Department for
Business, Energy
& Industrial Strategy

To: Secretary of State

From: Sam Beckett, Acting Permanent Secretary and Accounting Officer

Date: 1 May 2020

Dear Secretary of State,

INTRODUCTION OF BOUNCE BACK LOAN SCHEME

You have considered advice relating to the introduction of the ‘Bounce Back’ Loan (BBL) Scheme. This letter sets out my position as Accounting Officer.

The Coronavirus Business Interruption Loan Scheme (CBILS) introduced on 23 March 23 and the Coronavirus Large Business Interruption Loan Scheme (CLBILS) introduced on April 20 are already offering support to thousands of businesses. As of 29 April over £4bn has now been lent under CBILS, with between £250m and £300m of new loans each day.

The potential importance of this funding cannot be overstated given the seriousness of the economic circumstances that we face as a result of Covid-19. Each day there is more evidence about the severity of the economic consequences of coronavirus on both the supply and demand side that businesses and individuals up and down the country are having to bear. I fully support the need to offer a wide range of schemes that can address these impacts at a local and national level.

Whilst under CBILS and CLBILS the Government has taken steps to support small and medium sized enterprises, there are still many smaller businesses who need a simple, quick, easy solution for a micro loan. We have seen evidence that even under CBILS and CLBILS where lenders only retain 20% of the risk, some businesses are not able to access support. In other cases, support is not forthcoming quickly enough because of the time it takes lenders to assess applicants’ viability. Many of these small businesses are financially exposed to the economic shock caused by Covid-19, yet still face substantial ongoing fixed costs. This is having a significant impact on their cashflow which in turn is likely to harm their survival prospects. These issues have been raised with us by numerous parties, not least the many small companies and business representative organisations we deal with on a daily basis.

As such, there is a strong argument that the Government should go further in accepting additional risk at this end of the market. One way to do this is for the

Government to assume 100% of the lending risk, as has been the case in other countries such as Germany and Switzerland. It would also be helpful to simplify the application process as far as possible for loans to the smallest businesses, who typically find it especially difficult to access finance. While CBILS is open to these businesses, some of the major lenders have been reporting that they face particular challenges in offering CBILS facilities at low levels.

The introduction of BBL is designed to address these issues. It will enable businesses to access loans of up to £50,000, capped at 25% of turnover, with 100% of the lending risk assumed by government. A Business Interruption Payment will cover the interest for the first year of the facility, and interest rates will be capped at a low rate thereafter. Loan terms will be up to 6 years and no repayments will be due during the first 12 months. The proposed simplification of the application process will mean that some businesses should see cash in their accounts within 24 hours.

The scheme should therefore ensure that caution on the part of lenders does not prevent smaller businesses from accessing the finance they need. It should also significantly speed up lending for these businesses, reducing the likelihood that a business fails while awaiting support. These are convincing arguments in favour of introducing the scheme.

However, 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-COVID-19, 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 the 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.

On State aid, the scheme is likely to be permissible under existing frameworks given the relatively small loan sizes involved. The fact that borrowers are able to self-certify their eligibility creates a risk that ineligible businesses will receive aid that will need to be recovered. However, this risk can be mitigated through appropriate auditing. On feasibility, the BBB and lenders are already delivering CBILS and CLBILS, which creates a risk that they are not able to deliver BBL to the required standard expected by customers in particular.

To sum up, the potential for economic damage created by the coronavirus pandemic continues to create a strong case for Government intervention, and we know there is a risk that some businesses that would otherwise survive are in danger of missing out on support if a further intervention is not introduced. Given the degree of uncertainty and risks involved with the scheme *Managing Public Money* requires that I ask for a written direction from you if you wish to proceed with the BBL scheme. On receipt of your direction I will then proceed accordingly to implement the scheme.

If you decide to proceed, the new contingent liability created by BBL will need to be declared in Parliament at the earliest suitable opportunity. This should be in the form of a Written Ministerial Statement and Departmental Minute.

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) and the Treasury Officer of Accounts.

There will be significant public interest in this matter, which should be balanced against the potential impact that making this request public might have on the confidence and take-up of the scheme, including efforts to mitigate the scope for fraud. Accordingly, I propose to review the case for publication of this letter and your reply in the coming weeks, once the loan scheme is fully established.

Sam Beckett