

## Cummings, Greensill and all that

### Robin Ramsay

I watched the Dominic Cummings interview with the BBC's Laura Kuenssberg on the same day that the first report on the Lex Greensill affair became available on-line. Greensill was the fringe banker who hired former PM David Cameron – at around £29,000 a day – as a 'consultant'.<sup>1</sup> Cameron duly tried to earn his corn by ringing/texting his former colleagues who were in the Johnson government in an attempt to get financial assistance for Greensill's failing bank from the various Covid schemes set up to help struggling businesses.

Cummings' distaste for parliamentary democracy, the party system and its production of what he called 'duffers' at the top of the greasy pole, is a familiar theme in British politics. It was occasionally expressed in the notion of a 'businessman's government';<sup>2</sup> and the idea that stuffy old Whitehall needs a good dose of the private sector to 'shake it up', 'make it more efficient', is one of the recurring themes of British politics in the last fifty years or so – particularly the post-Thatcher era. The report on the Lex Greensill affair by Nigel Boardman,<sup>3</sup> notes on p.13:

'... longstanding aspiration of successive governments to attract people from a wider range of professional backgrounds to the Civil Service. This ambition, and suggestions for its delivery, have been reflected in 'The Civil Service reform plan' (2012), Catherine Baxendale's report into attracting and retaining talent recruited into the Senior Civil Service (2014), the 'Civil Service Workforce Plan' (2016 – 2020) and, more recently, the Declaration on Government Reform (2021).'

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<sup>1</sup> <<https://tinyurl.com/ymhjxvt9>> or <<https://www.dailymail.co.uk/news/article-9783181/David-Cameron-paid-29-000-DAY-work-failed-bank-Greensill-Capital.html>>

<sup>2</sup> First mooted, my memory says, by Richard (Lord) Beeching. See, for example, <<https://www.mirror.co.uk/news/uk-news/beeching-report-50-years-on-1787519>>. I thought I would find him referenced in the Cecil King diaries but while he is there, he is not mentioned in the businessman's government context.

<sup>3</sup> REVIEW INTO THE DEVELOPMENT AND USE OF SUPPLY CHAIN FINANCE (AND ASSOCIATED SCHEMES) IN GOVERNMENT (caps in original) at <<https://tinyurl.com/ytnhp4ra>> or <[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1005016/2021\\_07\\_21\\_FINAL\\_Part\\_1.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1005016/2021_07_21_FINAL_Part_1.pdf)>.

The contemporary Conservative politician has relatively few core beliefs but one of them is 'public bad, private good'. Anyone who suggests getting the private sector into the state's activities is going to be knocking on a door that is half open. Which is what Lex Greensill found.

Greensill began in supply chain financing (SCF hereafter) which used to be called factoring. SCF was a minor branch of money-lending which has traditionally been used by small suppliers who didn't want to wait for big companies to get round to paying their bills. The supplier, of either some goods or a service, has their bill promptly paid by a middleman (e.g. Greensill Capital) with a discount for the rapid settlement. When the actual buyer coughs up and sends the money to the supplier they, in turn, give that sum to the middleman as payment of their 'service' of settling the invoice promptly. The amount that the supplier gives as the discount – and the sum that the middleman therefore earns when payment for the full sum comes to them from the buyer via the supplier – generally works out as being 2% to 4% of the original price that was stated on the invoice

SCF works like this:

The supplier issues an invoice to the buyer.

The buyer confirms to the lender – the bank or finance company – that the invoice has been approved for payment.

On production of this approval for payment, the supplier gets immediate payment (minus a fee) from the bank or finance company.

Eventually the buyer pays the invoice and the supplier pays back the lender who effectively sits in the middle of the transaction.

Because these types of loans aren't particularly profitable for banks, non-bank lenders moved into the field as it expanded under globalisation and all the supply chain problems generated by it.

Greensill began with apparently good intentions: he talked of 'making finance fairer' and 'democratising capital'.<sup>4</sup> This grew out of the experience in his youth where his parents' small farm would often wait inordinate lengths of time to receive payments for crops they had grown.<sup>5</sup>

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<sup>4</sup> <<https://www.ft.com/content/7e79117f-cbf5-4765-82ca-7e8f1fb5915b>>

<sup>5</sup> 'The family farm was often in debt because it had to wait for up to two years for payment for harvests. While working at the Fruit and Vegetable Growers' Association in Australia, Greensill drew up a payment code that aimed to speed up the time it took buyers to pay farmers for crops. That was the start of a career in supply-chain finance — the business of accelerating payments usually from big companies to smaller suppliers.'

<<https://tinyurl.com/crxnsptf>> or <<https://www.standard.co.uk/insider/how-did-lex-greensill-seduce-the-world-b934517.html>>

Greensill's first move was to try and persuade Conservative politicians that the public sector finances could benefit from his SCF techniques. He got his foot in the door by virtue of his relationship with the Cabinet Secretary, Lord Jeremy Heywood.<sup>6</sup> They had been in the City of London together. Greensill appears to have persuaded the then prime minister, David Cameron, that this would bring some of the 'magic of the market' to the public sector. That Greensill was keen to get his hands on state financial flows either didn't occur to Cameron or didn't bother him. But Cameron has never displayed any understanding of or interest in the British economy. However, as the Boardman report shows, Greensill's proposals were repeatedly rejected by civil servants who (correctly) could see no benefit in them for the Exchequer. Speaking at the inquiry into the Greensill affair by the House of Commons' Public Administration and Constitutional Affairs Committee, Lord Francis Maude, who was Cabinet Office minister when Greensill was making his pitch, said:

'One of the things . . . they wanted to talk to me about was supply chain finance and I didn't get it. I could not see how this was something that was going to be useful for us.

I could not see how Jeremy's [Jeremy Heywood: Cabinet Secretary] contention that this would save the government a lot of money stacked up, because it is kind of rule 101 of finance that nobody can provide finance more cheaply than a triple-A-rated government, which was what we were, and so if we wanted to advance money through our supply chain, and there were good reasons for doing that, the best way to do it was for us to do it ourselves.'<sup>7</sup>

Greensill's next move was to alter the SCF model slightly. The first half of the process remained the same, in that the bank/finance company still received their fee for the prompt payment of the invoice (i.e. the small percentile discount on the invoice price). However, instead of the debt being one that the supplier owed to the bank/finance company, it was transferred and became one that the *buyer* owed to the financier. This meant that when the buyer had the money to pay for the invoice, the funds were transferred directly to the bank/finance company, rather than getting there via the original supplier. This is sometimes called reverse factoring and it allows the receiving company to extend or alter the repayment terms through negotiation with the bank/finance

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<sup>6</sup> Though Heywood's widow disputes this, claiming that the vast majority of what went wrong did so after her husband had died of cancer in 2018. See, for example, <<https://www.bbc.co.uk/news/uk-politics-57933130>>.

<sup>7</sup> <<https://tinyurl.com/m8f49ffc>> or <<https://www.civilserviceworld.com/news/article/ministers-cannot-scapegoat-jeremy-heywood-for-greensill-his-widow-warns>>

company. More importantly, it also allows for the manipulation of apparent levels of owned debt – which opens the door to ‘creative’ accountants.

‘In recent years, the appeal of supply-chain finance has included the possibilities it provides for what’s euphemistically called creative accounting. Creative accounting has blossomed under the fair-value revolution – a change in the accounting rules towards a more market-based outlook.

This essentially means the business of doing one’s accounts has pivoted towards an evaluation of future cashflows rather than a valuation of past transactions. Many assets are no longer valued on the basis of the price paid for them, but on their current market values or even modelled estimates of the future cashflows they will generate. This also applies to some contracts, where profits are booked on the basis of future expectations. This approach to accounting creates the scope for discretion, subjectivity and speculation. It has arguably made it easier for firms to “recognise” profits than to generate the actual cashflows that support them. And it is here that supply chain financing can be misused.’<sup>8</sup>

SCF was one of the techniques used by the outsourcing company Carillion before it went broke. Carillion

‘ . . . used supply chain financing to disguise its debts and deployed reverse factoring to hold on to income for longer, allowing it to report higher cash flows and inflate executive pay without justification [ . . . ]

Investigations suggest that the company [Greensill] did not only lend to its clients against the security of invoices for work already completed or even contracted, but against “prospective receivables” that the company had not yet generated, and indeed might never generate.’<sup>9</sup>

Greensill’s third wrinkle was to take the supplier invoices, which his company had bought, and turn them into interest-bearing financial products that could be bought and sold. They were sold through the Swiss bank Credit Suisse and

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<sup>8</sup> Adam Leaver, ‘What did Greensill Capital actually do?’ at <<https://tinyurl.com/ysuhmube>> or <<https://www.theguardian.com/commentisfree/2021/apr/15/what-did-greensill-capital-actually-do>>

On the accounting changes see, for example, <<https://tinyurl.com/6h3p3bx6>> or <<https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2013/impact-of-frs-102.pdf>>.

<sup>9</sup> Nick Timothy, ‘The conduct of David Cameron is a case study in shamelessness’ *The Daily Telegraph*, 18 April 2021 at <<https://tinyurl.com/zhx2u24a>> or <<https://www.telegraph.co.uk/politics/2021/04/18/boris-johnson-must-stop-public-service-corrupted-private-gain/>>

a Swiss asset management firm called GAM. This has obvious echoes of the conversion of mortgage debt into bonds (securitisation) which led to the 2007/8 financial collapse.<sup>10</sup>

Greensill's role in the government wasn't concealed. The *Daily Telegraph* reported Cameron name-checking Greensill at a business conference in 2014.

'I've got my top team from the No 10 policy unit sitting here. We've also got Lex Greensill – Lex, where are you? Give us a wave,' Mr Cameron said. "Lex is sorting out the whole supply chain finance issue for us."<sup>11</sup>

When Greensill went bust, Cameron claimed that he had only met Lex Greensill twice while he was prime minister.<sup>12</sup> (As Greensill had a room in the Cabinet Office, this is implausible.)

Quite what Cameron thought the 'whole supply chain finance issue' was is unclear. Nick Timothy, chief of staff to prime minister Theresa May, commented:

'Mr Greensill promised to sort out the problem of the public sector making late payments to suppliers using "reverse factoring". [. . .]

Even aside from the special access and favours awarded to Mr Greensill, why was his solution to the late payments problem accepted with so few questions? As Iain Martin, a chronicler of the financial crash, has pointed out, 85 per cent of invoices are now paid by Whitehall within five days, and more than 97 per cent within 30. The problem that supposedly could only be fixed by Mr Greensill was fixed anyway without him.'<sup>13</sup>

Greensill only got his hands on small parts of the public sector's financial flows before his business went down the pan.<sup>14</sup> The *Daily Telegraph's* Jeremy Warner commented:

'Two of the public sector payment schemes his firm became involved in almost defy belief in their spurious, parasitic nature – the Pharmacy

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<sup>10</sup> <<https://news.marketcap.com/greensill-capital-the-collapse-of-a-company-built-on-debt/>>

<sup>11</sup> <<https://tinyurl.com/47zf49cp>> or <<https://www.telegraph.co.uk/politics/2021/04/10/david-cameron-accepts-made-mistake-texting-rishi-sunak-greensill/>>

<sup>12</sup> *City A.M.*, 13 May 2021 at <<https://tinyurl.com/jzfrwmww>> or <<https://www.cityam.com/david-cameron-denies-speaking-to-lex-greensill-about-future-job-while-prime-minister/>>.

<sup>13</sup> See note 9 above.

<sup>14</sup> The details of the company's demise are discussed in 'The Rise and Fall of Greensill Capital - A Saga' at <<https://tinyurl.com/46trf7h9>> or <[https://www.frontier-current-affairs.com/articles/commerce-and-economics/623906\\_the-rise-and-fall-of-greensill-capital-a-saga](https://www.frontier-current-affairs.com/articles/commerce-and-economics/623906_the-rise-and-fall-of-greensill-capital-a-saga)>.

Earlier Payment Scheme<sup>15</sup> and the similarly constructed “Earnd” early access to wages scheme. Both allow for speedier payment by the Government, of the cost of prescriptions in the case of pharmacies and earnings in the case of NHS staff.

Yet neither is cost free. The intermediary gets paid a commission, or interest rate, for providing the service. This in turn ends up as an extra cost to the Government; in essence, the Government is unnecessarily insuring itself against the possibility it won't pay. This is cloud cuckoo land finance. It would be altogether less expensive and a good deal easier simply to pony up in the first place.

Instead, ministers and high ranking civil servants naively or worse allowed themselves to be dazzled by the supposed alchemy of the “fintech” revolution, of which Greensill claimed to be a leading player.’<sup>16</sup> (emphasis added)

The evidence in the Boardman report is that, *au contraire*, the civil service were not remotely ‘dazzled’ by Greensill and ‘fintech’. They spotted him as a shyster banker coming through the door. Nonetheless, he was perceived as being supported by Prime Minister Cameron and his old City mucker Cabinet Secretary Heywood – who repeatedly stated that Greensill’s methods would save HMG money. It was the support of Heywood and Cameron, especially the former, which enabled Greensill to get into the Cabinet Office and begin touting his methods around Whitehall. Eventually Greensill made his pitch to 11 government departments, only one of which responded positively.<sup>17</sup>

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<sup>15</sup> See the account at <https://nhsbsa-live.powerappsportals.com/knowledgebase/article/KA-03223/en-us>.

<sup>16</sup> Jeremy Warner, ‘Greensill is but one small part of the parasitic monster feasting on the Government's Covid largesse’ <https://tinyurl.com/2w7wf2sp> or <https://www.telegraph.co.uk/business/2021/04/16/greensill-one-small-part-parasitic-monster-feasting-governments/>

‘Fintech’ is the use of technology in offerings by financial services companies.

<sup>17</sup> See <https://tinyurl.com/37emfcwv> or <https://www.dailymail.co.uk/news/article-9434067/David-Camerons-friend-Lex-Greensill-said-spoke-PM-sold-civil-servants-loans.html>.

This is going to run for a while. Some of the detailed questions being asked within the political system are laid out at <https://drdavidlowry.blogspot.com/2021/04/whitehall-whitewash-over-greensill.html>.