HM Treasury

Infrastructure (Financial Assistance) Act 2012

Annual Report for the year ending 31 March 2021

March 2023

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March 2023

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Contents

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 Scheme** (UKGS), **Housing Guarantees**, **Private Finance 2** (PF2) equity investments, the **Digital Infrastructure Investment Fund** (DIIF), the **Charging Infrastructure Investment Fund** (CIIF) and the **OneWeb** investment.

1.4 The **UKGS** was announced by the government in July 2012 and supported private investment into UK infrastructure projects. Projects must fall within the definition of infrastructure as set out by the act. The arrangements made under UKGS are set out in Chapter 2 of this report. It works by providing a government-backed guarantee to help projects access debt finance. The guarantee must cover a financial obligation and is provided on a commercial basis with the pricing of fees depending on the risk and structure of a particular project. Guarantees for up to £40 billion in aggregate could 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 UKGS to at least 2026. After the launch of the UK Infrastructure Bank (UKIB) the UKGS scheme was closed to new entrants with UKIB offering sovereign-backed guarantees for projects within its mandate.

1.5 The act is also used by the **Housing Guarantees** programme, which is run by the Department for Levelling Up, Housing and Communities (DLUHC), formally known as the Ministry of Housing, Communities and Local Government (MHCLG) in this reporting period. 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 **CIIF**, matched by private sector investors on the same terms. Statutory authority for the CIIF is provided by the act. 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 was launched in August 2019. Details of the CIIF investments made during the year are set out in Chapter 6 of this report.

1.11 On 3 July 2020, the government announced a successful bid to acquire **OneWeb**, a novel satellite technology company and global leader in Low Earth Orbit technology. The company’s ambition is to be the first mega-constellation operator with the potential to connect millions of people around the world in remote, rural locations who currently do not have access to broadband. This investment took OneWeb out of Chapter 11 bankruptcy proceedings, with the government investing $500 million as part of a consortium of investors. The equity investment gave the government special rights and a strong representation on the Board, allowing the government to be involved in setting the future strategic direction of the business. Further information on this is set out in Chapter 7 of this report.

1.12 On 17 June 2021, the Chancellor launched the UKIB: a new government-owned bank with a mandate to invest into ambitious infrastructure projects, which tackle climate change and support levelling up in every part of the UK. The UKIB is an operationally independent Arm's Length Body (ALB) of HM Treasury (HMT). It was announced that the management of UKGS, DIIF and CIIF would be transferred to UKIB by March 2022. Further detail on these arrangements is included in the 2021-22 report.

Reporting Requirements

1.13 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

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.

"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.

1.14 This report is for the period 1 April 2020 to 31 March 2021.

Portfolio Management

1.15 In the 2020-21 reporting period, a portfolio management team in the Infrastructure and Projects Authority (IPA) managed the UKGS, PF2 equity investments, the DIIF and the CIIF. This process involved regular site visits, attending relevant meetings, reviewing construction reports, finance reports and updates to financial models, and taking independent expert advice where appropriate.

1.16 The portfolio management team reviewed all active UKGS, PF2 equity investments, DIIF and CIIF investments and reported to the risk committee on a quarterly basis. In relation to UKGS, the portfolio management team also undertook a more detailed semi-annual review of each project's progress and key risks. All projects could be reviewed on an ad hoc basis if the portfolio management team became aware of any material risks that require a more immediate review process to be undertaken.

Chapter 2
UK Guarantees Scheme

The Arrangements entered into during the period

2.1 Five arrangements were entered into under UKGS by the Treasury during the reporting period as set out in Table 2.A below.

Table 2.A: Arrangements under UKGS

Project Name	Sponsor	Region	Size (£m)	Expiry date	Date of signing
West Midlands rolling stock (1/2)	Alstom (previously Bombardier Transportation UK Ltd)	Midlands	£52.47m	June 2022	5 May 2020
West Midlands rolling stock (2/2)	Alstom (previously Bombardier Transportation UK Ltd)	Midlands	£45.47m	June 2022	5 May 2020
South Western Railway rolling stock (1/2)	Alstom (previously Bombardier Transportation UK Ltd)	London / South West	£100.00m	November 2021	5 May 2020
South Western Railway rolling stock (2/2)	Alstom (previously Bombardier Transportation UK Ltd)	London / South West	£100.00m	November 2021	29 June 2020 and 21 September 2020
East Anglia rolling stock	Alstom (previously Bombardier Transportation UK Ltd)	South East	£100.00m	November 2021	4 May 2020

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

2.2 The expenditure incurred by the Treasury and the Cabinet Office during the reporting period was £250,000 of legal and advisory services and £6.0 million of expected credit loss movements.

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 reporting period in respect of infrastructure assistance under the act were £1,864.5 million. The guarantee liabilities were £94.0 million and the net guarantee fee receivables were £84.4 million.

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

Long-term contingent liabilities at 31 March 2020	£1,466.7m
New guarantees committed	£397.9m
Amortisation or prepayment of underlying debt	£0.18m
Indexation adjustment	£0.3m
Change in short term interest liability	£(0.6)m
Contingent liabilities at 31 March 2021	**£1,864.5m**

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 the reporting period were £1,864.5 million. The guarantee liabilities were £94.0 million. The expected credit loss liabilities were estimated to be £5.4 million in relation to the gross guarantee fee receivable of £89.8 million, giving the net guarantee fee receivables of £84.4 million. There have been no calls on any guarantees in the reporting period.

2.5 Five new arrangements entered into during the reporting period have increased the Treasury's actual and contingent liabilities associated with the portfolio of guarantees.

2.6 The expenditure incurred by the Treasury and the Cabinet Office in the reporting period was £250,000 of legal and advisory services and £6.0 million of expected credit loss movements.

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

2.7 Each borrower under a UK Guarantee pays a guarantee fee and/or a commitment 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 £10.7 million. Two projects which benefitted from UKGS deferred the payment of guarantee fees. Both projects were adversely affected by COVID-19. The total deferment of guarantee fees in the reporting period was £2.2 million.

Portfolio Management

2.8 The progress and financial condition of all guaranteed projects was 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.

2.9 The Treasury reports on the assets and liabilities associated with the UK Guarantees scheme portfolio in its Annual Report and Accounts (ARA).

2.10 The responsibility and administration of the UKGS moved to UKIB by March 2022. To support this move, a transitional services agreement was put in place with the IPA.

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

Affordable Housing Guarantee Scheme

3.3 DLUHC (formally 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.

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

3.5 As of 31 March 2021, the total debt guaranteed and drawn down to date was £3.2 billion, supporting the delivery of over 34,000 homes.

3.6 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%.

3.7 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 DLUHC (formally MHCLG) of granting these guarantees, thereby reducing costs for borrowers, and facilitating greater investment in new affordable housing.

3.8 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

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

3.10 Budget 2016 extended the guarantee availability period of the Private Rented Sector Housing 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.

3.11 Between 1 April 2020 and 31 March 2021, £143 million of further applications were approved - bringing the total approved to £2.74 billion. After taking account of borrowers who have withdrawn from the scheme, the total amount of approvals outstanding as of 31 March 2021 was £1.798 billion in respect of 9,069 new rented homes.

3.12 As of 31 March 2021, over £1.45 billion had been raised through bond issuance. The latest bond issued during the reporting year was for £15.25 million of retained bonds in December 2020 and achieved an all-in price of 0.702%.

3.13 Each borrower pays a guarantor fee to DLUHC (formally MHCLG), which is calculated as a percentage of the capital guaranteed. Between 1 April 2020 and 31 March 2021, guarantor fees received amounted to £4.28 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. DLUHC (formally 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.

Chapter 4

PF2 Equity Investments

The Arrangements entered into during the period

4.1 No new PF2 equity investments were 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 Secretary of State during the period

4.2 The expenditure incurred by the Treasury during the reporting period was £21.6 thousand of audit fees. The movement of expected credit losses results in a negative expenditure of £0.7 thousand.

The amount of actual or contingent liabilities of the Treasury or Secretary of State at the end of the period in respect of infrastructure assistance

4.3 The expected credit loss liabilities were estimated to be £7.7 thousand in relation to the gross loan finance and interest receivable of £5.1 million.

4.4 There are no actual or contingent liabilities arising due to the PF2 equity investments at the end of the period.

4.5 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 Secretary of State in connection with infrastructure assistance

4.6 The sums received by the Treasury during the period were £308,000 by way of interest received on the shareholder loans and £367,000 by way of principal repayments on the shareholder loans.

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

4.7 The expenditure incurred by the Treasury in the reporting period was £21.6 thousand of audit fee and negative expected credit loss expenditure of £0.7 thousand.

4.8 The expected credit loss liabilities were estimated to be £7.7 thousand in relation to the gross loan finance and interest receivable of £5.1 million.

4.9 The Treasury has no liabilities arising due to the PF2 equity investments at the end of the period.

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.

5.2 During the reporting period, Amber Infrastructure, Infracapital and M&G Investment Management Limited managed respectively £50 million, £100 million, and £50 million of the Treasury's committed funds, together with matching private sector funds. The mandate of M&G Investment Management Limited ceased in December 2020.

5.3 Eleven investments were made by two of the fund managers during the period, of which the Treasury's share was £15.3 million.

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

5.4 In the reporting year to 31 March 2021, the Treasury funded £1.7 million of fund costs and general partner fees.

5.5 In addition, the Treasury also incurred an audit fee of £22,800 for the accounts of Infrastructure Finance Unit Limited that report the Treasury's investment in DIIF and CIIF.

The amount of actual or contingent liabilities of the Treasury or the Secretary of State at the end of the period in respect of the infrastructure assistance

5.6 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

5.7 £16.3 million of dividend income has been received by the Treasury at the end of the period.

Chapter 6

Charging Infrastructure Investment Fund

The arrangements entered into during this period

6.1 Following the commitment announced by the Chancellor at Budget 2017, the CIIF was launched in August 2019. The total government investment in the fund is projected to be £200 million over its life.

6.2 Zouk Capital LLP has been appointed to manage £200 million of the Treasury's committed funds. The Treasury's investment is conditional on the fund managers sourcing matching funds from the private sector.

6.3 The Treasury's share of three investments made by the fund manager during the period was £18 million.

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

6.4 In the reporting year to 31 March 2021, the Treasury funded £4 million of fund costs, general partner fees and fund cash balances.

6.5 In addition, the Treasury also incurred an audit fee of £22,800 for the accounts of Infrastructure Finance Unit Limited that report the Treasury's investment in DIIF and CIIF.

The amount of actual or contingent liabilities of the Treasury or Secretary of State at the end of the period in respect of infrastructure assistance

6.6 There are no actual or contingent liabilities arising due to the CIIF at the end of the period.

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

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

Chapter 7
OneWeb Investment

Background

7.1 Together with private investors, the government has secured the future of OneWeb, an innovative, low-earth orbit satellite communications company with a global communications network powered by a constellation of 648 Low Earth Orbit (LEO) satellites. Headquartered in London, OneWeb is enabling highspeed, low latency connectivity for governments, businesses, and communities everywhere around the world.

7.2 In July 2020, the UK government announced its joint bid with Bharti Global Limited to acquire OneWeb. The UK government and Bharti Global completed their purchase of OneWeb on 20th November 2020, once all necessary regulatory approvals including in the US were obtained.

7.3 In January 2021, it was announced that further investment had been secured from Softbank and Hughes Network Group. Leading satellite communications operator, Eutelsat, committed to invest $550 million in OneWeb in April 2021. In June 2021, Bharti Global Limited announced it would invest a further $500 million in the company.

The Arrangements entered into during the period

7.4 In July 2020, the Government committed to investing $500 million as part of a joint bid with Bharti Global Ltd to acquire OneWeb.

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

7.5 In the reporting year to 31 March 2021, $329 million (£250 million) of the investment was drawn down by OneWeb Holdings.

The amount of actual or contingent liabilities of the Treasury or the Secretary of State at the end of the period in the respect of infrastructure assistance

7.6 As part of the original agreement to purchase OneWeb, the Government and Bharti Global Limited agreed to provide the investment in instalments as required by OneWeb Holdings. The Government will therefore transfer the remaining $171 million to OneWeb Holdings when required. Beyond this there are no actual or contingent liabilities arising due to the OneWeb investment at the end of the period.

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

7.7 The Government has committed to invest $500 million, of which $329 million was paid in 2020-21.

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

7.8 No income has been received during the period.

HM Treasury contacts

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