ICAEW
REPRESENTATION 31/25

NATIONAL WEALTH FUND STRATEGIC DIRECTION

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ICAEW welcomes the opportunity to comment on the call for evidence on the National Wealth Fund issued by the Treasury Committee on 25 March 2025, a copy of which is available from this link.

We believe the National Wealth Fund has a pivotal role to play in financing major infrastructure and industrial projects in the UK that are essential in delivering the government's missions to grow the economy, raise living standards, enhance security and resilience, and improve public services.

- Success will require a clear mission, effective execution, and a healthy appetite for risk, as well as executive and operational independence from HM Treasury.
- The National Wealth Fund should have the flexibility to invest beyond the priority sectors.
- The government should consider the need for early-stage as well as late-stage financing.
- Speed of execution must be improved.
- To crowd in private finance, there is a need to avoid becoming a 'lender of last resort'.
- Green Book guidance on discount rates used to evaluate projects should be updated.

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This response of 25 April 2025 has been prepared by the Corporate Finance Faculty and the Public Sector team of ICAEW.

The Corporate Finance Faculty is ICAEW's centre of professional expertise in corporate finance. It contributes to policy development and responds to consultations by international organisations, governments, regulators and other professional bodies. It provides a wide range of services, information, guidance, events and media to its members, including its highly regarded magazine Corporate Financier and its popular series of best-practice guidelines. The faculty's international network includes member organisations and individuals from major professional services groups, specialist advisory firms, companies, banks and alternative lenders, private equity, venture capital, law firms, brokers, consultants, policy makers and academic experts. More than 40 per cent of the faculty's membership are from beyond ICAEW.

ICAEW's Public Sector team supports members working in and with the public sector to deliver public priorities and sustainable public finances, including over 14,000 in ICAEW's Public Sector Community. ICAEW engages with policy makers, public servants, and others to promote the need for effective financial management, audit and assurance, financial reporting and governance and ethics across the public sector to ensure public money is spent wisely.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 172,000 chartered accountant members in over 146 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

KEY POINTS

1. The National Wealth Fund has the potential to be very successful in mobilising private investment and stimulating economic growth. Doing so will require a clear mission, effective execution, and some appetite for risk.
2. The National Wealth Fund must have executive and operational independence from HM Treasury.
3. As well as the priority sectors it has been allotted, the National Wealth Fund should have the discretion to consider investment in multi-dimension cases that enable or result in improvements in the priority sectors, even when those sectors are not the primary intended beneficiary.
4. The focus of the National Wealth Fund on investment in late-stage development, construction, and commercialisation means that it will not necessarily be able to address the need for higher risk early-stage funding that is essential to driving economic growth. The government should consider whether there is a role the National Wealth Fund and the British Business Bank can provide in providing venture debt for early-stage businesses in critical industries that can struggle to obtain equity finance.
5. One lesson from the experience of the UK Infrastructure Bank is the need to improve the speed of execution if the National Wealth Fund is to be effective.
6. The National Wealth Fund must also avoid becoming a ‘lender of last resort’ if it is to fulfil its mission of crowding in private finance to support viable projects.
7. We recommend a review of parts of the Green Book relating to discount rates to improve the guidance to departments on how they should review and evaluate the financing of major projects.

ANSWERS TO SPECIFIC QUESTIONSN

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

8. The National Wealth Fund has the potential to be very successful in mobilising private investment and stimulating economic growth, similar to the track record of the European Investment Bank in supporting capital investment in infrastructure across the EU and, historically, the UK. Doing so will require a clear mission, effective execution, and some appetite for risk.
9. The statement of strategic priorities provided by the Chancellor to the National Wealth Fund in March 2025 is helpful in providing a basis for that mission, but the likelihood of National Wealth Fund success will be more visible when there is more certainty over how its strategy and the way it measures impact has been updated to reflect its expanded capital limit, performance guarantees, and more flexible investment capabilities.
10. There also needs to be transparency in how the National Wealth Fund can effectively complement, rather than compete with, other public financial institutions like the British Business Bank, Great British Energy and UK Government Investments (UKGI) when investing in priority sectors alongside the private sector.

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?

11. The strategic priorities provided to the National Wealth Fund are not significantly different to the objectives of its predecessor, the UK Infrastructure Bank, to support the previous government's levelling up and net zero ambitions. The National Wealth Fund therefore can learn from recent experience in reconciling these two objectives, to the extent there is any conflict.
12. In practice, we believe these two objectives should reinforce each other in most instances, with clean energy and resilience to climate change being key to both regional and local growth investments and climate change investments and vice-versa.
13. However, it is important the National Wealth Fund acts strategically and balances both objectives. Tactically it may be better to invest in regional or local projects that (for example) temporarily increase greenhouse gas emissions to generate the economic growth needed to pay for projects that reduce emissions by more in the long run. Similarly, there may be a need to invest in some climate change projects that are essential to delivering net zero, even if they are not expected to result in significant incremental levels of economic growth in the near-term.

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?

14. It is reasonable for the priority sectors for the National Wealth Fund to be aligned to the government's overarching industrial, economic and social priorities, in particular the government's primary mission to raise living standards in every part of the UK. Hence the National Wealth Fund also has objectives to support local and regional growth, to support dual-use technologies that improve the UK's defence and security, and to be flexible to invest in support of emerging government priorities and respond to changing market conditions.
15. We do not believe that crowding public and private investment into the initially identified priority sectors will be able to, on its own, achieve the National Wealth Fund's overall objectives. We hope that the National Wealth Fund will use its flexibility to consider investment in multi-dimension cases that enable or result in improvements in the priority sectors, even when those sectors are not the primary intended beneficiary.
16. The strategic direction also instructs the National Wealth Fund to support the government's Infrastructure Strategy, which includes social infrastructure projects such as hospitals and healthcare facilities, schools, colleges, and prisons, in addition to the government's mission to be a clean energy superpower and the Industrial Strategy priority sectors identified in this question.
17. The principal sector that appears to have been omitted from the National Wealth Fund's remit is housing and the government's mission to build 1.5m homes in England. It may be that the National Wealth Fund does not need to be involved in financing housing construction directly, but it will have a key role in supporting the essential economic and social infrastructure that will be needed as a consequence of building many new towns and thousands of new housing developments across the country.

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?

18. The National Wealth Fund is well-placed to crowd in capital from a range of investors. The National Wealth Fund's low cost of capital and the breadth of its remit will certainly be attractive to private sector investors. However, as implied by the question, investors, businesses and advisers do need awareness and intelligence as to how to approach the National Wealth Fund. In our membership we have detected a certain level of awareness in the adviser community, but not specifically among businesses.

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

19. A proactive and open approach is important. This would involve:
    - relationship building with organisations and bodies that can provide insight;
    - active origination to identify areas of underinvestment and other market failure as well as the need for market creation;
    - ongoing engagement to ascertain follow-on investment opportunities; and
    - speedy responsiveness to enquiries.

Q6 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?

20. There is no right answer to the question of which projects should be invested in, as the primary driver depends on the revenue model for each class of infrastructure and the willingness of the government, devolved administrations, regional or local authorities or other public bodies as appropriate to accept risk outside the scope of the National Wealth Fund.
21. For example, the National Wealth Fund would probably have a straightforward role to play in funding the construction of a toll road or a tram system (for example) where there are revenue streams to support the completed infrastructure asset. However, the decision on whether the National Wealth Fund would have a role in funding infrastructure assets paid for out of tax receipts, such as a highway or school, would depend on the way those assets are procured by the departments or public bodies concerned, and the role played by the National Infrastructure and Service Transformation Authority in involving external finance (whether private or public through the National Wealth Fund or other public financial institutions).

Q7 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?

22. Using the UK Infrastructure Bank, an existing body, as a starter home for the National Wealth Fund had the benefits of less 'reinventing the wheel' and faster implementation.
23. The National Wealth Fund has a broader remit, including priority sectors and more capital to deploy than the UK Infrastructure Bank. The status of the National Wealth Fund as an 'impact investor' is potentially confusing being not that of a bank, nor of a sovereign wealth fund (although it is described as such in the PAC chair's introduction to this inquiry). The market engagement activity started by the UK Infrastructure Bank will need to be recalibrated by the National Wealth Fund to identify and remove any ambiguity around its status.
24. Market engagement was vital to communicating the UK Infrastructure Bank's strategy to investors and businesses. Its CEO, John Flint CBE, has been actively engaged with the

ICAEW's Corporate Finance Faculty and through his seat on the faculty's board ensured that this key infrastructure advisory community was up to date with the Bank's strategic objectives. ICAEW also sought to raise awareness of the bank among its members, through events, magazine articles and other communications. From our experience of co-hosting events and networking we observe that Q&A with UK Infrastructure Bank staff and illustration by way of case studies was very effective in boosting understanding of eligibility and the forms of funding and support available from the Bank.

25. Like the UK Infrastructure Bank was, the National Wealth Fund is uniquely placed to shape policy, and to design approaches and products that will attract investors to projects that can contribute to economic growth. To do so, it must be ready to support and demonstrate innovation by drawing on experience and skills – either inhouse or from third parties – and to establish a visible presence in the market.

26. This means that the National Wealth Fund must not be a reactive market participant. If it does, it is likely to be presented with lower quality lending opportunities at the expense of achieving its impact objective. Where the UKIB has not been seen as proactive, it has been perceived as a lender of last resort, which conflicts with its objective of crowding in private finance to support viable and value-producing projects. The National Wealth Fund needs to take a more proactive approach to seek out areas where its capital can truly have high impact, in particular by leveraging private finance to produce returns for the UK economy and the taxpayer.

Q8 What degree of independence will the National Wealth Fund have from HM Treasury?

27. With HM Treasury providing its remit and strategic steer, the National Wealth Fund's forthcoming strategic plan will clearly be influenced by the government's strategic priorities.

28. The National Wealth Fund must have executive and operational independence for reaching decisions and implementing its plan and also responding to any changes. Independence and the ability to flex its approach will boost its credibility among private investors and local authorities.

29. The National Wealth Fund should also input to the metrics to be used for evaluating its performance and ensure that it has appropriate measuring and reporting systems.

Q9 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?

30. There is a lot to learn from the experience of other investment banks around the world, including how the European Investment Bank in particular has mobilised private venture capital and private equity through the European Investment Fund, the provision of venture debt to early-stage businesses that can struggle to raise equity funding, and the willingness to invest in higher-risk innovative projects in areas such as green technology.

31. Collaboration with counterparts in the devolved nations will require clarity on the lead party in each case. Differences in policies, tax incentives and other priorities will also need to be identified early on to ensure satisfactory outcomes for the parties. This will build confidence for successive collaborations.

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

32. Criteria for the National Wealth Fund should relate to the priority sectors and deployment targets in the strategic plan that will be published in the summer.

33. The impact of the National Wealth Fund should be judged on:
    - private investment mobilised
    - outcomes that contribute to economic growth (both directly and as described in our response to Q12, indirectly)
    - return on capital invested
    - speed of capital deployed

Q11 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 money projects and/or the Government having to spend more than anticipated due to defaults on the loans it is guaranteeing?

34. There are three primary types of risk that we think the government should be concerned about.
35. Firstly, there are the financial risks that individual loans or investments are not repaid, a day-to-day financial exposure that the National Wealth Fund team should be sufficiently qualified to manage, accepting that there will always be a proportion of projects that do not succeed.
36. Secondly, there are risks of not achieving a sufficient overall return on investment, either because projects do not achieve their objectives or because the financial returns, they generate are not commensurate with the funding provided. Addressing these risks will require careful and rigorous project appraisals, intelligent pricing of risk, a portfolio approach with a mix of risk profiles, good contracting and procurement practices, and plenty of expertise and experience within the team.
37. Thirdly, and most importantly, there are the strategic risks that the National Wealth Fund does not achieve its primary objectives of mobilising private capital and generating economic growth within each of the sectors identified. This will require a clear strategic direction based on the priorities set out by the Chancellor, strong leadership, good governance, an effective operating model, and a healthy risk appetite.

Q12 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?

38. Yes. The National Wealth Fund will need to accept a significant level of risk across its portfolio of investments if it is to achieve its objectives. While careful and rigorous project appraisals, intelligent pricing of risk, a portfolio approach with a mix of risk profiles, good contracting and procurement practices, and plenty of expertise and experience within the team will help mitigate risks to an extent, the National Wealth Fund will be failing in its job if does not see some of its investments fail or not deliver the value originally hoped for. Other risks include the following.
    a) Focus: There is a risk that the broader remit in the Statement of Strategic Priorities results in poor detailing in the National Wealth Fund’s forthcoming strategic plan. This will be exacerbated if a replacement CEO is not involved in providing direction for and owning that plan.
    b) Specialist resources: There is a risk that the expanded remit will put pressure on the National Wealth Fund’s ability to be proactive in identifying opportunities and ‘fleet of foot’ in progressing them. The broader remit will also require additional expertise - such as for digital and clean energy sectors in which venture capital is active - and skills in the financial instruments and guarantees that the National Wealth Fund will be able to provide. Expertise in financial and commercial due diligence is important for First of a Kind (FOAK) investments. The recent National Audit Office report, Lessons for public

infrastructure investment using private finance, referred to public bodies needing "access to appropriate skills and resources to support investment" - while this applies to public bodies in aggregate, in the case of the National Wealth Fund, this is a risk to the effective delivery of projects which are value for money. The National Wealth Fund seek to draw on expertise and support from the UK's wider advisory community where it does not have all the relevant skills in-house.

c) Visibility: There is a risk of the market not being aware of the breadth of the National Wealth Fund's remit and/or of how to approach the National Wealth Fund. The National Wealth Fund needs to be seen on the ground. The /government also needs to communicate with clarity the dividing lines between the National Wealth Fund and the other public financial institutions like Great British Energy, the British Business Bank and UK Government Investments.

d) Failure: The risk of loss is heightened due to the intended nature of National Wealth Fund investments. Some projects will inevitably fail as investment will not typically be in low-risk projects, or projects where private capital is able or willing to take on the risk.

39. An example is the investment that will be required *in order to* make private investment viable. As ICAEW commented in relation to the proposed 10-year Infrastructure Strategy[1], "investment in roads, railways and local public transport are all essential enablers to private investment, both in energy networks, broadband, water and other forms of privately owned infrastructure, and in the economy more generally".

40. Private investors can also be reluctant to undertake feasibility studies on projects with a significant risk of not progressing. Examples would include the use of new designs or construction approaches and where an environmental assessment or sector report does not exist. National Wealth Fund contributions to initial studies and commissioning of high-quality sector reports would entice private investment to invest in planning and provide clarity to the market, respectively.

Q13 Does the accounting treatment of the National Wealth Fund in the Government's new debt measure, Net Financial Sector Liabilities, lead to any perverse incentives in terms of giving preference to projects funded by the National Wealth Fund vis a vis Government spending?

41. In theory yes, but in practice no.

42. As public sector net financial liabilities are net of loans and other financial investments that are or will be made by the National Wealth Fund, there could in theory be an incentive to prefer lending or investing that is neutral for this metric when compared with direct or indirect spending or capital investment by the government that would increase it.

43. However, the fiscal rule that uses public sector net financial liabilities does not relate to its absolute value but to the difference between two future financial years – currently the fourth and fifth years of the forecast period. This means that in practice any attempt to 'game' the fiscal rule would require a significant step change in the planned use of the National Wealth Fund between those two financial years, something that would be very visible to the markets and external commentators. Such an attempt could be quite risky as it might potentially undermine the confidence that the measure was designed to create.

44. Our members point out that the Green Book and its discount rates have not been reviewed or reconsidered for many years. Given the recent budgeting change and differences between the National Accounts (following ONS/ESA rules) and departmental/Whole of Government Accounts (which follow accounting standards) there is a risk that departments and wider stakeholders are not clear on how the financing options should be evaluated. We recommend a review of this part of the Green Book with a view to improving guidance to departments on how they should review and evaluate the financing of major projects.

[1] UK 10 Year Infrastructure Strategy