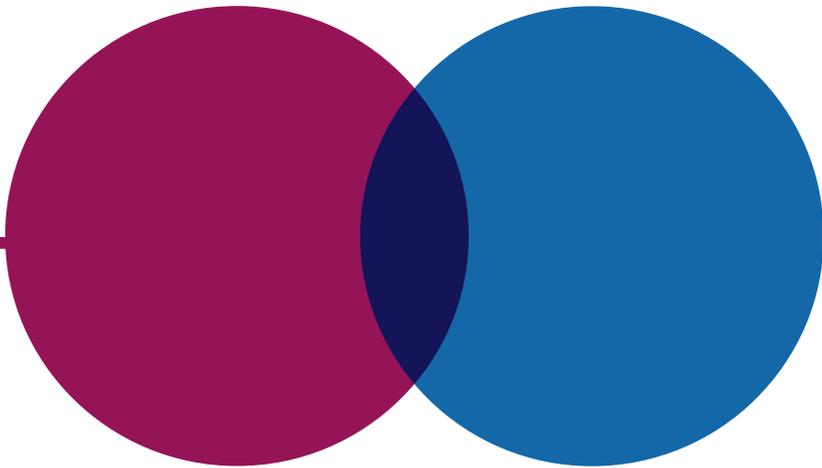




National Audit Office



REPORT

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

HM Treasury

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SESSION 2024–2026  
24 MARCH 2026  
HC 1738



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

**HM Treasury**

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**Report by the Comptroller and Auditor General**

Ordered by the House of Commons  
to be printed on 23 March 2026

This report has been prepared under Section 6 of the  
National Audit Act 1983 for presentation to the House of  
Commons in accordance with Section 9 of the Act

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**Gareth Davies**  
**Comptroller and Auditor General**  
**National Audit Office**

**17 March 2026**

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## Key facts

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**£203bn**

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

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**£23.8bn**

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

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**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

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**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.

# Part One

## Background on financial transactions

**1.1** This part of the report sets out:

- what financial transactions are;
- how financial transactions are governed and who is involved;
- financial transactions in the existing public spending framework;
- the government's current financial transaction portfolio; and
- why the Financial Transaction Control Framework (the Framework) was introduced.

### **What financial transactions are**

**1.2** The government uses a definition of financial transactions (FTs) based on international statistical guidance, focusing on investments where the government buys or sells financial assets to organisations outside the government.<sup>1</sup> We use the terms 'financial transactions' and 'investments' interchangeably throughout this report.

**1.3** As with other investments, the government usually finances FTs by borrowing. FTs can include making a loan or buying shares in a business. Examples include the government's past ownership of NatWest shares, student loans, Help to Buy equity loans, and COVID-19 business support schemes, such as the Future Fund. **Figure 1** overleaf shows some of the different types of FTs that the government uses.

**1.4** FTs can be complex to originate and administer. Risks include the borrower not repaying the loan, or the company in which the government has bought shares not performing as expected and the value of the shareholding reducing. The government introduced the Framework to strengthen its management, and value-for-money focus, of FTs.

<sup>1</sup> Eurostat, *European system of accounts ESA 2010*, 2013.

## Figure 1

### Overview of financial transactions (FTs) and guarantees

The government uses different types of FTs, as well as guarantees, to meet its policy objectives

Category	Definition	Returns and risks	Example
Loans	A financial agreement where the lender(s), provide(s) a sum to the borrower with the expectation that the loan amount and interest will be repaid over a specific period arranged in the loan agreement.	<p>Returns:</p> <ul style="list-style-type: none"> <li>If the borrower can meet their payments, income is earned through the interest charged on the loan.</li> </ul> <p>Risks:</p> <ul style="list-style-type: none"> <li>If the borrower cannot meet their payments, interest may not be paid by the borrower and the loaned amount might not be recovered.</li> </ul>	<p><b>Department for Culture, Media &amp; Sport (DCMS) COVID-19 loans</b></p> <p>DCMS provided loans as part of the government's emergency response to help culture and sporting organisations survive the financial impact of COVID-19 restrictions. In total, it provided £474 million in loans to 120 culture and sport bodies, with loan amounts ranging from £20,000 to £40 million. By October 2024, £41 million had been repaid, representing 97% of what was due by that date. However, by October 2024, nine borrowers, with loans totalling £46.1 million, had become insolvent, with DCMS expecting to recover 38% to 46% of the value of these loans.</p>
Equity	An arrangement in which an investor buys or sells ownership in a company, typically through shares. The investor becomes a part-owner of the company and may receive returns through dividends and/or increased share value.	<p>Returns:</p> <ul style="list-style-type: none"> <li>If the company performs well, income could be earned through dividends received from the company invested in, and the value of the shares could increase.</li> </ul> <p>Risks:</p> <ul style="list-style-type: none"> <li>If the company performs poorly, dividends may not be paid and the value of the shares could fall.</li> </ul>	<p><b>British Business Bank (BBB) – Future Fund: Breakthrough (FFB)</b></p> <p>BBB delivers the FFB scheme that encourages private investors to co-invest in high-growth, research and development (R&amp;D) intensive UK companies alongside the government. As of June 2025, the fund has invested £178 million in 24 companies and has generated £1.2 billion worth of private sector co-investment. An early assessment in March 2024 stated that the FFB scheme is viewed as a high-quality investor and is addressing funding gaps faced by R&amp;D intensive companies at later stages in their projects.</p>
Guarantees	An agreement that guarantees a debt will be repaid to a lender by a guarantor if the borrower fails to pay.	<p>Returns:</p> <ul style="list-style-type: none"> <li>Income from a fee, typically charged to the borrower.</li> </ul> <p>Risk:</p> <ul style="list-style-type: none"> <li>If the borrower is unable to repay their debt, the guarantor then has to pay all or part of the balance.</li> </ul>	<p><b>National Wealth Fund (NWF) social housing retrofit</b></p> <p>In the 2024-25 financial year, NWF launched guarantees against loans to help social housing companies carry out energy-efficient improvements to social housing at competitive rates of interest. NWF has pledged £1.3 billion in guarantees to support £1.65 billion in loans. NWF states that the intervention has enabled banks to tailor their loans for these improvement projects. NWF estimates that the improvements could create up to 13,000 jobs and save 14 metric tonnes of CO<sub>2</sub> equivalent.</p>

#### Note

- 1 Some types of guarantees are classified as FTs, for example standardised guarantees where a large volume of guarantees are issued on identical terms and conditions. Other guarantees are only in the scope of the *Financial Transaction Control Framework* in so far as large financial instruments (including guarantees) are required to be delivered by, and included in the economic capital limits of, public financial institutions. Wider policy on guarantees is covered by the *Contingent Liability Approval Framework*. Guarantees are not included in UK Government Investments' *Financial Investment Report* and are instead reported in its annual report on the government's contingent liabilities, the most recent edition being *Annual Report on the UK Government's Contingent Liabilities 2025*.

Source: Comptroller and Auditor General, *DCMS's management of its COVID-19 loan book*, Session 2024-25, HC 472, National Audit Office, December 2024; National Audit Office analysis of HM Treasury, UK Government Investments and National Wealth Fund documents

## Why and how the government uses FTs and guarantees

**1.5** The government intends FTs and guarantees to achieve policy outcomes. For example, during COVID-19, the government wanted to support culture and sports bodies to survive the pandemic and minimise any long-term damage to these sectors. These bodies faced reduced audience, visitor and spectator numbers, severely reducing their income, yet they also faced ongoing costs. As part of its support, the government provided loans on favourable terms to culture and sports bodies.<sup>2</sup>

## How FTs are governed and who is involved

**1.6** HM Treasury (HMT) sets the policy on FT and guarantee use, allocates FT budget to departments and public financial institutions to deliver them, and operates the existing public spending framework that applies to FTs. Departments and public financial institutions then make FTs and guarantees to support their policy objectives. The accounting officer (AO) of each department is accountable for ensuring that the funds allocated are spent in line with the principles set out in *Managing Public Money*.<sup>3</sup>

**1.7** UK Government Investments (UKGI) is the government's corporate finance centre of expertise and can support departments and public bodies in making FTs and guarantees. **Figure 2** overleaf outlines the roles and responsibilities involved in FTs and guarantees in more detail.

## FTs in the existing public spending framework

**1.8** All government spending takes place within a public spending framework.<sup>4</sup> Spending Reviews and the Autumn Budget set departmental spending budgets, and departmental expenditure should follow guidance set out in documents such as *Managing Public Money* and *Consolidated Budgeting Guidance*.<sup>5</sup>

**1.9** Before departments can commit to capital spending, they must have HMT's approval and enough budget set aside. HMT approval is either given automatically for smaller transactions within agreed limits, or directly by HMT when the spending is large, unusual or potentially sensitive. To obtain approval, departments must provide a business case explaining what is needed, what it will cost, and what benefits it should deliver.

2 Comptroller and Auditor General, *DCMS's management of its COVID-19 loan book*, Session 2024-25, HC 472, National Audit Office, December 2024.

3 HM Treasury, *Managing Public Money*, June 2025.

4 Comptroller and Auditor General, *Improving government's planning and spending framework*, Session 2017-2019, HC 1679, National Audit Office, November 2018.

5 HM Treasury, *Consolidated Budgeting Guidance: 2025-26*, February 2025.

**Figure 2**

## Roles and responsibilities in managing the government's financial transactions (FTs) and guarantees

**HM Treasury (HMT) supports the development of FT and guarantee proposals, which departments, arm's-length bodies (ALBs) and other organisations then deliver with input from UK Government Investments (UKGI) where necessary**

**Roles and responsibilities****Central management****HMT****Balance Sheet team**

Supports departments in developing FT proposals that align to HMT FT policies. Advises ministers on the overall size and risk of the government's FT portfolio.

**General Expenditure Policy team**

Advises ministers on overall public spending strategy and allocations including FTs.

**Spending teams**

Lead the relationships with departments, shaping FT proposals to ensure they deliver on the government's objectives (including value for money and affordability). Advise ministers on approvals for FT allocations and proposals within that allocation.

**Financial transaction issuers****Spending departments**

Develop FTs that align with the government's objectives in their policy areas. Work with their spending team and wider HMT teams to secure funding for their FTs.

Once funding has been received, responsible for delivering FTs. Accounting officers (AOs) have responsibility over the value for money of these FTs.

Departments can issue FTs themselves, or work with ALBs to deliver FTs on their behalf.

When using an ALB to deliver FTs on their behalf, the AO accountability for the FT depends on the operations agreed between the department and the ALB.

**Advisory****UKGI****Financial Instruments and Transaction Advisory Group (FlnTAG)**

FlnTAG reports and advises on the portfolio of government investments.

**UKGI Corporate Finance**

UKGI provides advice to departments on designing FTs and selecting the most appropriate organisation to deliver their FT programmes.

**Non-Executive Directors (NEDs)**

HMT or the parent department, appoints UKGI, who nominate a NED to be on the board of certain government organisations. The NED aims to ensure good corporate governance.

**Note**

1 This is a high-level view of how the government manages the majority of its FTs. It does not cover all organisations.

Source: National Audit Office analysis of HM Treasury and UK Government Investments' documents

**1.10** FTs are a form of capital spending and operate within this framework. For transparency, management, and reporting purposes FT budgets are identified separately within departments' capital budgets, and departments cannot move money out of this protected area without HMT's permission. In August 2024, HMT recognised that the public spending framework at the time was insufficient for the effective management of FTs and introduced the Framework to supplement the existing guidance.

### **The government's current FT portfolio**

**1.11** As at 31 March 2024, the government's FT portfolio was valued at £203 billion. Although many departments, arm's-length bodies (ALBs) and other organisations have invested in FTs, most of the total value sits in one area: student loans. As of 31 March 2024, these were valued at £151 billion (74% of the portfolio).

**Figure 3** overleaf shows that, by value, the remaining FTs are concentrated in five departments or their ALBs.

**1.12** Even small losses in percentage point terms on these large numbers can have a significant impact on public finances, and there are risks to value for money if those managing FTs do not have the necessary skills and experience. Public bodies vary widely in their investment experience, from ALBs with a single loan programme to larger institutions such as British Business Bank that manage multiple programmes. Those bodies with fewer programmes are less likely to have the specific skills and expertise required to deliver complex FTs.

### **Why the Framework was introduced**

The change to the government's preferred measure of national debt

**1.13** In Autumn Budget 2024, the government announced a new fiscal framework and applied the Public Sector Net Financial Liabilities (PSNFL) definition to measuring national debt, whereas the previous government used Public Sector Net Debt (PSND).<sup>6</sup> This change means that if the government borrows to invest in FTs, it does not increase debt levels. This increases the extent to which FTs are considered a viable option for the government and government is intending to increase FT use. Alongside the Budget, HMT published the Framework which intends to help manage the risks and opportunities arising from the debt rule change; it aims to ensure that FTs support sustainable public finances and do not lead to debt rising over time.

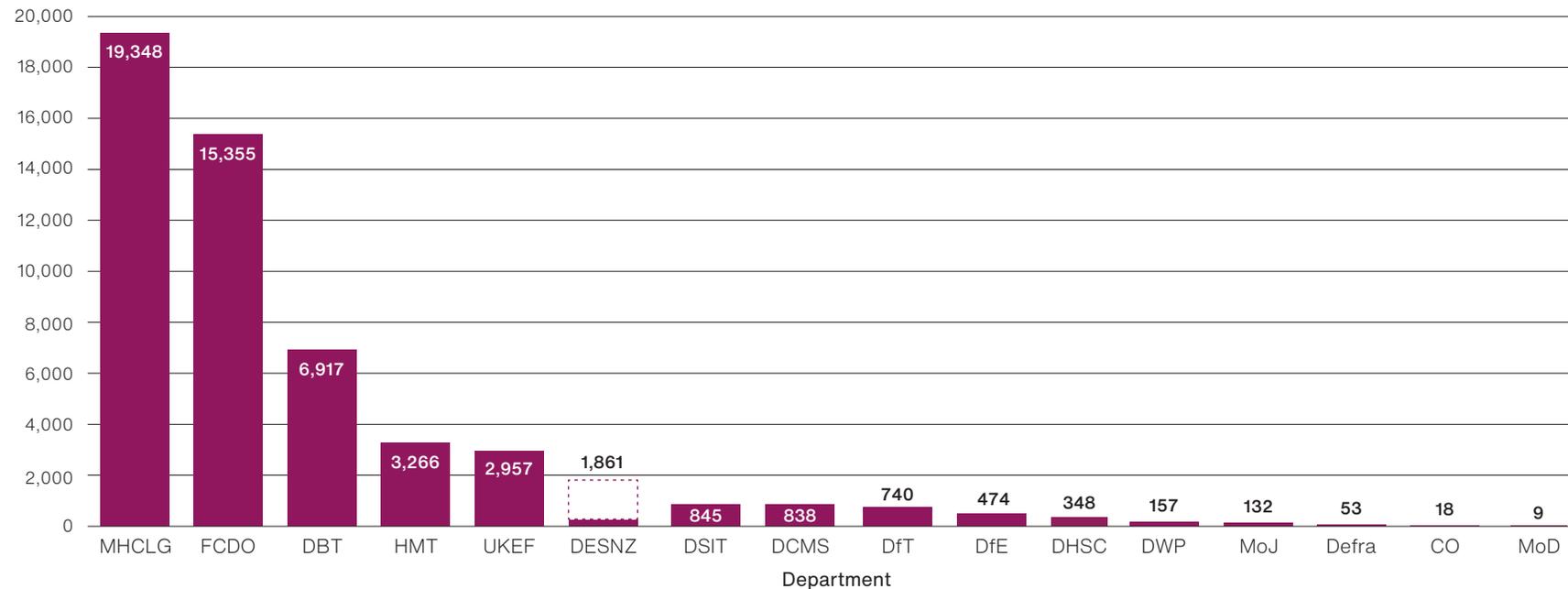
<sup>6</sup> Specifically, the government used a variant of PSND which excluded the impact of the Bank of England.

### Figure 3

The government's financial transaction (FT) holdings split by department, as of 31 March 2024

Around 90% of FTs are concentrated in just five departments; most departments have at least some FTs

Value of FT holdings (£mn)



#### Notes

- The following acronyms have been used: MHCLG: Ministry of Housing, Communities & Local Government; FCDO: Foreign, Commonwealth & Development Office; DBT: Department for Business & Trade; HMT: HM Treasury; UKEF: UK Export Finance; DESNZ: Department for Energy Security & Net Zero; DSIT: Department for Science, Innovation & Technology; DCMS: Department for Culture, Media & Sport; DfT: Department for Transport; DfE: Department for Education; DHSC: Department of Health & Social Care; DWP: Department for Work & Pensions; MoJ: Ministry of Justice; Defra: Department for Environment, Food & Rural Affairs; CO: Cabinet Office; MoD: Ministry of Defence.
- Student loans are excluded from this figure.
- Figures have been rounded to the nearest million.
- FTs managed by arm's-length bodies and other organisations have been included within the total of the sponsor departments. For example, Homes England's FTs are included within the total for MHCLG.
- These data reflect Public Sector Net Financial Liabilities neutral investments. As such, any investments into another public sector entity (such as a local authority) have been removed. This means that we would not expect the total sums in this figure to reflect the total sum of the financial assets held in individual entities annual reports and accounts.
- This figure includes only loan and equity FTs. Other types of FTs (eg guarantees) are excluded.
- This figure is based on data UK Government Investments (UKGI) collected for its *Financial Investment Report*. Based on this data, DESNZ's FTs were valued at £258 million as at 31 March 2024. Following the Financial Investment Report's publication, DESNZ informed us that its original data return to UKGI did not include FTs from the wider departmental group. DESNZ has confirmed that transactions from the wider group were valued at £1,604 million as at 31 March 2024. For transparency, we have included these additional FTs as a separate category within DESNZ's total. The total of the values in this note and the total shown in the figure do not match due to rounding.

Source: National Audit Office analysis of UK Government Investments' Financial Investment Report and the Department for Energy Security & Net Zero data

**1.14** Under PSND, national debt is measured by looking at government debt levels minus any cash or currency reserves. This means that the value of the government's investments does not reduce debt as they are not included in PSND. Our previous work, including on student loans, found that this created an incentive to sell investments for cash, which would reduce PSND, even where this would not improve the government's overall financial position.<sup>7</sup>

**1.15** PSNFL is a broader measure of national debt. It includes all aspects of PSND, but it also adds in the value of investments. As a result, when an FT is made, the value of the new investment offsets the associated borrowing, meaning debt does not increase. FTs, therefore, have no immediate impact on debt as measured by PSNFL. Because PSNFL includes financial assets and liabilities, it provides a more comprehensive picture of how creating or selling these assets affects the government's financial position. **Figure 4** overleaf sets out the change in the debt measure and its implications.

<sup>7</sup> Comptroller and Auditor General, *The sale of student loans*, Session 2017–2019, HC 1385, National Audit Office, July 2018.

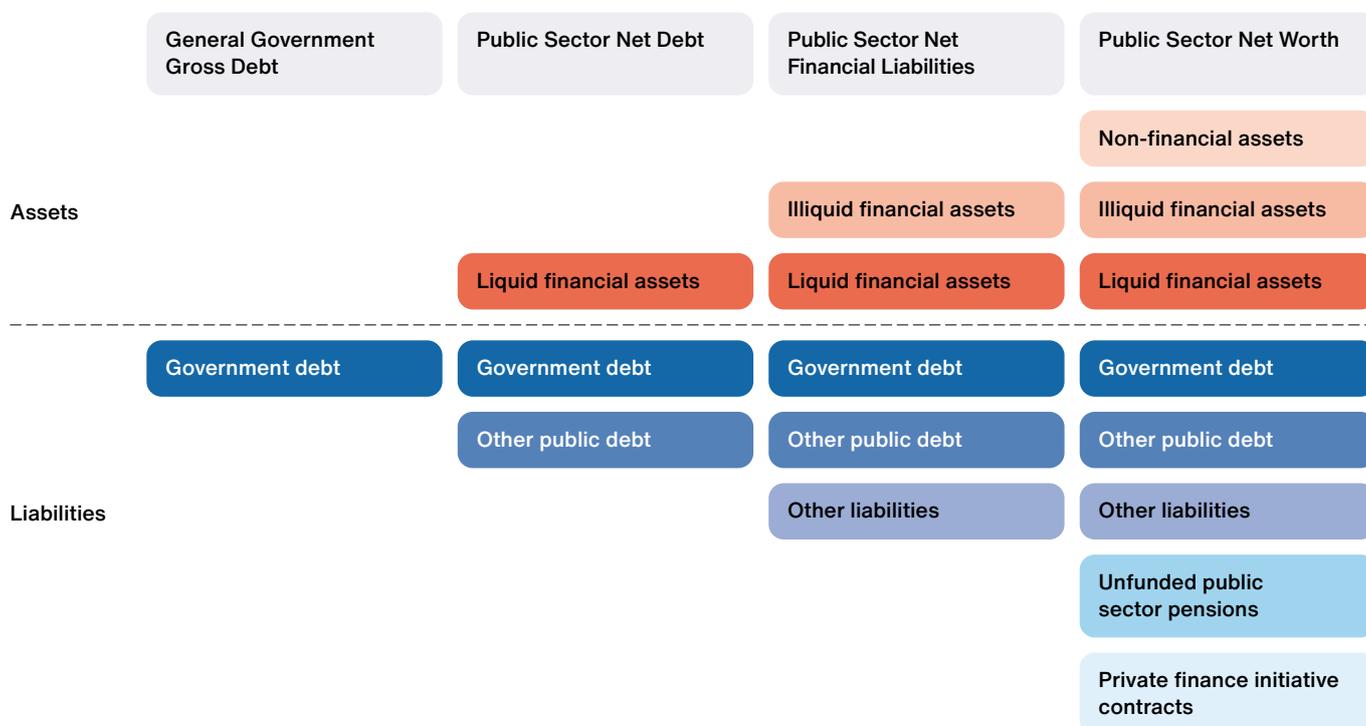
**Figure 4**

The government's change to its preferred measure of national debt has changed the treatment of financial transactions (FTs)

**The change in the government's preferred measure of national debt has altered the budget impact of FTs and increased the incentives to use them**

Until Autumn 2024, the government mainly used Public Sector Net Debt (PSND) to measure its debt. This measure only included the government's most liquid assets (like cash) and excluded assets like loans or shares.

In Autumn 2024, the government switched to a broader debt measure called Public Sector Net Financial Liabilities (PSNFL). This includes illiquid financial assets such as student loans, equity investments and loans into private sector companies. The chart below summarises the differences between various government debt measures, including PSNFL and PSND.



Under PSNFL, investments typically offset the debt incurred to fund them, making them fiscally neutral on issuance. By targeting PSNFL as its primary debt measure, the government has introduced a stronger incentive for the public sector to make investments – an incentive that was less pronounced under the previous debt rule, which did not recognise these assets. The table below shows the fiscal impact of a hypothetical new £100 million loan programme for net zero-focused small and medium-sized enterprises (SMEs), under PSND and PSNFL.

	Loan programme: under PSND	Loan programme: under PSNFL
<b>Bonds issued</b>	Government issues £100 million of bonds to fund the loan programme	Government issues £100 million of bonds to fund the loan programme
<b>Impact of bonds on government's liabilities</b>	+£100 million in government liabilities (counted in PSND)	+£100 million in government liabilities (counted in PSNFL)
<b>Loan programme</b>	Government issues £100 million of loans to SMEs	Government issues £100 million of loans to SMEs
<b>Impact of loan programme on government's assets</b>	+£0 in government assets (NOT counted in PSND)	+£100 million in government assets (IS counted in PSNFL)
<b>Net impact</b>	Debt position worsens by £100 million	No impact on debt position

Source: National Audit Office analysis of Office for Budget Responsibility and HM Treasury documentation

## Risks and opportunities arising from the government's change in its preferred measure of debt

**1.16** The government's change to its preferred measure of debt has led to new risks and opportunities for the use of FTs. FTs have moved from being treated like any other capital spending to being treated as an asset. Because, under the new measure, FTs no longer increase the government's debt when they are made, the government plans to use them more. The government states that this provides additional opportunities to make financial investments in support of growth and generate a return for the government.

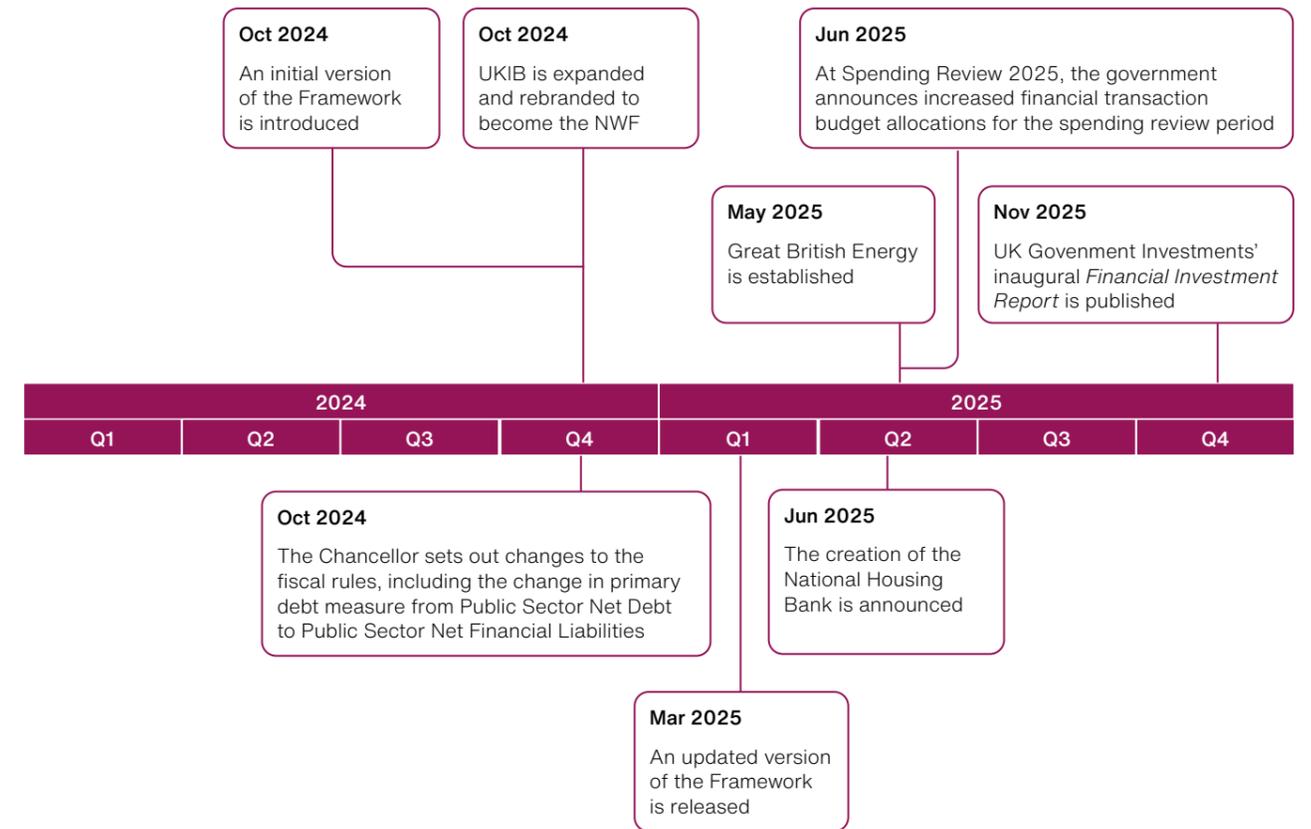
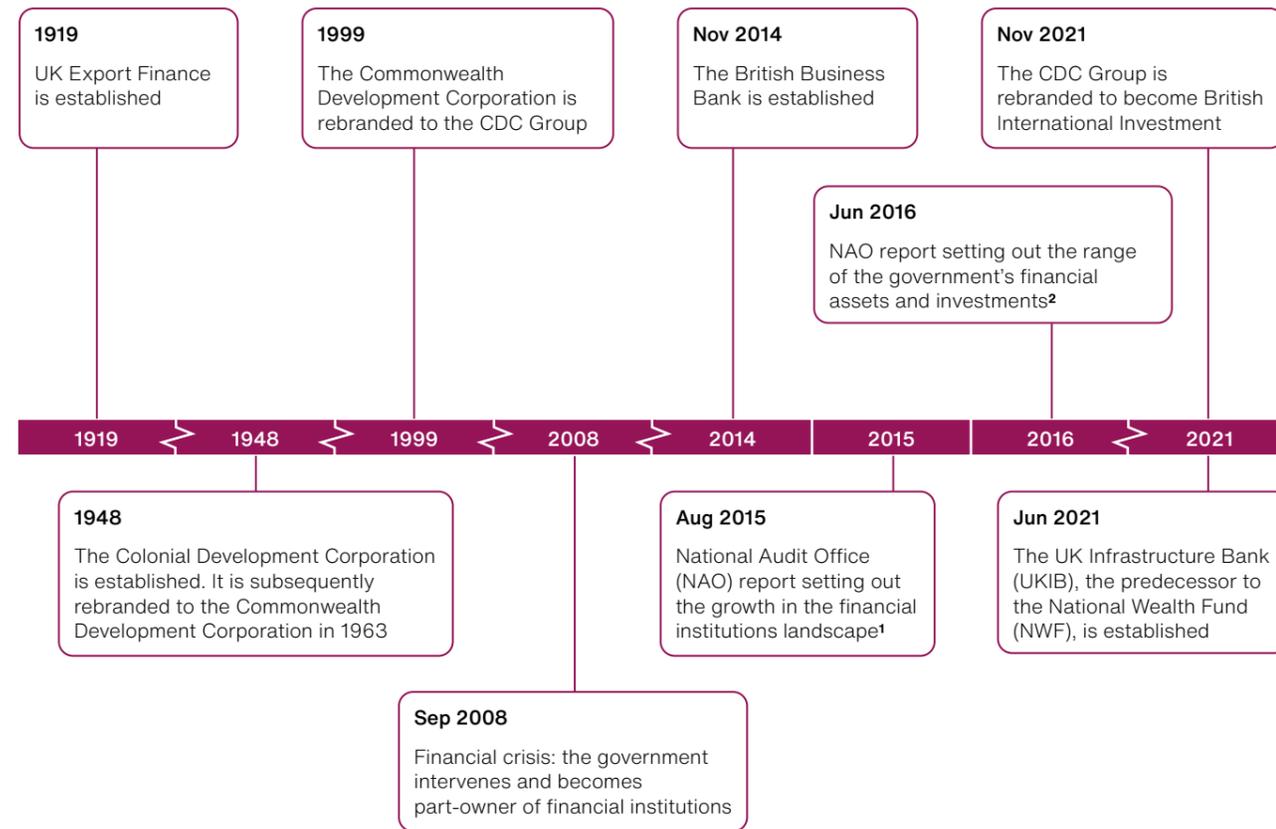
**1.17** However, the government's change in its preferred measure of national debt could also lead to an increased exposure to risk:

- **Increased amount of lower quality investments:** Managing FTs is complex and requires specialist skills, strong oversight and robust systems and processes. The government must manage FTs well if they are to provide good value for money, and FTs are only 'fiscally neutral' (which means they do not increase debt levels) if they generate a return that is equal to the cost of borrowing (a higher return would be fiscally beneficial). If the returns are lower than the cost of government borrowing, the government's debt will still increase, despite the change to how debt is measured.
- **Increased need for transparency on financial risks and returns:** Under PSND, departments' use of FTs would, at times, mean they had to cut spending elsewhere to finance them, acting as a disincentive. Under PSNFL, FTs do not worsen government debt overall as long as they make a return that is greater than or equal to the cost of borrowing used to finance them; this removes the disincentive. Therefore, transparency of FTs is important, for example being clear which FTs are made, the policy objectives of the investment, the risks they expose the government to, the returns they deliver, and how this compares with the government's cost of borrowing.

**1.18** When the government introduced the Framework alongside Autumn Budget 2024 its stated intention for the Framework was "introducing robust guardrails to ensure investments are consistent with fiscal sustainability and decisions represent good value for money". The Framework supplements the existing public spending framework, which includes Managing Public Money, Consolidated Budgeting Guidance and the Spending Review process, while "it also introduces new controls". **Figure 5** on pages 22 and 23 sets out the timeline of the Framework and sets it in context.

**Figure 5**  
Timeline of the Financial Transaction Control Framework (the Framework) and contextual events

The Framework was first released in October 2024; the current public financial institutions have existed for varying lengths of time



**Notes**

- 1 Comptroller and Auditor General, National Audit Office, *Financial institutions landscape*, Session 2015-16, HC 418, National Audit Office, September 2015.
- 2 Comptroller and Auditor General, *Evaluating the government balance sheet: financial assets and investments*, Session 2016-17, HC 463, National Audit Office, June 2016.
- 3 Not all key milestones and events are shown.

Source: National Audit Office analysis of HM Treasury and publicly available documentation

## Part Two

### Purpose, scope and content of the Framework

2.1 This part of the report sets out:

- what the *Financial Transaction Control Framework* (the Framework) includes;<sup>8</sup>
- HM Treasury's (HMT) decision to make the Framework principles-based;
- how the Framework compares with good practice; and
- the risks and opportunities HMT considered when designing the Framework.

#### What the Framework includes

##### Framework overview

2.2 The Framework sets out enhanced requirements for financial transaction (FT) approval, risk management and reporting. It includes principles to "support the government to invest responsibly" and aims to ensure that the government's use of FTs supports sustainable public finances and does not cause debt to increase over time.

2.3 Key principles outlined in the Framework include the following.

- **Delivery by expert institutions:** All new, large-scale FTs and guarantees must be delivered by a select group of organisations called public financial institutions, unless HMT has approved delivery of an FT programme by another body.<sup>9</sup> These public financial institutions can deliver FT and guarantee programmes on behalf of departments.
- **Targeted returns:** All new FTs should target a risk-adjusted return that is above the government's cost of borrowing. Where an intervention is designed to deliver a lower return, departments should set out the costs.

8 HM Treasury, *Financial Transaction Control Framework*, PU 3502, October 2024 (updated March 2025).

9 Some types of guarantees are classified as FTs, for example, standardised guarantees where a large number of guarantees are issued on identical terms and conditions. Other guarantees are only in the scope of the Framework in so far as large financial instruments (including guarantees) are required to be delivered by, and included in the economic capital limits of, public financial institutions. The wider policy on guarantees, including their design and approval, is covered by a separate framework: *The Contingent Liability Approval Framework*. Guarantees are not included in the FT portfolio analysed by the *Financial Investment Report*.

- **Standardised risk controls:** Standardised risk controls will be put in place for all FT and guarantee programmes.
- **Financial Investment Report:** UK Government Investments (UKGI) will publish an annual report on the government's FT portfolio. The *Financial Investment Report* will set out what investments the government owns, who holds them, how they are performing, and the portfolio risks.
- **Value for money:** All approved FTs must meet stringent value for money criteria, including addressing a clear market failure and not crowding-out private sector investment.

**2.4** HMT applies the Framework to FTs issued after its publication. The Framework covers all FTs made by bodies that the Office for National Statistics classifies as central government, including departments and their arm's-length bodies (ALBs). It also covers FTs made by any entity that HMT designates as a public financial institution.

**2.5** Given the Financial Transaction Control Framework's name and its intent to manage risks to the government investing responsibly, it is a reasonable assumption that it is a control framework, and so we assessed it as such. The Framework does not contain an explicit list of controls. However, for the purpose of this audit, HMT developed and provided us with a list of the Framework's key controls, to help support our assessment of the Framework. This list can be seen in **Figure 6** overleaf. Our assessment of the extent to which these controls have been implemented is included in Part Three of this report.

**2.6** The existing responsibilities for FTs remain the same as shown in Figure 2. However, the Framework introduces additional responsibilities.

- **HMT** designed and maintains the Framework, and works with public financial institutions and departments to help them implement the Framework's principles.
- **UKGI** produces the Financial Investment Report, which aims to give transparency on the value, performance and risks of government's FT portfolio. UKGI also provides advice to departments on designing FTs and selecting the most appropriate organisation to deliver their FT programmes.
- **Departments and public financial institutions** collaborate with HMT and UKGI to deliver FTs that follow the Framework's requirements.

**Figure 6**

## The key controls in the Financial Transaction Control Framework (the Framework)

HM Treasury (HMT) consider there to be nine key controls included in the Framework

Control number	Control description
Control 1	<b>HMT</b> will designate entities as 'public financial institutions' based on the criteria it has set out in the Framework
Control 2	<b>UK Government Investments</b> will publish an investment report setting out the value, performance and risk of the assets owned by the government
Control 3	<b>Public financial institutions</b> should have a total capacity provided by the government agreed with HMT and their sponsoring department
Control 4	<b>Public financial institutions</b> should have a risk limit based on an economic capital approach and wider risk management agreed with HMT and their sponsoring department
Control 5	<b>Public financial institutions</b> should have a returns target and wider financial and non-financial objectives
Control 6	<b>Public financial institutions</b> should have an annual financial transaction (FT) limit
Control 7	<b>Departments</b> should use designated public financial institutions to deliver large-scale, complex FTs unless agreed otherwise by HMT
Control 8	<b>Departments</b> needing HMT consent for FT spending or budget allocations must provide a business case including the FT checklist which sets out specific FT considerations
Control 9	<b>Departments and public financial institutions</b> can enter into investments that they expect from the outset to be loss-making – that is, to generate a return below the government's cost of capital – to achieve policy goals, but any 'subsidy' for loss-making should be clearly accounted for and disclosed

**Notes**

- 1 The Framework does not include an explicit list of controls. However, for the purpose of this audit, HMT developed and provided us with this list of the Framework's key controls, to help support our assessment of the Framework.
- 2 An organisation's total capacity refers to the total amount a public financial institution holds to invest in FTs and guarantees.

Source: National Audit Office summary of HM Treasury's key controls

## Public financial institutions

**2.7** In the Framework, HMT introduces the concept of 'public financial institutions' and gives certain bodies this designation. HMT expects these organisations to set up and manage most FTs because HMT has determined they have the necessary expertise, institutional structures and risk management capabilities. The Chief Secretary to the Treasury designates organisations as public financial institutions based on the criteria included in the Framework.

**2.8** There are currently five designated public financial institutions:

- British Business Bank;
- The National Wealth Fund (NWF);
- UK Export Finance (UKEF);
- British International Investment; and
- The Student Loans Company (SLC).

**2.9** SLC is distinct from the other public financial institutions in that it does not function like a typical banking institution. SLC is set up to fulfil a specific policy objective: the provision of student finance. Though the Framework technically applies to SLC, it is not subject to the financial controls included in the Framework that are in scope for other public financial institutions. For these reasons, we have excluded SLC from this report's analysis. **Figure 7** on pages 28 and 29 provides an overview of the current public financial institutions.

**2.10** HMT is considering designating the following organisations as public financial institutions.

- **The National Housing Bank:** HMT is working with the Ministry of Housing, Communities & Local Government (MHCLG) to create a subsidiary of Homes England called the National Housing Bank (NHB) to deliver housing-related FTs and guarantees.
- **Great British Energy:** Great British Energy (GBE) is an ALB of the Department for Energy Security & Net Zero, incorporated in October 2024 to deliver clean energy FTs. GBE began operating this financial year, receiving Royal Assent in May 2025. It made its first FT in November 2025.

**Figure 7**

An overview of the current public financial institutions

The current public financial institutions range in size and investment mandates

Public financial institution	Purpose	Type of organisation	Size of financial transaction (FT) portfolio as at March 2024 (£bn)	Example FT programme
<b>British International Investment (BII)</b>	<p>BII functions as the government's development finance institution and impact investor, providing overseas development finance.</p> <p>BII states that it invests to create more productive, sustainable and inclusive economies in Africa, Asia and the Caribbean. Its aim is to enable people in those countries to build better lives for themselves and their communities.</p>	BII is a public financial corporation and its sponsor department is the Foreign Commonwealth & Development Office. BII sits outside of the government's accounting boundary, so the accounting for BII's FTs will differ from other government bodies	8.8	BII committed \$19.3 million to a hydroelectric energy company in the Democratic Republic of the Congo to support the development of the electricity grid and the construction of two new plants. BII stated that this investment created reliable and clean energy-generating capacity and enabled over 10,000 new customers to connect to the grid. These developments also created local employment opportunities and supported sustainable management for the longer term.
<b>British Business Bank (BBB)</b>	<p>BBB provides finance for small and medium-sized enterprises across sectors for their start-up and scale-up.</p> <p>BBB provide services across multiple business areas by:</p> <ul style="list-style-type: none"> <li>Investing in funds and directly into companies.</li> <li>Providing businesses start-up loans and government-backed guarantees to reduce risks for finance providers.</li> <li>Providing impartial information to help small businesses understand their finance options.</li> </ul>	BBB is an arm's-length body of the Department for Business & Trade	5.6	BBB invested £2 million to provide an aerospace manufacturing company with the additional funding to support growth. BBB stated that this will create powerful and resilient capabilities across telecommunications, aerospace and quantum.

**Figure 7 continued**

An overview of the current public financial institutions

Public financial institution	Purpose	Type of organisation	Size of financial transaction (FT) portfolio as at March 2024 (£bn)	Example FT programme
<b>UK Export Finance (UKEF)</b>	<p>UKEF helps exporters across sectors to offer finance to overseas buyers, access working capital and manage the risk of not getting paid.</p> <p>UKEF helps UK companies to:</p> <ul style="list-style-type: none"> <li>Secure export contracts by guaranteeing finance to buyers so they can source from the UK.</li> <li>Take on business by using working capital to invest and grow.</li> <li>Get paid for products and services with insurance against buyer default.</li> </ul> <p>UKEF supports UK exporters of different sizes across many sectors.</p>	UKEF is a ministerial department	3.0	UKEF provided a €22 million direct loan to support the construction of a rural water project in Angola that will be delivered by British firms. UKEF stated that the project: will provide access to clean water for around 100,000 people; is expected to support economic development; and will provide opportunities for UK exporters, which are expected to deliver around €8 million in UK subcontracts.
<b>National Wealth Fund (NWF)</b>	<p>NWF invests in capital-intensive projects and assets across the UK to support the government's economic growth and clean energy missions, crowd in private capital over time and generate a return for the taxpayer. Projects must meet NWF's investment principles, be based in the UK, and for private sector deals NWF has an indicative minimum investment size of £25 million.</p> <p>NWF has four priority sectors: clean energy; transport; digital and technologies; and advanced manufacturing. However, NWF has flexibility to invest beyond these, including dual-use technologies to support the UK's defence and security.</p>	NWF is an arm's-length body of HM Treasury (HMT)	1.0	<p>NWF supported the deployment of £1.65 billion in loans through £1.3 billion in financial guarantees, enabling social housing providers to retrofit properties at competitive rates.</p> <p>NWF stated that this could enable up to 280,000 social homes to be retrofitted and help banks to create financing solutions specifically designed for retrofit programmes.</p>

**Notes**

- Figures have been rounded to the nearest £100 million.
- These data reflect Public Sector Net Financial Liabilities neutral investments. As such, any investments into another public sector entity (such as a local authority) has been removed. This means that we would not expect the total sums in this figure to reflect the total sum of the financial assets held in individual entities' annual reports and accounts.
- This figure includes only loan and equity FTs. Other types of FTs (eg guarantees) are excluded.

Source: National Audit Office analysis of UK Government Investments and HM Treasury documents

**2.11** Public financial institutions manage about one-third of the government's non-student loan FT portfolio by value, with departments managing the largest share, see **Figure 8**. As the Framework requires all new, large-scale FTs to be delivered through public financial institutions (unless HMT agrees otherwise), their share of the portfolio will likely grow. MHCLG currently holds £19.3 billion in FTs. MHCLG told us that the designation of NHB as a public financial institution would move up to £2 billion of FTs into NHB and so into the public financial institution category.

### **HMT's decision to make the Framework principles-based**

**2.12** Governance systems, such as regulation and control frameworks, range from being rules-based to being principles-based. These approaches have advantages and disadvantages.

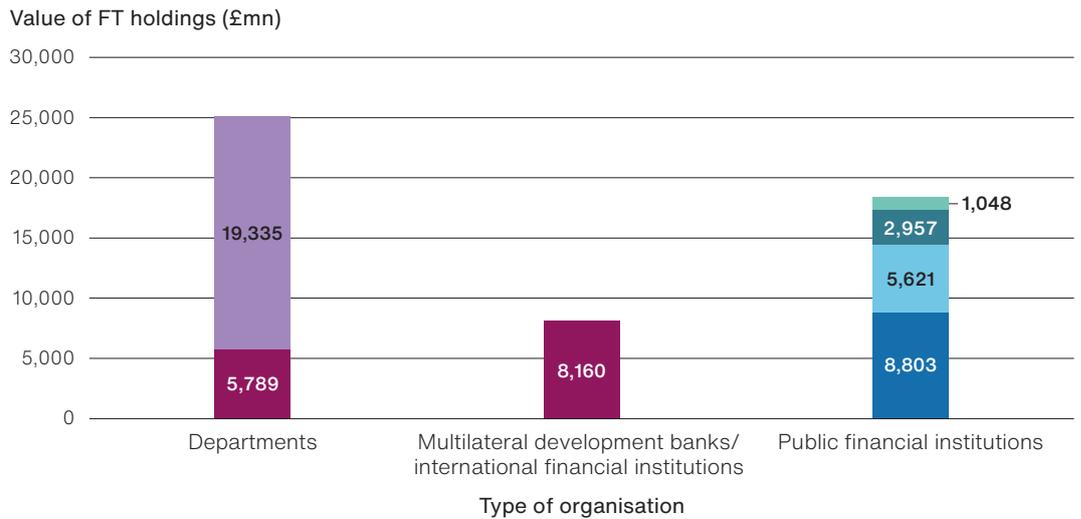
- **A principles-based approach** promotes flexibility, helping organisations tailor their compliance strategy to their operations. However, this flexibility may result in inconsistent interpretation and application and can make enforcement more challenging.
- **A rules-based approach** promotes clarity and uniformity, reducing ambiguity and promoting consistency. By setting explicit requirements, it can make compliance easier to enforce. However, this approach can encourage organisations to focus solely on meeting the prescribed steps, instead of engaging more actively and considering the best way of implementing the regulation for their organisation.

**2.13** HMT designed the Framework as a principles-based control framework. This helped HMT to accommodate the diverse range of existing organisations that it wanted to designate as public financial institutions. Stakeholders have welcomed the Framework's principles-based approach, appreciating the flexibility it provides them in acting proportionally in implementing the Framework.

**Figure 8**

The government’s financial transaction (FT) holdings as at March 2024, split by type of managing organisation

**Although public financial institutions account for a significant amount of the portfolio, departments manage the largest share**



- Non-public financial institution
- Homes England
- British International Investment
- British Business Bank
- UK Export Finance
- National Wealth Fund

**Notes**

- 1 'Public financial institutions' refers explicitly to the category that HMT introduced in the Financial Transaction Control Framework. This designation applies to the National Wealth Fund, UK Export Finance (UKEF), British Business Bank, British International Investment, and the Student Loans Company.
- 2 Student loans are excluded from this figure.
- 3 The 'Departments' bar excludes UKEF. UKEF is included under the 'Public financial institutions' bar instead for the purpose of this chart.
- 4 Total financial assets held by departments are £25,124 million. Of this, £19,335 million is owned by Homes England, which is not a public financial institution and is mostly made up of activity relating to the Help to Buy scheme.
- 5 These data reflect Public Sector Net Financial Liabilities neutral investments. As such, any investments into another public sector entity (such as a local authority) have been removed. This means that we would not expect the total sums in this figure to reflect the total sum of the financial assets held in individual entities' annual reports and accounts.
- 6 Figures have been rounded to the nearest million.
- 7 This figure includes only loan and equity FTs. Other types of FTs (eg guarantees) are excluded.

Source: National Audit Office analysis of UK Government Investments' Financial Investment Report data

## How the Framework compares with good practice

### Developing a control framework

**2.14** A control framework is an organised collection of policies, procedures and practices that an organisation relies on to support effective management, ensure compliance and reduce risks. New controls create work for the team that owns the framework and the organisations operating the controls. So, to be good value for money, controls need to be proportionate to the level of risk.

**2.15** There is a range of guidance available on how to develop a control framework. For example, in HMT's good practice guide for risk management, *The Orange Book*.<sup>10</sup> **Figure 9** illustrates good practice when developing a control framework.

**2.16** HMT could have been more effective by following these steps when setting up the Framework:

- **Risk assessment:** Identify and list all the risks the framework is meant to address.
- **Control design:** Develop a set of controls that directly map to each identified risk.
- **Governance and accountability:** Clarify roles and responsibilities for the framework, and how assurance mechanisms will work.
- **Monitoring and evaluation:** Monitor both risks and controls to ensure compliance and maintain a feedback loop for continual improvement.

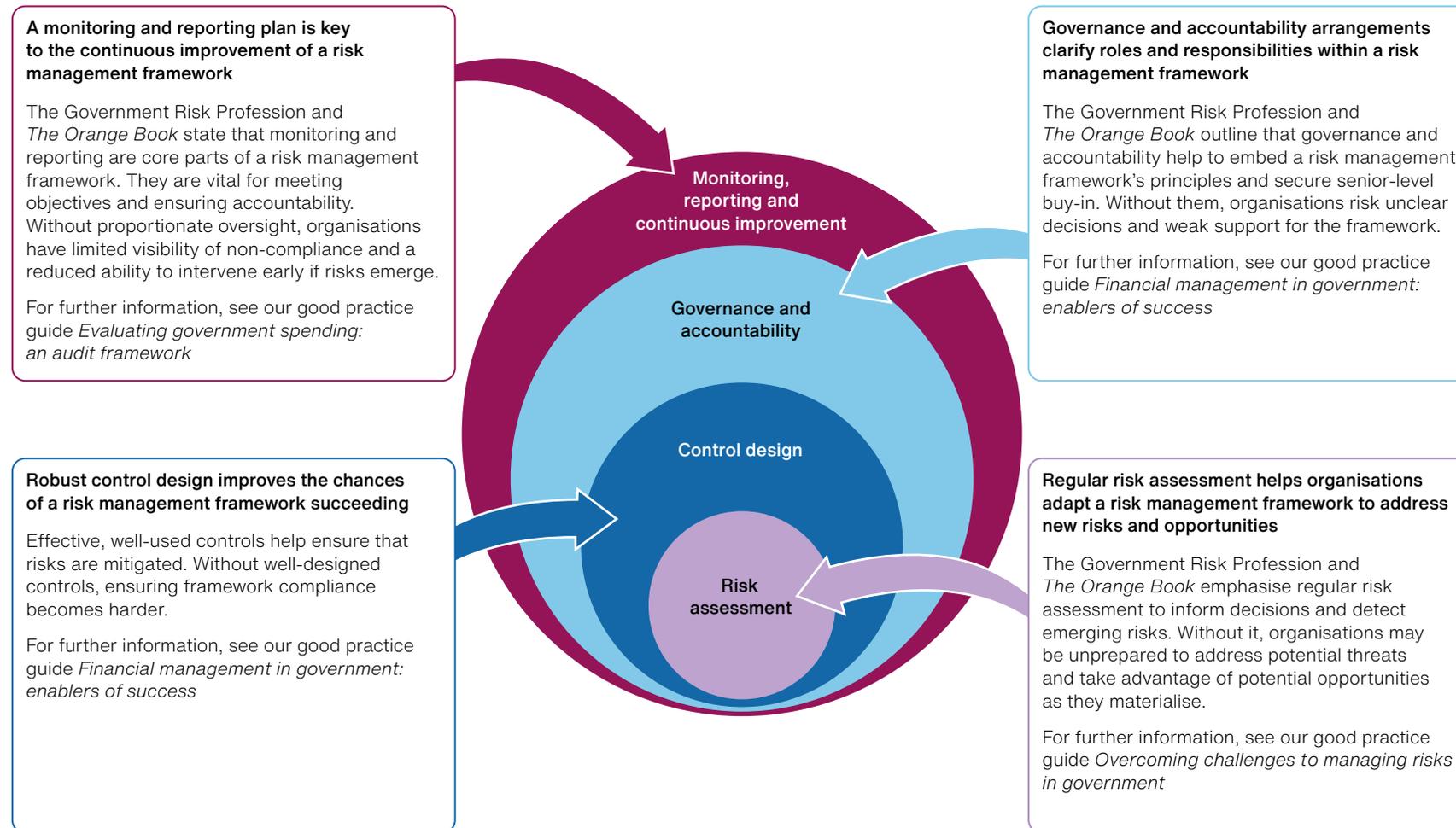
**2.17** HMT told us that it did not set out to design a formal risk management control framework, but instead set "guardrails" to support HMT spending teams and departments to manage their FTs effectively. HMT did not fully follow any of these stages when it developed the Framework, and it has since acknowledged that following them would make the Framework more effective. HMT told us that it had limited opportunity because of the sensitivity of the fiscal rule change and that it intends to apply these steps retrospectively to the Framework.

<sup>10</sup> HM Treasury, *The Orange Book – Management of Risk – Principles and Concepts*, 2023.

**Figure 9**

Developing a control framework

Good practice when developing a control framework



**Note**

1 The same concepts that apply to risk management frameworks also apply to control frameworks.

Source: National Audit Office, *Evaluating government spending: an audit framework*, April 2022; National Audit Office, *Financial management in government: enablers of success*, July 2023; National Audit Office, *Overcoming challenges to managing risks in government*, December 2023; and HM Treasury, *The Orange Book: Management of Risk – Principles and Concepts*, 2023

## How HMT developed the Framework

### Risk assessment

**2.18** Although HMT explained to us what risks the Framework aims to address, it did not carry out nor document a formal risk assessment when developing it. Completing and recording a risk assessment at the outset helps ensure that all risks are identified and that controls are designed to address them. A structured, documented risk assessment could help HMT to reduce risks, including the following.

- **Misaligned controls:** Without a clear list of risks, controls may not target the main risks the Framework is meant to manage. This can also lead to inefficient work and unnecessary controls.
- **Reduced transparency:** Stakeholders may not understand which risks are being managed, making it harder for HMT to communicate the Framework's purpose and scope.
- **Limited ability to update or improve controls:** Without a baseline risk assessment it is harder for HMT to review and refine the Framework as new risks emerge or existing risks evolve.
- **False assurance and weak governance:** Without a clear set of risks, HMT cannot judge whether controls address them effectively, which may give a false sense that risks are being managed.

### Control design

**2.19** After identifying risks, good practice is to create a list of controls that directly address them and shows how each control links to each risk. This helps ensure the controls are targeted and support the aims of the control framework. HMT describes controls in the Framework document, but it has not set out an explicit list of controls with named owners. Although HMT refers to the Framework's requirements as 'controls', some of these are expressed as high-level principles or expectations rather than specific, testable control activities. This exposes HMT to several risks, including the following.

- **Unclear accountability:** Without a defined list of controls and named owners, responsibility for implementing and monitoring controls is unclear, and it becomes harder for HMT to hold control owners to account. Some stakeholders told us they do not know which controls in the Framework they are responsible for.
- **Limited basis for assurance:** Without a defined list of controls, it is hard for HMT to gain assurance as to whether the controls are operating as intended. Framework owners and auditors lack clear criteria to test against, making compliance checks subjective and inconsistent.

**2.20** An assessment of the residual risk – the level of risk that remains after controls are applied – is needed to judge whether current controls are sufficient or whether further measures are needed. Because HMT did not complete a structured assessment of the risks the Framework is meant to address, it has been unable to assess the residual risk. As a result, HMT cannot tell whether the remaining risk is acceptable and within its risk appetite, or whether it needs further action. The Framework may therefore provide false assurance because controls may exist, but they might not reduce risk to a tolerable level.

### **Governance and accountability**

**2.21** Assurance mechanisms for a control framework should provide a feedback loop that enables organisations to assess compliance, ensure controls are functioning as intended and make improvements. Frameworks commonly require organisations to declare how they have complied, providing additional assurance that requirements are being met.

**2.22** When developing the Framework, HMT chose not to design a central process for monitoring compliance or gathering assurance. In addition, the Framework does not require organisations to declare how they have complied. Instead, HMT relies on existing arrangements. HMT told us that HMT spending teams are responsible for ensuring their departments implement the Framework. In turn, spending teams rely on accounting officers' (AO) duties to Parliament to ensure that centrally issued guidance and requirements, such as the Framework, are followed. This fragmented approach contrasts with private sector financial regulation, where supervisory oversight and formal compliance testing are standard practice. Without a structured monitoring and reporting system, HMT has no consistent way to know whether the Framework is working. It leaves HMT unable to evaluate specific controls to ensure they address the identified risks, enforce consistency, or identify systemic issues.

**2.23** Public financial institutions have an assurance route that HMT could better use. 'Framework documents' – which public financial institutions agree with HMT and their sponsoring departments, if they have one – set out objectives and financial relationships between the parties. In some cases, these documents already include requirements from the Framework. For example, the framework document between HMT and NWF requires NWF to maintain an economic capital model, which is used to measure, and limit, risk exposure. AOs (or their equivalents) in the public financial institution attest compliance with these documents at year-end. This attestation gives assurance over compliance with the Framework, as the expectation is that public financial institutions have AO responsibility for value for money decisions.

**2.24** No equivalent route exists for departments (except UKEF, which has a HMT Consent and Financial Objectives document). Instead, HMT plans to use the spending control and approval process to assure itself that departments comply with the Framework. For new FT allocations from Spending Review 2025, HMT expects departments to submit business cases and FT checklists for approval before spending. While this process may give HMT assurance that FT programmes with business cases comply with the Framework at the outset, it offers limited visibility of ongoing compliance. For example, the Framework states that FT programmes should have robust measures in place to cover all financial and operational risks associated with an FT programme. While HMT can scrutinise business cases to confirm whether acceptable measures are planned, it lacks a way to check that these are implemented. This risks the measures for good management of these FT programmes not being operationalised in full, or maintained over time.

### **Monitoring and evaluation**

**2.25** HMT's *Magenta Book* highlights that robust feedback evaluation is essential to determine whether a policy is working and where improvements are needed.<sup>11</sup> Without effective evaluation, organisations cannot learn lessons or demonstrate accountability. The *Magenta Book* notes that feedback should be timely, relevant, clearly linked to policy objectives and designed to isolate the policy's impact from external factors.

**2.26** HMT has identified UKGI's Financial Investment Report as its feedback mechanism for the Framework. While the Financial Investment Report should help the government manage its FTs more effectively, it does not currently work as a feedback mechanism for the Framework itself, because it does not distinguish between:

- the impact of the Framework from other influences, such as market factors; or
- investments made before and after the Framework was introduced. This was not possible for the first edition of the report because the portfolio data analysed was from 31 March 2024 and therefore pre-dated the publication of the Framework. HMT told us that future editions of the Financial Investment Report will make this distinction.

**2.27** These gaps make it difficult for HMT to judge whether the Framework is effective or needs adjustment. Without strong feedback mechanisms, HMT risks missing early warnings and opportunities to improve. Weak feedback also limits accountability and makes it harder for HMT to demonstrate benefits.

11 HM Treasury, *Magenta Book – Central Government guidance on evaluation*, March 2020.

## HMT's consultation when designing the Framework

**2.28** HMT's Orange Book states that organisations should consult widely to draw on different areas of expertise in managing risk.<sup>12</sup> Complex and ambiguous risks require technical input. HMT told us that it intended the Framework to build on other documents in the wider spending control landscape and it consulted extensively with the expert owners of those documents. However, we would expect HMT to consult risk management experts when designing a control framework – particularly when non-risk professionals lead the process. This is in addition to engagement with the stakeholders responsible for applying the Framework. For this consultation to be effective, it should be timely, inclusive and transparent, with stakeholders engaged early enough to help shape the Framework's design, and include clear communication on how feedback has been considered. This supports confidence and ownership among those who will implement the Framework.

**2.29** HMT engaged with stakeholders at different stages but was constrained on who it could consult before the Framework's initial publication because of the sensitivity of the fiscal rule changes. Before publication, HMT conducted targeted engagement with a small group of stakeholders. After publication, HMT held a broader second round of engagement with relevant stakeholders from HMT, UKGI, public financial institutions and departments. HMT considered the key risk in scaling its use of FTs to be an investment risk – the risk that investments deliver worse returns than expected. It focused its consultation with risk management experts on investment risk both during the second period of consultation, and through the Economic Capital Working Group.

**2.30** The second stage of consultation could have been more transparent and inclusive. Stakeholders were asked to comment on an updated draft of the Framework, but HMT did not always explain why certain suggestions were not incorporated. A lack of transparency in consultation risks undermining stakeholder clarity, confidence and buy-in, which is critical for successful implementation of the Framework. However, this should be seen in the context of stakeholders' support for a principles-based approach (see paragraphs 2.12 and 2.13).

**2.31** During this second stage, HMT also sought input from risk management experts, including financial risk specialists from the Government Actuary's Department and public financial institutions. HMT also consulted the government's Risk Centre of Excellence on risk management principles for FTs. However, while HMT sought advice from the experts who own and operate the wider spending control framework, it did not seek expert input or specific advice on how to design and operate a control framework in practice. This input would have helped to ensure that the Framework was designed in line with recognised control principles, with clearer links between risks and controls, and a stronger basis for ongoing oversight.

<sup>12</sup> See footnote 10.

## **The risks and opportunities HMT considered when designing the Framework**

**2.32** HMT introduced the Framework with a clear rationale to manage the risks that an increased use of FTs poses (see paragraph 1.17). The “guardrails” in the Framework to address these risks include:

- **Use of expert institutions:** The Framework requires public financial institutions to deliver all large-scale, complex FTs unless HMT agrees otherwise. This is intended to concentrate FT spending in the government's expert institutions, ensuring that the organisations that are best placed to deliver financial investments do so, improving the efficiency and effectiveness of FT programmes.
- **Harmonisation and portfolio view:** The Framework requires all public financial institutions to develop and maintain defined risk management processes, including an economic capital model to measure, and limit, risk exposure. Economic capital modelling is a method widely used by professional investors and regulators to assess the risk exposure of investments. Together with UKGI's Financial Investment Report, this is the first step in enabling more sophisticated portfolio management of the government's investments, allowing the government to adjust its portfolio to maintain a desired level of risk, and moving towards good practice seen in the private sector.

**2.33** To increase the level of transparency around FTs, while also acting as a restraining factor on their use, HMT introduced the following controls:

- **Expectations on rates of return:** The Framework requires that new FT programmes aim to target a rate of return at least equal to the government's cost of borrowing, unless the intention is for them to be deliberately loss-making to achieve a particular policy goal. The Framework requires that any shortfall be reflected in departmental budgets as a subsidy element. This aims to facilitate transparency and create the correct incentives for departments.
- **Transparency over investments:** The Framework requires UKGI to publish an annual report detailing the government's investment portfolio and its performance. Presenting this information in one place will improve transparency, and it will help Parliament and the taxpayer understand the portfolio of investments and publicly hold the government to account for the performance of its FTs.

## Part Three

### The planned increase in financial transactions and the Financial Transaction Control Framework implementation

**3.1** This part of the report examines:

- the government's future plans for financial transactions (FTs);
- whether the Financial Transaction Control Framework's (the Framework's) controls have been implemented;
- how HM Treasury (HMT) has managed implementation of the Framework;
- HMT's approach to designating public financial institutions; and
- how HMT has developed a portfolio view of the government's investments.

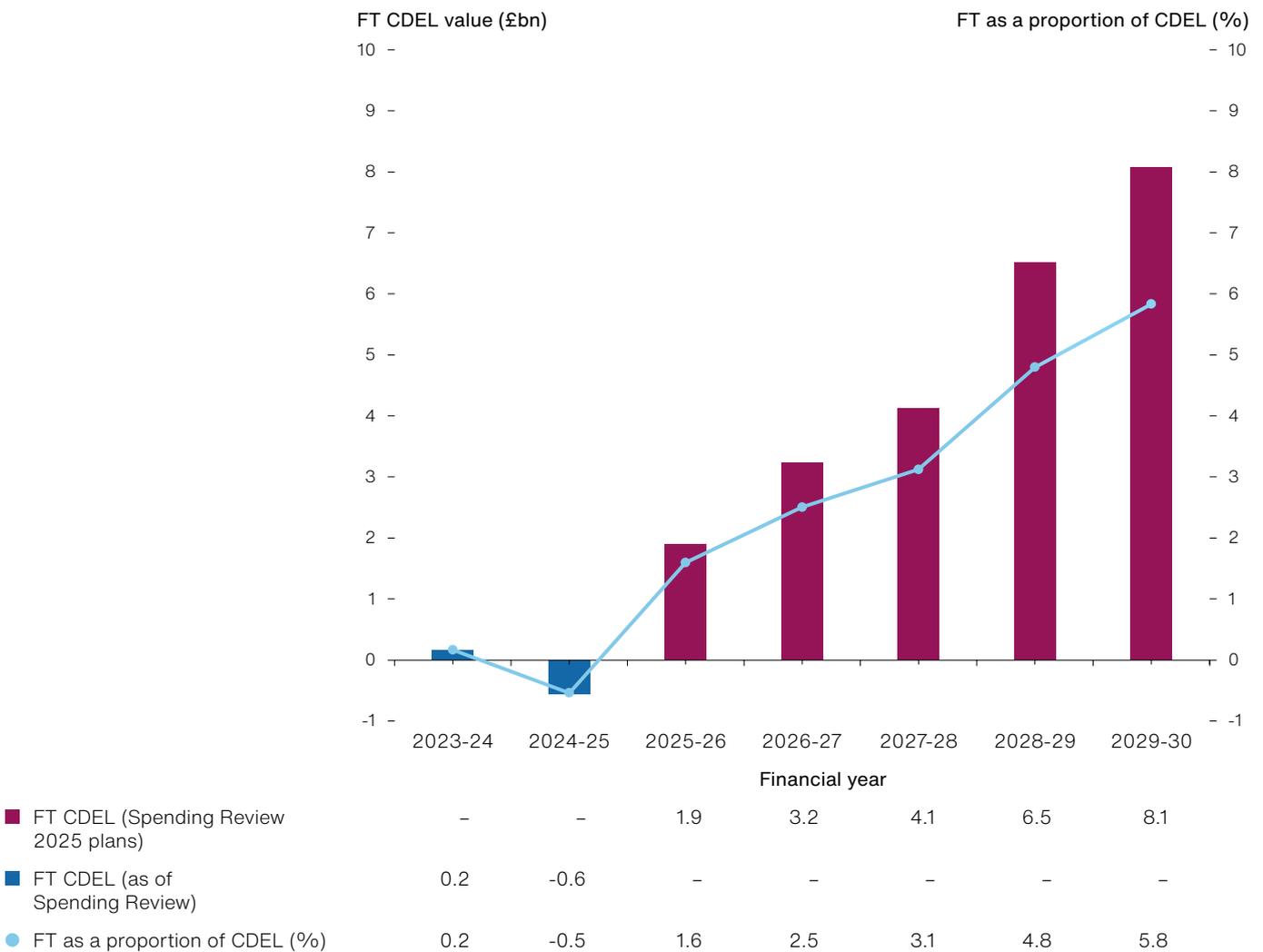
#### **The government's future plans for FTs**

**3.2** The government plans to increase its use of FTs. It plans to spend around £23.8 billion over the five years to 2030, in areas such as offshore wind and housing. Departments will receive about half of this amount, with existing or prospective public financial institutions receiving the rest. HMT expects public financial institutions to manage some of the departmental allocations. **Figure 10** overleaf shows this planned increase in FT expenditure, both in absolute terms and as a percentage of total capital spending. Based on HMT estimates published at Spending Review 2025, by 2029-30 5.8% of departmental capital expenditure will be on FTs. This is up from 1.6% in 2025-26.

**Figure 10**

Financial transaction (FT) expenditure, and the government’s future plans announced in the Spending Review 2025, 2023-24 to 2029-30

The government plans to invest an increasing amount of its capital expenditure into FTs; it plans to spend £23.8 billion over the Spending Review period



**Notes**

- 1 CDEL: Capital Departmental Expenditure Limit. The government budget that is allocated to and spent by government departments on new investment, for example the purchase of fixed assets, capital grants, and FTs.
- 2 The value of -0.6 in 2024-25 is driven by income from the sale of an FT, Bulb Energy, which is recorded as a negative.
- 3 UK Government Investments’ (UKGI’s) Financial Investment Report uses a figure of £24.2 billion to describe how much the government plans to spend on FTs during the Spending Review period. Our figure of £23.8 billion differs from UKGI’s as its figure only includes FT budgets from after the publication of its report (i.e. FTs from 2026-27 to 2029-30), whereas ours includes FT budgets from the entire Spending Review period (2025-26 to 2029-30). In addition, UKGI’s figure includes devolved government FT spending, which ours excludes.

Source: National Audit Office analysis of HM Treasury Spending Review 2025 data

**3.3** At the June 2025 Spending Review, the government highlighted some key factors driving the increase in FT spending.

- **Changes to the government's preferred measure of national debt:** The change from Public Sector Net Debt (PSND) to Public Sector Net Financial Liabilities (PSNFL) meant the government could increase FT spending without initially increasing its debt.
- **Introduction of the Financial Transaction Control Framework:** The government confirmed that the investments would be supported by a robust control framework in the form of the Financial Transaction Control Framework.

### **Extent of implementation of the Framework's controls**

The Framework's nine key controls

**3.4** HMT introduced the Framework at Autumn Budget 2024. HMT did not plan for, or expect, all organisations to implement the Framework's principles immediately. HMT told us the Framework is a 'living' document that sets out the government's ambition for managing FTs and that existing organisations are currently working towards implementing the Framework's principles.

**3.5** HMT will realise more of the Framework's benefits if controls are implemented and operate effectively before the government's planned increase in FTs. HMT gave us a list of nine key controls to support our assessment of the Framework's implementation. We could not assess three of these as departments had not finalised FTs for us to test; HMT told us that they consider these controls to be implemented but that they cannot be tested until it starts to get new FT approvals in 2026-27. **Figure 11** overleaf lists the nine controls and indicates which controls we assessed, those we did not assess, and why. Our review considers the current status of HMT's controls, recognises the progress bodies have made to date and highlights areas for further development.

**3.6** **Figure 12** on page 43 provides an overview of our assessment of the extent to which the six controls have been implemented. Our more detailed assessment of each control is set out in the Technical Annex.

**Figure 11**

The key controls from the Financial Transaction Control Framework (the Framework) that we have assessed

We have been able to assess the implementation of six of the nine key controls included in the Framework

Control	Owner	Subject to National Audit Office assessment	Explanation of why we did not assess the control
<b>HM Treasury (HMT)</b> will designate entities as 'public financial institutions' based on the criteria it has set out in the Framework	HMT	✓	–
<b>UK Government Investments (UKGI)</b> will publish an investment report setting out the value, performance and risk of the assets owned by the government	UKGI	✓	–
<b>Public financial institutions</b> should have a total capacity provided by the government agreed with HMT and their sponsoring department	Public financial institutions	✓	–
<b>Public financial institutions</b> should have a risk limit based on an economic capital approach and wider risk management agreed with HMT and their sponsoring department	Public financial institutions	✓	–
<b>Public financial institutions</b> should have a returns target and wider financial and non-financial objectives	Public financial institutions	✓	–
<b>Public financial institutions</b> should have an annual financial transaction (FT) limit	Public financial institutions	✓	–
<b>Departments</b> should use designated public financial institutions to deliver large-scale, complex FTs unless agreed otherwise by HMT	Departments	✗	The FT proposals to which this control would be applied to were in development during the reporting period and therefore it was not possible to test this control at the time of publication
<b>Departments</b> needing HMT consent for FT spending or budget allocations must provide a business case including the FT checklist which sets out specific FT considerations	Departments	✗	The FT proposals to which this control would be applied to were in development during the reporting period and therefore it was not possible to test this control at the time of publication
<b>Departments and public financial institutions</b> can enter into investments that they expect from the outset to be loss-making – that is, to generate a return below the government's cost of capital – to achieve policy goals, but any 'subsidy' for loss-making should be clearly accounted for and disclosed	Departments and public financial institutions	✗	The FT proposals to which this control would be applied to were in development during the reporting period and therefore it was not possible to test this control at the time of publication

**Notes**

- 1 The Framework does not include an explicit list of controls. However, for the purpose of this audit, HMT developed and provided us with this list of the Framework's key controls, to help support our assessment of the Framework.
- 2 An organisation's total capacity refers to the total amount a public financial institution holds to invest in FTs and guarantees.

Source: National Audit Office analysis of HM Treasury documents

**Figure 12**

The progress of organisations towards implementing HM Treasury's (HMT's) key controls from the Financial Transaction Control Framework (the Framework), as of March 2026

The National Wealth Fund (NWF) and UK Export Finance (UKEF) have already implemented the controls, while British Business Bank (BBB) and British International Investment (BII) are working towards implementing the remaining controls

Control	Control owner				
	HMT/UKGI	NWF	UKEF	BBB	BII
HMT will designate entities as 'public financial institutions' based on the criteria it has set out in the Framework		n/a	n/a	n/a	n/a
UK Government Investments (UKGI) will publish an investment report setting out the value, performance and risk of the assets owned by the government		n/a	n/a	n/a	n/a
Public financial institutions should have a total capacity provided by the government agreed with HMT and their sponsoring department	n/a				
Public financial institutions should have a risk limit based on an economic capital approach and wider risk management agreed with HMT and their sponsoring department	n/a				
Public financial institutions should have a returns target and wider financial and non-financial objectives	n/a				
Public financial institutions should have an annual financial transaction limit	n/a				

- Not yet implemented and no plans in place
- Not yet implemented but plan is in place
- Implementation is in progress
- Implemented but improvements needed
- Implemented
- Implemented with exceptions granted by HMT

**Notes**

- 1 BBB is currently developing an economic capital model. HMT, the Department for Business & Trade and BBB are in the process of agreeing the extent to which this will be used to set risk limits.
- 2 The Framework states that public financial institutions should have "An annual FT limit: to place an upper bound on the cash requirement of a public financial institution". We interpret, and tested, this control as whether institutions had a limit on the value of FTs they could make in any one year: on that basis BII has not implemented the control. However, the Foreign, Commonwealth & Development Office (FCDO) has a Share Subscription Agreement with BII which sets out the maximum capital FCDO will provide to BII in any given year. HMT told us that in its view, this meets the purpose of the control – to limit the cash requirement, so we have recorded this control as 'Implemented with exceptions granted by HMT' for BII. See also paragraph 3.8 and paragraph 13 in the Technical Annex for details.
- 3 UKEF primarily issues guarantees. As such, a returns target comparable to government borrowing costs – such as is used by the other public financial institutions that mainly make loans and equity investments – would be unsuitable. HMT therefore allows UKEF to use a 'pricing adequacy index' – see the Technical Annex for details.
- 4 HMT does not require UKEF to have an annual FT limit. UKEF's activities are demand-led meaning HMT considers an annual limit unsuitable. UKEF is therefore permitted to operate without one – see the Technical Annex for details.

Source: National Audit Office analysis of HM Treasury's key controls

**3.7** The extent to which organisations have implemented the controls varies. HMT and UK Government Investments (UKGI) have implemented their controls.

- **HMT** used its judgement to designate entities as public financial institutions based on criteria included in the Framework and maintains control over the designation for prospective public financial institutions, such as the National Housing Bank and Great British Energy. See paragraphs 3.16 to 3.22 for details.
- **UKGI** has published its first *Financial Investment Report* in November 2025, providing an early view of the government's £203 billion portfolio of financial investments in the private sector.<sup>13</sup> See paragraphs 3.23 to 3.30 for details.

**3.8** The public financial institutions have implemented most of the controls that apply to them. Implementation varies by public financial institution.

- **The National Wealth Fund (NWF)** has implemented all the controls.
- **UK Export Finance (UKEF)** has implemented all the controls, with HMT allowing it a non-standard approach for its returns target and annual FT limit.
- **The British Business Bank (BBB)** has implemented three-quarters of the controls and is working on implementing an economic capital approach to risk management.
- **British International Investment (BII)** has implemented three-quarters of the controls. It is in the process of agreeing an economic capital approach to risk management with the Foreign, Commonwealth & Development Office (FCDO) and HMT.

As we set out in paragraphs 2.12 to 2.19, a principles-based approach to the Framework can lead to inconsistent interpretations of controls. HMT considers a key Framework control to be “An annual FT limit: to place an upper bound on the cash requirement of a public financial institution” (Control 6 in Figure 11).<sup>14</sup> HMT told us that the purpose of this is not to control the number of FTs entered into in any one year, rather to limit public financial institutions in-year funding requirements. NWF and BBB have an explicit annual FT limit. For BII, FCDO has put in place a Share Subscription Agreement (SSA) which sets out the maximum capital FCDO will provide in a year. Whilst this is not an annual FT limit, HMT and FCDO regard the SSA as meeting the purpose of the control.

<sup>13</sup> UK Government Investments, *Financial Investment Report*, November 2025.

<sup>14</sup> HM Treasury, *Financial Transaction Control Framework*, PU 3502, October 2024 (updated March 2025), page 19, paragraph 3.6.4.

## How HMT has managed Framework implementation

**3.9** Although the Framework involves changes across government, HMT has not managed its implementation as a formal change programme. HMT did not expect all organisations to meet the Framework's criteria immediately and expected full implementation to take time. HMT has made progress, but a more structured approach would provide the elements needed for consistent delivery, clarity and accountability.

### Time-bound delivery plan

**3.10** Implementation milestones help organisations plan and track progress. HMT does not yet have a time-bound plan for completing the Framework's implementation, and it has not shared milestones with departments, public financial institutions or UKGI. HMT told us it intends to complete implementation before the expected increase in FT spending in 2027-28 and said it asked for BBB and BII to make their changes at their usual strategy renewal points to avoid disrupting existing delivery plans. It also told us that most elements of the Framework have time-bound plans, except for economic capital, where ongoing policy development will determine the delivery timetable. Several stakeholders told us they remain unclear about when HMT expects them to apply the Framework's principles. A time-bound plan would help HMT, departments, public financial institutions and UKGI ensure that the controls needed to manage new FTs are in place and aligned with the Framework's aim of improving value for money, before the expansion in FT use.

### Objectives

**3.11** Clear objectives help organisations understand what success looks like and how to achieve it. Without them, progress is difficult to measure and accountability is weaker. While HMT has outlined high-level aims in policy papers and interviews, it has not formally set objectives against which the Framework's performance will be measured. Defining these objectives would help HMT assess whether the Framework is delivering its intended benefits.

### Stakeholder engagement during implementation

**3.12** Effective engagement requires knowing who to involve, what these stakeholders need, and how and when they will be updated. Regular updates, guidance and feedback opportunities help stakeholders understand the changes, reduce friction and keep implementation on track. Without this, communication becomes patchy and responsibilities can become unclear. Because the Framework uses broad principles that can be interpreted in different ways, purposeful engagement is even more important to ensure stakeholders understand it and apply it consistently.

**3.13** HMT engages stakeholders through its spending teams and its Public Investment Roundtable (PIR), which brings together HMT, UKGI, public financial institutions and departments, to support strategic alignment, enable practical collaboration and act as a single point of contact for the public financial institution landscape. The PIR has also established an Economic Capital Working Group to support policy development on a key element of the Framework. HMT does not operate a separate stakeholder engagement plan for the Framework. A dedicated plan would help HMT coordinate its engagement more systematically, ensuring that all relevant bodies are involved at the right stages.

**3.14** Stakeholders have encountered areas of ambiguity – such as how public financial institutions and departments work together and on technical areas such as how rates of return are accounted for. For example, FTs are loss-making when they, sometimes deliberately, do not meet the targeted rate of return, 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.

**3.15** Stakeholders have requested additional guidance to help them put the Framework's principles into practice. HMT has responded helpfully to queries, but its guidance has so far been issued on a case-by-case basis and shared only with the individual enquirer. We would expect that, where HMT receives feedback or questions from one body, it considers whether others are likely to face the same issue and shares the relevant guidance more widely to support consistent implementation across the system. A central repository of advice, guidance, case studies and precedents would help HMT to preserve corporate memory and ensure that staff changes do not weaken the consistency or quality of engagement on the Framework.

## **HMT's approach to designating public financial institutions**

### How HMT designated public financial institutions

**3.16** Given HMT's intention that public financial institutions possess the skills and expertise to deliver FTs, how HMT designates them is critical to the Framework's success. Designation signals that an organisation is an expert provider of FTs and can deliver FTs on behalf of departments. It also gives organisations the opportunity to agree additional flexibilities with HMT, such as separate pay scales to recruit specialist staff, creating opportunities to maintain capabilities over time.

**3.17** 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. HMT advised the Chief Secretary to the Treasury (CST) on which organisations should be designated, and two of the five met all the criteria used in this initial assessment. The CST is the final decision-maker on which institutions are designated.

**3.18** However, because the Framework sets out the criteria for designation without stating how each public financial institution met them in practice, transparency is limited. A reader of the Framework could reasonably infer that all four designated institutions met each criterion in full (excluding the Student Loans Company, which the Framework explicitly treats differently). This is because the Framework did not state clearly which controls were in place in each institution. Not making it explicit that some organisations did not meet some of the Framework's criteria, but were designated anyway, could create misunderstanding about the strength of the designation process and reduce transparency over how HMT applies the Framework.

**3.19 Figure 13** overleaf shows HMT's initial designation assessment. HMT told us that BII and BBB have sophisticated risk management practices and that, given the nature of BII's and BBB's activities, it does not consider an economic capital model to be a necessary capability for their investment work. Instead, it uses economic capital to assess overall risk-taking and to allocate risk across public financial institutions.

**3.20** HMT is working with The Ministry of Housing, Communities & Local Government (MHCLG) and its arm's-length body, Homes England (HE), on the designation of the National Housing Bank (NHB). The designation process for NHB is more detailed, and there is a plan for a more robust audit trail, showing progress in HMT's approach. MHCLG and HE have worked with HMT to agree a target operating model for NHB and the NHB team have prepared proposals for the set up and launch of NHB. The public financial institution approval process involves HMT, UKGI and other stakeholders reviewing the proposals and plans provided by the NHB team and holding a public financial institution approval panel. Based on this process, HMT advises the CST, who makes the final designation decision. Once the process concludes, HMT plans to discuss what it has learned to inform future designations.

**Figure 13**

HM Treasury's (HMT's) assessment of organisations' readiness for designation as public financial institutions

HMT's assessment concluded that only the National Wealth Fund (NWF) and UK Export Finance (UKEF) met all the criteria it had chosen

Criteria	Explanation of criteria	NWF	UKEF	BBB	BII
1. Primary activity	Public financial institutions should <b>deliver financial transactions (FTs), guarantees or other investments, not grants</b> . This is to ensure they have the right skills and incentives. Parts of organisations (eg an investment arm) can be designated public financial institutions.	●	●	●	●
2. Operationally independent	Public financial institutions should <b>make independent investment decisions</b> based on their strategic objectives, risk and return targets. The government can direct public financial institutions to make investments as long as this is transparent.	●	●	●	●
3. Expertise and capability	Public financial institutions should have <b>staff with specialist expertise to manage FTs and sufficient organisational capabilities</b> , including senior leadership, appropriate remuneration, robust capital management, specialist systems and controls.	●	●	●	●
4. Balance sheet	Public financial institutions should <b>manage a holistic portfolio, with a segregated financial instrument balance sheet for organisations delivering grants</b> . Preferably, public financial institutions should be set up as government corporations financed via equity or debt.	●	●	●	●
5. Accountable for return	Public financial institutions should have a <b>financial return target which their management are accountable for meeting</b> that covers the government's cost of capital – with ability for departments to subsidise this rate of return for loss-making FTs.	●	●	●	●
6. Economic capital model	Public financial institutions should have an <b>agreed risk appetite set using an economic capital approach</b> – limiting the £ value of losses in a modelled downside scenario, with modelling independently assured.	●	●	●	●

BII does have a financial returns target which management are accountable for meeting, but this does not cover the government's cost of capital.

Neither BBB or BII have economic capital models, although BBB is committed to implementation.

HMT assessment criteria: ● In place ● Not in place but planned ● Not done/planned

**Notes**

- The following acronyms have been used: NWF: National Wealth Fund; UKEF: UK Export Finance; BBB: British Business Bank; BII: British International Investment; FT: financial transaction.
- HMT did not include the Student Loans Company in its assessment, and as such it is excluded from this figure.
- The text in this figure is drawn directly from HMT documentation. It has only been changed to replace shorthand abbreviations.

Source: National Audit Office summary of HM Treasury documentation

## Areas for improvement in HMT's approach

**3.21** HMT does not have a consistent minimum set of requirements that it deems necessary for a public financial institution to be designated. While Figure 13 outlines a list of criteria, both BBB and BII were designated as public financial institutions despite not meeting all these criteria. HMT lacks a transparent designation process and has no plans to publish an assessment of how candidate public financial institutions comply with the Framework. This risks undermining the credibility of HMT's decision-making, and confidence in the public financial institutions as expert providers of well-managed FTs. HMT has told us that it has taken this approach to preserve the policy discretion of its ministers. Despite improvements in the NHB designation approach, this approach has not been formalised into the route that all prospective public financial institutions must follow in future.

**3.22** In addition, we have found no detailed analysis of past designation decisions, such as weighting the benefits and risks of designating each public financial institution. HMT told us the initial designations reflected existing practice. It said that, for this reason, it did not assess bodies against the Framework criteria before designating them, but instead designated them first and then agreed reforms to bring them into line with the Framework. HMT did not assess the residual risks of designating public financial institutions before they met key criteria – such as having an economic capital model – or how these risks affected the timing of FT funding. HMT has not kept a robust audit trail of past designation decisions. Although these organisations were not managed differently or given further flexibilities by HMT as a result of the initial designation, these gaps create risks, including:

- **Minimum requirements:** Without a list of requirements, HMT has fewer grounds to challenge organisations seeking public financial institution status before they are ready.
- **Transparency:** If HMT does not set out how far public financial institutions are from meeting Framework criteria, the residual risks, and how these risks are being managed, this could undermine confidence in the Framework.
- **Audit trail:** While the proposed approach for NHB should lead to a more robust audit trail for its designation, without a clear record of past designation decisions, staff changes within HMT could reduce the reliability of judgements. New staff may not understand the basis for previous designation decisions, risking inconsistent application of the Framework.

## How HMT has developed an initial portfolio view of the government's investments

Good practice

**3.23** In the financial services sector, organisations will look at how individual investments fit as part of a broader portfolio. They use this portfolio view to manage risk better and to make sure they are getting a fair risk-adjusted return on their investments. Timely portfolio-level data help to support this decision-making.

**3.24** Managing investments in this way has several benefits.

- **Better risk oversight:** Viewing investments at a portfolio level helps organisations identify patterns and concentrations of risk that may not be visible when investments are considered in isolation.
- **Stronger performance monitoring:** This allows organisations to track how well investments are doing and whether they support strategic goals.
- **Faster response to market changes:** Having a live view of the portfolio helps organisations respond faster when risks or opportunities arise.

**3.25** Without a portfolio perspective, the government faces several risks.

- **Awareness gaps:** It might miss shared dependencies, such as several investments relying on the same supplier, increasing the impact if that supplier fails.
- **Overlapping exposure:** Different parts of the government could invest in the same companies or compete with each other without realising it, increasing potential losses if the companies' sector underperforms, or over-paying for assets.
- **Poor decision-making:** Parts of the government may act in isolation, for example one part selling an asset while another buys something similar, creating unnecessary cost and risk.

## The government's approach

**3.26** Before HMT introduced the Framework, the government did not have a portfolio view of the value and performance of its investments. As a result, it could not realise the benefits of portfolio management and faced the associated risks.

**3.27** The Framework has begun to address this gap by requiring UKGI to publish an annual report on the government's investment portfolio. UKGI worked with HMT, public financial institutions and departments to gather and improve FT data available across government, and classified the government's FT portfolio for the first time. UKGI published the first Financial Investment Report in November 2025 alongside the Autumn Budget. This provided the first portfolio-level view of the government's portfolio as at 31 March 2024.

**3.28** The first Financial Investment Report marks an important step in improving the transparency of the government's FTs and allowing the government to start to manage them as a portfolio. The Financial Investment Report sets out:

- the value of the government's portfolio of financial investments and how these are split across organisation, sector and asset class;
- an initial calculation of the portfolio's rate of return; and
- an initial assessment of the portfolio's risks and how these are managed.

**3.29** HMT and UKGI plan to enhance future editions of the Financial Investment Report by expanding and standardising data to improve UKGI's insights and increase transparency over time. UKGI also stated it may run stress-tests across the portfolio to strengthen understanding of risks. However, UKGI identified limitations compared with good practice in financial services: the Financial Investment Report uses retrospective data, which improves transparency but does not provide the information needed for effective oversight or timely action.

**3.30** It remains unclear how far the Financial Investment Report will be used to inform portfolio-level decisions. HMT told us it will use the report's data to inform strategic decisions on the scale and allocation of capital within its financial asset portfolio. It told us that the government has delegated decisions on managing financial assets to public financial institutions, as expert institutions, who will manage their portfolios in line with good practice in financial services. However, because public financial institutions' mandates can overlap in practice, there is a risk that public financial institutions collectively concentrate exposure in particular areas or crowd-out private sector investment. These areas present opportunities for HMT, with UKGI support, to develop the portfolio approach further over time.

# Appendix One

## Our audit approach

### Our scope

- 1** This report examines the Financial Transaction Control Framework (the Framework) which HM Treasury (HMT) introduced at the 2024 Autumn Budget to help manage the risks arising from the government's planned increase in the use of financial transactions (FTs), enabled by the government's change to its preferred debt measure.
- 2** HMT is responsible for the design of the Framework. Departments and their arm's-length bodies, including public financial institutions, are responsible for designing and delivering FT programmes in line with its principles.
- 3** The purpose of our report is to assess whether the Framework has been set-up for success. To do this, we have focused on:
  - assessing HMT's central strategy and planned oversight of the Framework;
  - examining whether the Framework contains the elements we would expect it to; and
  - assessing the extent to which the Framework is being implemented in practice, the assurance it provides to HMT and how FT issuers are held to account.

We did not set out to assess:

- whether the Framework has yet achieved its objectives;
- the performance and value for money of the government's FT portfolio;
- the performance and value for money of individual FTs issued by public financial institutions and departments; and
- the wider performance of public financial institutions.

**4** Guarantees are another type of financial instrument that the government uses as a form of policy intervention. Some guarantees are classed as FTs, but many are not. Guarantees are generally outside of the scope of the Framework, but it does apply in two ways.

- The Framework requires that all large-scale financial instrument programmes, including guarantee programmes, are delivered by public financial institutions.
- The Framework requires that guarantees are included in the economic capital limits of public financial institutions.

Wider policy on guarantees, including their design and approval, is covered by a separate Framework: the Contingent Liability Approval Framework.

**5** We have not evaluated the financial performance of FTs or public financial institutions. The Student Loans Company is out of scope.

### **Our evidence base**

**6** We carried out fieldwork between October 2025 and January 2026 and used a range of methods and sources which are set out below. We also drew on internal expertise on topics including corporate finance, financial audit, financial management and risk management.

### Evaluative framework

**7** We developed an evaluative framework that focused on the set-up, planned governance and oversight, and implementation of the Framework. Our initial evaluative framework was based on the assumption that the Framework was a fully developed control framework aligned with standard practice. As the audit progressed, we found that this was not the case, meaning some of our initial evaluative criteria were no longer applicable. We therefore iteratively reshaped our evaluative framework by:

- comparing our initial evaluative criteria against evidence from key fieldwork milestones;
- judging the continued relevance of each criterion in light of that evidence;
- amending the criteria to better evaluate the Framework, given its non-standard design and immaturity; and
- engaging with HMT officials to identify what HMT considered to be the key controls in the Framework (see paragraphs 18 to 21 below).

**8** Throughout, our overarching objective remained to assess whether the Framework was set-up for success.

#### Document review

**9** We reviewed publicly available and non-publicly available documents from HMT, the public financial institutions and other sources. We used these documents to:

- define the scope of the audit and deepen our understanding of HMT's development of the Framework;
- inform further discussions with HMT, public financial institutions and other stakeholders; and
- develop and triangulate findings from other sources.

**10** We reviewed a range of documents, including:

- Financial Transaction Control Framework policy papers and reports;
- UK Government Investments' (UKGI) Financial Investment Report;
- data on FTs supplied by UKGI;
- terms of reference for fiscal forums and working groups;
- minutes from fiscal forums and working groups;
- public financial institutions' management information and business cases; and
- internal and external communications and engagement on the Framework.

**11** We also conducted a more targeted document review to inform our understanding of what makes a good control framework. This review included:

- HM Treasury's The Orange Book – Management of Risk – Principles and Concepts and its Central Government's Assurance Directory Tool; and
- National Audit Office publications:
  - *Evaluating government spending: an audit framework*;
  - *Financial management in government: enablers of success*; and
  - *Overcoming challenges to managing risks in government*.

**12** We reviewed each document and extracted information against our audit questions. Findings from the document review were synthesised alongside and triangulated with other evidence.

## Stakeholder engagement

**13** We engaged with HMT and other key stakeholders throughout the audit. As the audited body, HMT participated in regular meetings with us and held two teach-ins in November 2025. The first was about the development of the Framework and its role in spending control, and the second was on the intended goals and vision for the Framework.

**14** We engaged with the following stakeholders as part of this audit.

- **UKGI:** The government's corporate finance centre of expertise that helps deliver some controls within the Framework.
- **Public financial institutions:** The National Wealth Fund; British Business Bank; UK Export Finance; and British International Investment.
- **Foreign, Commonwealth & Development Office:** The sponsor department of British International Investment.
- **Ministry of Housing, Communities & Local Government:** A sponsor department for an organisation seeking designation as a public financial institution.
- **Department for Science, Innovation & Technology:** A department which already uses FTs, has an allocation for an increased number of FTs in the Spending Review 2025 period and does not have a public financial institution of its own.
- **Office for Budget Responsibility:** An independent body that examines and reports on the sustainability of the UK public finances. The costs of FTs are reflected in its forecasts.

We chose not to engage with the fifth public financial institution – the Student Loans Company (SLC). Although SLC is classified as a public financial institution, it operates differently from other public financial institutions and is not subject to the financial controls in the Framework. All references in the report to public financial institutions and FTs exclude SLC and its FTs, unless stated otherwise.

## Interviews

**15** We conducted interviews between October 2025 and January 2026. We identified and selected organisations and interviewees based on their involvement with the Framework, as well as referrals from HMT and the audit team's own knowledge. We used interviews to explore our audit questions and objectives.

**16** We developed our interview topic guides by forming lines of enquiry from our audit questions. After the first round of interviews, we identified any gaps in evidence and developed follow-up interview topic guides. We analysed the interviews thematically, based on our evaluative framework. Findings from the interviews were synthesised alongside and triangulated with other evidence.

**17** We conducted 10 semi-structured online interviews with the following stakeholders.

- The Balance Sheet team from HM Treasury.
- Senior risk officials from UKGI.
- Senior risk officials from the National Wealth Fund.
- Senior finance officials from the British Business Bank.
- Senior policy and analysis officials from UK Export Finance.
- Senior finance and risk officials from British International Investment.
- Senior finance and policy officials from the Foreign, Commonwealth & Development Office.
- Officials from the Department for Science, Innovation & Technology.

In addition to these structured interviews, we held 22 meetings with other stakeholders from HMT, UKGI and the public financial institutions.

### Controls assessment

**18** We first planned to test the controls set out in the Framework, assuming it would operate like a typical control framework with an explicit list of controls. Our intention was to use HMT's own list of controls as the basis for assessing whether the controls in the Framework had been implemented and were being complied with. This approach was designed to rely on HMT's articulation of the Framework.

**19** During early scoping, we reviewed the Framework and identified 54 potential controls to support our audit planning. When we shared this working list with HMT, it told us that the Framework does not include an explicit list of controls. We also found that the Framework lacked other common structural features, such as a clear list of risks. These findings led us to adjust our evaluation approach (see paragraphs 7 to 8 above) and informed the section 'How the Framework compares with good practice' in Part Two. Because of these limitations, our work examines the Framework's design and early implementation, rather than testing the operating effectiveness of a complete set of controls.

**20** For audit purposes, HMT later developed and shared with us a list of nine key controls it considered to be part of the Framework. We mapped these controls to the organisations responsible for implementing them and then developed a structured method for assessing how far each control had been implemented.

**21** HMT provided evidence on the extent to which each organisation had implemented the relevant controls. We reviewed this evidence, validated it with the relevant organisations (for example, the individual public financial institutions), and used it to form the judgements presented in Figure 12. For three of the nine controls, HMT could not provide evidence, as the FT proposals to which these controls would be applied were in development during the reporting period. As a result, we did not test these three controls.

### Data analysis

**22** Our analysis was focused primarily on data collected by UKGI to produce their Financial Investment Report, and Spending Review 2025 data. We applied our standard quality-assurance procedures when reviewing, interpreting and presenting the data.

**23** Where we have examined Spending Review data to calculate projected FT spend – for example, in our Key Facts and in Figure 10 – we have excluded data for devolved administrations and for small and independent bodies.

**24** UKGI notes that it cannot guarantee the accuracy of the information in its Financial Investment Report, which remains the responsibility of departments. We have followed our standard process of clearing our report with relevant stakeholders for factual accuracy and balance. Through this process we identified a discrepancy in the data used for Figure 3. For transparency, we have highlighted this discrepancy within the figure itself. The underlying data and other accompanying figures have not been revised.

### Evidence analysis and synthesis

**25** We analysed evidence from the document review, interviews and controls assessment, identifying common themes. We used a logic map to synthesise our findings. Our logic map set out our study rationale and emerging findings and key messages. We regularly revisited the logic map to incorporate evidence collected throughout the study. We tested our emerging findings with key stakeholders.

# Technical Annex

## Detailed assessment of the controls in the Financial Transaction Control Framework

### Introduction

**1** This technical annex contains the detailed assessment of the controls that support Figure 12 in the main body.

Control 1 – HM Treasury (HMT) will designate entities as public financial institutions based on the criteria it has set out in the Financial Transaction Control Framework (the Framework)

**2** We examined how HMT's designation of public financial institutions meets HMT's description of the control. For a more detailed analysis of the effectiveness of this process, see paragraphs 3.16 to 3.22.

**3** HMT states that it designates organisations as public financial institutions based on the criteria in the Framework, and that the Chief Secretary to the Treasury reserves the right to appoint or withdraw designated public financial institution status.

**4** HMT has implemented its control of designating the current and future public financial institutions against its own criteria as seen with the Student Loans Company, National Wealth Fund (NWF), UK Export Finance (UKEF), British Business Bank (BBB) and British International Investment (BII).

Control 2 – UK Government Investments (UKGI) will publish an investment report setting out the value, performance and risk of the assets owned by the government

**5** We reviewed how UKGI met HMT's description of the control. The control states that UKGI should publish a report that sets out the value, performance and risk of the government's financial transactions (FTs).

#### **Publication of the report**

**6 Meets requirement:** In November 2025, UKGI published its first Financial Investment Report.<sup>15</sup> UKGI will publish this annually.

#### **Value**

**7 Meets requirement:** The Financial Investment Report captured assets valued at £203 billion in central government departments and designated public financial institutions (as of 31 March 2024). £294 billion of public sector assets are outside of the scope of the report, either because they are outside of central government's accounting boundary, or because they are not an equity investment or loan to the private sector.

#### **Performance**

**8 Meets requirement, with improvements needed:** The report sets out the performance of each public financial institution and of a sub-portfolio which included aggregating returns from BBB, Bill, Homes England, multilateral development banks (in which the government has invested), NWF and UKEF. UKGI analysed this sub-portfolio of the government's assets and calculated the annual gross return on asset book to be 1.9%. This returns metric does not consider the entire portfolio of government FTs. UKGI plans to improve the returns analysis in future editions, to provide a more complete and realistic picture of returns.

#### **Risks**

**9 Meets requirement, with improvements needed:** The report also highlighted the inherent risks within the government's FT portfolio and the strategies used to manage them. UKGI reported on concentration risks arising from excessive exposure to a single asset, sector, geographic region, or other risk factor. UKGI was able to report on many of the risks facing the government's FT portfolio, but not all. UKGI plan to improve the sophistication of the risk analysis in future editions, for example, by analysing credit risk.

<sup>15</sup> UK Government Investments, *Financial Investment Report 2025*, November 2025.

Control 3 – Public financial institutions should have a total capacity provided by the government agreed with HMT and their sponsoring department

**10** HMT requires all designated public financial institutions to have an agreed total capacity. This is how much money a public financial institution holds to invest in FTs and guarantees before any recycling of returns, and therefore its total spending allocation. All the public financial institutions can demonstrate that they have a total capacity to operate within.

Control 4 – Public financial institutions should have a risk limit based on an economic capital approach and wider risk management agreed with HMT and their sponsoring department

**11** HMT expects all designated public financial institutions to develop an economic capital model. This is intended to set a limit on the government's exposure to losses from FTs in low-probability downside scenarios, by using an approach that estimates potential losses and keeps overall risk within an agreed limit. In effect, it represents the maximum loss the portfolio could face at a given confidence level in an unlikely downside scenario.

- **NWF** has a mature economic capital model.
- **UKEF** also has an economic capital model which uses an in-house approach rather than a standardised approach like NWF. UKEF told us this is tailored to its portfolio and business model. HMT has approved the use of the model due to UKEF's unique remit. Both NWF and UKEF have wider risk management processes in place, as set out in their individual financial frameworks, which have been approved by HMT.
- **BBB** does not have an economic capital model in place. BBB is in the process of implementing an economic capital model, with the support of the Economic Capital Working Group. BBB's economic capital model is set to be implemented by April 2026. HMT, the Department for Business & Trade and BBB are in the process of agreeing the extent to which this will be used to set risk limits. BBB does have wider risk management processes in place that are subject to approval by their sponsor department on an annual basis.
- **BII** does not have an economic capital model in place. BII is agreeing the implementation of this control with the Foreign, Commonwealth & Development Office (FCDO) and HMT. BII already uses other measures to mitigate financial risk and it has wider risk management approaches in place.

## Control 5 – Public financial institutions should have a returns target and wider financial and non-financial objectives

**12** HMT requires that all designated public financial institutions should have a returns target and wider financial and non-financial objectives.

- **NWF** has a returns target set in its 2021 Financial Framework. NWF is currently working with HMT to finalise an updated Framework Document and Financial Framework to formalise a new returns target. HMT told us this will be in place before April 2026. The new target is for in-year profitability on the core portfolio by 2030-31 to achieve a return on equity target of 4% to 6% by the mid-2030s.
- **UKEF** has a variation of a returns target called the 'pricing adequacy index'. HMT told us that UKEF does not set a standard returns target, reflecting its role and focus on guarantees. Instead, UKEF uses its pricing adequacy index to assess whether premium income covers risk and operating costs. The pricing adequacy index compares modelled risk and administration costs with income earned.
- **BBB** currently has an adjusted returns target which is dynamic and reflects the five-year average adjusted return on capital employed.
- **BII** has a returns target of at least 2%; this is a weighted average annual portfolio return calculated over a seven-year period.

## Control 6 – Public financial institutions should have an annual FT limit

**13** When HMT provided us with descriptions of the controls, it stated that "public financial institutions should have an annual FT limit". We interpreted and tested the control, therefore, as whether each public financial institution had a limit on the value of FTs it could make in a year. In the Framework itself, the control's stated purpose is to limit cash requirements, rather than investments: "An annual FT limit: to place an upper bound on the cash requirement of a public financial institution, which will not typically be a binding constraint as it should be set above the expected annual expenditure of the public financial institution."

- **NWF** has an explicit annual FT limit.
- **UKEF** does have a FT limit through its lending capacity, but this is not an annual limit. HMT has made an exception due to UKEF's activities being demand-led, and because UKEF provides lending forecasts through the forecast process and its Monthly Management Reports. HMT believes this gives it sufficient oversight and opportunities to challenge UKEF if it reports a higher forecast than expected or than in previous periods.
- **BBB** does have a defined annual FT limit in the form of its annual Capital Departmental Expenditure Limit FT budget.
- **BII** does not have an explicit annual FT limit. However, it has a Share Subscription Agreement that sets an upper limit on the funding FCDO will provide to BII each year. HMT and FCDO regard this as an annual cash limit for BII, serving the purpose of the control as described in the Framework. BII has no upper limit on the total value of FTs it can make each year: as a public corporation, BII could fund FTs from borrowing; however, BII cannot borrow without HMT consent and this consent has not been provided. We therefore assessed this control as implemented, with exceptions granted by HMT.





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