PuFins: Time to clip their wings

How Britain's Public Financial Institutions are storing up trouble

By Tim Dier

Summary

- Public Financial Institutions (or PuFins) are publicly funded bodies that invest state money via loans, equity investments and guarantees – with the aim of encouraging or 'crowding in' private capital, driving policy goals such as green energy or other infrastructure investment.
- Since the Government changed its primary headline debt target from public sector net debt excluding the Bank of England (PSND ex BoE) to public sector net financial liabilities (PSNFL) in October 2024, PuFins have become its favoured policy instrument – because a loan or equity stake made through a PuFIN barely registers against the fiscal rules.
- Had the old PSND target been kept, the October 2024 Budget would have broken the debt rule by £5.8 billion. Under the new PSNFL definition, it passed with £15.7 billion of headroom. We have been here before. Under the Private Finance Initiative (PFI), accounting treatment that kept borrowing off the books shaped how the state invested, with grave long-term financial consequences for taxpayers.
- The announced financial capacity of the four main PuFins – the National Wealth Fund, the British Business Bank, UK Export Finance and the new National Housing Bank – stands at close to £200 billion.[1] It is estimated that £140 billion of this will amount to 'guarantees' rather than new lending, with the bulk of those coming from UK Export Finance. The Student Loans Company and Sizewell C are not included in this total.
- According to the Office for Budget Responsibility (OBR), PuFin lending adds a cumulative £27.4 billion to headline net debt (PSND ex BoE) by 2030-31, with the yearly addition peaking at £6.6 billion in 2027-28. At best they break even, and in the early years cost up to about £2 billion a year, net, before counting their running costs.
- The National Wealth Fund targets a 4-6% return on equity by the mid-2030s. With the 10-year gilt yield currently around 5.4%, the lower end of that range would not cover its cost of funds, let alone the fund's running costs. The Chancellor chooses the sectors for investment, and two of the four bodies assessed for designation did not even meet all of the Treasury's criteria.

[1]Excludes the Student Loans Company and the National Wealth Fund's separate loan of up to £36.6 billion to Sizewell C. The Government's own figure of £193 billion covers a different group, counting Innovate UK, which is not a designated PuFin, instead of the National Housing Bank (see Introduction).

The Centre for Policy Studies recommends that the Government:

1. **Swaps PuFins for simpler, lower taxes.** Set a stable path for business taxes and simplify reliefs, building on full expensing.

2. **Caps the PuFins now.** Cap at today's committed capacity, withdraw uncommitted funds, and allow no new PuFins and no PuFin bond issuance.

3. **Refuses designation for Great British Energy and the devolved banks**, and grants no new Treasury flexibilities.

4. **Sets a high bar for any new commitments.** This should constitute an evidenced market failure, published openly. The return on each deal should at least equal the appropriate gilt yield plus operational costs, with any subsidy scored by the OBR as day-to-day spending. A sunset date should be set.

5. **Removes the politics and reports more transparently.** Ministerial sector steers should end, as should mayoral partnerships and regional quotas. Any ministerial direction, formal or informal, including strategic priority letters, remit letters and minutes of shareholder meetings, should be published within 30 days. PSND ex BoE should be restored as a binding target, and an annual PuFin statement should be given at each Budget.

6. **Winds down or sells off PuFins.** Investment portfolios should be put into run-off and mature loan books should be sold, with proceeds used to repay debt. UK Export Finance should be retained with limited capacity, ensuring no crowding out of the private sector. Non-economic targets should be removed.

Back in March 2024, before Labour took office, the OBR forecast additional borrowing of £323 billion over the five-year period from 2024/25 to 2028/29 – the scheduled end of this Parliament. By March 2026, the OBR's updated forecast for public sector net borrowing over that five-year period rose to £583 billion – no less than £260 billion over the initial baseline, an 80% additional increase in net debt.

With gilt issuance running so high, the UK's public finances are under intense scrutiny – the Government faces the highest medium- and long-term borrowing costs in the G7, and the highest share of GDP spent on debt interest payments, despite a lower level of headline debt than several other G7 states.

The UK Government needs now to demonstrate financial common sense, firm fiscal management and budgetary restraint – not an increasing reliance on financial wheezes such as PuFins, designed to keep clear liabilities away from headline borrowing totals and meet overly flexible fiscal rules.

This kind of financial engineering does nothing to fool the UK's highly sophisticated international creditors or professional sovereign debt traders. All it does is demonstrate an increasing determination to deny financial reality and shy away from tough choices – which further undermines our financial credibility.

Introduction

Public financial institutions (PuFins) sit at the heart of the Government's growth plans. Since Labour came to power in July 2024, the sums involved have grown rapidly. In his first major speech as Chancellor, John Healey named four more areas as strategic partners of one of the largest PuFins, the National Wealth Fund (NWF).[2]

Since its election victory, the Government has added £80 billion of financial capacity to UK Export Finance (UKEF), the British Business Bank (BBB), the NWF and Innovate UK, taking their combined total to £193 billion.[3] That figure excludes the £16 billion National Housing Bank (NHB), which opened in April this year,[4] and the NWF's separate loan of up to £36.6 billion to Sizewell C.[5] Innovate UK is not a designated PuFin.[6] On our count of the four main PuFins – UKEF, the BBB, the NWF and the NHB – the combined capacity is close to £200 billion. (See Chapter 1.)

Much of the driver for using PuFins lies in an accounting change. In October 2024, the Government changed its primary headline fiscal debt target from PSND ex BoE to PSNFL. The latter measure nets off loans and equity investments (assets) against the government borrowing raised to pay for them (liabilities). So a loan made through a PuFin barely registers against the rule, whereas a road or a hospital paid for through the relevant department's capital budget counts in full. The Office for Budget Responsibility (OBR) has warned that this creates a risk that loans and equity may be used by policymakers 'even if this is not the best value for money mechanism'.[7]

We have seen PuFins before. Conservative-led governments created the BBB, the Green Investment Bank and the UK Infrastructure Bank, now called the National Wealth Fund. What has changed is the fiscal rule. Under the previous target, PSND ex BoE, lending counted against the rule, and that acted as a brake. The 2024 change removed that brake, heavily incentivising ministers to use PuFins to a greater degree.

Britain has also hidden borrowing behind accounting treatment before. Most Private Finance Initiative (PFI) debt was kept off the public balance sheet, which the Public Accounts Committee noted suited the Treasury.[8] With no data to show whether the PFI model provided value for money, and supernormal returns accruing to the private sector (indicating that the state likely overpaid), the costs are still being borne by the taxpayer today.

Elsewhere, councils also borrowed billions to buy commercial property for yield income, with ruinous results in Woking and Thurrock (see Chapter 4). We can draw the same lesson from both this misadventure and PFI. At the best of times, governments are poor at deploying capital wisely, and they get worse when the accounting treatment helps hide the borrowing from plain sight.

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[2]HM Treasury, 'Chancellor John Healey's Growth Speech 2026', 7 September 2026 Link
[3]UK Export Finance, 'Public bodies mobilise £50 billion to drive UK economic growth and support over 802,000 jobs', 15 July 2026 Link
[4]Ministry of Housing, Communities and Local Government, 'National Housing Bank and new capital grant funding', Written Statement HCWS712, 18 June 2025 Link; Construction News, 'Homes England opens £16bn National Housing Bank', 1 April 2026 Link
[5]National Wealth Fund, 'National Wealth Fund backs UK nuclear ambitions with milestone Sizewell C financing', July 2025 Link
[6]I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026 Link
[7]I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026 Link
[8]Committee of Public Accounts, 'Private Finance Initiatives', HC 894, June 2018 Link

There are alternative ways to raise investment. Britain is one of the world's leading centres for investment management: UK investment managers oversaw £11.1 trillion of assets in 2025.[9] What firms need from Government is simpler, lower taxes and confidence that the rules will not change frequently.

Instead, firms are increasingly offered a myriad of schemes, each with its own eligibility rules, application process and favoured sectors. Such schemes reward the firms that are best at hunting for public money, which amounts to corporate welfare, and divert management time away from building their businesses and finding new markets.

We argue that PuFins are a clear example of the problem the CPS set out in our paper *Britain's Broken Budgets*: policy shaped to hit the fiscal rules rather than to do what is best for growth.[10] Capital allocation should, in almost every case, be left to the market.

This paper excludes the Student Loans Company and Sizewell C from its analysis (see Chapter 1). Figures are nominal unless stated.

1) What are PuFins?

What they do?

PuFins are public bodies funded by the government to make loans, buy equity stakes or provide guarantees, in support of government policy. The Chief Secretary to the Treasury ultimately decides which bodies can be designated as PuFins,[11] against criteria that are neither consistent nor published (see Chapter 4).

Since 2024, the Treasury has required new large-scale financial transactions to be made through PuFins.[12] Any exceptions need to be agreed by the Treasury.

Who are they?

The table on the next page lists the main PuFins created by the Westminster government. It is important to note that Scotland and Wales have similar banks of their own. The Scottish National Investment Bank has deployed more than half of the £2 billion committed to it to 2030, and the Scottish Government is seeking formal PuFin designation for it.[13] The Development Bank of Wales, which describes itself as an impact investor with a social purpose, is not designated.[14] Nor is Invest NI, which is Northern Ireland's economic development agency.[15]

[9]Investment Association, 'UK investment management industry hits record £11.1 trillion AUM', press release, 6 August 2026 Link
[10]D. Herring, 'Britain's Broken Budgets', Centre for Policy Studies, November 2025, p.1 Link
[11]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 2.7 Link
[12]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, paras 1.18 and 2.11 Link
[13]Scottish Government, 'Scottish National Investment Bank review of performance 2026: Scottish Government response', 17 August 2026 Link
[14]Development Bank of Wales, 'Performance and impact', accessed September 2026 Link
[15]HM Treasury, 'An introduction to the UK public investment landscape', 21 October 2025, p.13 Link

Britain's PuFins as of September 2026

Institution	Sponsor	Status	Capacity or portfolio
British Business Bank	Department for Business and Trade (DBT)	Designated	£25.6bn of financial capacity
National Wealth Fund	HM Treasury	Designated	£27.8bn, plus a separate loan of up to £36.6bn to Sizewell C
UK Export Finance	Ministerial department (legally the Export Credits Guarantee Department), reporting to the Business and Trade Secretary	Designated	£130bn of lending and guarantee capacity. The UKEF incorporates the Defence Export Fund, with £50 billion ringfenced
British International Investment	FCDO	Designated; invests overseas	£8.8bn portfolio (March 2024)
National Housing Bank	MHCLG (a Homes England subsidiary)	Designated; opened April 2026	£16bn (£10.5bn investment capital, £5.5bn guarantees)
Student Loans Company	DfE	Designated; excluded from this paper	£151bn loan book (March 2024)
Great British Energy	DESNZ	Being considered for designation	Up to £8.3bn including Great British Energy – Nuclear

Sources: OBR; HM Treasury; National Wealth Fund; UK Export Finance; NAO; MHCLG; Construction News.[16]

The Student Loans Company is a designated PuFin, but we have followed the National Audit Office in leaving it out of our analysis. It exists to deliver one policy, student finance, and it is not subject to the financial controls in the Treasury's Framework that apply to the other PuFins.[17] That said, given that its £151 billion loan book is 74% of the government's whole portfolio of financial investments, the issue of how student loans are treated under the new debt measure deserves a paper of its own.[18]

[16]I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026 Link; HM Treasury, 'An introduction to the UK public investment landscape', 21 October 2025, pp.6-7 Link; HM Treasury, 'National Wealth Fund Update', Written Statement HCWS130, 14 October 2024 Link; National Wealth Fund, 'National Wealth Fund backs UK nuclear ambitions with milestone Sizewell C financing', July 2025 Link; UK Export Finance, 'Public bodies mobilise £50 billion to drive UK economic growth and support over 802,000 jobs', 15 July 2026 Link; National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, Figure 7 and para 1.11 Link; Ministry of Housing, Communities and Local Government, 'National Housing Bank and new capital grant funding', Written Statement HCWS712, 18 June 2025 Link; Construction News, 'Homes England opens £16bn National Housing Bank', 1 April 2026 Link

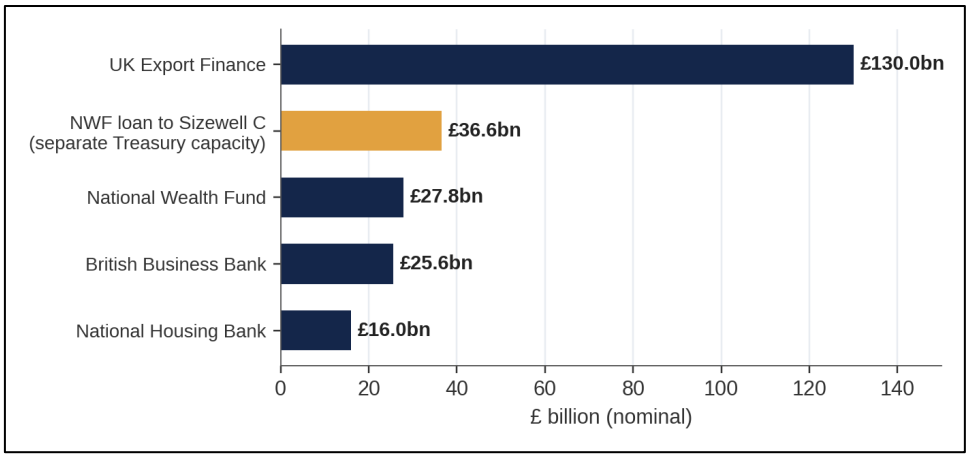
[17]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 2.9 Link

[18]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 1.11 Link

How big have the PuFins become?

Taken together, the four main PuFins we are examining have close to £200 billion of capacity to lend, invest and guarantee (Figure 1).[19] An estimated £58.9 billion of this is loans and equity; the other £140.5 billion is guarantees, most of it within UKEF.[20]

Capacity of the four main domestic PuFins, September 2026 (£bn)



Sources: HM Treasury; National Wealth Fund; UK Export Finance; MHCLG; Resolution Foundation.[21] The Sizewell C loan is funded by additional capacity from the Treasury and sits outside the Fund's £27.8 billion

Their growth is also written into the Government's spending plans. Financial transactions (loans and equity stakes, made by PuFins or by departments directly) are set to rise from 1.6% of departmental capital budgets in 2025-26 to 5.8% in 2029-30. That is £23.8 billion over the Spending Review period, roughly half of it earmarked for PuFins (Figure 2).[22]

This represents a very significant increase indeed in the use of PuFins by this government. It will also render their underlying accounting treatment subject to far greater public scrutiny – not least by the UK's creditors and broader financial markets.

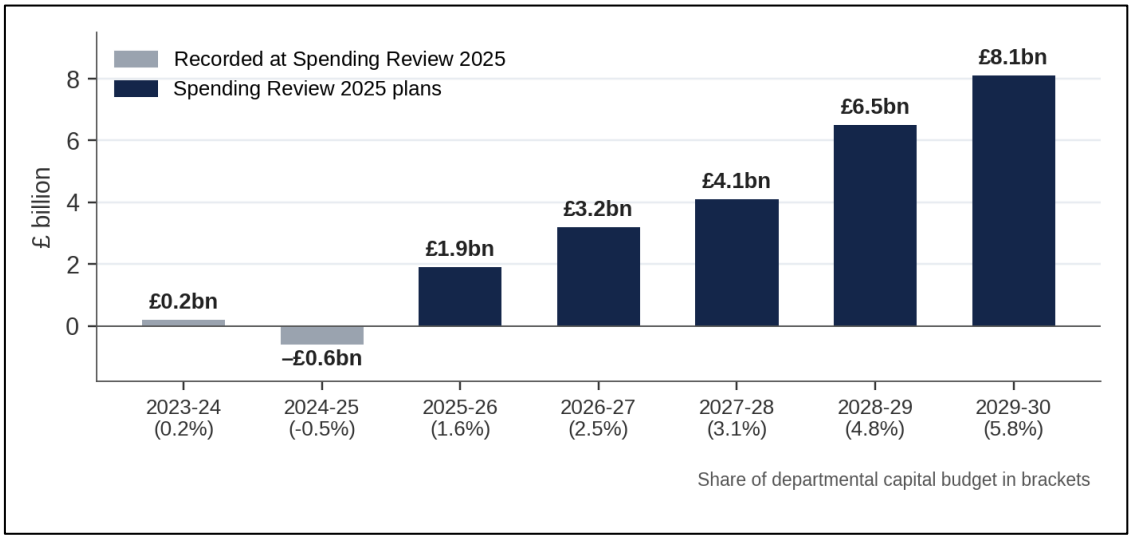
[19]HM Treasury, 'An introduction to the UK public investment landscape', 21 October 2025, p.6 Link; HM Treasury, 'National Wealth Fund Update', Written Statement HCWS130, 14 October 2024 Link; UK Export Finance, 'Public bodies mobilise £50 billion to drive UK economic growth and support over 802,000 jobs', 15 July 2026 Link; Ministry of Housing, Communities and Local Government, 'National Housing Bank and new capital grant funding', Written Statement HCWS712, 18 June 2025 Link

[20]Resolution Foundation, 'Much ado about PuFins: How the UK's public financial institutions can unlock billions for investment', July 2026, updated August 2026, Table 1 and Figure 1 notes Link

[21]HM Treasury, 'An introduction to the UK public investment landscape', 21 October 2025, p.6 Link; HM Treasury, 'National Wealth Fund Update', Written Statement HCWS130, 14 October 2024 Link; National Wealth Fund, 'National Wealth Fund backs UK nuclear ambitions with milestone Sizewell C financing', July 2025 Link; UK Export Finance, 'Public bodies mobilise £50 billion to drive UK economic growth and support over 802,000 jobs', 15 July 2026 Link; Ministry of Housing, Communities and Local Government, 'National Housing Bank and new capital grant funding', Written Statement HCWS712, 18 June 2025 Link; Resolution Foundation, 'Much ado about PuFins: How the UK's public financial institutions can unlock billions for investment', July 2026, updated August 2026, Table 1 and Figure 1 notes Link

[22]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, Figure 10 Link

Financial transactions in departmental capital budgets, 2023-24 to 2029-30



Source: NAO analysis of Spending Review 2025 data.[23] The 2024-25 figure is negative because of income from the sale of Bulb Energy

2) Accounting smoke and mirrors

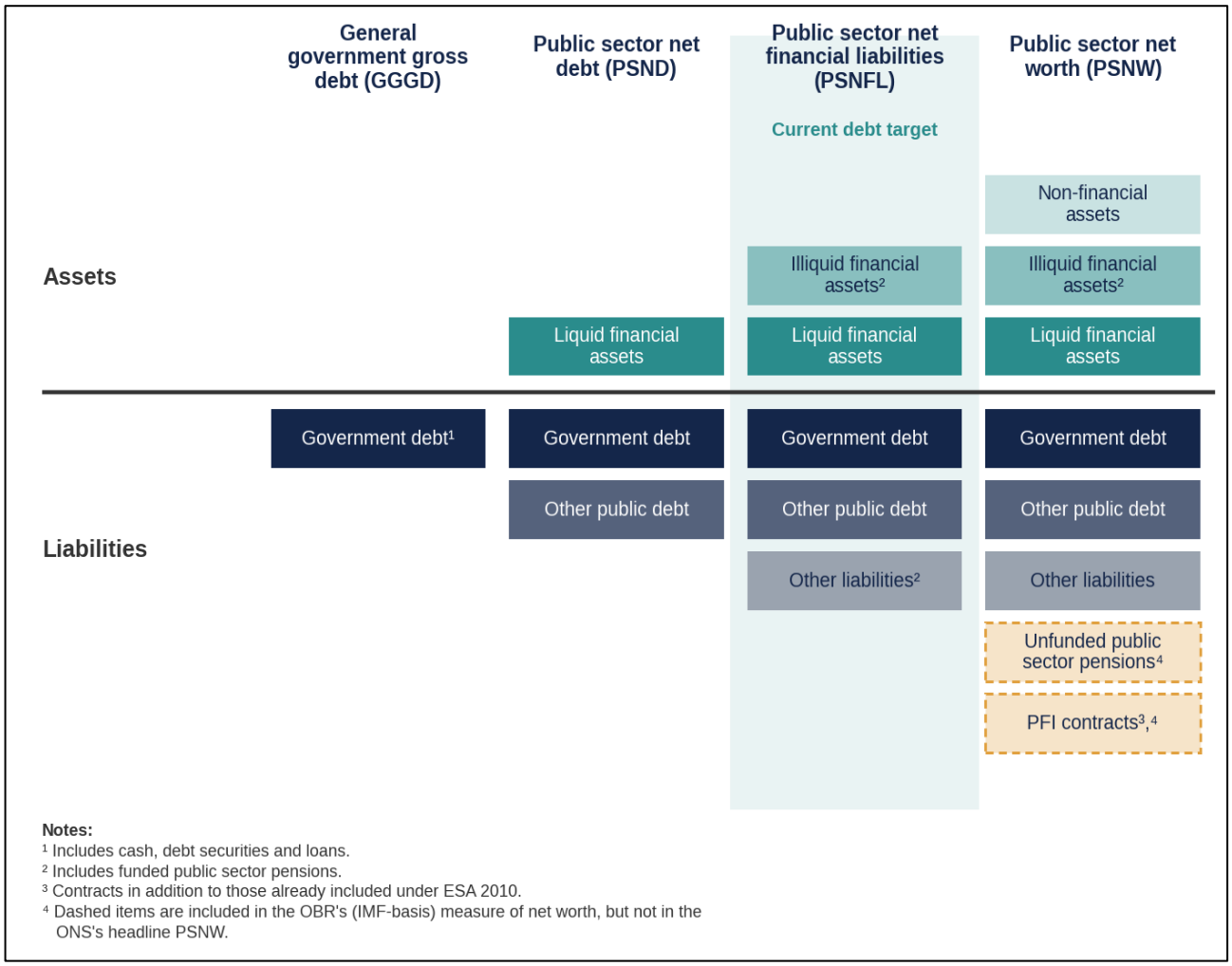
From net debt to net financial liabilities

Until October 2024, the Government's debt target was PSND ex BoE, which subtracts only cash and other liquid assets from what the state owes. A new target was then introduced under Chancellor Rachel Reeves, PSNFL, which additionally subtracts illiquid financial assets, e.g. loans and equity stakes.[24]

PSNFL materially alters the perception of the balance sheet. Under the previous target, PSND ex BoE, a £100 million loan added £100 million to Britain's debt. Under PSNFL, nothing is added to debt on the day the loan is made, because the loan is also counted as an asset and therefore nets off (Figure 4).[25] This potentially masks the fact that this loan may never be repaid. With student loans, for example, a very great many are written off – hence the fact that its £236 billion in outstanding loans are valued at only £151 billion.[26]

[23]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, Figure 10 Link
[24]I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026 Link
[25]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, Figure 4 Link
[26]Student Loans Company, 'Student Loans in England: Financial Year 2023-24', 20 June 2024 Link

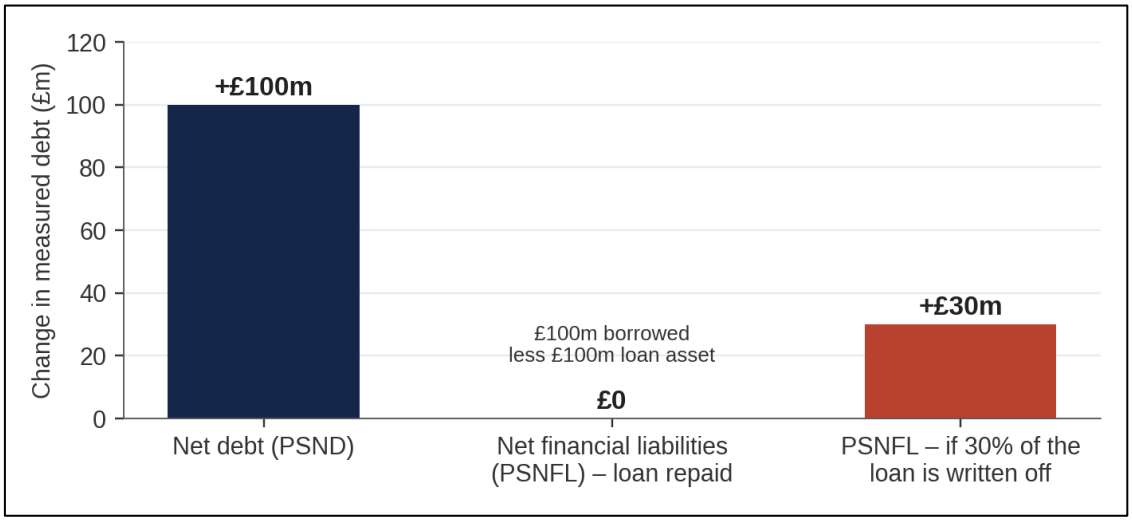
Comparison of public sector balance sheet measures



Source: Author's adaptation of OBR, with ONS.[27] *Off balance sheet PFI contracts appear in none of the ONS's headline debt measures*

[27]Office for Budget Responsibility, 'Fiscal risks and sustainability – July 2025', 8 July 2025, Figure 1.1 Link; Office for National Statistics, 'Public sector net financial liabilities (PSNFL)', 30 October 2024, Table 1 Link

The same £100m loan under two debt measures (illustrative)



Source: Author's illustration, based on NAO[28]

This accounting switch gave Rachel Reeves around £20 billion in extra headroom against her fiscal rules. Had the old target been kept, the October 2024 Budget would have broken the debt rule by £5.8 billion. Under the new rule, it passed with £15.7 billion of headroom. Such subtleties, while fiscally of enormous importance, do little to impact headlines, generating almost no media coverage.[29]

Why this matters

Roads, schools and hospitals are not financial assets, so money borrowed to build them still counts in full against PSNFL. Loans and shares, however, do not – and the OBR notes that they add less to the measure than direct spending.[30] The NAO notes that under the old measure, departments that made such financial transactions had to cut spending elsewhere to pay for them, which acted as a form of restraint. Under the new measure, that restraint is gone, particularly if the investments cover the borrowing costs.[31] The Government's argument is that the state has more room to make investments that support growth and earn a return.[32] The NAO also found that the old measure gave governments a reason to sell assets, even where the sale did not improve the public finances overall.[33] But the result is that we have replaced a bias towards selling assets with a bias towards buying them.

[28]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, Figure 4 Link
[29]Flint Global, 'Government lending for growth: how the Government is steering the PuFIns' flight', 2026 Link; Office for Budget Responsibility, 'Economic and fiscal outlook – October 2024', 30 October 2024, p.16, para 1.26 Link; Institute for Government, 'How are different measures of public debt forecast to change?' Link
[30]I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026 Link
[31]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 1.17 Link
[32]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 1.16 Link
[33]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 1.14 Link

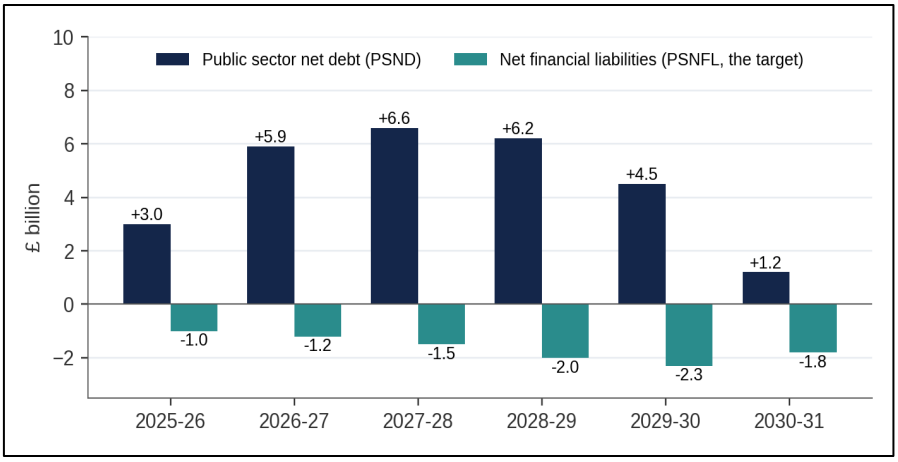
3) Borrowing by another name

The change in accounting treatment described above does not change where the money comes from. The NWF, for one, receives all of its funding from the Treasury,[34] which raises it by selling gilts. As Ruth Gregory of Capital Economics has said, borrowing through a PuFin 'will still require upfront cash and higher gilt issuance'.[35]

On the OBR's figures, PuFins add £3 billion to PSND in 2025-26, rising to £6.6 billion in 2027-28, and a cumulative £27.4 billion by 2030-31 before the interest on borrowing, while cutting PSNFL by between £1 billion and £2.3 billion a year (Figure 5). The OBR puts the cost of interest on borrowing to fund the PuFins at between £1.5 billion and £3 billion a year.

In short, once financing is counted, the improvement in the target measure largely disappears. The effect on PSND fades towards the end of the forecast only because some of the institutions start to reach their funding limits.[36] It is worth noting that those funding limits have been raised repeatedly.

Effect of PuFins on the two debt measures in each year, 2025-26 to 2030-31 (£bn)



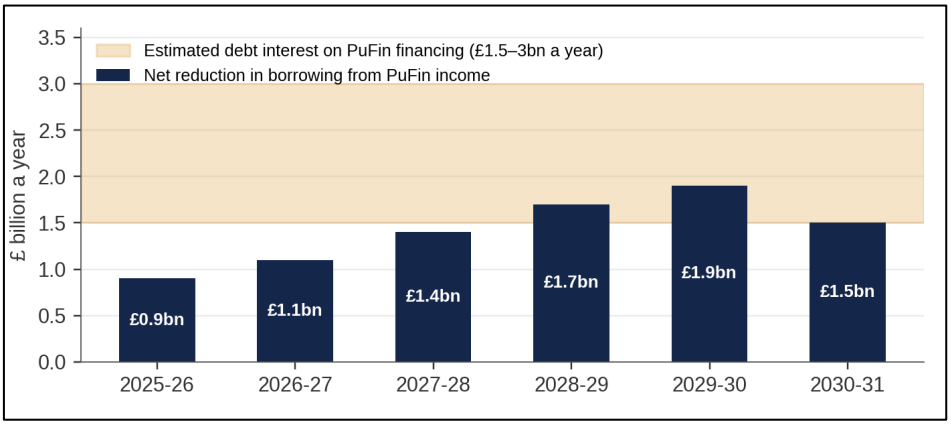
Source: OBR, March 2026 forecast.[37]

The interest bill

PuFins earn interest, dividends and fees. The OBR's estimated net effect on borrowing (income less expected losses and guarantee calls) is a reduction of £0.9 billion in 2025-26, rising to £1.9 billion in 2029-30. Those figures leave out the cost of the interest on the gilts issued to fund the PuFins in the first place, which the OBR puts at roughly £1.5 billion to £3 billion a year, and which over six years we calculate as costing between £9 billion and £18 billion on top.[38] They also leave out running costs.

[34]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q201 Link
[35]Financial Times, 'What are PuFins and how do Andy Burnham and John Healey plan to use them?', 30 July 2026 Link
[36]I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026, Table 1 Link
[37]I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026, Table 1 Link
[38]I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026, Table 1 and text Link; author's calculation

PuFin income compared with the cost of financing them (£bn a year)



Source: OBR, author's analysis[39]

The OBR's own numbers suggest that PuFins are at best roughly break-even for the public finances and in the early years represent a net cost of up to about £2 billion a year.[40] This is happening as borrowing is becoming more expensive. The 10-year gilt yield was at 5.4% in early October.[41] Oxford Economics has warned against using an 'accounting trick' to loosen policy, noting that higher long-term yields could cost the Government up to £9 billion more than expected.[42]

Neutral by assumption

The ONS records loans at their nominal value, which assumes that they are repaid in full. The OBR adds its own estimates of write-offs, but it warns that where PuFins and loan books are new, and data thin, there is a greater risk that write-offs will differ from its forecast.

The OBR also, optimistically, assumes that equity stakes rise in value in every year of the forecast, and that calls on guarantees will be very limited.[43] It is worth noting that if the £140 billion of guarantee capacity were deployed, each 1% called would cost approximately £1.4 billion – by no means an immaterial sum.

The fiscal neutrality of PuFins is an assumption in the forecast. The NAO is clear that financial transactions only avoid adding to debt if they earn a return equal to the cost of borrowing.[44]

[39]Author's calculation using I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026, Table 1 and text. The OBR gives its financing estimate as a range rather than year by year, so the comparison is indicative Link
[40]Author's calculation using I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026, Table 1 and text. The OBR gives its financing estimate as a range rather than year by year, so the comparison is indicative Link
[41]Financial Times, 'UK10YG', accessed 12 October 2026 Link
[42]City AM, 'Burnham warned against using 'accounting trick' to ramp up borrowing', September 2026 Link
[43]I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026 Link
[44]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 1.17 Link

Guarantees, classification and the next workaround

Guarantees add to borrowing and debt only when they are called upon.[45] The National Housing Bank alone has £5.5 billion of guarantee capacity.[46] An IMF working paper warns that, unlike capital, guarantees put no natural limit on how far an institution can expand, and instead give it an incentive to keep growing.[47]

Then there is the question of what counts as the public sector at all. The ONS decides this by looking at who controls a body. When it reclassified housing associations into the public sector in 2015, net debt rose by £60 billion.[48] The OBR has described off balance sheet financing of public services as creating a 'fiscal illusion'.[49]

This matters for the future. There are calls for PuFins to issue their own bonds and for regional public development corporations.[50] If the ONS judges that such bodies are controlled by the state and classifies them as part of the public sector, the debt they take on to build roads and houses would count against PSNFL, because those are not financial assets.[51]

The Treasury, to its credit, has so far rejected proposals to let the NWF issue its own bonds: Treasury Minister Lord Livermore told MPs it was more efficient for the Treasury to fund it directly.[52] This is supported by experience overseas. *Kreditanstalt für Wiederaufbau* (KfW), Germany's state-owned development bank, borrows with an explicit federal guarantee, but still pays more to raise funds than the federal government.[53]

However, the pressure to use PuFins to increase borrowing will only increase. For example, Louise Haigh, one of Prime Minister Andy Burnham's principal strategists, has said: 'We should enable the newly established National Wealth Fund to borrow against their existing balance sheet outside of the fiscal rules.'[54] There has also been lots of other discussion within government, and in policy papers produced by Labour MPs, about clever tricks that might be deployed to find additional fiscal space, while remaining within the rules on paper.

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[45]I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026 Link
[46]Ministry of Housing, Communities and Local Government, 'National Housing Bank and new capital grant funding', Written Statement HCWS712, 18 June 2025 Link
[47]L. Ratnovski and A. Narain, 'Public Financial Institutions in Developed Countries—Organization and Oversight', IMF Working Paper WP/07/227, September 2007, p.25 Link
[48]Office for Budget Responsibility, 'The reclassification of housing associations into the public sector', box in the March 2016 Economic and fiscal outlook Link
[49]Office for Budget Responsibility, 'Housing associations, classification changes and fiscal risks', box in the Fiscal risks report, July 2019 Link
[50]New Economics Foundation, 'Britain's state investment institutions can't compete with Europe's', 18 August 2026 Link
[51]I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026 Link; Office for Budget Responsibility, 'Housing associations, classification changes and fiscal risks', box in the Fiscal risks report, July 2019 Link
[52]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q236 Link
[53]NordSIP, 'KfW Enters Market With Largest 7yr Bond', 6 February 2026 Link
[54]Renewal: A Journal of Social Democracy, Louise Haigh, 'A new fiscal framework to renew Britain', 12 May 2026, Link

4) Where the PuFin plan goes wrong

The state is a poor investor

The case against PuFins starts with the record of governments as capital allocators. One study has found that a higher share of state ownership of banks in 1970 was associated with slower financial development and lower growth in income and productivity in the years that followed.[55]

In Italy, state-owned banks charged lower interest rates in areas where the party affiliated with the bank was electorally stronger.[56] In emerging markets, it was found that government-owned banks lend more in election years.[57]

An IMF working paper on PuFins in rich countries reached a similar view. It argued that market failures do not on their own justify intervention; the state should act only if it can deal with the problem better than the market, and in practice governments are often excessively interventionist.[58] The authors also found that such institutions, even in developed countries, 'may have an unclear or outdated economic rationale, be entrenched and inefficient'.[59]

Supporters of PuFins in the UK will point to The Green Investment Bank, which was sold in 2017 for £1.6 billion, £186 million more than taxpayers had put in (before about £60 million of financing costs). The sale also cut PSND by £1.6 billion.[60] Even so, the NAO found that the price was at the lower end of the Government's valuation range.[61] The sale process also took twice as long as anticipated.

The state has got this wrong before

The PuFins are not the first attempt to fund the Government's priorities while skirting the fiscal rules. The most notorious is the Private Financial Initiative. Under national accounting rules, most PFI debt was recorded off balance sheet and left out of public debt, which the Public Accounts Committee noted was advantageous for the Treasury.[62] John Manzoni, then Chief Executive of the Civil Service, told MPs that 'the entire PFI structure is to keep the debt off the public balance sheet'.[63] In 2018 the NAO found £199 billion of future charges running into the 2040s, and estimated that a group of Private Finance 2 (PF2) schools would cost around 40% more than if they had been financed by government borrowing.[64] The Government stopped using PF2 for new projects the same year.[65]

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[55]R. La Porta, F. Lopez-de-Silanes and A. Shleifer, 'Government Ownership of Banks', Journal of Finance 57(1) (2002), pp. 265-301 Link
[56]P. Sapienza, 'The effects of government ownership on bank lending', Journal of Financial Economics 72 (2004), pp. 357-384 Link
[57]S. Dinç, 'Politicians and banks: Political influences on government-owned banks in emerging markets', Journal of Financial Economics 77 (2005), pp. 453-479 Link
[58]L. Ratnovski and A. Narain, 'Public Financial Institutions in Developed Countries—Organization and Oversight', IMF Working Paper WP/07/227, September 2007, p.6 Link
[59]L. Ratnovski and A. Narain, 'Public Financial Institutions in Developed Countries—Organization and Oversight', IMF Working Paper WP/07/227, September 2007, p.8 Link
[60]National Audit Office, 'The Green Investment Bank', press release, December 2017 Link
[61]National Audit Office, 'The Green Investment Bank', report, December 2017 Link
[62]Committee of Public Accounts, 'Private Finance Initiatives', HC 894, June 2018 Link
[63]Public Administration and Constitutional Affairs Committee, 'After Carillion: Public sector outsourcing and contracting', HC 748, 2018, para 40 Link
[64]National Audit Office, 'PFI and PF2', 18 January 2018, Figure 4 Link
[65]HM Treasury, 'Budget 2018: Private Finance Initiative (PFI) and Private Finance 2 (PF2)', 29 October 2018 Link

There is also the example of council property. Councils spent an estimated £6.6 billion on commercial property between 2016-17 and 2018-19, no less than 14 times as much as in the previous three years, with between 38% and 91% of it financed by borrowing.[66]

Woking Borough Council insisted it had borrowed for regeneration, homes and jobs rather than yield.[67] Yet in June 2023, the council issued a section 114 notice, with debts approaching £2 billion, and its assets had to be written down by more than £600 million.[68]

Thurrock Council put £655 million borrowed from other councils into solar farm bonds,[69] with investment losses put at £275 million in 2022-23 alone.[70]

In November 2020, the Treasury barred councils that planned to buy assets primarily for yield from borrowing from the Public Works Loan Board, calling it an inappropriate use of the loans.[71]

Finally, there is the example of the student loan book. As described above, prior to October 2024, the incentive within the fiscal rules ran the other way: towards selling assets for cash, even when it did not improve public finances overall.[72] The sale of portions of the student loan book to the private sector between 2017 and 2020 was not, as the NAO found, done with commercial best practice in mind: instead, loans with a face value of £3.5 billion were sold for £1.7 billion, primarily (said the NAO) to reduce PSND. The NAO also found that the Department for Education had a different way of estimating the loans' value to HM Treasury.

PuFins may crowd out private investment

A PuFin is only worth having if it pays for things that the state objectively needs but private investors would not pay for – or its investment catalyses further private investment that would not have materialised. The consultancy Flint Global points out that, given how well London's financial markets allocate funds to profitable projects, such 'additionality' can be hard to demonstrate.[73]

The Government has also loosened its criteria on this front. John Flint, the NWF's first chief executive, told the Treasury Committee in July 2025 that under the Conservatives, the Fund had applied a very strict additionality discipline and walked away when it was not needed, but that this had since been relaxed so that it could anticipate weakness across a whole sector.[74]

[66]National Audit Office, 'Local authority investment in commercial property', press release, February 2020 Link
[67]Woking Borough Council, 'Statement in response to the publication of the Public Accounts Committee report into local authority investment in commercial property', 13 July 2020 Link
[68]SurreyLive, 'Bankrupt Woking: How the borough council racked up debts surpassing £2.1 billion', 2026 Link
[69]The Bureau of Investigative Journalism, 'Thurrock council facing £200m loss on solar farms sale', January 2024 Link
[70]Thurrock Council, 'Council finances and accounts', news statement on the 2022/23 financial position Link
[71]HM Treasury, 'Public Works Loan Board future lending terms: response to the consultation', November 2020, paras 1.4-1.6 Link
[72]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 1.14 Link
[73]Flint Global, 'Government lending for growth: how the Government is steering the PuFIns' flight', 2026 Link
[74]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q181 Link

Treasury Minister Lord Livermore similarly confirmed that the NWF now needs to crowd in private money at the sector level rather than for each project.[75] John Flint gave an example. The NWF had just done a transaction with ScottishPower, an investment-grade company with an investment-grade Spanish parent, and he said he could not argue that the projects would not have happened without the Fund's money.[76]

The BBB, similarly, describes itself as the largest investor in UK venture and venture growth capital funds.[77] But this is not necessarily something to boast about. In Canada, tax-subsidised venture funds crowded out private venture capital to the point where the overall pool shrank.[78] Anecdotally, the BBB has been accused of providing small slugs of capital to private sector projects that were already well on the way to being fully funded. The NAO has also warned that, because PuFin mandates overlap, they risk concentrating exposure in particular areas or crowding out private investment.[79]

The returns look pretty thin

The Treasury says that, across its portfolio, the National Wealth Fund must earn at least the cost of borrowing plus its operating costs.[80] The Fund's own target is to be profitable in-year on its core portfolio by 2030-31.[81]

These returns, in addition to being thin gruel, may mask the fact that material principal risk is being taken. John Flint told MPs that the Fund's risk budget of £7 billion lets it take roughly five times as much risk per pound as the banks. He said that the losses recorded so far were unrealised, i.e. they had not been crystallised.[82] But the day will come when it is recognised that some of the money is not coming back.

PuFin returns and targets compared with the cost of government borrowing

Measure	Rate
UKGI estimate of annual return on a sub-portfolio of government financial investments	1.9%
British International Investment returns target (weighted average over seven years)	At least 2%
National Wealth Fund target return on equity, by the mid-2030s	4% to 6%
10-year gilt yield, 12 October 2026	5.4%

Sources: NAO; Financial Times.[83] These measures cover different periods and are not directly comparable. The UKGI figure is a first estimate and covers only part of the portfolio

[75]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q223 Link
[76]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q216 Link
[77]UK Export Finance, 'Public bodies mobilise £50 billion to drive UK economic growth and support over 802,000 jobs', 15 July 2026 Link
[78]D. Cumming and J. MacIntosh, 'Crowding out private equity: Canadian evidence', Journal of Business Venturing 21 (2006), pp. 569-609 Link
[79]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 3.30 Link
[80]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q229 Link
[81]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, Technical Annex, para 12 Link
[82]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q165, Q173 and Q196 Link
[83]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, Technical Annex, paras 8 and 12 Link; Financial Times, 'UK10YG', accessed 12 October 2026 Link

The Treasury's Framework also allows PuFins to make investments that they expect from the outset to lose money for the taxpayer: they merely need to account for and disclose the subsidy.[84] A broad portfolio of investments can effectively reduce the impact of any single risk event. Yet many PuFin risks are concentrated. The National Housing Bank's exposure to the property market was singled out by the OBR, which noted that the risk grows where large guarantees go to one or a few borrowers.[85]

This is picking winners, again

The Treasury Framework asks PuFins to make independent investment decisions, but it also allows the Government to direct them provided it does so openly.[86] In particular, the state explicitly dictates the sectors they focus on. Asked about the Fund's priorities, John Flint replied: 'We do not choose the sectors. The Chancellor does that.'[87]

These choices are political. At least £5.8 billion of the Fund's capital was earmarked for the five sectors named in Labour's manifesto: green hydrogen, carbon capture, ports, gigafactories and green steel.[88]

But it is not just the choice of sectors that is politically dictated. The NWF is backing Greater Manchester's Good Growth Fund with at least £500 million.[89] Recipients of that fund, private sector partners included, are expected under a 'Good Growth Contract' to bring social as well as economic benefits.[90] The new Chancellor has since added four more strategic partnerships,[91] and a new 'Northern 500' group of firms is to be led by regional mayors.[92]

Great British Energy, which the Treasury is considering for PuFin designation,[93] has alongside central government committed up to £255 million to solar panels on around 350 schools, more than 260 NHS sites and around 15 military sites.[94] This corrects no failure in private capital markets, and no commercial return is expected.

The PuFins' mandates also include goals that have little to do with financial returns. UKEF has committed to increase, year on year, the proportion of 'underserved' businesses it supports, and rather arbitrarily to keep at least 80% of the businesses it supports outside London.[95] Similarly, the Scottish development bank's investments must deliver impact against at least one of its missions, which include Net Zero and 'place'.[96] British International Investment says it invests to create more productive, sustainable and

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[84]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, Figure 6, control 9 Link
[85]I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026 Link
[86]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, Figure 13 Link
[87]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q166 Link
[88]HM Treasury, 'National Wealth Fund Update', Written Statement HCWS130, 14 October 2024 Link
[89]National Wealth Fund, 'National Wealth Fund backs Greater Manchester in £500m partnership with Good Growth Fund', 18 March 2026 Link
[90]Greater Manchester Combined Authority, 'Mayor unveils next wave of Good Growth as Greater Manchester bids for biggest ever Ryder Cup', 18 March 2026 Link
[91]HM Treasury, 'Chancellor John Healey's Growth Speech 2026', 7 September 2026 Link
[92]Press Association, 'Healey pledges to 'draw line' under rising business costs in push for growth', The Irish News, 7 September 2026 Link
[93]I. Lockwood, M. Hanson and T. Baiju, 'Forecasting public financial institutions', Office for Budget Responsibility, 20 August 2026 Link
[94]HM Treasury, 'An introduction to the UK public investment landscape', 21 October 2025, p.7 Link
[95]UK Export Finance, 'UK Export Finance Public Sector Equality Duty Compliance: 2025-26', June 2026 Link
[96]HM Treasury, 'An introduction to the UK public investment landscape', 21 October 2025, p.11 Link

inclusive economies in Africa, Asia and the Caribbean.[97] More concerningly for the taxpayer, John Flint said that balancing profitability, risk limits, private co-investment, quality and geography meant that no single transaction ever hits all objectives.[98]

It is worth noting that none of these goals or targets is new: UKEF's targets originate from its 2024-29 business plan, published under the previous Government.[99] The change the new Government brought in was that the new debt rule removed the budgetary brake on pursuing them.

The Government argues that public bodies have mobilised an additional £50 billion of financial support, which has 'supported or sustained' 802,000 jobs.[100] Yet that word 'sustained' includes jobs that already existed, so the figure says little about what the taxpayer has gained.

Returns come second

The British Business Bank asks funding applicants to demonstrate diversity (including gender and ethnicity) at all levels of their business, and views organisations with a clear commitment to diversity and inclusion more favourably in its investment decisions.[101]

The NWF has two strategic objectives: supporting regional and local economic growth and tackling climate change.[102] Ed Miliband, at the NWF's launch, said it would 'help create thousands of jobs in the clean energy industries of the future', highlighting that the objective was jobs, not returns.[103] Rachel Reeves, then Shadow Chancellor, said that NWF will 'bring investment to Britain's industrial heartlands'.[104]

UKEF was the inaugural chair of the Net Zero Export Credit Agencies Alliance. Its 2024-29 business plan commits UKEF to better targeting those who are under-served, such as ethnic-minority and women-led businesses. In September 2024, Business Secretary Jonathan Reynolds asked UKEF to 'go further' on clean growth, including £10 billion of clean growth finance.[105]

Many of these commitments are not new – but that does not mean that they are fit for purpose. Under the new debt rule, restraint has been removed. The risk of economic loss to the taxpayer has increased.

[97]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, Figure 7 Link
[98]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q197 Link
[99]UK Export Finance, 'UK Export Finance Business Plan 2024-29', 30 April 2024 Link
[100]UK Export Finance, 'Public bodies mobilise £50 billion to drive UK economic growth and support over 802,000 jobs', 15 July 2026 Link
[101]British Business Bank, 'Finding What Works: Pathways to Improve Diversity in Venture Capital Investment', July 2023, 'How the British Business Bank is taking action' Link
[102]HM Treasury, 'Statement of Strategic Priorities to the National Wealth Fund', 19 March 2025, 'Strategic objectives' Link
[103]Accountancy Age, 'Chancellor unveils £7.3 billion National Wealth Fund to bolster private sector investment', 9 July 2024, Link
[104]City AM, 'National Wealth Fund will help create 650,000 jobs over five years, Reeves says', 17 June 2024, Link.
[105]UK Export Finance, 'Letter from the Secretary of State for Business & Trade to UK Export Finance on UKEF's annual priorities, 2024', 20 September 2024, section 3 Link

Companies are chasing taxpayer money

The wide array of PuFin schemes also creates a subsidy-hunting industry. The landscape is so blurred that the Treasury has had to publish a guide simply to explain what each of the public investment bodies offers and how to contact them.[106]

In July 2025, a member of the Treasury Committee noted that witnesses had described 23 different organisations involved in this landscape. John Flint said he had huge sympathy for firms trying to work out where to go, and that the problem was getting worse because there were now more public finance schemes available.[107]

The Government's answer to the confusing landscape, rather than wholesale simplification, was to establish a new forum to coordinate the bodies, with a promise that a firm approaching the wrong one would be sent to the right one.[108]

The process is also slow. John Flint told MPs that the slowest deal the Fund had done from first contact to completion was three years.[109] Every hour a business spends qualifying for a scheme is an hour not spent building its business or finding new markets where it can sell products and services.

Government-driven schemes also typically favour companies that can afford the time and advisers to pursue them. The IMF paper warns that PuFins create vested interests among the recipients of their finance, who then press to keep it flowing.[110] In Italy, state-owned banks have mostly favoured large firms.[111]

Even Britain's largest institutional investors now ask the state to reshape risk for them: John Flint said pension funds were in effect asking the Fund to transform risk into the shapes and sizes that suited them.[112] This is corporate welfare, however it is described.

To reiterate: none of these schemes is needed in a country like Britain, with its deep capital markets. The UK's investment management industry is one of the largest in the world, with £11.1 trillion of assets under management in 2025.[113] The problem for British firms is rarely that no one will fund a good project. It is the cost and uncertainty of doing business here.

[106]HM Treasury, 'An introduction to the UK public investment landscape', 21 October 2025 Link
[107]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q193 Link
[108]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q226 Link
[109]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q184 Link
[110]L. Ratnovski and A. Narain, 'Public Financial Institutions in Developed Countries—Organization and Oversight', IMF Working Paper WP/07/227, September 2007, pp.6 and 21 Link
[111]P. Sapienza, 'The effects of government ownership on bank lending', Journal of Financial Economics 72 (2004), pp. 357-384 Link
[112]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q181 Link
[113]Investment Association, 'UK investment management industry hits record £11.1 trillion AUM', press release, 6 August 2026 Link

The state marks its own homework

The Treasury built the PuFin Framework in a hurry. It did not follow a formal risk management approach, telling the NAO that it had limited opportunity to do so because of the sensitivity of the fiscal rule change.[114] Of the four bodies it assessed for designation, only the NWF and UK Export Finance met all of its criteria; the British Business Bank and British International Investment were designated anyway.[115] (The NAO's press release refers to three of five, counting the SLC, which the Treasury did not assess.)[116]

The Treasury has no consistent minimum requirements for designation and no plans to publish its assessments, an approach it told the NAO preserves the policy discretion of its ministers.[117] In effect, the Treasury marks its own homework: the department that gains when lending scores favourably against its debt rule also sets the test for which bodies qualify, waives it when they fail, and does not publish the results.

The Treasury chose not to design a central process for monitoring compliance,[118] and when the NAO reported, the BBB was still working on an economic capital approach to risk.[119] Meanwhile the institutions, and the loans and investments they make, multiply. John Flint warned MPs about a proliferation of subscale public finance institutions and suggested that all of the state's financial intermediation should eventually sit on a single balance sheet.[120]

In truth, few of the arguments for PuFins stack up. People say that we needed to replace the European Investment Bank, but what has emerged since is not an EIB replacement. They say that Germany has KfW, but the German federal government guarantees KfW's borrowing by law.[121] And KfW-style bonds would not take PuFin debt off the British taxpayer's books. We are told the PuFins will make money. But as the table above shows, the first official estimate of returns for a sub-portfolio of financial investments was 1.9%. The NWF targets a 4-6% return by the mid-2030s – but the bottom of that range is below the 5.4% 10-year gilt yield, as of mid-October 2026. The NWF does not expect in-year profitability on its core portfolio until 2030-31. They say that investment is too low – but as outlined below, the constraints lie in the wider business environment, including tax, regulation and energy costs, not in a shortage of public lenders.

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[114]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 2.17 Link

[115]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 3.21 and Figure 13 Link

[116]National Audit Office, 'Full rollout of control framework can enable more effective management of government's financial transactions', press release, 24 March 2026 Link; National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, Figure 13 Link

[117]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 3.21 Link

[118]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 2.22 Link

[119]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, para 3.8 Link

[120]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q193 and Q194 Link

[121]KfW, 'KfW: A two minute guide', 2012 Link

5) What should be done

Our starting point is that decisions about where capital goes should be left to markets in all but a handful of cases, and that the burden of proof should lie with anyone proposing an exception. That leads to six changes:

1. Simpler, lower taxes and business certainty instead of PuFins

The alternative to PuFins is a competitive tax system that treats all firms alike and changes rarely. Full expensing, long advocated by the Centre for Policy Studies, is a good model: it rewards any company that invests in plant and machinery, with no application to make, and it has now been made permanent.[122] The CPS has also pointed to an uncompetitive tax regime and regulatory complexity as being among the reasons firms hold back on innovation.[123]

Policy certainty, in addition to low rates of taxation, is important. Lord Livermore told MPs that certainty and stability are the most important things a government can offer investors.[124] We are sympathetic. As the CPS has argued, if companies do not see Britain as a competitive place to invest, 'no amount of top-down government planning will change that'.[125] The Government should set out a stable path for business taxes, simplify reliefs, and let firms spend their time on their customers rather than on applications.

2. Ban new PuFins, and cap existing PuFins

No new PuFins should be created, and existing PuFins should not be allowed to issue their own bonds.

The Government should cap total PuFin capacity at the level already committed and withdraw capacity that has not yet been committed. As of January 2026, the NWF had deployed £8.4 billion of its £27.8 billion and has said that it plans to commit the remaining £19.4 billion by 2030-31.[126]

3. No designation or special treatment for the devolved banks or Great British Energy

The Treasury should refuse PuFin designation for the Scottish National Investment Bank,[127] the Development Bank of Wales and Great British Energy.

It should also refuse permission for the Scottish bank to raise capital in its own right[128] and for Wales, refuse the recycling of financial transactions capital into new loans.[129]

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[122]D. Herring, 'Britain's Broken Budgets', Centre for Policy Studies, November 2025, p.9 Link
[123]A. Maharjan, 'Patently Absurd: Why Britain Is No Longer an Innovation Nation', Centre for Policy Studies, March 2026 Link
[124]Treasury Committee, 'Oral evidence: National Wealth Fund', HC 806, 1 July 2025, Q261 Link
[125]A. Maharjan, 'Patently Absurd: Why Britain Is No Longer an Innovation Nation', Centre for Policy Studies, March 2026 Link
[126]National Wealth Fund, 'National Wealth Fund to drive more than £100 billion into the UK economy', 28 January 2026 Link
[127]Scottish Government, 'Scottish National Investment Bank review of performance 2026: Scottish Government response', 17 August 2026 Link
[128]Scottish Government, 'Scottish National Investment Bank: implementation plan', February 2018, 'Classification and capitalisation of the Bank' Link; Scottish Government, 'Scottish National Investment Bank review of performance 2026: Scottish Government response', 17 August 2026 Link
[129]Welsh Government, 'Written Statement: Wales Flexible Investment Fund — Extension and Capital Recycling', 27 March 2026 Link; Institute for Fiscal Studies, 'Recent changes and the future outlook for Welsh Government funding', May 2026 Link

4. Set a high bar for any new commitment

In exceptional circumstances where new commitments are made, they should pass a statutory test. At a minimum, this test should require:

- A specific, evidenced market failure, published before the deal is signed
- Overwhelming evidence that the state can deal with that failure better than the market can[130]
- A risk-adjusted return hurdle on each deal at least equal to the appropriate gilt yield plus operating costs, with any subsidy element scored as day-to-day spending by the OBR
- A narrow mandate tied to the verified market failure, with a well-telegraphed sunset date[131]

5. Take the politics out and increase transparency

- End ministerial sector steers and mayoral strategic partnerships
- Remove regional quotas, targets for chosen groups of businesses and Net Zero or ESG missions from PuFin mandates
- Publish all ministerial direction to a PuFin, formal or informal, including strategic priority letters, remit letters and minutes of shareholder meetings, within 30 days, as the Framework's own test of transparency implies[132]
- Report jobs as either newly created or retained, under stricter criteria
- Restore PSND ex BoE as a binding target alongside PSNFL, with the Chancellor held to account against both, in line with the CPS's case for governments setting out their strategy for a range of measures, including net debt and net worth[133]
- Publish an annual PuFin statement at each Budget, covering capacity, deployment, returns against the gilt yield, write-downs and guarantee exposure

6. The PuFins should be wound down and sold off

- Put portfolios into run-off, and use the repayments to reduce the corresponding debt
- Sell mature loan books and fund stakes, including those of British International Investment. The Green Investment Bank sale shows this can be done at a profit, although the NAO's criticisms of that process should be heeded[134]

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[130]L. Ratnovski and A. Narain, 'Public Financial Institutions in Developed Countries—Organization and Oversight', IMF Working Paper WP/07/227, September 2007, p.6 Link
[131]L. Ratnovski and A. Narain, 'Public Financial Institutions in Developed Countries—Organization and Oversight', IMF Working Paper WP/07/227, September 2007, p.21 Link
[132]National Audit Office, 'Managing the government's financial investments: the Financial Transaction Control Framework', HC 1738, 24 March 2026, Figure 13 Link
[133]D. Herring, 'Britain's Broken Budgets', Centre for Policy Studies, November 2025, p.13 Link
[134]National Audit Office, 'The Green Investment Bank', report, December 2017 Link

- Honour the Sizewell C £36.6 billion loan, then sell or refinance once the power station reaches commercial operation, leveraging the stable cash flows provided under the Regulated Asset Base framework
- Retain UK Export Finance as a capped export credit agency focused on its core role, with non-economic targets removed and capacity right-sized to ensure it is not crowding out the private sector. Review whether the Defence Export Fund's guarantees are priced appropriately to cover their risk.
- Fold whatever remains into a single run-off vehicle managed by UK Government Investments

Conclusion

Since the 2024 change to the debt targets, PuFins have become the Government's investment instrument of choice. Perhaps intentionally, this has flattered debt numbers. Yet PuFins have not yet shown that they can invest well, and the evidence so far is not encouraging.

On the OBR's own figures, the borrowing adds billions to net debt and costs billions in interest. The Treasury's controls around PuFins are unfinished and weak at best. We have heard that ministers choose the sectors where capital is deployed and, increasingly, the regions. Concerningly, the test of whether the money is needed at all has been relaxed.

Britain has seen similar financial engineering before, through PFI and through councils buying property funded by loans. The taxpayer is still on the hook for both – with both activities representing bad value for taxpayers' money.

The sensible course is to cap the PuFins now, and, aside from a limited role for UK Export Finance, ultimately wind them down and pay off the borrowing. Any new intervention needs to be held to a very high standard: it must address a genuine market failure, with the politics stripped out.

The growth Britain needs will come from firms investing time in product development, customers and new markets. They need simpler, lower taxes and rules that are predictable, not a growing list of schemes to apply for. Britain has deep capital markets to do the rest. Where money is best invested is a question that markets answer better than any ministers.

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