



HM Treasury

Report to Parliament under the Infrastructure (Financial Assistance Act) 2012:

**for the period 1 April 2013 to
31 March 2014**

July 2014



HM Treasury

Report to Parliament under the Infrastructure (Financial Assistance) Act 2012:

for the period 1 April 2013 to 31 March 2014

This report has been issued pursuant to the reporting requirements under the Infrastructure (Financial Assistance) Act 2012.

This report is for the period
1 April 2013 to 31 March 2014



© Crown copyright 2014

You may re-use this information (excluding logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit www.nationalarchives.gov.uk/doc/open-government-licence/ or email psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gsi.gov.uk.

You can download this publication from www.gov.uk

SBN 9781910337189
PU1685

Contents

		Page
Chapter 1	Introduction	3
Chapter 2	UK Guarantees	5
Chapter 3	Housing Guarantees	7
Chapter 4	PF2 Equity Investments	9

1

Introduction

1.1 The Infrastructure (Financial Assistance) 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 or where the government has relied on the Act as authority to incur relevant expenditure.

1.3 For this reporting period the policy that has benefited from the provisions of the Act is **UK Guarantees**. 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 £40bn in aggregate can be offered. The scheme is due to close at the end of December 2016. Projects must fall within the definition of infrastructure as set out by the Act. The arrangements made under UK Guarantees are made in Chapter 2 of this report.

1.4 The Act is also used by the **Housing Guarantees Schemes** which are run by the Department of Communities and Local Government (DCLG), and additionally provides spending power for **PF2 equity investments**. Further information on each of these is set out in Chapters 3 and 4 respectively.

Reporting Requirements

1.5 The Infrastructure (Financial Assistance) Act 2012 requires that the Treasury must report as follows:

- 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.

1.6 This Report is for the period 1 April 2013 to 31 March 2014.

2

UK Guarantees

The Arrangements entered into during the period

2.1 Four arrangements have been entered into under UK Guarantees by the Treasury during the reporting period as set out in Table 2.A below.

Table 2.A: Arrangements under UK Guarantees

Project Name	Borrower	Purpose	Size of arrangement	Term of arrangement	Date of Signing
Drax Power	Drax Plc	Partial conversion of coal-fired plant to biomass	£75m Guarantee	5 years	23 April 2013
Retrofit NCP Car Parks	SDCL EE	Energy efficiency project	£8.8m Guarantee	4 years	4 December 2014
Northern Line Extension	Greater London Authority	Construction of the Northern Line Extension	£750m Standby Liquidity Facility	50 years	31 January 2014
Mersey Gateway Bridge PPP	Merseylink Plc	Design, Build and Operate Mersey Gateway Bridge	£257m Guarantee	29 years	2 April 2014

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

2.2 No external costs were incurred by the Treasury through entering into the arrangements listed in Table 2.A above. Any costs incurred for signed guarantees, including legal services or technical advice procured by HM 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 in respect of infrastructure assistance under the Act is £1090.8m, being the sum of the arrangements entered into in Table 2.A above. In future reporting periods the Treasury will report here the new contingent liabilities arising during the period, reductions in contingent liabilities arising from amortisation of underlying debt and the resulting total contingent liabilities.

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

2.4 UK guarantees are provided on a commercial basis, which means the borrower pays a periodic fee generally calculated as a percentage of the guaranteed debt outstanding during the calculation period. The total sums received in terms of cash receipts in the reporting period are £2.625m.

The amount of the government’s expenditure and liabilities under this Act, determined as at the end of the period.

2.5 The total contingent liabilities at the end of period were £1090.8m. There have been no calls on any guarantees entered into in the reporting period, so there has been no expenditure.

Looking forward

2.6 There are currently 44 projects prequalified for the UK guarantees scheme with an estimated capital value of £37 billion. Prequalification means that projects are considered eligible for the scheme. Table 2 lists those projects which are currently prequalified and have agreed to be named. The government’s policy is to publish the names of projects unless sponsors have requested that they are not named for commercial reasons. Offers of guarantees are subject to satisfactory completion of the necessary due diligence and final ministerial approval.

Table 2.B: List of prequalified projects

Project Name	Sector
Able Marine Energy Park	Transport
Chinook Energy – Renewable Energy from Waste	Energy
Countesswells	Housing
Drakelow Park	Housing
Eggborough Power Limited	Energy
Five Quarter Energy Holdings Limited – Deep Gas Winning	Energy
Gasrec plant and fuelling stations	Transport
Helius Energy – Avonmouth biomass power generation	Energy
Hinkley Point C	Energy
Ineos Grangemouth Ethane Import and Storage Facilities	Transport
Intergen UK Development Limited – Gateway Energy Centre	Energy
Intergen UK Development Limited – Spalding Energy Expansion	Energy
Islandmagee Gas Storage Facility	Energy
Mill Group	Housing
Near Na Gaoithe	Energy
University of Northampton	Education
Tilbury Green Power – waste wood fired power generation	Energy
Trafford Power CCGT	Energy
University of Roehampton	Education
West of Duddon Sands Offshore Transmission Link	Energy

*This table is kept updated and can be found on the gov.uk website at:
<https://www.gov.uk/government/publications/uk-guarantees-scheme-prequalified-projects/uk-guarantees-scheme-table-of-prequalified-projects>.*

2.7 UK guarantees are one option for projects to use when financing themselves – many are also in discussion with private lenders. Prequalification means that should efforts to secure private finance fail, the government is there to help. Guarantees are offered on commercial terms so involve a fee which is based on the riskiness of the project.

The scheme is due to close in December 2016.

3

Housing Guarantees

3.1 The Act also provides the legislative base for the government's £10 billion Housing Guarantees Schemes, which were announced in September 2012 and are run by the DCLG. These debt guarantees use the government's fiscal credibility to reduce the cost of raising finance for private rent and affordable housing projects.

3.2 DCLG has capacity to guarantee 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 billion is currently held in reserve, to be used in line with demand.

3.3 The Private Rented Sector Guarantee Scheme is part of the government's Expanding the Rented Sector Programme and aims to attract long term investment in to the UK private rented sector and establish a new market for large scale, professionally managed rented accommodation to help more hard-working people afford to live in the home they want.

3.4 Since 2012, the private rented sector has gained significant momentum as an investment market. The government's £1 billion Build to Rent Fund, on track to create up to 10,000 new homes for private rent, is demonstrating the viability of developing and investing in large-scale private rented sector developments and the government's Private Rented Sector Taskforce has identified over £10 billion of domestic and foreign investment available in the private rented sector. As a result, interest in the Private Rented Sector Guarantee Scheme is increasing and DCLG is progressing discussions with a number of larger borrowers looking to invest in large scale developments.

3.5 Following extensive market engagement, on 18 March 2014 DCLG launched a procurement exercise for a delivery partner for the Scheme, with the aim of increasing access for smaller borrowers. DCLG is currently evaluating bids to perform the role and expects the delivery partner to be in place by autumn 2014.

4

PF2 Equity Investments

4.1 The spending power for **PF2 equity investments** is also provided by the Act. In the Autumn Statement 2012, the government announced that Private Finance 2 (PF2), the replacement for the Private Finance Initiative, will include public equity co-investment. Public equity co-investment in PF2 projects will create a greater alignment of interest between the public and private sectors, more transparency and improved value for money for the public sector.

4.2 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 equity investment will be managed on a professional basis by a separate unit within HM Treasury, separate from the procuring authority. The investment will be made on the same terms as those agreed by the private sector for a particular project.

4.3 There were no PF2 equity investments made in this reporting period. The first PF2 programme is the £700 million privately financed element of the Priority Schools Building Programme, with the five batches due to reach financial close between October 2014 and summer 2015. PF2 equity is expected to be invested in each batch subject to the outcome of due diligence. The next PF2 project in the pipeline is the £350 million Midland Metropolitan Hospital.

HM Treasury contacts

This document can be downloaded from
www.gov.uk

If you require this information in an alternative
format or have general enquiries about
HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

E-mail: public.enquiries@hmtreasury.gsi.gov.uk

ISBN 978-1-910337-18-9



9 781910 337189 >