

Financial Transactions Capital

November 2024



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Financial Transactions Capital

November 2024



About the Committee

The Committee was established on 23 June 2021. Its remit can be found at:
www.senedd.wales/SeneddFinance

Current Committee membership:



Committee Chair:
Peredur Owen Griffiths MS
Plaid Cymru



Peter Fox MS
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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. Page 40

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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. Page 41

Recommendation 15. The Committee recommends that the Cabinet Secretary explores using recycled Financial Transactions Capital funding across a number of areas outside which it was initially allocated for within Financial Transactions Capital rules, to enable such funds to be used flexibly in order to match the Welsh Government's policy and budgetary priorities. Page 41

Conclusion 1. The Committee recognises that Financial Transactions Capital is an useful fiscal tool, but that the Welsh Government's ability to maximise its effectiveness is hampered by the uncertain nature and strict rules around its use which are set centrally by the UK Government. Page 17

1. Introduction

1. The Finance Committee (the Committee) agreed to undertake a short inquiry into Financial Transactions Capital, with the following terms of reference:

- The rules governing the use of Financial Transactions Capital.
- The purposes for which the Welsh Government has used Financial Transactions Capital.
- The strengths and weaknesses of Financial Transactions Capital.
- How Financial Transactions Capital is repaid, including expectations and amounts.
- How the Welsh Government reports Financial Transactions Capital allocations in its draft and final budgets, including clarity on how much has been received, how much has been spent, and how much has been transferred back to HM Treasury.

2. The Committee held evidence sessions with the following witnesses on 18 July 2024:¹

- David Staziker, Chief Financial Officer, Development Bank of Wales Plc;
- Robert Hunter, Strategy, People and Development Director, Development Bank of Wales Plc;
- David Ward, Chief Executive Officer, Tirion Group Ltd;
- Richard Mann, Group Chief Executive, United Welsh; and
- Kate Pender, Deputy Chief Executive Officer, Fair4AllFinance.

3. A private technical session was also held with Welsh Government officials at the same meeting.

4. The Committee also held an evidence session with the Cabinet Secretary for Finance and the Welsh Language, Mark Drakeford MS, on 18 September 2024.²

¹ Finance Committee, RoP, 18 July 2024

² Finance Committee, RoP, 18 September 2024

2. What is Financial Transactions Capital?

5. The UK Government provides Financial Transactions Capital (FTC) as part of the Welsh Government's block grant.³ It is a ringfenced element of capital funding, which is sometimes called "net lending" or "policy lending" and includes loans or equity investment by the devolved administrations into the private sector.⁴

6. As FTC is treated as a financial transaction rather than spending, it does not affect Public Sector Net Borrowing but does add to Public Sector Net Debt.⁵ In terms of the discretion afforded to the Welsh Government in operating FTC, devolved administrations may decide on their own programmes within their FTC allocation, however, UK Government departmental FTC allocations are ring-fenced for specific programmes for which they are allocated.⁶

7. In giving evidence to the Committee, the Cabinet Secretary provided some background to FTC and how it operates in a Welsh devolved context:

"FTCs were an invention of one of the previous Conservative Governments ... they were essentially a device to allow the Treasury to avoid declaring capital expenditure in a way that scored against the deficit. So, this is in the era of George Osborne as Chancellor, where the size of the deficit was a political preoccupation and FTCs were a way of providing capital in a way that didn't score against it."⁷

8. The Cabinet Secretary also stated that the way FTC is allocated from the UK Government to the Welsh Government is highly uncertain:

"... every year there is uncertainty, because we don't hear until the autumn statement how much financial transactions capital is coming our way, and we have that short gap between the autumn statement and our own draft and final budget in

³ HM Treasury, Statement of funding policy: Funding the Scottish Government, Welsh Government and Northern Ireland Executive, October 2021, Chapter 6

⁴ HM Treasury, Statement of funding policy: Funding the Scottish Government, Welsh Government and Northern Ireland Executive, October 2021, Chapter 3

⁵ HM Treasury, Statement of funding policy: Funding the Scottish Government, Welsh Government and Northern Ireland Executive, October 2021, Chapter 6

⁶ HM Treasury, Statement of funding policy: Funding the Scottish Government, Welsh Government and Northern Ireland Executive, October 2021, paragraphs 6.6 6.9

⁷ Finance Committee, RoP, 18 September 2024, paragraph 11

order to show how we are going to use the quantum that we now have.”

9. The Cabinet Secretary added that:

“... the risk is always that we suddenly get more than we're expecting and we have to go and try to find new ways in which the money can be used, because it's a use-it-or-lose-it form of money. So, if you can't find a way of using it, you can't keep it and use it in the future; it goes. Or the risk is that you put a lot of effort into encouraging a pipeline and you have to work quite hard with people who are new to all of this to explain the rules, to get people through the process and things, only to find that, having done all of that, the sum of money you were maybe anticipating doesn't materialise. So, in either way—too much, too little—the risks are real, and the amount of time you have to manage that risk isn't really sufficient for the purpose, I'd say.”⁸

10. The Cabinet Secretary's official added that “the amount of additional financial transactions capital we're going to get each year is very unpredictable, and fluctuates a lot, up and down”, stating that:

“... I think that's part of the problem, the unpredictability of the flow of it into our budget, and so it makes it very difficult to plan how many projects do we want to commission here, how hard do we try to find projects to allocate funding to. That's the bit that's really difficult with this.”⁹

The rules governing FTC

11. The UK Government's statement of funding policy and consolidated budgeting guidance sets out some of the rules around FTC.¹⁰ Rules governing FTC are also set out in Chapter 8 of the UK Consolidated Budgeting Guidance.¹¹ These outline that FTC can be used for two purposes: as a loan to an entity,¹² or as an equity investment. Any consideration of using FTC, or any Welsh Government subsidies in general, needs to satisfy the seven subsidy principles, which underpin

⁸ Finance Committee, RoP, 18 September 2024, paragraph 15

⁹ Finance Committee, RoP, 18 September 2024, paragraph 17

¹⁰ [HM Treasury, Consolidated Budget Guidance: 2024-25, March 2024](#)

¹¹ [HM Treasury, Consolidated Budget Guidance: 2024-25, March 2024](#)

¹² An entity, in the FTC context, is a body of Welsh Government accounting/budgetary boundaries, for example a business or a charity. (Requires hyperlink)

the UK subsidy control regime and form the basis for determining if a subsidy award or scheme is compliant.¹³

12. In the main, the funding must be repaid to HM Treasury. In contrast to grants¹⁴, FTC is expected to generate a financial return, must be repaid and can only be given to entities outside of Welsh Government accounting/budgetary boundaries.

13. According to the Welsh Government, FTC should be used when a loan or equity investment is made to entities outside the Welsh accounting/budgeting boundaries.¹⁵ In its evidence, the Welsh Government states that:

“It is best to think of FTC as a form of capital that can only be used for loan/equity investment to a Welsh entity chosen, managed and partially underwritten by WG; that is expected to generate a financial return; and sit outside of Welsh Government accounting boundaries. While general capital can be used for similar purposes, FTC can only be used under these terms.”¹⁶

14. In terms of the scope the Welsh Government has to administer FTC, the Cabinet Secretary added:

“The result is that it operates in what I would describe as a straitjacket of rules, because financial transactions capital can only be used for particular purposes, can only be used with particular organisations, and the fundamental underlying rule is that these are loans or equity investments that have to be paid back. So, it’s not like conventional capital in that way. Any loan you make, you have to have confidence that the money will come back, because the Welsh Government has to repay the money to the Treasury.”¹⁷

15. The Cabinet Secretary highlighted the lack of flexibility afforded by the current FTC rules:

“... the Welsh Government operates very much within the rules for financial transactions capital set by the UK Government. It’s

¹³ Welsh Government, *Guidance: Subsidy Control, January 2023*

¹⁴ Welsh Government, *Slides on Financial Transactions Capital, July 2024*

¹⁵ Welsh Government, *Slides on Financial Transactions Capital, July 2024*

¹⁶ Welsh Government, *Slides on Financial Transactions Capital, July 2024*

¹⁷ Finance Committee, RoP, 18 September 2024, paragraph 11

not an area in which there is a great deal of discretion afforded to the Welsh Government ... there are purposes for which it is a sensible device, but, overall, the narrowness of the rules, and the fact that these are rules not set at all in Wales but we have to operate within, limits its usefulness, and that has been the story of the whole period in which it's been available.”¹⁸

Role of the Development Bank of Wales

16. The Development Bank of Wales Plc (the DBW) is the Welsh Government’s investment arm, providing finance to help establish and grow businesses. The DBW offers loans in the range of £1,000 to £5 million, although the largest DBW loan was over £10 million to Bluestone.¹⁹

17. The DBW was formed from Finance Wales Plc in October 2017. The DBW (excluding FW Capital Limited, which is part of the DBW Group and is its fund management arm) was reclassified by the Office of National Statistics (ONS) as a central government body rather than a public corporation, in August 2021. The ONS concluded:

... as WG [Welsh Government] has constraints on both DBW Plc’s assets and liabilities, it is mainly acting on behalf of the WG, its controlling unit, (MGDD 2019, 1.6.6, 48) and its range of activities is governed by the policy framework and remit letter set by Welsh Ministers. As such DBW Plc has been classified to the central government subsector (S.1311) with effect from 6 October 2017, the date its predecessor Finance Wales plc changed its name to DBW Plc and adopted the existing articles of association.²⁰

18. In its inquiry into the DBW, the Economy, Trade and Rural Affairs Committee recommended:

“The Welsh Government must seek to conclude negotiations with HM Treasury as soon as possible on a satisfactory solution to the reclassification issues for the Development Bank of Wales. The agreement reached must protect the Bank’s role and avoid restricting its activities as a lender, and must also not

¹⁸ Finance Committee, RoP, 18 September 2024, paragraph 11

¹⁹ Finance Committee, RoP, 18 July 2024, paragraph 61

²⁰ [Office for National Statistics. Public sector classification guide and forward work plan. 22 October 2024.](#)

*have a detrimental effects on the Welsh Government's budgetary position in the future."*²¹

19. The DBW clarified the impact that the recent change in its classification has had on its ability to administer FTC. The DBW stated that:

*"Life has changed ... since we got reclassified. A lot of the time, historically, we may have got some of the money in advance, whereas now, on an ongoing basis, financial transactions are drawn on a quarterly basis in advance ... There are some circumstances where some of the historic money, particularly on Help to Buy, has not been fully used, so we're working with the Welsh Government as to how we repay that to them."*²²

20. An official accompanying the Cabinet Secretary explained why this change in classification was undertaken:

*"It started off because DBW hadn't officially been classified. It was Finance Wales on a previous classification, so it had been some time and was ready for review."*²³

21. The official also provided an overview of how the process was undertaken by the ONS:

*"It was a very long process, a lot of engagement with members of the ONS, the development bank themselves, and Welsh Government, and it was ... borderline the whole time that we thought that it was still going to come out as a public corporation. But the assessment process is all done against the European system of accounts—ESA 2010—and MGDD, the manual on government deficit and debt guidance, which had changed over time. And against that guidance, the final decision of the ONS was that the development bank was a central Government body."*²⁴

22. In terms of how this had impacted DBW's ability to manage FTC, the Cabinet Secretary confirmed that this had caused practical issues:

²¹ Economy, Trade and Rural Affairs Committee, Inquiry into Development Bank of Wales, July 2024, Recommendation 6

²² Finance Committee, RoP, 18 July 2024, paragraph 141

²³ Finance Committee, RoP, 18 September 2024, paragraph 89

²⁴ Finance Committee, RoP, 18 September 2024, paragraph 89

“A change of classification of DBW does affect our ability to manage the annualised nature of financial transactions capital. Under the previous classification, it was possible for money to leave the Welsh Government’s accounts and be used by DBW, not on an annual basis, but over a longer time frame. We can’t do that now because of the reclassification, so it’s just introduced another constraint on the way in which we can deploy.”²⁵

23. However, the official accompanying the Cabinet Secretary added that:

“... I think it's fair to say ... that we're still kind of working through what the new rules are now around how this is going to work with DBW. So, that's kind of where we are at the moment; it's just trying to work through with Treasury exactly how or what the implications of the classification are for both the sort of future flow of financial transactions and also the stock that DBW are managing.”²⁶

24. The DBW must generate sufficient returns on investments in order for the Welsh Government to meet its overall repayment obligations of 80 per cent to HM Treasury.²⁷ The Welsh Government manages FTC as a portfolio, including the DBW’s portfolio of FTC financed schemes, as such the returns required for each fund or scheme are agreed in advance.²⁸

25. In giving evidence to the Committee, the DBW confirmed that “roughly” 65 per cent of DBW’s portfolio that is invested in companies in Wales is FTC, with the remaining 35 per cent mostly “made up of ... core capital”.²⁹

26. When asked how the role of the DBW differs from high street banks, the DBW explained that:

“We're tasked with not displacing the private sector; the whole point is trying to be additional ... So, we price similarly to the private sector; it's usually slightly higher than them, because it's more risk and so that we don't displace them.”³⁰

²⁵ Finance Committee, RoP, 18 September 2024, paragraph 79

²⁶ Finance Committee, RoP, 18 September 2024, paragraph 83

²⁷ [Finance Committee, Written Evidence: Development Bank of Wales](#)

²⁸ [Finance Committee, Written Evidence: Development Bank of Wales](#)

²⁹ Finance Committee, RoP, 18 July 2024, paragraph 14

³⁰ Finance Committee, RoP, 18 July 2024, paragraph 39

27. The DBW added that they are a “gap funder ... We fit in the middle, rather than just being something that takes the cases that nobody else will do and never work”.³¹ Regarding how it works with other lenders, the DBW explained that:

“It's not always the customer that's going to come to us for the whole finance package. Quite often, they will come to us—. They've gone to the bank, the bank will lend up to the security that they can offer, and then they'll come to us and we'll fill that risk space to make the deal happen. So, we often—. I think it's in the majority of deals we're partnering with other lenders where they take the lower risk element, and we take the higher risk to enable that deal to go forward.”³²

28. The role of DBW in how FTC is used by other organisations is explored in further detail in Chapter 4 of this report.

Reform of FTC

29. The Welsh Government says that, as a result of changes to the Consolidated Budgeting Guidance and Statement of Funding Policy³³ following the 2022-2023 UK Spending Review, it is in the process of reforming how FTC is managed and allocated; the changes are expected to have an impact from the 2026-27 Budget process. The Welsh Government said:

“... because the FT portfolio has grown and the rules have evolved over time we have recognised it is timely to do so.”³⁴

30. However, when asked about the future of FTC, the Cabinet Secretary urged caution, stating that:

“... I think the future is inherently uncertain in this area, and for two reasons. One is that there is a new Government and there will be new preoccupations. This Government is much more, understandably, focused on the debt, rather than the deficit, and FTCs count against debt calculations. So, I think they may want to take a more fundamental look at whether this is a device that they wish to continue to use. I don't think it will be top of the list of the Treasury team. I think they'll have other

³¹ Finance Committee, RoP, 18 July 2024, paragraph 96

³² Finance Committee, RoP, 18 July 2024, paragraph 62

²⁷ Office for National Statistics, Public sector classification guide, sheet 3

³³ HM Treasury, Consolidated Budget Guidance: 2024-25, March 2024

³⁴ Welsh Government, Slides on Financial Transactions Capital, July 2024

more pressing things that they're going to be dealing with in the next period, through to the comprehensive spending review.”³⁵

31. The Cabinet Secretary added that:

“... even if they do decide to keep it, and it continues on the previous basis, then that's inherently uncertain as well because we are entirely dependent, for the amount of FTC we have in Wales, on decisions that are made for spending purposes in England. And given that this originated and continues to be dominated by money provided for Help to Buy, and the Conservative Government in England decided that they weren't going to proceed with Help to Buy, well, that would have a very destabilising impact upon the amount of financial transactions capital that would come to Wales.”³⁶

32. In conclusion, the Cabinet Secretary stated that:

“... we are left in that inherently uncertain world of not knowing whether the quantum we will have to manage is of the sort we've become used to, or whether it could suddenly be radically reduced because of a policy decision made in a different context and for different purposes”.³⁷

33. When asked what the Welsh Government's strategy is for FTC, the Cabinet Secretary stated that:

“... in a way, our strategy is to make the best of a bad job ... These are not rules that we think are helpful to us in Wales, but we still want to make the most of the opportunity that comes with it.”³⁸

34. The Cabinet Secretary identified three areas of focus for fundamental reform of FTC:

“... I think there are three things that I would be looking for. The first, and the most important, is the removal of the ring fence, that we had more flexibility to use this money in a way that matches Welsh needs and circumstances, rather than

³⁵ Finance Committee, RoP, 18 September 2024, paragraph 13

³⁶ Finance Committee, RoP, 18 September 2024, paragraph 13

³⁷ Finance Committee, RoP, 18 September 2024, paragraph 13

³⁸ Finance Committee, RoP, 18 September 2024, paragraph 155

operating within a model that doesn't allow us any flexibility to do that. That would be the main thing. The second thing that I would look for in a reformed system would be the stability of flow of money ... it would help us a great deal if we had a more predictable sense of how that money was to come to us. And then the third thing: I think if there was less constraint, that would help us to be less bureaucratic in the way that we use the money, because we would be able to devise a system that matched those new flexibilities.”³⁹

35. However, the Cabinet Secretary concluded that:

“Of course, I'd much rather that we just had conventional capital; that's the most useful thing we would get, without an invented form of capital to meet an artificial avoidance of the rules, which is what this really, at base, is.”⁴⁰

Committee View

36. The Committee notes that FTC is an important fiscal tool for the Welsh Government but also recognises its limitations and acknowledges that the Welsh Government, in the words of the Cabinet Secretary, is doing “the best of a bad job” in its use of FTC. We also accept that FTC is an “invented form of capital to meet an artificial avoidance of the rules” and is no substitute for conventional capital spending, which is by nature more flexible and enables the Welsh Government greater discretion to direct funding to the areas that need it most.

37. Furthermore, we recognise that the Welsh Government is operating FTC within a “straitjacket” of rules which it has no control over and is set centrally by HM Treasury. The Committee also recognises that FTC funding is inherently uncertain and volatile, which causes difficulties for the Welsh Government when planning for its use in the medium to long-term.

38. That said, the evidence received by the Committee during this inquiry demonstrates that FTC has the potential to support significant policy outcomes (further consideration of its strengths and weaknesses is explored in Chapter 4). We also note that, since the Committee has started its inquiry, the Welsh Government will receive additional funding for capital investment through the UK

³⁹ Finance Committee, RoP, 18 September 2024, paragraph 111

⁴⁰ Finance Committee, RoP, 18 September 2024, paragraph 111

Autumn Budget.⁴¹ However, the Committee believes that FTC can still play an ongoing role in delivering specific policy goals and objectives and urge the Cabinet Secretary to work with the DBW to maximise its use.

39. The Committee heard evidence which demonstrates the essential role played by the Development Bank of Wales Plc in administering FTC loans. Nevertheless, the recent reclassification of DBW as a central government body rather than as a public corporation will limit the way in which DBW can effectively support FTC, and we call on the Welsh Government to assess how this change will impact on the services and products it can provide.

40. We are also concerned about the impact this will have on the scope for innovation within DBW to ensure that funding is made available to those that need it most.

41. The Committee notes the Welsh Government is currently reforming the way it manages FTC. We are particularly interested in the way in which the Welsh Government is looking at its guidance to expand the areas within its portfolio that can apply and use such funding, and especially the three areas of focus for fundamental reform identified by the Cabinet Secretary.

42. The Committee believes these are solid principles on which to make improvements to the processes around FTC, and we ask for the Cabinet Secretary to provide an update on progress in discussions with HM Treasury in this area

Conclusion 1. The Committee recognises that Financial Transactions Capital is an useful fiscal tool, but that the Welsh Government's ability to maximise its effectiveness is hampered by the uncertain nature and strict rules around its use which are set centrally by the UK Government.

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.

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.

⁴¹ Welsh Government, Press Release: UK Budget a "first step to repair the damage of the last 14 years", 30 October 2024

3. Financial Transactions Capital in the Welsh Government's Budget

Presentation

43. The Welsh Government's Final Budget 2024-25 notes a portfolio of FTC investment of £2.2 billion.⁴² It shows an overall allocation of £167 million FTC for 2024-25.⁴³

44. According to information shared by the Welsh Government during a private technical briefing on FTC, the Welsh Government had received £1.42 billion in FTC as of 23-24.⁴⁴ However, written evidence subsequently received from the Welsh Government indicates that they have received gross £1.37 billion to date.⁴⁵

45. The Welsh Government Draft Budget for 2024-25 outlined some of the £31.8 million allocated at that point.⁴⁶ This includes:

- £20 million toward the development of a Further and Higher Education Decarbonisation Scheme;
- £7 million allocated to create a Wales Stalled Sites Fund; and
- £2.8 million for the Sustainable Communities for Learning Mutual Investment Model (MIM) programme.

46. The Draft Budget 2024-25 also notes an allocation of FTC has been made to the Economy MEG for the development of a "commercially sensitive bid".⁴⁷

47. The Welsh Government's Final Budget 2024-25 outlines allocations of FTC,⁴⁸ however, it only explicitly notes the £66.5 million of allocations made under the 10-year Wales Infrastructure Investment Strategy (WIIS), which includes.⁴⁹

⁴² Welsh Government, Final Budget 2024-25 A Budget to Protect the Services which Matter Most to You, February 2024, page 6

⁴³ Welsh Government Final Budget 2024-25: Tables supporting the explanatory note, February 2024

⁴⁴ Welsh Government, Slides on Financial Transactions Capital, July 2024

⁴⁵ Finance Committee, Written Evidence: Welsh Government

⁴⁶ Welsh Government, Welsh Government Draft Budget 2024-25, December 2023, page 21

⁴⁷ Welsh Government, Welsh Government Draft Budget 2024-25, December 2023, page 21

⁴⁸ Welsh Government, Final Budget 2024-25 A Budget to Protect the Services which Matter Most to You, February 2024, page 6

⁴⁹ Welsh Government, Final Budget 2024-25 A Budget to Protect the Services which Matter Most to You, February 2024, page 6

- £20 million to support refurbishment of Holyhead Breakwater;
- £20 million earmarked for Co-operation Agreement activity related to Housing;
- £10 million to invest in the semiconductor sector;
- £7.7 million for Transport for Wales (TfW) Fibre Limited to support commercialising excess capacity of the rail fibre network;
- £4 million for the DBW to help support homeowners to retrofit and decarbonise their homes by funding heat pumps and solar panels; and
- £4.8 million for Menter Môn Morlais to support tidal stream devices.

48. In 2019, the previous Finance Committee conducted an inquiry into the Welsh Government’s capital funding sources, including consideration of FTC. Following evidence gathering, the Committee made two recommendations specifically relating to FTC⁵⁰, with both accepted by the Welsh Government.⁵¹

49. The Committee in the Sixth Senedd also commented on FTC during its budget scrutiny, including issues with timing of FTC announcements by the UK Government. For the 2024-25 Draft Budget, the Committee said that:

“... the timing of the UK autumn statement 2023 has constrained the Welsh Government’s ability to make full financial transactions capital (FT) allocations as part of the Draft Budget. The Committee has previously recommended that the Welsh Government provides regular updates on FT allocations... It is therefore disappointing that these issues remain unaddressed and call for clarity on FT allocations for 2024-25 to be provided as soon as possible, and for this information to be made available sooner in future budget rounds.”⁵²

50. The Committee also recommended that the Welsh Government includes decisions and documentation relating to general and FTC allocations as part of

⁵⁰ Finance Committee (Fifth Senedd), Inquiry into the Welsh Government’s capital funding sources, November 2019, Recommendations 3 and 4

⁵¹ Welsh Government, Response to recommendations from the Finance Committee’s Report: Inquiry into the Welsh Government’s capital funding sources, 8 January 2020

⁵² Finance Committee, Scrutiny of the Welsh Government Draft Budget 2024-25, February 2024, Paragraph 217

the Draft Budget documentation in future years.⁵³ While the Welsh Government accepted this recommendation, it said:

“We recognise the Senedd would like to see all Financial Transactions capital allocations provided at Draft Budget, and indeed that would be our preference, however the lateness of the UK Government’s Autumn Statement coupled with the complexity of these mechanisms often requires additional due diligence before we can announce funding.”⁵⁴

51. The Welsh Government says that at each Annual Budget, a reconciliation needs to be undertaken in terms of the existing FTC portfolio, to ensure repayments are returned to balance the FTC position and so that any change in repayment schedules is agreed. Any new FTC allocations are then considered through the budget process.⁵⁵

52. The Cabinet Secretary told the Committee that the Welsh Government does “identify at the budget the quantum of financial transactions capital”.⁵⁶ However, the official accompanying the Cabinet Secretary indicated that the Welsh Government could pull the information around FTC together in one place, adding “that’s something that we can look at”.⁵⁷

Consequential funding

53. The Welsh Government’s overall FTC settlement is subject to negative consequentials from the UK Government relating to repayments from existing UK schemes, as well as any positive consequential that are generated through new investments.

54. Evidence received from the Welsh Government confirms that the way in which the Barnett formula is applied impacts the management of FTC:

“We receive funding related to schemes in England based on English risk profiles and repayment terms. In general, while we have done some similar things (e.g. Help to Buy), we have also done some different things which means our portfolio differs significantly from the UKG [UK Government] portfolio (in

⁵³ Finance Committee, *Scrutiny of the Welsh Government Draft Budget 2024-25*, February 2024, Recommendation 21

⁵⁴ Welsh Government, *Response to the recommendations contained in the Finance Committee’s report on its scrutiny of the Draft Budget 2024-25*, 1 March 2024

⁵⁵ Welsh Government, *Slides on Financial Transactions Capital*, July 2024

⁵⁶ Finance Committee, 18 September 2024, paragraph 103

⁵⁷ Finance Committee, 18 September 2024, paragraph 108

devolved areas) and this makes Barnett applied to changes to the UKG portfolio a particularly random way of determining changes to our FT budget.⁵⁸

55. The Cabinet Secretary confirmed this, telling the Committee that:

“Barnett applies in this area in exactly the way that it applies to everything else. English departments, for this purpose, make decisions about the extent to which they are going to use financial transactions capital, and we get a Barnett consequential of that.”⁵⁹

56. The Cabinet Secretary added that:

“It’s why the volatility is such a characteristic of the scheme, because what might be quite a small decision for an English department, given their scale, can have quite a big impact on us, because we are much smaller and that amount of volatility matters more.”⁶⁰

Disaggregation

57. In its evidence to the Committee, the DBW confirmed it does not provide disaggregated FTC data in its annual report or accounts.⁶¹ When asked whether this could be made available, the DBW confirmed it is provided to the Welsh Government “just not in our annual accounts”.⁶²

58. In explaining why it does not publish disaggregated data on FTC, the DBW noted the complexity of “various accounting rules”⁶³, going on to say:

“If we were to go into more detail about the sources of funding we manage, it just—. I don’t know if you’ve tried to read our annual report and accounts, but it’s not a straightforward read. The feedback from the ETRA committee is that they still find it a challenge. So, I think, if we went into more detail, I’m not sure that would help the reader. But it’s certainly something we can consider. The detail is given, obviously, to Welsh Government, who are more interested in that, whereas I’m not sure that the

⁵⁸ [Welsh Government. Slides on Financial Transactions Capital. July 2024](#)

⁵⁹ Finance Committee, RoP, 18 September 2024, paragraph 143

⁶⁰ Finance Committee, RoP, 18 September 2024, paragraph 143

⁶¹ Finance Committee, RoP, 18 July 2024, paragraph 74

⁶² Finance Committee, RoP, 18 July 2024, paragraph 78

⁶³ Finance Committee, RoP, 18 July 2024, paragraph 76

wider public is interested, and it's certainly not something that we need to do, statutory wise.”⁶⁴

59. When asked if information on projects benefitting from FTC funding could be provided, the Cabinet Secretary stated that:

“... there's certainly a list of all the projects that have been funded in this way since the start, which the committee is very welcome to have; data is disaggregated to that extent”.⁶⁵

60. The Cabinet Secretary added, however, that:

“I once had a discussion ... with the Development Bank of Wales, and their view at the time was that, from the user's point of view ... they'd never been asked for disaggregation in that way, and they weren't sure that it would have encouraged more applications to come forward, if it had been available in that way”.⁶⁶

Committee View

61. The Committee notes that FTC allocations amount to substantial funding, with the Welsh Government's portfolio of FTC investment amounting to £2.2 billion in 2024-25. However, the Committee found it difficult to gain an understanding of the amount of FTC the Welsh Government has received to date, given that the information shared at the technical briefing noted a figure of £1.42 billion as of 2023-2024, with the Welsh Government's written evidence indicating a figure of £1.37 billion. We believe this demonstrates the lack of clarity around how FTC is presented in the Welsh Government's budget and we call on the Cabinet Secretary to explain the differences in the figures.

62. The Committee has also previously recommended that further clarity is provided by the Welsh Government in its annual budget documentation to explain how FTC allocations are made, for what purpose and how much of this is recycled funding.⁶⁷ Whilst we recognise that it is difficult for the Welsh Government to present such information due to the lateness of the autumn

⁶⁴ Finance Committee, RoP, 18 July 2024, paragraph 76

⁶⁵ Finance Committee, RoP, 18 September 2024, paragraph 59

⁶⁶ Finance Committee, RoP, 18 September 2024, paragraph 59

⁶⁷ Finance Committee, Scrutiny of the Welsh Government Draft Budget 2024-25, February 2024, Recommendation 21

statement and the complexity of FTC mechanisms, we continue to find this regrettable.

63. The Committee welcomes comments from officials accompanying the Cabinet Secretary that compiling information around FTC together in one place is something that the Welsh Government can look into. This is a step in the right direction which we hope will result in greater clarity around how FTC is presented in the Welsh Government's budget documentation. As a point of principle we believe details about the amount of funding allocated for FTC should be presented clearly so that these decisions can be held to account by the Senedd during the scrutiny of the Draft Budget, alongside other budgetary decisions made by the Welsh Government for the forthcoming year.

64. The Committee also notes that changes to FTC allocations within the Welsh Government's budget are driven by Barnett consequentials, in the same way as it applies to other aspects of the Welsh Government's budget. However, we would welcome further clarification on what impact this would have on the Welsh Government's FTC allocations.

65. The Committee has previously called on the Welsh Government to provide further details in its budget documentation regarding the consequential funding the Welsh Government receives⁶⁸, and asks on this occasion for specific information on the additional funding received by the Welsh Government relating to FTC, both at supplementary and annual budget stages.

66. The Committee notes the challenges faced by the DBW in providing disaggregated FTC data in its annual report and accounts. We also recognise that the publication of such information may not necessarily lead to an increase in application rates. However, we believe that the provision of such information alongside the other details requested in this report relating to FTC would enhance transparency and enable decisions about FTC to be held properly to account.

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.

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

⁶⁸ Finance Committee, Scrutiny of Welsh Government First Supplementary Budget 2023-24, July 2023, Recommendation 3

and future years, and that, if this is not possible, a full explanation is provided to justify the approach taken.

Recommendation 5. The Committee recommends that the Cabinet Secretary provides updates to the Committee on how Barnett consequential impact the Financial Transactions Capital funding available, as soon as such additional funding is received by the Welsh Government.

Recommendation 6. The Committee recommends that the Cabinet Secretary publishes disaggregated Financial Transactions Capital data alongside Draft Budget documents from 2025-26 onwards.

4. Using Financial Transactions Capital

The Welsh Government's portfolio

67. The Welsh Government FTC portfolio is comprised of a mixture of “economic and housing investments with a small education investment through the Mutual Investment Model”.⁶⁹ The majority of the portfolio is managed by the DBW on behalf of Welsh Government. As part of the relationship with the DBW, the Welsh Government says it is the responsibility of the relevant policy department to manage their respective portfolio.

68. The DBW has deployed over £1.1 billion in FTC spread across a range of sector and generalist funds. According to the DBW this is “meeting an extensive range of needs for loan and equity finance on commercial terms”.⁷⁰ An official accompanying the Cabinet Secretary confirmed that the remaining £300 million of a the £1.4 billion the Welsh Government has received will have been spent on “a range of direct investments the Welsh Government has made mainly with businesses”.⁷¹

69. In terms of how the Welsh Government utilises FTC, the Cabinet Secretary explained that, once the amount of FTC is known after the autumn statement:

“... a commission goes round the whole of the Government to say, 'Have you got purposes that this could be useful to you in being able to secure funding for them?’”⁷²

70. The Cabinet Secretary also identified housing and the economy as the “biggest users”, highlighting social justice, higher and further education and renewable energy as other sectors that have come to use FTC over time.⁷³

71. When asked about the levels of knowledge of FTC within Welsh Government departments, the Cabinet Secretary recognised that:

“... knowledge will be different depending on the extent to which departments have used this in the past. So, a department that

⁶⁹ [Welsh Government, Written Statement: Mutual Investment Model Report 2022 – 2024, 20 May 2024](#)

⁷⁰ [Finance Committee, Written Evidence: Development Bank of Wales](#)

⁷¹ Finance Committee, RoP, 18 September 2024, paragraph 57

⁷² Finance Committee, RoP, 18 September 2024, paragraph 33

⁷³ Finance Committee, RoP, 18 September 2024, paragraph 35

has made good use of it will be in a better position than departments that are less familiar.”⁷⁴

72. The Cabinet Secretary added that:

“... we do have the advantage of being a small Government, so people are able to talk to each other and get advice from people who have done this more than they have themselves.”⁷⁵

73. In terms of how the Welsh Government measures its own success in deploying FTC, the Cabinet Secretary outlined three criteria around its use:

“Well, for me, the first criterion of success is that we're using the money, because, as I say, this is money that, if you don't use it, then it's lost for public purposes in Wales, and getting it used at all has not been easy. So, my first criterion of success is: are we actually able to deploy it?

My second criterion of success, because we have to live within the rules that we have set for us, is that it is being used with projects that then demonstrate that they are able to make repayments, because, investing this sort of money, your recipient has to have an income stream that they can demonstrate will allow them to repay. So, my second criterion would be: can it be repaid?

But then ...: as well as the financial viability of the investment ... you need to be able to demonstrate the social purpose for which the investment is being made ...

And then ..., quite often, there is a future financial sustainability aspect to it ... So, I think future sustainability will be another success criteria.”⁷⁶

Strengths and weaknesses

74. Regarding the strengths of FTC, the Welsh Government said in its written evidence that:

⁷⁴ Finance Committee, RoP, 18 September 2024, paragraph 35

⁷⁵ Finance Committee, RoP, 18 September 2024, paragraph 35

⁷⁶ Finance Committee, RoP, 18 September 2025, paragraphs 62-65

“It [FTC] allows Government to act in effect as an Angel Investor, aligning social objectives with long term investments. In some limited cases the potential to recycle funding, undertake equity investments or look at how profits could be realised can be seen as a strength.”⁷⁷

75. The DBW notes that FTC must be invested in projects or funds that can generate a financial return and in some cases repayment profiles to Welsh Government may exceed the 80 per cent threshold.⁷⁸ The DBW explained how FTC is beneficial in terms of funding certain areas which may not receive commercial lending support from banks. The DBW told the Committee that:

“At some of the banks, they may have sector restrictions ... So, for example, in Wales at the moment the banks don't like funding care homes, so we're finding ourselves doing a lot more funding to care homes, which we view as relatively low risk. So, it's still coming to us, because they can't actually get through the door at the bank because of the sector restrictions that they've got there.”⁷⁹

76. A number of housing projects have used FTC as a way of financing certain projects. United Welsh, in partnership with Llamau, has developed Tai Ffres, a housing and support service for young people.

77. Tai Ffres states that its development was initially supported by the Welsh Government Youth Homelessness Innovation Fund. It notes that £15 million zero per cent capital loan funding from Welsh Government enabled it to move from concept to delivery of high quality, affordable homes for young people in Cardiff.⁸⁰

78. According to Tai Ffres the benefits of this type of funding include:

- Borrowing at zero per cent interest allows Tai Ffres to significantly reduce operating costs as we do not have to factor in loan finance costs.
- Lower operating costs for this service allows Tai Ffres to offer the lowest rents in Cardiff. Significantly lower than private rented accommodation and lower than all other Housing Association accommodation in the city.

⁷⁷ Welsh Government. Slides on Financial Transactions Capital. July 2024

⁷⁸ Finance Committee. Written Evidence: Development Bank of Wales

⁷⁹ Finance Committee, RoP, 18 July 2024, paragraph 70

⁸⁰ Finance Committee. Written Evidence: Tai Ffres

- Not having to service debt enables low rents and still be able to run the service with zero requirement for Housing Support Grant (HSG). The four members of staff are fully funded from the rent income from the stock portfolio (even at record low rents).
- Having the funds immediately available allows us to move quickly to acquire and refurbish properties.
- The long-term nature of the loan allows us to think and act strategically.
- The service is sustainable and scalable. The service is not at risk due to short term revenue grants or funding cycles.⁸¹

79. The Welsh Government announced £10 million of FTC loan funding in July 2022 for Tai Ffres youth housing service and the development of studio flats within the Tai Ffres scheme.⁸² Tai Ffres currently has 28 units of accommodation, which is expected to grow to 102 homes within 18-24 months.⁸³

80. United Welsh views FTC as “being one of the pieces of the jigsaw” to be able to address the scale and pace of demand in its sector, adding that:

“... our plea, if there's anything coming out of this, is to see whether we can develop this and scale it up, because we all know what the homelessness crisis is that's facing us, that we're dealing with at the moment.”⁸⁴

81. Other witnesses explained how FTC was benefitting their respective sectors. Fair4All Finance, a credit union, told the Committee that:

“... I think the advantage to the officials in Wales was that this capital provided through FTC was then able to leverage Treasury's commitment for £3.8 million spread across admin funds and a bad-debt guarantee.”⁸⁵

82. It added that FTC is part of “the combination of capital guarantees and wider innovation support that’s needed to change this market and to give people confidence to do this differently”.⁸⁶

⁸¹ Finance Committee, Written Evidence: Tai Ffres

⁸² Welsh Government, Decision Reports: 2022, December 2022, Funding for the Tai Ffres homelessness project

⁸³ Finance Committee, Written Evidence: Tai Ffres

⁸⁴ Finance Committee, RoP, 18 July 2024, paragraphs 198-199

⁸⁵ Finance Committee, RoP, 18 July 2024, paragraph 191

⁸⁶ Finance Committee, RoP, 18 July 2024, paragraph 249

83. Tirion Group Ltd explained that FTC funding was key and that “the big projects would have stalled at least if we hadn't had those additional charges of FTC”.⁸⁷

84. Witnesses were also positive when talking of their interactions with Welsh Government officials regarding securing loans. United Welsh commented that:

“... we approached the Welsh Government with our ideas ... in terms of the model that we wanted to deliver, and ultimately then they directed us to the FTC funding, which we received in two tranches We felt the support from officers at the Welsh Government was really positive, particularly from the lawyers and the finance guys within the Welsh Government.”⁸⁸

85. Fair4All Finance was “really delighted with the engagement with the Welsh Government” on matters relating to FTC and that “it’s been a good experience for all of us”.⁸⁹ Tirion Group Ltd also felt that communication with the Welsh Government on FTC loans is “strong”⁹⁰ and that officials have been “very helpful”, adding that:

“We’ve had some direct loan extensions from the Welsh Government, which have helped us on the big regeneration projects we do when we’ve come across some difficult issues around remediation or whatever they might be. They’ve been used very effectively in those circumstances.”⁹¹

86. However, there were also criticisms from those that provided evidence. In relation to the length of time applications took to process, Tirion Group Ltd stated that:

“The Development Bank of Wales process has been somewhat longer than we would normally expect with a retail bank, if I'm honest.”⁹²

87. Tirion Group Ltd added that there is a lack of clarity about FTC:

“I think there’s a bit of a lack of clarity about FTC, where it comes from. We’ve largely done our own research in the past

⁸⁷ Finance Committee, RoP, 18 July 2024, paragraph 239

⁸⁸ Finance Committee, RoP, 18 July 2024, paragraph 154

⁸⁹ Finance Committee, RoP, 18 July 2024, paragraph 189

⁹⁰ Finance Committee, RoP, 18 July 2024, paragraph 205

⁹¹ Finance Committee, RoP, 18 July 2024, paragraph 150

⁹² Finance Committee, RoP, 18 July 2024, paragraph 179

about how it's structured and how it might be used ... I understand, but again I'm not absolutely certain, that there's FTC in the recent Development Bank of Wales construction loan we've secured as of yesterday for the next phases of the Parc Eirin development."⁹³

88. Tirion Group Ltd also felt that there was "no real discussion around FTC being the source of finding finance or what that meant"⁹⁴, adding that:

*"... we didn't have any guidance around FTC itself ... The Development Bank of Wales construction finance was a very traditional construction finance application process."*⁹⁵

89. This was acknowledged by the DBW in its evidence:

*"... from a customer's point of view, a customer will not know whether it's an FTC loan or whether it's coming from general capital or whether in the past it was coming from European funds. So, from that point of view, we don't specifically ask for that."*⁹⁶

90. The Cabinet Secretary noted this point, but felt that advertising FTC would only take you "so far" in terms of raising its awareness:

*"... the experience of using FTC is that a sort of general advertising of it doesn't get you a big result. You've got to be prepared to invest quite a lot of time and effort in taking individual companies, organisations, whatever, through the process. And even then, the result often is that, having learnt more about it, they decide it's not for them. So, it's not even an investment where you can be sure that there'll be a return in terms of—. But doing it that way has, in our experience, been more successful than just relying on a sort of general advertising of the scheme, or better information on the website and things. It takes you so far, but then you've got to get into quite some significant detail of how all this will work."*⁹⁷

⁹³ Finance Committee, RoP, 18 July 2024, paragraph 150

⁹⁴ Finance Committee, RoP, 18 July 2024, paragraph 162

⁹⁵ Finance Committee, RoP, 18 July 2024, paragraph 160

⁹⁶ Finance Committee, RoP, 18 July 2024, paragraph 49

⁹⁷ Finance Committee, RoP, 18 July 2024, paragraph 37

91. When asked whether the applications process was too long, the Cabinet Secretary said:

“That’s a fair thing for people to say, because the development bank is having to operate within the rules that are provided to us, and it is a lengthy process. It’s not an easy process. It’s a fairly off-putting process, we know, for some potential applicants. DBW has moved to try to streamline that process in a number of ways, but there are limits to how far it can go, because it itself is operating within that structure.”⁹⁸

92. The Cabinet Secretary also told the Committee that FTC is “not easy to use” and claimed that:

“There is no great appetite out there in Wales for them ... By and large, those organisations who take financial transactions capital only do so after they’ve exhausted every other preferable source of funding.”⁹⁹

93. Tirion Group Ltd wanted “a more strategic way of looking at how we deploy loan capital, and many of the issues we see in front of us in affordable housing are all about pipeline ... They’re all interconnected, and loan capital can be a really powerful way of making that happen”.¹⁰⁰ According to Tirion Group Ltd, taking this approach would enable the housing sectors to “have a much better chance of attacking these big regeneration projects with a focus on affordable housing”.¹⁰¹

94. In responding to this point, the Cabinet Secretary stated that there was a limit to what FTC can achieve:

“If you wanted me to summarise what I think our strategic intent is, it is, despite the reservations, to make the best use of it, and I think we can demonstrate even to a sceptic like me that there are some very good success stories of using FTCs, and we’re grateful, in that sense, to be able to use it.”¹⁰²

95. However, the Cabinet Secretary added that “I don’t know that there is something obvious missing from the way that we set out to use it that we could put right”, going on to say that:

⁹⁸ Finance Committee, RoP, 18 September 2024, paragraph 100

⁹⁹ Finance Committee, RoP, 18 September 2024, paragraph 11

¹⁰⁰ Finance Committee, RoP, 18 July 2024, paragraph 209

¹⁰¹ Finance Committee, RoP, 18 July 2024, paragraph 239

¹⁰² Finance Committee, RoP, 18 September 2024, paragraph 155

“I don't think the people we work with, despite their frustrations at the system, the length of time it takes, and the complexity involved in it, have ever suggested a strategic difference, rather than wishing that it could be simpler and more straightforward.”¹⁰³

Repayment

96. The amount of FTC provided to entities is expected to be repaid in full by the borrower/investee, regardless of the success or failure of what the funds are used for.¹⁰⁴ The DBW said that FTC funding is subject to repayment profiles agreed by the Welsh Government and HM Treasury and noted that FTC repayment targets range from 80 per cent – 100 per cent, with deadlines typically extending 10-15 years after the deployment period for patient capital funds.¹⁰⁵ For some housing and regeneration investments, FTC repayments extend to 2049.¹⁰⁶

97. In relation to repayment timescales, the DBW says:

“This range of repayment targets and deadlines is key to our portfolio approach to managing FTC commitments. While repayment deadlines often require us to front load FTC in our projects, this complements our robust forecasting of returns on its FTC commitments.”¹⁰⁷

98. The DBW went on to say:

For companies, then, where we invest and they struggle, our remit is to try and help them, not to, if you like, enforce security and put the companies under. So, we are patient investors and we try and work with them, and we have the flexibility to extend their repayment times, when you take a portfolio approach and then still manage to track our repayments back to Welsh Government.”¹⁰⁸

99. Tirion Group Ltd told the Committee that “It would be extremely helpful” if time periods that applied to the repayment of FTC loans were extended. However, they added that one of the benefits of receiving loans through the Welsh

¹⁰³ Finance Committee, RoP, 18 September 2024, paragraph 155

¹⁰⁴ [Welsh Government, Slides on Financial Transactions Capital, July 2024](#)

¹⁰⁵ [Finance Committee, Written Evidence: Development Bank of Wales](#)

¹⁰⁶ [Finance Committee, Written Evidence: Development Bank of Wales](#)

¹⁰⁷ [Finance Committee, Written Evidence: Development Bank of Wales](#)

¹⁰⁸ Finance Committee, RoP, 18 July 2024, paragraph 29

Government is that should they be unable to repay one of the loans on the repayment date, “it would be relatively easy to restructure ... over a longer period and repay the loan from the income that is coming from the homes”.¹⁰⁹

100. When asked about the risks to the Welsh Government of a recipient of FTC loans defaulting, an official accompanying the Cabinet Secretary confirmed that the Welsh Government “have to do an assessment before any investment is made on the likelihood of repayment”.¹¹⁰ The official added that:

“... it's where an assessment of each portfolio of loans or loans themselves need to be assessed for the risk of default, and that needs to be recognised upfront. So, that, I suppose, has brought an additional challenge to the use of FTCs as well, because that brings with it an additional resource departmental expenditure limit from any of the loans that we're putting through, of financial transactions, and that needs to be assessed as well.”¹¹¹

101. In terms of what the Welsh Government would then repay from its FTC allocation to the Treasury, the DBW told us it did not have that information to hand:

“we're not close enough to that information ... we just have our repayment obligations to the Welsh Government.”¹¹²

102. When asked to outline the process whereby the Welsh Government repays FTC to the Treasury, an official accompanying the Cabinet Secretary stated that:

“It's not a physical payment transaction, so to speak.... This was the mechanism agreed with the Treasury in the very early days of the financial transactions ring fence coming into play. Simply, all we do is we report to the Treasury what our outturn is of any particular financial year against that ring fence ... Any that we don't want to, of that underspend, carry forward using our Wales reserve facility is essentially the repayment to the Treasury. It's as simple as that.”¹¹³

103. The official added that this is how the Welsh Government manages FTC year on year, and that:

¹⁰⁹ Finance Committee, RoP, 18 July 2024, paragraphs 227-228

¹¹⁰ Finance Committee, 18 September 2024, paragraph 44

¹¹¹ Finance Committee, 18 September 2024, paragraph 45

¹¹² Finance Committee, RoP, 18 July 2024, paragraphs 91-92

¹¹³ Finance Committee, RoP, 19 September paragraph 123

“It does help with some of the volatility. If we find that there are things that we can't use the money on, we can use that as a higher down payment on the amount that is outstanding to be repaid.”¹¹⁴

104. When asked if there was scope to increase the Welsh Government's ability to use any underspends from one year to the next, an official accompanying the Cabinet Secretary stated that:

“There is the opportunity to have a discussion with the UK Treasury about, potentially, because we've essentially increased the ring fence of FTC, could any of it be moved into our general capital. We've not got to that point, but it would be a discussion that we could go into.”¹¹⁵

Recycling of FTC funds

105. The Statement of Funding Policy states that funding for FTC is “provided on a net basis, unless specifically stated otherwise”.¹¹⁶ This means that repayments of loans devolved administrations receive can be “recycled indefinitely into new loans by the devolved administrations”.¹¹⁷

106. In its written evidence, the DBW explained how this works in practice:

“Rather than having a single short-term fund, where our repayment obligation to Welsh Government can be met, FTC can in some circumstances be used over a more extended period with reutilisation of receipts. Central to our long-term sustainability is the ability to utilise receipts for future investment, particularly within the context of ERDF [European Regional Development Fund] no longer being deployed in Wales. The blending of FTC with any available core capital can create more sustainable long-term solutions.”¹¹⁸

¹¹⁴ Finance Committee, RoP, 19 September paragraph 123

¹¹⁵ Finance Committee, RoP, 19 September paragraph 137

¹¹⁶ HM Treasury, Statement of funding policy: Funding the Scottish Government, Welsh Government and Northern Ireland Executive, October 2021, Chapter 6

¹¹⁷ HM Treasury, Statement of funding policy: Funding the Scottish Government, Welsh Government and Northern Ireland Executive, October 2021, Chapter 6

¹¹⁸ Finance Committee, Written Evidence: Development Bank of Wales

107. As of 2022-23, the Welsh Government says it has received £1.1 billion in FTC repayments and repaid a total of £372.2 million of FTC to HM Treasury, thus recycling over £695 million of repayments into other projects.¹¹⁹

108. The Welsh Government said:

“Given the nature of the current arrangements, it is not possible to determine the allocation of recycled funding on specific projects. After funding has been repaid to UKG [UK Government], residual funding forms part of the overall envelope when making allocations and is utilised to finance proposals published in our Budgets.”¹²⁰

109. The DBW outlined recycling of funds, specifically citing the example of the Wales property fund:

“... recycling is something that we've moved on to, because of the long length of the financial transactions that can be out there. So, we actually have really created the property fund. We started off with a £10 million property fund 1 and tried to prove the model, and then we moved, after that fund finished and had all its capital back, onto our Wales property fund 2 and the Wales stalled sites fund. And they're both £54.5 million each. So, £110 million. And those are the two main funds that are recycling.”¹²¹

110. Whilst the impact for funds that are suitable for recycling is substantial, not all funds are candidates for recycling. The DBW explained that “Most of our funds only get invested once”:

“... it's only our property funds, effectively, that we're recycling, and they self-generate their exits, because they build the property, they then sell the property and the cash comes back in to us. So, that cycle is pretty safe, so I call that a low-risk fund.”¹²²

¹¹⁹ Welsh Government, Slides on Financial Transactions Capital, July 2024

¹²⁰ Welsh Government, Slides on Financial Transactions Capital, July 2024

¹²¹ Finance Committee, RoP, 18 July 2024, paragraph 99

¹²² Finance Committee, RoP, 18 July 2024, paragraph 99

111. Regarding the advantage of recycling through property funds, the DBW said:

“... it's a very, very low risk for us, so in terms of recycling, because we're getting effectively, in general, all our money back, then you're starting back at zero, if you like, again ... So, this is why it's a really good model for a low-risk fund, when you're getting back all of your capital. It then works then from a recycling basis.”¹²³

112. The Cabinet Secretary explained that recycling was a positive feature of FTC:

“I don't want to say to you that we're not glad to have it, because without it we would not be able to do some of the things that we do. I don't want to say that I don't think that there are sometimes very good reasons why you would wish to provide money of this sort on a loan basis, because, when the money comes back, you can recycle it and use it again.”¹²⁴

113. In terms of how recycling of FTC could be used to deploy funding across additional areas, an official accompanying the Cabinet Secretary said:

“I think part of the question maybe is about the extent to which you recycle within that actual programme, rather than the money coming back for Ministers to make another choice then about how that funding is deployed. There's quite a lot of debate about that at times, about whether, for example, money that comes back in to Help to Buy should then be used for purposes other than housing. So, that's something that is quite an important policy choice about, ‘Okay, what's our priority for use of financial transactions now? Is it continuing to be housing or is it other areas of activity, like business investment?’¹²⁵

Committee View

114. The Committee notes that FTC funding comprises a significant part of the Welsh Government’s budget, and that the DBW has deployed over £1.1 billion in FTC to meet an extensive range of needs for loan finance. We also note the role

¹²³ Finance Committee, RoP, 18 July 2024, paragraph 101

¹²⁴ Finance Committee, RoP, 18 September 2024, paragraph 11

¹²⁵ Finance Committee, RoP, 18 September 2024, paragraph 171

that the Welsh Government plays in using FTC to make direct investments, mainly with businesses.

115. We also note that FTC is being used across a number of areas within Welsh Government departments, particularly housing and the economy. We also note the Cabinet Secretary's view that knowledge within Welsh Government regarding FTC varies, and will differ depending on whether departments have experience of using FTC in the past or not.

116. Whilst we agree with the Cabinet Secretary that the relatively small size of the Welsh Government enables officials to share more information and seek advice on FTC more easily, we find it particularly frustrating that only a small number of areas are using it as a way of achieving policy goals. The Committee believes that there is greater scope for the Welsh Government to use this tool more than it does currently and calls on the Welsh Government to take steps to raise its awareness and ensure better knowledge sharing and training.

117. However, the Committee also recognises that, before such work is undertaken, the Welsh Government needs a better understanding of the areas where it would be appropriate to use FTC. The Committee therefore calls on the Cabinet Secretary to conduct a sectoral analysis of the use of FTC in order to identify areas that would benefit from such investment. Once such findings are known, we believe the Welsh Government will be able to use FTC in a more effective way to achieve its policy aims.

118. The Committee also notes the criteria outlined by the Cabinet Secretary on how success in relation to FTC should be measured and agree that applying these principles would lead to a clearer vision of what the Welsh Government aims to achieve when deploying FTC. We also believe that these principles should be incorporated within relevant guidance on FTC that is produced by the Welsh Government and the DBW for businesses, so that the expected outcomes are known at the outset, before applications for funding by businesses are made.

119. The Committee notes the strengths of FTC and the number of ways it has been used to achieve significant policy objectives across the Welsh public sector. We also welcome the generally positive experiences of witnesses in engaging with both the Welsh Government and the DBW in accessing FTC loans and particularly the way it is used as a crucial part of the jigsaw to produce tangible outcomes with clear social benefits, aligned to the Welsh Government's priorities. However, we also note that this is somewhat at odds with the Cabinet Secretary's own view that there is no great appetite in Wales for FTC funding and that organisations who use such funding only do so after they have exhausted every other preferable

source. Although we note that FTC is a complicated source of financing which can be difficult for organisations to access and use, we believe the Cabinet Secretary's views risks undervaluing FTC, given that we received evidence from a number of witnesses who have found it an useful source of funding to meet specific aims and objectives.

120. Conversely, the Committee is aware of the weaknesses of FTC and shares the concerns of those witnesses who criticised how FTC operates in practice, particularly around the length of time it takes for FTC loans to materialise, as well as the lack of awareness of FTC amongst organisations who could benefit from it and the lack of knowledge about where such funding comes from.

121. The Committee agrees with the Cabinet Secretary's view that raising the awareness of FTC through greater advertising would only go "so far" and that maximising FTC requires a more nuanced approach, which involves investing time and effort in discussing options with and advising individual companies and organisations on whether FTC is the most appropriate source of funding for them.

122. The Committee also agrees with the Cabinet Secretary that applying for FTC is a lengthy and difficult process for businesses. As a result, we are particularly interested in recent attempts by the DBW to streamline the application process, and the barriers it faced in doing so. We would like further information on developments in this area to explore whether improvements can be made within current frameworks that would allow a simpler application process to enable more companies and organisations in Wales to benefit from FTC funding.

123. The Committee notes the criticisms raised in evidence that the Welsh Government lacks a strategic approach in deploying loan capital and that a more interconnected approach would enable the Welsh Government to tackle significant regeneration projects more effectively. However, as we have noted elsewhere in this report (see Chapter 2), we recognise the inherently uncertain and volatile nature of FTC and accept that this makes it difficult for the Welsh Government to plan the use of FTC in a strategic manner over the medium to long term. We also accept the Cabinet Secretary's view that taking practical steps, such as making the FTC process simpler and more straightforward is more useful to organisations using FTC than the development of a vision regarding its use by the Welsh Government.

124. Nonetheless, the Committee believes that the Welsh Government could take pragmatic steps to develop a more holistic approach to how FTC is allocated. Although we are mindful of the commercial sensitivities involved, we call on the Welsh Government to publish details of FTC allocations along with an explanation

of the purposes for which such funding has been provided. We believe that enhanced openness in this area would enable scrutiny of the big picture around how the Welsh Government uses FTC with the aim of improving how such allocations are made and how value for money can be achieved. This is particularly important during a time of fiscal constraint, where capital budgets in particular have been affected, and we believe that this would be a simple step to ensure that FTC is being used effectively.

125. The Committee notes the repayment processes that apply to FTC loans and recognises that a flexible approach to managing repayment deadlines is a positive feature that enables the DBW to be “patient investors”, which we believe is key in maximising the impact of FTC.

126. The Committee also recognises the process by which the Welsh Government repays its FTC allocations to HM Treasury. We welcome the explanation provided by the Cabinet Secretary and his officials on how this occurs in practice. We also welcome the Welsh Government’s ability to carry underspends in repayments from one year to the next and that this is an useful tool to mitigate the inherent volatility in FTC funding.

127. However, we believe that further clarification regarding this process is required and call for such information to be made publicly available in order to widen discussions on how best to make the most of the flexibilities available. We note in particular the comments of the Cabinet Secretary’s official who mentioned the possibility of discussing ways in which the use of underspends relating to FTC repayments to HM Treasury could be used as part of the Welsh Government’s general capital. Given the current constraints on capital budgets, this is worth exploring further and we call on the Cabinet Secretary to explain how this could be done within the current rules on FTC.

128. The Committee notes the evidence submitted which explains how receipts of FTC loans can be recycled and reutilised, and that this has been used as a pragmatic and low risk way to maximise the capital funding available to the Welsh Government. We welcome the innovative methods used by the Welsh Government within the rules on FTC to enable this to happen, and also recognise that recycling is not possible in all cases because of the nature of some projects being supported.

129. We are also grateful to the Cabinet Secretary for confirming that “there is no purpose that FTCs are used for which that money cannot be recycled”. However, we found it disappointing that the Welsh Government was not able to provide clarification on how much FTC is recycled each year within its budget

documentation. We are also interested in comments made by officials supporting the Cabinet Secretary around scope for recycling FTC outside programmes it was initially allocated for, so that it could be used across a number of areas to match the Welsh Government's policy and budgetary priorities. We believe this is an area that would benefit from further investigation and ask the Cabinet Secretary to look into this and provide an update to the Committee in due course.

Recommendation 7. The Committee recommends that the Cabinet Secretary conducts an analysis of the use of Financial Transactions Capital, by sector, and presents its findings 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.

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.

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.

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.

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.

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.

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.

Recommendation 15. The Committee recommends that the Cabinet Secretary explores using recycled Financial Transactions Capital funding across a number of areas outside which it was initially allocated for within Financial Transactions Capital rules, to enable such funds to be used flexibly in order to match the Welsh Government's policy and budgetary priorities.