

Mark Drakeford AC/AM  
Ysgrifennydd y Cabinet dros Gyllid  
Cabinet Secretary for Finance



Llywodraeth Cymru  
Welsh Government

Eich cyf/Your ref  
Ein cyf/Our ref

Mike Hedges AM  
Assembly Member for  
National Assembly for Wales  
Cardiff Bay,  
Cardiff  
CF99 1NA

26 February 2018

Dear Mike

When I gave evidence to the Finance Committee about the Second Supplementary Budget 2017-18 I said I would write to you about the principles governing the use of Financial Transactions Capital (FTC) and how we are making the best use of this funding in Wales.

FTC is a form of capital investment which is also sometimes referred to as 'net lending' or 'policy lending'. It forms part of our overall capital spending power. However, there are some important distinctions between FTC and general capital. FTC can only be used for loans and equity investment and a proportion of the funding must be repaid to the Exchequer. Full details of the principles governing the use of FTC can be found in Chapter 5 of the Statement of Funding Policy and Chapter 8 of the Consolidated Budgeting Guidance 2018-19. Links to both documents are provided below:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/479717/state-ment-of-funding-2015-print.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/state-ment-of-funding-2015-print.pdf)

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/681713/2018-19-Consolidated-Budget-Guidance.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/681713/2018-19-Consolidated-Budget-Guidance.pdf)

Since austerity began, the UK Government has placed increasing restrictions on our capital budget in the form of FTC. By 2019-20 around 14% of our capital budget will be ring-fenced for FTC. This is against the backdrop that the funding available for general capital investment will be 20% lower in real terms in 2019-20 than it was at its peak in 2009-10. This represents a reduction in our annual capital budget of over £400 million.

Since the UK Government introduced FTC we have continued to press for maximum flexibility to use the resources in the way that makes most sense for Wales. In response to concerns raised by my predecessor and the Finance Ministers of the other Devolved Administrations about the lead-in time needed to develop schemes and the additional administrative burdens and overhead costs, the UK Government has previously recognised the complexities of FTC by allowing enhanced end year flexibility.

At the Finance Ministers' Quadrilaterals, and together with the Finance Ministers of Scotland and Northern Ireland, we have raised the case for further flexibility in relation to FTC given its characteristics and the challenges we face in deploying these resources in a way which delivers the most value. This is particularly so when the UK Government allocates FTC late in a financial year as was the case in the Autumn Budget last November. As I said at Committee, I have discussed with the Chief Secretary to the Treasury the scope to carry forward the unallocated FTC this year outside of the new Wales Reserve and I hope we can reach a satisfactory resolution.

Whilst we do not welcome the UK Government's decision to place restrictions on our capital budget, the Welsh Government is committed to using every pound available to invest in infrastructure and boost economic growth in the long-term. To date, we have invested FTC in a range of policy areas, including economic development, housing and regeneration. I enclose a schedule of FTC allocated to date.

I am copying this letter to Simon Thomas AM, Chair of the Finance Committee, and will place a copy in the National Assembly's library.

Best wishes,

A handwritten signature in black ink that reads "Mark". The letters are cursive and slightly slanted to the right.

**Mark Drakeford AM/AC**

Ysgrifennydd y Cabinet dros Gyllid  
Cabinet Secretary for Finance

## Allocation of Financial Transactions Capital from 2013-14 to 2020-21<sup>1</sup>

| Project/Programme  | £m  |
|--|-----|
| <b>Help to Buy Cymru</b> – 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.  | 463 |
| <b>Finance Wales/Development Bank for Wales</b> – Investment funds to provide access to finance for SMEs, support business growth, boost exports and create/safeguard jobs.  | 185 |
| <b>Land for Housing scheme</b> – Providing loans to Registered Social Landlords to acquire sites in order to accelerate the development of affordable housing schemes.   | 62  |
| <b>Economic Development Initiatives</b> – Funding that supports economic growth in Wales   | 50  |
| <b>Property Development Funds and Property sector</b> - Helps build new homes, commercial and industrial space.  | 57  |
| <b>Cardiff airport and Aviation</b> – To increase commercial potential of aviation industry in Wales and enhance route development.  | 34  |
| <b>Houses into Homes/Home Improvement Loans</b> – To bring empty homes in Wales back into use and increase the supply of housing.  | 30  |
| <b>Housing</b> – To support delivery of 20,000 homes commitment  | 17  |
| <b>Green Growth Wales and Green Infrastructure</b> – To support Wales’ renewable energy sector and to increase and accelerate projects to deliver green investment in Wales.   | 18  |
| <b>Town Centre Loans and Property Funds</b> – 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.                 | 28  |
| <b>Coleg y Cymoed</b> - To support a new FE campus in Aberdare.  | 5   |
| <b>Barry Island Strategic Regeneration Area - link road.</b> To accelerate delivery of a key transport route as part of our regeneration programme.  | 2   |
| <b>Capital Loan Scheme for Sport and Leisure Facilities</b> – To improve facilities through and invest-to-save approach, increase participation in sport and physical activity and contribute to better health outcomes. | 3   |
| <b>Stalled sites-</b> to bring sites that are near to market but need some investigation and remediation to be cost effective for investment   | 32  |

<sup>1</sup> Plans for 2019-20 and 2020-21 are indicative. Figures are rounded to the nearest million