HM Treasury

Infrastructure (Financial Assistance) Act 2012:

annual report for year ending 31 March 2019

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

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Chapter 1
Introduction

1.1 The Infrastructure (Financial Assistance) Act ("the 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, PF2 equity investments** and the **Digital Infrastructure Investment Fund (DIIF)**.

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 in March 2021 but as part of the 2016 Autumn Statement the Chancellor announced the extension of the UK Guarantees scheme to at least 2026. 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 Ministry of Housing, Communities and Local Government. Further information on 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.

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 Infrastructure and Projects Authority (IPA), which reports to the Treasury and Cabinet Office and is 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.

1.8 At Budget 2018, the Chancellor announced that the government would no longer use PFI and PF2 models for new projects. The government will not be seeking a like-for-like replacement for these models. Existing PFI and PF2 contracts will not end because of this announcement.

1.9 At Autumn Statement 2016 the Chancellor announced that the government would commit £400 million to a new DIIF, matched by private sector investors on the same terms. Statutory authority for the DIIF is provided by the act. The objective of the DIIF is to increase access to commercial finance for alternative developers of full fibre digital communications networks. Details of the DIIF investments made during the year are set out in Chapter 5 of this report.

1.10 The Chancellor announced at Budget 2017 that the government would commit £200 million to establish a new electric vehicle Charging Infrastructure Investment Fund (CIIF), matched by private sector investors on the same terms. The aim of the fund is to catalyse the rollout of electric vehicle charging infrastructure that is required to support the electrification of vehicles, by providing greater access to finance on a commercial basis. The fund is expected to launch in Summer 2019.

Reporting requirements

1.11 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.

1.12 This report is for the period 1 April 2018 to 31 March 2019.

Portfolio management

1.13 A portfolio management team manages the Treasury's UK guarantees, PF2 equity investments and the DIIF. 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.

1.14 The portfolio management team reviews all active UK guarantees, PF2 equity investments and DIIF investments and reports to the risk committee on a quarterly basis. In relation to UK guarantees, 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 management team becomes aware of any material risks that require a more immediate review process to be undertaken.

Chapter 2
UK Guarantees

The arrangements entered into during the period

2.1 No new arrangements have been entered into under **UK Guarantees** by the Treasury during the reporting period.

The expenditure incurred by the Treasury or the Secretary of State during the period

2.2 No external costs were incurred by the Treasury in the reporting period. 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.

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 ending 31 March 2019 in respect of infrastructure assistance under the act is £1749.7 million.

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

Long-term contingent liabilities at 31 March 2018	£1756.7m
Reductions arising from amortisation or prepayment of underlying debt	£(5.3)m
Net decrease due to changes in foreign exchange rates & indexation	£(1.4)m
Decrease in short term interest liability	£(0.3)m
Contingent liabilities at 31 March 2019	**£1749.7m**

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 £1749.7 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 £13.3 million.

Looking forward

2.6 The progress and financial condition of all guaranteed projects are reviewed on a regular basis by IPA, on behalf of the Treasury. As projects progress through the construction and operational phases, the risk profile is subject to change.

2.7 The Treasury reports on the assets and liabilities associated with the UK Guarantees scheme portfolio in its annual report and accounts.

2.8 A refinancing of one guaranteed project is expected to occur in the next reporting period, which will reduce the Treasury's actual and contingent liabilities associated with the portfolio of guarantees.

Chapter 3

Housing Guarantees

3.1 The act provides the legislative base for the government's two existing **Housing Guarantees** schemes and for further such schemes that are under development. 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 Ministry of Housing, Communities and Local Government (MHCLG) 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 was initially held in reserve to be made available for use across both schemes, according to demand.

3.3 There has been no call on the housing guarantees to date.

Affordable Housing Guarantee Scheme

3.4 MHCLG appointed Affordable Housing Finance PLC (AHF, a subsidiary of The Housing Finance Corporation Limited) to manage the Affordable Housing Guarantee Scheme on 20 June 2013.

3.5 In 2015, the guarantee availability period of the Affordable Housing Guarantee Scheme was extended from 31 December 2015 to 31 March 2016.

3.6 As at 31 March 2019, the total debt guaranteed and drawn down to date was £3.2 billion, supporting the delivery of over 34,000 homes.

3.7 Finance was raised for borrowers through:

- a total £1.7 billion of bond issuances, with the final bond for £107 million issued in July 2017 achieving an all-in price of 2.144%
- a £1.5 billion long-term debt facility with the European Investment Bank, with the latest loan for £10 million drawn in March 2018 achieving an all-in price of 2.152%

3.8 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 MHCLG of granting these guarantees, thereby reducing costs for borrowers and facilitating greater investment in new affordable housing.

3.9 Applications for guarantees closed on 31 March 2018. All applications have now been processed, all loans have been drawn and the scheme is now in a monitoring regime.

Private Rented Sector Housing Guarantee Scheme

3.10 MHCLG appointed PRS Operations Limited (a subsidiary of Venn Partners LLP) to manage the Private Rented Sector Housing Guarantee Scheme on 10 December 2014.

3.11 Budget 2016 extended the guarantee availability period of the Private Rented Sector Guarantee Scheme from 31 December 2016 to 31 December 2017. In December 2017, the Scheme was further extended; it closed to new applications on 31 December 2018.

3.12 As at 31 March 2018, the scheme had approved a total of £1.6 billion.

3.13 Between 1 April 2018 and 31 March 2019, £400 million of further applications were approved - bringing the total approved to £2.0 billion. After taking account of borrowers who have withdrawn from the scheme, the total amount of approvals outstanding as of 31 March 2019 was £1.494 billion in respect of 8,000 new rented homes.

3.14 As of 31 March 2019, £712.5 million had been raised through bond issuance. The latest bond issued during the reporting year was for £38 million of retained bonds in February 2019 and achieved an all-in price of 1.894%.

3.15 Each borrower pays a guarantor fee to MHCLG, which is calculated as a percentage of the capital guaranteed. Between 1 April 2018 and 31 March 2019, guarantor fees received amounted to £1.6 million. In addition, borrowers pay a cost of risk fee to PRS Operations, the amount of which varies by borrower depending on their credit grade. MHCLG will be entitled to receive a share of these costs of risk fees (net of claims under the guarantees) once all the loans have been repaid.

Looking Forward

3.16 The Chancellor announced at Budget 2017 that the government would explore options with industry to create £8 billion worth of new guarantees to support housebuilding, including SMEs and purpose-built rented housing. The £3 billion that is held in reserve to be made available for use under the existing schemes forms part of the new £8 billion.

3.17 Of the £8 billion, the intended application of £4 billion has been announced so far.

3.18 At Budget 2018 the Chancellor announced £1 billion for small and medium-sized housebuilders, to be operated through the British Business Bank's ENABLE scheme. This scheme subsequently launched in April 2019, and will be reported to Parliament under the Banking Act 2009 rather than the Infrastructure (Financial Assistance) Act 2012.

3.19 At the Spring Statement 2019, £3 billion of guarantees were announced to support affordable housing delivery. MHCLG intends to undertake pre-tender market engagement and procurement activities for this new Affordable Homes Guarantees Scheme during 2019/20.

3.20 The new guarantees will be developed according to the Treasury Contingent Liability Framework, ensuring that they have the maximum possible impact on increasing housing supply while safeguarding the sustainability of the public finance.

Chapter 4
PF2 Equity Investments

The arrangements entered into during the period

4.1 No new **PF2 equity investments** have been made by the Treasury during the reporting period. No new **PF2 equity investments** are expected to be made following the Chancellor's retirement of PF2 in Budget 2018.

The expenditure incurred by the Treasury or the Secretary of State during the period

4.2 The expenditure incurred by the Treasury during the reporting period was £18 thousand.

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 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 £9.2 million of shareholder loans in total and these are fully drawn 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

4.4 The sums received by the Treasury during the period were £216 thousand by way of interest received on the shareholder loans.

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 £18 thousand. The Treasury has no liabilities under this Act at the end of the period.

4.6 The insolvency of Carillion has had an adverse impact on the Treasury's PF2 equity investments and loans in the Midland Metropolitan Hospital and Midlands Schools projects. The total amount of the Treasury's investment in these two projects was £5.0m. This has been fully written down.

Chapter 5

Digital Infrastructure Investment Fund

The arrangements entered into during the period

5.1 Following the commitment announced by the Chancellor in Autumn Statement 2016, the DIIF was launched in July 2017. The total government investment in the fund is projected to be £400 million over its life.

5.2 In the prior reporting period, the Treasury gave a commitment to invest a total of £300 million over the four fiscal years between 2017/18 and 2021/22. Amber Infrastructure, Infracapital and M&G Investment Management Limited have been appointed to manage respectively £150 million, £100 million and £50 million of the Treasury's committed funds. The Treasury's investment is conditional on the fund managers sourcing matching funds from the private sector.

5.3 Seven investments were made by two of the fund managers during the period, of which the Treasury's share was £62.2 million.

The expenditure incurred by the Treasury or the Secretary of State during the period

5.4 Over the year to 31 March 2019, the Treasury has funded £1.1 million of establishment costs and general partner fees.

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

5.5 There are no actual or contingent liabilities arising due to the DIIF 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

5.6 No income has been received by the Treasury at the end of the period.

HM Treasury contacts

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