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Lessons from Greensill Capital: accreditation to business support schemes

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Summary

Up to £335 million of taxpayer money is at increased risk following the British Business Bank's [hereafter referred to as the Bank] failure to conduct sufficient due diligence into Greensill Capital UK Limited when it applied to be a lender under the Bank's business support schemes. In response to the COVID-19 pandemic, the government acted quickly to introduce business support schemes, including the Coronavirus Business Interruption Loan Scheme (CBILS) and the Coronavirus Large Business Interruption Loan Scheme (CLBILS). These schemes offered lenders a government-backed 80% guarantee should any of their borrowers default. In order to get money to businesses quickly, the Bank streamlined its lender accreditation process by performing limited due diligence upfront and placing greater reliance on audits after loans had been made. However, by prioritising speed of delivery, relying on a narrow evidence base, and taking information from lenders at face value, the Bank has created additional risks for the taxpayer. In the case of Greensill, the Bank was insufficiently curious about media reports questioning Greensill's lending model, its over-exposure to borrowers, and ethical standards until problems were clear and hundreds of millions of taxpayers' money left exposed.

A lack of information-sharing across government has once again hampered sound decision-making in government's response to the pandemic and allowed Greensill access to taxpayer-funded schemes. The decision to accredit Greensill enabled it to make £418.5 million of loans to companies under the schemes. The Department for Business, Energy & Industrial Strategy showed considerable interest in Greensill's accreditation, contacting the Bank on numerous occasions. The Bank conducted a review to examine whether third parties unduly influenced its decision to accredit Greensill, concluding that its independence was not compromised. We are therefore concerned that the Bank was "very surprised" when it noticed Greensill had issued seven loans totalling £350 million to borrowers within the Gupta Family Group (GFG) Alliance, appearing to contravene the £50 million lending limit to groups. The Bank launched an investigation into Greensill's compliance with the scheme rules five months before it entered administration but more than a year later this is still ongoing, with no end date in sight.

Government has not yet identified the broader lessons it will take from its accreditation of Greensill or from its COVID-19 business support schemes. As we have repeatedly observed, it will be essential that these lessons are identified, and measures put in place to improve both its ability to respond to emergencies and its business-as-usual service delivery.

Introduction

In Spring 2020, HM Treasury (the Treasury), the Department for Business, Energy & Industrial Strategy (the Department) and the British Business Bank (the Bank) developed several business support schemes to help businesses facing economic challenges as a result of the COVID-19 pandemic. These included the Coronavirus Business Interruption Loan Scheme (CBILS), which supported small and medium-sized businesses with a turnover up to £45 million, and the Coronavirus Large Business Interruption Loan Scheme (CLBILS), which was developed subsequently to support larger businesses with a turnover above £45 million. The loans provided to businesses under the schemes were delivered through commercial lenders such as banks and building societies. The Bank, acting as scheme administrator on behalf of the Department, was responsible for accrediting lenders. Under CBILS, lenders could provide loans up to £5 million; whereas CLBILS offered loans up to £50 million, or up to £200 million for lenders with additional accreditation. These loans attract an 80% guarantee: if the borrower does not repay the loan, Government steps in and repays the lender 80% of the loan's value. In short, the Department and the Bank did not strike the correct balance between managing decisions quickly and protecting taxpayers interests.

Greensill Capital UK Limited (Greensill), a non-bank lender that entered administration on 8 March 2021, was an accredited lender under both schemes. During the accreditation of Greensill, the Department made several enquiries of the Bank, requesting updates on the status of Greensill's application owing to its relationship with the steel industry via financially struggling Liberty Steel, a part of the Gupta Family Group (GFG) Alliance. In October 2020, the Bank launched an investigation into Greensill's compliance with the CLBILS scheme rules. Greensill lent its maximum allocation of £400 million under CLBILS and £18.5 million under CBILS. The Bank was concerned that Greensill had issued seven CLBILS loans totalling £350 million to companies within the GFG Alliance, six of which were issued on the same day in September, appearing to flagrantly contravene the scheme's £50 million lending cap to groups. The Bank subsequently suspended the government loan guarantees while the investigation is on-going. In the meantime, the government is not obliged to pay Greensill in the event of borrower default. However, if the guarantee is reinstated and the borrowers default on Greensill's loans, the government will be exposed to a maximum liability of £335 million.

Conclusions and recommendations

1. **Government's failure to effectively share intelligence on companies approaching it for support, such as Greensill, puts taxpayer money at increased risk.** In early 2020, Greensill approached a number of government departments for business support. Greensill approached the Treasury and the Bank of England to apply for access to the Covid Corporate Finance Facility and was rejected as it was not eligible for that scheme. Greensill also approached UK Export Finance (UKEF) seeking a £500 million loan through its own lender supported by an Export Development Guarantee. UKEF rejected the proposal as it was not in line with the policy intent of the product, however its due diligence also identified issues in the media that raised concerns about Greensill. We are concerned that Greensill was able to approach different parts of government, with decision-makers arriving at conclusions in isolation and without engaging with officials in other departments. For example, the Treasury shared information with the Department about concerns raised with the National Crime Agency about Wyelands Bank, a part of the GFG Alliance. The Treasury and the Department did not share this information with the Bank, as they deemed it not to be relevant to the accreditation process despite Greensill being a significant financier to the GFG Alliance. It is important that the Treasury and the Department strikes a balance between managing commercial and legal sensitivities and having sufficient relevant information to protect the public interest.

   Recommendation: ***Alongside its Treasury Minute response, the Department should write to the Committee by the end of the year setting out what steps it will take to encourage the sharing of information on companies across government, appropriately balancing commercial and legal sensitivities with the public interest.***

2. **The Department and the Bank struck the wrong balance between making decisions quickly and protecting taxpayer interests.** We have previously found that the need to work at speed in responding to the pandemic has in some instances resulted in increased risk and potentially exposed the taxpayer to huge losses. The Bank's approach to assurance consists of: the initial accreditation of lenders; post-lending assurance; and legal and contractual protections within the scheme guarantee agreement. The Bank's decision to follow a streamlined accreditation process when assessing Greensill's application—as with other non-bank lenders—placed greater reliance on post-lending audits and legal protections rather than performing detailed upfront due diligence. The Bank asserts that it adopted a tiered approach to accreditation, which differentiated between regulated banks and non-bank lenders. For example, regulated banks and lenders with which the Bank had an existing relationship underwent an accelerated process. The Bank accepts that delivering at speed has exposed it to risk, but it considers the interests of the taxpayer to be very well protected through its contractual arrangements with each lender. While the Bank has legal protection in preventing a guarantee being called if it believes scheme rules have not been followed, this is by no means a certain outcome—Greensill's administrators have stated their belief that Greensill is compliant with the scheme rules. With more time and due diligence, the Bank might have reached a different decision on Greensill's accreditation.

Recommendation: ***The Bank should write to the Committee by the end of the year setting out how it will better balance between speed of delivery and value for money in future and what trade-offs it is prepared to accept. The response should detail how the Bank will identify these trade-offs early, perform scenario analysis of potential outcomes and take a risk-based approach to its accreditation decisions.***

3. **The Bank's approach to due diligence in accrediting Greensill was woefully inadequate.** The Bank took comfort in Greensill having raised significant funding from global investors and its activities in managing billions of pounds in lending. In doing so, the Bank has placed too much reliance on the work of others in accrediting Greensill, including Greensill's auditors, whose work is currently being investigated by the Financial Reporting Council. The Bank has accepted much of the information provided by Greensill in its application at face value, including its statements of who Greensill would lend to. It seems clear that had the Bank been more curious and sceptical in its accreditation process, Greensill's application would have raised many more questions. Greensill's default rates and exposure to key clients have both been the subject of press reports prior to, and during, Greensill's accreditation, yet the Bank did not cast its net widely enough in gathering evidence on Greensill. For example, the Bank did not make enquiries of the companies Greensill proposed to lend to under CLBILS. The Bank also did not explore what other government departments and regulators knew about Greensill – including those who were also assessing it for access to other schemes. Neither did it make any enquiries of Greensill's credit insurers. While there was no proven fraud at the point of accreditation, several parties subsequently raised concerns about Greensill. Ultimately, the Bank's inadequate due diligence has put public money at risk.

Recommendation: ***The Bank should, by the end of February 2022, review its accreditation process, particularly for non-bank lenders and write to us with the results. The review should include the Bank's approach to:***

- ***The principles applied to streamlining an accreditation process, and how post-accreditation checks seek to deal with any risks that arise as a result;***
- ***challenging and verifying information lenders provide regarding who they plan to lend to, and whether their plans raise any red flags;***
- ***alternative evidence sources, including information held by other government bodies such as the Financial Conduct Authority, the Prudential Regulation Authority, and departments; and***
- ***revisiting accreditation decisions in the event of material changes to a lender's or recipients circumstances with the option to revoke guarantees.***

4. **The Bank has been insufficiently curious when identifying where money lent through the schemes, including by Greensill, has ultimately gone.** Companies have borrowed around £30 billion under CBILS and CLBILS. The schemes' rules require these funds be used to support business activity in the UK. However, the Bank does not track where the money it has lent as part of the schemes has gone and cannot guarantee the money has not been offshored. The Bank is unable to confirm how the £350 million Greensill loaned to GFG Alliance companies was used, or in

which country the money was spent. The Bank believes the money has gone into a 'central treasury function' within the GFG Alliance, although it does not know where this is based. The Bank is relying on the work of Greensill's administrators to identify where the loans have gone and, by extension, where the taxpayers' exposure potentially lies. The Bank has published summary data showing the geographical split of where some of the money issued through its COVID-19 loan schemes has gone. However, this did not include regional and sectoral data for CLBILS owing to data protection and commercial considerations. Without knowing where the money has gone it will be impossible to say whether the objectives of the schemes to support UK businesses has been fully met, or whether taxpayers may be exposed to risks in the future.

Recommendation: ***As a matter of urgency, the Bank should inform the Committee how it ensures that money lent under CBILS and CLBILS supports businesses in the UK and the British economy, how it monitors this in practice, and what action it would take if it discovered funds lent under these schemes have been offshored.***

5. **We are concerned that the Bank's investigation into Greensill has progressed much more slowly than we would expect given the seriousness of the potential breach.** The Bank launched an investigation into Greensill on 12 October 2020, 10 days after discovering Greensill had issued seven CLBILS loans, totalling £350 million, to companies associated with the GFG Alliance. The Bank accepts that it was very surprised by these loans because the scheme rules prohibit lending to groups above £50 million. This is despite press reports in the run up to September 2020 questioning the relationship between Greensill and the GFG Alliance, culminating in the German regulator, BaFin, raising similar concerns. The Bank told us that it had explicitly communicated the group lending rules to Greensill, explaining that the lending limit would be £50 million for the whole group, not per subsidiary.[1] In October 2020 the Bank instructed Ernst & Young (EY) to examine all eight of Greensill's CLBILS loans. This work was completed by March 2021 with the Bank provisionally concluding that Greensill was in breach of the scheme rules. The Bank informed Greensill of its provisional findings and that it was suspending the government guarantee for these loans on 2 March 2021, five months after the loans were made. While the Bank initially acted quickly when it suspected Greensill had breached the scheme rules, the investigation is still ongoing, over a year later. The Department and the Bank assert that there is no real benefit in rushing this process in order to ensure they could not be challenged on any of the steps that were taken. Until this investigation concludes, uncertainty over the risk to taxpayer's money remains, with the ultimate decision on whether Greensill breached the rules likely to be made in the courts.

Recommendation: ***The Bank should complete its investigation as soon as possible and inform the Committee, as a matter of urgency, when it expects to do so. It should write to the Committee as soon as the investigation has concluded with the outcome it has reached and how it will apply any lessons learned. We expect the lessons learned to include, but not be limited to:***

- ***how better sharing of information between public bodies can be achieved;***

1 Qq 75, 77–78, 90, 133, 136

- ***the correct balance between pre-accreditation checks, and post-accreditation audits; and***
- ***whether warning signs that lenders are under financial pressure – such as downgrades in credit ratings – amount to a notifiable event that should result in the Bank re-considering past accreditation decisions.***

6. **The Department's enquiries of the Bank during Greensill's accreditation created a damaging perception of interference, though the Bank asserts that this did not affect its judgement.** The Department had eight email exchanges with the Bank between April and September 2020 requesting updates on Greensill's accreditation to CLBILS and whether it would be allowed to lend up to £200 million. The Department's interest in Greensill's accreditation was based on the potential for the scheme to support Liberty Steel, part of the GFG Alliance and a major Greensill customer. The Bank describes this level of interest as "unusual". Furthermore, when challenged on its lending to the GFG Alliance, Greensill told the Bank that it had received "political steers" that its support for the steel industry was welcome. The Department is unable to explain the source of this perceived support and has confirmed with all its ministers that no political cover for Greensill has been provided. On 30 April 2021, the Bank launched an internal review to assess whether third parties sought to influence it during the accreditation of Greensill and, if so, the outcome of that influence. The purpose of the review was to find out whether anybody attempted to exert influence over the Bank, not just whether these attempts were successful or not. The Bank's review has concluded that its independence was not compromised.

   Recommendation: ***Alongside its Treasury Minute response, the Department should write to the Committee within three months setting out the principles it will apply to future correspondence with the Bank on matters for which the Bank is operationally independent, to minimise any future perception of influence.***

   The Treasury should, jointly with the Cabinet Office, set out cross-government principles to create a more routine and transparent way of sponsoring bodies making enquiries of its arms-length bodies.

7. **Government has not yet identified the lessons it will take from its accreditation of Greensill or from its COVID-19 business support schemes.** Our work over the last 18 months has shown that the scale and nature of the COVID-19 pandemic and the government response are unprecedented in recent history and there is much that government can learn to improve both its ability to respond to emergencies and its business-as-usual service delivery. The Bank's accreditation of Greensill has highlighted wider lessons about Government's response to the pandemic, including the need to balance delivering at speed with managing risk, which we have previously reported on. The Bank intends to evaluate its COVID-19 business support schemes to determine whether there are lessons it can learn. It accepts that discussions with international counterparts that have been delivering similar schemes, such as development banks, would be a fruitful theme. The Treasury and the Department similarly intend to review the results of the various inquiries on Greensill's interaction with Government before drawing any conclusions. However, Government is yet to set out its plans for identifying and applying the lessons in order

to prevent another situation like Greensill from occurring and improve its ability to respond to future emergencies and economic shocks. We are concerned that if Government does not swiftly formalise this lessons-learned exercise, or conduct it soon enough, it risks losing institutional memory and the necessary lessons will not be learned.

Recommendation: ***The Treasury, the Department and the Bank should jointly work to identify the lessons that need to be learned from its COVID-19 business support schemes and Greensill's accreditation in particular. By July 2022 they should publish a full lessons-learned report on these schemes, outlining how each lesson will be implemented. This will enable it to be better prepared for any future economic shock.***

1 Accreditation to business support schemes

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, Energy & Industrial Strategy (the Department), and the British Business Bank (the Bank) about the involvement of Greensill Capital UK Limited (Greensill) in COVID-19 business support schemes.[2]

2. Between March and May 2020, the government launched a number of schemes to support businesses impacted by the COVID-19 pandemic. These included the Coronavirus Business Interruption Loan Scheme (CBILS), aimed at helping small and medium-sized businesses with a turnover up to £45 million, and the Coronavirus Large Business Interruption Loan Scheme (CLBILS), designed to support larger businesses with a turnover above £45 million. The Treasury developed these two schemes in conjunction with the Department and the Bank. The Bank, which is fully owned by the Department, is responsible for the implementation and ongoing administration of the schemes, in consultation with the Treasury and the Department.[3]

3. Commercial lenders could participate in the schemes after undergoing an accreditation process run by the Bank. The accreditation process assessed each prospective lender against the Banks seven eligibility criteria, ranging from lending track record to regulatory status. Participating lenders then provided loans to eligible borrowers, with government guaranteeing up to 80% of the loans in the event of default. Since these schemes were launched, lenders have provided a total of £29.1 billion in loans—£24.3 billion under CBILS and £4.8 billion under CLBILS.[4]

4. Greensill, a financial firm specialising in 'supply chain finance', was an accredited lender under both CBILS and CLBILS. It made eight loans totalling £400 million under CLBILS and four loans totalling £18.5 million under CBILS. On 8 March 2021, Greensill entered administration having "fallen into severe financial distress".[5]

The Bank's accreditation process

5. The Bank delivers its business support schemes through a network of delivery partners—commercial lenders such as banks and building societies, which need to complete an accreditation process before participating in each scheme. The Bank told us that it protects taxpayer money via its assurance framework which it described as having three elements: the initial accreditation of lenders; post-lending assurance; and legal and contractual protections. These legal protections are put in place through a guarantee agreement between the lender and the Secretary of State for Business, Energy and Industrial Strategy. This agreement outlines the terms of the government guarantee

2 C&AG's Report, *Investigation into the British Business Bank's accreditation of Greensill Capital*, Session 2021–22, HC 301, 7 July 2021

3 C&AG Report, paras 2–3, 1.2

4 C&AG's Report, paras 2, 2.2, Figure 1, Figure 4

5 C&AG's Report, para 4

as well as the rules each lender must follow when making loans under the schemes. The Bank told us that the guarantee agreement ensured taxpayer interests were "very well protected".[6]

6. In order to respond quickly to the financial challenges businesses faced as a result of the COVID-19 pandemic, the Bank, alongside the Treasury and the Department, developed both CBILS and CLBILS in a matter of weeks.[7] The Bank told us it received specific instruction from the Department's ministers to "move forward at pace to get money into the economy".[8] In our 2020 report on the *Bounce Back Loan Scheme*, part of our inquiry into government's response to the COVID-19 pandemic, we concluded that implementing support schemes at speed had exposed the taxpayer to potentially significant losses. We also found that plans for managing risks to the taxpayers from fraud and borrowers who were unable to repay loans were woefully under-developed. We recommended that the Department should use all available data when implementing new business support schemes in order to minimise taxpayer risk. We also recommended that the Treasury needed to better balance the interests of the taxpayer with the interests of businesses.[9]

7. The Bank acknowledged that delivering CBILS and CLBILS at speed had exposed the taxpayer to "certain risks", but considered the interests of the taxpayer to be very well protected through its contractual arrangements with each lender set out in the guarantee agreement.[10] To deliver at pace, the Bank streamlined its accreditation approach, conducting less upfront due diligence during the initial accreditation stage and placing greater reliance on post accreditation audits and the legal protections. The Bank explained that to get CBILS and CLBILS up and running as quickly as possible, it adopted the accreditation process from an existing business support scheme which it had used for over 10 years.[11] After CBILS and CLBILS were launched, demand for accreditation was high. The Bank told us that it received over 200 applications, around half of which resulted in organisations being accredited.[12] The Bank told us that it introduced a tiered approach, with three levels of accreditation. This included an "accelerated process" for institutions that the Prudential Regulation Authority (PRA) regulates, or lenders with a pre-existing relationship with the Bank, where lenders were required to submit only a shortened application. It explained that all other lenders underwent the "standard process" which it asserted was "thorough and detailed". While lending under CLBILS was capped at £50 million per borrower, lenders that wanted to lend up to £200 million could undergo the Bank's "enhanced accreditation process". However, it noted that Greensill was ineligible for this as it was not a regulated bank.[13]

Due diligence conducted on Greensill's application

8. The Bank accredited Greensill to lend under both CBILS and CLBILS. As Greensill was not PRA regulated nor did it have a pre-existing relationship with the Bank, it was initially

6 Qq 17, 19; C&AG's Report para 2, 2.4
7 C&AG's Report, para 2.6, Figure 9
8 Q 14
9 Committee of Public Accounts, *Covid-19: Bounce Back Loan Scheme*, 33rd Report of Session 2019–21, HC 687, December 2020
10 Q 19
11 Q 18; C&AG's Report, para 10
12 Q 29; C&AG's Report, para 2.6
13 Q 29, C&AG's Report, paras 2.2, 2.6

subjected to the Bank's standard accreditation process, with subsequent applications completed through the accelerated process. The Bank undertook limited due diligence on Greensill's application—as with other non-bank lenders—accepting key information at face value. The Bank did carry out some cross-referencing of Greensill's application with its 2018 audited accounts, but important figures, such as Greensill's stated £120 billion of financing in 2019, could not be verified using publicly available information. The Bank told the NAO that the purpose of its due diligence was not to conduct a detailed assessment of Greensill's financial position, but to confirm that lenders could reliably deliver money to borrowers, in line with government's objectives for the scheme.[14] We therefore asked the Bank what it had done to satisfy itself that the information provided by Greensill was accurate. The Bank told us that it "would imagine" this £120 billion figure was accurate, adding that while there was no single source to verify it, there was "plenty of evidence" that Greensill had "run very significant debt investment programmes for significant global investors across the world".[15] It explained that while it did not have a commercial relationship with Greensill prior to CBILS and CLBILS, it was aware of the organisation and "knew them as a leading player in the UK finance market" and "had observed their work in the capital markets".[16]

9. We asked the Bank how much weight it had placed on the work of others, such as Greensill's auditors, Saffery Champness, in its decision to accredit Greensill. The Bank told us that the auditor's opinion about the financial health of Greensill was considered as part of the accreditation process and that it placed reliance on the audited accounts.[17] In June 2021, it was reported that the Financial Reporting Council was investigating Saffery Champness in relation to its audit of Greensill's financial statements for the year ended 31 December 2019.[18] We asked whether, in hindsight, the Bank should have been more sceptical in relying on assurances from Saffery Champness. The Bank told us that it considered it was "within our rights to rely on that audit" but recognised that, with a more sceptical approach, it might have come to a different outcome.[19] We also asked the Bank whether it challenged Greensill on who it planned to lend to under CLBILS. The Bank confirmed that while it would not perform a credit assessment of the underlying borrowers as part of the accreditation process, it did discuss Greensill's lending pipeline, which "appeared an appropriate pipeline".[20] However, prior to its initial accreditation, the Bank did not request the names of the individual borrowers Greensill planned to lend to. In its letter to us after our evidence session, the Bank told us that it subsequently requested this information but did not perform any due diligence on Greensill's potential borrowers. The Bank also explained that this was the responsibility of Greensill.[21]

10. We asked the Bank why it had accredited Greensill despite several press reports highlighting it had a string of its clients default on their debt, potentially damaging Greensill. The Bank told us that it discussed the losses with Greensill and their potential impact on its financial position, which had provided "what appeared to be a plausible answer".[22] It explained that other lenders had also taken similar losses on the same

14 C&AG's Report, paras 11, 1.13, 2.15
15 Q 33
16 Q 33
17 Qq 93–94
18 Qq 95, 121–122
19 Q 95
20 Q 39
21 Letter from the Chief Executive of the British Business Bank to the Chair, 7 September 2021
22 Q 88

company, so it did not feel like a Greensill-specific issue. The Bank further explained that these defaults related to problems with the underlying borrowers rather than a systemic issue with Greensill making wrong lending decisions.[23] We also questioned the Bank on the risks that the German Regulator, BaFin, raised regarding Greensill's exposure to companies within the GFG Alliance—a concern that was also raised in several press reports prior to September 2020.[24] The Bank told us that the Treasury had made it aware that there were growing regulatory concerns by November or December 2020, but this was "perhaps a little late" as Greensill had made its CLBILS loans by the end of September 2020.[25] The Bank also confirmed that it had been unaware that Greensill's insurance provider, Tokio Marine, were investigating Greensill.[26] We asked the Bank whether looking back with hindsight, it would have done anything differently. The Bank told us it did not think that it had missed anything based on the information available at the time Greensill was accredited, while acknowledging that "with more time and a different process" it might have uncovered something different.[27]

The Department's interest in Greensill's accreditation

11. The NAO found that the Bank treated Greensill's application like other similar applicants, but that the Department was particularly interested in Greensill's accreditation. The Bank applied the same accreditation and due diligence process to Greensill as it did to the two other non-bank lenders that it considered. Between April and September 2020, the Department had eight email exchanges with the Bank requesting updates on the status of Greensill's accreditation, and whether it might be accredited to lend up to £200 million per borrower.[28] The Department told us that these emails were "not putting pressure" on the Bank to accredit Greensill but rather asking the Bank "when it will accredit or not accredit Greensill".[29] The Department explained that these emails took place between "relatively low level" officials rather than ministers or senior civil servants.[30]

12. The Department told us that it had requested updates on when a decision would be made about accrediting Greensill so that it could decide whether it needed to create a "separate bespoke solution … [if] the process was ultimately going to end in a no".[31] It explained that its interest was because Greensill was a major financier to Liberty Steel which is part of the GFG Alliance and the UK's third-largest steel manufacturer.[32] The Department told us that its steel team was having "very active live discussions" with Liberty Steel, together with a whole range of other steel companies, as Liberty Steel was experiencing financial difficulties caused by the COVID-19 pandemic. The Department explained that it was working out "what the different paths might be to provide Government support to those companies", and that if the Bank was to accredit Greensill, the Department would not need to run a separate process to develop bespoke support, as Liberty Steel could access loans via CLBILS.[33]

23 Qq 15, 88
24 C&AG's Report, Figure 13
25 Q 45
26 Q41
27 Q 18
28 C&AG's Report, para 12
29 Qq 20–21
30 Qq 24, 70
31 Q 21
32 C&AG's Report, para 8
33 Q 20

13. The NAO found that, when challenged on its loans to borrowers within the GFG Alliance group, Greensill told the Bank that it had received "political steers" that its support for the steel industry was welcomed.[34] We asked the Department what Greensill had meant by receiving political steers. The Department told us it did not know, and that it had not been able to find evidence that any minister in the Department had provided "any level of political cover for Greensill's actions under the scheme".[35] It explained that it had explicitly asked all its ministers whether any level of political cover had been provided to Greensill. It noted that ministers were keen to see the steel industry supported, and so the principle that there were lenders that would use the schemes to make money available to the steel industry had political and official level support. But it told us that there was "absolutely no evidence" that any assurance had been given around the idea that any lender would abuse scheme rules in order to do so.[36]

14. We asked the Bank whether it considered the Department's questions about Greensill's accreditation as the Department encouraging the approval of Greensill's application. The Bank told us that it had considered the level of interest from the Department as "unusual", but that it considered it "understandable that the Department in charge of looking after business would ask how various things were progressing".[37] It explained that it wanted to make sure that its processes had not been "interfered with" and while this was "unlikely", it was something the Bank wanted to test.[38] On 30 April 2021, the Bank launched an internal review to test if there had been any external influence that had impacted its decision to accredit Greensill, and whether its independence had been undermined. The Bank told us that the review had found no attempts to undermine the Bank's independence and while the level of interest from the Department was "unusual", it "was very confident that it did not have an impact" on its decision to accredit Greensill.[39] The purpose of the review was to find out whether anyone attempted to exert influence over the Bank, not just whether any attempts were successful or not. The Bank told us the review concluded that there were not attempts to undermine its independence.[40]

Other parts of government Greensill applied to for support

15. In early 2020, Greensill approached a number of government departments seeking involvement in various business support schemes.[41] Greensill approached the Treasury and the Bank of England to access the Covid Corporate Finance Facility (CCFF) and was rejected as it was ineligible.[42] The Treasury Select Committee covered Greensill's application to the CCFF in detail in its report published in July 2021.[43] Greensill also approached UK Export Finance (UKEF) through a lender, seeking a £500 million loan supported by an Export Development Guarantee. UKEF began discussions with Greensill in late March 2020 and rejected this application in June 2020. UKEF also rejected a revised application to the same scheme in September 2020. UKEF rejected Greensill's application as it did

34 C&AG's Report, para 3.9
35 Q 69
36 Q 69
37 Qq 20, 71–72
38 Q 22
39 Qq 22–24, 110; C&AG's Report, para 2.27
40 Qq 100, 10–112; C&AG's Report, para 2.27
41 C&AG's Report, para 1.14–1.15
42 Treasury Select Committee, *Lessons from Greensill Capital: correspondence*, May 2021
43 Treasury Select Committee, *Lessons from Greensill Capital*, Sixth Report of Session 2021–22, HC 151, July 2021

not feel it was sufficiently aligned with the policy intent of the guarantee. Furthermore, UKEF's due diligence had identified media reports highlighting concerns relating to Greensill; including its governance and the level of exposure to some of its customers.[44]

16. We were concerned that Greensill had approached various parts of government looking for financial support, with different decision-makers arriving at conclusions in isolation and without engaging with officials in other departments. For example, the Bank told us that it was not in touch with UKEF during its accreditation of Greensill, but that it had "looked at … and questioned" the same media reports that UKEF had identified during its due diligence.[45] The Bank told us the fact that it and UKEF reached different conclusions from the same media reports reflected the different eligibility criteria of the two schemes.[46] The Treasury explained that because each of the business support schemes that Greensill applied to were designed with "different objectives in mind and with different rules" and eligibility criteria, it was not surprised that different conclusions were reached.[47]

17. In May 2020, the Bank of England shared information with the Treasury that it had raised concerns with the National Crime Agency about Wyelands Bank. Wyelands Bank is a part of the GFG Alliance which was a significant Greensill client.[48] The Treasury told us that information about a possible criminal investigation was "among the most tightly restricted information" in order to avoid compromising an ongoing investigation and that it was unable to share this information. It asserted that, as the information was about Wyelands bank, not Greensill, and that the former was not applying to the Bank for accreditation, it considered this "a completely separate entity and a separate exercise".[49] It explained that the Bank of England wrote to it on 15 May 2020 with "more detailed, specific information" and that it had subsequently shared this information with the Department on 19 May 2020 as it knew that the Department was in discussion with Liberty Steel, another part of the GFG Alliance, regarding a request for direct government support, and it judged that the information was relevant to those discussions.[50] However, this information was not shared with the Bank, as both the Treasury and the Department deemed it not relevant to the accreditation of Greensill. The Treasury explained that it treats sensitive information about companies carefully, in order to avoid adverse impact from its inadvertent disclosure.[51] We noted that the sharing of information is a critical part of protecting taxpayers' money. We therefore asked the Treasury if, given the legislation covering the sharing of information, there was any information that it could have shared that would have been helpful to the Bank or elsewhere in government. The Treasury told us it believed that it had shared all the information it should have.[52]

44 C&AG's Report, para 1.15
45 Q 139
46 Q 139
47 Q 1
48 Q 3, Treasury Committee, *Lessons from Greensill Capital*, Sixth Report of Session 2021–22, HC 151, 14 July 2021
49 Q 3
50 Q 4
51 Qq 3–4
52 Qq 2, 12

2 Lending under business support schemes

Greensill's lending and the Bank's investigation

18. Greensill lent a total of £418.5 million under the government's COVID-19 business support schemes between July and October 2020. Of this, Greensill lent £400 million under CLBILS, the maximum amount it was authorised to lend, through eight loans of £50 million. This made Greensill the fifth largest lender under this scheme. Under CBILS, Greensill made four loans worth £18.5 million.[53]

19. On 12 October 2020, the Bank launched an investigation into Greensill's compliance with the CLBILS scheme rules. This was 10 days after the Bank first noticed that Greensill had made six CLBILS loans on 30 September to companies associated with the GFG Alliance; in addition to a loan made in July to SIMEC International (UK) Limited, another GFG Alliance company.[54] The Bank told us that it was "very surprised" when it realised that £350 million of Greensill's £400 million lending allocation had gone to GFG Alliance companies, as the Bank had set the limit for group lending at £50 million. Moreover, the Bank told us that it had explicitly communicated the group lending rules to Greensill, using British Steel as an example to explain that the lending limit would be £50 million for the whole group, not per subsidiary.[55]

20. The Bank told us that it had acted immediately to protect the taxpayers' position by preventing Greensill from making any further loans under the schemes.[56] The Bank engaged Ernst & Young (EY) between October 2020 and March 2021 to examine all eight of Greensill's CLBILS loans.[57] The Bank explained that its investigation considered both Greensill's compliance with the scheme rules around lending to groups and more broadly "whether they were a prudent lender, whether they had fulfilled the standard of care, whether they had acted in good faith and whether they had brought the scheme into disrepute". Following EY's report, the Bank provisionally concluded that Greensill was in breach of the scheme rules. The Bank informed Greensill of its decision on 2 March 2021 via a 'Letter of Concern'.[58]

21. In the Letter of Concern, the Bank outlined what it considered to be breaches of the guarantee agreement. In the Letter, the Bank also suspended the guarantee while the investigation was ongoing and invited representations from Greensill.[59] We asked the Bank why it had taken so long between initiating the investigation in October 2020 and issuing the first Letter of Concern in March 2021. In response, the Bank said that it was a "very complex situation" and that it wanted to ensure it "followed the process properly" before putting forward its concerns formally. The Bank acknowledged that it was possible it could have issued the Letter of Concern sooner, but it thought this was "probably unadvisable".[60] The Bank and the Department told us that they felt there was "no real

53 C&AG's Report, paras 13, 3.4, figure 8
54 C&AG's Report, paras 3.5, 3.9
55 Qq 75, 77–78, 90, 133, 136
56 Q 47
57 C&AG's Report, para 3.9
58 Q 49
59 C&AG's Report, para 3.10
60 Qq 46–47

benefit from rushing the process" as they wanted to be sure the decision to suspend the guarantee would not be challenged.[61] Greensill's administrators have indicated that their view is that the loans were compliant with the scheme rules, including those relating to group lending, and any decision to revoke the guarantee would constitute a breach of the guarantee agreement and Greensill would reserve the right to seek damages.[62]

22. The Bank confirmed that the investigation was still ongoing as it was awaiting a formal response from Greensill's joint administrators. The Bank explained that it had agreed to extend the deadline for Greensill's response to August 2021 because it wanted to receive a "fulsome answer" to its detailed set of concerns.[63] When asked why Greensill appeared to have a completely different interpretation of the scheme rules, the Bank told us that "there is always scope for a lawyer to interpret different rules and different definitions differently".[64] While the investigation is ongoing, the guarantee remains suspended until a decision is reached.[65] We asked when the Bank envisaged being able to make a final decision about the suspension of the guarantee. The Bank told us that it would not be in a position to answer this until it had received a response from Greensill's administrators, and did not provide a timeframe for how long it thought this might take.[66] The Department told us that if a future call on the guarantee was made following a default from any of Greensill's borrowers, it was important that government was clear on its rationale for suspending the guarantee. It noted that the decision on whether Greensill breached the scheme rules would ultimately be decided in a court of law.[67]

Lending under CLBILS and the use of funds

23. In total, under CBILS and CLBILS, lenders have issued more than 110,000 loans worth around £30 billion.[68] Part of the eligibility criteria for receiving a loan included borrowers having its business activity based in the UK.[69] The Treasury, which was responsible for developing the COVID-19 business support schemes alongside the Department, told us that the purpose of the schemes was to "support British businesses and British jobs". It explained that it had a "central focus on ensuring these support schemes were to the benefit of the UK economy".[70]

24. To understand how the Bank ensures that these schemes support UK businesses, we asked about the barriers that were in place for preventing the offshoring of the taxpayer-guaranteed loans. The Bank responded that a requirement of the scheme was that "the economic benefit needs to go to the company—a single individual borrower". We asked the Treasury and the Bank how they could be sure that all the money from the schemes remained onshore in the UK. The Bank told us that "tracking the money is a very relevant thing that we will be looking at over time and have looked at" but provided no further details on how this took place in practice other than referring to the eligibility criteria

61 Qq 52–53, 160
62 C&AG's Report, para 3.11
63 Qq 54, 56
64 Q 104
65 Q 85; C&AG's Report, para 3.15
66 Qq 157–160
67 Q 79, 82, 85
68 C&AG's Report, Figure 1
69 Press Release – April 1, 2020 – British Business Bank (british-business-bank.co.uk) Q3: 'How do I know if I am eligible to apply?'; CLBILS FAQs – April 16, 2020 – British Business Bank (british-business-bank.co.uk) Q: 'What sectors can access the scheme?'
70 Q 149

for the schemes. The Bank emphasised that it had released summary data for its loan schemes, showing the regional distribution across the UK.[71] The Bank had not published equivalent data for CLBILS owing to data protection and commercial considerations.[72]

25. We asked the Treasury and the Bank whether they had undertaken any analysis of how the £350 million loaned to GFG Alliance companies was used, or in which country the money was spent. The Bank told us it was aware that the loans were transferred to a "central treasury function within the GFG Alliance," but it did not know where this was based. The Bank noted that it "would imagine that the whole tracking of that money through the administration would be something being looked at" but provided no further details.[73] The Bank suggested that, if the money had left the UK, this could be a relevant factor in whether the guarantee holds as this may constitute a breach of the scheme rules.[74] We asked the Bank whether, at any point, it considered that Greensill might have acted fraudulently. The Bank told us there was not proven fraud at the time Greensill was accredited, although several parties raised concerns later in 2020.[75] It confirmed that it was "absolutely looking" into its fraud protocols to determine whether it needed to make any changes before lending money to business in the future.[76]

Learning lessons from Greensill's failure

26. Our work on the government's response to the COVID-19 pandemic has demonstrated that there are important lessons to be learnt to improve government's ability to respond to future emergencies and its business-as-usual service delivery. In 2021, as part of our *Initial lessons from the government's response to the COVID-19 pandemic* inquiry, we highlighted the importance of being clear about risk appetite and risk tolerance, particularly as government was having to make decisions quickly at the start of the pandemic.[77] Similarly, in our 2020 report *COVID-19: Bounce Back Loan Scheme* we found that the Treasury, the Bank and the Department prioritised delivery speed over all other aspects of value for money, exposing the taxpayer to potentially huge losses.[78] The NAO report on the Bank's accreditation of Greensill Capital found that in response to the policy need to deliver money to businesses at pace during the pandemic, the Bank streamlined its lender accreditation process. But it concluded that had the Bank applied a less streamlined accreditation process with more due diligence, it is possible that the situation could have been avoided.[79]

27. We asked what lessons had been learnt or what could have been done differently as a result of Greensill's access to these taxpayer-backed schemes. The Treasury told us that it wanted to review all the reports and inquiries, such as the Boardman Review and reports by Select Committees, "in the round" before coming to any conclusions specifically on Greensill. The Department described a positive lesson from the Greensill experience that

71 Qq 147–149, 150–152
72 Press Release - July 6, 2021 - British Business Bank (british-business-bank.co.uk)
73 Qq 145–147
74 Q 152; C&AG's Report, para 7
75 Q 123
76 Qq 153–4
77 Committee of Public Accounts, *Initial lessons from the government's response to the COVID-19 pandemic*, Thirteenth Report of the Session 2021–22, HC 175, 25 July 2021
78 Committee of Public Accounts, *COVID-19: Bounce Back Loan Scheme*, Thirty-Third Report of the Session 2019–21, HC 687, 16 December 2020
79 C&AG's Report, para 20

the "careful auditing, the fast reaction to stop new lending and the process of suspending the guarantee" led to a situation where it was hopeful it had correctly protected public money.[80]

28. The Bank told us that it will closely evaluate its COVID-19 business support schemes, including assessing whether there were things it would need "to do differently" with the accreditation processes going forward and more specifically whether there could have been better engagement with regulators as part of the accreditation process. The Bank said that it would be a "fruitful theme" to have discussions with development banks that have also been delivering similar schemes through the pandemic. The Treasury also agreed that it would conduct evaluations of all of the schemes, so that it could draw conclusions and build on what it had learned for the next time there needed to be an "extraordinary state intervention to deal with some market failure or other problem".[81] As we have previously highlighted, it is important that these evaluations are carried out as soon as possible after the event, otherwise there is a risk that departments learn lessons too late and repeat the same mistakes.[82]

80 Qq 161–162

81 Qq 32, 161–163

82 Committee of Public Accounts, *COVID-19: Support for children's education*, Third Report of Session 2021–22, HC 240, 20 May 2021; Committee of Public Accounts, *Initial lessons from the government's response to the COVID-19 pandemic*, Thirteenth Report of the Session 2021–22, HC 175, 25 July 2021

Formal minutes

Monday 15 November 2021

Members present:

Dame Meg Hillier, in the Chair

Antony Higginbotham

Mr Richard Holden

Sarah Olney

Nick Smith

Lessons from Greensill Capital: accreditation to business support schemes

Draft Report (*Lessons from Greensill Capital: accreditation to business support schemes*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 28 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Twenty-sixth of the Committee to the House.

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

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

Adjournment

Adjourned till Wednesday 17 November at 1.00pm

Witnesses

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

Thursday 22 April 2021

Sir Tom Scholar, Permanent Secretary, Her Majesty's Treasury; and **Charles Roxburgh**, Second Permanent Secretary, Her Majesty's Treasury Q1–68

Thursday 13 May 2021

Rt Hon David Cameron Q69–144

Thursday 22 July 2021

Catherine Lewis La Torre, Chief Executive, British Business Bank; **Patrick Magee**, Chief Commercial Officer, British Business Bank, and Senior Reporting Officer for CBILS and CLBILS; **Sarah Munby**, Permanent Secretary, Department for Business, Energy and Industrial Strategy; **Sir Tom Scholar**, Permanent Secretary, HM Treasury and **Charles Roxburgh**, Second Permanent Secretary, HM Treasury Q1–163

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.

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2nd	BBC strategic financial management	HC 187
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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
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13th	Initial lessons from the government's response to the COVID-19 pandemic	HC 175
14th	Windrush Compensation Scheme	HC 174
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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
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21st	School Funding	HC 183
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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
1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

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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
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14th	Readying the NHS and social care for the COVID-19 peak	HC 405
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17th	Immigration enforcement	HC 407
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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
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
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33rd	Covid-19: Bounce Back Loan Scheme	HC 687

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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
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