The National Wealth Fund: delivering for regional prosperity, climate and nature, and cheap, secure energy

The National Wealth Fund is a major opportunity for the UK. Ahead of the NWF Bill and its new framework, this briefing outlines how the Fund's potential can be seized and its impact on accelerating the energy transition, boosting local and regional economies, and meeting climate and nature targets, maximised.

Background

The National Wealth Fund (NWF) is a publicly-owned investment fund, intended to act as a "turbocharged" version of its predecessor, the UK Infrastructure Bank (UKIB). In designing the NWF, the UK has a critical opportunity to build an institution that can act as the engine for a national plan for green investment, innovation, and regional development – a role played by public banks in many other countries.

The NWF has been given £5.8 bn of additional capital – combined with UKIB's existing capital, this totals £27.8 bn for the 9 years from 2021-29. In March, the government gave the NWF a new strategic steer, outlining its main objectives of supporting regional and local economic growth, and tackling climate change.

The steer also set principles for how the fund should achieve these objectives, including supporting the forthcoming Industrial Strategy and Clean Energy Mission, and investing in city regions and Local Growth Plans, whilst delivering sufficient returns to cover costs, taking greater risk, and seeking to 'crowd in' private investment, targeting at a rate of 3:1. The NWF is currently developing a strategy to put its steer from the Government into practice, meaning now is a key period to ensure ambition is maximised.

The Treasury will equip the NWF with a new framework, which will set out key details around the fund's governance and how it will operate. A National Wealth Fund Bill is expected to be introduced when parliamentary time allows, to broaden the fund's statutory remit beyond UKIB's infrastructure focus.

The National Wealth Fund's capital is not enough to meet the UK's investment needs

The NWF's £27.8 bn over 9 years (around £3 bn annually) is a fraction of the UK's £700-755bn infrastructure pipeline over the 10 years to 2032/33. The NWF will play a key role in delivering and crowding in the increase in investment that is needed to reap the rewards from transitioning to more efficient, cheaper, low-carbon technologies, but more ambition is needed to capture this opportunity.

The NWF is also small compared to international comparators. Before Brexit, investment in the UK via the European Investment Bank (EIB) reached £8.1 bn in the year 2016, whilst France's Bpifrance and Germany's KfW each invest roughly 1% of their countries' GDP. This would equate to the NWF investing £21bn per year by 2028-29.

Key to the large size of such policy banks is their access to financing from capital markets, channelling funding from investors such as pension funds by offering safe assets (bonds) for them to purchase. The NWF should aim to follow this model, but it will first need to maximise its existing investment power, as UKIB repeatedly underspent, financing just £1.7 bn in 2023.

It is welcome that the government's steer has asked the NWF to double its annual investment, but the NWF should take an even more proactive approach, and aim to increase annual investment to the £7.5 bn previously delivered by the EIB by the end of parliament at a minimum, before accessing its own funding, and aiming to match the 1% of GDP delivered by European counterparts by the 2030s.

- ➔ **Recommendation 1:** The National Wealth Fund should set an ambitious target for increasing its annual investments, and be equipped to scale up by issuing bonds.

The National Wealth Fund's objectives should be laser-focussed on real-world outcomes

The purpose of the NWF is to support government policy aims, which should be prioritised in its statutory objectives. These should be specific, time-bound, real-world outcomes that the NWF's performance can be assessed against. If it is successful in addressing long-term problems including regional inequality and underinvestment in infrastructure, and in capitalising on the UK's advantages in clean energy, it will best crowd in private investment.

The UK's loss of the EIB's technical assistance and capacity building has also hampered uptake of the UKIB's offer by less-affluent local authorities and local businesses. The NWF's advisory service is yet to plug this gap in full – scaling this up to deliver on its local growth objective should be a key focus.

➔ **Recommendation 2**: The NWF Bill must retain and strengthen UKIB's objectives of tackling climate change and supporting regional and local economic growth, by:
   1. Specifying that as part of its climate change objective, the NWF should accelerate a just transition to renewable energy by 2030
   2. Specifying that supporting regional and local economic growth means reducing economic inequalities within and between regions, and creating high-quality jobs
   3. Retaining UKIB's remit for investment in natural capital, and introducing a 'do no significant harm' principle for climate and nature

Strengthened governance can help the NWF better achieve its objectives and ensure a fairer distribution of risk and reward between the public and private sector

Equipping the NWF with expertise will be critical for it to deliver on its objectives. Currently, the NWF's board lacks representation from the regions and local areas that the NWF is intended to support, as well as the businesses and unions of key industries. Robust governing structures can also act as a critical safeguard against the NWF solely 'de-risking' private investment without ensuring that the public sector also benefits.

➔ **Recommendation 3**: The National Wealth Fund's governance structures should include representatives of regions (such as regional or local authorities, or regional mayors), trade unions, and key sectors such as clean energy.

Equity stakes, and conditions on financing, can maximise the NWF's impact

Prioritising taking equity stakes in the projects it supports would mean the NWF can share in any profits, and indirectly influence company practices, such as to encourage reinvestment of profits. This would maximise 'crowding-in' and ensure value for money for the public. The NWF could further expand its impact by attaching conditions to companies in receipt of financing, following examples such as the US CHIPS and Science Act, which required companies to limit share buybacks and improve worker conditions.

➔ **Recommendation 4**: The National Wealth Fund should prioritise equity stakes, and be encouraged to introduce conditions that support the Fund's objectives on companies in receipt of financing.

Case studies: What could a more ambitious National Wealth Fund do?

Speeding up offshore wind development for cheaper, greener, more secure energy

High costs of financing, and the large amount of up-front investment needed, is a serious problem for rolling out offshore wind at the pace needed to deliver the Clean Energy mission and the UK's climate targets.

The main mechanism to advance offshore wind rollout is the Contracts for Difference (CfD) scheme which works by guaranteeing developers a fixed price for electricity, providing certainty of income in order to support projects in accessing financing.

The NWF offering financing for offshore wind projects could supplement the CfD scheme by lowering financing costs where this remains a barrier, increasing overall offshore wind development and contributing to lowering energy bills and meeting net-zero.

Cheaper retrofit loans for able-to-pay households

The National Wealth Fund has already financed retrofits for social housing, but loans for able-to-pay households (households with the financial capacity to invest in home upgrades, but who may require support with upfront costs) are a key opportunity. The UK's housing stock requires huge amounts of investment (an average of £8bn per year until 2050 according to the Climate Change Committee) in order to lower energy bills, improve the quality and health of homes, and reduce emissions.

Though private financing is readily available for retrofits - such as through green mortgages and personal loans - these products remain expensive, and uptake has understandably been low.

Regulation, direct subsidies and communication are all needed to drive demand, but the NWF could supplement these efforts by offering affordable credit to banks, mutuals and co-operative lenders provided this is passed on for retrofits. Alternatively it could guarantee loans to bring down these costs.
Germany's KfW offers an example that could be followed - offers low-interest loans for home and business energy efficiency measures, with repayment bonuses that increase for higher standards being achieved.

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