HM Treasury

Infrastructure (Financial Assistance) Act 2012:

annual report for year ending 31 March 2017

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Presented to Parliament pursuant to Section 3 of the infrastructure (Financial Assistance) Act 2012

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Chapter 1
Introduction

1.1 The Infrastructure (Financial Assistance) Act ("the act") received Royal Assent on 31 October 2012. The purpose of the act is to make provision to authorise the Treasury, or the Secretary of State with the consent of the Treasury, to incur expenditure in relation to the provision of infrastructure.

1.2 The act requires a report to be made to Parliament each year setting out which arrangements have been entered into by the government where the government has relied on the act as authority to incur relevant expenditure.

1.3 For this reporting period the policies that have benefited from the provisions of the act are UK Guarantees, Housing Guarantees, PF2 equity investments and the Digital Infrastructure Investment Fund (DIIF).

1.4 The UK Guarantees scheme was announced by the government in July 2012 and was introduced to avoid delays to investment in UK infrastructure projects that may have stalled because of adverse credit conditions. It works by providing a sovereign-backed guarantee to help projects access debt finance. The guarantee must cover a financial obligation, and is provided on a commercial basis with pricing of fees depending on the risk and structure of a particular project. Guarantees for up to £40 billion in aggregate can be offered. The scheme was due to close at in March 2021 but as part of the 2016 Autumn Statement the Chancellor announced the extension of the UK Guarantees scheme to at least 2026. Projects must fall within the definition of infrastructure as set out by the act. The arrangements made under UK Guarantees are set out in Chapter 2 of this report.

1.5 The act is also used by the Housing Guarantees programme which is run by the Department of Communities and Local Government. Further information on this is set out in Chapter 3 of this report.

1.6 In Autumn Statement 2012, the government launched a new approach to public private partnerships – Private Finance 2 (PF2) – following its review of the Private Finance Initiative (PFI). As part of the package of reforms it was announced that the government would become a shareholder in future projects, to ensure a more collaborative approach to improving project performance and managing risk, to provide greater transparency of public private partnership arrangements and to improve overall value for money for the public sector.

1.7 To ensure an effective role is played by the public sector as an equity investor and to minimise the potential for conflicts of interest between the public sector acting as both investor and procurer, the PF2 equity investments are managed on a professional basis by a unit within the Treasury, separate from the procuring authority. The investments are made on the same terms as those agreed by the private sector for a particular project. Details of the equity investments made during the year are set out in Chapter 4 of this report.

1.8 At Autumn Statement 2016 the Chancellor announced that the government would commit £400 million to a new DIIF, matched by private sector investors on the same terms. Statutory authority for the DIIF is provided by the act. The objective of the DIIF is to increase access to commercial finance for alternative developers of full fibre digital communications networks.

1.9 There were no DIIF arrangements outstanding for the reporting period ending March 2017 covered by this report. Contractual arrangements were entered into in June 2017 for £300 million out of the £400 million DIIF to be invested by the Treasury in two newly created, private sector managed, investment funds, and in investments to be managed by a third private sector investment manager. Details of the DIIF arrangements and investments that have been made under authority of the act will be included in the next report to Parliament for the March 2018 financial year.

Reporting requirements

1.10 Section 3 (Reports) of the Infrastructure (Financial Assistance) Act 2012 requires that the Treasury reports as follows:

Box 1.A: Infrastructure (Financial Assistance) Act 2012

Section 3 Reports

1 The Treasury must, in relation to each relevant period—

a) prepare a report in accordance with this section, and

b) lay it before the House of Commons as soon as is reasonably practicable after the end of that period.

2 "Relevant period" means—

a) the period beginning with the day on which this Act is passed and ending with 31 March 2013, and

b) each subsequent period of 12 months.

3 Each report must provide details of—

a) the arrangements entered into by the Treasury or the Secretary of State during the relevant period for giving, or in connection with giving, infrastructure assistance,

b) the expenditure incurred by the Treasury or the Secretary of State during that period in giving, or in connection with giving, infrastructure assistance,

c) the amount of the actual or contingent liabilities of the Treasury or the Secretary of State at the end of that period in respect of infrastructure assistance,

d) the sums received during that period by the Treasury or the Secretary of State in connection with infrastructure assistance, and

e) the amount of the government's expenditure and liabilities under this Act, determined as at the end of that period in accordance with section 2.

1.11 This report is for the period 1 April 2016 to 31 March 2017.

Portfolio management

1.12 A portfolio management team manages the Treasury's UK guarantees and PF2 equity investments and assesses the project risks on an ongoing basis. This process involves regular site visits, attending relevant meetings, reviewing construction reports, finance reports and updates to financial models and taking independent expert advice where appropriate.

1.13 The portfolio management team reviews all active UK guarantees and PF2 equity investments and reports to the risk committee on a quarterly basis. In relation to UK guarantees, it also undertakes a more detailed semi-annual review of each project's progress and key risks. All projects may be reviewed on an ad hoc basis if the portfolio management team becomes aware of any material risks that require a more immediate review process to be undertaken.

Chapter 2

UK Guarantees

The Arrangements entered into during the period

2.1 No new arrangements have been entered into under UK Guarantees by the Treasury during the reporting period.

The expenditure incurred by the Treasury or the Secretary of State during the period

2.2 No external costs were incurred by the Treasury in the reporting period. Any costs incurred for signed guarantees, including legal services or technical advice procured by the Treasury, are borne by the issuer of the guaranteed debt. This is in accordance with market practice.

The amount of actual or contingent liabilities of the Treasury or the Secretary of State at the end of the period in respect of infrastructure assistance

2.3 The total amount of actual or contingent liabilities of the Treasury at the end of the period ending 31 March 2017 in respect of infrastructure assistance under the act is £1,814.3 million.

Table 2.A: Change in contingent liabilities in reporting period

Contingent liabilities as reported in the report to Parliament for the period 1 April 2015 to 31 March 2016	£1,776.8m
Contingent liabilities arising in the period 1 April 2016 to 31 March 2017	Nil
Reductions in contingent liabilities arising from amortisation of underlying debt in the reporting period	£(2.6)m
Increases in contingent liabilities due to changes in foreign exchange rates	£16.1m
Contingent liability for short term interest due on underlying debt	£23.9m
Contingent liabilities at 31 March 2017	£1,814.3m

The amount of the government's expenditure and liabilities under this act, determined as at the end of the period

2.4 The total contingent liabilities at the end of period were £1,814.3 million. There have been no calls on any guarantees entered into in the reporting period, so there has been no expenditure.

The sums received during that period by the Treasury or the Secretary of State in connection with infrastructure assistance

2.5 Each borrower under a UK guarantee pays a guarantee fee which ensures that the Treasury is compensated for the risk it is taking on by providing the guarantee. This is generally a periodic fee calculated as a percentage of the principal amount of the guaranteed debt outstanding during the calculation period. The fee reflects the Treasury's assessment of the credit risk of the borrower and is set by reference to market pricing for similar credit risks. The total sums received in terms of cash receipts in the reporting period were £27.1 million.

Looking forward

2.6 On 21 September 2015 the Chancellor announced that he was offering a £2 billion guarantee for the Hinkley Point C project. On 29 September 2016 a conditional commitment was signed to provide a guarantee in respect of bonds that may be issued by the Hinkley Point C project in the period between 1 January 2018 and 31 December 2018. As at 31 March 2017, no guaranteed bonds had been issued and there was no UK guarantee contingent liability in relation to the Hinkley C project at that date.

2.7 The UK Guarantees Scheme was due to close at the end of March 2021 but as part of the 2016 Autumn Statement the Chancellor announced the extension of the UK guarantees scheme to at least 2026.

2.8 As at 31 March 2017 all projects were progressing satisfactorily with no material concerns arising during the period that would indicate that there may be a call on a guarantee.

Chapter 3

Housing Guarantees

3.1 The act also provides the legislative base for the government's £10 billion Housing Guarantees Schemes. These debt guarantees use the government's fiscal credibility to facilitate a stream of investment into new private rented sector and affordable housing projects across the United Kingdom.

3.2 The Department for Communities and Local Government (DCLG) has capacity to guarantee, in total, up to £3.5 billion of debt for additional affordable housing and up to £3.5 billion of debt for new private rented sector housing. A further £3.0 billion is currently held in reserve, for use across both schemes.

Affordable Housing Guarantee Scheme

3.3 By 31 March 2017, 67 affordable housing providers were approved under the Affordable Housing Guarantee Scheme. Total debt guaranteed and drawn under the Scheme is £2.3bn, supporting the delivery of over 31,900 additional affordable homes across the United Kingdom.

3.4 So far finance has been raised for these Approved Borrowers through:

- a total £1.548 billion of bond issuances, with £88 million issued in March 2017 achieving an all-in price of 2.057% – the lowest priced bond issuance under the Scheme to date
- a £1.5 billion long-term debt facility with the European Investment Bank. This has enabled borrowers to fix rates at record lows

3.5 Twenty five Borrower applications (of which six were from repeat Borrowers) were approved between 1 April 2016 and 31 March 2017, a combined total approval of £1,084 billion, supporting over 11,900 additional affordable homes across the United Kingdom.

3.6 Although Approved Borrowers pay a competitive rate for finance, the government does not charge a fee for signed guarantees, with the Affordable Housing Guarantee Scheme covered by the Services of General Economic Interest state aid block exemption. This means that the government covers the administrative cost to DCLG of granting these guarantees, thereby reducing costs for borrowers and facilitating greater investment in new affordable housing.

3.7 The Affordable Housing Guarantee Scheme is managed by Affordable Housing Finance (AHF) Plc (a subsidiary of The Housing Finance Corporation Limited), appointed by DCLG on 20 June 2013.

3.8 Applications for guarantees closed on 31 March 2016. There is a remaining tail of a handful of qualifying applications still to be processed by AHF and HCA/DCLG. These will be completed by the end of Q2 2017.

Private rented sector Housing Guarantee Scheme

3.9 DCLG appointed PRS Operations Limited (a subsidiary of Venn Partners LLP) to manage the Private Rented Sector Housing Guarantee Scheme on 10 December 2014.

3.10 Budget 2016 extended the guarantee availability period of the Private Rented Sector Guarantee Scheme from December 2016 to December 2017.

3.11 By 31 March 2017, 7 applications were approved under the Private Rented Sector Guarantee Scheme. Approvals to date total over £658 million, supporting the delivery of over 4,200 private rented homes across the United Kingdom, with a substantial pipeline of further applications being processed.

3.12 To date £265 million has been raised through a bond issued in November 2016 which achieved an all-in price of 1.89%.

Chapter 4

PF2 Equity Investments

4.1 One **PF2 equity investment** has been made by the Treasury during the reporting period as set out in Table 4.A below.

Table 4.A: Arrangements under PF2 equity investments

Project Company name	Equity investment (including shareholder loans)[a]	Term	Date of signing
PSBP Yorkshire Learning Partnership Project Co Midlands Limited	£1.074m	26 years	26 April 2016

a Includes equity subscription and the total value of committed shareholder loans.

The expenditure incurred by the Treasury or the Secretary of State during the period

4.2 The expenditure incurred by the Treasury for auditors fees during the reporting period was £12,000.

The amount of actual or contingent liabilities of the Treasury or the Secretary of State at the end of the period in respect of infrastructure assistance

4.3 There are no actual or contingent liabilities arising due to the PF2 equity investments at the end of the period. The Treasury has committed to provide £9.2 million of shareholder loans in total, £6.8 million of these are undrawn at the end of the period and £2.4 million have been drawn down.

The sums received during that period by the Treasury or the Secretary of State in connection with infrastructure assistance

4.4 The sums received by the Treasury during the period were circa £98,000 by way of interest received on the shareholder loans.

The amount of the government's expenditure and liabilities under this act, determined as at the end of the period

4.5 The expenditure incurred by the Treasury in the reporting period was £12,000. The Treasury has committed to shareholder loans which are undrawn of £6.8 million.

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