



DEBATE PACK

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UK Sovereign Wealth Fund

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Summary

This pack has been prepared ahead of the debate on a UK sovereign wealth fund to take place in Westminster Hall on 14 December 2016 at 9:30am. The subject for the debate has been chosen by John Penrose MP.

There is some disagreement about what defines a sovereign wealth fund, but generally:

- they are investment funds that are directly owned by a sovereign government
- they invest in a range of domestic and international assets seeking returns on their investment
- they are typically funded from government budget surpluses, often arising from significant exports of commodities such as oil

Over 30 countries have sovereign wealth funds, many are based on receipts from oil and gas. Norway has the largest fund with assets of \$885 billion.

The UK government doesn't have a sovereign wealth fund and the Government currently has no plans to introduce one; its focus is on reducing the deficit and decreasing government debt.

The sponsor of this debate, John Penrose MP, has [published a report](#) proposing that the UK establishes a sovereign wealth fund once the UK government reaches a budget surplus. Contributions to the fund would come from an element of income tax, and over the long term it would fund liabilities in the UK's pensions and benefits system.

The House of Commons Library prepares a briefing in hard copy and/or online for most non-legislative debates in the Chamber and Westminster Hall other than half-hour debates. Debate Packs are produced quickly after the announcement of parliamentary business. They are intended to provide a summary or overview of the issue being debated and identify relevant briefings and useful documents, including press and parliamentary material. More detailed briefing can be prepared for Members on request to the Library.

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1. Background

What is a sovereign wealth fund?

There is some disagreement about what defines a sovereign wealth fund, but generally:

- they are investment funds that are directly owned by a sovereign government
- they invest in a range of domestic and international assets seeking returns on their investment
- they are typically funded from government budget surpluses, often arising from significant exports of commodities such as oil

Which governments operate a sovereign wealth fund?

Over 30 countries have sovereign wealth funds.

Comparing the size of the funds is difficult, some funds are more transparent than others, but the Sovereign Wealth Fund Institute (SWFI) suggests that the ten largest funds, by size of assets, are:¹

- Government Pension Fund – Global (Norway) \$885 billion
- China Investment Corporation (China) \$814 billion
- Abu Dhabi Investment Authority (Abu Dhabi) \$792 billion
- SAMA Foreign Holdings (Saudi Arabia) \$598 billion
- Kuwait Investment Authority (Kuwait) \$592 billion
- SAFE Investment Company (China) \$474 billion
- Hong Kong Monetary Authority Investment Portfolio (China-Hong Kong) \$442 billion
- Government of Singapore Investment Corporation (Singapore) \$350 billion
- Qatar Investment Authority (Qatar) \$335 billion
- National Social Security Fund (China) \$236 billion

Of these ten, five are based on receipts from oil and gas. The SWFI estimate that oil and gas based sovereign wealth funds make up 57% of the total sovereign wealth fund market by asset value.

Why have foreign governments set up sovereign wealth funds?

The International Monetary Fund (IMF) has identified five types of fund, based on their main objective:²

- **stabilization funds**, where the primary objective is to insulate the budget and the economy against commodity (usually oil) price swings;
- **savings funds for future generations**, which aim to convert nonrenewable assets into a more diversified portfolio of assets;
- **reserve investment corporations**, whose assets are often still counted as reserve assets, and are established to increase the return on reserves;
- **development funds**, which typically help fund socioeconomic projects or promote industrial policies that might raise a country's potential output growth; and
- **contingent pension reserve funds**, which provide (from sources other than individual pension contributions) for contingent unspecified pension liabilities on the government's balance sheet.

A sovereign wealth fund for the UK?

The UK government doesn't operate a sovereign wealth fund and the Government currently has no plans to introduce one.

When recently asked whether the government plans to introduce a fund, the Economic Secretary said that the government's current priority is to reduce the deficit and start paying down the national debt.³

There is some support for a UK sovereign wealth fund. Amongst those calling for such a fund is the sponsor of the Westminster Hall Debate, John Penrose MP. In a report published by the Social Market Foundation in November 2016,⁴ Mr Penrose proposes establishing a sovereign wealth fund once the UK government reaches a budget surplus. A budget surplus is achieved when the government spends less than it receives in taxes and other revenues. Contributions to the fund would come from an element of income tax, and over the long term it would fund liabilities in the UK's pensions and benefits system. Mr Penrose expects the fund to be built up over several generations.

The FT reported, in July 2015, that there was support for a sovereign wealth fund amongst some senior figures in the fund management industry. Those quoted were keen that such a fund should be used to invest in the UK's infrastructure.⁵

³ [WQ47524 – Sovereign Wealth Funds](#)

⁴ Social Market Foundation, [The Great Rebalancing: A sovereign wealth fund to make the UK's economy the strongest in the G20](#), John Penrose MP, November 2016

⁵ ['New wave of support for UK sovereign wealth fund'](#) *FT*, July 2015

2. Press Articles

[It's time to think big to rebalance our economy](#)

John Penrose MP

The Times, 7 November 2016

[How to not spend it: It is tough for a small democracy to run the world's biggest sovereign-wealth fund](#)

The Economist, 24 September 2016

[Birmingham push for West Midlands sovereign wealth fund: New city council leader proposes shake-up of public finances to lift investment](#)

John Murray Brown

Financial Times, 19 January 2016

[Britain joins-sovereign wealth party too late](#)

Andy Critchlow

Reuters, 26 November 2015

[Labour will set up a British 'sovereign wealth fund' to make direct state investments](#)

Jon Stone

Independent, 28 September 2015

[New wave of support for UK sovereign wealth fund: Proponents believe fund would pump money into large infrastructure projects](#)

Bradley Gerrard

Financial Times, 19 July 2015

[North Sea oil – a failure to invest in Britain's future](#)

Guy Lodge

New Statesman, 15 April 2013

[Sovereign wealth funds are about to get wealthier](#)

Patrick Hosking

The Times, 11 March 2013

[The UK should set up a sovereign wealth fund](#)

Joseph Mariathan

Investment and Pensions Europe, November 2012

[A UK sovereign wealth fund?](#)

Robert Peston

BBC, 5 December 2012

[Why hasn't Britain got a sovereign wealth fund? Martin Vander Weyer says that we resent the growing power of countries which shrewdly invest the wealth from their natural resources. We had North Sea oil, and we blew the lot](#)

Martin Vander Weyer

The Spectator, 2 April 2008

3. Press releases

[Conservative MP calls for UK sovereign wealth fund](#)

Social Market Foundation, 7 November 2016

Former minister urges short-term and longer-term spending on infrastructure and calls for a UK sovereign wealth fund to address 'long-term and structurally-ingrained weaknesses' of the economy.

In a new paper published by the Social Market Foundation (SMF), the Conservative MP for Weston-super-Mare, former minister John Penrose, calls on the government to launch a UK sovereign wealth fund in order to correct what he calls some of the "long-term and structurally-ingrained weaknesses" of the UK economy, such as low saving rates, a low investment rate and failure to build infrastructure.

In the paper, titled *The Great Restructuring: A sovereign wealth fund to make the UK's economy the strongest in the G20*, John Penrose MP also urges the government to invest more in infrastructure both in the short-term and in the longer term:

"We need to build and invest more in crucial economic infrastructure, and keep doing it consistently and predictably no matter what the short-term economic weather may be, so we match (or beat) other developed economies.

"We can and should start doing this immediately, because it is the only kind of Government spending which can justifiably be paid for with long term debt. It will inevitably mean a slightly longer wait to eliminate the Government deficit and achieve a balanced budget, but should earn a good financial return through higher economic growth nonetheless.

"The Government should also legislate for a target of a percentage of GDP for Government long-term infrastructure investment, similar to the ones already in place for Overseas Development (0.7% GDP) and NATO (2% GDP).

The paper will be formally launched at an SMF event in Westminster on Tuesday 8 November.

Speaking about the new paper the author John Penrose MP said:

I supported the remain campaign in the recent EU referendum. However, leaving the European Union creates an opportunity to ask fundamental questions about our future for the first time in 40 years and we should seize that opportunity.

Historically, the UK has been worse at long-term planning than many other developed nations: it saves less, invests less, and builds less economically-vital growth-promoting infrastructure (roads, rail, ports etc.) than they do.

I believe the UK needs new fiscal rules, backed by strong new institutions, to change the way British politicians, Governments, savers and businesspeople behave over the very long term, so financial virtue becomes a reliable, permanent and boringly predictable part of our national finances.

This includes a sovereign wealth fund for the UK. Done right, this could make the UK's economy the strongest in the G20.

The underlying principle which underpins the changes that will be needed to fix our long-term weaknesses is generational justice: the idea that it is unfair to saddle our children and grandchildren with the costs of our current spending. But that is exactly what we are doing if we pay for those costs with long term debt, so there must be fundamental changes to the shape of Government finances.

The proposals in this paper are very big, long-term solutions for equally big, long-term and ingrained problems. They will need a sustained political, social and financial commitment, over several generations, if they're to be completed successfully. It is the kind of commitment which parents often make for their own children or grandchildren, to ensure they have a better life than they did. These proposals will do the same for the entire country. We should think big.

Key points of The Great Rebalancing:

- A new National Debt Charge ('NDC') carved out of Income Tax will pay the interest on the national debt in the same way as National Insurance Contributions (NICs) pay for the pensions and benefits system at present. It would be set as a % GDP and, as the economy grew, any surplus would be used to begin repaying the National Debt, and to build up a new UK Sovereign Wealth Fund.
- A UK Sovereign Wealth Fund which will build up over the very long term (several generations at least) to fund the liabilities in our pensions and benefits system.
- The UK Sovereign Wealth Fund should have a target date by when the build-up must be complete and the Bank of England will publish an annual letter confirming whether the NDC is set at the right level to achieve the target.
- The Fund should be managed through a fully-independent, standalone National Insurance Trust with a heavyweight Board of Trustees equivalent to the Bank of England, to prevent political meddling. It will be subject to the same rules for prudent investments and transparent reporting as every private-sector pension or insurance firm so taxpayers get value for money.
- Government should legislate for a target of a percentage of GDP for Government long-term infrastructure investment, similar to the ones already in place for Overseas Development (0.7% GDP) and NATO (2% GDP).
- The independent Office of Budgetary Responsibility (OBR) will make an annual declaration of whether the Government is being financially virtuous, to confirm whether the new infrastructure investment target is being followed, and whether the budget is being balanced across the economic cycle so day-to-day public spending is not being financed by long term borrowing.

4. Parliamentary material

4.1 Debates

Shale Wealth Fund

[HC Deb 21 November 2016 v617 c721](#)

4.2 Statements

Shale Gas and Oil Policy

[HLWS195 16 September 2015](#)

4.3 Parliamentary Questions

[Sovereign Wealth Funds](#)

Asked by: Murray, Ian | **Party:** Labour Party

To ask Mr Chancellor of the Exchequer, what discussions have taken place between the Government and managers of global sovereign wealth funds since the vote for the UK to leave the EU; and if he will make available the agendas of those meetings.

Answering member: Simon Kirby | **Party:** Conservative Party |
Department: HM Treasury

Treasury Ministers and officials have meetings with a wide variety of organisations in the public and private sectors to discuss a broad range of topics in the process of policy development and delivery.

Details of ministerial meetings with external organisations on departmental business are published on a quarterly basis and are available at:

<https://www.gov.uk/government/collections/hmt-ministers-meetings-hospitality-gifts-and-overseas-travel>

14 Nov 2016 | Written questions | Answered | House of Commons | 52121

[Sovereign Wealth Funds](#)

Asked by: Stewart, Bob | **Party:** Conservative Party

To ask Mr Chancellor of the Exchequer, if he will make it his policy to introduce a sovereign wealth fund.

Answering member: Simon Kirby | **Party:** Conservative Party |
Department: HM Treasury

The government's current priority is to reduce the deficit and start paying down national debt.

14 Oct 2016 | Written questions | Answered | House of Commons | 47524

[Fracking: Lancashire](#)

Asked by: Cooper, Julie | **Party:** Labour Party

To ask Mr Chancellor of the Exchequer, with reference to paragraph 1.249 of the Budget 2016, when and how the Government plans to consult on the priorities and delivery models of the Shale Wealth Fund; and how much of that fund he expects to be allocated to (a) Lancashire and (b) Burnley.

Answering member: Damian Hinds | **Party:** Conservative Party |
Department: HM Treasury

The Government will be consulting on the priorities and delivery models for the Shale Wealth Fund later this year. Details on how the government plans to consult on the Shale Wealth Fund will be announced in due course.

The Shale Wealth Fund is projected to deliver up to £1 billion of investment in the North and other shale producing areas over the next 25 years. This will provide additional funds over and above industry schemes and other sources of government funding. Further detail on how these funds will be allocated will be addressed when the government consults on the priorities and delivery models of the Shale Wealth Fund.

13 Apr 2016 | Written questions | Answered | House of Commons | 32969

[Fracking](#)

Asked by: Menzies, Mark | **Party:** Conservative Party

To ask the Secretary of State for Energy and Climate Change, what steps she is taking to ensure that shale gas community benefit funds are distributed to those households closest to potential drilling sites.

Answering member: Andrea Leadsom | **Party:** Conservative Party |
Department: Department for Energy and Climate Change

The government believes that every community hosting shale projects should share in the benefits.

The shale gas industry has made a voluntary commitment to its Community Engagement Charter, co-ordinated by its representative body UK Onshore Oil and Gas, which includes a commitment to provide benefits to local communities of £100,000 per well at the exploration/appraisal stage where hydraulic fracturing takes place and a further 1% of revenues if shale gas is discovered.

At a local level, the particular package of community benefits will be designed in conjunction with local residents. Industry have committed to keep their Charter and interaction with local communities under review,

including consulting communities about it over time, in the light of operating experience.

We have also committed to setting up a Sovereign Wealth Fund for the North of England, so that the shale gas resources of the North are used to invest in the future of the North.

01 Jul 2015 | Written questions | Answered | House of Commons | 3683

[Fracking](#)

Asked by: Mr Jim Cunningham | **Party:** Labour Party

To ask the Chancellor of the Exchequer (1) what consideration he has given to the possibility of creating a sovereign wealth fund from the revenue proceeding from fracking;

Answering member: Nicky Morgan | **Party:** Conservative Party |
Department: Treasury

Shale gas represents a huge economic opportunity for the UK. It could create thousands of jobs, generate significant business investment and provide substantial revenue for the Exchequer in the future. The Government will not be able to forecast the scale or timing of this revenue, however, until more work is done to determine the extent of gas that can be technically and commercially recovered. It would therefore be inappropriate to indicate now how potential future revenue would be used.

In addition, it should be noted that diverting revenues from the Government's finances to a specific shale fund, or one created by revenue from other natural resources, would come at a cost. The money cannot be spent twice. The Government would likely need to either raise additional tax revenue elsewhere or cut spending, to maintain the fiscal balance. The Government has no plans to assess the possibility, of creating a sovereign wealth fund from this revenue.

11 Feb 2014 | Written questions | Answered | House of Commons | 186917 | 575 c553W

[Fracking](#)

Asked by: Mr Jim Cunningham | **Party:** Labour Party

(2) if he will make an assessment of the experience of Norway in creating a sovereign wealth fund from the revenue accrued from the country's natural resources and the potential use of a spending cap.

Mr Jim Cunningham:

Answering member: Nicky Morgan | **Party:** Conservative Party |
Department: Treasury

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Government will not be able to forecast the scale or timing of this revenue, however, until more work is done to determine the extent of gas that can be technically and commercially recovered. It would therefore be inappropriate to indicate now how potential future revenue would be used.

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11 Feb 2014 | Written questions | Answered | House of Commons | 186918 | 575 c553W

Sovereign Wealth Funds

Asked by: Richard Graham | **Party:** Conservative Party

To ask the Chancellor of the Exchequer how much finance the UK has received from sovereign wealth funds in each of the last five years, by country.

[140568]

Answering member: Danny Alexander | **Party:** Liberal Democrats | **Department:** Treasury

Sovereign wealth funds do not publish all of their investment activity and it is not usually possible to disaggregate international capital flow statistics into individual investors. As a result this information is not readily available. However, sovereign wealth funds are major holders of Gilt securities and publicly listed equity and debt securities in the UK and are increasingly diversifying into unlisted investments.

Recent acquisitions of stakes in UK infrastructure by sovereign wealth funds include: China Investment Corporation in Thames Water and Heathrow airport; State Administration of Foreign Exchange in Veolia Water UK; Abu Dhabi Investment Authority in Thames Water; and Qatar Holding in Heathrow airport.

Chapter 10 of the ONS Pink Book provides a geographical breakdown of all financial investment in the UK:

www.ons.gov.uk/ons/rel/bop/united-kingdom-balance-of-payments/2012/bod-the-pink-book-2012.pdf

UKTI's annual inward investment report might also be of interest:

<http://www.ukti.gov.uk/uktihome/aboutukti/item/344820.html>

31 Jan 2013 | Written questions | Answered | House of Commons | 140568 | 557 c928W

Sovereign Wealth Funds

Asked by: Richard Graham | **Party:** Conservative Party

To ask the Chancellor of the Exchequer what consideration his Department has given to seeking finance for infrastructure projects in the UK from sovereign wealth funds; and if he will make a statement.

[140567]

Answering member: Danny Alexander | **Party:** Liberal Democrats |
Department: Treasury

This Government set out in its 5-year Strategy for UKTI published in May 2011, "Britain Open for Business", the intended approach to attracting inward investment from major overseas institutional investors. UKTI has now established the Strategic Relations team and is actively engaged in this initiative with the world's largest sovereign wealth funds.

The "National Infrastructure Plan—Update 2012", published alongside the autumn statement, highlights some of the successes already achieved in this area. The Chancellor and Commercial Secretary meet routinely with major international investors to promote inward investment into the UK. In addition, Infrastructure UK provides support to UKTI in relation to infrastructure investment.

31 Jan 2013 | Written questions | Answered | House of Commons |
140567 | 557 c928W

Sovereign Wealth Funds

Asked by: Amess, David | **Party:** Conservative Party

To ask the Chancellor of the Exchequer what recent representations he has received on sovereign wealth funds; and if he will make a statement how much was raised by sovereign wealth funds in the UK in each of the last five years.

Answering member: Eagle, Angela | **Party:** Labour Party |
Department: Treasury

Where a sovereign wealth fund is an integral part of the government of a foreign sovereign state it will benefit from immunity from UK tax. As a result of this immunity no taxation will have been received from sovereign wealth funds. The United Kingdom recognises the principle of international law known as sovereign immunity whereby one sovereign state does not seek to apply its domestic laws to another sovereign state. In accordance with this principle, current UK practice is to regard as immune from direct taxes all income and gains which are beneficially owned by the head of state and the government of a foreign sovereign state recognised by the UK.

Mr. Amess: To ask the Chancellor of the Exchequer (1) whether sovereign wealth funds are exempt from taxation in the United Kingdom; and if he will make a statement; [201976] (2) how much was raised by sovereign wealth funds in the UK in each of the last five years. [201977]

Angela Eagle: Where a sovereign wealth fund is an integral part of the government of a foreign sovereign state it will benefit from immunity from UK tax. As a result of this immunity, no taxation will have been received from sovereign wealth funds.

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28 Apr 2008 | Written questions | Answered | House of Commons | 475 c144W; 475 c143W | 201977

5. Further reading

[What is a Sovereign Wealth Fund?](#)

Sovereign Wealth Fund Institute

[The Great Rebalancing: A sovereign wealth fund to make the UK's economy the strongest in the G20](#)

John Penrose MP, Social Market Foundation, November 2016

[IMF Survey: IMF Intensifies Work on Sovereign Wealth Funds](#), IMF website (accessed on 8 December 2016)

[OECD Guidance on Sovereign Wealth Funds](#), OECD website (accessed on 8 December 2016).

[Now Indonesia has a sovereign wealth fund – and it won't be the last](#)

Democratic Audit, September 2016

[Shale Wealth Fund: consultation](#)

HM Treasury, August 2016

[The major role of sovereign investors in the global economy](#)

PWC, July 2015

[The Sky Did Not Fall: Sovereign Wealth Fund Annual Report 2015](#)

Sovereign Investment Lab Bocconi University, 2015

[A citizen's income and wealth fund for the UK: Lessons from Alaska](#)

Institute for Public Policy Research, February 2015

[Funding the Future: How Sovereign Wealth Funds benefit future generations](#)

Intergenerational Foundation, November 2013

[The impact of Sovereign Wealth Funds on economic success](#)

PWC, October 2011

[Sovereign Wealth Funds: Generally Accepted Principles and Practices
"Santiago Principles"](#)

International Working Group of Sovereign Wealth Funds, October 2008

[A common European approach to Sovereign Wealth Funds](#), European
Commission, 27 February 2008

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