Major balance sheet interventions

Introduction

1 For more than a decade, our *Economic and fiscal outlooks* (*EFO*s) have included our latest estimates of the direct costs associated with the major balance sheet interventions undertaken during and after the financial crisis. With the Government still owning a large proportion of NatWest shares, the process of exiting those interventions is still incomplete. This online annex provides our latest report on the amounts subsequently recovered and the debt interest costs associated with financing the original interventions.

2 The policy response to the pandemic also involved extensive use of the public sector balance sheet. In this instance, that was largely in the form of guarantees rather than loans and equity, which means initial cash outlays have been small but will rise over time (in contrast to the financial crisis, where the initial cash outlays were large but have been progressively recovered over time). The Government guaranteed many tens of billions of pounds worth of commercial loans to businesses through the Bounce Back Loan Scheme (BBLS); the Coronavirus Business Interruption Loan Scheme (CBILS); the Coronavirus Large Business Interruption Loan Scheme (CLBILS); and the Recovery Loan Scheme (RLS). Further contingent liabilities have been incurred via the Mortgage Guarantee Scheme (MGS), the Trade Credit Reinsurance (TCR) scheme and several other targeted schemes. The direct provision of convertible loans (i.e. loans that can be converted into equity shares at the borrower's request) to start-ups through the Future Fund (FF) involved upfront cash outlays.

3 The direct costs of these interventions will only be known after several years as some companies default on loans and some start-ups fail. Alongside our March 2023 *EFO* we continue the running commentary on these schemes' effects on the public finances. At this stage, these are still only a small proportion of the expected eventual costs, but the future cash flows out of the Exchequer as guarantees are called are expected to be significant.

4 Our estimates of the net direct effect on the public finances of the balance sheet interventions in both the financial crisis and the pandemic do not attempt to compare them against counterfactuals in which the Government did not intervene. The costs of both crises would almost certainly have been far greater without the direct interventions to mitigate and socialise their economic impact.[1]

[1] We discussed the fiscal implications of financial crises in Chapter 3 of our 2019 *Fiscal risks report* and the still-unfolding impact of the pandemic in Chapter 2 of our 2021 *Fiscal risks report*.

Financial crisis balance sheet interventions

5 Table 1 updates our estimate of the net direct effect on the public finances of the Government's interventions in the financial sector during the financial crisis and subsequent recession. In total, £136.7 billion was disbursed by the Treasury during and following the crisis. By end-January 2023, principal repayments and other fees received had amounted to £138.7 billion, up £1.2 billion from our November 2022 *EFO* update based on data at end-September 2022, reflecting further disposals of NatWest shares and dividends received from NatWest.[2] This leaves a small net cash surplus of £2.0 billion. A higher share price increased the value of its NatWest Group shares to £13.0 billion,[3] up from the £12.1 billion recorded in our November 2022 *EFO*.

6 If the Treasury were to sell its remaining shares at these values, it would realise an overall cash surplus on all the interventions undertaken during the financial crisis of £15.6 billion. This is a rise of £2.1 billion from our November 2022 estimate, mainly reflecting the higher NatWest share price and an improved net cash position. However, this cash surplus excludes the costs to the Treasury of financing these interventions. If all interventions are assumed to have been financed through gilts at prevailing market interest rates, the additional debt interest costs would have amounted to £48.8 billion by January, mainly due to the costs associated with NatWest and UK Asset Resolution.[4] This cost is £1.1 billion larger than estimated in November 2022, largely reflecting four more months servicing debt on interventions yet to be repaid or sold. Together this implies an overall net cost of £33.2 billion to the Government (2.1 per cent of 2008-09 GDP), £3.2 billion less than we estimated in November 2022.

[2] Our November 2022 *EFO* estimates can be found in Table 3.17 of our 'supplementary fiscal tables: receipts and other' release.
[3] Based on an average of NatWest Group's share price for the five working days to 8 February, consistent with the other market-derived assumptions in our forecast.
[4] The debt interest costs (or savings) associated with interventions that yield an overall deficit (or surplus) continue beyond the point the intervention itself has been wound up. This is the 'Exchequer financing' metric recorded in Table C.1.

Table 1: Gross and net cash flows of financial sector interventions

	£ billion								
	Lloyds	NWG[1]	UKAR[1]	FSCS[1]	CGS[1]	SLS[1]	Other	**Total**	Change since November 2022[2]
Cash outlays	-20.5	-45.9	-44.1	-20.9	0.0	0.0	-5.3	**-136.7**	0.0
Principal repayments	21.1	12.6	43.7	20.9	0.0	0.0	5.3	**103.6**	1.2
Other fees received[3]	3.2	8.0	13.6	3.5	4.3	2.3	0.2	**35.1**	0.0
Net cash position	3.8	-25.3	13.2	3.5	4.3	2.3	0.2	**2.0**	1.2
Outstanding payments	0.0	0.0	0.0	0.0	0.0	0.0	0.1	**0.1**	0.0
Market value[4]	0.0	13.0	0.5	0.0	0.0	0.0	0.0	**13.5**	0.9
Implied balance	3.8	-12.3	13.7	3.5	4.3	2.3	0.3	**15.6**	2.1
Exchequer financing[5]	-4.8	-19.9	-15.6	-10.1	1.7	0.5	-0.6	**-48.8**	1.1
Overall balance	**-1.0**	**-32.2**	**-1.9**	**-6.6**	**6.0**	**2.8**	**-0.3**	**-33.2**	**3.2**
Memo: changes in overall balance since November 2022[2]	*0.0*	*1.8*	*-0.2*	*-0.1*	*1.7*	*0.0*	*0.0*	*3.2*	

[1] These are the Government's ownership of NatWest Group shares (previously RBS Group), UK Asset Resolution (UKAR), which manages holdings in Bradford & Bingley and Northern Rock Asset Management plc., the Financial Services Compensation Scheme (FSCS), Credit Guarantee Scheme (CGS), and Special Liquidity Scheme (SLS).

[2] November 2022 *EFO* figures were consistent with end-September 2022 data.

[3] NWG figure contains asset protection scheme and contingent capital facility fees. UKAR has dividends paid to HM Treasury.

[4] UKAR is book value of equity, derived from its accounts as at 31 March 2022 published in July of that year.

[5] This can be split into financing while the intervention was open and after it closed (or after the final payment was received): Lloyds closed in May 2017, FSCS closed in October 2018, CGS closed in November 2012, SLS closed in April 2012 and UKAR closed in November 2021.

	Lloyds	NWG	UKAR	FSCS	CGS	SLS	Other	Total
While open	-3.7	-19.9	-14.6	-7.6	0.3	0.0	-0.6	-46.1
After close	-1.1		-1.1	-2.5	1.4	0.5		-2.8

Pandemic-related balance sheet interventions

7 Table 2 summarises the current financial position with respect to the Government's pandemic-related interventions as of end-September 2022 for loan guarantee schemes, and the most up-to-date data available in February 2023 for all other schemes. Taking each row in turn, it reports:

- The **maximum size** reached by each scheme, which stands at an estimated £143.2 billion in total. This includes the maximum size reached in outturn for those schemes that are now closed, and forecasts for those that remain open. This is £5.1 billion lower than in November.[5] The four loan guarantee schemes (CBILS, CLBILS, BBLS and RLS) account for £81.2 billion of the total. The next largest contingent liability was the indemnity provided to the Bank of England's Covid Corporate Financing Facility (CCFF), which had a maximum size of £38.0 billion. However, given this facility was only open to investment-grade firms, expected write-offs and cash flows relating to this lending have always been negligible. The Mortgage Guarantee Scheme (MGS), which was extended until the end of 2023 in the Spring Budget, has a maximum contingent liability of £3.2 billion, although the Treasury expects the total liability to be lower, with

[5] Our November 2022 *EFO* estimates can be found in Table 3.18 of our 'supplementary fiscal tables: receipts and other' release.

a current exposure of around £800 million. The scheme has supported over 30,000 mortgage completions with a value of £5.6 billion as of end-September 2022.[6]

- The **maximum gross contingent or actual liability** associated with each scheme. This takes into account the extent to which the Government will cover losses when guarantees are called. For example, for the BBLS this is 100 per cent of the maximum size, whereas for the CBILS and CLBILS it is 80 per cent. The gross liability for all schemes amounts to £137.3 billion, of which £136.2 billion is contingent liability and is again dominated by the BBLS and the CCFF. The remaining £1.1 billion relates to actual liabilities incurred to finance loans issued through the Future Fund. The £4.4 billion downward revision to this figure since November reflects lower estimates of the gross contingent liability associated with the RLS.

- The **latest gross contingent or actual liability** as of the most recent data available for each scheme. This reflects loan repayments and other movements since each scheme peaked in size. Repayments have reduced liabilities associated with the loan guarantee schemes by £24.1 billion. In addition, the latest liability relating to the CCFF has fallen to zero as all outstanding commercial paper purchased has been paid off.[7]

- **Expected write-offs** reflect our latest forecasts for write-offs over the lifetime of the schemes in cash terms or estimated losses on outstanding exposure. This amounts to £16.2 billion – with expected write-offs dominated by the BBLS at £13.8 billion, thanks to both the large size of the scheme and the relatively high expected loss rate. Across schemes, expected write-offs have been revised down by £0.6 billion compared to our November 2022 *EFO*. Other schemes are structured in a way that makes them far less likely to incur losses to the Treasury. For example, the MGS provides participating mortgage lenders with a 95 per cent guarantee for only a portion of high loan-to-value mortgages (the part between 80 and 95 per cent loan-to-value), with the Government also receiving a commercial fee for the guarantee. A previous iteration of this scheme ran from 2013 to 2016 and covered around 104,000 mortgages. It cost just £11.9 *million* (including both losses and its running costs), with that cost outweighed by the fees that were received from lenders.[8]

- **Cash outlays to date** reflect the sums paid out by the schemes so far. £6.5 billion in cash has been paid out to date, up £1.2 billion since our November 2022 *EFO* as payments under these schemes has picked up, but this is still a relatively small share of the total £16.2 billion expected across the lifetime of all schemes. Interest and other outlays relate to payments to lenders to compensate them for the 12-month interest holiday offered at the start of loans issued under the BBLS and CBILS schemes at a cost of £5.2 billion. A further £1.1 billion relates to the initial outlays of convertible loans issued through the Future Fund (as detailed below).

[6] HM Treasury, *2021 Mortgage Guarantee Scheme Quarterly Statistics*, 8 February 2023.
[7] See Bank of England, *Results and usage data*.
[8] See UK Parliament, *Question for HM Treasury on the Help to Buy Scheme*, tabled on 30 March 2017.

- **Cash received to date** sits at just £1.1 billion (up £0.2 billion since our November 2022 *EFO*). The bulk of this relates to an additional £0.1 billion from higher lender fees received in respect of CBILS loans (which now total £0.3 billion).

- **Net cash outlays** are therefore in deficit as of February 2023, at £5.5 billion (a £1.1 billion increase since our November 2022 *EFO*) primarily due to outlays in respect of the BBLS, a figure that remains small in comparison to the size of expected future costs over the lifetime of this scheme.

8 The only scheme where the Government's exposure takes the form of initial cash outlays that will be recovered (or not) over time is the Future Fund, in which it issued £1.1 billion of convertible loans to 'innovative' small and medium-sized start-up enterprises during the pandemic. As of end-September, 439 of the 1,191 loans had been converted to equity stakes, with the Government now part-owner of entities ranging from a manufacturer of low-calorie soft drinks to the consortium that owns Bolton Wanderers Football Club. The eventual direct cost or benefit of the scheme will depend on both the extent to which loans are repaid and the extent to which equity stakes can eventually be sold to the private sector. Given the high-risk nature of investment in start-up businesses, it is likely that some equity stakes will be lost, but it is also possible that some will prove considerably more valuable than the initial cash loan outlay.

Table 2: Gross and net cash flows of pandemic-related balance sheet interventions

	£ billion												
	Equity[1]	Guarantee schemes[1]						Indemnities and insurance[1]					Change since Nov 2022
	FF	CBILS	CLBILS	BBLS	RLS	MGS	UKEF	CCFF	TCR	ERS	FTPR	**Total**	
Scheme status[2]	C	C	C	C	O	O	O	C	C	C	C		
Max. scheme size	2.3	26.1	5.0	47.1	3.0	-	10.0	38.0	10.0	0.8	0.8	**143.2**	-5.1
Max. gross liability	1.1	20.9	4.0	47.1	2.4	3.2	10.0	38.0	9.0	0.8	0.8	**137.3**	-4.4
Latest gross liability[3]	1.1	12.0	1.9	34.0	3.2	0.8	8.6	0.0	9.0	0.0	0.1	**70.7**	-9.0
Expected write-offs[4]	0.2	1.6	0.1	13.8	0.5	0.0	0.0	0.0	0.0	0.0	0.0	**16.2**	-0.6
Net cash outlays	**1.0**	**1.4**	**0.0**	**3.5**	**0.0**	**0.0**	**-0.2**	**0.0**	**-0.2**	**0.0**	**0.0**	5.5	1.1
of which:													
Received to date	0.1	0.3	0.0	0.0	0.0	0.0	0.2	0.0	0.4	0.0	0.0	**1.1**	0.2
Outlays to date	1.1	1.7	0.0	3.5	0.0	0.0	0.0	0.0	0.2	0.0	0.0	**6.5**	1.2
of which:													
Write-offs	0.0	0.2	0.0	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**2.6**	-
Interest and other	1.1	1.5	0.0	1.1	0.0	0.0	0.0	0.0	0.2	0.0	0.0	**3.9**	-

[1] These are the Future Fund (FF), Coronavirus Business Interruption Loan Scheme (CBILS), Coronavirus Large Business Interruption Loan Scheme (CLBILS), Bounce Back Loan Scheme (BBLS), Recovery Loan Scheme (RLS), Mortgage Guarantee Scheme (MGS), UKEF Temporary Covid Risk Framework (UKEF), Covid Corporate Financing Facilty (CCFF), Trade Credit Reinsurance (TCR), Events Reinsurance Scheme (ERS) and the Film and TV Production Restart scheme (FTPR).
[2] 'C' refers to closed schemes, while 'O' signifies that the scheme remains open.
[3] Latest gross liability for CBILS, CLBILS and BBLS removes loans repaid in full, but does not reduce the total liability in line with monthly repayments made by borrowers.
[4] Expected write-offs for CBILS, CLBILS and BBLS are presented as an estimated cash figure, as opposed to the discounted figures presented elsewhere. Future Fund figures relate to fair value losses recorded in BEIS Annual Accounts 2020-21, rather than write-offs.