HM TREASURY

Report under section 231 of the Banking Act 2009

March 2010

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

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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 fulfils the requirement under section 231(2)(a) of the Act to report on the period beginning with 1 April 2009 and ending with 30 September 2009. 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 the HM Treasury Group Annual Report & Accounts 2008-09 (HC 611) published in July 2009, and will be updated in HM Treasury's Group Annual Report & Accounts 2009-10 later this year.

1.4 Further information relating to payments and commitments made by the Government which have been included in this report is already in the public domain, and details of the support provided to financial institutions and the economy is set out in a number of places:

- HM Treasury Group Annual Report & Accounts 2008-09 (HC 611) and HM Treasury's 2009-10 Main Estimate;
- The Pre-Budget Report 2009 (which includes details of the fiscal consequences of the financial stability interventions);
- 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_actions.htm);
- UK Financial Investments' website contains details of how it manages the Government's shareholdings in various banks (http://www.ukfi.gov.uk/);
- The Asset Protection Agency's website contains details of how it operates the Asset Protection Scheme (http://www.hm-treasury.gov.uk/apa.htm);
- The Debt Management Office's website contains details on the Credit Guarantee Scheme (http://www.dmo.gov.uk/index.aspx?page=CGS/CGS_about);
- The Bank of England's website contains information on the Asset Purchase Facility (http://www.bankofengland.co.uk/monetarypolicy/assetpurchases.htm) and the Special Liquidity Scheme (http://www.bankofengland.co.uk/markets/sls/);
- The Department for Business, Enterprise and Regulatory Reform's (BERR) Annual Report and Accounts 2008-09 (HC447) and BERR's Main Estimate 2009-10;

- The Department for Communities and Local Government's (DCLG) Resource Accounts 2008-09 (HC449) and DCLG's Main Estimate 2009-10.

1.5 Financial markets experienced the worst financial crisis for generations and governments across the world took decisive action to maintain financial stability and promote the flow of credit to the economy. The action taken by the Government successfully prevented the collapse of the financial system and ensured that no retail depositor in UK banks or building societies lost money. These interventions, including the support referred to in this document, helped to protect and enhance the stability of the UK financial systems, supporting the wider economy and protecting the interests of depositors and taxpayers.

2 Report covering the period from 1 April to 30 September 2009

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 April 2009 and ending with 30 September 2009 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 April to 30 September 2009

Department		Scheme/Other commitments	New commitments £m	Amount utilised or issued £m	Cash expenditure £m
HM Treasury	1.	Asset Purchase Facility	25,000	140,933	
	2.	Credit Guarantee Scheme		13,100	
	3.	Equity investments			7,069
	4.	Loans and receivables	120		527
Department for Business, Innovation & Skills	5.	Working Capital Scheme	10,000	2,176	

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 Resource Accounts and Parliamentary Estimates. 'Amount utilised or issued' represents the amount of the total facility which was used, or the net increase in the amount of guarantees which were issued, during the reporting period.

1. For the Asset Purchase Facility, the new commitments of £25 billion represent an increase in the maximum purchases that the Chancellor had authorised the Bank of England to make under the scheme, from £150 billion at 31 March 2009. The amount of assets purchased by the Bank of England during the reporting period brought the total purchases at 30 September 2009 up to £158 billion.

2. The Treasury entered into arrangements under the Credit Guarantee Scheme in the period before 1 April 2009, and at 31 March 2009 and 30 September 2009 the maximum potential liabilities under the scheme were £250 billion. The net increase in issuance of guarantees under the scheme during the reporting period brought the total net issuance up to £132 billion at 30 September 2009. Net issuance takes into account maturing liabilities. The drawdown window closed on 28 February 2010.

3. 'Equity investments' represent £7 billion of ordinary shares which were purchased by the Government in exchange for the redemption of preference shares held in UK

banks. The preference shares were purchased as part of the initial recapitalisation of banks announced in October 2008.

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. For the Working Capital Scheme, the new commitments represent the maximum potential exposure under the scheme at 30 September 2009. At 30 September 2009, the total amount of guarantees which had been issued under the scheme was £2,176 million. In the Pre-Budget Report 2009 it was announced that the Working Capital Scheme would not be extending any further guarantees, therefore the £10 billion maximum potential exposure reported above will not be reached.

2.3 The Department for Communities and Local Government entered into arrangements under the Homeowners Mortgage Support Scheme in the period before 1 April, and at 31 March 2009 the maximum potential liabilities under the scheme were £500 million, which remained unchanged in the April to September reporting period. Issuance of guarantees in the reporting period was under £1 million, and the total guarantees issued at 30 September 2009 was also under £1 million.

2.4 There is nothing to report on the Asset Protection Scheme (APS) or the Special Liquidity Scheme (SLS) for the period 1 April to 30 September 2009. Full details of final agreements under the APS were published on 7 December 2009 and will be reflected in the 1 October 2009 to 31 March 2010 report. The SLS closed to new drawdowns in January 2009, when the maximum potential liabilities under the scheme were £185 billion.

A Information on government financial assistance schemes

HM Treasury

Asset Purchase Facility

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. Further information can be found at http://www.bankofengland.co.uk/monetarypolicy/assetpurchases.htm

Asset Protection Scheme

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. Full details of final agreements under the scheme were published on 7 December 2009. Further information can be found at http://www.hm-treasury.gov.uk/financial_stability_agreements.htm

Special Liquidity Scheme

The Special Liquidity Scheme provides 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 has been closed to new drawdowns since January 2009 but will run until January 2012. Further information can be found at http://www.bankofengland.co.uk/markets/sls/

Credit Guarantee Scheme

The Credit Guarantee Scheme is 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 the scheme closed on 28 February 2010. 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

Department for Business, Innovation & Skills

Working Capital Scheme

Through the Working Capital Scheme (WCS), the Government provides 50 per cent guarantees to banks against portfolios of loans in order to release capital for new lending to small and mid-sized businesses. The 2009 Pre-Budget Report announced that as similar Government support is now available through the broader Asset Protection Scheme, new guarantees will no longer be available under the WCS although existing portfolio guarantees will remain until March 2011.

Department for Communities and Local Government

Homeowners Mortgage Support Scheme

The Homeowners Mortgage Support (HMS) Scheme enables eligible borrowers who suffer 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. Further information can be found at
http://www.communities.gov.uk/housing/buyingselling/mortgagesupportscheme/

HM Treasury contacts

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

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