HM Treasury

HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

For enquiries about distribution of this and other DAO letters please contact the Treasury Officer of Accounts at TOAEnquiries@hmtreasury.gov.uk

www.gov.uk/hm-treasury

DAO 03/25

27 June 2025

All live DAO letters may be found at: www.gov.uk/government/collections/dao-letters

Government investment and strategic support

Dear Accounting Officer

Contact

Please address enquiries to TOAEnquiries@hmtreasury.gov.uk

Action

When considering investment or strategic support, accounting officers should consider their duties in the context of the strategic policy objectives that ministers are seeking to achieve by virtue of the investment, as well as having regard to their other accounting officer duties as set out in this letter.

Context

As set out in the Plan for Change,[1] economic growth is the number one mission of the Government. To achieve this will require government working in partnership with businesses, including the investment of public money alongside private capital. This investment may come in several forms, in particular:

- financial transactions (that is, loans and equity investment intended to provide a direct return to the taxpayer by virtue of the future revenues received);
- strategic investment of grants and reliefs (where the taxpayers' investment is rewarded by higher economic growth, spillover effects, new and higher paying jobs, and crowded-in investment).

[1] https://www.gov.uk/government/publications/plan-for-change

While the existing principles and requirements that apply to accounting officers do not change, this letter provides clarifications and additional guidance on how accounting officers should meet their duties in respect of such investment decisions.

Clarity as to the policy objective to be achieved and considerations of value for money in policy making.

Governments are only able to raise, commit and spend resources where authorised to do so by Parliament. Parliament expects that expenditure on its behalf will be undertaken in a manner that achieves value for money for the taxpayer. To achieve this:

- departmental and Treasury ministers consider the merits and value for money of the policy itself; and
- accounting officers consider value for money of the implementation of that policy.

Managing Public Money sets out that departments should use the Green Book[2] to assess value for money. Box 18 of the Green Book defines "value for money" as a judgment about the optimal use of public resources to achieve stated objectives. This is consistent with the principle that ministers set objectives, while the role of accounting officers is to consider whether any proposed spending to meet those objectives makes appropriate use of public resources.

The value of the objectives themselves, including their value relative to other government objectives, are subjective matters of political judgement and prioritisation. Policy officials should advise ministers on these choices, in particular based on their knowledge of ministers' (and the government's) overall priorities and preferences, but ultimately these are ministerial decisions.

The value for money judgement must be made by reference to the explicit objectives that ministers set for the particular proposal. In the Green Book, this consideration is captured within the "strategic case" of the five case model. For example, if departmental ministers, with the agreement of Treasury ministers, set a government objective to locate a particular facility in a particular area, then this must be reflected in the proposals that are considered for "shortlist appraisal". Accounting officers should clarify objectives with ministers, in order to help frame their considerations in meeting the Accounting Officer Standards.

The Green Book additionally sets out the way in which the benefit cost ratio (BCR) should inform the vfm assessment, including in paragraph 2.27, as reproduced below.

> *The choice of the preferred option on grounds of public or social value for money is wider than just the initial BCR. Optimum value for money is a considered choice starting from the initial option ranking, that also considers important unquantifiable benefits and significant unquantifiable uncertainties and known risks.*

For example, it may be value for money to choose a proposal with relatively low <u>monetisable</u> benefits, and thus relatively low BCR, on the basis that this is outweighed by its relatively

[2] https://www.gov.uk/government/collections/the-green-book-and-accompanying-guidance-and-documents

high non-monetisable, unquantifiable strategic benefits. The fact that benefits are unquantified does not remove the requirement for accounting officers to exercise judgement as to quality of the evidence base regarding the feasibility of their delivery. As part of their value for money assessment, the accounting officer should take a judgment on the broad magnitude of these benefits and the degree of certainty that can be attached to this.

Ministers may approve proposals that deliver benefits to low-income parts of the country, even if these have relatively low BCRs. The role of officials is to ensure that Ministers are properly advised on the different costs and benefits that prevail under different proposals, making proper use of distributional analysis where relevant.

A proposal may still constitute value for money even if there is risk or uncertainty around benefits. This is not unusual in novel investment environments, where there is limited evidence on expected returns on investment. Ministers should be informed of levels of risk and clarify their approach to risk as part of their strategic steer. Accounting officers should assess if there are suitable mitigations in place for managing risk.

Accounting officers should ensure that they have proper departmental capability in appraisal. The Treasury recommends that all those involved in developing, reviewing or approving business cases should have received appropriate training. Above all, accounting officers must be satisfied that ministers' objectives could not be achieved through an alternative means, which delivers a better mix of costs, benefits and risk management.

More widely, when considering their duties, accounting officers should note the following.

- Departments should factor in the need to ensure any investment has the necessary Treasury consent, and where outside delegated limits, engage the Treasury early to agree how best this can be achieved, particularly if individual transactions may require agile decision making and rapid engagement with industry.

- To support agile decision making over the use of existing departmental budgets outside delegated limits, such as in the context of a commercial negotiation over financial incentives, departments should seek to agree an upfront mandate for that negotiation with the Treasury. In such instances, the onus is on departments to ensure the strategic and economic cases are sufficiently evidenced to support the requested mandate, and to agree the conditions of the mandate with the Treasury as appropriate.

- Departments are encouraged to make use of relevant commercial expertise across government, for example through the Office for Investment, when assessing the strategic value of an investment and developing negotiation mandate proposals.

- Where commercial negotiations are led by a Minister from outside the budget-holding department (e.g. the Minister for Investment), the accounting officer for the budget-holding department remains responsible for any agreed spend. Guidance for handling such arrangements is set out in Chapter 7 of *Managing Public Money*.

- Support, whether by grant loan or equity investment, will need to be compliant with the Subsidy Control Act 2022 and accounting officers should access departmental and cross government legal expertise to ensure this is the case.

- The choice of the preferred option on grounds of public or social value for money is wider than just the initial BCR.

- It is also not unusual, where government grant is being provided in novel investment environments such commercialisation of first of a kind of technology or research and development, that there may be low levels of evidence regarding expected returns on investment. Minsters should be informed of levels of risk and clarify their approach to risk as part of their strategic steer and the accounting officer should consider if the mitigations in place are suitable for managing that risk.

- Accounting officers must be satisfied that there is evidence that the objective to be achieved could not be achieved in a way that constitutes better value for money, and that there is respectable evidence that the spending to be undertaken can achieve the Ministerial objectives.

- In the event that an accounting officer is of the view that a particular investment or piece of expenditure does not comply with their duties, it is appropriate to seek a direction from the minister in charge of their department.

Detailed guidance on how to approach accounting officer considerations is annexed.

David Fairbrother

Treasury Officer of Accounts

Annex – accounting officer considerations in respect on strategic grants and investments

Regularity

For spending to be regular it must comply with the framework of authorities for the department or body concerned. This means that spending must have the appropriate Treasury consents, appropriate budget cover, be compatible with the wider legal framework and be undertaken with the appropriate statutory authority.

In the context of a significant investment decision Treasury consent may be required, due the fact the spending may be in excess of delegations and/or because of the nature of the legal powers being used to deliver that investment.

Treasury consents. It may be that the need for agile negotiations impacts the ability of departments to seek consent or provide detailed business cases within a timescale that allows the Treasury to provide effective scrutiny. The Treasury may therefore provide higher delegations based on earned autonomy. The Treasury and departments should collaborate to ensure information is supplied promptly and appropriate clearances can be sought to expedited timescales.

Budget cover. Accounting officers should ensure any investment has sufficient budget cover in the year the payment is made. They should also ensure that where that the investment does not put excessive pressure on the departmental budgetary position as agreed in the SR. If currently allocated cover is insufficient comfort should be obtained from HM Treasury before any commitment is made.

Wider legal considerations. Support whether by grant loan or equity investment will need to be compliant with the Subsidy Control Act 2022. Accounting officers will need to be satisfied that legal considerations are met. In addition to guidance in annex 4.7 of *Managing Public Money* departments may wish consult experts in the Department of Business and Trade. In all cases, it is essential that at the very least a respectable argument can be made that the action is lawful. In the most complex cases, reference can be made to the Law Officers. This may be necessary where it appears that a decision may be unlawful or the legal risk is assessed as high. The Law Officer's view on legality would then be determinative for the Accounting Officer Assessment.

Propriety

It is important the nature and manner of any investment is compliant with expectations of Parliament. This includes acting in line with published government policy. For example, when considering direct strategic grants outside of a preplanned publicised and competed for funding pot, an accounting officer will wish to consider the principles as set out in the Grant standards with regard to direct awards. [3]

Examples of circumstances in which a direct award may be appropriate in the award of a general grant include:

- award to an organisation that is the only feasible option in the area that the grant is being set up to fund;
- an organisation which inhabits a demonstrably unique position, offering a particularly specialist function;
- when the value of the grant is low and the cost of approaching the market through a competition would clearly exceed the benefit to be gained from competition between applicants;
- when there is extreme urgency, where such urgency was not foreseeable and was not as a result of any action or inaction on the part of the funding department;
- in the event of market failure.

Value for Money

Accounting officers must ensure that the resources deployed in pursuit of ministers' stated objectives are used in a manner which is economical, effective and efficient.

In line with Parliamentary expectations, ministers are responsible for making choices as to the objectives of their policy, the relative priority of different objectives, their contribution to wider government priorities, and precisely how those objectives should be defined. Officials, including Permanent Secretaries in their role as chief policy advisers to ministers, are responsible for advising and informing ministers on these policy choices, including different delivery options.

The policy-making process should be informed by an assessment of the costs, benefits and risks of pursuing different objectives. This is an important part of advising ministers on priority-setting, in particular when considering whether the stated objectives of a minister effectively contributes to the government's wider strategic agenda.

Once ministers have set the objective of their policy, and once they have a preferred implementation approach, the accounting officer's duty is to ensure that the approach chosen by ministers delivers value for money compared to different options that achieve the same objective. In doing this, accounting officers must consider both quantifiable and non-quantifiable evidence. They should consider their level of confidence in the evidence and whether an alternative approach would constitute better value for money. [4]

In the event that, in the Accounting Officer's view, the proposed approach does not optimise value for money for the delivery of the stated objective, then the Accounting Officer should first consider whether it is possible to modify the proposal and should discuss with ministers whether the stated objectives appropriately reflect their strategic intent.

---

[3] For an example where propriety standards were not deemed to be met see https://www.gov.uk/government/publications/jewish-community-protective-security-grant-ministerial-direction

[4] For an example of where the evidence for achieving Ministerial objectives was not deemed sufficiently strong see https://www.gov.uk/government/publications/migration-and-economic-development-partnership-ministerial-direction

Feasibility

The proposed investment should feasibly achieve the objectives of ministers in the medium and long term. Accounting officers have an obligation to ensure that expenditure is affordable and sustainable. If the accounting officer cannot be confident that the investment will result in the outcomes sought without further investment outside of that agreed, the duty to ensure investment is feasible will not be met.

Seeking a direction

In the event that an accounting officer is of the view that a particular investment or piece of expenditure does not comply with their duties, it is appropriate to seek a direction from the minister in charge of their department. Ministers are accountable to Parliament for their policy decisions and are capable of taking into account wider considerations which they may determine make a given course of action desirable, even where it is not compliant with the Accounting Officer's duties.

Given the government's democratic mandate, it is appropriate for ministers to issue directions, provided this does not conflict with their own duties under the Ministerial Code or other provisions set out in the Cabinet Manual. As directions enable expenditure beyond both the expectations of Parliament and that which accounting officers can authorise, the Public Accounts Committee and Comptroller and Auditor General are promptly notified of all directions, and the letters published on gov.uk, as a matter of course. In cases of commercial sensitivities or other public interest reasons, these notifications may be made on a confidential basis, with publication occurring once these sensitivities have fallen away.[5]

Full details of the directions process is set out in section 3.6 of *Managing Public Money*.

[5] An example of a direction sought that was initially confidential due to commercial sensitivities can be found at https://www.gov.uk/government/publications/british-steel-ministerial-direction-on-continuation-of-official-receivers-indemnity