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Committee of Public Accounts

# Bounce Back Loans Scheme: Follow-up

## Fiftieth Report of Session 2021–22

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# Summary

When we examined the Bounce Back Loan Scheme in December 2020, we warned that the Department for Business Energy & Industrial Strategy's (the Department) focus on the speed of delivery had exposed the taxpayer to potentially huge losses. The latest data shows that business survival has come at a cost to the taxpayer: the Department estimates that an eye-watering £17 billion of taxpayers' money given out in loans will be lost, £4.9 billion of which is the result of fraud. These losses are money that could have been spent on improving existing public services, reducing taxes or to reduce government borrowing. The Department admits that fraud within the Scheme is well outside what it would normally consider tolerable but cannot specify what that level should be. We are not yet convinced that it had done all in its power to prevent fraud. The Department and the British Business Bank (the Bank) missed opportunities to prevent fraud and the Department's focus on 'top-tier' fraudsters could put other government schemes at risk due to the lack of a deterrent effect.

The Bank delivered the Scheme at impressive speed, but the Scheme's long-term impact is uncertain and will need careful management. Early indications show that the Scheme has helped businesses to survive the pandemic in the short-term. But it is only when borrowers reach the end of their six- or ten-year loan period and either repay their loans, or they are written off if businesses have not survived, that we will be able to judge the Scheme's impact. So far, the Scheme met its initial goal to get money to a range of businesses quickly, delivering 1.5 million loans totalling £47 billion, with most issued within the first two months.

The Department is relying heavily on lenders to fix credit and fraud risks. As the taxpayer underwrites the scheme it is vital that lenders pursue debt but at present the scheme does not incentivise lenders to do this. Lenders did not always know the business they were lending to (the speed and limited number of original lenders contributed to this). The department has also lacked data to hold lenders to account. It is unacceptable that the Department has no long-term plans for recovering overdue debts and it cannot just accept the current level of accepted debt. Government as a whole must to learn the lessons from this Scheme to plan more effectively for future crises and protect taxpayers' money.

# Introduction

The Department for Business, Energy and Industrial Strategy (the Department) launched the Bounce Back Loan scheme (the Scheme) in May 2020. It is the largest of three Covid-19 related business loan support schemes. The Scheme targeted the smallest businesses and sought to provide them with loans of up to £50,000, or a maximum of 25% of annual turnover, to maintain their financial health during the pandemic. The loans have a fixed interest rate of 2.5% and a maximum length of either six or ten years. In the first year of the loan there are no capital repayments due, and Government pays the interest—making it interest-free for the borrower. The Scheme closed for new applicants in March 2021 and in total it has provided 1.5 million loans worth £47 billion to businesses across the UK. We examined the Scheme in December 2020 and warned that the Department's focus on the speed of delivery had exposed the taxpayer to potentially huge losses. In addition, we concluded that Government lacked data to assess the levels of fraud. The Department estimated in its Annual Report and Accounts 2020–21 that it would lose £17 billion as a result of the Scheme, of which £4.9 billion was because of fraud.

The Scheme aimed, in most cases, to deliver money to borrowers within 24 to 48 hours of applying. To make the process as fast as possible, the Scheme did not require lenders to check the information on the loan application form or to perform credit and affordability checks. Borrowers are expected to repay the loans in full and lenders are required to conduct basic counter fraud tests. But owing to the absence of credit checks, Government provides lenders a 100% guarantee on the loans. In practice, this means that if the borrower does not repay the loan, Government will.

The British Business Bank (the Bank) manages the Scheme on the Department's behalf and the loans are delivered through 24 commercial lenders such as banks and building societies. The commercial lenders are also responsible for administering loan repayments and pursuing borrowers for missed repayments for up to 12 months after the issue of a formal demand. There is no minimum on the amount of time lenders need to pursue borrowers before claiming on the guarantee and lenders can claim on the guarantee before they complete pursuing borrowers for the full 12 months. Because loans did not begin repayment until May 2021, and borrowers can seek a further six-month repayment holiday, there is limited repayment data to analyse.

# Conclusions and recommendations

1. **The Department and the Bank delivered the Scheme at breakneck speed, but the long-term impact of the Scheme is uncertain.** The Scheme was launched within 11 days of its announcement. The Scheme met its initial goal to get money to a range of businesses quickly, delivering most of the £47 billion of loans to businesses in its first two months. The Department asserts that early indications are that the Scheme has helped business survival in the short term. While most businesses have started to repay loans, it is only when borrowers reach the end of their six- or ten-year loan period and either repay their loans, or the loans are written off if businesses have not survived, that we will be able to judge the Scheme's impact. The Department estimated, however, that between 31% and 48% of loans will not be repaid—a narrowing on the estimate in its 2019–20 Annual Report & Accounts that up to 60% of loans would not be repaid. The Scheme is already expected to lose an estimated £17 billion of taxpayers' money as a result of both genuine borrowers who are unable to repay and because of fraud. The Department has evaluation plans covering the next three years and it expects the first tranche of the evaluation in February 2022. But it has yet to identify the necessary control group of similar companies who took out loans in order to measure the success of the Schemes.

   **Recommendation:** ***The Department should put in place a clear strategy to manage the long-term legacy of the Scheme within a month of the publication of its evaluation report.***

   ***The Bank should also write to us with details of its plans to measure the Scheme's long-term impact, including identifying a reliable control group, within a month of the publication of Department's strategy.***

2. **The potential Scheme losses are eye-watering, and we are not convinced the Department has the data it needs to manage the risks to the taxpayer.** The Department estimated in its 2020–21 Annual Report and Accounts that it would lose £17 billion as a result of the Scheme, of which £4.9 billion was because of fraud. We have seen similarly high levels of expected losses due to fraud in other Covid-19 business support schemes, with losses from fraud and error within the furlough and self-employment schemes estimated at £5.7 billion. This staggering amount of taxpayer money could have been spent on improving existing public services. The Department admits that fraud within the Scheme falls well outside what it would consider a tolerable level, although it cannot tell us what that level should be. Its fraud estimate does not include all potential types of fraud, such as suspected turnover inflation fraud to claim larger loans than a borrower is entitled to. To date, it has allocated just £32 million to countering fraud and does not know whether lenders or other stakeholders, including law enforcement agencies, have the resources they need to counter fraud. The Department reports its estimates of losses once each year and these have a high level of uncertainty. The Bank's loan data from the 24 commercial lenders under the Scheme has data limitations as each lender categorises and reports data in a slightly different way. The Department is trying to improve its approach to quantifying losses in the Scheme, but it is almost two years since its launch.

**Recommendation:** ***The Department should, within the next 3 months, develop a strategy setting out the increase needed in Scheme counter-fraud resources for all relevant government stakeholders to both reduce fraud levels to a tolerable level and to maximise recoveries.***

***As part of its Treasury Minute response, the Department should explain how it intends to improve the accuracy and timeliness of its estimates of losses within the Scheme.***

3. **The Department has been complacent in preventing Scheme fraud and its prioritisation of 'top tier' fraudsters puts other government Schemes at risk.** The risks that we identified at the outset of the Scheme have now materialised. The Department requested, and received, a ministerial direction at the start of the Scheme as it expected high levels of losses. Even so, counter-fraud measures were introduced too slowly. For example, it took a month after the Scheme's launch to set up checks to prevent duplicate applications because of delays in joining up information held by different parties. The Scheme did not require lenders to check a businesses' claimed turnover against its records for existing customers; this meant some borrowers received a larger loan than they were entitled to. It also took the Department 8 months to introduce checks to ensure businesses' claimed turnover was correct, by which time 93% of the loans by value had been issued and some received more than they were entitled to. The Department and the Bank have placed less emphasis on tackling those smaller scale fraudsters who deliberately misstated their details, such as turnover, than on organised crime. The consequences of fraudulent activity include the individual being banned from being a company director or being able to borrow in the future, but this assumes they are pursued and caught. The Department's response for 'smaller' fraudulent claims is limited and may mean that fraudsters will walk away with the money – something the Department's fraud-loss estimates suggests is a real risk. We are concerned that its complacency towards smaller scale fraud and turnover misstatement provides a limited deterrent effect and could encourage fraudsters to try to take advantage of other government schemes.

**Recommendation:** ***Next time the Department launches an emergency business support scheme, it should be explicit on the trade-offs and level of fraud it is prepared to tolerate from the outset.***

***The Department should urgently outline how it will change its plans to adopt a more robust approach to reducing all types of fraud, and should commit to including anti-fraud measures from the outset so that it acts as a deterrent effect for other schemes.***

4. **We are concerned that the Department is placing too much reliance on lenders to minimise taxpayer losses without incentivising them to do so.** When the Scheme launched the Department relied solely on lenders to prevent taxpayer losses by requiring them to do 'know your customer', and 'anti-money laundering' and some basic counter-fraud checks. It is also relying on lenders to recover overdue loans rather than doing so itself, as it considers commercial lenders to be the experts in this field and already follow similar recovery processes for standard commercial loans. The Scheme guarantees to cover 100% of lenders' losses which offers limited commercial

incentives for them to pursue borrowers for more than the minimum period under scheme rules. The Department relies on contractual, legal and regulatory obligations to ensure lenders comply with the Scheme. Evidence on the effectiveness of the lenders' operations is slim, but there are some worrying indicators. The Bank runs a lender assurance programme to test whether lenders adhere to Scheme rules; and the commercial lending regulator wrote to lenders in July 2021 to remind them of their obligations to report fraud and put in place adequate counter-fraud resources. But none of the witnesses could tell us how much lenders are spending on this. The department now plans to create a simple dashboard of management information to improve its ability to hold lenders to account. Together this gives an unconvincing picture of how lenders are bearing down on large amounts of outstanding debt and we are not convinced that lender audits are a replacement for commercial incentives.

**Recommendation:** ***The Department should, as part of its Treasury Minute response, set out how it will use legal, regulatory and contractual incentives to improve the lenders' performance in managing the loans and the risks to the taxpayer. Furthermore, it should report to the Committee on individual lender performance using the dashboard data which was due to be presented to the new cross-Whitehall counter fraud board.***

5. **It is unacceptable that the Department has no plans to recover outstanding debt after lenders have pursued borrowers for up to 12 months.** There is no minimum term that lenders are required to pursue borrowers for payments. Lenders are not expected to continue to pursue borrowers after 12 months. Lenders can claim on the government guarantee before the end of the 12-month period if they have conducted what they consider to be a "sufficient and robust level of recoveries" and have concluded that no further payment is likely. The Bank and the Department assert that lenders could pursue overdue payments for longer than 12 months if they chose to do so, and believe it would be in the borrower's commercial interest to repay if they want to maintain their bank account with that lender. The Department was also not in a position to state what the shortest time period had been for a lender to claim their guarantee. We are concerned that this presents an overly optimistic view about lenders' incentives to recover funds and how the Bank's lender assurance programme would work towards recovering unpaid loans beyond this 12-month period. The Department has, however, agreed to consider alternative approaches to recovering loans.

   **Recommendation:** ***The Department should, as part of its Treasury Minute response, set out its strategy for collecting overdue payments after the lenders have completed their 12-month requirements. In addition, the Department should write to the Committee and provide further information on what the shortest time period has been for a lender to claim on their guarantee to date and how this compares to the average.***

6. **The Scheme has distorted the Small and Medium Enterprise (SME) lending market in favour of the largest UK banks, which goes against the Bank's objective of creating a diverse finance market for SMEs.** The Scheme's low interest rate made it uneconomical for smaller or alternative lenders to participate to the same extent as larger lenders. This meant that some smaller lenders did not take part in the Scheme and larger lenders, who traditionally are less active in the SME lending market, lent

relatively more. This resulted in the largest UK banks taking a 90% share in the Scheme's lending to SMEs, distorting competition in the SME lending market as the Department and Bank expected at scheme launch. While we are encouraged to hear that the Department believes diversity is returning to the lending market, we remain concerned about its ability to identify and address any unintended or unforeseen consequences and the longer-term impact of the Scheme on the lending market.

**Recommendation:** ***The Bank should develop a strategy to mitigate the negative impact of the Scheme on the SME lending market and publish its findings in its next Small Business Finance Market report.***

***The Department should, alongside its Treasury Minute response, identify the unintended consequences of the scheme and what impact these have had.***

7. **The Department has not yet identified how it will share the lessons from the Scheme.** The Department asserts that it has applied some of the lessons it has learned from this Scheme in the subsequent Recovery Loan Scheme, such as introducing additional reporting requirements on lenders. It also recognises that it needs to ensure stronger counter-fraud capability and data-sharing across government to be in place from the start of any future scheme. Yet these learnings should have been obvious following the Department's experience in the Financial Crisis when its approach was similarly reactive. We are surprised that the Department and the Bank were so ill-prepared to respond an economic shock, irrespective of the nature of the pandemic. The Department recognises that it would have been possible to design the outline of the Scheme five years ago, but it would not have planned for a scheme of this type because its pandemic preparedness plan did not foresee an event of such gravity. In responding to the pandemic, the Department was able to draw on some of the planning from its experience during the UK's exit from the EU. Carrying lessons forward to future schemes, however, is hindered by the Department's lack of corporate memory, with staff moving to other roles. The Department is shortly due to publish the findings of its first of three evaluations of the Scheme, as part of its three-year Scheme evaluation programme, but it has not shared any plans about how it would disseminate the lessons-learned across government.

**Recommendation:** ***The Department and the Bank should establish a strategy on how it intends to share lessons from the scheme within a month of the publication of their first evaluation report.***

***The Bank should develop a business case for an emergency loan scheme for future crisis within 6 months of publication of this report.***

# 1 Scheme risks and management

## The Bounce Back Loan Scheme

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department for Business, Energy & Industrial Strategy (the Department) and the British Business Bank (the Bank) about the Bounce Back Loan Scheme. We also took evidence from HM Treasury and the Financial Conduct Authority (the FCA).[1]

2. The Department launched the Bounce Back Loan scheme (the Scheme) on 4 May 2020, and it closed for new applications on 31 March 2021. The Chancellor of the Exchequer announced the Scheme on 27 April 2020, 11 days before its launch. The Scheme targeted the smallest businesses and sought to provide them with quick access to loans of up to £50,000, or a maximum of 25% of annual turnover, to maintain their financial health during the pandemic. The loans have a fixed interest rate of 2.5% and a maximum length of ten years; in the first year of the loan there are no capital repayments due, and Government pays the interest—making it interest-free for the borrower. It is the largest of three Covid-19 related business loan support schemes, providing 1.5 million loans totalling £47 billion with most issued within the Scheme's first two months.[2]

3. HM Treasury developed the Scheme with the Department, and the Bank manages the Scheme on the Department's behalf. Loans are delivered through commercial lenders such as banks and building societies. Borrowers are expected to repay the loans in full and lenders are required to conduct basic counter-fraud tests. The commercial lenders are also responsible for administering loan repayments and pursuing borrowers for missed repayments for up to 12 months after the issue of a formal demand. Repayments for the first borrowers started in May 2021, and borrowers could seek a further six-month repayment holiday.[3]

4. The Scheme aimed, in most cases, to deliver money to borrowers within 24 to 48 hours of applying. To make the process as fast as possible, the Scheme did not require lenders to perform credit and affordability check or to check the information on the loan application form—allowing borrowers to 'self-certify' their information. Owing to the absence of credit checks, Government provides lenders a 100% guarantee on the loans: if the borrower does not repay the loan, Government will. Lenders can claim on the guarantee before they complete pursuing borrowers for the full 12 months.[4] We examined the Scheme in December 2020, and warned that the Department's focus on delivery speed had risked all other aspects of value for money, with no measures of the Scheme's success.[5]

## Understanding scheme losses

5. Both HM Treasury and the Department recognised the risks to the taxpayer of prioritising speed over checking information in loan applications, and issued a Ministerial Direction on 3 May 2020 on the grounds that the Scheme would breach HM Treasury rules

1 C&AG's Report, *The Bounce Back Loan Scheme: an update*, Session 2021–22, HC 861, 3 December 2021.
2 C&AG's report, paras 1–2, 6, Appendix Three, Figure 17
3 C&AG's report, paras 2–3, 1.7, 1.13, Appendix Two, Figure 16
4 C&AG's report, paras 4, 1.2, 3.5
5 Public Accounts Committee, *Covid-19: Bounce Back Loan Scheme*, Thirty-Third Report of Session 2019–21, HC 687, 16 December 2020

on value for money. The Department estimated in its 2020–21 financial Annual Report and Accounts that it would lose £17 billion as a result of loans that will not be repaid, of which £4.9 billion are because of fraud. Credit losses relate to borrowers who want to repay, whereas fraud losses relate to those who were dishonest, for example not eligible for a loan or took out a loan with no intention of paying it back.[6] We have seen high levels of losses in our examination of other Covid-19 business support schemes; losses from fraud and error in the furlough and self-employment schemes, for example, are estimated at £5.7 billion.[7] In addition, losses from fraudulent benefit claims are estimated at a further £8 billion.[8] We observed that these high levels of fraud represented a significant amount of taxpayer money which could have been used to fund public services.[9]

6. The Department admitted that the estimated fraud losses on the Scheme were "well outside" what it would consider tolerable. The Bank added that "no level of fraud is tolerable".[10] The Department explained that the risks that it expected at the beginning of the process had "come to pass" and that it was not surprised by the high levels of losses.[11] It asserted that the losses were "in line" with what it thought would happen but it did not specify what an acceptable level of losses should be.[12] Despite this, by October 2020, the Department had allocated only a £32 million budget to countering fraud internally, arguing that lenders had made significant investments in resourcing to recover scheme losses.[13] The Financial Conduct Authority explained that it had sent lenders a letter reminding them of their obligations to have appropriate levels of resources in relation to fraud control. However, neither it nor the Bank were able to provide further detail on the amount of resources the lenders have committed to counter fraud.[14]

7. We asked the Department what data it uses to manage the risk of credit and fraud losses to the taxpayer. The National Audit Office (NAO) reported that the Department's fraud estimate had "known limitations", for example it does not include all potential types of fraud, including suspected turnover inflation fraud. The Department told us that, since our last report on the Scheme in December 2020, it had been trying to improve its understanding and quantification of the fraud risk in particular. The Department recognised that its estimates, however, have "real and meaningful uncertainty" because they are based on sampling and only reported annually despite a "moving" picture of business survival rates.[15]

8. The Department's estimate of the credit loss within the Scheme is also uncertain, as there is no credit score data for borrowers because this was not a scheme requirement. Repayments will also be affected by future macroeconomic conditions which are themselves uncertain. In addition, because loans did not begin repayment until May 2021

6 C&AG's Report, Key facts, (page 4), paras 5, 13

7 HM Revenue & Customs, Annual report and accounts 2020–21, *Report by the Comptroller and Auditor General*, para 3.11. See also Public Accounts Committee, *HMRC Annual Report and Accounts 2020–21*, HC 641, 1 December 2021.

8 Public Accounts Committee, *The Department for Work and Pensions' Accounts 2020–21 – Fraud and error in the benefits system*, Twenty-Fifth Report of Session 2021–22, HC 633, 17 November 2021, para 4. See also: Department for Work & Pensions, Annual Report and Accounts 2020–21, HC 422, para 6.

9 Q 81

10 Qq 54–55

11 Q 90

12 Q 51

13 Q 62, C&AG's Report, para 17

14 Qq 30, 63–64

15 Qq 17, 55; C&AG's Report, para 2.8

and borrowers can seek a further six-month repayment holiday, there is limited repayment data to analyse. With this repayment profile it will take some time for the Department to measure the total losses to the taxpayer of this Scheme. The Department told us that its credit and fraud estimates will become more accurate over time and that it is likely that fraud losses will become apparent before credit losses. However, it acknowledged that "there will always be a level of uncertainty in our estimates".[16]

9. The Bank began collecting Scheme loan data from the 24 Scheme lenders in July 2021, where lenders provide data to the Bank via a collections system. The Bank said that it holds loan data from lenders across 70 different datapoints, including the name and address of the borrower, term of the loan and size. It explained that it was aggregating this data from all of the Scheme lenders and interrogating it to spot trends and errors.[17] Despite the Department and the Bank telling us that they had a "rich" and "comprehensive" loan dataset, the NAO found that lender data can be unreliable as the system depends on lenders submitting accurate and timely data, and each lender reports it on a different basis.[18] Some lenders might choose not to report suspected fraud, which makes comparisons subjective; while some lenders do not share their underlying data.[19] The Bank wrote to us and told us that it was working with lenders to understand what was driving these differences, such as different business models, or that some lenders might not have had a pre-existing relationship with Scheme borrowers.[20]

## Reliance on lenders for recoveries

10. The Scheme rules required commercial lenders to deliver loans and pursue recovery processes in line with their existing business-as-usual standards. The Department and HM Treasury stated that the majority of recoveries and counter-fraud efforts comes from lenders. The Department told us that the commercial banking sector was the "best of the best" at managing the Scheme's recovery process in line with equivalent standard loans, with the Bank adding that lenders have "decades, if not centuries" of related expertise.[21] The Department had therefore concluded that it would not make sense for it to recover loans because lenders undertook that role. It explained that the Department, therefore spends a "tiny fraction" of budget on loan recovery compared with the resources among lenders and law enforcement agencies. Instead, the Department and the Bank told us that it saw its role to define the minimum standards and make sure the overall system is working well.[22]

11. Although the Department referred to lenders as the "arms and legs" of the Scheme, none of the witnesses could tell us how much lenders are spending on counter-fraud activities. The FCA said, for example, that lenders had "scaled up quite significantly", but it could not tell us when they had done so and it recognised that it still needed to discuss with lenders the size and scale of resources in place. It had issued some guidance to lenders; as the NAO reported, it wrote to lenders in July 2021 to remind them of their

16 Qq 17, 55; C&AG's Report, Appendix One, para 12
17 Qq 19, 21, 53; C&AG's Report, Appendix One, para 6
18 Qq 17, 53; C&AG's Report, Appendix One, para 7
19 C&AG's Report, para 2.29
20 Correspondence from Catherine Lewis La Torre, Chief Executive, British Business Bank, Re Bounce Back Loans, 27 January 2022, published 31 January 2022
21 Qq 28, 55, 57, 62, 92; C&AG's Report, para 2.27
22 Qq 28, 62

obligations to report fraud and have an adequate level of resources.[23] The Bank explained that lenders were not keen on doing a detailed cost allocation exercise to identify the level of resources, but lenders were reporting their activity to a lender forum for sharing best practice. In its letter to us after our evidence session, the Bank told us that lenders had so far identified 1.4% of the loans by value (£631.5 million) as having suspected fraud, but it expected this number to increase.[24]

12. The Scheme requires lenders to pursue borrowers for missed repayments for up to 12 months after the issue of a formal demand. The Department initially told us that lenders had to wait until after the 12 month period to make a claim on the guarantee.[25] However, it wrote to us after our evidence session to confirm that lenders do not have to wait until the 12 month recovery period has elapsed in order to make a claim. It explained that lenders were permitted to claim under the guarantee within a "reasonable period" after the date on which they had made an initial repayment demand.[26] As part of our inquiry on the Department's Annual Report and Accounts, we asked the Department to clarify the arrangements. The Department told us that there was no minimum term that lenders were required to pursue borrowers. It explained that although it expected in most cases lenders would pursue borrowers for "many months" before claiming on the government guarantee, lenders can claim before the end of the 12-month period if they have conducted "sufficient and robust level of recoveries" and no further payment is likely. Lenders are not required to continue to pursue borrowers after 12 months, although the Department noted that there would be some situations where lenders did so if, for example, a repayment plan had already started[27]

13. The NAO reported that the arrangements for pursuing borrowers offered limited commercial incentive for lenders to maximise recovery of overdue loans.[28] In contrast, the Bank told us that it believed that lenders have strong legal, contractual and regulatory obligations to recover loans. This included oversight by the FCA and lender audits by the Bank to ensure lenders are complying with the Scheme rules.[29] The Department subsequently explained at the time of the launch ministers made the decision that 12 months was a reasonable cap for the recovery process and it can claim back any guarantee from a lender if lender audits show they have not followed the required Scheme rules.[30] The Bank told us that, so far, it had audited every lender, but that this had focused on their loan disbursement rather than recovery activity because repayments have only recently started. It explained that the second phase of the Bank's audit will focus on recoveries and

23 Qq 30, 62–64, 67; Comptroller & Auditor General, Investigation into the Bounce Back Loan Scheme, Session 2019–2021, HC 860, 7 October 2020, para 2.29

24 Q 63; Correspondence from Catherine Lewis La Torre, Chief Executive, British Business Bank, Re Bounce Back Loans, 27 January 2022, published 31 January 2022

25 Q 73

26 Correspondence from Sarah Munby Permanent Under-Secretary of State, Department for Business, Energy & Industrial Strategy, re PAC hearing on the Bounce Back Loan Scheme, dated 9 February 2022, published 22 February 2022

27 Qq 1–4, Public Accounts Committee, Oral Evidence: *BEIS Annual Report and Accounts, 2020–21*, HC 1052, 23 February 2022; and Comptroller & Auditor General, Investigation into the Bounce Back Loan Scheme, Session 2019–2021, HC 860, 7 October 2020, para 3.8

28 C&AG's Report, para 20

29 Qq 14, 24

30 Qq 24–26, 74–75; Correspondence from Sarah Munby Permanent Under-Secretary of State, Department for Business, Energy & Industrial Strategy, re PAC hearing on the Bounce Back Loan Scheme, dated 9 February 2022, published 22 February 2022; Q1, Public Accounts Committee, Oral Evidence *BEIS Annual Report and Accounts*, 2020–21, HC 1052, 23 February 2022, Qq1

it planned to report its initial findings in March 2022.[31] We asked the Department what incentives there were for lenders to continue to pursue borrowers for payment and whether it was hoping that the system would self-regulate.[32]The Bank and the Department told us that they believed it was in the borrowers' commercial interest to repay if they wanted to run a business in the UK, maintain their bank account with the current lender, or get a loan from elsewhere.[33]

14. Almost 86,000 borrowers have been in arrears for more than 90 days as of 10 January 2022.[34] We asked the Department what steps it was taking to ensure that its approach to recovering loans was as effective as possible and made best use of the data available to it. We received written evidence from Equifax, which told us that methods widely used by creditors included using credit bureau data on borrowers to understand their financial health; and then grouping together similar borrowers and debts—ranging from those in borrowers who are insolvent to those who are able to repay—and identifying the best action for each group. It explained that, for some, this might be to write off the debt, but for many it might need a bespoke plan for further collection activity using specialist debt collection agencies.[35] The Department agreed to consider what more it could do itself to reduce the value of loans written off, including the suggestions made by Equifax.[36]

## The effectiveness of counter-fraud measures

15. The Department and the Bank recognised that there was a trade-off between getting loans to businesses quickly by removing lender checks and slowing down the delivery of the loans by putting in place more counter-fraud measures. The Bank said that this would have had consequences for the economy, but argued that the existing 'know your customer' and 'anti money-laundering' checks had prevented in excess of £2 billion of fraud. The Department did not set out at the outset of the Scheme, or in our evidence session, the level of fraud that it was prepared to tolerate as a result of such trade-offs.[37] Although it knew from the start that the limited fraud prevention measures in place would make the scheme risky, it was slow to introduce detection and post-loan controls. It took eight months to bring in processes to verify borrowers' self-declared turnover against existing HMRC data—by which time 93% of the loans by value had been issued. Similarly, the Department introduced a check to identify and prevent multiple applications on 2 June 2020, a month after the scheme's launch—and made them mandatory by end of June when 60% of loans had already been made.[38] The Department said that the delay was because of the time needed to set up data sharing processes.[39] To date the Bank has identified 13,000 possible duplicate loan applications .[40]

16. The Scheme has also made trade-offs in its response to countering fraud and the associated deterrent effects. The Department based its counter-fraud response on the

31 Qq 15, 16
32 Qq 74–75
33 Qq 74–75, 83
34 Correspondence from Catherine Lewis La Torre, Chief Executive, British Business Bank, Re Bounce Back Loans, 27 January 2022, published 31 January 2022
35 Equifax Written Evidence, BLS0001.
36 Q71
37 Qq 56–58, 61
38 Qq 61, 66, 79–80; C&AG's Report, Figure 10
39 Qq 59, 60
40 Correspondence from Catherine Lewis La Torre, Chief Executive, British Business Bank, Re Bounce Back Loans, 27 January 2022, published 31 January 2022

return on investment from recovering fraudulent loans within three groups: top-tier, mid-tier and bottom-tier fraud cases. The Department defined top-tier fraud cases as those involving organised crime groups with sums of more than £100,000; mid-tier fraud cases as having some evidence that individuals acted dishonestly but not on a large scale; and bottom-tier cases as those where individuals might have received loans dishonestly, for example, by misstating their turnover on the application. It is focusing its efforts on the top-tier cases of organised crime; and decided not to focus its investigative resource on borrowers who have overstated turnover by less than 25%, if there were no other fraud risk indicators.[41]

17. We asked the Department if it was confident that enough was being done to tackle medium and bottom-tier fraud, to ensure there is a sufficient deterrent for smaller-scale fraud. It recognised that deterrence is "important" and was "on their minds". In such cases, the Department said that although criminal prosecution was unlikely, there were "personal consequences" for businesses who wish to take out credit in the future, or for company directors who may face disqualification by the Insolvency Service.[42] We noted, however, that this might not be a sufficient deterrent effect for some individuals, such as fraudsters who have no interest in running a business or being a company director in the future.[43]

41 C&AG's Report, paras 2.13, 2.15
42 Qq 65, 70, 83
43 Qq 87–89

# 2 Lessons learned

## Long-term impact of the Scheme

18. We reported previously that the Department had no apparent plans to measure the Scheme's long-term impact, and no agreed performance measures.[44] In its Treasury Minute response to our report, the Department gave a high-level summary of the Scheme's evaluation plans which aimed for an initial assessment by Autumn 2021. However, it did not provide any detail on how it intended to measure performance.[45] As a follow-up, we asked the Department for its latest views on the wider impact of the Scheme, and how it was gaining assurance that the Scheme was working. It said that the Scheme had met its initial goals, in terms of the pace of delivery and the diversity of firms supported, which it considered was reassuring. The NAO found that the Scheme delivered 90% of loans to micro-businesses in the first two months. The Department told us that initial signs showed that there had been no "big spike in failures" that might have happened without the Scheme in place.[46]

19. We asked the Department whether it currently had the information that it needed to determine whether the Scheme had been a success. The Department told us that it considered that the quality of information that it had about what was currently happening with the Scheme was "very good", but there was "very limited information" to tell whether the Scheme was working over the longer term. It explained that "it is very early days" given the 6 or 10-year term of the loans and the limited repayment data available so far.[47] While most borrowers have started to repay loans, not all are in repayment as some borrowers took a payment holiday. The Department estimated that 31% to 48% of loans will not be repaid as of 31 March 2021, with its 'most likely' estimate being £17 billion worth of loans. This is a narrowing on the estimate in its 2019–20 Annual Report & Accounts that stated up to 60% of loans would not be repaid.[48] The Department acknowledged that it will be able to judge whether the Scheme has made a difference as it sees firms' survival rates over the longer term.[49]

20. Business survival rates are a key metric for measuring the Scheme's impact. The Bank has commissioned an external evaluation study, which will report in stages over the next three years.[50] We therefore asked the Department when we could expect to see the results from the first stage of its evaluation. The Department told us that it expected the first stage shortly from Ipsos MORI and London Economics. The Department agreed to write to us to confirm the exact timing for publishing the findings.[51] The NAO explained that the Bank's evaluation over the next three years will seek to draw lessons from both an operational perspective ('process evaluation') and economic perspective ('impact evaluation'). The process evaluation will examine the effectiveness of the Scheme's design and delivery mechanisms and will report in 2022. The NAO reported, however, that

44 Public Accounts Committee, *Covid-19: Bounce Back Loan Scheme*, Thirty-Third Report of Session 2019–21, HC 687, 16 December 2020
45 Treasury Minutes, CP 389, February 2021, para 6.2
46 Q 8; C&AG's Report, Figures 2 and 3
47 Qq 9, 10
48 Department for Business, Energy & Industrial Strategy, *Annual report and accounts 2019–20*, Page 223
49 Qq 9–10; C&AG's Report paras 6, 13
50 Q 10; C&AG's Report, para 24
51 Qq 10, 12, 99–101

measuring the Scheme's impact will be challenging as there is a lack of reliable data to compare the recovery of businesses that used the Scheme with a similar group that did not.[52] The Department and the Bank recognised that finding a counterfactual for this Scheme and other Covid support schemes is an issue. The Bank assured us that it was confident that it would be able to find a control group from businesses that did not take a loan, which would allow it to understand if the Scheme itself had made a difference.[53]

## Unintended impacts of the Scheme on the lending market

21. Lenders used their own funds to make Scheme loans, with government guaranteeing to reimburse lenders if borrowers do not repay. How lenders raise funds differs according to size and type of lender; the more cheaply they can raise funds the more profitable the loans might be. While many large lenders can take advantage of cheap funding offered by the Bank of England, smaller and alternative lenders cannot. Before the launch of the Scheme, the Department and the Bank recognised that the 2.5% interest rate borrowers were asked to pay on the loans would make it economically unviable for many smaller and alternative lenders to participate in the Scheme. The Department highlighted in its direction letter that this may increase the market position of the main UK banks in the SME lending market and thus impact competition levels.[54]

22. The NAO reported that there were seven accredited lenders when the Scheme launched in May 2020, consisting of five main UK banks and two other banks.[55] The Bank acknowledged that it took several months to accredit the additional 21 of 28 lenders in total to the Scheme, by which time most of the loans had been already been handed out.[56] The NAO highlighted analysis by Innovate Finance, a representative body for non-bank lenders, which showed that in 2020 the main banks increased their market share from 35% to 56%—while alternative lenders' total lending remained constant year-on-year.[57] The Bank explained that the main UK banks were responsible for 90% of the Scheme lending but that they had a smaller market share in other COVID-19 related loans schemes like the Coronavirus Business Interruptions Loan Scheme or the Recovery Loan Scheme. Alternative lenders and smaller banks provide nearly 95% of lending under the Bank's other core loan schemes, according to the Bank.[58]

23. The Bank recognised that it was "absolutely true that [the Scheme] had a distortive effect" but suggested that this was "diluting over time".[59] It confirmed that it still had an objective of encouraging diversity in lending markets. It explained that it reports on market shares of lenders in its annual small business finance report and its next publication was due in March 2022. The Bank told us that it had seen encouraging signs that diversity in small business lending market was starting to come back, with the amount of lending by alternative lenders remaining stable and their market share in new lending increasing again.[60] The loans under the Scheme provided, however, lenders with a foothold in the

52 C&AG's Report, paras 24, 3.13–3.14
53 Qq 11, 94
54 Qq 96, 101; C&AG's Report, 3.10
55 C&AG's Report, para 3.8
56 Qq 103–104, British Business Bank correspondence, 27 January 2022, which states that a total of 28 lenders were accredited to the Scheme
57 C&AG's Report, para 3.10
58 Qq 97, 104; British Business Bank correspondence, 27 January 2022
59 Q101
60 Qq 98, 101, 102

SME lending market for up to 10 years, and we expressed our concerns about the long-term distortive effect that this may create. We highlighted in our first report on Bounce Back Loans that the Department had no business case at the launch of the Scheme. We were still concerned that the Bank was just waiting for its evaluation findings and that it was hoping that the Scheme had not had a long-term distortive effect.[61]

## Lessons learnt from the Scheme and future preparedness

24. We highlighted previously that government needed to use the lessons learned from this Scheme to inform future schemes.[62] We therefore asked the Department about examples of where it had identified and responded to lessons from the Scheme. The Department said that it had implemented learnings in the new Recovery Loan Scheme where it has applied different data requirements on lenders. In addition, the Department explained that it had made "big progress" on its capability on data and data-sharing. It asserted that such data capability would put it in a "stronger position" if it were to do something similar again; for example in adapting ongoing support in local authority grant schemes.[63] Alongside having data capability from the start, the Department highlighted that it will retain its "stronger fraud capability" from its initial counter-fraud team of two full-time equivalent staff.[64]

25. We were concerned that the Department should have identified these lessons when it supported businesses in the 2008 Financial Crisis. In 2010, the NAO's report on the Department's support to business during a recession concluded that the "impact [of the Department's response to the financial crisis] could have been improved by thinking through how it might respond at an earlier stage".[65] We asked the Department whether more preparation could have been done for a situation such as the pandemic, and why there had not appeared to be the degree of forward planning or contingency planning that would have proved useful. The Department explained it was able to apply some contingency plans from its preparation for a no-deal exit from the European Union. However, neither the Department nor the Bank foresaw the desperate situation that the economy found itself in as a result of the pandemic, and they maintained that it was not something government would have planned for.[66] The Bank, however, recognised that it would have been in a better starting position for delivering loans if it had invested in data management and IT infrastructure earlier.[67] The Department acknowledged that 'corporate memory' was a challenge, and we welcome the Department's planned evaluation of the Scheme to draw lessons learnt. However, neither the Department nor the Bank provided any plans on how it intends to share the lessons-learned across government.[68]

26. We asked whether, with hindsight and more time, it would have been possible to design a scheme that would have had significantly less exposure to fraud and error than

61 Q104; Public Accounts Committee, *Covid-19: Bounce Back Loan Scheme*, Thirty-Third Report of Session 2019–21, HC 687, 16 December 2020, para 19

62 Public Accounts Committee, *Covid-19: Bounce Back Loan Scheme*, Thirty-Third Report of Session 2019–21, HC 687, 16 December 2020, para 6

63 Qq 22, 69, 89–90

64 Qq 89–90; C&AG's Report, para 17

65 Comptroller & Auditor General, *Support to businesses during a recession*, Session 2009–2010, HC 490, 26 March 2010, para 18

66 Q 68

67 Q 91

68 Qq 10, 105

the Scheme. The Department explained that a situation where it needs to introduce a support scheme with a 100% guarantee and achieve a fast disbursement would "probably be more infrequent than once-in-a-generation events". However, it acknowledged that it would now be better prepared as it has better data sharing in place and can take advantage of counter-fraud measures like "duplicate flags" or the "HMRC turnover checks".[69]

69 Qq 68, 70

# Formal minutes

## Wednesday 20 April 2022

Members present:

Dame Meg Hillier, in the Chair

Shaun Bailey

Sir Geoffrey Clifton-Brown

Dan Carden

Mr Louie French

Peter Grant

Kate Green

Sarah Olney

Nick Smith

### *Bounce Back Loans Scheme: Follow-up*

Draft Report (*Bounce Back Loans Scheme: Follow-up*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 26 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

*Resolved*, That the Report be the Fiftieth of the Committee to the House.

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

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

## Adjournment

Adjourned till Monday 25 April at 3:30pm

# Witnesses

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

### Monday 10 January 2022

**Sarah Munby**, Permanent Secretary, Department for Business, Energy & Industrial Strategy; **Charles Roxburgh**, Second Permanent Secretary, HM Treasury; **Catherine Lewis La Torre**, Chief Executive, British Business Bank; **Sheldon Mills**, Executive Director Consumers and Competition, Financial Conduct Authority; **Patrick Magee**, Chief Commercial Officer, British Business Bank Q1–105

# Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

BLS numbers are generated by the evidence processing system and so may not be complete.

1 Equifax Ltd (BLS0001)

2 College of Business, Law and Social Sciences, University of Derby; and Professor Paul Nightingale (Professor, Science Policy Research Unit, University of Sussex Business School) (BLS0002)

# List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

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