaningfully enhance recoveries without costing a disproportionate amount, that is something we would consider.

Q72 **Chair:** Partly, they are suggesting using your data effectively. Again, we were puzzled about what the incentives were for lenders to pursue a debt rigorously, given that it is underwritten by the taxpayer after 12 months, if they have shown that they have pursued it. The projections put forward by your own Department about the levels of fraud are very high. In normal times, this would be a lot of money. It is dwarfed by the overall Covid spending, but it is significant. It would pay for a lot of new schools and things like that.

Is that something that you are concerned about? If you were doing something differently, would you change that? Would the British Business Bank change that 12-month rule?

Sarah Munby: There are maybe just a few aspects of what you said that I wanted to pick up. The first was the point about data—that we hold some data that the banks do not and that could help recoveries.

Chair: No, you have the aggregation. It is not that you hold the different data, but you can aggregate it.

Sarah Munby: We do, though. The reason I mentioned it is that I wanted to say that, where data is the tool and where we are able, using the full might of Government, to identify at-risk loans, we share that data back with the banks.

Where the advantage that Government can bring is data and understanding at the loan level, we do that and we run it out through the banks. That does not answer the whole of your question, but I thought it was worth mentioning. I am sorry; just take me back to the question.

Q73[2] **Chair:** Let us take that example through. You give that back to the banks. They pursue it for 12 months and, if they do not get it back, they are still underwritten.

Sarah Munby: The recoveries framework does not end the bank's activities at 12 months; 12 months is the point at which they can claim on the guarantee. That is not the same thing as it being the point at which we expect their processes their end.

[2] Sarah Munby wrote to the committee on 9 February 2022 with additional clarifications

Q74 [3] **Chair:** What is the incentive for them to continue?

Sarah Munby: It comes to back what we have said throughout, which is this process of auditing. Let us say you claim on the guarantee; you are a bank and you have claimed on the guarantee. If in fact you later discover a fraud indicator, or we tell you about a fraud indicator, and you fail to go through what you should, which is the sometimes multiyear process of pursuing a fraudster to the point of recovery, we can take away the money that we gave you.

We have described the audit process. I appreciate that an audit process can never be perfect, but, insofar as that audit process is effective, we put direct commercial incentives on the bank to follow through not just within the 12 months but beyond, because the recoveries process requires that. It is just that 12 months is the point at which we say, "It is okay to claim". For a fraudulent case, you might well be continuing to pursue after 12 months.

Patrick Magee: To build on that, while they are not obliged to pursue it after that point, the normal commercial reality will be that, if the customer wants to remain a customer of the bank and they have been flagged as fraudulent, they are not going to get a loan from somewhere else.

I will use my metaphor one last time. We have the wheel of legal action. We are really focused on the serious and organised criminals, but, for those people who have maybe overrepresented their turnovers or claimed for two loans, it may well be that it takes them more than 12 months to get back on to the path and start repaying for that loan. That commercial action, that commercial incentive, is really there. It is as much on the borrower as the lender, because they want to be part of the banking system. They need a bank account to run their business.

Q75 **Chair:** You are hoping that the system will self-regulate. That is what you are saying.

Patrick Magee: It is effectively the commercial reality. If you want to run a business in the UK, if you have been flagged as a fraudster and you have defaulted on a bank loan, it is going to impact you.

Q76 **Chair:** I will give notice to Mr Mackinlay that in a moment I am going to come to him on a specific aspect of this. Before that, I want to go to Mr Roxburgh. For the Treasury, you knew, as you said, that there were huge risks here, but there is a long tail of risk. There is the 12-month period, but, beyond that, there is the 10-year repayment plan. What worries do you have at the Treasury about that? How are you profiling that risk over the next decade?

Charles Roxburgh: The profile of the different loan schemes varies.

Chair: But for this one—

[3] [Sarah Munby wrote to the committee on 9 February 2022 with additional clarifications]

Charles Roxburgh: We know we are in this for the long term. This is the longest, because the CCFF scheme is due—

Chair: I am particularly talking about this one.

Charles Roxburgh: On this one, we recognise that we are absolutely in this for the long term. We are confident that the BEIS Department and the British Business Bank have put in place the processes and systems that will enable them to manage it for the long term. We have very close monitoring of the data and very close links with the banks.

In the Treasury, we are confident that we are now setting up for a multiyear effort over the full course of this programme to manage it and minimise the cost to the taxpayer as best we can, against an expectation that this was a very expensive intervention, although not our most expensive intervention, but one we continued to believe had significant benefit for small businesses throughout the country.

Q77 **Chair:** We have banked the issue about the benefit for businesses, and we are now keen to see how the money is drawn back in. Every loan that is defaulted on, or even where there is a delay in repayment, has an impact on the Exchequer. When I talk about profiling, I am also interested in how you are profiling that financial impact on the taxpayer and the freedom, therefore, of this Government and future Governments to act over time. What tolerance of risk do you have for that?

Charles Roxburgh: As part of its fiscal forecasting, the OBR profiles all these programmes. In its forecasts for our fiscal needs, the OBR has its expectations, and we update that every time the OBR does a forecast. Yes, we will be continuing to update the expected losses. As we get better data about the scale and the timing of those losses, we will get a more accurate reflection of the fiscal forecast. As that changes with the cycle, we will need to adjust our fiscal outlook.

The scale of these losses is significant, but in the scheme of the public finances, it is well manageable within the borrowing capacity that we have. If they continue to come in towards the lower end of the expected range, they are entirely manageable. They are closely monitored; that is the answer.

Q78 **Craig Mackinlay:** This is a very quick question for Mr Magee. Would it be a reasonable guesstimate to say that the majority of businesses that applied for a bounce-back loan did it though their primary bank provider?

Patrick Magee: I would say that is reasonable.

Q79 **Craig Mackinlay:** That would be my guesstimate as well. We are looking at figure 8 in the NAO Report. On the back of what Mr Grant asked you, this is about frauds with a turnover misstatement. After the event, on figure 10, the turnover pilot implemented by HMRC has confirmed there was a fair bit of turnover misstatement going on. There are applications from inactive companies or limited companies that go into voluntary dissolution or simply do not file anything and get struck off.

I found this unbelievable, Ms Munby, truly unbelievable. I know we were trying to get this thing out quickly and all the rest of it, with those pressures. For an existing business with banking facilities that had been in place for whatever length of time, I found it unbelievable that a primary check was not done by that lender, the main bank, to say, "What was their turnover over the last year? What were the credits that entered their bank account? Does this make any logical sense?"

I found it completely unbelievable. We examined this the last time we looked at all this stuff. If we have learned lessons, is that one that we have seriously learned? The lenders themselves would probably have a lot more information than HMRC, which gets stuff way after the filing of the corporation tax return, a year or so later.

Sarah Munby: I might ask Patrick to add to this, but one point to emphasise is that the majority of these loans went to extremely small businesses indeed. Many of those businesses would not be relationship banked in the way that you describe. Their bank would not necessarily know what their turnover is. They might be running their business out of a personal account. It is not as clean as—

Q80 **Craig Mackinlay:** That may be true of some, but you did not ask any of those things for any. It was a self-certificated statement that they gave to their bank. No questions asked, the money is with you within 48 hours. That is how it worked, is it not?

Sarah Munby: That is right. If a bank saw an indicator of fraud, though, it would be expected to draw it up. You cannot have a rule that says, "You must prove your turnover except if you cannot prove your turnover," if you see what I mean. That is why I thought I might bring Patrick in. The standard processes that were still part of the system might well have flagged up challenges if there was an obvious discrepancy of the type you are describing. It is just that we did not have a comprehensive process for fact-checking right across the portfolio.

Patrick Magee: To take you back to that 11-day period, which will be forever imprinted on my memory, we were told on the Thursday afternoon that we wanted to go ahead and implement this scheme. Through the weekend, we basically negotiated with all the lenders that wanted to work on this scheme what they could build into an automated application process that they could build from scratch. The Chancellor rightly wanted it launched for 4 May.

I remember very clearly the weekend where we discussed this with them. They said, "Look, we can do the AML. We can do the KYC. We can do the fraud. We cannot build in a turnover check", given some of the issues that

Ms Munby referred to there. The discussion was really about what we could do in the timeframe.

Q81 **Craig Mackinlay:** I know what happened. I just put on record that I thought it was very thin and very flimsy. Finally, this is a depressing Committee to be on. I can tell you that. Some weeks ago we had DWP in.

Chair: You can read our back catalogue.

Craig Mackinlay: The DWP admitted that there are about £8 billion of losses because of fraudulent rapid UC claims. Lots of that went through very quickly. Just a couple of weeks ago, before Christmas, we had HMRC in. They were admitting that there were probably £4 billion of losses that are never going to be recovered on the furlough and self-employed schemes.

Here you are with us today talking about probably—it is highly uncertain, it says in the Report—£17 billion. This place, politically, pulls itself apart for want of a few billion quid. Yet in the last six weeks we have had £19 billion—"oh well". These are significant amounts of money that could be doing a lot of the things that I and the Chair row about across the Chamber, if these things had not gone horribly wrong.

Chair: That is a good question.

Sarah Munby: Can I just come in with a factual point? The £17 billion is the credit loss, not the fraud loss. You were comparing it to the fraud numbers from the other schemes. I wanted to emphasise that point for the viewer.

Chair: It is still taxpayers' money, but you are right to draw the distinction.

Sarah Munby: We are still talking £4.9 billion, but fraud is not £17 billion.

Patrick Magee: Yes. If it is the 7.5%, which is the current—

Craig Mackinlay: It was more a statement of annoyance than anything.

Patrick Magee: No, I share it.

Q82 **Chair:** Mr Mackinlay has made his point. Can I just check one point? We have talked about the 12 months before payback, but there are mechanisms for banks to call in the guarantee at an earlier stage than 12 months, are there not, Mr Magee, if there is real evidence of fraud?

Patrick Magee: Yes, if they have gone through a process and it is clear. In those cases where there has evidently been a fraud, they do not have to wait the 12 months. If the business has gone or there has been a fraud even despite their fraud checks, they can call it in under the 12 months. After the 12 months, they do not have an obligation to pursue it. If they do get recoveries beyond the 12 months, that nets back to us.

Q83 **Chair:** Thank you for clarifying that. Ms Munby, from what we have been talking about and the levels of fraud that the NAO very clearly set out in the Report, it seems to me, and perhaps to the Committee, that there is a bit of an amnesty on things like double claims. Is that fair to say?

Sarah Munby: I am sorry to repeat myself, but it comes back to the workings of the banks, the lenders themselves. If you have gone through those processes and the bank has clear evidence of fraud, it is going to be submitting a SAR—a suspicious activity report. You are going to find it very difficult to ever get another loan again. Those are pretty serious consequences.

Q84 **Chair:** Just to be clear, you are relying on that system, that matrix, which means a legitimate business will not be able to borrow money again through a double claim. As Mr Grant highlighted, the fraudsters will find holes in this system.

Sarah Munby: Where we are talking about, for example, a fraudster who might have engaged in that multiple times with multiple businesses, that is the sort of case that we are talking about escalating to—

Q85 **Chair:** You do not have to do it many times to make quite a lot of money out of it.

Sarah Munby: No, indeed, exactly. Those are the sorts of cases that we are talking about escalating, for example, to NATIS.

Q86 **Chair:** Going back to my point, is there not an amnesty for double dippers?

Sarah Munby: No, there is no amnesty for anyone here.

Q87 **Chair:** If, around this Committee, we had all set up new businesses and dipped in once or twice, we could decide to walk off and never be in business again. If we can never be directors again, is that such a big worry? That is my point. Some people could have defrauded the system with false businesses with false turnovers, because they did not exist, and get away with it.

Sarah Munby: If there is evidence of that, you would find yourself, through the workings of the Insolvency Service, being disqualified as a director.

Q88 **Chair:** If you were never really running a business in the first place, would that matter?

Patrick Magee: The business had to be there from 1 March 2020.

Q89 **Chair:** There are a lot of businesses there that do not do much. Let us be honest. There are businesses that are fairly dormant. Anyway, you get my point. We are worried about that. In summary, Ms Munby and perhaps Mr Roxburgh, what lessons have you learned from this? Could you snappily give us the bullet points? What would you do differently? If you were writing the handbook for your successor, the next time this might happen—let us hope, as Mr Grant says, it is not too soon—what would be your top five or six points that you would do differently?

Sarah Munby: What would be different next time? First, we now have in place a stronger fraud capability in the Department and across Government. That has been really strengthened, which is a good thing and stands us in good stead.

Q90 **Chair:** You are confident that it will persist.

Sarah Munby: Yes, exactly. We will keep it, because it is very helpful. The second is the capabilities around data and data-sharing. Again, we have made big progress on that. I am not necessarily saying that I would do it differently, but I would have it from the beginning. That would really make a difference.

Ultimately, I would say that the risks that we described at the beginning of the process have come to pass. It is not that we have reached a lot of unexpected events here. It is that things have happened in the way that we expected. The scheme has been both enormously successful in saving small businesses and very challenging in terms of fraud.

Q91 **Chair:** What about from the British Business Bank's point of view, Ms La Torre?

Catherine Lewis La Torre: With hindsight, making more investment in systems and data capability over the bank's first seven years of life would have been a good thing to have done.

Having said that, my predecessor talked to Ms Munby's predecessor about quadrupling our opex to build systems in the event of a highly unlikely but highly impactful event. It would have been difficult to make that case. We have made that case, because we have seen, through the delivery of these schemes, how important data and IT infrastructure is. As part of the spending review we have asked for more investment to be delivered through the bank so we can build up our capabilities in those areas.

Specifically, we are looking at data management, IT infrastructure and outsourcing, and evaluating whether any of the things we are currently outsourcing could be done for a lower cost and equivalent quality in-house, and then investing in risk management. We are making those investments now. It will take two or three years to run those programmes through. Had we done that three years before, we would have been in a better starting position for delivering these loans.

Q92 **Chair:** It is interesting. We are looking at risk management on Wednesday and comparing it with the private sector. The philosophical and practical issues are quite interesting. Mr Roxburgh, a lot of this will involve investment now to save money later. That is not always how the Treasury works when you are looking at very big challenges in the public finances. Departments will be set stiff targets. How sympathetic is the Treasury to actual real-time investment and maintenance of some of the measures that Ms Munby and Ms Lewis La Torre have just outlined?

Charles Roxburgh: As part of the spending review, we have huge commitments to maintenance budgets and investment budgets. This is the highest level of investment that we have seen for many—

Chair: No, but investment particularly in these measures that will make it easier—

Charles Roxburgh: Yes, but, as you have heard, the specific numbers in the Report did not reflect the totality of investment going on, much of which is happening through the banking system. We will always listen to wellframed propositions. At the moment, we think that collectively we have the right resources against those parts of this problem that are being managed centrally. We will keep an open mind, if we need to do more, as the situation develops.

As colleagues have said, there has already been very significant investment in getting the data, the processes and the systems to manage it. We were happy to fund that as a necessary way to minimise the cost of this scheme.

Q93 **Chair:** One of the things that I know from my very brief stint as a Minister is that it is very easy to cut budgets when things are being squeezed. There is also a political challenge there. Perhaps we will park that until Wednesday.

Ms Munby, can you outline what other Covid support you are looking at now, given that we are still not out of the pandemic nearly two years on? There were no actual edicts from the Government for a number of sectors before Christmas. I am thinking particularly the hospitality sector and venues. You will see from the profile that my constituency has been quite hard hit, as have a lot around the country. What support now is the Department proposing for businesses, given that you now have such a richer knowledge of these business sectors?

Sarah Munby: There is a really substantial package of support in the field as we speak. The moneys for the latest grant packages for leisure and hospitality businesses are now with local authorities. We expect disbursement of those to be happening very shortly.

Q94 **Chair:** How are you evaluating what impact they are happening?

Sarah Munby: Across all the grant schemes, there is a need for a similar evaluation approach to what we have talked about today. It is similarly challenging, because there is a question of what the counterfactual is.

Q95 **Chair:** It also has to be in quite real time. I suppose the pandemic has never slowed down, but we are now seeing how quickly things can change. One week it is all fine, and two weeks later venues are virtually empty. How quickly can you evaluate whether the money the taxpayer is putting in is making a difference in supporting businesses to get over the latest hump?

Sarah Munby: Because of the challenges in evaluating any support of this kind, it is really hard to know in real time exactly what effect you are having. We cannot claim to have the flywheel that you would like of real-time evaluation into real-time policy response, not least because you have an unpredictable set of questions.

To come back to your point about business support, it is not just those grants. It is also the Recovery Loan Scheme—I talked about that earlier today—in terms of the loans that are out there. It is also worth pausing briefly on the work on rates and reducing costs to businesses with physical premises, and also the process around commercial rent moratoria. We are gradually now moving into an arbitration scheme to resolve those commercial rent challenges, where they are still in place. There is a full package. Much of it is still extant or, we hope, in its concluding chapters.

Q96 **Chair:** I wanted to touch on something that we touched on in a previous Report about the wider lending market. Businesses have the option—many of them have taken it up—of 10-year loans at 2.5%. They had a year free, and in fact they can get an extra six months of no interest if they have extended on the pay-as-you-grow scheme.

There are other lenders that were late coming to the process. Mr Magee can perhaps explain why. Now they have been cut out of it a bit. We were very concerned then about the impact on the ability for those challenger lenders to support different sorts of businesses. Have you made any evaluation, Ms Munby, of that impact, perhaps unforeseen at the time, on the wider sector?

Sarah Munby: Yes. It was absolutely not unforeseen and featured quite heavily in the direction letter at the time at which this scheme was launched. You are absolutely right: it is a concern. The British Business Bank—Patrick and Catherine can talk to this—has a really strong record in involving alternative lenders. CBILS has been much more successful in doing that. The reason that does not transfer through into the Bounce Back Loan Scheme is because of the 2.5% interest rate that means it is not viable for many of the alternative lenders to participate.

That is a serious consequence. Again, it is one that we were worried about at the time. That is going to mean doubling down on the other things that we do through both the British Business Bank and the broader work of the Treasury to ensure that competition in the banking sector and the lending sector is maintained.

Q97 **Chair:** It is not just the level of interest on those loans, is it not? It is the fact that it is cheap lending for a lot of businesses, referring to some of the points that Mr Mackinlay was making.

Sarah Munby: Yes.

Chair: If you have that and you have it in your bank, why would you go and refinance to a higher loan? You are not going to do it. Ms Munby or Mr Magee, have you looked at how long the impact is going to be on the alternative lending sector?

Patrick Magee: If you look at the different market shares between bounce-back, CBILS and RLS, it is moving significantly back towards the alternative lenders, which is good. I have a couple of figures in front of me.

Q98 **Chair:** You say "significantly", but do you have something that you can point to?

Patrick Magee: We can give a breakdown of that. We are working on our publication strategy. We can give you some context on that.

Chair: Our sister committee, the Treasury Select Committee, is interested in this as well.

Patrick Magee: You are right. If you look at SMEs now, a lot of people are concerned about those businesses, particularly in the most affected sectors, that are struggling at the moment. If you look at the number of businesses that have at least £10,000 in cash on their credit balances, that has gone up from 23% pre-pandemic to 35%. Lots of businesses—it was 32% and it is now up to 50%—have more turnover. There is more cash on the balance sheets of SMEs at the moment in many sectors. That means that they will borrow a little bit less.

If you look at the profile of bank lending, we were doing about £50 billion a year pre-pandemic. It shot up to £104 billion, with a large chunk of that being bounce-back. We are now back to about £4.5 billion a month and £50 billion a year. We are getting back to pre-pandemic levels of lending.

Again, we are seeing diversity returning to the lending market. Bounceback had a big concentration into the main banks, but we are seeing diversity and returning to comparable levels of lending in the market. I am not going to say "post-pandemic" at this stage.

Chair: Yes, we live in hope that one day that might be something we can say.

Patrick Magee: My optimism shines through.

Q99 **Chair:** You are being optimistic at a cynical Committee. Ms Munby, you talked about the evaluation being done by Ipsos MORI and London Economics. Is that looking at the impact on the wider lending sector?

Sarah Munby: I believe so, yes.

Q100 **Chair:** When will we have results of that?

Sarah Munby: As I said, we are expecting the first wave shortly, so being made public within a few months from now. I would have to check the extent to which the exact issue you are talking about is included in that first wave of evaluation.

Q101 **Chair:** It would be very helpful if you could write to us on that.

Sarah Munby: I am very happy to. I just do not know it off the top of my head.

Catherine Lewis La Torre: That is something that we will be covering in our small business finance markets report, which we produce annually. That will be coming out shortly.

Chair: When will that be coming? I did not hear, sorry.

Catherine Lewis La Torre: It will be in March. We look at the alternative finance market; we look at market shares. To support what Patrick said, it is absolutely true that bounce-back had a distortive effect, but we see that diluting over time. If you look at lending through alternative lenders throughout the pandemic, it held steady. They lost market share, but the amount of lending that they were putting into the market held steady.

Q102 **Chair:** It had been Government policy to encourage challenger lenders.

Catherine Lewis La Torre: It still is. One of our core objectives is to support diverse markets in terms of both type of provider and type of product. Over 94% of what we deliver outside the emergency loans goes through the alternative lending market.

Q103 **Chair:** When the scheme was set up—I am probably looking to Mr Magee on this—you say you had the main banks come in and you talked to them about what to do. At that point, the challenge banks were outside that loop and did not have access to the term funding scheme, because that was only accessible to the mainstream banks. What was the rationale? Was it about the speed at which you had to work? Did you deliberately exclude them? Why did they find themselves excluded?

Patrick Magee: There is a good chart in here. Most of them figured. We launched with seven, but within a number of months we had 25-plus.

Q104 **Chair:** It was quite late on, then, was it?

Patrick Magee: Yes, absolutely. You did have the main banks doing over 90% of the scheme. That was a risk that we flagged at the outset. Again, I would say that was a short-term liquid push. If you look at the long-term credit needs of businesses, again we will be reporting in the SBFM, the small business finance markets report, how that short-term liquidity issue has hopefully not had a long-term distortive impact. Again, we will monitor that over time.

Chair: You are hoping at this point and waiting for the evaluation. We flagged it in our last Report, and we are still concerned. As I say, our sister Committee has members on it who are focusing on this as well. I will leave that there for now.

Thank you very much indeed for your time. This is something that some of us round this table, though perhaps not me, will be dealing with for some time. I do not know; I suppose I am probably just young enough to be here when the end of the 10-year period comes up. I live in hope that— **Craig Mackinlay:** Your majority will last that long.

Q105 **Chair:** I would hope that the good folk of Hackney might leave me here to tackle the challenges. Some of us will and some of us will not, but it is going to be a long tail. That is going to be a real concern for us. I feel like writing a memo to my future self to remind us to come back and look at

this.

Ms Munby, when we are talking about risk on Wednesday, one thing that we are keen to see is the Whitehall lessons learned books or guides that are available. I hope you are going to be looking at that in your Department. You nod. How are you going to do that practically?

Sarah Munby: We have talked about this before on a number of occasions, have we not? Corporate memory is a challenge. There are a number of ways that you might go after that and I look forward to watching the hearing.

Chair: It is an area that the Committee might want to push on more broadly across Whitehall. Thank you very much indeed for your time. We will be publishing the transcript of this session on the website uncorrected in the next couple of days.

Can I thank our witnesses? In the room were Patrick Magee, Sarah Munby and Catherine Lewis La Torre, and online were Charles Roxburgh from the Treasury and Sheldon Mills, for the first time in front of the Committee, from the Financial Conduct Authority. Thank you very much indeed for your time.