HM Treasury

Infrastructure (Financial Assistance) Act 2012:

Annual Report for year ending 31 March 2022

March 2023

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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.

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.**

1.3 The **UKGS** was announced by the government in July 2012 and supported private investment into UK infrastructure projects. It works by providing a government-backed guarantee to help projects access debt finance where they have been unable to raise finance in the financial markets. The guarantee is provided on a commercial basis with the pricing of fees depending on the risk and structure of a particular project. The scheme had financial capacity of up to £40 billion. As part of the 2016 Autumn Statement the Chancellor had announced the extension of the UKGS until at least 2026. However, UKGS guidance was withdrawn on 17 June 2021. 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.

1.4 The UKIB is an operationally independent Arm's Length Body (ALB) of HM Treasury (HMT) and was launched in June 2021. It is committed to deliver on its mandate to accelerate investment into ambitious infrastructure projects, which tackle climate change and support levelling up in every part of the UK. Upon launch of the bank the responsibility and administration for the UKGS was moved to UKIB, the arrangements made under the UKGS are set out in Chapter 2.

1.5 The CIIF and DIIF assets were also transferred to UKIB and there was a transitional agreement for management of the funds in place between UKIB and the IPA in year. These funds are now part of the UKIB's portfolio and are reported on in UKIB's Annual Report and Accounts (ARA).

1.6 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 3 of this report.

1.7 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 4 of this report.

1.8 The act is also used by the **Housing Guarantees** programme, which is run by the Department for Levelling Up, Housing and Communities (DLUHC). Further information on this is set out in Chapter 5 of this report.

1.9 In Autumn Statement 2012, the government launched a new approach to public private partnerships – 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.

1.10 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 6 of this report.

1.11 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 were not affected.

1.12 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 strong representation on the Board, enabling 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.

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

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

1.14 This report is for the period 1 April 2021 – 31 March 2022.

Chapter 2

UK Guarantees Scheme

The Arrangements entered into, modified, and released during the period

2.1 There were three agreed extensions to existing arrangements under UKGS by the Treasury during the reporting period as set out in the Table 2.A below. One of these was subsequently released on 21 February 2022.

Table 2.A: Arrangement extensions under UKGS

Project Name	Sponsor	Region	Size (£m)	Expiry date	Date of signing
South Western Railway rolling stock (1/2) - IPA 001	Alstom (previously Bombardier Transportation UK Ltd)	London / South West	£100.00m	Extension to October 2022 (from November 2021)	Extension agreed on 27 October 2021 (Initial signing 5 May 2020)
South Western Railway rolling stock (2/2) - IPA 005	Alstom (previously Bombardier Transportation UK Ltd)	London / South West	£100.00m	Extension to June 2022 (from November 2021), subsequently released 21 February 2022	Extension agreed 27 October 2021 (Initial signing 29 June 2020 and 21 September 2020)
East Anglia rolling stock - IPA 002	Alstom (previously Bombardier Transportation UK Ltd)	South East	£100.00m	Extension to November 2022 (from November 2021)	Extension agreed 7 October (Initial signing 4 May 2020)

2.2 On one project, a major property development in Aberdeen, the guarantee was called and settled in full resulting in a total payment of £87.2m in January 2022. Additionally, a loan facility of £9.4 million was made available to the administrators on this same project, which was fully utilised in the period.

2.3 The sale of the underlying asset under one guarantee occurred in the reporting period. The debt guarantee was released in full as the underlying asset was sold and the guaranteed debt fully repaid in March 2022.

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

2.4 The expenditure incurred by the Treasury and the Cabinet Office during the reporting period was £200,000 of legal and advisory services.

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

2.5 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 £1.652 million. The guarantee liabilities were £153.0 million and the net guarantee fee receivables were £53.1 million.

2.6 There was a call on one guarantee during the reporting period, totalling £87.2 million.

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

Long-term contingent liabilities at 31 March 2021	£1,864.5m
Guarantees releases	£(140.0)m
Guarantees called	£(88.0)m
Amortisation or prepayment of underlying debt	£(12.9)m
Indexation adjustment	£1.9m
Change in short term interest liability	£(0.3)m
Contingent liabilities at 31 March 2022	£1,625.2m

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 £9.5 million.

2.8 The total contingent liabilities at the end of the reporting period were £1.625 million. The guarantee liabilities were £153.0 million. The expected credit loss liabilities were estimated to be £8.3 million in relation to the gross guarantee fee receivable of £61.4 million, giving the net guarantee fee receivables of £53.1 million.

2.9 As a result of the sale of an underlying asset under guarantee, £2.6 million was recovered against an £8.6 million loan.

Portfolio Management

2.10 UKIB assumed management of UKGS from June 2021 with a Transitional Services Agreement with the IPA. This agreement was from June 2021 until March 2022. From April 2022 UKIB solely manages the UKGS scheme on behalf of the Treasury.

2.11 The portfolio management team at UKIB reviews all active UK Guarantees on a regular basis and undertakes a more detailed review of each project's progress, key risks, and reports to HMT on a quarterly basis.

Looking Forward

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

2.13 The Treasury reports on the assets and liabilities associated with the UK Guarantees Scheme portfolio, including the market, liquidity, and credit risk in its ARA.

Chapter 3

Digital Infrastructure Investment Fund

3.1 The UKIB assumed management of the DIIF on 17th June 2021. The progress of the investments is reviewed on a regular basis.

The Arrangements entered into during the period

3.2 Following the commitment announced by the Chancellor in Autumn Statement 2016, the DIIF was launched in July 2017.

3.3 During the reporting period, Amber Infrastructure and Infracapital managed respectively £50 million and £100 million of the Treasury's committed funds, together with matching private sector funds.

3.4 Infrastructure Finance Unit Limited (IFUL), the holding entity of the funds was previously managed by the IPA. In the period UKIB was constituted, and oversight of the funds was gradually transferred to UKIB's portfolio management team as part of a Transitional Services Agreement, running from June 2021 to March 2022.

3.5 The Treasury's share of investments made across the two funds by the respective fund managers during the period was £10.3 million.

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

3.6 In the reporting year to 31 March 2022, the Treasury funded £1.3 million of fund costs and general partner fees.

3.7 Audit fees for DIIF formed part of the UKIB audit fees for the year.

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

3.8 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

3.9 No sums were received by the Treasury during the period.

Chapter 4

Charging Infrastructure Investment Fund

4.1 The UKIB assumed management of the CIIF on 17th June 2021. The progress of the investments is reviewed on a regular basis.

The Arrangements entered into during the period

4.2 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.

4.3 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, which was achieved as at the end of the period.

4.4 IFUL, the holding entity of the funds was previously managed by the IPA. In the period UKIB was constituted, and oversight of the funds was gradually transferred to UKIB's portfolio management team as part of a Transitional Services Agreement, running from June 2021 to March 2022.

4.5 The Treasury's share of investments made by the fund manager during the period was £16.1 million.

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

4.6 In the reporting year to 31 March 2022, the Treasury injected £16.4 million of capital into the fund. Of this, £16.1 million was apportioned to investments. The remainder, alongside existing fund cash balances, was apportioned for general partner fees of £1.5 million, fund costs, and to maintain a sustainable cash balance.

4.7 Audit fees for CIIF formed part of the UKIB audit fees for the year.

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

4.8 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 the Secretary of State in connection with infrastructure assistance

4.9 £142.7 million was received by the Treasury during the period upon the successful realisation of an investment in the fund.

Chapter 5
Housing Guarantees

5.1 The Act provides the legislative base for three of the government's four 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.

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

Affordable Housing Guarantee Scheme 2013

5.3 The Department for Levelling Up, Housing and Communities (DLUHC) 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.

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

5.5 As of 31 March 2022, the total debt guaranteed and drawn down to date was £3.2 billion, supporting the delivery of over 34,000 homes.

5.6 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%.

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

5.8 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

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

5.10 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.

5.11 Between 1 April 2021 and 31 March 2022, £88.92 million of further applications were approved - bringing the total approved to £2.97 billion. After taking account of borrowers who have withdrawn from the scheme, the total amount of approvals outstanding as of 31 March 2022 was £1.887 billion in respect of 9,371 new rented homes.

5.12 As of 31 March 2022, over £88.798 million had been raised through bond issuance. The latest bond issued during the reporting year was for £12.311 million of retained bonds in February 2022 and achieved an all-in price of 1.997%.

5.13 Each borrower pays a guarantor fee to DLUHC, which is calculated as a percentage of the capital guaranteed. Between 1 April 2021 and 31 March 2022, guarantor fees received amounted to £4.75 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 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.

Affordable Housing Guarantee Scheme 2020

5.14 DLUHC appointed Saltaire Housing (a subsidiary of ARA Venn Partners LLP) to manage the Affordable Housing Guarantee Scheme on 16 October 2020. The scheme has a guarantee capacity of £3 billion and will remain open to new applications until 26 April 2024.

5.15 Between 1 April 2021 and 31 March 2022, £320 million of applications were approved supporting 2,211 new homes.

5.16 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 Subsidy Control Act 2022 exemption. This means that the government covers the administrative cost to DLUHC of granting these guarantees, thereby reducing costs for borrowers, and facilitating greater investment in new affordable housing.

Looking Forward

5.17 New guarantees delivered as part of the remaining £4 billion Budget 2017 package will be developed according to the Treasury Contingent Liability Framework, ensuring that they have the maximum possible impact on increasing supply while safeguarding the sustainability of the public finance.

Chapter 6
PF2 Equity Investments

6.1 A portfolio management team at the IPA manages the PF2 equity investments. The team reports to the Treasury and Cabinet Office and is separate from the procuring authority.

The Arrangements entered into during the period

6.2 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

6.3 The expenditure incurred by the Treasury during the reporting period was £55,000 of audit fees. The movement of expected credit losses results in expenditure of £10,800.

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

6.4 The expected credit loss liabilities at the end of the period were estimated to be £18,500 in relation to the gross loan finance and interest receivable of £4.8 million.

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

6.6 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

6.7 The sums received by the Treasury during the period were £401,900 by way of interest received on the shareholder loans and £469,000 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

6.8 The expenditure incurred by the Treasury in the reporting period was £55,000 of audit fee and expected credit loss expenditure of £10,800.

6.9 The expected credit loss liabilities at the end of the period were estimated to be £18,500 in relation to the gross loan finance and interest receivable of £5.1 million.

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

Chapter 7
OneWeb investment

Background

7.1 In July 2020, the government, together with private investors, secured the future of OneWeb, an innovative, low-earth orbit satellite communications company. Headquartered in London, OneWeb is enabling high speed, low latency connectivity for governments, businesses, and communities around the world. 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.

7.2 In July 2022, the Government supported OneWeb in signing a memorandum of understanding with Eutelsat Communications to merge the two companies. The proposed merger is positive news for UK taxpayers: the UK government will now have a significant stake in what will become a single, powerful, global space company with the sound financial footing needed to compete in the highly competitive global satellite industry. The transaction is expected to complete in the second half of 2023, subject to regulatory approvals and a Eutelsat shareholder vote.

Arrangements entered into during the period

7.3 The government has made no further commitments to invest in OneWeb during the period.

The expenditure incurred by the Treasury or the Secretary of State at the end of the period in the respect of infrastructure assistance

7.4 In the reporting year to 31 March 2022, $92.5 million (£66.9 million) of the investment was drawn down by OneWeb Holdings.

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

7.5 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 $78 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

7.6 The government has committed to invest $500 million, of which $422.0 million (£317.0 million) had been drawn down by 31 March 2022.

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

7.7 No income has been received during the period.

Looking Forward

7.8 The government remains committed to investing the full $500 million and supporting OneWeb in realising its ambitions to build on its existing commercial services, completing the rollout of global coverage in 2023. Government is working closely with the company and partners in supporting the proposed merger with Eutelsat.

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This document can be downloaded from www.gov.uk

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