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Coronavirus: Business loans schemes

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Summary

In early 2020, the Government established three main schemes to provide loans to businesses of different sizes affected by coronavirus:

- The **Coronavirus Business Interruption Loan Scheme** (CBILS) offered loans of up to £5m for businesses with a turnover under £45 million. The loans were 80% backed by the Government.
- The **Coronavirus Larger Business Interruption Loan Scheme** (CLBILS) extended the standard CBILS approach to larger businesses.
- The **Bounce Back Loans Scheme** (BBLS) offered up to £50,000 or 25% of turnover, with streamlined application procedures and a 100% Government guarantee.

The Government-owned British Business Bank (BBB) oversaw the schemes. A range of accredited lenders made decisions on applications made to them. The BBB and the lenders developed and launched the schemes very quickly – in the case of BBLS, within 11 days.

The three schemes closed at the end of March 2021. They were replaced by the **Recovery Loan Scheme** in April 2021. It will run until 30 June 2024.

Further details of eligibility and application processes for the original schemes appear in the Library briefing paper Coronavirus: Support for businesses.

The Bounce Back Loans Scheme

The original CBILS was quickly modified in response to concerns about difficulty of access to and speed of funding.

The BBLS increased the Government guarantee to 100% and further simplified application processes. This included more self-certification and reduced credit checks. It included know-your-customer checks to help prevent fraudulent applications, but some commentators raised concerns that the system was nevertheless open to abuse.

The BBLS immediately proved to be particularly popular. Some accredited lenders sought to manage demand – for instance, by only accepting applications from existing customers. Others, such as challenger banks and fintech lenders, found it difficult to get hold of funds to lend to businesses.

Given those facts and the increased risks involved, most subsequent attention has been given to BBLS.

Performance of the schemes

By 31 May 2021, the three schemes had disbursed over £79 billion through loans and similar facilities. The BBLS accounted for over 93% of loans made and almost 60% of funds disbursed. About a quarter of all businesses in the UK took out a Bounce Back loan.

There is widespread acceptance that the schemes have helped many businesses to survive the challenges of the pandemic.

But concerns have grown about potential losses and fraud within the Bounce Back Loans scheme. In 2021, the Department for Business, Energy and Industrial Strategy estimated that 37 % (or £17 billion) of Bounce Back loans would not be repaid – mostly because the businesses concerned would not survive over the longer term.

Estimates are subject to wide margins of error. In October 2022 the Department reported its "central estimate" of losses to fraud on outstanding debt as 3.5% (£1.1 billion), although this could vary from 1.5% (£480 million) to 7.2%. (£2.3 billion). It had already paid out £640 million to lenders for suspected fraudulent loans.

In January 2022, Lord Agnew, Minister of State at the Cabinet Office and the Treasury, resigned. He strongly criticised the management of fraud in BBLS by Government departments and the BBB.

Various select committees continue to investigate the issues involved. In April 2022, the Public Accounts Committee (PAC) concluded that management of fraud in the scheme had been "complacent" and called for renewed efforts to gather better data and improve recovery of funds.

The first stage of BBB's evaluation of the three original schemes found that they may have saved up to 500,000 businesses and between 500,000 and 2.9 million jobs. While the speedier release of funds under BBLS helped to achieve this, it wasn't clear that such a short turnaround in approving applications was critical to this.

The involvement of Greensill Capital in CLBILS

The PAC has also criticised Government departments and the BBB for having allowed the collapsed financial services company Greensill Capital to have been accredited as a lender for CBILS and CLBILS.

1 Coronavirus business loans: doing whatever it takes?

On 17 March 2020, Rishi Sunak, then Chancellor, set out a package of financial measures worth £330 billion ("equivalent to 15% of GDP") and "promised to do whatever it takes to support our economy through this [coronavirus] crisis." He continued, noting that "if demand is greater than the initial £330 billion I'm making available today, I will go further and provide as much capacity as required. I said whatever it takes – and I meant it."[1]

A central part of the strategy was to offer businesses comparatively easy access to credit that they might otherwise have found difficult to obtain. To this end, the Government launched the Coronavirus Business Interruption Loans Scheme (CBILS) on 23 March, offering businesses loans and other facilities backed by an 80% Government guarantee, low interest rates and no interest payments for the first year.[2]

On 25 March, the Chancellor, the Governor of the Bank of England, and CEO of the Financial Conduct Authority together wrote to Britain's banking sector with a warning not to allow fundamentally viable companies to collapse because of the crisis:

> The priority for all of us - banks, building societies, government and the financial authorities - should now be to take all action necessary to ensure that the benefits of the measures outlined above are passed through to businesses and consumers. This will require a willingness to maintain and extend lending despite the uncertain economic conditions. We must ensure that firms whose business models were viable before this crisis remain viable once it is over.[3]

Refinements and new schemes

In line with the Chancellor's stated commitment and wider business and political reaction, the original CIBLS scheme was itself swiftly modified and complemented by two further programmes – the Coronavirus Larger Business Interruption Loans Scheme (CLBILS), launched on 20 April[4], and then the Bounce Back Loans Scheme (BBLS), which launched on 4 May 2020.[5]

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1 HM Treasury, Chancellor of the Exchequer, Rishi Sunak on COVID19 response, 17 March 2020

2 HM Treasury and BEIS, "Coronavirus – Business support to launch from today" (news story), 23 March 2020

3 HM Treasury, Letter from Chancellor, Governor of Bank of England, CEO of FCA: COVID and Bank lending (PDF), 25 March 2020

4 HM Treasury, "Chancellor expands loans scheme for large businesses" (news story), 20 April 2020

5 HM Treasury, "New Bounce Back loans to launch today" (news story), 4 May 2020

As discussed in sections 4 and 5, the refinements and new schemes served to widen access to support, removing restrictions and making the schemes even more attractive to potential borrowers. In the case of the BBLS, this included offering a 100% Government guarantee to lenders. This led to massive demand from businesses. By 31 May 2021, the three schemes had provided £79.3 billion through almost 1.6 million loans, with about 250,000 applications outstanding. Indeed, BBLS received over 300,000 applications during its first week of operation.[6]

In late October 2020 the Government extended the closing date for all three schemes to the end of November 2020[7]; on 2 November it further extended the closing date to 31 January 2021[8], and on 17 December to 31 March 2021.[9]

A follow-up scheme, Recovery Loans, launched in April 2021[10] and will run until mid-2024.[11] In 2020, the Government also announced Pay as you Grow, which offered various options to help ease Bounce Back loan repayments.[12]

The trade-off between accessibility and controls

Both CBILS and BBLS were developed and launched within a matter of weeks as part of the Government's wider urgent economic response to the challenges of the pandemic.[13]

As noted in section 4, there was considerable political pressure to reduce the application requirements originally attached to CBILS. The Government soon relaxed some of the requirements. [14]

But the development of the Bounce Back Loans Scheme took this much further. As discussed in section 5, it provided a 100% Government guarantee for loans, minimised credit checks, and removed various consumer credit protections. Politicians and external stakeholders raised concerns about both risks to businesses and possibilities for fraudsters. Indeed, civil servants overseeing the development of the programmes sought Ministerial directions for all three (as well as for some other coronavirus programmes). This process highlighted "the uncertainties on whether the support would meet the principles identified in Managing Public Money on regularity, including the

6 HM Treasury, HM Treasury coronavirus (COVID-19) business loan scheme statistics (accessed 15 July 2021)

7 HM Treasury, Policy paper: Winter Economy Plan, 24 September 2020 (accessed 3 November 2020)

8 HM Treasury, National restrictions: Financial support for jobs and businesses (PDF), 2 November 2020 (accessed 3 November 2020)

9 HM Treasury, "Chancellor extends furlough and loan schemes", 17 December 2020 (accessed 18 December 2020)

10 HM Treasury and BEIS, Recovery Loan Scheme, 3 March 2021 (accessed 20 January 2022)

11 BEIS, "Further support for small businesses feeling the squeeze as £4.5 billion Recovery Loan Scheme extended" (press release), 20 July 2022 (accessed 29 November 2022)

12 HM Treasury, Winter Economy Plan, 24 September 2020 (accessed 20 January 2022)

13 "UK Treasury rushes to finalise coronavirus bounce back loan scheme", The Guardian [online], 30 April 2020 (accessed 3 November 2020)

14 HM Treasury, "Chancellor strengthens support on offer for business as first government-backed loans reach firms in need"(news story), 3 April 2020 (accessed 18 January 2022)

fraud and error risks, and value for money".[15] The British Business Bank sought and received similar direction from the Department through a Reservation Notice for the Bounce Back Loans Scheme.[16]

In its initial review of the that scheme, the National Audit Office noted that it was not until 15 July 2020 that the Treasury, the Department for Business, Energy and Industrial Strategy (BEIS) and the British Business Bank agreed overall objectives for the three main schemes, as set out below:

Objectives for the three COVID-19 business loan support schemes

Timescale	Objective
Short term COVID-19 restrictions place significant restrictions on business operations	Guarantee schemes complement other government support and initiatives. Unlock finance at scale and pace such that businesses disrupted by COVID-19 still have access to finance.
Medium term COVID-19 restrictions lifted	Businesses receive the maximum opportunity to maintain liquidity until lockdown measures are lifted (given what was known about the pandemic at the scheme launch date). Scheme design should incentivise appropriate risk-taking by lenders.
Long term Over the life of the loan	Debt structure should take account of long-term business survival. Debt structure should allow firms with long-term growth potential to continue to grow. Long-term economic benefits realised from 5) and 6) exhibit value for money against any government-incurred losses.

Source: Adapted from National Audit Office, Investigation into the Bounce Back Loans Scheme, HC860, 7 October 2020, Figure 5, p20.

As discussed in sections 8 and 10, the tensions between getting funds out and ensuring adequate controls has become a major theme in subsequent review of the schemes, particularly in light of high early estimates of fraud and loss in the Bounce Back Loans Scheme.

This briefing paper focuses strongly on the development, implementation and review of the three main loans schemes and their replacement, the Recovery Loans Scheme.

15 BEIS, Annual report and accounts 2020 to 2021, HC 808, 25 November 2021, p65
16 BBB, Reservation Notice for the Bounce Back Loans Scheme (accessed 26 January 2022)

1.1 Other schemes

There were two other credit schemes that functioned rather differently and are not discussed here:

- The Future Fund, which offered match funding to “innovative” businesses “that rely on equity investment and are unable to access other government business support programmes because they are either pre-revenue or pre-profit.”[17]
- The Coronavirus Corporate Financing Facility, which supported the liquidity of very large companies.[18]

Further general information about how the three loans schemes and wider business support has operated is available in the Library’s briefing paper Coronavirus: Support for businesses, while data on spending on relevant schemes appears in Coronavirus business support schemes: statistics.

[17] BEIS, Apply for the coronavirus Future Fund, 20 April 2020 (accessed 26 January 2022)
[18] Bank of England, Covid Corporate Financing Facility (CCFF), 29 August 2021 (accessed 17 June 2022)

2 The three original loans schemes

In early 2020, the Government established three main schemes to provide loans to UK businesses of different sizes affected by coronavirus:

- Small and medium-sized businesses – the **Coronavirus Business Interruption Loan Scheme** (CBILS, launched on 23 March) offered loans of up to £5m for businesses with a turnover under £45 million. The loans were 80% backed by the Government.[19]
- Large businesses - **Coronavirus Larger Business Interruption Loan Scheme** (CLBILS, launched on 23 March) extended the standard CBILS approach to larger businesses.[20]
- All businesses – **Bounce Back Loans** (BBLS, launched on 4 May) of up to £50,000 or 25% of turnover. The scheme offered streamlined application procedures and loans were 100% backed by the Government.[21]

Further information about eligibility and application processes for all programmes is available in the Library briefing paper Coronavirus: Support for businesses.

These schemes have now closed. The Chancellor announced a successor programme – the Recovery Loan Scheme – in the March 2021 Budget.[22]

The three schemes were all overseen by the British Business Bank (BBB), a government-owned business development bank. The BBB accredited lenders for each of the schemes, and those accredited lenders varied between programmes, countries and regions. In general they included a wide range of established and challenger banks, building societies and other lenders.

Businesses could generally apply to any accredited lender, although it was usually most practicable for them to apply to their own provider in the first instance, as lenders would always carry out know-your-customer (KYC) checks on applicants. Decisions about applications were made by individual lenders.

The following table gives an overview of the main features of the three schemes and is adapted from the British Business Bank's description of the schemes[23] and from updates announced in the Chancellor's Winter Economy Plan.[24]

19 BBB, Coronavirus Business Interruption Loan Scheme (CBILS) (accessed 24 January 2022)
20 BBB, Coronavirus Large Business Interruption Loan Scheme (CLBILS) (accessed 24 January 2022)
21 BBBk, Bounce Back Loans Scheme (BBLS) (accessed 24 January 2022)
22 HM Treasury and BEIS, Recovery Loan Scheme, 31 August 2022 (accessed 20 March 2023)
23 The features appear under different headings in the guidance, so not all fields are completed in this table.
24 HM Treasury, Winter Economy Plan, 24 September 2020 (accessed 20 January 2022)

Main features of the coronavirus business loans schemes			
Feature	**CBILS**	**CLBILS**	**BBLS**
Finance available	The maximum value of a facility provided under the scheme was £5 million.	Term loans and revolving credit facilities over £50m were offered by CLBILS lenders which have secured additional accreditation. The maximum size for invoice finance and asset finance facilities was £50m.	Loans ranged from £2,000 up to 25% of a business' turnover. The maximum loan amount was £50,000.
Guarantee to the lender to encourage them to lend	A government-backed, partial guarantee against the outstanding balance. The borrower remains 100% liable for the debt.	A government-backed, partial guarantee (80%) against the outstanding balance. The borrower remains 100% liable for the debt.	A full (100%), government-backed guarantee against the outstanding balance (both capital and interest). The borrower remains 100% liable for the debt.
Government contribution	A Business Interruption Payment to cover the first 12 months of interest payments and any lender-levied charges.		A Business Interruption Payment (BIP) to cover the first 12 months of interest payments. No repayments for the first 12 months.
Interest rate			Set at 2.5% per annum.

Feature	CBILS	CLBILS	BBLS
Finance terms	For term loans and asset finance facilities: up to six years. For overdrafts and invoice finance facilities: up to three years.[25]	From three months to three years.	Ten years but early repayment is allowed, without early repayment fees. Repayment holidays and interest-only repayment periods available.
Security	No personal guarantees for facilities under £250,000. Personal guarantees might still be required, at a lender's discretion, for facilities above £250,000, but they excluded the Principal Private Residence (PPR) and recoveries under these were capped at 20% of the balance.	No personal guarantees were permitted for facilities under £250,000. For facilities of £250,000 and over, claims on personal guarantees could not exceed 20% of losses after all other recoveries were applied.	Lenders were not permitted to take personal guarantees or take recovery action over a borrower's personal assets (such as their main home or personal vehicle).
Guarantee fees	There were no guarantee fees for SMEs. Lenders pay a fee to access the scheme.		There was no fee to access the scheme for either businesses or lenders.

Source: Adapted from BBB, Coronavirus Business Interruption Loan Scheme (CBILS), Coronavirus Large Business Interruption Loan Scheme (CLBILS) and Bounce Back Loans Scheme (BBLS) (accessed 14 November 2021).

[25] From 23 December 2020, terms may be increased to up to ten years if not doing so would compromise the borrower's business and would not increase the Government's risk.

2.1 General eligibility

Most businesses established and operating in the UK could apply to a relevant scheme. Specific requirements are available from the British Business Bank[26] and are summarised in the Library's briefing Coronavirus: Support for businesses. There were various changes to the rules since the schemes launched; the most important of these are discussed later in this briefing.

In general terms, the schemes were set up to support businesses that had been "adversely affected" by the pandemic. Applicants self-certified that this was the case. For CBILS and CLBILS, applicants were asked to present a borrowing proposal "which the lender would consider viable, were it not for the current pandemic".[27]

BBLS applicants were expected to be engaged in trading or commercial activity and to have been established by 1 March 2020. With the exception of charities and further education colleges, they were required to receive more than half their income from trading activity.[28]

BBLS was not available to firms in "bankruptcy or liquidation or undergoing debt restructuring" when they applied. There were more complex and differing arrangements relating to "undertakings in difficulty" for all programmes. The rules for CBILS changed in July 2020 for smaller businesses to take account of changes in EU State Aid Law.[29]

Businesses were only permitted to hold loans or other facilities under one of the schemes, although there were options to transfer loans from one to another. In addition, businesses receiving support from these schemes were not eligible for support from the Covid Corporate Financing Facility Scheme (CCFF), which was in any event targeted at very large businesses.[30] [31]

On 2 November 2020 the Government announced that all three schemes would remain open to new applicants until 31 January 2021, and that holders of Bounce Back loans would be permitted to increase the total amount of the

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26 BBB, Coronavirus Business Interruption Loan Scheme (CBILS), Coronavirus Large Business Interruption Loan Scheme (CLBILS) and Bounce Back Loans Scheme (BBLS) (accessed 14 November 2021)

27 As above

28 BBB, Bounce Back Loans Scheme (BBLS) (accessed 14 November 2021)

29 BBB, "Changes to EU State Aid Undertaking in Difficulty test increases access to the Coronavirus Business Interruption Loan Scheme for smaller businesses", (press release), 16 July 2020

30 BBB, Coronavirus Business Interruption Loan Scheme (CBILS), Coronavirus Large Business Interruption Loan Scheme (CLBILS) and Bounce Back Loans Scheme (BBLS) (accessed 14 November 2021)

31 Bank of England, Covid Corporate Financing Facility Scheme (CCFF) (accessed 17 June 2022)

loan (as long as they remained within the overall limit).[32] On 17 December the Government extended the closing dates for the schemes to 31 March 2021.[33]

32 HM Treasury, National restrictions: Financial support for jobs and businesses (PDF),2 November 2020 (accessed 24 January 2022)

33 HM Treasury, Chancellor extends furlough and loan schemes, 17 December 2020 (accessed 18 December 2020)

3 How much support was offered?

3.1 The three original schemes

The speed of release of loan funds to businesses was an important issue when CBILS opened in March 2020. As discussed in section 4, such concerns would lead both to changes to the way that CBILS operated and the design of the Bounce Back Loans Scheme. By 31 May 2021, the three original schemes had disbursed £79 billion.

The Financial Times reported that although CBILS provided £450 million through 2500 loans between Friday 3 and Wednesday 8 April, there were many frustrating delays, with some observers contrasting the UK scheme unfavourably with what they described as a much simpler system operating in Switzerland:

> The SFr40bn package of emergency loans…managed to disburse SFr15bn (£12.4bn) to 76,034 businesses in its first week, 28 times as much as the UK equivalent has in three weeks.[34]

On 15 April 2020, UK Finance reported that £1.115 billion had been allocated through 6,020 loans made under CBILS.[35] The Financial Times reported continued criticism, although there were similar delays in Germany, France and Italy.[36]

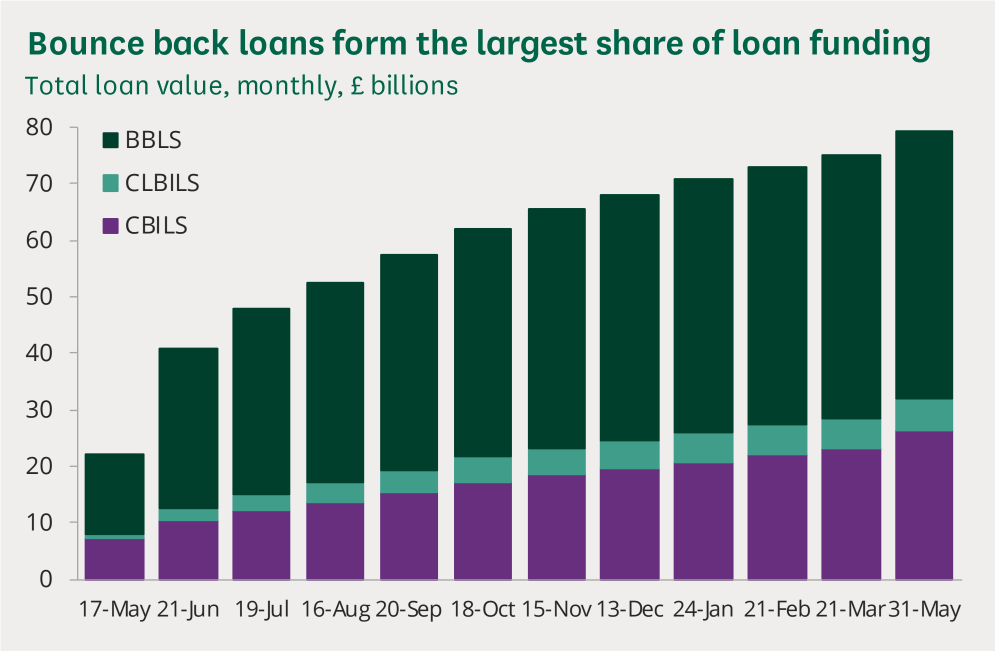
As the following chart demonstrates, the launch of the Bounce Back Loans Scheme on 4 May 2020 led to an immediate acceleration of disbursement. Within a week, the three loans schemes had allocated almost **£15 billion** through over **304,000** "approved facilities". They had received more than 435,000 applications. Bounce Back loans already accounted for over **88%** of applications approved and **56%** of total funds disbursed.[37]

[34] "Frustration despite UK coronavirus bailout loans reaching £450m", Financial Times [online], 8 April 2020 (accessed 18 January 2022)

[35] UK Finance, "Banking and finance sector provides over £1.1 billion to SMEs through Covid-19 lending scheme" (press release), 15 April 2020 (accessed 18 January 2022)

[36] "Swiss lead way with crisis loans to small businesses", Financial Times [online], 6 April 2020 (accessed 18 January 2022)

[37] HM Treasury, "Chancellor extends furlough scheme until October", 12 May 2020 (accessed 14 May 2020)



Source: HM Treasury coronavirus (COVID-19) business loan scheme statistics, accessed 15 July 2021.

The table below sets out total support offered through the three loans schemes to 31 May 2021. Bounce Back funding accounted for over **93%** of loans approved and almost **60%** of funds disbursed.

These figures are based on summary data published by HM Treasury. They differ from figures published by the Department for Business Energy and Industrial Strategy (BEIS) and the National Audit Office (NAO), which obtain data directly from the British Business Bank portal of loans data. The BEIS and NAO figures are slightly lower.[38]Further details of support offered through these schemes is available in the Library's briefing paper Coronavirus business support schemes: statistics.

BEIS has set out arrangements for publishing details of businesses that have received support under the schemes.[39] The names of businesses receiving total support above €100,000 (or in the case of fishing and agricultural businesses, more than €10,000) have been published on the EU state aid transparency database.[40]

38 See BEIS, Annual report and accounts 2020 to 2021, HC 808, 25 November 2021, p252; National Audit Office, The Bounce Back Loan Scheme: an update, 3 December 2021 , Appendix 3.

39 BEIS, COVID-19 loan schemes: data reporting to the European Commission and the UK government, 29 July 2021 (accessed 18 January 2022)

40 Only loans made before 1 January 2021 (unless within scope of Article 10 of the Northern Ireland Protocol) will be reported on the database. See BEIS, COVID-19 loan schemes: data reporting to the European Commission and the UK government, 29 July 2021.

Over 1.6 million businesses received loans worth over £79 billion

Coronavirus business loan schemes, 31 May 2021

	Total value of loans (billion)	Number of loans approved	Total number of applications
Coronavirus Business Interruption Loan Scheme (CBILS)	£26.39	109,877	251,342
Coronavirus Large Business Interruption Loan Scheme (CLBILS)	£5.56	753	1,152
Bounce Back Loan Scheme (BBLS)	£47.36	1,560,309	2,094,858
TOTAL	£79.31	1,670,939	2,347,352

Notes: Figures for BBLS, CBILS and CLBILS are based on management information supplied to HM Treasury by accredited lenders and does not include data from all lenders. The value of BBLS loans approved includes extra value from BBLS loans which have subsequently been 'topped-up' to a higher amount. As of 31 May, 106,660 BBLS top-ups had been approved, worth £0.95 billion.

Sources: HM Treasury coronavirus (COVID-19) business loan scheme statistics, accessed 8 July 2021; British Business Bank, Recovery Loan Scheme offers over £1bn to smaller businesses, 25 October 2021.

3.2 Recovery Loan Scheme

The British Business Bank announced that smaller businesses took out 20,100 loans or similar facilities worth a total of £4.33 billion under the first two iterations of the Recovery Loan Scheme, which closed on 30 June 2022.[41]

41 BBB, "Over £4.3bn of Recovery Loan Scheme loans drawn by smaller UK businesses" (press release), 23 February 2023 (accessed 17 March 2023))

4 Concerns about access to CBILS

While the launch of CBILS was broadly welcomed, politicians and businesses expressed concern that the scheme was failing to reach enough businesses quickly enough and that the lending rules were too restrictive.

4.1 Personal guarantees and general terms

Business owners and MPs criticised some banks for insisting on **personal guarantees** to support CBILS facilities under the original scheme. [42]

Speaking to the BBC, Chair of the SME Alliance, Andy Keats, said the scheme favoured banks rather than small businesses:

> [Y]et again, it is the banks and not businesses who will receive the funds to help SMEs.
>
> We would appreciate some clarity because, as things stand, the proposed loans mean the banks have no risk, the government has a small risk and businesses and their officers have 100% risk.[43]

There were also frustrations about responsibility for delays and policies, and notably that CBILS loans were only offered to businesses ineligible for standard commercial loans. By 2 April 2020, the BBC was reporting that the Business Secretary, Alok Sharma, had declared the situation “unacceptable”, and that a change to the rules was already being considered:

> The planned rule change follows a furious behind-the-scenes row between the banks and the government over whose fault it is that too few emergency loans have been offered to businesses in need.
>
> Privately, the banks say it's the government's rules that are in the way. They are required to lend to firms on normal commercial terms if they can - and only businesses that can't get a traditional loan qualify for the scheme.
>
> But the Treasury is now reportedly planning to scrap that rule so that banks can lend faster.

42 BBC, “Banks under fire for coronavirus loan tactics“, 26 Mar 2020 (accessed 18 January 2022)

43 As above

> Another obstacle has been the demand from banks that company directors put their own assets at risk by signing personal guarantees when borrowing £250,000 or more. That is also expected to be addressed.[44]

On 3 April 2020 the Government made changes to the scheme that responded to these concerns. It removed all requirements for personal guarantees for facilities under £250,000. It also restricted how they could be applied above that amount:

- an individual's principal private residence could not be used as security
- any eventual recoveries relying on personal guarantees would be capped at 20% of the outstanding balance.[45]

The Government announced that these changes should be retrospectively applied by lenders for any CBILS facilities already offered. Applicants initially directed to other products could ask to be transferred onto CBILS, or to have earlier decisions reconsidered.[46]

Later in the month, UK Finance issued a joint statement with the seven largest SME lenders, noting that they would relax requirements about viability:

> Lenders are working hard to ensure we provide support swiftly and responsibly and we will continue to work closely with customers to help them identify the finance that is right for their business and financial circumstances. Following the changes to the scheme announced today lenders will only ask businesses for information and data they might reasonably be able to provide at speed and we will not require the provision of forward-looking financial information or business plans from businesses applying for CBILS-backed lending, relying instead on our own information to assess credit and business viability.[47]

4.2 Government guarantee

Another area of concern was the 80% Government guarantee for CBILS and CLBILS in the UK, compared with 100% for loans in Switzerland.

The shadow business secretary, Ed Miliband – among others – had called for an expansion of the guarantee so that banks would be more willing to lend:

> [T]he CBIL scheme is simply not working well enough. We need change now. The chancellor must move to a 100% guarantee of loans for smaller businesses

44 BBC, "Denying coronavirus loans 'completely unacceptable' banks told", 2 April 2020 (accessed 18 January 2022)

45 BBB, Coronavirus Business Interruption Loan Scheme (CBILS), 3 April 2020 (accessed 17 June 2022)

46 HM Treasury, "Chancellor strengthens support on offer for business as first government-backed loans reach firms in need" (news story), 3 April 2020 (accessed 18 January 2022)

47 UK Finance, "UK Finance issues joint statement on behalf of seven largest SME lenders" (press release), 27 April 2020 (accessed 18 January 2022)

> as other countries have done. In this economic emergency, it is the right thing to do[...][48]

The Financial Times reported that the Chancellor, Rishi Sunak, said that he could "learn and improve" from other countries. He worried that such an approach might lead to banks not undertaking adequate credit checks and that the UK might not have the right "historic systems" in place to facilitate such a scheme.[49]

On 27 April 2020, the Chancellor stated that he was not convinced by the arguments to extend the loan guarantee to 100% for CBILS, although he would do so for the new Bounce Back Loans Scheme. He cited the potential future burden on taxpayers and argued that the UK's wider package of support was more generous than those offered elsewhere, including Switzerland.[50]

The Shadow Chancellor, Anneliese Dodds, welcomed the launch of the Bounce Back scheme, but again noted the comparative speed of Switzerland in releasing funds, and that "the UK has an enormous mountain to climb".[51]

There was however some criticism of the approach. Giles Wilkes, senior fellow at the Institute for Government, argued in April 2020 that relying on loans with a 100% guarantee risked exposing many small businesses to unaffordable debt over the longer term. It would also entail "an ongoing administrative and financial burden on borrower and lender." He argued that grants and "equity-style injections" would better support small businesses.[52]

48 "Just £1.1bn of Covid-19 bailout loans have been issued to small UK firms", The Guardian [online], 15 April 2020 (accessed 18 January 2022)

49 "Chancellor open to boosting SME bailout scheme", Financial Times [online], 15 April 2020 (accessed 18 January 2022)

50 HC Deb 27 April 2020 {The Economy], c108-111

51 As above, c109-110

52 Giles Wilkes, Institute for Government, "The government's coronavirus bailout should not be built on unaffordable loans", 24 April 2020 (accessed 17 March 2023)

5 Bounce Back Loans: easier access to credit

Although the reforms to CBILS had made access to funds easier for many businesses, the launch of Bounce Back Loans on 4 May made far and away the biggest difference. The upper limit for loans was set at £50,000 – a tenth of what was available from CBILS – but the 100% Government guarantee would help overcome lenders' apparent reluctance to agree loans, while the simple application process appealed to borrowers.

5.1 Design and development of the scheme

The innovations effectively overcame many of the concerns made about access to CBILS and reflected the much-promoted Swiss model more closely.[53] The new scheme was designed in the context of that debate, with details being finalised at short notice before launch.[54]

The NAO's 2020 report includes an overview of roles and responsibilities for delivering the Bounce Back Loans Scheme.

Indeed, the National Audit Office (NAO)'s first Investigation into the Bounce Back Loans Scheme highlights some of the exceptional circumstances in which it was developed. The NAO reported that overall objectives for the three business loans schemes were only agreed in July 2020:

> HM Treasury did not develop a business case for the Scheme, which means, at its launch the Scheme lacked clear objectives beyond the aim of fast financial support for smaller SMEs. In order to allow effective appraisal, planning, monitoring and evaluation, the Bank developed objectives after the Scheme launch, in consultation with HM Treasury and the Department. The Bank combined the objectives for the three COVID-19 debt programmes because of the similarity of the objectives to provide financial support in the form of loans. The Bank felt it was not "proportionate […] to produce a unique set of objectives for each product" owing to the likely evolution of the three programmes, together with the uncertain economic outlook. HM Treasury, the Department and the Bank agreed the objectives on 15 July. The Department and the Bank told us that they are in the process of developing metrics for measuring the performance of the individual loan support schemes.[55]

The focus on speed of launch and release of funds meant that civil servants in BEIS sought and received a ministerial direction to proceed. This is a

[53] The NAO report provides a comparison between BBLS and the schemes operating in Switzerland and Germany, both of which required more checks. See National Audit Office, Investigation into the Bounce Back Loan Scheme, HC860, 7 October 2020 (PDF), p18

[54] "Bankers were left in dark on size of Sunak loan plan", Financial Times [online], 29 April 2020

[55] National Audit Office, Investigation into the Bounce Back Loan Scheme, HC860, 7 October 2020, p17

procedure through which officials highlight risks to the relevant Minister. In this case, Sam Beckett, the Acting Permanent Secretary at BEIS, wrote to Alok Sharma, the Secretary of State. While noting the "clear benefit" of the scheme, Sam Beckett highlighted various concerns, including the risks of losses, fraud and the effect on the wider lending market:

> Whilst I can see the clear benefits of introducing BBL, as Accounting Officer I must also consider its introduction against the standards that I am responsible for safeguarding. In common with CBILS and CLBILS it is difficult to be sure that the proposed scheme parameters are optimal, with a lack of data available to undertake a robust value for money assessment.
>
> The 100% guarantee and lack of a viability test beyond self-certification will undoubtedly result in lending to businesses that were already unviable pre-COVID19, which raises concerns around value for money. The lack of restrictions on refinancing also creates a significant 'deadweight' risk, in that lending may not be genuinely additional. I understand that your letter to Chancellor on April 29 highlighted the importance of messaging to borrowers about their obligations to repay loans. I agree that this is a pragmatic step to help manage risks to the taxpayer, although a residual risk is likely to remain that will drive higher costs to the taxpayer. Ultimately, we lack the evidence to say that the benefits of faster approval times and elimination of lender caution as a factor will compensate for these issues.
>
> Our analysis to date suggests that BBL is also likely to have a negative impact on competition in the SME lending sector. The decision to set a standard interest rate could price out some alternative finance providers that are unable to compete on price because they cannot access capital as cheaply as the major lenders. You have considered options with the Chancellor, including allowing smaller lenders to charge arrangement fees or allowing lenders who are unable to offer BBLs to continue to offer any CBILS product below £50,000. However, on balance the need to ensure simplicity and affordability to borrowers within the current context has been prioritised. Given the current climate and the high risk of otherwise-viable small companies closing without quick access to funding, it is fully understandable that you and the Chancellor should take this stance.
>
> In addition, whilst the policy aim is to speed up the availability of funding for businesses, this means loosening some controls and protections that we might expect in ordinary times. You have noted to the Chancellor that the recommendations from appointed external advisers on measures to try and minimise fraud – which we are working through with HMT and BBB – will need careful consideration as part of finalising how lenders must operationalise the scheme.
>
> The risk in relation to regularity and propriety depends upon the eventual level of fraud and error, which cannot be reliably estimated in advance -however the report we have now received suggests that even with mitigation steps in place, the residual risk remains "very high". Although we will expect banks to take all reasonable and practicable steps (within the parameters of the scheme) to avoid this, should there be material levels of fraud and error then this is likely to be deemed irregular in terms of spending authority.[56]

56 BEIS, Bounce Back Loan: request for ministerial direction, 1 May 2020

The Secretary of State replied the same day, acknowledging the concerns but instructing officers to proceed:

> I note the BBL scheme risks highlighted in your letter, however I believe that these risks are outweighed by the need to get support to small businesses as quickly as possible, which the BBL scheme will aim to deliver.
>
> The Chancellor and his officials have given me approval to proceed and I am prepared to provide support for the introduction of this scheme as soon as practicable. I am therefore formally directing you as Accounting Officer to take this forward with immediate effect.[57]

The National Audit Office later noted that the British Business Bank had raised similar concerns with the Department through a reservation notice:

> In its Reservation Notice, the Bank raised concerns around the "compressed timetable" which has created "huge operational challenges for delivery partners". The Bank explained that given the pace at which decisions were being made, it would not be feasible to put in place "robust controls and governance" to ensure public funds are used appropriately.[58][59]

5.2 Demand for Bounce Back loans

The launch of BBLS immediately led to a huge level of demand, as summarised in section 3. Individual lenders were flooded with applications.

Kate Dickins, a senior Natwest manager, reported on 11 May that the bank had received an "unprecedented…65,000 applications in the first 48 hours" and that call centres had had at least double their normal level of traffic.[60]

The backlog continued to develop. By 9 June, The Guardian was reporting continued delays and decisions by banks only to accept applications from existing customers:

> While around 81% of the fast-track BBLS applications have been approved so far, there are signs of a major backlog in demand. Most of the 16 accredited lenders are restricting BBLS to existing customers, leaving many small businesses locked out.
>
> HSBC and digital upstart Starling Bank are among the only banks accepting external applicants for the emergency cash loans, but they are still prioritising their own account holders.

57 BEIS, Bounce Back Loan Scheme: ministerial direction, 1 May 2020

58 National Audit Office, Investigation into the Bounce Back Loan Scheme, HC860, 7 October 2020, p20

59 See also BBB, Reservation Notice for the Bounce Back Loan Scheme (accessed 26 January 2022)

60 "NatWest sees massive demand for bounce back loans (BBLS)", Fintech Times [online], 20 May 2020 (accessed 9 June 2022)

> Starling was forced to block sole traders from opening new accounts for a second time last week, and has set up a lengthy waiting list for its own customers amid a surge in demand for BBLS.[61]

The scheme guidelines were clear that businesses could apply to any accredited lender, but there were many reports that this itself was not straightforward. As early as June 2020, Moneysavingexpert.com reported that a survey it had undertaken of applicants had highlighted delays and differing approaches by lenders.[62]

On 28 September, City A.M. reported concerns about banks' treatment of applications, notably that Barclays had "invented" reasons for rejection and that HSBC had taken "nearly six months" to consider applications.[63]

The Library's constituency caseworker article Coronavirus: Problems with Bounce Back Loans sets out some of the challenges businesses faced in seeking loans.

On 28 October, City A.M. reported that only one bank was still accepting applications from new customers, and that MPs were increasingly concerned about the risks arising from the impending closure of the scheme at the end of November. It said that Kevin Hollinrake, Chair of the All-Party Parliamentary Group for Fair Business Banking, had called for an extension of the scheme, while Ed Miliband, shadow business secretary, argued for action from ministers to "unblock the system".[64]

Nevertheless, BBLS accounted for the overwhelming majority of coronavirus business loans made and – by 31 May 2021 – just under 60% of the total amount disbursed. Over 74% of applications had been approved. Although this compared favourably with a 44% approval rate for CBILS applications, it still implied a difference of about 530,000 between applications made and those approved.[65]

Alternative lenders' access to finance

While the British Business Bank accredited various 'challenger' and fintech lenders to offer loans, many of these in turn found it difficult to obtain cheap credit to finance Bounce Back loans. While the Government offered 100% guarantees to the loans, it did not provide finance directly: lenders had to seek this themselves. Unlike established banks, the smaller and newer lenders did not have access to cheaper credit offered by the Bank of England through the Term Funding Scheme (TFS).

One fintech lender – Tide – suspended its involvement in the scheme early in July 2020. According to the fintech news service, AltFi, the lender made this

61 "UK banks approve £35bn in state-backed loans amid heavy demand", The Guardian [online], 9 June 2020

62 Moneysavingexpert.com, "Bounce Back Loan MSE Survey results: HSBC & Tide worst service + new customers & sole traders struggle + delays common", 30 June 2020 (accessed 27 January 2022)

63 "MPs slam 'inconsistency and incompetence' as SMEs struggle to get bounce back loans", City A.M. [online], 28 September 2020 (accessed 9 June 2022)

64 "MPs call for clarity on Bounce Back Loan replacement as lenders shut door on SMEs", City A.M. [online], 28 October 2020 (accessed 9 June 2022)

65 Calculated from figures in HM Treasury, HM Treasury coronavirus (COVID-19) business loan scheme statistics, data for close of business, accessed 15 July 2021.

decision after failing to obtain additional funding to finance the number of loans being requested. Tide noted that the "very low margins available" and the absence of cheaper commercial credit meant that "players like us" could only participate in BBLS if the Government provided funding directly.[66]

While Tide argued in favour of direct government financing (as is the case for the Future Fund), the All-Party Parliamentary Group on Fair Business Banking called for alternative lenders to be given direct access to the Term Funding Scheme or to be lent funds by banks that do have such access.[67] The Chair of the APPG raised the question in the House on 2 September 2020; the Prime Minister replied that this was a matter for the Bank of England.[68]

The National Audit Office (NAO) found that by 7 September, the five largest UK banks (Barclays, HSBC, Lloyds/Bank of Scotland, NatWest/RBS and Santander) had made 89% of all Bounce Back loans, while "non-banks" (including building societies and peer-to-peer lenders) had made fewer than 1%.[69] The report also reiterated concerns raised earlier by the British Business Bank and BEIS that the underlying arrangements could undermine competition in SME loans.[70]

The situation had not been resolved when in August 2021, the British Business Bank "expressed its frustration" that Tide was not offering its Bounce Back loan customers the extended repayment options offered under the Pay as you Grow scheme (discussed in section 6.1). Tide replied that it had not yet had a reply from the Bank of England or the Treasury on the question.[71]

In January 2022, Sarah Munby (Permanent Secretary at BEIS) told the Public Accounts Committee that the Department had raised the matter in its request for a ministerial direction before the launch of the scheme (see section 5.1). She noted that involvement by alternative lenders had been much more successful in CBILS; the lower interest rate meant that it was less viable for them to participate in BBLS.[72]

5.3 Relaxation of consumer protection

In order to streamline administrative checks and so release Bounce Back funds more quickly, the Chancellor wrote to accredited lenders on 1 May 2020

66 "Tide shutters Bounce Back Loans as funding runs out", Altfi [online], 8 July 2020 (accessed 9 June 2022)
67 APPG on Fair Business Banking, "The current position of lenders regarding new Bounce Bank Loan Scheme (BBLS) applications from new customers", 13 July 2020 (accessed 20 January 2022)
68 HC Deb 2 September 2020 [Engagements], c160
69 NAO, Investigation into the Bounce Back Loans Scheme, HC860, 7 October 2020, p33
70 As above, p41
71 "Lender Tide criticised for snubbing 'pay as you grow' Covid loan deferral scheme", The Times [online], 10 August 2021 (accessed 27 January 2022)
72 Public Accounts Committee, Oral evidence: Bounce Back Loan Scheme: Follow up, HC 951, 10 January 2022, Q96

assuring them of the Government's commitment to making legislative changes that would free them from various consumer credit liabilities.[73] The following changes were implemented:

1. A statutory instrument (SI) – The Financial Services and Markets Act 2000 (Regulated Activities) (Coronavirus) (Amendment) Order 2020 – removed Bounce Back loans of up to £25,000 from the scope of the consumer credit regulatory regime if they were made to sole traders, unincorporated associations or partnerships of fewer than four people. The SI maintained provisions relating to debt collection as a regulated activity.[74]

2. Section 12 of the Business and Planning Act 2020 (which received Royal Assent on 22 July 2020) excluded the Bounce Back Loans Scheme from the "unfair relationships" provisions of the Consumer Credit Act 1974. While such provisions are meant to ensure that consumers could afford repayment commitments, their application to Bounce Back loans would require a higher level of review of applications and forecasting, thus inevitably leading to longer decision times and (presumably) lower approval rates. In line with the commitment in the Chancellor's letter, this change applied retrospectively to the beginning of the Bounce Back Loans scheme.

Further information about these provisions is available in section 4 of the Library's briefing paper Business and Planning Bill 2019-2021.

Despite those relaxations, BBLS and the other schemes maintained fraud and know-your-customer checks.

Speaking in favour of an amendment about the Bill provisions that became Section 12 of the Business and Planning Act 2020 (point 2 above), Baroness Bowles of Berkhamsted (Lib Dem) expressed strong reservations about the potential implications of the proposed change. She noted that the Bill sought to remove the only regulatory protection for almost all businesses facing recovery procedures. While she accepted the value of making loans available, she argued that most of the risks were placed onto the business rather than the lender:

> [T]he high-profile government publicity surrounding the loans can be misleading...This is encouragement to apply and gives the impression that the government guarantee is coming into play for the benefit of the borrower.
>
> That is not the story, though. The Government back the lender; they are not a guarantor for the borrower. That is not stated on the GOV.UK website, although I am not sure that everyone would understand the significance even if it were...

73 Letter from the Chancellor to the accredited lenders, 1 May 2020

74 See also HM Treasury, Explanatory memorandum to The Financial Services and Markets Act 2000 (Regulated Activities) (Coronavirus) (Amendment) Order 2020, 2020 No.480 (PDF)

> [...]
>
> Other standard terms also apply, such as that any default, anywhere, on any other loan, with anyone, can trigger default. A bank can also take the view that the position of the borrower has declined since the making of the loan agreement. Given that a loan condition for a bounce-back loan is that the business has suffered from the effects of coronavirus, just about every loan is at risk of being defined as in default.
>
> Of course, not many defaulting people or companies can go to court, so what does it matter if that route is blocked? Well, the principle matters; the deterrent matters; and the comparison matters. It gives away that the Government care little about those that go under; the focus is on the economic benefit of survivors.[75]

Replying on behalf of the Government, Baroness Penn reiterated the low costs and charges associated with the scheme. She noted that agreements between the British Business Bank and lenders obliged the latter to "act in good faith", and that if they didn't do so "the Government would have no qualms about using their power to withdraw the guarantee."[76]

Ultimately, she noted that some lenders had said that if the Government did not fulfil its commitment to this change, they would not offer any new loans. Over a million loans had already been made on the understanding that the protections were disapplied.[77]

5.4 Concerns about fraud

Although BBLS lenders carried out some basic fraud and 'know your customer' checks, the application process largely relied on self-certification, a situation that some commentators argued could give rise to organised fraud or misrepresentation (whether intentional or not) by applicants.

On 16 June, Transparency International, the Fraud Advisory Panel and Spotlight on Corruption (among others), wrote to the Chancellor warning of the possibility of fraudulent abuse of both CBILS and BBLS, including by "rogue bank insiders", potential "mis-selling bad behaviour akin to the sub-prime mortgage scandal" and intimidation and infiltration of companies already in difficulty. The signatories called on the Government to publish the names of all recipients in order to prevent and detect fraud.[78]

The Government initially rejected calls to publish details of loans made on the grounds of commercial sensitivity and personal data concerns.[79] But it later

75 HL Deb, 20 July 2020 [Business and Planning Bill], c2010-2012
76 As above, c2019
77 HL Deb, 20 July 2020 [Business and Planning Bill], c2020
78 Spotlight on Corruption, Letter to the Chancellor, 16 June 2020 (pdf)
79 See, for instance, PQ HL7806 [Bounce Back Loan Scheme and Coronavirus Business Interruption Loan Scheme], 17 September 2020

emerged that such support would be considered state aid under the European Commission's Temporary Framework for state aid measures to support the economy during the pandemic. As a result, the Government progressively published limited detail of some loans (generally those of €100,000 or more) on the European Commission's state aid transparency website.[80]

Nevertheless, after news of arrests relating to BBLS fraud, Nicola O'Connor, Legal Director at Bird & Bird LLP, argued in July 2020 that all businesses should take care to review what they had said in BBLS applications and to correct them where necessary. She also alerted businesses to the risks of being "infiltrated by criminal gangs" that might use them to make fraudulent applications. While these might be made without the business's knowledge, she argued that it was more likely that an insider would be involved.[81]

In response to a Written Question from John McDonnell MP on 3 July 2020, Paul Scully, Parliamentary Under-Secretary (Department for Business, Energy and Industrial Strategy) said that the scheme rules included "minimum standards" for lenders to use to help identify fraud, and that the Government was working with the BBB and lenders to strengthen those controls.[82]

In September 2020, the BBC reported evidence of fraudulent applications, including use of identity theft. It also suggested that loans had been made to companies set up after 1 March, although such companies should have been ineligible. UK Finance noted that checks were in place, including "a cross-industry initiative to check if duplicate applications have been made".[83]

As discussed in section 8, concerns about the level of fraud on the scheme would become an important political issue.

Insolvency and potential fraud

In June 2021, the Insolvency Service reported that it had taken action against various individuals and firms for "abusing COVID-19 financial support".[84]

The Insolvency Service could take action in such cases because the company had entered administration. The Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Bill, which received Royal Assent in December 2021, allowed the Insolvency Service to overcome a loophole through which "directors…might seek to dissolve their companies to obstruct

80 BEIS, COVID-19 loan schemes: data reporting to the European Commission and the UK government, 29 July 2021 (accessed 20 April 2022)

81 Bird & Bird, "UK: First arrests made in connection with alleged Coronavirus Bounce Back Loan Scheme fraud", July 2020 (accessed 17 June 2022)

82 UIN 68651 [Bounce Back Loan Scheme: Fraud], 3 July 2020

83 BBC, "Coronavirus: 'My name was used to steal a government Covid loan"', 28 September 2020 (accessed 20 January 2022)

84 Insolvency Service, "Insolvency Service takes action against businesses abusing COVID-19 financial support", press release, 22 June 2021 (accessed 28 June 2021)

investigations into them for fraudulently avoiding the repayment of Government-backed loans during the pandemic".[85]

[85] House of Commons Library briefing paper, Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Bill 2021-22, CBP-9249, p5

6 Ending and replacing the schemes

6.1 Extending the schemes

The three original schemes closed at the end of March 2021.

The original timetables for the end of the schemes were extended several times. There were also some changes to rules about managing repayments.

CBILS was originally due to close to new applicants on 30 September, CLBILS on 20 October and BBLS on 4 November 2020. But on 24 September, as part of his Winter Economy Plan[86], the Chancellor announced that all schemes would close at the end of November. On 2 November the deadline was further extended to 31 January 2021[87], and on 17 December, to 31 March 2021.[88]

The Winter Economy Plan made some initial adjustments that responded to potential repayment difficulties, summarised by HM Treasury as follows:

> Pay as you Grow – The government will give all businesses that borrowed under the BBLS the option to repay their loan over a period of up to ten years. This will reduce their average monthly repayments on the loan by almost half. UK businesses will also have the option to move temporarily to interest-only payments for periods of up to six months (an option which they can use up to three times), or to pause their repayments entirely for up to six months (an option they can use once and only after having made six payments). These changes will provide greater flexibility to repay these loans over a longer period and in a way that better suits businesses' individual circumstances.
>
> CBILS loan extension – The government intends to allow CBILS lenders to extend the term of a loan up to ten years, providing additional flexibility for UK-based SMEs who may otherwise be unable to repay their loans.[89]

On 8 February 2021 – acknowledging the continuing effect of the pandemic and restrictions on businesses – the Chancellor announced that BBLS borrowers could use the payment holiday facility to delay their first repayment for six months.[90]

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86 HM Treasury, Winter Economy Plan, 24 September 2020 (accessed 20 January 2022)

87 HM Treasury, National restrictions: financial support for jobs and businesses, 2 November 2020 (PDF) (accessed 20 January 2022)

88 HM Treasury, "Chancellor extends furlough and loan schemes" (news story), 17 December 2020 (accessed 20 January 2022)

89 HM Treasury, Winter Economy Plan, 24 September 2020 (accessed 20 January 2022)

90 HM Treasury, "Bounce back loan borrowers can delay repayments by extra six months" (news story), 8 February 2021 (accessed 20 January 2022)

The extension to the CBILS loan term was not implemented until 23 December. It was limited to businesses that would be "compromised" if not offered such forbearance.[91] On 17 December, in response to a Question from Thangam Debbonaire, the Economic Secretary explained that the conditions and terms attached to such extensions would be at the discretion of the lender.[92]

6.2 The Recovery Loan Scheme

On 3 March 2021, the Chancellor announced that a new Recovery Loan Scheme (RLS) would be launched on 6 April 2021 and run until the end of that year ("subject to review").[93] The announcement highlighted the following features:

- Overseen by the British Business Bank, it would be open to businesses of any size and would provide up to £10 million per business – with loans from £25,001 and invoice finance and asset finance from £1,000.
- General eligibility and lender arrangements would be broadly similar to those offered through CBILS. Overall, the scheme aimed to "provide support as businesses recover and grow following the disruption of the pandemic and the end of the transition period". Funds "can be used for any legitimate business purpose, including growth and investment".

There were however some differences from earlier schemes:

- There would be no limit on turnover for eligible businesses.
- There would be an 80% Government guarantee (unlike the 100% guarantee offered under BBLS).
- Businesses could apply for up to £10 million (or £30 million for a group). Minimum levels of support might vary by the type of facility.
- The scheme would be open to businesses that had received support under the three previous schemes, although in some cases that earlier support might affect the maximum available.
- Businesses would be responsible for meeting fees associated with the facility. The guidance notes that "[t]he annual effective rate of interest, upfront fee and other fees cannot be more than 14.99%".
- While CBILS generally excluded "businesses in difficulty", the new scheme excluded those "in collective insolvency proceedings". There

91 BBB, Coronavirus Business Interruption Loans Scheme (CBILS): Final Recoveries Guidance, 23 December 2020
92 UIN 128202 [Coronavirus Business Interruption Loan Scheme], 10 Dec 2020
93 HM Treasury and BEIS, Recovery Loan Scheme, 3 March 2021 (accessed 20 January 2022)

might be more complex arrangements for businesses "in scope of the Northern Ireland Protocol".[94]

Second phase: 1 January to 30 June 2022

In the Autumn 2021 Budget, the Chancellor announced that the scheme would be **extended to 30 June 2022**. But from January 2022 it would:

- be limited to small and medium enterprises
- offer a maximum of £2 million per business
- reduce the Government guarantee to 70%[95]

While the extension allowed more SMEs to take advantage of the scheme, some commentators were concerned that it wouldn't be enough. Murdoch MacLennan, a banking partner at Azets, wanted to see the scheme extended to the end of 2022 and for lenders to accept CBILS transfers to RLS. He argued that it was essential to keep the funding market accessible to businesses that needed refinancing.[96]

Third phase: from August 2022

There was a gap of a month between closure of the second iteration of RLS and its "third phase", which opened in August 2022.[97] Overall, this version is slightly more limited in its scope and reflects a move away from the effects of the pandemic. The main differences between the second and third iterations are as follows:

- The maximum facility available is £2 million per business group, or £1 million for businesses for business groups "in scope of the Northern Ireland Protocol" (with lower limits for some sectors affected by the Protocol).
- Lenders may apply their usual policies regarding personal guarantees, but may not take the "family home" as collateral.
- With the exception of some charities and further education colleges, businesses no longer have to declare that they were affected by the pandemic.

94 HM Treasury and BEIS, Recovery Loan Scheme, 3 March 2021 (accessed 20 January 2022)

95 HM Treasury, Autumn Budget and Spending Review 2021: a stronger economy for the British people, HC822, October 2021, p65

96 "Funding crisis looms without extension to loans", Daily Business [online], 3 November 2021 (accessed 4 November 2021)

97 BBB, Recovery Loan Scheme (accessed 29 November 2022)

- Previous CBILS and RLS facilities taken out will not affect the amount available to businesses, but BBLS facilities may do.[98]

Kwasi Kwarteng, then Business Secretary, said that the extended scheme would run until 30 June 2024.[99]

98 BBB, Recovery Loan Scheme –FAQs (accessed 29 November 2022)

99 Departmental Contingent Liability Notification (Second Extension of the Recovery Loan Scheme), UIN HCWS240, 20 July 2022

7 Levels of repayment and fraud data

7.1 How much loan funding has been repaid?

The table below shows the total value of repayments, arrears and defaults across each of the original loans schemes as at 31 December 2022.

How much loan funding has been repaid?
Coronavirus business loan schemes, 31 December 2022

	Number of loans	% of loans	Amount (£bn)
All schemes			
Fully repaid	186,879	11.4%	14.54
On schedule	1,117,053	68.3%	38.09
In arrears	108,734	6.7%	3.23
Defaulted or claimed	91,125	5.6%	3.05
Guarantee claim settled	132,093	8.1%	4.38
Bounce Back Loan Scheme (BBLS)			
Fully repaid	161,979	10.5%	5.14
On schedule	1,049,085	68.2%	24.09
In arrears	107,202	7.0%	2.73
Defaulted or claimed	88,797	5.8%	2.67
Guarantee claim settled	130,263	8.5%	4.12
Coronavirus Business Interruption Loan Scheme (CBILS)			
Fully repaid	24,584	25.1%	7.15
On schedule	67,572	69.1%	12.42
In arrears	1,531	1.6%	0.50
Defaulted or claimed	2,324	2.4%	0.37
Guarantee claim settled	1,826	1.9%	0.25
Coronavirus Large Business Interruption Loan Scheme (CLBILS)			
Fully repaid	316	43.8%	2.25
On schedule	396	54.9%	1.58
In arrears	1	0.1%	0.00
Defaulted or claimed	4	0.6%	0.01
Guarantee claim settled	4	0.6%	0.01

Notes: See the source link for full notes and definitions.
"Defaulted or claimed" means loans in default, including cases where the lender has made a formal demand to the borrower and where a lender has begun a claim against the guarantee.
Data is based on information submitted to the British Business Bank by lenders. The figures may depend on the lenders' business models for recovering payments.
Source: Department for Business and Trade , COVID-19 loan guarantee schemes repayment data as at 31 December 2022, 7 February 2023.

The table demonstrates the very real differences in repayment patterns between the programmes. While **1.3% of CLBILS** loans and **5.9% of CBILS** loans were in arrears, default or subject to continuing or settled claims under the Government guarantee, the figure for **BBLS was 21.3%**.

The Government guarantee pays out for losses relating to fraud and business insolvency.

The Government had paid out £4.4 billion to lenders under the guarantee. £4.1 billion of this was for BBLS loans. £640 million of that figure was for loans that lenders had flagged as suspected fraud. (See section 7.2 for further discussion.)

In addition, the Government said that over a quarter (28%) of Bounce Back borrowers had taken advantage of one or more of the Pay as You Grow options.[100]

7.2 Fraud and error in the Bounce Back Loan Scheme

In its 2022 annual report, the Department for Business, Energy and Industrial Strategy (BEIS) (now the Department of Business and Trade) assessed that there is a normal and immaterial rate of fraud and error for CBILS, CLBILS and RLS).[101]

What is fraud and error?

"Fraud and error" in the Covid-19 business loans schemes means loans issued to businesses that were not eligible for the loan schemes, either as a result of a fraudulent application or a mistake in applying the eligibility criteria. This could include fraud or error on the part of the borrower or the lender.

Fraudulent loans will only result in a loss to the government if the lender claims against the guarantee.

The Department (formerly BEIS, now Business and Trade) publishes its estimates in its annual report and accounts.[102]

It also publishes "transparency data". This is based on information provided by lenders to the British Business Bank (BBB). It provides detail of suspected fraudulent loans broken down by lender, as well as the total amount paid out under the guarantee due to fraud. Lenders may add or remove suspected

100 Department for Business and Trade , COVID-19 loan guarantee schemes repayment data as at 31 December 2022, 7 February 2023
101 BEIS annual report and accounts 2021 to 2022, 20 October 2022, p146-147, 160, 163
102 BEIS annual report and accounts 2021 to 2022, 20 October 2022

fraud flags at any time, so the figures won't match those in the annual accounts.[103]

Estimated losses due to fraud and error

The Department's central estimate for outstanding fraud and error loss is **3.49% of BBLS loans** or **£1.12 billion** as of 31 March 2022. There is still a lot of uncertainty in this figure. As set out in the table below, the actual level could lie anywhere between 1.49% and 7.24%. The Department expects that the central figure is an underestimate.[104]

Estimated fraud and error loss in the BBLS
31 March 2022

Lower estimate	1.49%	£481 million
Central estimate	**3.49%**	**£1.12 billion**
Upper estimate	7.24%	£2.32 billion

Source: BEIS annual report and accounts 2021 to 2022, 20 October 2022, p146.

The 3.49% central estimate was reduced from 11.15% (£4.9 billion) reported in the 2020/21 accounts.[105] The new figure was based on three main revisions:[106]

- Further analysis of fraud indicators and new claims led to a reduction of the central estimate to 8.0%.
- More repayment data helped to clarify estimates of the potential rate of loss arising from loans identified as probable fraud. The Department now expects a loss conversion rate of 52.9%. This means that it estimates that half of the suspected fraudulent loans have been repaid by the borrowers. In the 2020/21 annual accounts it assumed that all fraudulent loans would result in a loss.
- Fraud cases that have been claimed and settled (0.75% of BBLS loans) have also been removed.

The Comptroller and Auditor General's report on the accounts said that he was satisfied that the Department made "reasonable use of supportable information available at the reporting date".[107] He noted that most fraud losses are expected to crystalise over 2022/23 after the BBLS repayment holiday period ends.[108]

103 Department for Business and Trade , COVID-19 loan guarantee schemes repayment data as at 31 December 2022, 7 February 2023
104 BEIS annual report and accounts 2021 to 2022, 20 October 2022
105 As above
106 As above, p146 and 162
107 As above, p160
108 Department for Business and Trade , COVID-19 loan guarantee schemes repayment data as at 31 December 2022, 7 February 2023

How much has been lost to fraud already?

As at 31 December 2022, lenders had flagged **£1.1 billion of the remaining total loan value** as suspected fraud.[109]

The Department reported that of the £4.1 billion that had been claimed against the BBLS guarantee as of 31 December 2022**, £640 million had been paid out to lenders against loans with a suspected fraud flag**.[110] (The remainder would have been paid where the borrower had become insolvent.)

How much fraud has been recovered?

BEIS works with the National Investigation Service (NATIS), the Insolvency Service and other agencies to pursue investigations into fraud in the scheme.[111]

For more information on the recovery of irregular loan payments, see pages 86-88 of BEIS's 2021/22 annual report and accounts.

As at 31 March 2022, NATIS had recovered £3.8 million BBLS payments. This represents 0.34% of estimated payments expected to result in a loss. Of this, £2.6 million had been returned to lenders and £1.2 million had been returned to the Treasury.[112]

In response to a question from Dame Margaret Hodge in December 2022, Kevin Hollinrake, Minister for BEIS, provided the following update on efforts to recover fraudulent loans:

> As of October 2022, Insolvency Service action on Covid-19 support scheme fraud has resulted in 391 director disqualifications and 119 bankruptcy restrictions, the majority relating to BBLS fraud. They have also achieved 2 criminal prosecutions. The National Investigation Service (NATIS) have a total recoveries target of £6 million this financial year and have recovered £5.8 million to date.[113]

109 Department for Business and Trade, Bounce Back Loan Scheme performance data as at 31 July 2022, 7 February 2023
110 As above
111 BEIS annual report and accounts 2021 to 2022, 20 October 2022, p164
112 As above, p86-88 and p164
113 UIN 102737 [Bounce Back Loan Scheme: Fraud], 13 December 2022

8 Consideration of Bounce Back losses

The original Coronavirus Business Interruption Loans Scheme – and the programmes that evolved from it – helped to satisfy business demand and concerns. In doing so they also helped to fulfil the then Chancellor's earlier promise to "do what it takes". But there had also been concerns that the relaxation of normal lending controls would lead to problems, not least in the context of a severe economic recession.

Since the schemes ended, concerns have grown about the potential levels of loss – particularly in relation to Bounce Back loans. As this section presents, much of that concern has reflected continued (but decreasing) uncertainty about how much public funds might be lost.

Most of the discussion of loss nevertheless acknowledges the value of the original schemes in responding to the conditions created by the pandemic. The first wider evaluation of the schemes – and early indications of their effectiveness – was published in June 2022, as discussed in section 10.

8.1 Early estimates of potential losses

On 11 May 2020, Alok Sharma, then Secretary of State for BEIS, had confirmed an initial contingent liability (money set aside to compensate lenders in case of default) of £27 billion for the Bounce Back Loans Scheme. This was 100% of the estimated total amount of lending under the scheme. The Secretary of State noted that this figure might be increased if necessary.[114]

As early as 31 May 2020, the Financial Times reported that "senior bankers" feared that up to 50% of Bounce Back loans might end in default and that "about a quarter of the loans would not have been made under normal lending practices". Some Conservative MPs were said to be concerned about "the political fallout of so many small businesses being closed down after being pursued by the state".[115]

In July 2020, the Office for Budget Responsibility estimated that 40% of BBLS borrowers might default, compared with 10% each for CBILS and CLBILS. The central case scenario suggested write-offs of £16.9 billion, of which 95% would come from BBLS. The worst-case scenario suggested losses of £33.7

114 BEIS, Notification of the contingent liability arising from the Bounce Back Loans scheme, UC 36 2019-21, 11 May 2020

115 "UK banks warn 40%-50% of 'bounce back' borrowers will default", Financial Times [online], 31 May 2020 (accessed 15 March 2023)

billion. These estimates were based on learning from schemes operating after the global financial crisis of 2008/9, as well as consideration of the types of businesses receiving loans.[116]

National Audit Office 2020 report

The National Audit Office's October 2020 report[117] highlighted continuing uncertainty about the potential scale of BBLS losses, reporting the potential risk at anywhere between 35% and 60% of borrowers. It noted that other estimates ranged between 15% and 80%, depending on the UK's economic performance.[118]

The report's findings included the following:

Total losses are made up of fraud and "credit losses" resulting from insolvency.

- Estimates did not distinguish between fraud and "credit losses" (usually where the borrower becomes insolvent and can't pay). But the true extent would only become apparent after loan repayment began.[119]
- The risk of fraud had been considered "very high" during the development and implementation of the scheme, and that it remained "significant". Most of the responsibility for managing the risk lay with the lenders at the loan approval stage.[120]
- Much work still needed to be done on recovery processes. The 100% backing of Bounce Back loans weakened incentives to lenders to take action. It noted that lenders might claim on the Government guarantee 12 months after issuing a formal demand to the borrower. They would not need to complete the recovery process –only to believe that "no further payment is likely".[121]
- The scheme had met its initial and "prioritised" objective of quick release of funds, but fraud and debt remained significant risks. The lack of specific objectives would make it hard to judge its ultimate success.[122]

Commenting on the NAO's findings, and while noting the scheme's overall success in "shovel[ling] loans to small businesses", The Guardian highlighted the Government's overall responsibility for the situation. It argued that it was "unfair to blame the banks", given that they were "under orders" to limit checks, despite warnings about fraud by the BBB.[123]

116 Office for Budget Responsibility, Fiscal sustainability report, July 2020, p65-68
117 NAO, Investigation into the Bounce Back Loan Scheme, HC860, 7 October 2020
118 As above, p11
119 As above
120 As above, p10
121 As above
122 As above, p12
123 "Questions for Treasury as Covid loan scheme bites back", The Guardian [online], 7 October 2020 (accessed 20 January 2022)

Public Accounts Committee inquiry, 2020

A 2021 follow-up NAO report is discussed in section 8.2, and the PAC's follow-up inquiry in section 8.4.

The Public Accounts Committee (PAC) reviewed the NAO report as part of an inquiry into the Bounce Back Loans Scheme and published its report in December 2020.[124]

Noting that the National Risk Register had warned about the potential effects of an epidemic since 2010, the Committee said that the Government and the BBB had nevertheless "prioritised delivery speed over all other aspects of value for money, and they have not been able to offer clear objectives or measures of the Scheme's success." This had "exposed the taxpayer to potentially huge losses". The Committee report highlighted the need to improve measurement of the economic benefit of the scheme as well as arrangements to recover overdue loans. It also asked the Government to learn and apply lessons from its experience so far.[125]

The Government responded to the report on 25 March 2021.[126] It agreed with most – but not all – of the report's conclusions and recommendations:

- The Government accepted that it hadn't been sufficiently prepared to support micro-businesses, despite the "known risk".
- It did not agree that "shortcomings in the Scheme's design had exposed the taxpayer to potentially significant losses", noting again the priority given to fast launch, as well as the inevitable uncertainties about the potential and actual level of losses.
- The Government did not accept that plans to protect the taxpayer (from both fraud and default) were "woefully under-developed". It noted various approaches and responsibilities involved in combating fraud, but declined to go into detail.
- It noted that it had already implemented recovery arrangements with UK Finance and the accredited lenders, but again declined to set them out, as doing so "would notably risk educating criminals about the approach to the collection and recovery of loans". [127]

A separate PAC Fraud and Error Inquiry considered the loans schemes as part of the Government's wider response to the pandemic. In June 2021 it called on all Government departments to work together more closely to share information and build on the existing Global Fraud Risk Assessment.[128]

124 Public Accounts Committee, Covid-19: Bounce Back Loan Scheme, HC 687, 16 December 2020

125 As above, p3

126 Treasury minutes, Treasury minutes: Government response to the Committee of Public Accounts on the Thirty third report from Session 2019-21, CP 389. 25 March 2021, p21-25

127 As above, p21-25

128 Public Accounts Committee, Fraud and Error, HC 253, 30 June 2021

BEIS annual report and accounts, 2021

Based on analysis of a sample of BBLS facilities, the Department of Business, Energy and Industrial Strategy's 2021 annual report had estimated that the rate of "fraud and error" fell within "a range of 8.15% to 14.15%, reflecting £3,615 million to £6,275 million, with the central estimate value being £4,944 million (11.15%) of loan facilities."[129]

Updates to the BEIS estimates are discussed in section 7.

The report said that uncertainty about likely losses was "expected to remain for some time." It noted that later analysis already "supported a reduction in the fraud estimate to 7.5%, though this reduction requires further verification."[130]

The Comptroller and Auditor general qualified his opinion on the regularity of the Department's and Departmental Group's financial statements on the basis of the fraud estimates. He reviewed the Department's calculations, agreeing that the assumption that there was likely to be more fraud and error in BBLS was "reasonable". He concluded that "[a]s these losses have not been incurred in accordance with Parliament's intentions, the resulting expenditure is irregular."[131]

8.2 National Audit Office report 2021

The National Audit Office published an update on its 2020 findings (see section 8.1) in December 2021.[132]

It reported that the scheme had made loans worth £47 billion – compared with BEIS's initial estimate of £18 billion to £26 billion. About a quarter of all UK businesses had used the scheme.[133]

Reflecting the wider underlying tensions within the administration of the scheme, the report noted that about a third of all business complaints to the Financial Ombudsman related to delays to consideration of Bounce Back loan applications.[134]

Moving to losses and fraud, the NAO reiterated the BEIS estimates outlined above. But it t emphasised the continuing high uncertainty of the estimates, noting:

129 BEIS, Annual report and accounts 2020-21, HC 808, 25 November 2021, p121
130 As above
131 As above, p130-134
132 National Audit Office, The Bounce Back Loan Scheme: an update, HC 861, 3 December 2021
133 As above, p16
134 NAO, The Bounce Back Loan Scheme: an update, HC 861, 3 December 2021, p46

- the very limited repayment data available so far[135]
- continuing uncertainty about the wider economic situation
- the absence of data that might have been obtained from credit checks.[136]

Dealing with fraud

Building on its previous review, the NAO's conclusions included the following:

- The Department had prioritised getting the money out and had passed the responsibility for dealing with fraud to the lenders.
- Government departments introduced further counter-fraud measures and the BBB introduced measures to identify duplicate applications, "but most came too late to prevent fraud and were focused instead on detection."[137]
- The Department's approach "lacked clear governance at the outset and sufficient resources", but was evolving over time.
- Given the potential scale of fraud and the limited resources available, the Department had decided to prioritise fraud relating to organised crime. The Department relied on the efforts of "stretched" enforcement agencies to do this. The Government guarantee meant that lenders had little incentive to go beyond scheme rules to recover overdue loans, fraudulent or otherwise. The Treasury had asked lenders to prioritise applications that appeared had intended to mislead over those that had overstated turnover by less than 25%.[138]

The Public Accounts Committee's consideration of the NAO's findings is discussed in section 8.4.

8.3 Resignation of Lord Agnew and reactions

On 24 January 2022, Lord Theodore Agnew, Minister of State at the Cabinet Office and the Treasury, resigned from his post while responding to a question from Lord Tunnicliffe about fraud in coronavirus business support schemes.

135 As no repayments were required for the first year of the loan, there would in theory have been no requirement for any businesses to make any repayment before May 2021.

136 NAO, The Bounce Back Loan Scheme: an update, HC 861, 3 December 2021, p26

137 For an overview of counter-fraud measures adopted, see National Audit Office, The Bounce Back Loan Scheme: an update, HC 861, 3 December 2021, p36-38

138 NAO, The Bounce Back Loan Scheme: an update, HC 861, 3 December 2021, p10-11

Describing the Government's counter-fraud response as "desperately inadequate", he referred specifically to weaknesses within the Bounce Back Loans scheme:

> The oversight by both BEIS and the British Business Bank of the panel lenders of the BBLS has been nothing less than woeful. They have been assisted by the Treasury, which appears to have no knowledge of, or little interest in, the consequences of fraud to our economy or society. Much store has been given to the extra money allocated to HMRC, but it took a year to happen, and this department was already the most competent and well-funded in that discipline; whereas at the beginning of Covid, BEIS had the grand total of two counter-fraud officials on its staff, neither of whom were experienced in the subject. They refused to engage constructively with the counter-fraud function that sits in the Cabinet Office, has considerable expertise and reports directly to me.
>
> Schoolboy errors were made: for example, allowing more than 1,000 companies to receive bounce-back loans which were not even trading when Covid struck. They simply failed to understand that company formation agents hold in stock companies with earlier creation dates. I have been arguing with Treasury and BEIS officials for nearly two years to get them to lift their game; I have been mostly unsuccessful.[139]

Responding to Lord Agnew's specific and wider comments, Rishi Sunak, then Chancellor, reiterated the importance and urgency of getting support out to businesses during the pandemic. He promised that the Government would "do everything we can" to recover funds.[140]

Rachel Reeves, the shadow Chancellor, said that the situation was "a damning indictment of the Chancellor and the Government's failures on fraud."[141]

Giles Wilkes, senior fellow at the Institute for Government, said that Lord Agnew was right to criticise the Government's delayed and limited response to combating fraud. He argued that "[w]e should not allow the unique and extreme circumstances of the pandemic to obscure what is clearly a far from adequate performance in this area."[142]

Tackling Fraud debate, February 2022

In a wider Commons debate on tackling fraud on 1 February 2022, Rachel Reeves described the BBLS situation as "lamentable" and called on the Government to both clarify the extent of fraud and to provide more support to

139 HL Deb [Coronavirus Grant Schemes: Fraud], 24 Jan 2022, c19-22

140 BBC, "Covid fraud: Rishi Sunak denies writing off stolen support funds", 26 January 2022 (accessed 27 January 2022)

141 Labour.org, "Rachel Reeves responds to anti-fraud minister's resignation over 'lamentable' Covid loan oversight", 24 January 2022 (accessed 27 January 2022)

142 Giles Wilkes, "Lord Agnew is right: Covid support write-offs merit more resources", Institute for Government, 2 February 2022 (accessed 17 March 2023)

fraud investigators. She referred to early warnings made by independent agencies about the potential for fraud (as reported in section 5.4).[143]

Michael Ellis, then Paymaster General, noted that the loans and other schemes had responded quickly to unique events and that "[m]any thousands of jobs were saved." Labour Members, he said, had been "screaming about" the support needed. He reiterated the steps taken over time to strengthen the checks in place. He said that estimates of the extent of BBLS fraud had been revised…down from £4.9 billion to £3.3 billion.[144]

Dame Meg Hillier, Labour Chair of the Public Accounts Committee, criticised the Paymaster General's assertion that "nearly 80% of the loans are being repaid or have already been repaid", pointing out that most of those repayments were just beginning and might take up to ten years.[145]

Michael Ellis emphasised that "newspaper reports that the Treasury has written off £4.3 billion in fraudulent covid support payments are simply not true."[146]

Peter Grant of the SNP said that the Paymaster General had spoken "dismissively" of pessimistic levels of fraud. He reminded the House of warnings in the requests for ministerial directions (see section 5.1), arguing that the Government had been aware of the possibility of such high levels.[147]

Summing up for the Government, John Glen, then Economic Secretary, recalled the "outcry of anxiety" from businesses, the public and "Members across the House" at the delays arising from CBILS (see section 4), which had led to the increased guarantee offered under BBLS. He said that the Government had discussed issues arising from that approach with the then shadow Chancellor.[148]

The Economic Secretary argued that it would have been impossible to have achieved that speed of response with the later level of checks in place. He added that the Government had provided more support to investigate and counter fraud and would continue to do so.[149]

143 HC Deb [Tackling Fraud and Preventing Government Waste], 1 Feb 2022, c152-155
144 As above, c157-160
145 As above, c160
146 As above, c161
147 As above, c188
148 HC Deb [Tackling Fraud and Preventing Government Waste], 1 Feb 2022, c198
149 As above, 1 Feb 2022, c198-200

8.4 Public Accounts Committee follow-up inquiry, 2022

The Public Accounts Committee considered the 2021 NAO report on 10 January 2022,[150] two weeks before Lord Agnew's resignation, and published its report and recommendations on 27 April 2022.[151]

January hearing

Members asked about **apparent divergences** between both the proportion of businesses supported in different constituencies and estimated fraud rates by lender. They wondered how far small businesses had "misunderstood" the rules. Patrick Magee (Chief Commercial Officer at the British Business Bank) noted:

> Different fraud typologies will have different levels of loss given to fraud. There are those cases where people go, "I applied because I was really concerned. I pushed the rules a little bit." They now do not need the liquidity and have paid it back. Though they may have stretched the rules a little bit, there has been no loss to the taxpayer.[152]

On the **high levels of expected fraud and error**, Charles Roxburgh (Second Permanent Secretary, HM Treasury) reminded the Committee that Ministers had been alerted to the risk and "judged [it] appropriate to go ahead."[153]

Patrick Magee noted that the scheme had been set up within 11 days and had incorporated some "core checks". These had "stopped about £2.2 billion of fraud in about 60,000 cases."[154] He also argued that the later delay in implementing a system to identify duplicate applications had involved aligning the IT systems of 28 lenders.[155]

Turning to **efforts to identify fraud and recover funds**, Sarah Munby (Permanent Secretary at BEIS) emphasised that BEIS's own investment was part of a much wider effort that included the lenders, police forces and the Insolvency Service. While there was a focus on high-level fraud, other remedies might be in place. These included disqualifying directors and putting markers against individuals and businesses that would deny them future credit. But the whole process would also have to take account of

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150 Public Accounts Committee, Oral evidence: Bounce Back Loan Scheme: Follow up, HC 951, 10 January 2022

151 Public Accounts Committee, Bounce Back Loans Scheme: Follow-up, HC 951, 27 April 2022

152 As above, Q36-48

153 Public Accounts Committee, Oral evidence: Bounce Back Loan Scheme: Follow up, HC 951, 10 January 2022, Q52

154 As above, Q54

155 As above, Q59-60

situations where, for instance, new businesses had had to estimate their future turnover.[156]

On the question of **loans being given to inactive companies**, the witnesses again emphasised the pressure to establish the scheme and to get funds out. Meg Hillier, the Committee Chair, observed that fraudsters might be more focused on fraud than on running businesses, which might reduce the punitive effect.[157]

Sarah Munby noted that while it might have been possible to have done more **preparation for such crises**, it was unlikely that such efforts would have closely addressed the specific needs raised by the pandemic. This was a wider issue across Government, which had been much more focused at the time on the prospect of a no-deal Brexit. The 100% guarantee offered for Bounce Back loans had imposed great challenges for dealing with fraud and loss effectively.[158]

Report and recommendations

The Committee's conclusions and recommendations (reported in April 2022) included the following:

- The scheme had been developed and launched at "breakneck speed". There was continuing uncertainty about the levels of loss.
- The "eye-watering" potential losses implied a need for BEIS to both increase resources to reduce fraud levels and to improve the accuracy and timeliness of its estimates.
- BEIS had been "complacent" in its approach to fraud. It had taken months to set up some of the basic checks. Its investigation was now prioritising organised crime rather than small-scale fraudsters, which might undermine wider efforts to deter fraud. It should in future be more explicit from the outset about any trade-offs involved.
- There seemed to be too much reliance on lenders' own efforts to minimise losses, especially as the scheme offered a 100% guarantee on written-off loans. There was little information about the differing levels of lenders' performance. The Committee asked BEIS to explain how it would use incentives to improve lender performance in managing the loans.
- The BBB should develop a business case for a future emergency loans scheme within six months.[159]

156 Public Accounts Committee, Oral evidence: Bounce Back Loan Scheme: Follow up, HC 951, 10 January 2022, Q61-66

157 As above, Q78-89

158 As above, Q68-70

159 Public Accounts Committee, Bounce Back Loans Scheme: Follow-up, HC 951, 27 April 2022

Government response

The Government responded to the report in July 2022.[160] It said that it:

- agreed with the importance of improving its understanding of levels of loss and was finalising its approach to combating fraud in the programme. This would involve allocating resources made available in the Spring Statement and improving understanding of the scheme's impact from the evaluation (see section 10). It would also monitor data on repayments and the proportion of borrowers who were "experiencing difficulties".[161]

- had allocated almost £50 million to counter-fraud work, and over half of this was focused on Bounce Back loans. The effort would involve cooperation and intelligence-sharing across lenders and a number of agencies, and again would be refined as knowledge increased.[162]

- had learnt lessons from the experience of dealing with the pandemic that would be useful in developing future responses – including understanding an expressing any trade-offs involved. It noted that it had been aware of many of the risks involved from the outset.[163]

- was working closely with the British Business Bank and lenders to improve data collection and sharing relating to performance.[164]

- considered the twelve-month deadline for recoveries to be somewhat flexible, as it depended on such factors as when payments began and whether they were renegotiated thereafter. In addition, any later recoveries would have to be repaid to the Government, and the longer-term counter-fraud strategy that was being developed could be applied to recover more funds.[165]

- disagreed with the recommendation to develop a business case for a future emergency loans scheme, because the factors leading to such a need were unpredictable and variable. Nevertheless, the Recovery Loans Scheme might act as a useful template.[166]

160 Treasury Minutes, Government Response to the Committee of Public Accounts Session 2021-22 and 2022-23, Fiftieth Report – Bounce Back loans scheme: follow up, CP 722, July 2022, p7-14
161 As above, p7-9
162 As above, p9-10
163 As above, p10-11
164 As above, p12
165 As above, p12-13
166 As above, p14

8.5 Further Select Committee consideration, 2022

Both the BEIS and Treasury Select Committees conducted oral evidence sessions that considered Covid loan fraud in the early months of 2022, both of them after Lord Agnew's resignation.

- The Treasury Committee held an oral evidence session with Lord Agnew on 9 March 2022 and another with civil service and British Business Bank staff on 27 April 2022. This was part of the Committee's wider inquiry into the Treasury's role in combating fraud.[167]
- The BEIS Committee held three oral evidence sessions on 15 March 2022. They invited Lord Agnew and the British Bank, as well as representatives from the major banks.[168]

Lord Agnew's perspective

Lord Agnew reiterated the importance of BBLS as a "lifeline" to businesses and had "no problem" with the fact that it was likely to result in "very significant credit losses". But he described the scheme's approach to fraud as "a Dad's Army operation". He repeated his frustration at what he saw as a wider unwillingness on the part of the British Business Bank, BEIS and the Treasury to liaise with anti-fraud experts in the Cabinet Office. He criticised the BBB for not providing more detailed data earlier.[169]

Overall, he highlighted the continuing urgent need for more data and further consideration of how to recover funds and operate the Government guarantee.[170] He also suggested that there were wide variations in the performance of the lenders,[171]

Responses from the Treasury and the British Business Bank

Staff of the British Business Bank felt that Lord Agnew's comments were "unfair". They reminded the Committee that they had raised concerns about fraud in the reservation notice, but that they had received "very clear" instructions from BEIS to continue.[172]

Sir Tom Scholar, Permanent Secretary at HM Treasury, agreed with the BBB staff. He referred to the Government's strong focus on disbursement, given the potential "devastating consequences" of a delay of even a few weeks. He

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167 Treasury Committee, HM Treasury's role in combating fraud: Inquiry
168 BEIS Committee, Covid loan fraud: non-inquiry session, HC1190, 15 March 2022
169 Treasury Committee, Oral evidence: HM Treasury's role in combating fraud, HC1156, 9 March 2022, Q2-10
170 As above, Q43
171 As above ,Q91-98
172 As above, Q133-142

said that the banks had all agreed that instituting further checks would lead to such a delay.[173] He later noted that it was “striking” to note that the concerns about fraud in the loans schemes were almost entirely confined to BBLS: the design of CBILS and CLBILS had not departed so far from normal commercial practices.[174]

The major banks’ perspectives

The BEIS Committee’s evidence session with representatives of the five banks uncovered some new perspectives.[175]

Most notably, the banks estimated levels of fraud as far lower than even the revised 7.5% estimate reported by BEIS. The bank’s individual estimates ranged from less than 1% (Santander) to 2 to 2.5% (Lloyds/Bank of Scotland).[176]

The banks had seen much lower levels of fraud. They suspected most would arise from misrepresentation of turnover.

Hannah Bernard (Head of Business Banking at Barclays) suggested that most cases of fraud were likely to result from applicants inflating their expected turnover, rather than from duplicate applications or “scheme abuse”. Such cases might only come to light as and when borrowers failed to repay.[177]

The witnesses reported “[v]ery constructive discussions” involving the BBB, HM Treasury and UK Finance in the development of the scheme. The witnesses reported that the banks had agreed that the CBILS process was not a suitable for response to the “speed and urgency” involved. But they were raising concerns about “the implications” of the simplified approach within two days of the launch of BBLS.[178]

Andrew Harrison (Head of Business Banking at Natwest) pointed out that lenders “were instructed not to undertake the normal credit checks, because that would have precluded a large number of businesses getting access to those funds.”[179]

The Chair, Darren Jones, summed up the continuing lack of certainty about the levels of potential losses, declaring that he “genuinely [had] no idea how much fraud there is.[180]

173 Treasury Committee, Oral evidence: HM Treasury’s role in combating fraud, HC1156, 9 March 2022, Q175-179
174 As above, Q251
175 BEIS Committee, Oral evidence: Covid loan fraud, HC1190, 15 March 2022. The five banks represented were Barclays, HSBC, Santander, Lloyds/Bank of Scotland and Natwest/RBS.
176 As above, Q177
177 As above, Q189-191
178 As above, Q146
179 As above, Q154-156
180 As above, Q196

9 CLBILS and the collapse of Greensill

Greensill Capital UK Limited was a financial services company that went into administration in March 2021. It specialised in supply chain finance, a method that allows businesses to meet their short-term liquidity needs.[181]

The British Business Bank had accredited Greensill as a lender for both CBILS and CLBILS. In apparent contravention of the rules of the latter scheme – which limited borrowers to a maximum of £50 million, or £200 million for a group, subject to further accreditation – Greensill lent a total of £350 million to the Gupta Finance Group Alliance (GFG).[182]

9.1 British Business Bank concerns

The BBB raised concerns with Greensill about its actions in October 2021. It suspended Greensill's rights to make loans under the two schemes. Greensill replied that "it considered the loans to be compliant".[183]

The BBB then raised concerns with BEIS and HM Treasury and began an investigation of the matter. Greensill told BBB that it had "received 'political steers' that its support for the steel industry was welcome."[184]

In March 2021, the Bank "came to a provisional view that there was enough evidence to conclude that Greensill had breached the Guarantee Agreement terms." It wrote a Letter of Concern to Greensill on 2 March, six days before the company entered administration. Greensill disputed the Bank's conclusions via the administrators.[185]

9.2 NAO investigation

The National Audit Office undertook an investigation into the way that the BBB had accredited Greensill.[186] Reporting in July 2021, it found that the Bank had "followed a streamlined version of its established process for accrediting

181 See Treasury Committee, Response from the Bank of England to the Committee (PDF), 6 May 2021
182 National Audit Office, Investigation into the British Business Bank's accreditation of Greensill Capital, HC301, 7 July 2021, p9
183 As above, p36
184 As above, p38
185 As above, p38
186 As above

lenders" when it considered Greensill's application. It suggested that if it had undertaken a more thorough and "sceptical" review, the Bank might have questioned some of Greensill's approaches, including "loan default rates; exposure to specific borrowers and product types", all of which had been raised in the press before it granted the company accreditation. The NAO nevertheless acknowledged that the Bank's post-accreditation processes had quickly picked up apparent breaches of its rules.[187]

The investigation also noted that BEIS had been "particularly interested" in progress with Greensill's accreditation, and made numerous enquiries during the process, approaches that the Department considered "informal". The Bank's own review had found that this attention did not influence its approach.[188]

9.3 Responses to the investigations

The Treasury Committee's wider inquiry into Lessons from Greensill nevertheless questioned whether relevant information about Greensill and GFG might have been more effectively communicated between the Treasury, BEIS and the BBB.[189]

The Public Accounts Committee highlighted that "the lack of information-sharing across government ha[d] once again hampered sound decision-making in government's response to the pandemic and allowed Greensill access to taxpayer-funded schemes." It expressed concern that the Bank had declared itself "very surprised" when it found that the company had apparently breached the rules.[190]

The British Business Bank accepted the NAO's findings. It noted that while it might have operated a less streamlined approach to accreditation overall, doing so would have risked delaying accreditation of other lenders and so the wider release of funds.[191] It continues its own investigation of potential breaches of scheme rules by Greensill.

On 14 July 2022 the BBB wrote to the Chair of the Public Accounts Committee confirming that the guarantee obligations relating to Greensill loans had been withdrawn. This means that the Government is not obliged to pay Greensill in the event of borrower default.[192]

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187 NAO, Investigation into the British Business Bank's accreditation of Greensill Capital, HC301, 7 July 2021, p12

188 As above, p9

189 Treasury Committee, Lessons from Greensill Capital, HC151, 20 July 2021, para 185-200

190 Public Accounts Committee, Lessons from Greensill Capital: accreditation to business support schemes, HC169, 20 November 2021, p3

191 BBB, "British Business Bank responds to National Audit Office Investigation into the accreditation of Greensill Capital" (press release), 7 July 2021 (accessed 21 June 2022)

192 BBB, Letter from Catherine Lewis La Torre to Meg Hillier (pdf), 14 July 2022

10 Evaluation of the schemes

The British Business Bank has commissioned London Economics (a policy and economics consultancy) and Ipsos MORI (a market research consultancy) to undertake a three-year evaluation of the three original loan schemes.

The evaluation will consider:

- how far the programmes met their objectives, and their overall impact
- the process of establishing and running the programmes
- value for money of the programmes[193]

10.1 First report, 2022

The first report from the evaluation, published in June 2022, focused on the process and emerging findings about the impact of the programmes. The findings included the following:

- BBLS set out to reduce the time taken to decide on applications from five weeks under CBILS to 24 to 48 hours. While this responded effectively to the urgent needs of many small businesses, it’s not clear that most BBLS applicants needed to receive funds **quite** that urgently.
- That said, not removing as many of the standard checks would quickly have led to backlogs and therefore longer decision times and increased risk to business survival.
- The programmes may have helped up to a third (so up to 500,000) of the businesses that took out loans to survive. The evaluators estimated that between 7% and 28% of CBILS/CLBILS borrowers and between 10% and 34% of BBLS borrowers might have closed down permanently in 2020 without that support.
- Those estimates suggest that the programmes helped to save between 0.5 and 2.9 million jobs. The evaluators note that this may have had a knock-on effect, helping to maintain wider economic activity and jobs.

193 BBB, Evaluation of the Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme, and Coronavirus Large Business Interruption Loan Scheme: Process evaluation and early impact assessment, June 2022, p6

- The evaluators estimate that 81% of BBLS loans and 77% of CBILS/CLBILS loans were additional – that is, they offered finance that would otherwise not have been available to businesses.
- Businesses were most likely to use the funds for working capital or to support resilience.[194]

Reporting on the findings, the Financial Times noted that between 38% and 45% of businesses that took out loans wouldn't have otherwise sought credit, which suggested that "[t]he UK taxpayer took on the risk of lending to many businesses that may not have needed financial support to survive the Covid crisis".[195]

Catherine Lewis La Torre, CEO of the BBB, said that the evaluation demonstrated the importance of the programme in saving businesses and jobs, as did Martin McTague of the Federation of Small Businesses. Chris Wilford of the CBI said that the programmes "had made a critical difference".[196]

194 British Business Bank, Evaluation of the Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme, and Coronavirus Large Business Interruption Loan Scheme: Process evaluation and early impact assessment, June 2022, p11-14

195 UK Covid loans went to businesses not facing distress, says report", Financial Times [online], 14 June 2022

196 British Business Bank, "Covid-19 loan guarantee schemes may have saved between 150,000 and 500,000 businesses and between 500,000 and 2.9m jobs, finds initial evaluation" (press release), 14 June 2022 (accessed 15 June 2022)