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Chair of the Treasury Committee
House of Commons
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Sent by email

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Dear Chair,

The Work of UKGI – Follow up to the hearing on 6 February 2024

Thank you for your letter dated 8 February 2024. Please see below for our responses to the specific requests for further information:

1: What is UKGI's assessment of the current value of the UK Government's holding in Eutelsat, and what is your assessment of the current taxpayer loss on the initial investment of approximately £400 million?

- In July 2020 the UK Government decided to invest $500 million (£374 million) in OneWeb as set out in the then Secretary of State for the Department for Business Energy and Industrial Strategy's direction (Link here).
- In July 2022 OneWeb and Eutelsat announced a merger that closed in September 2023. Based on a multi-criteria valuation, the following reference values were used to determine an exchange ratio of 103.47 Eutelsat shares for each OneWeb share:
    - A value for 100% of Eutelsat's equity of €2,766 million (€2,552 million ex-dividend) or €12.01 per Eutelsat share (€11.08 ex-dividend); and
    - A value for 100% of OneWeb of €3,297 million or €1,146.43 per share.
- Therefore, the UK Government's 500,000 shares in OneWeb (17.38%) were valued at €573 million and were exchanged for 51.735 million shares in Eutelsat (10.89%).
- As of the close of trading on 20 February 2024, the value of the UK Government's holding in Eutelsat was approximately €203 million (€3.93 per share, 51.735 million shares) or £174 million (GBP/EUR 1.17). This corresponds to approximately 46% of the original investment.

2: Please provide a timeline of the actions taken by the UKGI Non-Executive Director on the Board of the Post Office once it became clear that convictions of sub-postmasters obtained on the basis of evidence from Horizon were unsafe?

a. Please provide details of what the UKGI Non-Executive Director told the Department in relation to both Horizon and the convictions.

- UKGI's Opening Statement to the Post Office Horizon IT Inquiry in October 2022 sets out UKGI's preliminary understanding of the key issues relating to Horizon. However, we have sought to summarise below the key events and information flow between the Post Office Limited (POL), the POL Board and UKGI in the context of the Group Litigation Order (GLO) (Paragraph 194 – 223).
- The key judgements in the GLO were delivered by Justice Fraser in March 2019 (Common Issues) and November 2019 (Horizon Issues). POL agreed a settlement with the GLO claimants in December 2019. The Court of Appeal overturned the first group of convictions in April 2021. It therefore became clear to POL during this period that convictions of sub-postmasters obtained on the basis of evidence from Horizon were unsafe. We are providing a summary of actions taken by the UKGI Non-Executive Director on the POL Board (Shareholder NED) from 2018, i.e., to include the period immediately prior to the GLO hearings. We have also provided a summary of the role of the Shareholder NED to aid the Committee's understanding as to the information flow into the Shareholder NED at Board level and then into the Department responsible for POL (which at the time was the Department for Business, Energy and Industrial Strategy).
- A Shareholder NED on the POL Board has been in place since the establishment of POL in 2012. Whilst the role of the Shareholder NED has evolved over time, one of its key roles is to bring government's perspective to the POL Board and to provide further context to the Department's objectives (and, where relevant, concerns) to aid decision-making. It is important to note that the Shareholder NED participates in collective decision making around the Board table in the same way as their colleagues and does not have any powers to direct the actions of the Board or override decisions of which he/she does not approve. Correspondingly the flow of information into the Department includes the information that the Shareholder NED receives at the Board.
- In early 2018, a POL Board Sub-Committee was established to consider POL's legal defence as litigation proceeded to final resolution. The Shareholder NED was part of this Committee from its inception. In addition, a new bespoke legal protocol with POL was implemented in August 2018, to permit officials to receive visibility of the legal advice that the POL Board was receiving whilst ensuring that legal professional privilege was properly maintained.
- As a result of this increased visibility the Shareholder NED and Shareholder Team were able to ensure that the Department: (i) was aware of POL's strategy and key events in the litigation; (ii) visibility of POL's evaluation of settlement options; and (iii) visibility on POL's contingency planning in case of an adverse judgement. All of these actions were intended to allow scrutiny and, where appropriate, challenge to POL by the Department and UKGI. For example, the Shareholder NED instigated a meeting in October 2018 between POL's senior management, the responsible Minister and the BEIS Permanent Secretary to discuss POL's litigation strategy and contingency plans. Similarly in April 2019 following intervention by the Chair and the Shareholder NED, POL changed its legal team with a view to settling the litigation. The Shareholder NED remained involved in the settlement process, working with the Department and HMT to obtain the relevant government approvals. Lastly, as lead of the Shareholder Team, the Shareholder NED was working with the Department to assist with the development of the governance arrangements for POL's compensation schemes and obtain certain approvals under those governance arrangements.

3: Please provide details of the management arrangements for the trust holding £2.5 billion of proceeds from the sale of Chelsea Football Club that is to be spent to aid the victims of the war in Ukraine?

- UKGI do not manage the proceeds from the sale of Chelsea Football Club. They are managed by the Office of Financial Sanctions Implementation (OFSI). The proceeds from the sale of Chelsea Football Club are frozen in a UK bank account. A licence application will need to be made to OFSI to move the funds. OFSI have been clear since the sale of Chelsea Football Club went through that they would only issue a licence that ensures the proceeds are used for exclusively humanitarian purposes in Ukraine. OFSI set that out in a unilateral declaration at the time and remain committed to that position. OFSI want this money to reach Ukraine as quickly as possible and remain open to any arrangement that clearly delivers this in line with these conditions.

4: What is the most recent estimate available to you on the financial impact of fraud related to British Business Bank-managed Bounce Back Loan scheme?

- The British Business Bank (BBB) delivered the Bounce Bank Loan Scheme (BBLS) on behalf of government to ensure access to finance was available at pace and at scale during the pandemic. The BBB Board raised the risk around fraud in a Reservation Notice to the then Secretary of State for the Department for Business, Energy and Industrial Strategy (Link here). The Permanent Secretary of the Department responded with a written direction (Link here). From the launch of the scheme, BBB has worked with lenders and across government to prevent, detect and counter fraud and put in place as quickly as possible additional measures to further mitigate fraud risks.
- The most recent estimate on the financial impact of fraud is cited in a report (Link here) published in November 2023 by the BBB showing that around £1.7 billion of lending has been flagged as suspected cases of fraud. This report presents the value of cases that accredited lenders have flagged as suspected fraud cases on the three Covid-19 Loan Guarantee Schemes, with the vast majority in the BBLS. It should be noted that this figure is suspected fraud cases as of June 2023, and lenders can add and remove flags of suspected fraud at any point. The £1.7 billion represents 2.2% of the total lending through the Covid-19 Loan Guarantee Schemes and 3.5% of the value of BBLS. The report also highlights that "the scheme design for the BBLS led to an increase in the likelihood of fraud compared to BAU lending" and that "this risk was identified in the scheme design phase, which was accepted at a political level by Ministers in the ministerial direction."

5: Please provide any figures available on the number of convictions linked to fraudulent claims on the Bounce Back Loan scheme or fraudulent uses of funds from the scheme?

- Up to the end of January 2024 the Insolvency Service had obtained a total of 1,272 Director disqualifications and 229 bankruptcy restrictions for misconduct related to Covid financial support schemes, the majority of which relate to the BBLS. In addition to this, by the end of January 2024 the Insolvency Service had obtained 17 criminal prosecutions for offences relating to the BBLS.

6: How many guarantees have been removed from Bounce Bank Loans, and what is the financial effect of the removal of these guarantees?

- As of 31 December 2023, the government guarantee has been removed from 11,115 Bounce Back Loans with a total value of £373.6 million. This can be for a number of reasons, not all of which are necessarily fraud related. Guarantee removal values and volumes can and do fluctuate; guarantees can be retrospectively removed or added at any given time. All amendments are processed in accordance with the British Business Bank and BBLS governance requirements.

7: You mentioned that about 200 companies had sought government assistance over the last five years and approximately one-in-ten led to action from UKGI's Special Situations Group. Please provide an overview of these interventions, including what advice was given and the results of the intervention?

- The list at Annex A provides an overview of company distress scenarios which the UKGI Special Situations Group has been involved in, given advice and the resultant government interventions.

8: What involvement does UKGI have in the governance and oversight of Sizewell C? Does UKGI have a role in providing advice to government on its shareholding, for example including on the January 2024 £1.3 billion investment decision to consolidate the government's position as majority shareholder?

- The Secretary of State for Energy Security and Net Zero is a shareholder in Sizewell C via her shareholding in Sizewell C (Holding) Limited ('HoldCo'). EDF is also a minority shareholder. HoldCo is the sole owner of Sizewell C Limited ('GenCo'), the principal entity which will manage the construction and operation of the Sizewell C nuclear plant.
- Under current arrangements, the Secretary of State, as a shareholder, has rights to appoint two Directors to the Board of HoldCo as well as one Director to the Board of GenCo. There are also a number of reserved matters for shareholders themselves. On the HoldCo Board, the positions are currently held by Clive Maxwell (Second Permanent Secretary for the Department for Energy Security and Net Zero ('DESNZ')) and Henry Lloyd (Director, UKGI). The GenCo Board position is currently held by Nick Smallwood (CEO, Infrastructure and Projects Authority).
- DESNZ leads and resources the shareholder team function for Sizewell C. UKGI provides a team to support its Director in exercising his role within the overall governance structure, as well as providing discrete elements of wider corporate governance advice where requested by DESNZ. UKGI is supporting DESNZ with governance and corporate finance matters relevant to the current and future shareholder arrangements being developed with the expectation that they will be entered into at the "Final Investment Decision" milestone when other parties may also invest in the company. UKGI fulfils this role alongside DESNZ's financial and legal advisers.
- In relation to incremental investment into the project, UKGI has a role via its Director on the HoldCo Board in approving the company's proposed budget. Where additional funding has been requested this then goes to DESNZ as shareholder for approval.

I hope that you and the rest of the Committee find this further information useful.

Yours sincerely,

Charles Donald

Chief Executive

Annex A: An overview of company distress scenarios which the UKGI Special Situations Group has been involved in, given advice and the resultant government interventions.

Year of intervention	Company name	Sector	Main government interventions	UKGI advice
2018	Carillion	Steel, manufacturing and construction Other	Trading/supported liquidation Terminate contract/contract novation/transfer provision of services to an alternative provider	Supported cross Whitehall contingency planning. Supported assessment of company requests for government support and potential impact of do nothing. Supported Departments to prepare and manage liquidation.
2018	Interserve	Other	Do nothing/market solution	Supported cross Departmental monitoring and the co-ordination of contingency planning to understand repercussions to government.
2018	Allied Health Care	Health and social care	Intervention or signals to improve the functioning of a market	Supported Department in assessment of options, contingency planning and engagement with management and financial sponsor.
2019	Thomas Cook	Transport	Mutual/insurance model Supplier, consumer or employee support Trading/supported liquidation	Provided commercial advice to the Department on financial assistance options to company, assessment of impact and contingency planning in the event of collapse, including repatriation options.
2019	Working Links and other Community Rehabilitation Companies	Other	Terminate contract/contract novation/transfer provision of services to an alternative provider Government takes over the delivery of a service through a government-owned company	Supported Department in assessment of options, contingency planning and engagement with management and financial sponsor. Supported Department in interaction with insolvency practitioner.
2019	British Steel	Steel, manufacturing and construction	Bespoke financial support Trading/supported liquidation	Supported Department in discussions to agree potential support and assessment of options. Provided advice on the structuring of support to protect HMG's position, together with upside mechanisms. Supported Department in appraisal of intervention options and supported Departmental contingency plans. Supported Department in preparation for and interaction with trading liquidation.

Year of intervention	Company name	Sector	Main government interventions	UKGI advice
2020	Flybe	Transport	Do nothing/market solution	Supported Department consider commerciality of company ask, contingency planning and interaction with the insolvency.
2020	Liberty Steel	Steel, manufacturing and construction	Do nothing/market solution	Supported Department in contingency planning, engagement with company and assessment of requests for support.
2020	Celsa Steel	Steel, manufacturing and construction	Bespoke financial support	Supported Department in discussions to agree potential support and assessment of options. Provided advice on the structuring of support to protect HMG's position, together with upside mechanisms. Supported Department in negotiations on repayment.
2020	Virgin Atlantic	Transport	Do nothing/market solution	Supported assessment of company requests for support and potential impact of Do Nothing.
2021	Bulb Energy	Energy and utilities	Special Administration Regime	Supported Department on preparation for Special Administration Regime and assessment of alternative options. Provided on-going support post appointment.
2021	Baglan group of companies	Energy and utilities	Trading/supported liquidation	Supported Department in considering commerciality of company ask, contingency planning and interaction with the insolvency.
2021	CF Fertilisers	Chemicals	Bespoke financial support Intervention or signals to improve the functioning of a market Competition law exemptions /exemptions from merger control	Advised on short term intervention options to ensure continuity of supply and negotiation with company on terms of intervention.
2021	Sheffield Forgemasters International	Steel, manufacturing and construction	Nationalisation /public ownership	Advised on assessment of intervention options. Worked alongside wider UKGI colleagues to support Department to deliver Departmental policy objective to nationalise.
2021	Energy Suppliers	Energy and utilities	Supplier of last resort regime	Supported cross Whitehall assessment of options for potential funder of last resort support. Provided advice on the structuring of support to protect HMG's position whilst addressing policy objectives. Set up team structures to assess requests and manage exposure, if required.

Year of intervention	Company name	Sector	Main government interventions	UKGI advice
2022	UKCloud	Digital, technology and communication	Trading/supported liquidation	Supported Department in assessment of options, contingency planning and engagement with management and financial sponsor. Supported Department in interaction with the liquidation.
2022	Gazprom	Energy and utilities	Do nothing/market solution	Supported the validation of UK financial position, options available to support and contingency planning in the event of failure.
2023	Britishvolt	Steel, manufacturing and construction	Do nothing/market solution	Supported Department in assessment of grant options. Worked with Department, company and administrator to understand risk and implications of administration.
2023	Silicon Valley Bank UK	Banking and finance	Resolution regime	Supported rapid cross Whitehall response to failure and assessment of options to provide support.
2023	Tata Steel	Steel, manufacturing, and construction	Bespoke financial support Supplier, consumer or employee support	Supported Department with ongoing discussions to agree potential support package to aid transition to low carbon steel making.

Source: National Audit Office Report “Monitoring and responding to companies in distress: lessons learned”, 27 October 2023 (Link here) with UKGI advice added.