



# Financial Transactions Capital Response to the Finance Committee Report (November 2024)

22/01/2025

In November 2024, the Finance Committee submitted its report on Financial Transactions Capital. The report includes 15 recommendations.

This document sets out the Welsh Government's response to those recommendations and its intended next steps prior to the 2026-27 budget round.

## 1. Introduction

The Welsh Government is committed to maximising its use of Financial Transactions Capital (abbreviated as FTC, or sometimes just as FT) in order to deliver Ministerial priorities.

- 1.** I thank the members of the Senedd Finance Committee for their report on Financial Transactions Capital and share their commitment to improving the process of utilising FTC.
- 2.** The Welsh Government has already made steps to improve its processes and to increase transparency around the use of FTC. The 2025-26 Draft Budget included a greater level of detail on FTC than previously been provided at the draft stage in order to facilitate effective budget scrutiny. We will continue to make improvements, and I welcome the contribution the Committee's report makes to this work.
- 3.** As the report notes, as a form of repayable public finance, it is required that FTC is properly utilised in line with requirements set both at the UK and Welsh Government level for the effective use of public money. These requirements place limits on the extent to which processes can be reformed, however we will look to work constructively to implement, where possible, the Committee's recommendations.
- 4.** I have set out my response to the Report's individual recommendations below and have asked my officials to continue their engagement with the Clerk to the Finance Committee to ensure the Committee are updated on progress related to these recommendations.

## 2. Response to the 15 recommendations

### Recommendation 1

The Committee recommends that the Cabinet Secretary assesses how the reclassification of the Development Bank of Wales by the Office of National Statistics as a central government body has impacted on the way it can use and allocate Financial Transactions Capital funding, and provides an update to the Committee on the outcome of the assessment including any actions taken.

Response: Accept

The reclassification of the Development Bank of Wales as a central government body primarily impacts when FTC expenditure is recognised against the Welsh Government's budget. There are two ongoing strands of work which must be completed before an assessment can be reported to the Committee.

The first is the resolution with HM Treasury on the handling of budgetary consequences arising from the reclassification of the Development Bank of Wales as a Central Government body.

The second is engagement between the Welsh Government and HM Treasury on the [Financial Transactions Control Framework](#), published October 2024, which is expected to take place early in 2025 to consider any potential impacts on devolved areas.

The outcome of this work will be significant in informing our assessment of how the reclassification of the Development Bank of Wales will impact the way it can use FTC funding.

### Recommendation 2

The Committee recommends that the Cabinet Secretary provides an update on the progress of any discussions with the Treasury regarding reforming Financial Transactions Capital.

Response: Accept

No formal engagement has taken place with the Treasury in recent years regarding potential reforms to FTC, but we are keen to work closely with the UK Government on this. Some early informal discussions between officials have taken place, and it is anticipated that reforms to FTC will be considered through the UK Government Spending Review that is currently underway. An update will be provided to the Committee following that process.

### Recommendation 3

The Committee recommends that the Cabinet Secretary confirms the total amount of Financial Transactions Capital funding that the Welsh Government has received to date.

Response: Accept

As at the Main Estimates 2024-25, the UK Government has provided £2,230,774m of ring-fenced FTC Financial Transactions Capital since 2012-13.

#### **Recommendation 4**

The Committee recommends that the Cabinet Secretary ensures that details regarding Financial Transactions Capital allocations are presented in the Welsh Government's Draft Budget documentation for 2025-26 and future years, and that, if this is not possible, a full explanation is provided to justify the approach taken.

Response: Accept

The Welsh Government is committed to providing transparent information on how funding from all sources is allocated. We therefore published details of proposed FTC allocations in the 2025-26 Draft Budget on December 10, 2024.

It is our intention to provide this information at the Draft Budget on an annual basis. If this is not possible an explanation will be provided to the Committee in advance.

#### **Recommendation 5**

The Committee recommends that the Cabinet Secretary provides updates to the Committee on how Barnett consequentials impact the Financial Transactions Capital funding available, as soon as such additional funding is received by the Welsh Government.

Response: Accept

If additional funding that impacts FTC is received outside the annual budget process, the Welsh Government will provide an update to the Finance Committee as soon as is practical after the funding is confirmed.

#### **Recommendation 6**

The Committee recommends that the Cabinet Secretary publishes disaggregated Financial Transactions Capital data alongside Draft Budget documents from 2025-26 onwards.

Response: Accept

In the 2025-26 Draft Budget we published disaggregated data in the [Supporting Tables](#).

#### **Recommendation 7**

The Committee recommends that

Cabinet Secretary conducts an analysis of the use of Financial Transactions Capital, by sector, and presents its findings to the Committee

Response: Accept in principle

I have asked my officials to undertake an analysis of where FTC has been allocated to date and to provide this information to the Committee. To facilitate this work I have asked them to engage further with the Committee to better understand the nature of the information which would be most useful to the Committee.

## Recommendation 8

The committee recommends that the Cabinet Secretary ensures that information, expertise and knowledge relating to Financial Transactions Capital is shared across departments within Welsh Government, and that training is targeted at staff within policy areas which have hitherto not fully utilised such funding.

Response: Accept

The Welsh Government has already begun to revise the internal FTC guidance for the next budget round. Additionally, targeted training sessions for staff that have limited or no experience of FTC, but might have opportunities to use FTC within the areas for which they are responsible, will be run by my officials to help facilitate the sharing of expertise and knowledge across departments.

Welsh Treasury provides proactive support to departments across the Welsh Government throughout the year to identify and develop specific proposals, with particular effort devoted to supporting new and innovative proposals from areas inexperienced in accessing FTC. Targeted discussions are also held with relevant finance and policy leads during the budget process to ensure that viable proposals can be submitted from as wide a range of areas as possible.

## Recommendation 9

The Committee recommends that

The Cabinet Secretary publishes the three criteria for success used by the Welsh Government in relation to Financial Transactions Capital and that this is incorporated within guidance for businesses interested in applying for such funding so that expected outcomes are known at the outset prior to application.

Response: Partially Accept

The Welsh Government use the core principles for management of all forms of public resources as set out in '[Managing Welsh Public Money](#)' and HM Treasury's '[Consolidated Budgeting Guidance](#)' when considering deployment of FTC. Feasibility, viability and desirability of a proposal are the key considerations. Specifically with FTC the HM Treasury's '[Consolidated Budgeting Guidance](#)' guidance sets out the expectation that any funding provided will be wholly repaid. As such, the ability to repay and expected profile of repayments are always considerations when making FTC allocations.

All FTC allocations are required to follow the conditions for the use of public funds, ensuring that resources are effectively and efficiently used, and investments are wholly repaid. Allocations must be made objectively and fairly, using cost benefit analyses and seek good value while avoiding any conflicts of interest.

The Welsh Government are currently in the process of developing guidance for external stakeholders. However, most businesses that receive FTC do so through the Development Bank for Wales and will not differentiate between the funding streams provided for the loan or investment. These businesses are unlikely to be aware that FTC has been utilised, and therefore would not require specific guidance for FTC funded investments.

## **Recommendation 10**

The Committee recommends that the Cabinet Secretary provides further information regarding the steps taken by the Development Bank of Wales to streamline the application process for Financial Transactions Capital, and the barriers it faced in doing so within the current framework.

Response: Accept

### **Business applications for finance.**

All applications for funding from the Development Bank of Wales are made through a single digital application form. The model operated by the Development Bank is to review the business's needs and to provide the finance best suited to the company, which may be either or a combination of debt or equity and may also be sourced from multiple funds.

The guiding principle is to simplify the processes for businesses as far as possible and to provide the best customer service. Business owners are ultimately more concerned with terms and timescale than which of the 11 business funds managed by the Development Bank will provide the funding. The process for the business is largely dictated by the type of finance being sought (for example debt, equity or project finance), rather than by individual funds or their respective sources of capital.

In terms of the application process, significant progress has been made to streamline decision making. In the case of micro loans of up to £50,000 for businesses that have been trading for two years or more, the Development Bank aims to provide a decision within two working days of receiving all the information needed.

Further investment has been made in the customer journey with a new customer portal due to launch early in 2025. This represents a significant innovation and demonstrates the Development Bank's ongoing commitment to customer service.

More broadly, the Development Bank operates a 'relational' model where businesses can speak directly to named contacts in the bank if necessary. Applications for larger loans are considered on a case-by-case basis. This does add to the time it takes to consider an application when compared to purely algorithm-based approaches. However, this approach helps the bank better understand the needs and circumstances of an applicant before decisions are taken. The bank has achieved an exceptionally high Net Promoter Score of 90<sup>1</sup>, indicating the relational approach is welcomed and valued by customers.

### **The process for securing FTC for deployment by the Development Bank**

The Development Bank draws on market insight and intelligence to identify opportunities for new funds they believe will succeed in the marketplace. The Development Bank will then develop and submit a business case for consideration by Welsh Government. If accepted, the relevant policy team will engage with the centrally managed bidding process so that the merits of the bid may be considered alongside other applications in the context

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<sup>1</sup> The Net Promoter score is a widely used measure of customer experience, satisfaction and loyalty.

of Government priorities. If successful, contractual arrangements are then put in place for delivery.

### **Recommendation 11**

The Committee recommends that the Cabinet Secretary publishes details of Financial Transactions Capital allocations made within its budget and the purposes for which such funding has been provided, on an annual basis.

Response: Accept:

The Welsh Government is committed to providing transparent information on FTC allocations and the purpose of that funding. We published details of proposed FTC allocations along with their potential purpose and use in the 2025-26 Draft Budget on December 10, 2024.

### **Recommendation 12**

The Committee recommends that the Cabinet Secretary provides further clarification regarding the process by which the Welsh Government repays its Financial Transactions Capital to HM Treasury, and ensures that such information is made publicly available.

Response: Accept:

Repayments of FTC to HM Treasury are agreed at the end of each financial year. The value of repayments in each year is agreed as the underspend reported against the final FTC budget less any underspend Welsh Government carry forward in the Wales Reserve.

The amount is reported in the Welsh Government Outturn Report.

### **Recommendation 13**

The Committee recommends that the Cabinet Secretary explains how underspends in Financial Transactions Capital allocations could be used by the Welsh Government as general capital.

Response: Accept:

FTC is a ring-fenced element of the Welsh Government's Capital DEL settlement that can only be used for loan or equity type investments. It can only be used for purposes outside of the ring-fence with the agreement of HM Treasury.

### **Recommendation 14**

The Committee recommends that the Welsh Government provides clarification on how much Financial Transactions Capital is recycled each financial year, and that this information is provided in its annual draft budget and outturn documentation as a matter of course

Response: Accept

In the 2025-26 Draft Budget, the Welsh Government published data on new FTC funding allocation and recycled FTC repayments. The total quantum of available funding has been

allocated, with an element of overprogramming to manage potential underspends. The Development Bank is currently recycling FT Capital within the Wales Property Fund 2 and the Wales Stalled Sites Fund.

In 2023-24 the Bank invested (using recycling) a total of £32,755,000. This was split by £19,062,000 for the Wales Property Fund 2 and £13,693,000 for the Wales Stalled Sites Fund. This investment was substantively off set by property receipts in the year (82%) of £26,992,000. This illustrates the significant value for money recycling of funds can have compared to new in year funding.