HM Treasury

Infrastructure (Financial Assistance) Act 2012:

Annual Report for year ending 31 March 2023

March 2024

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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 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. 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 However, UKGS guidance was withdrawn on 17 June 2021.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.

1.5 In December 2021, the administration and responsibility for the UKGS moved to the UKIB. The arrangements made under the UKGS are set out in Chapter 2.

1.6 The CIIF and DIIF assets were also transferred to UKIB and these funds are now part of their portfolio and are reported on in UKIB's Annual Report and Accounts.

1.7 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.

1.8 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.

1.9 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.

1.10 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.

1.11 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. Expenditure incurred during the year in relation to PF2 investments are set out in Chapter 6 of this report.

1.12 At Budget 2018, the Chancellor announced that the government would no longer use PFI and PF2 models for new projects and this continues to remain government policy. Existing PFI and PF2 contracts were not affected.

1.13 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.

Chapter 2

Reporting Requirements

1.14 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

1.15 This report is for the period 1 April 2022 – 31 March 2023.

UK Guarantees Scheme

2.1 From 1 April 2022, UKIB has managed the UKGS on behalf of the Treasury, including managing the call of the guarantee on Countesswells and associated issues.

The Arrangements entered into, modified and released during the period

2.2 Several existing guarantees totalling £298m were released.

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

2.3 The expenditure incurred by Treasury in the reporting period was over £160,600 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 of infrastructure assistance

2.4 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 £1,327 million. The guarantee liabilities were £161.2 million and the net guarantee fee receivables were £49.7 million.

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

Contingent liabilities at 31 March 2022	£1,625.2m
Guarantees released	£(298.0)m
Guarantees called	£0.0m
Amortisation or prepayment of underlying debt	£(1.2)m
Indexation adjustment	£1.1m
Change in short term interest liability	£(0.5)m
Contingent liabilities at 31 March 2023	£1,326.6m

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 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 £6.16 million.

2.6 The total contingent liabilities at the end of the reporting period were £1,326.6 million. The guarantee liabilities were £153.0 million. The expected credit loss liabilities were estimated to be £8.1 million in relation to the gross guarantee fee receivable of £57.8 million, giving the net guarantee fee receivables of £49.7 million.

Looking Forward

2.7 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.

2.8 The Treasury reports on the assets and liabilities associated with the UK Guarantees Scheme portfolio, including the market, liquidity, and credit risk in its Annual Report and Accounts.

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 The UKIB assumed management of the DIIF on 17th June 2021.

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

3.4 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.

3.5 The Treasury's share of investments made across the two funds by the respective fund managers during the March 2022 to March 2023 period was £10.3 million.

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

3.6 In the reporting year to 31 March 2023, the Treasury funded £0.8 million of fund 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

3.7 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

3.8 £2.5 million was 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 The Treasury's share of investments made by the fund manager during the Mar 22 – Mar 23 period was £18.3 million.

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

4.5 In the reporting year to 31 March 2023, the Treasury injected £20 million of capital into the fund. Of this, £18.3 million was apportioned to investments. The remainder, alongside existing fund cash balances, was apportioned for general partner fees of £1.7 million, fund costs, and to maintain a sustainable cash balance.

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

4.6 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 the Secretary of State in connection with infrastructure assistance

4.7 No sums were received by the Treasury during the period in relation to the CIIF 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 The £1 billion ENABLE Build scheme operated through the British Business Bank launched in April 2019, is reported to Parliament under the Banking Act 2009 rather than the Infrastructure (Financial Assistance) Act 2012.

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

Affordable Housing Guarantee Scheme 2013 Private Rented Sector Housing Guarantee Scheme

5.4 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.

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

5.6 As at 31 March 2023, the total debt guaranteed and drawn down to date was £3.2 billion, supporting the delivery of over 34,000 homes.

5.7 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%.

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

5.9 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

5.10 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.

5.11 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.

5.12 Between 1 April 2022 and 31 March 2023, no further applications were approved – with the total approved remaining at £2.97 billion. After taking account of borrowers who have withdrawn from the scheme, the total amount of approvals outstanding as of 31 March 2023 was £1.88 billion in respect of 9,731 new rented homes.

5.13 Between 1 April 2022 and 31 March 2023, over £17.7 million had been raised through bond issuance through sales of retained bonds in June 2022 and achieved an all-in price of 3.554%.

5.14 Each borrower pays a guarantor fee to DLUHC, which is calculated as a percentage of the capital guaranteed. Between 1 April 2022 and 31 March 2023, guarantor fees received amounted to £5.24 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

5.15 DLUHC appointed Saltaire Housing (a subsidiary of ARA Venn Partners LLP) to manage the Affordable Housing Guarantee Scheme on 16 October 2020. The scheme was launched with a guarantee capacity of £3bn and will remain open to new applications until 30 April 2026 (recently extended from the original deadline of 26 April 2024).

5.16 Between 1 April 2022 and 31 March 2023, £402.5 million of applications were approved supporting 2,887 new homes.

5.17 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

5.18 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. Of the £8 billion, £3 billion was originally allocated to AHGS20 and £1 billion to the ENABLE Build scheme.

5.19 At Autumn Statement 2023 it was announced that the capacity of AHGS20 would be increased from £3bn to £6bn and that the scope of the guarantee would expand to cover quality and retrofit measures.

5.20 New guarantees delivered as part of the remaining £1 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 around £17,000 of audit fees and administrative costs excluding VAT. A small movement of expected credit losses of £1,400 occurred in year.

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 £17,100 in relation to the gross loan finance of £4.7m and interest receivable of £223,000.

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 £450,800 by way of interest received on the shareholder loans and £59,500 by way of principal repayments on the shareholder loans; and the sum of £51,600 by way of dividends received.

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 around £17,000 of audit fee and administrative costs excluding VAT and an expected credit loss movement of £1,400.

6.9 The expected credit loss liabilities at the end of the period were estimated to be £17,000 in relation to the gross loan finance of £4.7m and interest receivable of £223,000.

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, along with Bharti Global, led an equity fundraising round and invested $500 million to secure the future of OneWeb, an innovative, low Earth orbit satellite communications company. Headquartered in London, OneWeb enables highspeed, low latency connectivity for governments, businesses, and communities around the world.

7.2 In July 2022, the Government supported OneWeb in signing a memorandum of understanding with Eutelsat Communications, a geostationary satellite operator, to merge the two companies. On 28 September 2023, Eutelsat received approval from its shareholders and the transaction completed successfully. The combined company is now known as Eutelsat Group, with two distinct business units: Eutelsat Video, which leads geostationary operations, and Eutelsat OneWeb, which continue leading low Earth orbit operations from its London centre of operations. The merger is positive news for UK taxpayers. The UK Government now has a significant stake in a global space company with the influence and means to succeed in an increasingly competitive satellite industry.

7.3 Government has a 10.89% shareholding and can appoint a representative at the Eutelsat and OneWeb Boards of Directors. The UK retains its special share in OneWeb, which confers exclusive rights over the company on a range of commercial and national security matters.

7.4 OneWeb's first generation constellation was completed in March 2023. Full global service coverage is expected in Q2 2024.

The Arrangements entered into during the period

7.5 The Government has made no further commitments to invest in OneWeb Holdings during the period to 31 March 2023.

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

7.6 In the reporting year to 31 March 2023, no drawdowns were claimed 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 respect of infrastructure assistance

7.7 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. As of 31 March 2023, the Government had a remaining $78m to transfer 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

7.8 The Government had committed to invest $500m, of which $422m (£317m) had been drawn down by 31 March 2023.

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

7.9 No income has been received during the period.

Looking forward

7.10 The Government remains committed to ensuring the success of OneWeb and Eutelsat Group as OneWeb realises its ambitions to provide global coverage in financial year 2023/24. Government will continue working with Eutelsat Group to develop its commercial offering, identify commercial opportunities, and facilitate engagement with potential customers and partners where appropriate and beneficial.

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