TheCityUK

TheCityUK submission to the Treasury Committee call for evidence on the National Wealth Fund

About TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth. The industry contributes 12% of the UK's total economic output and employs over 2.4 million people – with two thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.

Executive Summary

- The National Wealth Fund (NWF) is a highly valued partner for the private sector. It will play a crucial role in de-risking and catalysing private capital to unlock investment into priority sectors and support the delivery of the government's economic growth and clean energy missions.
- The current public finance landscape in the UK is fragmented. Further action is needed to streamline the offering and provide clarity on the roles and interactions of the different institutions.
- The NWF should support local authorities in developing the right tools and expertise. Strengthening capacity in local authorities would better position them to develop a pipeline of investable propositions, navigate complex funding mechanisms and attract investment to deliver regional and local strategies.
- **Our key recommendations for the NWF to effectively deliver the mandate set by government are summarised below:**
    - **It must deploy its limited public capital strategically.** The NWF should ensure the most effective and value-for-money use of its £27.8bn. It should only intervene where necessary and seek to make things happen that otherwise would not be possible.
    - **The NWF needs to focus on being catalytic and additional to the market**. It must take a different approach to risk and failure and demonstrate investment leadership, taking on additional risk to facilitate higher impact and targeting investments that support the government's sectoral policy goals.
    - **It should effectively leverage private capital** by applying a robust understanding of key factors that encourage and de-risk investment at scale across the different types of investment capital available.
    - **There must be coherence across public investment priorities, planning and skills policy, and public policy levers.** There must be strategic alignment between the NWF, the Industrial Strategy and the 10-Year Infrastructure Strategy to drive investment into priority sectors and deliver the government's missions of economic growth and clean energy by 2030.
- The NWF must learn from the UK Infrastructure Bank and implement measures to improve its effectiveness – such as undertaking pipeline preparation, ensuring maximum use of recycled capital, sharpening its guarantee activity and developing innovative blended finance solutions.
- The NWF should look to leading international counterparts such as Germany's KfW as examples of best practice. Key features attributed to KfW's success include its close operational relationship with government, breadth of staff expertise, and use of conditionalities.

1. Introduction

TheCityUK welcomes the opportunity to respond to the Treasury Committee's call for evidence on the National Wealth Fund (NWF). We support the NWF's strategic objectives and the investment principles set out in the Statement of Strategic Priorities from the Chancellor.[1] As the UK's "impact investor", it has a central role to play in de-risking and catalysing private capital to unlock investment into priority sectors, create jobs, drive economic growth and accelerate the transition to net zero.

2. The UK's public finance landscape and the role of the NWF

Public finance institutions can play an important role in providing long-term, patient capital and taking on a level of risk that private capital alone cannot. As a Strategic Investment Fund, the NWF will have an important role to play in funding priority domestic socioeconomic projects, and will be a key vehicle for delivering the government's Industrial Strategy, if effective in leveraging private capital investment into priority sectors.[2] To maximise the success of the NWF and make the most effective use of its £27.8bn, it must focus on being catalytic and additional to the market. It must have a clear mandate, strategic priorities and investment approach. This is crucial to ensure it operates effectively within the UK's public finance ecosystem and retains a focus on crowding in – not crowding out – private capital.

The current UK landscape for public finance institutions is fragmented, which reduces efficiencies of scale and means that the mandates of different entities are overlapping and unclear. Alongside this, a lack of transparency and clear communication on the different public finance instruments creates confusion for the private sector. For example, regarding which body an investor should engage with for a specific investment opportunity and/or sector.

We welcome the recent stocktake of the UK's public finance institutions and the launch of the UK Strategic Public Investment Forum to improve coordination and better leverage the expertise of the different institutions.[3] However, further action by government is needed in the following areas:

- **Consolidating – or at a minimum, streamlining – the government's offering** and reviewing the approach and risk appetite of UK public finance institutions to deliver policy objectives, incentives and investment vehicles that cater to different approaches, pools of capital and risk tolerances.
- **Designating – or empowering – a single organisation to act as the investor interface** to help investors navigate the system. The Office for Investment is well placed to take on this role, given its direct links with key government departments. However, it must be appropriately resourced to support UK-based and international investors.
- **Clear and transparent explanations of the role of different public finance institutions**, including the boundaries (and overlaps), how they work together (where necessary), and how they engage with other national/and or local agencies. There is a lack of clarity on the public finance continuum from early-stage innovation, through scale-up to large-scale infrastructure projects. The recent policy paper on the launch of the UK Strategic Investment Forum was welcome in this regard – in particular, Figure 2 outlining the support offered by each investment body.[4] However, further detail on how they work together and greater transparency on priority sectors and the financing tools available would help investors navigate the UK's public finance landscape. Alongside this, a clearer hand-off from organisation to organisation could help minimise the "valley of death" for startups and enable the UK to better capitalise on its strong R&D.

[1] HMT, March 2025, Statement of Strategic Priorities to the National Wealth Fund

[2] TheCityUK, November 2024, Sovereign Wealth Funds: Global trends and the UK's role in the evolving landscape for Sovereign Investment Vehicles

[3] GOV.UK, March 2025, Launch of the Strategic Public Investment Forum

[4] GOV.UK, March 2025, Launch of the Strategic Public Investments Forum

- **Clear delineation between the NWF and Great British Energy (GBE).** The NWF and GBE will be key vehicles to de-risk infrastructure projects, particularly for nascent clean technologies. To achieve their full potential, these institutions need to provide clarity to the market not only on what they will do, but what they will not do. The delineating criteria need to be widely understood to encourage appropriate projects to come forward. Alongside this, the government must maintain a clear distinction between the NWF and GBE. The recent announcement on GBE's mandate as a developer and the NWF's complementary role as an investor was helpful in this regard.[5] We recommend that the government issue hypothetical case studies to illustrate how and when companies should access support, to create clarity and encourage the right projects to seek assistance from the correct public finance institution.

The NWF should build effective working relationships with the other public finance institutions and its devolved counterparts to ensure that they operate in alignment, and that investment opportunities are effectively managed and coordinated between institutions and communicated clearly to the private sector. Furthermore, to be effective in unlocking investment at scale into complex sectors, the NWF must be proactive in sharing insights with the government on market barriers, policy delivery challenges and industry/investor engagement. This feedback loop is important to establish a shared understanding across policymakers, public finance institutions and the private sector of current barriers and effective interventions to address them.

3. Objectives and core functions

a. Objectives

Supporting regional and local economic growth

The government's approach to national and regional policy should ensure that policymakers at every level can take meaningful actions to contribute to the development of sectoral clusters at locations across the UK. To achieve this goal, the structures and personnel of the NWF need to connect with, and account for, the different systems and plans that both government departments and devolved leaders have in place to support growth – such as Local Growth Plans and Local Spatial Strategies currently being developed by Combined Authorities, as well as comparable initiatives in the devolved nations. More broadly, all arms of the state need to work together to ensure that plans and arrangements across areas of policy (for example, planning or skills) reflect economic strategic priorities to ensure viable investable projects on the ground.

There is a need to incentivise more place-based investment to stimulate job creation and economic opportunities in specific parts of the country. The government and NWF could learn from the approach that was previously taken under the Biden Administration with the US Inflation Reduction Act (IRA), where clean energy provisions were designed to create good-quality jobs in places that needed them. Incentives for investment in specific technologies in specific areas of the country are needed to support a just transition across the UK. We recognise that this may be more within GBE's mandate, however clarity on if/how the NWF can support place-based investment will be important – for example, through investing in anchor projects and/or high-risk, big-ticket infrastructure projects where GBE may not have the appetite, expertise or capital to deliver.

To deliver place-based investment across the UK, investment in supporting infrastructure is needed. The government has identified the crucial role of ports in facilitating economic growth and the clean energy transition. However, this must be expanded to all relevant areas of transport. Improving transport links between the UK's key manufacturing and import/export sites (which are essential for maximising the benefits of CCUS and hydrogen) is a key priority. This will give greater long-term

[5] DESNZ, March 2025, Great British Energy: developer and partnership with the National Wealth Fund

certainty to projects in specific parts of the country and thereby boost investment. Focus must also be placed on low-cost, often last-mile, transport network interventions which can lower freight costs, expedite journey times, and increase access to the workforce. Rail freight interventions are a specific example where targeted investment can deliver strong value for money – for example, upgrading the capacity of Ely Junction to meet the demand of East Coast ports and increasing the volume of rail freight going through the Channel Tunnel.[6,7]

As set out in the Statement of Strategic Priorities, the NWF is "uniquely positioned to support regional and local strategies with commercial and financial advisory and lending support […] to deliver on local priorities".[8] A key barrier for local authorities at present is a shortage of expertise and capacity. There is also a challenge in retaining talent. As part of its advisory service, the NWF should seek to support local authorities and other government entities in developing the right tools and expertise locally. Strengthening expertise in local authorities would better position them to develop a pipeline of investable propositions, navigate complex funding mechanisms, and match these to investors' needs to attract investment. One potential way to achieve this would be to take advantage of the relatively new nature the Combined Authorities, the NWF and a strengthened Office for Investment to embed a culture of expertise and knowledge sharing. In particular, by working with the private sector to grow institutional understanding of relevant projects and their financing. In effect, this would create a national investment brokerage service. Action is also needed to encourage and facilitate better coordination between local authorities within a region, to drive coordinated regional development and investment strategies.

Tackling climate change

Different clean and low-carbon technologies and infrastructure require different types of support depending on their maturity. Government support through blended finance solutions, price stabilisation mechanisms, and first loss positions can play a key role in attracting private investment.

The NWF will be a key lever in supporting the government's mission of clean energy by 2030. For the government to deliver this ambitious mission and the legally binding target of net zero by 2050, it will be important for the £5.8bn committed to green hydrogen, carbon capture, ports, gigafactories, and green steel sub-sectors to be protected. Public finance institutions such as the Green Investment Bank (GIB) and the European Investment Bank (EIB) provided significant finance for climate related projects in the 2010s. They were important in helping the UK develop its onshore and offshore wind industries. The NWF needs to create more risk-sharing opportunities with the private sector to crowd-in private finance at the scale required for the UK's net zero transition.

b. Priority sectors

To deliver economic growth and clean energy by 2030, there must be coherence and alignment across public investment priorities, planning and skills policy and public policy levers. In particular, there must be strategic alignment between the NWF, the new Industrial Strategy and the 10-Year Infrastructure Strategy. For the NWF to be most effective at driving the investment flows needed for priority sectors, its mandate and risk profile must be fully embedded in the Industrial Strategy, and it must use the priority sectors of the Industrial Strategy as its areas of focus. The NWF must work for priority sectors by providing the right types of capital and working effectively alongside other types of support (e.g. technical assistance).[9]

---

[6] Network Rail, Ely area capacity enhancement

[7] Network Rail, 2023, International Rail Freight: Opportunities for Growth

[8] HMT, March 2025, Statement of Strategic Priorities to the National Wealth Fund

[9] NWF Taskforce, July 2024, NWF Taskforce Report

A recent paper by Mariana Mazzucato highlighted the unique potential of public finance institutions to unlock the patient, risk-tolerant capital needed to crowd-in commercial investment and deliver a modern industrial strategy, and outlined that these institutions should be reimagined as "strategic catalysts for transformative change". While public finance institutions often focus on filling a finance gap, Mazzucato argues that they must move beyond this as their effectiveness "hinges on aligning governance and priorities with clear, cross-sectoral missions", such as achieving net zero targets or delivering an industrial strategy.[10]

Sectoral approach

The broader the range of funding tools that the NWF can offer, the more successful the mobilisation of private capital is likely to be, and the greater the range of potential investors it can leverage. The NWF Taskforce stated that for the NWF to effectively mobilise private capital, it must take a "Swiss army knife" approach and deploy capital through a broad range of products and financial interventions (such as guarantees, concessionary/lower interest rate finance and equity co-investment), recognising that the most effective interventions will differ by sector and should be tailored on a needs basis.[11]

It will be important for the NWF to take a sectoral approach and develop an in-depth understanding of key financing challenges for each sector. This will help inform sector-specific initiatives and ensure they target impediments to investment and growth. For example, the Life Sciences Scale-up Taskforce established in 2021 highlighted a lack of incentives and opportunities for capital investments in this sector.[12] The government should task the NWF with addressing barriers to investment in life sciences, as one of its Industrial Strategy-aligned priority sectors.

Climate tech is another sector that will need a targeted approach. Climate tech companies will need high levels of capital and support during start-up and scale-up phases. The solution will vary according to the type of technology and growth phase. The NWF can play a key role in supporting the growth of cleantech industries by complementing other government funding mechanisms and acting where private finance alone cannot. Through such measures, the NWF can support better commercialisation of the climate tech sector, enabling more widespread deployment of private capital in time.

Aviva Investor's Policy Roadmap[13] identified that for investment in low carbon infrastructure, targeted public funding – delivered through bodies such as the NWF – could be most effective if focused on:

a) **Areas involving emerging technology risk**. Such as first-of-a-kind projects involving electrification of heavy industrial plants, low-carbon hydrogen projects and CCUS technology.
b) **Areas where projects are logistically complex for private investors.** For example, targeted public intervention to attract private investment in retrofitting the housing and building stock.
c) **Critical infrastructure** that is strategic to economy-wide decarbonisation and growth of essential supply chains.

The government should explore the option for the NWF or British Business Bank (BBB) to launch a specific fund or work programme directly focused on climate tech transactions requiring investment at a £10 – £25m ticket size. There is a gap in direct public finance support in debt and equity finance between around £10m (largest ticket size for BBB) and £25m (indicative minimum ticket size for the NWF). This poses a specific issue for climate tech firms, which have high capital requirements at the growth stage, and weakens the ability of the UK public finance ecosystem to provide support

[10] Mazzucato, M. 2025, Directing growth: how a mission-orientated industrial strategy drives productivity
[11] NWF Taskforce, July 2024, NWF Taskforce Report
[12] **Life Sciences Scale-up Taskforce:** the taskforce was an industry-led, expert group made up of venture capitalists, institutional investors, and financial and Life Sciences trade associations, reflecting the fact that innovation in life sciences is often a long-term, capital-intensive process.
[13] Aviva Investors, July 2024, Boosting low-carbon investment in the UK

throughout their growth life cycles. Such a programme could be delivered either by sizing up the capability of BBB or flexing down the NWF's £25m minimum for equity and debt support, which is neither fixed nor mandated. This could be done as part of 'business as usual' financing programmes, or through the establishment of a specific team focused on transactions at this ticket size.

Another sector where the NWF could play an important role is defence, a sector that is strategic for the UK, experiences market failures around financing, and where there are potential positive spillovers – particularly in dual use technologies. We consider defence to be a good candidate for the NWF and support the government encouraging the NWF to consider investment in dual-use technologies across priority sectors that better support the UK's defence and security. Beyond defence, dual use technologies (such as digital infrastructure) could be a valuable area for NWF investment, as they can be deployed in multiple directions, including to support priority sectors of the Industrial Strategy.

4. Attracting private finance: crowding-in rather than crowding-out

A combination of the right financial structures and enablers could mobilise significant private investment for priority sectors. Collaboration between industry, government, regulators and key stakeholders will be vital in overcoming existing investment constraints. Alongside this, addressing key issues – such as blockages in the planning system and connecting to the grid – will be crucial to mobilising greater private investment and restoring confidence in the market.

For the NWF to effectively deliver the mandate set by the government, it must demonstrate a sophisticated understanding of investment decision-making and provide transparency around governance, funding instruments and priority sectors, technologies and/or activities. It must also provide clarity on the level and type of investment needed (i.e. the capital requirements) and a transparent project pipeline.

Enabling investment to support economic growth

Decisive, collective action is needed to challenge the current culture of risk aversion and 'safetyism' that discourages investment in productive assets such as infrastructure. There is also a need to build greater public sector understanding on how commercial investment decisions are made, including the relationship between the expected costs, rate of return and investor objectives. Research by the NWF Taskforce on the UK green investment landscape identified investment viability, demand certainty and supply chains as key barriers to investment.[14] These barriers are likely applicable to other priority sectors.

The NWF must have a clear understanding of the different types of investment available across the private sector, each with different expected criteria and timeframes for return and risk appetite. For example, in the insurance and long-term savings industry, the risk appetite and regulation of the savings of younger defined contribution pension scheme customers differs from annuity investments. In addition to the governance processes within individual institutions, investment decisions are driven by the regulatory framework and degree of policy certainty. Therefore, collaboration between industry, government and the NWF will be vital in minimising investment constraints.

Further capability is required in the system to improve the capacity of local authorities and public sector bodies to formulate investment propositions and prospectuses such that they can be meaningfully assessed by domestic and international investors. Many such investors have access to large pools of capital but lack access to investable propositions tailored to their balance sheet needs and risk appetite. Actions in this regard would tackle the disconnect between capital supply and demand for capital.

[14] NWF Taskforce, July 2024, NWF Taskforce Report

We strongly support the NWF's Local Authority function and agree that it is uniquely positioned to support regional and local strategies by providing financial and commercial advisory support throughout the investment cycle. Support to local authorities in the development of credible, bankable propositions would be an effective use of the NWF's resources, and would generate considerable aggregate value to complement the larger transactions that the NWF will be doing directly with private investors.

The government should take steps to incentivise the companies the NWF supports to remain in the UK as the business matures. The use of UK public capital listing markets should be encouraged once the investments have matured sufficiently to require and attract growth capital. This would support the UK public market ecosystem and could dissuade high-growth companies from going public in other jurisdictions.

Crowding-in, not crowding-out

The success of the NWF will largely be predicated on its ability to crowd-in investment from the private sector. The NWF needs to build and apply a robust understanding of key factors that encourage and de-risk investment at scale. This understanding must be at the heart of developing investment propositions and prospectuses that reflect the needs and risk profiles of various pools of capital.

The NWF should ensure the most effective and value-for-money use of public capital. It should only intervene where the private sector cannot, and make things happen that otherwise would not be possible – it should be additional to the private sector. The NWF can do this by focusing on projects where there is an undersupply of private finance or a market failure, investing long-term patient capital for industrial development or infrastructure, and providing early-stage investment to support startups and nascent technologies. The NWF must also deliver a more nimble, proactive approach to recycling its capital so that it can continuously be deployed in the areas where it is most needed.

The NWF should use public capital strategically to leverage private capital. For example:

- The default has often been to use affordable public sector capital (e.g. via the Public Works Loan Board) to finance capital projects, rather than pay a risk-adjusted return to the private sector. This approach can lower the cost of an individual project. However, it also reduces the growth potential across the economy that could be delivered by leveraging private capital at the going commercial rate.
- There is significant appetite across a broad spectrum of banks to lend to finance retrofitting of real estate. Generally, this debt is low-risk and priced accordingly. Investment by the NWF does not have the effect of attracting new finance or broadening funding sources. A more strategic and effective application of NWF guarantees in the real estate sector would be to bridge the viability gap to attract private capital for new development (e.g. housing).

More catalytic: the approach to risk and failure

A key principle of the NWF is that it should be "more catalytic" by being empowered to take on "additional risk to facilitate higher impact in individual deals".[15] To be more catalytic, the NWF must take a different approach to risk and failure. However, it must also be clear-eyed and make a strategic judgment about the sectors and sub-sectors that most merit this approach.

The NWF must use its limited fiscal capacity to effectively crowd-in significant private capital. Investment by the NWF can send an important signal of government endorsement to the private sector. However, feedback indicates that, in some places, the NWF is using its capital on deals which

[15] HMT, October 2024, National Wealth Fund: Mobilising Private Investment

could otherwise attract finance. Taking initial project risk is crucial if the NWF is to make the most effective use of its limited public capital to enable more private finance to enter the market.

The NWF must take a more proactive but targeted approach to risk. Firstly, priority sectors for the NWF, such as green steel and floating offshore wind, will inevitably require a degree of risk taking. Secondly, for the NWF to avoid crowding out private finance, it must focus on areas that are higher risk. We note that the NWF's economic capital limit will be increased from £4.5bn to £7bn to give it with more flexibility to commit greater economic capital to higher-risk investments. This is a welcome development and, in combination with an increased focus on portfolio-level returns (as opposed to fund-level), should enable the NWF to have a greater risk appetite.

A concrete example of the role that a public finance institution can play in demonstrating investment leadership, by being a first mover and investing in a higher-risk and uncertain technology, was seen with GIB's investment in the Westermost Rough offshore windfarm in the 2010s.[16] This case study also shows how public finance can help a market to mature to the point where the private sector has the confidence and appetite to invest on its own.

Case study: GIB investment in Westermost Rough Windfarm
In 2015, GIB took a 25% stake in the Westermost Rough offshore wind project, alongside Japan's Marubeni Corporation. The project utilised next generation 6 MW turbines, which were almost twice the size of operating wind turbines in UK waters, and it was the first time the new turbines had been commercially deployed in the UK. This investment was part of GIB's strategy to mobilise capital for the UK offshore wind industry and create a demonstration effect that other investors could follow. This strategy was successful. The deal supported the development of a supply chain for offshore wind in the UK, gave confidence to developers and investors for future auction rounds, supported the UK in delivering its renewable energy target and enabled the development of a market, such that public finance was no longer required.

To be a key driver for innovation, the NWF must be empowered to take a different approach to failure. A key part of innovation is accepting the likelihood that some investments will fail, and it is only through failure that lessons can be learnt to feed into future projects.

We have identified several actions that could support the NWF to be *more* catalytic and effective at crowding in private capital at a greater pace and scale:

a) **Reinforce support for high-priority sectors.** The NWF has increased its emphasis on priority sectors and is encouraging a dialogue between its sector specialists and lenders on the specific solutions needed to support more private financing of nascent technologies. This is welcome and we encourage the NWF to go further by considering whether 'fast track' discussions could be enabled with larger, well-capitalised providers of finance on priority technologies. For example, HMT could specify sub-sectors, adding granular detail underneath relevant parts of the Strategic Steer reflecting the Industrial Strategy and the Clean Power Action Plan.
b) **Undertake pipeline preparation.** Sector leads could work with major lenders on a deal pipeline. For example, using client insights, private partners for the NWF could highlight deals that will come up for financing over a multi-year period, and initiate early-stage discussions about how the NWF could best support these deals. This would help line up the capacity, investment and infrastructure rollout that is needed to meet government goals and flush out issues at an early stage.
c) **Sharpen the NWF's guarantee activity.** We support the NWF's use of guarantees, which help banks to lend to higher risk projects and encourage the NWF to explore whether it can stretch

[16] Green Investment Group, 2014, UK Green Investment Bank invests £461m in the UK offshore wind sector

its guarantees further – for example, where 80% is the norm on specific, highest-risk, highest-need technologies (i.e. those which are essential to Clean Power 2030), 90% guarantees would accelerate/increase banks' ability to lend to these projects.

d) **Develop specific pools of capital with higher risk tolerance.** The NWF should develop specific pools of capital that are more catalytic, with higher risk tolerance and lower hurdle requirements. This approach could be inspired by the British International Investment (BII) Kinetic programme.[17] The programme is designed to invest in pioneering impact projects with a higher risk tolerance than traditional investment strategies. By adopting a similar approach, the NWF could create pools of capital that are invested in higher risk projects, catalysing innovation and growth in sectors that struggle to attract investment.

e) **Address the UK's equity and junior debt financing gap.** Banks and life insurance companies have significant financing capacity to provide the senior debt that is required for UK infrastructure. However, there is a material lack of equity and junior debt financing in the UK. The NWF has an important role to play in addressing this financing gap.

f) **Ensure maximum use of recycled capital.** The NWF should take an active role in supporting the recycling of capital. For example, on successful completion of a project, or at an appropriate point after the initial financing package is agreed, the NWF could step out of a deal and let private finance pick it up, where feasible. This would free up funding for technologies that continue to face difficulties in attracting private finance without government support/guarantees. Given the increasing maturity of UKIB activity, it may be that those deals/subsectors which were the first to receive its support could act as the focus for the first wave (e.g. early deals on EV charging and fibre).

g) **Blended finance solutions.** We encourage the NWF to collaborate with industry to co-create blended finance solutions that will be effective in de-risking and scaling investment, and can bring greater standardisation. The NWF should also coordinate with industry on how to crowd-in private capital from sectors that currently limit their investing in long-term productive assets, such as the non-life insurance sector. The NWF could access a much broader spectrum of potential investors if it were to collaborate across sectors to devise blended finance solutions to make the asset profile of its securities viable for a broad range of investor needs. It should also coordinate with existing initiatives, such as the Transition Finance Lab and the Net Zero Blended Finance Taskforce, to facilitate greater collaboration and information sharing.

h) **Public procurement.** The current approach to public procurement for public expenditure on individual projects is a barrier for investors. We encourage the NWF to consider a more proportionate and cost-effective approach. For example, following engagement with the project and private capital backers (and appropriate due diligence), the NWF could give a green light to appointing a private sector funder as a "financing partner" rather than "provider of finance". This could avoid excessive procurement processes, reduce uncertainty for investors and deliver better value for money.

Innovative financing solutions and digitalisation

An overarching objective for the NWF is the promotion of innovative technology, including innovative financing solutions. There is an opportunity for the government to demonstrate international leadership in digital capital markets by using the NWF to incentivise private sector investment in innovative technologies, such as tokenisation - i.e. the representation of securities and other financial and real-world assets in digital form using distributed ledger technology (DLT). TheCityUK's recent report (in partnership with Hogan Lovells) on the digitalisation of capital markets identified possible routes to promote tokenisation through the NWF – e.g. tokenising investment instruments, offering incentives such as enhanced functionality in respect of real-time tracking and reporting, for investors

[17] British International Investment, Kinetic

to select tokenised options.[18] The use of tokenised investments could amplify the benefits of the NWF across several areas, such as:

- Supporting the development of innovative financing solutions and unlocking investment to support regional and local economic growth. For example, digital municipal green bonds could enable SMEs to invest in local government-led initiatives.
- Enabling greater accountability for investments in capital-intensive infrastructure projects. Digital methods – such as smart contracts and monitoring, reporting and verification (MRV) using DLT – could link the release of capital to clean energy performance criteria and facilitate real time clean energy data tracking.
- Crowding-in significant private capital over time by making investment opportunities available to more participants. For example, tokenisation could be used to spread risk over greater numbers of parties by fractionalising investment. It could also be introduced at the initial investment stage, during the lifetime of the investment, or as the NWF exits an investment once a project has matured as a further way of crowding in additional investment.

5. Lessons learnt and best practices

UK Infrastructure Bank (UKIB)

There is an opportunity for the NWF to learn from the experience of UKIB. Feedback indicates that UKIB was slow to deploy its previous allocation of £22bn (with only a single guarantee dispersed) and excessively risk averse, limiting its impact in crowding-in other sources of capital. The NWF must seek to increase the speed at which capital is dispersed. The government should consider measures to incentivise more ambitious spending from the NWF, to ensure that it can service investor demand and invest at the pace and scale required to support delivery of the government's growth and clean energy missions.

Specific concerns in relation to UKIB:

- Risk-related reluctance to offer a guarantee where this covers a minority of a project's total value, meaning UKIB could not enforce a default if required.
- Limited specialisation and sector-focused capability, slowing UKIB's process for reviewing projects, particularly for newer technology and infrastructure.
- Bespoke design of every guarantee, compared to standardised working in similar institutions such as UK Export Finance (UKEF), slowing project processes and collaborative revisions.

Recommendations that were originally developed to enhance UKIB effectiveness that the NWF could also consider:

- Clear ministerial direction that the mandate to invest in higher risk projects should be implemented ambitiously.
- Implement a fast-track proposal and consultation process for large-scale, well-capitalised investors, allowing them to move to advanced discussions around guarantees quickly.
- Establish specialist taskforces for each of the government's priority infrastructure areas, to ensure specialist expertise is developed swiftly.
- Commission urgent work to develop a standardised guarantee model, with possible support from UKEF.

We encourage the NWF to look to international counterparts for best practices. The NWF Taskforce identified the Canada Growth Fund (CGF) and Australia's Clean Energy Finance Corporation (CEFC) as

[18] TheCityUK and Hogan Lovells, January 2025, The digitalisation of UK capital markets: digitalised financial market infrastructure and tokenised bonds

two comparator funds with clearly articulated and focused strategic objectives and investment priorities that could inform the NWF.[19]

The German development bank, KfW, is a leading international counterpart that the NWF could learn from. Established in 1948 to support post-war reconstruction, KfW now raises 90% of its funding on capital markets, with a small percentage of funding from the federal government for reducing interest rates on certain types of loans.

KfW's lending and promotional activities focus on three missions: (i) climate change and the environment, (ii) globalisation and technological progress, and (iii) demographic change. It is argued that KfW's mission orientated mandate has enabled it to go beyond "fixing market failures" and play an important role in shaping Germany's economy.[20]

Key features of KfW that are attributed to its success include:

- A close operational relationship between KfW and the government. This has created a powerful synergy and coordination across policy, regulation and financing.
- Breadth of staff expertise. This enables decisions to be made on a wider set of criteria and enhances the ability of KfW to crowd-in private investment, as KfW endorsement of a project gives the private sector confidence to invest.
- Its clear mandate and mission statement provide a signal for the direction of the economy, helping catalyse investment in new markets.
- Use of financing tools such as conditionalities on low-interest loans, preferential interest rates to encourage behavioural changes[21] and breadth of financial products offered.[22]
- Transparency and open engagement with the private sector provide investors with clarity on investment opportunities.

Another international counterpart that the NWF could look to is Bpifrance.[23] Bpifrance offers a continuum of solutions adapted to every step in the growth of a business – such as business creation, financing, guarantees or equity investment. Bpifrance also partners with industrial sectors to create acceleration programmes that meet the specific needs of an industrial sector, and provides matchmaking to help companies meet investors through their EuroQuity platform.

The international examples outlined above illustrate the role that a clear mandate or set of investment priorities can play in enabling a public finance body to mobilise private capital in support of strategic and/or mission-orientated objectives. Two key features of the institutions outlined above are the deployment of a wide range of financial products, and being equipped with the right tools and breadth of expertise. The NWF must prioritise appointing staff with relevant private sector and market expertise to effectively engage with investors, identify strategic opportunities for the NWF and make informed investment decisions.

6. Measuring success for the NWF

Key success criteria for the NWF should include:

- Amount of equity (co-)investment into projects/companies in the UK by private institutional investors mobilised by the NWF,
- Amount of private sector debt financing for projects/companies in the UK triggered by NWF equity and/or debt investments, and

[19] NWF Taskforce, July 2024, NWF Taskforce Report
[20] Mazzucato and Macfarlane, 2023, Mission-oriented development banks: the case of KfW and BDES
[21] Mazzucato, M. 2025, Directing growth: how a mission-orientated industrial strategy drives productivity
[22] KfW, Our financial products
[23] Bpifrance, Our products

- Number of new jobs created in projects/companies in the UK on the back of NWF equity and/or debt investments.

In relation to the NWF's objective of tackling climate change, measures of success could include (a) incremental megawatts of renewable energy installed in the UK, and (b) replacement of conventional power by renewable energy.

7. Conclusion

The NWF will be a key vehicle for mobilising private capital to drive investment into key growth sectors and accelerating the transition to net zero in the UK. To maximise its effectiveness, it must focus on being truly catalytic and additional to the market, ensuring it operates within the UK's public finance ecosystem without crowding out private capital. It must take a proactive approach to risk and failure. By being a first mover, investing in initial stages of high-risk projects, and accepting that some projects will fail, the NWF can help drive innovation and crowd-in private capital to support priority infrastructure and industries for the future.

The recent stocktake and launch of the UK Strategic Public Investment Forum are positive steps towards improving coordination across the UK's public finance ecosystem. However, further streamlining and transparency across the government's offerings are necessary to enhance efficiency and provide clarity for the private sector.

We strongly support the NWF's strategic objectives and focus on investing in priority sectors that support the government's growth and clean energy missions, alongside UK defence and security. Alignment and coherence with government policy will be crucial, in particular with the Industrial Strategy and 10-Year Infrastructure Strategy. By aligning its investment priorities with government policy, the NWF can leverage public finance to address systemic hurdles to private investment and drive investment flows into priority sectors.

Ultimately, the success of the NWF will depend on its ability to crowd-in private capital, take on additional risk to facilitate higher impact, and demonstrate investment leadership in nascent sectors. By focusing on these principles, the NWF can be a key partner for the private sector and play a transformative role in driving the UK's economic growth and resilience, as well as accelerating the transition to net zero.