National Audit Office

Investigation into the British Business Bank's accreditation of Greensill Capital

HM Treasury, Department for Business, Energy & Industrial Strategy, British Business Bank

REPORT

by the Comptroller and Auditor General

SESSION 2021-22
7 JULY 2021
HC 301

What this investigation is about

1 This investigation looks at the British Business Bank's (the Bank's) approval of Greensill Capital (UK) Limited's (Greensill's) access to government business support schemes, particularly those developed rapidly in response to the COVID-19 pandemic, the role of the Department for Business, Energy & Industrial Strategy (the Department), and Greensill's subsequent involvement in those schemes.

2 In March 2020, the Chancellor announced in the Budget the government's Coronavirus Business Interruption Loan Scheme (CBILS) in response to the economic challenges businesses faced as a result of the COVID-19 pandemic. This scheme offered financial support to small and medium-sized businesses across the UK that were losing revenue and seeing their cash flow disrupted. On 3 April, this scheme was extended to cover more businesses and to make it easier to access funds with the addition of the Coronavirus Large Business Interruption Loans Scheme (CLBILS). These schemes supported businesses to access loans, overdrafts and other types of finance. Commercial lenders (for example, banks, building societies and peer-to-peer lenders) provided loans directly to businesses, which are expected to repay the debt in full. The loans attract a government guarantee: if the borrower does not repay the loan, the government will step in and repay the lender 80% of the loan's value. Lenders must comply with scheme rules in order to benefit from the guarantee. CBILS supported businesses with a turnover of up to £45 million, and CLBILS supported those with a turnover of more than £45 million.

3 HM Treasury developed these two schemes with the Department and the Bank. HM Treasury, in conjunction with the Department, identified the need for the schemes and set the scheme policies and overarching terms, such as the 80% guarantee. The Bank is fully owned by the Department, which has a wider policy responsibility for business and enterprise. The Bank, established to help finance markets work better for small businesses across the UK, was involved in the schemes' design and is responsible for their implementation. It is responsible for accrediting lenders before they are allowed to make loans and it is responsible for the schemes' ongoing administration, in consultation with HM Treasury and the Department. Given the demand from businesses for emergency lending, the Department required the Bank to accredit lenders for the schemes quickly and at high volumes. The Bank's Accounting Officer informed the Department's Accounting Officer of the value-for-money risks and uncertainties CBILS and CLBILS presented. The Department's Accounting Officer sought and received ministerial direction to implement both.

4 Greensill was an accredited lender under both support schemes. It was a financier to Liberty Steel Group (Liberty Steel; part of the Gupta Family Group Alliance) and made several loans to companies within the Gupta Family Group Alliance through the CLBILS. On 8 March 2021, Greensill entered administration having "fallen into severe financial distress". A range of commentators, including Members of Parliament and the media, have raised concerns relating to Greensill's relationship with the government, including: Greensill's engagement with public officials; whether the accreditation of Greensill to COVID-19 business support schemes was fair and transparent; and to whom Greensill made government-guaranteed loans, particularly in the steel industry, and the resultant level of taxpayer exposure through the guarantees.

5 This investigation:

- provides background and context to the COVID-19 business support schemes in which Greensill participated (Part One);
- looks at the Bank's consideration of Greensill's application and accreditation to CBILS and CLBILS in particular, and the role of the Department (Part Two); and
- considers Greensill's lending activity under those two schemes, and the Bank's subsequent investigation into Greensill's compliance with the scheme rules (Part Three).

We undertook our investigation between April and June 2021.

6 This investigation does not consider Greensill's business activities providing supply chain finance and services to, for example, pharmacies. It also does not consider other concerns raised by Members of Parliament and the media, such as the process of appointing Crown Representatives, including the appointment to this role of Lex Greensill, the founder of the group of companies bearing his name. In addition, it does not consider the lobbying activities of former Prime Minister David Cameron on Greensill's behalf. We do not seek to examine the value for money of the government's COVID-19 business support schemes nor the Bank's wider operation of these schemes. In February 2020, we reported on how well the Bank had improved small businesses' access to finance[1], and in October 2020 on the performance of the Bounce Back Loans Scheme (which was developed subsequent to the CBILS and CLBILS).[2]

1 Comptroller and Auditor General, *British Business Bank*, Session 2019-20, HC 21, National Audit Office, February 2020.

2 Comptroller and Auditor General, *Investigation into the Bounce Back Loan Scheme*, Session 2019-21, HC 860, National Audit Office, October 2020.

7 Several inquiries are seeking to address the wider concerns surrounding Greensill, including:

- Parliamentary inquiries by: the Committee of Public Accounts; the Public Administration and Constitutional Affairs Committee; the Business, Energy and Industrial Strategy Committee; and the Treasury Committee.
- A review into the development and use of supply chain finance (and associated schemes), conducted by Nigel Boardman and reporting to the Prime Minister.
- A Cabinet Office review of private-sector positions held by civil servants.
- A Committee on Standards in Public Life landscape review of the institutions, processes and structures in place to support high standards of conduct.
- A Financial Conduct Authority investigation into matters relating to several Greensill companies, including Greensill Capital (UK) Limited.
- A Serious Fraud Office investigation into suspected fraud, fraudulent trading and money laundering in relation to the financing and conduct of business within the GFG Alliance Group, including financing arrangements with Greensill.
- On 28 June 2021, the Financial Reporting Council (FRC) announced an investigation into the auditor of Greensill Capital (UK) Limited in relation to its audit of the company's 2019 financial statements.

Summary

Key findings

8 **A major customer of Greensill – Liberty Steel – approached the government for financial support in the early part of the COVID-19 pandemic.** The Department told us that in early 2020 it received an approach from Liberty Steel (a part of the Gupta Family Group Alliance) seeking around £160 million to £180 million in funding to support the business beyond May 2020. The Department told us it and HM Treasury jointly considered Liberty Steel's request for direct government support, which they viewed as a last resort, requiring a strong strategic case. The Department told us Liberty Steel had also suggested developing a bespoke government guarantee to support its lender, Greensill, making loans to Liberty Steel. The Department clarified to Liberty Steel that it might be eligible for support under the broader COVID-19 business support schemes. The Department told the Bank that Liberty Steel used Greensill for its financing needs and suggested to Liberty Steel that Greensill could apply for COVID-19 business support schemes through the Bank (paragraphs 2.22 and 2.23).

The Bank's accreditation process

9 **The Bank put in place an accreditation process to authorise lenders to use the schemes, including CLBILS.** Because CBILS and CLBILS were developed quickly to respond to the financial challenges COVID-19 caused businesses, the Bank, in consultation with the Department and HM Treasury, streamlined an existing accreditation process. The Bank raised concerns with the Department about the fast pace required for the delivery of these schemes. The Bank assessed a prospective lender against seven criteria, which include its lending history, operational capacity and legal structure. It relied on information prospective lenders provided in their application being accurate and did not do detailed independent checks on the information. The Bank told us that while it applies a critical view of the information presented and seeks clarifications where needed, the primary focus was to determine whether a lender could reliably deliver the scheme's objectives by quickly providing money to borrowers in need. The Bank's Investment Committee, comprising senior Bank staff, decided whether to approve an application if the lender required more than £250 million; for amounts below this, a Managing Director Forum could decide. Lenders new to the Bank underwent a standard accreditation process, while lenders already accredited under other Bank-led schemes (or supervised by a financial regulator) underwent an accelerated (shortened) process (paragraphs 1.6 to 1.8, 2.2 to 2.7, 2.15 and Figures 3 and 4).

10 **To speed up the accreditation process, the Bank placed greater reliance on audit checks after it accredited lenders rather than due diligence before.** Post-accreditation audits, which typically occur three months after accreditation, are intended to assure the Bank that lenders are operating within the scheme rules. Early audits focus on the processes and procedures for issuing loans, while later audits review default and debt recovery policies. All lenders will be audited within the first year of scheme participation and then subject to ongoing audits, with the frequency dependent on a lender's perceived risk level. For example, a lender that has issued more loans or has performed poorly at previous audits, will be subjected to a greater number of audits (paragraph 2.8).

11 **The Bank approved Greensill to lend up to £400 million under CLBILS following the accreditation process, noting that it had conducted limited due diligence on the information in Greensill's application.** On 23 April 2020, Greensill applied to lend up to £1 billion through CLBILS. The Bank applied the standard accreditation process with papers to the Investment Committee noting Greensill's robust internal processes, limited losses in recent years and that Greensill had very low default rates across its lending facilities. But the papers noted the accreditation team had conducted limited due diligence on the application; the Bank told us it accepted as accurate the key information applicants provided, including Greensill. For example, it carried out cross-referencing to Greensill's audited accounts but did not test in detail Greensill's claims of where it would lend. The Bank told us the key objective of its due diligence process was to establish that lenders could reliably deliver money to borrowers, in line with government's objectives for the scheme. The Bank's Chief Commercial Officer set a £400 million lending limit which was confirmed to Greensill on 4 June 2020 (with a maximum loan limit of £50 million per borrower group, in line with the scheme rules). Following approval to lend under CLBILS, Greensill also sought approval to lend under CBILS which the Bank gave after an accelerated accreditation process (paragraphs 1.13, 2.10 to 2.19, 2.28 and 2.29).

12 **The Bank treated Greensill's application like other similar applicants, although the Department was particularly interested in Greensill's accreditation.** Of the 27 CLBILS accredited lenders, 24 were established banks, and three, including Greensill, were non-bank lenders. The Bank applied the same accreditation process and due diligence to Greensill as it did to the two other non-bank lenders. The Department repeatedly requested updates on the accreditation process. It told us it did so as it knew Greensill could potentially provide support to Liberty Steel, and if Greensill were not accredited the Department would have to consider what other types of support, if any, it would offer. The Department made eight email enquiries of the Bank over 19 weeks on the status of Greensill's accreditation and whether it might be accredited to lend more than £50 million per borrower. The Department wanted the decision on Greensill's accreditation to be prioritised so alternative support options could be considered. The Department considers these to be informal approaches. The Bank did not prioritise Greensill's application as it could delay the accreditation of other lenders. The Bank told us that the Department occasionally sought information on the accreditation of specific lenders, which included lenders to other steel companies, but described this level of departmental interest as "unusual". The Bank's legal team reviewed whether third parties sought to influence the Greensill accreditation process and, if so, the impact. It concluded that external parties did not influence the Bank's accreditation of Greensill or the Bank's decision-making process (paragraphs 2.9, 2.15 and 2.24 to 2.27).

Greensill's loans

13 **Greensill loaned £400 million under CLBILS, the maximum it was permitted to lend, and £18.5 million under CBILS.** The 116 CBILS accredited providers lent approximately £24 billion, and 27 CLBILS providers lent £4.8 billion across 698 loans. Greensill provided eight £50 million CLBILS loans representing the maximum it could lend in total under the scheme (£400 million), with each loan at the maximum permitted value (£50 million) and well above the scheme average (median) loan value of £3 million. These eight loans made Greensill the fifth-largest CLBILS lender by value. The government guarantees 80% of the value of Greensill's loans, which means that in the event of the loans not being repaid its maximum exposure under both schemes is £335 million should the guarantee be claimed (paragraphs 1.9, 3.2 to 3.4 and Figures 7 and 8).

14 The Bank identified that Greensill had made seven loans totalling £350 million to Gupta Family Group (GFG) Alliance borrowers, potentially exceeding its lending limits. On 2 October 2020, the Bank became concerned that Greensill's lending to a single group of borrowers appeared to be greater than the scheme rules allowed. Scheme rules allow loans of between £50 million and £200 million to a group subject to additional accreditation of the lender and only with the Bank's pre-approval. Greensill was not accredited for this. During Greensill's accreditation to CLBILS in May 2020, the Bank had reiterated to Greensill the scheme rules around group lending, saying that, as an illustrative example, "British Steel would be one group with a £50 million limit, and it is not a £50 million facility limit per subsidiary". The Bank raised with Greensill its concerns that Greensill's lending to the GFG Alliance borrowers exceeded the amounts permitted by the scheme rules. Greensill told the Bank on 2 October that it considered the loans to be compliant. The Bank escalated its concerns to HM Treasury on 7 October and the Department on 9 October (paragraphs 2.17, 3.5 to 3.8 and Figure 8).

The Bank's investigation of Greensill and suspension of the guarantees

15 The Bank opened an investigation into Greensill's lending, subsequently suspending the government guarantee. On 13 October 2020, the Bank met with Greensill to outline its concerns and told Greensill it would not be allowed to make any more loans until the issues were resolved. During the meeting, Greensill said it had received "political steers" that its support for the steel industry was welcome. From October 2020, the Bank engaged Ernst & Young (EY) as debt advisers to review the loans Greensill had made under the scheme. On 2 March, the Bank wrote a 'Letter of Concern' to Greensill setting out its provisional findings and provided notice of the suspension of the Secretary of State's guarantee obligations. This was the only such letter the Bank had issued to any lender under CLBILS. On 27 May, the Bank sent a Supplemental Letter of Concern to Greensill outlining additional provisional findings following its ongoing investigation. The Bank invited responses from Greensill to its provisional findings (paragraphs 3.9, 3.10 and 3.14).

16 Greensill, through its administrators, has denied making loans outside of the scheme rules and it contests the Bank's provisional conclusions and questions the fairness of its decision-making. The High Court appointed Chris Laverty, Trevor O'Sullivan and Will Stagg of Grant Thornton UK LLP as joint administrators on 8 March 2021. On 9 April the joint administrators responded to the Bank's Letter of Concern indicating that Greensill denied the allegations. The joint administrators also requested access to the Bank's procedure for investigations and decision-making relating to potential material breaches of contract by authorised lenders, as they believed the timeframe provided to Greensill to collate the necessary information to respond to the Bank's allegations to be procedurally unfair. On 16 April 2021, the Bank informed the joint administrators that the process was set out in the Letter of Concern and that any additional materials or representations received by 26 April would be considered when determining the outcome of its investigation. The Supplemental Letter of Concern extended this deadline to 25 June, which the Bank has since extended to 20 August (paragraphs 3.11 to 3.14).

17 The Bank's investigation is ongoing, and the guarantees to Greensill's CLBILS loans remain suspended. The Bank has not set a date for its Investment Committee to deliberate the investigation's findings. In the meantime, while guarantees are suspended, the government is not obliged to pay Greensill in the event of borrower default (paragraph 3.15).

Greensill's approaches to other government business support schemes

18 Greensill also sought access to several other forms of government support, including other COVID-19 business support schemes. Greensill made other approaches to the government for support to either itself or its clients during the pandemic. In addition to CBILS and CLBILS mentioned above, it also sought, through its own lender, a £500 million loan supported by an Export Development Guarantee from UK Export Finance (UKEF), which was rejected. While UKEF did consider the merits of Greensill's proposal, it ultimately rejected the application following due diligence because it did not feel the proposal was aligned with the policy intent of the support product. UKEF's due diligence also identified issues, including in media reports, which potentially increased the risk profile of Greensill. Greensill also sought access to the Coronavirus Corporate Finance Facility through HM Treasury, which was unsuccessful, as outlined in HM Treasury submissions to the Treasury Select Committee.[3] Greensill Capital Management Company (UK) Limited, part of the wider Greensill group, received between £20,002 and £50,000 from HM Revenue & Customs over two months to February 2021 as part of the Coronavirus Job Retention Scheme (paragraph 1.14 and 1.15, and Appendix Two).

3 Treasury Select Committee, *Lessons from Greensill Capital: correspondence*, May 2021

Concluding remarks

19 Our review shows that the Bank followed a streamlined version of its established process for accrediting lenders for CLBILS when assessing Greensill's application. That accreditation process was streamlined in response to the policy need to deliver money to businesses at pace during the pandemic. In the case of Greensill, applying a less streamlined and more sceptical accreditation process might have led the Bank to further question several of Greensill's statements, including on: loan default rates; exposure to specific borrowers and product types; and its business model and ethical standards. Each were the subject of press reports prior to accreditation.

20 It is to the Bank's credit that it quickly picked up the loans allegedly in breach of the scheme rules, and shows that the post-accreditation monitoring process was, in this case, effective. But had the Bank done more due diligence, including on the loans Greensill claimed it intended to make, it is possible that this situation could have been avoided.