Budgeting and Fiscal Impacts of Blended Finance Instruments

Instrument	Budgeting Impact	Impact on Net Financial Debt/NFD
Traditional grants (for reference)	**Categories:** capital grants, current grants or subsidies. **Capital grants:** Score as CDEL (2) **Current grants and subsidies:** Score as RDEL (3)	**Upon issuance:** Grants worsen NFD.
Guarantee – standardised (i.e., issued in large numbers to many parties on identical terms)	**Upon issuance:** Expected losses score as CDEL (netted against any fees) **If net expected losses change:** CDEL impact **If called:** Non-budget (assuming call is the same as the expected losses)	**Upon issuance:** an estimate of expected calls, minus fee receipts increases NFD. If this number is zero or negative then fees decrease NFD when received and calls increase NFD when made. **If fees received:** NFD is improved (decrease). **If called:** NFD impact depends on how the amount called compares to expected loss (if equal, NFD impact is neutral; if higher or lower, then there is a corresponding impact) or if fee receipts exceed expected loss.
Guarantees – "one-off" (i.e., all other guarantees, usually they are bespoke and can be issued either for a portfolio of assets or for a single large exposure)	**Upon issuance:** Expected losses (net of fees) score as RAME **If expected losses change:** RAME (4) impact **If called:** Losses score as CDEL with reversal of original RAME hit	**Upon issuance:** there is no impact. **If fees received:** NFD is improved (decrease). **If called:** NFD worsens.
Indemnities – note these are fairly novel and would need particularly careful consideration.	Likely to be the same as one-off guarantees.	Likely to be the same as one-off guarantees.

Government loans, that are interest bearing, have a payment schedule and are expected on issuance to be repaid in full, whether standalone or co-lending alongside private sector	**CDEL-FT impact for:** Net lending (i.e. transactions in loan principal) and capitalised interest as appropriate. **RDEL impact for:** Interest income, arrangement fees, expected credit losses, write-offs. **RAME impact for:** Other changes in fair value of the loan (will sometimes be non-budget)	**Upon issuance:** No impact. **When repaid:** No impact. **If written off by mutual consent (e.g. for policy reasons):** NFD worsens. **Over time:** NFD improves as interest accrues.
Government equity assets – majority stake or 'significant control' threshold met (i.e. investee classified to public sector)	**CDEL-FT impact for:** • Initial capitalisation • If investee is reclassified as a central government body, it will be consolidated within its parent department and all of its spending will have the usual CBG budget impacts. • On sale, there will be CDEL-FT income for the proceeds of sale, and a potential CDEL hit for any discount associated with the sale. **CDEL impact for:** • If investee is treated as a public corporation, there will only be a budget impact for further transactions between the department and the investee, as well as a CDEL hit for any external borrowing taken on by the investee. • On sale, there will be CDEL-FT income for the proceeds of sale, and a potential CDEL hit for any discount associated with the sale.	**On investment/sale:** No impact at the point of transaction. In general, the balance sheet impacts of reclassification should be considered, which may have a different impact on NFD. **Over time:** NFD will be impacted by net borrowing of the reclassified entity. **On sale:** Sale value = market value. In general, the balance sheet impacts of reclassification should be considered, which may have a different impact on NFD.

Government equity – minority stake (i.e. investee in private sector)	**CDEL-FT impact for:** Purchase and sale of shares or other equity in private sector bodies. **RDEL impact for:** Dividend income RAME or non-budget impact for: Fair value changes in the equity investment. **CDEL impact for:** Any PSNB impact for difference between purchase/sale price and market value of equity.	**Upon issuance:** Neutral assuming purchased at market price. **Over time:** Improved by dividend revenue. NFD would also recognise any changes in the equity value, which is recorded at market value. **When sold:** Neutral assuming cash received is equal to equity value (with future dividends being lost).
Government investment in a fund	Same as equity investments (assumed minority stake and no public sector control of fund)	As above.
Government purchase of a private sector financial instrument (e.g., securitisation of corporate bonds) Note - these are fairly novel and would need particularly careful consideration.	Most likely to be treated the same as a government loan.	**On purchase:** neutral, unless the purchase price is above the market value, in which case NFD would increase by the difference between the two. **If instrument accrues interest:** NFD will improve as interest accrues. **If repayments are received:** neutral.
Repayable grants - Note these are fairly novel and would need particularly careful consideration.	**On issuance:** Most likely to be treated as a grant (i.e. either CDEL if capital grant or RDEL if current grant) **If repaid:** Will be treated as income (capital/resource and DEL/AME classification will depend on conditions and exact structure of repayable grant).	**Upon issuance:** NFD worsens as grant is issued. **If repaid: I**mproves NFD.

Convertible grants which convert to equity. **Note -** these are fairly novel and would need particularly careful consideration in collaboration with HMT.	**Upon issuance:** Will most likely be treated as a grant. **Upon conversion:** To equity - will most likely be treated as equity.	**Upon issuance:** NFD worsens. **On conversion to equity: U**nclear whether any transaction would be recorded. Potential for reclassification to public sector. **If converted:** NFD will improve if dividend payments are received.
Convertible loans which convert to equity - Note these are fairly novel and would need particularly careful consideration.	**Upon issuance:** Will most likely be treated as a loan. Upon conversion to equity will most likely be treated as an equity. **Upon conversion:** Upon conversion to equity will most likely be treated as an equity.	**On issuance:** Neutral impact on NFD. **On conversion to equity:** Unclear whether any transaction would be recorded, as this will likely depend on the valuation of the equity compared to the outstanding loan issuance. Potential for reclassification to public sector. **Over time:** NFD will improve as interest accrues (loan) or if dividends received (equity)

(2) Capital Departmental Expenditure Limits
(3) Resource Departmental Expenditure Limits
(4) Resource Annually Managed Expenditure