Thirty-Third Report of Session 2019–21

Department for Business, Energy and Industrial Strategy

Covid-19: Bounce Back Loan Scheme

Introduction from the Committee

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

The loans are delivered through commercial lenders such as banks and building societies. The Scheme expects lenders to approve and pay out the loans within 24 to 48 hours of application. To make the process as fast as possible the Scheme does not require lenders to check the information on the loan application form or to perform credit and affordability checks. Borrowers are expected to repay the loans in full but owing to the absence of these checks government provides lenders a 100% guarantee on the loans: if the borrower does not repay the loan, government will. The loans have a fixed interest rate of 2.5% and a maximum length of ten years; in the first year of the loan there are no capital repayments due, and government pays the interest—making it interest-free for the borrower. As of 15 November, the Scheme had provided over 1.4 million loans to businesses, totalling £42.2 billion. The Scheme will now run until 31 January 2021[1].

Based on a report by the National Audit Office, the Committee took evidence, on 5 December 2020 from the HM Treasury, the department and the Bank. The Committee published its report on 16 December 2020. This is the government response to the Committee's report.

Relevant reports

- NAO report: *Investigation into the Bounce Back Loan Scheme* – Session 2019-21 (HC 860)
- PAC report: *COVID 19: Bounce Back Loan Scheme* – Session 2019-21 (HC 687)

Government responses to the Committee

1: PAC conclusion: *Government was not sufficiently prepared to support micro businesses despite the economic impact of the pandemic being a known risk.*

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

1.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2021

1.2 The British Business Bank (the Bank) works to drive economic growth by making finance markets work better for smaller businesses – wherever they are in the UK and wherever they are on their business journey – enabling them to prosper and grow. As such, the Bank plays an essential role in the context of government's wider support to business, with access to finance being one of the factors in business success. The Bank collaborates with other bodies engaged in business support, including the Devolved

[1] Since the PAC published their report on 16 December, the *Government has extended the Bounce Back Loan Scheme to 31 March 2021*.

Administrations, Local Enterprise Partnerships and Growth Hubs. The government works closely with the Bank to ensure that our access to finance policy reflects the changing needs of UK business and as part of this we keep the Bank's mission under review. Given the gravity of the economic consequences brought about by the coronavirus pandemic, ministers decided to act quickly to put in place government support to help small businesses access the finance they needed. In this case, decisions were necessarily taken in the absence of robust analysis since the rapidly evolving situation meant that there was limited data available. The Bank responded at speed to implement the Bounce Back Loans Scheme (the Scheme), on the instruction of the Department for Business, Energy and Industrial Strategy (the department).

1.3 The government is working with the Bank to explore how to further strengthen responses to future economic downturns and ensure the resilience of support to SMEs of all sizes during a future economic downturn.

2: PAC conclusion: ***The Scheme was implemented with impressive speed but does not strike the right balance between supporting business and protecting the taxpayer.***

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

2.1 The government agrees with the Committee's recommendation.

Recommendation implemented

2.2 The department seeks to use all available data in the design and implementation of its business support schemes to help strike the right balance between protecting the taxpayer and delivering policy objectives.

2.3 The department was unable to conduct a robust value for money assessment ahead of the scheme's launch. Initial analysis indicated that the 100% guarantee, the removal of checks and the reliance on self-certification would create significant risks around fraud and credit losses. The department considered that it was unclear whether the benefits of the scheme would compensate for these issues by ensuring more businesses could access the finance they needed. The then departmental Accounting Officer set out these concerns in *her letter to the then-Secretary of State on 1 May 2020* seeking a ministerial direction to implement the scheme on the grounds of highly uncertain value for money and propriety. Given the seriousness of the economic circumstances faced by businesses as a result of COVID-19, ministers considered it was appropriate to take this step.

2.4 Since the Scheme's launch, the department and the Bank have undertaken a range of analytical work to understand better the impacts of the Scheme and to inform future policy development. This includes designing dashboards to monitor management information and comparing Scheme data with the Inter-Departmental Business Register and Companies House data to provide a more detailed view of the loan book. With external support, the department has also developed a model to estimate the net liquidity needs of small and medium-sized businesses resulting from the pandemic, providing further insights. A comprehensive monitoring and evaluation plan has been developed across all three loan guarantee schemes, and an Invitation to Tender is currently live, seeking to appoint an external contractor to conduct a process, impact and economic evaluation. This will make thorough use of all existing data sources in addition to conducting primary data collection across a range of areas. Analytical work will continue as the availability of data improves.

3: PAC conclusion: ***Shortcomings in the Scheme's design have exposed the taxpayer to potentially significant losses.***

3a: PAC recommendation***: Before launching or renewing a Scheme, HM Treasury should be explicit on the level of losses it is likely to entail and the evidence that this analysis is based on.***

3.1 The government disagrees with the Committee's recommendation.

3.2 Throughout the pandemic, the government's priority has been to act quickly to protect businesses and jobs, whilst using public funds responsibly. As previously set out to the Committee, businesses were in urgent need of rapid financial support and the Scheme was designed to address this need. Ahead of the Scheme's launch, the department looked at a range of data and conducted analysis in an attempt to estimate value for money. However, the degree of uncertainty across a number of parameters was such that it was not possible to make an explicit statement on the relative balance of likely costs and benefits. Given this uncertainty, a direction was sought and provided from the then Secretary of State, who subsequently confirmed an initial contingent liability of £27 billion, as set in a departmental minute laid before Parliament.

3.3 The range of potential losses from the Scheme remains highly uncertain, particularly in the absence of any repayment data (which will not become available until June 2021). The BEIS Annual Report and Accounts 2019-20, published in September 2020, cited estimated losses of 35-60%. This initial indicative range is based on historic losses observed in prior programmes overlaid with a range of assumptions relating to macroeconomic scenarios. Actual losses could be significantly different to estimated losses. More generally, the extent of overall losses will depend to a significant extent on the performance of the UK economy over the next decade.

3.4 The department is working to refine these estimates and will update Parliament as part of its 2020-21 Annual Report and Accounts. In the longer-term, the department is committed to undertaking a full impact assessment as part of its Monitoring and Evaluation Plan which will examine whether or not the Scheme demonstrates value for money.

3b: PAC recommendation: ***For the remainder of this Scheme, and future schemes, HM Treasury must better balance the interests of the taxpayer with the interests of businesses. It should demonstrate that its controls are cost effective and associated judgements reflect the appropriate balance between achieving immediate policy aims and protecting taxpayers' money. It should start by assessing whether full reliance on self-certification is still appropriate.***

3.5 The government agrees with the Committee's recommendation.

Recommendation implemented

3.6 Balancing the interests of the taxpayer with the need to support business has been a key consideration in the implementation of the Scheme. This will continue to be the case for the remainder of the Scheme's operation and for any future support schemes.

3.7 Regarding protections against fraud, all borrowers go through Know Your Customer and Anti-Money Laundering checks. The taxpayer is protected against fraud losses which occur as a direct result of a lender failing to undertake these checks, since in such cases lenders cannot claim on the government guarantee.

3.8 Since the Scheme's introduction, the government has taken a number of steps to safeguard taxpayers' money within the context of the Scheme's design. Working alongside the Bank and lenders, the government has implemented a series of measures to counter fraud. Measures include the implementation of a Credit Industry Fraud Avoidance System (Cifas) solution to prevent duplicate applications and the enlistment of National Investigation Service (NATIS) to pursue the most serious cases of fraud. The government has been clear that it will take criminal action against the most serious cases. The recoveries and collections principles issued to lenders provides further detail on managing cases of suspected fraud.

3.9 Meanwhile, the Pay as you Grow options aim to improve the affordability of loans taken out under the Scheme for those borrowers who are struggling, helping to protect jobs and support the UK's economic recovery.

3.10 Given the ongoing impact of the pandemic and the continued need for businesses to access finance quickly, the government considers that the existing application process for the Scheme – including borrower self-certification – remains appropriate. The government will carefully consider the best approach for any future scheme.

4: PAC conclusion: ***Government's plans for managing risks to the taxpayer—from both fraud and borrowers who are unable to repay loans—are woefully under-developed.***

4a: PAC recommendation*: The Department needs to provide clear updates on how it intends to deal with different cases of fraud, including on how it will prioritise recovery and prosecution.*

4.1 The government disagrees with the Committee's recommendation.

4.2 The government agrees that different types of fraud will require different approaches in terms of recovery and prosecution. The department is working constructively with lenders, other government departments and law enforcement colleagues on its counter fraud approach. However, the government does not intend to make public the detail of its approach to recovery and prosecution in different fraud cases, given this could inadvertently undermine the effectiveness of counter-fraud measures by tipping off criminals. Decisions on individual prosecutions are taken independently of government by the Crown Prosecution Service.

4b: PAC recommendation*: British Business Bank should write to the Committee, within two weeks, with a report on the latest fraud estimates in the existing portfolio.*

4.3. The government agrees with the Committee's recommendation.

Recommendation implemented

4.4 As requested, the Bank *wrote to the Committee in December 2020* regarding the latest fraud estimates in the Scheme's portfolio. It has been agreed with the Committee that the Bank will write with further details as soon as practically possible after the initial fraud sampling exercise has concluded.

5: PAC conclusion: ***HM Treasury has not yet finalised the rules lenders need to follow to ensure overdue loans are repaid.***

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

5.1 The government agrees with the Committee's recommendation.

Recommendation implemented

5.2 The government has worked closely with UK Finance and accredited Scheme lenders to develop a consistent, industry-wide approach to the collection and recovery of the loans. Guidance has now been shared with accredited lenders by the Bank. In addition, the government has engaged with the Financial Conduct Authority and the Prudential Regulation Authority to ensure that the guidance aligns with the relevant regulations.

5.3 As the Committee will appreciate, it would not be appropriate to publish this guidance. To do so would notably risk educating criminals about the approach to the collection and recovery of loans, therefore compromising the processes by which lenders go about recovering funds.

6: PAC conclusion: ***Government has no apparent plans to measure the Scheme's impact, including identifying how many businesses have been unable to access support.***

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

6.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2021

6.2 The department is actively implementing a Monitoring and Evaluation plan across the three current schemes. As part of this, working with the department, the Bank has put out to tender a contract for an independent evaluator to assess the schemes. This will involve a process evaluation, impact evaluation and economic evaluation, publishing an initial assessment by Autumn 2021. As part of the ongoing analysis of current schemes and potential future schemes, the government is analysing the wider lending market, and the role of the government. The department will actively work to ensure SMART objectives are developed upon for any future schemes, with key metrics and performance measures outlined and agreed.