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Department for Business and Trade
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PLSA Consultation response: Invest 2035: The UK's Modern Industrial Strategy

We welcome the opportunity to respond to the Government's consultation on the UK's proposed new Industrial Strategy.

The Pensions and Lifetime Savings Association (PLSA) is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

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The role of pension funds in UK growth

At the PLSA, we have reported extensively on what the pensions industry needs to support the ambition of successive Governments to increase pension investment in UK Growth. The Government acknowledges that reinvigorating the UK economy will depend heavily on private investment and we have welcomed the Government's recognition of the vital role that the UK pension sector has to play in this respect. At present, we estimate UK pension funds already invest over £1 trillion in the UK, spread across government and corporate bonds, equities, private debt, private equity, property and other alternative assets. We are keen to offer our support to the Government in considering the role that pensions investment can play in the delivery of its industrial strategy.

Our response highlights some of the mechanisms that could facilitate greater pensions investment in UK growth in a way that still prioritises the retirement savings of pension scheme members across the UK.

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Context to our work

The PLSA's previous work on Pensions and Growth includes a paper from June 2023 on [Supporting Investment in UK Growth](#), our [October 2023 Policy Statement](#) and a [joint statement with the ABI](#) ahead of the Spring Budget 2024. Throughout these, we have articulated six key actions for the Government to consider to encourage greater investment by pension funds in UK assets. These six actions are as follows:

1. Pipeline of Assets
2. DB Regulation
3. Taxation (fiscal incentives)
4. Consolidation
5. Market for DC under Automatic Enrolment
6. Raising Pension Contributions

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Our position

In recent months, the PLSA has continued to build on our Pensions and Growth work through the publication of two significant reports. Both are consequential to the Government's thinking on the development of an industrial strategy and reflect the key considerations for the Government to address to effectively draw in private capital from pension funds to support UK growth:

1. Creating a Pipeline of Investable UK Opportunities

The intention of our pipeline of investable UK opportunities report has been to elaborate on the 'pipeline of assets' action that we have previously identified. The report highlights specific sectors where there are potential assets for UK pension funds to invest to help address financing gaps across four key themes – climate, infrastructure, social and community, and life sciences and AI. It is notable that there is significant crossover between the key themes we have identified, and the 8-priority growth-driving sectors outlined in the consultation. We believe that our pipeline of opportunities report provides invaluable insight into the specific subsectors for investment that the Government should consider in more detail to attract pension fund investment.

It is of course important to recognise that facilitating pension fund investment in UK growth requires an industrial strategy that identifies the differing investment characteristics of different types of pension schemes. Our pipeline report outlines how the investable UK growth opportunities will vary depending on scheme type. Appreciating that crowding in pension fund investment needs to be tailored by scheme type is crucial to unlocking their investment potential:

- **Private sector DB:** The majority of the 5,000 DB schemes are approaching maturity and so will need investment in low volatility assets. A sizeable minority (c.500), managing £300 billion on behalf of millions of members, remain open to accrual, with some also remaining open to new members. These open schemes have capacity to invest in a wide range of growth assets.
 - As outlined above, most DB schemes are 'closed' and are de-risking as they approach maturity through investment largely in index-linked gilts and corporate bonds.
 - For open DB schemes, renewable energy assets – like wind farms – are well suited as they offer regular cashflows over a long period. Government-dictated contract pricing has led to low cashflows from these types of assets and these issues need addressing.
- **LGPS:** The LGPS is the UK's largest funded public sector scheme. It manages over £400 billion of assets for its six million members. The scheme remains open to new members and accrual. Eight large asset pools managing c.£25-80 billion each have already been created in England and Wales. It has the potential to invest in growth assets and already plays a leading role in allocating to UK growth assets, particularly at a local level.
 - Like Open DB, renewable energy assets are appealing to the LGPS. In addition, LGPS funds already allocate to private equity and private debt and so will be open to potential opportunities emerging across the identified growth sectors – whether that's in life sciences, digital and technologies or advanced manufacturing.
- **DC:** There are a wide range of DC schemes in the UK, ranging from very small retail personal pensions through to some medium sized, and some very large Master Trusts. The Master Trusts look after 20 million savers and around £120 billion. They are growing rapidly and will manage £1 trillion in assets by 2030. These schemes invest largely in equities and, as their scale grows, will have increased scope and ability to overcome existing structural, commercial and technical barriers to invest in private markets. We discuss these issues in greater depth in our Pipeline of Assets report.

- An industrial strategy that supports DC pension schemes to overcome some of these barriers could unlock investment in early-stage renewable infrastructure projects as well as investment into private equity and venture capital opportunities across the eight growth-driving sectors highlighted in the consultation.
- It is vital to get this right as poor returns could risk a further breakdown of trust in the system.

Finally, we identify that for the Government to be successful in driving pension fund capital into UK growth assets, there is a need for policy clarity, which we believe could effectively delivered through the establishment of an industrial strategy that:

- **Provides policy certainty:** A key ingredient for pension funds is policy certainty. The development of an industrial strategy is crucial to this. For it to be successful, the Government will need to ensure that it sets out a clear plan for the future of the UK economy, particularly in relation to the green transition and the range of opportunities in green infrastructure developments. As we will come on to later in our response, when investors think about policy certainty, incentives are also important. Government commitments on large-scale infrastructure projects could include guarantees to incentivise investment.

Done correctly, an industrial strategy can aid the return of confidence to the UK markets, but it must be coupled with policies that allow industry to develop solutions for the long term.

- **Prioritises net zero within all infrastructure projects:** Our report considers the opportunities in the green transition together with infrastructure. Our view is that net zero must be prioritised within all major infrastructure opportunities and we are encouraged by the establishment of GB energy.
- **Clarifies the approach to both levelling up and planning reform:** An industrial strategy must outline how the planning system will be reformed to pave the way for the significant infrastructure development that is needed. In addition, a UK wide approach will be vital in instilling the necessary confidence for industry to commit long term funding to UK growth projects and initiatives. In relation to investment in UK communities and regions, a clear plan is particularly necessary for the development of transport infrastructure.
- **Clarifies the approach to investment in sectors with the potential for high growth (such as AI and life sciences):** There are many areas, particularly in life sciences, where the potential assets for investment are clear and that have demonstrated significant scope for growth. In other areas, like AI, there appears to be potential for investment, but more clarity from the Government is needed initially to establish the investment need and how to effectively utilise pension fund capital in a way that also supports the investment aims and objectives of pension schemes.
- **Demonstrates how the Government will facilitate investment:** Whilst the majority of financing will come from significant private sector investment, there is still a leading role for the Government to play in bringing key industry groups together to develop solutions to growth challenges.
- **Develops skills:** There must be a clear plan for the development of skills to achieve growth. We are encouraged by the proposed establishment of ‘Skills England’ and would welcome more detail on how the development of skills will align with the growth sectors that require investment.
- **Is supported by targeted fiscal incentives:** A clear approach in the form of an industrial strategy is not enough, the Government should also consider targeted fiscal incentives to help make UK growth actives more attractive than competing assets from other countries. More detail on this is set out in our investment and fiscal incentives report (bullet 2 in this section).

2. Using Investment and Fiscal Incentives to Encourage the Flow of Pension Investment into UK Assets:

When considering how to successfully implement an industrial strategy, the relationship between the proliferation of investable opportunities and the ability of pension funds to invest in those opportunities is crucial. A supportive suite of investment and fiscal incentives will be vital in providing pension schemes with the confidence and capability to support the Government's growth objectives. There are a range of options of an investment and fiscal nature, highlighted in our latest report, "Using Investment and Fiscal Incentives to Encourage the Flow of Pension Investment into UK Assets" which the Government could deploy to encourage greater flows of pension investment into the UK. Below is a summary of these options which we urge the Government to consider bringing forward as part of an industrial strategy, or in support of it:

Investment Incentives:

1. Make greater use of blended finance. The National Wealth Fund (NWF) is an important start point, but the next iteration of the fund should involve the design of a fund structure which would provide appropriate diversification and risk appetite at a fund, rather than deal, level.
2. Expand the already successful Long-term Investment for Technology and Science (LIFTS) initiative. LIFTS is the best existing example of government-backed investment incentives, which positively alter the risk/return calculation for pension funds and we would urge the Government to consider their expansion.
3. Government commitments on large-scale infrastructure projects could include guarantees. This may be something like a guarantee that investors will get their money back in the case that plans change.
4. The capital behind the NWF and British Business Bank could act as a government-backed provider of liquidity. Current plans to establish the NWF should be expanded to create a suitable vehicle to attract pension investment at scale.
5. Co-investment vehicles with British Patient Capital enabling schemes to invest alongside and leverage expertise. This would allow DC investors to access private markets at a lower cost.

Fiscal Incentives

6. Reduce the effective tax rate for pensions in holding UK shares by allowing a tax credit on dividend payments as has been successfully done in Australia.
7. The issue of stamp duty needs addressing. When pension funds buy UK shares, they have to pay stamp duty whereas if they buy shares from other countries, they are often not subject to taxation.
8. All pension schemes pay levies - including the General Levy, Fraud Compensation Fund (FCF) levy and Pension Protection Fund (PPF) levy. Pensions could benefit from a discount in their Pension Levy if they invest in certain sectors or locations.
9. Investment into the National Wealth Fund could be provided with a fiscal incentive, possibly modelled on those used for venture capital trusts (VCTs) and Seed Enterprise Investment Scheme (SEIS).
10. Incentives could be provided for net zero, sector or regionally based investment. There is considerable scope for enhancing tax incentives for net zero investments, particularly in fixed capital or innovation. There are examples in the UK already, for example, electric vehicles and charging points are eligible for full expensing in the year of purchase. Incentives for investment in specific technologies in specific places – as envisaged in the US Inflation Reduction Act – would encourage investors with a place-based focus, such as Local Government Pension Scheme funds, and enable government or local authorities to target investment into areas of specific economic need.

Wider Pensions Policy and Regulatory Reforms

11. Implementing wider reforms to increase investment by UK pension funds, including changes to the regulatory framework, enabling consolidation of pension funds, and more focus on performance and value for money. Changes must continue to respect the paramount importance of Trustees' fiduciary duty and maintain a focus on savers outcomes.

There are many levers the Government can pull to catalyse pension fund investment in the UK. Well-designed investment and fiscal incentives, focused on creating long-term value for pension savers, have the potential to swing UK assets back into favour versus similar opportunities globally. We ask the Government to back its UK growth mission with a bold and creative stance on pension fund investment that will work for UK pension savers.

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We thank the Department for Business and Trade for the opportunity to respond to this consultation and look forward to seeing the outcome of it. We stand ready to support the Government in the development and implementation of this strategy and are open to further engagement to bring our sector expertise to bear as work on the strategy progresses.

Kind regards,

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