National Audit Office

The Bounce Back Loan Scheme: an update

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

REPORT

by the Comptroller and Auditor General

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The Bounce Back Loan Scheme: an update

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

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

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This report updates on government activities to protect public money since the government's Bounce Back Loan Scheme closed to applicants and loan repayments started. It reviews the total number of loans made; the status of the loans at September 2021; the levels of identified fraud and the counter-fraud activity taking place; and the estimated level of potential fraud and credit losses for the Scheme overall.

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Contents

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Key facts

1.5 million	£47 billion	£17 billion
total number of loans issued under the Bounce Back Loan Scheme (the Scheme)	total value of loans issued under the Scheme	the Department's estimated, but highly uncertain, value of losses from loans that will not be repaid (31 March 2021)

£4.9 billion the Department for Business, Energy & Industrial Strategy's (the Department's) most likely, but highly uncertain, estimate of the value of fraudulent loans in the Scheme as of 31 March 2021, based on a sample of 1,067 loans

£6 million the minimum value of fraudulent loans that the Department expects the National Investigation Service (NATIS) to recover from organised crime over three years

£67 million forecast administrative costs for the Scheme for 2020-21 to 2024-25, as of September 2021

£32 million the Department's forecast additional budget to cover the costs of its 'enhanced' counter-fraud operations, regardless of the scale of fraud

What this report is about

1 The Chancellor of the Exchequer announced the Bounce Back Loan Scheme (the Scheme) on 27 April 2020. The Scheme was the largest of three COVID-19 related business support loan schemes (see Appendix Three) and sought to provide to the smaller end of small and medium-sized enterprises (SMEs) a "simple, quick, easy solution for those in need in of smaller loans". The Department for Business, Energy & Industrial Strategy (the Department) launched the Scheme on 4 May 2020, offering loans of up to £50,000, or a maximum of 25% of annual turnover, to support businesses during the pandemic.

2 The loans were provided by commercial lenders (for example, banks, building societies and peer-to-peer lenders) directly to businesses who are expected to repay the debt in full. Government provided lenders a 100% guarantee against the loans (both capital and interest). This means if the borrower does not repay the loan, government will step in and pay the lender. The loans have a fixed interest rate of 2.5% and a maximum length of 10 years. In the first year of the loan there are no capital repayments due, and the government pays the interest – making it interest-free for the borrower.

3 HM Treasury developed the Scheme with the Department and the British Business Bank (the Bank), which the Department owns. HM Treasury and the Department monitor the Scheme and set its overarching terms. The Bank was responsible for implementing the Scheme, for example accrediting lenders to the Scheme before they made loans, and its ongoing administration in consultation with HM Treasury and the Department.

4 We reported on the Scheme in October 2020.[1] At that point, it had delivered more than 1.2 million loans totalling around £37 billion. We concluded that government moved very quickly to set up the Scheme, prioritising one aspect of value for money – payment speed – over all others and was prepared to tolerate a potentially very high level of losses as a result. The Scheme aimed, in most cases, to deliver money to borrowers within 24 to 48 hours of application. It achieved this by removing the requirement for banks to conduct credit and affordability checks before making loans and allowing potential borrowers to 'self-certify' the information they provided on their application. Lenders were required to conduct some counter-fraud checks before making loans.

1 Comptroller and Auditor General, *Investigation into the Bounce Back Loan Scheme*, Session 2019–2021, HC 860, 7 October 2020.

5 The Department recognised the risks to the taxpayer of prioritising speed. Its Accounting Officer (AO) sought and received a Ministerial Direction on the grounds that the spending proposal would breach HM Treasury rules on regularity, propriety, value for money and feasibility. On 1 May 2020, the Secretary of State for Business, following approval from the Chancellor, directed the AO to proceed with the Scheme. The Bank raised similar concerns in a Reservation Notice to the Department and received a written directive from the Department to proceed with the Scheme on 3 May 2020.

6 The Department, with the Chancellor's agreement, extended the original closing date for loan applications from 4 November 2020 to 31 March 2021 to support businesses during the ongoing pandemic. It also introduced options for borrowers to increase the size of existing loans to the maximum amount to which they are eligible ('top-up'), as well as providing the borrowers more time and flexibility to repay ('Pay As You Grow'). These repayment options include extending the duration of the loans from six to 10 years, moving to interest-only payments for six months, and taking a repayment holiday for six months. The Scheme closed for new applications on 31 March 2021, and repayments for the first borrowers started in May 2021. The Department sought, and was granted, approval to amend the Scheme using the same Ministerial Direction and written directive as at Scheme launch.

Report scope

7 This report follows on from our October 2020 investigation into the Scheme. In Part One, we provide a factual update on the Scheme performance information. This includes, for example, the number of loans issued, their total value, borrower characteristics and the Department's estimate of potential Scheme losses. This section does not evaluate the Scheme's performance as the full repayment of loans will not be known for some time.

8 In Part Two, we review the Department's activities to protect public money through its counter-fraud activity for the Scheme. This section provides an update on the Department's latest estimates of Scheme fraud, drawing upon our financial audit of the Departmental accounts. It also evaluates the government's counter-fraud strategy for the Scheme and its activities to date against: our good practice guide on fraud and error;[2] and the guidance from the Government Counter Fraud Function. This section is primarily evaluative in nature because since we last reported the government set out how it will pursue fraud and we have some evidence of how its approach is working.

2 National Audit Office, *Good practice guidance: Fraud and error*, March 2021.

9 In Part Three, we report factually on the process to recover outstanding loans, which had not been finalised when we last reported. We update on the costs of administering the Scheme and the Department's and Bank's plans to evaluate scheme performance. We also draw together information, where available, on the borrower's experience of the Scheme, which was a particular area of interest when the Committee of Public Accounts reported on this Scheme in December 2020. The report does not assess the Scheme's value for money as the outcome for businesses, lenders, and the taxpayer will not be known for some time.

10 The study draws on six main datasets from three different sources, including the Department, the Bank and the Government Counter Fraud Function. These datasets differ in nature and timing and are described in the Appendix One (Figure 15). As a result, not all figures in our report reconcile.

Summary

Key findings

Loans and repayments

11 **The Scheme made 1.5 million loans worth £47 billion, mainly to small and micro-businesses, as of 13 September 2021.** This exceeds the Department's and Bank's estimates at launch that the Scheme would support between 800,000 and 1.2 million businesses with between £18 billion and £26 billion of loans. Around one quarter of all UK businesses received a Bounce Back Loan. Most of the loans – more than 90%, or £39.7 billion – went to micro-businesses (turnover below £632,000), a similar rate to when we reported in October 2020. The seven main UK banks provided most of the loans (90% of the total value of loans made). The remaining 10% of loans by value were provided by other banks and non-bank lenders, such as peer-to-peer lenders (paragraphs 1.3 to 1.5, 3.9 and Figures 3 and 12).

12 **The Department and the Bank have limited evidence on how businesses have used the loans, and their experiences of the application process.** Anecdotal evidence from business representative groups suggests that businesses have found the loans useful to address cashflow shortages during the pandemic but there were delays in the administration. In March 2021, the Bank surveyed 1,700 borrowers, finding that about 70% used the funds for working capital and day-to-day expenses, and about 30% took out the loans for 'financial security'. Around 2,000 businesses complained to the Financial Ombudsman in August 2021, with more than one third of complaints being about a delayed administration of their loan application (paragraphs 3.6 and 3.7).

13 **Most businesses have started to repay loans, but as of March 2021, the Department estimated that 37% of loans worth £17 billion will not be repaid, although this estimate is highly uncertain.** The Department estimated in March 2021 that between 31% and 48% of loans will not be repaid, with its 'most likely' estimate of 37%. This represents both credit losses – among borrowers who want to repay but are unable to – and fraud losses – among those who either were not eligible for a loan or took out a loan with no intention of paying it back. Credit losses are the greatest component. The estimate is highly uncertain as it is based on modelling assumptions with limitations: there is no credit score data for the borrowers as this was not a scheme requirement; not much repayment data are yet available; and repayment rates will be affected by future macroeconomic conditions, which are themselves uncertain. As of 30 September 2021, Bank data shows that borrowers have repaid £2 billion worth of loans and have defaulted on £1.3 billion of loans; the Department has paid lenders £19 million in guarantee claims. These data, however, are used to manage the guarantees rather than monitor loan performance and are not real-time, but are the best information available to us. The same data show that 73% of the 1.5 million loans have either made repayments as planned or not yet reached the date to start repayments, and around 21% of loans have taken-up a 'Pay As You Grow' option (paragraphs 1.11 to 1.13, and Figure 7).

14 **The Department estimates, as of 31 March 2021, that 11% of loans, worth £4.9 billion, are fraudulent but this estimate is highly uncertain.** The Department recognised before launching the Scheme that its design, with limited verification and no credit checks performed by lenders, made it vulnerable to losses, including fraud. As the Scheme progressed and the immediate need for finance lessened, the Scheme continued to rely on businesses self-certifying their application details. In October 2020, the Department stated that the Scheme was "currently the leading public sector fraud risk". The Department in its audited annual report estimated that the level of Scheme fraud was 11% of loans, equal to £4.9 billion at 31 March 2021 – based on a sample of 1,067 loans. The estimate assumed that any fraud leads to a total loss of the loan, which is likely to overestimate losses as some funds should be recoverable. The estimate excludes some types of possible fraud – for example, where an applicant overstates its turnover and gets a larger loan either deliberately or inadvertently. In October 2021, the Department's advisers, PricewaterhouseCoopers LLP (PwC), revised down this estimate to 7.5% of loans by looking more closely at the evidence on those loans previously classified as 'possible' fraud including repayment data only available from May 2021; we provide no assurance on this revised estimate as it only became available to us in late October 2021. Where borrowers have made no attempt to repay, the Department has started to review the loans for fraud risk indicators to help it focus its recovery efforts on the loans at highest risk of fraud (paragraphs 2.5 to 2.11 and 2.25 to 2.26).

Scheme counter-fraud measures

15 At the start of the Scheme the priority was to deliver loans as quickly as possible, and the Department's strategy was for the lenders to tackle fraud. The Department is responsible and accountable for counter-fraud activity, and the Bank manages most of the fraud risks on its behalf. At Scheme launch, in May 2020, the Department recognised that prioritising payment speed by allowing potential borrowers to self-certify application details made the Scheme vulnerable to fraud. The Bank required lenders to make counter-fraud and 'know your customer' checks, and to make loans within 24 hours, or in some cases 48 hours if additional counter-fraud checks were required. These lender checks of applications were the only counter-fraud activities in place when the Scheme launched. In December 2020, the Department advised HM Treasury that there was still a high level of residual fraud risk even after lenders had conducted these up-front checks (paragraphs 1.4, 2.5, 2.22 and 2.29).

16 As the Scheme progressed government departments introduced 13 additional counter-fraud measures, but most came too late to prevent fraud and were focused instead on detection. It is better to prevent fraud than to seek to recover funds later. However, the Bank did not introduce straightforward measures to identify duplicate applications until June 2020 after 61% of the loans by value had already been made. This meant most of the additional counter-fraud activity was focused on the detection of fraud that has already taken place, for example creating a fraud hotline. The Department stated that introducing more counter-fraud checks at the start of the Scheme would have slowed the delivery of loans to businesses. It also told us it did not begin to analyse fraud data until several months after Scheme launch because its focus was on getting loans to businesses quickly. Delivering financial support quickly to smaller SMEs was the main objective at the outset of the Scheme (paragraphs 2.22 to 2.25, and Figure 10).

17 The Department's counter-fraud strategy evolved over time but lacked clear governance at the outset and sufficient resources. We did not find any documents which set out the Department's long-term ambitions, objectives, or financial metrics to measure the impact of counter-fraud activity. In October 2020 – five months after Scheme launch – the Department set out in a ministerial submission the resources it would need to expand its counter-fraud activity. It requested an additional £32 million, or 0.07% of the total value of loans, to cover the costs of enhanced counter-fraud operations within the Department. In the same month, the Bank created its first fraud risk assessment, to identify in detail the Scheme risks. The Bank's internal audit of fraud, in July 2021, concluded that the way it manages fraud was "reasonable" but found issues with oversight and governance of the Scheme's fraud risk reporting processes, and slow progress with establishing internal fraud responsibilities. It took some time for the Department and Bank to build capacity, initially reallocating internal resources and using secondees and external parties: since March 2021 the Bank has a dedicated financial crime team and is aiming for six full-time equivalent staff by the end of 2021; the Department is increasing its counter-fraud team from two to 10 full-time equivalent staff by January 2022 (paragraphs 2.12 to 2.14, 2.19 to 2.21, and Figures 9 and 10).

18 **Owing to the scale of possible fraud, and limited resources, the Department is prioritising the pursuit of organised crime.** The Department prioritised its fraud response by grouping loans into three tiers and concentrating on the highest risk areas. Top-tier loans are those involving organised crime groups with sums of more than £100,000; mid-tier – some evidence that borrowers acted dishonestly but not on a large scale; and bottom-tier – where individuals might have dishonestly received loans. The Department could not tell us how many cases were in each tier. It decided not to focus its investigative resource on borrowers who overstated turnover by less than 25%, provided there were no other fraud risk indicators. It expects lenders to pursue upfront recovery where feasible and cost-effective to do so, and to always seek recovery action where loans are not repaid. This prioritisation approach risks diminishing the deterrent effect of counter-fraud activity (paragraphs 2.13 to 2.15 and Figure 8).

19 **The Department uses enforcement agencies to investigate, prosecute and recover funds for large-scale fraud cases, but the agencies' capacity is stretched.** The Department uses enforcement agencies, such as the National Investigation Service (NATIS), to investigate, prosecute, and recover funds for top-tier and the 'higher end' of mid-tier loans. Given the potential fraud levels across all COVID-19 schemes, however, enforcement agencies are stretched. NATIS, for example, received more than 2,100 intelligence reports by October 2021 but only had capacity to pursue a maximum of 50 cases per year. The Department set NATIS a target of recovering at least £6 million of fraudulent loans from organised crime over three years, equal to the amount the Department has invested into NATIS. NATIS' work up to October 2021 has resulted in 43 arrests across 33 investigations and more than £3 million of recoveries (paragraphs 2.16 to 2.18).

20 **The Department relies on lenders to investigate 'mid-tier' and 'bottom-tier' fraud, but lenders' commercial incentives to do so are limited**. If a lender follows the Scheme rules, including regulatory obligations, and makes a loan which is subsequently identified as fraudulent, it can reclaim the funds through the government guarantee. This offers limited commercial incentive for the lender to go beyond the Scheme rules in seeking a full recovery of overdue loans, fraudulent or otherwise. HM Treasury has asked lenders to prioritise investigating those applications which appear deliberately intended to mislead the Scheme over those who overstated turnover by less than 25%. As of April 2021, lenders claim to have prevented £1.97 billion of fraudulent applications and detected £5.3 million of fraudulent loans. We can provide no assurance over these figures. In July 2021, the Financial Conduct Authority, the main regulator for lending, reminded Scheme lenders of their wider obligations to report fraudulent activity, and highlighted the importance of keeping resourcing levels under review. The Department does not know how much lenders are spending on counter-fraud activity (paragraphs 2.13, 2.15 and 2.27 to 2.31).

Scheme changes, administrative costs and evaluation

21 The new repayment options will benefit both borrowers and the taxpayer, but increase the overall costs to borrowers and lenders. Around 21% of eligible borrowers have taken advantage of at least one of the new measures to delay or reduce loan repayments as at 30 September 2021. The two most popular options were to extend the term of their loan from six to 10 years (14% of borrowers), and taking a repayment holiday (9%). These measures offer borrowers more choice on how to repay their loans and increase the chances of business survival, which benefits the taxpayer by reducing the potential Scheme losses. However, it creates extra ongoing costs – for borrowers who are repaying loans over a longer period and thus accruing more interest, and for lenders who must administer the loans over a longer period and who already make a lower profit on each loan compared with their standard loans. The Department did not quantify these costs and benefits when it introduced the new repayment options. It extended the timetable for closing the Scheme under the same Ministerial Direction issued when the Department launched the Scheme in May 2020 (paragraphs 1.6 to 1.10, and Figures 6 and 7).

22 The process for recovering overdue loans means borrowers with different lenders may be treated differently. Lenders are responsible for collecting capital and interest payments and recovering any overdue loan repayments. In doing so, lenders must follow the Scheme's detailed recovery principles, set in December 2020, and industry regulations. Each lender is also able to follow their 'business as usual' approach where it does not contravene the Scheme principles. For example, a lenders' usual approach may include using debt collection agencies, which the Scheme also allows if it does not include doorstep visits. A borrowers' experience on loan default will depend, therefore, on their lender's standard approach, which differs across the industry. Most lenders we surveyed said that these Scheme principles are clear and that their internal business-as-usual recovery policies were appropriate. The Bank audits the lenders for compliance with Scheme principles and can claw back any guarantee payments where errors are found, for example where the lender has not followed the correct recovery protocols before claiming on the guarantee. The Bank has engaged RSM and KPMG to conduct these audits on its behalf (paragraphs 3.2 to 3.5 and Figure 11).

23 The Bank's Scheme administration costs for 2020-21 are expected to double because of the extension to the Scheme, additional repayment options, and the increased cost of lender audits. When we reported in October 2020, the Bank forecast the Scheme administration costs at £32 million by 2024-25; the Bank estimated in September 2021 that this will double to £67 million. The Bank said that the flexible repayment options have added extra costs, including more extensive lender audit work and additional counter-fraud analysis. The Bank expects the cost of lender audits and external operational support across all three COVID-19 debt schemes to rise to £75 million by the end of 2024-25; compared with £55 million in its October 2020 forecast. HM Treasury agreed to cover "all direct and 'reasonable and justifiable' indirect operational expenditure" in relation to the Scheme (paragraphs 3.11, 3.12, Figures 13 and 14).

24 The Department and the Bank have developed some metrics for measuring the Scheme's impact. Our previous report found that the Scheme did not have a business case and lacked, at its launch, clear objectives beyond the aim of fast financial support for smaller SMEs. When we reported on the Scheme in October 2020, the Bank told us that it was in the process of developing metrics for measuring the performance of the loan support schemes. The Bank has since commissioned an external evaluation study, which will report in stages over the next three years. This has some metrics for measuring Scheme impact, including business survival rates. It will be challenging for the Bank to measure survival rates, 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 (paragraphs 3.13 and 3.14).

Concluding remarks

25 To achieve the policy intention of supporting small businesses quickly during the pandemic, the government prioritised payment speed over almost all other aspects of value for money. The Scheme facilitated faster lending by removing credit and affordability checks and allowing businesses to self-certify their application documents. As the Scheme progressed, it continued to rely on businesses self-certifying their application details, even as the urgent need for finance reduced. Government ruled out options for additional upfront counter-fraud measures when the Scheme was extended. The impact of prioritising speed is apparent in the high levels of estimated fraud. Counter-fraud activity was implemented too slowly to prevent fraud effectively and the Department's focus is now on detection and recovery of fraudulent loans.

26 The Department needs to improve upon its identification, quantification, and recovery of fraudulent loans within the Scheme. Compared with the scale of its 'most likely' estimate of £4.9 billion of fraudulent loans, both the £32 million additional budget for counter-fraud operations, and its target to recover at least £6 million of fraudulent loans from organised crime, are inadequate. The Department has given low priority to tackling 'bottom-tier' fraud, including those loans where borrowers misstated turnover by less than 25%, owing to resource constraints. It expects lenders to focus on this fraud tier, but they have limited commercial incentives to do so.

Recommendations

27 In managing the Bounce Back Loan Scheme, by April 2022 the Department should:

a produce a formal strategy that sets out the longer-term ambitions, objectives and metrics for the impact of successful counter-fraud activity, and brings together its existing fraud risk assessment and counter-fraud actions; fraud risk appetite; and prioritisation of counter-fraud activities and resources based on evidence of cost-effectiveness – updating it as required to take account of any new fraud risks;

b develop a robust business case for detecting, preventing, and recovering fraudulent loans, including the economic rationale of its choices for counter-fraud activity; and the scale of resources needed for each activity;

c publish the level it is aiming to reduce fraud losses to, and report against this metric. This level should be based on the Department's expectation of the intended impact of its counter-fraud controls for the detection, prevention and recovery of fraudulent loans over time;

d refresh its fraud risk assessment at least every six months using the best available evidence, including with input from the Government Counter Fraud Function;

e evaluate options for controls against any new fraud risks on a cost-benefit basis, using this evidence to introduce controls within two months of identifying any new fraud risks; and

f set-out key performance measures for each fraud control, and measure performance against them regularly, adapting the approach where necessary.

In making changes to business support schemes the Department should:

g revisit the scheme's business case, paying particular attention to the impact of changes on fraud and value for money. Where the Department accepts an increased risk of fraud and error as a trade-off with other policy objectives, the Department must lay this out explicitly. The requirement to consider trade-offs applies equally to new schemes.

Part One

Loan disbursements and repayments

1.1 This part provides a factual update on the loans issued and changes to the Bounce Back Loan Scheme (the Scheme) to further help businesses repay; repayment data so far; and the estimated loss due to credit and fraud. It does not evaluate the Scheme's performance as the full repayment of loans will not be known for some time.

Background to the Bounce Back Loan Scheme

1.2 The Department for Business, Energy & Industrial Strategy (the Department) launched the Scheme on 4 May 2020, offering loans of up to £50,000, or a maximum of 25% of annual turnover, to support businesses during the COVID-19 pandemic. The loans were provided by commercial lenders (for example, banks, building societies and peer-to-peer lenders) directly to businesses who are expected to repay the debt in full. Government provided lenders a 100% guarantee against the loans (both capital and interest). This means if the borrower does not repay the loan, government will step in and pay the lender. The loans have a fixed interest rate of 2.5% and a maximum length of 10 years. In the first year of the loan, there are no capital repayments due, and the government pays the interest – making it interest-free for the borrower.[3] Roles and responsibilities for the Scheme are discussed in Appendix Two.

3 Comptroller and Auditor General, *Investigation into the Bounce Back Loan Scheme*, Session 2019–2021, HC 860, National Audit Office, October 2020, paragraphs 2 and 4.

Loan disbursements

Number and value of loans

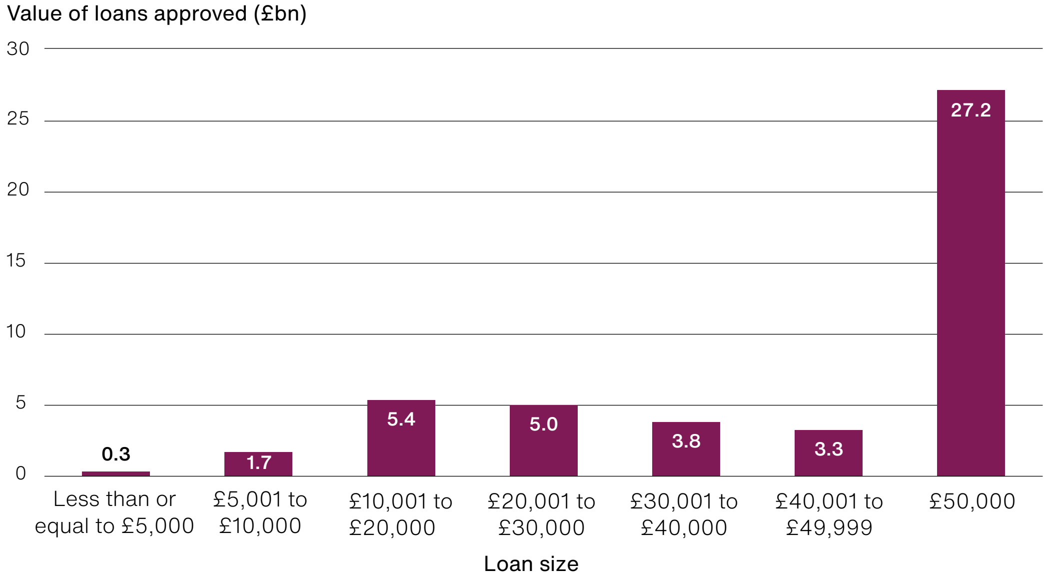
1.3 Around one quarter of all UK businesses received a Bounce Back Loan (1.5 million loans out of a total of 6 million UK businesses).[4] The Scheme is the largest of government's three business loan support schemes, agreeing 1.5 million loans worth £46.8 billion at the time it closed in March 2021. When the Scheme launched in May 2020 the Department expected to support 800,000 to 1.2 million businesses with loans totalling between £18 billion and £26 billion. The average (mean) loan is £30,340, with nearly 35% of loans being at the Scheme's £50,000 maximum, as of 13 September 2021 (**Figure 1**).

1.4 The Scheme focused on getting money to borrowers as quickly as possible – within 24 hours, or in some cases 48 hours if additional counter-fraud checks were required. The Scheme disbursed more than 40% of the money in the first month of its operation (May 2020), with the rate slowing thereafter (**Figure 2**). It made more than 90% of loans by value by the end of November 2020 – the Scheme's original closing month.

Figure 1

Value of loans provided by the Bounce Back Loan Scheme, grouped by loan size, September 2021

Most loans (58%) are at the maximum value of £50,000



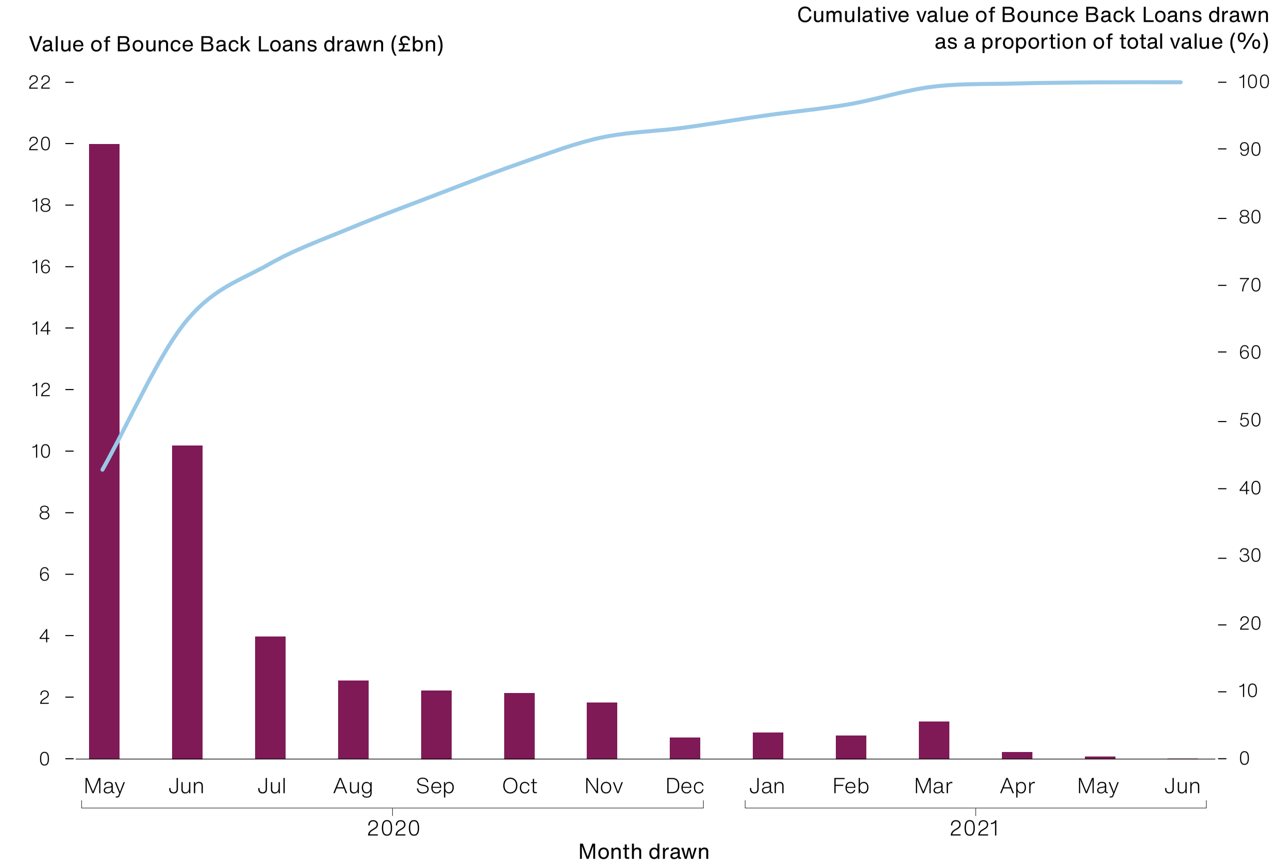
Notes
1 Loans with a value of £50,000 represent £27.2 billion out of £46.8 billion which is 58.2%.
2 Figures as of 13 September 2021.

Source: National Audit Office analysis of British Business Bank data

4 Six million UK businesses is as of October 2020. Available at: www.gov.uk/government/statistics/business-population-estimates-2020.

Figure 2
Value of loans provided per month since the launch of the Bounce Back Loan Scheme (the Scheme), September 2021

43% of loans by value were provided to businesses in the first month of the Scheme and more than 75% in the first four



	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Value of Bounce Back Loans drawn (£bn)	19.99	10.19	3.97	2.55	2.23	2.15	1.83	0.69	0.85	0.77	1.21	0.23	0.08	0.01
Cumulative value of Bounce Back Loans drawn as a proportion of total value (%)	42.8	64.6	73.1	78.5	83.3	87.9	91.8	93.3	95.1	96.7	99.3	99.8	100.0	100.0

Notes

1 The Scheme was launched on 4 May 2020 and closed for new applications on 31 March 2021. Lenders could process outstanding applications after the Scheme closed in March 2021. Borrowers continued to draw loans until September 2021 at a very low level, with a total of 55 loans made between July and September 2021. We have excluded these numbers from July 2021 to September 2021 for presentational purposes.

2 Our last report, 'Investigation into the Bounce Back Loan Scheme', included data up to 7 September 2020, when £36.9 billion of loans were drawn (79%).

3 Figures as of 13 September 2021.

Source: National Audit Office analysis of British Business Bank data

Distribution of loans

1.5 The loan recipients, and their location, as at 13 September 2021, are similar in make-up to those when we last reported:

- **Business size:** more than 90% of loans by number went to micro-businesses (turnover below £632,000) – a total of 1.4 million loans worth £39.7 billion (**Figure 3**). This is in-line with the Scheme's aim of providing support to smaller SMEs (small and medium-sized enterprises).
- **Business legal form:** Almost all loans (94% by number) went to private limited companies and sole traders – 1.4 million loans worth £43.7 billion.
- **Geographic distribution:** Broadly in line with the overall distribution of businesses across the UK, with the highest proportion found in London (**Figure 4**).
- **Sector:** Wholesale and retail sector was the largest user of loans by value at 17.4% of the total (**Figure 5** on pages 20 and 21).

Figure 3

Total value and number of loans provided by the Bounce Back Loan Scheme (the Scheme), by business size, September 2021

Micro-businesses received the highest number of loans (1,393,506) at a value of £39.7 billion

Business size[1]	Total value of loans provided (£m)	Total number of loans provided
Micro	39,654	1,393,506
Small	6,805	140,572
Medium	138	3,235
Mid-sized	148	3,427
Large	7	176

Notes

1 Business sizes are defined by turnover: micro-businesses have a turnover below £632,000; small businesses have a turnover between £632,000 and £10.1 million; medium businesses are between £10.2 million and £24.9 million; mid-sized businesses have a turnover between £25 million and £500 million; and large business have a turnover greater than £500 million.

2 The Scheme was launched on 4 May 2020.

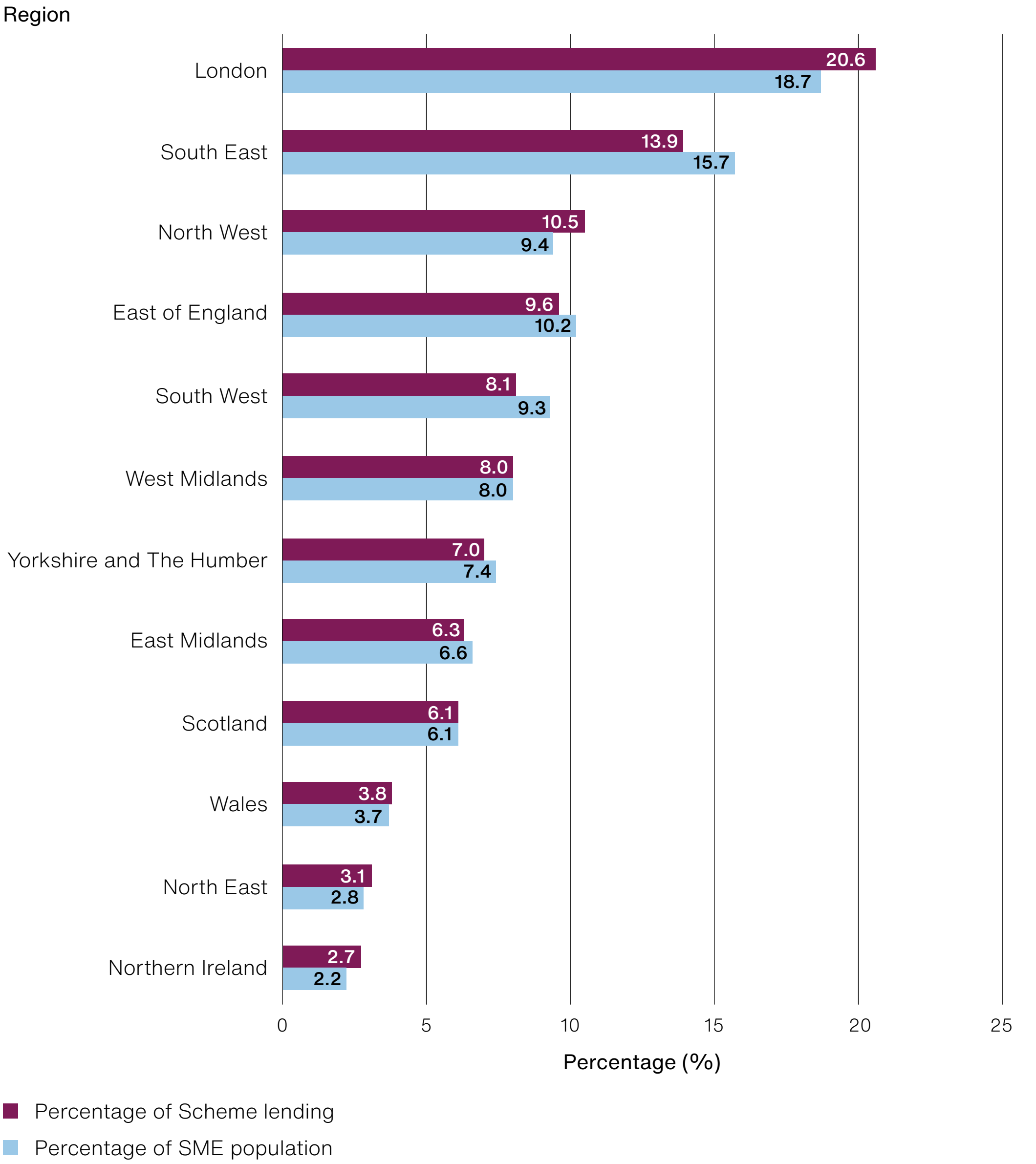
3 Figures as of 13 September 2021.

Source: National Audit Office analysis of British Business Bank data

Figure 4

A comparison of the share of loans provided by the Bounce Back Loan Scheme (the Scheme) against the small- and medium-sized enterprise (SME) population, by UK region, September 2021

The geographic distribution of loans is broadly in line with the overall distribution of businesses across the UK



Notes

1 The percentage of Scheme lending does not sum to 100% because the regional data for some loans were not valid.

2 An SME is defined as any business with fewer than 250 employees.

3 The value of loans per region data are at 13 September 2021. The business population estimates per region are at 2021.

Source: National Audit Office analysis of British Business Bank loan data and the Department for Business, Energy & Industrial Strategy business population estimates

Figure 5

A comparison of borrowing market share between the Bounce Back Loan Scheme (the Scheme) and small- and medium-sized enterprise (SME) pre-COVID-19 borrowing levels, by industry sector, September 2021, UK

The wholesale and retail trade sector's share of borrowing is twice as much under the Scheme than prior to the COVID-19 outbreak

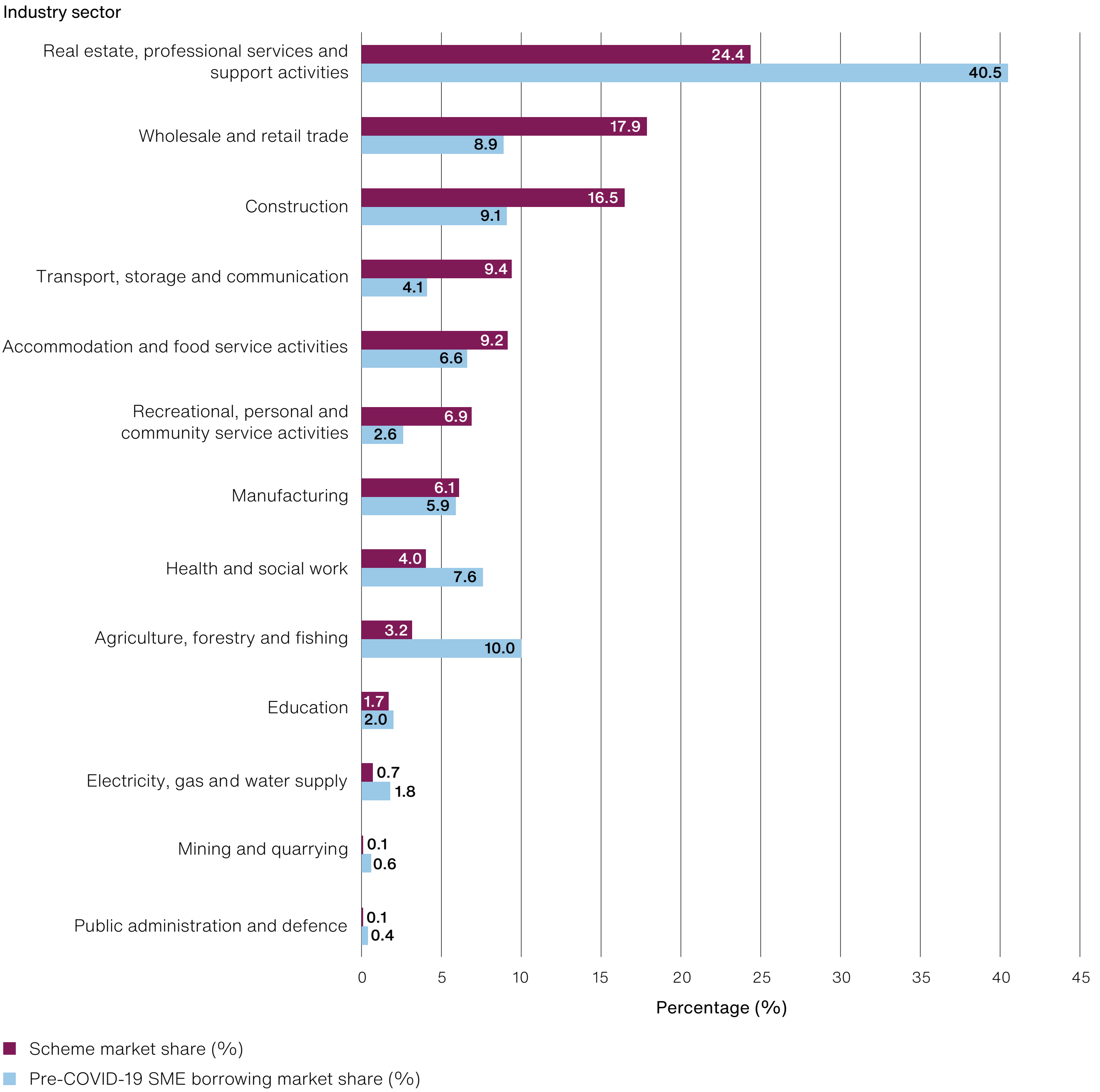


Figure 5 *continued*

A comparison of borrowing market share between the Bounce Back Loan Scheme (the Scheme) and small- and medium-sized enterprise (SME) pre-COVID-19 borrowing levels, by industry sector, September 2021

Notes

1 Data as of 13 September 2021.

2 Pre-COVID-19 SME borrowing market share is an average of the 12-month period from January 2019. Pre-COVID-19 borrowing levels are based on Bank of England data which uses the definition of an SME as any business with annual turnover below £25 million.

3 Figures do not sum to 100% as not all industry sectors have been included owing to incomplete information, or a lack of lending comparison data.

4 The Scheme market share includes loans to all business sizes. This includes loans to large and mid-sized businesses which represent 0.3% of loans by value and 0.2% of loans by number.

5 Industry sectors are based on Standard Industry Classification (SIC) codes adapted to bring them in line with the categories used in the Bank of England's Bankstats. As such, the industry sectors and percentages differ slightly to those published by the British Business Bank.

Source: National Audit Office analysis of British Business Bank data

Scheme extensions and repayment options

1.6 The Department, with the Chancellor's agreement, extended the Scheme's original closing date for loan applications from 4 November 2020 to 31 March 2021 to support businesses during the ongoing pandemic. It extended the Scheme three times, to 30 November 2020, 31 January 2021 and 31 March 2021, owing to many smaller businesses reporting continued cashflow issues and finance requirements following further national COVID-19 restrictions, which extended beyond the original Scheme end date (**Figure 6** overleaf). The Department and HM Treasury made these decisions in consultation with lenders who, for example, cautioned that a calendar year deadline following the first extension could lead to a surge of applications, which might cause them operational difficulties.

1.7 Alongside the Scheme extensions, the Department and HM Treasury introduced new options for borrowers to help them deal with the continued impact of the pandemic. These options included allowing borrowers to 'top-up' the size of existing loans to the maximum amount to which they are eligible. Other options offered more time, and flexibility, to repay, known as 'Pay As You Grow', and enabled businesses who have started repaying their loan to request:

a an extension to the loan duration from six to 10 years, at the same fixed 2.5% interest rate;

b interest-only payments for six months, available up to three times; or

c a repayment holiday for six months, available for use once.[5]

5 Borrowers could take a repayment holiday initially only after having made six full or interest-only repayments, but the Chancellor removed this requirement from 8 February 2021.

Figure 6
Key dates for Bounce Back Loan Scheme (the Scheme) extensions and repayment options

The Chancellor extended the original timetable for closing the Scheme several times and made some changes to rules about managing repayments

Date	Change	Instruction from
Scheme extensions		
24 September 2020	Scheme extended until 30 November 2020	Chancellor of the Exchequer
2 November 2020	Scheme extended until 31 January 2021	
17 December 2020	Scheme extended until 31 March 2021	
Selected COVID-19 support scheme announcements		
24 September 2020	Flexible repayment system known as 'Pay As You Grow' introduced, where borrowers could request: • an extension to their loan term from six to 10 years; • interest-only payments for six months; or • a repayment holiday for six months.	Chancellor of the Exchequer
2 November 2020	Option for borrowers to 'top-up' their loans introduced.	
9 November 2020	The British Business Bank wrote to the Department for Business, Energy & Industrial Strategy (the Department) about a significant increase in exposure from the Scheme extensions and 'top-up' options. It also reminded the Department of its reservations raised on 2 May 2020 about the pace of launching the Scheme hindering its ability to put in place robust controls and governance.	The British Business Bank
6 February 2021	Amendment of 'Pay As You Grow' allowing borrowers to take a six month payment holiday immediately if they so choose, rather than only after having made six full or interest-only payments.	
3 March 2021	Recovery Loan Scheme (RLS) launched initially until 31 December 2021 and then the Chancellor announced its extension until 30 June 2022 within the Autumn Budget 2021.	Chancellor of the Exchequer
National COVID-19 restrictions		
5 November 2020	Second national lockdown until 2 December 2020.	Prime Minister
6 January 2021	Third national lockdown until at least 8 March 2021.	

Source: National Audit Office review of published documentation and British Business Bank documentation

Impact of the extensions and repayment options

1.8 The Department's analysis showed that the Scheme extensions and new repayment options would increase the chance of business survival. They also have the benefit of increasing the chances that the loans will be repaid, reducing the taxpayers' credit risk. At the same time, it increases the costs to borrowers and lenders. Borrowers will be paying back their loans over a longer period and accruing more interest as a result, albeit at a lower rate than comparable commercial borrowing. Lenders will need to administer the loans for longer, and their capital is tied-up in the loans earning relatively less interest than if it were deployed elsewhere. In addition, cheaper credit offered through the Bank of England's Term Funding Scheme (TFS),[6] available to regulated banks, was initially only available for six years, meaning lenders might have been reluctant to meet higher funding costs for longer-term loans. Access to the Bank of England's TFS was extended to 10 years to match the longer loan terms under 'Pay As You Grow'. The Department did not quantify these costs and benefits.

1.9 Both the extended timetable and new repayment options were covered by the same Ministerial Direction issued when the Department launched the Scheme in May 2020. The British Business Bank (the Bank) wrote to the Department in November 2020 reminding it of the concerns it raised in its Reservation Notice ahead of Scheme launch and highlighting a significant increase in risk exposure resulting from the Scheme extensions and 'top-up' options. Both the Bank and the Department noted that they could not make a robust estimation of the value for money for extending the Scheme. Nevertheless, the Department's Accounting Officer concluded that a new Ministerial Direction was not necessary. The Department based this decision on the grounds that the Scheme parameters and associated risks had not changed materially. The Department considered the extension and changes affordable as HM Treasury agreed to provide budgetary cover for the Department's 'central estimate' of losses.

6 The Bank of England's Term Funding Scheme (TFS) is only open to banks and building societies that are participants of the Bank of England's Sterling Monetary Framework and signed up to the Discount Window Facility. Not all lenders are able to take advantage of TFS.

Take-up of the new repayment options

1.10 Take-up among borrowers of the offer to increase their loan or change repayment terms, as of 30 September 2021, was relatively low:

- 'Top-up' loans: Of the 45% of borrowers who were eligible for a 'top-up' loan, 7% of borrowers chose to increase their loan:
  - the total amount of 'top-up' loans amount to £934 million and the average additional borrowing was £8,909.
- 'Pay As You Grow' options: Borrowers on around 21% of loans are using one or more 'Pay As You Grow' repayment options (**Figure 7**):
  - 14% of loans have taken advantage to extend the duration of their loans;
  - 9% of loans took a repayment holiday; and
  - 3% of loans moved to interest-only payments.[7]

Loan repayments and potential losses

1.11 The Bank has a reporting system (the Portal) which collects from lenders loan-level data to administer guarantees in the event of borrower default. The data are not real-time and are dependent on lenders submitting accurate and timely data. Based on Portal data at 30 September, borrowers have repaid £2 billion worth of loans and have defaulted on £1.3 billion of loans. The Department has paid £19 million to lenders to settle guarantee claims. It took the Bank until July 2021 to have in place an automated system for lenders to report on repayment activities. Before that date the Bank collected these data using a manual process. The Bank audits lender submissions to the Portal and we have not conducted our own audit of these data. Based on Portal data, assuming 1,539,788 loans were borrowers that have drawn-down funds (Figure 7):

- 73% of all loans have either made repayments as planned or not yet reached the date to start repayments (loan repayments start one year after their draw-down date);
- 21% of loans have taken advantage of one or more 'Pay As You Grow' options (see paragraph 1.10); and
- 7% were in arrears on loans payments.

7 Borrowers can use these options individually or in combination with each other, so the percentage of borrowers who took out each repayment option do not sum to 100%.

Figure 7

Bounce Back Loan Scheme (the Scheme) repayments, 30 September 2021, UK

At 30 September, borrowers have repaid £2 billion worth of loans and have defaulted on £1.3 billion of loans

	Value	Number of facilities	Percentage of total facilities (all Scheme loans or repayments due)
	(£bn)		(%)
Scheme repayment data			
Made repayments as scheduled or not started repayments[2]	Data not available[3]	Data not available[3]	73
Repaid the loan in full	2.0	61,809	4
Loans defaulted	1.3	37,670	2
Guarantees settled	0.02	601	<1
Amount of arrears (one or more payments)[4]	0.1	106,196	7
Scheme option take-up			
'Pay As You Grow' option (one or more)	11.0	318,456	21

Notes

1 The total loans as of 30 September used in the table above are 1,539,788.

2 Once the loans have been drawn down, borrowers have 12 months before they need to start making repayments. The category 'Made repayments as scheduled or not started repayments' includes those borrowers who either are in the first 12 months and so have not started repayments or have passed the 12 month deadline and have started to make repayments on time. It does not include borrowers who are using one of the 'Pay As You Grow' options.

3 We took the 73% figure from a Bank management information report which drew on the British Business Bank's (the Bank's) Portal data at 30 September 2021. We requested a detailed breakdown of the underlying loans but it was not available as the Portal data had been updated with more recent figures.

4 The 'amount of arrears' category includes the value of arrears rather than the total value for the loans which are in arrears. For example, if a borrower had drawn a loan worth £50,000 but was in arrears of £25,000, then the data represent the £25,000 rather than the full £50,000 loan value.

5 The figures do not sum to 100% as some loans may be counted in more than one category. For example, the Department for Business, Energy & Industrial Strategy could have settled a guarantee on a defaulted loan. For full details of limitations in these data see Appendix One.

Source: National Audit Office analysis of British Business Bank data

1.12 The Department estimated in March 2021 that around 37% of loans, at a value of £17.2 billion, will not be repaid but its estimate is highly uncertain. Its loss estimate ranged between 31% and 48%, with a 'central estimate' of 37%. This represents both credit losses – among borrowers who want to repay but are unable to – and fraud losses – among those who either were not eligible for a loan or took out a loan with no intention of paying it back. Credit losses are the largest component. We cover estimates of fraud losses in detail in Part Two.

1.13 The Department's estimated loss range from March 2021 is subject to a high degree of uncertainty. The estimated probabilities of default on the underlying loans are uncertain as they are based on several assumptions, including that:

- it is usually possible to estimate the probability of loan repayment by looking at the borrower's credit score. Under the Scheme rules, lenders were not required to assess credit scores and therefore the Department has no credit score data on the borrowers;
- as repayments only began in May 2021, the Department had limited repayment data at the time to understand how the loans are performing; and
- uncertain macroeconomic conditions will affect repayment rates. A survey by the Bank, for example, found that one third of applicants were concerned about their ability to repay.

The Department developed these estimates using an expected credit loss model, which is detailed further in Appendix One. The Office for Budget Responsibility (OBR) suggested in July 2021 that up to 45% of Scheme guarantees may be called, an increase from 30% since our last report.[8]

8 Office for Budget Responsibility, *Fiscal risks repor*t, July 2021, paragraph 2.35. Available at: https://obr.uk/docs/dlm_uploads/Fiscal_risks_report_July_2021.pdf

Part Two

Counter-fraud measures

2.1 This part covers the Bounce Back Loan Scheme (the Scheme) fraud estimates. We also evaluate: the Department for Business, Energy & Industrial Strategy's (the Department's) strategy for tackling fraud; the Department's counter-fraud governance and resourcing; and the role of lenders. This section is primarily evaluative in nature, as the Department has set out how it will pursue Scheme fraud since we reported in October 2020.

2.2 Departmental accounting officers are responsible for managing their organisation's response to fraud and error. For individual projects and programmes, that responsibility is often taken on by a senior responsible officer. In the case of the Scheme, the Department is responsible and accountable for counter-fraud activity, and is responsible for the relationship with other governmental bodies, such as the National Crime Agency (NCA), the National Investigation Service (NATIS) and the Insolvency Service. The British Business Bank (the Bank) manages most of the remaining fraud risk on its behalf.

Our evaluative approach

2.3 We consider a cost-effective fraud control environment to be one which leads to the lowest level of fraud and error after taking all feasible options; we discuss this further in our good practice guide on fraud and error.[9] A counter-fraud strategy should set out, for a specific programme, the level of risk the programme is prepared to tolerate and how fraud will be prevented, anticipated, detected and monies recovered. This strategy should also include clear indications of governance and accountability structures and the resources required to deliver the strategy. In normal circumstances, we would expect the strategy to be in place before the programme commences.

9 National Audit Office, *Good practice guidance: Fraud and error*, March 2021.

2.4 We assessed the counter-fraud activities surrounding the Scheme against good practice. Our evaluative framework is outlined in Appendix Four and considers the relevant areas for our report, including: strategy and resourcing; governance; and implementation, measurement, and evaluation of controls to detect and prevent fraud. We consulted the Government Counter Fraud Function, and drew on its *Standards*.[10]

Fraud estimates

2.5 Before implementing a scheme public organisations should agree with partners their risk appetite, and document it. This will allow them to benchmark their measures of fraud, which must be estimated properly and reported appropriately. At Scheme launch, the Department recognised that prioritising payment speed by allowing potential borrowers to self-certify application details made the Scheme vulnerable to fraud; but it did not set its fraud risk appetite or estimate the level. As the Scheme progressed, the Scheme continued to rely on businesses self-certifying their application details, even as the immediate need for finance lessened. In October 2020, the Department stated internally that the Scheme was "currently the leading public sector fraud risk". In July 2021, the Bank assessed Scheme fraud risk as "very high".

2.6 The Department commissioned, through the Bank, PricewaterhouseCoopers LLP (PwC) in November 2020 to estimate the rate of occurrence of fraud in the Scheme. PwC did this by selecting – following a discussion with the Bank and the Department – a representative sample of loans and identifying those which had characteristics indicative of fraudulent activity. The Department used an external party as its in-house capacity was limited (see paragraph 2.14). PwC's work classified the sample loans as those with 'probable',[11] 'possible'[12] or 'no suspected fraud'.[13] The Department told us the total cost of this work was £1 million.

10 Government Counter Fraud Function, Government Functional Standard – GovS 013: Counter Fraud (publishing.service.gov.uk). Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1014385/6.7628_CO_Govt-Functional-Std_GovS013-Counter-Fraud_v4.pdf

11 Sampled loans were classified as 'probable fraud' where fraud risk indicators and/or lender information leads the Bank to suspect that, on the balance of probability, fraud or a breach of the Scheme rules has occurred.

12 Sampled loans were classified as 'possible fraud' where fraud risk indicators were identified but lender investigations have not concluded, or where the lender has chosen not to perform any additional investigations.

13 Sampled loans were classified as 'no suspected fraud' – where no fraud is suspected based on the information available.

2.7 The Department used the results of the PwC work to estimate the level of fraud present in the Scheme at 11.15% or £4.9 billion at 31 March 2021. This is based on PwC's finding that 119 of the 1,067 sampled loans (11.15%) had indicators of fraud occurrence.[14] The work resulted in 71 out of 1,067 loans (6.65% of the sample) being classified as 'probable fraud', and 48 out of 1,067 loans (4.50% of the sample) as 'possible fraud'. The estimate excludes some types of 'possible fraud' – for example, where an applicant overstates its turnover and gets a larger loan either deliberately or inadvertently. It also only partially covers misuse of funds – where funds are not used to support the business (a Scheme rule).

2.8 The PwC exercise has known limitations (see Appendix One, Figure 15) which mean that fraud losses may fall outside the estimated range, and the exercise focused on identifying fraud occurrence rather than fraud loss. A loss to the taxpayer would occur if a borrower defaults, and government must repay the lender under the terms of the guarantee. The Department has assumed 100% loss for all fraud occurrence types, which is likely to result in an overestimate of fraud losses in the Scheme. In some cases, the lender will be able to recover funds. The exercise also looked for indicators of 'possible' and 'probable' fraud occurrence. The 11.15% estimate combines 'possible' (~4.50%) and 'probable' (~6.65%) fraud and may therefore overstate the actual fraud occurrence rate. The combined estimate does not include all potential types of fraud, including suspected turnover inflation fraud, which may increase the fraud occurrence rate.

2.9 PwC's fraud estimate did not draw on loan repayment data because the first payments were not made until May 2021. PwC observe that not all fraud occurrences had been identified owing to limitations to the information available at the time of the sample review. As more data becomes available, we would expect the uncertainty around fraud and credit losses estimates to reduce. In October 2021, the Department's advisers, PwC, revised down its estimated level of fraud from 11.15% to 7.5% of loans. It did this after gathering additional information from lenders on the 48 loans within its sample which had previously been classified as in the 'possible fraud' category, some of which had entered repayment. As a result:

- 41 loans moved from 'possible fraud' to 'no fraud suspected' after further discussions with lenders;
- seven loans moved from 'possible fraud' to 'probable fraud'; and
- two loans moved from 'no fraud suspected' to 'probable fraud'.

Overall, 80 out of 1,067 loans were classified as 'probable fraud' (7.50% of the sample), owing to the reclassification that no loans had 'possible fraud'; and 987 of 1,067 loans were classified as 'no fraud suspected'. We can provide no assurance on this estimate as we were not able to audit the underlying loan information in the time available before we published this report.

14 PwC set its sample size (1,067 loans) based on the Bank's desired statistical confidence level of 95% and confidence interval of 3%. This means that, the Department, as a result of PwC's work can state with 95% confidence that the estimated fraud occurrence is between 8.15% and 14.15%, with 11.15% as a central estimate.

2.10 The figures in both estimates are consistent with the Government Counter Fraud Function's estimate of Scheme fraud, which it described as "significantly above the general estimates of public sector fraud levels of 0.5% to 5%" when we reported in October 2020. In addition, the Department's revised estimate is in line with the Government Counter Fraud Function's April 2021 initial estimate of Scheme fraud. This estimated that between 4% to 11% of loans were fraudulent, equal to £1.8 billion to £5 billion, although it also had a high level of uncertainty. The Department has not, against our good practice guidance, set out the level of fraud loss that it is prepared to tolerate, based on its expectation of the intended impact of its counter-fraud controls over time.

2.11 The Department's revised fraud estimates are similar to that of Her Majesty's Revenue & Customs' (HMRC's) Coronavirus Job Retention Scheme (CJRS), which also provided financial support to businesses. At 31 March 2021, the CJRS total estimated level of fraud and error ranged from 7% to 12%, equal to £4.1 billion to £7.3 billion, with its most likely estimate at 8.7%, equal to £5.3 billion.[15] The estimate is also subject to a high degree of uncertainty and the schemes are not fully comparable as CJRS incorporated additional controls including a 72-hour window to perform validation checks on applicants' details, an honesty declaration, whistleblowing routes, transaction monitoring and bank account checks.[16]

Counter-fraud strategy and resourcing

2.12 There are several documents setting out components of a counter-fraud strategy, but none of these covers the Department's long-term ambitions, objectives or measures of success. The Bank identified fraud risks in an internal fraud risk assessment in October 2020. It also updated its action plan for fraud risks, in a 'Post Event Action Plan', several times between October 2020 and April 2021. The Department set out its prioritisation of counter-fraud activity and related resources, based on the estimated cost-effectiveness of different approaches, in a Ministerial Submission rather than a formal strategy document. These documents do not set out the government's strategic objectives, the full scale of resources needed, or any financial metrics for the impact of its counter-fraud activity or individual controls or actions. These documents are also not accessible or transparent, as there are multiple live versions of the action plan and the Ministerial Submission has varied access rights among officials involved in delivering the Scheme.

15 HM Revenue & Customs, *Annual Reports and Accounts, 2020-21*, Report by the Comptroller and Auditor General, 4 November 2021, see Figure 17.

16 Comptroller and Auditor General, *Implementing employment support schemes in response to the COVID-19 pandemic*, Session 2019–2021, HC 862, National Audit Office, October 2020. See paragraph 3.20 and Figure 14. Available at: www.nao.org.uk/wp-content/uploads/2020/07/Implementing-employment-support-schemes-in-response-to-the-COVID-19-pandemic.pdf

2.13 Good practice requires the cost-effectiveness of counter-fraud measures to be assessed. The Department prioritised its activity within three groups: top-tier, mid-tier and bottom-tier fraud cases. It 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. The Department could not tell us how many cases were in each group, and is not tracking caseloads based on these groups. The Department prioritised its fraud response based on the return on investment from recovering fraudulent loans, focusing on organised crime.

2.14 It has taken some time for the Department and the Bank to build their counter-fraud capacity. At the start of the Scheme, the Department recognised that its counter-fraud function – two full-time staff – would require significant organisational change to cope with the high levels of estimated Scheme fraud. The Government Counter Fraud Function placed a senior civil servant into the Department to aid the counter fraud response. By January 2022, the Department plans to increase its counter-fraud team to 10 full-time equivalent (FTE) staff. The Bank reallocated resources internally, and also used secondees and external parties until March 2021 when it set up a dedicated financial crime team, aiming to recruit six FTE staff by the end of 2021. In October 2020, the Department proposed options to enhance its counter-fraud measures, costing an additional £32 million, or 0.07% of the total value of the loans. This cost estimate is not limited to staffing and is regardless of the scale of fraud. As with other government departments, the Department has low numbers of staff with fraud expertise; the Committee of Public Accounts noted in June 2021, for example, that 77% of government counter fraud professionals work in the Department for Work & Pensions or HMRC.

2.15 Organisations should make resourcing decisions with an understanding of the cost and impact on fraud and error. Owing to the scale of possible fraud, and limited internal resources, the Department is prioritising pursuing organised crime, and it has started to investigate mid-tier fraud cases. The Department decided not to focus its investigative resource on borrowers who overstated turnover by less than 25%, provided there were no other fraud risk indicators. This is despite the Bank identifying turnover misstatement as the top risk in its July 2021 fraud risk assessment (**Figure 8** overleaf). The Department expects lenders to pursue upfront recovery where it is feasible and cost-effective to do so, and to always seek recovery action where loans are not repaid. HM Treasury told us that it asked lenders to prioritise investigating those applications which appear deliberately intended to mislead the Scheme over those who overstated turnover by less than 25% because it could be a genuine error by the borrower, and it does not necessarily mean the loan will not be paid back. This prioritisation approach risks diminishing the deterrent effect of counter-fraud activity.

Figure 8

The British Business Bank's top 10 fraud risks for the Bounce Back Loan Scheme (the Scheme), from highest to lowest risk, July 2021

Turnover misstatement is the top fraud risk

	Fraud risk	Risk description
1	Turnover misstatement	Business knowingly submits an application declaring that its turnover was higher in 2019.
2	Application from an inactive company	Existing companies which are inactive apply for a Bounce Back Loan.
3	Use of Scheme funds for personal use	Business uses a Bounce Back Loan for personal use rather than supporting the business.
4	Third-party fraud	A third party impersonates a genuine business to get a Bounce Back Loan.
5	Non-UK company	A non-UK based company self-certifies that it is UK based, which is against the Scheme rules.
6	Multiple applications from sole traders	A sole trader makes multiple applications to the Scheme by reporting business activities that are not genuine.
7	Group companies not applying as a single group entity	Group companies applying for multiple Bounce Back Loans as different subsidiaries rather than a single group entity.
8	A Limited Company retains its loan by seeking a voluntary dissolution	A Limited Company has no intention to repay a Bounce Back Loan and retain the funds by seeking a voluntary dissolution.
9	A Limited Company retains its loan by failing to file accounts	A Limited Company has no intention to repay a Bounce Back Loan and fails to file accounts so that its director is subject to a compulsory strike-off application.
10	Business applying for multiple COVID-19 support schemes that it is not eligible for	Business applies to multiple COVID-19 loan schemes and obtains a loan from more than one scheme that it is not eligible for.

Note

1 There were a total of 36 fraud risks in the British Business Bank's fraud risk assessment of 27 July 2021.

Source: National Audit Office analysis of the British Business Bank's fraud risk assessment

2.16 Because of the Department's limited in-house skills and capacity, it uses external agencies to investigate, prosecute and recover funds for top-tier and the 'higher end' of mid-tier fraud cases. External agencies the Department relies upon include:

- law enforcement organisations, for example, the National Crime Agency (NCA) and the National Investigation Service (NATIS) to investigate top tier fraud cases;[17,18] and
- the Insolvency Service which has a statutory role to investigate and prosecute breaches of company legislation on the Department's behalf, as one of its executive agencies.

In October 2020, the Department noted to its minister that it could not increase in-house activity further, given its own limited resources (see paragraph 2.14) and the scale of potential fraud it would have to deal with. In that submission it identified additional counter-fraud work it could undertake for example: with lenders; external parties; and by increasing its own capacity – which it thought would cost around £28 million where figures were available, leading to the request for an additional £32 million budget (see also paragraph 2.14). The Department's submission to ministers also highlighted the limited capacity of public law enforcement organisations and the Insolvency Service. The Insolvency Service had, for example, indicated to the Department that it was not adequately resourced to investigate a high volume of fraud cases outside of its core enforcement work.

2.17 The Department identified a "strong return on investment" for using NATIS. It stated, as a benefit that NATIS had recovered £8 for every £1 spent investigating another public sector scheme. NATIS indicated that it could scale-up to deploy up to 136 FTEs to investigate this Scheme at a cost of around £39 million over three years. The Department did not pursue this option. NATIS told us during the final stages of our review that the Department agreed funding of £6 million between 2020-21 and 2021-22, with a provisional £6.5 million for 2022-23, subject to the Spending Review settlement.

2.18 As of 26 October 2021, NATIS had received more than 2,100 intelligence reports about alleged fraud, both directly and through a Crimestoppers COVID fraud hotline, set up to allow individuals to report fraud during the pandemic. The Department has set NATIS a target to recover at least £6 million of fraudulent loans from organised crime over three years, which is equal to the amount the Department agreed NATIS could spend on its caseload for the Scheme. This meant, however, that NATIS was able to investigate a maximum of 50 cases per year after triaging a larger number of cases. The Department intended to seek support from regional police forces and the NCA to mitigate the need to expand NATIS's caseload. As of October 2021, NATIS's work had resulted in 43 arrests across 33 investigations and more than £3 million of recoveries.

17 The NCA investigates and prosecutes the most serious fraud cases such as those involving serious or organised crime.

18 NATIS is a law enforcement body specialising in financial crime and fraud, mostly at a local authority level. NATIS will investigate and prosecute medium to high severity fraud cases, supported by the Crown Prosecution Service.

Counter-fraud governance

2.19 Good practice suggests that a clear governance structure should be in place to manage fraud risk, with a clearly defined remit and ability to hold other parts of the organisation to account for implementing the fraud and error strategy. There are three fraud forums which aim to set the strategic direction for counter-fraud work and coordinate activity. **Figure 9** shows that these forums were established after the Scheme launch. The forums meet regularly and have wide membership, alongside UK Finance (a banking and finance representative), and law enforcement agencies – including NATIS and the NCA. The Department sets the strategic direction, while HM Treasury provides counter-fraud activity funding. The Government Counter Fraud Function advises on good practice and provides challenge on activity.

2.20 The Bank's internal audit of fraud in July 2021 gave the Bank an overall "reasonable" level assurance in how it managed fraud risks in the Scheme. The internal audit found, however, slow progress both with establishing internal roles and responsibilities and oversight of the Scheme's counter-fraud strategy and fraud risk reporting processes. While the Bank's Executive Committee approved the first fraud risk assessment and 'Post Event Action Plan' in October 2020, its Committee did not, for example, require the Bank to update its fraud risk assessment on a regular basis. The Bank did not update its fraud risk assessment until July 2021, adding seven new fraud risks to make a total of 36 risks. These included, for example, risks around borrowers obtaining loans from different COVID-19 loan schemes, which is against Scheme rules. The Bank has updated its 'Post Event Action Plan' on a more regular basis than its fraud risk assessment (paragraph 2.12).

2.21 Both the Bank and Department's progress with developing counter-fraud governance structures was limited until they both increased their fraud expertise (see paragraph 2.14), as they focused initially on Scheme set-up. The Bank set out a clear line of accountability for escalating risks to the Department, including a new Fraud and Financial Crime Risk Forum for the Bank from the end of September 2021 to highlight risks and options to the Department. The Bank is also completing a clear process map for who approves decisions and when, although it has not set a completion date for this work.

Controls to detect and prevent fraud

2.22 Counter-fraud controls should prevent and detect known fraud and error risks in a timely manner to keep pace with emerging threats and measure their impact properly. At the outset of the Scheme, in May 2020, the Department relied on lenders' controls – these obliged lenders to ensure that applicants passed anti-fraud, anti-money-laundering and 'know your customer' checks. We identified a further 13 Scheme-specific controls to prevent and detect fraud which the Department, the Bank, HM Treasury, Cabinet Office and the Government Counter Fraud Function implemented after Scheme launch and up to June 2021 (**Figure 10** on pages 36 to 38).

Figure 9

Counter-fraud governance forums for COVID-19 loan guarantee schemes, UK

The Department for Business, Energy & Industrial Strategy (the Department) leads on three counter-fraud forums, which aim to set the strategic direction for COVID-19 loan guarantee scheme counter-fraud work

Forum	Purpose	Membership	Frequency	Date of first meeting	Escalation to
COVID-19 Counter-Fraud Forum	Provide support to the Counter-Fraud Strategy Board	The British Business Bank (the Bank) The Department HM Treasury Government Counter Fraud Function Home Office National Investigation Service (NATIS)	Weekly	10 June 2020	Counter Fraud Strategy Board
COVID-19 Counter-Fraud Strategy Board	Set strategic direction for counter-fraud work and coordinate activity	The Bank The Department HM Treasury Government Counter Fraud Function Home Office HM Revenue & Customs National Crime Agency (NCA) NATIS	Fortnightly	3 November 2020	COVID-19 Fraud Ministerial Board
Bank Fraud Collaboration Working Group	Forum for lenders to share knowledge and best practice	The Bank The Department UK Finance – a trade association for the banking and finance industry Government Counter Fraud Function NATIS	Fortnightly	6 May 2020	Counter-Fraud Strategy Board

Note

1 COVID-19 loan schemes include, for example, the Bounce Bank Loan Scheme and the Future Fund.

Source: National Audit Office analysis of British Business Bank and the Department for Business, Energy & Industrial Strategy documentation

Figure 10

Actions to detect and prevent fraud since the launch of the Bounce Back Loan Scheme (the Scheme)

Some counter-fraud controls were in place at Scheme launch on 4 May 2020, but 11 of 14 measures took four months or more to introduce by which time more than 80% of funds were lent

Counter-fraud actions	Details	Date started	Updated	Who responsible	Time since Scheme launch	Value of loans when action taken (bn)[1]	Percentage of total loans issued, by value[1]
Fraud prevention							
Lender checks	Lenders are required to conduct anti-fraud, anti-money laundering and 'know your customer' checks on loan applications as part of the guarantee agreement from the outset – but applicants self-certified their details. The British Business Bank's (the Bank) accreditation process for lenders and post-accreditation audits gives it assurance that lenders have the appropriate controls in place to complete these checks.	4 May 2020	Not applicable	British Business Bank	0 months	0	0%
Change in director flag	Identifies previously registered companies (before 1 March 2020) that are inactive and have been subject to a director change since the Scheme was launched. This is a strong indicator of fraud and identifies companies that have been acquired by organised crime groups with an intent to defraud the Scheme.	15 July 2020	Not applicable	Government Counter Fraud Function	2 months	32.4	69%
HM Revenue & Customs (HMRC) Bounce Back Loan Verification Scheme	Used to verify a business's turnover. Owing to the tax cycle, the data will lag by one year.	From 1 January 2021	Not applicable	Government Counter Fraud Function; HMRC	8 months	43.6	93%
'Bulk objection' process	A mechanism to prevent companies closing (also called dissolving – see paragraph 2.25) to avoid repaying Scheme loans. This is intended to prevent fraudsters receiving a loan, withdrawing funds and then closing the company with the intention of preventing lender recovery of funds.	3 March 2021	Not applicable	Government Counter Fraud Function; Companies House; The Department for Business, Energy & Industrial Strategy (the Department)	10 months	45.4	97%

Figure 10 *continued*

Actions to detect and prevent fraud since the launch of the Bounce Back Loan Scheme (the Scheme)

Counter-fraud actions	Details	Date started	Updated	Who responsible	Time since Scheme launch	Value of loans when action taken (bn)[1]	Percentage of total loans issued, by value[1]
Fraud prevention							
Turnover pilot	Work on a sample of 10,000 loans using HMRC data to investigate the occurrence of inflation of turnover. Government Counter Fraud Function analysis has revealed that 35% of customers (of those that could be matched) appeared on the basis of HMRC data to have inflated their turnover greater than or equal to 25% on the basis of turnover stated on the Scheme's loan application. Due to the tax cycle, the data will lag by one year.	June 2021	Not applicable	Government Counter Fraud Function	13 months	46.7	100%
Fraud detection							
Mandatory duplicate checks	All lenders use a fraud prevention database (provided by CIFAS) to check loan applications to identify and prevent multiple application fraud (seeking multiple loans from different lenders, which is not allowed under the Scheme).	26 June 2020	Not applicable	British Business Bank	1 month	28.7	61%
NATIS start work	The Department commissioned the National Investigation Service (NATIS), to investigate, disrupt and recover money from fraudulent activity in the Scheme.	21 September 2020	Not applicable	The Department	4 months	38.3	82%
Fraud risk assessment	Sets out who might defraud the Scheme, how they could do it, and its likelihood and impact. Good fraud risk assessments have specific fraud risks, laid out in the 'Actor, Action, Outcome' formula. Government and industry best practice is to have such assessments in place before products are launched. As the Department set up the Scheme quickly, it relied on high-level internal and external assessments, to begin with.	8 October 2020	23 August 2021	British Business Bank	5 months	39.6	85%

Figure 10 *continued*

Actions to detect and prevent fraud since the launch of the Bounce Back Loan Scheme (the Scheme)

Counter-fraud actions	Details	Date started	Updated	Who responsible	Time since Scheme launch	Value of loans when action taken (bn)[1]	Percentage of total loans issued, by value[1]
Fraud detection							
COVID-19 fraud hotline	Run in conjunction with Crimestoppers, under which the public can report fraud in relation to the COVID-19 support schemes. The Cabinet Office triage intelligence from the fraud hotline and then provided to the Department or NATIS.	12 October 2020	Not applicable	Cabinet Office	5 months	40.1	86%
Post-Event Action Plan	Action plan setting out the activities to be undertaken to give the Department confidence in the level of fraud and error loss identified.	19 October 2020	Updated six times up until July 2021	British Business Bank	5 months	40.6	87%
PwC fraud estimation	The Department commissioned PricewaterhouseCoopers LLP (PwC) to review a sample of 1,067 cases for possible or probable fraud. This level does not include certain types of potential fraud, for example, turnover inflation and possible lender fraud, and only partially covers misuse of funds.	23 November 2020	June 2021: findings completed	British Business Bank	6 months	42.7	91%
Government Counter Fraud Function analysis	The Government Counter Fraud Function is delivering a Fraud Analytics Programme on behalf of HM Treasury, the Department and the Bank to identify fraud and guarantee ineligibility in the Scheme. The Programme has eight phases which will analyse the Scheme's dataset against other datasets.	1 March 2021: First report	July 2021: Second report	Government Counter Fraud Function	10 months	45.4	97%
Fraud team introduced	The Bank introduced a Financial Crime Team to take the lead on its counter-fraud response for the Scheme.	7 April 2021	Not applicable	British Business Bank	11 months	46.6	100%
Fraud recovery							
Fraud recoveries document for lenders	Sets out how government should approach loan repayment recoveries once lenders claim on the government's guarantee.	9 December 2020	Not applicable	HM Treasury	7 months	43.1	92%

Note

1 The British Business Bank Portal data provided a weekly breakdown of the number and value of loans which were drawn down. The 'value of loans when action taken' and the 'percentage of total loans issued by value' columns were calculated using the value of loans data from the week which included the 'Date started'.

Source: National Audit Office analysis of the Department for Business, Energy & Industrial Strategy and the British Business Bank documentation, and British Business Bank Portal data

2.23 A duplicate application check to identify borrowers seeking multiple Scheme loans from different lenders was implemented in June after 61% of the loans, by value, had been made. It is better to prevent fraud than to seek to recover funds later. However, the 10 further actions implemented in or after September 2020 were aimed mainly at detecting fraudulent loans that had already taken place, rather than preventing fraudulent applications, to allow lenders to take action to demand repayment of these loans in full. When the Scheme was extended, government ruled out introducing additional counter-fraud measures on the basis that it would undermine the Scheme's self-assessed nature and its objective to deliver funds quickly. This was despite the Bank having identified turnover misstatement as the top fraud risk in October 2020.

2.24 Actions to detect fraud included, for example, a fraud risk assessment to set out the likelihood of certain groups defrauding the Scheme, but the Bank only updated this once in 10 months, in contrast to its 'Post Event Action Plan' (see paragraph 2.12). Actions to prevent fraud included a pilot to check company turnover against existing data, but the Department did not introduce this until June 2021, after all the loans were made. Similarly, the Department implemented a duplicate application check in June 2020, a month into the Scheme, but by this time, most loans (61% of the total value) were made. The Bank only began formally testing the effectiveness of this control some 14 months after introduction. By this point, there were still some duplicate applications, which suggests that the control did not have a deterrent effect. The Department stated that introducing these checks from Scheme outset would have slowed loan delivery to businesses and delivering financial support quickly to smaller SMEs (small and medium-sized enterprises) was the main objective at the outset of the Scheme.

2.25 The Department told us that it did not begin to analyse fraud data until several months after Scheme launch because its focus was on getting loans to businesses quickly. The Government Counter Fraud Function identified possible Scheme fraud by matching Scheme loan data to other data sources. These ranged from business registration and tax data to law enforcement data. It completed the first two of eight planned pieces of fraud analysis between March and July 2021:

- The first phase (March 2021) of the Government Counter Fraud Function's analysis of Scheme risks focused on six fraud risk areas for loans to limited companies, which represent the largest share of borrowers. It identified loans with a higher likelihood of fraud worth £492.8 million (1.1% of the total loan book), of which more than half, at a value of £297 million, were from borrowers with filed dormant accounts. This suggested that dormant companies were resurrected simply to claim loans.

- The second phase focused on disqualified company directors with a Scheme loan; and a 'dissolution objection process', which prevents companies voluntarily closing (or dissolving) before the Department and lenders have had the opportunity to recover loans. Government Counter Fraud Function analysis found a total of 119 companies with a disqualified director took loans. However, the Department told us that follow-up work revealed these results were largely made up of directors who received loans prior to the disqualification period or after the disqualification period had ended. The Government Counter Fraud Function also found that Companies House had lodged 34,232 successful objections to 34,123 companies dissolving, totalling £1.2 billion of loans.

2.26 In June 2021, the Department shared with lenders the Government Counter Fraud Function findings to help them identify areas of possible fraudulent behaviour. This information included, for example, loans with potential fraud risks. The Department told us that it plans to take this further by analysing loan repayment data for fraud indicators. It plans to match the loans where the borrower has made no attempt to repay against the fraud risk areas identified from its analysis, but it has not set a date for completing this work. This will help the Department focus its counter-fraud resources in the areas of highest risk and increase its chances of recovering the loan.

Lenders' counter-fraud activity

2.27 The nature of the Scheme places the main responsibility for managing mid and bottom tier fraud risks on lenders. These rules required lenders to conduct counter-fraud checks before making loans, such as checking borrower details against a counter-fraud database and 'know your customer' checks. They also pursue recovery processes in line with their existing business-as-usual standards, under the terms of the Scheme's guarantee agreement. Lenders were expected to make loan payments within 24 hours of application, or in some cases, within 48 hours if further counter-fraud checks were required.

2.28 To support lenders in managing fraud-related risks, the Bank established fraud prevention forums with the lenders and a wider group of stakeholders to share good practice and aid implementation of additional counter-fraud measures (Figure 9). In addition, from October 2020, the Bank, alongside the Department and lenders, began using a system allowing lenders to provide a monthly fraud report. This provides estimates of prevented loss, detected loss, errors and recoveries. Although this is not active fraud prevention, given it is conducted once the lenders upload the details into the Portal, it is aimed at identifying and minimising potential losses.

2.29 As of April 2021, lenders claim to have prevented £1.97 billion of fraudulent applications and detected £5.3 million of fraudulent loans. Detected fraud refers to loans made which lenders have subsequently judged as fraudulent. We did not audit these figures as: each lender reports the information on a different basis; some lenders might choose not to report suspected fraud, which makes comparisons subjective; and some lenders do not share their underlying data. The Bank told us that it does not audit these figures either. In December 2020, the Department advised HM Treasury that there was still a high level of residual fraud risk even after lenders had conducted their up-front checks. These figures will, therefore, not give a full picture of the scale of fraud, or that detected and prevented by lenders. In July 2021, the Financial Conduct Authority, the main regulator for lending, reminded Scheme lenders of their wider obligations for reporting fraudulent activity. It also highlighted that it was important "to keep resourcing levels under review to ensure instances of financial crime are identified and reported in a timely manner through the appropriate channels, and to assess, monitor and manage controls to identify fraud cases effectively in line with existing requirements".

2.30 If a lender follows the Scheme rules and its internal business-as-usual practices when making a loan which is subsequently identified as fraudulent, it can reclaim the funds through the government guarantee.[19] The Government Counter Fraud Function and Home Office raised concerns with the Department, which the Department recognised, that lenders were not required, or indeed incentivised, to seek full recovery of fraudulent loans. Recovering funds adds to lenders' costs and so commercial incentives to recover could be weak. For example, lenders can claim on the guarantee "within a reasonable time period" following the first formal demand for repayment and claiming on the guarantee is not conditional on having completed the recoveries process. Once the guarantee is paid any funds the lender subsequently recovers should be paid back to the government. The Department does not know how much lenders are spending on counter-fraud activity. We cover the incentives around the recovery process in more detail in our October 2020 report.

2.31 Lenders continue to collaborate with the Bank by participating in fraud prevention forums and voluntarily providing information on their counter-fraud activities, which go beyond those set out in Scheme rules. The Bank audits lenders for compliance of the agreement rules and checks as part of the guarantee claim process.

19 'Business as usual' processes should be compliant with regulation on lenders which the Financial Conduct Authority and Lending Standards Board Standards of Lending Practice for Business Customers ("Treatment of customers in financial difficulty") set. Available at: www.lendingstandardsboard.org.uk/wp-content/uploads/2020/08/Standards-of-Lending-Practice-for-business-customers-August-2020-Covid-update.pdf

Part Three

Other changes and activities under the Bounce Back Loan Scheme (the Scheme)

3.1 This part provides a factual account of the agreed process for lenders to recover outstanding loans, the borrower experience and impact of the Scheme on the small and medium-sized enterprises (SMEs) lending market, the Department for Business, Energy & Industrial Strategy's (the Department's) plans for evaluating the Scheme; and the costs of administering the Scheme. It does not evaluate these areas as the outcome for businesses, lenders and the taxpayer will not be known for some time.

Recovery process

3.2 Lenders are responsible for collecting capital and interest payments and recovering any overdue loan repayments from borrowers. The Scheme recovery principles define how the collection process should operate, including protocols for collecting overdue payment. When we reported on the Scheme in October 2020, HM Treasury had agreed the recovery process principles with lenders, but not the details of how the process would operate. In December 2020, it agreed the specific operational details with lenders. Each lender is also able to follow their 'business as usual' approach where it does not contravene the Scheme principles. Lenders' 'business-as-usual' standards are also covered by market regulations, such as the Financial Conduct Authority's *Fair treatment of customers* rules and the Consumer Credit Sourcebook depending on the size of the loan and business entity.

3.3 The recovery process gives borrowers who have taken up the 'Pay As You Grow' option more flexible repayment options before lenders issue a formal demand for payment. Lenders must complete the recovery process if formal demands are not met but can claim on the guarantee before completing the process "within a reasonable time period" following the first formal demand date, or sooner, if lenders believe "no further payment is likely". Any additional funds the lender ultimately recovers from the borrower, less reasonable recovery cost, must be returned to government. Most lenders that we surveyed said that the recovery process principles were sufficiently clear and that their internal business-as-usual recovery policies were appropriate. Given that each lender's recovery process will differ, for example, including when and how debt collection agencies may be used, borrowers' experience on loan default will depend on their lender.[20] Recovery process steps include:

- in the first instance, lenders can offer borrowers one or more '**Pay As You Grow**' option up to three months before repayments are due.[21] Lenders, who offer 'Pay As You Grow' are required to send a reminder to borrowers with outstanding payments from three, two and one month before the end of the 12-month standard repayment holiday;
- if a lender judges that a borrower might be helped beyond any 'Pay As You Grow' options, it can offer its standard **forbearance options**, in line with its business-as-usual processes, for example, by setting a repayment plan;
- where a lender makes a further judgement that neither 'Pay As You Grow' nor forbearance options will help, or if payments are at least 90 days overdue, it can issue a **formal demand** to borrowers for repayment of the full outstanding balance. Any missed payments or forbearance options are reported to credit reference agencies, which can impact a borrower's ability to obtain further finance;
- a lender can apply its existing processes to **pursue a borrower for repayment** for 12 months after issuing a formal demand, with some additional Scheme protection for borrowers; it is not obliged to pursue repayments after this time. Lenders cannot, for example, seize a borrower's primary residence or main vehicle, but borrowers can offer these assets at their discretion. Lenders can pursue a borrower for repayments by contacting borrowers directly or by opting to use debt collection agents, although the Scheme does not allow 'doorstep visits'. The recovery principles state that lenders should assess whether to pursue repayments based on the probability of recovering the loan, the amount outstanding and a borrower's potential assets. It can suspend such action where no future repayment is likely, or at the end of the recovery process;
- borrowers who are traced through the recovery process by lenders can then enter into a **repayment agreement** based on the affordability of the debt. Under the Scheme, borrowers can offer, at their own discretion, their personal assets, but this is not a requirement; and
- any **further enforcement action** is only used in the event of serious or organised fraud, or the borrower refusing to repay despite having assets available (**Figure 11** on pages 44 and 45).

20 The experience of a borrower who has defaulted on their Scheme loan may also differ depending on the legal entity status of the business, and whether it has also defaulted on other debts.

21 Under the Scheme, borrowers were offered options to allow more time and flexibility to repay. Collectively these options were known as 'Pay As You Grow' and enabled businesses who have started repaying their loan to request: an extension to the loan duration from six to 10 years, at the same fixed 2.5% interest rate; interest-only payments for six months, available up to three times; or a repayment holiday for six months, available for use once.

Figure 11

The process for recovering overdue loans in the Bounce Back Loan Scheme as agreed between the government and lenders in December 2020

The recovery process gives borrowers more flexible repayment options before lenders issue a formal demand for payment

Action	Definition	When used	Borrower role	Lender role	Report to credit reference agencies	Third parties
Pre/post-arrears						
Pay As You Grow options	Offers more time and flexibility to borrowers: • Term extensions for 10 years. • Interest-only payments for six months. • Payment holiday for six months.	Up to three months prior to repayments commencing.	Requests a 'Pay As You Grow' option by self-attesting they are facing repayment difficulties.	Expected, but not required, to offer 'Pay As You Grow'. Opted-in lenders send a reminder three, two and one month before the end of the 12-month standard repayment holiday.	Not reported solely as a result of using 'Pay As You Grow' options	Not applicable
Arrears and default						
Forbearance	Forbearance options in line with lenders' usual processes, for example: • Payment plan to resolve arrears. • More time to seek advice on options. • Waiving interest accrued on loan.	Where 'Pay As You Grow' is not deemed sufficient or helpful for the borrower, for example, for vulnerable borrowers.	Inform the lender they are in financial difficulty.	Contact borrowers who miss payments and offer the 'Pay As You Grow' options.	Any forbearance options reported	Not applicable
Issue formal demand	A formal demand to borrowers for repayment of the full outstanding balance.	Where lender judges that 'Pay As You Grow' or forbearance will not help. When payments are at least 90 days overdue or if the borrower has, permanently ceased trading or evidence of fraud.	Contact the lender to discuss an affordable repayment plan if it anticipates difficulties in full repayment immediately.	Issue the demand and offer an affordable repayment plan. No cross-defaults on other loans unless there is cessation of trading, death, unwillingness to engage.	Missed payments reported	Not applicable

Note

1 HM Treasury agreed the recovery process in December 2020. Some loans have not yet reached the later phases of the process, which begin 12 months after issuing a formal demand.

Source: National Audit Office analysis of HM Treasury's recovery process

Action	Definition	When used	Borrower role	Lender role	Report to credit reference agencies	Third parties
Recovery						
Pursue borrower for repayment	Contact borrower for repayment, assessing recovery probability, including legal form of borrower, amount outstanding and potential assets; based on existing processes.	After formal demand issued. Suspended where no future repayment is likely, or at the end of the recovery process.	Respond to contacts from the lender.	Continue contact with borrower 12 months after issuing the demand. Scheme intent is for no cross-default, except some situations.	Missed payments reported	Debt collection agents optional No doorstep visits
Repayment agreement	Borrowers traced through the recovery process enter into a repayment agreement based on the affordability of the debt.	Negotiated during the 12 months from formal demand. No time limit.	Offer a declaration for private residence or vehicle against the recovery at their own discretion.	Try to repair a break in a repayment plan at least once.	Missed payments reported	Not applicable
Enforcement	Enforcement action includes petitioning the borrower for insolvency or starting administration proceedings.	Enforcement is not expected unless in the event of serious or organised fraud, or borrower refusing to pay but has assets.	Not applicable	Use their discretion to take enforcement action in extenuating circumstances.	Not applicable	Not applicable
Make a claim on the loan guarantee	A guarantee can be applied to net (post-recovery) loss of principal only; it does not cover interest. A lender can claim costs for dealing with debt collection agencies.	No later than 12 months after issuing a formal demand to the borrower – unless the borrower repays after the demand issued.	Not applicable	Use Guarantee Agreement for a partial write-off of the loan, once followed all other options above.	Not applicable	Not applicable
Post-guarantee claim	Once a Guarantee Claim has been made, the Lender is still obliged to seek further potential recoveries if the recoveries process has not yet been completed and a 12-month period from the date of issue of the formal demand has not passed.		Not applicable	Summarise the amount due to government from any further recoveries after a claim	Not applicable	Not applicable

3.4 The recovery process includes some additional protection for borrowers, although this may vary by lender depending on its standard approach. As loan repayments were only due from May 2021, there is currently little complaints data from, for example, the Financial Ombudsman surrounding fair treatment.

3.5 As lenders can claim the government guarantees before pursuing borrowers for a full 12 months, there is a risk that the lender would rather claim on the guarantee than seek to recover outstanding loans. The terms of the guarantee, however, require lenders to take 'reasonable steps' to recover overdue payments. The British Business Bank (the Bank) audits lenders' compliance with the guarantee terms. This means that if a lender made a claim on the loan guarantee, but afterwards an audit found that the claim was made fraudulently, in bad faith, or other than in compliance with the guarantee terms, the lender is required to reimburse government. The Bank has engaged RSM and KPMG to conduct lender audits on the Bank's behalf; they began in September 2020.[22] Audits take a risk-based approach, and review a sample of lenders' Scheme facilities taken from the Bank's Portal data.

Borrower experience

3.6 Limited anecdotal evidence we gathered from business representative groups suggests that businesses have found the loans useful to address cashflow shortages during the pandemic. In March 2021, the Bank surveyed 1,700 borrowers, finding that about 70% used the funds for working capital and day-to-day expenses, and about 30% took out the loans for 'financial security'. Neither the Department nor the Bank have routinely collected information on loan use.

3.7 Some businesses, however, experienced delays in the processing of their loan applications, with more than a third of the 2,000 complaints to the Financial Ombudsman in August 2021 relating to a delayed administration of their loan application. The Federation of Small Businesses (FSB) told us that setting up a loan was more challenging for borrowers who ran their business through their personal accounts. The FSB also found that some of its members had difficulties obtaining a loan from their own bank and had to apply to other lenders, which lengthened the time it took to receive a loan.

22 A third auditor (BDO) is also contracted to undertake one-off audits where, for example, both RSM and KPMG are conflicted.

Scheme lenders

3.8 When the Scheme launched in May 2020, there were seven accredited lenders, consisting of five main UK banks and two other banks. In March 2021, when the Scheme closed, there were a total of 24 accredited lenders (as of 13 September 2021), six of which were non-bank lenders – one lower from October 2020.[23] Industry representatives for non-banks reported that many alternative lenders faced delays in the Bank accrediting them to make loans under the Scheme. Large banks usually already had a pre-existing relationship with the Bank so had been through its accreditation checks. In contrast, alternative lenders could take several months to be accredited as the Bank conducted additional checks.

3.9 Most of the loans (nearly 90% of the total value of loans) were provided by the seven main UK banks. These larger banks had traditionally made relatively few loans to micro-businesses, which means that they took market share from smaller finance providers. The remaining 10% of loans were provided by other UK banks and non-bank lenders, such as peer-to-peer lenders (1% of loans by value or 4,000 loans), respectively as of 13 September 2021 (**Figure 12** overleaf).

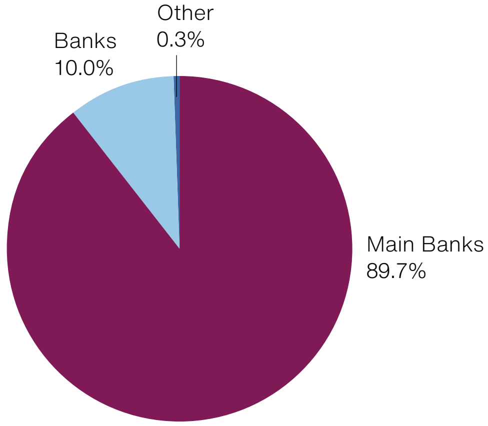
3.10 Many non-bank lenders found it difficult to obtain cheap credit to finance loans, a challenge that the Bank, HM Treasury and industry bodies for alternative lenders recognised. While the government offered 100% guarantees to the loans, it did not provide finance directly, and lenders used their own capital to make loans. Unlike established banks, the non-bank lenders did not have access to cheaper credit offered by the Bank of England through the Term Funding Scheme (TFS).[24] Analysis by Innovate Finance, a representative body for non-bank lenders, showed that in 2020 the main banks increased their market share from 35% to 56%. Alternative lenders' total lending remained constant year-on-year.[25]

23 Non-banks are institutions that are not registered with the Prudential Regulation Authority.
24 HM Treasury offered non-bank lenders the ability to assign the guarantee under the loans as an option to benefit from cheaper funding.
25 Innovate Finance, Innovate Finance releases new analysis of SME market share, 1 September 2021. Available at: www.innovatefinance.com/news/innovate-finance-releases-new-analysis-of-sme-market-share-revealing-split-between-big-banks-vs-new-lenders-before-and-after-the-covid-crisis/

Figure 12

Value of loans provided by the Bounce Back Loan Scheme by lender type, September 2021

Nearly 90% of the total value of all Bounce Back Loans were provided by the seven main UK banks



Notes

1 Figures as of 13 September 2021.

2 The British Business Bank does not base its categories of bank on any specific criteria such as size or product category.

3 Main Banks are: Bank of Scotland, Barclays, Clydesdale Bank, HSBC, Lloyds, NatWest and Santander.

4 Banks are: AIB Group, Arbuthnot Latham & Co, Bank of Ireland, Close Brothers, Co-operative Bank, Danske Bank, Investec Bank, Metro Bank, Paragon Bank, Starling Bank and TSB Bank.

5 'Other' includes non-banks which are institutions not registered with the Prudential Regulation Authority. These include: Funding Circle, New Wave Capital, Tide Capital, Conister Finance & Leasing, Skipton Business Finance and GC Business Finance (previously BFS).

Source: National Audit Office analysis of British Business Bank data

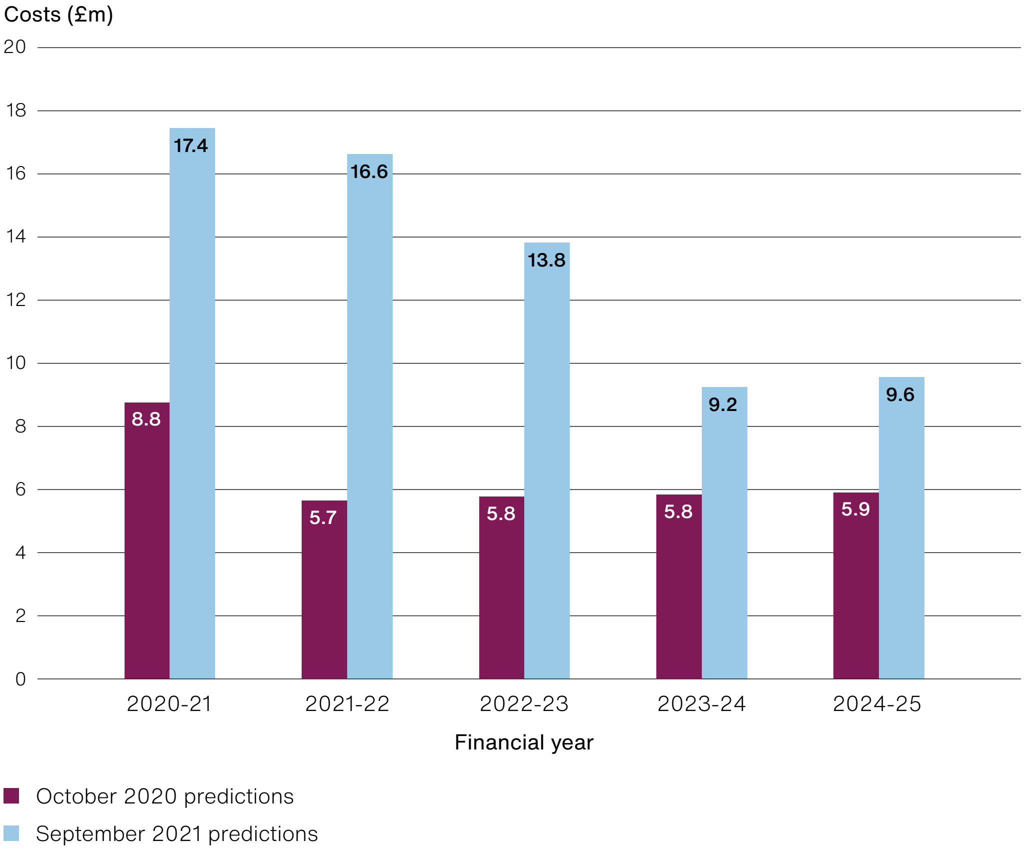
Scheme administrative costs

3.11 The Bank's Scheme administration costs were £17 million for 2020-21 against a forecast of £9 million when we reported on the Scheme in October 2020. In September 2021 the Bank forecast administration costs to be £67 million between 2020-21 and 2024-25. This was an increase to its October 2020 forecast of £32 million (**Figure 13**). This latest estimate represents 53% of the overall administrative costs of the three COVID-19 business loan support schemes, compared with 43% in October 2020. These estimates do not include the Department and HM Treasury's costs. HM Treasury agreed to cover "all direct and 'reasonable and justifiable' indirect operational expenditure" in relation to the Scheme.

Figure 13

Administrative costs of the Bounce Back Loan Scheme (the Scheme), 2020-21 to 2024-25

The British Business Bank's (the Bank's) revised forecast administrative costs for the Scheme have increased since we reported on the Scheme in October 2020, because of the flexible repayment options and Scheme extensions



Notes

1 Figures as of 13 September 2021.

2 Total administrative costs for 2020-21 to 2024-25 at October 2020 were £32 million.

3 Total administrative costs for 2020-21 to 2024-25 at September 2021 were £66.6 million.

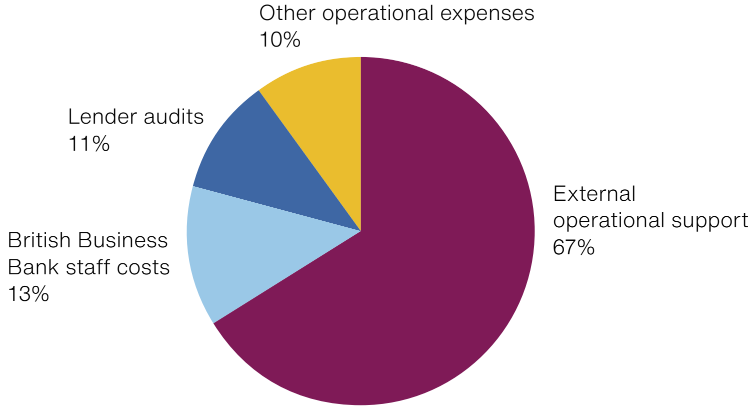
Source: National Audit Office analysis of British Business Bank data

3.12 The Bank said that the Scheme extensions and flexible repayment options have added extra costs, including more extensive lender audit work and additional counter-fraud analysis. Most of the costs for the next five years are for external operational support, including costs for IT and legal and professional advice. However, 11% of the costs are for consultancy to carry out the lender audits (**Figure 14** overleaf). The Bank expects the cost of external operational support and lender audits across all three COVID-19 debt schemes to rise to £75 million by the end of 2024-25, compared with £55 million in its October 2020 forecast.

Figure 14

Breakdown of forecast total administrative costs for the Bounce Back Loan Scheme (the Scheme), 2020-21 to 2024-25

Most of the Scheme's administrative costs over the next five years are for external operational support, including costs for IT and legal and professional advice



Notes

1 Figures as of 13 September 2021.

2 British Business Bank staff costs also includes interim staff.

3 External operational support includes IT, legal advice, professional advice and other outsourced services.

4 Other operational expenditure includes expected credit loss modelling, marketing and communications.

5 Figures may not sum due to rounding.

Source: National Audit Office analysis of British Business Bank data

Scheme evaluation

3.13 Our previous report on the Scheme found that it did not have a business case and lacked, at its launch, clear objectives beyond the aim of fast financial support for smaller SMEs. The Bank has since commissioned an external evaluation of all three COVID-19 business support schemes, which intends to report in stages from 2022 to 2024. The evaluation will seek to draw lessons from both an operational perspective ('process evaluation') and economic perspective ('impact evaluation').

3.14 When we reported on the Scheme in October 2020, the Bank told us that it was in the process of developing metrics for measuring the performance of the loan support schemes. The Department and the Bank have now developed some metrics, as part of their evaluation plans, to measure Scheme impact. The Bank's 'process evaluation' will report in 2022 and use stakeholder survey data and management information to examine the effectiveness of the Scheme's design and delivery mechanisms. This includes, for example, the effectiveness of the Department's implementation of risk management measures. The Bank intends to report its 'impact evaluation' three times between 2022 and 2024, and includes some metrics for measuring the success of the Scheme, including the impact on business survival rates, business turnover, employment levels and productivity. Measuring the Scheme's impact, however, is challenging because there is a lack of reliable data to compare the recovery of businesses that used the Scheme with a similar group that did not.

Appendix One

Our approach

Scope

1 This report follows on from our October 2020 investigation into the Bounce Back Loan Scheme (the Scheme), which gave an overview of the Scheme, the number and value of loans issued and the main Scheme risks.

The report provides a factual update on the:

- number of loans made by the time the Scheme closed, the changes to the Scheme, including take-up of flexible repayment options to further help businesses repay, the number of businesses that have begun to repay the loans, and default data. The data used for this analysis are described in **Figure 15** overleaf;
- Department for Business, Energy & Industrial Strategy's (the Department's) estimated Scheme credit and fraud losses. This is the Department's latest estimate available in its accounts, which includes data up to 31 March 2021. The Department refined its estimates in October 2021; and
- Scheme principles for recovering outstanding loans, anecdotal information on businesses' experience of the Scheme, the British Business Bank's (the Bank's) forecast administrative costs for the Scheme, and the Department's plans to evaluate Scheme performance.

The report evaluates:

- the government's counter-fraud strategy for the Scheme, and its activities to date, using our *Good practice guidance: Fraud and error* as the evaluative framework (see Appendix Four);[26] and
- the report does not evaluate the Scheme's performance as the full repayment of loans will not be known for some time.

The report only focuses on the Scheme; it does not review other COVID-19 schemes such as the Coronavirus Business Interruption Loan Scheme, the Coronavirus Large Business Interruption Loan Scheme, and the Recovery Loan Scheme.

26 National Audit Office, *Good practice guidance: Fraud and error*, March 2021. Available at: www.nao.org.uk/wp-content/uploads/2021/03/010381-001-Fraud-and-Error-Accessible.pdf

Figure 15
Quantitative datasets used in our report, March to September 2021

We drew on six different main datasets from three different sources: the British Business Bank (the Bank), the Department for Business, Energy & Industrial Strategy (the Department) and the Government Counter Fraud Function

Data	Source	Date	How we used the data – example figures	Any limitations in the data
Loan value and distribution data (including by month, business size and type, location, sector and lender)	The Bank: individual loan data from lenders	13 September 2021	The Bounce Back Loan Scheme (the Scheme) had agreed 1.5 million loans worth £46.8 billion at the time it closed in March 2021.	Lenders vary in how they collate and report the information to the Bank. Figure includes borrowers who applied before the Scheme closed but received the funds afterwards.
Loan repayment data and take-up of flexible repayment options	The Bank: individual loan data from lenders	30 September 2021	• Borrowers had defaulted on 2% of all loans, representing about £1.3 billion. • Around 21% of eligible borrowers took advantage of the 'Pay As You Grow' repayment options.	Lenders vary in how they collate and when they report the information to the Bank.
Fraud estimates	The Department (using Pricewaterhouse-Coopers LLP analysis)	31 March 2021 (updated in October 2021)	Estimate for the scale of fraudulent loans as 11% by number and £4.9 billion by value. With new information, this estimate was refined to 7.5% in October 2021 when loans previously classified as 'possible' fraud were reclassified as either 'probable fraud' or 'no fraud suspected'.	The Department assumed in its estimate that any fraud leads to a total loss of the loan which is likely to overestimate losses as some funds may be recoverable. For full limitations see the Department's Annual Report and Accounts 2020-21 – section 'The Report of the Comptroller and Auditor General to the House of Commons'.
	Government Counter Fraud Function	April 2021	Estimated that between 4% and 11% of loans were fraudulent, equal to £1.8 billion to £5 billion.	Used a moderate level of extrapolation and assumptions on false positives and did not cover all fraud types.
Fraud prevented and detected	The Bank: individual fraud loan data from lenders	20 April 2021	Lenders claim to have prevented £1.97 billion of fraudulent applications and detected £5.3 million of fraudulent loans.	We could not audit these figures as: each lender reports the information on a different basis; some lenders might choose not to report suspected fraud which makes comparisons subjective; and some lenders do not share their underlying data.
Loans not repaid (credit losses)	The Department	31 March 2021	Estimated 37% of loans will not be repaid at a value of £17 billion.	Based on assumptions in expected credit loss model: no credit score data for the borrowers; limited repayment data; and repayment rates rely on future macroeconomic conditions.
Scheme administrative costs (2020-21 to 2024-25)	The Bank	September 2021	The Bank forecast the Scheme administration costs at £67 million by 2024-25.	We have not audited the Bank's underlying operational expenditure data.

Note
1 For further explanation about the loan dataset, please see the section below on 'loan data'.

Source: National Audit Office analysis of documentation from the British Business Bank and the Department for Business, Energy & Industrial Strategy

Methods

2 In reviewing these areas, we drew on a variety of evidence sources provided by the HM Treasury, the Department and the Bank. We reviewed key documents in relation to the Scheme's:

- extensions and flexible repayment options;
- implementation and loan distribution;
- credit and fraud loss estimates;
- loan recovery process and forbearance options;
- counter-fraud strategy and counter-fraud activities agreed with the lenders and law enforcement agencies; and
- evaluation process.

3 We undertook a survey of 24 lenders under the Scheme. The survey covered the offer of 'Pay As You Grow' options, the clarity of the recovery process principles under the Scheme, how each lender implemented the recovery process in their organisation, the impact of the recovery process has had on their customers, how each lender identified and treated vulnerable customers, and whether they collect information on how borrowers have used the loan proceeds. Of these, we received 15 responses, giving a response rate of 63%. The responses included five of the seven main UK banks; five of the 11 other UK banks; and five of the six 'non-banks', such as asset-backed lenders.

4 We interviewed or corresponded with:

- HM Treasury, the Department and the Bank;
- the National Investigation Service (NATIS);
- business and industry representatives, such as the Confederation of British Industry, the Federation of Small Businesses, the Finance & Leasing Association and Innovate Finance; and
- other interested stakeholders such as the Financial Ombudsman Service and customer representative groups.

Quantitative analysis

Datasets used in our analysis

5 We conducted quantitative analysis on the Department's data on loan disbursements and repayments, credit losses, fraudulent loans and administrative costs. These are set out in more detail in the subsequent subsections below. Overall, we drew on six main datasets from three different sources, including the Department, the Bank and the Government Counter Fraud Function. These datasets, their sources and how we used them are shown in the table on page 52 (Figure 15).

We analysed loan data

6 We analysed Scheme loan data from the Bank. Lenders provide data to the Bank via a collections system it refers to as 'the Portal'. It took the Bank until July 2021 to have in place an automated system for lenders to report on repayment activities. The Bank collected these data using a manual process before July 2021. The Bank uses these data to administer guarantees, and they are not real-time. The Portal contains data on borrowers' loan repayments, arrears, 'Pay As You Grow' options, loan defaults and loan repayments in full. The Portal depends on lenders submitting accurate and timely data. The Bank audits lender submissions to the Portal; we have not done so. The Portal data's are intended to be used to manage the guarantees rather than monitor loan performance.

7 In our report we use the Bank's lenders' Portal data as our primary dataset and hence not all figures in our report reconcile with other publicly available figures – which are often based on data up to the financial year end in March 2021. Despite the Scheme closure on 31 March 2021, loan numbers and value may differ from those at financial year end as lenders could process outstanding applications after the Scheme closed. Borrowers continued to draw loans until September 2021 at a very low level. The Bank data used in our report have a cut-off date of 13 September 2021, on that date 1,540,916 loans had been drawn with a value of £46.76 billion.

8 The Bank's Portal data are also used for the repayment statistics, for example the number of loans defaulted or in arrears, and loan top-up data. All but one lender provided the repayment data via the Bank's automated Portal; one lender's data on 'Pay As You Grow' loans are added manually and is only included in the 'Pay As You Grow' options figures in this report (Figure 7 and paragraph 1.10). Lenders may change loan data in the Portal for several reasons including, for example, a borrower in arrears restarting loan payments. As a result, data may vary from month to month, in particular 'in arrears' and 'loans defaulted' information. These repayment data are as of 30 September 2021 when 1,539,788 loans had been drawn with a value of £46.72 billion.

9 HM Treasury published data on the number and value of loans approved through the Scheme. These figures are available on HM Treasury's website and we do not use them in this report. The figures may differ to the Bank's Portal data as HM Treasury collects summary-level data of loan applications and loan applicants, whereas the Bank has data on a loan-by-loan basis. We have explained these differences in our 2020 report on Bounce Back Loans. The latest publication from HM Treasury shows that as at 31 May 2021, 1,560,309 loans had been drawn down with a value of £47.36 billion. HM Treasury has stopped reporting on the Scheme since it closed.

10 We have not audited the underlying loan-level data owing to confidentiality issues. The data contain sensitive personal and commercial details. We relied on the summary data provided by the Bank. The Bank, in turn, rely on information that the lenders provide.

We reviewed the Department's expected credit loss model

11 We reviewed the Department's estimate of credit losses based on our financial audit of its 2020-21 Annual Report and Accounts. This looked in detail at the Bank's estimated credit loss model. For each individual guarantee that the government has issued, the model estimates the probability that the borrower will default on the loan, the amount of the loan at default and any funds which might subsequently be recovered. This model is then used to estimate the value of credit losses in the Scheme.

12 The Department's credit loss estimate is uncertain as it is based on assumptions in its expected credit loss model: there is no credit score data for the borrowers as this was not a scheme requirement; it has limited repayment data; and repayment rates will be affected by future macroeconomic conditions which are themselves uncertain. More information is available in the notes to the Department's Annual Report and Accounts.

We looked at the Department's estimate of the scale of fraudulent loans

13 We also reviewed the Department's estimate of the rate of occurrence of fraudulent loans in the Scheme as of 31 March 2021. The Department commissioned PricewaterhouseCoopers LLP (PwC) to analyse a sample of loans for indicators of fraud. PwC reviewed 1,067 randomly selected loans as a statistically significant sample of the Scheme at 12 November 2020. It then judged which loans had 'No fraud suspected based on information available', and for those with 'indicators of potential fraud occurrence' it classified the loans as 'probable', or 'possible' fraud. This led to its most likely estimate of fraud of 11.15% of loans by number. The Department's estimate excluded some types of possible fraud – for example, where an applicant overstates its turnover and gets a larger loan either deliberately or inadvertently.

14 The Department converted the loans by number figure into a value (£4.9 billion) by weighting the loans to account for those most at risk of fraud. As a result, one cannot simply apply 11.15% to the total outstanding loan balance of £46.7 billion to arrive at the value of estimated fraud in the Scheme. The Department's calculations assumed that any fraud leads to a total loss of the loan, which is likely to overestimate losses as some funds should be recoverable. These fraud estimates are included in the Department's Annual Report and Accounts for 2020-21.

15 The Department's advisers, PwC, updated its estimated level of fraud in October 2021, which reduced from 11.15% to 7.5%. It did this after gathering additional information from lenders, which led to the reclassification of all 48 sample loans in the 'possible' fraud category. A total of 41 loans moved from 'possible' fraud to 'no fraud suspected' after further discussions with lenders; seven loans moved from 'possible' to 'probable' fraud; and two loans moved from 'no fraud suspected' to 'probable' fraud. A total of 80 out of 1,067 loans had 'probable' fraud (7.50% of the sample), owing to the reclassification no loans had 'possible' fraud, and 987 of 1,067 loans had 'no fraud suspected'. We were not able to audit these revised estimates in the time available to us.

16 We also reviewed lender self-reported data on the value and volume of fraud from the number of fraudulent applications that they declined, or fraud that they had identified. We could not audit these figures as: each lender reports the information on a different basis; some lenders might choose not to report suspected fraud, which makes comparisons subjective; and some lenders would not share their underlying data as they had concerns about data privacy. The Bank told us that it does not audit these figures.

We analysed the Bank's Scheme administrative cost data

17 The Bank's preliminary assessment of the Scheme's administrative costs is based on a summary spreadsheet of the Bank's forecasted annual cost from 2020-21 to 2024-25. It updates the Bank's September 2020 administrative cost estimate for the Scheme. The assessment is based on the Bank's estimates of all COVID-19 business loan support schemes. The Bank allocated the total costs to the relevant scheme, expense category and year. The allocation methods used vary depending on the cost items, and mainly use volume, value, or number of schemes. We have not audited the underlying operational expenditure data. We have verified the calculations in the spreadsheet and conducted limited checks on the allocation of the cost between the schemes.

Appendix Two

Roles and responsibilities for the Bounce Back Loan Scheme (the Scheme)

1 HM Treasury developed the Scheme, and subsequent changes, with the Department for Business, Energy & Industrial Strategy (the Department) and the British Business Bank (the Bank), which the Department owns. HM Treasury and the Department monitored the Scheme and set its overarching terms. In consultation with HM Treasury and the Department, the Bank was responsible for Scheme implementation and administration.

2 Commercial lenders (for example, banks, building societies and peer-to-peer lenders) were responsible for administering loans to businesses and collecting loan repayments. The loans have a fixed interest rate of 2.5% and a maximum length of 10 years, and businesses are expected to repay the debt in full. In the first year of the loan, no capital repayments were due, and the government paid the interest – making it interest-free for the borrower. The Bank oversees lender compliance with the Scheme's terms, and it engaged third parties (KPMG and RSM) to conduct periodic audits. **Figure 16** overleaf outlines the roles and responsibilities for the Scheme.

3 As part of an application, businesses had to self-certify their application, including the turnover of the business, and that they had been impacted by COVID-19 and were able to repay the loans. The Scheme allowed lenders to verify application details as they "see fit", but there were no requirements to do so. Lenders were required to conduct anti-fraud, anti-money-laundering and 'know your customer' checks on all loan applications.

4 As lenders were not allowed to assess whether customers were able to repay the loans, government provided a 100% guarantee to the lenders: if the borrower defaulted on the loan, the lender could recover the funds from government through the guarantee. If lenders do not follow the Scheme principles, for example, if the borrower was ineligible for a loan, government is not obliged to honour the guarantee. The Scheme continued to rely on this self-certification approach between October 2020 and March 2021, when the Scheme was extended, even though the immediate need for quick access to finance during the pandemic lessened when the government eased national COVID-19 restrictions.

Figure 16

Roles and responsibilities for delivering the Bounce Back Loan Scheme (the Scheme), UK

The government utilises arm's-length bodies and private organisations to deliver the Scheme

Stakeholder	Description
HM Treasury	HM Treasury initiated the Scheme and, in conjunction with the Department for Business, Energy & Industrial Strategy (the Department) and the British Business Bank (the Bank), set the policy and designed the Scheme. HM Treasury collected and published Scheme data until the Scheme closed in March. It also led the discussion with lenders on finalising the operational guidance in relation to the debt recovery process under the Scheme.
Department for Business, Energy & Industrial Strategy	The Department is the Bank's sole shareholder and has a wider policy remit for business and enterprise. As sole shareholder, its accounting officer is ultimately responsible for the three COVID-19-related business support schemes and issued the Written Direction to the Bank to pursue the Scheme. The Department is also responsible for the design of the debt recovery process, the strategy for tackling fraud, and its counter-fraud governance and resourcing.
British Business Bank	The Bank is the Department's delivery partner for the loan schemes (via lenders). The Bank helped design the Scheme and is responsible for its administration and implementation, in consultation with HM Treasury and the Department. The Bank delivers the loans via a network of accredited lenders. Within its responsibilities is the implementation of the counter-fraud strategy designed by the Department in collaboration with the lenders and other anti-fraud organisations. It is also in charge of auditing the lenders through contracted third parties. The Bank also helps with monitoring and analysing the repayments data reported through the lenders' Portal.
Lenders	The Bank accredited a network of lenders to review applications and provide loans to borrowers. Lenders are responsible for conducting the required anti-fraud, anti-money laundering and 'know your customer' checks prior to loan approval. Lenders administer loan repayments and are responsible for pursuing borrowers to establish a recovery plan for missed repayments for up to 12 months after the issue of a formal demand. Lenders are required to follow counter fraud activities under the financial service regulations and other legislation.
Other organisations involved in fraud-related checks	The Bank coordinates with lenders and fraud-related organisations to mitigate fraud, including: • Government Counter Fraud Function – Based in the Cabinet Office, the Function and works closely with the Bank and lenders to tackle fraud. • National Crime Agency – Investigates and prosecutes the most serious fraud cases involving serious or organised crime. • National Investigation Service (NATIS) – NATIS is a law enforcement body specialising in financial crime and fraud, mostly at local authority level. NATIS will investigate and prosecute medium/high severity fraud cases supported by the Crown Prosecution Service. • Insolvency Service – Investigates and prosecutes insolvency and corporate offences on the Department's behalf. • Companies House – The UK's registrar of companies; can share company data to enable better identification of fraudulent applications. • UK Finance – A trade association for the banking and finance industry. • Counter-fraud organisations – There are several nationally recognised organisations that allow lenders to check loan applications for fraud. Under the terms of the Scheme, each lender must use a reputable fraud bureau to screen for fraud at the application stage.

Note

1 The three COVID-19-related business support schemes are the Coronavirus Business Interruption Loan Scheme, the Coronavirus Large Business Interruption Loan Scheme and the Bounce Back Loan Scheme.

Source: National Audit Office review of HM Treasury, British Business Bank and the Department for Business, Energy & Industrial Strategy documentation

Appendix Three

Number and value of loans at September 2021

1 The Bounce Back Loan Scheme represents 94% of the three COVID-19 business support schemes by the number of loans (**Figure 17**). These three schemes provided a total of 1,638,834 loans worth £77.4 billion as of 13 September 2021.

Figure 17

Number and value of loans provided by the three COVID-19 business support schemes, September 2021, UK

The Bounce Back Loan Scheme is the largest of the three COVID-19-related schemes

Business loan support scheme[1]	Total number of loans provided[2]	Total value of loans[2]	Percentage of total facilities	Percentage of total value
		(£bn)	(%)	(%)
Bounce Back Loan Scheme	1,540,916	46.8	94.0	60.4
Coronavirus Business Interruption Loan Scheme	97,198	25.8	5.9	33.3
Coronavirus Large Business Interruption Loan Scheme	720	4.9	0.0	6.4
Total	**1,638,834**	**77.4**	–	–

Notes

1 The Coronavirus Business Interruption Loan Scheme, Coronavirus Large Business Interruption Loan Scheme and Bounce Back Loan Scheme were launched on 23 March 2020, 20 April 2020 and 4 May 2020, respectively.

2 Figures as of 13 September 2021.

3 Figures may not sum to 100% due to rounding.

Source: National Audit Office analysis of British Business Bank data

Appendix Four

Our fraud evaluative framework

1 We reviewed the government's counter-fraud activity for the Bounce Back Loan Scheme against good practice as set out in our March 2021 good practice guide on fraud and error.[27] We also drew on the *Standards* set out by the Government Counter Fraud Function, whom we consulted in the course of our work.

2 The main areas of good practice covered counter-fraud strategy; governance and resourcing; and implementation, measurement and evaluation of controls to detect and prevent fraud. Our evaluative criteria for these areas are set out in **Figure 18**.

27 National Audit Office. *Good practice guidance: Fraud and error*, March 2021, page 13. Available at: www.nao.org.uk/wp-content/uploads/2021/03/010381-001-Fraud-and-Error-Accessible.pdf

Figure 18

Our criteria for evaluating the Bounce Back Loan Scheme's (the Scheme's) counter-fraud activity

To evaluate the counter-fraud activity we looked at the strategy, governance, design, implementation, measurement and evaluation of the Scheme

Strategy
There is a **strategy** for tackling fraud risk, based on robust evidence and analysis, leading to clear prioritisation.
The overall strategy for tackling fraud and error **prioritises activities** based on evidence of their cost-effectiveness.
The organisation's fraud and error **risk appetite** is clearly agreed with partners and documented.
Where new risks and opportunities are identified, **options for new controls** are evaluated on a cost-benefit basis and introduced on a timely basis.
The fraud and error impact of all changes to policy and operations are considered. Where an increased risk of fraud and error is accepted as a **trade-off** with other policy objectives this is explicitly laid out.
Governance
A **governance structure** is in place over fraud and error risk, with a clearly defined remit and ability to hold other parts of the organisation to account for implementing the fraud and error strategy.
There is timely and comprehensive **reporting** to those charged with governance over fraud and error risk.
There is a strong counter-fraud and error **culture** at all levels within the organisation.
The organisation publishes and reports against **targets** for fraud and error, based on its expectation of the intended impact of its counter-fraud and error initiatives over time.
The organisation has **set clear targets** towards a cost-effective control environment.
Design
The strategy has defined the **key fraud and error risks**. This should include the different types of fraud and error, where those risks enter the system and what causes the error, for example whether it is organisation error, customer error or fraud.
Controls are designed to effectively prevent and detect known fraud and error risks.
The expected **cost and impact of each control** is understood.
Implementation
Data are shared and matched across all government departments where appropriate to identify fraud.
Individual **resourcing** decisions are made with an understanding of the cost and impact on fraud and error.
Measurement
A measure of fraud and error is **properly estimated**.
The estimate is appropriately and **regularly reported**.
Individual **controls are properly measured**, with key performance indicators for each control.
Evaluation and feedback
Controls are **evaluated** regularly to look at how risks are being tackled and to identify new and emerging risks, and this is integrated into the strategy.

Source: National Audit Office

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