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Financial Transactions Capital: Usage and Challenges

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This Briefing Paper, commissioned by the Assembly's Committee for Finance, provides comparative research on the use of Financial Transactions Capital within the United Kingdom and associated challenges.

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Introduction

This Briefing Paper aims to help inform the Committee for Finance's consideration of Financial Transactions Capital (FTC) - in particular: government use of FTC in Northern Ireland, when compared to that in Great Britain; challenges associated with such use; and, any identified best practice in the area.

For background, Section 1 of the Paper briefly explains the FTC model in the United Kingdom. It also highlights potential benefits and risks when government partners with the private sector. Section 2 then offers a comparative perspective, outlining FTC usage in England, Wales and Scotland, including identified challenges that the governments in Great Britain experienced, along with examples of their best practice. Thereafter, Section 3 outlines the Northern Ireland experience. Section 4 then highlights key takeaways arising from the earlier sections.

The Paper is presented using the following sections:

1. Background information
2. Government use of FTC in Great Britain
3. Northern Ireland experience of FTC
4. Key takeaways

1 Background information

1.1 FTC model in the United Kingdom – brief explainer

Financial Transactions Capital (FTC) is a form of funding provided by the United Kingdom Government (UKG), which is designated for loan and equity investments in private sector entities. Unlike grants, FTC must be repaid and is expected to generate a financial return.

The UKG uses FTC to support some capital investment programmes and other projects; and this is sometimes referred to as 'net lending' or 'policy lending', but can also involve other financial instruments such as equity investment and guarantees.

FTC does not affect "Public Sector Net Borrowing" (as it is treated as a financial transaction rather than spending), but does add to "Public Sector Net Debt".

1.1.1 FTC Rules

The overarching rules governing FTC are determined by the UK Government and are set out in Chapter 8 of the UK Consolidated Budgeting Guidance. The UK Government also determines the total amount of FTC that the devolved administrations receive through the process set out in the Statement of Funding Policy, which determines the allocation of Barnett Consequentials. FTC is a ring-fenced section of the devolved administration's block grant. 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.

As noted earlier, FTC can be used for two purposes: a loan to an entity; or, an equity investment to an entity. An entity in the FTC context is a body outside of the devolved administration's accounting/budgetary boundaries, for example, a business or charity.

Moreover, the amount of FTC provided to entities is to be repaid in full by the borrower/investee, regardless of the success or failure of what they do with the funds, and a repayment plan must be agreed for each FTC investment.

1.1.2 Financial Transactions Control Framework 2024

At Autumn Budget 2024, the government announced a set of reforms to the fiscal framework. The fiscal rules include the investment rule – to reduce debt, defined as public sector net financial liabilities or 'net financial debt', as a share of the economy. This is a broad and comprehensive metric that captures all financial assets and liabilities on the public sector balance sheet. Economic growth is the government's central mission and well-directed public investment can catalyse private investment. A move to net financial debt recognises where equity investments or loans create financial assets corresponding to the liability incurred to finance them.

The government intends to use expert institutions such as the National Wealth Fund (NWF) and the British Business Bank (BBB) to make financial investments on its behalf, supporting growth while generating a positive return for the Exchequer. While this creates opportunities, the government must invest in a fiscally responsible way. The introduction of a net financial debt fiscal rule is accompanied by new controls on financial transactions, where the public sector acquires or sells financial assets such as equities or loans or takes on new liabilities, such as guarantees. This will ensure financial transactions represent good value for money and do not crowd-out private investment.

The new controls introduced from 30 October 2024 are[1]:

- Delivery of new, large-scale financial transactions through designated public financial institutions with suitable expertise and capability
- An annual report on government's financial investment portfolio to offer transparency on value, performance and risk
- Requirements to ensure all new financial transactions either generate a return above their cost of capital or recognise costs transparently, with any financial transactions expected to make a loss having costs paid for upfront by the responsible department
- Standardised controls to manage the downside risk of unexpected losses via an economic capital approach
- New value for money criteria that public financial institutions and departments must meet to get financial transactions approved.

These controls build on existing spending controls for managing financial transactions set out in Managing Public Money[2] and Consolidated Budgeting Guidance[3], which are to remain in place in their entirety. HM Treasury are to publish an updated framework in the first quarter of 2025 (at the time of writing this has not yet been published).

1.2 Government partnering with private sector – potential benefits and risks

With mounting constraints on public resources and fiscal space, and while recognising the importance of investment in infrastructure to help their economies grow, governments are increasingly turning to partnerships with the private sector as an alternative additional

[1] https://assets.publishing.service.gov.uk/media/672141e13ce5634f5f6ef44d/Financial_Transaction_Control_Framework.pdf

[2] https://assets.publishing.service.gov.uk/media/65c4a3773f634b001242c6b7/Managing_Public_Money_-_May_2023_2.pdf

[3] https://www.gov.uk/government/publications/consolidated-budgeting-guidance-2025-to-2026/consolidated-budgeting-guidance-2025-26

source of funding to meet their funding gaps. A number of potential benefits have been identified when doing so, including[4]:

- Exploring partnerships as a way of introducing private sector technology and innovation in providing better public services through improved operation efficiency
- Imposing budgetary certainty by setting present and the future costs of infrastructure projects over time
- Supplementing limited public sector capabilities to meet the growing demand for infrastructure development
- Extracting long-term value-for-money through appropriate risk transfer to the private sector over the life of the project – from design/construction to operations/maintenance

However, a number of potential risks also have been identified, including:

- Development, bidding and ongoing costs of projects are likely to be greater than for traditional government procurement processes and so a determination would need to be made as to whether the greater costs involved are justified.
- Some projects may be easier to finance than others
- Government responsibility continues – citizens will continue to hold government accountable for quality of utility services. Government will also need to retain sufficient expertise, whether the implementing agency and/ or via a regulatory body, to be able to understand the arrangements, to carry out its own obligations under the agreement and to monitor performance of the private sector and enforce its obligations
- The private sector is likely to have more expertise and after a short time have an advantage in the data relating to the project. It is important to ensure that there are clear and detailed reporting requirements imposed on the private operator to reduce this potential imbalance

Given the long-term nature of these projects and the complexity associated, it is difficult to identify all possible contingencies during project development and events and issues

[4] https://ppp.worldbank.org/public-private-partnership/overview/ppp-objectives

may arise that were not anticipated in the documents or by the parties at the time of the contract. It therefore is more likely than not that the parties need to renegotiate the contract during the life of the contract, to accommodate any arising contingencies. Moreover, some projects may fail or may be terminated prior to the projected term of the project, for a number of reasons, including changes in government policy, failure by the private operator or the government to perform obligations or external circumstances such as “force majeure”. While some of these issues can be addressed in the underlying agreement, some need to be managed during the course of the project.

2 Government use of FTC in Great Britain

2.1 UKG’s experience of FTC use

In 2012-2013 the UK Government announced a range of housing-related equity and loan finance schemes, such as “Help to Buy” . The type of funding used to operate such schemes is FTC.

The Committee should note that these FTC allocations (like all such allocations) are ring-fenced for the specific programmes for which they are allocated. Moreover, when the UKG invests in such schemes in areas that are devolved, the devolved administrations receive a proportional share of the UKG’s investment through the Barnett formula.

2.2 Wales

2.2.1 Welsh Government’s experience of FTC use

As shown in Table 1 below, the Welsh Government received an average annual allocation of £227 million of FTC funding from the UKG between 2015-16 and 2021-22. During that time, less than £10 million was returned unused to the UKG:

Table 1: FTC Allocations to Welsh Government 2015-16 to 2021-22 and FTC returned to the UK Government 2015-16 to 2020-21

£ million	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
FTC Allocated from UKG	221	189	256	281	194	329	122
FTC Returned to UKG	Nil	Nil	Nil	3	2	3	-

Source: https://record.assembly.wales/WrittenQuestion/83068

Table 2 below outlines how the Welsh Government's FTC funding was used. It shows that the majority of the funding was used for a Welsh "Help to Buy" scheme or allocated to the Development Bank for Wales:

Table 2: Welsh Government FTC Program Allocations 2015-16 to 2021-22

£ million	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Help to Buy Cymru – To help qualifying home buyers purchase a new build home with a low loan-to-value mortgage and provide a boost to the construction industry.	71	26	83	87	98	67	84
Development Bank for Wales – To provide access to finance for Small and Medium Sized Businesses (SMEs), support business growth, boost exports and create/safeguard jobs. Includes funds for tourism, rescue and restructure, micro businesses, angel co-investment, commercial property, flexible investment, life sciences etc.	75	20	129	138	70	139	20
Land for Housing scheme – to provide loans to Registered Social Landlords to acquire sites in order to accelerate the development of affordable housing schemes.	19	10	10	10	10	10	10
Economic Development Initiatives – To support economic growth in Wales.	8	7	23	16	6	26	0
Property Development Funds and Property sector – To help build new homes, commercial and industrial space.	3	-	5	1	-	2	0
Cardiff airport and Aviation – To increase commercial potential of aviation industry in Wales and enhance route development.	6	10	5	6	17	5	0
Housing and RSL loans– To support delivery of 20,000 homes commitment and housing provision including new innovative developments.	13	-	-	-	22	69	0

Green Growth Wales and Green Infrastructure – To support Wales' renewable energy sector and to increase and accelerate projects to deliver green investment in Wales.	10	-	-	6	1	0	0
Town Centre Loans and Regeneration Funds – To assist in providing a sustainable future for vacant and under-utilised sites and properties and in doing so supporting vibrant and viable town centres.	5	10	8	4	-	10	5
Coleg y Cymoedd - To support a new Further Education (FE) campus in Aberdare and Bridgend STEAM Academy.	5	-	-	-	11	-	-
Capital Loan Scheme for Sport and Leisure Facilities – To improve facilities through and invest-to-save approach, increase participation in sport and physical activity and contribute to better health outcomes.	2	-	-	-	-	-	-
Community Asset Loan Fund	-	-	-	-	-	1	2
Electric Vehicle Transformation	-	-	-	-	-	8	10
Credit Unions subordinate loans - To support compliance with mandatory capital to asset ratios.	-	-	-	0	1	1	1
Building safety loans – To help maintain and improve the quality of housing stock in Wales and allow residents, leaseholders and tenants to feel safer in their homes.	-	-	-	-	-	0	12
Education - To support delivery of the Mutual Investment Model.	-	-	-	-	-	9	3

Source: https://record.assembly.wales/WrittenQuestion/83068

2.2.2 Welsh Government challenges using FTC

The Welsh Government identified a number of challenges relating to its FTC use, including[5,6,7]:

- The way FTC is allocated by the UKG is highly uncertain and volatile, which subsequently causes difficulties for the Welsh Government when planning for its use in the medium to long-term.
- Bids for FTC tend to inherently be either risker or provide lower financial returns compared to wider investments, as otherwise they would use private sector loans which are often easier to access and less expensive.
- The lower financial returns mean that if a bid fails to repay its funding, it would compromise the wider Welsh Government FTC portfolio, requiring losses to be covered by returns from other bids. This places a greater burden on the Welsh Government to assess bids diligently with legal, financial and commercial experts. This can make the bidding process for securing FTC bid much longer than a grant or a commercial loan, as it is essential we only fund projects which will be able to repay its funding.
- Additionally, even after being awarded FTC funding, policy officials need to work with legal and commercial teams within WG to develop contracts for funding partners. It can take time to upskill staff for this task, which is then complicated if proposals have unique or complicated repayment terms and conditions.
- This increased level of scrutiny and assurance needed for FTC investments can disincentivise the development and submitting of bids compared to regular grant funding. Consequently, most new funding proposals considering the option for FTC generally do so as they have exhausted all alternative funding options for their proposal, not because the proposal in question is designed optimally for the use of FTC.
- Moreover, repayable loans create an administrative responsibility within government and increases budgetary risk for both the area that the bids falls

[5] https://business.senedd.wales/documents/s153958/Welsh%20Government%20Written%20evidence%20-%20September%202024.pdf

[6] https://business.senedd.wales/documents/s153181/Financial%20Transactions%20Capital%20-%20Welsh%20Government%20-%20Presentation%20slides%20-%20July%202024.pdf

[7] https://senedd.wales/media/ksuj21ae/cr-ld16817-e.pdf

within and for the centre of government who are responsible for repayments to HMT.

- Providing appropriate levels of scrutiny to bids can be particularly challenging given the short turnaround between Autumn Statements, where the FTC funding has been allocated in recent years by the UK Government, and the Draft Budget in December. This has led to a reliance on a small number of policy areas which are more used to utilising FTC, as they are most effective at managing and mitigating risk.

2.2.3 FTC Welsh Parliament Committee Inquiry

The Senedd Finance Committee completed an inquiry into Financial Transactions Capital in 2024. The Terms of Reference were[8]:

The Committee will consider the Welsh Government's use of Financial Transactions Capital, including:

- *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.*

The Senedd's Finance Committee published its report on 25 November 2024. The Committee received a response from the Welsh Government on 22 January 2025 and a debate on the Committee's report was held on 29 January 2025.

[8] https://business.senedd.wales/mgIssueHistoryHome.aspx?IId=43920

The report also identifies several best practices in Welsh Government use of FTC, including:

- **Clear Strategic Objectives** – Ensuring FTC funding aligns with policy priorities and delivers measurable benefits.
- **Robust Governance & Oversight** – Implementing strong monitoring frameworks to manage risks and ensure accountability.
- **Maximising Recyclability** – Using FTC in ways that allow funds to be repaid and reinvested, such as loan-based schemes.
- **Effective Stakeholder Engagement** – Collaborating with key partners to ensure FTC is targeted effectively and efficiently.
- **Transparent Reporting & Evaluation** – Regularly reviewing FTC performance and publicly reporting outcomes.

The Senedd's Finance Committee made 15 recommendations; all of which were accepted by the Welsh Government. Table 3 below outlines those recommendations:

Table 3: Committee Recommendations and Welsh Government Responses

Recommendation	**Government Response**
Recommendation 1: The Committee recommends that the Cabinet Secretary assesses how the reclassification of the Development Bank of Wales by the Office of National Statistics as a central government body has impacted on the way it can use and allocate Financial Transactions Capital funding, and provides an update to the Committee on the outcome of the assessment including any actions taken.	**Response: Accept** The reclassification of the Development Bank of Wales as a central government body primarily impacts when FTC expenditure is recognised against the Welsh Government's budget. There are two ongoing strands of work which must be completed before an assessment can be reported to the Committee. The first is the resolution with HM Treasury on the handling of budgetary consequences arising from the reclassification of the Development Bank of Wales as a Central Government body. The second is engagement between the Welsh Government and HM Treasury on the Financial Transactions Control Framework, published October 2024, which is expected to take place early in 2025 to consider any potential impacts on devolved areas. The outcome of this work will be significant in informing our assessment of how the reclassification of the Development Bank of Wales will impact the way it can use FTC funding.

Recommendation 2: The Committee recommends that the Cabinet Secretary provides an update on the progress of any discussions with the Treasury regarding reforming Financial Transactions Capital.	**Response: Accept** No formal engagement has taken place with the Treasury in recent years regarding potential reforms to FTC, but we are keen to work closely with the UK Government on this. Some early informal discussions between officials have taken place, and it is anticipated that reforms to FTC will be considered through the UK Government Spending Review that is currently underway. An update will be provided to the Committee following that process.
Recommendation 3: The Committee recommends that the Cabinet Secretary confirms the total amount of Financial Transactions Capital funding that the Welsh Government has received to date.	**Response: Accept** As at the Main Estimates 2024-25, the UK Government has provided £2,230,774m of ring-fenced FTC Financial Transactions Capital since 2012-13.
Recommendation 4: The Committee recommends that the Cabinet Secretary ensures that details regarding Financial Transactions Capital allocations are presented in the Welsh Government's Draft Budget documentation for 2025-26 and future years, and that, if this is not possible, a full explanation is provided to justify the approach taken.	**Response: Accept** The Welsh Government is committed to providing transparent information on how funding from all sources is allocated. We therefore published details of proposed FTC allocations in the 2025-26 Draft Budget on December 10, 2024. It is our intention to provide this information at the Draft Budget on an annual basis. If this is not possible an explanation will be provided to the Committee in advance.
Recommendation 5: The Committee recommends that the Cabinet Secretary provides updates to the Committee on how Barnett consequentials impact the Financial Transactions Capital funding available, as soon as such additional funding is received by the Welsh Government.	**Response: Accept** If additional funding that impacts FTC is received outside the annual budget process, the Welsh Government will provide an update to the Finance Committee as soon as is practical after the funding is confirmed.
Recommendation 6: The Committee recommends that the Cabinet Secretary publishes disaggregated	**Response: Accept** In the 2025-26 Draft Budget we published disaggregated data in the Supporting Tables.

Financial Transactions Capital data alongside Draft Budget documents from 2025-26 onwards.	
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	**Response: Accept in principle** I have asked my officials to undertake an analysis of where FTC has been allocated to date and to provide this information to the Committee. To facilitate this work I have asked them to engage further with the Committee to better understand the nature of the information which would be most useful to the Committee.
Recommendation 8: The committee recommends that the Cabinet Secretary ensures that information, expertise and knowledge relating to Financial Transactions Capital is shared across departments within Welsh Government, and that training is targeted at staff within policy areas which have hitherto not fully utilised such funding.	**Response: Accept** The Welsh Government has already begun to revise the internal FTC guidance for the next budget round. Additionally, targeted training sessions for staff that have limited or no experience of FTC, but might have opportunities to use FTC within the areas for which they are responsible, will be run by my officials to help facilitate the sharing of expertise and knowledge across departments. Welsh Treasury provides proactive support to departments across the Welsh Government throughout the year to identify and develop specific proposals, with particular effort devoted to supporting new and innovative proposals from areas inexperienced in accessing FTC. Targeted discussions are also held with relevant finance and policy leads during the budget process to ensure that viable proposals can be submitted from as wide a range of areas as possible.
Recommendation 9: The Committee recommends that the Cabinet Secretary publishes the three criteria for success used by the Welsh Government in relation to Financial Transactions Capital and that this is incorporated within guidance for businesses interested in applying for such funding so that expected outcomes are known at the outset prior to application.	**Response: Partially Accept** The Welsh Government use the core principles for management of all forms of public resources as set out in 'Managing Welsh Public Money' and HM Treasury's 'Consolidated Budgeting Guidance' when considering deployment of FTC. Feasibility, viability and desirability of a proposal are the key considerations. Specifically, with FTC the HM Treasury's 'Consolidated Budgeting Guidance' guidance sets out the expectation that any funding provided will be wholly repaid. As such, the ability to repay and expected profile of repayments are always considerations when making FTC allocations. All FTC allocations are required to follow the conditions for the use of public funds, ensuring that resources are effectively and efficiently used, and investments are wholly repaid. Allocations must be made objectively and fairly, using cost

	benefit analyses and seek good value while avoiding any conflicts of interest. The Welsh Government are currently in the process of developing guidance for external stakeholders. However, most businesses that receive FTC do so through the Development Bank for Wales and will not differentiate between the funding streams provided for the loan or investment. These businesses are unlikely to be aware that FTC has been utilised, and therefore would not require specific guidance for FTC funded investments.
Recommendation 10: The Committee recommends that the Cabinet Secretary provides further information regarding the steps taken by the Development Bank of Wales to streamline the application process for Financial Transactions Capital, and the barriers it faced in doing so within the current framework.	**Response: Accept** **Business applications for finance** All applications for funding from the Development Bank of Wales are made through a single digital application form. The model operated by the Development Bank is to review the business's needs and to provide the finance best suited to the company, which may be either or a combination of debt or equity and may also be sourced from multiple funds. The guiding principle is to simplify the processes for businesses as far as possible and to provide the best customer service. Business owners are ultimately more concerned with terms and timescale than which of the 11 business funds managed by the Development Bank will provide the funding. The process for the business is largely dictated by the type of finance being sought (for example debt, equity or project finance), rather than by individual funds or their respective sources of capital. In terms of the application process, significant progress has been made to streamline decision making. In the case of micro loans of up to £50,000 for businesses that have been trading for two years or more, the Development Bank aims to provide a decision within two working days of receiving all the information needed. Further investment has been made in the customer journey with a new customer portal due to launch early in 2025. This represents a significant innovation and demonstrates the Development Bank's ongoing commitment to customer service. More broadly, the Development Bank operates a 'relational' model where businesses can speak directly to named contacts in the bank if necessary. Applications for larger loans are considered on a case-by-case basis. This does add to the time it takes to consider an application when compared to purely algorithm-based approaches. However, this approach helps the bank better understand the needs and circumstances of an applicant before decisions are taken. The bank has achieved an exceptionally high Net Promotor Score

	of 901, indicating the relational approach is welcomed and valued by customers. **The process for securing FTC for deployment by the Development Bank** The Development Bank draws on market insight and intelligence to identify opportunities for new funds they believe will succeed in the marketplace. The Development Bank will then develop and submit a business case for consideration by Welsh Government. If accepted, the relevant policy team will engage with the centrally managed bidding process so that the merits of the bid may be considered alongside other applications in the context of Government priorities. If successful, contractual arrangements are then put in place for delivery.
Recommendation 11: The Committee recommends that the Cabinet Secretary publishes details of Financial Transactions Capital allocations made within its budget and the purposes for which such funding has been provided, on an annual basis.	**Response: Accept** The Welsh Government is committed to providing transparent information on FTC allocations and the purpose of that funding. We published details of proposed FTC allocations along with their potential purpose and use in the 2025-26 Draft Budget on December 10, 2024.
Recommendation 12: The Committee recommends that the Cabinet Secretary provides further clarification regarding the process by which the Welsh Government repays its Financial Transactions Capital to HM Treasury, and ensures that such information is made publicly available.	**Response: Accept** Repayments of FTC to HM Treasury are agreed at the end of each financial year. The value of repayments in each year is agreed as the underspend reported against the final FTC budget less any underspend Welsh Government carry forward in the Wales Reserve. The amount is reported in the Welsh Government Outturn Report.
Recommendation 13: The Committee recommends that the Cabinet Secretary explains how underspends in Financial Transactions Capital allocations could be used by the Welsh Government as general capital.	**Response: Accept:** FTC is a ring-fenced element of the Welsh Government's Capital DEL settlement that can only be used for loan or equity type investments. It can only be used for purposes outside of the ring-fence with the agreement of HM Treasury.
Recommendation 14: The Committee recommends that the Welsh Government provides clarification on how	**Response: Accept** In the 2025-26 Draft Budget, the Welsh Government published data on new FTC funding allocation and recycled FTC repayments. The total quantum of available funding has

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.	been allocated, with an element of over-programming to manage potential underspends. The Development Bank is currently recycling FT Capital within the Wales Property Fund 2 and the Wales Stalled Sites Fund. In 2023-24 the Bank invested (using recycling) a total of £32,755,000. This was split by £19,062,000 for the Wales Property Fund 2 and £13,693,000 for the Wales Stalled Sites Fund. This investment was substantively off set by property receipts in the year (82%) of £26,992,000. This illustrates the significant value for money recycling of funds can have compared to new in year funding.
Recommendation 15: The Committee recommends that the Cabinet Secretary explores using recycled FTC funding across a number of areas outside which it was initially allocated for within FTC rules, to enable such funds to be used flexibly in order to match the Welsh Government's policy and budgetary priorities.	**No response**

Source: https://senedd.wales/media/0cugv5oz/cr-ld16928-e.pdf

2.3 Scotland

2.3.1 Scottish Government's experience of FTC use

As shown in Table 4 below, the Scottish Government received an average annual allocation of £320 million of FTC funding from the UKG between 2012-13 and 2020-21. During that time, the Scottish Government reported underspends of approximately £431 million of FTC:

Table 4: FTC Allocations to Scottish Government and underspends 2012-13 to 2020-21

£ million	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
FTC Allocated from UKG	35.3	139.4	187.2	385.0	328.6	445.1	400.9	344.1	612.2
FTC underspends	-	31	12	40	53	11	121	96	67

Source: https://www.parliament.scot/chamber-and-committees/questions-and-answers/question?ref=S6W-01085; https://www.parliament.scot/chamber-and-committees/questions-and-answers/question?ref=S5W-34615

Table 5 below outlines the Scottish Government's use of FTC; highlighting that the majority of that funding was used for Scottish Housing Schemes or for Rural Loans:

Table 5: FTC Program Allocations 2012-13 to 2019-20

£ million	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Help to Buy		32.9	144.1	136.7	64.1	58.0	60.4	53.6
Shared Equity/First Home Fund	29.4	45.7	42.5	59.8	72.7	72.5	79.0	61.3
Help to Adapt						0.4		
Charitable Bond		10.0	2.0	25.7	32.3	24.7	37.9	88.2
Other Housing and Regeneration	3.8	18.0	7.1	12.8	49.8	36.1	46.9	48.8
Enterprise Investment			1.5	54.8		34.5	46.9	48.8
Carbon Reduction and Energy Efficiency Schemes	2.1	2.2	3.4	6.1	11.0	11.3	1.5	12.6
Hub Investments			4.0	5.4	2.3	0.7	1.4	
Rural Loans				53.6	370.2	368.5	425.3	382.5
Culture Loans				6.0	4.0			
Other Loans						57.7	133.4	134.0

Source: https://www.parliament.scot/chamber-and-committees/questions-and-answers/question?ref=S5W-34615

The Committee may wish to note that RaISe searches yielded limited results to dig into the available data stated in the above table. Consequently, it contacted Scottish Parliament Information Centre (SPICe), which confirmed the lack of publicly available information in this area. In future, the Committee could seek to directly engage with the Scottish Government and individual Scottish Departments.

Nonetheless, information contained in Table 5 (above) given rise to the following, when looking from a Northern Ireland perspective:

Potential scrutiny point:

1. Whether the Northern Ireland Department of Agriculture, Environment and Rural Affairs has given any consideration to using FTC as a means to offer rural loans, following on from the recent removal of the ring-fence for faming support payments?

3 Northern Ireland experience of FTC

3.1 Northern Ireland Executive use of FTC

As shown in Table 6 below, the Northern Ireland Executive received an average annual allocation of £119 million of FTC funding from the UKG between 2012-13 and 2022-23. During that time, the Executive reported underspends of approximately £569 million of FTC:

Table 6: FTC Allocations to Northern Ireland Executive and underspends 2012-13 to 2022-23

£ million	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
FTC Allocated from UKG	11.8	46.8	62.8	129.0	59.2	166.9	182.2	133.3	228.9	157.2	135.7
FTC underspends	0	5.9	0.3	11.3	34.5	57.0	171.9	92.0	69.7	82.7	43.9

Source: https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Financial%20Transactions%20Capital%20-%20January%202023.pdf

Table 7 below outlines the Executive's FTC use; highlighting that the majority of the funding was allocated to: the University of Ulster; co-ownership housing; the Northern Ireland Investment Fund; and, a number of smaller schemes.

Table 7: FTC Program Allocations 2012-13 to 2022-23

£ million	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Invest NI - Agri-Food Loan Scheme				0.7	1.0	0.2					

Invest NI - Growth Loan Fun			4.5	2.0	3.3	5.5	3.5	2.9	2.0	1.0	0.6
Invest NI - NIPSO Fund			0.5								
Invest NI - Small Business Loan Fund			1.9	0.01			2.0	2.0	0.01		
Invest NI - FTC Seed Fund								1.5	0.23	1.9	2.3
Invest NI - Growth Finance Fund							0.55	1.6	2.5	1.5	2.0
Invest NI - COVID FTC Capital									2.3	0.1	
Invest NI - Capitalised Interest									0.45	0.08	0.21
Northern Ireland Science Park			0.05	2.7	3.7	0.18	0.19	0.19	0.13	0.19	0.18
Sustainable use of Poultry Litter				3.0	12.5	3.5	3.0	1.3			
GP Premises				0.5	0.8			0.04			
Get Britain Building	11.8	7.2									
Affordable Home Loans		5.0	7.5								
Empty Homes Scheme		3.7	5.5								
Higher Education											
Ulster University		25.0	48.5						80.0	20.9	

Queen's University				14.5	9.4	8.0					
Co-Ownership Housing				94.5	5.5				39.3	36.3	36.3
Central Housing - Increasing Housing Options										1.5	0.23
NICHA - Over 55 Scheme										8.0	
NI Investment Fund						40.1	1.1	31.8	32.3	3.2	50.0

Source: https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/Financial%20Transactions%20Capital%20-%20January%202023.pdf

The above Table evidences only a few Northern Ireland Departments use FTC. That in part is arises from the fact that some Departments do not currently have the statutory capability to make loans of certain types or for certain purposes, including FTC. Where that is the case, and the lead Department wishes to make an FTC loan, the money is channelled through The Executive Office (TEO) to the Strategic Investment Board (SIB), as SIB is empowered with a general capability to make loans or take equity investments of this type.

TEO, through SIB, is involved in the delivery of FTC loan funding on behalf of the Department for the Economy (DfE) and the Department of Finance (DoF). The DoF is currently progressing a Financial Provisions Bill which, amongst other things, will seek to regularise this position and ensure that DfE and DoF can administer FTC funding themselves.

The following potential scrutiny points arise from the above:

Potential scrutiny points:

2. Whether the Department for Communities plans to use more FTC for housebuilding, in line with the experiences in other devolved administrations in the United Kingdom?

3. Whether there are any plans to offer staff training in the Department for the Department for the Economy and the Department of Finance in advance of those Departments starting to administer FTC going forward?

3.2 Executive challenges in using FTC

RaISe – in particular its Public Finance Scrutiny Unit (PFSU) - identifies a number of challenges relating to Northern Ireland Departments' experience of FTC use in recent years, including[9]:

- **FTC allocation** - not stable due to unpredictable allocations via Barnett consequentials throughout financial year; variance makes planning difficult; adversely impacting financial management
- **Political instability** – periods of interrupted devolution - for example, no Executive, or "interim ministers" (permanent secretaries acting)
- **Legislative barrier** – inability of some Departments to lend to private sector or to identify suitable projects and/or partnerships within the private sector
- **Private sector resistance** – not engaging with this funding option given it is to be paid back; unlike grants (which are not paid back)
- **Staff capability** - apparent lack of Departmental commercial/market expertise and experience in: assessing risks relating to loans; and, prudent capital project management
- There is **no dedicated FTC Northern Ireland Executive Strategy** - instead, FTC is included in the 2022 Draft Investment Strategy Northern Ireland (DISNI), which states:

[9] https://www.niassembly.gov.uk/globalassets/documents/raise/pfsu/financial-scrutiny/fs_module2.pdf

…The Medium-Term Infrastructure Finance Plan…will include an assessment of all other sources of public finance such as …. FTC

Potential scrutiny point:

4. Whether the Executive or the Department of Finance has any plans to implement a co-ordinated plan or strategy on how to maximise FTC usage in Northern Ireland?

The DfC identified the following challenges relating to its FTC use[10]:

- ***Internal Capacity****: The skills to develop, operationalise and monitor the use of FTC are at a premium within Departments. They are essential for robust monitoring and management of loans. SIB currently provide essential support which is of significant added value but skills transfer to relevant civil servants, including Finance Business Partners and Economists involved in the loan making /management processes is critical. This will ensure that they fully understand the requirements and obligations set out in Loan greements and Heads of Terms.*
- ***Affordability:*** *A high level of scrutiny is required by the Department and its advisory bodies of applicants' financial models to establish if affordability has been proved. Information requested by the Department, Finance, Economists, or SIB therefore needs to be provided in a timely manner and in the requested format. The capacity and skills within organisations to engage with the Department and its advisors varies considerably. When developing an FTC programme/project it is important to engage with stakeholders to develop a full understanding of the FTC process and identify where support is needed.*
- ***Timeframe****: Funds must be allocated within a financial year (except for loan draw-down facilities). Any delay in the approvals process can result in underspends with funds needing to be being returned to DoF. Realistic planning of bids is therefore required. The process requires transparency between the Department and the applicant to avoid last minute issues.*

[10] Correspondence between DfC and RaISe - unpublished

> *Developing the loan as a 'draw-down' facility could reduce this issue however, uncertainty around future availability of FTC makes this difficult*

The DoF identified the following challenges[11]:

> *The main issue causing the under-utilisation of FTC is likely to be a difficulty in finding suitable private sector projects which directly align with Departmental objectives and the Programme for Government. Further to this, the projects have to be able to demonstrate that they can generate a strong and reliable revenue stream from which the FTC repayments can be made. Such conditions might not exist in many areas of public sector investment, which makes them unsuitable candidates for the consideration of the use of FTC. So while there are many potential private sector projects, many of these may be able to avail of traditional commercial loans or grants which they may prefer to use instead of FTC.*

4 Key takeaways

Effective FTC deployment by government is crucial for driving economic growth and supporting key sectors such as housing, infrastructure, and business development. By aligning FTC with strategic policy objectives, governments can ensure that investments deliver long-term benefits while addressing market gaps. Robust governance and risk management frameworks are essential in mitigating financial risks and ensuring responsible use of FTC.

Also key to its effective use is the adoption of a sustainable, recyclable funding model - which aims to enhance the long-term impact of FTC by enabling reinvestment through loan repayments. Transparency and accountability play a vital role in maintaining public trust and optimising investment outcomes. Regular reporting and performance evaluation frameworks importantly enable and support continuous improvement in this area; encouraging learning, enabling lessons to be driven into future decision-making in this area, both in terms of awarding such funding opportunities and implementing such projects through to completion. All those should help to maximise potential opportunities

[11] Correspondence between DoF and RaISe - unpublished

presented by the FTC model; providing a valuable tool for governments to promote and support economic and social development in their countries.

In Northern Ireland, learning from its own experience, as well as others', including harnessing best practices and lessons learned, and adapting them, to help the Executive and individual Departments maximise FTC use. That is key to drive sustainable growth and meaningful impact in Northern Ireland, as it evolves amidst a challenging budgetary and economic context. For example, there is much to learn from the Welsh Government's strategic and transparent approach to FTC to date, which has included some success in driving sustainable growth and meaningful impact; albeit with room for improvement in future.