



Llywodraeth Cymru  
Welsh Government

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# Financial Transactions (FT) Capital

Welsh Treasury/Financial Control

# Overview



- The rules governing the use of Financial Transactions Capital.
- 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.
- The purposes for which the Welsh Government has used Financial Transactions Capital.
- How Financial Transactions Capital is repaid, including expectations and amounts.
- The strengths and weaknesses of Financial Transactions Capital.



# What is FT?

- Financial Transactions Capital (abbreviated as FTC, or sometimes just as FT) is a ring-fenced section of the Welsh Government's capital budget, provided by the UK Government to boost state-led investment in private and third sector entities.
- The rules governing FT are set out in Chapter 8 of the UK Consolidated Budgeting Guidance – with the latest version on the link below:

[CBG\\_2024-25\\_final.pdf \(publishing.service.gov.uk\)](#)



# What is FT?

- Financial transactions are defined in national accounts as transactions in financial assets and financial liabilities, such as lending or equity transactions. Financial assets and liabilities generally involve claims between parties that are settled in cash.
- Financial transactions do not score as capital expenditure in national accounts. As they are exchanges of financial assets or liabilities, they do not score as spending generally.
- However, financial transactions with the private sector generally impact government borrowing.
- For example, if a department loans money to the private sector, it is exchanging a liquid asset (cash) for an illiquid asset (the financial claim from the loan). This will increase public sector net debt (PSND), which is calculated as the difference between financial liabilities and liquid assets.
- Consequently, financial transactions with bodies outside the budgeting boundary scores to a department's capital budget to reflect this impact to PSND. This is the case even though the transactions are not classified as capital in national accounts.
- Financial transactions are generally referred to as financial instruments in departmental accounts.



# What can FT be used for?

- FTC can be used for two purposes:
  1. As a loan to an entity
  2. As an equity investment to an entity
  3. An entity, in the FTC context, is a body outside of Welsh Government accounting/budgetary boundaries e.g. a business or charity.

# Repayment of FT



- 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 they do with the funds. A repayment plan must be agreed for each FT investment.
- The number of years the loan or equity investment lasts is decided individually, with the current longest repayments agreed at 25 years.



# Difference between FT & Grants

- 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.
- FTC is expected to generate a financial return.
- FTC must be repaid.
- FTC can only be given to entities outside of Welsh Government accounting/budgetary boundaries.
- The borrower of FTC is expected to repay funds in full to the Welsh Government, and the Welsh Government is expected to return at least 80% of the funds to HMT where the repayment sits outside of Welsh Government.



# Difference between FT & Grants

- Grants are the provision of WG funds to an eligible entity to assist in the development or implementation of policies that align with the WG Programme for Government.
- Grants are not expected to generate a financial return.
- Grants do not have to be repaid.
- Grants can be given to any eligible entity, including those in Welsh accounting/budgetary boundaries.
- Grants are not returned and sit within WG.



# When should FT be used?

- FTC should be used when you want to make a loan or equity investment to entities outside the Welsh accounting/budgeting boundaries.
- As with any investment made by WG, any consideration of using FT needs to satisfy the seven subsidy principles.
- The seven subsidy principles underpin the UK subsidy control regime and form the basis for determining if a subsidy award or scheme is compliant. All Welsh Government subsidies must satisfy the seven subsidy principles, including FT.

# Seven Subsidy Principles

1. Common interest
2. Proportionality and necessity
3. Designing to change the economic behaviour of the beneficiary
4. Costs that would be funded anyway
5. Least distortive means of achieving the policy objective
6. Competition and investment within the United Kingdom
7. Beneficial effects to outweigh any negative effects



# FT portfolio



- Based on the latest published data the Welsh Government has received a total of £1422.308m FT as of 2023-24, which has since been fully allocated.
- As of 2022-23, the Welsh Government has received £1067.613m in FT repayments and repaid a total of £372.15m of FTC to HMT, in effect recycling over £695m of repayments into other FT projects. Data for FTC repayments received, and the FT repaid to HMT in 2023-24 is not yet available and will be published in the weeks following the completion and publication of the WG Consolidated Annual Accounts in November/December.
- 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, residual funding forms part of the overall envelope when making allocations and is utilised to finance proposals published in our Budgets.

# FT portfolio



- The portfolio is mainly comprised of a mixture of economic and housing investments with a small education investment through the Mutual Investment Model.
- The majority of the FT portfolio is managed by the Development Bank for Wales (DBW) on behalf of Welsh Government.
- It is the responsibility of the relevant policy department to manage their respective portfolio as part of their relationship with DBW.

# Budget Process



- At each Annual Budget a reconciliation needs to be undertaken in terms of the existing portfolio, to ensure repayments due are returned to balance the FT position and any change in these repayment schedules agreed.
- Alongside this, any new allocations will be considered through the budget process.
- This is the most uncertain form of finance in knowing what additional allocations will be received from the UK Government.

# Budget Process



- Our overall settlement is subject to negative consequentialials relating to repayments from existing UK schemes, as well as any positive consequentialials generated through new investments.
- Help to Buy in England has been the main generator of FT capital. The future of both Help to Buy in England and FT capital in general is highly uncertain.
- In terms of repayments there is not a per scheme arrangement with HMT – repayments are due as a result of the whole portfolio which are adjusted via the ringfence. So there is not a defined process.

# Budget Process



- We are in the process of reforming how we manage and allocate FT in Welsh Government which will impact from the 2026-27 Budget process.
- We are taking these steps as a result of changes to the Consolidated Budgeting Guidance and Statement of Funding Policy following the 2022-23 UK Spending Review.
- And because the FT portfolio has grown and the rules have evolved over time we have recognised it is timely to do so.

# FT – Strengths and Weaknesses



- It 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.



# FT – Strengths and Weaknesses

- It is a constrained form of capital where the rules constrain how the funding can be deployed
- This means that often substantive due diligence (sometimes taking months) is required to assure that FT funding can be deployed.
- This includes subsidy and expected credit loss assessment which have resource implications, and ensuring bodies are outside public accounts.
- Over time the rules around FT have added additional requirements which has added to the challenges in utilising this funding – a point that all devolved governments have lobbied HMT on.
- The way Barnett is applied also impacts management of FT. 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 portfolio (in devolved areas) and this makes Barnett applied to changes to the UKG portfolio a particularly random way of determining changes to our FT budget.