

Twentieth report of Session 2023-24

HM Treasury, Cabinet Office

Monitoring and responding to companies in distress

Introduction from the Committee

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.

Based on a report by the National Audit Office, the Committee took evidence on 17 January 2024 from the HM Treasury, Cabinet Office, Department for Business and Trade and UK Government Investments. The Committee published its report on 13 March 2024. This is the government's response to the Committee's report.

Relevant reports

- NAO report: [Lessons learned: Monitoring and responding to companies in distress](#) – Session 2022-23 (HC 1866)
- PAC report: [Monitoring and responding to companies in distress](#) – Session 2023-24 (HC 425)

Government response to the Committee

1. PAC conclusion: 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.

1. PAC recommendation: 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.**

1.1 The government agrees with the Committee's recommendation.

Recommendation implemented

1.2 The government uses a [Lead Government Department \(LGD\) approach](#) to cover all phases of emergency planning, response, recovery and risk assessment. Usually, the LGD is

the department with primary policy responsibility for the risk and expertise for the area impacted by the emergency scenario.

1.3 LGDs should escalate supplier and company risks through their internal escalation routes and to Cabinet Office and HM Treasury as required, for example should the department identifying the risk not be the clear lead for response, if intervention is being considered and HM Treasury spending approval may be required, or for additional expert support.

1.4 Monitoring of suppliers for financial distress has improved significantly since Carillion's liquidation in 2018. The Government Commercial Function's [Sourcing Playbook](#) and associated guidance provide recommendations to departments regarding regular monitoring of suppliers' financial performance.

1.5 The Cabinet Office monitors the strategic suppliers to government and proactively engages with public sector stakeholders to share intelligence, including bringing together customers of a common supplier where appropriate. Where there is a high level of exposure across multiple departments, the Cabinet Office may coordinate a response.

1.6 Responsibility for supply chain resilience and corresponding intelligence lies with LGDs. The government has published several strategies to ensure resilience in supply chains for critical sectors, for example on semiconductors, batteries and critical minerals. Supply chain intelligence is regularly gathered by sector teams from conversations with industry and shared with ministers and between officials.

2. PAC conclusion: We are concerned that departments are not maintaining institutional knowledge relating to 'at risk' companies and sectors.

2. PAC recommendation: 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.

2.1 The government agrees with the Committee's recommendation.

Recommendation implemented

2.2 Supplier and supply chain risk is a standing item for commercial engagement between the Cabinet Office and departments.

2.3 The sharing of intelligence on supplier and sector risk indicators between Cabinet Office and departments is a 'two-way' process, which allows the Cabinet Office and departments to support each other in retaining corporate memory.

2.4 Departments should escalate identified risk indicators within their own governance frameworks such that a record is maintained of decisions made in respect of each risk identified. Guidance on risk management is provided by the [Orange Book](#).

2.5 Commercial teams in the Cabinet Office support supplier monitoring activity by developing regulation and guidance, benchmarking performance, developing and supporting the implementation of playbooks, developing and attracting commercial talent, and monitoring strategic suppliers. Each of these functions supports departments in maintaining a continuous level of knowledge and improving their capability to identify and mitigate risk.

2.6 DBT recently published the Critical Imports and Supply Chains Strategy which sets out actions for government to take with business and international partners to monitor, mitigate, plan, and respond to supply chain shocks. It describes how DBT uses trade data to identify where the UK is over reliant on a country for imports of a good. This data is available for

departments to consider diversification options through DBT's diversification dashboards. Where a potential shock is identified, or when an unanticipated event leads to supply chain disruption, a response model has been developed to cover emergency planning, response, recovery and risk assessment.

3. PAC conclusion: 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).

3. PAC recommendation: 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.

3.1 The government agrees with the Committee's recommendation.

Recommendation implemented

3.2 Guidance documents require Accounting Officers (AOs) to consider commercial risks in their decision-making, including around the financial resilience of suppliers. Individual departments are then responsible for providing their AO advice in line with this guidance.

3.3 The [AO Assessments Guidance](#) sets out four standards when considering projects and proposals. AOs must consider value for money, which includes evaluating risks from third party involvement. The feasibility standard also requires AOs to consider commercial factors.

3.4 [Managing Public Money](#) (MPM) complements the above guidance and sets out responsibility for ensuring an organisation's procurement, projects and processes are systematically evaluated to provide confidence about suitability, effectiveness, prudence, quality, and good value. MPM includes specific expectations on assessing risks and provides links to commercial guidance.

3.5 The Government Commercial Function's '[Sourcing Playbook](#)' sets out a recommended approach to assessing the economic and financial standing of bidders, determining their capacity to deliver as part of the initial selection process. There is a chapter on resolution, providing guidance on monitoring and contingency planning for the failure of suppliers (underpinned by a detailed resolution planning note).

3.6 The [Orange Book](#) provides detailed guidance on risk management, including risks from supplier failure and mitigations to manage this.

3.7 In addition to the above guidance, departments and AOs are supported by professionally qualified finance directors and specialist procurement and commercial teams. MPM requires all draft assessments to be approved by a department's senior finance officer before being submitted to the AO.

4. PAC conclusion: 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.

4. PAC recommendation: 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.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: July 2024

4.2 The [Accounting Officers' \(AO\) Assessments Guidance](#) and [Survival Guide](#) provide advice on AO responsibilities. [Managing Public Money](#) provides complementary information and highlights Cabinet Office guidance.

4.3 The Cabinet Office's Commercial team publishes a range of guidance on identifying and responding to company financial distress. This includes playbooks, e-learning, deep dive training and on-going written guidance.

4.4 HM Treasury's Special Situations team provides central expertise and support for departments when considering bespoke interventions, ensuring they are designed on commercial terms to protect taxpayers' interests and reflect the government's principles for intervention. Departments are also supported by UK Government Investments (UKGI), the government's centre of excellence for corporate finance.

4.5 The Department for Business and Trade's Special Situations team engages across their sector teams and other government departments to respond to economic shocks, signposting others to specialist services across Whitehall.

4.6 While it is departments' responsibility to monitor interventions, HM Treasury will often place conditions on spending approvals that appropriate follow-up work is conducted over the life of an intervention.

4.7 The Second Permanent Secretary of the Treasury regularly writes to departments to draw their attention to the principles and processes for intervention on company cases. This is supplemented by detailed guidance circulated by HM Treasury's Special Situations team.

4.8 The government considers that publication of the National Audit Office's report provides a timely opportunity to further highlight guidance for dealing with distressed companies. HM Treasury will therefore shortly re-issue information across departments and AOs including the NAO's good practice guide.

5. PAC conclusion: The Cabinet Office has not assessed or coherently identified the skills and expertise needed for monitoring and responding to companies in distress.

5. PAC recommendation: 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.**

5.1 The government agrees with the Committee's recommendation.

Target implementation date: April 2025

5.2 The Government Commercial Functional Standard refers to ['Sourcing Playbook' guidance regarding the monitoring of the supplier financial standing](#) and [identifying and responding to financial distress](#). This, together with the work by the Government Finance Function on developing the Risk Management Strategy to strengthen leadership and enhance credibility, collaborate across boundaries and enhance capabilities and drive professionalism precludes the need for setting new functional standards.

5.3 The Government Commercial Function Learning and Development Programmes have a risk-based approach running through all commercial training programmes as well as dedicated sessions with this focus. Both training and guidance documents signpost departments to sources of further support, including sourcing of expertise such as UKGI as outlined in response to recommendation 4, and the Cabinet Office proactively engages with departments to identify gaps in capability with the commercial standards process benchmarking department performance.

5.4 The Government Risk Profession was formally established in 2022. The core principles of the profession's Risk Management Strategy include the need for risk management planning to be central to government planning, policy making, service delivery, monitoring, and reporting activities and that risks are best managed closest to source with professionals and skills embedded in departments at different levels.

5.5 The Cabinet Office Commercial Function will work with the Risk Centre of Excellence in the Government Finance Function, UKGI and HM Treasury's Special Situations Team to look at a more targeted approach to develop the skills required across government for monitoring and responding to companies or suppliers in distress.

6. PAC conclusion: 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.

6. PAC recommendation: 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.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: July 2024

6.2 The government agrees with the Committee on the importance of evaluation. To ensure best practice and learning is applied when considering interventions in different sectors, the centre of government, including UKGI, HM Treasury's Special Situations team and Cabinet Office, acts as a source of expertise to support departments drawing on experiences of previous company distress cases.

6.3 To date, evaluation of company cases has not been formalised. This is an area of potential improvement. HM Treasury will therefore work with the Cabinet Office and UKGI to consider future changes, potentially including placing conditions on departments to report back to the centre.

6.4 It is the responsibility of LGDs to evaluate their interventions, as they are best placed to understand sectors they are responsible for, their departmental objectives and legal obligations. HM Treasury and Cabinet Office will consider how to capture and share cross-cutting issues and whether requirements for departmental evaluation can be further strengthened.

6.5 In addition, government interventions are often scrutinised by Parliament, such as the inquiries on Carillion, Silicon Valley Bank (UK) and Bulb Energy. Departmental Select Committees may also hold hearings or exchange correspondence with departments on bespoke interventions, such as CF Fertilisers and Celsa Steel. This provides further rigorous evaluation.

6.6 As highlighted by their report, the National Audit Office provide further evaluation by regularly scrutinising government's response to company distress cases, from Northern Rock to Bulb Energy. As outlined in response to recommendation 4, HM Treasury will circulate the NAO's recent report and good practice guide to departments.