Funding the Future

Jeremy Hunt might be putting the worst possible ISA ref...

Published: January 13, 2026, 2:10 pm

According to the FT this morning:

UK Chancellor Jeremy Hunt is being urged to summon his inner Kitchener at the Autumn Statement this week, reforming the UK's tax-free individual savings accounts to direct more money into the nation's stock market. A British Isa (or Brisa) would revive interest in UK markets, increase the pool of investors and boost economic growth, say proponents.

This is economic madness. As I have already noted this morning in my own proposal for ISA reform (with light editing to suit the current context):

There is little reason to think that equity share investments made through ISA accounts provide any significant economic benefit for the UK as a whole. The vast majority of shares held in ISAs will be held through managed investment funds, most of which will track the performance of large share indices. These funds rarely purchase new shares issued by the companies in which they invest, largely because quoted companies very rarely rely upon this source of finance now. In fact, those companies are usually more intent on repaying their share capital than they ever are on increasing it.

In that case, if Hunt makes ISA reform to push more money into the City of London he will not, as he might suggest, be providing more money for British investment. He will, at best, be providing more money for the City to speculate with, squander and exploit.

And he will, of course, be supporting the Ponzi scheme that is the City of London, which is always dependent on new sources of funding being found to keep share prices artificially high.

This scheme would be disastrous for the UK.

In contrast, my own scheme for ISA reform would deliver up to £70 billion a year for investment. As I note of it in the report published this morning:

All sums deposited in Green ISAs would be required to be invested in accounts, bonds, *funds and shares that have as their primary purpose the funding of:*

* *The required climate transition if net-zero goals are to be achieved.*
* *New social housing.*
* *Other new social infrastructure.*
* *Related training, education and support services.*

There are a number of ways in which this can be achieved.

Firstly, UK government already issues green saving bonds through NS&I, which is its own savings bank. These could be used for ISA savings purposes. The use of these funds is noted by the government in occasional reports[1].

These funds could also be saved through the collective purchase of green gilts issued by the UK government, which are now becoming more common place.

If the UK was also to create a properly functioning national investment bank that had as its purpose investment in the above-noted categories of assets, on which returns could be paid by their users, then bonds issued by that bank could also be used for green ISA purposes.

Fourthly, private sector funds meeting the required specification for investment could be used for this purpose. This category of investment would, however, carry a higher degree of risk than the first three categories, noted above. A very clear taxonomy requiring strong evidence of the actual investment of funds raised for green purposes would be required for any company to qualify to raise funds in this way.

Because of the differing risk profile of these investments, it would be a requirement that at least one half of all savings be made in the first three categories of government-backed savings products noted above. That would, however, leave at least half available for investment in the private sector if that was the saver’s choice. This would mean that the current approximate risk profile of average ISA savings could then be replicated through this new ISA arrangement.

You take your pick, but only one of these schemes adds value to the UK economy, solves the problem of investment in it, and addresses the climate crisis.

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[1] https://assets.publishing.service.gov.uk/media/651446cdb1bad4000d4fd916/HMT-UK_Green_Financing_Allocation_Impact_Report_2023_Accessible.pdf