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Reissued: Guidance on Novel Financing Arrangements

Dear Accounting Officer

Contact

Please address enquiries to TOAEnquiries@hmtreasury.gov.uk

Action

All Accounting Officers should be aware of the following guidance.

Context

On 4 February the Public Accounts Committee (PAC) published "Thirty-Fifth Report - The pharmacy early payment and salary advance schemes in the NHS[1]" exploring the use of supply chain finance schemes in the NHS. The PAC recommended that HM Treasury issue updated guidance to accounting officers on the use of supply chain finance, with its report stating:

- where supply chain finance has been used, it has not provided benefits to the taxpayer
- supply chain finance schemes should not be considered or implemented in the future

[1] Thirty-Fifth Report - The pharmacy early payment and salary advance schemes in the NHS

Updated guidance

DAO 02/19[2] provided Accounting Officers with advice on their responsibilities relating to novel and complex financing arrangements, including supply chain finance schemes.

Novel or complex financing arrangements 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 scrutiny and scepticism.

Managing Public Money Annex 4.12[3] sets out the responsibilities of Accounting Officers when considering services offered on a gratuitous basis:

- *'When offered services on a gratuitous basis, accounting officers should consider the potential for such services to give rise to future expenditure, as well as anti-competitiveness risks and propriety issues more broadly'*
- *'For example, if services may be withdrawn in the future either at the discretion of the supplier or in the event of the supplier entering insolvency it may lead to a pressure to continue provide such services on fee paying basis in the future. It may also be that the provision of services may lead to an incumbency benefit for the supplier that put them at competitive advantage in any future procurement'*
- *'The fact there are no upfronts costs to a proposal does not relieve the Accounting Officer of the need to consider future costs or the need for HMT consent for novel contentious or repercussive transactions'*

Novel or complex financing arrangements almost always result in the department, and ultimately the Exchequer, bearing a level of risk. DAO 02/19 sets out details of how this risk manifests itself from an accounting perspective.

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[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)'*
- *'management of opportunity and risk to achieve the right balance commensurate with the institution's business and risk appetite.'*

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.

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[2] DAO 02/19

[3] Managing Public Money

In any event, entering into novel or complex financial arrangements of any kind would be a novel and contentious activity, and would always require explicit HM Treasury approval.

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Treasury Officer of Accounts