Department for Business, Energy & Industrial Strategy

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Darren Jones MP
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20 October 2020

Dear Darren,

Thank you for your letter of 30 September in relation to the publication of the British Business Bank's (BBB) Reservation Notices in relation to the Bounce Back Loan Scheme and the Future Fund. I am writing to provide a response to the questions that you set out.

What action you have taken since 2 May to address the BBB's concerns relating to the Bounce Back Loan Scheme?

We are working across government departments, and with lenders and law enforcement agencies, to tackle fraudulent abuse of the scheme. Since 2 May, my Department – working with HMT, the BBB and lenders – has introduced a range of measures, including:

- Establishing processes to further detect and prevent fraudulent activity, such as checks for duplicate applications and flagging recent changes in registered company details. This allows lenders to improve the reviews they undertake at account opening to determine if they should be declining loan applications based on a reasonable suspicion of fraud.
- Establishing a Fraud Prevention Collaboration Working Group which meets weekly and is co-hosted by the BBB, UK Finance and Cifas. Members include accredited lenders under the Bounce Back Loan Scheme and the group provides a forum for lenders to share their experiences, discuss their fraud levels, highlight best practices and explore, design and implement industry- and scheme-wide solutions.

What estimates have your Department and/or the BBB made of fraud resulting from the Bounce Back Loan Scheme? What analysis have BEIS or BBB carried out of the credit risk resulting from the removal of "significant elements" of conventional credit checks?

As part of the Bounce Back Loan Scheme application process lenders undertake fraud checks, including Know Your Customer and Anti Money Laundering checks as required. Any fraudulent applications can be criminally prosecuted, with individuals found guilty being liable for penalties including imprisonment, a fine or both.

Given the urgency of providing financial support to small businesses impacted by the pandemic and lockdown measures, it was necessary to introduce a more streamlined process to ensure that loan applications could be approved as quickly as possible.

The Government took the view that the need to secure peoples' jobs and keep businesses alive outweighed the risk of forgoing some of the usual checks.

Further details of how we expect the Bounce Back Loan Scheme to perform are set out in our accounts for 2019-20, a copy of which has been placed in the Libraries of the Houses of Parliament. At this early stage, such estimates are naturally highly uncertain as reflected in the explanatory notes to the Accounts.

The initial indicative range of loss estimates disclosed in our Accounts covers both credit and fraud losses. These estimates are based on historic losses observed in previous programmes which most closely resemble the current COVID-19 interventions.

A full estimate of losses and fraud on the scheme will be reported to Parliament when we produce the 2020-21 Departmental accounts.

What assessment has been made of the impact of the Bounce Back Loan Scheme on competition in the small business lending market and its ability to support the economic recovery?

The BBB remains committed to diverse finance provision and has now accredited twenty eight lenders for the Bounce Back Loan Scheme including alternative finance providers, such as peer-to-peer platforms, non-bank lenders and 'challenger' banks.

Given the scheme's requirement to deliver at volume and pace, it is understandable that a large proportion of lending has been delivered through large lenders, which tend to have a wider market reach and greater operational capacity.

The Bounce Back Loan Scheme was a temporary measure, designed to provide emergency support to businesses. On 24 September, the Chancellor announced that a new loan guarantee scheme designed to support the recovery will launch on January 1 2021. My Department will work closely with HM Treasury and the BBB to develop the details of this scheme. This will include considering how it will work to support diversity in the SME lending market.

What measures have you taken to address the concerns raised by the BBB in relation to the Future Fund?

The BBB has put in place a robust monitoring system for the portfolio of investments and my Department is working with BBB to manage these assets in a way that maximises the potential return to the taxpayer.

It became clear as soon as the fund launched in May that this was a well-targeted intervention that responded to the needs of the market. Initially, £250 million was made available by the government under the Fund, to be matched by private investors, with HM Treasury making clear the amount could be increased if needed. Due to the popularity of the Fund, more funding has been made available and the scale of the scheme will be kept under review until the new closing date of 30 November 2020.

What consideration did you give to 'alternatives' to the Future Fund and who did BEIS and the BBB consult in relation to the Fund?

BEIS, the BBB and HM Treasury officials engaged with a wide range of parties ahead of the launch of the Future Fund, including investors, trade bodies and organisations representing the tech and creative sectors. The key consideration was how to meet the urgent need to provide co-investment alongside private investors, given the limited time available to conduct selection processes and due diligence on individual companies.

Alternatives that were considered included additional investment through conventional funds, changes to tax-advantaged investment schemes and grants. The Future Fund was the only option that delivered co-investment to the required volume and timescale, with the opportunity for the government to participate in the future growth of companies in which it had invested, and with the assurance than an independent investor had previously backed the company.

Will you consider releasing more detailed information relating to the companies that have received support from the Future Fund, so that it can be properly assessed and scrutinised?

The BBB publishes detailed information monthly on the companies that have received investment from the Future Fund. The most recent report is available at https://www.british-business-bank.co.uk/future-fund-publishes-diversity-data-of-companies-receiving-convertible-loan-agreements-4/ and provides an analysis of the 711 companies that had been approved for £720m worth of Convertible Loan Agreements at that time.

This information does not include the identity of the companies, which is confidential.

What steps you have taken to ensure that the Future Fund has been evenly distributed across the UK?

The BBB used its UK Network to ensure that the opportunity for government matched funding was promoted in all parts of the country, both through their local networks and through opportunities such as online events with businesses. The Bank also worked alongside the Solicitors Regulatory Authority, The Law Society of England and Wales, and The Law Society of Scotland to promote the Future Fund through their networks.

The Future Fund follows the market and initial misgivings about potential regional bias have not been borne out, with distribution to the regions tracking above levels in the equity market more generally. As of 22 September 2020, 40% of funding approved through the Future Fund had been for convertible loan agreements with companies which have their headquarters outside of London, worth £291m in total. The BBB's 2019/20 Small Business Finance Markets report showed that the regions outside of London received 34% of equity investment by value in 2019.

What consideration BEIS, UKGI and the BBB have given to their potential role in managing significant shareholdings across a wide range of businesses in the UK?

My Department is working with UKGI and the BBB to manage Future Fund assets in a way that maximises the potential return to the taxpayer while following principles of good stewardship. For the time being these assets are convertible loan notes, which will gradually convert to shareholdings over a period of years. The long-term management arrangements will be informed by a full analysis of the portfolio, which is still evolving as new applications are approved.

Yours sincerely,

THE RT HON ALOK SHARMA MP
Secretary of State for Business, Energy & Industrial Strategy