



UK Government
Investments

FINANCIAL INVESTMENT REPORT NOVEMBER 2025

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Ministerial Foreword

Investment by the government alongside the private sector can make a return for the taxpayer and drive growth. This report sets out for the first time how government is using financial investments on behalf of the British people, delivering through its public financial institutions, to ensure businesses have the capital to grow, to improve our energy security, and to build the homes the country needs.

This was made possible by the reforms the Chancellor announced last Autumn to the government's fiscal framework. For the first time government is recognising the value of the financial assets it holds, not just the liabilities. This has allowed government to announce a £150bn capitalisation of its public financial institutions, including the National Wealth Fund and British Business Bank.



The government will always make sure public funds are invested wisely and transparently, which is why we committed to publishing this report - first of its kind. It provides a detailed overview of the government's portfolio of financial assets, the institutions delivering them, and the risks and returns involved.

HM Treasury's partnership with UK Government Investments (UKGI) has been central to this work. UKGI brings together public and private sector expertise to support departments and public financial institutions to design, execute, and manage financial transactions. This collaboration has helped the government develop a more sophisticated understanding of its investment portfolio, allowing for better management of fiscal risks.

This world-leading report will serve as a benchmark for future progress, supporting the government's mission to deliver better outcomes for better value, while strengthening fiscal resilience for the benefit of the UK economy and its citizens.

This inaugural *Financial Investment Report* represents an important step in strengthening the government's approach to the management and transparency of its financial investments. I look forward to collaborating with colleagues across Government to continue this work.

James Murray

Chief Secretary to the Treasury

Director's Foreword

Government has many options at its disposal to deliver its policies and meet the needs of its citizens, the economy and to support growth. Within this suite, investments by government, loans or equity, generally referred to as financial transactions, are used where government's impact can most effectively be delivered in conjunction with commercial investors.

At Autumn Budget 2024, the government's move to a net financial debt focused fiscal rule recognised the value of assets created by financial transactions. This reform to the fiscal framework allows for higher capital spending, hence incentivising departments to expand the use of financial transactions to deliver policies.



Within this report, we focus on the role of public financial institutions in the expanded use of financial transactions. These organisations bring sector expertise to complement financial and risk management, with new public financial institutions expected to grow skills incorporating homes and energy projects.

With budget allocated for the expansion of investments, the expectation is that new transactions are well structured, priced and delivered. To ensure good management of financial transactions, HM Treasury published the *Financial Transaction Control Framework*, which included a commitment to publish this *Financial Investment Report* annually to embed transparency and accountability for existing and new investments.

Recognising the vital role this report will play in supporting prudent investment and fiscal management, we have used a range of data sources to achieve the aims set out in this report. The majority of data underpinning this report is taken from audited accounts to enable an accurate valuation of the portfolio. We have supplemented this with management information from public financial institutions to provide a more up-to-date view of this sub-portfolio.

Finally, in line with the *Financial Transaction Control Framework*, investments provide a credible return, or recognise costs transparently. The assets described in this report, however, reflect historic investments, before the introduction of the framework. Additionally, at this early stage in UK Government Investment's work, calculation of a return can't adequately allow for the harmonisation of the range of investments and risks. Nonetheless, the experimental analysis within this report marks an important first step. We aim to work with departments to understand their investments and develop a suitable set of statistics which will enable us to publish an increasingly rich explanation of the returns on government's investments in future reports.

Siobhán Duffy

Director of Financial Instruments and Transactions Advisory Group

Executive Summary

The First UK Government Financial Investment Report

The *Financial Investment Report* was commissioned by Ministers to improve the transparency of government’s financial investments, laying the groundwork for future analysis and oversight. It provides a detailed overview of the government’s £203bn portfolio of financial investments into the private sector (as of 31 March 2024) and explores the value, performance and risk of the portfolio. The report also introduces the government’s public financial institutions and provides detailed analysis of their investments as of 31 March 2025. These specialist organisations are expected to deliver a larger value and volume of transactions going forward due to their capabilities and expertise.

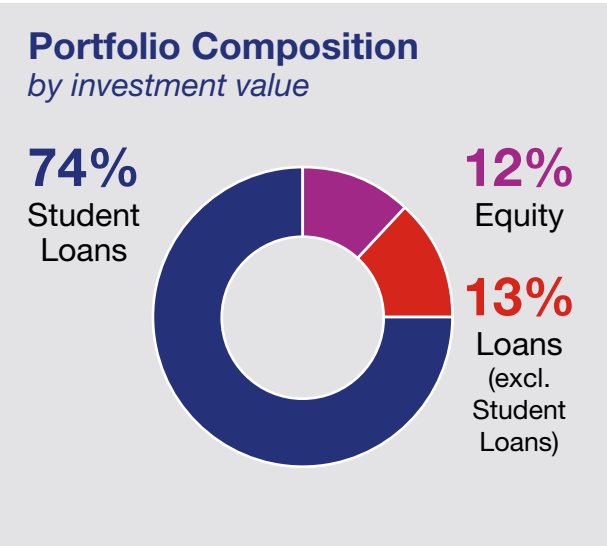
Portfolio Overview

Total value of assets:

£203bn

- 18 departments studied. All but two* have equity and loans portfolios in scope.
*His Majesty's Revenue and Customs and Home Office
- 4 public financial institutions and student loans company studied in more detail.

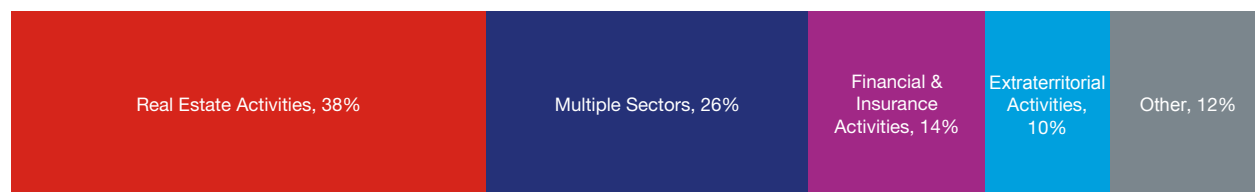
For the purposes of this report, four investment entities are classified as public financial institutions. See Chapter 2 for additional detail.



Top 10 portfolio investments by value (excl. student loans)

Investment	Associated Government Department	Investment Type	Value (£bn)
Homes England Help to Buy Loans	MHCLG	Loan	17.4
British International Investment Foreign Investments	FCDO	Equity	8.8
International Bank for Reconstruction & Development	FCDO	Equity	2.0
European Bank for Reconstruction & Development	HMT	Equity	1.7
International Finance Corporation	FCDO	Equity	1.4
British Business Bank Venture/Growth Capital Investments	DBT	Equity	1.4
UK Export Finance Qatar Government Loan	UKEF	Loan	1.0
Asian Development Bank	FCDO	Equity	0.9
Future Fund (British Business Bank operates the scheme)	DBT	Equity	0.8
Homes England Infrastructure Loans	MHCLG	Loan	0.7
Total			36.0

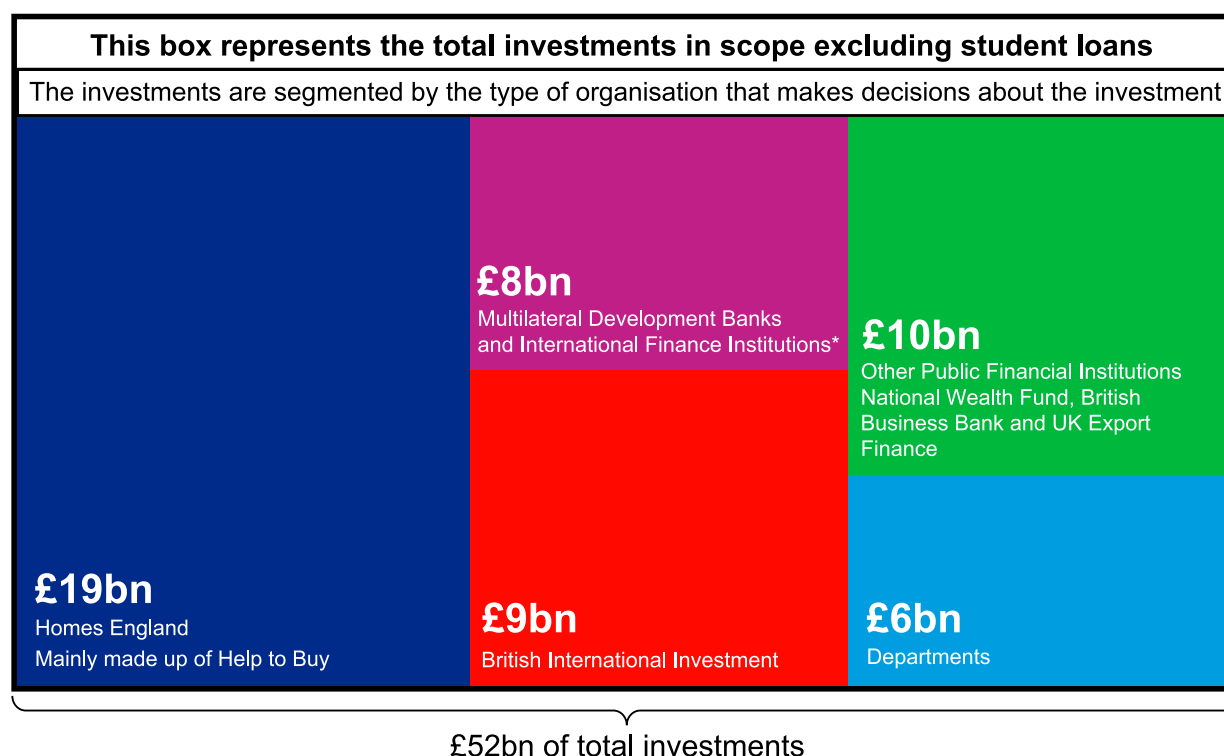
Sector focus (excluding student loans): investments across a range of sectors, with an elevated focus in Real Estate activities



Sector composition is based on investment values. “Other” includes: Public Administration, Defense & Social Security, Information & Communication, Construction, Energy Services, and Health, among others.

Understanding How Government Invests

The report examines how government manages its investments by looking at ‘assets under management’, rather than focusing solely on a balance sheet perspective (see below). This shows that within the portfolio, excluding student loans, £46bn of investments (89%) in the portfolio are managed by specialised institutions with expertise in managing investments including public financial institutions, multilateral development banks or other international financial institutions.



**Includes multilateral development banks such as the International Bank for Reconstruction and Development , and international finance institutions such as the International Finance Corporation, among others, as well as subsidiaries of these entities.*

Most investments in the portfolio are managed by public financial institutions and other organisations with deep technical investment expertise. Going forward, additional capacity will be allocated to public financial institutions:

Public Financial Institution	Total Capacity Announced for Loan & Equity Investments (£bn)
British Business Bank	17.5
Great British Energy	4.0
National Housing Bank	10.5
National Wealth Fund	17.8
UK Export Finance	13.0
Total	62.8

The Future of the Financial Investment Report

Autumn Budget 2024 marked a step change in fiscal management, with the inaugural Financial Investment Report now providing greater transparency in how public finances deliver financial transactions. The report outlines a £153bn capacity allocated to designated public financial institutions, of which £63bn is to deliver loan and equity financial transactions and the remaining amount has been allocated to deliver guarantees. Looking ahead, UK Government Investments will enhance its data collection and portfolio analytics to improve how it tracks performance, assesses value trends, and monitors institutional capacity and risk, establishing a robust framework for evaluating financial outcomes across the government's investment portfolio.

Areas of Future Report Development

- Expand the data collected to improve portfolio level insight on performance and risk.
- Work with HM Treasury and public financial institutions on appropriate measures of downside risk to inform management activities.
- Monitor portfolio trends and identify ways to improve portfolio management and value for money.

Chapter 1: The Importance of Understanding the Portfolio of Financial Transactions

Background and Aim of the Report

At Autumn Budget 2024, the government announced its fiscal framework.¹ This included its investment rule: to reduce debt, defined as public sector net financial liabilities (PSNFL, referred to as *net financial debt* throughout this report), as a share of the economy by 2029/30, until 2029/30 becomes the third year of the forecast period. Debt should then fall by the third year of the rolling forecast period. This

measure of debt provides a comprehensive view of the public sector's financial position by recognising financial assets, such as equity investments and loans, alongside the liabilities incurred to finance them (see the Office for National Statistics' (ONS) explainer of net financial debt² and see **Annex A** for definitions of key terms used throughout this report).

Explainer: Equity and Loan transactions in government

Financial transactions refer to a type of investment where the public sector investor acquires or disposes of a financial asset, from the private sector. These investments can take the form of instruments such as loans and equity investments (**Annex B**) and are distinct from traditional spending like grants as they involve acquiring a financial asset in return for expenditure. Throughout this report, the terms “financial transactions” and “investments” are used interchangeably.

An **equity transaction** is a financial arrangement in which an investor buys or sells ownership in a company, typically through shares. The investor becomes a part-owner of the company and may receive returns through dividends or increased share value.

A **loan transaction** is a financial agreement in which one or more parties, the lender(s), provide financing to another party (the borrower) with the expectation that the principal and interest will be repaid over a defined period, according to the conditions in a loan agreement.

Investments made by the public sector are designed to deliver policy objectives. The government can accept non-market rates of return if an investment fulfils broader social and economic goals, generating positive non-financial returns. Access to lower financing costs provides government with an option to deliver transactions with higher risk to achieve long-term objectives, fulfilling broader social and economic goals while making a net positive return on its borrowing.

1 [A strong fiscal framework](#), page 7.

2 [Public sector net financial liabilities \(PSNFL\) – Office for National Statistics](#)

The move to net financial debt supports the government's growth mission by creating a framework to deliver the step change in investment the economy needs, in a fiscally sustainable way. This is because net financial debt recognises the value of assets created by financial investments in

the capital budget, which allows for higher capital spending than a rule targeting public sector net debt. Net financial debt also supports the government's efforts to catalyse private investment by using loans or equity investment to invest alongside businesses.

Explainer: Public sector net financial liabilities (net financial debt)

The government's fiscal rules are:

- (i) **The Stability Rule:** to ensure day-to-day spending (e.g. welfare) is met by revenues (e.g. tax), meaning that the government will only borrow to deliver investments that support long-term growth.
- (ii) **The Investment Rule:** to reduce net financial debt as a share of the economy.³

Public sector net financial liabilities is an official statistic produced by the independent Office for National Statistics based on international statistical guidance. There are strict requirements regarding what counts as a financial asset and how different transactions are treated:

- Loan and equity assets are not recognised in net financial debt if these transactions are between two parts of the public sector.
- For lending to be recognised as a loan asset, the loan should be repaid with interest, which means interest-free lending or lending to firms where there is no realistic prospect of repayment, would be treated as a grant and therefore worsen net financial debt.
- Lending routed by government through off-balance sheet vehicles to public sector entities also count as public sector borrowing and worsen net financial debt.
- Loan write-offs or reductions in equity values worsen net financial debt when they occur, as equities are measured at fair value. Poor asset performance is therefore reflected in the metric over time.⁴

The *Financial Transaction Control Framework*⁵ sets out an expectation that UK Government Investments (UKGI) will publish an annual report on central government's investments. This report will provide greater transparency and accountability around

how public funds are being invested in conjunction with the private sector to support policy objectives.⁶

The aims of this inaugural *Financial Investment Report* are set out as follows.

3 [A strong fiscal framework](#), page 5.

4 [A strong fiscal framework](#), page 23.

5 [Financial Transaction Control Framework March 2025](#), page 7.

6 For data quality, reliability, and risks, please see the section on Data and Limitations (**Chapter 1**).

- ✓ Examine how government manages its investments and examine the expanding role of public financial institutions in delivering transactions (**Chapter 2**).
- ✓ Quantify the aggregate value of the government's financial investments portfolio, as reported by public bodies, and comment on the valuation methodologies used (**Chapter 3**).
- ✓ Explore the performance of government's financial investments, based on returns made (where appropriate) and other key metrics (**Chapter 3**).
- ✓ Understand how risk is managed within the portfolio and examine the level of risk held by government (**Chapter 4**).
- ✓ Identify how government can improve the monitoring and management of its financial investments (**Chapter 5**).

It should be noted that the portfolio of investments analysed in this report comprises investments made before the introduction of the *Financial Transaction Control Framework*, which set out requirements around target rates of return. UKGI will use future reports to track the performance of transactions against the rates of return required under this framework.

Current and Future Landscape Financial Transactions

To ensure the delivery of government priorities and to maximise public benefit from financial transactions, the government has designated public financial institutions. These organisations operate with specialist expertise and capabilities and are treated as investment bodies. Further details on the

institutions, their mandates and controls are provided in **Chapter 2**.

The government has designated the following organisations as public financial institutions:

- British Business Bank
- British International Investment
- National Wealth Fund
- The Student Loans Company
- UK Export Finance

In addition, the government will consider designating the following organisations as public financial institutions, subject to their alignment with the *Financial Transaction Control Framework*.

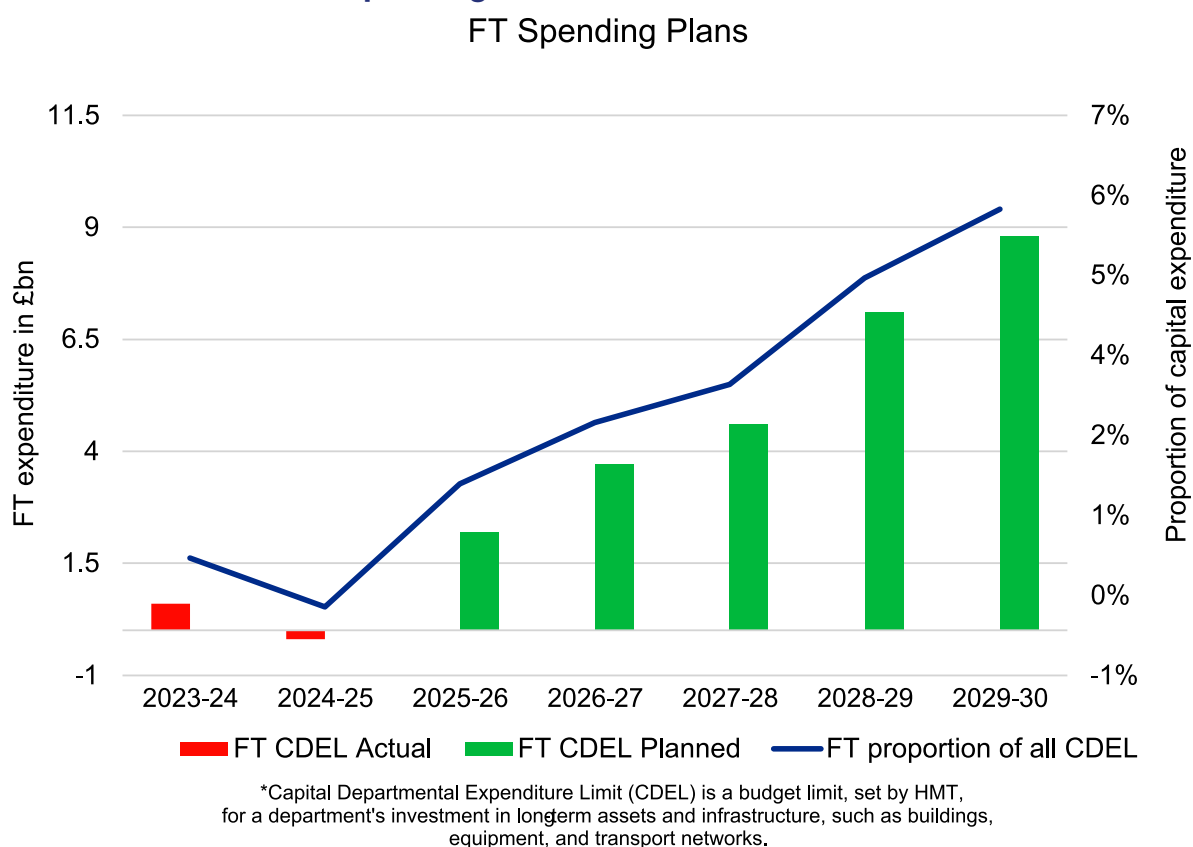
- Great British Energy – Launched in June 2024, as an arm's length body of Department for Energy Security and Net Zero
- National Housing Bank – The National Housing Bank will be a subsidiary of Homes England. This report will therefore include the financial assets of Homes England in its public financial institution analysis.

These two entities have not delivered any financial transactions as of 31 March 2025 and therefore do not appear in the additional analysis within the report.

In addition to these organisations, UKGI provides expert advisory support to government departments in scoping, planning, designing, and delivering financial transactions. In some cases, this may involve close working with public financial institutions or other investors to mobilise private capital.

The government has announced a significant increase in the deployment of financial transactions to support growth, both directly via departmental budget allocations and by increasing the capacity of public financial institutions. Over the Spending Review period, £24.2bn has been allocated to departmental budgets to deliver financial transactions⁷ (**Figure 01A**).⁸

Figure 01A: Illustration of current financial transaction expenditure and future plans announced in the Spending Review 2025⁹



⁷ Departmental spending may be delivered by public financial institutions.

⁸ The current spending review period is 2026/27 to 2028/29.

⁹ [Spending Review 2025](#), Figure 01A created using tables 5.4 and 5.5.

In parallel, the investment capacity of public financial institutions has increased by more than 57% so far this Parliament, to £153bn (of which £63bn will be allocated towards financial transactions and the remainder towards guarantees and insurance).¹⁰ This capacity will be recyclable and sets out government's current plans for its investments in public financial institutions. The increased capacity and investment plans were published in June 2025, in the 10-year UK infrastructure strategy and the UK Trade Strategy,¹¹ following the Spending Review.

Scope of Report

The scope of this report has been designed to align with the government's fiscal framework and will serve as a key guardrail in demonstrating how public funds have been used to deliver financial transactions.

As part of this process, UKGI identified all assets as reported in the *Whole of Government Accounts*.¹² From this,

transactions within the public sector were removed as these are consolidated out from *National Accounts* (i.e. measures of net financial debt). Subsequently, transactions other than loan and equity transactions were also removed. As a result, the scope of this report is focused on the transactions most frequently used by government (i.e. loan and equity) and those that impact fiscal measures.¹³

As per **Figure 01B**, there were £294bn of assets that remained out of scope, including loans issued by the Bank of England, National Loans Fund, debt management accounts and devolved administrations. In addition to this, funded public sector pensions¹⁴ are not included in this report.

The scope will remain under review as further reports are conducted to ensure it is in line with government's objectives and adding maximum value to policymakers and stakeholders across government and beyond.

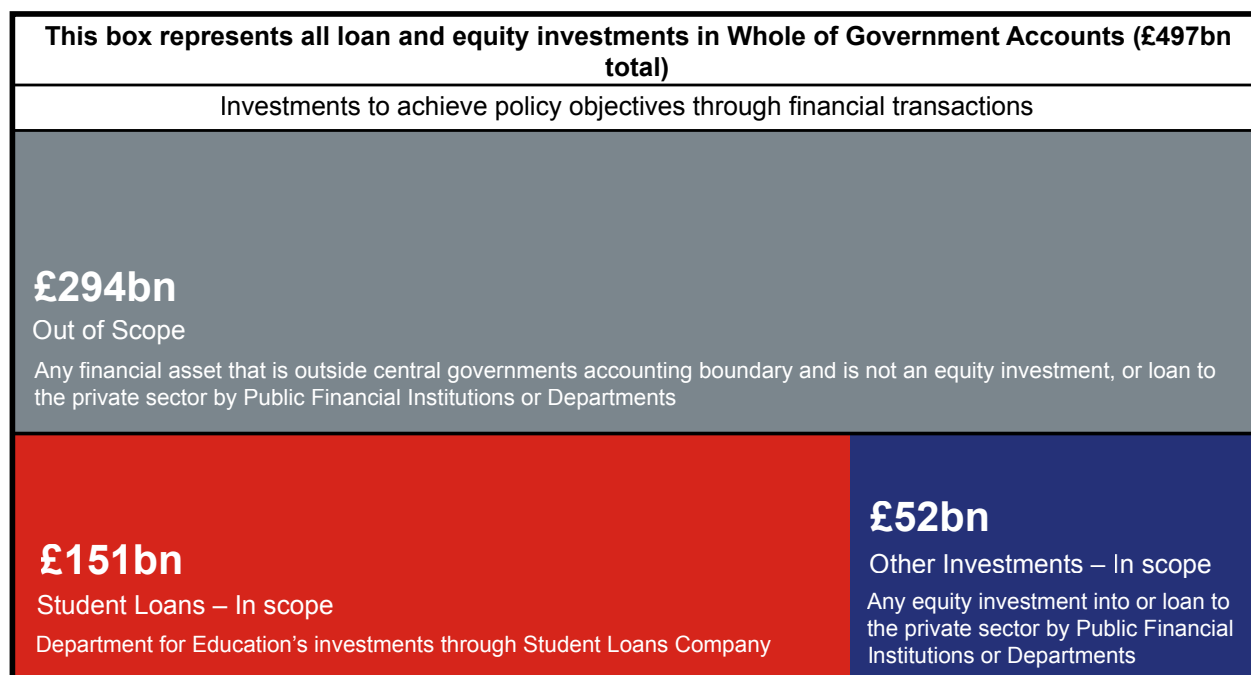
10 [CP 1344 – UK Infrastructure: A 10 Year Strategy](#), page 35.

11 [UK Trade Strategy – GOV.UK](#)

12 [Whole of Government accounts 2023/24](#)

13 Public financial institutions may use derivatives in limited circumstances per existing guidance. Guarantees may also be mentioned, but these are covered within the [Annual Report on the UK Government's Contingent Liabilities 2025](#).

14 The Local Government Pension Scheme is the largest funded public sector pensions. Additional information on this scheme can be found here: [LGPS Annual Report](#).

Figure 01B: Illustration of the scope of financial transactions included within this report

Data and Limitations

This report uses financial information underpinning the annual report and accounts from 16 of 18 central government departments^{15,16} as of 31 March 2024. 2023/24 data is used because this is the most recent audited data available at the time this report was produced. This aligns with the commitment in the *Financial Transaction Control Framework*¹⁷ that this report uses data audited by the National Audit Office. For public financial institutions, UKGI requested unaudited management information using data as of 31 March 2025. At the time of publication, most financials for the year ending 31 March 2025 had been audited and published, however, to conclude analysis in a timely manner, the information was used before it had

been audited. Data and methodology are discussed in **Annexes C and D**.

Additional data notes:

- Aggregate figures may not add up exactly due to rounding.
- In some instances, analysis may appear limited or incomplete, resulting from data limitations that UKGI will work to address through future iterations of this report.
- Different valuation methodologies are applied across the portfolio that produce values that aren’t directly comparable, especially when aggregated. This creates a risk that stakeholders may treat different values as equivalent measures when they’re not. Despite this limitation, we’ve adopted this mixed approach because it provides essential

¹⁵ 2 of the 18 government departments returned a nil return, HM Revenue and Customs and Home Office. All organisations within the accounting boundary of the departmental group were considered.

¹⁶ Not all data within departmental returns are in scope of this report and the data received directly from the public financial institutions are not captured here.

¹⁷ [Financial Transaction Control Framework March 2025](#), page 7.

portfolio-wide visibility and aligns with standard accounting practices used in departmental annual reports and whole of government accounts. **Chapter 3** discusses these methodologies and related risks. Future reports will seek greater data standardisation for improved consistency.

- Due to the scope of this report differing from departmental and public financial institutions' annual report and accounts, numbers are not directly comparable.
- The investment values in this report are not adjusted for cash distributions and realisations received during the period. This means that when investments generate cash flows (such as loan repayments or dividend distributions) or are sold, the resulting cash is not captured in the portfolio's closing balance. Consequently, reductions in portfolio value over time do not necessarily indicate underperformance of investments, but may reflect positive cash generation or successful exits that have converted investments into cash holdings outside the scope of this report.

Understanding Financial and Statistical Reporting of Investments

In preparing this report, UKGI further explored the standards that govern how data is reported in key government

publications and metrics. This focused on comparing how data is reported by departments for financial reporting compared to the reporting of financial data in official statistics.

Both departmental annual reports and accounts and the *Whole of Government Accounts*¹⁸ will use financial data that is reported in line with International Financial Reporting Standards (IFRS)¹⁹ accounting standards. These accounts aim to provide a true and current value for a transaction and therefore provide transparency and accountability. In parallel, the ONS publishes reports on public sector finances, i.e. the government's net financial debt position, which stands at over £2tn²⁰ as of end of March 2024, calculated under European System of Accounts 2010 (ESA10).²¹ This is to provide consistency in national accounts and facilitate comparisons between economies. These two different accounting standards outline different valuation methodology requirements across different asset classes.

Differences between financial (annual report and accounts, and *Whole of Government Accounts*) and national accounting standards (net financial debt) mean assets may be reported differently or omitted, creating inconsistencies in financial performance reporting. We have provided a detailed overview of the differences between ESA10 and IFRS in **Annex E** and the student loans overview in

18 In line with the Government Resources and Accounts Act 2000 (GRAA 2000), government, its departments, and arm's length bodies are responsible for producing annual reports and accounts. These will be produced in line with government's Financial Report Manual and consolidated into the Whole of Government Accounts (WGA).

19 These are a set of global accounting standards developed by the International Accounting Standards Board for the preparation of financial statements by individual entities or groups.

20 [Public sector finances, UK – Office for National Statistics](#)

21 ESA10 is an internationally compatible accounting framework for a systematic and detailed description of a total economy (that is, a region, country or group of countries), its components and its relations with other total economies.

Chapter 3 provides an example of where an investment's IFRS based value did not align with reporting in national statistics.

In this report and future iterations, we use financial data to assess the value, performance and risk of the portfolio. Although this differs from the standards under which investments are captured within national statistics, financial reporting provides a detailed view of the underlying financial health of government's investments in a more granular manner. By using this data, UKGI will be able to identify any

emerging risks, understand the drivers of change in value to inform better management of the portfolio and ultimately, ensure more effective stewardship of public funds within the government's fiscal framework.

UKGI will work with the ONS, HM Treasury and Office for Budget Responsibility to understand these standards alongside each other for more consistent fiscal and financial reporting and decision-making across government.

Chapter 2: The Role of Public Financial Institutions

Much of the analysis within this report will include a focus on investments delivered by public financial institutions. This chapter therefore introduces these organisations by outlining their mandates, functions and providing examples of transactions that they have delivered.

What are Public Financial Institutions?

The *Financial Transaction Control Framework*,²² published alongside the Autumn Budget 2024, set out a group of organisations that are designated by government as public financial institutions. These are typically either arm's length bodies, departments, public corporations or their subsidiaries, with the capability to deliver high-value financial transactions.

Public financial institutions possess expertise in financial markets, have dedicated risk management capabilities, and can establish long-term commercial relationships with private sector partners.

These organisations are not designed to supplant the market or market actors: rather, they are expected to act similarly to private investment institutions by applying risk based constraints to their investment activity. At the same time, they must ensure that investments are delivered in a way that prioritises value for the public through achieving policy objectives. To ensure effective oversight of these institutions, the government also introduced the *Strategic Public Investment Forum* in March 2025. This forum is mandated to ensure that such institutions are working effectively to deliver investment in key areas.²³

Furthermore, to ensure that taxpayer funds are invested in a way that balances risk taking, returns and policy coherence, these organisations are subject to a bespoke range of financial controls and operational governance,²⁴ which differ from the spending control approach HM Treasury (HMT) takes with other forms of spending. These are set out in the box below.

22 [Financial Transaction Control Framework March 2025](#), page 5.

23 [Launch of the UK Strategic Public Investment Forum – GOV.UK](#)

24 [Financial Transaction Control Framework March 2025](#), page 18.

Financial controls applied to public financial institutions

Total Capacity: Defined amount of capital made available by government for investment in financial transactions over a multi-year period.

Returns Target: Set with reference to the relevant gilt rate, so that financial transactions deliver target returns of at least the government's cost of borrowing. In some cases, this rate of return can be subsidised by departments to allow the institution to make a lower return if that supports policy goals (see **Chapter 3**).

Risk Limits: Constraints on the level of risk an institution may take, based on an economic capital approach (see **Chapter 4**).

Annual Financial Transaction Limit: Sets an upper bound on the institution's annual cash requirement.

Who are the Public Financial Institutions?

Figure 02A: The public financial institutions analysed within this report are UK growth focused and will deliver multiple policy objectives

Logo		 Homes England		 UK Export Finance
Name	British Business Bank	National Housing Bank, a subsidiary of Homes England*	National Wealth Fund	UK Export Finance
Sponsoring department	DBT	MHCLG	HMT	UKEF
Investment objectives	Business growth and tech commercialisation through SME financing	Housing supply and affordability	Investments for the growth and clean energy missions	Empowering UK businesses to export
Inception year	2014	2018**	2021***	1919

*This report analyses Homes England investments in greater detail alongside the other public financial institutions. This is because by the publication of this report the National Housing Bank is not yet operational

**Established as the successor to the Homes and Communities Agency (National Housing Bank announced in June 2025)

***National Wealth Fund was initially established as UK Infrastructure Bank, and subsequently reformed in 2024

Successive reports will track changes as the landscape of designated public financial institutions continues to evolve. While **Chapter 1** outlined the full list of current and potential future designated institutions, this report focuses on four institutions (**Figure 02A**). This is because they meet three criteria: (i) they focus on UK Growth, (ii) they delivered financial transactions during the most recent financial year, and (iii) their activities are consolidated into central government.

The government is exploring the possibility of designating the following institutions as public financial institutions, assuming they are established in line with the *Financial Transaction Control Framework*:

- **Great British Energy:** Launched in June 2024, the institution is an arm's length body to the Department for Energy Security and Net Zero. Once operational, the entity will be expected to deliver £4.0bn of financial transactions into clean energy projects across the UK. The entity has not delivered any financial transactions (as of 31 March 2025) and **therefore does not appear in any analysis within this report.**²⁵

- **National Housing Bank:**

The government announced a new National Housing Bank, a subsidiary of Homes England, backed with £16bn financial capacity (of which £10.5bn will be delivered through financial transactions). The investments made by this institution are expected to accelerate housebuilding, job creation, and leverage £53bn of additional private investment and unlock over 500,000 new homes.²⁶ As this entity is not yet operational, and historically Homes England has delivered housing-related transactions, this report will **consider the financial investments of Homes England as public financial institution investments.**²⁷

Each public financial institution is expected to deliver financial transactions that align with its core objectives and policy mandates. Where a financial transaction is delivered by a government department, UK Government Investments may be asked to support the department in delivering the transaction. An overview of each institution and examples of financial transactions delivered by them are provided below, with further analysis in **Chapter 3**.

²⁵ [10 Year Industrial Strategy](#), page 36.

²⁶ [Over 500,000 homes to be built through new National Housing Bank – GOV.UK](#)

²⁷ [10 Year Industrial Strategy](#), page 36.

British Business Bank

The British Business Bank (BBB) is the UK's economic development bank. Its aim is to increase the supply and diversity of finance available to smaller businesses across the UK. By providing financing solutions primarily through partnerships with private sector delivery partners, BBB helps smaller businesses reach their potential.

The BBB is headquartered in Sheffield with a significant London office and operates through a group of subsidiaries (including British Business Investments, British Patient Capital, Nations & Regions Investments, Start-Up Loans). BBB was formally launched in 2014 (after being incorporated in 2013) and as of March 2025 it averages

671 employees and manages portfolios of over £30bn across debt funds, guarantees, venture growth and equity programs.

BBB typically delivers investment through accredited delivery partners that include banks, non-bank financial institutions on a risk-share basis, and directly through British Patient Capital for late-stage equity or co-investments. BBB acts as a source of wholesale funding or guarantees for small to medium-sized enterprises and lower-mid-market transactions and can act as a liquidity provider or co-investor in UK ventures. The box below demonstrates *Future Fund: Breakthrough* as an example of a co-investment delivered by BBB.

Future Fund: Breakthrough

Purpose: Future Fund: Breakthrough (FFB) is a £425m UK-wide scheme which encourages private investors to co-invest with government in high-growth, innovative firms. The purpose of the fund is to address the later stage equity finance gap faced by innovative, R&D-intensive UK companies with cutting edge technologies. These companies often require more capital and take longer to get to market than other technology companies.

Activity: The FFB programme was announced by the Chancellor of Exchequer at Budget 2021 and launched on 20 July 2021. Since it began investing in November 2021, the fund has invested in 24 UK companies at growth-stage funding rounds.

Outcome: As of June 2025, the programme invested £178m in 24 companies, which resulted in £1.2bn of private sector capital being invested alongside BBB. In March 2024, an early assessment of the programme confirmed it is regarded as a high-quality investor with its involvement widely seen as having a positive influence on firms and sponsor investors, particularly in signaling a company's growth potential, and it is addressing the late-stage equity funding gap constraining R&D-intensive companies.

Homes England

Homes England is the government's housing and regeneration agency, tasked with accelerating housebuilding and unlocking regeneration opportunities across England. It is mandated to intervene in the housing market to tackle market failures, provide land and funding, and work with partners to create more affordable and high-quality homes in thriving locations.

Its predecessor (the Homes and Communities Agency) was established in 2008, and in 2018 the government relaunched the Homes and Communities Agency as Homes England, giving it new landbuying powers and a commercial remit. The agency operates out of multiple regional offices and has approximately 1,500 staff. Homes England operates more like a policy-driven investor and manages a diverse portfolio of funds and programmes to support housing supply, infrastructure,

regeneration, and affordable homes.

Although Homes England provides a range of financial instruments including loans and equity investments, Homes England acts as a license or concession manager on behalf of MHCLG for a number of guarantee programmes. A large proportion (£3.3bn in the year 2024/25) of the agency's expenditure was focused on grant funding, with the largest scheme being the Affordable Homes programme.

The new National Housing Bank, announced in June 2025, will be a subsidiary of Homes England. With long-term, flexible capital, the National Housing Bank will provide consistent support to private sector developers and SMEs, offering flexible loans, equities and guarantees to unlock complex sites. The case study below demonstrates how Homes England invests alongside the private sector to achieve its policy goals.

Master Developer Partnership

Purpose: Unlock and accelerate large-scale housing developments across England.

Activity: In December 2024 Homes England in conjunction with Oaktree Capital and Greycoat Real Estate formed a £250m master developer partnership.²⁸ In March 2025 the partnership announced the acquisition of a former airfield site in Cambridgeshire and plans to build 3,500 new homes, of which 40% will be designated as affordable housing, as well as additional infrastructure (e.g. schools and green spaces).²⁹

Outcome: The funding has been used to acquire large or complex sites capable of delivering over 1,000 homes each, plan and develop them, and then offer to a diverse range of housebuilders. This partnership exemplifies how strategic collaboration between public and private sectors can unlock complex housing sites and accelerate delivery.

²⁸ [Homes England, Oaktree Capital and Greycoat Real Estate form a long-term public-private partnership](#)

²⁹ [Homes England partnership makes an investment](#)

National Wealth Fund

The National Wealth Fund (NWF) is mandated to tackle barriers to access finance in support of the government's growth and clean energy missions.³⁰ This institution prioritises investment in clean energy, digital and technologies, advanced manufacturing, and transport as the sectors which most effectively support NWF's objectives.

NWF was launched in October 2024, building on the foundations of the UK Infrastructure Bank (founded in 2021), with an expanded remit. The organisation is headquartered in Leeds with 292 full time equivalent staff as of 31 August 2025.

The institution has £27.8bn of capital to catalyse and mobilise additional private investment across the UK. It aims to crowd in private capital, with a 3:1 private-to-public leverage ambition over time.³¹ NWF invests through senior and subordinated debt, direct equity, blended-finance structures, a suite of guarantee products (including credit-enhancement and first-loss portfolio guarantees), and co-invests alongside sponsors, corporates, and lenders. The case study below outlines how NWF attracted private sector capital into a priority sector, resulting in a positive return for the institution.

Pulse Clean Energy³²

Purpose: Catalyse economic activity and job creation in a priority sector.

Activity: In May 2023, the UK Infrastructure Bank (now, National Wealth Fund – NWF) announced that it had provided Pulse Clean Energy with a £62.5m loan to support the building of 20 battery energy storage sites with a combined supply capacity of 930 MW. This investment aims to address some of the market barriers that exist across the sector including attracting more risk averse investors to the battery storage market, while supporting the government's aim to have a flexible and decarbonised grid by 2035.

Outcome: In August 2025, a consortium of private lenders including NatWest and Santander invested a further £220m into Pulse Clean Energy, indicating growing appetite for UK battery storage infrastructure. This has resulted in NWF's ability to step back once market maturity was achieved, which underscores their role as a strategic enabler.³³ NWF received its full initial investment and earned a positive return.

30 [Government missions](#)

31 [HMT, Policy Paper – National Wealth Fund: Mobilising Investment \(accessible\)](#)

32 [Pulse Clean energy Case Study](#)

33 [NWF succeeds in crowding in private sector investment](#)

UK Export Finance

UK Export Finance (UKEF) is the UK's export credit agency and a ministerial government department reporting to the Secretary of State for Business and Trade. Its core mandate is to ensure that no viable UK export fails due to a lack of finance or insurance. UKEF supports UK exporters by providing financing to overseas buyers at competitive rates, offering working capital support, and insuring UK businesses against buyer default to ensure exporters get paid.

UKEF was established in 1919 and is headquartered in London with a regional and global footprint. UKEF now has a co-located office with NWF in Leeds to tighten collaboration between public financial

institutions, and a network of 23 country heads.³⁴ As of 31 March 2025, UKEF reported a total headcount of 588 staff.³⁵

UKEF provides guarantees, insurance and direct lending that can materially de-risk long-term export-linked financing, as well as working capital facilities such as the General Export Facility and Export Development Guarantees which enable supply-chain expansion. When reviewing this reports analysis on UKEF's portfolio, it is worth noting that direct lending is a relatively small part of UKEF's activities. Direct lending is in the scope of this report, while the provision of guarantees and insurance are not covered by the report. An example of UKEF's lending schemes is outlined below.

UKEF's Direct Lending Facility

Purpose: Support growth of overseas exporters.

Activity: Offers loans to overseas government buyers of UK goods and services, operating within a £13bn³⁶ limit and supporting key sectors like defence and clean energy. Provides immediate payment and competitive financing to exporters.

Outcome: Supports job creation and economic growth. The scheme has enhanced the global competitiveness of UK exporters while maintaining fiscal responsibility. In 2024/25, UKEF estimated that its direct lending activity supported 1,000 UK jobs and contributed £0.1bn to GDP.³⁷

34 [UK Export Finance – Annual Report and Accounts 2024/25](#), page 19.

35 [UK Export Finance – Annual Report and Accounts 2024/25](#), page 117.

36 [UKEF, Guidance: Direct Lending Facility](#)

37 [UKEF Economic Impact](#), Table 2.1

Other Public Financial Institutions

British International Investment

British International Investment, an arm's-length body of the Foreign, Commonwealth & Development Office (FCDO), is designated as a public financial institution. It serves as the UK government's development finance institution and impact investor.

As of 31 December 2024, the institution's net assets were £9bn.³⁸ Unlike other designated public financial institutions, British International Investment is classified as a public financial corporation by the Office for National Statistics, which places it outside the central government accounting boundary. As such, the institution's value is reflected within the departmental analysis (**Chapter 3**). This is because FCDO is the sole shareholder of British International Investment and is recognised in the FCDO's

annual report and accounts through its 100% shareholding, with data reported up to 31 December 2024.

Student Loans Company

The Student Loans Company is designated as a public financial institution under the *Financial Transaction Control Framework*, but it is excluded from the public financial institution analysis in this report due to its distinct operational model.

The Student Loans Company acts primarily as an administrative agent of the Department for Education rather than an investment body and is not subject to standard financial controls applied to other public financial institutions. Given these operational differences, the Student Loans Company is reviewed separately in **Chapter 3**.

The Future Landscape of the Public Financial Institutions

In line with the government's growth mission, the government has announced an increase in the aggregate capacity of public financial institutions to £153bn. This is an ongoing, recyclable capacity rather than an amount of capital to be deployed

over a specific time period. This expansion increases the value of financial transactions and guarantees that can be deployed in support of economic development, as illustrated in **Table 02B**.

38 The value of the investment portfolio was £7.3bn.

Table 02B: The total capacity for each of the government's growth-focused public financial institutions³⁹

Public Financial Institutions	Total Capacity (£bn)	Of which Loans and Equities (£bn)	Of which Guarantees (£bn)
British Business Bank ⁴⁰	25.6	17.5	8.0
National Wealth Fund	27.8	17.8	10.0
UK Export Finance ⁴¹	80.0	13.0	67.0
Total – Existing Public Financial Institutions	133.4	48.3	85.0
Great British Energy	4.0	4.0	0.0
National Housing Bank	16.0	10.5	5.5
Total – Potential Future Public Financial Institutions	20.0	14.5	5.5
Total	153.4	62.8	90.5

Simultaneously, HMT has committed to publishing the investment capacity of public financial institutions, and any changes to their financial controls, alongside fiscal events. These measures are intended to ensure transparency and discipline, supporting both market confidence and effective stewardship of public resources.⁴² These controls do not replace existing

governance within public financial institutions, as they will involve collaboration between the senior management and the board of the relevant institution, the sponsor department, and HMT.⁴³ Over time, the analysis within this report will look to show how actual spending by each institution compares to their total capacity.

39 [CP 1344 – UK Infrastructure: A 10 Year Strategy](#), page 36.

40 Loan and equity figure represents additional BBB investment commitments which are partly funded through returns on past investments.

41 [UKEF unveils new strategic financing for industrial growth](#) – UKEF has fixed limits on its direct lending and overall portfolio capacity. UKEF may deploy fewer direct loans and could underwrite a correspondingly higher level of guarantees.

42 [A strong fiscal framework](#), page 25.

43 [Financial Transaction Control Framework March 2025 A strong fiscal framework](#), pages 18-19.

Chapter 3:

Value and Performance

This chapter will begin by examining the value of government’s portfolio, reported by departments as of March 2024, by analysing the composition of its investments. It will then outline how government currently measures performance at both the investment and organisational levels.

Portfolio Overview

Total Portfolio	Student Loans
	Public Financial Institutions
	Departments

As of 31 March 2024, the government’s portfolio of loan and equity financial transactions is valued at £203bn (**Figure 01B**). Of this total, £25bn (12%) is held in equity, while £178bn (88%) is comprised of loans. The single largest item across the portfolio is student loans, which accounts for £151bn (74%) of the total value.

Student Loans

Total Portfolio	Student Loans
	Public Financial Institutions
	Departments

Student loans make up the majority of the government’s financial transactions portfolio, highlighting the government’s ongoing commitment to higher education. Noting the high value, there is a substantive amount of data on student loans that is regularly updated, including statistics and forecasts produced by the Department for Education (DfE)⁴⁴ and the Office for Budget Responsibility.⁴⁵ This report will instead monitor and examine how changes to the value of student loans could specifically affect the wider investment portfolio’s value. Further information regarding student loans can be found in the explainer box on the next page. Following this detailed explainer, the Student Loans Company (and student loans) will be excluded from the remainder of this report.

44 [Student loan forecasts for England: methodology – Explore education statistics – GOV.UK](#)

45 [EFOs – Office for Budget Responsibility – March 2025](#).

Student Loans Overview

The Student Loans Company is a wholly owned arm's-length body of the UK Government. Under the *Financial Transaction Control Framework*, the Student Loans Company is designated as a public financial institution. However, unlike other public financial institutions which are investment bodies, the Student Loans Company's role is purely administrative. It is limited to processing applications, disbursing loans to eligible students and tuition fees to Higher Education institutions. In contrast to other institutions, the loans delivered by the Student Loans Company are incorporated into the sponsoring department's (Department for Education – DfE) balance sheet rather than the institution's.

The Student Loans Company is mandated to support a single policy objective: to ensure that financial barriers do not prevent individuals from accessing higher education. This aims to contribute to a more skilled workforce and supports long-term productivity.

Repayment mechanism: While the Student Loans Company administers loans, repayments are primarily collected by HM Revenue and Customs (HMRC) through the Pay As You Earn system and self-assessments. These repayments are then passed on to DfE. Generally, repayments begin only after graduation, once a borrower's income exceeds a set threshold and any outstanding debt is written off after a fixed period (typically 30-40 years depending on the plan). Monthly payments are based on earnings rather than the amount borrowed.

Valuation: As of 31 March 2025, the total asset value of the student loans portfolio was £158bn,⁴⁶ an increase of 5% from £151bn on 31 March 2024. In addition, the student loans system costs c.£300m p.a. to administer.⁴⁷

Student loans are recognised on DfE's balance sheet at fair value. As part of calculating the value all expected cash flows, including expected interest, are discounted. Valuing student loans is inherently complex and differs significantly from commercial loan portfolios. Unlike mortgages, which have predictable monthly repayments, student loan repayments are contingent on borrower earnings. This makes repayments sensitive to macroeconomic factors such as employment levels, inflation, and salary growth.

The proportion of student loans within the whole portfolio is expected to rise further, as the total student loan outlay is forecast to grow by 20% between 2024 and 2029. This increase will be driven by higher average loan amounts and a projected rise in the number of borrowers, reflecting the anticipated growth of the 18-year-old population.⁴⁸

46 Figure taken from unaudited management information.

47 [Student Loans Company, Annual Report and Accounts 2024-2025](#), Note 6 (Financial Statements).

48 [Student loan statistics – House of Commons Library](#)

Performance: DfE forecasts that most borrowers will repay at least some of their loan, while 56% of full-time undergraduate borrowers starting courses in the 2024/25 academic year are expected to repay their loans in full. This repayment rate is in line with that calculated for the 2023/24 cohort.

Risk management: As outlined in the *Financial Transaction Control Framework*, the Student Loans Company does not operate as an investment body and is governed by a bespoke set of financial controls, distinct from those applied to other designated public financial institutions (defined in **Chapter 2**). Therefore, the Student Loans Company is not subject to economic capital risk modelling, which is otherwise required for other designated public financial institutions.

Instead, DfE and HMRC use risk modelling techniques, drawing on operational data provided by the Student Loans Company, to estimate expected repayments and determine the necessary budgetary provision. Additionally, given that student loan repayments are income-contingent, any deterioration in graduate employment conditions, such as wage stagnation or rising unemployment, can directly reduce borrowers' repayment capacity. This introduces a material vulnerability to the portfolio, particularly in periods of economic stress.

Fiscal treatment of student loans: Due to the value of the student loan portfolio being significantly higher than other investments delivered by the government, it attracted scrutiny regarding its treatment in fiscal statistics. In 2019, to better align its fiscal treatment with public sector finances, the Office for National Statistics (ONS) changed the approach, splitting loans into genuine lending and immediate government capital spending. This approach is set out in detail on the ONS' website.⁴⁹

The value reflected in National Accounts differs from the accounting value of the student loan book reported elsewhere in this report. At the end of 2024/25 the "modified loan balance" i.e. the portion of the student loan book treated as genuine loans rather than grants stood at £125bn. This is less than the £151bn accounting value. £8.7bn of "modified interest" was charged on this "modified loan balance" of the student loan book. This measure splits student loan repayments between principal repayments on the "modified loan balance" and interest repayments. These modified interest payments were c.7% of the modified loan balance.

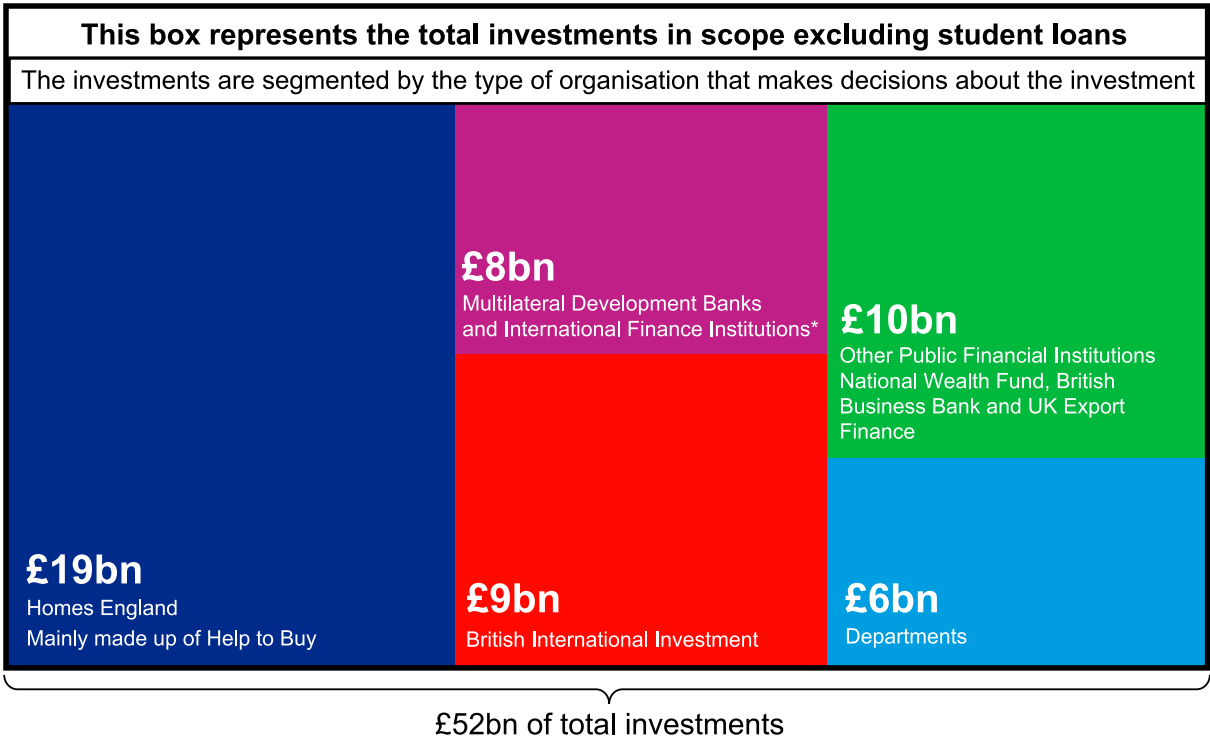
49 [Student loans in the public sector finances: a methodological guide - Office for National Statistics](#)

Portfolio Overview
(excluding student loans)

Total Portfolio	Student Loans
	Public Financial Institutions
	Departments

As of 31 March 2024, the total portfolio (excluding student loans) is valued at £52bn, of which £25bn (48%) is held through equities and £27bn (52%) in loans.

Figure 03A: Further breakdown of government’s financial transaction portfolio as of 31 March 2024



**Includes multilateral development banks such as the International Bank for Reconstruction and Development , and international finance institutions such as the International Finance Corporation, among others, as well as subsidiaries of these entities.*

Figure 03A demonstrates that in addition to the institutions examined in **Chapter 2** (British Business Bank (BBB), British International Investment, Homes England/ National Housing Bank, National Wealth Fund (NWF) and UK Export Finance (UKEF)), the government invests in other expert institutions such as multilateral development banks and other international finance institutions (**see Table 03B** for examples). These investment vehicles have policy objectives aligned with those of government and they are established to invest funds in a portfolio of investments, providing underlying diversification across multiple assets.

Excluding student loans, £46bn investments (89%) in the portfolio are managed by specialised institutions. The remaining £6bn of assets across the portfolio (11%) are managed by departments. This insight shows that government largely delivers transactions via specialist institutions with deep investment experience and specialist knowledge, even where an investment remains on a department’s balance sheet. Future iterations of this report will continue to track how government makes investments and analyse the portfolio’s composition to identify emerging trends.

Table 03B: The top 10 investments (excluding student loans) represent £36bn as of 31 March 2024

Investment	Associated Government Department	Investment Type*	Value (£bn)
Homes England Help to Buy: Portfolio of Help-to-Buy equity loans issued to first-time home buyers	MHCLG	Loan	17.4
British International Investment Foreign Investments: Portfolio of investment in private-sector businesses in emerging economies	FCDO	Equity	8.8
International Bank for Reconstruction & Development: Investment in the world's largest development bank	FCDO	Equity	2.0
European Bank for Reconstruction & Development: Investment in the EBRD, a development bank supporting private-sector businesses across Europe, Asia and Africa	HMT	Equity	1.7
International Finance Corporation: Investment in the IFC, a financial institution supporting the private sector in developing countries	FCDO	Equity	1.4
British Business Bank Venture/Growth Capital Investments: Portfolio of investments in venture and growth capital funds, which in turn invest in early-stage UK businesses	DBT	Equity	1.4
UK Export Finance Government of Qatar Loan: To support financing of BAE Systems' export of aircraft to Qatar's military	UKEF	Loan	1.0
Asian Development Bank: Investment in the AsDB, a development bank providing funding across Asia	FCDO	Equity	0.9
Future Fund (British Business Bank operates the scheme): Portfolio of investments in early-stage UK companies, issued to support business during the COVID-19 pandemic	DBT	Equity	0.8
Homes England Infrastructure Loans: Portfolio of loans to private-sector housing developers to accelerate infrastructure development	MHCLG	Loan	0.7
Total Top 10 Investments			36.0

*For transactions delivered through investment vehicles where government is the sole investor (BBB, British International Investment, Homes England and UKEF), "Investment Type" refers to the structure of underlying investments made by the investment vehicle, rather than investments in the investment vehicle by government departments.

The largest item within the portfolio, excluding student loans, is the Help to Buy Scheme valued at £17bn (34% of the total

portfolio) as of 31 March 2024. This scheme is examined in greater detail below given its current high value.

Help to Buy Scheme Overview⁵⁰

The Help to Buy scheme, introduced in 2013 and closed to new applicants in October 2022, was established to reduce the undersupply of homes across the UK by supporting buyers in purchasing new-build properties. The scheme is delivered and managed by Homes England.

The scheme was structured as an equity loan, whereby the government provided a loan of up to 20% (40% for London properties) of an eligible property's value to an eligible buyer.⁵¹ The home buyer was required to fund the remainder through a mortgage and minimum 5% deposit. Unlike traditional loans, this arrangement provided the government with a proportional stake in the property, meaning it shares in any increase (or decrease), in the property's market value. Interest is charged on the loan only after the fifth year. For the purpose of this report, the Help to Buy scheme is treated as a loan.⁵²

Repayment mechanism: Repayment is based on the property's market value (after any outstanding balance of the first charge mortgage is repaid) at the time of sale or repayment, not the original loan amount. While the loan must be repaid within 25 years, it can be repaid in part or in full at any time. For any partial repayment, it must be a minimum of 10% of the property's prevailing market value.

Valuation: The scheme delivered a total of £24.7bn in equity loans and supported 387,276 households in purchasing a new home. As of 31 March 2025, 181,437 households (47%) had repaid their loans,⁵³ with the remaining portfolio valued at £15.9bn, a 9% decrease from £17.4bn on 31 March 2024. The portfolio value is forecast to decrease over time since the scheme is closed to new applicants and as existing loans are repaid.

Performance: As of 31 March 2025, the Help to Buy scheme generated total repayments of £11.0bn from an initial total outlay of £10.0bn,⁵⁴ demonstrating that the scheme is delivering tangible financial returns. In addition to these measurable gains, the scheme has generated broader socio-economic benefits, including increased home ownership and support for the construction sector through job creation. These wider impacts, while not easily captured by financial metrics, contribute to broader economic stimulus.

50 [Help to Buy: Equity Loan – GOV.UK](#)

51 An eligible buyer should be first time buyer, that is a UK resident and is aged over 16. The full eligibility criteria can be found here – [Homebuyers' guide to the Help to Buy: Equity Loan](#).

52 Help to Buy equity loans are classified as an equity investment within Homes England's accounts. For this report, however, we have classified this as a loan due to its shared characteristics with other loan products within the portfolio.

53 [Homes England Annual Report and Accounts 2024-25](#), page 86.

54 [Homes England Annual Report and Accounts 2024-25](#), page 86.

Risk: The remaining Help to Buy loan book is exposed to two key risks:⁵⁵ (i) **market risk** arising from the scheme's sensitivity to house price fluctuations. Since the government is repaid only after the mortgage lender, a sharp fall in prices could result in a disproportionate decline in the value of the loans repaid; and (ii) **concentration risk** stemming from the geographic and property-type clustering of the loans. A significant downturn in specific regions or property type (e.g. flats) could materially reduce the value of the remaining loan book.

Strategic considerations: Given the substantial value of outstanding loans, the Help to Buy loan book represents a concentration risk within the real estate sector (see **Chapter 4**). While this concentration is expected to decline over time as balances are repaid, the planned launch of the National Housing Bank, with a capacity to deliver £10.5bn in financial transactions over the next 10 years (as stated in **Chapter 2**), suggests that government's exposure to the real estate sector is likely to remain material.

Portfolio Overview:
Public Financial Institutions

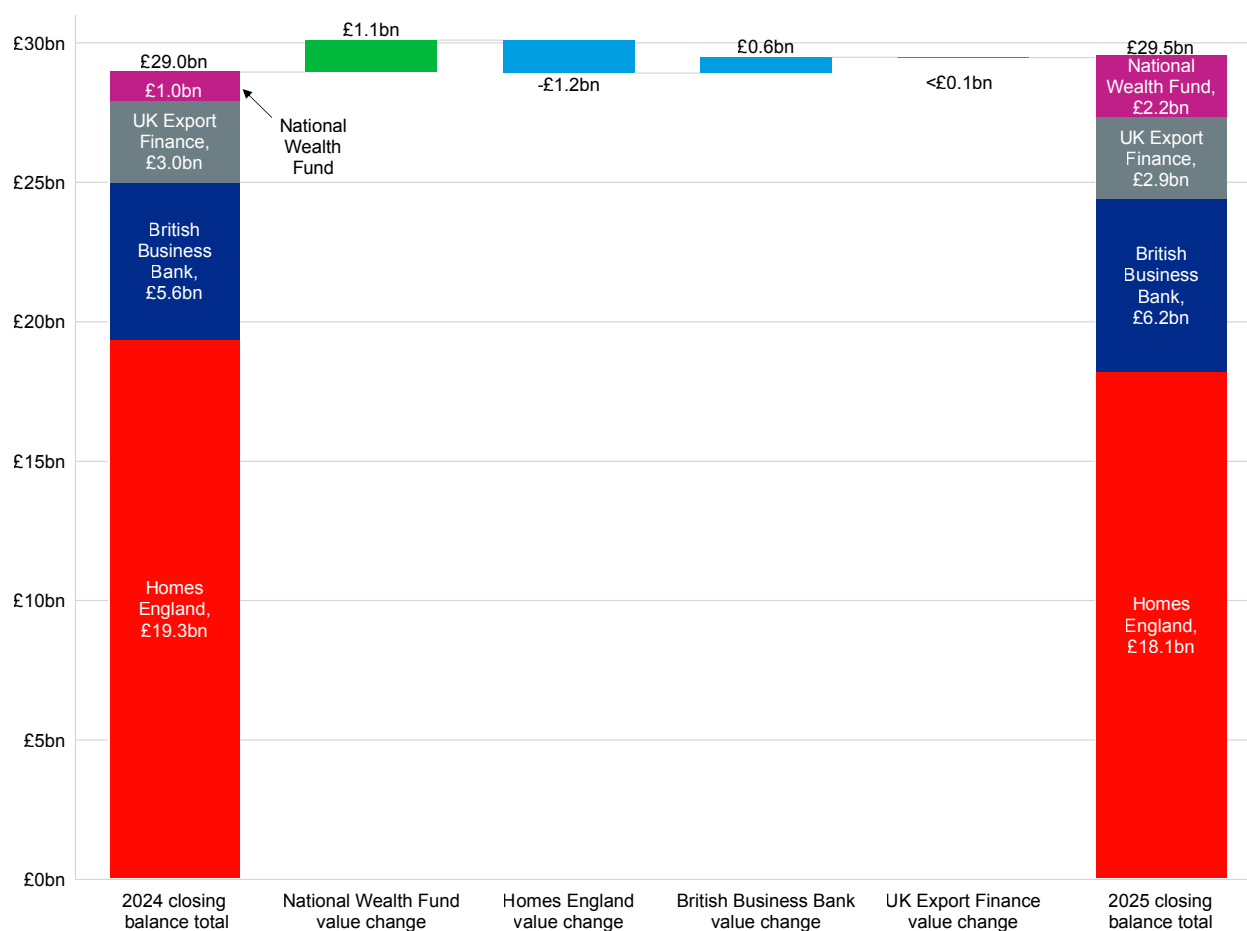
Total Portfolio	Student Loans
	Public Financial Institutions
	Departments

Within this report the total portfolio value is reported as of 31 March 2024 as the government committed to publishing a report using asset valuations drawn from accounts already audited by the National Audit Office. As outlined in the *Financial Transaction Control Framework*, however, public financial institutions will be responsible for a higher volume and value of transactions. Therefore, to support further value and performance analysis of these institutions, and provide enhanced transparency, UK Government Investments (UKGI) requested unaudited management information using data as of 31 March 2025. As we have used unaudited data, in some cases, actual published figures may vary.

Using this additional data, this subsection provides an overview of the value of transactions delivered by public financial institutions across 2024 and 2025. As set out earlier in this report, given that the National Housing Bank is not yet operational, and historically Homes England has delivered housing-related transactions, this section will assess the financial investments of Homes England alongside investment of public financial institutions in this section.

55 [Homes England Annual Report and Accounts 2024-25](#), page 74.

Figure 03C: The movements in the value of investments held in the portfolio between 31 March 2024 and 31 March 2025. Changes can be a result of new investments (+), realisations (-) and changes in values of assets (+/-)



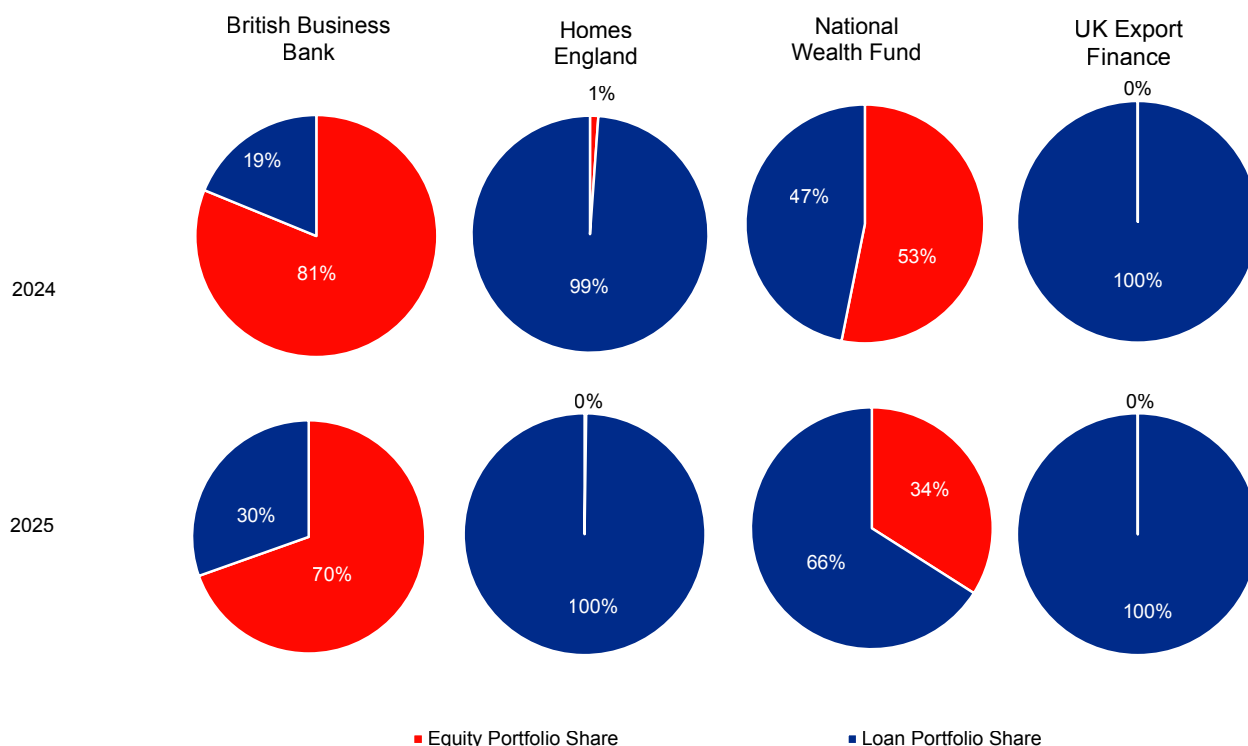
As of 31 March 2024, the value of investments held by public financial institutions was £29bn. In the year ending 31 March 2025, the value of financial transactions managed by the institutions increased slightly to £29.5bn.⁵⁶ This reflected several key movements within the portfolio (**Figure 03C**).

First, the value of the Help to Buy scheme reduced by £1.5bn to £15.9bn, partially due to 27,000 households repaying their loans within the year. Second, the value of investments held by the BBB increased by £0.6bn, mainly driven by additions of £1.3bn, which were partially offset by repayments of £678m. Nearly 80% of these

repayments related to debt investments, with an additional 236 companies in which BBB had made equity investments exiting the portfolio. Finally, the value of NWF's investments increased by £1.1bn, owing to a combination of new investments, which were partially offset by a reduction in the value of existing assets. We expect the value of NWF's investments to continue to grow in line with its projected spending capacity over the next decade (as set out in **Table 02B, Chapter 2**).

⁵⁶ Figure reflects unaudited management information and therefore actual figures may vary.

Figure 03D: Proportion of financial investment portfolio held in equities or loans for each institution (excluding student loans). Note that organisations may offer other products such as guarantees or grant funding which will not be captured below



The size of the investment portfolios held by each of the four institutions has shifted over the course of the year, as have the relative shares of each sub-portfolio allocated to loans and equity investments. As of 31 March 2024, the proportion of loans was £23.6bn and equity was £5.3bn. As of 31 March 2025, this changed to reflect a loan value of £24.4bn and equity of £5.1bn reflecting portfolio realisations and changes in the value of holdings as mentioned above.

As illustrated in **Figure 03D**, of the financial transactions delivered by these institutions, Homes England and UKEF primarily deliver loans,⁵⁷ whereas BBB primarily focuses on equity transactions (c. 70% of all transactions). Notably, in 2025, NWF increased its total investment across both loans and equity.

⁵⁷ UKEF primarily deliver guarantees, however guarantees are out of scope for the purpose of this report.

Understanding How Valuations are Calculated

Total Portfolio	Student Loans
	Public Financial Institutions
	Departments

While the previous section examined the composition of the government's investments in detail, it is important to understand how the value of these investments has been derived.

The investment values captured in this report reflect the values for each underlying investment as reported on the respective departments' and public financial institutions' balance sheets. Across the portfolio, government departments and public financial institutions use varied valuation methodologies for different types of financial transactions, as prescribed by international accounting standards. Different valuation methodologies exist because loans and equity investments differ in structure, risk, liquidity, and availability of market data. As set out in **Annex F**, valuation methodologies reported by departments were aggregated into categories. The three main categories of valuation used by departments in preparing financial statements are:

- **fair value** – the price that reflects current market conditions is referred to as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participant at the measurement date (71% of portfolio or £37bn);⁵⁸
- **cost-based valuation** – assets recorded at their purchase price, which can then be reduced through amortisation or adjusted if the asset is

impaired (25% of portfolio or £13bn); and

- **equity method** – assets recorded at purchase cost, then adjusted to reflect the investor's share of the business's profits or losses, dividends received, and any impairment losses (4% of portfolio or £2bn).

It should be noted that the largest assets classified within the cost-based valuation category are the Foreign, Commonwealth & Development Office's investments in development banks and international finance institutions. Each of these institutions will apply different valuation methodologies to value its respective underlying investments, in line with relevant accounting standards. When the investments in these institutions are reported in the parent department's accounts, the total investment value is reported as a single line item. A number of these department-level investments are classified as using cost-based valuation methods, given that the development banks and institutions have a high proportion of loans within their underlying portfolios. As a result, some underlying investments which use fair value methodologies may be consolidated and reported as cost-based, and the prevalence of cost-based valuations is likely to be overstated. In the future, UKGI will consider standardising data collection to improve future analysis of valuation methods. In addition, UKGI will continue monitoring the value and valuation methodologies of government investments.

58 [IFRS 13 Fair Value Measurement](#)

Measuring the Performance and Benefits of a Financial Transaction

Unlike private investors, the government invests to achieve public policy objectives such as addressing problems in a market or providing credit during periods of macroeconomic instability. As a result, it must consider both the financial performance of investments and the wider benefits of its policies when making and managing investments.

Individual departments and public financial institutions hold data on the performance of their investments at the institutional level. In the first instance, this report's aim is to bring this information together and describe the portfolio as a whole. Therefore, the data requirements focused on capturing investment valuations, rather than the information needed for detailed portfolio-level financial performance analysis. In future iterations of this report, UKGI will work with

departments and institutions to collect data on interest repayments (for loans), dividend returns (for equities) and changes to impairment values. This will enable further analysis to be conducted on the financial performance and returns generated from the portfolio.

To supplement financial performance reporting, quantifying total benefits from government-led transactions can be challenging, as they are designed to achieve complex policy objectives such as achieving economic, social or environmental impacts. These outcomes can take years to materialise and are subject to external factors such as market conditions. The case study below provides an example of how government can assess the wider impact of a particular policy intervention.

Fusion Fund

In 2025, the UK's Department for Energy Security and Net Zero (DESNZ), supported by UKGI, made a strategic investment of up to £20m in a UK-based private sector fusion investment fund.⁵⁹ As of October 2025, £10m has been invested and further £10m will be invested when the fund reaches a target of £90m of total capital raised.

The fund operates as a venture capital vehicle, targeting high-growth fusion start-ups with the potential to transform the UK's fusion technology landscape.

The policy objective behind DESNZ's investment was to improve access to venture capital financing for early-stage businesses in the fusion technology supply chain. Rather than establishing a new government-led fund, a process estimated to take two to three years, DESNZ opted to invest directly into a private sector fund, helping shape its investment strategy. This approach enabled DESNZ to build industry contacts, obtain sector insights and aims to crowd in private capital.

⁵⁹ [Government kickstarts £100 million fusion investment – GOV.UK](#)

While the fund remains in its early stages, DESNZ has already realised a range of non-financial benefits from its investment. These include accelerated engagement with the fusion sector, early visibility into emerging technologies and strong positioning as a credible partner within the innovation ecosystem. The fund is targeting a market rate of return for limited partner investors including DESNZ, consistent with other venture capital investment vehicles.

Considering wider policy benefits is integral to government decision-making, as set out in HM Treasury’s Green Book, which emphasises the importance of evaluating both financial and non-financial impacts.⁶⁰ Collecting portfolio-level data on these wider impacts presents significant challenges,

particularly in terms of consistency and attribution. Nevertheless, UKGI will explore ways to reflect such impacts in future reports, for example by examining the wider effects of the largest investments within the portfolio.

Measuring the Performance and Benefits of Financial Transactions at the Organisational Level

Total Portfolio	Student Loans
	Public Financial Institutions
	Departments

Government may invest in projects with larger risks in order to crowd in private capital, strengthen the economy, drive business growth and advance key government priorities such as economic growth, housing, and clean energy. To ensure fiscal sustainability, however, public financial institutions (as mentioned in **Chapter 2**), are subject to a range of financial controls, specifically to ensure returns from transactions meet certain targets.⁶¹ The institutions are expected to target a risk-adjusted return above the government’s cost of borrowing (the relevant gilt rate) and overhead costs. In some circumstances, the government may deliver a transaction that does not meet

the threshold in which case the associated cost needs to be reported on, treated as government spending, and balanced with the policy objectives achieved.

Public financial institutions already have robust methodologies in place to assess the performance of investments and calculate non-financial returns at the organisational level. These methodologies will often cover the breadth of the organisation’s activities and not solely focus on the loans and equity investments provided. Nonetheless, they provide a useful overview of performance and benefits achieved in line with their respective mandates. The sub-sections below outline the financial performance

60 [Green Book](#), Chapters 2 and 5.
61 It should be noted that the requirements of the *Financial Transaction Control Framework* are being applied incrementally, given that some institutions are still in the early stages of development.

metrics and non-financial benefit measures for each organisation.

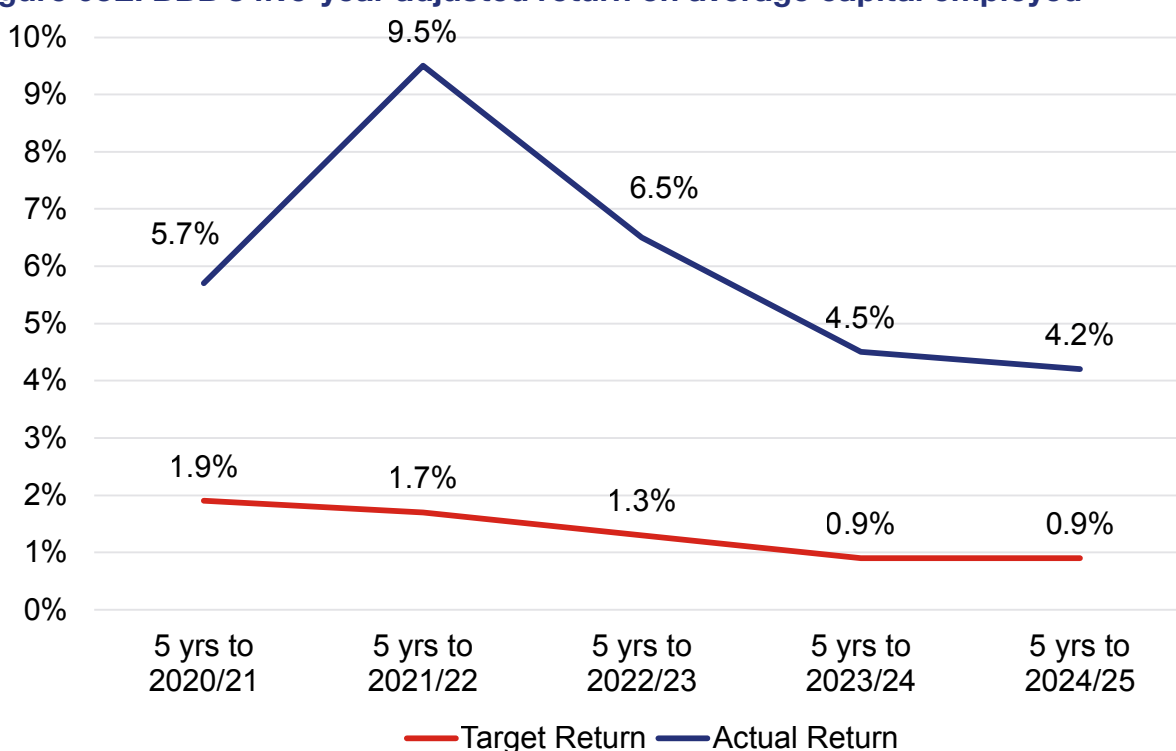
British Business Bank⁶²

Performance: BBB uses adjusted returns to calculate its return on investment. The measure includes the programmes on both the institution's balance sheet and those it administers on behalf of the Department for Business and Trade apart from the BBB's legacy programmes, Coronavirus emergency response loan guarantee schemes and Future Fund. The adjusted approach filters out exceptional items, volatile components, and temporary factors that could obscure fundamental performance trends.

Therefore, the bank highlights that adjusted return reasonably reflects the financial performance of the institution and provides a comprehensive view on a normalised basis.

As shown below (**Figure 03E**), BBB has consistently performed above target (benchmarked against gilt yields and agreed with the DBT) and generated a return of 4.2% over a five-year horizon, to the year ending 31 March 2025. The fall in return has been driven mainly by the wider market rather than BBB specific factors.

Figure 03E: BBB's five-year adjusted return on average capital employed⁶³



Benefits: More broadly, in terms of wider benefits from investments, in 2024/25 BBB estimated that it had created 38,000 additional jobs, as well as supporting

267,000 existing jobs. During the year 28,000 UK companies received finance from BBB, which was supplemented with £3.0bn of private sector capital invested alongside

⁶² [British Business Bank Annual Report and Accounts](#), page 69.

⁶³ Figure 03D adapted from [British Business Bank's Annual Report and Accounts](#), page 70.

BBB. The bank's investment additionally stimulated wider economic activity, with the

2024/25 investment estimated to result in £8.0bn Gross Value Added.⁶⁴

National Wealth Fund⁶⁵

Performance: The Return on Equity (ROE) is a financial ratio that measures how effectively an organisation generates profit from a shareholder's investment. NWF uses an adjusted ROE, which comprises profit or loss before taxation, adjusted for any exceptional items agreed with the shareholder (HMT), divided by the weighted average shareholder equity in the

year, plus the average of any cumulative exceptional items.

The current ROE is broadly reflective of NWF's growth stage position in capital deployment (see **Table 03F**). The expectation is that NWF will generate positive portfolio-level returns as investments mature in later years, in line with return targets.

Table 03F: NWF's two-year adjusted return on equity⁶⁶

Business Outcomes	2022/23	2023/24
Loss before taxation	(£21m)	(£82m)
Return on equity (ROE)	(3.8%)	(10.2%)

Benefits: As of our reporting date, the most recent annual performance figures available for NWF were published in NWF's 2023/24 annual report and accounts. During the 2023/24 year, NWF completed investments in 13 infrastructure initiatives, as well as 4

investments in funds specialising in sectors such as clean energy. NWF estimates that 2,868 jobs will be directly attributable to this 2023/24 investment, and these transactions have helped mobilise an additional £2.0bn of invested capital from the private sector.⁶⁷

UK Export Finance⁶⁸

Performance: UKEF calculates a pricing adequacy index (PAI) to assess whether, over time, the organisation earns enough premium income to cover its risk and operating costs. This metric covers all UKEF's activities, including export credit guarantees, insurance and direct lending. The PAI ensures that UKEF remains financially responsible and does not expose the taxpayer to excessive losses when

taking on transactions to provide support that the private sector cannot.

The PAI takes into account the modelled risk exposure from investments (expected loss and a proportion of unexpected losses) and administration costs. This is then compared to the amount of income earned. The metric is represented as a ratio, with 1.0 as the minimum ratio allowed by HMT (representing break-even). Figures over 1.0 mean that UKEF is bringing in more money than

⁶⁴ [British Business Bank's Annual Report and Accounts](#), page 10-11.

⁶⁵ [National Wealth Fund Limited Annual report and accounts 2023-2024](#), page 21.

⁶⁶ Table 3C adapted from [National Wealth Fund Annual Report and Accounts 2023-24](#), page 21.

⁶⁷ [National Wealth Fund Annual Report and Accounts 2023-24](#), page 34-35.

⁶⁸ [UK Export Finance Annual Report and Accounts](#), page 41.

required to cover its expenses and risk. For 2024/25 UKEF's PAI was at 1.5, which was above target and meant the organisation

expected to earn 50% more premium income than its losses and administration costs combined (see **Table 03G**).

Table 03G: UKEF's Pricing Adequacy Index

The PAI is reported by UKEF over three different periods which are all shown below:

Period measured	PAI	Target (1.0) met?
2022/23 to 2024/25	1.50	Met
2023/24 to 2025/26	≥1.46	Met
2024/25 to 2026/27	≥1.42	Met

Benefits: More broadly, in terms of wider benefits from investments, in 2024/25 UKEF estimates that it supported 667 UK exporters. Up to 70,000 jobs in communities across the UK were supported as a result

of this investment, and UKEF estimates that these transactions will result in a contribution of up to £5.4bn to the overall UK economy.⁶⁹

Homes England

Performance: As Homes England is not a public financial institution, it is not subject to the same controls and requirements as other institutions. Homes England primarily delivers its investments through loan financing, although many of its performance metrics consider the breadth of interventions delivered, including grants. Homes England's measures its social value per pound of investment. This measure aggregates the forecast social value across the lifetime of all projects approved in a given year to estimate Homes England's impact. This considers social, environmental and economic impacts that are evidenced and attributable to interventions. Homes England is forecasting to deliver £2.25 of social value for every pound invested, or a social return of 125% on its investments.⁷⁰

Benefits: Over the year ending 31 March 2025, Homes England supported the completion of 36,872 homes, as well as the initiation of 38,000 additional homes. This further unlocked land that is expected to deliver an additional 79,011 homes in the future. Homes England's activity during the 2024/25 year is estimated to have created 104,400 employment opportunities across the sites that it supported.⁷¹

Measuring Financial Returns

The *Financial Transaction Control Framework* sets out that financial transactions must either generate income that covers the government's cost of borrowing (and associated operational overheads) or be transparent on their cost where they do not. This ensures that investments made are fiscally sustainable as they cover their cost of financing or provide

⁶⁹ [UK Export Finance Annual Report and Accounts 2024-25](#), page 16.

⁷⁰ [Homes England Annual Report and Accounts 2024-25](#), page 25.

⁷¹ [Homes England Annual Report and Accounts 2024-25](#), page 24 and 32.

for any loss-making element of a transaction to be traded off with other public spending within the government's fiscal rules.

It should be noted, however, that the portfolio of investments analysed within this report was established before the introduction of the *Financial Transaction Control Framework*. Prior to the introduction of this framework, the requirement to cover government's costs was not explicitly stated in all transactions, noting the value of wider policy delivery. Many of these investments were also made when the government's cost of borrowing (the gilt rate) was lower. Consequently, any analysis of current portfolio-level returns not only reflects current asset performance but also reflects the market conditions and controls in place at the time that investments were made. As discussed in this report, alongside the additional capacity for investment announced over the Spending Review period, strict requirements on risk and return will ensure that new investments made cover the government's cost of financing or recognise cost transparently.

As demonstrated in the previous section, each public financial institution has a tailored methodology to calculate the performance of their investment. These cover different time periods, include or exclude different assets and are adjusted to reflect the varying mandates and maturity of each organisation. There is therefore inherent complexity in bringing these metrics together to present aggregate conclusions on portfolio level returns.

To get a transparent and clear understanding of the performance of the investment portfolio, a harmonised returns calculation should be produced. This is a long-term ambition which will ensure that investment reporting aligns with the requirements set out in the *Financial Transaction Control Framework*. However, to improve fiscal transparency for taxpayers in the short term, we have demonstrated what an initial snapshot of in-year returns before a more comprehensive returns estimate is produced. This calculation is referred to as the *annual gross return on asset book*. This is explained below, with detailed methodology in **Annex G**.

Explainer box: Annual gross return on asset book

The annual gross return on asset book measures the aggregate return generated from a sub-portfolio of government's financial investments, prior to deduction of operating and financing expenses. This approach provides an experimental, and deliberately simplistic metric, without considering the costs incurred to administer the investments.

It is calculated as the sum of interest and dividend income plus changes in asset value, divided by the average asset book size over the year.

This metric uses data received from public financial institutions that has either been included in, or fed into, annual report and accounts, and data from published annual reports and accounts for British International Investment and multilateral development banks. Given the experimental nature of this calculation, it should not be compared to the performance metrics of each institution, which will reflect their unique portfolios and mandates. The organisations in scope are: Homes England including Help to Buy, National Wealth Fund, British Business Bank, UK Export Finance, British International Investment, and the UK's investment in the major Multilateral Development Banks. This scope has been chosen as it covers the majority of the non-student loan financial asset portfolio by value.

This simplified measure has several important limitations and this is why UK Government Investments and HM Treasury will work with departments and public financial institutions to better understand the aggregate assessment of returns for the wider financial transactions' portfolio. The annual gross return on asset book:

- is an experimental figure that is presented on a gross basis and excludes administrative, operational, and financing costs. This means the cost of making and managing these investments has not been reflected;
- reflects a one-year snapshot and incorporates investments of varying maturities. Most investments were made when interest rates were lower and will be held over multiple years. Their overall return will not be known until the investments are redeemed or realised. This initial experimental figure is therefore not directly comparable to current gilt yields;
- is dependent on the start-year and end-year valuations of the underlying investments. By their nature these will not be readily traded assets so market values may not be tested until investment are realised;
- includes unrealised (book) gains and losses, which may not ultimately be realised. Additionally, within a one-year snapshot, there will be short-term fluctuations in gains/losses which may cause this calculation to be more volatile than a return calculation over a longer time period; and
- uses aggregated data from organisations. While key variables have been controlled for, variations in data composition across individual public financial institutions may persist.

For the sub-portfolio analysed, the annual gross return on asset book is calculated to be 1.9%. This is an aggregated snapshot of returns over the last year, across investments of varying maturities and valuation approaches. It is therefore not directly comparable to current or historic gilt yields and should not be used to assess whether portfolio returns cover the cost of borrowing.

That would require a multi-year measure that reflects the timing and maturity of each investment, the government's borrowing cost over those periods and the costs of administering the investments.

Future work will develop a fuller metric that aligns the measure of investment returns with government's cost of borrowing and administration expenses, enabling a clearer assessment of fiscal sustainability.

The *Financial Transaction Control Framework* highlights the importance of transparency in managing returns to support fiscal sustainability. Despite the limitations of this experimental and simplistic metric outlined above, it marks an important first step towards comprehensive portfolio-level reporting of returns and demonstrates the government's commitment to fiscal transparency. Future reports will seek to refine this metric to provide a more complete, and realistic, picture of returns.

Chapter 4:

Risks Within the Portfolio

This chapter examines the inherent risks within the government's financial transaction portfolio and outlines the strategies in place to manage them. It also explores how public financial institutions are addressing these risks to enable informed decision-making and ensure the responsible delivery of investments.

Existing Risk Management Approaches

Financial transactions inherently involve risk as they have uncertain future return outcomes. For example, borrowers may default on loan repayments, sectors may experience shocks resulting in the devaluation of equity holdings, or projects may fail to deliver expected returns. The inherent value of risk is often amplified in government-led financial transactions because the public sector intervenes in market segments where private investors are either unwilling or unable to operate effectively, to address identified market failures. For example, government might deliver:

- (i) **long-term horizon investments:** where payback periods extend beyond private sector risk tolerance and where initial capital requirements are substantial but returns materialise slowly;
- (ii) **commercially less attractive but socially essential projects:** where the financial returns are insufficient to attract private investment despite wider social benefits; and

- (iii) **market failure scenarios:** where information asymmetries, externalities, or coordination problems prevent efficient private sector solutions.

Consequently, comprehensive monitoring and reporting frameworks are used by departments and public financial institutions to inform the management of risks within the portfolio.

Key tools and frameworks used to monitor and report on risk

- (i) **The Financial Transaction Control Framework:** Establishes controls on financial transactions to ensure that government use of financial transactions is fiscally sustainable and does not cause debt to rise over time.⁷²
- (ii) **General governance:** Departments and institutions are also expected to maintain robust governance structures, with clear roles and responsibilities for risk oversight. HM Treasury, arm’s-length bodies, and departmental boards all play a role in setting risk appetite, monitoring exposures, and ensuring accountability for financial decisions.
- (iii) **The Government Financial Reporting Manual:** Establishes financial reporting standards and requires departments to calculate expected credit loss calculations to estimate potential losses based on economic trends and borrower risk profiles.⁷³
- (iv) **The Green Book:** Used to appraise and evaluate new projects and programmes. It provides the framework for identifying the best value for money approach through systematic cost-benefit analysis, risk assessment, and option appraisal before public investment decisions are made.⁷⁴
- (v) **The Orange Book:** Defines principles for identifying, assessing, and managing risk in public sector organisations, promoting accountability and transparency in financial decision-making.⁷⁵
- (vi) **Managing Public Money:** Outlines requirements and responsibilities for managing public funds, ensuring spending provides value for money and meets Parliamentary expectations.⁷⁶

Risks Within the Portfolio

Total Portfolio	Student Loans
	Public Financial Institutions
	Departments

Any investor, whether in the public or private sector, will face a range of risks within a portfolio of investments, such as concentration, equity and credit risks. If these risks were to crystallise, they could impact the value and performance of the

investments in certain scenarios. Although the investment portfolio analysed within this report is small compared to the size of the government overall balance sheet (which had assets totaling £2,651bn in 2023/24),⁷⁷ increased transparency on risk is important

72 [Financial Transaction Control Framework March 2025](#).
73 [The Government Financial Reporting Manual \(FReM\)](#)
74 [The Green Book](#)
75 [The Orange Book](#)
76 [Managing Public Money \(MPM\)](#)
77 [Whole of Government Accounts 2023/24](#)

to ensure taxpayer funds are being invested sustainably. This section analyses the different risks within the portfolio and explores how UK Government Investments (UKGI) will work with public financial institutions and HM Treasury (HMT) to improve risk management over the coming years in line with the *Financial Transaction Control Framework*.

Concentration Risk

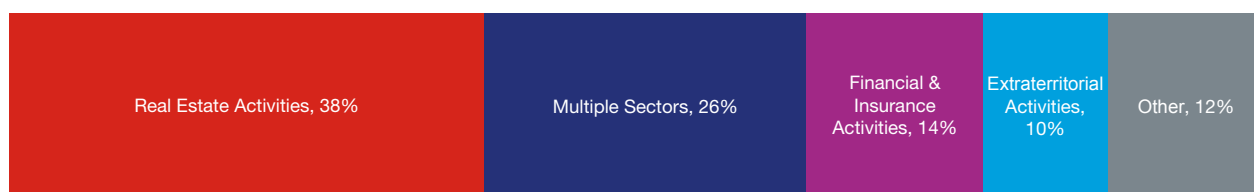
Concentration risk arises from excessive exposure to a single asset, sector, geographic region, or other risk factor within a portfolio. Poorly diversified portfolios mean difficulties in one area cannot be offset by stronger performance elsewhere, making

diversification an important strategy for risk mitigation.

Since government invests in areas that deliver the greatest value to the public by achieving specific policy objectives, and its public financial institutions are established to deliver investments according to defined mandates (**Chapter 2**), portfolio concentration is likely to occur. This means government cannot use new investments or divestment strategies to rebalance portfolio concentration in the same way as private institutions. As UKGI builds understanding of the level of government's concentration risk through these annual reports, however, this valuable data can be used to inform future investment decisions.

Sector Concentration

Figure 04A: Based on the SIC codes⁷⁸ assigned to each investment, the chart below shows the distribution of the £52bn government portfolio (excluding student loans) across various sectors as of 31 March 2024



As displayed in **Figure 04A**, the portfolio's sectoral distribution highlights that real estate is the largest single sector exposure with £20bn (38%) of the total, whilst 'other' consists of various sectors, each representing less than 3% of the portfolio. 'Multiple sector' investments, such as the Future Fund, are investment schemes which deploy funds across multiple sectors and extraterritorial activities represent overseas investments.

The portfolio's concentration in the real estate sector is largely attributable to the Help to Buy scheme, which totals £17bn and comprises 34% of the overall portfolio (excluding student loans).⁷⁹ Since the scheme closed to new applicants in 2022, its value is expected to decline over time as borrowers repay their loans. **Chapter 3** provides more detail on the investment and outlines the scheme's exposure to market risk, linked to house price fluctuations, and concentration risk, due to geographic and property-type clustering.

⁷⁸ The Standard Industrial Classification (SIC) system provides a standard framework for government bodies, such as the Office for National Statistics (ONS), to classify and collect data on businesses based on their sector.

⁷⁹ As noted in Chapter 3, student loans accounts for 74% (£151bn) of the total portfolio and therefore the portfolio faces significant concentration risk through transactions delivered by the Student Loans Company.

International and Domestic Diversification

Figure 04B: Proportion of the £52bn portfolio invested in international assets (excluding student loans) as of 31 March 2024



As displayed in **Figure 04B**, most of the loans within the portfolio are concentrated in the UK, highlighting the government’s strategic objective of promoting domestic growth. Equity investments, however, are much more concentrated internationally due to the proportion of investments that are held by British International Investment, Multilateral Development Banks and International Financial Institutions. The choice of instrument, and the prevalence

of equity or loans in the domestic or international context, will be influenced by a range of factors including the level of risk of each transaction. This means, therefore, that equity investments are more exposed to risks from currency rate risk, global market fluctuations and geopolitical events, whereas the risks affecting the loan portfolio are more tied to the UK’s economic performance.

Credit Risk

Figure 04C: Split of the £52bn portfolio (excluding student loans) between loans and equities as of 31 March 2024



Figure 04C shows a balanced allocation between credit and equity, highlighting the portfolio’s exposure to both types of financial risk.

Credit risk represents the potential loss arising from counterparties failing to meet their repayment obligations. With £27bn (as of 31 March 2024) of loans within the government’s investment portfolio, counterparty default represents a material

exposure that requires careful assessment.⁸⁰ To better assess this, UKGI will work with departments to aggregate data on maturity profiles, repayment (principal and interest rate) schedules and default rates to inform the analysis contained within future reports. This analysis will be used to inform a more robust assessment of the portfolio's risk profile.

Equity Risk

Equity risk is the risk of financial loss arising from adverse movements in the value of equity investments. This can be due to company-specific factors (such as poor operational performance), sector-wide challenges (including regulatory changes or technological disruption), or broader market conditions (such as economic downturns). A change in valuation can result in capital losses (when the value of the shares falls below the purchase price), and the potential

for total loss if companies become insolvent. Unlike debt instruments with defined repayment terms, equity investments are more volatile, with both bigger upside and downside risks.

As of 31 March 2024, the government's investment portfolio included £25bn in equity holdings. The ability to assess equity risk is limited due to the inherent difficulties in valuing equities, because unlike loans, there is no contractual obligation to return any capital and/or make any interest/dividend payments to the equity investor. Further, unless the equities are actively traded in the public market, there is no clear market price and any valuation will be subject to a certain level of subjective judgement. This means that the achievable sellable value could vary significantly from the fair market value reported in the financial statements.

Public Financial Institutions: Risk Management Processes

As outlined in **Chapter 2** and in line with the *Financial Transaction Control Framework* going forward most financial transactions will be delivered through public financial institutions. To ensure the government assumes an appropriate level of risk, institutions seeking designation as public financial institutions will be expected to work closely with HMT to establish suitable risk limits.

Total Portfolio	Student Loans
	Public Financial Institutions
	Departments

In accordance with the *Financial Transaction Control Framework*, public financial institutions should model the total potential losses their portfolios could incur in a low-probability downside scenario, commonly referred to as unexpected losses. Such an approach is known as economic capital-based modelling (see explainer).

80 The value of loans is £178bn including student loans.

Explainer: Economic Capital-Based Modelling

Economic capital modelling is a quantitative risk management technique (as outlined in **Annex H**) that uses statistical and financial models to calculate how much economic capital a firm should hold to remain solvent under extreme but plausible scenarios.

Although public financial institutions won't hold capital to mitigate such risks, a *virtual* economic capital limit will be applied to constrain the level of risk.

All public financial institutions carry out risk modelling, in order for the institution and HMT to understand the downside risk they are exposed to. The current approach to risk modelling undertaken varies by institution. Some institutions have built bespoke internal economic capital-based models whilst others are beginning to develop such approaches and currently use sector specific stress-testing models. For example, National Wealth Fund and UK Export Finance had economic capital-based

models and limits applied to them prior to the publication of the *Financial Transaction Control Framework*. The approaches to risk modelling used by institutions are informed by the nature of the institution, its needs, and its risk profiles. **Table 04D** outlines downside risk management approaches currently employed by institutions and alignment with *Financial Transaction Control Framework* requirements on economic capital-based modelling.

Table 04D: Downside risk management approaches employed by institutions⁸¹

Institution	Downside risk modelling approaches adopted	Key risks	Economic capital-based modelling approach
British Business Bank	Stress tests Sensitivity analysis	Credit and Investment	No economic capital modelling in place, but ongoing work with HM Treasury (HMT) and UK Government Investments (UKGI) on future approach.
Homes England	Stress tests based on Bank of England scenarios	Credit, Property, Concentration	No economic capital modelling in place, but ongoing work with HMT and UKGI on future approach.

⁸¹ Data provided by Government Actuary's Department, who collated the information from the listed organisations.

Institution	Downside risk modelling approaches adopted	Key risks	Economic capital-based modelling approach
National Wealth Fund	Economic capital-based modelling Stress tests	Credit (including equity)	Higher +10% loading of the Basel standardised approach and the Basel IRB approach. Key parameters: as per Basel standards, broadly aligned to a 99.9 percentile and a one-year probability of default that includes a maturity adjustment for credit risk. Developing stochastic model framework.
UK Export Finance	Economic capital-based modelling Stress tests Scenario analysis to identify impacts across regions and sectors	Credit	In-house stochastic approach: credit risk probability of defaults are stressed across entire term of financial transactions. Key parameters: 10-year time horizon, 99.1 percentile.

To assist institutions in developing more sophisticated approaches, HMT, in collaboration with public financial institutions and UKGI, is developing technical principles to guide this process. These are targeted at building greater consistency in economic capital-based modelling across public financial institutions, while recognising each institution's unique mandate and risks. This is intended to bring sufficient consistency to ensure risk across institutions is managed effectively without unduly constraining their ability to fulfil their objectives.

To promote transparency, future iterations of this report will provide an update on the ongoing work and, where relevant, present the results. In time, it may also offer insights into the volume of economic capital utilised by institutions.

Chapter 5:

Conclusion and Next Steps

Assessment of the Portfolio

This first *Financial Investment Report* demonstrates the government's commitment to fiscal transparency and risk management, while examining the long-term sustainability and effectiveness of its £203bn (as of 31 March 2024) of loan and equity investments. The move to net financial debt within the fiscal rules supports the government's growth mission by creating a framework to deliver the step change in investment the economy needs, in a sustainable way. This report will be instrumental in providing transparency and accountability around how public funds are used to deliver financial transactions into the private sector. This puts the UK Government at the forefront of international reporting on investment and risk, and it will serve as an important benchmark against which future changes can be measured.

This report has introduced and examined key public financial institutions, some of which are relatively new and are therefore expected to deliver a greater volume and value of transactions in the coming years (**Chapter 2**). These institutions have been allocated £153bn of capacity, with £63bn allocated to delivering financial transactions. The public financial institutions operate commercially, maintain robust controls, and possess significant market expertise. Furthermore, these organisations, with UK Government Investment's (UKGI) support, are expected to implement sophisticated risk modelling approaches (**Chapter 4**). The landscape of these institutions is expected

to change over time, and this report will monitor developments to ensure ongoing transparency and promote best practice.

The report outlines how investments delivered by the government generate non-financial gains (e.g. achieving policy objectives, job creation and economic development), as well as positive financial returns over the long term in some cases (**Chapter 3**). Following the introduction of the *Financial Transaction Control Framework*, financial transactions must either generate income that covers the government's cost of borrowing (and associated operational overheads) or be transparent on their cost where they do not. This report provides some experimental analysis showing that in aggregate, government investments generate returns. Future analysis will seek to refine this metric to provide a fuller explanation of returns on government's investment compared to the cost of financing.

The report analyses the underlying risks within the portfolio, identifying credit, equity, and concentration risk as the key exposures (**Chapter 4**). Notably, the largest items in the portfolio, student loans (£151bn) and Help to Buy loans (£17bn), account for 83% of total investments. Finally, excluding student loans, the portfolio is broadly balanced between loan and equities; and it shows significant concentration in real estate. This sector concentration may change over time as Help to Buy investments are repaid.

Although the financial investment portfolio is relatively small compared to the overall government balance sheet (which had assets totaling £2,651bn⁸² in 2023/24), increased transparency on risk is important to ensure taxpayer funds are being invested sustainably. Recognising the important role of financial transactions in stimulating economic growth, UKGI will work with public financial institutions and HM Treasury (HMT) to improve risk management over the coming years in line with the *Financial Transaction Control Framework*.

Next Steps

This report is one element of this government's commitment to fiscal transparency and the sustainability of public finances. Going forward, three overarching goals and actions within those have been identified and are outlined below.

Goal one: expand and standardise the data on financial transactions collected across government to improve portfolio-level insight on value, performance and risk, and to strengthen future Financial Investment Reports.

UKGI will work closely with departments and public financial institutions to broaden the range and granularity of data collected. Regarding risk, UKGI will aim to collect additional data on maturity profiles, repayment schedules (principal and interest), and default rates, to enable more robust risk assessment across the portfolio. Future reports may also include downside stress scenario analysis to assess how the performance and value of the portfolio could be affected if the key sectors to which

it is exposed, such as real estate, face systemic risks.

To better monitor performance at a portfolio level, building on the robust performance measurements outlined for each public financial institution, as well as the experimental analysis in **Chapter 3**, future reports will seek to refine this analysis further. The ambition is to develop a fuller return estimate for investments that considers multiyear investment performance, the government's cost of borrowing, and the cost of administering the investments.

Finally, the report highlights the different standards which govern the reporting of financial data and national statistics (**Chapter 1**). While each standard serves a distinct purpose, UKGI will work with the Office for National Statistics, HMT and Office for Budget Responsibility to understand how to present and reconcile these standards.

Goal two: work with HMT and public financial institutions on appropriate tools to manage downside risk

HMT, with UKGI's support, is developing technical principles to improve consistency in downside risk management across investment institutions, while recognising each organisation's unique mandate. The aim is for institutions to develop, or maintain, an approach that is both a meaningful measure of risk and usefully comparable across institutions. This will ensure risk is managed effectively without unduly constraining each organisation's ability to fulfil its objectives. UKGI will continue to work closely with these institutions and

82 [Whole of Government Accounts, 2023-24 – GOV.UK](#)

HMT to develop an effective and reasonable approach.

Goal three: monitor portfolio trends and identify ways to improve portfolio management and value for money and therefore strengthen decision-making

As data availability improves, and subsequently expands analytical potential, UKGI will be better positioned to monitor emerging risk exposures at the portfolio level and help protect public funds. UKGI will do this by ensuring transparent and clear understanding of risk within the portfolio.

Future reports will provide analysis of year-on-year changes against the value, risk and performance metrics analysed within this report to inform investment decisions, fiscal planning, and risk mitigation strategies. Ultimately, over the coming years, UKGI will look to use this analysis to underpin a comprehensive portfolio management strategy for decision makers in government.

