



# National Audit Office Good Practice Guide For Managing The Commercial Lifecycle & Insights On Government Commercial Activity

Matthew Rees, Director, National Audit Office

Thursday, 03 February 2022, 10:00 GMT



National Audit Office



## A Word From Today's Chairman

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# Today's Agenda

- 10:00 – 10:05 Chairman's Introduction
- 10:05 – 10:25 Keynote Presentation – Matthew Rees
- 10:25 – 10:45 Question & Answer



## Today's Speaker

**Matthew Rees**  
Director  
National Audit Office



FS Club webinar

# **Government commercial activity and good practice guide for managing the commercial lifecycle**

Matthew Rees

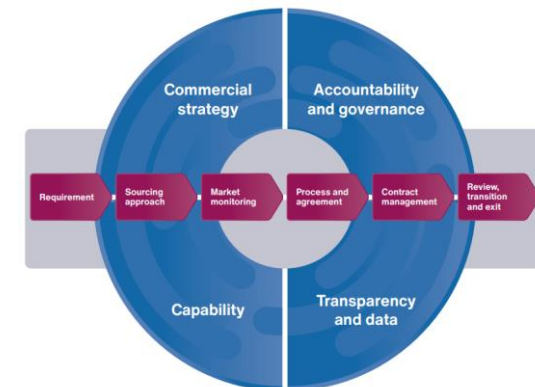
3 February 2022

# Agenda

1. The role of National Audit Office
2. Case studies: NAO review of government commercial activity
3. Improving outcomes:  
Good practice guidance:  
managing the commercial lifecycle

## Case studies

1. Public Procurement during the pandemic
2. The Bounce Back Loan Scheme
3. British Business Bank accreditation of Greensill Capital
4. Supply chain finance in the NHS



# NAO role

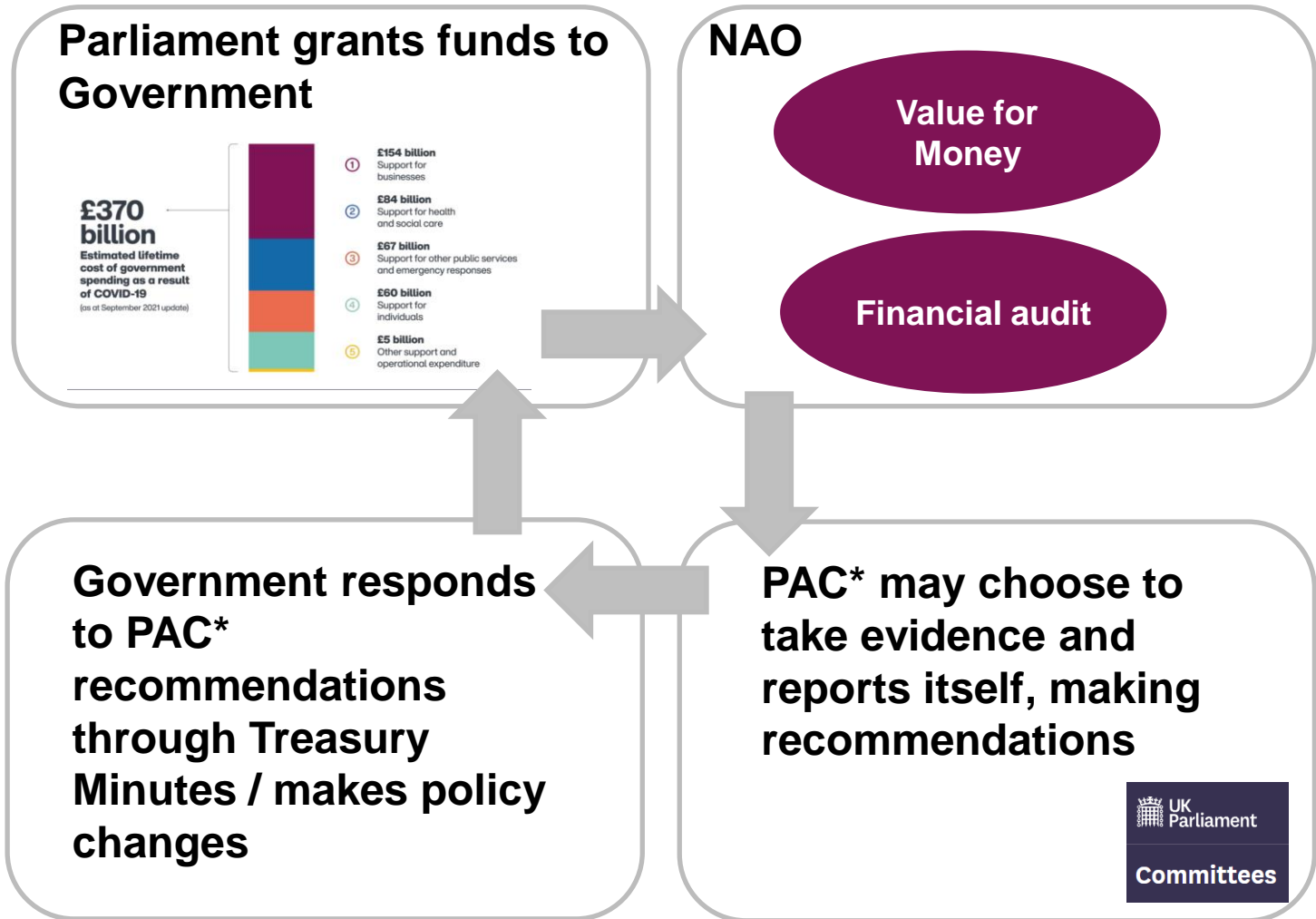
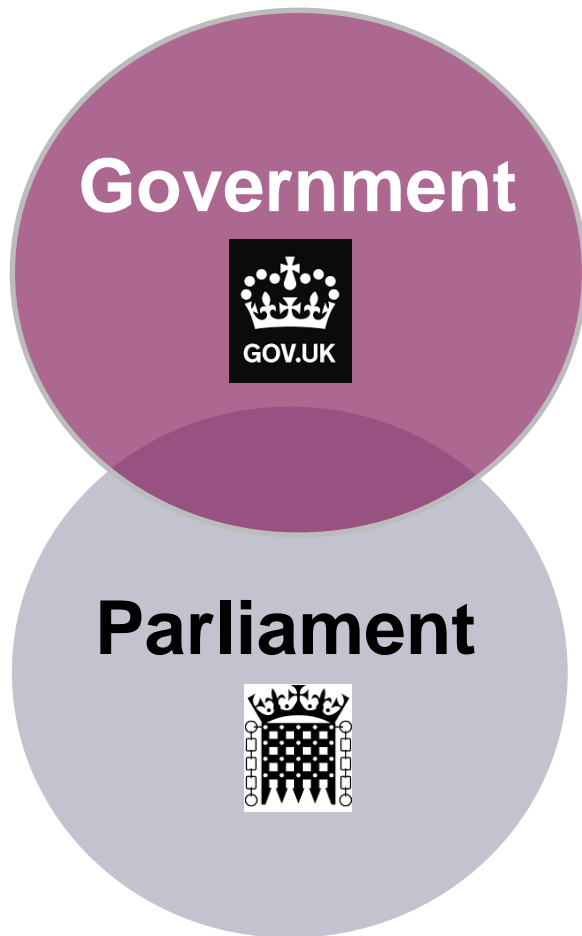
SECTION SUMMARY

## Effective accountability and scrutiny





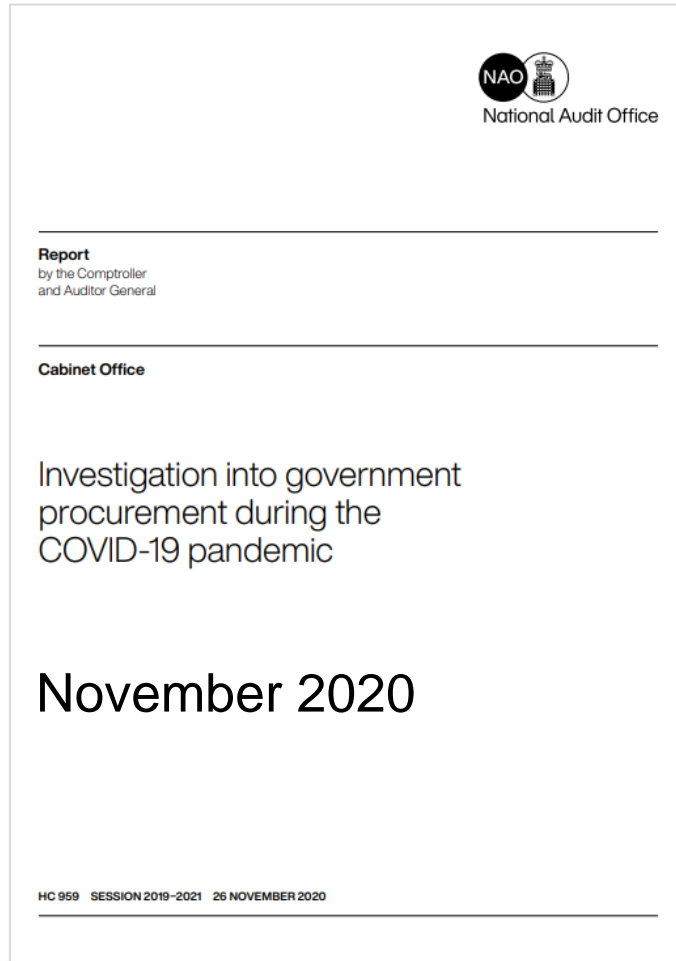
# General principles of accountability for public spending



\* Public Accounts Committee  
Commercial Hub

# Case studies

# Public procurement during the pandemic



## Statutory principles of public procurement



- Contracting authorities shall **treat economic operators equally** and without discrimination and shall act in a **transparent and proportionate** manner (Section 18).



- The negotiated procedure without prior publication may be used for public works contracts, public supply contracts and public service contracts in any of the following cases ... insofar as is strictly necessary where, for reasons of **extreme urgency** brought about by **events unforeseeable** by the contracting authority, the time limits for the open or restricted procedures or competitive procedures with negotiation cannot be complied with

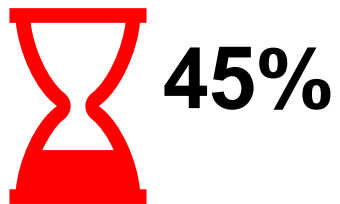
# NAO findings

**£18bn**

**96%**

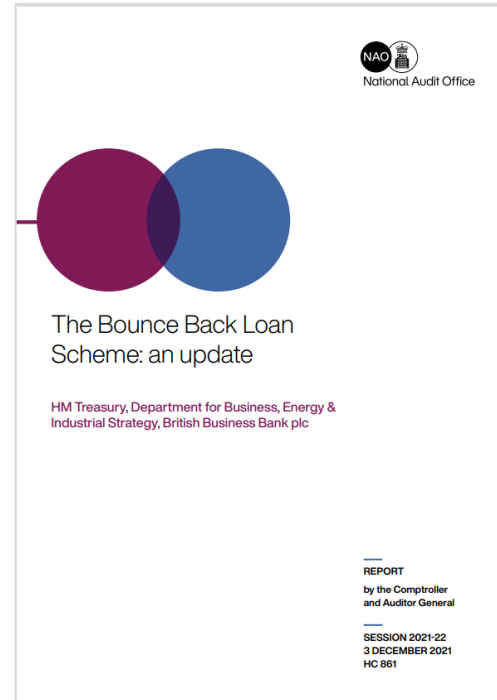
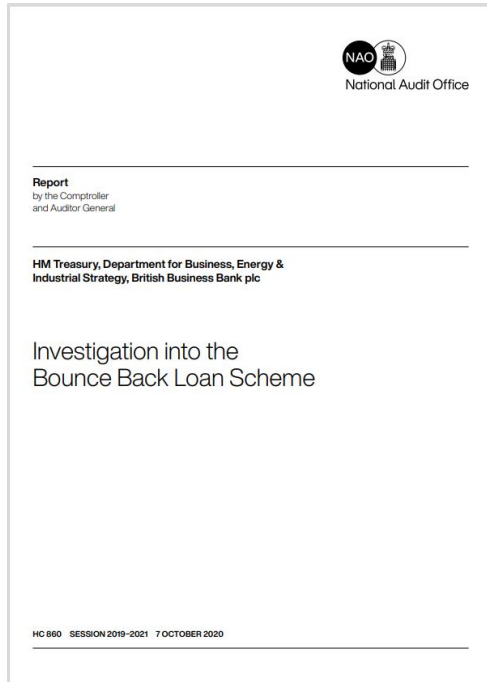


**1/10 vs. 1/100**



- By 31 July 2020, over 8,600 contracts related to government's response to the pandemic had been awarded, with a value of £18.0 billion
- New contracts worth £17.3 billion were awarded to suppliers, of which: £10.5 billion were awarded directly without any competition; £6.7 billion directly through framework agreements; and contracts worth almost £0.2 billion were awarded using a competitive tender process or using a competitive bidding process from a framework agreement.
- The cross-government PPE team established a high-priority lane to assess and process potential PPE leads from government officials, ministers' offices, MPs and members of the House of Lords, senior NHS staff and other health professionals
- Both lanes used the same eight-stage process to assess and process offers. About one in ten suppliers processed through the high-priority lane (47 out of 493) obtained contracts compared to less than one in a hundred suppliers that came through the ordinary lane (104 of 14,892).
- Many of the contracts awarded over this period have not been published in a timely manner. Of the 1,644 contracts awarded across government up to the end of July 2020 with a contract value above £25,000, 55% had not had their details published by 10 November and 25% were published on Contracts Finder within the 90-day target.

# The Bounce Back Loan Scheme



## Government term sheet

- The Scheme provides registered and unregistered businesses with loans of up to **£50,000**, or a **maximum of 25% of annual turnover**, to maintain their financial health during the pandemic
- **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

# NAO analysis

Approval checks conducted by lenders on the COVID-19 business loan support schemes

The Bounce Back Loan Scheme removed some approval checks to facilitate faster lending

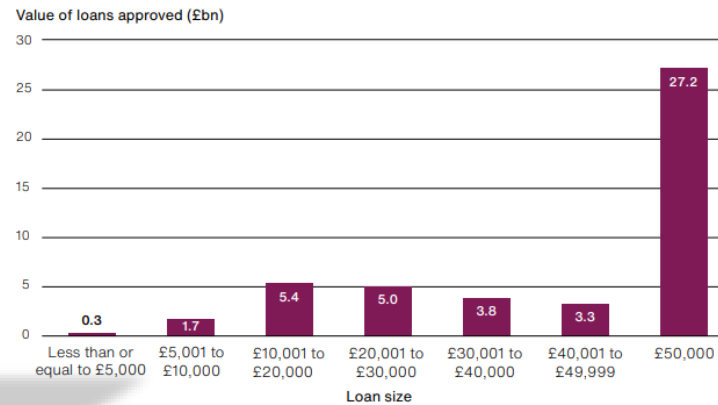
Type of checks	Bounce Back Loan Scheme	Coronavirus Business Interruption Loan Scheme	Coronavirus Large Business Interruption Loan Scheme
Anti-fraud	✓	✓	✓
Anti-money laundering	✓	✓	✓
Know-your-customer (ID verification)	✓	✓	✓
Business viability	✗	✓	✓
Loan affordability	✗	✓	✓
Supporting documentation	✗	✓	✓
Self-certification	✓	✗	✗

**Note**

1 Lenders also conduct transaction monitoring, as usual, for all schemes.

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

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 <sup>1</sup>	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

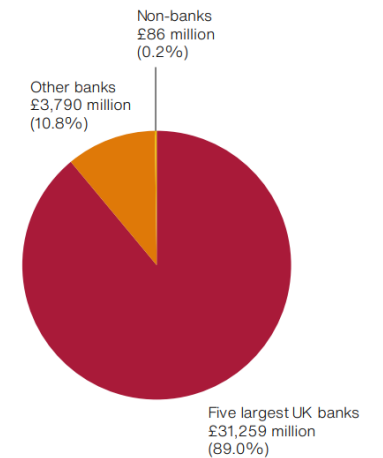
**Notes**

- 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

Value of loans provided by the Bounce Back Loan Scheme (the Scheme), by lenders

Nearly 90% of the total value of all bounce back loans have been provided by the five largest UK banks

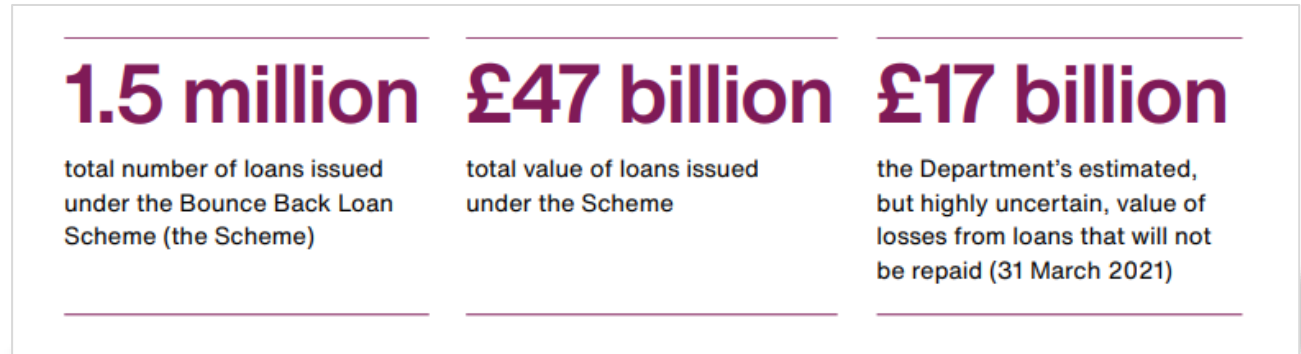


**Notes**

- 1 Figures as at 7 September 2020.
- 2 The five largest UK banks are Barclays, HSBC, Lloyds/Bank of Scotland, NatWest/RBS and Santander.
- 3 Non-banks are institutions that are not registered with the Prudential Regulation Authority.

Source: National Audit Office analysis of British Business Bank data

# NAO findings



## Credit risk

- The Scheme has a low level of credit and customer checks, increasing the likelihood of some businesses not being able to repay loans and therefore leading to taxpayer losses.



## Fraud risk

**£4.9bn**

- The decision to provide funds quickly leaves taxpayers exposed to a significant residual fraud risk



## Default risk

**35-65%**

- The Department and the Bank's preliminary central estimate is that 35% to 60% of borrowers may default on the loans

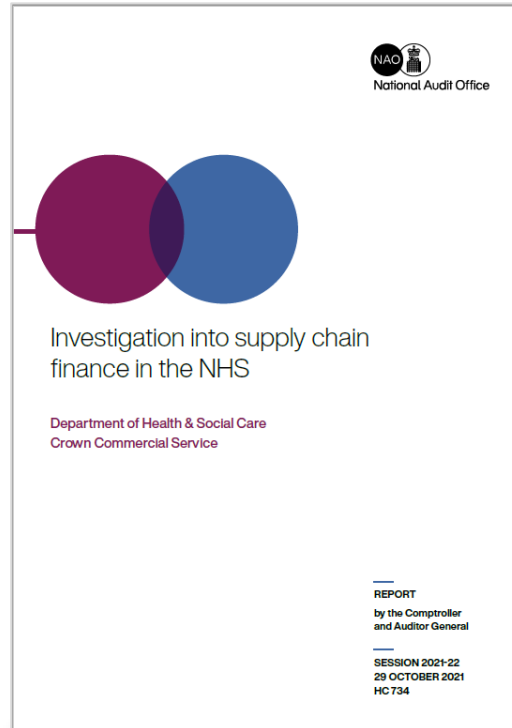
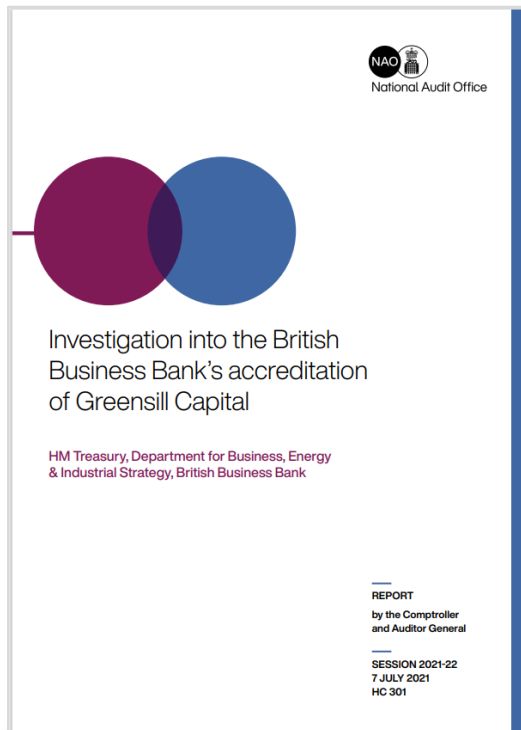


## Administrative cost

**£99m**

- Scheme administration and cost of enhanced counter-fraud operations

# The collapse of Greensill Capital



## Context and scope

- On 8 March 2021, Greensill entered administration having “fallen into severe financial distress”.

Greensill’s involvement in the public sector:

- COVID-19 business support schemes

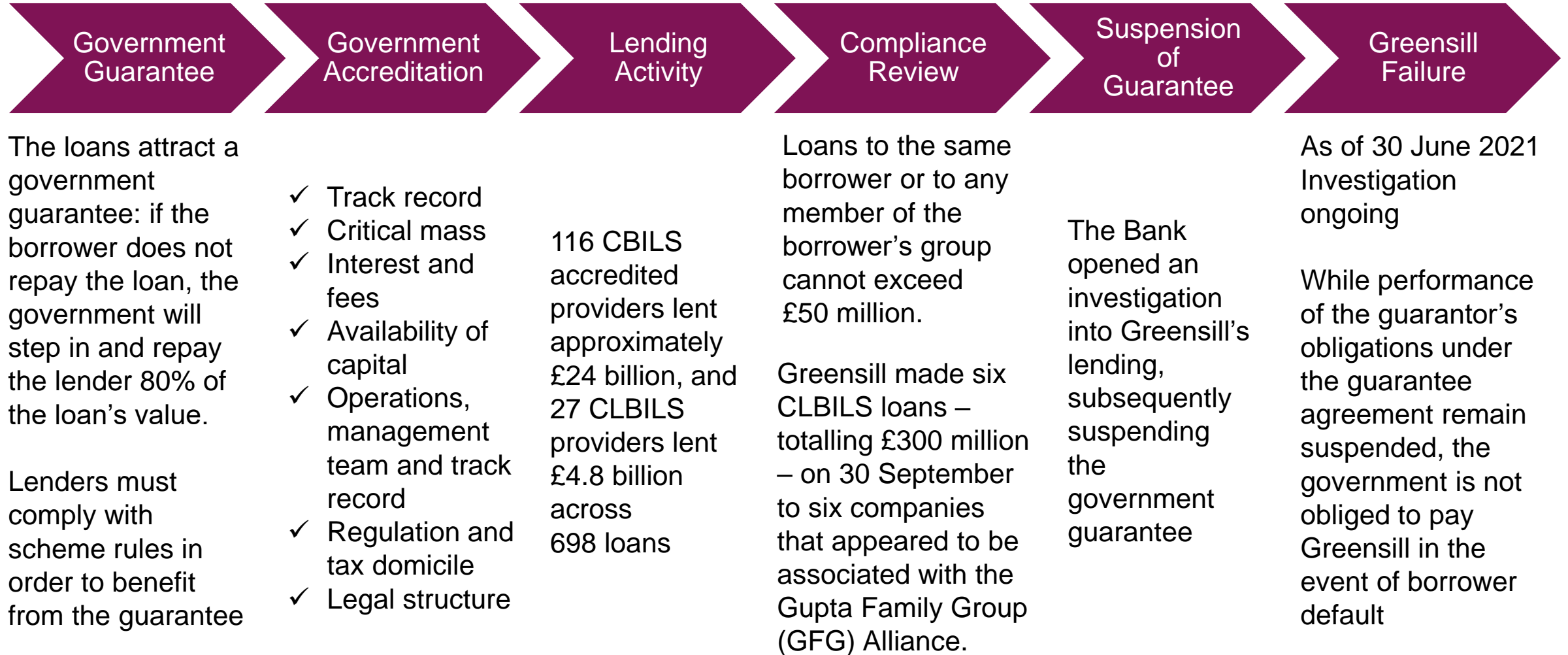
Covid Large Business Interruption Loans Scheme (CLBILS)

- Pharmacy Earlier Payment Scheme
- Employer Salary Advance Scheme
- Impact of the failure of the company in March 2021 on the NHS



# Coronavirus Large Business Interruption Loans Scheme

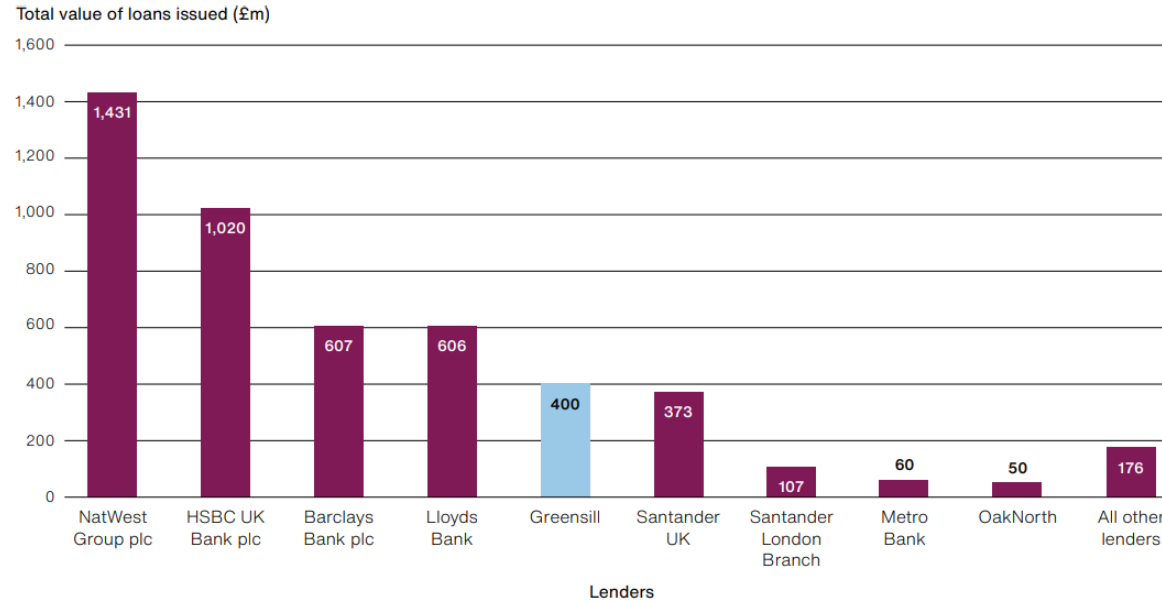
## Covid-19 lending schemes: a government guarantee, accreditation and compliance arrangements



# Greensill's CLBILS lending

The largest lenders in the Coronavirus Large Business Interruption Loan Scheme (CLBILS) by total value of loans issued

Greensill was the fifth-largest lender by total value of lending under CLBILS



## Notes

- 1 'All other lenders' includes the remaining 11 CLBILS lenders that issued loans: Clydesdale Bank plc (£36 million), Close Brothers (£34 million), AIB Group (UK) Limited (£25 million), Bank of Scotland (£19 million), Investec Bank plc (£17 million), Secure Trust Bank plc (£17 million), ESF Capital Ltd/Thin Cats (£11 million), Danske Bank (£6 million), Bank of Ireland (£5 million), Royal Bank of Canada (£4 million), Banco V BBVA (£3 million).
- 2 The total value of all loans under CLBILS was £4.8 billion. Totals may not sum owing to rounding.
- 3 The largest CLBILS lenders refers to those lenders that lent a total amount of at least £50 million.
- 4 The names of lenders are as presented in the British Business Bank's portal data.

Source: National Audit Office analysis of British Business Bank portal data

Recipients of Greensill lending under the Coronavirus Large Business Interruption Loan Scheme (CLBILS) and total lending under the Coronavirus Business Interruption Loan Scheme (CBILS)

Greensill made eight loans under CLBILS, seven to companies with connections to the Gupta Family Group (GFG) Alliance

Company name	Date loan received	Loan amount	GFG Alliance
<b>CLBILS loans</b>			
SIMEC International (UK) Limited	31 July 2020	£50 million	✓
Aar Tee Commodities (UK) Limited	27 August 2020	£50 million	
Speciality Steel UK Limited	30 September 2020	£50 million	✓
Liberty Commodities Limited	30 September 2020	£50 million	✓
Liberty Industries UK Limited	30 September 2020	£50 million	✓
Liberty Steel Newport Limited	30 September 2020	£50 million	✓
Liberty Pipes (Hartlepool) Limited	30 September 2020	£50 million	✓
Liberty Merchant Bar Plc	30 September 2020	£50 million	✓
<b>Total CLBILS loans</b>		<b>£400 million</b>	
<b>Greensill's lending under CBILS</b>		<b>£18.5 million</b>	
<b>Total all loans</b>		<b>£418.5 million</b>	

## Notes

- 1 The British Business Bank noted that the owner of Aar Tee Commodities, was previously a board member of GFG's charitable foundation and GFG's strategic board.
- 2 There were four types of facilities available under CLBILS and CBILS: term loans, revolving credit, invoice finance and asset finance. All 12 of Greensill's lending arrangements were revolving credit facilities.
- 3 In the event of all 12 companies defaulting, the government is potentially exposed to 80% of this debt, which amounts to £334.8 million.
- 4 Greensill issued all CLBILS facilities at the maximum allowed to a single lender (£50 million). Greensill initially issued all CBILS facilities at the maximum amount (£5 million), however, one of these facilities was later reduced to £3.5 million following the discovery of an existing CBILS facility to this borrower with a different lender.
- 5 The lender, in this case Greensill, inputs this lending data into the portal.
- 6 'Date loan received' is the Initial Draw Date in the portal.

Source: National Audit Office analysis of British Business Bank documents and portal data.

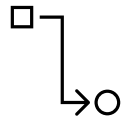
# NAO findings: Pharmacy Earlier Payment Scheme

**Normal timescale: settle claims two months in arrears. Allowed pharmacies to obtain funds early**  
22 days credit, £21.70 per £60,000 of monthly dispensing activity, equivalent to 0.1% of invoice value  
Average monthly value of supply chain finance paid by Greensill Capital was £117 million, approximately £63,500 per pharmacy



Lex Greensill advised the government on supply chain finance from 2012 to March 2017 and also founded Greensill Capital, which was a subcontractor to Taulia as part of its November 2017 bid to provide supply chain finance services to the public sector

**No evidence that there was any discussion of a potential conflict of interest** in relation to Greensill Capital being appointed as a subcontractor for supply chain finance services, about which Lex Greensill had earlier provided advice



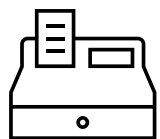
The PEPS procurement followed a two-stage process – a framework agreement, and a call-off contract

**Fragility of single supplier framework agreements**  
Supplier failure / suspension / cancellation of contracts

**£100m?**

The Department's business case was approved by HM Treasury in December 2012. Based on advice provided by Lex Greensill

**There is no evidence** that the predicted benefits and savings from introducing supply chain finance into pharmacy reimbursement processes in 2013 were realised



In July 2020, under the existing NHSBSA contract, the scheme changed - pharmacies to obtain funds at the beginning of the month, prior to dispensing, thereby introducing a higher risk to the lender in the event of a pharmacy failing

## **Taxpayer funded solution**

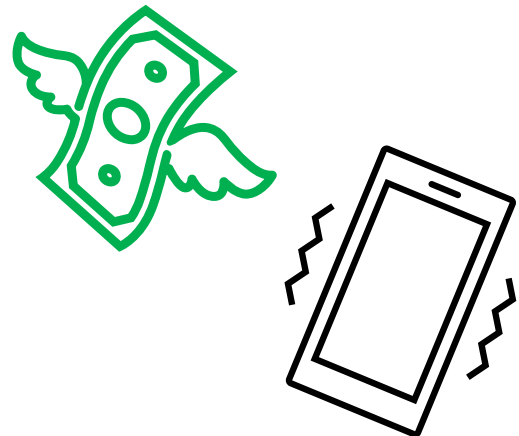
No other finance provider was willing to take on the risks that Greensill Capital had assumed  
From November 2021 new taxpayer funded scheme will provide early payment

# NAO findings: Employer Salary Advance Schemes

Offered by Greensill for “FREE” to the NHS → loss-leader / corporate social responsibility

The NHS in England employed more than 1.3 million people in March 2021, and in the year ended 31 March 2021 the average annual earnings per person was £34,846

Early access to salary  
Via a mobile app.  
Payroll integration  
Financial wellbeing?



Our sample of **8** NHS trusts indicated that the active users of the salary advance scheme ranged from **1.3% to 10%** of employees by NHS trust.

On average, active users drew down **between £25 and £84**, and the most common number of transactions per active user was **two to five times per month**

## Financial Conduct Authority:

Unregulated consumer credit → risk warning → possible need for regulation

## Civil Service HR/HM Treasury:

Issued guidance that schemes are not generally suitable for public sector employees

## Department of Health:

Central guidance not distributed to NHS employers

## NHS SBS Ltd:

Commercial joint venture— payroll integration, cross-selling opportunity

## NHS Trusts:

Individual decisions to appoint Greensill and other providers – direct agreements (“free” = no procurement)

# Good practice guidance

# Using our findings to promote better outcomes

**209 NAO reports  
examining some  
329 contracts  
over the last 20  
years + landscape  
reports**



**Good practice  
guidance for  
managing the  
commercial  
lifecycle to clarify  
our expectations**



**Annual Meeting of the Working Party  
of the Leading Practitioners on Public  
Procurement**

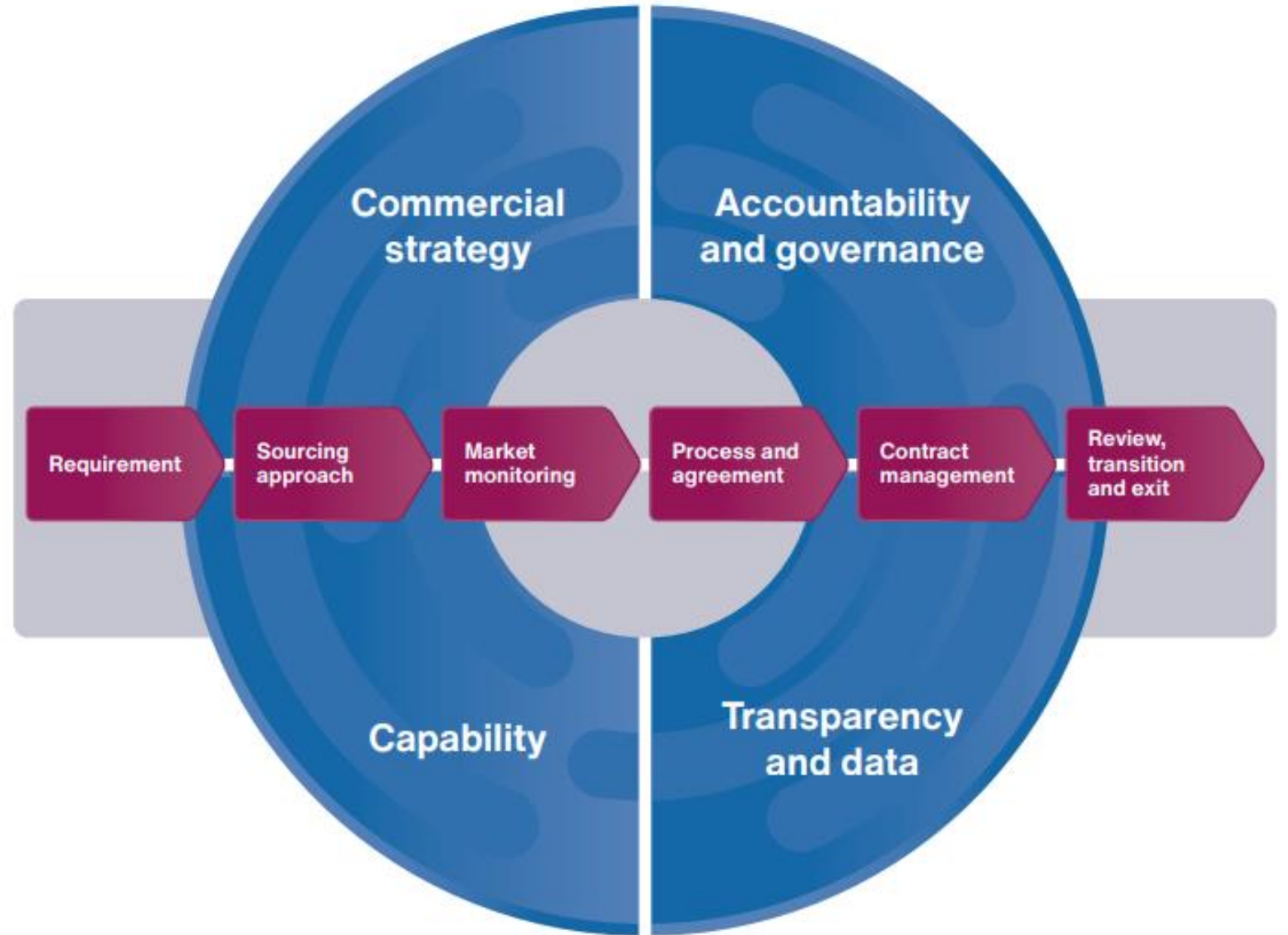
# The good practice guidance for managing the commercial lifecycle

The guidance has 10 sections:

- Four strategic sections address arrangements that public bodies should have in place to support effective commercial activities at both project and programme levels. They are presented as a supportive wrapper around the six procedural stages.
- Six procedural sections address the practical and statutory requirements that support effective public procurement. Although the sections are presented in the order in which they are likely to be encountered during the commercial lifecycle, users of this guidance should recognise that there are inter-relationships between all 10 sections of the guidance.

Each section of the good practice guidance is structured as follows:

- A description of what we mean by each stage
- Expectations based on lessons from NAO reports
- What needs to improve
- Case studies
- Relevant government guidance.





Commercial strategy

Capability

Accountability and governance

Transparency and data

Requirement

Sourcing approach

Market monitoring

Process and agreement

Contract management

Review, transition and exit

## Capability

### Definition



Capability covers both organisational and personal effectiveness. Senior commercial leaders require the

capability to implement the organisation's commercial strategy in accordance with public procurement obligations. Investment in people and processes builds capability. Capability can also be sourced through collaboration with specialist functions in government. Organisational capability should be proportionate to scale, complexity and need for operational resilience. Relevant knowledge and experience of underlying commercial agreements should be retained by organisations throughout the commercial lifecycle, recognising that contracts may last for many years.

### What needs to improve

Organisations should ensure that appropriate skills are in place and that teams work collaboratively to apply relevant expertise and remain effective throughout the commercial lifecycle.

#### Case studies

- [Managing the HMRC Estate](#) – Using specialist capability to improve its supplier relationship
- [Progress report: Terminating the Magnox contract](#) – Understanding the capability needed to manage risks



### Expectations based on lessons from National Audit Office reports

- Commercial, policy, operational and business teams work together to develop a clear understanding of the contracts and produce required outcomes.
- Commercial activity is supported by capability appropriate to manage the risks and complexity identified in the strategy.
- Each contract staffing model is developed early, regularly reviewed and tailored to different contract stages.
- Capability plans include operational resilience to address unplanned demands.
- Knowledge and experience of underlying contract issues is retained throughout the lifecycle of a commercial relationship.
- Contract managers have appropriate skills and authority to engage with stakeholders.
- There is investment in the organisation and its people to ensure adequate access to training and development to support commercial awareness and expertise.

### Relevant government guidance

- Theme 2 (Commercial capability and resourcing) and practice area 1.4 (Commercial leadership and senior ownership) of the [Commercial Continuous Improvement Assessment Framework](#)
- Section 2 (Leadership skills and capability) of the [People Standards for the commercial profession](#)
- One of the key principles of the [Government Functional Standard for Commercial](#) is that work is undertaken and assigned to people who have the required capability and capacity to undertake it.



Switch Screens to the interactive PDF document:

[Good practice guidance: Managing the commercial lifecycle \(nao.org.uk\)](https://nao.org.uk/good-practice-guidance/managing-the-commercial-lifecycle)



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# Thank You For Listening

## Forthcoming Events

- Tue, 08 Feb (10:00-10:45) The Future Of Finance: How The Next Generation Builds Tomorrow
- Wed, 09 Feb (11:00-11:45) Can We Trust AI?
- Wed, 16 Feb (15:00-15:45) Trade Friction Points – Measuring Contractual Ecosystems
- Thu, 17 Feb (11:00-11:45) Global Innovation & National Interests

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