House of Commons

Committee of Public Accounts

Monitoring and responding to companies in distress

Twentieth Report of Session 2023–24

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 4 March 2024

HC 425
Published on 13 March 2024
by authority of the House of Commons

The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No. 148).

Current membership

Dame Meg Hillier MP (*Labour (Co-op), Hackney South and Shoreditch*) (Chair)

Paula Barker MP *(Labour, Liverpool, Wavertree*)

Olivia Blake MP (*Labour, Sheffield, Hallam*)

Sir Geoffrey Clifton-Brown MP (*Conservative, The Cotswolds*)

Gareth Davies MP (*Conservative, Grantham and Stamford*)

Mr Jonathan Djanogly MP (*Conservative, Huntingdon*)

Mrs Flick Drummond MP (*Conservative, Meon Valley*)

Rt Hon Mark Francois MP (*Conservative, Rayleigh and Wickford*)

Peter Grant MP (*Scottish National Party, Glenrothes*)

Ben Lake MP (*Plaid Cymru, Ceredigion*)

Anne Marie Morris MP (*Conservative, Newton Abbot*)

Sarah Olney MP (*Liberal Democrat, Richmond Park*)

Sarah Owen MP (*Labour, Luton North*)

Rt Hon Sir Jeremy Quin MP (*Conservative, Horsham*)

Ms Marie Rimmer MP (*Labour, St Helens South and Whiston*)

Gary Sambrook MP (Conservative, Birmingham, Northfield)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No. 148. These are available on the Internet via www.parliament.uk.

Publication

Committee reports are published on the Committee's website and in print by Order of the House.

Committee staff

The current staff of the Committee are Lucy Bishop (Committee Operations Officer), Ameet Chudasama (Committee Operations Manager), Kay Gammie (Chair Liaison), Sarah Heath (Clerk), Tim Jarrett (Second Clerk), Rose Leach (Committee Operations Officer), Edward Sheridan (Media Officer) and Melissa Walker (Assistant Clerk).

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.

You can follow the Committee on X (formerly Twitter) using @CommonsPAC.

Contents

Summary

The lasting effects of the COVID-19 pandemic and high interest rates have led to a level of company insolvencies across the economy not seen since the financial crisis in 2009. Several risks related to company failure are identified in the August 2023 National Risk Register, including failure of a major adult social care provider, insolvency of suppliers of critical services to the public sector such as IT services or banking facilities, and insolvency affecting fuel supply. In this context, it is even more important that the government is a step ahead of the next company or sectoral failure.

The government considers direct intervention to be a last resort when private sector companies have failed, or are at risk of failure. However, there are cases, many of which this Committee has examined, where the government has decided it is necessary to step in and support distressed companies, to protect society or the economy. Examples of interventions examined by this Committee range from Carillion to Northern Rock, to community rehabilitation companies, and more recently Bulb Energy. We have also reported on the government's unprecedented interventions to keep companies functioning and sustain essential services in response to the COVID-19 pandemic and the energy crisis. The government tells us it is focused on resilience and preparedness. However, there is work to be done to ensure this approach is consistent and joined up across government. It is vital that the government identifies and equips itself with the tools and skills required to monitor the financial resilience of sectors and companies, so it is well prepared to respond in these distress situations.

HM Treasury has set out high-level principles to apply when deciding whether to provide financial support. Nonetheless, these decisions are often time-pressured and involve complex trade-offs, with sometimes significant ramifications for taxpayers and public services. We are concerned that high staff turnover may be resulting in a loss of corporate knowledge and expertise in this area. It is therefore important that the government has a consistent approach to evaluating, learning, and sharing lessons, both from past interventions and from instances where government decided not to intervene, to maintain institutional memory of what works for future cases.

Introduction

The government relies in various ways on private companies to support policy objectives and deliver some public services. Government departments are responsible for managing the relationship with companies and suppliers in their sectors, and for monitoring the risks to their policy objectives including any risks related to company failure or distress. Where failure of a strategically important company or key supplier could expose the government, taxpayers or service users to high levels of risk, the government sometimes decides it is necessary to intervene. This might involve supporting the company and preventing it from failing, rescuing it, or managing the situation so it does not fail in a disorderly way. Government intervention in private companies and markets can be complex and requires access to specialist skills not held widely across government. Many government bodies, including regulators and central government, may also need to be involved in resolving the situation and managing any wider effects.

Conclusions and recommendations

1. **There is still a long way to go to ensure the government has the right sources of intelligence and a joined-up approach to building a complete picture of supplier, company, and supply chain resilience.** The Cabinet Office has published a new Resilience Framework focusing on prevention and preparation for risks, and the Department for Business and Trade has set out to make the UK government a centre of excellence for supply chain analysis and risk assessment. However, there is no consistent approach across departments for collecting intelligence on the financial resilience of suppliers, companies, and supply chains. The success of the government's commitments and activities in this area depends heavily on whether it is joined up in its approach to collecting and sharing intelligence. This is particularly important where companies or suppliers cut across multiple policy areas or departmental remits, as demonstrated by the example of CF Fertilisers and the CO2 market. Despite multiple warning signs about overconcentration of the market and previous supply issues, it seemed to come as a surprise to the government when the UK faced a CO2 supply shortage in September 2021 and it had to step in.

   Recommendation 1: ***In the Treasury Minute response, HM Treasury, the Cabinet Office and the Department for Business and Trade should:***

   - ***clarify who is responsible for ensuring intelligence about the resilience of companies, suppliers and supply chains is shared, coordinated and escalated where necessary; and***

   - ***summarise what lessons they have learned from experience about the government's approach to gathering and sharing intelligence across government, and what action they are taking as a result.***

2. **We are concerned that departments are not maintaining institutional knowledge relating to 'at risk' companies and sectors.** HM Treasury monitors the health and resilience of the corporate sector as a whole and the Department for Business and Trade oversees industry and different priority sectors and has a role in responding to economic shocks. It is the responsibility of individual departments to monitor the health of their sectors, and those at the centre of government say they are not aware of any one sector that is more at risk than others. However, a high turnover of staff in government means that corporate knowledge held by departments, which may be commercially sensitive and therefore restricted to a small handful of individuals, is at risk of being lost. HM Treasury spending teams act as the filter for warnings from departments, but turnover of staff in HM Treasury is historically even higher.

   Recommendation 2: ***In the Treasury Minute response, HM Treasury and the Cabinet Office should set out how they will support departments to maintain a continuous level of knowledge about risks to companies and supply chains in sectors that are relevant to their departmental duties and objectives.***

3. **We are not convinced that accounting officers give sufficient consideration to the commercial models of those they contract with, which means they do not understand the potential risks (including supplier failure).** HM Treasury suggests accounting officers should produce a formal Accounting Officer Assessment for

any significant novel and contentious proposal involving the use of public funds. However, we often see a tendency in government to push ahead with new projects and commitments involving the private sector without careful consideration of the risks and liabilities it exposes the government to. Too often, the government has failed to understand the economic and business models of the suppliers it contracts with, and as a result has not been able to assess whether the gain-share and pain-share mechanisms of the contract are appropriate. This includes risks with outsourcing a service for the first time in "untested markets", which we saw materialise when the Ministry of Justice rushed through reforms to outsource probation services to community rehabilitation companies. The Government Commercial Function now advocates piloting and scenario-testing in these situations but could not tell us how it measured success.

Recommendation 3: ***HM Treasury should set out in the Treasury Minute response how it will ensure accounting officers explicitly address the risks presented by suppliers' commercial models in Accounting Officer Assessments for new projects and commitments involving private companies. Should the assessment identify a risk of company failure, we expect it to include an estimate of the impact of supplier failure, high-level contingency plans should failure occur, and an estimate of the potential costs incurred.***

4. **We are concerned that accounting officers may not always be equipped to protect taxpayers' money when making decisions on intervention in these fast-paced, high-pressure situations.** This Committee and previous committees have reported many times over the past two decades on government interventions in financially distressed companies. Prior to 2020, the government acknowledges that it took an ad hoc approach to providing support to distressed companies. Since then, HM Treasury has established some high-level principles to apply to company distress cases. Nonetheless, decisions about whether or how to intervene in companies require accounting officers to make difficult judgements and balance complex trade-offs, often at speed. In the case of Silicon Valley Bank UK, government officials had to rapidly draw up several options for how the government could respond to the situation, over the course of a weekend. Accounting officers need to ensure any decisions on intervention adhere to the principles of feasibility, propriety, regularity and value for money, as set out in *Managing Public Money*. It is important therefore that accounting officers can articulate the trade-offs they are balancing and any consequences of their decisions, including how any moral hazard (where support for one company creates an incentive for other companies to take risks with the expectation they will also be supported) or free rider risks (where the company's incumbent lenders or shareholders may benefit from government support without having to contribute themselves) might be managed over the course of an intervention. It is also important that they consider exit strategies and articulate how they will manage the intervention under different scenarios, including if the government ends up being involved for the medium to long term, and consequent unforeseen costs.

Recommendation 4: ***HM Treasury should set out in the Treasury Minute response what it is doing to support accounting officers to discharge their duties and protect***

taxpayers' money over the course of any company intervention. This should include any training activity and ways in which it is sharing and embedding the NAO's good practice guidance.

5. **The Cabinet Office has not assessed or coherently identified the skills and expertise needed for monitoring and responding to companies in distress.** We have previously raised concerns about the level of commercial, risk management and corporate finance expertise in government amid increasing demand for these skills, all of which are important for monitoring and responding to companies in distress. Departments and regulators face the challenge of competing with the private sector for these high-in-demand skills. The Government Commercial Function, UK Government Investments (UKGI) and HM Treasury are having to do more work to support companies with restructuring. The UKGI special situations team has been involved in over 200 company distress cases in the last six years. HM Treasury acknowledges that having the right skills and capabilities in place is a critical lesson, but also that they are currently patchy across government. There are pockets of expertise, but no one has taken responsibility for assessing the varied skills needed for monitoring and responding to companies in distress.

Recommendation 5: ***The Cabinet Office Commercial Function should set functional standards for monitoring and responding to companies in distress. As part of this process, the Function should write to the Committee within six months, explaining:***

- ***The skill requirement across government for monitoring and responding to companies or suppliers in distress;***
- ***The current level of these skills and expertise across government and where gaps exist;***
- ***How the Commercial Function plans to close the gaps identified; and***
- ***How the Commercial Function will ensure departments know where, how and when to access support.***

6. **It is vital that the government evaluates and shares the lessons from these cases on a timely and consistent basis, regardless of whether the case resulted in government intervention.** We have previously found that much of government activity and spending is not evaluated robustly, or at all. Government interventions in distressed companies can involve significant amounts of taxpayer money, and yet it is not evident that these interventions are being evaluated consistently and transparently, or that lessons are being shared across government. There are also many cases where the government ultimately decides not to intervene, or finds other non-financial ways to support the distressed company or manage the situation. It is important that the government documents its rationale and learning from these cases too. The government does not appear to be routinely learning from other countries and their processes for intervening in distressed companies, although it has expressed an interest in doing so. A lack of institutional memory across government coupled with a lack of systematic evaluation puts government at risk of not learning what works for future cases.

Recommendation 6: ***HM Treasury should set out in its Treasury Minute response how it will update its approach to evaluating company distress cases (including those that have not resulted in government intervention), and how lessons are shared across sectors. Alongside its Treasury Minute response HM Treasury and UK Government Investments should also provide some examples of lessons learned reports or evaluations from recent cases.***

1 Preparedness for company distress situations

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from HM Treasury (the Treasury), the Department for Business and Trade, the Cabinet Office, and UK Government Investments (UKGI).[1]

2. The government operates on the principle that it should not be intervening in financially distressed companies and that any intervention should be a last resort. In 2020 the government set out its principles for providing last resort bespoke support to companies and has also noted that there is an "extremely high bar for putting taxpayers' money at risk in this way."[2] Over the past two decades, we have examined numerous government interventions in response to distressed companies across a range of sectors spanning energy, banking and public service providers. The circumstances under which government chooses to intervene are varied and may involve sustaining a critical supply chain, maintaining an essential public service, or protecting the economy. The nature of these interventions can include nationalisation, grants and loans, a trading liquidation, or providing support to employees or consumers where a company fails.[3] In some cases, earlier intervention may help to prevent a company's failure and be less costly in the long term than a last-resort intervention. The lessons from the COVID-19 pandemic and subsequent energy crisis have highlighted the importance of preparedness for these situations and building resilience to external shocks.[4]

3. All government departments rely to some extent on private companies to support their policy objectives or deliver public services. Departments are responsible for understanding and monitoring the risks to their policy objectives and to the overall resilience of the parts of the economy within their remit. This includes risks related to company distress and failure, whether the companies are strategically important or have a contractual relationship with the department. For regulated sectors such as utilities, departments will need to work with and share information with regulators. Departments will also be responsible for delivering and monitoring any intervention or government support to a company in distress.[5]

4. In addition, several other central departments and bodies have responsibilities, experience and expertise in this area and will likely need to be involved in these cases. At least 14 organisations from the public sector were involved in repatriating Thomas Cook customers and dealing with the insolvency and its impacts.[6] The Treasury has responsibility for the principles and processes of providing last resort support to companies and approving any novel or contentious public spending. The Cabinet Office's markets, sourcing and suppliers team manages the government's relationships with its key suppliers, appointing Crown Representatives to liaise with each of the 39 largest cross-government 'strategic suppliers'.[7]

1 C&AG's Report, Lessons learned: Monitoring and responding to companies in distress, session 2022–23, HC 1866, 27 October 2023
2 C&AG's Report, paras 1, 1.4, Figure 4
3 C&AG's Report, para 6, Figure 3
4 C&AG's Report, paras 1.3, 5
5 C&AG's Report, paras 1.1, 1.6–1.7
6 C&AG's Report, para 1.7
7 C&AG's Report, Figure 5, Figure 10

Intelligence gathering and sharing

5. The Cabinet Office published a UK Government Resilience Framework in 2022, which proposes a shift away from dealing with the effects of emergencies towards a stronger focus on prevention and preparation for risks, overseen by a new Resilience Directorate. The National Risk Register, published in August 2023, identified several risks related to company failure, including failure of a major adult social care provider, insolvency of suppliers of critical services to the public sector such as IT services or banking facilities, and insolvency affecting fuel supply.[8] The Treasury told us that the National Resilience Framework and National Risk Register act as "proactive signals to the system of where we want intelligence and where we have mechanisms to draw that intelligence in."[9]

6. In January 2024, the Department for Business and Trade published a Critical Imports and Supply Chains Strategy setting out ambitions to build resilient supply chains and maintain supplies of the critical goods needed for the UK economy, essential services and national security.[10] The Department told us that it uses information such as "energy forecast data and the number of HR1 forms for insolvencies […] [and] Experian's report on the stress warning in companies".[11] The witnesses also explained how they rely on informal channels to collect intelligence about companies and supply chains. The Cabinet Office told us that "it is as much about trust and informed information as it is about data". It explained how its markets and suppliers team and the UKGI's special situations team are now seen as trusted recipients of information from parts of the supply chain, some of which may be commercially sensitive. UKGI gave an example of where companies in the clinical waste market had informed the Cabinet Office's markets and suppliers team of concerns they had about one of the other subcontractors.[12]

7. Departments are at different stages and have different approaches to understanding their sectors' supply chain dependencies and exposure.[13] The Treasury told us that individual departments lead on their sectors and it is for each of them to monitor the health of their sectors.[14] It explained how information that a particular sector or company is in distress is shared through "the informal network of interaction between relevant teams" or through the Treasury spending teams if the department was seeking to prepare a financial contribution to support the company. The Treasury explained that it also monitored various indicators of health and resilience of the corporate sector as a whole. Although the Insolvency Service statistics indicate an increase in insolvencies in absolute terms, it told us that the number of businesses had also increased.[15] We asked the Treasury about how it measures the number of businesses and ensures that these are trading businesses, as we were concerned that the figures may be misleading if they include new companies being created that do not exist or have no intention of carrying out any activity.[16] The Treasury wrote to us after the evidence session and confirmed that "there is a risk these figures include some inactive firms." However, it said it was reassured by the fact new legislation

8 C&AG's Report, paras 2.2–2.4
9 Q41
10 Department for Business and Trade, Critical Imports and Supply Chains Strategy, 17 January 2024
11 Q43
12 Q48
13 C&AG's Report, para 2.17
14 Q41
15 Qq33–34
16 Q40

when introduced would improve the accuracy and quality of data on Companies House registers, that it could still make judgements on the overall trend by comparing numbers over time, and that it also used other metrics to analyse the corporate sector.[17]

8. Companies and markets can cut across several departments' policy responsibilities or provide services to multiple departments. This meant that in the cases of Carillion, CF Fertilisers and UKCloud, no single department had a complete picture of the government's exposure to the company in advance of it becoming distressed.[18] We asked the Treasury about instances where its alert system had not worked. The Treasury told us that CF Fertilisers was an example where they "could have been alerted ahead of time had we understood that supply chain risk more systemically" as they had not known "that the supply of CO2 was dependent on that particular company". The Department for Business and Trade agreed that it had been "slightly caught off guard".[19] Around two thirds of the UK's CO2 was sourced from CF Fertilisers in 2018, supplying the food and drink, energy, nuclear, medical and water sectors among others. In 2019, following a CO2 supply shortage the previous year, the Food and Drink Federation recommended a clearer focus in government on the significance of the UK's CO2 supply chain, but at the time no action was taken.[20] The government had to provide temporary financial support to the company in 2021 to avoid a CO2 supply shortage after it halted operations at its site due to high natural gas prices.[21]

9. The National Audit Office (NAO) reported that the Cabinet Office's markets, sourcing and suppliers team were in the early stages of exploring how departments map their supply chains, and whether a similar approach could be taken for public service supply chains.[22] The Cabinet Office spoke about the example of UKCloud, which provided secure cloud data services to several government departments and went into liquidation in 2022.[23] It explained how this was a "very difficult-to-spot problem" because it was "four tiers down" and it would be very costly and difficult to maintain a database that mapped "other subcontractors to people way down our supply chain".[24]

Retaining corporate knowledge

10. The Treasury told us that some of its staff work on monitoring the health of the UK corporate sector overall, by looking at a series of indicators.[25] It told us that actively monitoring the corporate sector is an important and critical part of what the Treasury does centrally. The Department for Business and Trade also explained its "industry brief" and its "role in economic shocks generally, and monitoring and forecasting". Nonetheless the Treasury told us that it is reliant on departments monitoring their own sectors.[26]

11. The government's corporate knowledge about the health of key sectors and companies may be vulnerable because of the high turnover of civil servants in this field, who may have

17 Correspondence from HM Treasury to Committee, 30 January 2024
18 C&AG's Report, para 1.8
19 Q23
20 C&AG's Report, para 2.15
21 National Audit Office (NAO) Report, Good practice guide: Monitoring and responding to companies in distress, October 2023, page 10
22 C&AG's Report, para 2.17
23 Qq13,27; C&AG's Report, para 6
24 Q12–13
25 Q23
26 Qq 41–43

built trusted relationships with the private sector and be skilled at handling information "sensitively and carefully".[27] The Cabinet Office told us that the last time it had a company it needed to look at, the Chief Operating Officer for the Civil Service wrote to all departments to nominate a single point of responsibility in their operations team. It told us that "it is important to have someone in departments so we can have a Government-wide call."[28] Despite this, it explained that next time there is a similar case, this will need to be updated because "doubtless people will have moved on." The Treasury also explained to us how its spending teams are formally alerted when a department is seeking to make any sort of financial contribution to a company.[29] We have previously raised concerns about the high staff turnover in the Treasury and a lack of operational experience at more junior levels of the Treasury spending teams.[30] Analysis of the latest civil service statistics shows that the Treasury has the highest turnover rate of all departments.[31] The Treasury told us that it had launched a corporate finance network as one way of maintaining institutional memory, and that there is a regular permanent secretaries' group focused on growth where it shares its guidance and principles on company distress situations, to be cascaded to teams across the civil service.[32]

12. We asked the witnesses what lessons they had learned about companies' resilience across the economy from supporting them during the pandemic. The Treasury told us that it had learned the "importance of departments having a good sectoral understanding, understanding the nature of their sectors and things like the composition of their sectors". The Treasury and Department for Business and Trade told us that, prior to the pandemic, knowledge of some sectors was "mixed" and they "did not know some almost at all". However, they said that departments now have a much better understanding of their sectors and have been building those relationships.[33] Given the current high levels of insolvencies across the economy, we asked the witnesses if there were any particular sectors giving cause for concern. The Treasury told us that there was "no one sector that seems to be more in trouble than any others".[34] We were told by the Cabinet Office that "16% of insolvencies are in construction" but "construction is usually held as the most fragile sector" due to low margins and complex working capital arrangements. The Cabinet Office explained how it has built resilience into this sector by introducing a prompt payment exclusion to prohibit companies from bidding for contracts if they do not pay their suppliers promptly.[35]

Understanding risks when contracting

13. This Committee has continually advocated for the use of Accounting Officer (AO) Assessments to support high quality decision-making and enhance transparency. The Treasury's guidance suggests that it is good practice for an AO Assessment to be produced for each significant novel and contentious transaction or proposal involving the use of public funds.[36] Our 2022 report on *Improving the Accounting Officer Assessment process*

27 C&AG's Report, para 3.10; Q48
28 Q27
29 Q22
30 Committee of Public Accounts, Improving government planning and spending, Seventy-Eighth Report of Session 2017–19, HC 1596, 8 February 2019, Conclusions and recommendations para 1
31 Institute for Government, Whitehall Monitor 2024, January 2024, page 19
32 Q16
33 Q69
34 Qq33–34
35 Q37
36 HM Treasury, Accounting Officer Assessments: Guidance, May 2023

found that departments do not make as much use of these assessments as they should.[37] The quality of these assessments varies across departments, with some not providing sufficient detail to allow for a good understanding of the programme or the accounting officer's assessment of risks.

14. For several decades, successive governments have contracted out public services to private providers. Where providers or suppliers fail, the government is often the fall-back owner of risks. This was demonstrated when Carillion failed and the government had to step in to fund a trading liquidation while contracts and services were transferred.[38] We asked the Cabinet Office how likely it was that we would see another Carillion. It told us "never say never" but that it had introduced 'playbooks' to help define how to go to market in these areas. For complex outsourcing where government is the only customer, the Cabinet Office told us that it is "particularly important that we really understand the economics for the supplier and whether the gain share and pain share mechanisms are appropriate" and that it had "spent a lot more time thinking about that recently". The Cabinet Office also explained how it requests a living will statement for critical contracts or complex outsourcing contracts. Each year, the vendor will have to confirm to the contracting authority whether it still passes the financial entry tests that are expected to be met at the beginning of a contract.[39]

15. We asked the government specifically about how it ensures the taxpayer gains when a company does well partly as a result of having a government contract. The Cabinet Office told us that it publishes key performance indicators (KPIs) for its contracts, and it will be publishing more of these from October 2024 so that taxpayers can see whether the contract is delivering. It said that it was particularly challenging to assess gain share and pain share mechanisms where the government has not tested the market. It used the example of outsourcing probation rehabilitation services to demonstrate the consequences when government does not test the market to see whether, under different scenarios, the companies would survive or make undeserved profits. Ultimately, the government bore the risk when "volumes sank" and several of the companies "went bust", leading the services to be taken in house. The Cabinet Office told us that the message from this example was to "think carefully about the payment mechanisms to make sure that we are not being overly generous on the upside and that people are not getting a free run, and neither is the scheme so punitive on the downside for things that are outside of the vendor's control."[40] The Cabinet Office agreed that piloting was part of the answer to this problem where there is no existing external market. In response to our question about how much success it was having in promoting this approach, the Cabinet Office said that outsourcing in new areas was "relatively rare, and the presumption is that we will pilot it".[41]

37 Committee of Public Accounts, Improving the Accounting Officer Assessment Process, Twenty-Eighth Report of Session 2022–23, HC 43, 24 November 2022, Summary
38 C&AG's Report, paras 2.9, 2.11
39 Q74
40 Q75
41 Qq76–78

2 Responding to distress situations, skills and evaluation

Protecting taxpayers when making decisions on interventions

16. In 2020, the government set out publicly some broad principles which it uses to underpin decisions on providing last-resort bespoke financial support to financially distressed companies. The government has publicly stated that there is an "extremely high bar for putting taxpayers' money at risk in this way".[42] The Treasury told us that before developing the principles, it had had "a rather ad hoc framework for addressing companies in distress-type situations."[43]

17. As with any activity involving public money, a department must adhere to the principles of regularity, feasibility, propriety and value for money set out in the Treasury's *Managing Public Money*. A department will likely be required to carry out a formal Accounting Officer Assessment when considering an intervention in a private company.[44] The Treasury told us that if a department is seeking to provide financial support to a company and "it is highly likely to be novel, contentious or repercussive", it is likely that it will require Treasury's approval.[45]

18. Propriety is concerned with meeting high standards of public conduct and parliamentary expectations, and cannot be dispensed with even when making difficult judgements on competing issues in an emergency.[46] Responding in these situations often requires rapid decision-making by officials and ministers, based on imperfect information and a set of unattractive options.[47] We heard how quickly departments have to weigh up different options and make decisions in a crisis situation. For example, when the government was notified of the imminent failure of Flybe in 2020, UKGI told us that advisors spent four days in the company and assessed that intervention "would not be a good use of government money because, if we put a penny in at the top, we might not be able to work out where that penny would go and it might not be focused on what we needed it to".[48] More recently, when the issues surrounding Silicon Valley Bank arose, a number of teams were stood up over the course of a weekend to come up with a rapid set of different contingency plans.[49]

19. We asked the witnesses how they manage the risks of moral hazard (where support for one company creates an incentive for other companies to take risks with the expectation they will also be supported) and free riders (where the company's incumbent lenders or shareholders may benefit from government support without having to contribute themselves) when deciding if and how to intervene in a company.[50] The Treasury explained how it sets "the bar very high" and conducts very detailed due diligence on the companies,

42 C&AG's Report, para 1.4, Figure 4
43 Q15
44 C&AG's Report, paras 3.3, 3.5
45 Q22
46 C&AG's Report, Lessons learned: tackling fraud and protecting propriety in government spending during an emergency, Session 2023–24, HC 444, 8 February 2024, Lesson 2, para 19
47 C&AG's Report, para 3.6
48 Qq18–19
49 Q28
50 Qq61–64 ; C&AG's Report, para 3.2

such that the cases where it does intervene "are very few and far between". UKGI told us how it is very mindful of the free rider problem and, if other financial stakeholders did not play their part, government would take assets as security to protect the taxpayer's position.[51] For example, when providing a £30 million loan to Celsa Steel, the government set the conditions of the support so that public money would be protected if the company became insolvent and it would get a greater return if the company did well. UKGI agreed that this would be a model it would intend to follow in the future.[52]

20. The NAO report has shown how intervening in companies can lead to unforeseen costs and government involvement over a period much longer than expected. Ensuring value for money requires careful consideration not just of short-term objectives but also of longer-term scenarios, including how and when the government may extricate itself from the intervention.[53] In light of taxpayers still retaining a large portion of shares in the Royal Bank of Scotland, we asked the witnesses about how they plan exit strategies at the outset of deciding what kind of intervention is appropriate. UKGI told us that the fundamental principle underlying any intervention is to "provide a bridge, not a pier" and that it will spend time doing due diligence to look at what the future for the company might look like. It explained how Sheffield Forgemasters was nationalised and the ongoing work to help support and modernise the company. The government has committed to the company being "returned to the private sector in due course" but has not specified any timescales for this.[54] We also received written evidence which raised concerns about the ongoing ramifications playing out at a gas site in South Wales, following the liquidation of Baglan Operations by the Official Receiver. Dr Tribe's evidence highlighted a lack of anyone taking responsibility for the liabilities at the site and stressed that government involvement must "be for the long run and properly finalise the case" when it does decide to get involved.[55]

Skills and capabilities

21. Departments must have, or be able to access, the skills, expertise and capacity needed through the whole lifecycle of any intervention in a company, including to prepare for and respond to company distress scenarios.[56] We have repeatedly highlighted longstanding issues with a lack of specialist skills in the civil service and the challenges with attracting and retaining specialist staff.[57] We recently found in our 2023 *Bulb Energy* report that the need for commercial and corporate finance skills across government has increased but these are in limited supply.[58] We highlighted the importance of all departments being able to access these skills to make appropriate judgements concerning activities that link the public and private sectors. Our report on *Competition in public procurement* raised concerns that the government may not fully understand the commercial skills and

51 Q59
52 Qq64–65
53 C&AG's Report, paras 3.1, 3.7–3.8
54 Qq67–68; NAO Report, page 20
55 Dr John Tribe (Senior Lecturer in Law, University of Liverpool) (LGD0001)
56 NAO Report, page 7; C&AG's Report, Figure 1
57 Committee of Public Accounts, Specialist skills in the civil service, Thirty-Second Report of Session 2019–21, HC 686, 7 December 2020, Summary
58 Committee of Public Accounts, Bulb Energy, Seventy-Fourth Report of Session 2022–23, HC 1232, 1 November 2023, Conclusions and recommendations, para 5

capabilities needed across government to implement far-reaching changes to the public procurement landscape.[59] We have also highlighted the variability in departments' risk management capabilities.[60]

22. The Treasury told us that having the right skills and capabilities in place is "a really critical lesson" highlighted by the NAO's report. It acknowledged that these skills are currently "patchy across government".[61] The relevant specialist skills for responding to company distress situations are concentrated mainly at the centre of government.[62] The Treasury told us that its special situations team, UKGI and the Cabinet Office were the "three pockets in the centre" that held the "expertise and experience in both the framework and the practice of how this all works."[63] UKGI told us that its special situations team of 18 has a total of 225 years of experience of financial distress, and has been involved in over 200 cases where distressed companies had approached government in the last six years.[64] We also heard how these three central teams are "more in the restructuring business" as they have become trusted by companies who "tell us stuff confidentially so we can be part of the solution".[65]

23. Nonetheless, the Treasury reiterated that it is up to departments and regulators to ensure they have the capability and capacity to discharge their duties, including understanding what financial expertise they need.[66] The Department for Business and Trade explained how the kinds of skills it requires, including commercial, financial and accounting skills, are high in demand across the private sector and government. We heard how regulators face the same challenges in competing for these skills.[67] The Department for Business and Trade told us that things had improved in getting people with the commercial negotiation and financial experience to be able to talk to companies, but did not specify whether this is the same experience across departments.[68]

Evaluation and learning

24. Evaluation is a systematic assessment of the design, implementation, and outcomes of an intervention.[69] It is important for learning what works and why, and to demonstrate accountability for the use of public money.[70] Our work on the use of evaluation in government found that much of government activity is not evaluated robustly or at all, and the government does not know what works to improve outcomes in those areas.[71] In

59 Committee of Public Accounts, Competition in public procurement, Sixth Report of Session 2023–24, HC 385, 13 December 2023, Conclusions and recommendations, para 5
60 Committee of Public Accounts, Government preparedness for the COVID-19 Pandemic: Lessons for government on risk, Forty-Sixth Report of Session 2021–22, HC 952, 23 March 2022, Summary
61 Q15
62 C&AG's Report, para 3.6
63 Q16
64 Qq17, 83
65 Q21
66 Q53
67 Q30
68 Q69
69 Committee of Public Accounts, Use of evaluation and financial modelling in Government, Fourth Report of Session 2022–23, HC 254, 27 May 2022, para 2
70 C&AG's Report, para 3.9
71 Committee of Public Accounts, Use of evaluation and financial modelling in Government, Fourth Report of Session 2022–23, HC 254, 27 May 2022, Conclusions and recommendations, para 1

the case of government interventions in companies, the NAO found no indication that they are any more likely than other government spending to be formally and transparently evaluated.[72]

25. We asked the witnesses about how robustly government collates and shares evaluation findings and lessons on this topic. The Treasury suggested that this was something they "can probably be a bit more systematic on". It provided the example of the covid support business grant schemes as a "systemic evaluation that is taking place right now".[73] It also said it would be keen to learn the lessons from the Silicon Valley Bank case and that the Financial Stability Board was carrying out an exercise to do this.[74] UKGI told us that nine cases out of 10 that it examines do not result in a government intervention.[75] However, the Treasury acknowledged that it does not systematically evaluate interventions or non-interventions in a way that would add understanding across government, and said that it was grateful to the NAO's work for highlighting this.[76]

26. We asked the witnesses whether there had been any learning from the experiences of airline collapses about industry insurance schemes and also how government manages the risks around recuperating money from private insurers. UKGI suggested that there was some work undertaken to identify where there might be similar risks but could not recollect where that had got to.[77] The Treasury's subsequent letter explained that the cases of Monarch and Thomas Cook highlight the challenges in recovering costs from third parties when government steps in. It said that the Department for Transport is "taking the time to thoroughly consider the most appropriate package of measures to take forward" in response to the Airline Insolvency Review, which was published in 2019.[78]

27. We also asked the witnesses whether they looked to different international regimes to learn any lessons about how to deal with companies and sectors that might be in trouble. The Treasury and the Cabinet Office said that each country is unique and will have its own way of handling insolvency or distress situations, but the Treasury told us that there would be value in looking at the way other countries structure their frameworks for intervention or non-intervention in companies.[79]

72 C&AG's Report, para 3.9
73 Q70
74 Q28
75 Q18
76 Q70
77 Qq45–47
78 Correspondence from HM Treasury to Committee, 30 January 2024
79 Q54

Formal minutes

Monday 4 March 2024

Members present

Dame Meg Hillier, in the Chair

Paula Barker

Olivia Blake

Mr Jonathan Djanogly

Mrs Flick Drummond

Peter Grant

Sarah Owen

Ms Marie Rimmer

Monitoring and responding to companies in distress

Draft Report (*Monitoring and responding to companies in distress*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 27 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Twentieth Report 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 (Standing Order No. 134).

Adjournment

Adjourned till Monday 11 March at 3.30 p.m.

Witnesses

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

Wednesday 17 January 2024

Jess Glover, DG Growth and Productivity, HM Treasury; **Hannah Gray**, Director, Special Situations Group, UK Government Investments; **Sir Gareth Rhys Williams CB**, Government Chief Commercial Officer, Cabinet Office; **Neil Johnson**, Director, Industry, Department for Business and Trade Q1–84

Published written evidence

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

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

1 The Institute for Turnaround (LGD0002)

2 Tribe, Dr John (Senior Lecturer in Law , University of Liverpool) (LGD0001)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2023–24

Number	Title	Reference
1st	The New Hospital Programme	HC 77
2nd	The condition of school buildings	HC 78
3rd	Revising health assessments for disability benefits	HC 79
4th	The Department for Work & Pensions Annual Report and Accounts 2022–23	HC 290
5th	Government's programme of waste reforms	HC 333
6th	Competition in public procurement	HC 385
7th	Resilience to flooding	HC 71
8th	Improving Defence Inventory Management	HC 66
9th	Whole of Government Accounts 2020–21	HC 65
10th	HS2 and Euston	HC 67
11th	Reducing the harm from illegal drugs	HC 72
12th	Cross-government working	HC 75
13th	Preparedness for online safety regulation	HC 73
14th	Homes for Ukraine	HC 69
15th	Managing government borrowing	HC 74
16th	HMRC performance in 2022–23	HC 76
17th	Cabinet Office functional savings	HC 423
18th	Excess Votes 2022–23	HC 589
19th	MoD Equipment Plan 2023–2033	HC 451

Session 2022–23

Number	Title	Reference
1st	Department for Business, Energy & Industrial Strategy Annual Report and Accounts 2020–21	HC 59
2nd	Lessons from implementing IR35 reforms	HC 60
3rd	The future of the Advanced Gas-cooled Reactors	HC 118
4th	Use of evaluation and modelling in government	HC 254
5th	Local economic growth	HC 252

Number	Title	Reference
6th	Department of Health and Social Care 2020–21 Annual Report and Accounts	HC 253
7th	Armoured Vehicles: the Ajax programme	HC 259
8th	Financial sustainability of the higher education sector in England	HC 257
9th	Child Maintenance	HC 255
10th	Restoration and Renewal of Parliament	HC 49
11th	The rollout of the COVID-19 vaccine programme in England	HC 258
12th	Management of PPE contracts	HC 260
13th	Secure training centres and secure schools	HC 30
14th	Investigation into the British Steel Pension Scheme	HC 251
15th	The Police Uplift Programme	HC 261
16th	Managing cross-border travel during the COVID-19 pandemic	HC 29
17th	Government's contracts with Randox Laboratories Ltd	HC 28
18th	Government actions to combat waste crime	HC 33
19th	Regulating after EU Exit	HC 32
20th	Whole of Government Accounts 2019–20	HC 31
21st	Transforming electronic monitoring services	HC 34
22nd	Tackling local air quality breaches	HC 37
23rd	Measuring and reporting public sector greenhouse gas emissions	HC 39
24th	Redevelopment of Defra's animal health infrastructure	HC 42
25th	Regulation of energy suppliers	HC 41
26th	The Department for Work and Pensions' Accounts 2021–22 – Fraud and error in the benefits system	HC 44
27th	Evaluating innovation projects in children's social care	HC 38
28th	Improving the Accounting Officer Assessment process	HC 43
29th	The Affordable Homes Programme since 2015	HC 684
30th	Developing workforce skills for a strong economy	HC 685
31st	Managing central government property	HC 48
32nd	Grassroots participation in sport and physical activity	HC 46
33rd	HMRC performance in 2021–22	HC 686
34th	The Creation of the UK Infrastructure Bank	HC 45
35th	Introducing Integrated Care Systems	HC 47
36th	The Defence digital strategy	HC 727
37th	Support for vulnerable adolescents	HC 730
38th	Managing NHS backlogs and waiting times in England	HC 729
39th	Excess Votes 2021–22	HC 1132

Number	Title	Reference
40th	COVID employment support schemes	HC 810
41st	Driving licence backlogs at the DVLA	HC 735
42nd	The Restart Scheme for long-term unemployed people	HC 733
43rd	Progress combatting fraud	HC 40
44th	The Digital Services Tax	HC 732
45th	Department for Business, Energy & Industrial Strategy Annual Report and Accounts 2021–22	HC 1254
46th	BBC Digital	HC 736
47th	Investigation into the UK Passport Office	HC 738
48th	MoD Equipment Plan 2022–2032	HC 731
49th	Managing tax compliance following the pandemic	HC 739
50th	Government Shared Services	HC 734
51st	Tackling Defra's ageing digital services	HC 737
52nd	Restoration & Renewal of the Palace of Westminster – 2023 Recall	HC 1021
53rd	The performance of UK Security Vetting	HC 994
54th	Alcohol treatment services	HC 1001
55th	Education recovery in schools in England	HC 998
56th	Supporting investment into the UK	HC 996
57th	AEA Technology Pension Case	HC 1005
58th	Energy bills support	HC 1074
59th	Decarbonising the power sector	HC 1003
60th	Timeliness of local auditor reporting	HC 995
61st	Progress on the courts and tribunals reform programme	HC 1002
62nd	Department of Health and Social Care 2021–22 Annual Report and Accounts	HC 997
63rd	HS2 Euston	HC 1004
64th	The Emergency Services Network	HC 1006
65th	Progress in improving NHS mental health services	HC 1000
66th	PPE Medpro: awarding of contracts during the pandemic	HC 1590
67th	Child Trust Funds	HC 1231
68th	Local authority administered COVID support schemes in England	HC 1234
69th	Tackling fraud and corruption against government	HC 1230
70th	Digital transformation in government: addressing the barriers to efficiency	HC 1229
71st	Resetting government programmes	HC 1231
72nd	Update on the rollout of smart meters	HC 1332

Number	Title	Reference
73rd	Access to urgent and emergency care	HC 1336
74th	Bulb Energy	HC 1232
75th	Active travel in England	HC 1335
76th	The Asylum Transformation Programme	HC 1334
77th	Supported housing	HC 1330
78th	Resettlement support for prison leavers	HC 1329
79th	Support for innovation to deliver net zero	HC 1331
80th	Progress with Making Tax Digital	HC 1333
1st Special Report	Sixth Annual Report of the Chair of the Committee of Public Accounts	HC 50
2nd Special Report	Seventh Annual Report of the Chair of the Committee of Public Accounts	HC 1055

Session 2021–22

Number	Title	Reference
1st	Low emission cars	HC 186
2nd	BBC strategic financial management	HC 187
3rd	COVID-19: Support for children's education	HC 240
4th	COVID-19: Local government finance	HC 239
5th	COVID-19: Government Support for Charities	HC 250
6th	Public Sector Pensions	HC 289
7th	Adult Social Care Markets	HC 252
8th	COVID 19: Culture Recovery Fund	HC 340
9th	Fraud and Error	HC 253
10th	Overview of the English rail system	HC 170
11th	Local auditor reporting on local government in England	HC 171
12th	COVID 19: Cost Tracker Update	HC 173
13th	Initial lessons from the government's response to the COVID-19 pandemic	HC 175
14th	Windrush Compensation Scheme	HC 174
15th	DWP Employment support	HC 177
16th	Principles of effective regulation	HC 176
17th	High Speed 2: Progress at Summer 2021	HC 329
18th	Government's delivery through arm's-length bodies	HC 181
19th	Protecting consumers from unsafe products	HC 180
20th	Optimising the defence estate	HC 179

Number	Title	Reference
21st	School Funding	HC 183
22nd	Improving the performance of major defence equipment contracts	HC 185
23rd	Test and Trace update	HC 182
24th	Crossrail: A progress update	HC 184
25th	The Department for Work and Pensions' Accounts 2020–21 – Fraud and error in the benefits system	HC 633
26th	Lessons from Greensill Capital: accreditation to business support schemes	HC 169
27th	Green Homes Grant Voucher Scheme	HC 635
28th	Efficiency in government	HC 636
29th	The National Law Enforcement Data Programme	HC 638
30th	Challenges in implementing digital change	HC 637
31st	Environmental Land Management Scheme	HC 639
32nd	Delivering gigabitcapable broadband	HC 743
33rd	Underpayments of the State Pension	HC 654
34th	Local Government Finance System: Overview and Challenges	HC 646
35th	The pharmacy early payment and salary advance schemes in the NHS	HC 745
36th	EU Exit: UK Border post transition	HC 746
37th	HMRC Performance in 2020–21	HC 641
38th	COVID-19 cost tracker update	HC 640
39th	DWP Employment Support: Kickstart Scheme	HC 655
40th	Excess votes 2020–21: Serious Fraud Office	HC 1099
41st	Achieving Net Zero: Follow up	HC 642
42nd	Financial sustainability of schools in England	HC 650
43rd	Reducing the backlog in criminal courts	HC 643
44th	NHS backlogs and waiting times in England	HC 747
45th	Progress with trade negotiations	HC 993
46th	Government preparedness for the COVID-19 pandemic: lessons for government on risk	HC 952
47th	Academies Sector Annual Report and Accounts 2019/20	HC 994
48th	HMRC's management of tax debt	HC 953
49th	Regulation of private renting	HC 996
50th	Bounce Back Loans Scheme: Follow-up	HC 951
51st	Improving outcomes for women in the criminal justice system	HC 997
52nd	Ministry of Defence Equipment Plan 2021–31	HC 1164

Number	Title	Reference
1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

Session 2019–21

Number	Title	Reference
1st	Support for children with special educational needs and disabilities	HC 85
2nd	Defence Nuclear Infrastructure	HC 86
3rd	High Speed 2: Spring 2020 Update	HC 84
4th	EU Exit: Get ready for Brexit Campaign	HC 131
5th	University technical colleges	HC 87
6th	Excess votes 2018–19	HC 243
7th	Gambling regulation: problem gambling and protecting vulnerable people	HC 134
8th	NHS capital expenditure and financial management	HC 344
9th	Water supply and demand management	HC 378
10th	Defence capability and the Equipment Plan	HC 247
11th	Local authority investment in commercial property	HC 312
12th	Management of tax reliefs	HC 379
13th	Whole of Government Response to COVID-19	HC 404
14th	Readying the NHS and social care for the COVID-19 peak	HC 405
15th	Improving the prison estate	HC 244
16th	Progress in remediating dangerous cladding	HC 406
17th	Immigration enforcement	HC 407
18th	NHS nursing workforce	HC 408
19th	Restoration and renewal of the Palace of Westminster	HC 549
20th	Tackling the tax gap	HC 650
21st	Government support for UK exporters	HC 679
22nd	Digital transformation in the NHS	HC 680
23rd	Delivering carrier strike	HC 684
24th	Selecting towns for the Towns Fund	HC 651
25th	Asylum accommodation and support transformation programme	HC 683
26th	Department of Work and Pensions Accounts 2019–20	HC 681
27th	Covid-19: Supply of ventilators	HC 685
28th	The Nuclear Decommissioning Authority's management of the Magnox contract	HC 653

Number	Title	Reference
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
32nd	Specialist Skills in the civil service	HC 686
33rd	Covid-19: Bounce Back Loan Scheme	HC 687
34th	Covid-19: Support for jobs	HC 920
35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655
38th	Managing colleges' financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
40th	Achieving government's long-term environmental goals	HC 927
41st	COVID 19: the free school meals voucher scheme	HC 689
42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928
43rd	COVID-19: Planning for a vaccine Part 1	HC 930
44th	Excess Votes 2019–20	HC 1205
45th	Managing flood risk	HC 931
46th	Achieving Net Zero	HC 935
47th	COVID-19: Test, track and trace (part 1)	HC 932
48th	Digital Services at the Border	HC 936
49th	COVID-19: housing people sleeping rough	HC 934
50th	Defence Equipment Plan 2020–2030	HC 693
51st	Managing the expiry of PFI contracts	HC 1114
52nd	Key challenges facing the Ministry of Justice	HC 1190
53rd	Covid 19: supporting the vulnerable during lockdown	HC 938
54th	Improving single living accommodation for service personnel	HC 940
55th	Environmental tax measures	HC 937
56th	Industrial Strategy Challenge Fund	HC 941