Investment Association's written evidence to the Treasury Committee's inquiry into the National Wealth Fund

About the Investment Association

1. The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £9.1 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 49% of this is for overseas clients. The UK investment management industry is the largest in Europe and the second largest globally.

Q1. How successful is the National Wealth Fund likely to be in (1) mobilising private investment and (2) stimulating economic growth?

2. The success of the National Wealth Fund in mobilising private investment and stimulating economic growth will be contingent on its ability to build productive relationships with private financial institutions and to offer appropriate incentives to support public policy objectives. The role of a policy bank should be to derisk investments aligned with public policy goals to the extent that they become attractive to private finance and to act as a bridge between individuals in the financial sector and government whose areas of expertise may not typically overlap. This may include offering a route to invest alongside local government.

3. While the NWF in its current form is less than a year old, the UK Infrastructure Bank had also only been in operation since 2021 and the Act which placed it on a statutory footing only received Royal Assent in 2023. As such, it is still a new institution which has been created in an unstable political and policy environment. It must now be allowed a period of stability in which to become established, profitable, and seek the confidence of the private sector.

4. A period of stability will allow the NWF to build relationships with private financial institutions and to better communicate its priorities and functions. If it is to be successful in mobilising private investment, this dialogue will need to be focused on understanding the needs of investors and the ways in which the roles and mandates of public and private financial institutions differ. We understand that the NWF remains largely staffed by people with experience of working in the public sector. We have observed that civil servants can sometimes find it difficult to fully recognise that private sector actors do not share their obligation to pursue the public policy objectives of the current government. While investors may often be sympathetic to these policy objectives, it is nonetheless necessary that the NWF considers how it incentivises investment in a manner that is consistent with private financial institutions' fiduciary responsibilities, their need to manage risk, and their duty to deliver an attractive financial return for clients.

Q2. The Chancellor has given the National Wealth Fund two strategic objectives: (i) supporting regional and local economic growth and (ii) tackling climate change. How will these two objectives work together?

5. The strategic objectives of the NWF are set out in the UK Infrastructure Bank Act 2023. The new Statement of Strategic Priorities expresses these objectives through one investment principle, to support the Government's growth and clean energy missions.

6. There is coherence to this investment principle and clear alignment between the two statutory strategic objectives. The transition to a clean energy system, both globally and in the UK, is a necessity to limit the harmful effects of the global temperature rise. A transition to 'net zero' is a statutory duty for the UK Government and the subject of an international treaty ratified by nearly 200 countries. It is imperative that the economy undergoes an orderly transition and doing so offers opportunities for growth where new industries and technologies are developed. It is also important to ensure that the transition does not harm regional or local economies where the decline of high emitting sectors could result in loss of employment if not mitigated.

7. The sectors in the NWF's strategic direction remain heavily focused on infrastructure. The nature of energy, transport and communication infrastructure lends itself to regional and local economic investment, since it often has a national footprint.

8. To best deliver against this objective, it will be necessary for the NWF to work with a network of policymakers and business leaders across every region to ensure it has a proper understanding of the investment needs and opportunities across the UK. The NWF should also look to utilise the existing work and expertise of organisations that have developed models of working with local government and identified a pipeline of climate-related investment opportunities, including 3Ci (The Cities Commission for Climate Investment).

9. The Government has announced its intention to introduce a National Wealth Fund Bill, but it is not necessary for this legislation to change the organisation's strategic objectives, which remain relevant and can be supplemented through the Statement of Strategic Priorities.

Q3. The Chancellor's strategic direction sets clean energy, advanced manufacturing, digital technologies, and transport as priority sectors for the National Wealth Fund. Are these the right priority sectors? Should others have been included?

10. We support the priority sectors as set out in the statement of strategic priorities. They reflect an appropriate combination of the new Government's wider priorities and a necessary continuation of the remit of the old UK Infrastructure Bank, in line with the strategic objectives in the 2023 Act.

11. The Government's draft Industrial Strategy identifies a group of sectors, including creative industries, defence, life science, and financial services, which it intends to support through a wider range of policy approaches. The £27.8bn which the NWF has available to invest across all current priority sectors (some of which will be distributed gradually over the course of this parliamentary term) is almost equivalent to the average of £26bn which the Climate Change Committee's Seventh Carbon Budget has stated will be required on an annual basis to achieve its

'Balanced Pathway' to net zero. While each of the sectors that has not been prioritised is important and likely to be attractive to private finance, the NWF has a limited pool of capital, and any expansion of the priority sectors would dilute the investment available to support its current objectives, of which the net zero transition is already only one part.

12. We are aware that a range of stakeholders for the NWF, from across the public and private sectors, were concerned at speculation that the new statement of strategic direction would downgrade the status of climate change and investment in infrastructure to mitigate and adapt to its effects. This speculation was arguably stoked by the decision of the incoming government to reduce the capital available for such investment from levels initially pledged in opposition.

13. We are satisfied that the NWF retains a suitable commitment to climate change and associated industries in its new remit. It is nevertheless the case that additional government support, outside of that provided through the NWF, will be needed to develop new climate-related industries and technologies at the rate the Government regards as necessary for the transition. The continued inclusion of transport as a priority sector, although it is not a high growth opportunity sector in the draft Industrial Strategy, is recognition of the importance of this sector to the clean energy transition.

14. In developing its strategic framework, the NWF should consider the necessity of investment in adaptation and resilience to the worst effects of climate change, in addition to investment in industries and infrastructure that enable mitigation. In its recent advice to the Prime Minister on incentivising private investment in climate adaptation and resilience, the Council for Science and Technology noted the growing risk that the Paris Agreement temperature goal is not achieved. It recommends that the Treasury and the Department for Business and Trade signpost opportunities for private investment in climate adaptation through the Industrial Strategy and that the NWF should factor adaptation into its priorities.

15. The inclusion of advanced manufacturing is a welcome step that will support the growth of the UK's clean energy and defence industries, among others. We support the UK's defence industry and recognise its vital importance as the UK and its allies build capacity in response to the current international security situation. It is our view that no barriers to investment exist for the most significant defence companies and that an increase in orders from governments will be met with increased investment by investment managers.

16. Through our engagement with the defence industry and its representatives, we have become aware that its supply chain relies on smaller, specialist manufacturers who are not of the scale that ordinarily accesses the capital markets. While investors would like to support these companies to grow and believe that the present circumstances offer an opportunity for this to happen, it may be necessary for a more targeted policy intervention to bridge this gap in the short-term. Such a role could be played by a fund with seed capital from NWF aimed at providing investment to smaller advanced manufacturers in the defence sector.

Q4. How attractive is the National Wealth Fund likely to be as a partner for the private sector? Is the private sector sufficiently aware of the opportunities available within the National Wealth Fund?

17. The NWF and its predecessor organisation have been established during a period of relative political upheaval. During fewer than four years of operation, there have been five Chancellors of the Exchequer and four Prime Ministers. The organisation was placed on a statutory footing less than two years ago and in that time, it has been subject to two statements of strategic priorities.

18. The NWF, its leadership and staff are not responsible for these events, but it has impacted the ability of the organisation to establish enduring relationships with the private sector. The relaunch as the National Wealth Fund following the 2024 general election helped to raise awareness of the organisation and its objectives. It benefited from being an early and high-profile announcement at a point where the private sector was keen to engage with a new government, however the time taken to review the strategic priorities has slowed momentum. Nevertheless, the NWF remains an attractive concept to private financial institutions, and it will benefit from a period of stability in which to raise awareness of its functions and opportunities to coinvest.

19. The NWF should give consideration as to which investment models and vehicles are likely to be most effective in crowding in private finance. While it is understandable and appropriate that the NWF will invest resources into developing relationships with specialist investors in the sectors and asset classes it is prioritising, it should also seek to create vehicles in which a wider range of investors are able to participate. Existing NWF funds, such as the Gresham House Secure Income Renewable Energy & Storage Fund and the Octopus Sustainable Infrastructure Fund, provide examples of how this approach could be developed.

Q5. How can the National Wealth Fund ensure that it is crowding in rather than crowding out private sector investment?

20. The NWF's statement of strategic priorities provides an outline for how the organisation should seek to crowd in private sector investment. Core to this approach is the principle that the NWF should focus on unlocking projects that otherwise would not have gone ahead.

21. While the NWF and the Treasury will consider appropriate policy frameworks to support this principle in practice, it may also be that a cultural shift is needed around the organisation. This may entail a greater appetite for risk, a greater degree of patience from policymakers who give the NWF its strategic direction (and those, like the Treasury Committee, to whom it is accountable), and more value being placed in the NWF's advisory function and its relationship with local government. Ultimately, a policy bank that is discouraged from taking risks and expected to demonstrate short-term delivery is less likely to spend the time and effort necessary to identify and develop projects that otherwise would not have gone ahead.

22. The NWF's allocated funding of £28bn remains relatively small when compared to other policy banks and sovereign wealth funds. This can itself act as a limit on the NWF's capacity to take risk as it will mean that unsuccessful investments can more rapidly deplete the overall pool available for investment.

23. As part of this inquiry, it may be helpful for the NWF to set out how it solicits and responds to feedback on whether it is crowding out private sector investment. If a process does not already exist, the NWF could consider how it could work independently or with the Office for Investment

to transfer potential investments to private investors if the NWF's involvement is not deemed essential to progress the project. To incentivise such an approach, an appropriate mechanism should be put in place for the NWF to record any such cases and to gain recognition for having taken this step.

Q10. By what criteria should the National Wealth Fund be judged?

24. The Government has set a target for the NWF to attract £3 of private investment for every £1 of public money it invests. If successful, this should result in more than £75bn of private investment being unlocked. It is appropriate that the NWF is judged against the delivery of this target. However, too narrow a focus on deploying capital as an end has the potential to incentivise short-term and overly cautious behaviour.

25. As argued in paragraph 19, the NWF should seek to create investment models and vehicles which allow a wider range of investors to participate. Demonstrating that it can include a variety of private financial institutions, including investment managers and institutional investors, is also a measure of the NWF's ability to crowd in private finance.

26. As a policy bank, the NWF should also be clear what Government policy objectives it is aiming to support. While the statement of strategic priorities sets out the broad areas in which the Government expects the NWF to invest, the NWF could go further by setting sector specific goals it is aiming to achieve through its investments. For example, while the statement of strategic priorities references the Government's 'clean energy mission' (95% clean power by 2030 and accelerating the transition to net zero carbon emissions by 2050), the NWF may wish to go further by identifying a target for increased onshore wind or EV charging capacity that it is seeking to facilitate. Such an approach could signal to potential projects and investors in these areas that the NWF is a viable partner. Challenges in meeting these goals could be explained in periodic statements from the NWF which may provide guidance to Government departments on identified policy barriers in these sectors which need to be addressed.

27. NWF should also consider the role it can play, alongside GB Energy, in bringing down the price of electricity for household and industrial consumers through its investments. Such a change has the potential to contribute to economic growth by incentivising investment as lower energy costs increase the viability of a broader range of industries in the UK.

28. It is important that any such targets maintain a focus on crowding in private finance. It would be counterproductive if the NWF pursued a sector specific policy target by making investments that the private sector could also have made. For instance, the NWF may set a goal of supporting the installation of a specified volume of EV charging points, but it should aim to meet this target only through projects that would not be possible without the NWF and not by competing against existing private sector investors.

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