HM TREASURY

Report under section 231 of the Banking Act 2009:

1 October 2011 to 31 March 2012

September 2012

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Presented to the House of Commons pursuant to section 231 of the Banking Act 2009

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Contents

1 Introduction

1.1 Section 231 of the Banking Act 2009 ("the Act") requires the Treasury to prepare reports about any arrangements entered into which involve or may require reliance on section 228(1) of the Act. Section 228(1) allows the Treasury to make payments from money provided by Parliament or, pursuant to section 228(5), from the Consolidated Fund:

(a) for any purpose in connection with Parts 1 to 3 of the Act;

(b) in respect of, or in connection with, giving financial assistance to or in respect of a bank or other financial institution (the Secretary of State is also permitted to make such payments with the permission of the Treasury); and

(c) in respect of financial assistance to the Bank of England.

1.2 This document covers the period beginning with 1 October 2011 and ending with 31 March 2012 and fulfils the requirement under section 231(2)(b) of the Act to report on successive six month periods. In accordance with section 231(4) of the Act, the report does not specify individual arrangements, or identify, or enable the identification of individual beneficiaries.

1.3 This document does not cover expenditure incurred in relation to the action taken under the Banking (Special Provisions) Act 2008. Information regarding that expenditure can be found in HM Treasury's Annual Report and Accounts 2011-12 (HC 46) which were published in July 2012.

1.4 Details of the support provided to financial institutions and the economy is set out in a number of places:

- HM Treasury's Annual Report and Accounts 2011-12 (HC 46) and its Main Supply Estimate 2011-12 (HC 921);
- Previous reports published in connection with the requirements of the Banking Act 2009 (http://www.hm-treasury.gov.uk/fin_stability_bankingact_srr.htm);
- The financial stability section of HM Treasury's website contains details of agreements entered into with specific institutions and copies of relevant Ministerial statements (http://www.hm-treasury.gov.uk/fin_finstability_index.htm);
- UK Financial Investments' website contains details of how it manages the Government's shareholdings in various banks (http://www.ukfi.co.uk/).

1.5 Links to further information on government financial assistance schemes are provided in Annex A.

2 Report covering the period from 1 October 2011 to 31 March 2012

2.1 This chapter constitutes the report required to be prepared under section 231 of the Act, and provides information about arrangements entered into in the period beginning with 1 October 2011 and ending with 31 March 2012 which involve or may require reliance on section 228(1) of the Act. It excludes any income from financial sector interventions.

Table 2.A: Period from 1 October 2011 to 31 March 2012

Department		Scheme/Other commitments	New commitments £m	New utilisation or issuance £m	Cash expenditure £m
HM Treasury	1.	Asset Purchase Facility	85,000	104,222	-
	2.	National Loan Guarantee Scheme	20,000	-	-
	3.	Business Finance Partnership	1,200	-	-
	4.	Loans and Receivables	-	-	8
DCLG	5.	NewBuy Guarantee Scheme	1,000	-	-
DCLG/BIS	6.	Regional Growth Fund – Bank Schemes	149	-	149

2.2 The above table discloses new arrangements and expenditure by scheme where applicable, and by type of commitment for other arrangements. 'New commitments' represent the maximum amount that the Government has committed under a scheme or arrangement, and do not represent the size of any expected future losses or cash payments. Provisions for expected losses, if any, are included in departmental annual reports and accounts and Parliamentary Estimates. 'New utilisation or issuance' represents the net amount of a total facility which was used, or the net increase in the amount of guarantees which were issued, during the reporting period. 'Cash expenditure' represents cash amounts paid out in respect of schemes or other commitments.

1 'Asset Purchase Facility': The Bank of England's Monetary Policy Committee voted to increase the size of the Asset Purchase Facility by £75 billion in October 2011 and by a further £50 billion in February 2012. In November 2011, the Chancellor changed the limit for total private sector purchases from £50 billion to £10 billion. Net new commitments are therefore £85 billion. At 31 March 2012, the authorised limit of asset purchases was £335 billion, comprising £325 billion financed from central bank reserves, and a further £10 billion for the purchase of private sector assets, financed by the issuance of central bank reserves, Treasury bills and the DMO's cash management operations. At 31 March 2012, the stock of asset holdings under the Facility was £304 billion, of which, virtually all was financed by central bank reserves.

2 'National Loan Guarantee Scheme (NLGS)': HM Treasury operates the NLGS which was launched on 20 March 2012. Under the NLGS, the government will allow eligible banks to issue limited quantities of government guaranteed debt, up to a total of £20 billion. This represents the maximum potential liabilities under the scheme over the next two years. As at 31 March 2012, the scheme had not been utilised.

3 'Business Finance Partnership': the £1.2 billion scheme was launched on 29 November 2011, and aims to diversify the sources of finance available to smaller and mid-sized firms and reduce their dependence on bank finance. All tranches are currently undergoing due diligence with the first set of successful proposals being announced later in the year. As at 31 March 2012, no investments had been made under the scheme.

4 'Loans and receivables' represent loans which have been made or amounts which have been paid out or committed during the reporting period in the interests of protecting depositors and to support lending into the real economy.

5 'NewBuy Guarantee Scheme': On 12 March 2012, the Department for Communities and Local Government launched the NewBuy Guarantee Scheme, with the intention of supporting people without access to large deposits to realise their aspirations to home ownership, getting 95 per cent Loan to Value new build mortgages back on the market, and providing a significant boost to housing supply. As at 31 March 2012, no guarantees had been issued under the scheme.

6 'Regional Growth Fund – Bank Schemes': Three banks have received allocations from the Regional Growth Fund, in which they were successful bidders to run schemes benefitting Small and Medium-sized Enterprises (SMEs). Allocations for the reporting period total £149 million, and have been provided to enable two banks to provide SMEs with grants to assist with their purchase of assets to enable new and sustained employment, and to support the extension of one bank's mezzanine finance/growth capital fund.

2.3 There is nothing to report for the Special Liquidity Scheme (SLS), the Credit Guarantee Scheme (CGS), the Asset Protection Scheme or the Homeowners Mortgage Support Scheme (HMS) as, in each of these schemes there were no new commitments, utilisation had either stayed the same or decreased at the period end, and none of them had incurred any cash expenditure. The SLS closed to new utilisation in January 2009 and ran until the end of January 2012. The CGS has been closed to new utilisation since February 2010. The HMS Scheme closed to new entrants on 21 April 2011.

2.4 Additional information on all of the above schemes is in Annex A and in the published information referred to therein.

A Information on government financial assistance schemes

HM Treasury

Asset Purchase Facility

A.1 The Asset Purchase Facility (APF) is designed to enable the Bank of England to help improve the operation of credit markets through the purchase of corporate assets such as corporate bonds and commercial paper. This will improve liquidity, reduce funding costs and increase the availability of credit by stimulating the issuance of further instruments in those markets. The APF has also been used by the Bank of England to implement monetary policy through the purchase of gilts and other assets financed by the issuance of central bank reserves. HM Treasury has indemnified the Bank of England and the fund specially created by the Bank to implement the Facility from any losses arising out of or in connection with the Facility. Further information can be found at http://www.bankofengland.co.uk/monetarypolicy/ Pages/qe/facility.aspx

Asset Protection Scheme

A.2 The Asset Protection Scheme is designed to protect financial institutions against exposure to exceptional future credit losses on certain portfolios of assets, helping banks to rebuild and restructure their investments and increase lending in the economy. The scheme is operated by the Asset Protection Agency which is an Executive Agency of HM Treasury. Further information can be found at http://www.hm-treasury.gov.uk/apa.htm

Special Liquidity Scheme

A.3 The Special Liquidity Scheme provided liquidity by allowing institutions to swap illiquid assets for Treasury Bills, which are more easily converted into cash, minimising the system-wide risks of illiquidity to financial stability. The scheme was closed to new drawdowns in January 2009 and ran until the end of January 2012. Further information can be found at http://www.bankofengland.co.uk/markets/ Pages/sls/default.aspx

Credit Guarantee Scheme

A.4 The Credit Guarantee Scheme was designed to help restore confidence by making available, to eligible institutions, a government guarantee of new debt issuance of up to three years' maturity for a fee. The drawdown window for new debt issuance under the scheme closed on 28 February 2010. The scheme is being wound down and is expected to end by the end of October 2012. Further information about the scheme can be found on the Debt Management Office's website http://www.dmo.gov.uk/index.aspx?page=CGS/CGS_about

National Loan Guarantee Scheme

A.5 The National Loan Guarantee Scheme (NLGS) was launched on 20 March 2012 and helps businesses access cheaper finance by reducing the cost of bank loans under the scheme by 1 percentage point. The NLGS uses government guarantees on unsecured borrowing by banks, enabling them to borrow at a cheaper rate. Participating banks pass on the entire benefit that they receive from the guarantees across the UK through cheaper loans. Further information about the scheme can be found at: http://www.hm-treasury.gov.uk/nlgs.htm.

Business Finance Partnership

A.6 The Business Finance Partnership aims to diversify the sources of finance available to smaller and mid-sized firms and reduce their dependence on bank finance. The Government has made available £1.2 billion to invest through non-bank lending channels. These investments are focused on co-investment with the private sector through channels that can lend to small and medium-sized businesses in the UK. More details can be found at http://www.hm-treasury.gov.uk/bfp.htm.

Department for Communities and Local Government

Homeowners Mortgage Support Scheme

A.7 The Homeowners Mortgage Support (HMS) Scheme enabled eligible borrowers who suffered a temporary loss of income to defer a percentage of their mortgage interest payments for up to two years to help them get back on track with their finances. If repossession cannot be avoided, lenders can claim on the HMS guarantee for up to 80 per cent of the deferred interest. The scheme closed, as planned, on 21 April 2011, although the government guarantee will run until 2017. Further information can be found at http://webarchive.nationalarchives.gov.uk/+/http://www.communities.gov.uk/housing/buyingselling/mortgagesupportscheme/

NewBuy Guarantee Scheme

A.8 The NewBuy Guarantee Scheme assists buyers who have a deposit of at least 5 per cent to buy a new build home. The scheme will allow more borrowers to secure up to a 95 per cent Loan to Value mortgage on new build properties from participating builders in England. Further information can be found at http://www.communities.gov.uk/housing/homeownership/newbuy/

Department for Communities and Local Government/Department for Business, Innovation and Skills

Regional Growth Fund – Bank Schemes

A.9 The Regional Growth Fund (RGF) is a £2.4 billion fund operating across England from 2011 to 2015. It supports projects and programmes, such as the Bank Schemes, with significant potential for economic growth that can create additional, sustainable private sector employment. It aims particularly to help those areas and communities which were dependent on the public sector to make the transition to sustainable private sector-led growth and prosperity. The majority of funds disbursed under the RGF scheme have been provided under the vires of the International Development Act, but where intermediaries are banks, the Banking Act is used. Further information can be found at: http://www.bis.gov.uk/policies/economic-development/regional-growth-fund

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This document can be found in full on our website: http://www.hm-treasury.gov.uk

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