Investing in our future

Practical solutions for the UK government to mobilise private investment for economic, environmental and social policy priorities

Sarah Gordon, October 2023

Investment in the UK, both public and private, is chronically low as a share of GDP compared with the country's peers. It must increase if the UK is to see meaningful productivity growth, address regional disparities and meet its net zero climate commitments.

- With targeted action, the UK can redress the competitive imbalance with the United States and the European Union on private finance mobilisation, and direct greater amounts of productive investment into priority areas such as net zero and social housing.
- There are tried and tested pathways that have the potential to be swiftly replicated at scale. The case studies profiled in this report showcase the range of private actors (institutional asset managers, social investors, grant funders) who are demonstrating that 'blended finance' provides a tested model in which public and private investors can work together.
- This model needs to move from the realm of financial innovation to the mainstream in order to mobilise private investment at scale.
- Government funding can be used effectively to 'catalyse' other, larger sources of capital in blended finance structures, whether private sector investment or philanthropic funding. This blend of capital sources, with their very different goals – from social outcomes to financial returns – can operate together successfully.
- Deployed well, blended finance enables budget-constrained organisations to crowd in multiples of private investment to address pressing economic, environmental and social challenges.
- There are also benefits to outcomes-based commissioning and financing – an approach that, if adopted more widely, would enable government to deliver better results from its public spending decisions across departments.

Summary recommendations

This report builds on current proposals by political parties, think tanks and others for an economic growth 'super-fund' to suggest practical and implementable ways such a fund could be focused, structured and run:

- **First, we recommend the creation of a venture capital fund-of-funds, the UK Growth Fund**, to attract pension and other large pools of institutional capital and act as an umbrella vehicle for a portfolio of sector-specific funds. This would aim to raise £4.6 billion at launch, rising to at least £46 billion over five to 10 years.
- The sector-specific funds would, in turn, address market failures in priority areas for the UK's future prosperity and wellbeing. These funds would be designed to attract private equity investors, mainly venture capital investors, and the funds' portfolio companies would be incentivised to list publicly in the UK on exit. Providing investable opportunities in the UK Growth Fund's sector-specific funds could potentially attract £10 billion of venture capital financing, in addition to the investment in the umbrella fund-of-funds.
- **Second, we propose a new UK Community Growth Fund** to build on successful initiatives that were set up to support small businesses, social enterprises and charities during the Covid-19 pandemic. The UK Community Growth Fund would expand on precedents, including the £60 million Community Investment Enterprise Facility, and would target £100 million of commercial bank and social investment at launch, growing in size as additional financial institutions and investors took part.
- The two Growth Funds would be managed within the existing national finance institutions established by the UK government, and overseen by a new government unit to provide a centre of expertise on blended finance, hosted by HM Treasury, in coordination with the Cabinet Office and other relevant government departments.
- Both funds would be modelled on successful initiatives from the recent past, such as the work of the Green Investment Bank, and ongoing work by experienced organisations in the field, such as Social Investment Scotland. These demonstrate the benefits of a process that identifies market failures, then involves both state and private investors in the co-creation of investment vehicles to respond to them, and develops a track record of delivery which builds the confidence of private investors. All require a cooperative approach to co-designing solutions that meet the needs of different stakeholders.
- To lower existing barriers to and incentivise private sector investment into the new funds as well as other public policy priorities, three further 'enablers' are proposed: new guidance on fiduciary duty for institutional investors; reprioritisation of institutional mandates and incentive structures at key government-owned UK institutions; and the design of new investment incentives.

Based on the £4.6 trillion of current insurance and pension fund assets in the UK, these proposals together could potentially unlock £5 billion in private investment for public policy priorities at the time of the funds' launch, and at least £50 billion in the next five to 10 years.

Find the full report here

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