House of Commons
Public Accounts Committee

Covid-19: Bounce Back Loan Scheme

Thirty-Third Report of Session 2019–21

Report, together with formal minutes relating to the report

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The Committee of Public Accounts

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Publication

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Contacts

All correspondence should be addressed to the Clerk of the Committee of Public Accounts, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 5776; the Committee’s email address is pubaccom@parliament.uk.

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Summary

Once Government identified that businesses might run out of cash as a result of the pandemic it moved very quickly to support them. For the smallest of businesses it created the Bounce Back Loans Scheme (the Scheme) which guaranteed loans, enabling business to borrow money in as little as 24 hours. However, Government needed to move quickly because it was taken by surprise that these businesses would require tailored support for dealing with the economic impacts of a pandemic. Since 2010, the National Risk Register has identified the potential economic impact of a pandemic. HM Treasury, the Department for Business, Energy & Industrial Strategy (the Department) and the British Business Bank (the Bank) prioritised delivery speed over all other aspects of value for money, and they have not been able to offer clear objectives or measures of the Scheme’s success.

This focus on speed of delivery has exposed the taxpayer to potentially huge losses, estimated in the region of £15 billion to £26 billion. According to the Department, the majority of these are credit losses, where the borrower wants to repay the loan but cannot, but Government lacks data to assess the levels of fraud within the Scheme. It also lacks data or measures to understand the economic benefit of the Scheme. In addition, HM Treasury is yet to agree the process and protocols that lenders are expected to follow in recovering overdue loans. Government needs to use the lessons learned from this Scheme to inform the future schemes it plans to implement in its continued response to the covid-19 pandemic.
Introduction

The smallest businesses, which Companies House refers to as ‘micro businesses’, were struggling to get funding through HM Treasury’s Coronavirus Business Interruption Loan Scheme (CBILS) launched in March 2020. HM Treasury, the Department for Business, Energy & Industrial Strategy (the Department) and the British Business Bank (the Bank), based on a limited evidence of the underlying challenges for businesses, developed the Bounce Back Loan Scheme (the Scheme). The Scheme sought to provide businesses with loans of up to £50,000, or a maximum of 25% of annual turnover, to maintain their financial health during the covid-19 pandemic.

The loans are delivered through commercial lenders such as banks and building societies. The Scheme expects lenders to approve and pay out the loans within 24 to 48 hours of application. To make the process as fast as possible the Scheme does not require lenders to check the information on the loan application form or to perform credit and affordability checks. Borrowers are expected to repay the loans in full but owing to the absence of these checks Government provides lenders a 100% guarantee on the loans: if the borrower does not repay the loan, Government will. The loans have a fixed interest rate of 2.5% and a maximum length of ten years; in the first year of the loan there are no capital repayments due, and Government pays the interest—making it interest-free for the borrower. As of 15 November, the Scheme had provided over 1.4 million loans to businesses, totalling £42.2 billion. The Scheme will now run until 31 January 2021.
Conclusions and recommendations

1. **Government was not sufficiently prepared to support micro businesses despite the economic impact of the pandemic being a known risk.** The economic impact of a pandemic has been on the National Risk Register since 2010 yet Government was not sufficiently prepared to help small and medium-sized enterprises (SMEs) through the pandemic. The Coronavirus Business Interruption Loan Scheme (CBILS) was introduced on 23 March 2020 to support businesses through the crisis. However, the lack of preparation meant that Government overlooked that CBILS was not appropriate for the smallest businesses. This was mainly due to the extensive credit and affordability checks the Consumer Credit Act required for businesses applying for loans of £25,000 or less: a process that is relatively time consuming and could see many applications rejected owing to the forecast economic impact of the pandemic. Both Germany and Switzerland delivered schemes to support small SMEs much earlier. Germany and Switzerland’s SME schemes offered 100% guarantees. Nevertheless, CBILS only offered an 80% guarantee.

**Recommendation:** The Department should more clearly set out what it wants the Bank to achieve in the context of Government’s wider support to business. It should analyse and assess whether the Bank can have more tailored plans in place for how to support SMEs of all sizes during a crisis, whatever its source.

2. **The Scheme was implemented with impressive speed but does not strike the right balance between supporting business and protecting the taxpayer.** Thanks to the hard work and effort of civil servants, the Scheme was launched within two weeks of the Chancellor of the Exchequer proposing it to the Department and the Bank. Re-tasking one of the Bank’s existing business support schemes enabled Government to get things up and running quickly. But Government’s desire to move quickly was based on anecdotal evidence, and a survey in mid-April that concluded one-third of businesses would probably not be able to access enough cash to last more than two weeks of lockdown. Beyond this, no clear estimates were drawn up to consider the cost of not delivering cash to the businesses within this 2-week period. The Scheme had no business case which means we heard limited evidence of a consideration of how many businesses might be unviable irrespective of the impacts of the pandemic, which business sectors needed support and how much, or the level of losses Government might be prepared to bear on the Scheme.

**Recommendation:** The Department should use all available data when implementing new business support schemes. It should use this to develop scenario-based analysis of most likely outcomes and use this to minimise taxpayer risk. It should be clear where data is insufficient to form evidence-based judgements.

3. **Shortcomings in the Scheme’s design have exposed the taxpayer to potentially significant losses.** Government achieved its very narrow objective of distributing cash quickly and to a very large number of small businesses across the UK. It delivered £8.4 billion in the first week and £21.3 billion in the first month, and as of 6 September, 90% of loans went to micro-businesses across the UK. This was achieved by removing the checks that extended the delivery period beyond 48 hours; increasing the level of risk through the lack of credit, application and affordability checks. Applicants need only to self-certify the data provided in their loan
application. In the first year, Government is paying interest on the loans on behalf of borrowers, costing approximately £1 billion. In addition, taxpayers are exposed to both avoidable and unavoidable risks: fraud, viability of the underlying business, and unaffordability respectively. The Department estimates potential losses from both fraud and credit risk as somewhere between £15 billion to £26 billion, with the credit losses being the largest part. This estimate is highly uncertain and could be even higher. It indicates that Government was prepared to accept a higher level of risk to ensure that loans were available to SMEs as quickly as possible.

Recommendation: Before launching or renewing a Scheme, HM Treasury should be explicit on the level of losses it is likely to entail and the evidence that this analysis is based on. For the remainder of this Scheme, and future schemes, HM Treasury must better balance the interests of the taxpayer with the interests of businesses. It should demonstrate that its controls are cost effective and associated judgements reflect the appropriate balance between achieving immediate policy aims and protecting taxpayers’ money. It should start by assessing whether full reliance on self-certification is still appropriate.

4. Government’s plans for managing risks to the taxpayer—from both fraud and borrowers who are unable to repay loans—are woefully under-developed. Government does not have a counter-fraud strategy for the Scheme and has not identified what types of fraud it will prosecute. The Bank does, nevertheless, have a weekly lender fraud prevention collaboration working group, and conducts ‘data-analytics’ work with the Cabinet Office. Equally, lenders are required to conduct counter-fraud, anti-money laundering and ‘know your customer’ checks on loan applications. The Bank believes that these checks have prevented around 27,000 fraudulent loans that represent £1.1 billion but it has no data on Scheme fraud levels. Nor does it have any information on how businesses which have received loans have used the proceeds. The Bank say it will look into this during 2021, which may therefore be after the Scheme closes. The lack of data undermines the Bank’s ability to monitor and report levels of fraud and to use information to better inform future schemes.

Recommendation: The Department needs to provide clear updates on how it intends to deal with different cases of fraud, including on how it will prioritise recovery and prosecution. British Business Bank should write to the Committee, within two weeks, with a report on the latest fraud estimates in the existing portfolio.

5. HM Treasury has not yet finalised the rules lenders need to follow to ensure overdue loans are repaid. If a borrower does not repay the loan HM Treasury expects lenders to try to recover the money owed. But there is no requirement to complete this recovery process before the lender can claim the Government guarantee. HM Treasury is yet to outline the specific rules around the recovery process but plans to complete the work in relation to the loan recovery process by winter 2020–21, in advance of the first repayments which are due in May 2021. At present, lenders are expected to pursue unpaid loans using their own businesses processes and there is a lack of clarity about when lenders can claim the guarantee. The recovery process is unique for each lender, and without detailed rules from HM Treasury risks borrowers being treated differently depending on their lender, and a
potentially inconsistent use of the Government guarantee.

**Recommendation:** *HM Treasury should ensure that the recovery rules are confirmed prior to repayment, and that they are uniform in their fair and thorough recovery of loans.*

6. **Government has no apparent plans to measure the Scheme’s impact, including identifying how many businesses have been unable to access support.** The Department indicates that its initial barometer for success was delivering cash to as many businesses in need, as fast as possible. However, no written objectives were outlined at the inception of the scheme and no business case was put forward. The Bank, HM Treasury and the Department, did not agree the Scheme objectives until 15 July 2020 and there are no plans in place to measure the scheme’s impact. The performance measures—for example the number of insolvencies prevented—have therefore not been decided, making it difficult to evaluate and measure the success of the scheme to date. This is similar to the Bank’s other schemes, where it has not brought together information on costs, activity, and outcomes to be able to effectively measure impact and evaluate success. Furthermore the Scheme has likely reduced competition in the small business lending market as the five largest UK lenders have provided most loans. This has, in the short term at least, increased their market share which works against the Bank’s target of creating a more diverse finance market for smaller businesses. The Government intends to set up a further lending scheme in the new year meaning learning lessons from this Scheme is very important for the value for money of future schemes.

**Recommendation:** *The Department and the British Business Bank should set out, within the Treasury Minute response, how they plan on measuring the Scheme’s impact on businesses. They should ensure that any new schemes have, prior to launch, agreed performance measures. The Department should also analyse the impact of the Scheme on the lending market, paying attention to levels of competition and consumer choice.*
Covid-19: Bounce Back Loan Scheme

1 Scheme design and launch

1. On the basis of a report by the Comptroller & Auditor General (C&AG), we took evidence from HM Treasury, the Department of Business, Energy & Industrial Strategy (the Department) and the British Business Bank (the Bank) on the Bounce Back Loan Scheme (the Scheme). The Scheme was developed to support the smaller end of small- and medium-sized enterprises, or ‘micro businesses’, and maintain their financial health during the pandemic.¹

2. The Scheme was launched on 4 May 2020 and provides businesses with loans of up to £50,000, or a maximum of 25% of annual turnover.² The loans last up to ten years and have a fixed interest rate of 2.5%. In the first year of the loan, Government pays the interest on behalf of the borrower. After the interest free period the borrower must repay the capital and interest elements. Government intended the loans to be delivered within 24–48 hours of an application. The loans are delivered through commercial lenders and, to reduce loan application processing times, businesses self-certify their application documents and lenders are not required to perform any credit or affordability checks. This lack of checks exposes lenders to risks meaning that, under normal circumstances, they would not make loans: government, therefore, provides lenders a 100% guarantee which means if the borrower doesn’t repay the loans, government will.³

3. On 24 September 2020, the UK Government announced the ‘Pay as you Grow’ option for the Scheme’s borrowers as part of its Winter Economy Plan, giving businesses additional repayment flexibility.⁴ As of 15 November, the Scheme had provided over 1.4 million loans to businesses, totalling £42.2 billion.⁵ The Scheme will now run until 31 January 2021.⁶

Preparedness

4. HM Treasury and the Department have had a considerable time to plan for a pandemic, although perhaps not on the scale of having to shut down most businesses, the economic impacts of which have been on the National Risk Register since 2010. Government could also observe the international responses to covid-19 where impacts were felt before the UK, such as in China and Italy.⁷ The witnesses did not convince us that the requirement to intervene in support of businesses during an economic crisis caused by a public health event could not have been better prepared for. Only in March did the Department and HM Treasury begin preparations for a large-scale intervention despite the lockdowns abroad also providing more warning about the economic impacts of the pandemic.⁸

5. When we asked why the Scheme was not ready in March, at the same time as lockdown was announced, the Department told us that, in conjunction with HM Treasury and the Bank, it had done “a really quite considerable amount of planning”.⁹ This included

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¹ C&AG’s Report, Investigation into the Bounce Back Loan Scheme, Session 2019–20, HC 860, 7 October 2020
² The minimum loan amount is £2,000.
³ C&AG’s Report, para 1–4, 13
⁴ HM Treasury, Winter Economy Plan, CP 297, September 2020
⁷ Q 20, 21
⁸ Q 10
⁹ Q 10
a framework to adjust the Bank’s Key Performance Indicators, targets, and identify an existing scheme—the Enterprise Finance Guarantee (EFG)—as the foundation of any support measure. However, as UK Finance informed us, the EFG framework was not designed for a mass market product or as a response to a global pandemic. Yet it was the EFG which was used as the basis for the Bounce Back Loan Scheme. The Department told us there were no detailed plans in place because “it would not have been realistic to have an off-the-shelf plan for all eventualities…”

6. Government recognised that its Coronavirus Business Interruption Loan Scheme (CBILS), launched on 23 March 2020, did not enable micro businesses to access small loans quickly, because of the credit and affordability checks the Consumer Credit Act 1974 (the CCA) requires for loans under £25,000. However, HM Treasury did not identify this as a problem until early April. Government subsequently changed the regulatory requirements for lenders entering into credit agreements to address the CCA restrictions and enable them to make loans more quickly.

7. Both Germany and Switzerland delivered schemes to support small and medium-sized enterprises (SMEs) much earlier than the UK. Their schemes offered 100% guarantees. CBILS, although in place at a similar time, offered an 80% guarantee attempting to remain line with state aid legislation, but unlike other jurisdictions was not suitable for the smallest businesses. HM Treasury has not taken advantage of the increased support it can provide to businesses in certain sectors, including 20,000 venues in pubs and hospitality.

Getting the Scheme up and running

8. Notwithstanding the lack of preparedness, it is clear that staff at HM Treasury, the Department, and the Bank pulled out all the stops to get the Scheme up and running as quickly as possible; we should not underestimate the level of commitment they have shown in the response to the pandemic. The Scheme launched within two weeks of HM Treasury proposing it to the Department and the Bank. Once the Scheme was launched, lenders approved 268,000 loans to businesses totalling £8.4 billion in the first week of operations.

9. The Scheme is designed with the objective that borrowers receive the loans within 24–48 hours of a valid application. This target was based on independent research which suggested that one-third of businesses would probably not be able to access enough cash to continue trading for more than two weeks of lockdown. Based on lender’s reports to HM Treasury, the average time from application to receipt of loans for existing business customers was between 24 and 72 hours. However, for some applications it has taken

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10 Evidence UK Finance submission para 5
11 C&AG’s Report, para.1.12
12 Q 9
13 As defined by Companies House, businesses which have an annual turnover below £632,000.
14 Q 11; C&AG’s Report, para.1.3
15 Evidence UK Finance submission para 11
16 Q 21
17 C&AG’s Report, Figure 3
18 Q 12
19 Q 4
20 C&AG’s Report, para 11
considerably longer; for new customers, it may take between four and 12 weeks. When asked whether the speed of delivery remains relevant at this stage in the Scheme, the Bank determined that given the system in place is successful at distributing cash, there is no need at present to slow it down.

10. The government’s view that businesses were unable to survive more than a two-week lockdown period was based on anecdotal evidence, and a survey conducted by the Association of Chartered Certified Accountants in mid-April. The Department told us that its prime role when gathering data to inform decisions on support schemes is to consider the economic impact, however it did not prepare a business case for the Scheme. Furthermore, the Department was not aware of any estimates made of the anticipated loss to the economy if the Scheme had been designed differently. Nor did Government have any information on which types of business were most in need of support, and which would be unsustainable even in the absence of a pandemic.

**Shortcomings in the Scheme’s design**

11. The Department informed us that the speed at which finance could be provided was a key design and operational requirement. We were told that the Department placed no budgetary cap on the Scheme and that demand was far greater than the Department anticipated. Government does not know how much of this demand resulted from businesses needing the cash or just taking advantage of cheap and readily available finance as there are no credit and affordability checks under the Scheme, and the Department and the Bank are not collecting relevant data. International schemes required more detailed application checks and are more restrictive in the use of proceeds.

12. Under the Scheme, the Government pays a borrower’s first 12 months of interest directly to the lender. At the end of September, when some 1.2 million loans were issued, the Department and the Bank forecast this to cost £1,068 million (£847 million in 2020–21 and £221 million in 2021–22); this will rise as more loans have been issued. The Taxpayer, because of the Government guarantee, will also bear other costs: fraud and credit losses. A credit loss is where an eligible borrower does not repay a loan. Fraud results from dishonesty which can be a false representation or a failure to disclose information with the intention to cause financial gain or loss such as applications by ineligible businesses. The Department estimates that these losses could be anywhere between 35% and 60% of the value of the loans made: in the region of £15 billion to £26 billion, with the credit losses being the majority. This estimate is highly uncertain and could be even higher.
2 Scheme risks and impacts

Managing the risk of fraud and non-repayment

13. The Bank told us that lenders are responsible for the Scheme’s fraud management. The Bank does, nevertheless, have a weekly lender fraud prevention collaboration working group, as well as conducting ‘data-analytics’ work with the Cabinet Office. Lenders are responsible for processing loan applications and are required to conduct counter-fraud, anti-money laundering and ‘know your customer’ checks. The Bank believes that these checks have prevented around 27,000 fraudulent loans that represent £1.1 billion, but it has no data on fraud levels among approved loans.

14. The Department has not identified what types of fraud it will prosecute, with the Department suggesting there is a range of criminality in fraud; it has euphemistically referred to ‘hard’ and ‘soft’ fraud. Hard fraud refers to a type of fraud committed by criminal organizations with the intention to defraud an organization. Soft fraud consists of borrowers exaggerating otherwise-legitimate claims, such as overstating turnover in order to receive a larger loan. We are not convinced that this definition sufficiently answered the question regarding the counter-fraud protocols and the need for additional legislation to tackle fraud.

15. The Bank does not collect information on how businesses have used the loans. The NAO report outlined that there is some evidence that businesses are using the money to pay back existing debt, which the Bank describes as a ‘economically rational’ for businesses to do. But this would reduce the benefit of the Scheme as it would only make a small difference to a businesses’ available cash; it would, however, help lenders reduce their exposure to bad debts as the Scheme loans are subject to a government guarantee. The Bank said it will investigate how businesses have used the loans during 2021, which may be after the Scheme closes. This lack of data undermines the Bank’s ability to understand the impact of the Scheme, to monitor and report levels of fraud, and to use information to better inform future schemes. The Department told us that any initial evaluation of the Scheme will not start until 2021, with further reviews over time, across the six to ten year pay-back period.

Rules for lenders to follow to debt recovery

16. After the initial interest-free period, borrowers will need to make repayments (capital and interest) to the end of the loan period, in line with their loan agreement. There is a high likelihood that some businesses who wish to re-pay the loans will simply be unable to do so. UK Finance informed us that TheCityUK Recapitalisation Group estimates between £20 billion and £23 billion of ‘unsustainable business debt’ is expected to stem
from all UK government guaranteed lending schemes. And there are further cashflow demands for businesses on the horizon including: VAT and other taxes which have been deferred; loan repayment holidays; and interest free periods ending. Thus, Government expects that many SMEs will struggle to pay back what they owe when payments are due.\footnote{12} The Department explained to us that when a borrower does not repay the loan, this will appear in their credit history and affect future borrowings.\footnote{41}

17. HM Treasury and the Bank told us they are continuing to work with lenders on debt recovery protocols and processes that are fair to businesses, lenders and taxpayers. HM Treasury expects lenders to try to recover the money owed but there is no requirement to complete this recovery process before the lender can claim the government guarantee.\footnote{42} HM Treasury is yet to outline the specific rules around the recovery process but plans, alongside the Bank, to complete the work in relation to the loan recovery process by winter 2020–21, in advance of the first loan repayments which are due in May 2021.\footnote{43} The Department and the Bank are in the process of “codifying expectations for recoveries”. At present, lenders are expected to pursue unpaid loans using their own businesses processes, and there is a lack of clarity about when lenders can claim the guarantee.\footnote{44} Currently, the recovery process is unique for each lender. Thus, without detailed rules, HM Treasury risks borrowers being treated differently depending on their lender, and a potentially inconsistent use of the Government guarantee.\footnote{45}

18. HM Treasury explained to us that, at present, recoveries for the smaller loans are captured and overseen by the FCA and, for larger loans, by the Lending Standards Board. Thus, although the details have not been clarified, there is already an existing structure regarding recoveries. In turn, it is the case that, if lenders do not pursue recoveries as expected, they will not be able to collect the guarantee.\footnote{46}

**Measuring the Scheme’s impact**

19. The Government indicated that its overarching objective was speed.\footnote{48} No written objectives were outlined at the inception of the Scheme and no business case was put forward. The Bank, HM Treasury and the Department, did not agree the Scheme objectives until 15 July and there are no plans in place to measure the Scheme’s impact.\footnote{49} Performance measures, such as the number of insolvencies prevented, have not been decided. The Department believes the Scheme was a success as it reached micro-businesses across regions and sectors.\footnote{50} However, neither the Department nor the Bank know which businesses would not have survived with or without a pandemic. The Bank informed us that it would seek to identify those businesses during its Scheme monitoring and evaluation.\footnote{51}

20. The National Audit Office has previously recommended that the Bank focus more
closely on the cost effectiveness of its support schemes. During its audit the NAO found that the bank did not bring together information on costs, activity, and outcomes to be able to effectively measure impact and evaluate success.\textsuperscript{52} HM Treasury confirmed to us that, in preparation for future schemes, they will look at the lessons to be learned from this Scheme.\textsuperscript{53}

21. As HM Treasury informed us, during the 24 September Winter Economy Plan Statement, the Chancellor indicated there would be a further loan scheme, which is currently in development and will be announced early 2021.\textsuperscript{54} It is important that any replacement guarantee scheme also enables all lenders to compete effectively in the market. The Bank’s Reservation Notice at the start of the Scheme highlighted concerns about the impact on competition in the market. This is in direct relation to the Bank’s objective of creating “a more diverse finance market for smaller businesses, with a greater choice of options and providers”.\textsuperscript{55} The five largest lenders provided 89\% of loans under the Scheme, compared to 65\% of total SME debt, increasing their share of the SME lending market.\textsuperscript{56}

\textsuperscript{52} C&AG’s Report, \textit{British Business Bank, Session 2019–20}, HC 21, 10 January 2020
\textsuperscript{53} Q 83
\textsuperscript{54} Q 34
\textsuperscript{55} \url{https://www.british-business-bank.co.uk/what-the-british-business-bank-does/}
\textsuperscript{56} C&AG’s Report, para 24
Formal minutes

Thursday 10 December 2020

Virtual meeting

Members present:

Meg Hillier, in the Chair

Mr Gareth Bacon           Sir Bernard Jenkin
Shaun Bailey              Shabana Mahmood
Olivia Blake              Sarah Olney
Sir Geoffrey Clifton-Brown James Wild
Peter Grant

Draft Report (Covid-19: Bounce Back Loan Scheme), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 21 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Thirty-third of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 14 December at 1:45pm]
Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee’s website.

Thursday 05 November 2020

Sir Tom Scholar, Permanent Secretary, HM Treasury; Katharine Braddick, Director General, Financial Services, HM Treasury; Sarah Munby, Permanent Secretary, Department for Business, Energy and Industrial Strategy; Catherine Lewis La Torre, Chief Executive Officer, British Business Bank; Patrick Magee, Chief Commercial Officer, British Business Bank

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee’s website.

INQ numbers are generated by the evidence processing system and so may not be complete.

1 Asim, Mr Imran (BBL0003)
2 Association of Accounting Technicians (AAT) (BBL0002)
3 Federation of Small Businesses (BBL0004)
4 UK Finance (BBL0001)
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All publications from the Committee are available on the [publications page](#) of the Committee’s website.

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