HM Treasury

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

for the period 1 April 2014 to 31 March 2015

July 2015

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

This report is for the period 1 April 2014 to 31 March 2015

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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 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 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 Chapter3.

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.

1.8 Details of the equity investments made during the year are set out in Chapter 4 of this report.

Reporting requirements

1.9 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.

1.10 This report is for the period 1 April 2014 to 31 March 2015.

2 UK Guarantees

The Arrangements entered into during the period

2.1 Three arrangements have been entered into under **UK Guarantees** by the Treasury during the reporting period as set out in the Table 2.A below.[1]

Table 2.A: Arrangements under UK Guarantees

Project Name	Borrower	Purpose	Size of arrangement	Term of arrangement	Date of signing	Internal risk rating
Ineos Grangemouth	Ineos Grangemouth	Ethane Import and Storage Facilities	€285m Guarantee (£206.7m)[a]	5 years	30 July 2014	14
Speyside CHP plant	Speyside Renewable Energy Partnership Limited	Biomass combined heat and power generation	£48.2m Guarantee	14 years	28 August 2014	11
University of Northampton	University of Northampton	Development of new Waterside Campus	£291.5m Guarantee	50 years	26 November 2014	11

[a] The amount guaranteed is €285 million. This is converted to £ GBP at 31 March 2015 using the exchange rate per www.xe.com

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 £1,634.6 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 2013 to 31 March 2014	£1,090.8m[2]
Contingent liabilities arising in the period 1 April 2014 to 31 March 2015 (total in Table 2.A)	£546.4m
Reductions in contingent liabilities arising from amortisation of underlying debt in the reporting period	(£2.6m)
Contingent liabilities at 31 March 2015	£1,634.6m

[1] A guarantee for £257m in respect of the Mersey Gateway Bridge was signed on 2 April 2014 and included in the Report to Parliament for the year ended 31 March 2014.

[2] Includes Mersey Gateway Bridge Guarantee

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

2.4 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 £17.1 million.

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 £1,634.6 million. There have been no calls on any guarantees entered into in the reporting period, so there has been no expenditure.

Looking forward

2.6 As at 31 March 2015 there are 40 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.C 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.C: Prequalified projects

Project Name	Sector
Able Marine Energy Park	Transport
Chinook Energy - Renewable Energy from Waste	Energy
Countesswells Housing Development	Housing
Drakelow Park	Housing
Eggborough Power Limited	Energy
Five Quarter Energy Holdings Limited - Deep Gas Winning	Energy
Galloper Offshore Wind Farm	Energy
Gasrec plant and fuelling stations	Transport
Helius Energy - Avonmouth biomass power generation	Energy
Hinkley Point C	Energy
Intergen UK Development Limited - Gateway Energy Centre	Energy
Intergen UK Development Limited - Spalding Energy Expansion	Energy
Islandmagee Gas Storage Facility	Energy
Mill Group	Housing
Neart Na Gaoithe	Energy
Tees Renewable Energy Project	Energy
Tilbury Green Power - waste wood fired power generation	Energy
Trafford Power CCGT	Energy
Virgin Media broadband network expansion	Telecommunications
West of Duddon Sands Offshore Transmission Link	Energy

This table is kept updated and can be found on the gov.uk website at: 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.

2.8 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. 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 billion is currently held in reserve, for use across both schemes.

Affordable Housing Guarantee Scheme

3.3 By 31 March 2015, 35 affordable housing providers were approved under the Affordable Housing Guarantee Scheme. Combined they will borrow over £1.25 billion of guaranteed debt, supporting the delivery of over 11,000 additional affordable homes across the United Kingdom.

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

- a total £600 million of bond issuances, with £194 million issued in March 2015 achieving an all-in price of 2.92% – the cheapest ever for a housing association bond and the cheapest debt of any kind in this sector for 27 years
- a £500m long-term debt facility with the European Investment Bank. This has enabled borrowers to forward fix rates at record prices, for example Devon and Cornwall Housing, who secured a long term rate of 2.365%

3.5 23 of these Approved Borrowers were approved between 1 April 2014 and 31 March 2015, borrowing a total £774.5 million of guaranteed debt and supporting over 6,400 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 Plc (a subsidiary of The Housing Finance Corporation Limited), which was appointed by DCLG on 20 June 2013.

Private Rented Sector Housing Guarantee Scheme

3.8 DCLG appointed PRS Operations Limited (a subsidiary of Venn Partners LLP) to manage the Private Rented Sector Housing Guarantee Scheme on 10 December 2014. This followed an extensive period of market engagement and a rigorous and competitive procurement process.

3.9 PRS Operations formally opened to applications in April 2015.

Expanding the Rented Sector

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 Three **PF2 equity investments** were 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 of arrangement	Date of signing
HLR Schools Limited	£1,354,300	27 years	19 March 2015
GT NEPS Limited	£1,088,364	26 years	10 March 2015
PSBP NW ProjectCo Limited	£1,054,551	27 years	25 March 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 and technical advice during the reporting period was £25,378.

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 The actual liability of the Treasury at the end of the period in respect of infrastructure assistance is £3,496,105, reflecting the committed but undrawn shareholder loans.

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 £15,818.

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 £25,378 and the Treasury's liabilities at the end of the period were £3,496,105.

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This document can be downloaded from www.gov.uk

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