



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# **Economy, Energy and Fair Work Committee**

**Tuesday 11 June 2019**

**Session 5**



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**ECONOMY, ENERGY AND FAIR WORK COMMITTEE**  
**20<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:**

Fraser Gough (Scottish Government)  
Derek Mackay (The Cabinet Secretary for Finance, Economy and Fair Work)  
Rachel van Kempen (Scottish Government)  
David Wilson (Scottish Government)

**CLERK TO THE COMMITTEE**

Alison Walker

**LOCATION**

The David Livingstone Room (CR6)



## Scottish Parliament

### Economy, Energy and Fair Work Committee

Tuesday 11 June 2019

*[The Convener opened the meeting at 09:45]*

### Decisions on Taking Business in Private

**The Convener (Gordon Lindhurst):** Good morning, and welcome to the 20th meeting of the Economy, Energy and Fair Work Committee in 2019. I remind everyone in the public gallery to turn off their electronic devices so that they do not interfere with the work of the committee.

Item 1 is a decision on taking business in private. Do we agree to take items 4, 5 and 6 in private?

**Members indicated agreement.**

**The Convener:** Item 2 is a decision on taking our consideration of our draft stage 1 report on the Scottish National Investment Bank Bill in private at future meetings. Do we agree to do that?

**Members indicated agreement.**

## Scottish National Investment Bank Bill: Stage 1

09:46

**The Convener:** The next item is another evidence session on the Scottish National Investment Bank Bill. I welcome Derek Mackay, the Cabinet Secretary for Finance, Economy and Fair Work; David Wilson, programme director, Scottish national investment bank directorate; Rachel van Kempen, head of finance and resourcing, Scottish national investment bank directorate; and Fraser Gough, parliamentary counsel office, Scottish Government.

I invite the cabinet secretary to make a brief opening statement.

**The Cabinet Secretary for Finance, Economy and Fair Work (Derek Mackay):** Good morning. The publication of the draft bill is a significant milestone in the creation of the bank, laying the foundations for it to begin investing in businesses and communities across Scotland from 2020. The bank has the potential to transform Scotland's economy, as has been shown by the widespread support for the bank and the excitement that it has generated.

The bill gives a clear basis for establishing the bank, ensuring that it is commercially minded and publicly accountable. The work that has been done so far to establish the bank, including developing the bill, is the product of collaboration with stakeholders from across Scotland's economy and society. Consultation and discussions with stakeholders have been crucial to the progress that has been made towards meeting the ambitions for the bank that are set out in the implementation plan. Certain key decisions are still to be taken before the bank becomes operational, including decisions about the products that it will offer, its structure and the scope of its missions.

Key to success will be the way in which the bank acts and evolves over time when it is operational, and I therefore welcome the committee's role in furthering public debate on the bank. In the evidence that it has received, the committee has heard a constructive discussion on aspects of our proposals, and we will continue to engage widely, including with this committee, as we finalise our proposals to ensure that the bank can truly transform Scotland's economy.

**The Convener:** I will start by asking about the issue of the bank lending solely to the private sector and about the commercial activities of the bank. As you will be aware, the bill team has recently clarified some aspects of that for the committee. Can you add any further clarification

on the bank's approach to private sector lending and commercial activities with reference to the bill?

**Derek Mackay:** In essence, what we mean by "commercial" is something that does not involve the public sector. That said, I have made it clear that the bank can invest in social enterprises, third sector organisations and co-operatives. It is the nature of the funding, which will come through financial transactions—loans and equity—that is the reason why the bank has a commercial nature. However, because of the environmental and other societal and social burdens that we are applying to the bank, it is clearly not just a commercial entity. Although it is a public limited company, it is also a public body. The commercial element concerns the financial instruments that it can use, and the bank will not invest in the public sector in the way that Government would do through resource or capital grants. Is that helpful?

**The Convener:** Yes, that is a very helpful clarification.

Where are we on the question of the bank carrying over funds from year to year and having dispensation to do so from Her Majesty's Treasury?

**Derek Mackay:** I have raised that matter with Liz Truss, the Chief Secretary to the Treasury, including in writing, and it is still under discussion. If we do not get dispensation, the bank will be constrained in how it can invest and balance its affairs. We want to give the bank as much operational independence as possible, and we would have more control over the bank than people might like if it was not able to carry over resources. What do I mean by that in practice? We are bound by the financial framework agreement, which sets parameters and caps on our resources, the reserve and the carry-over. The bank will be constrained if its resources are part of that whereas, if the bank has dispensation and freedom, it will have more financial independence from Government, within the parameters that we will set out.

I have discussed the matter with the Chief Secretary to the Treasury in person, and I have written to her about it. I have also engaged with the Secretary of State for Scotland on the margins of other events to express how important I think this is. The bank would still be able to manage and operate without dispensation, but having that dispensation would make things easier.

I will give a practical example. Let us say that a big receipt or return came in at the end of the financial year, and that the Government was close to its own parameters. That might be really unhelpful, and we would need to try to manage that accountancy exercise, rather than the bank

receiving the money and being able to continue to invest. The British Business Bank receives dispensation to do that. I am sure that the Treasury will be delighted to hear that I am not asking for any extra resource; I am asking only for the flexibility to manage resources for the bank in a way that does not overly constrain the bank or the Government through the fiscal framework agreement, as it stands.

The bank will not be operational until towards the end of this parliamentary session, so, in any event, there will be the opportunity to revisit the matter in the discussions on the fiscal framework agreement. However, it would be better to receive dispensation from the start. Discussions with the Treasury are on-going. Dispensation would be helpful and is necessary. We would manage without it, but that would be far from desirable, so I hope that the Treasury concludes that it is worth giving us the dispensation.

**The Convener:** Will you provide an update on where we are with state aid rules and securing the permission that might be required from the European Commission?

**Derek Mackay:** The committee will be aware of the uncertainty around Brexit negotiations. The United Kingdom Government has not been—let us say—enthusiastic about notifying us of progress. In any event, we want to build up the case so that the notifications and pre-notifications are right. Ultimately, we would pass the work to the UK Department for Business, Energy and Industrial Strategy, which would carry out the notification process. We are building up that case.

There was a period when the UK Government was not keen on the notification process, because it did not think that it would be relevant or appropriate in light of the Brexit negotiations and Brexit itself. However, given the extension, the UK Government is now minded to forward our case, so we will pass that on to it for the interest of the European Commission.

Contingency plans are in place if there is a change in circumstances, such as Brexit happening. I will not go into all that, but I understand that the UK Government has arrangements in place for where we would send notification if it was not to the European Commission.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** Evidence to the committee has suggested that there is not the level of demand in the economy that was envisaged. Rob Hunter, from the Development Bank of Wales, suggested that the £200 million that is envisaged to be invested each year is about the right level for Scotland. What are your feelings on matching the supply and demand of funds? Would it be right to invest

£200 million a year under the current circumstances?

**Derek Mackay:** Clearly, we will have to consider how we finance the bank and the capitalisation of it from year to year, as resources allow. We have set out the £2 billion capitalisation over the 10-year period, but exactly how we profile that will be determined by the resources that we have available from budget to budget, within that aspiration. We have already announced the building Scotland fund and precursor funds to the bank being established, and those are being administered. Other funds will come from other places, such as the Scottish Investment Bank, which will form part of the finances. I would not set it out as rigidly as £200 million a year because, as I say, the profile may vary naturally from year to year.

We want to ensure that there is demand—folk queueing up at the door, if you like—so that people take advantage of the financial products that will be available. To stimulate that demand, we want to engage the enterprise agencies, the Scottish Futures Trust and the banks as appropriate. The purpose of the new bank is to give additionality rather than to crowd out the financial products that banks currently provide. We recognise that there are gaps in the economy and the market, and we want to focus on those to try to stimulate demand. The attention, coverage and awareness that the bank will, we hope, enjoy and we will encourage and stimulate will ensure that there is demand. The bank will have a transformational nature, as it is about trying to provide patient finance and capital, which is different from the products that banks have traditionally provided.

For all those reasons, there will be demand. We may have to stimulate that by raising awareness, and then success will breed success. I have described the investment pattern, which will vary from year to year, so that we can respond accordingly.

**Gordon MacDonald:** Again on demand, the committee heard from Rob Hunter that the Development Bank of Wales had an aim of reaching £80 million of investment by 2022 but that it achieved that in the first two years. Is there any reason why the demand profile in Scotland should be any different from that in Wales?

**Derek Mackay:** No. The economies are clearly different and some of the challenges that we face will be different. How we choose to target the missions will be different; it might be really good for us to target scale-ups or high-growth companies. We are learning from Wales and from the British Business Bank and the Green Investment Bank, but what we are doing is different from all of them and is unique to

Scotland's economic circumstances and landscape. However, I hope that we can have the same type of demand and investment.

With other investment funds that I am familiar with—the committee will be very familiar with them—Brexit uncertainty is having an impact, with investment plans being deferred and people sometimes being unwilling to co-invest. If the Brexit economic uncertainty is resolved and we get beyond the current phase, there will be even more demand for such products. That view is based on the evidence that I have seen that current financial tools are not being deployed and investment is being deferred because of uncertainty and a lack of willingness to co-invest.

**Gordon MacDonald:** The British Business Bank has recently established a new demand development unit. I know that the Scottish Investment Bank works closely with the British Business Bank. Is there anything that we can learn or copy from that new unit?

**Derek Mackay:** We will of course take the good practice from that. In my early days as finance secretary, I engaged with the British Business Bank. We do not want to crowd out the BBB, either—we want it to keep investing in Scotland and supporting Scottish business, so we are about additionality. However, we can of course pick up on that practice. We will have missions that are specific to Scotland's economy, which is how we will achieve additionality and focus. However, if there are practical measures on raising awareness, particularly in relation to targeting small and medium-sized enterprises or scale-ups, that will be useful.

Having convened Scotland's banking and economy forum, I am trying to ensure that we have good relationships with the banks and that we use an intelligent approach to provide resource or finance where that is not totally there at the moment. We will learn from the British Business Bank and the unit that it has created.

10:00

**Dean Lockhart (Mid Scotland and Fife) (Con):** We have heard from those who are setting up the bank that it will not act as the originator of funding opportunities, but will rely on referrals from the existing enterprise agencies, Scottish Enterprise and Highlands and Islands Enterprise. Given the significant additional funding available from the bank, will the resources, budget and staffing levels of the enterprise agencies increase to cope with the additional work?

**Derek Mackay:** We have still to fully decide on who and what transfers, and what resource is where. I want to look closely at those issues to avoid duplication—a matter that Dean Lockhart

has mentioned in the chamber. We do not want duplication or clutter; we want a potent, targeted, national investment bank that will leave the enterprise agencies and the SFT with their functions. We will look closely at how we align our efforts, organisations and staff. We are also working right now on a single point of entry for business support. It is about decluttering.

Rather than framing the question around whether the bank will bring costs of administration that will add to those of the enterprise agencies, we will look right across the infrastructure and landscape and ask what fits best where and how we can address duplication to ensure that we get maximum output from public finances.

**Dean Lockhart:** The Enterprise and Skills Strategic Board was set up two years ago to further align the activities of the enterprise agencies. Will that board therefore sit above the bank and oversee its activities to ensure the full alignment that you talked about?

**Derek Mackay:** That is a good question. As well as a board, the structure and governance of the bank will include ministerial accountability and parliamentary scrutiny, and Audit Scotland and the advisory group for ministers that I am proposing will also be involved. The strategic board provides advice on all enterprise agencies. The proposal is that the bank will be a public body and a plc, so its relationship to the strategic board will be different, but it would be wrong to assume that the strategic board will take no interest in the bank. I am trying to make the lines of accountability for the bank clear and not too cluttered. The strategic board might be able to give advice on the landscape of the agencies, and I will give that further thought. I do not want the bank to have to respond to too many sources of leadership, when the purpose was to declutter and to bring things together. I think that the strategic board will continue to provide recommendations on how to bring the Government's agencies together. Mr Lockhart is familiar with that issue.

**Dean Lockhart:** My final question is on demand. The Scottish growth scheme was set up a couple of years ago to invest up to £500 million in the Scottish economy. Can you give the committee an approximation of how much has been funded under that scheme to date?

**Derek Mackay:** I would rather do that in writing so that I get the figure right. I committed to give the committee an update, and I will give you line-by-line, portfolio-by-portfolio investment figures.

As Mr Lockhart is aware, a number of the schemes took a wee while to set up. Some of that is down to demand, and—as I touched on earlier—some is down to investment plans being put on hold or the lack of co-investment. Am I still

confident that the half a billion pounds to which we committed in the programme for government will be allocated over the period? Yes, I am. However, if it is helpful, I will write to the committee so that you have the amounts allocated to date for each portfolio. I know that I committed to giving that update.

The point is fair. I go back to the earlier point about stimulating demand and raising awareness. We want to learn the lessons, so that there is almost a queue at the door as we get ready to go.

**Andy Wightman (Lothian) (Green):** I have a technical question. Scottish ministers already own Scottish Water, David MacBrayne Ltd and so on, so why is it necessary to establish the bank via primary legislation? If the Government wished, it could set up a bank without legislation.

**Derek Mackay:** I am happy to turn to the lawyer to explain why, but civil servants are good at saying, "It is because you have to, minister." It is more technical than that.

Essentially, legislation gives us the basis to instruct. It also gives the bank its enduring nature if it sets out the parameters and functions, and it gives us the ability to capitalise, by way of resources.

That raises the question of what is different from what we had before. It is about the scale of the bank. If we get the dispensations, the bank will have further financial flexibility, which the agencies that we currently have do not enjoy. There are benefits from establishing the bank in legislation.

Fraser Gough might say more about the legal underpinning.

**Fraser Gough (Scottish Government):** Part of the issue is the democratic imprimatur behind the bank. We are talking about an institution that will be vested with large sums of public money. Therefore, in a democracy, it is attractive for the Parliament to have the opportunity to shape the institution. Instead of the Government going away and drawing up the articles, the Parliament has, through the bill process, an opportunity to influence the bank's structure and operation.

Indeed, beyond the bill process, there is the mechanism for amending the entrenched provisions in the bank's articles of association, which is subject to a parliamentary scrutiny procedure. The Government has no means of creating such a mechanism but through the vehicle of primary legislation. There is an on-going role for the Parliament, and we need the primary legislation to put that in place.

**Andy Wightman:** My question was really about the necessity, not the desirability, of having a bill—I understand the desirability and I am grateful that we have a bill. I am advised that the necessity of a



bill is to do with elements of section 17, on the ability to finance the bank

“in the form of grants, loans and guarantees”,

which would be prohibited by the Scotland Act 1998.

**Fraser Gough:** I think that “prohibited” is an overstatement of the position. However, there is a question about how much public money the Scottish Government can expend without direct statutory cover. Budget acts provide that, to some extent, but we are talking about finance on a scale that goes beyond the typical spend.

**Derek Mackay:** As I think that I said, the power to capitalise the bank is the clearest part of the bill.

**Andy Wightman:** Okay. If you have further thoughts on the necessity of legislation—

**Derek Mackay:** The need to capitalise the bank is a pretty good reason to legislate.

**Andy Wightman:** I suppose that, fundamentally, I am asking whether you could go ahead and do this without legislation and, if so, what is stopping you. Perhaps you can come back to us on that.

**David Wilson (Scottish Government):** Let me comment briefly. I think that the assessment is that the Scottish ministers could create an organisation that could take on many of the functions—with both limits and scope—exactly as you describe. However, the decision that has been made, and the advice that we received, was that, in order to capitalise such a company on the scale that ministers intend, legislation would be needed. The central need for the legislation is about giving ministers the power to capitalise the bank—not to create it, as such.

**Andy Wightman:** Are you saying that ministers do not currently have the power to capitalise such an institution?

**David Wilson:** Yes.

**Andy Wightman:** Thank you.

Recommendation 1 in the implementation plan is to establish a national investment bank with a vision to

“provide finance and act to catalyse private investment to achieve a step change in growth for the Scottish economy by powering innovation and accelerating the move to a low carbon, hightech, connected, globally competitive and inclusive economy.”

I do not think that we will find much disagreement with that. However, witnesses questioned whether that bold vision has been translated into the language of section 2, which sets out the objects that will be in the bank’s articles of association.

Questions have been asked about the object of

“investing in inclusive and sustainable economic growth”,

which is in section 2(2)(a). Just this week, the Poverty and Inequality Commission said that the Government needs to define exactly what that means and say how it can be measured.

Have you had further thoughts about the bank’s objects, cabinet secretary? Do you think that they faithfully reflect the vision in the implementation plan?

**Derek Mackay:** I am content that we will achieve the vision for the bank through the objects and, of course, the missions, which will be crucial. Section 2(2) sets out the ancillary objects, which cover the areas that you mention. They are:

“(a) investing in inclusive and sustainable economic growth,

(b) promoting and developing the activities of enterprises, where lack of financial investment is holding back economically viable commercial activity,

(c) promoting and developing the activities of small and medium-sized enterprises,

(d) creating and shaping markets through the provision of patient capital,”

and

“(e) contributing to the achievement of the Scottish Government’s economic policy objectives”,

which include not just boosting competitiveness but tackling inequality.

I think that the missions, which will be critical, will speak to those areas further, including the move to a low-carbon economy. We might come back to the formulation of the missions. I have some ideas about that that I would like to discuss with the committee, but I believe that the ambitions in the consultation and the implementation plan will feature in the missions.

I am looking at a chart of responsibility in a table on the bank’s governance. Right across the articles of association, the shareholder framework document, the missions, the investment strategy, the business plan and the ethical statement, we will want to direct the bank in a way that Parliament would want us to. Therefore, I do not think that there is any risk of the intentions being lost.

**Andy Wightman:** Recommendation 1 is quite a visionary statement, whereas the language of section 2 is the dry language of articles of association. I do not doubt that you share the vision that is set out in recommendation 1 but, in 10 or 15 years’ time, that might not be the vision of the Administration at the time. If that vision is important, as we all believe that it is, is there any way of incorporating it in the bill to make it clear what the bank is actually for?

**Derek Mackay:** I think that the bill does that. It is essentially an enabling bill that builds the structure of the bank. The bank will be an enduring, long-term institution; I think that it will be a permanent feature of our financial landscape. However, the missions need to be adaptable. Some of the articles are entrenched in terms of how we deliver the bank, and there will be parliamentary involvement. We must be agile and able to adapt to circumstances, which is why it is important that the missions are not outlined in the bill. That means that if we were to change or amend the missions, we would not have to return to Parliament with primary legislation. The bill must provide the structure and enable us to get on with setting up the bank.

There are many areas to do with what the bank will do in practice that I do not think it is right to include in legislation, but which should feature in the other devices that I have referred to.

**Andy Wightman:** You mentioned the missions and the role of Parliament. You rightly drew attention to the fact that the entrenched provisions can be modified only if a resolution has been laid before and approved by Parliament, but that is not the case with the missions. Do you think that the missions should be subject to any parliamentary scrutiny, or approval by resolution, given how central they appear to be to the role of the bank?

**Derek Mackay:** I do not think that they should be, but I have an idea about that. I think that it is right for the Government to be able to get on with its job as an executive and have a relationship with the bank, whereby the bank will have a degree of independence, but the missions will set out the parameters within which it should operate. The illustrative missions that have been set out include dealing with demographic change and moving to a low-carbon economy.

I led the work on the national performance framework on behalf of the Government. The NPF sets out the Government's purpose through outcomes and indicators. We tried to make it about the country as well. That did not require an affirmative vote by Parliament; it was a mission for the whole country. We developed the NPF in an inclusive way on a cross-party basis, through engagement, consultation and round-table discussions with stakeholders. I would like to take the same kind of approach with the missions—I commit to taking a round-table approach. Extensive consultation is already under way. Rather than have a parliamentary vote and unnecessary division on the missions, I would like to engage with Parliament on them, in the same way that I did for the national performance framework. I am keen for a cross-party approach to be taken to refining the missions.

Given that I got the likes of Murdo Fraser and Patrick Harvie to agree on the purpose of the Government as set out in the national performance framework, surely we can approach the missions for the bank in the same consensual and constructive way. There are other stakeholders with whom we must engage, too. Although it is ultimately a matter for the Government, I want to take a collaborative approach to the creation of the missions. As I said, we have already published some illustrative missions, but that is not the end of the matter.

10:15

**Andy Wightman:** The bill says that you will send a document to the bank when setting, modifying or ending missions. I think that the missions are designed to be fairly long term. Will you give an indication of what proportion of the bank's resource will be devoted to the pursuit of missions as opposed to other financial products that it may develop routinely?

**Derek Mackay:** That is a good question. I do not want to set a percentage. I suppose that that issue will feature in the investment strategy and the business plan. I expect the missions to be transformative and to absorb a lot of the bank's energy and resource. We will direct the bank to engage in missions. That is not to say that every single investment will be exclusively part of the missions, but we will expect the missions to direct the energies of the bank.

We will get further information from the investment strategy and the business plan, which the bank will lead on. It will be for ministers to review that.

**Andy Wightman:** I am looking not for a specific percentage but for an indication. I am looking at the paper that was produced by Mariana Mazzucato and Laurie Macfarlane for the Government in March 2019. Much importance is being attached to mission-orientated finance. Do you see the mission-based finance as a substantial part of the bank's activity?

**Derek Mackay:** I do. I said that I think that the missions will absorb the bank's energy and resources—I expect that to be a real focus of its work.

**Andy Wightman:** That is helpful. Thank you.

We have had discussions about ethics. Do there need to be legislative provisions on the bank's ethics, or are you content to leave that to the board?

**Derek Mackay:** I do not support either of those options. I do not intend to legislate specifically on defining things as ethical, but there will be an ethical statement. However, I will not just leave

that to the board. Although it is appropriate for the board to lead on the ethical statement, ministers should review it. Naturally, ministers will engage in relation to that. I am sure that ministers will want to give a view on the shareholder framework document—and even at an earlier stage—and on what we feel is the spirit of ethical investment in practice. That said, as a public body, the bank will be bound by, for example, the public sector equality duty and the Gender Representation on Public Boards (Scotland) Act 2018—there is existing legislation that is relevant to a public body.

As I said, we will review the ethical statement. I will not just leave it to the bank to compose the statement—I propose to engage beforehand.

**Andy Wightman:** The ethical statement is not a legislative requirement.

**Derek Mackay:** No. You asked whether I would legislate for that, and I said no. You then asked whether I would leave it to the board. I said no again, and then gave the appropriate answer.

**Andy Wightman:** I am very impressed, cabinet secretary—thank you very much. That is all from me, for the moment.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** I want to explore a couple of issues. The first is the target rate of return. The bill's policy memorandum states that the bank will deliver

“against the target rate of return set by the Scottish Ministers.”

We have taken a fair bit of evidence on that issue. A range of approaches are taken for national development banks. Some banks have target rates of return, others do not. What is the reasoning behind having a target rate of return for the SNIB?

**Derek Mackay:** I suppose that it is to set a target. Let me frame this very carefully. We must bear in mind that this is not about commercial profit return, although it is good that what is raised will be reinvested—ministers will have the option of a dividend, too. Because we are putting those societal, transformational and environmental burdens on the bank, it is not all just about the rate of return.

Other development banks have a target rate of return, and it is appropriate for the Scottish national investment bank to have one, but that should not give people the impression that the rate of return is more important than other considerations. We have talked about how a move to low carbon, demographic change, scale-ups and support for small and medium-sized enterprises are also important considerations in transforming our economy. It is important to have a target rate of return, and we will engage with the

bank on that, but I do not want it to be overly restrictive or to give the impression that that is the matter of primacy. It is not; this is about transforming our economy and adding to it.

Another issue to bear in mind is the very nature of patient finance. There might not be immediate or short-term returns—it could take a long time for investments to return resource. There are a number of considerations. It is appropriate to have a target rate of return, but we will not be beholden to that as the only measure of success.

**Colin Beattie:** Is there, therefore, any point in having it? You have highlighted a number of issues that indicate that it might not be appropriate to set a target rate.

**Derek Mackay:** It is important to have one, but we should not be totally beholden to it. We should bear in mind the bank's other considerations and the missions that we set for it. It is good to set a target rate of return as a benchmark, but we should not be a prisoner to that. I am sure that there will be comparisons with other financial institutions, but we will look at what is reasonable and appropriate. We do not yet have a proposed rate of return, because we are currently only considering the legislation for the bank. When the bank is much closer to operation, we will set down a rate in the relevant document.

**Colin Beattie:** Has any consideration been given to what the likely target rate of return will be?

**Derek Mackay:** Not yet, although we are looking closely at it with others.

**Colin Beattie:** Is there a danger—human nature being what it is—that, if a rate of return is set, everything will be measured against it and it will become a totem that everyone operates against?

**Derek Mackay:** Mr Beattie asks a fair question. However, I am trying to express the view that, although we should set a target rate as a benchmark and as another metric for success, we must not be beholden to it, given the missions that we are seeking to establish for the bank. It should be there and we should be mindful of it, but it must not be our north star—the only thing that we follow.

**Colin Beattie:** Leading on from that, I want to talk about the subject of break-even. Given the bank's operating costs, there is a deadline of 2023-24 for the break-even point. The bank will invest in firms whose needs for capital are not currently serviced adequately by the market; the reasons for that lack of investment are often complex. Is it likely that the bank's high risk profile will impact on the potential break-even date? If so, what would that mean?

**Derek Mackay:** It might. It is possible, and even likely, but it will depend on what the bank invests in; when there is a financial return; the state of the economy at the time; where there is success, whether that is around the bank's missions or around its investment profiles; and what we choose to do around the economic cycle.

That relates to my earlier point about the availability of resources and how quickly we can capitalise the bank. All those determinants will contribute to how soon it achieves break-even. As the finance secretary, I want that to be as soon as possible, but, as long as the bank is stimulating our economy and delivering the necessary investments to enhance and improve it, I will welcome that. We set out in the financial memorandum what we think the costs will be—and certainly what we think the benefits will be—but a lot will depend on the investment profile, the returns and the state of the economy at the time.

**Colin Beattie:** Would break-even be measured as a book entry or as cash in the bank, so to speak? We have talked previously about patient capital, and it could be years before you are able to crystallise any profit that might be made from the investment, although you would obviously be booking it every year. Would it be a book break-even, or would it actually be cash?

**Derek Mackay:** I was asked previously by this committee or another committee—I cannot remember which—what would constitute success for the national investment bank, and I said that success would be the bank allowing investments to happen that would not otherwise have happened.

I do not see the national investment bank as a cash cow that will be able to contribute to the fiscal coffers, as nice as that would be. It is more about transforming our economy, stimulating investment and providing financial support where it may not currently be available. It is about transforming the economy to direct more efforts towards demographic and environmental challenges, including the transition to a low-carbon economy and the scale-ups. I want the bank to be self-financing and to be able to reinvest its returns as soon as possible, but I see its contribution to the economy as being of much greater importance than ministers having the ability to take a dividend from it. That is not the bank's motivation.

Naturally, the sooner that the SNIB can be self-financing, the better, but the bigger prize is what it can do for the economy and business support and what it can do to transform our economy. What I see as success is investments happening that would otherwise not happen.

**Colin Beattie:** So, the target date for breaking even is more notional than actual.

**Derek Mackay:** I suppose so, because of the range of determinants that I have set out.

**Colin Beattie:** I have one last question. Obviously, the SNIB is intended to be a cornerstone of the Scottish economy in the future and, we hope, something that will be with us for a very long time. Are you satisfied that, in the way that it will be set up, it will be free from future political interference, changes of regime and so on?

**Derek Mackay:** I do not know. I have not yet seen the committee's report, so I am not sure how much you want to interfere in it.

In all seriousness, I think that the way in which we are structuring the bank and the arrangements around it gets the balance right. It will be a plc but also a public body with all the relevant accountability, transparency and governance arrangements. It will have an advisory board so that it can hear from different parts of society, and ministers will be able to direct and engage as appropriate.

However, it is important to point out that, according to all the advice and evidence that we have heard, the bank will achieve more if it is as independent as possible. Because public money is involved, all the appropriate checks and balances will be in place, but it will have operational independence. Nevertheless, in setting out the missions, we can direct the bank's efforts and energies, and the shareholder framework document will give us assurances about its operation. We are clear with regard to the articles of association, including the entrenched articles, and ministers will be able to review the other policies that will be involved.

We will, of course, continue to engage with the committee on any suggestions that it might have, but I think that we have struck the right balance to ensure that the bank endures beyond any parliamentary term, any term of a finance secretary or whatever.

**Angela Constance (Almond Valley) (SNP):** Cabinet secretary, you are probably aware that Engender and Close the Gap have raised serious concerns about the equality impact assessment, saying, in essence, that it lacks substance and is incomplete and that the analysis is somewhat "cursory". How do you intend to interfere to rectify that matter?

**Derek Mackay:** At this stage, ministers and, indeed, Parliament are perfectly entitled to work on creating the bank, so I do not see that sort of thing as interfering at all. I have seen the evidence from Close the Gap and Engender, and officials are meeting organisations to go through their concerns and to ensure that what they have to say shapes and informs future work.

As I touched on earlier, the bank will, as a public body, be duty bound to follow the duties that are set out in the bill. Perhaps some of the elements of equality or of the duties have not been expressed in the bill, simply because those things are de facto required of any bill or any public sector body. It is therefore expected that all of that will be delivered and complied with without any reference being made to it, because it is the legal position as set out in the public sector equality duty and other duties in the Equality Act 2010.

Further work on socioeconomic deprivation will be carried out under the fairer Scotland duty assessment. I understand that the findings of that work will be published at the end of the summer and will also feature in the various strands of work that have yet to begin.

Between our engaging with the organisations to ensure that we get this right and our directing the bank, targeting what it does and pointing it in a certain direction, I will want to ensure that we cover issues such as having an inclusive approach, ensuring inclusive economic growth, sustainability and equality and tackling inequality. I think that those things will feature in the missions and the shareholder framework document, and I also expect them to be set out in the remuneration policy, the investment strategy, the business plan and the ethical statement. It is right that they will feature in those documents, which ministers will review.

If it was felt—as was clearly the case in the evidence that you received—that there were gaps in the assessment, I would want to work on that, including on what we could do with those with protected characteristics. We will meet the individual organisations to see what progress can be made during the passage of the bill, but I point out that what are perhaps even more important than the bill itself, which allows us just to build the bank, are the strategic documents and directions, which are where equalities should feature.

10:30

**Angela Constance:** Do you accept that, whenever there is an opportunity to articulate what everybody is required to do to advance equality, it is better to be explicit?

**Derek Mackay:** Although lawyers might be better placed to argue the point, pieces of legislation cross-referencing other pieces of legislation can get messy. However, for the avoidance of doubt, the legislative drivers, missions and objectives should—absolutely—feature in the other documents that I have suggested. Legislation should not be overly complex, but we all have to be bound by what Parliament states that we should do, and equality

must feature in the top-level documents and direction under which the bank will operate. My answer is therefore that, yes, we should be explicit about how we do our business and operate and about what we are trying to achieve.

**Angela Constance:** The word “equality” is not mentioned in the bill. How does that omission fit with inclusive growth as an outcome and, more importantly, the *raison d’être* of the bank, which is—as you have said—to transform the economy not just by increasing competitiveness but by reducing inequality?

**Derek Mackay:** The bill directs people to the Government’s economic strategy, which mentions tackling inequality; the strategy focuses on inclusive economic growth and greater equality.

We have tried to keep the bill as tight as possible—it is about enabling the bank to be created. All the other documents—from the articles of association, the mission and the framework document to all the other policies—should feature the objectives and language that is right and appropriate. However, for the avoidance of doubt, although the word “equality” is not mentioned in the bill, it will be mentioned, where appropriate, in all other documents. The Government’s economic strategy, to which the bill refers the bank, mentions tackling inequality, and that is a key part of the strategy. That means tackling inequality in every sense, not just financial inequality.

**Angela Constance:** Do you accept, however, that visibility and clarity are important?

**Derek Mackay:** I absolutely accept that.

**Angela Constance:** I will now ask about remuneration. The committee has heard mixed evidence—more so in written evidence—about the bank’s remuneration policy. On the one hand, the bank will operate in the financial sector, and some people expect that to be reflected in its terms and conditions of employment. However, other evidence points to the fact that it will be a public body that is accountable to taxpayers, that there will be a need to deliver value for money and that public support for the bank and its policies will be important. What are your views on remuneration policy?

**Derek Mackay:** Ms Constance has fairly articulated the issues that Government and Parliament will have to wrestle with in relation to what we want the bank to achieve. It will be a plc but also a public body, and we will wrestle with the challenge of attracting the right people to operate the bank while working within the public sector pay policy, as far as possible. However, that will not be possible for every member of staff. I echo the First Minister’s comments in that regard:

"If this bank is to be successful, we will want to attract the top talent to run it and we will need to be able to attract that talent. And equally ... we live in a climate, in a culture where there can be a public concern about salaries that are over-inflated or, in shorthand, a bonus culture. We don't want to obviously have those kind of concerns in a publicly owned organisation that is there for the public good."

As the remuneration policy is set out, we need to bear in mind that the bank will work within the fair work principles and that it will be a living wage employer, which I know has been welcomed. To secure the level of staff that we will undoubtedly require, higher remuneration levels will be required for some posts. We will look closely at the pay policy of the British Business Bank, which is similar, in determining what is right for the Scottish national investment bank, which will be commercially minded but publicly accountable. We will give the matter a great deal of thought and we will balance the need for people who have the right skills and experience with respect for the public sector pay policy, which the vast majority of the staff will be under.

It will be for the bank to lead on its remuneration policy and the recruitment of staff, but ministers will set out a view and a direction, if that is appropriate. We will give that further thought on the basis of evidence from equivalent organisations such as the British Business Bank. We are mindful of the public sector pay policy, but we recognise that the Scottish national investment bank will not be just another public body and will need to attract the right staff. A balance will be involved, which Ms Constance articulated.

**Angela Constance:** What are your views on performance-related pay?

**Derek Mackay:** I do not want to encourage a bonus culture in the bank, which would be an inappropriate driver. I want the bank to be inspired and energised by its missions. For as long as I have been the finance secretary, I have not encouraged a bonus culture in the civil service or the public sector pay policy, and I would not like to see that in the bank—it would be the wrong culture. The bank will focus on delivery, and remuneration will be appropriate under the structure that I have set out.

**Jackie Baillie (Dumbarton) (Lab):** I will pick up two issues that have been covered before I ask my allocated question. I welcome the cabinet secretary's invitation for the committee to interfere and I view that as positive encouragement to do so. Does he have in mind a role for the committee or do we have a blank sheet to do what we will?

**Derek Mackay:** I am totally open, accountable and transparent to the committee. As always, it is no holds barred from Jackie Baillie.

**Jackie Baillie:** You do not let me down; you will therefore be able to look with interest at our report.

In a reply to Gordon MacDonald, you touched on stimulating demand and the challenge that Brexit poses, and you pre-empted my next question. The Scottish-European growth co-investment programme has managed to allocate only £3.25 million out of a total of £200 million. Has Brexit caused the slow take-up of that funding?

**Derek Mackay:** Businesses have told me that investment plans have been deferred because of Brexit; that is one reason for companies holding off. I have met businesses that are keen to invest in the UK and Scotland but, because it is hard to answer the question about what the Brexit position will be, some companies are holding off on investment. If companies are doing that, it is no surprise that they are not seeking funding to go ahead with investment plans. Brexit is having a material impact on the economy.

**Jackie Baillie:** I accept that, but I am confused because, when the co-investment programme was announced to great fanfare two and a half to three years ago, it was set up to help businesses to grow in the face of Brexit. Is it the case that you did not do your homework in setting up the fund?

**Derek Mackay:** Not at all—and there is no need for the pejorative language. It takes time to establish investment funds; due diligence must be done and we must reach out to potential investors.

**Jackie Baillie:** I understand all that and agree with you, but you said moments ago that part of the problem is that Brexit is preventing people from investing. The Scottish Government set up the fund to deal with the problem of Brexit, so I contend that you did not understand the market when you set up the fund.

**Derek Mackay:** Not at all. We have committed to financial support of about £500 million. I was asked whether we would fulfil that commitment and I said that we would and that I would provide further information to the committee on the profile of that. We can create a fund and offer loans and equity, but that does not force companies to take the financial products.

I have also been clear to Government agencies that we can be creative in terms of doing our homework. If we have financial products for which there is not enough demand, we can create bespoke products and look at how we can support companies if they want a different kind of financial product.

The financial transactions can only be loans or equity. Companies will, naturally, always take free money before loans or equity—anyone would take a grant first—but we will provide loans and equity. Because of the nature of the economy and risk or financial uncertainty, companies may not be willing to take up specific projects.

With the Scottish-European growth co-investment programme, we have to comply with the rules on what it is appropriate to use those resources for. As finance secretary, it has always been my position not to lose any resources. If people will not take the financial products that we have, we will look at how to amend them so that we can provide further support to the private sector. However, Brexit uncertainty has been raising its head ever since the referendum and having a material impact on the investment decisions of companies and potential investors.

**Jackie Baillie:** It is just that you introduced that fund in the light of all that.

Picking up on your latter point, which was that if it is not working you will seek to reallocate the money, are we to take it that the Scottish-European growth co-investment programme will come to an end or be altered? Is the money going to be reallocated?

**Derek Mackay:** No—I am still intending to use it. I am saying that if there is any prospect of Scotland losing out on finance, I will make sure that we adapt so that we never lose a penny that Scotland is entitled to. It is unfortunate that, thanks to the efforts of the UK Government, we might be on track to lose out on substantial sums of money if there is no resolution to the issue of financial guarantees from the UK Government concerning the funds that we have enjoyed from the European Union. I have financial products, but if necessary I will try to make them better so that they can be used in support of the Scottish economy.

**Jackie Baillie:** Excellent. Your implementation plan states that a balanced scorecard will be developed between the bank and the Scottish Government, which will set out the requirement for and measurement of non-financial returns. Can you point to where that features in the bill or any supporting document?

**Derek Mackay:** We have not put much detail in the bill. We are still working on it, and it should feature in the stakeholder framework document; we will set financial targets for the bank through the stakeholder agreement. It will also be covered in the missions, in which we will cover key socioeconomic challenges for the bank; both the financial and non-financial returns will be part of that. As a patient stakeholder, we will give time for resources to return to the bank. I also expect reference to that balanced scorecard to feature in the business plan and investment strategy. It will build on the Treasury's green book guidance and develop a specific approach suited to a mission-orientated development bank.

**Jackie Baillie:** We can find nothing in the bill or the supporting documents, but I am encouraged by what the cabinet secretary is saying. I am very

keen that if we are setting up such an institution, the Government should prioritise the non-financial returns and there should be clear sight and measurement of them. The earlier sight that the committee can have of your intentions as you develop them, whether that is in guidance or the business plan, the more confident we will feel about those returns.

**Derek Mackay:** That is a fair point, convener. I do not think that Jackie Baillie is saying that it should be in the primary legislation that will create the bank, and we are agreed on that. However, it is clear that what is expected of the relationship between the bank and the Government should feature in the stakeholder framework document. It should also feature elsewhere, as appropriate, to capture those financial and non-financial matters. I will give further thought as to how it features, but, to go back to Angela Constance's point, I take on board that it should be explicit somewhere.

**John Mason (Glasgow Shettleston) (SNP):** The cabinet secretary has mentioned the advisory group, and I want to ask more about that. A variety of witnesses have given us views. Some want the advisory group to be more separate and stand alone, and others want it to be more involved. How do you see the advisory group operating? Am I right that it is intended to advise ministers rather than the bank?

10:45

**Derek Mackay:** Yes, that is correct. The intention is for the advisory group to advise ministers. Clearly, we have a relationship with the bank; we would rather that was the case than have the bank looking to too many different places. So, that is correct: it is our view that the advisory group should be advising ministers.

**John Mason:** Would there be no direct relationship between the advisory group and the bank?

**Derek Mackay:** We could give that further thought. I am not saying that members of the advisory group should never meet representatives of the bank—I do not know if we would want to be too specific about that, or if that would be overly restrictive. The purpose of the advisory group is ultimately to advise ministers. We will direct the bank through the mission, the shareholder framework and the eventual act. Parliament will create the act, and we will hold the bank to account.

**John Mason:** The advisory group would not be in the act, however—is that correct?

**Derek Mackay:** We do not intend it to be. It has an advisory function, so we are not proposing to put it in the act.

**John Mason:** A further question that has arisen is whether the chair or some other member of the advisory group should also be on the board of the bank. We have heard different views on that. Can you comment on your current thinking on that?

**Derek Mackay:** We could give you some further thinking on the chair.

**Rachel van Kempen (Scottish Government):** The proposal in the consultation paper was that one of the non-executive directors would be the chair of the advisory group, creating a connection between the advisory group's thinking and the board and its thinking.

**John Mason:** That would give a connection, but would that compromise the independence of the advisory group?

**Derek Mackay:** It gives you the link that you were asking about—not from the advisory group into the board, but from the board to the advisory group. The important point about the advisory group is that we want it to be reflective of Scotland and its key economic interests. It cannot be totally comprehensive and cover every sector, but we want the group to be informed, and for it then to inform ministers.

I think that the proposal will provide that direct relationship with ministers. We want the group to act as our advisers on the wider economy. We also have the link from the board through the non-exec director. They would be outnumbered, however, by all the other members on the group. We have been considering a membership of, I think, around 20.

**David Wilson:** It is about that.

**Derek Mackay:** We are open to that, and I think that that would be quite representative.

**John Mason:** We have heard a variety of thoughts and comments regarding membership. It has been suggested, for example, that nurses and social workers might be on the advisory group. That would not be a traditional expectation of or requirement for a financial institution, but that would mean that there would be wide involvement in the advisory group, including from many people who would not have a financial background. Is that your thinking?

**Derek Mackay:** Yes. I would not want to create representative posts for a sector, but the mission is for the group to be as representative as possible. That goes back to Angela Constance's point about equality, representation and who populates the group. We will consider how it is formed as we work towards its operation. I can provide the committee with further information. Those matters are obviously not for the proposed legislation before us, but they absolutely relate to the operation of the bank.

**John Mason:** That is helpful.

On a slightly separate point, you explained earlier that one of the reasons for setting up the bank in the legal way that you have chosen is to give it longevity, so that it can go through political cycles. We have used the word "patient" a lot. You have mentioned being a patient stakeholder, and we have been discussing patient capital. Are you optimistic that the politicians—I am thinking of people such as Jackie Baillie and Dean Lockhart—will be patient, or do you think that, on day 1, they will immediately ask for a high rate of return and criticise you if they do not get it?

**Derek Mackay:** Those are very unkind comments to other committee members—although the analysis is probably 100 per cent fair: ministers and the bank should be held to account.

That brings us back to an earlier point: that the aim is not necessarily to raise revenue for Government, nice as that would be. It is about helping us to transform the economy and to provide financial support where it does not fully exist at the moment, while targeting some issues where that could really help us out.

Let us take an area such as renewables. If the bank levered in finance to the renewables sector to capitalise on our wonderful natural assets and their ability to create clean, green energy, that is the kind of investment that would be transformational.

We will all be enthusiastic about the bank's creation and we want to get it right. The bank will be held to a very high standard, and that is admirable.

**The Convener:** Speaking of Dean Lockhart.

**Dean Lockhart:** Thank you, convener. I am both patient and enthusiastic, cabinet secretary.

I want to address a couple of issues to do with missions. In previous evidence sessions, there was some confusion about whether all the bank's lending would be mission based, or whether it can lend outside of its core missions across all sectors, as the Scottish Investment Bank currently does. Will the cabinet secretary please clarify that?

**Derek Mackay:** We have published the illustrative missions, which, arguably, are quite wide. However, they are also focused, in that they focus on inclusive and sustainable economic growth.

To answer the question directly, the bank will be able to allocate resources outwith the missions, but that will be for the bank to decide. Such lending will need to be within the bank's ethical statement, investment strategy and all the other considerations and burdens that we will put on it. Because we will not be micromanaging the bank's



individual investments, it is not inconceivable that it will invest outwith the missions, albeit within those other policy parameters.

**Dean Lockhart:** Let me give you an example that was raised in previous evidence sessions. Would investment in the oil and gas sector be consistent with a low-carbon mission for the bank?

**Derek Mackay:** It depends what the bid for funding is. Let us say that an oil and gas company wished to diversify from extraction into renewables or emissions reduction. It goes back to my earlier point. As long as the bid meets the other policy requirements, an investment can be made outwith the specific missions. It will be down to the nature of the application and the investment that is sought. The bank will also be looking for a balanced investment profile.

We then come to a wider debate about the bank's ethical statement and the restricted nature of what the bank may or may not invest in, on which we may have a view. We are talking about the legislation to create the bank, so I do not want to speculate too much about what the bank may or may not invest in. Some of those matters will be for investment strategy or the ethical policy.

**Dean Lockhart:** Section 11 allows the Scottish ministers to change the bank's mission statement by sending a document. Concern has been raised that mission statements will be changed too often, for example every year, as part of the annual report. Would it be inappropriate to change the mission statement once a year?

**Derek Mackay:** Yes. For the purposes of patient finance and a long-term economic strategy, it would be too often if we were to change the mission statement every year. There should be enough flexibility to change it as the economy demands, but every year would be too often, especially when the bank will have a business plan and its own investment strategy. I would imagine that the missions will be more medium term than short term. How can the bank make strategic long-term investments if we change the mission statement every year?

**Dean Lockhart:** On that point, you mentioned future proofing the bank against changes in Government and so on. To reflect your concerns about long-term thinking, would you consider future proofing the mission statement in the legislation so that ministers could change the statement, say, only every two years?

**Derek Mackay:** I really do not want to tie the legislation up in formulae or unnecessary parameters. I understand the intention behind the question, but any wise minister knows that it would be counterproductive to constantly or annually change the missions. At the same time, though, we should not necessarily tie our hands for what is

clearly common sense, wise and the right thing to do. I do not know whether Dean Lockhart feels an amendment to the bill coming on, but I am sure that he understands the point that I am making. He has asked me a direct question and I have answered it. Do I think that I need to legislate for common sense? I do not think so.

**Dean Lockhart:** We will leave it at that. Thank you.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** The implementation plan notes that the SNIB will have

“a national mandate to realise benefits of investment at scale, while maintaining regional reach to help businesses to realise their full economic potential”.

Last week, we took evidence from Rob Hunter of the Development Bank of Wales, who was clear that it is extremely important to maintain a regional approach. How will you ensure that the new bank takes a regional approach rather than focusing on the central belt or other areas?

**Derek Mackay:** Let me be clear: I do not want the bank to focus only on the central belt or other places where people might think the economic clusters are, because the bank can deliver for every part of the country. I mentioned the potential around renewables, which clearly involves island, coastal and rural communities. The bank's financial products can touch every part of Scotland, and there is an expectation that that will happen. Sometimes, what might not seem to be much resource in large urban areas can have a disproportionate positive effect on rural areas.

My expectation is that the bank will cover every part of the country geographically and that its financial products will be open to those in every part of the country. Let us not worry about the physical location in relation to accessibility. The bank will not be like a traditional bank where people rock up to the counter to ask for a loan. It is about making the financial products available intelligently. We want to ensure that the bank has that national locus. I can engage with the business gateway and local authorities to ensure that the bank has national reach. Similarly, we can support the deployment of the resources across the country. The new south of Scotland enterprise agency is a further welcome addition to the economic landscape.

My ambition is to ensure that the bank speaks to the whole country and that its financial products work for the whole country.

**Jamie Halcro Johnston:** I heard it suggested that you do not envisage the bank having regional or local offices, although that is still being consulted on and considered.

**Derek Mackay:** It is not that kind of bank. The accommodation is yet to be determined, but that will be an operational matter once we have decided exactly who will do what, what the composition of the bank will be and what will happen with current agency functions, such as those in the enterprise agencies and the SFT. The point is that most people will contact the bank not by physical attendance but by telephone or email, or they will have been referred to the bank as a result of engagement with other agencies. It is not about physical location; it is about how we open up the bank's financial products. Investments will be merit based but, as I said, the benefits of the bank and the financial tools can reach right across Scotland. Through some of the missions—particularly on low carbon and the delivery of renewables—the bank can reach the parts that other banks cannot. That sounded like an advert strapline, which I did not intend. I should say that I have not paid a consultant for advice on that.

**Jamie Halcro Johnston:** I think that you would want your money back if you had. *[Laughter.]*

You mentioned some of the agencies that are involved. Do you see local government as having a defined role in relation to the bank? Obviously, it has a role through business gateway.

**Derek Mackay:** The committee has paid close attention to business gateway and has recommended that there is a need for it to have national consistency. For that reason and other matters that the committee well understands, I want the bank to have national consistency. I work closely with local authorities on economic development and, following the committee's consideration of business gateway, I am reaching out to local government to see how we can do local economic development better. However, I do not propose a role for councils in the bank; it is a national investment bank. I want to work with local authorities, but I will not give them a decision-making role. There is of course an expectation that the economic development units, business gateway and others will work with the bank to ensure that it fulfils the potential in every part of the country.

**The Convener:** To use your earlier language, Andy Wightman would like to rock up with another question.

11:00

**Andy Wightman:** It is a question about rocking up to the counter. Is it envisaged that the Scottish bank will have to obtain a banking licence and/or be regulated by the Financial Conduct Authority? There are subsidiaries of the Development Bank of Wales that are so regulated, because of what they do.

**Derek Mackay:** My lead official is desperate to say something. He has been deprived all morning.

**David Wilson:** To be clear, the bank will not require a banking licence. That was set out in the implementation plan last year. However, there will be a number of more detailed clearances with the FCA. In particular, its approval will be required for the use of the term, "bank". We have already been in touch with it in that regard and are not anticipating any particular challenge around that, but it is one of a number of approvals processes that we need to go through. We will also liaise closely with the FCA about the senior managers' conduct arrangements and other more detailed points. However, to be clear, there is no requirement for a banking licence, given the nature of the activities that the bank will be engaged in.

**Derek Mackay:** If it had been a retail bank, it would have required a banking licence. You should not underestimate the willingness of people to invest in a national investment bank, thinking that it is a retail bank, but it is not. Its mission, and what we are trying to achieve with the financial products, is specific. Those elements may well grow over time—it would be good if the bank could grow and consider other functions. However, right now, it is what it is and it will do what it says on the tin. If it had been a retail bank, it would have required a licence.

**Andy Wightman:** Yes, because the Development Bank of Wales is doing things that require a licence, such as running a help-to-buy programme and so on. There is nothing to rule out such activities in the future, if the bank considers that they are necessary, and, obviously, part of that would concern the requirement to get a licence. However, you are saying that you do not envisage that at the moment. Is that the key message?

**David Wilson:** Given the structure of the legislation, there are opportunities for the bank to change and evolve, but that is not part of the proposals at the moment.

**Derek Mackay:** Just for completeness, I do not think that it is true to say that we could not do a help-to-buy programme, because we already do that.

**Andy Wightman:** Yes, but there is a question about whether you could do it through the bank. The help-to-buy programme that the Development Bank of Wales runs requires regulation. However, there is nothing to rule out the plc or the Administration deciding, in 10 years' time, that the bank should get into fields that require a licence and then going through the due process to obtain one, even though that is not what you envisage at the moment.

**Derek Mackay:** There are certain changes that would be required, depending on the nature of the change in the bank's functions. Clearly, what we are doing in statute is to enable the creation of the bank. We are doing much more in policy areas. It might be helpful if the committee had sight of the chart that I commissioned for my briefing for today's meeting. Has the committee seen that, David?

**David Wilson:** Not the chart.

**Derek Mackay:** I will share that with you, as it assisted me. I see that I have got Mr Wightman excited at that prospect.

With regard to the statute, it is what it is. There are changes that we can make in policy and to the mission but, if there were to be a much larger change to the bank, that would require primary legislation and we would have to return to Parliament.

**Andy Wightman:** I am not particularly excited about you sharing your briefing, although that would be useful; I am more excited about the prospect of—

**Derek Mackay:** I said that I would share the chart, not the briefing.

**Andy Wightman:** Yes, although it would be good if you could share briefings with the committee in advance of each of your appearances before us.

**Derek Mackay:** I suspect that it would make all of our lives much easier.

**The Convener:** Not necessarily, but thank you for the offer to share a chart with us. I think that that is the first time that we have had that offer from a cabinet secretary.

As there are no other questions, I thank the cabinet secretary and his team for coming to the meeting. We will now move into private session.

11:03

*Meeting continued in private until 11:48.*



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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