Positive Money's response to the Treasury Committee Inquiry's on the National Wealth Fund

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Positive Money welcomes the opportunity to respond to the Committee's inquiry into the National Wealth Fund. Our evidence in part draws from our paper, 'A National Wealth Fund for a Just Green Transition', published in September 2024.[1]

We are a not-for-profit research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by charitable trusts, foundations and small donations.

Summary

- To maximise the success of the NWF in mobilising private investment and stimulating economic growth, the government should first remove barriers for NWF investment, such as overly restrictive additionality criteria, and increase the capacity of the NWF to invest at scale.
- The NWF expanding its balance sheet by issuing bonds would effectively crowd in the balance sheets of private financial institutions for long-term funding, steering investment towards productive purposes that support the government's mission.
- The NWF may achieve most success by adopting a mission-led approach, using its unique advantages as a public bank to proactively shape markets in support of the government's missions, such as transitioning to clean energy by 2030.
- There is much to be learned from the success of international counterparts, such as Germany's KfW, Norway's Kommunalbank, France's Caisse des Depots, and Italy's CDP. Most critically, such institutions have successfully acted as true national development banks because they are able to leverage their balance sheets by issuing their own government-guaranteed liabilities, in order to mobilise a much larger scale of investment.
- A scaled-up NWF should be accompanied by a more decentralised structure, such as a network of regional branches with their own diverse boards.
- As well as industry and unions, the NWF should work closely with regional and local authorities to deliver local growth plans, and in doing so, it should help identify, design and finance a pipeline of projects that support a just green transition.
- The NWF is likely to be attractive to private sector non-financial corporations if it is able to take advantage of its unique ability to offer long-term patient capital at low cost.
- Although they represent an improvement, there is a risk that new debt measures, namely PSNFL, may still incentivise a sub-optimal de-risking of private

[1] https://positivemoney.org/uk/publications/a-national-wealth-fund-for-a-just-green-transition/

investment, rather than direct public investment and ownership of assets, the latter of which would offer better value for money for the public in many cases.
- The NWF does not appear to be designed as a vehicle for investing directly in public infrastructure and, in its current configuration, NWF financing should not be considered a substitute for public investment.
- It is likely that the returns the government will reap from investment via the NWF will greatly outweigh any potential losses.

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

1.1. The success of the NWF in mobilising private investment may depend on the degree to which the NWF can a) source projects that meet its investment criteria and b) mobilise capital at the fund level to scale-up investment.

1.2. Over the shorter-term, the immediate concern – both for mobilising private investment and delivering growth – is how the fund can utilise its existing financial resources, given its current underspend. This could be improved by removing barriers to NWF investment, including removing overly restrictive additionality criteria.[2] We note positively that the recent strategic steer for the fund proposes a broader conceptualisation of additionality than that for UKIB. The NWF should ensure that its new guidance and metrics to assess additionality allow for a proactive investment approach.

1.3. Over the longer term, the NWF's ability to stimulate economic growth and mobilise private investment will depend on the extent to which the fund is able to scale up its financing capacity. Once its existing financial capacity is utilised, the Government should ensure that the fund is able to expand. The optimal way to do this, which would most efficiently crowd in private capital, would be to enable the fund to issue its own government-guaranteed liabilities across a range of maturities. The National Wealth Fund Taskforce recommended that this should be considered as part of the fund's medium-term strategy, and that the fund's structure should be designed in order to enable this from the outset.[3] The UKIB's framework document did permit UKIB the power to borrow either from the Debt Management Office or private markets depending on best value for money, however this was limited to the sum of £1.5 billion per year and has not been utilised given UKIB's underspend.[4] The NWF's updated framework document should remove such stringent limitations on

[2] https://neweconomics.org/uploads/files/Firing-up-the-fund_NEF_2025.pdf
[3] https://www.greenfinanceinstitute.com/wp-content/uploads/2024/07/20240709_1400_NWF-Taskforce-Report-v.FINAL_.pdf.
[4] https://assets.publishing.service.gov.uk/media/656dfdb00f12ef07a53e01d4/UK_Infrastructure_Bank_Framework Document.pdf

borrowing powers, allowing greater freedom to make prudent investments in the long-term capital development of the UK economy. This would bring the NWF more in line with the framework for local authority borrowing via the Public Works Loan Board, as well as successful development banks abroad, though, as we argue below, any significant increase in borrowing powers should be accompanied by enhanced governance structures, to minimise the risk of public funds being misused to benefit vested interests.

1.4. The NWF may be most successful in stimulating economic growth by taking a mission-oriented approach, however this may ultimately be limited if the Government adopts a sectoral Industrial Strategy. A mission-led approach emphasises the role of state investment banks as being to one of proactively, '*shaping and creating new technologies, firms and sectors, and, ultimately, markets – all of which will help to address a societal challenge*'.[5] This contrasts with their primary function being viewed as 'filling gaps' in the provision of finance, which is unlikely to change the trajectory of the economy in the way that is required to address the major challenges facing the UK economy. In practice, this can entail investment banks having a mandate focused on achieving clear missions or challenges that support broader social or environmental objectives, offering concessional financing to areas that support these goals, and utilising conditionalities to incentivise recipients of funds and/or co-investors to shape their behaviour in support of missions. In this view, economic growth is a side effect, rather than the primary objective, of investment.

1.5. It is positive that the strategic steer clearly indicates Government missions, particularly around Clean Energy by 2030 mission, which sets a clear challenge that supports broader climate objectives. However, the steer to support the Government's broader 'Growth' mission is to be instrumentalised by the NWF supporting the Government's industrial strategy - which does not propose a mission-oriented approach, instead proposing a traditional approach of supporting sectors.[6] It is sensible that the NWF supports and is aligned with the industrial strategy, however, in developing its own Strategic Plan, the NWF could explore how it could take a mission-led approach to the Growth objective, for instance setting clear missions around regional and local growth such as via the creation of high-quality, green jobs.

2. The Chancellor has given the National Wealth Fund two strategic objectives: (i) supporting regional and local economic growth and (ii) tackling climate change.

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[5] https://www.ucl.ac.uk/bartlett/public-purpose/sites/bartlett_public_purpose/files/mazzucato_m._macfarlane_l._2023_mission-oriented_development_banks-_the_case_of_kfw_and_bndes.pdf
[6] https://www.ucl.ac.uk/bartlett/publications/2024/dec/iipp-response-department-business-and-trade-green-paper-invest-2035

How will these two objectives work together?

2.1. Supporting regional and local economic growth and tackling climate change are highly complementary objectives. Research indicates that UK regions with lower productivity have strengths in green innovation and manufacturing, offering a promising opportunity for reducing regional inequality.[7,8]

2.2. The NWF should work closely with regional and local authorities to deliver local growth plans, and in doing so, it should help identify, design and finance a pipeline of projects that support a just green transition.

3. 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?

3.1. As discussed above, a mission-oriented, rather than a sectoral, approach, may be optimal, and would allow the NWF to take a more flexible and proactive approach to fulfilling strategic priorities, which could support the NWF delivering investment at speed.

3.2. The sectors selected align closely with the needs of the Clean Energy Mission and for achieving regional growth objectives, which is positive. However, other sectors should not be out of scope for the fund. Retrofits for able-to-pay households, for which the NWF could offer affordable funding, or investment in nature, building on the NWFs existing expertise and experience, could be avenues the fund looks towards in line with a proactive approach to its strategic priorities.

4. 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?

4.1. The NWF is likely to be attractive to private sector non-financial corporations if it is able to take advantage of its unique ability to offer long-term patient capital at low cost. It may also be particularly attractive to private financial firms if it is able to issue its own liabilities, which could meet investor demand for safe assets that support the green transition.

4.2. While important, maximising the NWF's attractiveness to the private sector should not be prioritised at the expense of delivering for workers and communities, for which it is uniquely positioned as a public bank. The NWF

[7]https://ippr-org.files.svdcdn.com/production/Downloads/Manufacturing-matters-May-24_2024-05-15-131750_sldr.pdf?dm=1715779071
[8]. https://onlinelibrary.wiley.com/doi/epdf/10.1111/newe.12370

should be prepared to invest in ways that lower costs for the economy at large, even if this risks displacing private capital.

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

5.1. Concerns of public investment 'crowding out' private investment are often based on flawed theory and lack empirical evidence. They are typically based on faulty economic theory, such as 'loanable funds' models of finance, which suggest there is a pre-existing stock of private savings that can only be reallocated. In reality, financing involves the endogenous expansion of balance sheets as new assets and liabilities are created. As Keynes clarified, "Increased investment will always be accompanied by increased saving, but it can never be preceded by it. Dishoarding and credit expansion provides not an *alternative* to increased saving, but a necessary preparation for it. It is the parent, not the twin of increased saving" (emphasis in original).[9]

5.2. In an endogenous monetary system like the UK's, increased public investment does not in itself reduce the supply of funds for private investment, and will not lead to higher borrowing costs unless the Bank of England deems it necessary to raise interest rates. The National Wealth Fund will therefore not crowd out investment as long as there is slack in the economy. Investment will only be constrained by a limited supply of real resources (labour and physical capital), rather than a limited supply of finance. If the economy is actually at full capacity (we note macroeconomic institutions such as the OBR and BoE have consistently overstated the narrowness of the UK's output gap),[10] then investments should be prioritised based on their accordance with the government's economic missions and/or the degree to which they could ameliorate supply constraints.

5.3. The NWF expanding its balance sheet by issuing liabilities such as bonds would most effectively crowd in the balance sheets of private financial institutions for long-term funding, steering investment towards productive investments that support the government's missions.

6. What proportion of public infrastructure is likely to be funded by the National Wealth Fund? What projects should be funded by the National Wealth Fund vis a vis normal departmental spending?

6.1. Given the NWF's limited financial capacity and focus on 'bankable' projects, as well as the important distinction between direct public

[9] Keynes, J. M. (1939). "The Process of Capital Formation," The Economic Journal, 49(195), p. 572.
[10] https://progressiveeconomyforum.com/wp-content/uploads/2019/10/Tily-Multiplier-and-nonsense-output-gaps.pdf

investment and the lending activities that the Fund will prioritise, only a small proportion of public infrastructure is likely to be funded by the NWF.

6.2. The NWF's current financial capacity of £27.8bn represents only a small fraction of the government's most recent infrastructure pipeline, which set out £700-775bn of planned and projected investment over 10 years.[11]

6.3. The government's adoption of public sector net financial liabilities (PSNFL) within its fiscal rules allows the government to borrow to make financial investments via the NWF without impacting its fiscal target, as financial investments are netted off the debt measure. However, the ability of the public sector to invest in infrastructure directly, meaning owning or holding majority shares in assets such as schools or hospitals, remains constrained as borrowing for such investments is not netted off. Furthermore, the government does not appear able to circumvent this constraint with financial engineering, such as creating a special purpose vehicle issuing liabilities to finance the development of non-financial assets, because only financial assets issued by institutions classified as non-public sector benefit from PSNFL. If NWF infrastructure investment is to benefit from the new fiscal rules, it would be chiefly via loans to private firms, or minority equity stakes, with the infrastructure being largely privately owned. Such an approach - particularly for essential public infrastructure - risks poor value for money for the public, as recently highlighted by the NAO.[12]

6.4. In light of this, departmental spending on public infrastructure, such as schools and hospitals, should not be substituted with financial investments via the NWF. There is no obvious benefit for the NWF doing so instead of increasing investment via departmental budgets that will offer better value for money for the public. Moreover, as the NWF is designed to focus on 'bankable' investments, i.e those that will generate revenue to cover borrowing costs, it may not be the optimal vehicle for public infrastructure investments that don't directly generate pecuniary returns, and should not be seen as a substitute for direct public investment.

6.5. The NWF could use higher-yielding investments to cross-subsidise investment in less profitable public goods, and any profits recycled back to the Treasury could also be invested in this manner. However, whilst the NWF should be self-sustaining (and would be required to generate sufficient returns to service its own liabilities), it may require a longer time horizon before it is required to demonstrate returns than was the case with the UKIB (which was set up in 2021 and required to demonstrate returns of

[11] https://www.gov.uk/government/publications/national-infrastructure-and-construction-pipeline-2023/analysis-of-the-national-infrastructure-and-construction-pipeline-2023-html
[12] https://www.nao.org.uk/wp-content/uploads/2025/03/lessons-learned-private-finance-for-infrastructure.pdf

2.5–4% by 2025/26)[13] to facilitate the long-term patient investment the UK economy needs.

7. How similar is the National Wealth Fund to its predecessor, the UK Infrastructure Bank? What lessons can the National Wealth Fund learn from the UK Infrastructure Bank?

7.1. There appears to be considerable similarity between the NWF and UKIB. Though the NWF will have a broadened mandate, greater risk capital and an expanded array of financial products, these measures alone are unlikely to deliver a step change in impact.

7.2. UKIB attracted criticism for its overly centralised governance structures, which lack formal roles for regional representatives, trade unions and other civil society voices, as well as industry stakeholders outside of the financial services sector, which raised concerns about its ability to genuinely empower UK regions and support long-term prosperity.[14]

7.3. UKIB's limited financial capacity, and related reliance on mobilising private investment on a deal-by-deal basis, alongside its narrow conception of additionality, left UKIB as primarily a 'de-risking' vehicle, often offering poor value for money for the public and not effectively shaping economic activity. For example, UKIB came under criticism for providing financing to firms domiciled in tax havens.[15] More robust governance structures, as well as greater capacity to utilise 'sticks' (like conditionalities) as well as 'carrots' (like financing at below market rates) could help not only to safeguard against poor value for money but also to incentivise better corporate practices.

8. What degree of independence will the National Wealth Fund have from HM Treasury?

8.1. The NWF will be operationally independent, however, HM Treasury will still have substantial influence, particularly in setting the statutory objectives for the fund, strategic steer and appointments to the Board.[16]

8.2. Effective mechanisms for coordination with relevant government departments beyond the Treasury, regional authorities and key bodies such as GB Energy will be important in ensuring the NWF's effectiveness in

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[13] https://www.nao.org.uk/reports/the-creation-of-the-uk-infrastructure-bank/?nab=2
[14] https://discovery.ucl.ac.uk/id/eprint/10172147/
[15] https://www.opendemocracy.net/en/rishi-sunak-ukib-levelling-up-tax-havens/
[16] https://static-files.nationalwealthfund.org.uk/s3fs-public/download/UKIB%20Board%20terms%20of%20reference%20%28approved%2020240131%29%20new%20name%2020241017_0.pdf?VersionId=LqIAJ6OIlwO9zuEqOMAcSeGqqsupFAFv&_gl=1*1j7nqk0*_up*MQ..*_ga*MTc5OTYzNTguMTc0NTQ4Mzg2Mw..*_ga_TQYZQR58NE*MTc0NTQ4Mzg2MS4xLjAuMTc0NTQ4Mzg2MS4wLjAuMA..

delivering on its objectives. A broader array of stakeholders on the NWF's board could also support this – for example, representatives from Trade Unions, regional authorities, non-financial industries and civil society.

8.3. Absent the power to raise its own financing, the NWF will also be reliant on HM Treasury enabling the NWF to retain any profits and augment its capital in order to grow. Notably, UKIB's Framework Document enables the Treasury to request a dividend to prevent retained earnings from accruing.[17]

9. What can the National Wealth Fund learn from international counterparts which have similar objectives or functions? How will the National Wealth Fund work with its counterparts in the devolved nations: the Scottish National Investment Bank, the Development Bank of Wales and the Northern Ireland Investment Fund?

9.1. There is much for the NWF to learn from national development banks (NDBs) in other countries, not least because they have been the largest global funders in the deployment and diffusion phase of renewable energy, outpacing private sector investment.[18]

9.2. The ability of national development banks to raise funds through borrowing impacts their effectiveness. Many successful NDBs operate as true banks (rather than funds reliant on central government funding), as they are able to leverage their balance sheets by issuing their own liabilities. This is the case for Germany's KfW, Norway's Kommunalbank, Italy's CDP, and France's Caisse des Depots, allowing them to deliver a much larger scale of investment. Moreover, these liabilities are often government-guaranteed (either explicitly – as is the case for KfW and Kommunalbank[19] – or implicitly), resulting in high credit ratings and lower financing costs that can be passed on to borrowers. Long-term, stable funding – as is assured via being able to independently source their own funding – also sends a clear signal to markets that the fund's strategy is long-term.

9.3. A decentralised operating structure can increase the effectiveness of national development banks, particularly in driving regional growth and effectively sourcing projects. For example, Germany's KfW is part of a network of 17 state-owned regional development banks. KfW also holds close relationships with existing local 'stakeholder banks' that are key partners for on-lending to small businesses, supporting regional growth and jobs. The NWF could develop a similar model, working closely with

[17] https://assets.publishing.service.gov.uk/media/656dfdb00f12ef07a53e01d4/UK_Infrastructure_Bank_Framework_Document.pdf
[18] https://labour.org.uk/wp-content/uploads/2019/03/Building-a-new-public-banking-ecosystem.pdf
[19] https://www.kbn.com/en/about-us/company-information/ownership-and-support/

existing institutions such as mutuals, building societies and Community Development Finance Institutions, and, over time, establishing a network of regional branches. These institutions have been shown to lend more to the real economy and small businesses than larger banks, benefitting from better links with communities and businesses, and so could be ideal partners for the NWF to deliver on its regional growth objective.[20] Such a model would resemble the solution Andy Haldane put forward whilst Bank of England Chief Economist to close the UK's investment gaps, of a "UK Development Bank, operating on a decentralised basis", which would create the scale and scope "necessary to reach SME start-ups and scale-ups across all sectors and all regions."[21]

9.4. Well-designed governance structures with representation from a broad array of stakeholders help to ensure a fair distribution of risk and reward, and to ensure that institutions stay on track with objectives. Germany's KfW has the composition of its Supervisory Board specified in law, consisting of 37 members including federal ministers, four trade union representatives, at least two representatives of various specified industries and one of representatives of each of the municipalities. The Board of Italy's CDP is smaller, consisting of 11 members, including three representatives of the regions, provinces and municipalities. The Board is also supported by a Parliamentary Supervisory Committee, consisting of elected representatives.[22]

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

10.1. A key advantage of the NWF is that, with the Government as sole shareholder, it does not have an imperative to be a revenue-maximising institution to satisfy private shareholders, unlike private banks. Though it will be required to generate sufficient returns to cover its costs and remain financially sustainable, the NWF is primarily intended to support public policy goals, and so should be judged according to delivery against its strategic objectives and related Government missions. This could entail metrics such as:

- **Scale and speed of renewable energy generated** – noting that *speed* of deployment of clean energy is an essential contribution of the fund, given the urgent need to transition to clean energy and 2030 target.
- **Emission reductions** – though UKIB had a KPI of relative emissions reductions (meaning emissions 'saved' in contrast to a counterfactual, for example contrasting financing for renewable

[20] https://financeinnovationlab.org/wp-content/uploads/2022/07/Financing-Up-Why-Levelling-Up-requires-purpose-driven-finance.pdf
[21] https://www.bankofengland.co.uk/speech/2021/june/andy-haldane-speech-at-the-institute-for-government-on-the-changes-in-monetary-policy
[22] https://www.cdp.it/sitointernet/en/governance.page

energy versus fossil fuel or grid average alternative), this could be accompanied by metrics of absolute emissions reductions (e.g in CO_2 equivalent) and qualitative metrics such as number of homes and social housing units retrofitted.

- **Nature positivity –** climate change is closely interlinked with and reinforced by the degradation of nature. It is therefore important that NWF investments are aligned with nature targets, with criteria in place to ensure this. It may also be appropriate for the NWF to play a role in proactively driving nature restoration as part of its broader climate change objective, building on existing expertise in this area developed from UKIB's natural capital mandate.
- **The number and geographic distribution of high-quality, green jobs created** – as the TUC have proposed, good jobs should be considered holistically, including for instance job security, health and wellbeing, inclusion, voice at work and skill development.[23] 'Just Transition' metrics should be built into this, for example by measuring the number of jobs created and parity with existing jobs in regions and/or industries where jobs are at risk from the green transition, as well as providing retraining.

10.2. These objectives should be prioritised above metrics on additionality and the related goal of 'crowding in' private investment. As highlighted in response to previous questions, an undue focus on or narrow concept of additionality is likely to limit the NWF's ability to increase investment at pace. Moreover, the full extent of public investment 'crowding in' can extend far beyond the direct financing activities of a policy bank, for example through signalling effects and wider externalities, which are difficult to measure. As a UKIB commissioned evaluation of its early activities noted, policy banks are not usually set specific monetary targets for crowding in.[24] The NWF strategic steer calls for the Bank to target a 'mobilisation rate' of 1:3. This may be more accurately viewed as a target for 'co-financing' than as a measure of the NWFs overall impact on crowding in private investment.

10.3. The NWF could also learn from the robust project evaluation approaches of other public banks like Germany's KfW and Italy's CDC, to ensure that projects deliver on climate resilience, gender equity and democratic participation.[25]

11. What are the risks inherent in the National Wealth Fund? What are the risks that National Wealth Fund will lead to the Government funding either poor value for

[23] https://www.tuc.org.uk/sites/default/files/2025-01/IndustrialStrategyGreenpaperTUC.pdf
[24] https://static-files.nationalwealthfund.org.uk/s3fs-public/download/ICF%20Early%20Learnings%20Assessment_NWF%20Final%20Version%20-%20updated%20links.pdf?VersionId=wArdyRHDubTtsojV6oni._9yN_CmwuO8
[25] https://discovery.ucl.ac.uk/id/eprint/10172147/

money projects and/or the Government having to spend more than anticipated due to defaults on the loans it is guaranteeing?

11.1. Especially if following the example of other successful national development banks, it is more likely that the returns the government reaps from investment via the NWF will greatly outweigh any losses. For example, an external analysis found that the German government received an approximate return of 4 Euros for every Euro allocated from the budget to KfW's Energy Efficient Construction and Retrofit Programme.[26]

11.2. There are risks of poor value for money if the NWF simply de-risks private investment without ensuring the public receives an adequate share of the rewards. Prioritising direct investment, rather than delivering investment via intermediaries, would avoid unnecessary rent extraction, therefore keeping financing costs low, while also minimising the risk of moral hazard, where greater risks are taken in the knowledge that any costs will be incurred by the public.[27] The risks and rewards of co-investing with the private sector would also be most appropriately shared by the NWF taking equity stakes.

11.3. The NWF could enhance value for money, and increase its effectiveness in delivering on its strategic priorities, via the use of conditionalities attached to offering financing at below market rate. This could take a range of forms, from requiring firms to meet certain behavioural conditions/targets that support the objectives of the NWF and broader industrial strategy, such as around clean energy and energy efficiency, job creation, training and quality, and reinvestment.[28]

12. Do we need to accept that some of the projects funded by the National Wealth Fund will fail or be poor value for money? What kinds of failure does the Government need to tolerate in projects funded through the National Wealth Fund?

12.1. While the NWF must ensure that its portfolio of assets yields sufficient returns to cover its financing costs at the fund level, it may be appropriate for less inherently profitable investments, or investments in new technologies that are at higher risk of failure, to be cross-subsidised.

13. Does the accounting treatment of the National Wealth Fund in the Government's new debt measure, Net Financial Sector Liabilities, lead to any perverse

[26] https://www.bmwk.de/Redaktion/DE/Evaluationen/Foerdermassnahmen/evaluation-kfw-foerderprogramme-ebs-nwg-2015-kurz-en.pdf?__blob=publicationFile&v=1
[27] https://neweconomics.org/uploads/files/NEF_Greening-public-finance.pdf
[28] https://www.ucl.ac.uk/bartlett/sites/bartlett/files/industrial_policy_with_conditionalities_a_taxonomy_and_sample_cases.pdf

incentives in terms of giving preference to projects funded by the National Wealth Fund vis a vis Government spending?

13.1. As explored above, Public Sector Net Financial Liabilities (PSNFL) may incentivise the funding of projects via the de-risking of private investment, rather than direct public investment in and ownership of assets. The latter approach would offer better value for money for the public.