HM Treasury

Infrastructure (Financial Assistance) Act 2012:

annual report for year ending 31 March 2016

July 2016

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Infrastructure (Financial
Assistance) Act 2012

This report is for the period
1 April 2015 to 31 March 2016

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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 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 and PF2 equity investments**.

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 the end of December 2016 but as part of the 2015 Spending Review and Autumn Statement the Chancellor announced the extension of the UK Guarantees scheme to March 2021. 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 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.

Reporting requirements

1.8 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.

1.9 This report is for the period 1 April 2015 to 31 March 2016.

Portfolio risk management

1.10 A portfolio risk management team manages the UK guarantees 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.

1.11 The portfolio risk management team reviews all active guarantees and reports to the risk committee on a quarterly basis. 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 risk management team becomes aware of any material risks that require a more immediate review process to be undertaken.

1.12 During the next reporting period the portfolio risk management team will also assume responsibility for managing the Treasury's PF2 equity investments.

2 UK Guarantees

The arrangements entered into during the period

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

Table 2.A: Arrangements under UK guarantees

Project Name	Borrower	Purpose	Size	Term	Date of signing	Internal risk rating
Pittville Student Village	ULiving@ Gloucestershire Limited	Student accommodation	£39.4m indexed bonds	35 Years	21 January 2016	10
Countess-wells	Countesswells Development Limited	Development of 3,000 homes in Aberdeen	£86.0m	15 Years	18 March 2016	12

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. 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 in respect of infrastructure assistance under the act is £1,776.8 million.

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

Contingent liabilities as reported in the report to Parliament for the period 1 April 2014 to 31 March 2015	£1,634.6m
Contingent liabilities arising in the period 1 April 2015 to 31 March 2016 (total in Table 2.A)	£125.4m
Reductions in contingent liabilities arising from amortisation of underlying debt in the reporting period	£(2.2)m
Increases in contingent liabilities due to changes in foreign exchange rates	£19.0m
Contingent liabilities at 31 March 2015	**£1,776.8m**

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 £1,776.8 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 £11.1 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. The commitment to this guarantee is expected to be signed during 2016/17.

2.7 The UK Guarantees Scheme was due to close at the end of December 2016 but as part of the 2015 Spending Review and Autumn Statement the Chancellor announced the extension of the UK guarantees scheme to March 2021.

2.8 As at 31 March 2016 all projects are progressing satisfactorily with no material concerns arising during the period that would indicate that there may be a call on a guarantee.

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 2016, 48 affordable housing providers were approved under the Affordable Housing Guarantee Scheme. Combined approvals total over £2.1 billion of guaranteed debt, supporting the delivery of over 19,800 additional affordable homes across the United Kingdom.

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

- a total £1.003 billion of bond issuances, with £194 million issued in March 2016 achieving an all-in price of 2.71% – the cheapest ever for a housing association bond and the cheapest debt of this kind in the sector for 27 years
- a £1 billion long-term debt facility with the European Investment Bank. This has enabled borrowers to forward fix rates at record prices

3.5 Thirteen of these Approved Borrowers were approved between 1 April 2015 and 31 March 2016, a combined total approval of £887.6 million of guaranteed debt, supporting over 8,300 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), which was appointed by DCLG on 20 June 2013.

3.8 Applications for guarantees closed on 31 March 2016. However, AHF will continue to process applications received by 31 March 2016 up to the end of September 2016.

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 PRS Operations have already engaged with over 150 potential borrowers and will soon issue their first bond.

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

Expanding the rented sector

3.12 The Housing Guarantee Schemes form part of the government's Expanding the Rented Sector Programme, which is working to attract long term investment into the UK rented housing market and to accelerate the development of a new market for large scale, professionally managed rented accommodation. This will help to meet demand, increase choice and improve quality for tenants.

4 PF2 equity investments

4.1 Two **PF2 equity investments** have 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
The Hospital Company (Sandwell) Limited	£2,662,704	32 years	11 December 2015
PSBP Midlands Limited	£1,978,087	27 years	12 August 2015

[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 external legal advice and auditors fees during the reporting period was £47,054.

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 An amendment of £15,929 has been made to the 31 March 2015 figure of £3,496,105 following a reconciliation. The final figure for 31 March 2015 is £3,512,034.

4.4 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 £4,640,540 of shareholder loans during this period, taking the total commitment to £8,152,574. These are undrawn at the end of the period.

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

4.5 The sums received by the Treasury during the period were £66,000.

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

4.6 The expenditure incurred by the Treasury in the reporting period was £47,054. There are no liabilities as at the end of the period as the shareholder loans that Treasury has committed to are undrawn.

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This document can be downloaded from www.gov.uk

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