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Much ado about PuFins

How the UK's public financial institutions can unlock billions for investment

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Summary

In a little over a decade, successive governments have built – and rebuilt – a set of institutions that use public money to provide loans, equity investments, and guarantees to the private sector. Unlike conventional investment in public assets, such as roads, schools and hospitals, these bodies invest financially in private sector assets. They are known as public financial institutions – affectionately nicknamed 'PuFins'. As the new Prime Minister Andy Burnham enters Downing Street, reconciling his vow to work within existing fiscal rules with his promises of a higher-investment economy looks like it could be tricky. Could the PuFins help him pull it off?

In a relatively short space of time, PuFins have already moved towards the centre of economic policy, as ministers have reached for financial instruments to try to boost anaemic domestic investment. A Brexit-induced departure from the European Investment Bank has spurred the UK to devise alternative means of support for private enterprise, while a renewed focus on industrial policy has since given a broader rationale for using them to raise investment more generally. The Starmer Government has so far expanded the balance sheet capacity of four PuFins – the British Business Bank, National Wealth Fund, UK Export Finance and the newly created National Housing Bank – by over £100 billion, taking their total capacity to nearly £200 billion. Roomier balance sheets have allowed the PuFins to plan for much more investment.

At the centre of the PuFins landscape sit three bodies: the British Business Bank (BBB), the National Wealth Fund (NWF), and the National Housing Bank (NHB). Between them, they are now equipped with just short of £70 billion of financial capacity, almost double the £37 billion capacity that they (and their predecessors) had in 2024. They have distinct, but complementary, investment priorities:

1. The BBB, with £25.6 billion capacity (up from £15.3 billion in 2024), focuses on providing scale-up finance to cutting-edge companies, historically through venture capital funds. It sits at the centre of a cluster of wider public bodies, such as Innovate UK and UK Export Finance, that are also tasked with fostering the growth of businesses in key sectors.

2. The NWF is the Government's principal investor for infrastructure, supply chains, and capital-intensive business scale-ups, while also supporting the government's broader growth and energy agendas. Formerly known as the UK Infrastructure Bank (UKIB), the NWF had its mandate widened by the Starmer Government beyond infrastructure to cover delivery of the wider Industrial Strategy and raised its financial capacity to £27.8 billion (from £22 billion in 2024).

3. The NHB, a new arm of Homes England, is charged with using its £16 billion capacity to accelerate delivery of housebuilding by supporting viable schemes, especially in designated 'New Towns'.

Effective functioning of each institution depends crucially on how they operate alongside the others, and the wider ecology of public policy. Steers from the top have sought to better align PuFins and similar bodies to the new Industrial Strategy. The more established institutions have been tasked with helping the newest ones get off the ground. To improve coordination more widely, the Starmer Government established the Public Investment Roundtable to bring together senior and working-level officials. The aim is a 'no wrong door' approach, so that before saying 'no' to any project or investor, PuFin-type bodies will always stop and consider if there is another and more suitable institution that the applicant could be referred on to. And there are early signs that things are now knitting together better.

The scope for expanding PuFins widened substantially with the rewrite of the fiscal rules in Labour's first budget in October 2024. Specifically, thanks to the shift in the target from Public Sector Net Debt (excluding the Bank of England) to Public Sector Net Financial Liabilities, the value of any illiquid financial assets acquired – for example, stakes in companies – are now netted off against public liabilities. This more favourable accounting treatment loosens the constraints on public financial transactions because if the Government borrows money to offer a loan or buy a stake in a company (at fair value), it does not increase the value of Public Sector Net Financial Liabilities. By contrast, the treatment of conventional capital spending, where the state builds and owns assets such as housing or infrastructure, remains unchanged. In this environment, PuFins become a particularly important channel for boosting investment.

However, financial transactions are neither free nor without risk.

Importantly, even if one of the Government's fiscal rules now gives financial transactions more favourable treatment, the second 'current budget balance' rule must also be considered. Borrowing to buy shares may not increase the value of Public Sector Net Financial Liabilities, but the higher debt interest must be covered by the current budget. At time of writing, an additional £1 billion of borrowing would cost around £50 million in annual debt interest. Unless the financial returns from the assets acquired cover that, then the ability to expand PuFins may still be constrained by fiscal rules. At present, the current budget needs to be balanced just three years' ahead, so it matters exactly when returns on investment are received. Loans to companies score relatively well in terms of timing, because they typically generate interest income over their whole lifetime. Equity investments in early-stage firms or capital-intensive projects, however, may pay little or nothing in dividends, and promise only uncertain capital gains, perhaps deep into the future.

To be neutral on the balance sheet, the value of the assets must at least match the government's borrowing to acquire them. But the value of financial assets is uncertain: loans can be written down, and equities can rise or fall.

Yet another consideration is 'statistical classification risk'. For national accounting purposes, the ONS, guided by international statistical standards, decides whether state 'control' over an entity is sufficient to classify it as within the public sector. Reclassification of businesses supported by PuFins as 'public sector' could make hitting the Government's fiscal targets more difficult: their borrowing would become classed as public debt, which would not be offset by any fixed (i.e. non-financial) assets that they held. We have already seen instances of such concerns discouraging potential collaboration between PuFins and outside investors.

Where does this leave Andy Burnham and his ambitions for public investment – where he has promised "decent infrastructure in all parts of the UK" and to oversee "the biggest council house building programme since the post-war period," all while remaining within established fiscal rules.

We argue that he can, and should, expand financial transactions to scale up investment and boost growth. But he should subject such expansion to three tests.

First, the investments made must be truly 'additional' – that is to say, they are not simply substituting for private investment that would have happened anyway. Indeed, the ambition should go beyond merely 'not substituting for investment that would have happened anyway', and towards 'catalysing greater private investment'. The PuFins are already striving for this, and the BBB, the NWF and the NHB have targets to ensure that every £1 they invest will attract additional private investment. The NHB, for example, hopes to use its £16 billion capacity to attract a matching £53 billion in private investment over 10 years. The NWF, meanwhile, hopes that investing its £27.8 billion capacity might draw in an additional £70 billion from the private sector.

Second, particular PuFins should only be expanded if there is evidence of sufficient demand for support from investment projects with adequate returns. Amid many competing pressures on public expenditure, it would be folly to ramp up resources for an institution that was struggling to invest the resources it already has.

Finally, Andy Burnham should satisfy himself that the broad benefits of extra investments in illiquid financial assets are sufficient to justify the debt-interest costs (particularly short-term) that we've highlighted.

If he does expand PuFins, then the NWF should come first. It is a well-established body that can be readily expanded. It plays a critical role investing in capital-intensive projects, which can boost growth and accelerate our energy transition. The Starmer Government has trumpeted a £5.8 billion boost to the NWF's capacity, but this barely kept pace with inflation, leaving it little larger in real terms than the UKIB was in 2021, despite a far wider remit.

There is strong reason to believe that an expanded NWF can be used to satisfy unmet investment demand. It remains a much smaller investor than the European Investment Bank, the body the UKIB (the NWF's predecessor) was established to replace. In the decade since the 2016 referendum, the UK has lost out on over £80 billion worth of investment in real terms, relative to if it had maintained the average share of GDP the EIB invested in the UK in the five years to 2016. The expansion of the NWF at the 2025 Spending Review has not done enough to fill that gap. The NWF is still expected to invest 70 per cent less than would be invested had the relative scale of the EIB's pre-referendum operations applied over the next five years to 2030-31. That is a cumulative real shortfall of £30 billion.

Ramping up the NWF's capacity over five years to match the 0.27 per cent of GDP which the EIB was investing, pre-2016, would mean boosting NWF's investments to £8.8 billion in 2030-31 and cumulatively to £28.5 billion in real terms. The extra borrowing required would directly cost around £400 million in annual debt interest after three years. But the taxpayer stands to acquire assets that generate a return. Indeed, the NWF received £70 million in interest on its loan assets in the last financial year (although a full picture of its returns is yet to emerge).

One thing Burnham should resist is allowing PuFins to issue their own bonds. Doing so would ultimately cost the public more for each £1 invested, as the UK government itself can issue gilts more cheaply. The German and French state development banks, the Kreditanstalt für Wiederaufbau and Bpifrance, are both well-established organisations which issue sovereign-grade (AAA) bonds, and yet their bonds carry a premium of around 0.5 percentage points. If the entire £45.9 billion loan and equity capacity of the NWF, BBB and NHB were paid for by issuing their own bonds at a similar premium to their German and French cousins, this would add £230 million in borrowing costs to what the Government would pay (a 10 per cent increase in cost). And unlike their French and German cousins, if British PuFins were to pay this premium, this would not result in more favourable accounting treatment. Burnham must not ask the PuFins to stand on their own two feet, but must instead put his administration squarely behind them.

What are the UK's public financial institutions?

Over little more than a decade, successive governments have created, and repeatedly reshaped, a group of institutions that put public money to work in the private sector. These are the country's public financial institutions, the affectionately nicknamed 'PuFins'.

To understand what the PuFins do, it helps to start with what they do not do. When people think of public investment, they typically picture conventional capital spending: the state paying to build roads, schools and hospitals, and owning the physical assets that result. PuFins play a different role. They invest financially in private sector assets: loans that are due to be repaid, equity stakes in companies, and guarantees that stand behind private lending. Public money deployed this way is not spent in the ordinary sense – much of it is expected to flow back, often with a return. And the aim is not for the state to deliver projects itself, but to finance private activity that would not otherwise take place. Further explanation of what these institutions actually are, and the financial transactions they undertake, is provided in Box 1.

BOX 1: **What is a 'PuFin' and what are 'financial transactions'?**

Since taking office, the Starmer Government has formally designated six public financial institutions.

- British Business Bank plc,
- British International Investment plc,
- National Wealth Fund Ltd,
- UK Export Finance (the Export Credits Guarantee Department, to give its legal name),
- The Student Loans Company,
- National Housing Bank Ltd.

Most of these were pre-existing bodies, except for the National Housing Bank (NHB). These six make up the organisations that HMT judges to have the expertise, institutional structures and models required for managing large-scale, high-risk or complex financial transactions, as described in the Financial Transactions Control Framework.[1] A seventh organisation – Great British Energy – may be designated in future. We provide more detail on some of these later in this note.

Financial transactions are investments in financial assets, such as loans, equity stakes in private companies, or guarantees (essentially insurance). This means the public sector finances a private organisation (which could be a company or an investment fund) to invest in, own and control the eventual capital stock created.[2] Financial

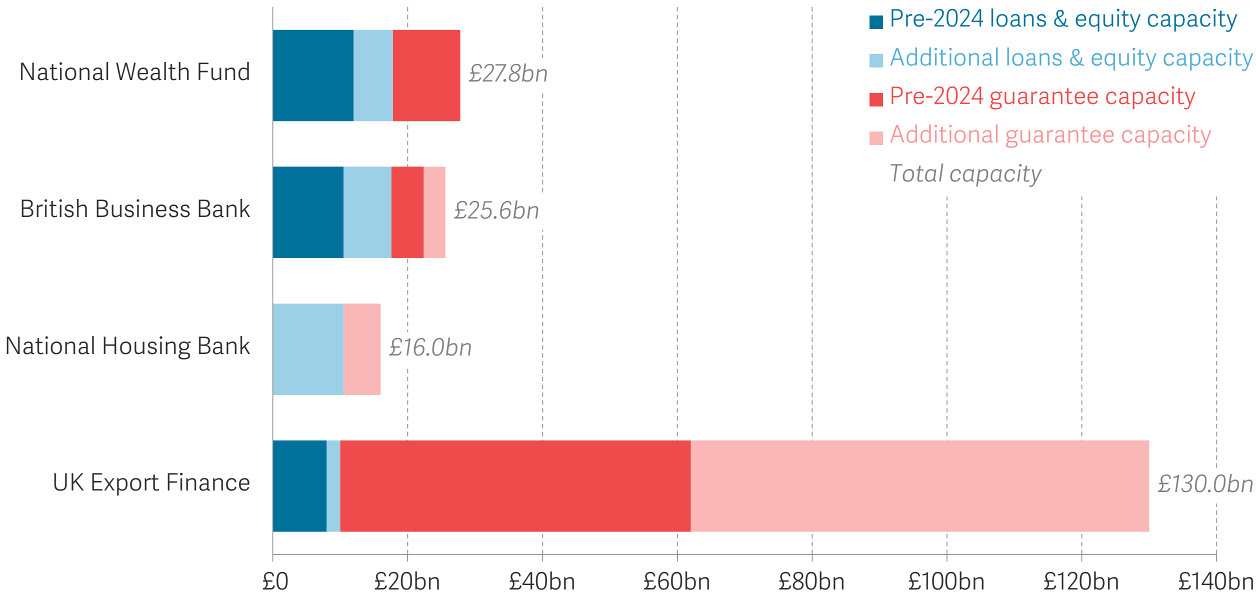
1 HM Treasury, Financial Transaction Control Framework, published October 2024, updated June 2026.
2 Paragraph 1.3, Office for Budget Responsibility, Discussion Paper No.5: Public Investment and Potential Output, August 2024.

transactions are distinct from public direct investment into non-financial assets (what economic statisticians call public sector gross fixed capital formation), such as real estate, infrastructure or intangible assets (such as those created by research and development).

The arrival of the new Prime Minister Andy Burnham with ambitions to increase investment has reignited interest in how this can be done without increasing taxes or breaking the current fiscal rules. As we argue in this note, PuFins should be part of the answer here.[3] But even before this change of leadership, the Labour Government had been expanding these institutions, increasing the total balance sheet capacity of four (out of six) PuFins – the British Business Bank (BBB), National Wealth Fund (NWF), UK Export Finance and the newly created National Housing Bank (NHB) – by more than £100 billion, to nearly £200 billion (as shown in Figure 1).[4]

FIGURE 1: **Four public financial institutions have a £200 billion wingspan**

Financial capacity of the National Wealth Fund, British Business Bank, National Housing Bank, and UK Export Finance, by Parliament and finance type: UK



NOTES: Nominal figures. The bodies are ordered by the size of their on-balance sheet loans and equity capacity, the most relevant factor for the public sector balance sheet (guarantees generally remain off-balance sheet until crystallised). UK Export Finance's guarantees include an additional £50 billion announced with the Defence Investment Plan, which we have allocated entirely to guarantees in the absence of detailed information on the breakdown between loans and guarantees.
SOURCE: RF analysis of Table 4.1, HM Treasury, Spending Review 2025, 30 June 2025; British Business Bank, Five-year Strategic Plan: Fuelling Ambition, Driving Growth, November 2025; UK Export Finance, UKEF launches £50 billion defence export fund to back British defence industry, 30 June 2026.

3 He has talked about delivering "the biggest council house building programme since the post-war period" and "decent infrastructure in all parts of the UK". Quotes from Andy Burnham MP, transcription in M Pell, Andy Burnham's speech in full as he promises to give UK 'new direction', Manchester Evening News, 29 June 2026, accessed 4 July 2026. See also: J Williams et al., Burnham aims to boost social housing if he becomes prime minister, Financial Times, 5 June 2025; K Stacey, Burnham adviser calls for billions of pounds in borrowing for infrastructure, The Guardian, 23 June 2026.

4 Financial capacity is a limit and represents commitments already made and future commitments. For guarantees, it refers to the maximum aggregate loss, or exposure, the guarantor can expose itself to.

The role of the PuFins has evolved and grown since Brexit, responding to the need for a larger role for government in boosting overall UK investment. Several factors lie behind this.

- The UK's decision to leave the EU and with it the European Investment Bank (EIB), one of the world's largest financial institutions jointly owned by the EU Member States. We explore in Box 3 how the EIB funding in the UK evaporated following the 2016 referendum, and its direct implications for the UK public investment landscape.
- A renewed focus on industrial policy to better develop and retain technology incubated in the UK. The UK's most recent industrial strategy set out how the PuFins were being harnessed and allocated more capital to boost investment into priority sectors.[5]
- A new focus on investment in security and dual-use technologies. A growing share of public investment is now being channelled into defence budgets following the 2025 Spending Review and recent Defence Investment Plan: £1.77 in every £10 of capital spending (excluding financial transactions) went on defence in 2023-24 which by 2029-30 will be £2.46 – placing pressure on non-defence investment budgets.[6] The National Wealth Fund, British Business Bank, and the National Security Strategic Investment Fund all have remits to at least consider investments in defence technologies as part of the Industrial Strategy.
- A greater recognition of the need to get out of a low-investment equilibrium.[7] In the four decades to 2025, total fixed investment in the UK averaged 19 per cent of GDP, the lowest in the G7.[8] As we have argued in previous work, virtually all of the UK's productivity gap with France is explained by French workers having more capital.[9] Public underinvestment has been part of that problem – with public investment both too low (the average advanced OECD country invested around 55 per cent more between 1995 and 2025) and too volatile.[10]

In this note, we explain how the Starmer Government expanded and reformed the public financial institutions and how it has attempted to improve their collective impact through greater coordination of their objectives and operations. We

5 Department for Business and Trade, The UK's Modern Industrial Strategy, June 2025.
6 E Christensen et al., Mountain climbing: Making progress on the UK's growth policy challenge, Resolution Foundation, January 2026. https://doi.org/10.63492/ntdl6708; R Curtice, Andy plays the unlucky DIP, Resolution Foundation, July 2026.
7 R Reeves, Mais Lecture 2024, March 2024.
8 RF analysis of investment. OECD, Investment (GFCF), accessed 15 July 2025.
9 Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.
10 RF analysis of general government investment. Sources: OECD, Investment (GFCF), accessed 15 July 2025; F Odamtten & J Smith, Cutting the cuts: How the public sector can play its part in ending the UK's low-investment rut, Resolution Foundation, March 2023

subsequently focus on the roles and scale of three bodies – the BBB, NWF and NHB – who are central to this landscape and ambitions to boost investment.

We explore how the new fiscal framework under the Starmer Government unlocked the use of financial transactions to boost investment but exposes the public sector balance sheet to a greater level of risk. This includes the risk of investments not paying off, and from 'statistical classification risk'. The latter is the risk that the balance sheets of private sector entities receiving public investment are reclassified onto the public sector balance sheet because they are deemed controlled by the public sector, and in doing so raising net financial debt.

We set out how the NWF should be expanded to unlock billions of investment over the next five years to begin to tackle the UK's low rate of investment, which has had a deleterious impact on the UK's productivity, growth and living standards over the past 40 years. Raising the NWF's level of investment to match the European Investment Bank's pre-referendum level of investment in the UK would increase the NWF's annual investment to £8.8 billion by 2030-31, and £28.5 billion over the next five years in real terms. We estimate the costs of doing so to be £400 million in additional debt costs after three years – the crucial year for the Government's current budget rule – though this would be partially offset by income earned on the additional investments. Finally, we explain the Government should continue to resist calls to allow the PuFins to issue their own bonds.

The PuFin landscape is complex

Understanding the public investment landscape poses challenges to even engaged observers.[11] As Liam Byrne MP, Chair of the Business and Trade Committee, remarked in April last year: "We have tried to draw a picture of it today and it defeated us".[12] Figure 2 attempts this, showing the PuFins alongside a selection of related public bodies performing similar investment activities, grant spending activities, or other supportive functions.[13] This includes public organisations that also invest in similar ways, but are not currently designated as PuFins, such as the Scottish National Investment Bank.[14] It also includes the parent organisations, such as Homes England, which operates alongside the National Housing Bank, and other public organisations that offer a hybrid

11 The Government has published an explainer of the UK public investment landscape, see: HM Treasury, An introduction to the UK public investment landscape, October 2025.
12 Business and Trade Committee, Oral evidence: Industrial strategy, HC 727, 3.15pm Session, 29 April 2025.
13 Public investment is carried out by many other departments and bodies across the public sector. These are not in Figure 1, which shows only those bodies most closely linked to the public financial institutions discussed in this report.
14 The Scottish Government has indicated it intends to seek PuFin designation for the Scottish National Investment Bank. Economy and Fair Work Committee, Future Operation of SNIB: Letter from the Director-General Economy to the Convener, March 2026.

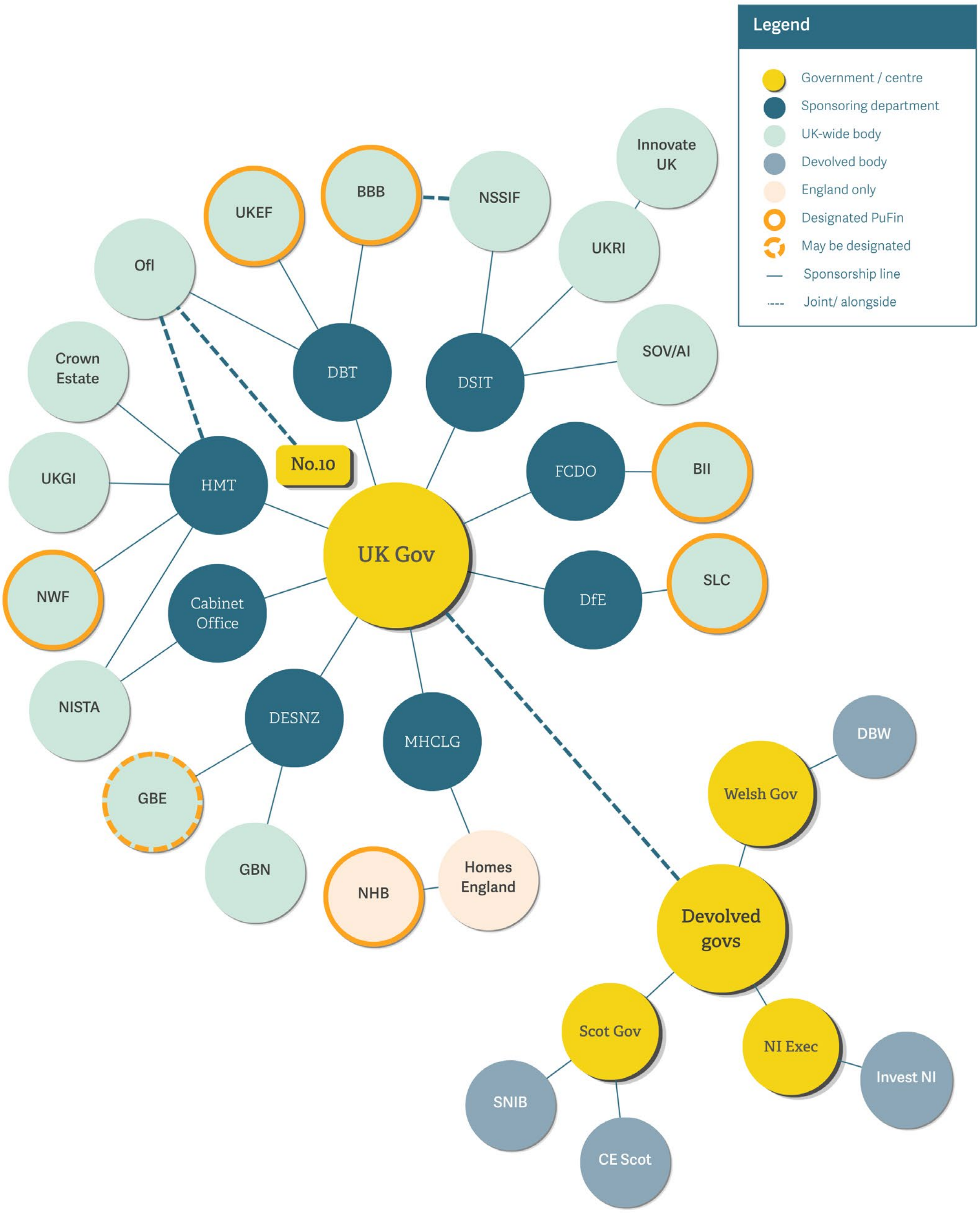
of loans and capital grants, such as Innovate UK.[15] It also covers bodies that offer auxiliary services, such as the Office for Investment, which offers concierge services for domestic and international investors to the UK; UK Government Investments, which acts as HMG's shareholder representative and advises on matters of corporate finance and financial transactions; and the National Infrastructure and Service Transformation Authority (NISTA), which oversees and delivers the Government's Infrastructure Strategy.[16]

15 A capital grant differs from a financial transaction (a loan or equity investment) in that it creates no financial claim: the recipient is not expected to repay principal or interest. A grant scores in full in public sector net borrowing, whereas a financial transaction does not, since the asset acquired nets against the financing used to fund it — only the expected-loss element scores. Grants are appropriate where the intervention is intended as an outright subsidy with no expected return; financial transactions are used where a return is expected, with any concessional element treated as a subsidy.

16 Office for Investment, About Us, accessed 2 July 2026; UK Government Investments, What we do, accessed 2 July 2026; National Infrastructure and Service Transformation Authority, About Us, accessed 15 July 2026.

FIGURE 2: **We drew the public financial investment landscape**

The UK's public financial institutions, their sponsoring departments, and other associated public investment bodies, July 2026



Key

BBB British Business Bank
BII British International Investment
GBE Great British Energy
GBN Great British Nuclear
NHB National Housing Bank
NSSIF National Security Strategic Investment Fund
NWF National Wealth Fund
OfI Office for Investment (HMT/DBT/No.10 joint)
SLC Student Loans Company
Sovereign AI
UKEF UK Export Finance
UKGI UK Government Investments
UKRI UK Research and Innovation
CE Scot Crown Estate Scotland
DBW Development Bank of Wales
Invest NI Invest Northern Ireland
SNIB Scottish National Investment Bank

NOTES: This graphic has been adapted from HMT's 'An introduction to the UK public investment landscape', which provides an overview of the "key institutions that provide support and finance to businesses, investors, local government bodies and devolved administrations". We have added BII and the SLC, since they are designated PuFins, as well as NSSIF and SOV/AI, which we refer to in this paper. A wide range of public institutions deliver or support investment in the UK – this graphic is by no means exhaustive. The illustration emphasises the designated public financial institutions and other bodies whose activities we deem to be highly similar or complementary. Office for Investment is officially part of DBT but works jointly between DBT, HMT and the Prime Minister's Office.
SOURCE: RF graphic, adapted from HM Treasury, An introduction to the UK public investment landscape, 21 October 2025.

Although they may be separate entities, the activities of some PuFins and other related bodies are highly complementary and some groupings can be viewed as forming smaller ecosystems of their own.

For example, one cluster focuses on innovation and growth, supporting innovative companies on a rising escalator from early-stage start-up through to scale-up and beyond. A start-up company may receive support from one of UK Research and Innovation's research councils to develop a nascent technology and subsequently be helped by Innovate UK with its early stages of commercialisation. Sovereign AI and the National Security Strategic Investment Fund also invest directly in companies with specific early-stage technologies. After that, commercial funding may become available. The British Business Bank focuses on financing companies at this scale-up stage: it can act as an anchor investor in an investment fund which takes a stake in the new company, or invest directly in the company. The firm, now grown, may turn to UK Export Finance, which provides support to exporters, typically more mature companies, primarily by guaranteeing they will be paid even if their overseas customers fail to do so.

A second cluster focuses on infrastructure investment, typically investing in more capital-intensive projects and sectors than the growth cluster, such as energy and transport, with a stronger interest in place-based investment. This cluster includes the National Wealth Fund, Great British Energy and Great British Energy – Nuclear; the devolved governments' policy banks; and the Crown Estate. Homes England and its subsidiary the National Housing Bank sit on the perimeter of this system, where the two bodies share an interest in the infrastructure that will support housebuilding.

The remaining two PuFins are the Student Loans Company (SLC) and British International Investment (BII). The SLC administers student loans, and its portfolio is the largest of the PuFins, with £151 billion in loans, accounting for 74 per cent of the total value of the government's loan and equity portfolio as of March 2025.[17] BII makes its investments overseas, with an explicit development focus.[18]

Coordinating the various bodies has been a key task for the government

Seen from the perspective of a firm seeking investment, or an investor, the sheer number of public bodies (as shown in Figure 2) combined with a variety of frequently overlapping remits and schemes, creates a challenging landscape to navigate. Industry body TheCityUK described the landscape as "fragmented", while former NWF CEO John Flint warned of a "proliferation of subscale public financial institutions" all solving the

17 UK Government Investments, Financial Investment Report 2025, November 2025.
18 British International Investment, About Us, accessed 14 July 2026.

same challenges – recruiting staff, establishing corporate systems, and managing the risks involved with running a bank.[19]

The question of greater consolidation has been raised, including by the Treasury Committee, which asked HM Treasury to examine the case for a BBB-NWF merger.[20] And more recently, the International Monetary Fund recommended consolidating public financial institutions (without material disruption) to reduce such fragmentation.[21]

The Government has, so far, rejected such calls for consolidation. HMT's reluctance stems in part from the view that mergers – which involve managing a significant change project – would distract institutions from delivering investment more quickly. Moreover, the UK is not alone in having a relatively fragmented landscape; as we discuss in Box 2, Canada has a remarkably similar set of institutions.

BOX 2: Alternative models and the pros and cons of comparing them

Most advanced economies operate long-established public financial institutions. Germany, France, and Canada offer useful reference points. Each embodies a different model that can help answer the questions the UK is wrestling with: how many institutions, how broad a mandate, and how should they be funded?

Germany: one big Federal bank, multiple regional banks.

Germany relies on one large single institution, Kreditanstalt für Wiederaufbau (KfW). Founded in 1948, it is a broad-based development bank that spans SME financing, housing and energy retrofit, export and project finance, and overseas development. The vast institution has total assets of around €545 billion (£465 billion), which it raises itself by issuing roughly €70 billion of bonds a year. [22] It has an explicit guarantee from the Federal Republic (formalised around 2002) and a AAA rating (achieved only in the mid-1980s), making it one of the world's largest public issuers.[23]

Alongside the KfW sit 17 Förderbanks – regional promotional banks – which administer federal and state programmes, channel KfW funding to local borrowers, and run their own SME,

19 TheCityUK, Written Evidence to the Treasury Select Committee, April 2025; Treasury Committee, Oral evidence: National Wealth Fund, HC 806, July 2025.
20 Paragraph 42, Treasury Committee, National Wealth Fund - Twelfth Report of Session 2024–26, October 2025.
21 International Monetary Fund, United Kingdom: Staff Concluding Statement of the 2026 Article IV Mission, May 2026.
22 KfW Group, Financial Report 2024, March 2025 (total assets of €545.4 billion at end-2024; statutory Federal guarantee under §1a KfW Law). See also KfW, Financial statements 2024: KfW in a strong position as it enters 2025, 2025.
23 KfW, KfW by decade: Grown with Germany (founded 1948; triple-A rating and US-market entry from 1986); the explicit Federal guarantee was placed on a clear statutory footing following the German Government–European Commission understanding of 1 March 2002.

housing, and municipal infrastructure schemes. The largest, NRW.BANK, has a balance sheet of over €160 billion, larger than all the UK's public financial institutions combined.[24]

France: a two-tier structure.

France splits its infrastructure and housing investment and SME financing between a state financial holding, the Caisse des Dépôts (CDC), and the enterprise and investment bank arm that is jointly owned with the State, Bpifrance.[25] The CDC is also a major housing financier in its own right, pooling French households' tax-free Livret A savings to lend as long-term financing for social housing (it devoted €20.9 billion to this in 2024, financing 115,000 affordable homes, or over 40 per cent of France's new supply).[26] Bpifrance is multi-mandate with SME lending, innovation grants, equity investment and export insurance all in one body, akin to a combination of BBB and UK Export Finance. It has €94 billion (£80 billion) of total assets, with annual commitments of around €20 billion (£17 billion), or around 1 per cent of French GDP. Like KfW, it funds itself directly in capital markets.

Canada: a family of specialities.

Canada has the most similar structure to the UK, spreading the work across several corporations. The Business Development Bank of Canada (BDC) for SMEs; Export Development Canada (EDC) for trade; the Canada Infrastructure Bank (CIB) for infrastructure investment; and the Canada Mortgage and Housing Corporation (CMHC) for housing. These map almost one-for-one onto the BBB, UK Export Finance, NWF, and NHB. Yet each Canadian body is far larger than its UK counterpart relative to the size of the economy: the BDC's balance sheet is £29 billion, equivalent to around 1.6 per cent of Canadian GDP, roughly nine times that of the BBB; while the CIB's balance sheet is £9 billion or 0.4 per cent, five times larger than the NWF.[27]

Whether to consolidate like Germany and France or specialise like Canada merits consideration, but the more pressing question is how big the UK's PuFins should be, and how to fund that any expansion (a question we return to later). Different accounting standards, financial years, currencies and mandates make clean comparisons difficult, but the UK's institutions are the smallest among these four countries.

24 NRW.BANK, Financial Report 2024 (total assets €161.8 billion); Association of German Public Banks (VÖB), member institutions.
25 Bpifrance, 2024 business review, March 2025; ownership (49.2 per cent each, held by EPIC Bpifrance and Caisse des Dépôts) per Bpifrance, EPIC Bpifrance 2024 Annual Report, 2025.
26 Groupe Caisse des Dépôts, Caisse des Dépôts: robust 2024 results serving France's transformation, March 2025.
27 Business Development Bank of Canada, Annual Report 2025, September 2025; Canada Infrastructure Bank, Annual Report 2024–25, 2025. Business Development Bank of Canada, Annual Report 2024, and Canada Infrastructure Bank, Annual Report 2023-24 (total assets, financial years ending 31 March 2024); British Business Bank, Annual Report and Accounts 2024-25, and National Wealth Fund, Annual Report and Accounts 2024-2025, October 2025; Statistics Canada and ONS series YBHA (nominal GDP, 2024). GBP figures are RF conversions at ~0.58 GBP/CAD.

Instead of mergers, HMT has pursued greater coordination. First, the Government has issued strategic steers to several of the public financial institutions, which set out the granular objectives and priorities they should pursue. For example, while the BBB has been steered to invest across all eight Industrial Strategy sectors, NWF investment is channelled towards just three (clean energy, digital and technologies, and advanced manufacturing).[28] However, the eight sectors cover over a third of the economy, which risks diluting the impact of investment.

Second, the Government has brought together many of the PuFins and related bodies at senior and working levels to solve joint challenges and improve alignment through something called the Public Investment Roundtable. This has been used, for example, to socialise the technical experience of UK Export Finance and NWF using 'economic capital models' (financial risk management models similar to those used by commercial banks). These roundtables are also driving a "no wrong door" approach that seeks to improve referral processes between the PuFins and other bodies to support investors and projects struggling to navigate the complex landscape. Several strategic plans signpost the approach; for example, the BBB's plan points to stronger collaboration with Innovate UK, the NWF and UK Export Finance.[29] Innovate UK has also developed a concierge account management service, Velocity, designed to take high-potential businesses through the Innovate UK pipeline and then onwards to access greater funding, such as that provided by the BBB.[30]

Three PuFins sit at the centre of this landscape

At the centre of this complex PuFins landscape sit three bodies: the BBB, the NWF, and the NHB. Based on loan and equity capacity, these are the largest public financial institutions oriented towards domestic investment. Between them, they are now equipped with just short of £70 billion of financial capacity, almost double their £37 billion capacity in 2024 (though the NHB did not exist then). They have distinct, but complementary, investment priorities, supporting the Government's ambition to boost investment in high-growth firms, infrastructure and housing respectively. The priorities, total financial capacity and an estimated average annual investment flow of each are summarised in Table 1.

28 HM Treasury & Department for Business & Trade, Statement of strategic priorities to the British Business Bank, October 2025; HM Treasury, Statement of Strategic Priorities to the National Wealth Fund, March 2025. The NWF was also asked to "consider" investments into three more: defence, life sciences and creative industries.
29 British Business Bank, Five-year Strategic Plan: Fuelling Ambition, Driving Growth, November 2025.
30 Innovate UK, Innovate UK: turning breakthrough ideas into industry giants, March 2026.

TABLE 1: **The National Wealth Fund, British Business Bank and National Housing Bank in key metrics**

The National Wealth Fund, British Business Bank and the National Housing Bank's objectives, financial capacity and forecast annual loan and equity investments: UK.

Public Financial Institution	Priorities	Total capacity (£bn, nominal)			Forecast annual average investments (£bn, real terms)
		Loans & equity	Guarantees	Total	
British Business Bank (BBB)	Support SMEs across all sectors	17.6	8.0	25.6	2.4
National Wealth Fund (NWF)	Capital-intensive projects, growth & clean energy missions	17.8	10.0	27.8	2.6
National Housing Bank (NHB)	Support urban regeneration, building, or buying of homes	10.5	5.5	16.0	1.0
Total		45.9	23.5	69.4	6.0

NOTES: Forecast investments refer to loans and equity commitments. NWF assumes full utilisation of expanded capacity (£2.7 billion a year nominal); NHB assumes £5.1 billion capacity to 2029-30 deployed evenly. Deflated using the OBR's GDP deflator, rebased to 2025-26.
SOURCE: RF analysis of British Business Bank, Five-year Strategic Plan: Fuelling Ambition, Driving Growth, November 2025; National Wealth Fund, 'Unlocking the UK's Future: our Five-Year Strategic Plan to 2030/31', 28 January 2026; OBR, Balance sheet impacts of the 2025 Spending Review, Fiscal Risks And Sustainability Report, July 2025, which notes the NHB was allocated £5.1 billion of financial transactions over the five years 2025-26 to 2029-30; OBR, Economic and fiscal outlook, March 2026.

The British Business Bank

The British Business Bank is the UK's "economic development bank".[31] It exists to drive innovation and growth by promoting investment in smaller and high-performing businesses by supplying or encouraging greater funding for such companies as they

31 British Business Bank, Five-year Strategic Plan: Fuelling Ambition, Driving Growth, November 2025.

scale up, hoping that as a result they stay in the UK. In the decade since its launch, it has supported 11 per cent of UK equity deals, and those deals accounted for 15 per cent of all UK equity investment.[32]

The Bank's mission, and how it has operated to carry out its mission, has changed over time. Its original four objectives in 2014 focused on correcting market failures that hindered smaller businesses from accessing finance, including asymmetric information between providers and businesses. Lending to smaller businesses was particularly weak following the 2008 crisis, with the stock of small and medium enterprises showing four consecutive years of decline, and only 16 per cent of small firms seeking or renewing new finance facilities in the year to March 2014.[33] Two further objectives were added in 2018-19: to act as a centre of expertise on small business finance for Government, and to identify and help reduce regional imbalances in access to finance.[34]

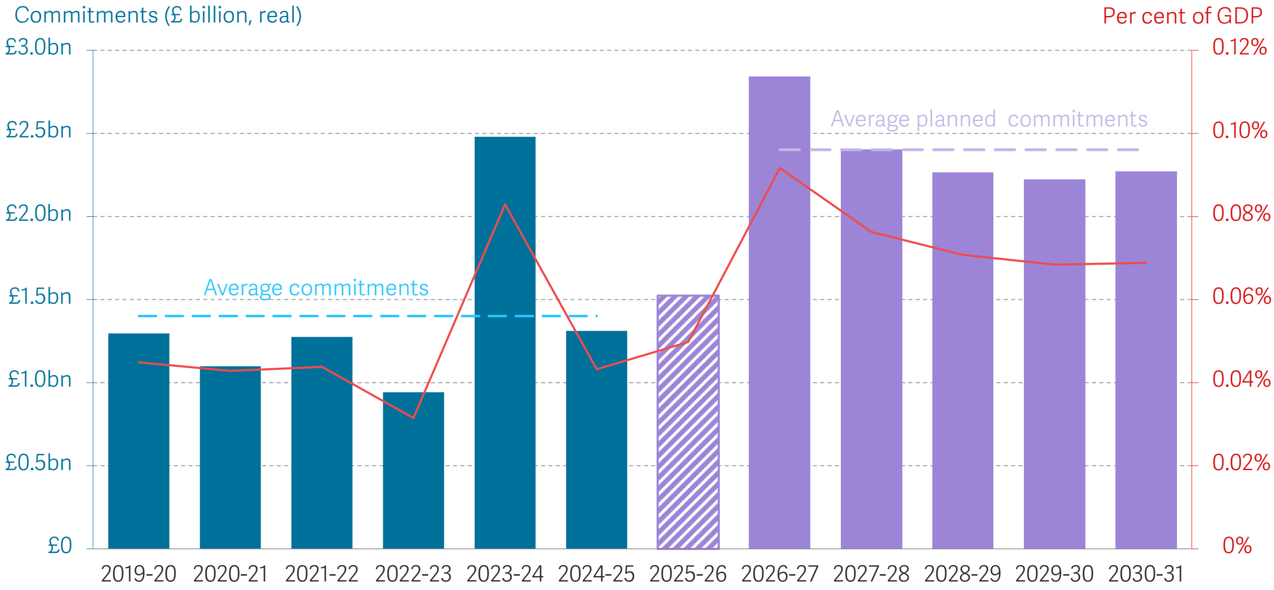
The Government's new steer to the BBB has streamlined these objectives and added two new dimensions: supporting Industrial Strategy priority sectors, and mobilising institutional capital at scale.[35] Pension funds are a crucial source of long-term, domestic institutional capital which can exert pressure on firms to increase their investment. But in recent decades pension schemes have moved away from investing in riskier assets for regulatory and structural reasons, with only a small fraction of assets held in UK equities.[36] The Government has attempted to boost pension scheme investment into unlisted assets through its Mansion House Accord agenda, which hopes for 5 per cent of pension schemes' portfolio investment to be in UK infrastructure, property and private equity by 2030.[37]

The BBB has an operational capacity of £25.6 billion, of which £17.6 billion is in loans and equity and £8 billion in guarantees, up from £10.5 billion and £4.8 billion respectively in 2024. This has triggered a step change in the BBB's planned annual commitments in real terms from £1.4 billion to approximately £2.4 billion between 2026-27 and 2030-31, or around 0.07 per cent of GDP (as shown in Figure 3).[38]

32 British Business Bank, The Power of 10: 10 Year Impact Report, January 2025.
33 British Business Bank, Strategic Plan 2014, June 2014.
34 National Audit Office, British Business Bank, January 2020.
35 HM Treasury & Department for Business & Trade, Statement of strategic priorities to the British Business Bank, October 2025.
36 Chapter Five: Investing in Britain's Future, Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.
37 HM Treasury, Torsten Bell MP & The Rt Hon Rachel Reeves MP, Pension schemes back British growth, May 2025.
38 However, commitments are not deployments and currently just under £4 billion sits undrawn. The shift towards direct investment may reduce the delay between commitments and deployments.

FIGURE 3: **The British Business Bank looks set to take a big step up**

British Business Bank, past and forecast annual commitments (£ billion, 2025-26 prices, and per cent of GDP): UK.



NOTES: Commitments in 2025/26 are imputed using a statement made in the BBB's Five-year Strategic Plan, specifically "a two-thirds rise in annual funded commitments to around £2.5bn".
SOURCE: RF analysis of British Business Bank, Annual Reports and Accounts, various, and Five-year Strategic Plan, "Fuelling Ambition, Driving Growth", 24 November 2025; OBR, Economic and Fiscal Outlook, March 2026.

In addition to an expanded capacity, the Government has adjusted the BBB operating model in four substantial ways. First, the BBB will increase the amount it invests directly in firms, diversifying from a model of investing primarily via funds and other lenders (such as the fund-of-funds Ventures programme in Figure 4).[39] Second, the Government has expanded its ticket sizes (the amount it may invest in each project) following the Spending Review and governance reforms, which authorised the BBB to write cheques exceeding £100 million, compared to a previous limit of around £10 to 15 million.[40] Third, the Government has let the BBB move away from delivering investment through fragmented, ring-fenced programme budgets where returns were remitted to HM Treasury, granting it a permanent capital footing and streamlining its loan and equity activities into just two business lines, allowing capital to be recycled into new

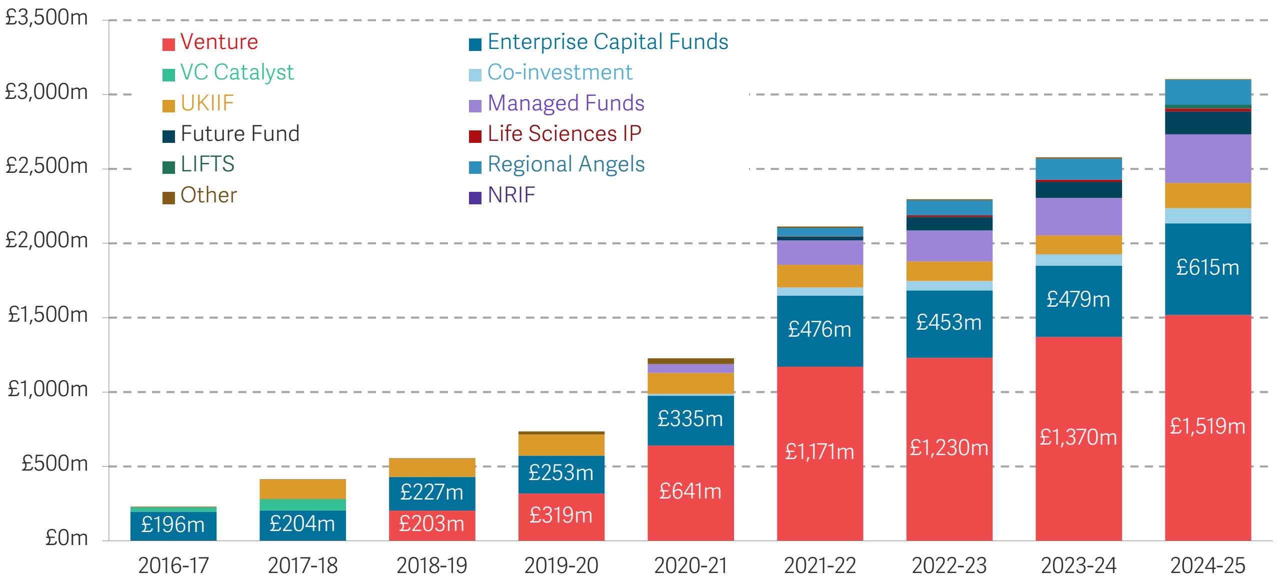
39 BBB notes "through the Venture/Venture Growth programme, [it] investments in commercially viable venture and venture growth capital funds … to support UK companies with high-growth potential to access the long-term financing they need to scale up." British Business Bank, Annual Report and Accounts 2025, July 2025.

40 In 2024, BBB CEO Louis Taylor provided evidence that "the biggest cheque size we can write at the moment as the Bank is about £10 million". He later gave evidence in 2025 that the BBB tended to write cheques "around £15 million", which limited the BBB's ability to continue to support growing firms and created a gap between the scale of BBB and the NWF investments. He suggested the BBB be authorised to write ticket sizes of up to £50 million. House of Lords Communications and Digital Committee, Corrected oral evidence: Scaling up: AI and creative tech, 3 December 2024; Business and Trade Committee, Oral evidence: Industrial strategy, HC 727, April 2025.

investments, and deployed more flexibly and more quickly.[41] And finally, it has launched a new vehicle for crowding in pension capital: the British Growth Partnership Fund.

FIGURE 4: **Equity programmes now drive the BBB's new commitments**

British Business Bank on-balance sheet equity portfolio by programme: UK



NOTES: NRIF refers to Nations and Regions Investment Fund. NRIF combines both equity and debt financing, half of which we have allocated as equity. Other programmes are categorised purely as equity or debt programmes.
SOURCE: RF analysis of investment portfolios disclosed in British Business Bank, Annual Reports and Accounts, various.

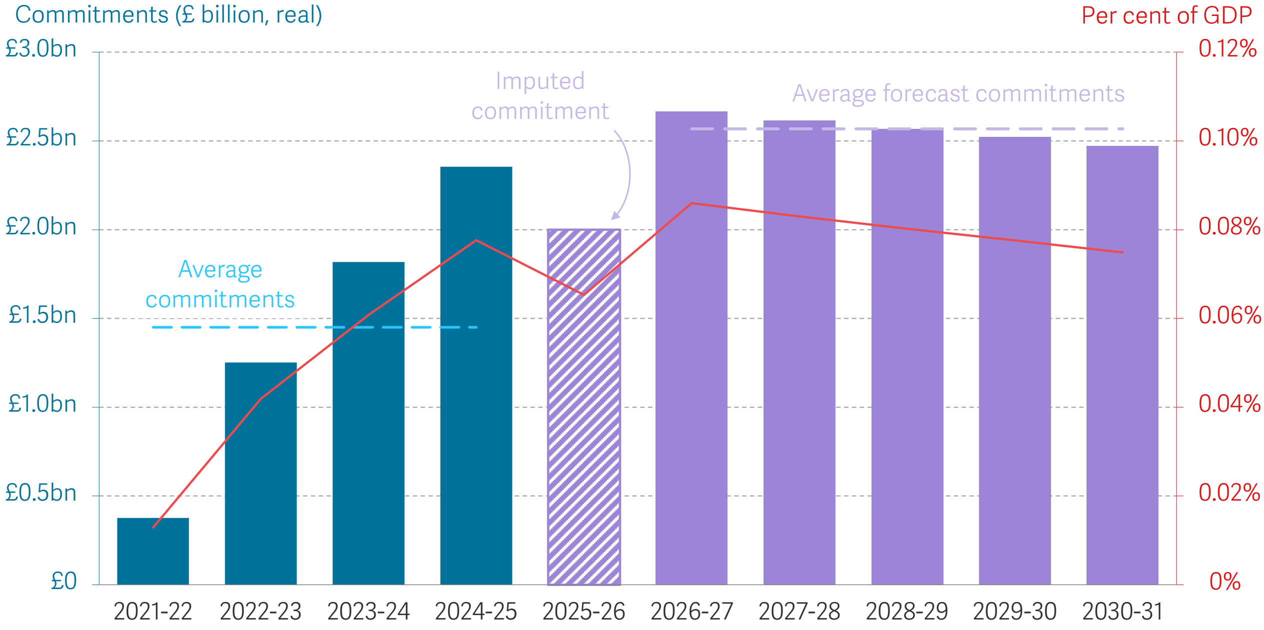
The National Wealth Fund

The National Wealth Fund (NWF) is a policy bank, wholly owned by HM Treasury.[42] NWF has been allocated a core capitalisation of £27.8 billion, comprised of £17.8 billion in loans and equity and £10 billion in guarantees.[43] The £27.8 billion pot is divided between £23.8 billion allocated for private sector banking and investment (including all £10 billion guarantees) and £4 billion allocated for lending to local authorities. As shown in Figure 5, if the NWF invests all its available loan and equity capacity by 2030-31, then its investments will increase in real terms by four-fifths (78 per cent) to £2.6 billion compared to £1.5 billion per year when first established as the UKIB.

41 The BBB notes that the shift away from ring-fenced programmes "will allow us to simplify international processes, streamline and speed up decision making", and targets of a one-third reduction in decision-making time. British Business Bank, Five-year Strategic Plan, "Fuelling Ambition, Driving Growth", November 2025
42 A 'policy bank' is a term used to describe many of the PuFIns, and can be used to describe any body established by the government to achieve specific policy goals through their financial activities.
43 HM Treasury, Spending Review 2025, June 2025.

FIGURE 5: **The National Wealth Fund is set to raise its annual investment by four-fifths**

National Wealth Fund (formerly UK Infrastructure Bank), past and forecast annual commitments (£ billion, 2025-26 prices, and per cent of GDP): UK



NOTES: Outturn commitments to 2024/25 (UK Infrastructure Bank before its October 2024 relaunch as the NWF); 2025/26 is a part-year estimate. Commitments from 2026/27 are an RF projection assuming full utilisation of the NWF's expanded £17.8 billion loans and equity capacity (£2.72 billion a year, nominal). Dashed lines show average annual commitments before the expansion (2021-22 to 2024-25) and over the forecast period (2026-27 to 2030-31). Per cent of GDP uses the OBR's March 2026 forecast of nominal GDP. Real term figures are rebased to 2025-26.
SOURCE: RF analysis of National Wealth Fund and UK Infrastructure Bank, Annual Report and Accounts, various; National Wealth Fund, 'Unlocking the UK's Future: our Five-Year Strategic Plan to 2030/31', 28 January 2026; OBR, Economic and fiscal outlook, March 2026.

Despite what its name suggests, the NWF is not a sovereign wealth fund, but perhaps better understood as the rebranded and expanded evolution of the UK Infrastructure Bank (UKIB).[44] It has a wider mission of investing in capital-intensive infrastructure, supply chains and businesses, and a set of more granular objectives to support the Government's growth and energy policy agenda, prioritising clean energy, digital and technologies, advanced manufacturing, and transport sectors.[45] This makes the NWF central to tackling Britain's chronically low levels of investment relative to other rich countries, as well as investing in the economic and energy infrastructure that Britain needs for the future.[46]

44 S Chivukula, National Wealth Fund, Institute for Government, February 2025.
45 National Wealth Fund, Unlocking the UK's Future: our Five-Year Strategic Plan to 2030/31, January 2026; HM Treasury, Statement of Strategic Priorities to the National Wealth Fund, March 2025.
46 Since 1995, Britain has ranked in the bottom third of OECD countries for total investment as a share of GDP. Sources: Z Leather, F Odamtten, C Pacitti & J Smith, Capital gains: Public investment priorities for the 2025 Spending Review, Resolution Foundation, April 2025 https://doi.org/10.63492/135lcek; Chapter Five: Investing in Britain's Future, Resolution Foundation & Centre for Economic Performance, LSE, Ending Stagnation: A New Economic Strategy for Britain, Resolution Foundation, December 2023.

The NWF's Five-Year Strategic Plan organises its activity around three ambitions: unlocking growth opportunities on the pathway to clean energy, place-based investments across the UK, and strengthening "sovereign and strategic capabilities".[47] It will pursue these objectives using a mix of financial products, but expects debt funding and guarantees to dominate, with equity investments reserved for catalytic investments at later-stage funding rounds. It is expected to write minimum cheques sized at £25 million for its private sector investments, but will typically invest over £100 million per investment. The NWF, like the BBB, has also signalled a shift away from backing externally managed funds and towards direct and co-investment where it believes its impact will be greater.[48]

Given its strong place-based focus and UK wide coverage, it aims to work closely with the devolved government investment bodies – the Scottish National Investment Bank (SNIB), Development Bank of Wales and Invest Northern Ireland – and has supported and partnered with Great British Energy (GBE) as the latter establishes itself. In October 2025, NWF invested £25.2 million equity alongside investments from GBE and SNIB in Pentland Floating Offshore Wind – a 92.5MW floating offshore wind farm off the north coast of Scotland.[49] NWF has even co-invested with the French policy bank, Bpifrance, in nuclear power station, Sizewell C.[50]

NWF also provides low-cost finance for local authority investment projects with a cheque size of at least £15 million. NWF lends to local authorities at gilt rate plus 40 basis points and is also developing a knowledge service for local government to share expertise on NWF's offer.[51] NWF has, for example, provided Orkney Islands Council with £62.1 million in loans to develop a Council-owned onshore wind farm, which the project forecasts will generate incomes of £120 million over 25 years.[52] Furthermore, the NWF offers local authorities advisory support through its Regional Project Accelerator, building investment capacity at both local and regional government levels, as part of which it has partnered with four Mayoral Strategic Authorities, including the Greater Manchester Combined Authority.[53]

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47 National Wealth Fund, Unlocking the UK's Future: our Five-Year Strategic Plan to 2030/31, 2026.
48 G Plimmer & A Armstrong, UK National Wealth Fund to prioritise direct investments over third-party funds, Financial Times, 16 December 2025; National Wealth Fund, National Wealth Fund, Unlocking the UK's Future: our Five-Year Strategic Plan to 2030/31, 2026.
49 National Wealth Fund, Pentland Floating Offshore Wind Farm: Factsheet, November 2025; Pentland Floating Offshore Wind Farm, Pentland Floating Offshore Wind Farm secures Contract for Difference (CfD), January 2026.
50 NWF manages £36.6 billion of loans to the nuclear project, while Bpifrance have invested £5bn of loans and £8.4bn equity. National Wealth Fund, Sizewell C: Factsheet, July 2025.
51 Some of this lending to local authorities displaces funding formerly provided through the Public Works Loan Board. Office for Budget Responsibility, UK Infrastructure Bank, Economic and Fiscal Outlook, March 2021; National Wealth Fund, Unlocking the UK's Future: our Five-Year Strategic Plan to 2030/31, January 2026.
52 NWF's factsheet notes the project benefits from changes to planning regulations supporting the development of onshore wind. Source: National Wealth Fund, National Wealth Fund backs Orkney Islands Council's community wind farm project, October 2025; National Wealth Fund, Quanterness Windfarm, Orkney Islands Council: Factsheet, October 2025; Orkney Community Wind Farms; National Wealth Fund backs Orkney Islands Council's community wind farm project, October 2025.
53 The four Mayoral Strategic Authorities: Greater Manchester Combined Authority, Glasgow City Region, West Midlands Combined Authority and West Yorkshire Combined Authority. National Wealth Fund, Regional Project Accelerator, accessed 15 July 2026.

BOX 3: A tale of six policy banks

The NWF is only the latest iteration of a UK infrastructure policy bank. It is directly descended from the UKIB, but the UKIB itself can be traced further back to two other policy banks: the European Investment Bank (EIB) and the Green Investment Bank (GIB).

The UKIB was set up directly in response to the loss of infrastructure investment from the EIB.[54] The UK received around £166 billion in financing from the EIB between 1973 and 2019, which peaked at around £7 billion a year in real terms (0.27 per cent of GDP) in the five years to 2016.[55] The value of this investment for the UK was clearly recognised, as was the need for a replacement after Brexit: HM Treasury's then-Permanent Secretary told the Public Accounts Committee in 2022 that "Treasury put a lot of effort into making sure that, as a shareholder of the European Investment Bank, we got much larger returns from it, and that came to pass. [...] We do not have access to the EIB, which is a key factor as to why we need [the UKIB]."[56]

Post Brexit, the UK had no equivalent national policy bank which could fill the gap left by the EIB, unlike many EU countries. The nearest alternative was the fledgling GIB, established in 2012.[57] GIB's focus was to finance green infrastructure projects to accelerate the energy transition. However, rather than scaled up to replace the EIB, the GIB was privatised in August 2017 at a low valuation, in order to remove it from the public sector balance sheet.[58] This means that, between June 2016 and August 2017, the UK lost two policy banks, creating a glaring gap in both investment and institutional capacity.

The UK needed a policy bank. The UKIB, launched in June 2021, was the eventual response; but, despite the five-year lead time, it was operationalised in a rush and without sufficient governance processes in place.[59] (Meanwhile, Wales and

54 S Hunsaker & P Jurkovic, The Investment Gap: the UK's efforts to replace the European Investment Bank, UK in a Changing Europe, September 2023.
55 Figures are expressed in real terms, reference year 2025. See: Office for Budget Responsibility, UK Infrastructure Bank, Economic and Fiscal Outlook, March 2021.
56 Q13, House of Commons Committee of Public Accounts, Oral Evidence: Creation of the UK Infrastructure Bank HC 45, 7 November 2022.
57 The GIB was established as a concession to Vince Cable, Secretary of State for Business, Innovation and Skills in the Conservative-Liberal Democrat coalition, who also established the British Business Bank. Institute for Government, Ministers Reflect – Vince Cable, July 2015.
58 See 11. House of Commons Committee of Public Accounts, Twenty-Fifth Report of Session 2017-19: The sale of the Green Investment Bank, March 2018.
59 The National Audit Office and Public Accounts Committee both criticised the speed at which the UKIB was established, which meant key corporate governance processes were not in place before UKIB started making deals. Sources: National Audit Office, The Creation of the UK Infrastructure Bank, July 2022; House of Commons Committee of Public Accounts, Thirty-Fourth Report of Session 2022-23: The Creation of the UK Infrastructure Bank, January 2023.

Scotland had established their own policy banks: the Development Bank of Wales (from 2017) and SNIB (from 2020).[60])

The NWF operates with a deliberately higher risk appetite than a private financial institution. The NWF's former CEO characterised it as allowing the NWF to take four times as much risk as a private bank and twice that of the EIB.[61]

The National Housing Bank (NHB)

The NHB is the UK's newest public financial institution, launched in April 2026. It is a subsidiary of Homes England, England's housing and regeneration agency, and NHB retains its parent's geographic focus on England.[62] Its purpose is to accelerate delivery of housebuilding, for instance by supporting 'shovel-ready' schemes, and the Government's New Towns agenda.

The UK has a widely accepted underinvestment problem in house building. In 2020, England had 434 dwellings per 1,000 people, lower than the OECD average (487), and comparably sized Denmark (497) and France (590).[63] The Competition and Markets Authority's Subsidy Advice Unit highlighted some specific market failures the NHB could address, including the under-provision of finance to smaller housing developers due to asymmetric information.[64]

The NHB has been capitalised with £16 billion, of which £10.5 billion is loans and equity capacity and the remaining £5.5 billion in guarantees.[65] These funds will sit alongside Homes England's existing £27 billion in grant capital for the Social and Affordable Homes Programme, and a further £3 billion grant for infrastructure and land, totalling a combined £46 billion housing platform.[66]

If the BBB and NWF are to be considered fully fledged PuFins, the NHB is a puffling by comparison. Its operations have only begun in earnest this year, despite its previous incarnation within Homes England. Based on the experience of creating the UKIB, the greatest constraint on its impact over the short term will be the need to scale its operations – e.g. recruitment, corporate governance, risk management systems.

60 The Scottish Government's Council of Economic Advisors noted in September 2017 the loss of European funding as a key reason to pursue a Scottish national promotional bank, leading to the creation of the SNIB. Sources: Government, UK's first Development Bank to open in October in Wales, July 2017; Scottish Government, Council of Economic Advisers: building our industrial strategy, September 2017; Scottish National Investment Bank; First Minister launches Scottish National Investment Bank; November 2020.
61 Q627, Business and Trade Committee, Oral evidence: Industrial strategy, HC 727, 29 April 2025.
62 Homes England is the trading name of The Homes and Communities Agency.
63 S Metcalfe, From the Ground up: how the government can build more homes, Institute for Government, August 2024.
64 Subsidy Advice Unit, Report on the proposed subsidy for capitalisation of the National Housing Bank, Competition and Markets Authority, February 2026.
65 Although this incorporated £4.8 billion in existing financial transactions allocated to MHCLG in 2026-27 to 2029-30.
66 Homes England & National Housing Bank; Homes England and National Housing Bank — investment prospectus 2026, March 2026.

To deploy this investment capacity, the NHB can offer seven core debt products, including low interest loans for registered providers of social and affordable homes.[67] It also offers long-term loans to meet upfront infrastructure needs. The NHB also offers three equity products where it aims to invest multiples of at least £50 million in vehicles delivering more than 3,000 homes, generally on commercial terms.[68]

However, what the NHB cannot do within the fiscal rules, at least not straightforwardly, is boost the supply of houses built and owned by the council, rather than broader social housing owned by housing associations. And it is not yet clear which of these, council or social homes, Andy Burnham's promise of "the biggest council house building programme since the post-war period" is referring to.[69]

There is a common challenge of crowding in private capital

The three PuFins all have goals to mobilise or 'crowd in' private capital. Crowding in investment means more than just co-investing with institutional capital bodies, such as pension schemes; it refers to situations where investment by a PuFin stimulates private investment that would not otherwise take place. Set out in its five-year strategic plan, the BBB aims to crowd in an additional £26 billion of private capital, a ratio of £2 of private capital for every £1 of BBB funded commitments, and the NWF targets a portfolio mobilisation of £3 of private capital for every £1 it invests, aiming to crowd in a total of £70 billion. Finally, the NHB aims to mobilise £53 billion of private investment, a ratio of £5 for every £1 of NHB's loan and equity investments.[70] Realising these ambitions depends heavily on delivering investment vehicles which institutional capital has the capacity and confidence to fund. For example, Pensions UK singles out the BBB's British Growth Partnership as an innovative and important step towards developing investment models which address the barriers that stand in the way of pension schemes investing at scale in UK venture capital.[71]

Despite this somewhat complex and fragmented landscape, it is clear the Government now has a range of institutions capable of delivering financial investment to meet varied public objectives. The question then becomes how big a role these organisations can

67 Homes England & National Housing Bank, Homes England and National Housing Bank — investment prospectus 2026, March 2026.
68 Homes England & National Housing Bank; Homes England and National Housing Bank — investment prospectus 2026, March 2026.
69 Quotes from Andy Burnham MP, transcription in M Pell, Andy Burnham's speech in full as he promises to give UK 'new direction', Manchester Evening News, 29 June 2026, accessed 4 July 2026; J Williams, Andy Burnham's council homes plan poses thorny delivery question, Financial Times, 3 July 2026.
70 We interpret this ratio applies to BBB's funded programmes, and excludes guarantees. British Business Bank, Five-year Strategic Plan: Fuelling Ambition, Driving Growth, November 2025. We interpret this ratio applies to the £23.8 billion of the NWF's capacity, including £10 billion of guarantees, allocated to private sector banking and investments. National Wealth Fund; National Wealth Fund: Mobilising Private Investment, October 2024; National Wealth Fund, Unlocking the UK's Future: our Five-Year Strategic Plan to 2030/31, January 2026. This appears to be derived from the claim that Homes England's investments of £9.6 billion mobilised £48 billion of private sector investment, and scaling this by NHB's £10.5 billion loan and equity capacity to obtain £52.5 billion. M Pennycook, Statement: National Housing Bank and new capital funding, June 2025.
71 Pensions UK, 2030 Ready: From Commitment to Deployment, May 2026.

play in boosting overall UK investment and supporting the Burnham Government's priorities. To answer that, we first look at the relationship between the tweaks to the Government's fiscal rules and the type of investment activity carried out by PuFins.

How the fiscal rules have unlocked PuFins' activity

The scope for expanding PuFins widened substantially with the change to the fiscal rules in the Starmer Government's October 2024 Budget. At this Budget, Rachel Reeves revised the fiscal framework and changed the primary measure of the UK's debt to Public Sector Net Financial Liabilities ('PSNFL' or 'net financial debt').

Compared to the previous measure, Public Sector Net Debt ('PSND') excluding the Bank of England, net financial debt recognises a broader range of assets and liabilities on the government's balance sheet.[72] Critically, net financial debt also counts illiquid financial assets, such as loans and equity assets.[73]

The Chancellor Rachel Reeves also set new fiscal rules, including the horizon over which the Government would assess whether it was keeping the national debt at sustainable levels.[74] The Government is now targeting falling net financial debt as a share of the economy by 2029-30, until 2029-30 becomes the third year of the forecast period; debt should then fall as a share of the economy by the third year of the rolling forecast period. Like the debt rules set by the previous government, this means that the trajectory of debt, not its level, is the targeted factor.

The switch to net financial debt had two consequences. The first was an immediate expansion of the Government's headroom on the debt rule by £21 billion, as PSNFL was forecast to fall faster than PSND ex Bank of England.[75] This one-off change enabled the Government to borrow more, and it chose to do so in order to significantly increase gross investment in non-financial assets (i.e. land, housebuilding, transport infrastructure, defence equipment, or hospitals) by £102 billion over 5 years, despite these assets not being captured within the measure of net financial debt.[76]

But the real gamechanger for PuFins was the recognition of government lending and equity investment to the private sector (or individuals) on the public sector balance

72 The inclusion or exclusion of the Bank of England is an important change but not one which particularly affects financial transactions, so we do not focus on it here. The move to PSNFL increased headroom by £12.4 billion just through the Bank of England's Asset Purchase Facility. OBR, Economic and Fiscal Outlook - October 2024, October 2024.

73 It also includes a wider range of liabilities, such as those held by funded public sector pension schemes, like the Local Government Pension Scheme, together with their financial assets Unfunded pension schemes are not measured by PSNFL but are costed in the Whole of Government Accounts. For a full explanation of what is captured within PSNFL relative to PSND measures, see ONS, Public sector net financial liabilities (PSNFL), October 2024.

74 HM Treasury, Charter for Budget Responsibility, January 2025.

75 C Aref-Adib et al., More, more, more, Resolution Foundation, October 2024. https://doi.org/10.63492/wif3707

76 Cumulative difference between the March and October 2024 forecasts for Public Sector Gross Investment (PSGI) in Capital Departmental Expenditure Limits (CDEL) between 2025-26 and 2029-30. March 2024's PSGI in CDEL figures are grown in line with nominal GDP for 2029-30. Sources: OBR, Economic and Fiscal Outlooks, March 2024 and October 2024; HM Treasury, Autumn Budget 2024, October 2024.

sheet, which reduced the constraints on the use of financial transactions. These typically become fiscally neutral within the new concept of net financial debt: if the Government issues £10 million in gilts in order to lend £10 million to the private sector, then in principle there is no impact on net financial debt.[77] In contrast, PSND would count only the liability, and would duly rise by £10 million. At the time of making the change, HM Treasury said that: "using a debt metric that does not recognise financial assets creates an incentive for government to forgo profitable investments".[78]

Changes to the fiscal rule leave the treatment of conventional capital spending unchanged: when the state invests directly in physical assets like housing or infrastructure, the cost scores against the fiscal rules just as it did before. So this asymmetry – where acquiring a physical asset does not improve net financial debt, but a financial one does – makes the PuFins an especially attractive way for the government to increase investment. Alongside this change, as we discussed above, the Starmer Government expanded the capacity of the BBB and NWF, which already housed expertise and structures for managing financial transactions, and established new bodies, like the NHB.

While the Government's debt rule now treats financial transactions more favourably than before (and more favourably than investments in physical capital), the second 'current budget balance' rule must still be considered. This rule states the current budget must be in surplus in 2029-30, until 2029-30 becomes the third year of the forecast period, after which the current budget must then remain in balance or in surplus from the third year of the rolling forecast periods. At time of writing, an additional £1 billion of borrowing would cost the Government around £50 million a year in debt interest, which must be covered by the current budget, although the government can offset this with the financial returns from the newly-acquired asset (e.g. the interest payments made by the private company on a loan, or the dividends on any shares acquired).

And since the current budget needs to be (at least) balanced just three years' ahead (previous governments had targeted a balanced current budget five years away), it is important to know exactly when returns on investment are received. Here, loans to companies score relatively well because they typically generate interest income over their whole lifetime, but equity investments in early-stage firms or capital-intensive projects may pay little or nothing in dividends at first, and promise only uncertain capital gains, perhaps deep into the future.

77 More accurately, the public financial institution holds the loan asset on its balance sheet and central government holds the gilt liability on its balance sheet, and these are subsequently consolidated within the public sector. If the market value of loans at issuance or equity at purchase is below the gilts issued (for example in the case of subsidised or concessionary loans), then the difference will appear as net financial debt.

78 HM Treasury, Autumn Budget 2024, October 2024.

The Government has sought to manage the risks involved with greater use of financial transactions

The revised debt rule has provided an opportunity for the Government to expand investment through financial transactions. But a greater use of financial transactions does mean increasing the level of risk on the government's balance sheet, because the value of its newly acquired financial assets isn't guaranteed. This means that the net financial debt may rise in the long-run if investments do not pay off.

However, these risks can be managed, and, compared to relying solely on grant spending, which must be cut repeatedly to balance the books, boosting investment using financial transactions is a significant improvement. In particular, just as it lifted the fiscal-rule-imposed constraints on the use of financial transactions, the Treasury also sought to place guardrails around their use, to prevent excessive risks. The Financial Transactions Control Framework (hereafter, 'the Framework') sets out the additional public spending controls to which the PuFins, and other government departments, are subject when carrying out financial transactions.[79] The Framework also sets out the requirement for designated public financial institutions to manage investment risks within their portfolio through an economic capital model.

The Framework's central principle is that financial investments should target returns that match or exceed the cost of government borrowing, improving the government's net financial debt position over time. Returns are assessed at the portfolio level rather than transaction by transaction, which allows individual investments to carry higher risk provided they are balanced against lower-risk investments elsewhere. Importantly, the Framework does permit exceptions: transactions can be deliberately loss-making where they serve policy aims and address market failures, with student loans being the clearest example.[80]

There are additional fiscal risks of public sector control

Beyond the very real risks that come from the financial performance of investments, expanding the use of financial transactions creates a further balance sheet risk, and one that can arise even if an investment is a resounding success: this is the 'classification risk'.[81] That is the risk that a private sector entity is reclassified into the public sector

79 Since our current Chief Executive had a substantial role in writing the Framework in her previous job, we will leave assessment of the Framework to others. The National Audit Office (NAO) has provided one assessment already; see: National Audit Office, Managing the government's financial investments: the Financial Transaction Control Framework, March 2026.

80 See Box C.1 within the Framework for an example. Early evidence on the level of return currently being generated is tentative: UK Government Investments estimated that the annual gross return in 2024-25 on a subsection of the Government's portfolio was 1.9 per cent. But this estimate should be treated as an experimental calculation, and should not be compared to current gilt rates, because investments were made when gilt yields were lower. This estimate, in UK Government Investment's first report examining these matters, covered British Business Bank, British International Investments, Homes England, multilateral development banks in which the UK has invested, National Wealth Fund, and UK Export Finance. UK Government Investments, Financial Investment Report 2025, November 2025.

81 OBR, UK Infrastructure Bank, Economic and Fiscal Outlook – March 2021, March 2021.

because of the scale of public sector investment it receives. Importantly for the fiscal rules, reclassification brings the entity's assets and liabilities onto the public sector balance sheet, and, although its financial assets will be netted off against its liabilities, the value of any fixed assets will not.

Classification risk hinges on the concept of 'control'. For the purposes of national accounting, the ONS asks whether the public sector possesses the ability, i.e. capacity, to determine general corporate policy.[82] This can include the ability to appoint boards or directors, set borrowing or financial conditions, or owns a majority stake in the company. 'Control' is therefore distinct from 'ownership', or from whether the public sector control risks, as we set out in Box 4.

BOX 4: **The separation of ownership and control (and risk)**

For the purposes of national accounting, 'ownership' is just one indicator of 'control', as is 'exposure to risk and reward'.

Two case studies show how 'control' can be decoupled from each:

1. Control versus ownership: Housing associations (registered providers of social housing) are privately owned, non-profit bodies. Yet in October 2015, the ONS reclassified English housing associations into the public sector, increasing Public Sector Net Debt (the debt target at the time) by £60 billion. This was because of the exercise of powers conferred by the Housing and Regeneration Act 2008, when the Government forced housing associations to cut social sector rents by 1 per cent for four years. Subsequently, the Government deliberately legislated to relinquish control, via the Housing and Planning Act 2016, and the ONS returned housing associations to the private sector in November 2017.[83]

2. Control versus risk: Letwin's Independent Review of Build Out in 2018 examined how to accelerate large-scale housebuilding. It recommended that local authorities use a development vehicle on large sites to bring in private capital through a 'non-recourse special purpose vehicle'. Non-recourse meant private investors would absorb the financial risk: if the investment vehicle failed, the investors had no claim on public money. However,

82 See 3.1.1, Office for National Statistics, UK economic statistics sector and transaction classifications: the classification process, accessed 5 July 2026.

83 Office for Budget Responsibility, Housing associations, classification changes and fiscal risks, Fiscal risks report July 2019.

Letwin was advised that due to the level of control exercised by the (public sector) local authority, the development vehicles may be classified as public sector entities.[84]

This 'classification risk' is not a flaw of national accounting; the problem is that classification carries powerful incentives for how PuFins and other public bodies choose to invest. For example, the Local Government Pension Scheme is a funded defined benefit pension scheme administered by local authorities, meaning its £400 billion of assets are classified as belonging to the public sector. If those assets are co-invested alongside a PuFin, then the ONS assesses their capital jointly as public sector investment for the purposes of the 'control' test.[85] To avoid the resulting vehicle becoming classified as publicly controlled, the PuFins and LGPS would have to cap their combined investment stake at a maximum of 49 per cent, something that risks deterring otherwise viable co-investments.[86]

A Burnham Government can use the PuFins to boost investment within the fiscal rules

The UK's recent history of low growth, low productivity, and flat living standards is partly the consequence of its low rate of investment, where we trail the rest of the G7. This is a legacy that will take real resources and many years to overcome, and not just the work of a single Budget, Chancellor or Parliament. Public underinvestment has been part of that problem, in part due to the incentives to cut investment under previous fiscal frameworks. Furthermore, the steady erosion of investment capacity – the ability to invest, not just investment itself – has augmented this problem.[87] Thankfully, Andy Burnham has recognised low investment as a central challenge: before entering office he pledged "decent infrastructure in all parts of the UK" and "the biggest council house building programme since the post-war period".[88]

PuFins offer a promising way to deal with these problems. Expanding their use can help the Government boost financial investment in the UK's most innovative firms and

84 HM Treasury & Ministry of Housing, Communities & Local Government, Independent review of build out: final report, October 2018.
85 This constraint is the product of two events, five years apart. First, the ONS changed how it measured the LGPS' balance sheet and moved from a "net" to "gross" presentation of public sector funded pension schemes in September 2019. This methodological choice was taken after extensive consultation and is unlikely to be reversed. It brought funded pension schemes' assets and liabilities into the public sector boundary, whereas only surpluses or deficits were measured previously, and increased PSNFL by £7.8 billion in 2018/19, reflecting non-financial assets on the schemes' balance sheets. Second, the fiscal rule change in Autumn Budget 2024 meant that the Government started placing more weight on its balance sheet, and therefore funded pension scheme assets. In combination, the two events unintentionally make it harder for PuFins to operate with the Local Government Pension Scheme, rather than enabling more investment. By contrast, unfunded public sector pension schemes have no recorded assets nor liabilities on the balance sheet, producing an asymmetric treatment. Sources: Office for National Statistics, Public Sector Finances, UK: June 2019, July 2019; Office for National Statistics, Public Sector Finances, UK: September 2019, October 2019.
86 Pensions UK, 2030 Ready: From Commitment to Deployment, May 2026.
87 F Odamtten & J Smith, Cutting the cuts: How the public sector can play its part in ending the UK's low-investment rut, Resolution Foundation, March 2023
88 Quotes from Andy Burnham MP, transcription in M Pell, Andy Burnham's speech in full as he promises to give UK 'new direction', Manchester Evening News, 29 June 2026, accessed 4 July 2026

industries, housing stock, exporters, and infrastructure, while keeping to the established fiscal rules which Burnham has pledged to maintain.

This is an opportunity worth seizing, but policy makers should be careful not overstate the role that PuFins can play. They certainly cannot help the Government sustain or ideally expand the public capital stock of social and economic infrastructure – roads, schools, hospitals, and so on – that are also crucial to living standards and growth.

The Government should allocate the NWF more resources

The National Wealth Fund stands out as the body on which the Government should first focus additional capital. A strong argument can be made that the NWF meets these three tests, devised by us, that the Government should hold itself to when choosing to expand capacity:

1. Financial transactions should (continue to) be 'additional', meaning that they complement, rather than displace, private sector investment.
2. There is sufficient unmet demand, or slack, for additional public sector investment. This means there are sufficient investment opportunities, which meet both the risk and return constraints the given PuFin (in this case the NWF) faces.
3. The fiscal consequences of any expansion, in particular, the additional impact on the cash requirement and any debt servicing cost implications will not be problematic or counterproductive (for example, they should not result in higher rates that could actually deter rather than crowd-in investment).

The NWF has a mandate to invest in capital-intensive projects, which promise clear economic benefits, with the sectors that NWF invests in (clean energy, advanced manufacturing, transport); that suggests that any activities are likely to be additional and highly complementary to business investment.[89] The NWF also appears to be underpowered: its current financial capacity has barely grown in the five years since the UKIB was established. In 2025, the Government said that its fiscal rules would encourage investment delivered through the NWF, and consequently raised NWF's total capacity by £5.8 billion.[90] But this uplift was only just above what was necessary to account for inflation: the NWF's £27.8 billion capacity today is only around 2 per cent higher in real terms than the £22 billion the UKIB started with in June 2021.[91] Yet the NWF's spending

89 Office for Budget Responsibility, The long-run impact of public investment on potential output: scenarios, Box 3.3, Economic and Fiscal Outlook, October 2024.

90 Depending on whether you count the reserved £1.5 billion (the Spending Review doesn't), this met Labour's manifesto commitment to increase the National Wealth Fund by £7.3 billion. Box 4.A and Table 4.1, HM Treasury, Spending Review 2025, June 2025; HM Treasury, National Wealth Fund: Mobilising Private Investment, October 2024; The Labour Party, Change – Labour Party Manifesto 2024, June 2024.

91 RF calculation using the OBR's GDP deflator, calendar-year basis. Source: OBR, Economic and Fiscal Outlook, March 2026.

envelope is now spread across a markedly wider remit spanning industrial strategy, transport, defence, and a longer list of priority sectors.

Moreover, the capacity of the NWF remains far below the level needed to replace lost EIB investment. Figure 6 shows the contributions since 1973 of the EIB and its subsidiary, the European Investment Fund, to the UK, against the combined commitments of the NWF, BBB, SNIB, and DBW, forecast to 2031.[92] This shows the UK has forgone £80 billion (in real terms) of cumulative EIB investment between 2016 and 2026; subtracting what the UKIB/NWF, SNIB and DBW have invested over the same period leaves a net shortfall of £70 billion. If the NWF reaches its full loan and equity capacity by 2030-31, its average annual commitments may amount to around £2.6 billion – under 0.1 per cent of GDP – and £13 billion cumulatively in the next five years in real terms.[93] That's still just 30 per cent of the £42.7 billion the EIB would have invested over the same period based on its previous level of activities, leaving a £30 billion cumulative shortfall.

The BBB has fully filled the gap left by the European Investment Fund (EIF), the EIB Group's SME arm. Before the referendum, the EIF was the single largest investor in the UK venture capital market, supplying over a third of the capital raised in the UK between 2011 and 2015.[94] Its financing to the UK peaked at around £0.9 billion in 2016 (in real terms), but the BBB has out-invested that every year since 2019, committing £2.5 billion in 2023-24 and £1.3 billion in 2024-25. The BBB's headstart on the UKIB/NWF helps explains this success: it started operations before Brexit cut UK firms off from the EIB, and in 2017 its mandate was expanded to include the £2.5 billion British Patient Capital programme, explicitly designed to fill the space previously filled by the EIF.[95]

The EIB is also not the only benchmark in town. As discussed in Box 3, the NWF's French and German counterparts each invest around 0.8 and 2.6 per cent of national GDP respectively.[96] On top of this domestic investment, both France and Germany also received a similar level of EIB investment as the UK did, averaging 0.33 and 0.23 per cent of GDP from 2012-2016. Combined, the gap is stark: to match Germany's total effort, the UK would need to invest 14 times its current level, while even matching France would

92 We consider the latter the most comparable set of institutions given their focus on infrastructure investment, or venture capital and scale-up financing in the EIF's and BBB's cases. British Business Bank, Annual Report and Accounts 2025, July 2025.

93 The NWF has not published forecasts of its annual commitments over the next five years, so we have calculated the maximum level of average net investment to maximise their balance sheet capacity of £17.8 billion, accounting for their existing assets. The total financial capacity includes £10 billion of guarantees, which don't sit on balance sheet. Calculations use the OBR's latest real GDP forecast. Source: RF analysis of National Wealth Fund, Annual Report and Accounts 2024-2025, October 2025, and National Wealth Fund, Unlocking the UK's Future: our Five-Year Strategic Plan to 2030/31, January 2026, OBR, Economic and Fiscal Outlook, March 2026.

94 S Hunsaker & P Jurkovic, The Investment Gap: The UK's efforts to replace the European Investment Bank, UK in a Changing Europe, August 2023.

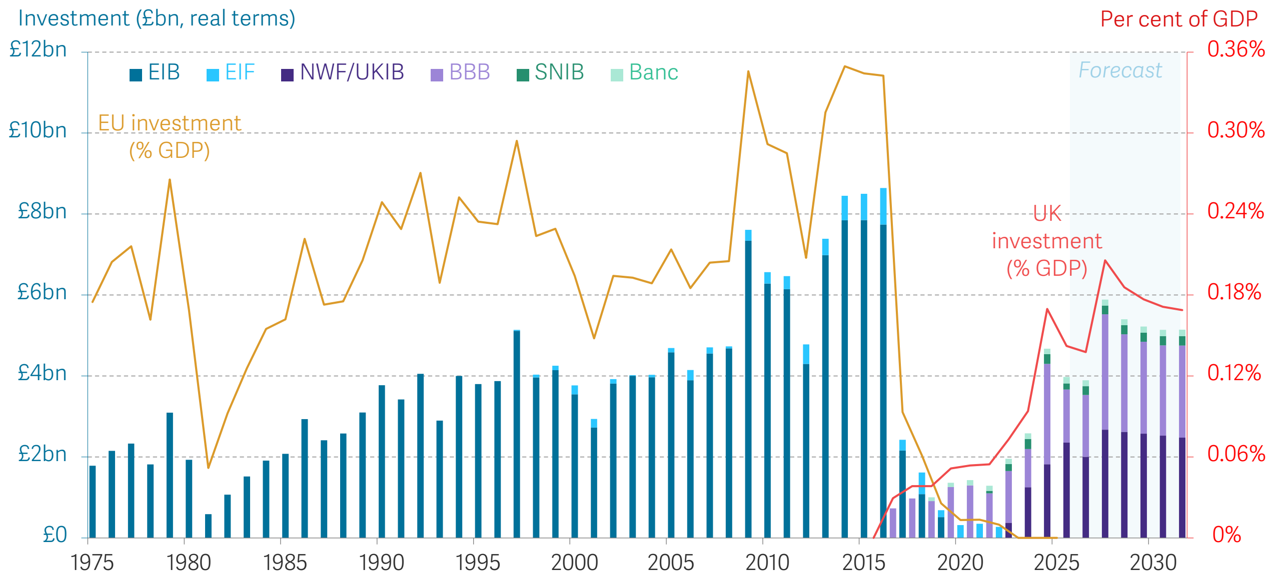
95 HM Treasury, Financing growth in innovative firms: consultation response, November 2017; British Patient Capital launched June 2018.

96 A King & D Jameson, Designing a UK fiscal framework fit for the climate challenge, Centre for Economic Transition Expertise, July 2024. Table 6.1 looks only at SME funding. See KfW, Annual Review 2023, February 2024. Figure refers to KfW's domestic SME and retail promotional lending ("SME Bank and Private Clients" segment, €39.1 billion); KfW's total promotional business volume in 2023 was €111.3 billion. Bpifrance, 2024 Business Review, February 2025, and prior-year equivalents.

require nearly six times the UK's current £6 billion capacity.[97] Although the longevity of the EIB, KfW and Bpifrance will play a role in their scale (whether measured by total assets or annual investment flows), the Government should have no doubts about how far the UK is from the current frontier.

FIGURE 6: **The European Investment Bank put billions into the UK each year; the PuFins are only starting to fill the gap**

Real annual funding commitments, EU and UK institutions (£ billion, 2025-26 prices, and per cent of GDP): UK.



NOTES: EIB and EIF figures are annual signatures to UK projects by calendar year; UK institutions report by financial year, plotted against the calendar year in which the financial year ends. Figures reflect annual signatures (EIB, EIF), commitments (NWF/UKIB, BBB, SNIB) and investment (DBW); BBB figures are new commitments on a funded basis and exclude Covid-19 emergency loan schemes. Euro-denominated EIB and EIF signatures are converted to sterling at the annual average euro-sterling exchange rate in the year of signature. Figures are expressed in real terms by multiplying the investments' share of nominal GDP by real GDP. Pre-2008 figures are calculated using the ONS's nominal GDP series (YBHA) and real GDP series (AMBI), post-2008 using the OBR's historical and forecasts for calendar and fiscal years in the March 2026 Economic and Fiscal Outlook. From 2025-26 onwards, figures are forecasts: BBB commitments reflect its published five-year business plan; NWF commitments are an RF projection of full utilisation of its expanded capitalisation, not a published plan. The SNIB and the DBW nominal commitments are assumed to remain a constant share of nominal GDP – held at their average share between 2022-23 and 2024-25. This analysis builds on S Hunsaker & P Jurkovic, The investment gap: the UK's efforts to replace the European Investment Bank, UK in a Changing Europe, September 2023.
SOURCE: RF analysis of European Investment Bank, financed projects database; British Business Bank, Annual Report and Accounts, various, and Five-Year Business Plan, November 2025; National Wealth Fund, Annual Report and Accounts 2024-25; Scottish National Investment Bank, Annual Report and Accounts, various; Development Bank of Wales, Annual Report, various; OBR, Economic and fiscal outlook, March 2026; ONS, Gross Domestic Product (codes: YBHA, ABMI), May and June 2026.

Ramping up the NWF investment levels to match the nearly 0.27 per cent of GDP previously invested by the EIB by 2030-31 would mean investments in 2023 prices rising

97 RF analysis of European Investment Bank, financed projects database (signatures by year); ONS, series YBHA (UK nominal GDP); World Bank, World Development Indicators (France and Germany nominal GDP, current prices). Investment shares are calculated in each country's own currency.

to £8.8 billion in the final year and £28.5 billion cumulative investment, as shown in Figure 7. This would mean an additional £15.6 billion of investment, closing slightly more than half that gap of what the EIB might be expected to invest. In nominal terms, this would require raising the NWF's loans and equity financial capacity to nearly £35 billion, up from £17.8 billion today, almost doubling the NWF's size.

Increasing the total amount of investment the NWF can deliver could also mean increasing its capacity to engage in regional or place-based funds or projects, where boosting regional domestic investment and capability is a clear ambition of Andy Burnham's.[98] As noted above, the NWF has £4 billion allocated to local authority lending. It has also been directed towards supporting Mayoral Strategic Authorities' growth plans in support of the devolution agenda, and it invested £500 million in Manchester's Good Growth Fund.[99] Greater investment is needed to overcome the UK's city and regional disparities: our past analysis shows reducing Greater Manchester's productivity gap with London to 20 per cent (down from 35 per cent) would require around 15 per cent more (or around £30 billion) aggregate business capital.[100]

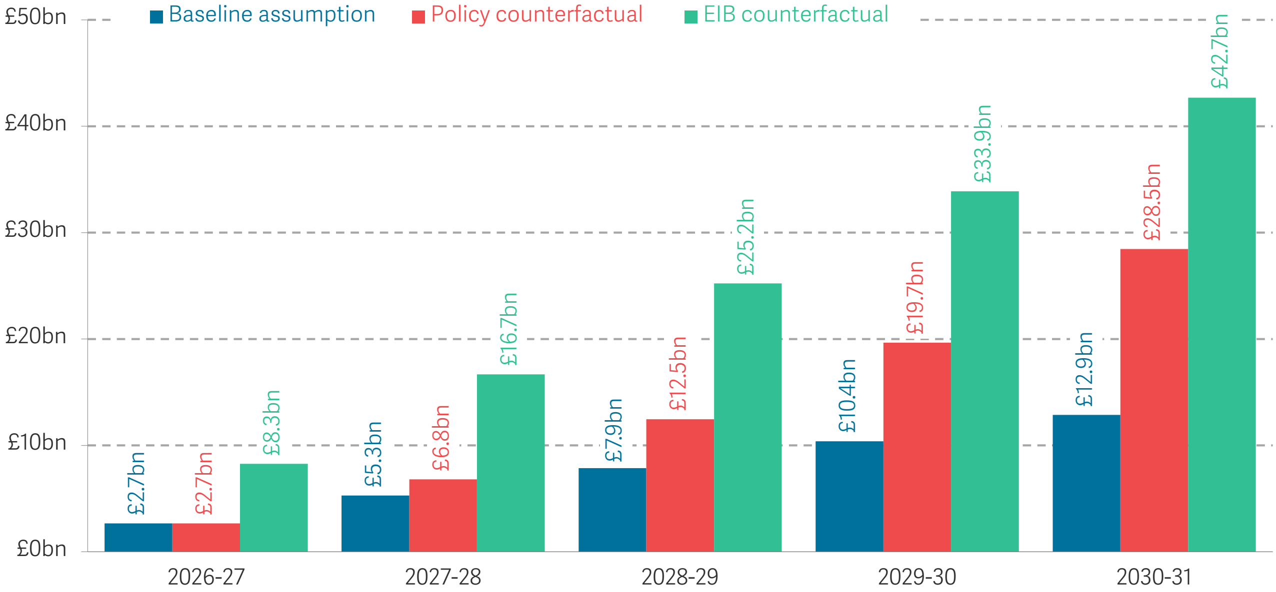
Expanding the NWF's financial capacity in this way would increase the government's total gross financing requirements by up to 2.6 per cent, or £7.7 billion, in 2030-31.[101] This is a small, although not insignificant, uplift which is unlikely to materially raise government borrowing rates.[102] Assuming the path of additional borrowing had no upward pressure on gilt yields, this would amount to an additional £400 million (in nominal terms) on Public Sector Net Borrowing after three years as the debt stock rises (based on average expected yields of 5.1 per cent on 10-year gilts issued between 2026-27 and 2029-30).[103] However, debt interest costs will be offset over time by the income on the loans the NWF extends – which make up the majority of its portfolio – as well as longer-term gains on its equity investments. Forecasting the NWF's returns based on the its baseline level of investment (under its current financial capacity) suggests the NWF could earn £380 million from its private sector loans by 2029-30.[104] This estimate is, however, inherently more uncertain than that outturn figure, hinging on the interest rate charged, the rate of credit losses, and other factors. We can more confidently say that in the last financial

98 A Haldane, Rewiring the Nation, Burnham-style, Financial Times, 11 July 2026.
99 National Wealth Fund, National Wealth Fund backs Greater Manchester in £500m partnership with Good Growth Fund, March 2026.
100 P Brandily et al., A tale of two cities (part 2): A plausible strategy for productivity growth in Greater Manchester and beyond, Resolution Foundation, June 2022.
101 RF calculation of Gross Financing Requirement in 2030-31 using OBR, Economic and Fiscal Outlook, March 2026.
102 R Gregory, How much extra borrowing will the bond market tolerate?, Capital Economics, July 2026.
103 RF calculation: forward rates (borrowing costs in the future) are estimated for each year between 2026-27 and 2030-31 using the government's nominal yield curve as of 9 July 2026 on a 10-year bond paying semi-annual coupons. We assume half of a full year's interest is paid in its first year (mid-year issuance). Debt interest on debt interest is paid using the average issuance forward rate.
104 RF modelling of the National Wealth Fund's balance sheet under the following assumptions: baseline investments of £2 billion in 2025-26, £2.7 billion thereafter. Loan share of investment (70 per cent); of which private sector loans (65 per cent, charged a conservative 7 per cent) and local authority loans (35 per cent, charged 4.3 per cent based on returns in 2024-25); and capital repayments (5 per cent of opening loan book). Interest paid is charged on the average of opening and closing positions in each financial year.

year, NWF received £70 million in interest on its overall loan book in the last financial year, a rate of around 7 per cent, although a full picture on its returns is yet to emerge, as it is a young organisation.[105]

FIGURE 7: **Ramping up the National Wealth Fund to EIB-scale investment would mean an extra £16 billion over the next five years**

Cumulative NWF investment commitments under baseline and under a ramp-up to 0.27 per cent of GDP, compared to European Investment Bank counterfactual (£ billion, 2025-26 prices): UK.



NOTES: Nominal investments are calculated as a percentage of annual nominal GDP, then multiplied by real GDP rebased to 2025-26 prices. The baseline assumes the NWF commits capital to reach full loans and equity capacity utilisation (£17.8 billion, nominal) by 2030-31. The ramp scenario raises the NWF's investments linearly as a share of nominal GDP to around 0.27 per cent by 2030-31. The EIB counterfactual takes the average of EIB investment as a share of nominal GDP between 2012-2016.
SOURCE: RF analysis of OBR, Economic and fiscal outlook, March 2026; European Investment Bank, project database; National Wealth Fund, Annual Report and Accounts 2024-25.

We recommend starting with an expansion of the NWF, but a similar argument could be made for expanding the BBB: an established body, with substantial unmet demand for additional investment. Although capacity has matched pre-Brexit EIF financing, the finance gap facing smaller firms remains large. Recent official estimates put the gap between SME demand for finance and its supply at between £1.6 billion and £4.1 billion per year.[106] Just matching past EIB funding may also prove insufficient, as innovation and industrial policy has since taken on increased prominence in the EU and elsewhere. The Draghi report on EU competitiveness called for higher-risk and more scale-up

105 The blended return on the loan book is calculated as interest income as a share of the average of financial assets held at amortised cost between 2023-24 and 2024-25. Source: National Wealth Fund, Annual Report and Accounts 2024-2025, October 2025.
106 HM Treasury, The Rt Hon Peter Kyle MP & The Rt Hon Rachel Reeves MP, Chancellor to unlock billions in finance for small businesses, July 2026.

investment, channelled via the EIB, to address Europe's own finance gap, which has contributed to almost 30 per cent of European-founded "unicorns" (startups valued over $1 billion) choosing to relocate their headquarters abroad.[107] As the UK faces similar challenges – given around 94 per cent of UK scale-ups are acquired before reaching maturity, around half of them by overseas buyers – it too may need to further ramp up its scale-up finance.[108]

A parallel argument rests on the market for scale-up equity, where the financing gap has a marked regional dimension: equity investment is concentrated in London, the South East, the North West and the East of England.[109] To its credit, the BBB has invested in regional funds such as Northern Gritstone – a venture capital fund focusing on university spinouts in the North of England – and published its investments across every region of the UK, showing it has disproportionately invested outside the four regions above. Its equity investments also appear to be highly effective, accounting for 48 per cent of additional Gross Value Added from just 1 per cent of businesses supported.[110] Further expansion of the BBB would help address these persistent imbalances.

Letting the bodies borrow on their own is not the solution

One alternative way to scale-up the PuFins would be to let them leverage their balance sheets, rather than relying on Government borrowing.[111] Several organisations, including the Resolution Foundation in the past, have called upon the Government to allow bodies like the BBB to borrow on their own terms from capital markets.[112]

National and supra-national policy banks often raise their capital this way, including the KfW. But these governments use the narrower definition of general government debt, which incentivises them to push borrowing outside the general government boundary. The long-standing UK approach of measuring the whole public sector means this does not apply (and, as it happens, the UK PuFins besides UKEF and BII are classified as within central, and therefore general, government).[113] In addition under a PSNFL rule, the incentive to get such institutions 'off-balance sheet' is diminished, as in the long run they do not add to PSNFL (as their liabilities should be fully offset by their financial assets).

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107 European Commission, The Draghi report on EU competitiveness (Part B), September 2025.
108 Business and Trade Committee, Investing in the UK economy: First Report of Session 2026–27, June 2026.
109 Bank of England Overground, Unlocking growth: what can the literature tell us about what's holding back high-growth firms?, October 2025.
110 British Business Bank, British Business Bank makes cornerstone investment into Northern Gritstone's £20 million rolling close, April 2026; Figure 8, British Business Bank, The Power of 10: 10 Year Impact Report, January 2025.
111 Leverage refers generally to how much debt a company uses to finance its assets. A higher leverage means more investment per pound of equity but also increases risks. One example of a simple measure of leverage ratio is assets relative to equity.
112 P Brandily et al., Beyond Boosterism: Realigning the policy ecosystem to unleash private investment for sustainable growth, Resolution Foundation, June 2023; Organisation for Economic Cooperation and Development (OECD), OECD Economic Surveys: United Kingdom 2024, September 2024; A King & D Jameson, Designing a UK fiscal framework fit for the climate challenge, Centre for Economic Transition Expertise, July 2024.
113 UKEF, or the Export Credits Guarantee Department, is classified as a public financial corporation, outside the general government boundary. BII is classified as a public captive financial institution which sits in the financial sector. ONS, Public sector classification guide and forward work plan, June 2026, accessed 11 July 2026.

Most importantly, since the cheapest way for the bodies to raise capital is for the government to borrow on their behalf, issuing gilts offers the public the best value for money.[114] Even established banks like the KfW and Bpifrance bonds trade at spreads of around 0.5 percentage points above German and French government bonds, despite their sovereign-grade (AAA) ratings and backing by their respective governments' guarantees.[115] Furthermore, gaining access to international capital markets took the KfW significant time, and benefitted from the KfW's existing balance sheet and record as a borrower; the PuFins largely do not have this advantage. If the entire £45.9 billion loan and equity capacity of the NWF, BBB and NHB were paid for by issuing their own bonds at a similar premium to their German and French cousins, this would add £230 million in annual borrowing costs above the £2.3 billion the Government would pay, a 10 per cent increase. For this reason, the Government should resist any future calls to replicate such a model for its own policy banks.

The public financial institution ecosystem has changed substantially in recent years, following the change to the fiscal rules and concerted efforts by the Government to reform and boost the PuFins. This has allowed the Starmer Government to increase both direct and financial investment – but the new government could go further to seize the opportunity this creates to make good on Andy Burnham's goals and help reduce the investment shortfall between the UK and the G7, and previous EIB investment levels.

114 Given the extremely low risk of the public sector defaulting on its borrowing and the existing depth and liquidity of the gilt market.
115 See Figure 7.1, D Jamieson & A King, Designing a UK fiscal framework fit for the climate challenge, July 2024.

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