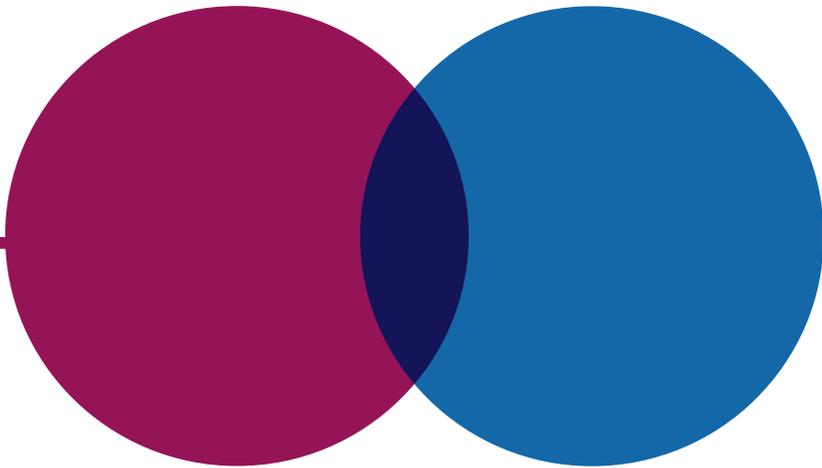




National Audit Office



REPORT

Managing the government's financial investments: the Financial Transaction Control Framework

HM Treasury

SESSION 2024–2026
24 MARCH 2026
HC 1738

Key facts

£203bn

value of the government's portfolio of financial transactions as at March 2024

£23.8bn

total budget allocated to departments for financial transactions from 2025-26 to 2029-30 at the June 2025 Spending Review

5.8%

by 2029-30, the percentage of departmental capital expenditure that HM Treasury (HMT) estimates will be spent on financial transactions, up from 1.6% in 2025-26

October 2024 HMT published the Financial Transaction Control Framework

Financial year 2027-28 HMT's target date for full implementation of the Financial Transaction Control Framework

Nine key controls within the Financial Transaction Control Framework that HMT identified to us

Five organisations HMT designated as public financial institutions in the Financial Transaction Control Framework

Two of the four public financial institutions we looked at have implemented all the applicable key controls in the Financial Transaction Control Framework

Summary

Introduction

1 In pursuit of its policy goals, the government makes loans to the private sector, or takes equity stakes in businesses. The government calls these financial transactions (FTs). In 2024, the FT portfolio was valued at £203 billion. The government usually finances these investments by borrowing. In the Autumn 2024 Budget, the government introduced a new “fiscal framework” and changed its preferred measure of national debt. This change means that any additional government borrowing made to fund an FT is offset by the value of the investment acquired, and debt does not immediately increase. The government has announced an increase in the use of FTs and it plans to spend £23.8 billion on them between financial years 2025-26 and 2029-30, with investment directed to areas such as offshore wind and housing.

2 As with any investment, these transactions carry a degree of risk – for example, the loan may not be repaid in full, or the business may fail. Even small losses in percentage point terms on these large numbers can have a significant impact on public finances. HM Treasury (HMT) recognised that this, combined with the increase in FTs, requires a robust approach to managing these investments effectively and sustainably. So, in 2024, alongside the Budget, HMT published the *Financial Transaction Control Framework* (“the Framework”). The Framework contains principles to “support the government to invest responsibly” and supplements the existing public spending framework, which includes Managing Public Money, and the Spending Review process.

3 The Framework sets out requirements for approving FTs, managing their risks, and reporting on them. It aims to ensure that the use of FTs supports sustainable public finances and does not lead to debt rising over time. The Framework introduced the concept of “public financial institutions” that will have the necessary expertise, institutional structures and risk management capabilities to set up and manage most FTs, often on behalf of government departments. To date, HMT has designated five such institutions, all of which existed before the Framework was introduced. To increase transparency around investments, the Framework requires UK Government Investments (UKGI) to publish a consolidated view of the government's FTs. In November 2025, UKGI released the first of these publications, the *Financial Investment Report 2025*.

Scope

4 HMT's intent in establishing the Framework is to support the government to invest responsibly. Investing responsibly means ensuring that the risks inherent in FTs are identified, managed and mitigated effectively, thereby protecting public funds and safeguarding value for the taxpayer. To assess how well the Framework fulfils this purpose, we have evaluated it against recognised principles of sound control system design and operation, drawing on authoritative standards and established good practice for risk and control frameworks, as well as HMT's own guidance, *The Orange Book*, which outlines the government's central principles for effective risk management.

5 A robust control framework must clearly articulate the risks it seeks to address and be designed in a way that proportionately and consistently targets those risks. It must also operate effectively in practice – supported by sound governance, reliable information, and continuous monitoring and evaluation – to provide confidence that controls are functioning as intended. Weakly targeted, unclear or insufficiently embedded controls can lead not only to poor investment decision-making but also inconsistent application of judgement, poor value for money, reduced accountability, and an inability to detect or respond to emerging risks.

6 Now is a useful point to examine the Framework, as it has been in place for over a year; the first Financial Investment Report has been published; and HMT has not yet designated any additional public financial institutions but is in the process of doing so.

7 This report considers the Framework's design, implementation and oversight compared with the good practice outlined in paragraph 5. It builds on our previous body of work where we have examined the overall public investment landscape and looked at how some public financial institutions were set up and run. In those previous reports, we have reviewed major transactions, such as asset sales and loan arrangements, to see how decisions affect long-term value, and shared practical guidance on financial and risk management, and corporate finance to help improve decision-making around the government's FTs.

Key findings

The Framework's design and development

8 The Framework is intended to supplement the existing public spending framework and seeks to provide additional assurance over the fiscal sustainability of FTs under the new debt measure. HMT recognised that the government's change to its preferred measure of national debt increases the incentive to use FTs. Under the government's previously targeted measure of Public Sector Net Debt (PSND), FTs financed by borrowing would increase national debt, therefore, use of FTs would, at times, mean the government had to cut spending elsewhere to finance FTs, acting as a disincentive. Under the new target measure of Public Sector Net Financial Liabilities (PSNFL), government borrowing to make FTs is offset by the value of the asset acquired, which means debt does not immediately increase. With the removal of the disincentive the former debt measure created, the Framework seeks to address the risk of an increase in lower-quality investments and to increase the understanding of financial risk by putting in place principles for the public sector to follow (paragraphs 1.13 to 1.18, 2.2, 2.32 and 2.33 and Figure 4).

9 The Framework also has the potential to help better manage risks inherent in FTs, and improve value for money. FTs can be complex and will put public money at risk if the government does not manage them well. Their effective management requires specialist expertise, clear oversight and strong systems. The Framework aims to address this by setting out "guardrails" for how FTs should be managed. It requires expert delivery of large-scale FTs – typically by public financial institutions – together with defined risk management approaches, expectations on rates of return, and greater transparency – all of which will support better financial management of FTs (paragraphs 1.4, 1.17, 2.2 to 2.3 and 2.32 to 2.33).

10 The Framework is principles-based, and there is scope to improve aspects around risk and controls. Stakeholders welcomed a principles-based approach, which allows institutions with differing mandates flexibility to act proportionately in implementing the Framework. The Framework does not contain a list of specific controls, which we would expect to see in a typical control framework. HMT told us that it did not set out to design a formal risk management control framework, but intended to support HMT spending teams and departments to manage their FTs effectively. This means that HMT did not carry out or document a formal risk assessment to identify the main risks FTs create, or map these to the controls to manage those risks. HMT acknowledges that doing so would help to ensure the Framework follows recognised good practice, with clearer links between the risks, the actions (or controls) needed to manage them, and who is responsible for carrying them out. Following standard practice for control frameworks would also allow HMT to check the controls are working as intended (paragraphs 2.13 to 2.21 and Figure 9).

The Framework's implementation

11 A range of organisations are implementing the Framework, and it is a work in progress. To enable us to test the implementation of the Framework's principles, we asked HMT to identify what it thought were the key controls, or actions, underpinning the Framework. It identified nine, with HMT, UKGI, public financial institutions, and departments responsible for their implementation. Of these nine controls, we were able to assess six. Five of these controls are implemented, with two of these needing some improvement. One is still being implemented. HMT will realise more of the Framework's benefits if all controls are fully operating before the planned expansion in FTs (paragraphs 2.5 to 2.6 and 3.4 to 3.8 and Figures 6, 11 and 12).

12 HMT, UKGI and public financial institutions continue to work together to develop their approach to managing the financial risks of FTs. HMT has created the Public Investment Roundtable (PIR). Its membership includes public financial institutions and departments. One of its aims is to enhance collaboration to work through challenges on specific aspects of Framework implementation and develop a common approach. For example, the PIR has an Economic Capital Working Group: economic capital modelling is a method widely used by professional investors and regulators to assess the risk exposure of investments. A good understanding of these risks allows the government to adjust its portfolio to maintain a desired level of risk. Two of the four public financial institutions we looked at had economic capital models (paragraphs 2.32 and 3.13 and Figure 12).

13 Stakeholders find HMT responsive to their queries on the Framework but would benefit from clearer, more practical guidance, especially on rates of return targets. HMT provides helpful responses, on a case-by-case basis, when stakeholders have asked for clarification. While this is a good start, stakeholders told us they need clear, practical guidance on how departments and public financial institutions should work together, and on technical issues like calculating rates of return. For example, some FTs may deliberately be loss-making, requiring the sponsoring department to subsidise them from their existing budget. Accounting for this subsidy is helpful in distinguishing between the financial and policy objectives of transactions, but it is not yet clear how departments and public financial institutions should consider the trade-offs between rate of return and policy objectives. This complicates the decision-making about, and assessment of, FT performance (paragraphs 3.14 to 3.15).

14 HMT's approach for designating public financial institutions is developing, but there is not yet a formalised and transparent process. When HMT published the Framework, it designated five existing organisations, with varying mandates and objectives, because these were the government's main organisations already responsible for delivering FTs. Of the four public financial institutions in the scope of this report, HMT assessed that two did not fully meet the Framework's criteria. The analysis underpinning each designation should have been more comprehensive. The Chief Secretary to the Treasury makes the final designation decision, but there is no formal process such as minimum criteria or transparent assessment of any gaps between an organisation's current position and the Framework's requirements. The more recent approach taken for the National Housing Bank (which is seeking designation) is more detailed and includes a target operating model and an implementation plan, showing progress in HMT's approach. Strengthening the process further would make it easier to apply the Framework's principles consistently (paragraphs 3.16 to 3.22 and Figure 13).

Oversight and transparency

15 HMT is not managing the Framework's implementation as a formal change programme. HMT published the Framework in 2024 and expects full implementation to take time, but it has not set out a delivery plan or objectives to measure progress. HMT told us it cannot set a complete timetable owing to uncertainty over the policy approach to developing economic capital models, but it intends to agree an implementation timeline with relevant public financial institutions once that policy approach is agreed. Doing so would make progress easier to track and give stakeholders more certainty about what is expected of them, and by when. With an increase in FTs planned in the coming years, it is important that the Framework is implemented before the expansion in FT use. HMT told us it intends to complete implementation before the expected increase in FT spending in 2027-28. Without clear timelines, measurable objectives and proper oversight, it is harder for HMT to show whether the Framework is delivering the intended benefits (paragraphs 2.22, 2.27 and 3.9 to 3.11).

16 HMT is playing a limited role in overseeing compliance with the Framework's principles. When developing the Framework, HMT chose not to design a central process for monitoring compliance or gathering assurance. It relies on existing arrangements, such as accounting officers' responsibility to Parliament, annual reports and accounts, and spending controls. This approach is consistent with the approach HMT takes with wider government spending. The Framework also lacks a requirement for organisations to state how they have complied with it. As a result, responsibility for checking compliance is unclear. Unlike more traditional control frameworks there is no clear approach to evaluating and refining controls in light of their performance in addressing identified risks, and HMT has no consistent way to know if the Framework is working (paragraphs 1.8 and 2.21 to 2.24).

17 The first Financial Investment Report has improved transparency over the government's FT portfolio and its associated risks, and UKGI has plans to address data limitations. Before the Framework was introduced, the government did not have a full view of its financial investments, which limited its oversight of financial risks and ability to make informed decisions. UKGI published the first Financial Investment Report in November 2025, which set out the value of the portfolio as well as its risks and returns. It worked with HMT and public financial institutions to gather and improve data available across government, and to classify the government's FT portfolio for the first time. UKGI identified data limitations, including a reliance on historic data. HMT and UKGI plan to expand and standardise data in future reports, strengthening transparency over time. The Financial Investment Report relies on retrospective data, limiting both real-time portfolio management and central governance over portfolio-level decision-making (paragraphs 3.23 to 3.30).

Conclusion

18 The Framework is an important step in strengthening the government's management of FTs and emphasising that investments should be good value for money. HMT has recognised that the government changing its preferred measure of national debt, and the planned increase in FTs of £23.8 billion over the next five years, require a robust approach to managing these investments effectively and sustainably.

19 However, key elements of the Framework are not yet in place. Implementing the Framework in full will allow HMT to maximise its benefits so that the Framework acts to strengthen financial management, supports effective use of FTs to achieve policy objectives, and protects the value for money of taxpayer-funded investment.

Recommendations

- 20** To help maximise the benefits of the Framework, by Autumn Budget 2026, HMT should:
- a** Set out a delivery plan for full Framework implementation, showing short-, medium- and long-term milestones and reporting progress against them. This should include clear milestones indicating when each public financial institution and department is expected to be fully compliant with the Framework.
 - b** Work with relevant risk-control experts and strengthen the Framework in line with good practice for control frameworks by:
 - assessing systematically the risks the Framework is designed to address;
 - producing a complete list of controls mapped to those risks, with clear ownership for each control, and sharing this with public financial institutions, departments and auditors; and
 - reviewing the Framework regularly to assess whether residual risks remain within the government's risk appetite, and updating controls where needed.
 - c** Establish a clear and proportionate system for monitoring compliance with the Framework, including for bodies outside of the government's accounting boundary, such as British International Investment. This system should set out who is responsible for checking compliance, assurance mechanisms, and what information organisations must report. The system must provide HMT with a reliable, consistent way of understanding whether the Framework is being followed, and whether it is operating as intended over time.
 - d** Agree with public financial institutions and departments on how best to provide more consistent, centrally coordinated guidance to support effective implementation of the Framework. This should include sharing good practice, lessons learned and practical examples, particularly on areas of uncertainty, such as how departments and public financial institutions should work together.

- e** Ensure that UKGI delivers the improvements planned for the Financial Investment Report, including collecting proportionate and accurate data to ensure ministers receive well-informed advice on the government's investment portfolio, both annually and when major strategic decisions on FTs arise.
- f** Apply what HMT has learned from the process of assessing the National Housing Bank to formalise its process for designating public financial institutions. This should include consistent use of minimum standards, clear documentation of key judgements and decisions, and clear expectations for when any outstanding requirements will be met.