



To: Secretary of State

From: Alex Chisholm, Permanent Secretary and Accounting Officer

Date: 22 March 2020

Dear Secretary of State,

INTRODUCTION OF CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME

You have considered advice relating to the introduction of the Coronavirus Business Interruption Loan Scheme (CBILS). This letter sets out my position as Accounting Officer.

As you know, at the Budget the Chancellor announced that CBILS will temporarily replace the Enterprise Finance Guarantee (EFG) Scheme, with several new scheme parameters. These were subsequently modified by an announcement on 17 March, increasing the loan size to £5m and introducing a six-month interest free period. The most recent changes increased this to 12 months interest-free, opened the scheme to all sectors and increased the portfolio-level cap on losses (i.e. the government's exposure) from 20% to 60% of the total value of loans advanced.

COVID-19 is a severe public health emergency that represents a major shock for the UK economy. I fully support the goal of offering urgent financial relief to small and medium-size enterprises (SMEs), many of whom are experiencing acute trading pressures. The financial sector on its own cannot take on the risks and it is sensible to use the proven vehicle of the EFG to ensure support is ready for operation in the market by 23 March. I believe the new scheme also strikes a sensible balance between maximising support for SMEs whilst being mindful of taxpayer interests by limiting the increase in the loan guarantee to 80%, as permitted in the State Aid framework.

However, there is currently very little robust data that I can rely upon to judge value for money (vfm). The EFG is currently considered to represent good vfm with the most recent evaluation stating that it creates significant economic benefits to society. However, the proposed amendments to the scheme, in particular the increase in the effective portfolio cap to 60%, and the economic context mean that it seems likely that benefits for CBILS will be lower.

In addition, whilst I am confident that HM Treasury will honour the Chancellor's announcement by providing the budget cover for the immediate costs of this scheme, I currently have incomplete assurance that all future costs will be affordable given uncertainties over the likely demand and losses and therefore future costs.

Importantly there remain legal risks around the proposed parameters for the scheme. The temporary state aid framework introduced by the European Commission authorities and the UK's ongoing dialogue with the Commission provide a degree of comfort. Ongoing discussions with the Commission have provided comfort that we can expect the Schemes to be approved. However, at this time the UK has not received formal notification from the Commission that it is content with the scheme as currently proposed. Therefore, whilst the Government is entitled to act at risk in breach of the State aid standstill period in circumstances where the proposed aid is capable of being approved under the Commission's Temporary Framework for Covid-19 measures, there remains a medium low risk that State Aid will not be granted and the scheme might be found in breach.

It is my personal responsibility as Accounting Officer to ensure that the use of Department's resources offers value for money, and proposals are regular, proper, and can be feasibly delivered. Absent formal State aid approval there remains a medium low (but medium high impact) risk around the appropriate use of resources and potential impact this might have on its deliverability if banks and recipients consider the scheme not to be State Aid compliant. I also lack the evidence I would need to make a sufficiently robust judgement on the value for money of the scheme, in part because of the speed at which it was developed.

Consequently, Managing Public Money requires that if you wish to progress with the option to fund CBIL Scheme I will require a written direction from you to do so. I will then proceed accordingly.

In line with the usual process for ministerial directions, I am copying this letter to the Comptroller and Auditor General (who will inform the Public Accounts Committee once Parliament returns) and the Treasury Officer of Accounts. Given the potential impact this request might have on the confidence and take-up of the scheme, and consequently efforts to support the economy, I would expect the content of this letter and your reply to remain confidential until after the completion of the loan scheme.



Alex Chisholm