HM TREASURY

Report covering pre-April 2009 arrangements under section 228(1) of the Banking Act 2009

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1 Pre-April 2009 Arrangements under Section 228(1) of the Banking Act 2009

Introduction

1.1 This document reports information regarding arrangements entered into by the Government in reliance on powers contained in section 228(1) of the Banking Act 2009 ("the Act") before 1 April 2009. This information is the subject of a commitment made by the Financial Services Secretary to the Treasury during the passage of the Banking Bill through Parliament, but is not required to be reported under section 231 of the Act. The restrictions of section 231 of the Act about the identification of individual arrangements or beneficiaries do not apply to this document, which does identify beneficiaries to the extent that the information has already been placed in the public domain.

1.2 This document does not cover the expenditure incurred in relation to the interventions 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 (www.hm-treasury.gov.uk/dep_perf_reports_index.htm).

1.3 HM Treasury and the Department for Communities and Local Government were the only departments to enter into arrangements which involve or may require reliance on section 228(1) of the Act before 1 April 2009.

Section A - Arrangements entered into by HM Treasury

Details published in the HM Treasury Annual Report & Accounts

1.4 During 2008-09, HM Treasury made certain payments and entered into certain commitments which involved or may require reliance on section 228(1) of the Act. These were reported in the HM Treasury Group Annual Report & Accounts 2008-09 and are summarised below.

Equity investments

1.4.1 Investments of £37 billion were made in ordinary and preference shares of financial institutions under the recapitalisation agreements announced in October 2008. Note 13a of the HM Treasury Group Annual Report & Accounts 2008-09 contains further information.

Loans and Receivables

1.4.2 HM Treasury issued loans or made certain payments prior to April 2009 in the interests of protecting depositors and protecting and enhancing the stability of UK financial systems, which are accounted for as loans and receivables. Of HM Treasury's £47 billion total loans and receivables as reported at 31 March 2009, £5.6 billion were made in reliance on the power under section 228(1) of the Act. Note 13a of the HM Treasury Group Annual Report & Accounts 2008-09 contains further information.

Contingent Liabilities

1.4.3 Several financial sector interventions gave rise to contingent liabilities, which represent the maximum amount that the Government has committed under a scheme or arrangement. They 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. Relevant extracts from the HM Treasury Group Annual Report & Accounts 2008-09 on contingent liabilities are in Annex A.

Additional details

1.5 The paragraphs below report information about use of Banking Act powers prior to 1 April 2009, which were not required to be included in HM Treasury's Annual Report and Accounts 2008-09, and updates on certain schemes which have been reassessed since that publication.

Credit Guarantee Scheme

1.5.1 The contingent liability represents the maximum potential liabilities under the scheme at 31 March 2009. By 31 March 2009, the net issuance of debt guaranteed under the scheme was £118.9 billion. The drawdown window closed on 28 February 2010. The Debt Management Office's website contains further details on the Credit Guarantee Scheme (www.dmo.gov.uk/index.aspx?page=CGS/CGS_about).

Asset Purchase Facility

1.5.2 The contingent liability represents the maximum amount of assets the Chancellor had authorised the Bank of England to purchase as at 31 March 2009. At 31 March 2009, the Bank of England had purchased £17.5 billion of assets. The Bank of England's website contains further information on the Asset Purchase Facility (www.bankofengland.co.uk/monetarypolicy/assetpurchases.htm).

Asset Protection Scheme (APS)

1.5.3 The contingent liability represents the maximum potential liabilities under the scheme as at 31 March 2009. This balance represents the APS agreements as announced in February and March 2009. New revised agreements were announced in November 2009. Under these agreements, as at the date of signing, the maximum contingent liability under the APS was reduced to £200 billion.[1] This also led to changes in the agreement to inject further capital into Royal Bank of Scotland. The Asset Protection Agency's website contains details of how it operates the Asset Protection Scheme (www.hm-treasury.gov.uk/apa.htm).

[1] As reported in Central Government Supply Estimates – 2009-10 Winter Supplementary Estimates (HC 24)

Section B - Arrangements entered into by the Department for Communities and Local Government (DCLG)

Contingent Liabilities

Homeowners Mortgage Support Scheme (HMS)

1.6 The 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 www.communities.gov.uk/housing/buyingselling/mortgagesupportscheme.

1.7 The Resource Accounts of DCLG disclosed a contingent liability of £500 million which represents the maximum potential liability under the Homeowners Mortgage Support Scheme at 31 March 2009. The scheme was not utilised in the pre-April period. Note 29 of the Department for Communities and Local Government Resource Accounts 2008-09 contains this disclosure (www.communities.gov.uk/publications/corporate/resourceaccounts0809).

A Extracts from the HM Treasury Group Annual Report & Accounts 2008-09

Extracts from Note 27 – Contingent Liabilities

Dunfermline

On 28 March 2009, the Financial Services Authority (FSA) found that the general conditions for entry into the Banking Act Special Resolution Regime were satisfied in the case of Dunfermline Building Society. Under the resulting intervention Dunfermline's social housing was placed into a bridge bank, owned and controlled by the Bank of England. HM Treasury provided a guarantee to the Bank of England to underwrite any losses incurred through not being able to recover all the funds advanced in the form of loans and equity to bridge bank and a guarantee in respect of losses sustained in connection with bridge bank. Maximum potential liabilities under this intervention were estimated to be £190 million.

The Bank of England has provided a short-term working capital facility of up to £10 million to help Dunfermline with an orderly wind down of its business and avoid a fire sale of its assets that could otherwise result in lower value for the business being realised. HM Treasury has provided a guarantee to the Bank of England to underwrite any losses the Bank of England will incur in managing the working capital facility. Maximum potential liabilities under this intervention are estimated to be £10 million.

Royal Bank of Scotland

As a condition of entry into the Asset Protection Scheme, the Government agreed to provide additional capital to the Royal Bank of Scotland. This took the form of £13 billion in exchange for B shares and a further £6 billion at RBS's option in 2010-11. Thus the maximum remaining potential liability under this intervention is £19 billion.

Credit Guarantee Scheme

Since October 2008 HM Treasury has made available guarantees to back banks' new short and medium term debt. They will be made available for terms of up to 36 months to help refinance maturing wholesale funding obligations as they fall due. Maximum potential liabilities under this intervention are estimated to be £250 billion of which £2.3 billion are carried at fair value on the balance sheet at the balance sheet date.

Special Liquidity Scheme

HM Treasury has indemnified the Special Liquidity Scheme which allow banks to temporarily swap high quality securities (including mortgage-backed) for Treasury Bills. Payment under the scheme would only arise if the capital losses exceed any surplus accruing to the Bank of England over the duration of the scheme. Maximum potential liabilities under this intervention are estimated to be £185 billion.

Recapitalisation Fund

Through the Recapitalisation Fund HM Treasury committed to provide capital to eligible banks to a maximum of £50 billion. Of this, £37 billion has already been advanced, creating a maximum remaining potential liability outstanding of £13 billion.

Bank of England Asset Purchase Facility

In January 2009, HM Treasury authorised the Bank of England to create a new fund, the Asset Purchase Facility (APF). The Chancellor authorised the Bank of England to purchase up to £50 billion of high quality private sector assets. 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. In March 2009, the Chancellor authorised the APF to purchase UK Government debt on the secondary market. He also agreed that the Bank of England should be given the option to finance purchases under the facility using central bank money. He authorised an increase in the scale of the purchases to up to £150 billion of which up to £50 billion should be used to purchase private sector assets. The maximum potential liabilities under this intervention are estimated to be £150 billion.

Asset Protection Scheme

To provide certainty and confidence to banks in their lending, the Government announced its intention to offer capital and asset protection on those assets most affected by the current economic conditions. The maximum potential liabilities under this intervention are estimated to be £457 billion.

HM Treasury contacts

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

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