



HM Treasury

Report under section 231 of the Banking Act 2009:

1 October 2016 to 31 March 2017

October 2017



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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 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:

- 1 for any purpose in connection with Parts 1 to 3 of the act
- 2 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)
- 3 in respect of financial assistance to the Bank of England

1.2 This document covers the period beginning 1 October 2016 and ending 31 October 2017 and fulfils the requirement under section 231(2)(b) of the act to report on successive six month periods. 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 action taken under the Banking (Special Provisions) Act 2008.

1.4 Details of the support provided to financial institutions and the economy is set out in a number of places:

- HM Treasury’s Annual Report and Accounts 2016-17 (HC 19) and its Main Supply Estimates for 2016-17 (HC 967)
- previous reports published in connection with the requirements of the Banking Act 2009 – www.gov.uk/government/collections/banking-act-reports
- UK Financial Investments’ website contains details of how it manages the government’s shareholdings in various banks – www.ukfi.co.uk

1.5 Links to further information on government financial assistance schemes are provided in Annex A.

2 Report period

Report covering the period from 1 October 2016 to 31 March 2017

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 1 October 2016 and ending 31 March 2017 which involve or may require reliance on section 228(1) of the act. It excludes any income from financial sector interventions.

Period from 1 October 2016 to 31 March 2017

Department	Scheme/Other commitments	New commitments £m	Utilisation or issuance £m	Cash expenditure £m
HM Treasury	1. Asset Purchase Facility - gilts	-	45,316	-
	Asset Purchase Facility – Corporate bonds	-	9,034	-
	Asset Purchase Facility - Term Funding Scheme	-	55,028	-
	2. Help to Buy: mortgage guarantee scheme	-	243.0	-
	3. Help to Buy: ISA	-	124.0	33.3
BEIS	4. Equity investments and capital contribution	-	-	111.9
	5. Enable Funding Scheme	-	-	16.6
DCLG/BEIS	6. Regional Growth Fund	-	-	0.4

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 annual reports and accounts and Parliamentary Estimates. 'Utilisation or issuance' represents the net amount of a total facility which was used or the net increase in the amount of guarantees which were issued during the reporting period. This includes reinvestment where that reinvestment utilises the Banking Act. 'Cash expenditure' represents cash amounts paid out in respect of schemes or other commitments.

- 1 **Asset Purchase Facility:** At March 2017, the authorised limit on purchases that may be undertaken by the APF was unchanged from August 2016 at £545 billion. This includes £435 billion of gilt purchases, a new scheme to purchase private sector assets of up to £10 billion, and a new Term Funding Scheme (TFS) of up to £100 billion that would lend central bank reserves to banks and building societies, for an extended period, at rates close to Bank Rate. During the period 1 October 2016 to 31 March 2017, there was £45,316 million of gilt purchases, £9,034 million of corporate bond purchases and £55,028 million of lending under TFS.
- 2 **Help to Buy: mortgage guarantee scheme:** The Help to Buy: mortgage guarantee scheme was launched in October 2013 with the aim of increasing the availability of high loan to value (LTV) mortgages for creditworthy borrowers. The government

has set aside a £12 billion contingent liability over the lifetime of the scheme. The guarantees formally came into effect on 2 January 2014. The Help to Buy: mortgage scheme closed to new loans on the 31 December 2016 as planned. Participating mortgage lenders were allowed to complete loans in to the scheme until 30 June 2017, where they had an application date on or before 31 December 2016. Between 1 October 2016 and 31 March 2017, the maximum potential liability from guarantees issued was £243 million bringing the total maximum potential liability as at 31 March 2017 to £1,417 million.

- 3 **Help to Buy: ISA scheme:** The Help to Buy: ISA scheme was launched on 1 December 2015 with accounts available through banks, building societies and credit unions. The scheme enables people saving for their first home to receive a 25% boost to their savings up to a maximum of £3,000 when they buy a property of £250,000 or less (with a higher price limit of £450,000 in London). Between 1 October 2016 and 31 March 2017, the maximum potential liability was £124.0 million bringing the total maximum potential liability as at 31 March 2017 to £396.2 million. Between 1 October 2016 and 31 March 2017 £33.3 million was drawn.
- 4 **Equity investments and capital contribution:** During the period £111.9 million was provided to a new UK bank set up to improve financial market access for smaller businesses and small mid-cap businesses.
- 5 **Enable Funding scheme:** The Enable Funding scheme aims to improve the provision of asset and lease finance to smaller UK businesses. Between 1 October 2016 and 31 March 2017, £16.6 million was drawn.
- 6 **Regional Growth Fund:** Between 1 October 2016 and 31 March 2017, £0.4 million was provided by the Department for Business, Energy & Industrial Strategy (BEIS) to match a similar amount invested by selected banks for onward lending to small and medium-sized entities.

2.3 There is nothing to report in the period for the **National Loan Guarantee Scheme (NLGS)**, **Enable Guarantee Scheme**, **Homeowners Mortgage Support Scheme (HMS)** or **NewBuy Guarantee Scheme**. In each of these schemes there were no new commitments, utilisation had either stayed the same or decreased at the period end and none of them had incurred any cash expenditure. The HMS Scheme has been closed to new entrants since 21 April 2011.

2.4 Additional information on all of the above schemes is in Annex A and in the published information referred to therein.

A Government schemes

Information on government financial assistance schemes

HM Treasury

Asset Purchase Facility

A.1 In January 2009, the Chancellor of the Exchequer (“the Chancellor”) authorised the Bank of England (“the Bank”) to set up the Asset Purchase Facility (APF) to buy high-quality assets financed by the issue of Treasury bills. The aim of the facility was to improve liquidity in credit markets. The Chancellor also announced that the APF provided an additional tool that the Monetary Policy Committee could use for monetary policy purposes. When the APF is used for monetary policy purposes, purchases of assets are financed by the creation of central bank reserves. In August 2016, the Chancellor authorised the limit on purchases that may be undertaken by the APF to be raised by £170 billion to £545 billion. This included £60 billion of additional gilt purchases, a new scheme to purchase private sector assets of up to £10 billion, and a new Term Funding Scheme (TFS) of up to £100 billion that would lend central bank reserves to banks and building societies for an extended period at rates close to Bank Rate. The Chancellor also authorised an extension of the definition of assets eligible to be held in the APF to include secured lending of central bank reserves, backed by the full range of collateral eligible in the Bank’s Sterling Monetary Framework. HM Treasury has indemnified the Bank of England Asset Purchase Facility Fund (BEAPFF) from any losses arising out of, or in connection with, the facility. The changes to the APF authorised by the Chancellor in August 2017 will be reflected in the next report covering the period 1 April 2017 to 30 September 2017. Further information on the APF can be found at: www.bankofengland.co.uk/monetarypolicy/Pages/qe/facility.aspx.

National Loan Guarantee Scheme

A.2 The National Loan Guarantee Scheme (NLGS) was launched on 20 March 2012 to help businesses access cheaper finance by reducing the cost of bank loans under the scheme by 1 percentage point. The NLGS uses government guarantees on unsecured borrowing by banks, enabling them to borrow at a cheaper rate. Participating banks pass on the entire benefit that they receive from the guarantees across the UK through cheaper loans. Further information about the scheme can be found at: www.dmo.gov.uk/index.aspx?page=CGS/NLGS2012

Help to Buy: Mortgage Guarantee Scheme

A.3 The Help to Buy: mortgage guarantee scheme launched in October 2013, with the aim of increasing the availability of high loan to value (LTV) mortgages for creditworthy borrowers. The guarantees formally came into effect on 2 January 2014. Under the scheme the government offered lenders the option to purchase a guarantee on mortgages on both new build and existing homes, where a borrower had a deposit of between 5% and 20%. The guarantee compensated mortgage lenders for a portion of net losses suffered in the event of repossession. Lenders were charged a commercial fee for participation in the scheme, which covered the scheme’s expected losses, the cost of capital and the administration costs. Over the life of the scheme the government made available up to £12 billion of guarantees, which was sufficient to support up to £130 billion of high loan-to-value mortgages. The Help to Buy: mortgage guarantee scheme closed to new loans on the 31 December 2016 as planned. Participating mortgage lenders were allowed to complete loans into the scheme until 30 June 2017, where they have an application date on or before 31 December 2016.

Help to Buy: ISA

A.4 The Help to Buy: ISA scheme was launched on 1 December 2015 with accounts available through banks, building societies and credit unions. The scheme enables people saving for their first home to receive a 25% boost to their savings from the Government when they buy a property of £250,000 or less (with a higher price limit of £450,000 in London). This means that for every £200 saved, first-time buyers can receive a government bonus of £50. The maximum government bonus is £3,000. The scheme will be open to new savers until 30 November 2019. Help to Buy: ISA account holders can, however, continue saving into their account until 30 November 2029 when accounts will close to additional contributions. The Help to Buy: ISA government bonus must be claimed by 1 December 2030. Further information can be found at: www.gov.uk/affordable-home-ownership-schemes/help-to-buy-mortgage-guarantees

Department for Business, Energy and Industrial Strategy

Enable Guarantee Scheme

A.5 The Enable Guarantee Scheme aims to address capital constraints associated with SME lending by enabling participating bank originators to share a portion of the credit risk of a newly originated small business lending portfolio with HM Government in return for a fee. This will lead to a reduction in capital requirements connected to the guaranteed lending, thus making SME lending more commercially attractive for the bank originator.

Enable Funding Scheme

A.6 The Enable Funding scheme aims to improve the provision of asset and lease finance to smaller UK businesses. Asset finance is an important source of finance for smaller businesses, but providers of such finance often lack the scale to access capital markets – a key source of funding for lending institutions – in a cost-efficient manner. Enable Funding will warehouse newly-originated asset finance receivables from different originators – bringing them together into a new structure. Once the structure has sufficient scale, it will refinance a portion of its funding on the capital markets, helping small finance providers to tap institutional investors' funds.

Department for Communities and Local Government

Homeowners Mortgage Support Scheme

A.7 The Homeowners Mortgage Support (HMS) scheme enabled eligible borrowers who suffered 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% of the deferred interest. The scheme closed on 21 April 2011, although the government guarantee will run until 2017. Further information can be found at: <http://bit.ly/mortgagesupportscheme>

NewBuy Guarantee Scheme

A.8 The NewBuy Guarantee scheme assisted buyers who have a deposit of at least 5% to buy a new build home. The scheme allowed more borrowers to obtain up to 95% loan to value mortgages on new build properties from participating builders in England. The scheme closed to new mortgage offers in March 2015. Further information can be found at: www.gov.uk/government/policies/helping-people-to-buy-a-home/supporting-pages/help-for-first-time-buyers

Department for Communities and Local Government/Department for Business, Energy & Industrial Strategy

Regional Growth Fund

A.9 The Regional Growth Fund (RGF) is a £2.6 billion fund operating across England from 2011 to 2017. It supports projects and programmes with significant potential for economic growth that can create additional, sustainable private sector employment. It aims particularly to help those areas and communities which were dependent on the public sector to make the transition to sustainable private sector-led growth and prosperity. The majority of funds disbursed under the RGF scheme have been provided under the vires of the Industrial Development Act but, where intermediaries are banks, the Banking Act is used. The economic context has changed since 2011 when the first round was launched and following the 2015 Spending Review no future rounds are proposed. Further information can be found at: www.gov.uk/understanding-the-regional-growth-fund

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

Email: public.enquiries@hmtreasury.gsi.gov.uk