ICE response to the Treasury Committee Inquiry into the National Wealth Fund

April 2025

About the ICE

The Institution of Civil Engineers (ICE) is a 97,000-strong global membership organisation with over 200 years of history. It is a centre of engineering excellence, qualifying engineers and helping them maintain lifelong competence, assuring society that the infrastructure they create is safe, dependable and well designed. Its network of experts offers trusted, impartial advice to politicians and decision makers on how to build and adapt infrastructure to create a more sustainable world.

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Submission

This submission responds to a selection of the questions included in the Committee's call for evidence.

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

The National Wealth Fund (NWF) has the opportunity to effectively crowd in private investment and provide expertise and government guarantees that can contribute to de-risking projects. To do that, the NWF will need to be clear about its purpose and own risk appetite.

Below the ICE covers a selection of the outstanding questions about the NWF and its ability to mobilise private investment to stimulate economic growth, and goes into further detail on other points of interest in response to the inquiry's questions further on in this submission.

The ICE notes that there is a question about where the Fund's advisory function best sits. At present, key skills, like contract management, procurement and negotiation, are too thinly spread in the civil service. Projects need better advice on which funding model to use. However, an advisory role for the Fund may create perverse incentives. Advising public and private entities, which are likely to then become borrowers, may not incentivise the provision of the right advice in the best interests of the entity. This function may be better placed in a separate body such as the National Infrastructure and Service Transformation Authority (NISTA).

Capability to provide this advice, if retained as a function, will be one of the biggest pinch points for the body. The Fund will need to be willing to pay competitive salaries that attract seasoned investors from the private sector.

Further, institutions such as the NWF are often incentivised to deploy capital at pace, often into third party funds. While there is nothing inherently wrong with this approach, the Fund should, in the ICE's view, be given the time and space to deploy capital into infrastructure (and other) projects strategically.

The ICE also notes that lending to local authorities should also drive improved diligence processes at the local government level. The current quality of investment oversight has led to suboptimal funding, financing and delivery decision-making.

The NWF's success will depend in large part on improved certainty in the wider policy environment. The 10-Year Infrastructure Strategy, Spending Review and Industrial Strategy that are soon to be released will bolster this, but the degree to which they are able to boost the UK's ability to attract investment will depend on the level to which these strategies and policy decisions are bedded into the system and able to enjoy cross and intra-party support at a Parliamentary level.

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?

Growth and addressing climate change can be two sides of the same coin.

The Confederation of British Industry has outlined that between 2023 and 2024, the net zero economy grew 10.1% and now generates £83.1 billion in Gross Value Added, with £28.8 billion directly from net zero businesses and £54.3 billion from supply chain activities and broader economic contributions. This robust performance underscores the sector's multiplier effect, with every £1 of value generated by the net zero economy creating an additional £1.89 in the wider economy[1].

Between 2025 and 2050, the UK will need an average investment of £26 billion per year to meet net zero, peaking in the first half of the transition. The majority of this will come from the private sector. The Climate Change Committee estimates that public investment in decarbonisation will never exceed 2% of total annual public spending[2]. The main purpose of public investment should be to attract

[1] Confederation of British Industry (2025) The Future is Green: The economic opportunities brought by the UK's net zero economy.

[2] Climate Change Committee (2025) Seventh Carbon Budget.

private investment and help meet the cost of the required investments. The Fund should support investment into higher risk sectors and investments to support this transition. Examples of sectors where projects may benefit by being de-risked via investment by the Fund include, for example, green hydrogen and carbon capture, utilisation and storage among others – and as reflected in the Fund's strategic priority areas for investment.

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?

On the whole, these are the right sectors. Regional and local economic growth is, however, in part driven by housing investment and affordability. The ICE supports the government's focus on its chosen priority sectors for the NWF, but would like to see clarity on how the Fund will work with place based public agencies (i.e. Homes England).

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

The NWF's ability to mobilise private investment will require it to be clear about its purpose and the additionality it provides by leveraging taxpayer money to mobilise private capital.

Public and private investment must be complementary. Public investment – including via the NWF – should target high-growth, innovative sectors to crowd-in private investment. The Fund has an important role in reducing risk via its advisory services and government guarantee provisions to make projects more investable to crowd in private capital.

This will require a commensurate risk appetite. The focus of the fund's investments should be on riskier projects which would not otherwise be supported by the private sector without government backing or investment.

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?

The ICE had been advocating for the establishment of the UK Infrastructure Bank (UKIB) since 2017.

HM Treasury set up UKIB with the right goals in mind. This included £22 billion in notional capacity, with an economic risk budget that allowed for up to £4.5 billion in losses and as a bank that was not set up to compete with or crowd out the private sector or create investable propositions. It looked for problems and risks others would not take on and aimed to be completely product-agnostic.

But, the bank's lack of risk appetite meant that many of its deals were mainly focused on conventional infrastructure investment, such as broadband rollout and solar farms.

However, the typical role of a national infrastructure bank is to crowd-in finance to more risky endeavours that the private sector would not normally consider.

The huge infrastructure investment challenge also meant the bank benefited from a clear rationale from the outset. It took just 10 months of planning to establish UKIB.

It made six deals in its first full year worth just over £1 billion, was made able to lend to local authorities and published its first strategy after wide consultations. But the pace also created significant risks.

However, the Public Accounts Committee highlighted weak corporate governance arrangements from the outset in its 2023 report[3].

The bank had no audit and risk committee early on to determine whether investments were correct. Corporate governance has since improved, but early deals had to be low risk as a result of this lack of institutional oversight.

A lack of capacity via adequate staffing levels also meant that despite its operational independence, the bank had to rely on Treasury systems, staff and approvals, as a result of the speed at which it was set up.

The National Wealth Fund should be allowed the time, space and adequate resourcing to scale up to invest effectively.

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

The NWF should retain a high degree of operational independence from HM Treasury, matched with a high level of transparency. Those employed by the Fund are best placed to make investment decisions. However, spending public money should be met with public scrutiny.

In essence, the Fund should act as though it is regulated as a commercial bank and retain operational independence from HM Treasury whilst still benefitting from an ability to issue sovereign-equivalent guarantees.

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

[3] Public Accounts Committee (2023) The Creation of the UK Infrastructure Bank

counterparts in the devolved nations: the Scottish National Investment Bank, the Development Bank of Wales and the Northern Ireland Investment Fund?

In devolved nations, the Fund should have regard for the level at which policy is made. Transport policy in Scotland is largely devolved, for example, so the Fund will need to consider how it engages at a local level and effectively works with Transport Scotland (and others) alongside its investment counterparts.

One lesson worth taking from the Canadian Infrastructure Bank is its negative return target which enables it to invest in more risky projects. This is in comparison to the UK Infrastructure Bank, which was expected to earn an annual return on equity of between 2.5% and 4% by 2025-26. However, the Canadian experience is that their Bank is investing in 'low-hanging fruit' as well as riskier projects[4].

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?

Yes. There is no shortage of capital ready to invest in infrastructure and other assets. Rather, there is a shortage of investors with the risk appetites to fund and finance projects in the government's priority sectors. The Fund needs to be willing to take on risk in this context.

The question is whether the government is giving the National Wealth Fund the right tools and structure to be able to invest in high priority industries and take on that risk.

Government accounting frameworks currently constrain investment, including via the treatment of departmental 'subsidies' for loss making loans and guarantees under the Financial Transaction Control Framework. It is often easier to deploy capital on a grant basis with no chance of recouping a return than to invest capital with a below-market rate of return expected.

The Fund and the government will both have important roles in shaping public sentiment on the role of the NWF. Public investment in potentially loss-making projects will need to be represented, accurately, as higher risk investment in projects that would not otherwise be funded by the private sector and deliver a public good.

The public supports private investment in infrastructure. Polling commissioned by the Global Infrastructure Investors Association demonstrates that there is strong support (65%) for more private sector investment if it means the public gets the infrastructure improvements it needs. However, slightly less than half (47%) agreed with increasing spending to improve infrastructure in the UK even

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[4] ICE (2022) ICE submission to the Public Accounts Committee inquiry on the creation of the UK Infrastructure Bank

if that means higher taxes or costs for consumers[5]. Relatedly, polling recently undertaken for the ICE shows that over two-thirds (68%) of people agreed that they want to hear more about the benefits of major infrastructure projects rather than focusing on the costs[6].

Government and the Fund would do well to lean into this public support and clearly communicate the benefits of crowding in private investment to sectors and projects that would otherwise miss out.

HM Treasury will need to be ready to accept making a loss on some projects to support strategic investment across the Fund's portfolio. However, this will need to be balanced against a clear delineation of departmental responsibility for grant funding. If a project does not work because it isn't economically viable, that is something for government departments to consider for grant funding; the NWF should focus on value-adding, not becoming a grant-giving arm of the state.

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?

The treatment of the debt measure creates an imbalance in the treatment of financial and non-financial assets that favours the private sector in physical asset investment. This risks creating an environment where the financial sector has more freedom to operate than entities with non-financial assets.

Conclusion

The ICE is supportive of the establishment of the National Wealth Fund, and its strategic areas for investment.

This Inquiry is welcome progress towards assessing the conditions that will best enable the Fund to deliver value and crowd in private investment most effectively.

To effectively deliver on this aim, the Fund must be clear about the value it is adding through public investment, and have a risk appetite commensurate with the opportunity presented to invest in higher risk projects that otherwise would not be supported by the private sector.

Ensuring the Fund's success will require wider policy stability and an enabling environment that gives the Fund the time and space to build scale and capability, and invest in riskier sectors and projects.

[5] Ipsos / Global Infrastructure Investor Association (2024) Global Infrastructure Index 2024
[6] ICE (2025) Paying for Britain's Infrastructure System

The ICE thanks the Committee for this opportunity to respond to this Inquiry, and would be happy to offer a spokesperson to present oral evidence.