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Dear Accounting Officer

GUIDANCE ON NOVEL FINANCING ARRANGEMENTS

This letter informs Accounting Officers of departments and arm's length bodies of their responsibilities relating to novel financing arrangements.

Contact

Please address enquiries to TOAEnquiries@hmtreasury.gov.uk

Action

All Accounting Officers should be aware of the following guidance.

Context

We have been made aware of examples of finance companies directly approaching departments and arm's length bodies with offers to enter into novel or complex corporate finance arrangements. For example, we have seen proposals that departments guarantee loans from private finance companies to government suppliers in return for cheaper prices. These are often presented in a way that suggests the department or arm's length body will gain a monetary benefit at no cost. This is rarely the case and such offers should be treated with an appropriate amount of scepticism.

Novel or complex corporate finance arrangements almost always result in the department, and ultimately the Exchequer, bearing a level of risk. This risk is likely to materialise in one of two ways: as a loan or liability on the department's Statement of Financial Position, or as a contingent liability in the form of a guarantee or indemnity. An entity would require appropriate budget cover prior to entering into a loan or liability and would likely require explicit HM Treasury approval if incurring a contingent liability per the Contingent Liability Approval Framework.

When assessing the accounting classification of such arrangements, entities should consider VII.4.2.1.7 in the Manual on Government Deficit and Debt as well as the guidance set out in the Government Financial Reporting Manual (FReM).

As a matter of course, public sector organisations should not normally rely on obtaining finance by borrowing from commercial banks as it is almost always more expensive than relying on the government's credit rating.

Managing Public Money 3.3.3 lists several areas where Accounting Officers have personal responsibility, which include:

- *'value for money: ensuring that the organisation's procurement, projects and processes are systematically evaluated to provide confidence about suitability, effectiveness, prudence, quality, good value judged for the Exchequer as a whole, not just for the accounting officer's organisation (e.g. using the Green Book to evaluate alternatives)'; and,*
- *'management of opportunity and risk to achieve the right balance commensurate with the institution's business and risk appetite.'*

Accounting Officers should be aware of these responsibilities before entering into any financing arrangements.

It should also be noted that novel or complex corporate finance arrangements are separate to complex project finance solutions. Whilst the same scrutiny should be applied to the latter, there may be instances when these arrangements may be value for money for the Exchequer without the generation of any additional risk.

In any event, entering into complex financial arrangements of any kind would be a novel and contentious activity, and would therefore require explicit HM Treasury approval. In the first instance arm's length bodies should discuss with their sponsor team in their department and ensure that they seek out appropriate cross-government expertise.

David Fairbrother

Treasury Officer of Accounts