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Financial Transactions Capital

This Briefing Paper gives an overview of the Financial Transactions Capital scheme for funding infrastructure investment in Northern Ireland. It considers the relative advantages and disadvantages for Northern Ireland departments using this scheme and provides some general information on other infrastructure funding methods

Introduction

This Briefing Paper is prepared for the Committee of Finance and Personnel (the Committee). It seeks to provide an overview of the Financial Transactions capital (FT capital) scheme which has been developed to assist in the funding of Northern Ireland's future infrastructure.

The Paper is structured in the following way:

- Section 1 outlines some background information on the allocation of capital funding from the United Kingdom government, dating from the Chancellor's Budget announcement in March 2013;
- Section 2 presents an overview of the FT capital scheme and provides background detail on a number of private sector projects currently in receipt of financing under the initiative;
- Section 3 discusses the advantages and disadvantages of the scheme and its use in the funding of infrastructure projects in Northern Ireland;
- Section 4 compares the scheme to other systems for funding infrastructure; and,
- Section 5 provides key concluding remarks.

Key Points

- FT capital funds may only be deployed as a loan to, or equity investment in, a private sector entity.
- The investment must be consistent with and supportive of the Northern Ireland (NI) Executive's overall strategic aims and objectives.
- HM Treasury require FT capital to be repaid; although they do not require full repayment. Different scheme allocations may have different repayment levels.
- Departments retain half the difference in the funding allocation and the repayment to HM Treasury. For example, when the private sector repays the department, if the repayment rate to Treasury is 60 per cent, the department will retain half the remainder i.e. 20 per cent of the original funding.
- Projects in receipt of FT capital are required to comply with European Union (EU) rules on 'State Aid'.
- FT capital that is not used for loan or equity investment must be surrendered back to HM Treasury.

1 Background

As part of the 2013 Budget the Chancellor announced a £3.5bn funding package to support people with at least a 5 per cent deposit to buy their own home. The Help to Buy scheme is an equity loan scheme whereby the United Kingdom (UK) government lends up to 20 per cent of the value of a home, which can be repaid at any time or on the sale of the property.

The UK Housing Minister has commented that:

> *Each home sold is a new-build, we're getting Britain building, with workers returning to sites across the country and helping bring house building to its highest level since 2007.*[1]

1.1 Implications for Northern Ireland

Since Help to Buy is an England-only scheme, the devolved administrations were awarded consequentials under the Barnett Formula. For Northern Ireland, the Executive determines the allocation of the funding awarded by the consequential, as long as the Executive scores the funding as a financial transaction, i.e. loan or equity investment to the private sector.[2] This means Northern Ireland departments are required to either advance a loan or take an equity stake in a capital project delivered by the private or third sector. This type of funding is called "FT capital."

1.2 Funding in Northern Ireland

The latest funding allocations in Northern Ireland under the FT capital scheme are shown below in **Table 1:**[3]

Table 1: FT Capital Funding Allocations

Capital DEL	NI Allocation £m's			
	2012-13	2013-14	2014-15	2015-16
Financial Transactions	11.8	46.8	62.6	126.7

[1] https://www.gov.uk/government/news/help-to-buy-equity-loan-creates-46-new-homeowners-a-day (accessed on 5 Feb 2014).
[2] Email to RaISe from DFP (4 April 2013).
[3] Source: Information provided to RaISe by DFP on 13 Feb 2014 Page 4.

2 Overview of the Financial Transactions Capital Scheme

The UK Government introduced FT capital as an additional type of capital funding to help boost investment. It is intended that FT capital will help stimulate private sector investment in infrastructure projects, with the benefit to Northern Ireland exceeding the level of investment.[4]

2.1 Definition of FT capital

FT capital or (Policy Lending) is:

> *transactions in financial assets, such as loans and shares, which are required to further the policies of a department…[It] increases the departments fixed assets on the departmental balance sheet but is not included in net investment.*[5]

Since FT capital does not contribute to Public Sector Net Investment, it is not classed as capital public expenditure in the usual sense and does not increase Public Sector Net Borrowing (PSNB). It could, however, affect the UK's overall level of financial debt, which is measured by the Public Sector Net Debt (PSND).[4]

2.2 Key Features of FT capital

The most distinguishing feature of FT capital is that funds may only be deployed as a loan to, or equity investment in, a private sector entity.[6] The funding is then used by the private sector to invest in related infrastructure.

One condition of the investment is that it must be consistent with, and supportive of the Executive's overall strategic aims and objectives. All FT capital schemes are required to comply with the following conditions:

- The capital project delivers policy objectives and is suitable for delivery by the private sector;
- There is a private sector entity for the department to lend or invest in; and,
- The sponsor body must have the requisite legislative authority to enter into this type of transaction.[3]

As regards the final bullet point, the Department of Employment and Learning (DEL) does not have the necessary legislative authority to offer loans, so the Executive has agreed that the Strategic Investment Board (SIB) may be used as a conduit.[7]

[4] Email to RaISe (13 Feb 2014): Information supplied by DFP, 13 Feb 2014. Page 2.
[5] Email to RaISe (13 Feb 2014): Information supplied by DFP, 13 Feb 14 Page 2.
[6] Defined by ONS classification and includes charities and universities.
[7] Email to RaISe (6 Feb 2014): Information supplied by SIB, 6 Feb 2014 Page 2.

2.3 Incentives for Departments to use FT capital

While FT capital is repayable to HM Treasury, departments do not have to repay the full amount. Only 60 per cent of the 2012 allocation of FT capital was required to be repaid to HM Treasury. While it is expected that this repayment rate will increase for subsequent allocations for the years from 2013-14 to 2015-16, Department of Finance and Personnel (DFP) officials are currently seeking clarification from HM Treasury on the rate that will be used. Meanwhile they are working on the assumption that approximately 80 per cent of the funding will be repayable.[8]

2.3.1 Retention of Funding

One incentive to scheme participation is that departments are allowed to keep half of the net benefit. For example, if a department recoups all, i.e.100 per cent of the loan or equity, and HM Treasury's repayment rate is 60 per cent, then the department repays 80 per cent of the funding to DFP. Therefore, the department retains twenty per cent, and the remaining 20 per cent is held by the 'centre' to manage the overall position.[9] An illustration in figures is given below:

Illustration:

Department loans £100 to a project
Project repays £100 to the Department
Department repays DFP £80 and retains £20
DFP repays Treasury £60 and retains £20

The Committee may wish to ask DFP to clarify what the term 'manage the overall position' means in this context, and how this additional money will be spent.

Additionally, departments retain any interest receipts that the private sector entity repays under the agreement.

2.4 Compliance with EU Rules

Projects in receipt of FT capital must ensure that they comply with EU rules on 'State Aid', which may be defined as:

> *An* ***advantage*** *in any form whatsoever conferred on a* ***selective basis to undertakings*** *by national public authorities.*[10]

The rules state that where the investment (loan or equity) relates to a market activity there must be parity with the private sector, i.e. the returns and rates must be similar to those offered by a bank.

[8] Email to RaISe (13 Feb 2014): Information supplied by DFP, 13 Feb 2014. Page 3.
[9] Email to RaISe (13 Feb 2014): Information supplied by DFP, 13 Feb 2014. Appendix A.
[10] http://ec.europa.eu/competition/state-aid/overview/index-en.html (accessed on 3 Feb 2014).

There are some exceptions to this rule, for example the de-minimis rule. It states that trade between Member States is not deemed to be affected where the investment is small – below €200,000 to a single undertaking in any three year period.[11]

DFP officials stated in evidence to the Committee in December 2013 that the European Support Unit within the Department of Enterprise Trade and Investment (DETI) will provide advice on the design of projects to ensure compliance with State Aid rules.[12] The Unit also provides guidance on the setting of interest rates to ensure compliance with the State Aid rules, as "*they are the experts in setting interest rates and all the rest*".[12]

2.5 Project Funding

The NI Executive has agreed to fund a number of projects under the FT capital scheme, including:

- DETI – Agri-food Loan Scheme – seeks to bridge the shortfall in secured lending to small businesses/farmers keen to invest as a result of the commitment by UK supermarkets to source more of their produce from the UK. The scheme provides subordinated Executive loans[13] of up to 40 per cent of build costs, with banks providing the remainder of the funding;
- Department of Social Development (DSD) – Housing schemes – FT capital is used in several different schemes to help stimulate the local housing market and housing supply:
  - Empty Home Scheme – Housing Associations purchase vacant/repossessed homes, to fix up and sell on the market for a discount (70 per cent of average house price);
  - Get Britain Building – involves stimulating new build affordable homes; and
  - Affordable Home Loans – a new shared equity scheme which is a variation on the existing co-ownership scheme which requires first time buyers to purchase a starter share between 60 and 75 per cent.
- DEL – University of Ulster Greater Belfast Development Scheme – loan funding to the University of Ulster for its major relocation scheme to Belfast City Centre.
- Department of Health Social Services and Public Safety – provides loans to GPs and dentists to improve their practices and purchase medical and dental equipment.[14]

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[11] Official Journal of the European Union: Commission Regulation (EU) No 1407/2013 of 18 Dec 2013.
[12] Official Report (Hansard) Wednesday 11 December 2013 Committee for Finance and Personnel Page 6.
[13] Definition : Subordinate Loan: A loan (or security) that ranks below other loans (or securities) with regard to claims on assets or earnings. http://www.investopedia.com/terms/s/subordinateddebt.asp accessed on 17 Feb 2014.
[14] Email to RaISe (13 Feb 2014): Information supplied by DFP, 13 Feb 2014. Pages 3 & 4.

The level of funding allocated to each of these schemes is shown in **Table 2**:

Table 2: FT Capital Funding Allocations £000's[15]

Year	2012-13	2013-14	2014-15	2015-16[16]
Available Funding	**11,839**	**46,755**	**62,637**	**126,675**
DETI: InvestNI Agri-food Loan Scheme			10,000	
DHSSPS: Dental Practices			2,500	
DHSSPS: GP Practices			2,500	
DSD: Get Britain Building	11,839	7,200		
DSD: Affordable Home Loans		5,000	7,500	
DSD: Empty Homes Schemes		3,700	5,500	
DEL: University of Ulster		25,000	10,000	
Total Funding Allocated	11,839	40,900	38,000	0
Residual Funding Available	**0**	**5,855**	**24,637**	**126,675**

2.6 End of Year Flexibility

DFP have agreed separate end of year flexibility (EYF) arrangements with HM Treasury to provide limited carry forward of FT capital funding across each of the next two financial years. This equates to 20 per cent of unused FT capital from 2013-14 into 2014-15, and 10 per cent from 2014-15 into 2015-16.[17]

The NI Executive is currently within these limits, with £5.9m due to be carried forward to 2014-15 under the EYF arrangements. This funding will then be available for allocation and use next year.[17]

[15] Source: Information provided to RaISe by DFP on 13 Feb 2014 Page 4.
[16] The NI Executive has no budget allocations beyond 2015-16.
[17] Email to RaISe (13 Feb 2014): Information supplied by DFP, 13 Feb 2014. Pages 4 & 5.

3 Advantages and Disadvantages of Financial Transactions Capital

FT capital is available to all departments within the Executive: DFP sent out a call for funding bids for potential projects in April 2013. Like all types of financing there are a range of advantages and disadvantages to its use. These are detailed in the following section.

3.1 Advantages of Financial Transactions Capital

The advantages of FT capital can be broken down as follows:

- The HM Treasury perspective; and,
- The Northern Ireland perspective.

3.1.1 HM Treasury Perspective

Since FT capital is awarded as either a loan or equity investment to the private sector; it is seen as a method for promoting activity in the private sector. For example, the UK Housing Minister has credited the Help to Buy scheme as laying:

> *…the foundations for recovery in housebuilding and boosting local economies. I'm delighted to see how it has played a part in reviving the Claughton Manor brick works.*[18]

Another advantage from HM Treasury's perspective is that it does not increase the UK's Public Sector Net Borrowing since it is classified as an equity or investment stake. This is particularly important in light of the Coalition Government's stated aim to eliminate the current structural deficit.[19]

3.1.2 Northern Ireland Perspective

In a recent speech to a 2014 infrastructure conference, the Finance Minister commented that there has been a legacy of underinvestment in infrastructure in Northern Ireland.[20] The allocation of additional capital funding could be seen as an opportunity to address this deficit, at least in part. Although ring-fenced in the manner of its use, the NI Executive has discretion over how it allocates the funding and the type of project it supports. FT capital is available to all departments within the Executive; and the DFP issued a call to all departments in April 2013 to invite departments to submit proposals for the use of this funding. It is hoped that FT capital will "fast-track"

[18] https://www.gov.uk/government/news/help-to-buy-re-fires-kilns-at-lancaster-brick-works (accessed on 7 Feb 2014).

[19] The Coalition: Our programme for government: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/78977/coalition_programme_for_government.pdf accessed on 17 Feb 2014.

[20] Finance Minister speech at SIB Infrastructure seminar on 23 Jan 2014.

some developments ahead of projects previously awaiting conventional capital funding.[21]

In light of the Executive's stated aim to promote growth in the private sector, the use of FT capital could be seen as a positive development. Funding is paid directly to the private sector either as an equity investment or where applicable at an attractive interest rate, to assist the private sector in taking forward the development of infrastructure. Additionally, it may address some widely publicised difficulties which the private sector is facing in accessing funding from banks.[22] Difficulties that the Westminister NI Affairs Committee is investigating as part of their ongoing inquiry into the banking sector in Northern Ireland.

FT capital is not a 'one-time only' investment. Once a project repays the loan or the equity value is realised, the funding may be reused to assist other projects,[23] subject to HM Treasury approval.[24] In this way the funding may benefit significantly more projects than the level of funding would initially indicate.

The Committee may wish to seek DFP's view on whether the timeframe on the agreed projects will enable the funding to be recycled in this manner.

FT capital has an element of profit-sharing; HM Treasury does not require all of the FT capital to be repaid. Instead the NI Executive is allowed to retain some of the funding (as detailed in Section 2), i.e. where a department recoups all of the loan or equity, and the repayment to HM Treasury is at the 2012 rate of 60 per cent, then the department may retain 20 per cent of the initial loan. The 'centre' then retains a further 20 per cent to manage the overall position, and the agreed 60 per cent is repaid to Treasury.

DFP stated in its call for bids that:

> *priority will be given to proposals that will free up conventional Capital DEL (or indeed Resource DEL[25])funding.[26]*

To provide departments with an incentive to develop FT capital proposals, DFP went on to state that:

> *Departments will be allowed to keep 50% of any conventional Capital DEL that is freed up as a result. The remaining 50% must then be surrendered to the Executive for reallocation.[27]*

[21] Official Report (Hansard) Wednesday 11 December 2013 Committee for Finance and Personnel Page 5.

[22] There is an ongoing inquiry into the banking sector in Northern Ireland by the Westminister NI Affairs Committee. Terms of Reference http://www.parliament.uk/business/committees/committees-a-z/commons-select/northern-ireland-affairs-committee/inquiries/parliament-2010/banking-structure-in-ni/ accessed on 20 Feb 2014.

[23] Email to RaISe (6 Feb 2014): Information supplied by SIB, 6 Feb 2014 Page 1.

[24] Email to RaISe from DFP (4 April 2014).

[25] Definition: Resource Departmental Expenditure Limits set firm, multi-year spending limits for current expenditure within each department.

[26] Email to RaISe (6 Feb 2014): Information supplied by DFP, 13 Feb 2014 Appendix A.

[27] Email to RaISe (13 Feb 2014): Information supplied by DFP, 13 Feb 2014. Appendix A.

There is considerable flexibility in the use of FT capital, as projects are not constrained by the method of funding. The private sector may therefore approach a department with a plan to address a range of projects;[28] some of which could have been on the agenda for a while, and have never reached the top of the list for a variety of reasons, e.g. school building projects or flood infrastructure.

The options for the use of FT capital are wide ranging and include traditional projects which government procures (e.g. Primary and Community care centres). However, FT capital may be also be used to promote other policy objectives (e.g. social housing[29] and renewable energy), which are not normally procured by government.

3.2 Disadvantages of Financial Transactions Capital

The main disadvantage of FT capital is that it is not easily understood; in other words, the rules are not clear. For this reason, the scheme is driven almost exclusively by DFP and SIB officials. DFP officials have stated that:

> *If we sit back and wait for the private sector bodies to come to us, it will be too late and the money will be surrendered to the Treasury.*[30]

A second disadvantage relates to the fact that the funding of the project may not breach EU "State Aid rules". State Aid may be defined as:

> *Using taxpayer-funded resources to provide assistance to one or more organisations in a way that gives an advantage over others.*[31]

Because of this, departments need to take care to ensure that the "*Special Purpose Vehicle",* i.e. the method of funding complies with EU State Aid rules. To address this issue the European Support Unit in DETI[32] is available to provide advice and assistance on the enforcement of the rules. However, this adds an additional layer of bureaucracy, which could lead to delays.

The money has to be repaid to HM Treasury, and DFP officials have commented that some departments have proven reluctant to address the concept of FT capital and:

> *Rather than take this FT capital next year, they want to hold off for three or four years in the hope of getting a conventional capital bid met at a later stage. They do not like innovative or unanticipated proposals to be put to them.*[33]

If this continues to happen, however, the additional funding under the scheme may have to be surrendered to HM Treasury, as highlighted in the above paragraph.

[28] Official Report (Hansard) Wednesday 11 December 2013 Committee for Finance and Personnel Page 5.
[29] NB: Housing Associations are not classified as public sector bodies.
[30] Official Report (Hansard) Wednesday 11 December 2013 Committee for Finance and Personnel Page 4.
[31] http://www.gov.uk/state-aid (accessed on 7 Feb 2014).
[32] Information on the EU Support Unit may be accessed via http://www.detini.gov.uk/deti-euro-prog-index.htm
[33] Official Report (Hansard) Wednesday 11 December 2013 Committee for Finance and Personnel Page 4.

From 2014-15 departmental budgets will be adjusted downward to take account of the scheduled repayments under FT capital. Departments responsible for individual schemes will therefore carry the risk of default within their budget where repayments are not made. An example of the impact of repayments on budgets is provided at Appendix A.

Due to the nature of the projects, it is likely that the lead-in time may be significant for some of the schemes. Contracts need to be drawn up and signed to ensure that there is a solid legal basis for the project prior to it commencing. In light of these potential delays, DFP officials have stated that many of the projects may still not be endorsed by the NI Executive by summer recess.[34]

[34]Official Report (Hansard) Wednesday 11 December 2013 Committee for Finance and Personnel Page 5.

4. Other Methods for Funding of Infrastructure

The public sector utilise a number of different financing methods to fund capital projects and infrastructure. This section of the Briefing Paper provides a brief overview of some of the more popular methods. It details the respective advantages and disadvantages of those methods when compared to the use of FT capital.

4.1 Conventional Capital Financing

"Conventional capital financing" is where the public sector builds and operates the asset, in a traditional manner. The public sector is responsible for all project related costs, and requires a considerable amount of money 'up front' to pay for the design and build costs of the asset. Additionally all project costs have to be built into budgets for future years at the outset to ensure the scheme is able to reach fruition.

It is, the most easily understood method of financing i.e. government buys the asset, pays for it, and ultimately uses it in whatever manner it sees fit. Furthermore, there is no requirement for any funds to be repaid to HM Treasury.

Over the last two decades traditional capital financing has become less popular with central government since the public sector has responsibility for all the project risks and rewards. Additionally successive governments have commented that the public sector does not have the necessary expertise to manage large capital projects due to a number of high profile failures which have been the subject of cost and time overruns.

4.2 Public Finance Initiatives / Public-Private Partnerships

The Public Finance Initiative (PFI) was launched by the Conservative Government in 1992. It was aimed at improving the public sector track record in infrastructure procurement by transferring risks to the private sector, which would in turn:

> *… finance, build and operate infrastructure and provide long term facilities management through long term concession agreements.*[35]

PFI agreements require the private sector developer to invest the upfront capital to acquire an asset, while the public sector purchases the asset or service from it in the form of a long term agreement, whereby it pays a monthly/yearly 'unitary charge' for approximately 25 years. When entering into this type of agreement a department is agreeing to a regular long term charge against their Resource Departmental Expenditure Limit (RDEL). Recent Office for Budget Responsibility forecasts have indicated that RDEL is likely to decrease by 10.4 per cent in real terms by 2017-18.[36] Departments are increasingly unlikely to want to restrict their ability to reallocate funds

[35] http://www.pppforum.com/current-questions-about-pfi (accessed on 6 Feb 2014).

[36] Finance Minister's Statement on Public Expenditure: 2013-14 October Monitoring Round and 2014-15 Capital reallocation Exercise on 21 Oct 2013.

by signing up to this type of long term financial agreements. A recent report by the Comptroller and Auditor General calculated that:

> *The current 39 operational PFI projects have built an estimated £7bn of future commitments against future years' departmental resource budgets, costing an average of £245m each year until 2030.*[37]

While PFI agreements normally require private sector developers to invest the upfront capital at the outset, DFP officials have stated that one potential use for FT capital is through a "*PFI arrangement where it is paid back through the revenue budget*".[38]

4.3 Reinvestment and Reform Initiative

The Reinvestment and Reform initiative (RRI) was agreed with the UK government in 2002. It allows the NI Executive to borrow up to £200m per annum from the National Loans Fund to deliver infrastructure investment. The additional borrowing under the RRI initiative is broadly equivalent to the local authority prudential borrowing powers in the rest of the UK. It addresses the fact that the NI Executive retains control over a range of functions which are normally the responsibility of local authorities in the rest of the UK.

The NI Finance Minister commented at a 2014 infrastructure conference that the NI Executive has utilised the RRI initiative to its full extent since its introduction in order to fund £2.2bn worth of infrastructure.[39] The Comptroller and Auditor General estimated in a recent report that:

> *annual repayments under the RRI have doubled in the past five years to £100m in 2013 and are expected to peak at £140m a year from 2016 to 2021.*[40]

FT capital could be used to enhance this funding, rather than supplant it.

4.4 UK Guarantee Fund

Under the *Infrastructure (Financial Assistance) Act 2012,* £40bn of financial guarantees were made available by HM Treasury for infrastructure projects in the UK. The support takes the form of:

[37] Comptroller and Auditor General 2014 *The Future Impact of Borrowing & Private Finance Commitments.* http://www.niauditoffice.gov.uk/index/publications/recent_reports/the_future_impact_of_borrowing_and_private_finance_commitments.htm *(accessed on 19 Feb 2014*

[38] Official Report (Hansard) Wednesday 11 December 2013 Committee for Finance and Personnel Page 5.

[39] Finance Minister speech at SIB Infrastructure seminar on 23 Jan 2014.

[40] Comptroller and Auditor General 2014 *The Future Impact of Borrowing & Private Finance Commitments.* http://www.niauditoffice.gov.uk/index/publications/recent_reports/the_future_impact_of_borrowing_and_private_finance_commitments.htm *(accessed on 19 Feb 2014*

> *An unconditional and irrevocable financial guarantee (the **UK Guarantee)** of scheduled principal and interest in favour of a lender to investor in a UK infrastructure project (a **Beneficiary)** and on behalf of the relevant borrower/issuer of debt (the **Company).**[41]*

Infrastructure projects use the UK's credit rating in exchange for the payment of a guarantee fee which is charged at market rates. Eligible projects must be:

- Nationally significant or as approved by Ministers;
- Ready to start construction by the end of 2016;
- Financially credible;
- Dependent on a guarantee to proceed; and,
- Good value to the taxpayer.[42]

This is a national scheme that companies from Northern Ireland may access. At a recent 2014 Infrastructure Conference the Chief Executive of Infrastructure UK stated that a number of projects from Northern Ireland were currently under consideration.[41] In addition, the Islandmagee Gas Storage facility is designated as prequalified i.e. awaiting finance - on the Infrastructure UK website.[43]

4.4 European Investment Bank

The European Investment Bank (EIB) is owned by the members of the EU. It supports projects which contribute to EU policy objectives, including innovation, strategic infrastructure and resource efficiency, with a particular focus on smaller businesses.

Primarily the EIB extend loans to projects – around 90% of their financial commitments are in this form. Eligible projects must have a value over £25m; and it was announced in January this year that the University of Ulster campus relocation project had secured £150m in loan finance. The loan will be similar to a mortgage and likely to be repaid over a period of around 25 years.[44]

[41] Allen & Overy 2013 *The UK Guarantees Scheme for infrastructure projects – A brief overview of the standard documentation* *https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209806/UK_Guarantee_-_A_brief_overview_-_Allen___Overy.pdf* (accessed on 6 Feb 2014).

[42] Presentation by Geoffrey Spence – Chief Executive UK - NI Infrastructure Conference on 23 Jan 2014.

[43] https://www.gov.uk/government/publications/uk-guarantees-scheme-prequalified-projects/uk-guarantees-scheme-table-of-prequalified-projects (accessed on 19 Feb 2014).

[44] http://www.bbc.co.uk/news/uk-northern-ireland-25677657 (accessed on 17 Feb 2014).

5. Conclusion

FT capital is additional funding which is a new type of Capital DEL. While there are many advantages and disadvantages to its use, it is likely that the UK government will continue to use this method of funding beyond the next election.[45] It is therefore vital that departments become more open to the benefits that this money can bring. If not used as specified for loan or equity investment, then the money will have to be surrendered back to HM Treasury.

NI has a legacy of underinvestment in infrastructure; and the Finance Minister has stated at a 2014 SIB infrastructure conference that:

> *This collaborative working between the public and private sectors is even more important in this period of austerity.*[46]

Since "*infrastructure investment is a key driver of long term economic growth,*"[45] FT capital may be used to augment current capital budgets to "*increase and/or accelerate infrastructure investment in Northern Ireland.*"[45] If the NI Executive does not, however, embrace the opportunity that this funding represents it will be lost, albeit the constraints detailed in Section 3 of this Briefing Paper may make this unavoidable.

[45] Email to RaISe (6 Feb 2014): Information supplied by SIB, 6 Feb 2014.
[46] Finance Minister speech at SIB Infrastructure seminar on 23 Jan 14.

Appendix A

Example of Loan and Equity to Private Sector

For the purposes of this illustrative example:

- The loan is to the value of £400m;
- the loan is repayable over four years;
- the loan repayment amount to HMT is 80%; and
- the department shares half the benefit of the remaining 20%.

£ million	Year 0	Year1	Year2	Year3	Year4
Department Yellow (Net Budget)					
Original Budget	1,000	1,000	1,000	1,000	1,000
Adjustment to Budget for Loan to Private Sector	400				
Adjustment to Budget for Loan Repayment (80%+10%)		-90	-90	-90	-90
Adjusted Net Budget	**1,400**	**910**	**910**	**910**	**910**
Of which:					
Department Yellow (Gross Budget)					
Original Budget	1,000	1,000	1,000	1,000	1,000
Adjustment to Budget for Loan to Private Sector	400				
Adjustment to Budget for Loan Repayment (80%+10%)		-90	-90	-90	-90
Increase in spending power due to Repayment receipts		100	100	100	100
Adjusted Gross Budget	**1,400**	**1,010**	**1,010**	**1,010**	**1,010**
Department Yellow (Receipts)					
Original Budget	0	0	0	0	0
Repayment of Loan from Private Sector		-100	-100	-100	-100
Adjusted Receipts	**0**	**-100**	**-100**	**-100**	**-100**
Total Department Yellow Budget	**1,400**	**910**	**910**	**910**	**910**

Note: The above example assumes that there is no conventional Capital DEL released. However, in the case where a departmental proposal releases conventional Capital DEL, 50% of the released funding will be retained by the department with the remaining 50% having to be returned to the 'Centre'.