Budgetary and Fiscal Impacts

The **Consolidated Budgeting Guidance** sets out the principles and standards which guide the budgetary scoring of public spending, including for blended finance instruments *(see Chapter 8 on Financial Transactions in particular)*. The budgeting system is designed to support the specific objectives for fiscal policy set by the government, which for this parliament is guided by the following mandate: to have public sector net debt *(excluding the Bank of England)* as a percentage of GDP falling by the fifth year of the rolling forecast period .

The **fiscal impact of a transaction** is determined by the **Office for National Statistics (ONS)**, using international statistical guidance *(primarily, the European System of Accounts 2010 (ESA10))*. These rules determine how a transaction will impact public sector finances, such as Net Financial Debt (NFD). Departments should use the Financial Reporting Manual to determine the accounting impact of a transaction; the FReM is based on International Financial Reporting Standards.

What is the Governments Approach to Financial Transactions?

To underpin the government's commitment to fiscal responsibility, Autumn Budget 2024 announced a set of reforms to the fiscal framework. The fiscal rules within the framework are:

- The stability rule: to move the current budget into balance so that day-to-day costs are met by revenues, meaning government will only borrow for investment.
- The investment rule: to reduce debt, defined as public sector net financial liabilities (PSNFL) or 'net financial debt' as a share of the economy.

Crucially, the investment rule supports a step change in investment to drive growth and recognises that financial transactions (such as loans and equity investments) have a positive value where they make a return above the government's cost of borrowing and reduce the debt burden. This encourages financial transactions because the potential for them to be repaid, or to make returns, is recognised on the government's balance sheet.

HM Treasury will only approve spending on financial investments where robust controls are in place in line with the Financial Transaction Control Framework. A list of financial transactions covered by the framework can be found in Table 1.1 in the previous link.

Budget impacts may be different from fiscal impacts for the same instrument. For example, a loan will have no impact upon issuance on Net Financial Debt. However, the loan amount (principal) will score to departments' CDEL FT budgets, and expected credit losses, which do not have a fiscal impact, will score to departments' RDEL budgets on issuance.

Departments should also ensure that they consider any **Classification Impacts** of blended finance instruments, for example whether they would inadvertently cause the firm, project or other entity invested in to be classified on the public sector's balance sheet (either at the firm level or the project level). Such classification may result in activities of that entity, for example a firm borrowing from the private sector, having budgetary or fiscal impacts *(which would not be the case if the entity was not classified to the public sector)*. The ONS, again using ESA10 rules, are responsible for making independent classification decisions.