



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Economy, Energy and Fair Work Committee

**Tuesday 21 May 2019**

**Session 5**



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Pàrlamaid na h-Alba

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**ECONOMY, ENERGY AND FAIR WORK COMMITTEE**

**17<sup>th</sup> Meeting 2019, Session 5**

**CONVENER**

\*Gordon Lindhurst (Lothian) (Con)

**DEPUTY CONVENER**

\*John Mason (Glasgow Shettleston) (SNP)

**COMMITTEE MEMBERS**

- \*Jackie Baillie (Dumbarton) (Lab)
- \*Colin Beattie (Midlothian North and Musselburgh) (SNP)
- \*Angela Constance (Almond Valley) (SNP)
- \*Jamie Halcro Johnston (Highlands and Islands) (Con)
- \*Dean Lockhart (Mid Scotland and Fife) (Con)
- \*Gordon MacDonald (Edinburgh Pentlands) (SNP)
- \*Andy Wightman (Lothian) (Green)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

- David Alexander (Mydex CIC)
- Professor Lynne Cadenhead (Women's Enterprise Scotland)
- Flora Hamilton (Confederation of British Industry)
- Linda Hanna (Scottish Enterprise)
- Matt Lancashire (Scottish Council for Development and Industry)
- Helen Martin (Scottish Trades Union Congress)

**CLERK TO THE COMMITTEE**

Alison Walker

**LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Economy, Energy and Fair Work Committee

Tuesday 21 May 2019

*[The Convener opened the meeting at 09:46]*

### Decision on Taking Business in Private

**The Convener (Gordon Lindhurst):** Good morning and welcome to the 17th meeting in 2019 of the Economy, Energy and Fair Work Committee. I ask everyone in the gallery to turn any devices that are still on to silent.

Agenda item 1 is a decision on taking business in private. Do members agree to take items 3, 4, 5 and 6 in private?

**Members indicated agreement.**

## Scottish National Investment Bank Bill: Stage 1

09:47

**The Convener:** Agenda item 2 is continuation of our stage 1 consideration of the Scottish National Investment Bank Bill. I welcome to the meeting our first panel this morning: Professor Lynne Cadenhead, chair, Women's Enterprise Scotland; Linda Hanna, managing director, Scottish economic development, Scottish Enterprise; and David Alexander, chief executive and co-founder, Mydex CIC. To those who have not given evidence before, I point out that the microphones are operated by the sound desk, so there is no need to press any buttons. If, as the discussion develops, you wish to come in on a question, please indicate as much by raising your hand.

I will move on to the first question. Some of the submissions that we have received express the view that the broad mandate set out in the bill under the bank's main and ancillary objects fails to enshrine either the Scottish Government's vision for the bank, as set out in its implementation plan, or the socioeconomic and environmental objectives that were expected from the consultation process. Do you share that view? Are you satisfied with the objects that are set out in the bill, or do you think that they are somewhat vague and open to interpretation?

**David Alexander (Mydex CIC):** We think that an opportunity has been missed as far as the objects are concerned. The vision was set out very clearly but, unfortunately, as we see in so many walks of life, plans and visions are sometimes not implemented, and an opportunity gets missed.

I think that the objects need to be tighter and more explicit about what the intention is. If that does not happen, it might leave the bank open to failing to achieve its mission and vision. I have some thoughts on what the bill should say in that respect, if the committee would be interested in hearing them.

**The Convener:** Do you want to give us just an indication? Obviously, witnesses can write to the committee after an evidence session if they wish to add to their evidence.

**David Alexander:** It is very straightforward: the main object of the bank should be to provide capital, including long-term or patient capital, to enterprises that support and enable the achievement of ministers' mission of achieving sustainable and inclusive social and economic benefits. At the moment, I do not think that the bill says that or supports that aim.

Patient capital means equity investments as well as loans. There is enough of a commercial loans market out there, but we are talking about significant infrastructure investments in both the digital economy and the physical economy. The Scottish national investment bank presents a massive opportunity to underpin and support that work, but that is not set out in the bill at the moment.

**The Convener:** Do any of the other panel members wish to comment?

**Professor Lynne Cadenhead (Women's Enterprise Scotland):** There is a sense in the early-stage investment community that there is a lack of clarity in what it is proposed that the bank should do. We are particularly concerned about the bank's ability to fund females in business and about there being a focused opportunity to fund female entrepreneurs. We are in discussions with people who are involved with the Scottish national investment bank, and they are very open and willing to having further conversations, but there is still a little bit of work to do in that respect.

**Linda Hanna (Scottish Enterprise):** With regard to what the bank is being set up for and what is required in the economy, we can see that the bill adds to what needs to be done. The reference to

"inclusive and sustainable economic growth"

in the objects and the focus on getting more finance into the system are absolutely needed and will help some of our ambitions for the economy. As has been set out, the bill provides clarity, and given the long period of time over which the bank will be set up, there will be some flexibility to attune it to the economy's needs as required.

**Dean Lockhart (Mid Scotland and Fife) (Con):** Good morning, panel. My first question is about the demand for the finance that the bank will provide. As we have seen, there has not been sufficient demand from business in Scotland to take up finance through other policy initiatives such as the Scottish growth scheme. Is there enough underlying demand in the economy for the significant level of finance that will be provided by the bank?

Secondly—and this is perhaps a question for Linda Hanna—what steps or different approach will Scottish Enterprise take to stimulate that additional demand in the economy?

**David Alexander:** There is overwhelming demand in the market for the finance that will be provided by the Scottish national investment bank; the issue is that, as currently envisaged, it is not the right type of finance. We need patient capital, not five-year loans underpinned by a commercial rate of interest. What we need are long-term

equity investment, long-term loans and convertible loan notes that can take equity and deliver significant returns to the bank through dividends.

Mydex CIC is a community interest company, and in the 12 years that we have been around, we have pretty much funded ourselves through social investment. We have tried to raise capital for the sorts of infrastructure projects that we deal with and which try to improve public services, remove form filling, ensure inclusion and work with people, and we have found that incredibly challenging. The Scottish Government has led the way on programmes to try to improve the lot of Scottish citizens as well as public services—CivTech and the Scotland can do forum are really good examples of that and have been really positive initiatives. However, the type of funding that we need to equip the whole of Scotland with the infrastructure necessary to remove form filling and risk from the delivery of public services and thereby strip out 45 to 90 per cent of the operating costs of delivery is just not there. Everybody just wants to lend money for three to five years, and nobody wants to make investments or provide proper patient capital. If you constitute the bank correctly and offer that sort of funding, there will be an overwhelming demand from people who actually want to pay it back.

As a CIC, we want to make returns and deliver dividends. We are not asking for a handout—we are just running infrastructure projects and trying to change the way the economy works.

**Professor Cadenhead:** I absolutely agree with David Alexander. All our research shows that there is significant demand among female-led businesses for finance, and significant ambition among women to grow their businesses. In fact, the female entrepreneurs we talk to tell us that access to finance is the most significant barrier that they face. The issues are not only the type of finance and the need for patient capital but the need to develop opportunities for funding that are more appropriate for female-led businesses, such as loans that include childcare breaks. We also need to overcome the problem of having to grant security against loans. It is a step too far for a female entrepreneur to put the family home down as security. We need to look at the type of money that is available.

**Linda Hanna:** Scottish Enterprise sees demand: we run the Scottish Investment Bank and, in our portfolio, we see a fairly healthy pipeline for our different funds, both loans and equity.

The Scottish-European growth co-investment programme that we run has had a slower start, so we know that switching to new things, particularly at such scale, can be challenging. However, the Scottish national investment bank is about patient

capital, so we will learn what that looks like. We have done three deals through the SEGCP, which tells us that there is a market for that finance. However, we need to ensure that we switch on that market.

We believe that the Scottish national investment bank is ambitious but achievable, and that it is what the economy needs. As Lynne Cadenhead and David Alexander said, the additional £200 million over 10 years will provide an opportunity to look at different routes to funding. However, we also need to think about how we switch on parts of the market that the current product offering may not be serving in the way that it needs to in future.

On Dean Lockhart's question about demand, Scottish Enterprise sees the opportunity of the bank as not just being about the £200 million, although I know that that is what is often talked about. We see the bank as a catalyst. There is already work being done on the back of the enterprise and skills review to look at how the system could work more effectively and how the ecosystem works, not just in the public sector but in the private sector, social enterprises and the third sector. The Scottish national investment bank coming on stream is an opportunity to look at how the whole system works, and to drive demand in that way.

If it would be helpful, I would be happy to describe the ways in which we are already looking at stimulating demand and how we will do so in future. I could also send in examples.

**Dean Lockhart:** You have anticipated my next question. The advisory group told us that the bank will not act as the originator of funding opportunities. It will provide the funding and it will be up to other agencies—largely Scottish Enterprise and others—to stimulate demand and find businesses for financing. What reforms will Scottish Enterprise make to stimulate extra funding? Will you need more staff and a higher budget to achieve that?

**Linda Hanna:** I should say up front that we are working closely with colleagues in the Government on both the setting up of the Scottish national investment bank and how the transition will work. It is very much a team approach, involving not only the Government and SE but other partners.

We are looking at what it will take to develop that pipeline, and we are already putting some things in place. One example is the work that we are doing in manufacturing. On behalf of the Government, Scottish Enterprise has been leading the work around the manufacturing action plan that the First Minister launched a number of years ago, and the national manufacturing institute will be coming on stream.

We are also in the process of setting up the advanced manufacturing challenge fund, which will help to provide regional facilities and capability so that businesses can take advantage of new manufacturing techniques. As businesses get ready, that will drive demand, either for capital investment or for taking people on, to where the finance will come from. There are things that will be in place that we will invest in, and then we will work with those businesses to drive demand towards the bank and help them to get ready.

The financial readiness scheme that we already operate will stay with Scottish Enterprise. Fifty per cent of the business that comes through that comes from the work that we do with companies, and 50 per cent comes through other routes, such as business gateway and our website.

We want to ensure that our financial readiness work is even more fit for purpose by using online services and providing it in places where businesses are, in regions and cities. In doing that, we will work closely with south of Scotland enterprise and Highlands and Islands Enterprise.

10:00

We are committed to the demand work, which is about how we work with our current businesses and how we switch on other businesses and ensure that the support is there to help them to get ready. We do not know yet whether that might take more resource; we are working through that. We are also looking at how we ensure that our sales force—the staff who work with partners and businesses—has a commercial mindset about what a good deal looks like so that, as that is driven towards the Scottish national investment bank to do the transaction, we know what the deal looks like.

Therefore, we are doing a number of things; I have other examples, but I do not want to take up too much of the committee's time.

**The Convener:** David Alexander wants to come back in briefly.

**David Alexander:** I completely support what has been said. A fundamental point is that we need to make it clear that when we refer to the private sector, we are including the third sector, community interest companies and social enterprises, which might want to apply for investment funding, notwithstanding the point that I made about patient capital.

The minute that it is made clear that the private sector means not just for-profit commercial companies but mission-led organisations that deliver services and need financing, demand will increase massively. The minute that umpteen bodies, such as Social Enterprise Scotland and

the Scottish Council for Voluntary Organisations, realise that the Scottish national investment bank can support their members, demand will increase. I suggest that that will increase the demand for resources to process applications and for information about how to apply.

However, the position is ambiguous at the moment. The talk is about being commercial and about the private sector. In the evidence that was given on 14 May, we heard that there is ambiguity and that people are not sure whether community interest companies such as us, which are asset and mission locked but also limited by shares, will be able to apply. There is a massive opportunity to clarify the bank's purpose and mission.

**Dean Lockhart:** I have a final question for Linda Hanna. Thank you for your earlier answer, Linda. Other witnesses have said that the enterprise agencies will have an expanded role to play in delivering funding opportunities to the bank. I was interested in your comment that that might result in a need for more staff. Do you expect Scottish Enterprise's budget to increase in the years ahead to accommodate the higher workload?

**Linda Hanna:** We have not looked that far ahead. We are about to launch our strategic framework and business plan for this year, which will set out our plans. We have not yet had conversations about the issue that you ask about; we are still working through what the future will look like. I am happy to come back to the committee to talk about that once we are clearer about those things.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** It has been suggested that the new bank could have more of a role in providing business support and advice, which Scottish Enterprise and Highlands and Islands Enterprise currently provide. How will regional knowledge—particularly about my area, which is the Highlands and Islands—be maintained if the bank takes over some of those responsibilities?

**Linda Hanna:** If the bank is to add benefit to the economy, it must work as part of an ecosystem. The implementation plan and the conversations that we have had with the Government and the SNIB team underline that. The system includes south of Scotland enterprise, Highlands and Islands Enterprise and other actors in that space—it is not just about us. We have talked to colleagues in SNIB about the work in response to the enterprise and skills review to create an additional entry point and enable access to services, which SNIB could take advantage of.

We do not see what is proposed as moving stuff around without adding benefit. The agencies are good at working on the ground with businesses and customers. There is no hand-off process; we

must understand companies' needs and the wraparound support that they require. Part of that will come from SNIB, but that will not be all the support that a business needs. All of our evaluation over the time that the SIB has sat within Scottish Enterprise tells us that it is the package of support, the combination of elements and their sequencing that matter. The customer experience is incredibly important—we all recognise that. I expect that to continue, and for us to be working hand in glove because we have to; the lines around how the customer navigates the system need to be short and seamless.

Therefore, from the conversations that we are having, I am confident. The issue will be joining that up. The implementation plan talks about making sure that business support services are integrated in that way, so that we can use the expertise in the bank on equity, loan and financial instruments and our capability in business support advice, both of which will be deep. It is a matter of how we join those up.

**Jamie Halcro Johnston:** You are suggesting that you are confident that your support will not be diminished, and that it could even be enhanced. One of the questions in the committee's business support inquiry was about whether the enterprise body and, for example, the local authority business gateway were co-ordinating. You are saying that you are confident that that co-ordination will be better in this case than in others. I appreciate that the Highlands and Islands is not your area.

**Linda Hanna:** I am an optimist and I am confident that a combination of important things are going on in Scotland. You are scrutinising the SNIB bill today, but on the back of the enterprise and skills review and the work that has been done with business gateway, Scottish Enterprise, HIE and others, the Enterprise and Skills Strategic Board is looking to rationalise and simplify, so that access is better and digital technology is used in a different way.

That combination will be important. It is about the whole system working and all of us—I do not just mean Scottish Enterprise—are working very hard to make that real. I am confident, because I see that reality in the Scottish Government's expectation of those things, with people like me and my colleagues in other agencies to make that work. That will ensure that we can deliver the business services that business needs and connect that into new instruments such as the SNIB.

**Jamie Halcro Johnston:** You are already looking at ways to evaluate that and at how the relationship works.



**Linda Hanna:** I am not aware that we have put an evaluation in place to do all of that yet.

**The Convener:** We have a brief point from David Alexander. I am conscious of time and that a number of committee members want to come in.

**David Alexander:** I can send a lot more information, but I am deeply concerned. From the analysis that we do, working on the front line with 14 clusters across Scotland, we already see at least five or six overlapping initiatives in each local cluster with many of the same organisations involved. That is where the targeted advice and support should be made available and consistently delivered. Yes, it can integrate with the SNIB, but I am very worried about trying to centralise that kind of support. There have to be contact points that join the dots. Otherwise, we will have a Venn diagram on steroids, with everybody trying to provide advice.

That is a real risk, because each of the communities that we work in is different although the themes—the community empowerment act, local implementation plans, health and social care partnerships, integration joint boards—are similar. Constant turmoil and change are the only constants that we find out there. We are trying to transform that, and if another initiative means that the process has to go to the centre, I think that there will be a problem.

**Jackie Baillie (Dumbarton) (Lab):** I am going to appropriate the phrase “Venn diagram on steroids”. I quite like that.

I want to turn the discussion back to an issue that David Alexander raised earlier and to the suggestion of lending solely to the private sector that is in the financial memorandum. My view is that that is certainly against the spirit of the implementation plan. Does the panel believe that restricting borrowing in that way, and not opening it up to the third sector or community enterprises, is perhaps a little short-sighted?

**David Alexander:** I absolutely agree. What is different about a community interest company? We are limited by shares. We decided to be mission and asset locked because we want to deliver transformation and change in how services are delivered and citizens empowered. We need capital to make that happen. We deliver services and work across the public, private and third sectors, but we need funding. Why are we any different? Why should a community interest company that has decided to commit itself to a social purpose be treated differently from somebody who says, “I am only here to make money for my shareholders. That is my profit imperative”? All the time, we see so much money going into start-ups, which look fantastic and then get sold off to big American commercial

organisations, so that there is no economic, societal or employment growth.

As much as economic growth is needed, we need to support the third sector, which delivers significant chunks of public services and support to the Scottish population and is growing the economy. Social enterprises, such as community interest companies, are designed specifically to help to deal with intractable, complex issues that need long-term commitment.

**Professor Cadenhead:** Again, I agree with David Alexander. Women’s Enterprise Scotland is a community interest company and a lot of the enabling and supporting organisations that help our entrepreneurs and companies to grow are social enterprises, such as community interest companies. Strategic funding and investment should be made available to them.

**Linda Hanna:** The Scottish Investment Bank’s current investments through our range of schemes are not just in private limited companies. What “private” means should be explored, because sometimes it means just that a company is not public sector and could be one of a range of types of company. We already have community-based projects in the schemes that we operate on behalf of the Scottish Government.

**Jackie Baillie:** However, that is not currently spelled out. My understanding about the reason for the restriction is that the bank will be resourced initially only by financial transaction money. If we were to take that wider approach, the expectation would be that the Government would put in other sources of funding that would not be similarly restricted. Linda Hanna is nodding, so I assume that that is the case.

I will tease out the commercial issue, which David Alexander has already answered. The wording in the financial memorandum and the bill is that the objective is to fund “commercial activities”. Terminology may again be the issue, because many projects have a societal or environmental benefit but are not necessarily for profit, which is what is implied by the term “commercial activities”. David Alexander, do you want to see the language tightened up, so that we can ensure the broadest possible scope?

**David Alexander:** I ask for a better definition, because “commercial” means one thing in one world, another in another world. A simple example is that removing the need for form filling by Scottish citizens to access public services could save 45 per cent of the transaction cost of the services and therefore release money into front-line staff delivery. That is a commercial business case, because it would mean that the services could do more with less. At the moment, such examples are not even being considered, although

the bank's vision is to help to improve society and the economy.

Our community interest company is committed to removing friction, risk, effort and cost from the provision of transactions and services and to investing 65 per cent of our surplus in the social purpose of empowering the people of Scotland. I ask people to consider that the word "commercial" is about the mission of making things better, faster, cheaper, more efficient and fairer.

**Jackie Baillie:** That is helpful. I will ask the other witnesses a slightly different question because, if we want that broader scope, the limitation that is imposed on borrowing by financial transaction money becomes unduly restrictive. Should the bank be able to issue bonds or public shares, or should it be able to borrow only from Scottish ministers?

**Linda Hanna:** How the Scottish national investment bank is set up is a matter for the Scottish Government. There is a broader issue about the system, which I will go back to. The Scottish national investment bank will be part of the system and we need to think about it in that context. There is still an opportunity to look at where the use of financial transactions or loans that might be less commercial in the long term sits best in the system and what will be the best way for Scotland to use them in the future. That will be part of the conversations that we will have with the Scottish national investment bank.

**Jackie Baillie:** I suppose that this is all a matter for the Scottish Government, ultimately, but I am asking whether your professional advice would be to encourage the Government to leave it open to the bank to offer bonds and public shares.

10:15

**Linda Hanna:** That is not a matter on which I would give advice. I do not have deep expertise in that area.

**Professor Cadenhead:** I do not feel appropriately qualified to comment on that, either.

**David Alexander:** I would unequivocally say that the Scottish Government should not do so.

**Jackie Baillie:** Can I ask you why?

**David Alexander:** Absolutely. It should not do so because the whole mission, vision and purpose of the bank is to improve Scotland. The minute you open it up to publicly traded shares and the issuing of bonds to the private sector market, you end up with the groupthink of the financial services sector, which only wants a return for its shareholders at commercial rates. Companies in that sector have billions of pounds' worth of opportunity to do that elsewhere. The creation of a

national investment bank is an opportunity to set out a vision for how Scotland can be treated. The bill deals with points to do with state aid. There are many exceptions within the state aid rules that allow the bank to exist and operate. The state aid restriction will apply only until 2021; after that, many other choices will be available.

The Scottish national investment bank could be a self-funding bank. If it gets it right—if it does equity investment and long-term loans—it will build up its own asset base. I know that the asset base is only £2 billion at the moment—we say "only £2 billion" as though it is nothing, but it is a vast sum of money that, if applied judiciously, could solve complex issues instead of just funding the private sector. That would be a brilliant mission for the bank to have. "Be different" is the challenge that I would put to it.

**John Mason (Glasgow Shettleston) (SNP):** I will begin with a supplementary. Do you not think that a lot of ordinary people in Scotland would like to put some of their savings into the bank, because they would think that that would be good for the economy?

**David Alexander:** I think that that is a fabulous idea. We have seen many examples of national savings initiatives. If people got a guaranteed rate of return that was not as variable as it is in the private sector, the bank would provide a good opportunity for that.

However, that is different—that is citizens saying, "I want to support the improvement of this country," and being happy to support a national investment bank that has a clear mission and purpose to do just that.

**John Mason:** So you are not against all outside finance.

**David Alexander:** That investment will feed back into people's communities, improve their infrastructure and remove friction, risk, effort and cost from their lives. Why would they not want to invest in the bank?

**John Mason:** Thanks for that. I just wanted to clarify that point.

The main thrust of my questioning is about the advisory group, on which various submissions have been made to us. Some people think that, if the link is too close, the advisory group could be too involved in the running of the bank, while other people think that it will be too far away and that it should perhaps have fixed representation on it, whether from trade unions or people from different regions. What are your general feelings about the advisory group? Where do you see that going?

**David Alexander:** I think that there is a risk of groupthink. I think that it is drawing from too narrow a pool of people, many of whom seem to

be money people. I think that there needs to be representation from citizen groups. We work in Glasgow, where there are citizen activists, who are not as terrifying as they might sound. They are incredibly well informed about life in their communities. Each of the clusters has citizen panels. There are organisations such as Social Enterprise Scotland that are doing a great deal of good work that could contribute to the group.

It is not wholly a financial advisory group; it is about mission and purpose, which is the other area where we need transparency and accountability. At the moment, the bank appears to be a bit too arm's length from the Scottish Government. The goals and objectives must be measurable, and the advisory group could hold the governance committee of the bank to account on that. There should be people on the group to look at outcomes and impact.

**John Mason:** You said that there is a danger of groupthink and that the advisory group is drawn from too narrow a range of people. Is there something in the bill or the financial memorandum that makes you think that?

**David Alexander:** I do not think that the mission, the measurements and the accountability are strong enough for the bank to report back to ministers. The fact that the advisory group draws from too narrow a field of people presents a danger.

**John Mason:** I am sorry—why is that the case?

**David Alexander:** Because they will look at the bank as a financial institution, not as a much broader institution that is meant to deliver the mission and vision of the bank on behalf of the Scottish ministers and the Scottish people. Someone must hold it to account. Performance must be linked to achievement of the vision and the mission.

**Professor Cadenhead:** It very much depends on the role and make-up of the group. The bank will have its chair, its chief executive and its non-executive directors, and I would see the advisory group as drawing intelligence from the community and, through its make-up and the people involved, ensuring diversity of thought, not only on a gendered basis but on the basis of social background, age and demography and so on. It all depends on what role you want the group to play and how it is constituted and governed.

**John Mason:** If, say, the chair of the advisory group was on the board of the bank, would that be too close a relationship? Might it lead to a conflict of interest?

**Professor Cadenhead:** Probably. After all, it will simply be an advisory group, and it will be

there just to give advice. It will be up to the board whether or not it takes it.

**John Mason:** Did you want to say anything, Ms Hanna?

**Linda Hanna:** The group will be really important. We are talking about something that is long term—at least 10 years—and the missions have still to be identified. As a result, the group will have a real opportunity to bring diversity of thinking to the matter, with different people going on to and coming out of the group as the bank moves forward over time. The governance will be the governance, but I think that the advisory group will be able to provide some independent thought, real depth of expertise and a knowledge of research and views on the thinking that is happening elsewhere. That approach can flex as the bank decides where it is going and separately from the governance. I therefore think that it is quite an important part of the bank's construct, as it can reflect not only the progress being made with the strategic framework and what the bank is doing but where the bank wants to go with regard to the economy.

**John Mason:** Thank you very much—that was helpful.

I want to move on to some of the financial implications. Again, different views have been expressed in the evidence that we have received on how quickly we might expect the bank to break even. If patient capital is involved, it will take quite a long time for that to happen, but the suggestion is that the bank should break even fairly quickly, which is something that the Royal Society of Edinburgh is uneasy about.

There is also the issue of the costs involved. As someone else is going to ask about remuneration, I do not want to touch on that matter, but can you say something about the general costs of the bank? I think that the Scottish Government is going to have a sponsorship unit linked to the bank, which will cost £1 million a year. It has been suggested that that is a bit too much. What is your overall feeling about the projected costs? Are they too high or too low, or are they realistic?

**David Alexander:** With any new institution that is formed, there is always the risk of duplication of effort and overlap, and I commend to the Parliament a look at the existing service providers that could perform many of the bank's proposed functions today in Scotland. Instead of creating a whole new institution, we should think of it very much as a virtual organisation, as is the way of the world at this time, and using existing service providers in Scotland, such as Social Enterprise Scotland, to underpin many of the operational delivery components would be a good thing. Any

number of bodies could deliver some of the back-office services.

My big worry is that the timescale for making a return on investment and for the bank to be self-sustaining is completely unrealistic and that it will be driven down the path of commercial loan making and competition with the commercial market. The bank is meant to be different. We should be committing ourselves to a long-term programme that ultimately delivers money back into the Scottish economy and the Scottish Government and which becomes self-funding, but that will not happen overnight.

**John Mason:** Can you put a realistic timescale on that?

**David Alexander:** I think that you would be happy if the bank broke even in 15 years. That might be blasphemous but, in reality, I think that it should be delivering returns within 15 years.

**John Mason:** Is it possible for politicians just to sit here and wait for, say, 10 years? That is two parliamentary terms.

**David Alexander:** I know how terrifying that is in political and economic terms, but this is meant to be the Scottish national investment bank. With the multibillion-pound investments that are made in infrastructure, no one asks, "Is it going to pay the money back in three or five years?" We are talking about a Scottish national investment bank. It is meant to transform the economy and civil society, and that will not happen overnight. We are constantly being faced with people trying to rewire the building with the power still switched on. That is the transformation that is under way, and it is not going to be done in three years.

We see it all the time with our cluster profiles; millions and millions of pounds get put into reports describing the problem, but nothing gets put into implementation, and then we are on to the next plan, the next landscape review or the next project reviewing why the previous approach did not succeed. We just have to change our time horizons here.

**John Mason:** That is very helpful.

**Professor Cadenhead:** The projection that the bank will break even within a couple of years is wildly ambitious. In our work with early-stage companies, for example, we usually take their projections and say that it will take them twice as long and cost twice as much and that they will make half as much money. The same kind of sensitivity analysis can be applied to pretty much anything that is new. The average time to exit from a start-up company, when funds will be returned, is probably seven years. If the bank is investing in high-risk, high-innovation companies, it will not start to get returns for a significant period, so to

say that it will break even in two years is wildly ambitious. Venture capital funds tend to work on a kind of 2 in 20 arrangement—they get a 2 per cent management fee and a 20 per cent carry.

**John Mason:** Can you explain what a 20 per cent carry is?

**Professor Cadenhead:** That is benefit or interest—money that comes back to the people in the fund when they exit from the opportunities. The costs that are involved here are pretty hefty.

**John Mason:** Does Ms Hanna want to say anything on that?

**Linda Hanna:** No.

**David Alexander:** I will add one thing. I run a community interest company limited by shares. We are 12 years into a 30-year mission. Who is helping me on that mission to improve public services and the lives of people?

**John Mason:** But your board does not wait until after the 30 years to ask whether you have failed or succeeded.

**David Alexander:** No—we are constantly looking at the progress that we are making. In some years, we do incredibly well and in others we have to fund it. We are working with local authorities, the third sector and the private sector. It is a transformation programme, so we constantly come up against people not facing the reality of what transformation of services looks like. Everybody wants it tomorrow.

**John Mason:** That is helpful. I will have to draw a halt, because other people want to ask questions.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** We have already touched on whether a plc is the right vehicle for the new Scottish national investment bank. However, we have received evidence from the Scottish Council for Development and Industry that says that being a plc will allow

"the Bank to raise capital from a range of public and private sources",

and that

"the Articles of Association ... will protect the ... ownership of the Bank."

The Scottish Trades Union Congress evidence says:

"Being established as a public-limited company wholly owned by Ministers ensures that the Bank is publicly-owned and privatisation would require primary legislation."

Why do you think that another model would be better than the plc model?

**David Alexander:** That is a slightly weird question. I believe that a community interest

company model would be appropriate for the bank—that is, an asset and mission-locked bank. There is nothing to stop a community interest company from becoming a plc but remaining a CIC.

I have a more fundamental point to make about why what is needed is a CIC structure that is asset and mission locked. The mission of the bank has to be protected. A plc that slides into private ownership, even if Parliament has to vote for that, will be driven down a market forces route, and the idea that we must let market forces survive is an illusion. The bank is meant to be an important lever in the Government's approach to improving Scotland and its economy and society. If the bank is mission locked, that will protect it for the future. Also, there will be a massive benefit in the bank being a CIC: it will have to reinvest 65 per cent of any surplus that it makes in its mission, which will build up the capital base that it needs to continue investing.

If you intend to sell the bank off to somebody else at some time and you float it off as a CIC—as a plc that is covered by the community interest company regulations—that will protect the mission lock, which means that only people who are committed to the vision will invest in it. The worst thing—the travesty—would be if the Scottish national investment bank ended up as another privately owned bank as it slipped down the side and started being measured by purely commercial measures.

**Gordon MacDonald:** Is there any evidence that that could happen? We already have development banks in Scotland, and there is the Development Bank of Wales, which has been established for nearly 20 years, and the British Business Bank, both of which are plcs. Why have they not gone down the CIC route?

10:30

**David Alexander:** Understanding of a community interest company has been very low and the regulations have not been in place as long as those for a plc. A plc is a legal form that a community interest company can have. Scotland has an opportunity to support the CIC structure and have a plan to move it to a plc. It is double protection for the mission and assets of the bank. That is all that I am advocating. If you want to make it a plc but make it a CIC plc, the terms and conditions and articles of association are all available off the shelf. I am advocating that you think differently about the asset and mission lock.

**Linda Hanna:** My understanding, although I have not looked at it, is that the team looked deeply at different models. Two have been mentioned, and the team looked at others,

particularly in Europe. The team weighed up the factors—what the bank is there to do, what would be the best structure for that—and came up with this model. Fundamentally, the bank is publicly accountable but is also commercial and able to generate an evergreen portfolio. There is a combination of factors. The research that the team did led it to believe that the model is right in that it provides a direct line to ministers.

**Professor Cadenhead:** I am a big fan of not reinventing the wheel. I am a big fan of looking at what has happened in other countries. As has been said, the model has been adopted in a number of other countries. There are ways and means to write protections into articles and so on to ensure that the bank delivers on what it is supposed to. On balance, we would say that the plc approach is the right one.

**Andy Wightman (Lothian) (Green):** To follow up a question that John Mason asked about the advisory group, which is recommended in the implementation plan but is not provided for in the bill, to the extent that you think that an advisory group is a good idea, do you think that it should be enshrined in the bill?

**David Alexander:** It should be enshrined in the articles of association of the bank. Putting it in the bill seems to separate it from the bank's existence. The role of the advisory group should be defined as part of the articles of association of the bank.

**Andy Wightman:** The purpose of the advisory group is to advise ministers.

**David Alexander:** Yes, but I think that the advisory group has to have a relationship with the bank and therefore the bank has to acknowledge its existence and cannot ignore it. The bank has to support its endeavours and be transparent about supporting it. If the group is included in the bill to make it an official and legal part of the ministers' support network, it also needs to be embedded in the articles of association. Otherwise, the bank has the opportunity to say, "Well, it is not really anything to do with us."

**Andy Wightman:** Are there other views?

**Professor Cadenhead:** The feedback from people is that the advisory group will be important for the ministers. Because it is of such importance, it probably should be in the bill.

**Andy Wightman:** On the question of the mission, when Professor Mariana Mazzucato gave the committee evidence last week, she was quite clear that the mission should be more central to the objects of the bank. The objects are set out in section 2 of the bill. The mission is talked about in section 11 and is something that ministers will set. Any changes to the objects would be subject to parliamentary approval, but the setting of the

mission or any changes to it is not subject to any parliamentary procedure. First, should the mission be more central to the objects in section 2? Secondly, should the missions that are set be subject to parliamentary scrutiny?

**David Alexander:** Absolutely, the mission should be more tightly associated with the objects. As I said, it feels as if the mission has been lost. The bill needs to embed the mission of the bank in the objects and make it crystal clear.

**Andy Wightman:** I am not talking about the mission of the bank. I am talking about mission-oriented finance. The various missions are set from time to time.

**David Alexander:** I am convinced that the missions should be in the objects as an explicit part of the purpose of the bank.

On the second question, so long as adequate parliamentary time is given to the discussion of the mission, there is an opportunity for real debate about what the mission should be. There will be an opportunity for it to survive Parliament, given John Mason's point about return on investment and timescales. If the bank is to deal with intractable issues and to support finance, there needs to be proper debate. Once the decisions are made, they need to transcend Parliament. That might not please ministers, but there needs to be accountability for the mission, or it might end up becoming a bit of a political football. The missions need to be debated in Parliament.

**Linda Hanna:** The operational matters relating to the missions are set out in the bill. The bill sets out what the bank intends to do, and it provides the flexibility to allow the missions to change over time, and for how they will be reported to Parliament.

**Andy Wightman:** When ministers set a mission, the only obligation on them under section 11 is to

"lay a copy of it before ... Parliament".

There is no provision for a debate, and Parliament does not have to hold a vote. Should Parliament have a statutory role in scrutinising and improving the missions?

**Linda Hanna:** I do not have a view on that.

**Professor Cadenhead:** I do not have one, either.

**Andy Wightman:** Mr Alexander's submission says that the bill

"creates no requirement for the Bank to ever report to Ministers on how effective (or efficient) it has been in actually achieving the missions ... The only provision is for the Bank to report to Ministers on how it *intends* to achieve the Mission ... This omission needs to be rectified."

Will you elaborate on that?

**David Alexander:** If you have specified the bank's mission and how performance should be measured—whether that relates to loans or equity—there will be a set of business plan assumptions. I do not know any public, private or third sector organisation that does not have a scorecard, does not report on its progress against its plans or does not demonstrate accountability for the delivery of what it said that it would deliver. We all know that no plan survives implementation, but there are acceptable tolerances. If the bank's mission is well laid out, along with the key performance indicators, it should be possible to report against them. The bank's board and governing body should be held accountable for the performance against those indicators.

**Andy Wightman:** You make a specific point about the missions. Section 12 provides for reporting on missions, but I grant you that there might be some vagueness. Section 13 is entitled "Report on investment performance" and section 14 is entitled "Review of performance". The bank will also need to provide annual reports and accounts. Is there a specific thing that needs to be rectified?

**David Alexander:** Factors such as impact, value, transformation and mission achievement need to be taken into account. Did we get there? Did the assumptions that we made and the money that we invested have an impact? Is the economy better? Those are indirect impacts. It is not purely about the loan book getting us a load of interest and about whether the equity that a business holds should be included; it is about the planning assumptions that were made about improving the Scottish economy and society when support was given to an organisation. The bank will need to take responsibility for looking at those indirect measures, and there needs to be a way of measuring impact and value.

**Andy Wightman:** Under section 14, a person must be appointed every five years

"to carry out a review",

which must include a review of performance in relation to the bank's objects and mission statement. Do you want greater clarity on the performance of certain missions?

**David Alexander:** Absolutely. The missions need to have a set of key performance indicators, and the bank should be responsible for tracking progress against those indicators. Whatever mission the bank is meant to support—whether it is investment in a particular area to improve the economy or society or investment to remove friction—we should look at the performance against those key indicators over time. It is not acceptable to kick things off by having a review

every five years. Such a review should look at the trends, but the measures are not in place.

**Andy Wightman:** Out of interest, if the panel were tasked with setting a mission for the bank, under section 11, what kind of mission would you set?

**Linda Hanna:** An obvious one relates to the low-carbon economy and tackling climate change. Collectively in Scotland, we have been doing quite a lot of work in that area. The current global marketplace and policy environment provide us with opportunities, and, given the number of our capabilities—whether it is those of companies or universities—we can build on the work that has been done and accelerate it.

**Professor Cadenhead:** It will not surprise the committee to hear me mention inclusive growth. We have to look back at some stark statistics on female-led businesses. Business gateway figures show that there is a 50:50 gender balance in respect of women starting up businesses. However, as they move through the growth pipeline, the figure moves down to about 20 per cent. As they move into account managed companies at Scottish Enterprise, the number of female-led businesses is around 3.6 per cent. I know that more work has been done on that and that the figures have improved, but, whatever way we look at them, the statistics that we have for female-led businesses in Scotland are shockingly poor.

In addition, a very harsh statistic is that, in the United Kingdom, only 1p in every £1 of venture capital investment goes to female-led businesses. The bank has a significant opportunity to transform funding opportunities for female-led businesses.

**David Alexander:** I am sorry, but my suggestion is far more mundane. I completely support the point that Professor Cadenhead makes, but I would like the need for form filling to be removed in Scotland. I would like every citizen in Scotland to be equipped with the ability to prove who they are and what they are entitled to and never to have to fill in a form again.

**Andy Wightman:** Okay. I think that people in Estonia can do that, can they not?

**David Alexander:** Not quite. People are dependent on the state, and I would like them to be independent. That is about personal data infrastructure.

**Andy Wightman:** My second line of questioning is about equalities. Professor Cadenhead raised the issue of women entrepreneurs. Equality is not mentioned in the bill, and we have received evidence from Close the Gap and Engender that the equality impact assessment is not up to scratch. The Government has to produce an

equality impact assessment, but it is not formally one of the documents relating to the bill that have to be laid in Parliament. To what extent should the bank have a mission to overcome inequality in its broadest sense in Scotland?

**Professor Cadenhead:** It is essential to create a balanced society with diversity of thought that allows everybody to participate and contribute to economic growth. Close the Gap and Engender have done a thorough analysis of the EQIA, and I broadly accept all their recommendations. Equality needs to be enshrined in the bill—that is really important.

**Andy Wightman:** Where would it best be enshrined in the bill: under the bank's objects, performance or mission? Maybe you could come back with further thoughts on that.

**Professor Cadenhead:** I will do so, but we certainly need to ensure that relevant KPIs are set.

Going back to what David Alexander talked about, it is all related to an annual impact report and reviewing and looking at trends over time. We desperately need a gendered enterprise index in Scotland, to enable us to look at the data and track the statistics so that we can see on-going trends. The bank could help with that.

**David Alexander:** I ask the committee to consider the definition of “equality”—equality for whom and for what?

**Andy Wightman:** I think that that is set out in the Equality Act 2010.

**David Alexander:** I understand that, but I do not think that there is equality of access. Many people whom we know who work in the third sector are women, and people of all different sorts are trying to set up social enterprises to do good. They will not have equal access through the bill, because the bank will not support the third sector and social enterprises. Assuming that we can clarify that definition, equality of access to what the bank represents would be a good thing. If we broaden access to what the bank can offer, it will support a more diverse population of people. Not everybody is trying to produce a high-tech start-up or a start-up that they want to flip to sell to Google. A lot of people who are more socially driven are trying to transform services in this country, and they need funding and support.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** Obviously, the bank will be a public body that will be accountable to taxpayers, and it will have to evidence value for money, but it will also work in the financial sector. Financial sector salaries tend to be fairly good—in some cases, they are fairly extravagant. The opinions in the submissions that the committee received in relation to salary levels and how they

are going to be determined varied quite a bit. We have to get the right people or the bank is not going to succeed, but does getting the right people require the payment of high salaries? I am interested to know what the members of the panel think.

10:45

**David Alexander:** There is a flawed assumption that everybody is motivated by money. I worked in corporate life and had a very good lifestyle, but I got to a point when I decided that, with a lifetime of experience, I needed to do something more. If you specify the talents, the skills and the attitude of the person that you are looking for, you will find people who have the necessary skills and ability to be part of the bank—they will not need to be dragged out of the financial services sector and treated like gods.

You have to start by setting out the mission and the role and then do a search on that basis. You will find young and old talented people who want more and to do something different, and they will also have the skills that you need. I would counsel against offering eye-watering salaries and bonus schemes. Instead, make a really positive statement about the Scottish national investment bank being run by the people of Scotland for the people of Scotland. You should insist on talent but make it plain that you are not paying eye-watering salaries.

**Colin Beattie:** Would we be relying on a degree of altruism in the market?

**David Alexander:** No, it is not altruism; it is personal motivation and what drives people. Not everybody is driven by money. I have done lifetime coaching work with people, and there is a moment when people have just had enough of it—there is only so much that they can take. The “masters of the universe” finance sector model, whereby everyone has to be paid tons of money to turn up, is an illusion. There are fantastic public servants out there—people in the third sector—who are not paid eye-watering amounts of money and who are doing fantastic work. You can find the talent. Scotland has a lot to offer such people, so make your case about coming and doing something important and you will find them.

**Colin Beattie:** Do the other members of the panel have a view?

**Linda Hanna:** It is important to lay out exactly what the bank is for and what skills and expertise are required. A lot of change is going on in that regard in all financial services institutions, so the bank will need to employ people with a range of skills, in order to deliver services, products and channels to the market in a way that is different to the way in which banks have traditionally done so.

That is already happening in the financial services sector, and the SNIB will be no different. Therefore, it will need a range of people from different backgrounds and with different skill sets. It is important to set out what skill sets are required and what the bank’s values are in order to attract the right people, culturally, for the public good.

From our experience, the people whom we attract to the Scottish Investment Bank have deeply specialist skills but are definitely motivated by working for a legacy in the economy and the difference that they can make, as well as the individual transactions that they do. It is about setting that out in the right way, recruiting in the right way and bringing in such people. We have certainly found a way to do so in the public sector, and, as David Alexander said, there are examples of other areas in which that can be achieved.

**Colin Beattie:** Given the desire—certainly on the part of the panel members—for lending to incorporate the third sector, do you agree that it is a particular skill that not all financial experts have? On the basis of the balance sheets of most third sector organisations, they are not exactly bankable. Therefore, do we need to identify specialists in that field, who will be able to cope with it adequately?

**David Alexander:** It is about having people who genuinely understand what patient capital looks like and what the bank’s mission and purpose are.

In the social investment sector—which, in effect, involves recycling dormant bank accounts, largely through big society capital—we have seen that lenders are taking commercial rates of return on short-term loans of three and five years. They are not performing the role that the Scottish national investment bank could perform. So, even the people in the social investment space do not get what the mission is. You need people who are able to look over the time horizon that extends beyond the Parliament and normal commercial loan rates, who can look at the basic fabric of an organisation—its mission and purpose—and provide it with the patient capital that will let it execute its mission.

**Colin Beattie:** Ethical investments are important for any bank these days. Many investment banks and large pension funds have lending exclusions, such as any investment in tobacco or investment in anything that increases greenhouse gas emissions or impacts negatively on biodiversity and ecosystem services provision—all sorts of formulas can be used. Do you believe that the SNIB should go down that line and cater for such exclusions?

**David Alexander:** I cannot answer for Mydex, because that is not my department, but I would



use common sense. If the purpose of the Scottish national investment bank is to improve the economy and society, anything that does not do that should not be invested in.

**Colin Beattie:** Who will decide that?

**David Alexander:** That is part of the lack of clarity at this point in time. Why would the Government want to support things that harm public health?

**Colin Beattie:** There would have to be evidence.

**David Alexander:** Is it not for the Scottish ministers to set the mission and say that they do not want to support anything that harms public health? That is the level at which to do that.

**Colin Beattie:** They would have to be careful to keep it from becoming a broadly good idea—if they were to go down that line, ministers would have to specify the particular types of investment that would be acceptable or unacceptable. Is that where we should be going?

**David Alexander:** I know of no investment bank or venture capitalist that does not have some sort of portfolio rulebook that says that they invest only in certain things. For someone in the VC market, that rule would be what makes them the most money in the fastest possible time—the biggest return. The Scottish national investment bank aims to improve society, so it would be entirely within the remit of the Scottish ministers to put a block on certain investments if they wanted to do so.

I do not know whether that should go in the bill; I am just giving the committee my personal opinion. However, why would anyone back something that made things worse?

**Colin Beattie:** Do the rest of you have a view?

**Professor Cadenhead:** The ethical approach is the right way to go. Parliament can seek guidance from other organisations, as it will be hard to define that approach closely in the early stages. We all have to accept, right at the start, that we will not be able to do some things and that there will need to be flexibility in relation to how the bank and what it does evolve over time. Ethical investment is the way to go.

Nowadays, different organisations that invest in other funds are also asking for diversity and inclusion plans before they invest. Diversity and inclusion plans are also important.

**Linda Hanna:** We already run a portfolio in the Scottish Investment Bank, and we already have ethical considerations: we look at diversity, inclusive growth, progressive workplace practices in the companies and organisations that we invest in and, depending on the fund, what the restricted sectors are. We carry out diligence on that basis.

That approach already exists. We are part of the economic development landscape—as SNIB will be—and I expect that those investment bank funds will move to SNIB. We anticipate that that practice will continue.

**Angela Constance (Almond Valley) (SNP):** There are several important workstreams that need to be carried out well, such as the appointment of board members and the development of the strategic framework, the ethical statement and so on. We know that the timetable is tight, but, if the bill passes, the bank should be fully operational by 2020. Is that achievable? Also, given the tight timescales, can the detailed work be done to a high quality?

**David Alexander:** As someone who has run many programmes, several of them complex, over many years, I can tell members that co-ordination and communication are the key components of success. The timescales are not unreasonable, but it must be accepted that the bank will be delivering incrementally over that period. That requires very tight tracking. It means that everyone involved must have a common set of objectives: the model is called objectives by key results, and everyone is linked to those objectives.

If that type of model is approved and people are linked directly to those objectives and results, so that nobody is working as an island or a stovepipe, you can get there. However, it will be challenging. A lot of public sector and public service programmes fall by the wayside because we get too involved in the structures and processes but not the outcomes. There needs to be extremely strong programme management by someone who is committed to the mission as opposed to someone who is being paid a large amount of money to be a programme manager. It is all about how you set it up.

**Professor Cadenhead:** From my perspective, it is tight but doable. The key thing is to get the recruitment of the board under way as fast as you can. If you recruit the right chairman, chief executive and non-executive directors, that team will drive everything else.

**Angela Constance:** Professor, did you say, “chairman”?

**Professor Cadenhead:** I did—strike that!

**Linda Hanna:** I am privileged to see some of the work that is going on behind the scenes, and I would say that a lot of people are working on the issue. I acknowledge what David Alexander said about programme management, but I would say that people are committed to the mission of what we are seeking to do. I think that it is achievable, but we will need to stay focused on delivering those things at the right time.

**Angela Constance:** Does the bill do enough to ensure the bank's durability and survival across political cycles?

**David Alexander:** No. I have already explained that I think that it should be a CIC. It has the ability to fund itself, and the Parliament should be involved in debating specific missions. It is one of those commitments that should last many parliamentary sessions. It is not a science experiment; it involves a fundamental theory of change with regard to how you improve Scotland. It is audacious and exciting, but it needs protecting.

**Linda Hanna:** We need to ensure that the bill sets out what we are seeking to do, and Parliament will back that or not. We have talked about all the other things that will come back to ministers—the reporting, the strategic framework, what the bank is doing and so on. Those things will demonstrate what is being done on the ground and what will have an enduring effect on Scotland's economy.

**Professor Cadenhead:** At the end of the day, the bank will be judged on its results.

**The Convener:** I suppose that there could be a chairwoman, a chair or a chairman, professor, depending on what the person thinks the position ought to be called or who they are.

**Jackie Baillie:** Do not go there, convener.

**The Convener:** I do not think that we prescribe language in that sense.

**Andy Wightman:** I want to follow up a point that Linda Hanna made about the Scottish Investment Bank. I am unclear about the extent to which the funds that are devoted to that will be rolled into the Scottish national investment bank. It seems to me that they are two separate things.

Your website talks about the companies that the Scottish Investment Bank invests in. It says:

"We'll invest alongside private sector investors into early-stage and expanding companies with high-growth potential that will deliver economic impact to Scotland."

Clearly, some companies will meet that definition and the SNIB might fund them. However, I understand that the Scottish Investment Bank has invested in the Isle of Harris distillery, and I do not think that the Scottish national investment bank would invest in the alcohol industry.

An approach that involves long-term, patient capital is different from an approach that involves high-growth companies, which is what the Scottish Investment Bank is concerned with. Do you agree?

**Linda Hanna:** The Scottish Investment Bank has a range of products that we serve Scotland

with. Some of them involve direct investment and some involve co-investment, which you mention. Others involve our supporting things in order to crowd in other funding. All those funds will transfer into the Scottish national investment bank, so those mechanisms will continue to exist.

**Andy Wightman:** You support an alcohol distillery, and I cannot see alcohol distilleries being central to the mission of the Scottish national investment bank. Is it the case that, if all those funds are rolled into the Scottish national investment bank, there will be some loss of the kind of support that is currently provided to commercial activities?

**Linda Hanna:** I cannot comment on particular cases. We look at the company—a distillery, in this case—the benefits it brings to the local community, the jobs it creates, the investment that will be required and the funds that have been brought to the table. Once the funds transfer over, it will be for the Scottish national investment bank to decide how it manages the portfolio going forward.

11:00

**Andy Wightman:** Do you recognise that an early-start, high-growth distillery and the kind of mission-orientated projects that are envisaged for the Scottish national investment bank are two very different propositions?

**Linda Hanna:** The Scottish national investment bank will deal with both. It will provide mission-based funding to help companies to do what they seek to do in the economy, and it will provide support to early-stage and later-stage growth companies. It will also work on the scale of the funding that is required as companies seek more funding. We expect the Scottish national investment bank to do more in that space.

**Andy Wightman:** Is the Scottish Investment Bank doing anything at the moment that could not be done by the Scottish national investment bank?

**Linda Hanna:** I expect commercial deals to be done by the Scottish national investment bank.

**John Mason:** Will you confirm that you do not think that alcohol is inherently a bad thing to invest in? It provides a huge number of jobs and exports, so we should absolutely continue to invest in the alcohol industry. Is that your feeling?

**Linda Hanna:** The distillery industry is important to Scotland. It is a big part of our exports and employment, as well as providing innovation. Scottish Enterprise supports the industry, as does the Scottish Investment Bank. We support the products and companies that we have in Scotland.

**John Mason:** That is great.

**Professor Cadenhead:** We need a bit more clarity about what the bank will invest in and the quantum of investment. For example, I hear indications that the bank will not invest anything less than £1 million in a particular company. If we look at the business base in Scotland, we see that 77 per cent of the 98 per cent of businesses that are SMEs are micro-businesses with fewer than 10 employees. They are not looking for £1 million of investment. How are we going to fund the different stages of the business growth journey of earlier-stage businesses? Sometimes, the amount of capital that they need might be £25,000, and that would be transformational for them. They might not be looking for £1 million, so we need a little bit more clarity in that area.

**The Convener:** Before we get into discussions about whether whisky is good for the health of the nation, we are out of time. I thank our witnesses for coming in today.

11:02

*Meeting suspended.*

11:06

*On resuming—*

**The Convener:** Welcome back. We will continue stage 1 of the Scottish National Investment Bank Bill. I welcome Matt Lancashire, who is the director of policy and public affairs at the Scottish Council for Development and Industry; Flora Hamilton, who is the director of financial services at the Confederation of British Industry; and last, but not least, Helen Martin, who is the assistant general secretary of the Scottish Trades Union Congress.

I will start with a question that I put to the previous panel. Many of the submissions that we have received express the view that the broad mandate that is set out in the bill on the bank's main and ancillary objects fails to enshrine either the Scottish Government's vision for the bank, as set out in its implementation plan, or the socioeconomic and environmental objectives that were expected—by some—from the consultation process.

Are you satisfied with the objects that are set out in the bill or would you—as some have—characterise them as being a bit vague and open to interpretation? Are they fine as they stand?

**Helen Martin (Scottish Trades Union Congress):** We would like to see more of the ethical and social ethos coming through in the objects of the bank. Object 1, for example, is about

“promoting or sustaining economic development or employment in Scotland”.

It does not seem that it would be a big change for it to include the words “or fair work in Scotland”, or “or quality employment in Scotland.” That would give a greater sense of the need for the bank to be not just about jobs, but about the right sorts of jobs, and about the fair work approach that the Scottish Government has been developing and working on.

It would also be right to see the ethical commitment included up front as an end in itself. Otherwise, we could be bogged down in very narrowly defined economic objectives that fail to include the wider social benefit that is required, which was a core reason for the development of the bank, in the first place.

I also wonder about the balance of the mission-oriented approach and where the missions fit into the core ethos of the bank. The status of those missions is not clear to me. Are they additional to the core focus or are they the core focus in and of themselves? The question in my head is this: will the bank be able to invest in things that do not fit the missions but fit wider economic growth priorities, or is it about delivering the missions? That is not clear from what I have looked at.

**Flora Hamilton (Confederation of British Industry):** If the vision is for the SNIB to be a catalyst for private investment and achievement of growth in the Scottish economy, it is absolutely crystal clear that the objects need to clarify the roles of the bank, which are investment across early-stage investment for scale-up companies, and the mission-led and long-term patient capital investment that is needed to tackle societal challenges. The objects need to cover all that. We think that that focus, with flexibility and wide scope, is key to delivering growth in the Scottish economy.

**Matt Lancashire (Scottish Council for Development and Industry):** I agree with most of what has been said.

The bank's three objects remain clear and distinct. They are: to remove barriers to patient capital—providing equity finance, in terms of venture capital, has to be one of the purposes of the bank; to support increasing productivity and improve our relatively low levels of innovation; and to support research and development investment.

If R and D investment is connected to ethical, low-carbon and environmental aspects of innovation, that will be fantastic, but we cannot look exclusively at those types of investment. Many organisations out there, across broad industries and sectors, need long-term patient capital if we are to increase our productivity.

Everything has to link back to productivity. People talked about outcomes in the earlier part of the meeting; one of the outcomes has to be an

increase in productivity, which is at a low level. Can we sit here and say that that will be done just by investing in low carbon, in healthy ageing and in the bank's third mission, which I have forgotten?

I would like to add a fourth mission. We will probably come on to talk about the fourth industrial revolution. There could be a fourth mission to invest in data, robotics, software engineering and all the aspects of those that are upon our global economy right now. Could we add a mission to encompass a range of sectors in the fourth industrial revolution in order to lead us to increased productivity, innovation and so on?

**Andy Wightman:** From Flora Hamilton's response to the convener, I am a little unclear about what she sees as being the main purpose of the bank. According to the bill, the bank's

"articles of association must state that the Bank's main object is giving financial assistance to commercial activities for the purpose of promoting or sustaining economic development or employment in Scotland."

As things stand, that is proposed to be the bank's main object, and if the bill passes into law, that will have to be the main object. Do you agree with that object, or should it be phrased differently?

**Flora Hamilton:** CBI members agree with that object. I was trying to clarify the different roles that will fall from that object and where the bank's activities could be placed, as laid out in the implementation plan. If we are to tackle the productivity challenges in the Scottish economy, we need to look at three distinct buckets of activity: funding for entrepreneurial businesses at start-up stage; funding for scale-up for the mid-tier businesses, where real economic growth lies; and long-term patient capital to go into projects that sit within the specific missions that are outlined for the bank.

Three missions have been identified. Scotland becoming carbon neutral by 2045 is a distinct mission, and a Government target has been set in that regard, so that is a long-term mission.

However, long-term missions are quite distinct from the investment that needs to go into scale-up growth. In the previous part of the meeting, the example was given of investment in Scottish whisky. That is about funding growth, and that is where jobs and prosperity lie for communities across Scotland. We see distinct differences between the three roles of the bank.

**Andy Wightman:** Okay. That is of some assistance, I think.

Last week, Mariana Mazzucato stressed that one of the main roles of a national investment bank is to provide patient capital for innovation, which is often not funded by the private sector, although the private sector will often rely on it in

years to come. I therefore wonder about use of the word "commercial". The bill says that the bank's object is to give

"financial assistance to commercial activities".

Does that express the full potential of the Scottish national investment bank? In the past, the state has invested in technologies that did not become commercial for years and years, until the private sector began to turn them into commercial opportunities.

11:15

**Helen Martin:** That speaks to the tension at the heart of the bill. There is, in the whole project, an element of tension between long-term aspirations about patient capital, and short-term requirements for supporting growth companies and innovation in society. A key concern for us is that that contradiction is being built into the bank's functions in a variety of ways.

For example, the bill says that the bank must become self-financing in 10 years, but securing that kind of long-term health for the bank to provide patient capital will require growth returns in the medium term—say, five years. My question, therefore, is this: how will it be ensured that the patient-capital elements of the bill get the same kind of attention as the first-order requirement to invest in what produces returns in order to meet the financial requirements that have been laid down for the bank's operation? That element of how the bank is being set up is a concern for us.

The focus on things that are commercial, that will provide those kinds of returns, and which look promising—and which will give the committee something to write about in your five-year report to Parliament on the bank's success—will, to a degree, act as a brake on the bank doing what it is supposed to be doing, which is to correct the current market failure and the disincentives that other banks see to supporting long-term and slow-growth projects that are not obviously economically beneficial, but which could, in the long term, unlock greater economic opportunities for the Scottish economy. That is the bank's purpose.

Unfortunately, as much as we could get behind the aims in the implementation plan, and as much as we support the establishment of the Scottish national investment bank, there are elements of the bill in which those things have not been fully thought through or bottomed out.

**Flora Hamilton:** The importance of the bank's ability to crowd in investment must be taken into consideration, because that is how it will tackle the need for long-term patient capital and some of the

mission-led investments that are required in the Scottish economy—

**Andy Wightman:** I am sorry, but what do you mean by “crowd in”?

**Flora Hamilton:** If the Scottish national investment bank acts as the cornerstone investor in a big long-term project, that will attract private investment. There are parts of the Scottish economy that cannot attract such investment on their own.

**Andy Wightman:** Can you give examples?

**Flora Hamilton:** I do not have any to hand, but I can provide some. The point is that cornerstone investment from the Scottish national investment bank will attract private capital.

There are good examples in some of the urban regeneration programmes that have happened across the United Kingdom. UK-headquartered investors such as Legal & General and Hermes Investment Management have gone to Cardiff, Leeds and Kings Cross and have provided cornerstone investment that has attracted Australian and Canadian pension funds. Such private institutional investors will give you long-term growth, because pension funds need long-term investments that provide steady and reliable long-term income. They are not looking to make a return on their investment in the short term.

I come back to the very clear distinction that has been made. It might seem to be complicated, but the bank will have to meet a number of different requirements and service the Scottish economy in the short term, the medium term and the long term. As a result, its objects need to be complex.

**Matt Lancashire:** I will add to what Flora Hamilton has said. We need to crowd in funding. Germany’s KfW and the Japan Finance Corporation have similar mechanisms and institutions. There are global examples of national investment banks or similar being used as cornerstones to pull not only public finance but private sector investment together as long-term patient capital. Surely the objective of providing long-term capital is to make a return not just for the bank but for the Scottish economy and Scottish society as a whole. Otherwise, what is the point? That is where the bank needs to head in the long term.

I know that the Scottish national investment bank will be nowhere near the KfW in size or what it can do, but the success of such banks has been in supporting and driving innovation through correcting market failures and creating new markets. Surely, the objective of the Scottish national investment bank is to create such new markets for Scotland in order to keep our economy competitive, to keep us exporting through the new

trading nation strategy, and to push our economy forward so that we can all enjoy the inclusive growth that we wish for.

There are examples around the globe of investment banks putting long-term patient capital into transformative technologies and inventions in nanotechnology, telecommunications and renewable energy. That is where we need to drive commercial activity.

**Andy Wightman:** I want to finish with two brief questions. First, under section 11, the bank’s missions will be set by ministers in

“a document describing the socio-economic challenges that the Bank is to seek to address.”

Should those missions be subject to parliamentary scrutiny and approval?

Secondly, should membership of the bank be restricted to Scottish ministers, or should local authorities, too, have a role in membership, as is the case with the KfW?

**Matt Lancashire:** Could you repeat the question?

**Andy Wightman:** My first question was about the missions, which Scottish ministers will set in

“a document describing the socio-economic challenges that the Bank is to seek to address.”

There is no provision in the bill for Parliament to scrutinise, debate and approve the missions. I note that, under section 2, the Parliament has to approve any changes in the bank’s objects and articles of association, but there is no provision for Parliament to have any say whatever in what the missions are. Should Parliament have a role in that through, for example, approval by resolution of Parliament? My second question was on the bank’s membership.

**Matt Lancashire:** It has been stated and emphasised that the Scottish Government will play no role in the bank’s internal governance or day-to-day operational decision making, and we have emphasised the importance of enshrining the bank’s operational independence in legislation—

**Andy Wightman:** I am talking about the missions of the bank being set by its sole shareholder—that is, the Scottish ministers.

**Matt Lancashire:** The advisory group will give Scottish ministers advice about those missions—

**Andy Wightman:** But my question is whether or not Parliament should have a role in debating and approving the missions.

**Matt Lancashire:** The SCDI does not have a position on that. I am just trying to give you a broader answer to your question.

**Andy Wightman:** I understand that.

**Flora Hamilton:** CBI members have expressed no opinion on those matters.

**Helen Martin:** The STUC has a view. We absolutely agree that Parliament should have a role; after all, this is about £2 billion of public money to support the Scottish economy's strategic direction and the growth that we want in the economy. That growth should be inclusive, should promote fair work and should deliver a low-carbon future. It is therefore important that there be proper democratic oversight of the missions that will be set for the bank to work on.

Debating the missions is the absolute minimum that the Scottish Parliament should do. Again, there is an issue with the narrow way in which the bank is being set up and the fact that it will invest only in the private sector. With one of the missions being to have a low-carbon future, the bank investing only in the private sector might lead in a certain direction with regard to development and provision of infrastructure across the country. That money could flow only to the private sector in a certain way—Parliament, if it were left to its own devices, might not want it to go that way. I therefore wonder whether we need more oversight of decisions that might flow from the very narrow drawing of what the bank can do.

On the second question, which was about whether there should be a role for local authorities, there absolutely should be. One of the things that we are very interested in is where the community voice is within the bank. The Scottish ministers play a vital role, and it is good to see them as the shareholder, but putting in the wider community perspective of local authorities would be a good start. I do not think that it is the beginning or end of the conversation, but it would help to broaden out the perspective of what the bank would be tasked to do and how the missions would be delivered, which would be useful.

**Andy Wightman:** Do either of the other witnesses have any views on whether the shareholders should be extended beyond Scottish ministers?

**Matt Lancashire:** We have supported the idea that Scottish ministers will set the strategic direction of the bank. For me, that answers the question.

**Andy Wightman:** Are you saying that ministers should be the sole shareholders?

**Flora Hamilton:** The Scottish Government should be the sole shareholder in the bank.

**Andy Wightman:** In your view, the Scottish Government should be the sole shareholder.

**Flora Hamilton:** Yes.

**The Convener:** Okay. We have clear enough answers to those questions.

**Dean Lockhart:** I return briefly to the question of stimulating demand in the economy for the additional financing. We see that a much larger scale of financing will be available, but we can also see that there was insufficient demand from business to take up funding from the Scottish growth scheme, for example. We have spoken to the SNIB team, who do not see the bank's role as being that of originator or as a body that identifies the businesses to finance; it will rely on existing enterprise agencies for that job. Do those agencies therefore have to significantly change the way that they operate in order to find the businesses to access that finance?

**Matt Lancashire:** That is probably not a question for me to answer; the chief executives and chairs of the enterprise agencies might give a better answer. If there is a case for stimulating demand and there have been issues with other programmes and initiatives, it makes sense that the agencies should work with partners from both business membership organisations and academia, where a lot of innovative thinking and knowledge happens. We should not forget regional approaches and regional economic groups, which can drive that demand and activity. There is an argument for putting more focus on such work, but how the enterprise agencies do it is entirely up to them.

The bank's success will be based on how many people want to drive through, identify and, ultimately, fund the innovations and provide the patient capital that is needed across the range of business activities. Demand is massively important.

**Flora Hamilton:** We are at a critical time for demand for growth finance. Business investment is currently at an all-time low, right across the UK, with the uncertainty of Brexit hanging over us. It will be critical for the bank to work with the enterprise agencies to map out their role, to collaborate fully and to understand where the stimulus for demand can come from. It will be important to carry out detailed segmentation analysis of where demand may lie. One of the experts on the previous panel talked about the low level of ambition for growth in SMEs across Scotland—a high percentage of firms have no ambition to grow.

It is critical to have a cluster structure that brings organisations together. As well as attracting in private investment, that sort of structure can help to stimulate demand if organisations share with their peers their experience of a particular type of finance delivery. If entrepreneurs get together and share their success stories through that cluster approach, you can start to stimulate demand.

There are distinct ways of doing that. First, you identify ambition for growth and then, where there is opportunity for growth, you try to build the ambition around it to stimulate demand. Given these times of heightened geopolitical risk, we will have to work very hard to collaborate and stimulate demand.

11:30

**Helen Martin:** We would agree. One of the missions is place based. A lot of work might be needed to stimulate demand in a coherent and holistic way across the community, which might mean working with a range of partners from the enterprise agencies and local authorities. That again gives weight to the argument that it is important to make local authorities shareholders in the bank. It is also important to work with civic society organisations and trade unions. This is all part of the wider social partnership model that we are trying to create. It is not just about driving growth in SMEs but driving shared prosperity in communities and developing a shared stake in society, which is something that we do not have a lot of. The bank could provide something for all stakeholders to coalesce around in a wider way because it brings money and the opportunity for investment.

**Dean Lockhart:** Thank you. My other question is about corporate governance. We have heard that Scottish ministers will be able to change the mission of the bank without any parliamentary oversight or discussion and that they will not need to consult or get agreement from the board of directors or the advisory board—there is no qualification. Based on your experience of other forms of corporate governance, is giving Scottish ministers such unfettered power a sensible allocation of responsibility?

**Helen Martin:** No, it is not. There are other examples of Scottish ministers having oversight, with other layers of governance underneath that, such as in the university sector. There need to be checks and balances in the system. The role of Parliament is crucial; it is a really important democratic institution and should have the right to consider, amend and vote on the bank's missions. There should also be consultation with the advisory group—why have an advisory group, if the Government is not going to consult it?—and the bank's governors.

**Flora Hamilton:** The CBI believes that the role of the advisory group is critical. The board will be accountable to the Scottish Government for what the bank delivers. The advisory group's membership must cover a broad spectrum, and it must be independent, clear and transparent in its monitoring of the bank's performance and how it delivers against a set of tangible and measurable

KPIs. The advisory group must have representation from a wide spectrum of the Scottish economy and society, including business, financial services, the universities, respected Scottish think tanks and agencies such as Scottish Enterprise. The CBI also advises that the Scottish Government should look for international expertise to tap into in making the advisory board work and deliver for it. There is plenty available, such as from other national investment banks, particularly in the European Union.

**Matt Lancashire:** I agree about the importance of the advisory board. We are on record as emphasising the need for the bank to have operational independence. It is critical to enshrine that in legislation and for all parties to respect it once the institution is established and operational. If you want the bank to last long term, whoever is in power, that will be critical to its success. It needs to be able to offer loans, make investments, agree joint ventures, create subsidiaries and align with green investment strategies and risk strategies without further approval from ministers. That is how you will make a success of the bank.

**Jackie Baillie:** I want to explore briefly the financial memorandum, which said that the bank would lend solely to the private sector. Some witnesses have said that that is quite narrow and restrictive. Should the bank take a more open approach and lend to the third sector, community enterprises and so on? Helen Martin is nodding vigorously.

**Helen Martin:** Yes. It is a very restrictive provision, particularly if we overlay the bank's missions. The implementation plan talks about transport infrastructure and, specifically, the development of low-carbon infrastructure. The implementation plan gave the example of charge points for electric vehicles, but at present, those are primarily developed by and held in the public sector. Tasking an investment bank with developing low-carbon electric vehicle infrastructure and then saying that it can only do that by investing in the private sector dramatically changes the current model and brings market forces into a key part of the infrastructure that will underpin our economy in the future.

Currently, transport is a very cluttered landscape and there are many different types of providers. The provision would create a situation in which the Scottish national investment bank could support First Bus to develop low-carbon buses, but could not support Lothian Buses to do the same; it could support Serco to develop its ferries in a low-carbon way, but it could not support CalMac Ferries to do that. There is a range of contradictions in the mission and in the limiting of investment to the private sector.

It is also difficult to draw the line between the public and private sectors. For example, Burntisland Fabrications is a strategic asset in the low-carbon economy, but the Scottish Government is a shareholder in that company. Could the Scottish national investment bank invest in BiFab or not? Similarly, the Springburn rail depot is currently under threat and needs investment to electrify the line to secure its future; such investment would probably be done either for ScotRail or Network Rail. The depot is currently in private hands, but it would be for the public benefit if that investment were made. Would the Scottish national investment bank be in a position to make that investment for the benefit of the public sector or not?

Imposing such an investment rule on the bank raises many unnecessary questions about how it can invest, when it can invest, who it can work with and how it can draw in the capital. The CBI submission talks a lot about the need to work with universities, but universities are part of the public sector. They incubate many start-up businesses with high growth potential. Are we saying that the Scottish national investment bank cannot work with those businesses because they are associated with a university? That is not clear to me.

Some of those questions can be sorted out and clearer guidance can be provided. However, the way in which the provision is currently constructed raises serious questions around how the bank will work and how it will achieve the strategic missions that it has been given.

**Flora Hamilton:** Helen Martin raises some valid points. We are touching on some of the structural issues involved in setting up the bank. There are implications under EU state aid rules and Government fiscal rules. The CBI calls for the SNIB to be given the widest possible scope in order for it to achieve its objectives. We need to look at how we can stretch private investment and the things that touch on that. It is a very complex landscape. Not impinging on those funding rules will be one of the challenges that the bank will face. That will have an impact on how it raises its capital.

**Jackie Baillie:** I am not sure that that is the case, but I will come back to you on that in a moment.

**Matt Lancashire:** It goes back to needing further clarity on what the bank can invest in, which sectors it can invest in—whether that is the private sector, the public sector or a range of sectors—and what ethical investment means. On those issues, the bill lacks the clarity that it needs before the bank becomes fully operational.

I do not want to speak about the public sector alone, but it is a massive part of our economy and our society, so we have to take a look at it. Across the public sector, there is plenty of innovation that could be commercialised in different sectors and forms, so it makes sense to take the opportunity to widen out the scope of the bank to public sector organisations. However, we have not yet had the clarity in the bill to make a call on the matter and move the discussion forward.

The universities issue worries me, because they play a massive part in our R and D and innovation structure in Scotland. Where is their involvement? How do they progress with their innovations? We all know that we are great at coming up with ideas, but we are not the best at commercialising them, so where is the connection between the investment bank and the R and D knowledge that is coming out of universities, which are part of the public sector? That part of the bill requires more clarity, so that we can all give a more considered response to the question.

**Jackie Baillie:** That is very helpful.

I come back to state aid because, to my knowledge, the funding of a community enterprise has never been a state aid matter. The Government is only capitalising the bank with financial transaction money at the beginning. That is a choice that it is making. The Government could choose to provide additional capital, for which it has increased borrowing limits, which would give that wider scope much more prominence and allow funding of the kind of innovation that comes from universities.

**Flora Hamilton:** It is about how we bring that together and channel the funding in particular ways.

**John Mason:** The advisory group has been mentioned—some of the witnesses have made comments about it. What should the relationship be between the advisory group and the board of the bank? For example, would it be good or bad for the chair of the advisory group to be on the board as well?

**Helen Martin:** The governance of the bank is very important, because, as Matt Lancashire rightly said, the bank will be independent of Government. It will be given its missions—hopefully, those will be democratically decided—and it will then go away and work on them. I would like the bank's governing body to be well designed to ensure that it has good governance principles at its heart. For me, those principles would mean that that structure would include representatives of wider interests. For that purpose, it would be key for us to see a seat for workers on the board, but it would also be appropriate for someone from the wider advisory group to sit on the board. That



would give it a broader perspective and would reflect the wider discussions of the advisory group, whose membership would include a mixture of civic society organisations, businesses, universities and the other groups that have been mentioned, such as trade unions in their broader role.

**John Mason:** You do not think that it would compromise the advisory group to be partly involved in decision making.

**Helen Martin:** No. That question is put to us a lot in trade union land, and we debate it endlessly. Should trade unionists sit on boards and be involved in the decision making, when they are also potentially challenging the employer's decisions? At this point, we have pretty much decided that it is worth being involved in that decision making and having that clear ability to shape and truly participate, as an equal, in those decisions. It is a very different relationship from that of simply offering someone advice.

It is not hugely clear whether the advisory group would offer advice to the minister or to the board of governors; actually, the advisory group should advise both. Having a member of the advisory group on the board, along with a seat for workers, would be an important way of bringing in that wider perspective.

**John Mason:** The previous panel suggested that the articles of association should mention the advisory group. That is not in the bill, but the preference of one witness at least was that the advisory group should be in the articles of association. Do you think that it should be?

11:45

**Flora Hamilton:** It would make good sense for the advisory group to sit in the articles of association. We have not debated that in detail at the CBI but, having listened to the previous evidence session, I think that that would make good sense. If the advisory group is to have the role of feeding back and providing independent monitoring and advice to the Scottish Government, it would make sense for it to sit in the articles of association and to be identified as fulfilling that role.

We have not debated at length whether members of the advisory group could also sit on the main board. I advise looking at international practice on that and at what other regulated bodies are doing to see whether that is appropriate and to understand the two distinct roles of the advisory group and the board. The committee could look at how other regulated bodies in the UK tackle that.

**Matt Lancashire:** I will not comment on whether a member of the group can sit on the board, but I will comment on what the perception of the advisory group is, and that can play a part in greater people than me deciding on that.

I think that the advisory group will be set up to provide intelligence and analysis of emerging and future trends, challenges and opportunities in society, the labour market and the wider economy; to advise on the creation or amending of missions of the bank; and most crucially, to identify growth sectors that require patient capital. The advisory group is meant to be independent.

Members should take from that what they will.

**John Mason:** Okay.

**Matt Lancashire:** If a person is advising on where to invest and, all of a sudden, they are making the decision on where to invest, that could—

**John Mason:** I get that point.

**Helen Martin:** I want to add a further point about the articles of association. It would be appropriate to put what was discussed into the bill. There are precedents for that. For example, the Scottish Qualifications Authority has a board structure and an advisory group structure that could be looked to as a model. In that example, the member of the board chairs the advisory group. It is seen that way round, but it could potentially be done the other way round.

**John Mason:** That is a helpful example. Thanks. I see that the convener is chasing me to ask my questions quickly, so I had better move on.

I want to touch on the financial side of things. I think that most of our witnesses have said that they think that £2 billion is a reasonable amount of capitalisation. If any of you think that it is not, please say so.

The other issue is costs and how quickly the bank should break even. The previous panel seemed to think that breaking even by around 2022-23 is a little bit quick, given some of the costs in the financial memorandum. There should be reasonably brief answers on that, if possible.

**Flora Hamilton:** That looks incredibly tight, but it is doable. It is very important that there is a level of patience and a level of understanding that the bank is for mid to long-term investment to drive growth in the Scottish economy, so it will not be a quick fix, and it will not quickly balance out its costs.

**John Mason:** I presume that we cannot just keep pouring revenue expenditure into the bank year after year.

**Flora Hamilton:** Absolutely. How the British Business Bank has been set up is a very good model to look at in the UK. There are good models to consider.

The bank cannot be a burden on Scottish finances, but there needs to be an understanding that it will take some years for it to get up and running and be able to meet its costs, and to deliver a return on investment. Part of its function is the provision of mission-led, long-term patient capital, and it cannot be overreliant on the other two roles, which relate to scale-up and start-up financing. If it is pushed in that direction, that will temper its nature. Patience will be required.

The period that was mentioned is ambitious but doable.

**John Mason:** Should politicians be more patient, Mr Lancashire?

**Matt Lancashire:** We can always call for that.

The £2 billion is welcome; it is 1.3 per cent of gross domestic product, which is more than other countries have put into their investment banks, albeit that other countries have bigger economies and so have more money to invest. Our concern is that we will not reach that proportion of GDP until 2030. The economic changes that we want, given our vision to transform the economy over the next couple of years, might therefore be difficult to achieve before 2030. It might be helpful to look at that. Scale and speed are required quickly.

Everyone is saying that the bank covering its operational costs by 2023-24 is tight, so I will say that it is tight. It relies on people, who need to be mission orientated and altruistic towards the mission, as I think that the committee heard in the earlier part of the meeting. However, there is a war for talent in financial services, which is why wages are through the roof and financial services companies in Scotland struggle to get the talent that they need. A close look at the talents and expertise that will be needed up to 2023-24 to make the bank operational and able to move forward is critical, because there is a global war in financial services—

**John Mason:** I think that another member will ask about remuneration. We can come back to that.

**Helen Martin:** I echo the point about patient finance, which is important and needs more consideration. Right now, the balance is very much in favour of the shorter-term elements.

The other question is whether there is a way to leverage in more money, primarily to enable the bank to invest in different things. That takes me back to the point about restricting investment to the private sector, because of the transaction costs.

**Angela Constance:** The panel will have heard in the earlier discussion that Engender and Close the Gap have substantial concerns about the equality impact assessment. Do you have concerns about it?

**Helen Martin:** The equality impact assessment was not extensive, so perhaps more thinking is required. In some ways, it covered a lot of ground. It started to talk about the fair work agenda and fair work first, which we welcome, because we think that that is essential. It also talked about the need to follow the guiding principles on business and human rights, which is also important, although that raises a lot of questions about where the bank's expertise will come from in that respect. The guiding principles are quite technical, but they are important and could be used to great effect to follow the ethical mission if there is a good understanding of what following them really means.

**Angela Constance:** Are you concerned about equality not being written into the bill?

**Helen Martin:** Yes. That takes me back to my comments about the bank's objects. The sense of a wider mission around equality, support for communities and ethical investment is a hugely important element, which fits well with and complements the bank's missions but which could easily be lost if the bank takes a short-termist, high-growth approach to its work.

**Angela Constance:** Do other panel members have views on whether the equality impact assessment was treated as a tick-box exercise?

**Flora Hamilton:** We have not engaged with CBI members on that. However, the CBI calls on business to build diversity and inclusion across all areas of its organisation and we have plenty of examples of diversity and inclusion policies delivering economic impact.

Recently, the Rose review considered the lack of access to funding for female entrepreneurs across the United Kingdom. An expert on your earlier panel gave their view on that. The bank could act on some of the recommended initiatives focusing on female entrepreneurs that are coming out of the Rose review, because the amount of funding that reaches female entrepreneurs and growth businesses is shockingly low. The bank could have an important role in addressing that. By addressing it, we will find further growth in the Scottish economy.

**Angela Constance:** Mr Lancashire, do you have anything to add, or shall we move on?

**Matt Lancashire:** Similar to the CBI, we champion diversity and inclusivity across all banking governance and operational structures. We support diversity and inclusivity being included

as part of the bank's operational standards and across the make-up of its staff, board and advisory group. That will only lead to better investment decisions, which will lead to a more inclusive society for Scotland.

**Angela Constance:** The committee has heard mixed views on remuneration policy. Some people point to the fact that the bank will have to operate in the financial services sector, but others point out that it will be a public body that will be accountable to taxpayers for value for money. What are the views of the panel on what the specifics of the remuneration policy should be?

**Flora Hamilton:** I am happy to say that one of the points that the CBI feels strongly about, for a number of reasons, is that the bank should collaborate closely with the British Business Bank. Remuneration policy is one area in which collaboration could deliver and help the Scottish national investment bank to develop a successful people policy. The British Business Bank has benefited from such a policy and managed to attract the right talent to make it a success, enabling it to deliver back to the UK Government. It would probably be able to give good, tailored advice on that area.

**Angela Constance:** What are the level of salaries in the British Business Bank? Have there been any accusations of eye-watering salaries, for example?

**Flora Hamilton:** No, there have been none, as far as we are aware.

**Matt Lancashire:** Ensuring that the bank is a great place to work and has a strong identity and good sense of mission will support the attraction of talent from within and beyond Scotland. That is critically important. Remuneration for senior leadership staff should be closely linked to the bank's performance, which is also critical in terms of fair pay for hard work. If someone has achieved their targets, they should be justly rewarded for that, as in any other role or job.

We need to strike a delicate balance between empowering the bank to attract talent through big wages, bonuses and so on, and retaining public trust in the bank. There is a critical line between what is too far and what is not. We want to get the right people and talent, because we want the bank to be successful, but that will take decent remuneration packages, particularly when we are after leading economists and financial experts for the bank. The question is how to achieve that while retaining public trust, given all the discussions over the past 10 years on remuneration, salary packages and bonuses in banking.

**Angela Constance:** Ms Martin, I am sure that you will have an answer to that question.

**Helen Martin:** We are clear that the bank will have to apply public sector pay policy, because it will be a public sector institution. It is not reasonable to carve out a special case for the bank as if financiers were somehow more important than other types of civil servants who do excellent work. Every employee, not just the senior leadership team, should get fair remuneration.

However, if there is a problem with applying public sector pay policy and managing to attract talent, that is a wider question for the basis of public sector pay policy as a whole, rather than it simply making a case for the Scottish national investment bank to have a different approach. I think that that would put in jeopardy public trust in the organisation, particularly given the issues in the banking sector more widely.

12:00

**Colin Beattie:** A couple of panellists have mentioned ethical investment. Major investment banks and a lot of pension funds have lending exclusions, which can relate to tobacco—that is typical—and perhaps to greenhouse gas emissions or activities that would impact negatively on biodiversity and the ecosystem. Should the bank follow an ethical lending policy? If so, what should it be?

**Flora Hamilton:** CBI members do not have a list of lending inclusions that they would advise the bank to follow, but the bank's investments in start-up or scale-up growth activities should not run contrary to the bank's activities that fall under its mission-led, patient-capital investment work. It is important for the bank to be driven by sustainable growth, which is an emerging area that is coming into the financial services policy landscape from the saver and investment community. That community wants its investments to be in products and parts of the economy that satisfy environmental, social and good governance factors.

In the FS sector, the big push is to find such ESG investments. A lot of work is going on at the UK and European levels on how we can work towards sustainable investments, which will be resilient and will deliver in the long term. The pressure will come from savers and people who want their pensions to go into sustainable investments. That is the wider landscape, so the bank will have to think about its sustainable investment policy.

**Matt Lancashire:** The question links to ensuring that the bank's missions are legitimate and of high societal importance. That approach is in the proposals for the three main drivers of the missions to be a low-carbon economy, healthy

ageing and inclusive growth. They are all ethical missions and they very much copy KfW's model, which is about climate change, globalisation and so on. The proposals would move to a similar standard to that which other European countries use for their banks.

The bank lacks an ethical mission in relation to what the fourth industrial revolution means for people, jobs and the economy. All our expertise and knowledge must be brought together so that the fourth industrial revolution creates a giant sector for the Scottish economy that involves automation, robotics, artificial intelligence, big data, nanotechnology and biotechnology. We are missing that crucial mission.

As I said in response to Jackie Baillie, we need further clarity in the bill about what is ethical and what sectors will be excluded before we can comment on how to choose ethical investments. A definition is needed.

**Colin Beattie:** Should that definition be in the bill?

**Matt Lancashire:** I do not suggest that, but a definition of what is ethical is needed at some point, so that people can decide whether they agree with that standpoint. Clarity is lacking about what will be ethical and what sectors the bank will be allowed to invest in. A bit of work is needed on that.

**Helen Martin:** The question is important, as it gets to the heart of the bank's role. I agree with Flora Hamilton's comment about the idea that the bank should not invest with its left hand in a way that undermines the missions of its right hand. To a certain degree, particularly around the low-carbon future, those missions give a sense of some of the exclusions that people might have in their investment portfolios. It makes sense for that to be mainstream through the entire ethos of the bank, for the missions to overlap and for some thought to be put into how they work together—for example, how to create a proper place-based approach.

Within the equality impact assessment, there was a commitment to the principles of fair work first. It is important to mainstream that fair work commitment throughout the bank; creating quality employment for workers across the economy should be at the heart of everything that the bank does. The United Nations "Guiding Principles on Business and Human Rights" are another way of thinking about ethical investment; that is already in some of the documentation around the bank. A lot of building blocks are already there. It is about putting the strategy around them and understanding what that means if we are going to do it in a strategic, sustainable, coherent and holistic way.

**Matt Lancashire:** If, at the moment, an oil and gas company is delivering carbon into the environment, does the bank not invest in it when it comes up with a solution for a technology that reduces carbon in the environment? How do we judge that? What is the ethical approach? Could we exclude that solution from investment because it comes from a big oil and gas company? We need clarity on what that means, because excluding businesses that might be transitioning, or doing different things that need the investment that could push our economy forward, would be a dangerous step to take. Although the ethos of the bank might be to invest in low carbon and net zero emissions, does that mean that we cannot invest in mature industries and sectors that are looking to transition with the technologies and innovations that they have? We must be careful about that aspect of the investment bank's role.

**The Convener:** I thank our panel for coming in today. Please feel free to write to the committee if you have further thoughts on some of the issues that have been raised.

12:07

*Meeting continued in private until 12:55.*

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

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