



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Net Zero, Energy and Transport Committee

**Tuesday 21 September 2021**

**Session 6**



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Pàrlamaid na h-Alba

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**Tuesday 21 September 2021**

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**NET ZERO, ENERGY AND TRANSPORT COMMITTEE**

**6<sup>th</sup> Meeting 2021, Session 6**

**CONVENER**

\*Dean Lockhart (Mid Scotland and Fife) (Con)

**DEPUTY CONVENER**

\*Fiona Hyslop (Linlithgow) (SNP)

**COMMITTEE MEMBERS**

Natalie Don (Renfrewshire North and West) (SNP)

\*Jackie Dunbar (Aberdeen Donside) (SNP)

\*Liam Kerr (North East Scotland) (Con)

\*Monica Lennon (Central Scotland) (Lab)

\*Mark Ruskell (Mid Scotland and Fife) (Green)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Audrey MacIver (Highlands and Islands Enterprise)

Eilidh Mactaggart (Scottish National Investment Bank)

Andy McDonald (Scottish Enterprise)

Ewan Mearns (Scottish Enterprise)

Claire Renton (South of Scotland Enterprise)

Collette Stevenson (East Kilbride) (SNP) (Committee Substitute)

Dr Martin Valenti (South of Scotland Enterprise)

Willie Watt (Scottish National Investment Bank)

**CLERK TO THE COMMITTEE**

Peter McGrath

**LOCATION**

The Mary Fairfax Somerville Room (CR2)



## Scottish Parliament

### Net Zero, Energy and Transport Committee

*Tuesday 21 September 2021*

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

#### Decision on Taking Business in Private

**The Convener (Dean Lockhart):** Good morning. I welcome everyone to the Net Zero, Energy and Transport Committee's sixth meeting in 2021. I apologise for the brief delay in starting. I remind everyone that social distancing measures are in place across the Holyrood campus.

Under agenda item 1, do we agree to take item 3 in private?

**Members** *indicated agreement.*

## Committee Priorities

09:10

**The Convener:** The committee's main business is to hear from two panels of witnesses. First, we will hear from representatives of the Scottish National Investment Bank. This evidence session is an opportunity for the committee to discuss the bank's approach to net zero and its investment priorities across a range of areas.

I welcome from the Scottish National Investment Bank Willie Watt, chair, and Eilidh Mactaggart, chief executive. I thank you both for taking time out of your busy schedules to be with us. It is great to see you. As agreed, we will aim to finish this session at 10 o'clock sharp. I invite Mr Watt to make a short opening statement.

**Willie Watt (Scottish National Investment Bank):** As members know, the Scottish National Investment Bank is a publicly owned, mission-led development bank. We were launched at the end of November 2020 and we built our team pretty much from scratch, to the point where we now believe that we are delivering on our missions.

The bank is a mission-led investor and we have been set three missions by the Scottish Government: to support the transition to net zero; to build communities and promote equalities, which includes the fair transition; and to harness innovation in a way that enables people to flourish. It is hoped that such innovation will solve some of the problems of creating a net zero world.

The bank is set up to offer long-term commercial finance for projects and businesses whose impacts can potentially transform Scotland's society and economy. We offer commercial finance because that allows us to crowd in more external capital and to create a bank that can reinvest the proceeds of past investment; because it is a better use of public money to invest capital rather than to give just grants; and because it ensures that good projects that would not otherwise happen get funding. We do not see a tension between commercial returns and our missions. We believe that we should and must do both.

We offer both debt and equity and we can invest from as low as £1 million to as high as £50 million in green projects, green businesses and the greening of business, which is slightly different. The Scottish Government has said that it will capitalise the bank for £2 billion over 10 years. We have been active since our launch and have announced seven investments that total £120 million. In the first quarter of this financial year, we have made investment commitments of £62 million, of which £50 million has been drawn, so

we are on track to invest the commitment of £200 million that was made in the Scottish budget for 2021-22.

Our investments are helping to deliver a range of innovative and exciting projects across tidal energy innovation, lower-than-net-zero insulation for homes, forestry and electric vehicle charging. We are also working on a pipeline of investments, some of which will contribute to our net zero mission.

I will pause at that point and hand back to you, convener.

**The Convener:** Thank you for those opening remarks. We will move on to questions. My first question is on the bank's remit. When the bank was set up, its primary mission was to deliver a step change in economic growth and accelerate the move to net zero. Given that mission statement, what criteria does the bank apply in making individual investments or prioritising across sectors, and how are investment opportunities identified? Does the bank have an origination function, or are opportunities referred to the bank from enterprise agencies and other public agencies?

Of the investments that the bank has made to date, some are in what one might call passive funds—funds that are managed by third parties—rather than being direct investments in operating companies. Will you talk us through the rationale behind the investments in more passive vehicles?

09:15

**Willie Watt:** I will take the question on funds, but I will ask Eilidh Mactaggart to talk about the creation of the team that initiates investments and what that looks like.

It was always envisaged that the bank would be able to invest in funds. As I have said, we have been building an investment team from scratch over the past few months, but there are a number of areas in which it is better for us to invest in another team that has the critical skills. In forestry, investing alongside and helping to crowd in private capital allows our investment in the fund to go further than if we were to do that ourselves. That fund needed our capital to get off the ground, so it was not as if we were investing in something that was already in place; the fund was not in place until we made our investment. The same was true of the Places for People affordable housing fund—it could not have got off the ground without our capital, which enabled it to crowd in significant external money from the likes of the Strathclyde pension fund.

We felt that the work of both those funds was directly aligned with our missions. The Places for

People fund, which is for affordable housing, focuses on people who do not qualify for social housing but who are not wealthy enough to afford a deposit for owner occupation. Such people often work in the health service, hospitality or the teaching profession, and it is important for them to live near the places where they work. What was different with the forestry fund was that it was based on high principles—on the planting of new forestry in places where it had not been planted before, in order to extend the green footprint of tree planting.

I will hand over to Eilidh Mactaggart to talk about deal origination and how we work with the enterprise agencies.

**Eilidh Mactaggart (Scottish National Investment Bank):** In our language, we talk about direct and indirect origination. Willie Watt just talked you through our investment in funds, which the convener called passive and which we call indirect; with direct investment, we invest directly in businesses and projects. We have built a good investment origination team, which now has 28 people. At the beginning of the year, it had only two, so we have been building the origination capacity.

Since the bank's launch, the media coverage about it has resulted in a lot of opportunities coming to us directly. Some have come through the agencies, but many have come directly into the bank. Moreover, as we have been building the origination team, a lot of opportunities have come in through the team's networks, as well as through networks that I, Willie Watt and others have in the market. That is naturally how banking investment origination works.

Whether investment opportunities come in through an agency, directly to the bank or through some networking event or origination activity, we are keen to consider all of them equally on the basis of whether they represent a good investment opportunity. In making investments, we are always looking to deliver not only a commercial return but mission impacts, so that we can deliver our longer-term missions.

**The Convener:** I thank you both for those answers. I have brief follow-up questions. Are any sectors excluded from investment by the bank? In looking strategically at investment priorities, do you meet the Scottish Government's economic advisory council to discuss overall strategy?

**Eilidh Mactaggart:** I will take the first question, which was on ethical exclusions. [*Inaudible.*]—our website. One of our major exclusions is that we will not invest in oil and gas extraction, as we believe that that would cut across our net zero mission. There are other exclusions that are fairly common to most financial institutions, such as not

investing in anything that would use animal testing inappropriately—obviously, in relation to genetics and other life sciences, sometimes animal testing is necessary—and a number of other ethical exclusions on gambling, tobacco and munitions, which the investment industry generally avoids these days.

Given the nature of the bank, we want to have the highest ethical investment standards that we can. Our ethical investment policy sets those standards, and we consider them as we consider investments through the investment committee process.

**Willie Watt:** I will pick up the other question. We talk to policy teams across the Scottish Government in the different parts of the Government that are relevant to our missions. We give feedback when we think that there could be policy changes that would benefit those sectors. We try to regularly meet the cabinet secretary and senior civil servants. However, we feel that we have complete freedom to define how we should tackle our missions. As the committee knows, the missions are set by the Scottish Government, but how we as a bank interpret the best way to go about meeting those missions is entirely a matter for the bank's board. We have put together a board that has very good credentials with regard to our missions—particularly the low-carbon mission.

**The Convener:** My final question for the time being is on the bank's capitalisation and budget, which Mr Watt mentioned in his opening statement. I am trying to reconcile the amounts that have been published in the Scottish Government's budgets under the line item for the bank—that figure is in the region of £570 million over the past couple of years—with the amount that has been invested by and available to the bank, which is in the region of £120 million. I am trying to reconcile the difference between the amount that has been made available through Scottish Government budgets, as published over the past couple of years, and the amount that has been spent by or made available to the bank.

I understand that some of the amounts that were allocated to the bank in previous years were, for obvious and understandable reasons, reallocated. However, I would like to hear what you see as being the reason why, if we look at the Scottish Government's budget and the bank's budget, we see two different amounts.

**Willie Watt:** I am not sure that I can fully answer that question. I know that, before the bank's launch, allocations were made to the bank in the first instance that were then redirected elsewhere, partly in relation to the Covid emergency. I can say that the bank's budget should align with the spending commitments in the current year,

because that has been fully integrated into how we do things.

Neither Eilidh Mactaggart nor I was involved before the end of 2019—that was when I first became involved. Some of what you are talking about might relate to a period before then. We can take the question away and come back to you with a more thoughtful response, but it might relate to Covid and to the earlier period. Would Eilidh Mactaggart like to add to or subtract anything from what I just said?

**Eilidh Mactaggart:** I will add a bit. I started working with Willie Watt in April 2020, and the primary focus of our activities was launching the bank and building a governance framework within which we would make investments. It was important to get those building blocks in place. We managed to make two investments—one was announced at the time of launch and one was made before the end of what we call the stub period, which was the short financial year from the end of November last year to the end of March this year. Combined with the launch, that was a significant achievement.

We were focused on launch activities versus investment activities, because we had to build the bank during that period before we started to do investment activities. We now have the team and the governance structures in place, but we need to make strong investment decisions, and we expect to deploy our committed capital this year in line with our budget.

**The Convener:** A couple of members have supplementary questions.

**Liam Kerr (North East Scotland) (Con):** Eilidh Mactaggart spoke about the policy decision not to invest in oil and gas. A huge amount of research and innovation is going on in the oil and gas sector in relation to the transition to renewables and reducing emissions, which seems to be on point with what the bank is all about. Might a policy of refusing to consider anything that relates to oil and gas have unintended consequences?

**Eilidh Mactaggart:** That is a good question. The policy exclusion is for oil and gas extraction, rather than anything in oil and gas transition or the use of such technologies. For example, we want to tap into what was the Oil and Gas Technology Centre and is now the Net Zero Technology Centre in Aberdeen and use its expertise from the offshore sector in the offshore wind industry. That is absolutely something that we would be interested in investing in.

We are keen to support the transition of Aberdeen and the north-east into the renewable energy sector and away from oil and gas, as that comes to fruition. The exclusion is limited to the extraction of oil and gas and does not apply to the

use of such technologies and transitioning skills and workers into the new industry.

**Monica Lennon (Central Scotland) (Lab):** Forestry has been mentioned and clearly has a huge part to play in reaching net zero. I am interested in the Gresham House forest growth and sustainability fund, on which there was a wee bit of media coverage at the weekend. The bank is making a substantial investment of £50 million. The fund is the UK's largest commercial forestry manager and is in charge of 140,000 hectares of forestry. It operates not only in the UK but in Europe and New Zealand. I believe that it is worth £1.8 billion. How was the fund identified and how did it come to the bank's attention?

**Eilidh Mactaggart:** The fund approached us, as it was looking to raise capital. The nature of the forest growth and sustainability fund investment is slightly different from traditional forestry fund investment. The fund is focused on planting, whereas traditional forestry funds are more focused on harvesting existing forests; that is where a lot of private capital is happy to invest, because the return profile is fairly consistent. Gresham House wanted to move away from harvesting existing forests and into replanting, which requires a more patient capital such as the bank offers to support growth before ultimate harvest and use for sustainable resources and then replanting.

The fund was not getting the traction that one of Gresham House's traditional forestry funds would have done, so it approached us to work with it on cornerstoning the fund. In doing that, we have already attracted additional capital. Currently, the bank's commitment is around 40 per cent of the total fund commitments and we expect it to raise further funds on top of that. Cornerstoning new ideas is at the heart of what the bank has been set up to do. The fund is a new type of forestry fund that is focused on planting as opposed to immediate harvesting and so offers a longer-based return. As a member of our investment committee, I like the idea that it is in line with our patient capital mantra, too.

09:30

**Monica Lennon:** Given that the fund is well established and involves a huge amount of money, how can the public be confident that the bank is not investing in funds that are making money for those who are already wealthy? How does that particular investment contribute to a just transition for Scotland?

**Eilidh Mactaggart:** A just transition from the oil and gas industry is one side of things. When we invest in something, we keep an eye on all our missions. Our place mission, as we call it, is

primarily focused on addressing inequalities. The fund provides jobs through planting and the on-going requirement to manage the forestry. There is additional economic activity alongside the carbon sequestration through the planting of new trees. As with all things, the bank is looking at making commercial investments alongside other investors, who will also be making commercial investments.

**Willie Watt:** Investors in the fund will come from many different institutions as well as many pension schemes, including local authority and company pension schemes. They will not necessarily be the wealth creation investors that you might imagine; they could be institutions that share some of the bank's values and want to invest in a long-term positive asset.

The Climate Change Committee has estimated that Scotland will need to invest £5 billion a year over the next 10 to 20 years if we are to solve the problems of carbon. That has to come from the private sector, and the private sector will invest only if it makes positive returns. The combination of good investments that make sense in relation to climate change and commercial returns is important. We want to foster and encourage that combination.

I hope that is helpful.

**Monica Lennon:** That is all helpful. I ask Eilidh Mactaggart to expand on her comment on job creation and tell us how many new jobs the fund is expected to lead to. I also have a final question for Willie Watt. Will that investment push the envelope in relation to good practice in commercial forestry? Will it encourage more diverse planting to support native woodland targets and will it require higher levels of certification such as the UK woodland assurance standard?

**Willie Watt:** The answer to that is yes, but Eilidh Mactaggart is more familiar with the detail than I am.

**Eilidh Mactaggart:** It is expected that the investment in the forestry fund will help to sustain around 200 existing jobs—I was given a precise figure of 213—and will deliver an estimated additional 567 jobs. That is on top of the mission impacts of indigenous planting and the positive contribution that it makes to net zero.

One of the things that attracted us to the fund was the diversified planting, which is in contrast to the older practice of just planting spruce because it is fast growing. The diversified woodland creation as opposed to pure spruce forestry was a key driver for us in making that investment. The fund will follow the regulations for the highest level of certification. That is built into the covenants around the investments—it is a legal requirement



of our contract to invest in the fund that it continues with that.

**Willie Watt:** We had a detailed discussion about that at the final investment committee meeting before we made the decision to back the fund, because we knew that it would be important that the fund was investing to the highest standards.

**Monica Lennon:** What percentage of the planting will be native species? Do you have that information to hand?

**Eilidh Mactaggart:** I do not have it to hand, unfortunately. Apologies—I can dig it out and follow up with you directly.

**Monica Lennon:** Thank you—that would be great.

**The Convener:** Before I bring in Mark Ruskell, I have a final question, which is on indirect investments in funds. Am I right in assuming that the bank will incur a fund management fee for making those investments?

**Eilidh Mactaggart:** Yes, absolutely.

**The Convener:** Is the bank comfortable with that, in terms of the overall return on investment?

**Eilidh Mactaggart:** Yes. In any fund investment that we make, as any good investor would do, we consider the fees that are charged, negotiate hard on them and ensure that they are in line with the market.

Where we are cornerstoning, we will normally look for a reduction in the fee as a result of making that cornerstone investment. Obviously, the commercial details of the investments are confidential, but we are focused on the value-for-money element.

One thing that I like about investing in the forestry fund is to do with the specialism required in the area. I probably would not build that expertise into my investment origination team, because it is too specialised. On the question of dedicated resource versus the cost of the fund management fee, it is better to pay the fund management fee rather than hire an internal team to do the work, given its specialised nature.

That thinking was also applied to the management of the Places for People investment fund. PFP is one of the largest social housing landlords in the country, and working with that fund requires external skills and experience. We have to take into account the financial self-sustainability of the bank and the costs of in-house people.

**Mark Ruskell (Mid Scotland and Fife) (Green):** I have a couple of follow-up questions. First, I am interested in where you draw the line in relation to exclusions and ethical screening. For

example, Eilidh Mactaggart mentioned munitions companies. If a munitions company wanted to diversify into using some of its military hardware for a technical application to do with climate change or whatever, would that be within your scope for investment?

Another example might be forestry. The investments that are taking place are massively welcome, but how far do you go in screening how they are used in marketing? For example, Shell might say, “Come and fill up your car at this petrol station with our petrol and diesel—it’s fine because, for every tank of fuel you buy from us, we are investing in another five trees.”

In thinking about those secondary ethical considerations, I am interested in where you draw the line in your governance with regard to those companies.

**Eilidh Mactaggart:** I am happy to start on that, and then Willie Watt can add any other comments.

It is a judgment call, which is why our investment committee discusses such things in detail. Any ethical investment policy will have de minimis thresholds in it. We are absolutely looking to encourage good behaviour and a good transition. Oil and gas extraction is a good example. In general, banks—certainly development banks—would not invest in munitions. However, a number of technologies, such as drones, while they could be considered to be part of a munitions programme, are also hugely useful for looking at performance in forestry or agriculture. There are multiple uses for such technologies.

We absolutely consider each investment on its merits. We look at the balance of what our money will be used for when we put it in. Whenever we make an investment, the contract, loan document or shareholding agreement that we enter into contains a lot of detail about what people can and cannot do with the money that we give them. It also includes a lot of reporting requirements, whereby they have to tell us what they are doing with the money. Particularly in equity investments, we will often also have a board seat to enable us to see what is happening and what a company is doing with the investment money that it receives from us.

In a situation such as the one that Mark Ruskell described around helping a company to transition away from something that we would consider unethical and into a more positive space, we would put very tight covenants into our documentation to ensure that we got that outcome. We absolutely consider investments on a case-by-case basis.

**Willie Watt:** We have based the impact reporting that the bank will do around the

International Finance Corporation part of the World Bank's system. We therefore have a whole framework for reporting that gives us a systematic way of dealing with the challenges that Mark Ruskell posed, which are real.

**Mark Ruskell:** You mentioned that you have a seat on the board of some of the companies that you are investing in. I know that other fund managers do that. For example, Baillie Gifford has a direct relationship with the portfolio companies that it invests in through its positive change programme. Of the seven investments that you have made so far, with which companies do you have board representation?

**Eilidh Mactaggart:** We have just closed some of those investments. We are in the process of appointing representatives for three of the equity investments that we have made this year. Smaller equity investments do not always come with a board representative, but we typically get board observer positions as well.

In addition, in relation to the two fund investments—in PFP and Gresham House forestry—we will sit on the advisory panel with the other limited partners in the funds, which will govern how the funds invest the money and ensure that they stay true to the original mandate on which we invested.

**Mark Ruskell:** It would be useful if the committee could get that information in a list.

**Liam Kerr:** I will ask a few straight questions on the finances, because it is not my area of expertise at all.

The Scottish Parliament information centre briefing estimates that the set-up and operating costs between 2018 and 2023 will be £49.9 million. However, that was before Covid. What are the current estimated costs to fully establish the bank? What do you project to be the annual operating costs going forward? When is the bank expected to meet the operating costs from its revenue income?

**Eilidh Mactaggart:** I will start with the second part first. We are focused on achieving financial self-sustainability and expect to achieve it in the medium term. The important thing about financial self-sustainability is fluctuating returns on investment. For example, we may hit it in year 4 or 5, but we will want to make sure that we can sustain that before we call ourselves financially self-sustaining for the longer term.

Our operating costs for this year are estimated to be around £15 million; additional income that the bank will make will contribute to that cost as well. We will not fully cover the cost this year and we do not expect to do so in the next couple of

years. It depends very much on the build of the portfolio.

Obviously, we are actively looking for origination business. The patient capital nature of our investments means that the returns tend to be back-ended and slower in coming through. If we invest in debt, we will get a more immediate return on our capital in terms of coupon and the debt. With equity, many of the equity businesses that we are investing in are at the early stage, so the return horizon is a lot longer. As I said, the forestry fund is a longer-term patient capital investment, because it is focused more on planting than on immediate harvesting, which gives a more immediate return.

09:45

We are balancing the patient capital that was identified as needed for the Scottish economy and which was one of the building blocks for the establishment of the bank. We are carefully managing our costs as much as we can internally, with a view to achieving financial self-sustainability.

On the costs before launch, many of the project costs happened before I joined the programme, so I cannot answer that, but we could try to follow that up. We would have to tap into the knowledge of some of our civil service colleagues in the Government to get the pre-launch costs that they were responsible for, rather than the costs that Willie Watt and I are responsible for.

**Liam Kerr:** That would be great. I just really want to know whether £49.9 million is still the salient figure. To follow that up, obviously, there is a significant cost to the taxpayer. Is there any concern about a duplication of cost to the taxpayer, given that other agencies are involved in the area, as we heard about earlier this morning?

**Willie Watt:** It is important that there is no duplication and that we work effectively with the other agencies in the ecosystem. For example, Scottish Enterprise focuses on an earlier stage than we would, but that means that, when Scottish Enterprise investments start to mature, the bank is there to help companies to scale up. Grant funding is available from various agencies, but those are rarely enough to fully fund the commercial projects that we are looking at. Therefore, the bank is there to cornerstone and to gap fund, which is what we are doing. We communicate regularly with South of Scotland Enterprise, Highlands and Islands Enterprise and Scottish Enterprise to ensure that what we are doing fits in seamlessly for companies.

**Liam Kerr:** I will explore a slightly different issue although, again, this might be a case of clearing up my understanding. I think that I am right to say

that the bank is not currently authorised or regulated by the Prudential Regulation Authority or the Financial Conduct Authority. How is it still a bank, given that it is not regulated in that way? Do you have plans to formally become a bank or to become so regulated?

**Willie Watt:** Before the launch, we took a lot of advice as to whether we could do the work that has been set for us without being regulated. The advice from the bank's and the Government's advisers was that we could do that, and the Financial Conduct Authority is entirely comfortable with that. I guess that we are a bank in the sense of being a development bank. As you know, banks cover a multitude of sins. We are a focused institution in that development bank space, so I think that the use of the word "bank" is permissible.

On the second part of your question, which was about whether we intend to come under the regulation of the FCA, the answer is yes—we have stated that publicly. We think that that is important to the on-going development of our missions. Although £2 billion over 10 years is a significant amount of public funds, and we are mindful of the stewardship of that public capital, it is not enough for us to achieve our objectives to meet our missions. To do that, we need to be able to manage third-party capital and, if we are to do that, we believe that we need to be FCA regulated, because that will give people the confidence to give us their capital to manage. Eilidh Mactaggart and her team are leading a project with the FCA on that.

**Liam Kerr:** I understand. I see that the British Business Bank publishes a rate of return to demonstrate the taxpayers' return on investment, with a targeted return on average capital employed of more than 2 per cent. Does your bank plan to do likewise?

**Willie Watt:** The legislation that set up the bank envisages a target rate of return being set. We believe that the bank should have a target rate of return, and we have started work on how that should be calculated, over which period, and how it should be met. We will work in consultation with the Scottish Government on that factor, but the short answer is yes, we think that that is important. We need to make a positive net return and we need to be scientific about working out what that should be, given the activities with which the bank is involved.

**Collette Stevenson (East Kilbride) (SNP):** You have answered my question already, because I was going to ask you about the discussions that you have undertaken with local government pension schemes. However, I want to drill down into that a wee bit more. You talked about Strathclyde Pension Fund, but which other local

government pension schemes have you had discussions with? Given that pension schemes have been under a lot of scrutiny in relation to disinvestment and more ethical investment, has that formed part of your discussions? I also want to ask you about capitalising on the investment and what is planned for the future.

**Willie Watt:** I will start on that and I will then hand over to Eilidh Mactaggart to talk about the specifics. You are right in that local authority pension schemes have an interest in sustainability in their investment activities. The nature of their liabilities—some of which are long term, such as the pensions that they provide for their members—means that they are also innately long-term investors, so there is an alignment of interest between the values of the bank and those of pension schemes.

Local authority pension schemes across Scotland are important. As I mentioned, we have partnered with Strathclyde Pension Fund. I see this area as one in which we can develop our links over time, as it would be a natural fit for us.

**Eilidh Mactaggart:** Ahead of the bank's launch, aside from the co-investment with Strathclyde Pension Fund and the PFP fund, I had a conversation with Strathclyde, and I have also spoken with Lothian Pension Fund. I expect to speak with more of the schemes. I know from my previous life, in which I managed money for a lot of UK local authority pension funds, that they are all very focused on investing in sustainability. Indeed, they have all been on the environmental, social and governance journey for a long time. Not only have they been ensuring that they provide their pension investors with sufficient security for their returns—after all, their primary purpose is to ensure that they pay their pension holders their pensions when required—but all the ones that I have seen in the UK have without exception been focused on improving the sustainability element of their investments and doing so in a responsible way.

I know from previous conversations—not necessarily with the Scottish pension funds, but with others—that exiting from all their historical oil and gas investments is not seen as a smart thing to do, given that that industry still supports a lot of jobs. However, they are looking at their portfolios on a net zero basis, which I think Mr Kerr asked about in his question. We are looking to continue to strike the right balance in what we need to do and what we can do to counter investment in, say, cars versus tree planting, which I think was touched on, too.

Does that help, Ms Stevenson?

**Collette Stevenson:** It is good to hear that the local government pension funds are on board with

you and are taking net zero seriously. You alluded to your discussions with Lothian and Strathclyde, but have any other funds come forward to discuss how to crowd in investment? Is that on your radar?

**Eilidh Mactaggart:** Yes. We have also talked to some of the pooled pension schemes, such as the Pension Insurance Corporation, in which Strathclyde and others invest. Conversations are on-going. It is early days, but we are connecting and will continue to connect with everybody.

As Willie Watt said in response to the FCA question, we are very keen to raise additional capital to be invested alongside us. As we get through our initial launch phase and look at the future of how we manage that additional capital—once we have the regulatory permission to do so—we will pick up those conversations with pension funds and indeed other investors who would like to invest alongside us. We hope that it will not be just the pension funds that are interested in that, although they are obviously a great asset to have alongside us in making these investments. We can help them and thus help Scotland as a whole.

**Jackie Dunbar (Aberdeen Donside) (SNP):** Good morning. I will be brief, because I realise that time is getting on. How does the bank interpret its legal objects with regard to supporting a wellbeing economy? What does supporting wellbeing mean to you in your approach to identifying and assessing investment opportunities?

**Willie Watt:** Eilidh Mactaggart will take that question.

**Eilidh Mactaggart:** When an investment opportunity comes in, the first filter that we apply is to identify which of our missions it primarily aligns with, whether that is net zero, what we call place, which is focused on improving equality and wellbeing through investment in communities, or innovation, which is more focused on investing in companies such as M Squared Lasers or R3-IoT and looking to the future economy of Scotland.

To me, all three missions have an element of wellbeing. The net zero mission is obviously important for the human race as a whole, while the place mission looks at community building and improving equality. We are promoting wellbeing across all our investments by making it clear that we will not invest in anything that would go against our missions. In the same way, we would not invest in something that would cut across our overall net zero activity. I would describe it as a common theme. The wellbeing of Scotland's economy and the people who are ultimately our beneficiaries is core to our investment decisions.

**Fiona Hyslop (Linlithgow) (SNP):** Good morning. It is good to see you. I recognise the

major achievement of setting up a bank from scratch during a pandemic. When you came into post in April 2020, it was an interesting time.

I want to look to the future. Recognising that we are still in a pandemic, and noting the influences of the 26th United Nations climate change conference of the parties—COP26—and the objectives that must be met globally, not just by Governments but by private finance, will you comment on how you see the market going forward, bearing in mind that the bank is considering cornerstone financing but also gap financing? Have you seen changes over the past year? What might you forecast regarding the generation of private capital and the billions of pounds of green investment that will be required if the world is to achieve net zero?

**Willie Watt:** Areas of the market are well served with private capital, including offshore wind, which has gone from being uninvestable 10 or 20 years ago to being fully financed by the private sector now. However, there are gaps in emerging technologies. For example, there is a shortage of capital for green hydrogen projects, because the uses of that technology, although they may be proven on a small scale, are not proven on a large scale. The same might be true for tidal power and some of the service sectors where we have made investments. I hope that we can prove that commercial investments can be made in those sectors, which will give the private sector confidence to come in beside us.

Eilidh Mactaggart can elaborate on that point.

**Eilidh Mactaggart:** I have been hugely impressed by and excited about the diversity of the pipeline of investment opportunities that we are seeing. It gives me great confidence that the bank is here at the right time to do the right things in investing here.

As you will remember, Ms Hyslop, before we launched the bank, we had to get state aid approval from the European Union, much of which focuses on crowding in versus crowding out and on ensuring that the money that we invest is not available to be invested in the private sector. We continue to follow that guidance, as we have been told to do and as is the policy across the piece. Whenever we look at an investment opportunity, we will actively quiz and query the investee company or the borrower as to whether they could find the money in the private sector, as we would not want to crowd that money out.

There is ample opportunity for investment. The private sector has a lot of cash to invest in things at the moment, and a lot of private sector funds are focused on investing in green. As Willie Watt identified, offshore wind does not need public capital any more and the deals are typically

heavily oversubscribed by the private sector, although work is continuing on some things. The investment in Nova Innovation is an example. Its tidal technology required a bit more proving, but I hope that, by the time we reach the next investment round, a combination of the bank's investment and further proving of the technology will allow further private capital to come in. That is absolutely the reason for our existing—*[Inaudible.]*—to lead the way there.

We would typically expect a forestry fund to find it easy to raise funding. The Gresham fund did not, because it was focused on planting with a slower horizon for return, which matches our patient capital mantra. However, through cornerstoning, investing and doing the hard work, it has already attracted additional capital. We are focused on and very conscious of that.

I constantly say to Willie Watt and our board that I am hugely excited about the diversity of the pipeline that is building in the bank.

**The Convener:** That brings us to the end of this evidence session. I thank both our guests for attending and for their time. We very much appreciate it. Enjoy the rest of your day.

10:04

*Meeting suspended.*

10:09

*On resuming—*

**The Convener:** I am pleased to welcome our second panel of witnesses. We are joined remotely by Audrey MacIver from Highlands and Islands Enterprise; Dr Martin Valenti and Claire Renton from South of Scotland Enterprise; and Andy McDonald and Ewan Mearns from Scottish Enterprise. Thank you, everyone, for taking the time to join the committee this morning and for your valuable written submissions.

As we have a large panel, it would help if members could indicate to whom they are addressing their questions. If a panel member wishes to contribute, they should raise their hand or type R, for request, in the box on the BlueJeans platform.

My first question on policy alignment is for the agencies. How do the agencies ensure that the transition to net zero is being co-ordinated across agencies and the Government? In particular, how much specific guidance do the agencies receive from the Scottish Government on the priorities to be implemented in the transition to net zero? We will start with Scottish Enterprise, then Highlands and Islands Enterprise and then South of Scotland Enterprise.

**Ewan Mearns (Scottish Enterprise):** I will answer that on behalf of Scottish Enterprise, given that I am on the strategy team. We work closely with the Scottish Government and other agencies in co-ordinating what we do and in aligning our activities with policy. We receive a ministerial guidance letter each year, which sets out ministers' expectations of Scottish Enterprise and we are in regular contact with the Scottish Government policy teams and ministers in between times. We collaborate closely through the strategic board on business planning processes, as well as operational issues, to ensure that we can offer consistent advice and a business support system across the whole of Scotland that businesses are able to access.

**Audrey MacIver (Highlands and Islands Enterprise):** We follow a similar approach: we get ministerial guidance each year and we are involved with the Scottish Government at strategic board level in relation to planning. I highlight that there is close networking at many levels between the Government and agencies, right across the broader net zero agenda. Over the last 18 months to two years, we have witnessed greater efforts to ensure that net zero does not just come under the energy or business spaces, but that there is real coordination of efforts. People are seeking to align funding, too, so that there is a clear understanding of the outcomes that we are trying to achieve.

The alignment is strong but there are areas where we need to continue to do some work, particularly around measurement and how we measure outcomes relating to net zero. However, that is very clear at strategy level and that is reflected in our operating plan—net zero is peppered throughout that.

We are currently very involved in the three-year strategy and we are feeding into the 10-year economic transformation strategy, too.

**Dr Martin Valenti (South of Scotland Enterprise):** I will not repeat what you have heard from Ewan Mearns and Audrey MacIver on alignment. We are in close conversation with HIE and SE because we realise that it is a team Scotland, co-ordinated effort. We are thankful that we work closely with lots of Government departments—not just our respective sponsorship teams but teams from other parts of Government—in order to get a broader perspective and to make sure that the policy alignment is clear for us. The more we understand the policy alignment, the more we can help to support the businesses and communities in our area.

10:15

I will not repeat what has been said. The ministerial guidance letter is really important, but what is critical is the practical relationship with the other agencies—not just the economic agencies, but the nature agency, the regulatory agencies and the other bodies that provide support.

**The Convener:** I will follow up on a couple of the issues that were raised in those opening answers. The Enterprise and Skills Strategic Board was mentioned a few times, as were the ministerial guidance letters from the Scottish Government, copies of which I have seen in the past. It would be helpful to understand what specific targets are set by the Scottish Government for each agency and/or what internal targets you have so that we—or you—can see what outcomes are being achieved annually or on a longer-term basis in terms of not just strategy and alignment, but real results in the transition to net zero. What metrics and internal measurements do you use to assess your progress in the transition to net zero?

I suggest that we proceed in the same order as before.

**Ewan Mearns:** Scottish Enterprise delivers its activities and reports on those activities in the context of the Scottish Government's national performance framework. The NPF provides the context for how we work.

We are an evidence-led organisation, so we measure and report on our activities on a regular basis. In addition, we have our own, internal measurement approach. We need to ensure that we measure the activities that we deliver. Of course, that is an evolving picture. Right now, we are actively looking at our measures for our next three-year plan. That is in the context of the Scottish Government's national strategy for economic transformation, which I believe will be published later this year.

For many years, we have looked to measure our activities in relation to net zero. In particular, we have measured the CO<sub>2</sub> savings that have been made as a direct result of the activities that we deliver. In addition, this year, we have introduced a measure for green jobs and have engaged in activity to support company investment in new projects that result in green jobs. We are looking to broaden that work. At the moment, we are looking at other activities that measure the impact of company investment from the point of view of social as well as environmental outcomes. As has been said, we are talking to the other agencies about that.

**Audrey Macliver:** In addition to that, HIE has been focusing its efforts on what we are calling a net zero ladder. We are looking at how we can

track the progress of the companies and community organisations that we engage with not only as regards their awareness of net zero and what that means for them as organisations, but in adopting good practice in the net zero space when it comes to their measurement of carbon and their own processes. That is currently under development and we would be happy to share more details with the committee as it progresses.

Our rationale for taking that approach is to ensure—given that we recognise that we are talking about a transition—that we engage with our clients and work with them through that transition. Collectively, we want to learn about how to take the next steps and to understand more clearly what the barriers and challenges might be; we also want to make sure that our activity is generating an impact in terms of carbon reduction and contributing to net zero. We want to engender a more behavioural approach to net zero, rather than only quantifying sums at the end of an investment. We want to be able to track progress over time.

**Dr Valenti:** I will answer part of that question and my colleague Claire Renton will talk about the metrics that we plan to develop.

It is exciting to be involved in SOSE at this stage. Members will know that it is a new agency: I have been in my role for only 55 days. Everything is new. As Ewan Mearns said, the agency is evidence led, but we also hope to be led by opportunity. Where is the opportunity for a just transition to net zero? How do we align our strategy, working with Government agencies, partner agencies and private sector businesses, and how do we bring that to bear to deliver the impact that SOSE was set up to deliver?

Claire Renton can tell you about how we are measuring some of those impacts.

**Claire Renton (South of Scotland Enterprise):** [*Inaudible.*—and inquiring into SOSE's approach to impact and measurement.

As Martin Valenti said, we are a new agency and are developing our systems and procedures. This is a good and exciting time for us, because our focus is on ensuring that this is relevant, responds to national strategies and that we understand and focus on the needs of the south of Scotland.

To develop that, we have been working with the University of Edinburgh on a data-driven initiative to take a focused and bespoke approach that meets the diverse needs of our businesses, communities, initiatives and projects, so that we have a measurement system that is relevant and responds to the net zero agenda. We have three trial projects under way to test that impact and measurement framework. We are happy to share

the results with the committee as we develop our thinking about, and make progress on, the testing of the model.

Our focus is on creating a local and bespoke approach that captures the full range of benefits, from the very small communities through to the range of businesses that we work with. We want to ensure that we are challenging ourselves to do things differently and that we are engaged and collaborative. We will share that experience with our agency colleagues across Scotland.

**The Convener:** A number of our guests have mentioned job creation as part of the transition to net zero. One key challenge in delivering a just transition will be to develop a Scottish supply chain in the emerging technologies to ensure that future jobs are created and remain in Scotland. That has not happened at scale during the past decade. What should be done differently to ensure that we develop that Scottish supply chain and those high-technology jobs?

**Ewan Mearns:** We are fully committed to supporting a just transition. We want to support good, green jobs that are well rewarded. That is our focus.

For example, this summer we called for businesses to come forward with innovative projects to create and safeguard green jobs. We are evaluating the responses to that call; there was a positive response.

Regarding delivering a just transition, we have kept close to the work of the just transition commission and are working with the Scottish Government secretariat. We must support economic activity here in Scotland. We want to retain those jobs and businesses, given that we have a strong, clear strategy that is focused on the transition to net zero. We want to help businesses to transition towards a net zero future. That is our focus. We can perhaps talk a little bit more about operational support, but that is our general approach to the just transition.

**The Convener:** Thank you. The same question goes to HIE.

**Audrey Maclver:** Really focusing on the strategic opportunities from net zero will present the Highlands and Islands region with the opportunity to create new employment. There is the prospect of significantly greater offshore wind opportunities around our waters, of offshore wind moving into deeper waters and of our considering a move into floating wind. The region's infrastructure and supply chain is in a relatively strong position to capitalise on all that.

I totally appreciate that we are not in the position now that, 10 or 15 years' ago during the earlier leasing rounds for offshore wind, we might have

hoped to be in. However, I am encouraged by the much more collaborative approach of developers and original equipment manufacturers to their early stage work with local infrastructure providers and the local supply chain. Much of that will have been stimulated by the industry commitment to increase United Kingdom content with Scottish and Highlands and Islands content. We are seeing that in projects and in the measures that are being put in place around supply chain development statements and in the contracts for difference process around the supply chain plans. However, we appreciate that it is still a global market and that there is a lot to focus on.

We are working closely with Scottish Enterprise, Skills Development Scotland and SOSE, as well as with the Scottish Government, the agencies and other organisations such as the Net Zero Technology Centre, to identify not just the business opportunities but the skills that will be required. We are planning ahead for those skills, so that we can enable the transition of oil and gas sector jobs and those in other sectors to jobs that will be created in the offshore wind space.

Without hijacking this slot, I want to quickly indicate that we recognise the future importance of other areas, such as green hydrogen and, for our region in particular, tidal and wave energy. We are keen to continue to build on the success of the European Marine Energy Centre in Orkney and the outputs of Wave Energy Scotland. There will be opportunities in technology and energy generation, and we must continue to work closely with industry to secure them.

Measures have to be taken and progress has to be made on other areas around heat and transport. We have to create those opportunities, and they should be built in our rural and coastal areas.

**The Convener:** The same question goes to South of Scotland Enterprise, and Andy McDonald of Scottish Enterprise would like to follow up.

Is someone from SOSE able to take that question?

**Claire Renton:** Sorry—the mic was off but it has come back on. I will take the question.

I welcome the question on the creation of jobs, particularly around net zero, and the aspect about supply chain jobs, which, from our perspective, would be in the south of Scotland.

We are very proud because, in our first 15 months, our help and support has retained 2,000 jobs and we have created another 1,000 jobs, including green jobs. We are really looking forward to seeing how we can create more opportunities for the south of Scotland.

We have identified that there is a significant number of sole traders and small and medium-sized enterprises in our local supply chain, so building capacity and resilience and looking at the current skill set and transferable skills is a focus for us. It is really important that we work with our cross-agency colleagues, such as those working on developing the young workforce, to create pathways for our young people to the green jobs sector and retrain people for the opportunities that that brings. We are seeing a lot of activity in Dumfries and Galloway college and Scottish Borders college, which are being proactive and showing understanding that we need readiness for green jobs, through the green jobs workforce academy and by embedding sustainability in all their courses.

10:30

We see opportunities with supply chains across tourism, construction, property, food and drink and the creative industries, which all have a role in creating green jobs with new businesses in communities. We are doing a lot of work on the current skill set and on identifying the new skills that are required. We want to ensure that we capitalise on opportunities for skills to be transferred and that we teach new skills. In relation to our supply chain, we are mindful that it will be quite challenging for the 10,000 of our businesses with 10 people or fewer, so we are working hard to give them opportunities to develop and grow and to allow them to respond to the opportunities that will come through developing our businesses and communities to deliver net zero. We understand the challenge that is on our plate, and we are prepared for taking forward future opportunities.

**Andy McDonald (Scottish Enterprise):** My colleagues have covered a number of issues that I was going to raise. The convener asked what we have learned from previous experience. We began to support offshore renewables many years ago. In order to get businesses engaged and creating employment, there was a clear need for education about what was different and what people needed to understand to move into new areas. More recently, as we have diversified further through the opportunities in heat and transport, that need has become even clearer.

Colleagues have referred to the need to scale up, particularly in the heat sector. For example, we need to not only manufacture technology such as heat pumps but install it at a rate of knots in order to achieve our decarbonisation targets. There are a great number of opportunities with that, but there are a number of small companies that need to learn where the new opportunities are and how to adapt to them. We have introduced support

programmes to focus a short burst of attention on those companies and help them to understand that. We have developed cluster-builder programmes in order that companies across the industry can engage with one another and understand the opportunities. We have created and supported the development of offshore wind clusters, for example, to bring together communities of companies so that they can work together and understand where the challenges lie. The programmes of support that we provide to those companies can then be aligned, so that we deliver the support that they need to take up the opportunities.

The international element is also important, particularly in relation to the diversification of the oil and gas sector. Many such companies have a lot of experience of working in international markets, so we have been looking at how we take up opportunities in the new technology areas and work with businesses internationally through our colleagues in Scottish Development International and other organisations.

**The Convener:** A few witnesses mentioned that they are working on transition plans to net zero and on updated strategies. It would be appreciated if those plans could be shared with the committee when they are ready.

**Monica Lennon:** The green jobs fund has been mentioned today and in the written submissions. There was a call for businesses to apply for funding over the summer. How many applications has Scottish Enterprise received? How many good green jobs do you expect will be created from the first round of funding?

**Andy McDonald:** We are still working through the applications for funding. The closing date for applications for the first round of funding was in July; we anticipate that we will complete evaluation of the applications by the end of this month. We received more than 200 applications for funding, which is a significant number. I do not have to hand the figure for the number of jobs that we expect will be created, but we can provide that. My colleague Ewan Mearns might have the figure to hand.

**Ewan Mearns:** I can provide a little more information, with the caveat that what I will say is based on what applicants told us before we did the evaluation. The projects from the more than 200 applications have the potential to create more than 3,000 new jobs, to transition more than 2,600 jobs and to protect 1,800 existing jobs. There was a sizeable and significant response to the call for applications.

**Monica Lennon:** Thank you. There is not an overall definition of green jobs. On the applications that have come in, do you think that some



companies will be disappointed because they do not meet the criteria? Do we need to do more to ensure that we have a good and robust working definition?

**Andy McDonald:** I suspect that the answer is yes. The programme is funded to an extent and we expect to evaluate projects, with only the best projects succeeding and being taken forward. There is also a significant amount of learning from the call for all of us to understand what businesses see as being the opportunities to focus on, which will allow us to better focus future versions of the call.

On the definition of green jobs, we have tried to be as open and wide as we could be in order to understand how we can support companies and avoid the danger of blocking development. Transitioning to a green future is a key part of that, as is the significant amount that we expect to learn from the first call and to share among ourselves and colleagues in the Scottish Government. That, will help us to find out what it is important to define in identifying green jobs support for the future.

**Jackie Dunbar:** Good morning, panel. My question is for Scottish Enterprise. I note in your written submission that you are focused on “stimulating early action” in support of the transition to net zero. What are the early actions and how do you measure their success?

**Ewan Mearns:** We published our net zero framework for action in June and we have been having a conversation with our board for probably the best part of two years on exploring what else Scottish Enterprise could do to respond to the climate and nature emergencies. It is about helping to reduce emissions and, as others have said, focusing on net zero opportunities and supporting a just transition.

Many commentators talk about the 2020s as being the decisive decade, so we need to focus urgently on early action. Our framework is a five-year plan, but we are delivering most of the actions this year. For example, we are making sure that we embed net zero goals throughout the organisation and that we align all our support, innovation, investment and internationalisation with helping to unlock net zero opportunities in our support for industries and businesses. We are also taking forward a number of strategic programmes that are of national significance, in order to focus on the opportunities for Scotland as a whole. We are working with industry partners and investors on that.

In relation to the funding calls that we are delivering, we are holding a number of round-table meetings with investors, given that the investment community has a strong appetite for our work, as we heard earlier from the Scottish National

Investment Bank. We want to align our support with the appetite that we see among the co-investors with whom we work.

We are also delivering a range of other early actions to ensure internally that our staff are well equipped to deliver our ambitions. At the moment, we are providing climate literacy training and are targeting our senior leadership team; about 70 senior leaders across the organisation are completing that training. We are also offering net zero training to all our staff in Scotland and overseas. Finally, we have on our board two climate change champions who are advising us about action.

There is a lot going on, and we are absolutely committed to the net zero transition. It is at the heart of everything that we are doing in our current business plan and what we will do in the future. We acknowledge the urgency of the need to take action now.

**Collette Stevenson:** Good morning, everyone. You talked about the supply chain development programme. I used to sit on the board of the supplier development programme for which my local authority was the host authority. Have you put in legal clauses about supply chain visibility? I put that question to Scottish Enterprise, first.

**Andy McDonald:** In our supply chain development activity, when we work with companies that are looking to establish new opportunities we encourage them to engage and work with the Scottish supply base on trying to build the right suppliers for each company.

You asked about legal commitments. There are constraints on what we can do, legally, in placing contracts and commitments in front of companies in relation to support. We ask companies to contract on a fair work basis, but there are not constraints to do with the supply chain.

However, I suspect that you are very much aware that, in the context of the next round of offshore wind, there are agreements and commitments from industry to set significant targets for local content. We are working with the supplier base and the developer base to bring companies together to understand how the targets will be achieved, and to ensure that the supply chain in Scotland is well resourced so that it can meet the challenge, to the extent that it can.

The agencies are also delivering—collectively and in partnership with the Scottish Government and industry bodies—the programme in “Making Scotland’s Future: A Recovery Plan for Manufacturing”. The industry supply chain development programme is related to that. We are looking at how we can build the infrastructure that supports the development of supply chains to companies and industry, in the context of the

resources that we put behind companies to support and better integrate the manufacturing supply base.

This relates not to the question but to supply chains. Historically, we have tended to respond to opportunities to diversify the supply chain from oil and gas, aerospace and the marine sector. That has been a challenge; we now have a much more joined-up approach to considering the opportunities that exist for the whole Scottish supply base, whether we are talking about the manufacturing supply chain or the digital supply chain. There is a much more focused approach that allows companies that might well be capable of acting in more than one sector to identify their skill sets and look for opportunities across a number of sectors.

**Collette Stevenson:** Thank you. I put the same question to HIE.

**Audrey MacIver:** I will make a similar point to the one that Andy McDonald made, about the restrictions around what we can do when it comes to legal obligations. We are focused on working collaboratively with industry and, as I said, we are encouraged by the response from industry. For example—I know that this has not yet translated into jobs—just last week, Scottish Renewables and RenewableUK held their conference on floating offshore wind, in Aberdeen. The demand on clusters such as the DeepWind offshore wind cluster, which cover all of Scotland and focus on floating wind opportunities, is exceptionally high, and conversations were very encouraging, so I think that we have reason to be optimistic about there being a more positive outcome from the current leasing round, when it comes to the supply chain.

However, we appreciate that the process is not straightforward—we need to navigate a lot of risks. HIE has been alert to the challenges relating to CS Wind UK, for example, which recently entered administration. Our main objective has always been to secure economic activity at that site; we will continue to pursue that. As I said, we have learned a lot of lessons on offshore wind, and we will continue to do so.

10:45

Another aspect on which we are now in a different place from where we were 10 years ago is the pipeline. Given the scale and pace at which those multibillion-pound projects need to proceed, the developers who are taking them forward in relatively short order will have to take a more collaborative approach, as a solution to meet their delivery timescales. That, in itself, will represent a much more constructive dialogue for our business base.

HIE's role as an enterprise agency is to continue working with businesses to understand what investment they need, whether it is in automation or digitalisation, and to make them lean and competitive. We are working with the likes of the National Manufacturing Institute Scotland to draw on expertise to support our companies.

**Mark Ruskell:** I was struck by Andy McDonald's earlier comments about the challenge with heat decarbonisation. It is enormously challenging: 1,000,000 homes will have to be decarbonised by 2030 in order to meet Government targets. Perhaps you can give us a bit more background on how you see the skills gap in heat decarbonisation being filled.

In addition, I would like to know more about the relationship between the enterprise agencies and the new public energy agency that will be launched. How will delivery work, in that regard? How will we develop supply chains and deliver at a scale that has never previously been seen in Scotland?

**Andy McDonald:** Scottish Enterprise has identified seven national programmes as key areas of focus. One is on decarbonising heat. The rationale for that is to create a focus for the organisational resources that we bring—the same is true for our colleagues in the economic agencies—to that particular challenge. In that context, the programme recognises the need to build on and innovate in the technology base and to support companies in that space, and it recognises the challenges that will arise in creating the workforce and transitioning existing companies—for example, installers of heating systems—to cope with the new technology and scale up.

We worked with Skills Development Scotland on its "Climate Emergency Skills Action Plan 2020-2025: Key Issues And Priority Actions" document, and heat was one of the strands that we discussed. As I am on the implementation group for the skills action plan, I have been party to—although not in the middle of—discussions with local authority partners, through Skills Development Scotland, in order to understand how we ensure that the infrastructure is in place.

Scottish Enterprise is also working with colleagues in the Scottish Government's heat and energy teams on how we will resource those areas and bring together the training and skills needs. We have had a number of discussions about the creation, in conjunction with industry, of a heat hub in some form. It will focus on skills requirements and on skills development and delivery, and it will bring in industry to understand the opportunities as well as the challenges.

We see that as a significant opportunity. It is a challenge to do it, but it will be a significant opportunity for Scotland to build expertise in things such as heat-pump technology. We can build on the work of companies that are already innovating and developing in that space to scale that up significantly. There is an international dimension too, because such action will be required around the world.

The skills element involves bringing together the Construction Scotland Innovation Centre and training opportunities in all the required dimensions in local authorities, colleges and universities, in order that we can scale up across the supply chain and ensure that opportunities reach communities.

We think that there is a big opportunity with regard to community-level work. There are a lot of vocational skills involved. We are going to be working on planning in conjunction with the whole of the public and private sectors, including local authorities, and with housing authorities on delivery of elements such as domestic heat. There is a huge opportunity to build an extraordinary level of skills and access to them. The challenge is how to deliver that; it will involve our working closely with colleagues in Skills Development Scotland.

On the energy agency, we are working with the Scottish Government to understand how we can deliver that in partnership with the structures that are in place. I fully expect that we will, as that develops, be collaboratively engaged in that conversation in order to understand how can we fit in and enable that to succeed.

**Mark Ruskell:** My next question is for SOSE and HIE. There is a commitment in the co-operation agreement between my party and the Scottish Government to develop at least one national park by the end of this parliamentary session. What are your perspectives on that? Can we learn any lessons from the existing national parks on the job opportunities that might come from that?

**Claire Renton:** SOSE has not been directly involved with a national park to date, but we have good experience from the Galloway and Southern Ayrshire Biosphere—a five-year project, to which SOSE is contributing funding, to explore and develop an economic and environmental model that is relevant and local to the region. It is focused on engaging businesses and the tourism sector in integrating opportunities from energy and transport to create a model that will support the transition into our future in a net zero environment. It is early days, but there is good feedback and reporting, which will be taken to our board. We will follow that up and share it with the committee in the next month or so.

**Mark Ruskell:** Will you work with campaigns in the south of Scotland to develop a prospectus for a national park, or is that outwith your remit?

**Claire Renton:** Our focus is on the existing opportunities that relate to the biosphere. If any organisations or parties are active in the area that you have raised, I am sure that we will have dialogue with them, as is the case with all community and business opportunities in the south of Scotland.

**Mark Ruskell:** Does HIE have a perspective? There has been discussion about, for example, a marine coastal national park. Is that on your radar?

**Audrey Maclver:** I am not aware of that proposal, but I am happy to come back to you with an HIE view on it. We work closely with the Cairngorms national park not only on the funicular, which we are reinstating now, but on wider business benefits in that area.

As for marine issues, we are aware that all the interest in offshore developments in energy, aquaculture, seaweed and so on presents exciting opportunities but needs to be managed carefully. Marine Scotland's approach to marine planning has been welcome, as is the alignment with Crown Estate Scotland with respect to leasing, which helps with understanding the whole process, enabling careful planning and engaging the coastal communities that are impacted by such development.

As I said, I can come back to you with a more formal response from HIE to the potential for a new national park and what role we might play in that.

**Monica Lennon:** Will a proportion of the green jobs fund be used to help the groups that are most underrepresented in green sectors and green jobs? I have been looking at Close the Gap's analysis of women's opportunities in and experience of the labour market, particularly during the pandemic. Has that sort of issue been looked at to get a more regional perspective and to see whether it is more relevant in the Highlands and Islands or the south of Scotland?

**Audrey Maclver:** In the Highlands and Islands, we are taking a slightly different approach to green jobs, in that we are not launching a call for funding as such; instead, in the first year of the green jobs fund—in which our budget was £800,000—we decided to look at projects that we were aware of and had a lot of interest in and which were aligned with the fund's objectives. We have committed to a number of projects, including one from Windswept and Interesting Ltd, which is an innovative wind turbine company in Shetland that uses kites and fabric in its technology; an award was made to North Uist Distillery, which is fantastic not just for

the new business opportunities that it has created in that location but for ensuring that, from the outset, the distillery is a green one; and, more recently, an award was made to Trees for Life for a rewilding centre. Those examples highlight the variety of the projects that we are supporting through the green jobs fund.

As for Close the Gap's analysis and the issue of women more broadly, we see high participation levels from women across a range of our programmes—particularly on entrepreneurship and leadership—and we have been encouraged by the steps that have been taken to engage more broadly and to ensure that our programmes and means of delivery are conducive to females participating in accessing such funds.

**Monica Lennon:** Is the £800,000 that you mentioned the Highlands and Islands allocation from the green jobs fund to date, or is that other funding?

**Audrey MacIver:** That is the budget that we have been allocated from the green jobs fund for this financial year. The allocation will be £1.2 million in subsequent years.

**Monica Lennon:** That does not seem like a huge amount. Can I get a south of Scotland perspective on my question?

**Claire Renton:** Thank you for the opportunity to answer. Like HIE, we have not done a call for funding. In whatever is presented to us, we look for opportunities not only for green jobs but to support a wide range of underrepresented communities and groups, and we have a wide range of examples of where that has been possible. We are active in supporting women to access this area, and that will be a focus as we move forward. We are developing our women in business and communities strategy, and we would welcome sharing that with the committee at a future date.

We are looking at a wider range of underrepresented groups, including adults with autism and young people and adults with additional needs—for example, we have supported the Better Lives Partnership and the Usual Place with funding to provide more opportunities and to broaden the skill sets of those who are involved. We are taking a south of Scotland perspective on the broad range of underrepresented groups and are giving them an equal opportunity to access the fund.

**Monica Lennon:** Finally, I have a more general question for Scottish Enterprise. COP26 is just around the corner. What do you see as Scotland's main opportunities to attract investors at the conference?

11:00

**Andy McDonald:** COP26 provides a massive opportunity, given that the eyes of the world will be on Scotland. The collective priority will be the environmental decisions that will be made for the future but, economically, it presents an opportunity to do a number of things.

The first element is to use the increased awareness of environmental futures to work with the industry and company base in Scotland and get more companies thinking about that from their perspective. What are the implications of a net zero transition for them? How will their businesses adapt the things that they make and do and how they operate? They need to recognise the situation and understand what the challenges could be and what the opportunities are.

While the event is here and the eyes of the world are on us, there is an opportunity to showcase technology and businesses in Scotland. Along with colleagues in the Scottish Government, local authorities, other partners and a wide range of industry bodies, we have collectively developed a programme of activities that mirrors the duration of COP26. It will highlight in that space a number of Scotland's key areas of technology and innovation and some of our companies. We are trying to engage the world in that while COP26 is here.

Beyond that, there will be a focus on the legacy that COP26 gives us, which is the environmental legacy—what that means and the things that we need to do from a policy perspective to continue to achieve our ambitions for our net zero future and net zero targets—and what it will mean for companies from an economic development perspective. What are the opportunities to take new technologies out internationally, as well as domestically, and to apply them and start to build on Scotland's position as a key country in developing such technologies and sharing them with the world? That will emphasise the importance that we see in net zero as a core part of the future and the opportunity in it.

**The Convener:** You mentioned having a number of trade promotion events around COP26, which is an excellent idea. Will you share with the committee what those events are and what is planned, if it is appropriate for that to come from Scottish Enterprise? If it is not, we could ask the Scottish Government.

**Andy McDonald:** I can certainly share the broad intent, which is that there will be a number of events to mirror key areas of activity that we are undertaking in Scotland. That includes opportunities in things such as transport, environment, space and heat, which relate to net zero. There will be a mix of events. Some will be

audience events, such as debates and conversations, and some will involve talking about technologies and putting on exhibitions. There will be a mix of live meetings and virtual events on the key themes.

In partnership with the Scottish Government, we will use places such as the Lighthouse in Glasgow to host events and share them as widely as we can. There will also be opportunities to link events in other parts of Scotland into an overall programme. Transport events will take place in Aberdeen and Orkney and at the Michelin Scotland Innovation Parc in Dundee, and there will be core events around COP26 in Glasgow and at Glasgow facilities. Other events across Scotland will link into that. We are building a cohesive programme with industrial partners, academic partners and the Government to showcase what policy is doing and driving and Scottish companies' innovation.

We will share the opportunities as widely as we can and work with people who are coming to Glasgow for COP26 to ensure the engagement of world leaders with companies, businesses and technologies and of policy makers with the business and industry base here. Alongside that will be programmes that other partners will run on community and social engagement, so the economic element will be covered as part of the broader programme. The Scottish Government is better placed than we are to talk about the broader programme, but the economic element is very much a collaboration of our agencies, a number of industry partners and bodies, and academic institutions.

**The Convener:** Thank you for that update.

**Liam Kerr:** My question is for Scottish Enterprise and is perhaps for Ewan Mearns. The north-east is going through a transitional time; *The Press and Journal* reported yesterday that Aberdeen is facing a

"challenge not like anything in its history",

partly because of the energy transition and the oil and gas downturn. There are people who say that the north-east needs a dedicated enterprise agency that would focus solely on the needs of the north-east. What does Scottish Enterprise think about that proposition?

**Ewan Mearns:** We absolutely understand the issues that—[*Inaudible.*]

**The Convener:** I think that we have temporarily lost Scottish Enterprise. Perhaps we can move on. Does Liam Kerr have a supplementary question?

Actually, Ewan Mearns is back. Can you hear us, Ewan?

**Ewan Mearns:** Yes—I can. I apologise for that. We absolutely acknowledge the issues that the north-east and other regions of Scotland face. We deliver a national approach to economic development, but we tailor our support to particular regions. We are actively working with local authorities and other partners at the regional level to address the specific opportunities, issues and challenges that they face. As we discussed earlier in the meeting, we are actively involved in supporting the energy transition, which Andy McDonald talked about. We can work with other agencies in north-east Scotland to address opportunities and issues.

**Fiona Hyslop:** Good morning, everyone. I think that we acknowledge that not all green jobs have to come from the green jobs fund. Will Highlands and Islands Enterprise confirm my understanding that, at its request and to secure more flexibility in its general and uplifted budget last year, it has ensured that it can invest in green jobs and that the majority of the green jobs fund is with Scottish Enterprise for that purpose?

My next question is for Scottish Enterprise and South of Scotland Enterprise. You have all talked about how you support your clients or account managed companies in achieving net zero. We should bear it in mind that the biggest impact to achieve net zero will be from addressing heating in buildings and decarbonisation. What are you doing, or what needs to be done, to help SMEs that are not account managed or do not have access to SE or SOSE in a regular relationship to invest to decarbonise and to address the heating of their buildings? It should be borne in mind that many such SMEs will be carrying a lot of Covid business debt. I am concerned about whether there is a gap in the market.

Will HIE confirm that it is investing in green jobs through not only the green jobs fund? Will SE and SOSE talk about SMEs that they do not account manage and how we can help them to invest for decarbonisation and to reduce their heating emissions?

**Audrey MacIver:** We absolutely can confirm that we are investing in creating jobs using more than the green jobs fund. That reflects the demand that we see and the nature of the projects and proposals that are coming from our businesses and communities. We are already on that trajectory. We had a pipeline of demand that we were looking to support and to bring into the main stream. In HIE, we are mainstreaming the net zero approach in all our interventions, whether they are financial or advisory, for example.

On delivery, members will appreciate that, over the past year, we have been very focused on Covid recovery and delivering Covid resilience funds. As we move forward, we will look to

continue to have heightened engagement with a broader mix of clients, companies and organisations and to have a conversation about the investment that we want to make, to ensure that it complies with a net zero trajectory.

**Fiona Hyslop:** I ask the witnesses from SE to talk about SMEs that SE does not have a relationship with at present but which need help to decarbonise and reduce emissions.

**Andy McDonald:** I can pick up on decarbonisation. Our approach is similar to what Audrey MacIver set out. In the period of Covid recovery, which we are still engaged in, we are working with a broad base of companies. A key part of our work in the areas that we are focusing on in relation to decarbonisation—transport, heat and energy—is to build up opportunities for the whole supply chain and bring new companies into it. As Ewan Mearns mentioned, the net zero framework for action overlays all that we are doing in Scottish Enterprise on those challenges.

In relation to small and medium-sized companies, we have changed the model that we operate under, so our business support is not provided in the old-fashioned way with a particular priority for account managed companies; it is now very much based on opportunity. The green jobs call that we undertook was an example of that. It was not constrained to companies that we account manage; it was open for any companies to apply.

We are setting up our response to be much more focused on digital technology to allow companies to contact us and to enable a broader range of companies to come to us for support. The support will be based on a specific challenge or issue, such as decarbonisation. We will still have relationships with companies, but that will involve a broader range of companies and the relationships will be more time limited, in the sense that we will respond to immediate challenges and opportunities. We hope that the broader range of input will allow us to be more focused on the range of services and support that we provide to those companies to—[*Inaudible.*]

**Fiona Hyslop:** I think that Mr McDonald has frozen, convener.

**The Convener:** It looks as if we have lost our panel. It is probably a good idea to suspend the meeting.

11:11

*Meeting suspended.*

11:11

*On resuming—*

**The Convener:** Welcome back. Sorry about that technical interruption. I hand over to Fiona Hyslop.

**Fiona Hyslop:** I do not know whether Andy McDonald had anything further to say. Were you coming to a close, Andy, or was there anything else, before I move on to South of Scotland Enterprise?

**Andy McDonald:** I was coming to a close. In the interest of time, I will allow my colleagues from South of Scotland Enterprise to step in.

**Dr Valenti:** Before I joined SOSE, I was on secondment to Scottish Enterprise, so I have seen the alignment and how we work together. SOSE is quite different because we have business advisers and community advisers, and we work almost all the time with SMEs and microbusinesses, given the general make-up of the regional economy. We believe that we need to listen closely to the businesses to find out about the level of support that they are looking for. We plan to develop a toolkit for that. I know that there is a toolkit frenzy everywhere and that lots of people have toolkits, but many of them have possibly been developed without working so closely with businesses. We are adamant that we will work with the businesses in the region to ensure that, with our partners, we support the level of interventions that businesses need so that they can benefit from the just transition to net zero.

That is a big focus of SOSE. One of my top priorities in joining the organisation was to make sure that we work closely with businesses, not just to support them but to amplify what they do. Some of the businesses in the region that I have visited lately, such as the ethical dairy and some of the distilleries, are doing unbelievable and fantastic things. There is a huge appetite for working with businesses. Rather than just saying that there is a toolkit here and a toolkit there, I want to ensure that we work closely with businesses to articulate the support that they need.

I ask my colleague Claire Renton to jump in with a supplementary answer. She has been in the organisation since almost the start, so she knows about some of the day-to-day dealings that we have had. Perhaps she can give some examples.

**Claire Renton:** There is really good and developed work in the south of Scotland involving working with the supply chain, particularly sole traders and SMEs, to understand the opportunities for them in the area and what they need. We are

working closely with developing the young workforce and our colleges, which understand the issues and are acting to create bespoke solutions that meet the needs. The colleges understand the barriers and challenges that people face daily. With single people who cannot afford to take time off work to do training or redevelopment, it is about looking at what support and alternative mechanisms we can provide.

11:15

We are developing digital systems and we have Digital Construction Skills Scotland involved. We are working with colleges on the green skills agenda and how we take what people are already good at and offer other opportunities. There has been good engagement on that with the heat and energy forum and the construction industry forums that we have set up. All partners, along with the Construction Industry Training Board and Skills Development Scotland, are involved in those discussions.

By working together and using the skill sets across all the agencies, we are developing solutions that will make a difference and respond to needs and opportunities. We are aware that that is difficult and challenging, but we have made a commitment to work together to find solutions and overcome the hurdles through the opportunities and funding that we can provide. We are dialling in additional support and expert help to aid our small businesses and communities in increasing their skill sets so that they can respond and deliver on the heat and decarbonisation agendas and make them local and specific.

We have started pilot programmes and projects in order to lead by example. We have a key pilot project with the innovative Mountain Bike Centre of Scotland. The opportunity was afforded to us through the Borderlands growth deal to create an exemplar of working in a way that the supply chain will benefit from, and we are building net zero skills into the heart of that so that we start on the right foot and can monitor and track progress. We would welcome an opportunity to bring that back to the committee at a future date to show what can be done when we work differently and together.

**Mark Ruskell:** Will you clarify whether you are able to work across sectors and not exclusively in the private sector? Are you able to work with public companies and social enterprises? We have great examples of public companies delivering heat, such as Aberdeen Heat & Power, and I know that local councils are interested in that space of delivering heat networks and local heat to communities. Can they get support from enterprise agencies to do that or are there restrictions on the agencies' remits? Are you working across sectors?

**Claire Renton:** Thank you for that probing question. We are keen to ensure that there are no artificial boundaries that would inhibit us from doing what you suggest. The local authorities in the south of Scotland—Dumfries and Galloway Council and Scottish Borders Council—are very active on the heat agenda and decarbonisation. We are working closely with registered social landlords as well, because a key aspect is the supply chain for affordable housing.

The other important item for all of us is the poverty agenda, because what we do is another way of helping to ensure that people with lower incomes and means do not find themselves in fuel poverty. We are seeing cross-sector and cross-area working in that regard, which will create innovative solutions. Communities must be embedded in that, because they know what they need and want and what is right for them. Having a joint economic, environmental and social approach to the issues and problems gives us new ways of creating solutions and bespoke systems, which we are starting to put in place. I therefore see cross-sector working as key.

**Andy McDonald:** I echo Claire Renton's view. Nowadays, we work with a broad range of partners to ensure that we address both the challenges around climate and the broader economic challenges. We have worked with third sector organisations and social organisations to an increasing extent over the years in which I have been involved in economic development. We also work with partners in local authorities because the regional and place dimension is hugely important in the economic development work that we do. We work closely with local partnerships, as well as at a national level, across a number of issues and we recognise where the solutions lie.

**Collette Stevenson:** What does each of the enterprise agencies see as the role of the 19 Business Gateway offices in supporting SMEs and sole traders? How joined up is each agency's work with Business Gateway to support a just transition and net zero?

**Andy McDonald:** We are still involved in a broad partnership. The Business Gateway offices are critical to delivering the business support partnerships that we have been working on, which came together rapidly in response to Covid. They have brought together the various areas of support and all the partners who can provide support to companies. Business Gateway offices have long been and continue to be a critical part of the routes to engagement with businesses. That is about finding the right resource to support the right things for the right businesses, and working in partnership. The best place to find support for an individual business will be one of the agencies. The business support partnership provides a

single point of entry, and the right support will be given to the business.

**Claire Renton:** Business Gateway is important in relation to the one-stop shop, the customer journey and ensuring that any business that comes to any of the agencies seeking advice and support has a smooth experience and gets to the point of entry that it needs to be at.

At South of Scotland Enterprise, we provide the Business Gateway service on behalf of Scottish Borders Council, and we work closely with it. In Dumfries and Galloway, the service is delivered through Dumfries and Galloway Council. We also work closely with our colleagues there, because it is important that we provide a seamless experience.

The customer journey is important. Any business that approaches us should get the same experience regardless of the point of entry. The South of Scotland Enterprise approach is to work closely with Business Gateway so that the end user gets a seamless experience and, regardless of who provides the service, what they need at the right time to give them opportunities to respond to the heat and decarbonisation agendas.

We work closely in the background with not only the councils but the other relevant agencies such as Skills Development Scotland and the developing the young workforce network. There are so many opportunities. The more conversations we have and the more we join up our systems and procedures, the better the experience will be for the business and the customer.

**The Convener:** Collette Stevenson asked a good question about how the agencies work with the Business Gateway offices. How do they work with the Scottish National Investment Bank, which we heard from earlier this morning? The bank works with the agencies to originate investment opportunities, but we also heard that it is creating its own origination team. Will the agencies give us a brief view on how that origination function might look in future? Will the agencies still have an origination role or might the bank assume that over time?

**Ewan Mearns:** We work closely with the Scottish National Investment Bank. We heard from the witnesses from the bank about referrals. Scottish Enterprise is focused on supporting early-stage investment and we have programmes that help businesses to grow into new markets, particularly with net zero-related opportunities. As part of that, we work with the investment community, which includes the Scottish National Investment Bank as well as co-investors. We are focused on early-stage investment, but when

businesses scale and grow, the scale of the investment might be more relevant for the bank.

**Andy McDonald:** The detailed answer to the question lies with our colleagues in the growth investment part of Scottish Enterprise, who are engaged in direct discussions with the Scottish National Investment Bank on where the transition happens.

As Ewan Mearns said, we still have a strong role in early-stage business development and the investments that go on around that. Our growth investment team is still an active part of our support for businesses. What my teams deliver in our areas of activity is aligned with that, and the growth investment team is aligned with us on opportunities to invest in technologies and businesses.

Over the years, with colleagues in HIE—ahead of the development of SOSE—we have developed measures such as the energy investment fund, which was previously the renewable energy investment fund. It has supported many projects and technologies—not only the development of renewable energy technologies, but community projects to embed and deliver them. That function has been a significant part of the development of the company and industry base, as well as community projects.

We are in discussion with the Scottish Government and the Scottish National Investment Bank about how such activities will happen and the broader question of where the transition of business development happens in business growth as businesses scale up and come under the bank's remit, as opposed to the growth investment function in Scottish Enterprise and the other economic development agencies.

**The Convener:** Thank you for that response. We have run slightly beyond our allocated time, but that brings to an end the questions that we have for our witnesses. Thank you for joining us and providing an update on your respective agencies' plans. Enjoy the rest of your day.

11:27

*Meeting continued in private until 11:59.*



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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