HM Treasury

Report under section 231 of the Banking Act 2009:

1 October 2018 to 31 March 2019

October 2019

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Presented to the House of Commons pursuant to section 231 of the Banking Act 2009

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Chapter 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 2018 and ending 31 March 2019 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 2018-19 (HC 2495) and its Main Supply Estimates for 2018-19 (HC 957)
- previous reports published in connection with the requirements of the Banking Act 2009 – www.gov.uk/government/collections/banking-act-reports
- UK Government Investments' website contains details of how it manages the government's shareholdings in various banks – www.ukgi.org.uk

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

Chapter 2

Report covering 1 October 2018 to 31 March 2019

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 2018 and ending 31 March 2019, 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 2018 to 31 March 2019

Department	Scheme/Other commitments	New commitments £m	Utilisation or issuance £m	Cash expenditure £m
HM Treasury	1. Help to Buy: mortgage guarantee scheme	-	-	0.03
	2. Help to Buy: ISA	-	33.2	63.3
	3. Affordable Credit Challenge Fund	2.0	-	-
BEIS	4. Equity investments and capital contribution – financial market access	-	-	75.0
	5. Enable Funding Scheme	-	-	69.4
BEIS/MHCLG	6. Regional Growth Fund	-	-	2.1

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 Help to Buy: mortgage guarantee scheme: Between 1 October 2018 and 31 March 2019, £0.03 million was paid out in claims.

2 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 2018 and 31 March 2019, the maximum potential liability increased by £33.2 million bringing the total maximum potential liability as at 31 March 2019 to £714.7 million. Between 1 October 2018 and 31 March 2019 £63.3 million was drawn.

3 Affordable Credit Challenge Fund: £2.0 million was committed at Budget 2018 for an Affordable Credit Challenge Fund, which was launched in July 2019. The Challenge seeks to harness the power of the UK's world-leading fintech industry, inviting participants to devise technological solutions addressing the challenges faced by social and community lenders, such as credit unions and Community Development Financial Institutions (CDFIs).

4 Equity investments and capital contribution – financial market access: During the period £75.0 million was provided to a 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 2018 and 31 March 2019, £69.4 million was drawn.

6 Regional Growth Fund: Between 1 October 2018 and 31 March 2019, the Department for Business, Energy & Industrial Strategy (BEIS) reinvested £2.1 million from loan receipts 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 Asset Purchase Facility (Gilts and Corporate Bonds), the Enable Guarantee Scheme or the NewBuy Guarantee Scheme as there were no new commitments, utilisation had either stayed the same or decreased at the period end and no cash expenditure was incurred. During the period, the Term Funding Scheme (TFS) transferred out of the Asset Purchase Facility and onto the Bank of England's balance sheet and hence is no longer indemnified by HM Treasury.

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

Annex A

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. The Chancellor authorised a £15 billion increase in the size of the TFS in August 2017, and a £25 billion increase in the size of the TFS in November 2017, which increased the authorised limit of the APF to £585 billion. The TFS closed as planned in February 2018 with total outstanding drawings of £127 billion. In June 2018, the Bank and HM Treasury updated the Finance Memorandum of Understanding (MoU) and agreed that the TFS will be transferred from the APF to the Bank's balance sheet during the 2018/2019 financial year. This happened in January 2019, hence the TFS is out of the APF and no longer indemnified by HM Treasury. 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. Further information on the APF can be found at: https://www.bankofengland.co.uk/markets/quantitative-easing-and-the-asset-purchase-facility

Help to Buy: Mortgage Guarantee Scheme

A.2 The Help to Buy: mortgage guarantee scheme opened on 8 October 2013 with the aim of increasing the availability of high loan-to-value 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 mortgage loans where the 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 had an application date on or before 31 December 2016.

Help to Buy: ISA

A.3 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

Affordable Credit Challenge Fund

A.4 Social and community lenders – such as Credit Unions and Community Development Financial Institutions CDFIs - provide affordable, responsible sources of credit to lower income groups. However, the sector is small and can struggle to compete with high-cost lenders in areas such as visibility, customer journey and technological capability. At Autumn Budget 2018 the Government committed to launching a £2m Affordable Credit Challenge Fund, harnessing the power of the UK's world-leading fintech industry to support social and community lenders. Up to six community lender/fintech partnerships devising technological solutions addressing the challenges faced by social and community lenders will be awarded Development Grants of between £125,000 to £150,000 in November 2019. From these, three winning partnerships will each receive cash prizes of at least £200,000 in Spring 2020.

Department for Business, Energy and Industrial Strategy (BEIS)

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.

Ministry of Housing, Communities and Local Government (MHCLG)

NewBuy Guarantee Scheme

A.7 The NewBuy Guarantee scheme assisted buyers who had 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

BEIS/MHCLG

Regional Growth Fund

A.8 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

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