OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 6 October 2021

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 6 October 2021

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ECONOMY AND FAIR WORK COMMITTEE
7th Meeting 2021, Session 6

CONVENER

*Claire Baker (Mid Scotland and Fife) (Lab)

DEPUTY CONVENER

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

COMMITTEE MEMBERS

*Alexander Burnett (Aberdeenshire West) (Con)
*Maggie Chapman (North East Scotland) (Green)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Fiona Hyslop (Linlithgow) (SNP)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Colin Smyth (South Scotland) (Lab)
*Michelle Thomson (Falkirk East) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Jo Chidley (Beauty Kitchen Ltd)
Simon Crichton (Triodos Bank UK Ltd)
Michael Cusack (ACS Clothing Ltd)
John Ferguson (Pi Polymer Recycling Ltd)
Paul O'Keeffe (Thomas Tosh)
David Ovens (Archangel Investors Ltd)
Fraser Sime (Bank of Scotland plc)
Murray Whittaker (Whittaker Engineering Ltd)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 6 October 2021

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning and welcome to the seventh meeting in 2021 of the Economy and Fair Work Committee. Our first item of business is to decide whether to take item 3, which is consideration of the evidence, in private. Are members content to take that item in private?

Members *indicated agreement.*

Transition to Net Zero (Financial Support)

10:00

The Convener: Our main business is an evidence session on financing the transition to net zero for small and medium-sized enterprises. The session is intended to give us a snapshot of the SME experience during the transition to net zero, and of the financial help and support that is available. Our witnesses are all joining us remotely.

I thank everyone on the first panel very much for taking the time to speak to us. I welcome Jo Chidley, who is a co-founder of Beauty Kitchen; Michael Cusack, who is the head of sustainability and business transformation of ACS Clothing; John Ferguson, who is the managing director of Pi Polymer Recycling; Paul O'Keeffe, who is a partner at Thomas Tosh; and Murray Whittaker, who is the director of projects at Whittaker Engineering.

We look forward to hearing about the transition of your businesses to net zero, what you are hoping will come out of the 26th UN climate change conference of the parties, some of the challenges that you are facing, and what your thoughts are on access to financial support to facilitate the transition to net zero.

A few weeks ago, the committee heard from the Federation of Small Businesses and Scottish Enterprise, which talked about the difficulties for some businesses of making the transition to net zero and the pressures that Covid recovery is placing on businesses.

Mr Whittaker, your business is well established—I think that you have been operating for three decades. I am interested in how prepared you feel for the transition to net zero, what your business has done to make it fit for the future and what support you have had to enable that.

Murray Whittaker (Whittaker Engineering): Good morning. That is a good question. The net zero journey is paramount to all businesses, regardless of sector. It is a little bit complicated with us because we mainly serve the oil and gas industry in the north-east of Scotland. However, that does not mean to say that individual businesses cannot make a real effort to reduce their carbon footprint at a local level and as an individual business.

I will highlight the steps that we have taken. We have introduced a wood chip and pellet boiler system. We have 4,000 metres of covered facilities. That fairly large area of covered workshops was conventionally heated using kerosene, which is a diesel-based product. We have moved all that heating on to wood chip boilers. We have received renewable heat incentive—RHI—payments and that process has worked very well.

Other measures include installing LED lighting, planting trees and making modern changes to the manufacturing processes. We are heavily involved with additive manufacturing processes, such as wire arc additive manufacturing. Those processes will all be key parts of our energy transition. They use less energy to create the same products and will make the manufacturing environment more sustainable. Those savings are passed on to our end users, clients and customers, so they can share in that net zero journey—it has a combined effect.

More finance would be certainly be appreciated to help with that, but legislation will obviously come as well. Those are the key parts of that journey.

The Convener: What made the business decide to take those steps? You said that there could be more funding available and regulatory incentives to make you make the change. Why did Whittaker Engineering decide to start on this journey now?

Murray Whittaker: We feel that it is a key part of our messaging as a business. It is also incumbent on all businesses to take responsibility for the environment in which we live. We are all part of it, so companies should individually look to reduce their footprint.

The financial help for pellet boilers, for example, meant that we had a huge cost saving overall. RHI was a very attractive thing—[*Inaudible*.]—the grants work. There was a financial and environmental benefit to that particular example.

We are also getting increased pressure from our clients and customers. As you will be aware, energy transition in the energy sector—I mean in the traditional oil and gas sector—is massive, with large international oil companies moving towards renewables and asking their entire supply chain to move with them. We have always moved with our clients. We have been trading for 38 years, so where the clients ask us to go, we will also go, and that is the direction in which they are heading.

We are very lucky in the north-east. We are just south of Aberdeen. We have a good base to make that energy transition with our 50-year history in oil and gas. We have some really exciting projects in the north-east to progress that transition, such as the energy transition zone, and there are aggressive hydrogen targets in the city of Aberdeen and Fife. We are in a good place for that.

The Convener: I turn to Michael Cusack from ACS Clothing. You are in quite a different situation, because you are a new business that has been created to try to meet some of the challenges of fast fashion in the textile industry. Do you want to say a bit about how easy—or difficult—it was to establish your business, and what support and incentives were available to you?

Michael Cusack (ACS Clothing): It has actually been relatively easy from a psychological point of view. If we had not embraced sustainability, we would not be in existence today. That has helped to motivate us more. We are looking at entering new markets—clothing rental, baby wear, women’s wear, maternity wear, men’s wear, and formal and informal wear. The range is growing and growing. On top of that, we are also looking at taking the traditional skills associated with cleaning and repairing garments and bringing them into another new market called clothing renewal.

Embracing sustainability has been an easy journey for us. It was an easy decision to make, because we are focused purely on the sustainability side. We are focused on every aspect of it, not just the environmental aspect. Net zero is very important to us; it will be a massive badge of honour. We are already a carbon-neutral business.

There is a social side to the journey, too, and we embrace both parts of that journey. On the social side, we are a disability confident employer with leader status. We are developing a talent pipeline of disadvantaged jobseekers who will help the business to grow, which is fundamental. We are a Scottish Qualifications Authority centre; we deliver three qualifications that are core to the business.

We have gone through third-party accreditation on, for example, the circular economy. We have worked with the Ellen MacArthur Foundation and use its circulytics model. We also work with an international partner called ClimatePartner, which has helped us to get carbon neutral status. Right now, we are working through B Corporation certification. We have finished the questionnaire and are about to submit it. B Corp certification is critical to us. Many investors are very interested in and it has drawn them to us.

My experience is that, as we get closer to net zero, every step that we take becomes three times as hard. Yes, funding is critical, but we need new technologies and new ways to help us. We are embracing partnership working. We have fantastic partnerships. For instance, our landlord is helping us to develop a solar roof, and they are also looking at wind turbines. That is being done in partnership.

Another of our measures is our biodiversity bubble—we are looking at rewilding the site and we already have beehives and a wormery. We are considering lots of other things, such as having a bird sanctuary and butterfly gardens. We are also considering putting in a polypropylene tunnel to grow our own fruit and veg. Using the wormery to help with that would enable circularity. We are considering lots of small innovative things.

In addition, we partner with local voluntary organisations, which is critical. This is not just about the company; it is about the community, too. We are trying to attract a men's shed on site to help us and so that we can help them. All those aspects are critical. We recycle water through rainwater harvesting. We are also looking at using liquid carbon dioxide as a cleaning method and moving away from using nasty chemicals such as perchloroethylene.

As I said, each step that we take is more difficult, so we recognise the need for more investment in technology to get us there.

However, there is no shortage of help. Over the past couple of years, we have received a lot of useful funding from a wide variety of sources, which has really helped us, including from Scottish Enterprise and Innovate UK. We have a fantastic relationship with Zero Waste Scotland, as well. Even organisations such as Home Energy Scotland are fantastic. During lockdown, it helped us to train our staff in various workshops that covered water use, energy use at home and embracing electric vehicles. We recently got funding to establish eight electric vehicle charging points and we have a car pool of two electric vehicles. We are promoting electric vehicles to our staff. We are doing lots of things like that.

The big thing for us is the totality of the measures. The approach is very organic. If you asked me to provide you with a nice scheduled plan, I would tell you that it does not work like that. We try things, and if they do not work out, we move on to the next thing—and we keep on trying things.

We find that, by reaching out to different organisations, we are constantly learning about their approaches. That helps us more than bringing in a big top international consultancy firm would.

It was Scottish Enterprise that led to us embarking on the circular economy route. It said, “Do you realise that your model is circular?” In truth—although it is common sense—we did not and that enlightened us. Small things like that help.

We get really motivated by such things as the Vibes awards. Recently, we won a best practice award. That is a fantastic thing. It is useful to listen to what other companies are doing, and to look at the model that they use and see how they benchmark. That is where we got the idea about the bees from. When we won an award back in 2019, we found that most of the other winners had bees, so that was a priority for us. We love sustainability.

The Convener: I have a short follow-up question. You have described a very positive picture of the levels of support that you are getting from Government agencies. You are in a very competitive market, because you are involved in fashion and textiles. How is the business able to compete internationally with an industry that has a reputation for overreliance on cheap products and cheaper textiles?

Michael Cusack: We were already in the market—men's formal wear is our heritage. There are lots of entrepreneurial start-up companies in the hire market that are not as interested in cleaning and repairing garments as we are and are looking for a partner to do it. We were in the right place at the right time.

On competition, if we really want to have a fashion industry that is more sustainable, we must change our approach. We need to look at things that might be a bit far out there, such as eliminating VAT from sustainable fashion, products and services. That would help us a lot.

It is not just about our company; it is about changing the direction of an industry and helping consumers to make better decisions. Fast fashion is cheap, there is variety, the fashions are constantly changing, and it meets a lot of people's emotional and economic desires. If we want to change that, we need to be more competitive.

There is a cost to being a living wage provider and to looking after the welfare of your staff. Those are the right things to do. I am not saying that we would always fully embrace that and take it even further, but there is a price to that and that costs when you are competing against global businesses. Let us not beat about the bush: they are using slave labour, the welfare of staff is not looked after, they might be using child labour and they might be using prison workers. Do we have transparency in the supply chain? No, we do not.

All that we ask for is a level playing field. There is a struggle. We want to change this huge oil tanker of an industry—it is very slow moving—towards more sustainable outlets such as those that offer rental, renewal and clothes swapping. In order to do that, we would ask that you help us level the playing field, please.

10:15

The Convener: That is helpful. Thank you, Mr Cusack.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I would like to hear from the other panellists what steps they have taken to reduce their carbon footprints. I will go first to Jo Chidley from Beauty Kitchen.

Jo Chidley (Beauty Kitchen Ltd): I am the co-founder of Beauty Kitchen and the "return refill repeat" programme. When we—[*Inaudible*.]—net zero, obviously we have carbon emissions scope 1, scope 2 and scope 3. In relation to scope 1, we have had a good level of support through Zero Waste Scotland and the energy efficient Scotland programme. That has given us an energy consultant who has reported on our operations, so we will reduce our carbon footprint—in which I include greenhouse gases as a whole, not just carbon dioxide—by 96 per cent. We can do that quite quickly over the next few years. Scope 1 was quite straightforward for us. We had to make a financial contribution, but there are interest-free loans and a variety of cash-backed options, depending on what change we implement to things such as heating.

We have already done work on scope 2; we have gone on to a renewable energy supply as part of our efforts as a business.

Scope 3 is where the big impact can come. We are a small independent, but fast-growing, business; scope 3 applies to our whole supply chain.

I note, to build on Michael Cusack's point, that as a circular-economy business we are not driven just by net zero as one of our targets, but by having the purposes of actually looking after people, the planet and the profits of the business.

There are 6 million businesses in the United Kingdom; 4 million are small and medium-sized enterprises, of which 99 per cent work in a linear economic model in which they take resources, make stuff, then dispose of it. A small percentage—businesses like Michael Cusack's and mine—use a circular business model. I come back to his point; a level playing field and positivity about the circular business model will not only help to drive net zero in SMEs across Scotland, but will make businesses more cost efficient. However, we need help to access finance and help to understand role models and case studies, through Government support.

In respect of net zero, our business can be a shining light; we will be officially net zero by 2025. At the moment we are carbon neutral, which is due to carbon offsets. Through the processes that we will use in scopes 1 and 3, we will ensure that we are net zero by 2025.

Paul O'Keeffe (Thomas Tosh): Thomas Tosh is based in a building that was built towards the end of the 19th century. As a result, we have to deal with issues around that building. When we developed the business in 2008, we started with small steps—for example, getting sash windows to open again so that we could have natural ventilation and putting a new boiler in. We took part in the resource efficient Scotland programme, through which we got a consultant in to assess our energy usage. On the back of that, we took out an Energy Saving Trust loan that was backed by the Scottish Government. We had insulation put in our building and had LED lighting installed. The building itself is the attraction for our customers; it is a nice space, but it has particular problems. One of the key issues for us going forward is that we are oil dependent, which is not unusual in a rural area; here at home, I have to use oil for heating.

Our funding has come from an Energy Saving Trust loan, which has been very beneficial, but we are coming to the end of that. Among the issues with it are the payback period. For an Energy Saving Trust loan, the payback is that you must show a saving over 20 years. We are moving away from oil being used in the future, so payback needs to be over a longer period.

Gordon MacDonald: A survey that we have seen says that 52 per cent of SMEs are not taking any action towards decarbonising their business. What steps need to be taken to persuade companies of the commercial importance of adapting for net zero and the negative consequences of not doing so? That is for John Ferguson.

John Ferguson (Pi Polymer Recycling Ltd): My business is fundamentally an industrial ecology business. I came into this as an environmentalist and I partnered with business people because if they are going to make the transition they have to be viable in the first place.

My raison d'être is to address those issues, so I will answer the question by focusing on how we fundamentally change systems. My core company, Eco ideaM Ltd, provides the strategic services to the Binn Group Ltd at the Binn ecopark. I was very encouraged by previous speakers—especially Michael Cusack—in terms of the range of diverse elements that play into the challenge.

For example, in the ecopark we are developing a private grid that will help to decarbonise the Binn Group's own business. It will give us the kind of catalytic gravity to attract businesses to the ecopark on the promise of stably priced low-carbon energy. We consider water capture and electric vehicles. We are looking across the sector with the Resource Management Association Scotland, which we helped to establish, on a sector plan for the resource management sector. The Binn Group's ecopark is, in effect, a demonstrator of key elements of how we will decarbonise a key sector that services virtually every business, because all businesses produce waste.

Pi Polymer is a new start-up company. It is pre-revenue but is about to move into early revenue. We have three projects that are examining the failure point within the post-consumer plastics system that results in significant landfill and incineration, and in a good deal of plastic ending up in the wrong places, including our oceans. We design systems that allow system change through proper integration of technologies. Some of that is through innovations that we have brought to market and in other cases it is just simply about connecting things better to allow the system to change.

My focus is on assisting other businesses to make the transition. Central to our purpose is our being a low-carbon business. We are very focused on that, but our major business model is to deploy technologies and systems to allow other sectors to decarbonise. We do that by demonstrating systems such as private grids, for example. Our private grid is driven by wind, solar and battery systems.

We will deploy power-control systems and smart energy-management systems. We are, to assist the transition, trying to connect our project, which is about 16km outside Perth, to the Perth smart energy city project. That will probably be a 10-year transition. The transition to electrification will put stress on the national grid, so we need to deploy small private smart grids to assist in transition.

I will simply say that our core ethos will address our own footprint at every level of our operation, but our main purpose is to help other companies and systems to decarbonise by focusing on technology system integrations.

Gordon MacDonald: Michael Cusack touched on the fact that you want the UK Government to look at the VAT system and change towards focusing on decarbonisation. Are there any other fiscal changes that you would like to be made in order to encourage companies to decarbonise?

Michael Cusack: Maybe the introduction of a carbon tax on companies that are not embracing sustainability would help.

As I said, the big thing is that doing the right thing is fantastic for us—it is growing the business. However, for us to get to the next level in order to challenge organisations such as ASOS, we will need a lot more investment. We will need to compete with them in terms of economies of scale, and our continuing—we will continue with them—with the social policies that our organisation has is expensive, but they are worth it: they are an investment. However, in competing with the ASOSes of the world, they have advantages over us because they are able to produce things more cheaply. Maybe a carbon tax should be considered.

I will say, if you do not mind, that the big thing about SMEs is that the decisions on much of what we are doing have been easy decisions. There is a return from embracing sustainability by taking waste out of the business; reducing the waste that we produce reduces operational costs. We reduced our waste management costs by 70 per cent within a year just by using some simple lean techniques and focusing on reduction. Businesses can save money by doing it; it is not a cost, but an investment.

I remember the dotcom bubble really well; I remember organisations that do not exist any more. I believe that sustainability is a similar situation: if businesses do not embrace it they will cease to exist. The future economy of Scotland will be based on sustainability—on how well we can embrace it and how competitive it will make us. That is how I feel about sustainability and our experiences. I would shout it out loud. There is so much benefit in it; it is a massive opportunity.

Colin Smyth (South Scotland) (Lab): Good morning. It is probably fair to say that the businesses that are represented here today are very much engaged in the journey to net zero. However, as Gordon MacDonald highlighted, that might not be the case for every business, particularly over the past two years, in which surviving has, obviously, been a real challenge.

I want to pick up on support. Michael Cusack raised ideas about extra support in relation to VAT and a carbon tax. My question is for the other panellists. Is there enough support—finance in particular—out there to support you on the journey to net zero? If there was one other thing that you could get from the Government or elsewhere to support you, what would it be?

Jo Chidley: That would definitely be access to finance. We are a self-funded business; we do not have any external investment. We have had a variety of grant support, but we have been turned down for many different types of finance, including bank loans and other grant funding. Our reusable packaging system is the reason for that. We have our beauty brand, but we also have a reusable packaging system. It is like Irn Bru for beauty—I am talking to a predominantly Scottish audience. People return their empties to the point of purchase and we wash them, refill them, and send them back out. We do not do that just for Beauty Kitchen; we also do it for large businesses, such as Unilever, which is the third biggest personal care business in the world. Some 190 billion pieces of single-use plastic are used every year in the beauty industry, so there is a huge opportunity. However, from a financial perspective, our reusable packaging system is looked at in the same way as single-use plastic and, obviously, it costs a lot more. It is not classed as an asset.

There have to be changes in ways of thinking so that young businesses such as ours can drive from Scotland the opportunity not just to generate jobs but to generate net zero across the country by accessing finance because, for example, our reusable way of doing things and the packaging in particular are seen in a different way financially.

10:30

Colin Smyth: I ask John Ferguson the same question.

John Ferguson: I echo much of what Jo Chidley said about access to funding. Pi Polymer Recycling is a recent start-up. It is a micro SME, and we have a very astute finance director, a very good business plan and a very good pitch deck, but things take time. The ability to identify more quickly appropriate funding routes rather than taking a very broad-brush approach is important. It is very helpful to see green tech groups, green backer groups and so on, and to see where interested investors gather, because that saves a lot of time going through introductory meetings, for example. A faster track to identifying appropriate funding is important.

A lot of micro SMEs really struggle. Extensive support is out there from Innovate UK, smart grants and such like to put together decent applications. A little bit of assistance is important. Whether the idea is worth the time should be identified, and then companies should be given assistance to get applications in and get the grants out, if that is appropriate.

My final point is about procurement. We have a massive public procurement system that needs to strategically mobilise to ensure that we are supporting the technology systems, the producers and the concepts that will make the transition happen. We must use smart procurement—we talk about smart everything else. I would love to see smart procurement waking up to its obligations and responsibilities, and assisting the transition.

Colin Smyth: I want to follow up on your previous point. Was it easy for you to know where to go to get support? Was that a struggle in itself? There are many different organisations out there, and there are many different funding mechanisms. Was it easy to find out what was available? Is the barrier what is available or knowing where to go to get support?

John Ferguson: I think that the barrier is more knowing where to go. There is an enormous amount of support out there, and there are enormous funds trying to mobilise people into the broad sustainability space for the circular economy, renewals and various other elements of the transition to net zero. There is money there; it is about being focused and recognising that a lot of very small companies have brilliant ideas, but they do not have capacity. The question is how to give them assistance to get them into a position of momentum, and to grow the business and create revenue. From there, they can bring in additional staff.

My company's biggest issue, as a start-up, is the capacity to deliver on all our ideas. We have tremendous experience. I have been a pragmatic front-line environmentalist for 30-odd years, and I came into business 10 years ago. Being able to translate good environmental ideas into good business has been a steep learning curve. The opportunity for good business to do the right things is enormous, and a lot of money will deploy into that space. The issue is how we help the good idea companies to grow.

Colin Smyth: I now come to Paul O'Keeffe from Thomas Tosh. Is there sufficient support? What additional support would benefit your company?

Paul O'Keeffe: The loan support that we got was really useful. If a programme of loans was available and was easy to access in a one-stop shop through Zero Waste Scotland, that would be very helpful. A package of advice around that would also be good.

There are problems, because people may get advice on net zero that conflicts with advice on other things, such as the pandemic. We have to keep our windows open, so what will happen to all the energy that is lost? There may be a need for more comprehensive thinking about how net zero fits into other issues that small businesses face. Zero Waste Scotland could surely think about such issues.

On the loan payback period, we had to show that the savings that we were making would deliver savings within 20 years. If big transitions are needed, that equation may need to change.

Things can be disruptive. We had to close our business for two and a half weeks to get many of the changes done. There should be consideration of the destruction that can be caused.

A small business such as ours could be front running for other small businesses, such as those of the tradespeople who support us—the plumbers, joiners and plasterers. Information and support can be given to them. Sometimes you go to them and say, “Look, can we do this and then this?” and they say, “We’re not sure. We’ve never come across that.” There could be a package for the tradespeople out there who support small businesses such as ours.

Colin Smyth: That is very helpful. Better broadband in Thornhill might also be a good thing.

Paul O’Keeffe: Yes, of course.

Colin Smyth: Do not worry—I am very much on to that issue.

Obviously, your business is quite unique. I confess that I have eaten cakes and been to film nights and exhibitions there. Your focus is very much on bringing people physically into your building, and you cannot replace that online. Is that a particular challenge, particularly in a rural area, given the fact that you are basically asking people to travel to your business in an area in which public transport is largely not an option? Do you see that as a barrier to reducing the overall carbon footprint for the business?

Paul O’Keeffe: If we look down the supply chain to how our customers get to us, we see that there are a lot of issues around that. There are no electric charging points that I know of in Thornhill. As you have said, rural transport is an issue for us. It is not easy to come to us and spend just a little bit of time with us and then go away. People would have to block out hours. As interesting as my business is, I do not think that people can hang around there all day. Rural transport is definitely part of the equation.

Colin Smyth: Finally, can I just—

The Convener: I am sorry to cut you off, Mr Smyth, but we have to move on.

Colin Beattie (Midlothian North and Musselburgh) (SNP): SMEs come in all shapes and sizes, and I am sure that they have very diverse needs in respect of types of finance, for example. When I look at a pre-Covid snapshot of how SMEs used or sourced finance, I see that business credit cards and charge cards were at the top of the list, followed by overdrafts. That sounds fairly pedestrian. Is there enough knowledge in the SME sector of the diverse funding sources that can be tapped into?

John Ferguson: I cannot really answer that question because, as you have said, that community is incredibly diverse. The employees can be up to hundreds, or one or two in micro businesses. Any SME that has focused on its business will understand the potential funding landscape, but SMEs will bring different competencies.

I left the Scottish Environment Protection Agency 12 years ago. One of the first things that I did was study for a diploma in project finance, because I knew that I was going to have to learn a whole different skill set. I had spent 20-plus years working in the public sector.

It is about how we make sure that SMEs are adequately skilled and trained. Are there quick courses that explain project finance and the difference between non-recourse finance and bank finance? Most SMEs—at the early stages of the business at least—simply do not have access to bank debt. It is also about access to available information on training. Scottish Enterprise might provide that. An account officer in Scottish Enterprise will ensure that they get that kind of help. A lot of SMEs probably struggle because they do not get that foundation right.

That is a really good question, and it is not easily answered. It is all about individual companies taking responsibility and getting access to the training that they require to understand finance. That also brings into play the question where the appropriate sources of that finance are.

Colin Beattie: I ask Paul O’Keeffe to comment on the diversity of the supply of financial products and SMEs’ knowledge that those exist and of how to tap into them, which is a slight twist on the question. Is sufficient funding coming through in those diverse lines? Now that we are in the post-Covid period, perhaps Paul O’Keeffe could comment on the debt levels that SMEs are currently bearing.

Paul O’Keeffe: The debt level will be an issue. For example, my business has taken on a bounce back loan. I know that the banks and the finance institutions are meant to disregard that or look at it neutrally, and that it should not affect our overdraft facility or other lines. However, taking on more debt certainly would be a consideration for small businesses—it would be for us. There will have to be a balance. If we can see a payback over time, we could do that, but many small businesses will certainly be sensitive to taking on more debt if they have taken out bounce back loans or coronavirus business interruption loan scheme loans, for example. I think that that will definitely be an issue in any loan or financing programme.

Colin Beattie: Murray Whittaker, could you comment on post-Covid debt levels and the funding that is available in the SME sector for progressing down the road to net zero?

Murray Whittaker: I will do my best. What you said at the start described it quite poignantly. There are different levels of SME. We are 128 people; we generally do quite well and—touch wood—have a good turnover, which sits in the millions. How do you cover the range of our businesses?

You were talking about debt levels and carrying debt. We used a coronavirus business interruption loan scheme loan in the pandemic, which we did not have to touch but which was a huge cushion. Unfortunately, it seems to be that the bigger you are, the more support you get; I know that it feels like that for some of my friends who have smaller SMEs at the other end of the scale—[*Inaudible*.] The range in availability of and capacity for loans and grants is challenging. We have been account managed by Scottish Enterprise for two or three years and without that support we would not be able to run our business—it has been excellent. We always get good advice on loans, but smaller companies that do not have account-managed status can find it quite challenging. Therefore, there are different funding models available and there is access to the different models all the way through, but they are not always easy to navigate. Some of the others touched on this earlier: just as all politics is local, all business is local and the requirements of a business in Thornhill are quite different from ours up in Aberdeen.

You asked me to talk about what transition looks like for us: we want to be part and will be part of building the renewables that supply clean electricity to all those businesses; that is, we want to be part of developing and building wind farms. The loans infrastructure and the type of investment that we require to support our business is massively different from what others need. We need things like superports and Government intervention stuff to help us to deliver, build and supply to create the green future and to provide the power that comes to your plug, because we are in the energy sector.

There is such a wide range. It is a very difficult question to answer, but availability of loans at all levels is very important, as is advice on what the right type of loan is for the right type of business. The Scottish National Investment Bank could be a key part of that. There are many ways in which it could be funded but, again, it completely depends—[*Inaudible*.]

Colin Beattie: I think that Jo Chidley indicated that her company is self-funded. Are you in the group that self-funds by using business credit cards, overdrafts and so on to keep your business going and to establish it? Did you benefit from Covid loans? How is your level of debt going to impact on you?

Jo Chidley: We are self-funded through a variety of different measures. We use invoice financing, because in our business we have a product to sell. We deal with large retailers that have very long payment times, but we have a supply chain in which, as part of our B Corp certification—we are the highest-scoring B Corp in personal care in Europe—we pay our suppliers within 30 days. Long payment times is one of the things that we stand up against.

For us, it is about cash flow and cash-flow management. We are an SME that started trading in 2014 and we are classed as fast growing, so our growth has continued year on year, which is great. We have accessed the CBILS loan, so we do have debt against the business. However, because we are a B Corp certified business, we directors of the business are employees. We do not take anything from the business; everything goes back in.

10:45

I think that it depends on your business model and how you approach your business in terms of what is right for that business at that time. For us, what is important is always working capital, because we are growing so fast that we need to be able to pay our supply chain in order to be able to grow and increase our business. Cash is king at every moment. We do not use overdrafts. We do use business credit cards, but they are paid off monthly and just give us extra days to be able to pay for certain things. It is all wrapped up in cash flow, for us. I know that it is quite different for micro SMEs such as sole traders, but it is all about working capital for us.

Colin Beattie: You say that you pay your suppliers within 30 days as a matter of policy. However, you mentioned that the retailers and so on that you sell to perhaps do not fall into that category. How long, on average, does it take for you to be paid?

Jo Chidley: Ninety days.

Colin Beattie: That is a long time for a business.

Jo Chidley: It is.

Colin Beattie: There is quite a disparity between 30 days and 90. Is that universal for—

Jo Chidley: It is what happens when you are dealing with larger blue-chip linear businesses that are not B Corp certified and do not necessarily pay the real living wage. Their ethics are different in how they work their business. Everything is about bottom-line profit and not about the triple bottom line, as in looking after everything. They can squeeze smaller businesses; I will not be the only one sitting here saying that. I imagine that, if you asked 100 SMEs, some of them would say they are even at 120 days. We have negotiated to 90 days.

Colin Beattie: It sounds like you are providing the big retailers with their working capital.

Jo Chidley: Sometimes that is what it feels like.

Alexander Burnett (Aberdeenshire West) (Con): Carbon auditing is a developing field. You all clearly run successful businesses and understand the importance of measuring to manage. How have you gone about measuring your carbon footprint? What difficulties to do you see and what suggestions do you have to improve the situation? I know that we are limited by time, so that question is for John Ferguson, Jo Chidley and Murray Whittaker.

John Ferguson: That is a great question. We have called for consistency in evaluation methodologies and training. If we do not use consistent methods, we cannot aggregate all the carbon quantifications to get any meaningful sense of how well we are managing the transition. Secondly, training is important. I ran a team with carbon modellers and life-cycle assessment specialists. When you get down to the specific systems, which is what you are doing when you get into an individual business—Michael Cusack, Jo Chidley and others will be measuring their businesses, which are very specific in what they do—the variances are enormous in terms of how you quantify different things and what you do in your business.

Trying to get some uniformity in methodology and getting companies trained on that are the two things that I would say we need. There may need to be slightly different models for different applications but, within groups and sectors, there should be some consistency, crossover and comparison, which is itself useful. Certainly, training needs to be rolled out so that the models are applied properly.

Alexander Burnett: Thank you; that is very informative.

Jo Chidley: Building on John Ferguson's point, I think that consistency not just within a company but within an industry is very important. We use science-based targets. When it comes to measuring output from a carbon perspective, there are lots of sales and marketing companies that have appeared out of nowhere selling their way of measuring carbon footprint, which is not necessarily based on science-based targets.

We at Beauty Kitchen have already done life-cycle analysis for our business and I feed that into the beauty industry through our industry associations to help other businesses to look at our data and share that data. Having that open source and transparency with data that you have paid for yourself as a business is a brave thing for businesses to do. Encouraging that openness and collaboration will then help consistency. Sustainable businesses are already measuring, but the question is whether they are giving those measurements as data points to their industry.

Murray Whittaker: That can be answered quite simply. We have been in the offshore oil and gas energy sector for 38 years. It is probably one of the most regulated industries in the world alongside nuclear power, and we are also qualified to work in the nuclear sector. We stand by and absolutely appreciate bureaucracy in the form of ISO accreditations and legislation. Legislation should guide this and there should be an ISO or other industry standard accreditation for carbon measurement and capture.

We have over seven ISOs in different manufacturing techniques. Divers use dangerous pressure-retaining equipment, which is covered by legislation and, perhaps unfortunately, our management would go to jail if things were made incorrectly. That is the law. If you applied those standards to environmental matters, so that we were audited on carbon output by independent third-party bodies, such as Lloyd's Register or DNV, we would have another accreditation to stand beside the ones that are behind me right now. I could therefore say that we are carbon accredited at level 1, 2, 3 or to a certain point and it then becomes a differentiator between us and the companies that cannot make the standard. For example, our clients—major oil companies—will deal with us only if we have at least seven ISO accreditations in quality management and quality control. You could require the same.

I would welcome a system to be put in place, either mandatory or industry born, which could say that we are accredited against a carbon standard. Currently there is PAS 2060, which is issued by the British Standards Institution, and we are looking into that now to give us an official accreditation. If it were more widely accepted, I think that it would be great to have it across all sectors.

Alexander Burnett: That very much builds on what John Ferguson was saying. As you are a supplier in a sector that is committed to net zero production, do you feel that you get enough support from the tier 1 companies that you supply to?

Murray Whittaker: I do not know whether it is the responsibility of the tier 1 companies to do that. We are a private entity. Like all the people on this panel, we have to go where the industry directs us. Our client asks that we do it—it is that simple. We have to serve that market, so if the client insists, we will do it. Yes, more support would be appreciated, but I can answer clearly that we will go where we are directed, because we need the work, like all companies.

Maggie Chapman (North East Scotland) (Green): Good morning to the panel and thank you for your contributions so far, which have been very interesting.

I want to pick up on a point that Jo Chidley made earlier about the potential and opportunity for sharing information, awareness raising and acting as a role model—that kind of thing. Acknowledging that the SME sector is a very diverse set of organisations and companies, how do we create a culture of zero carbon and net zero? That is not only about the financial and other help and support that is in place but about role models and awareness raising. Is there a role for things such as knowledge transfer? Associated with that, can we make better use of digital technologies? Michael Cusack talked about there being a need for new technologies all the time. Can we use technology to help us to create a culture across the sector?

Jo Chidley: Technology is something that gives access to businesses, but we need to take a step back to recognise that we are all citizens. A lot of the time people talk about consumers but, actually, we are all citizens who have a responsibility to the planet and to ourselves. We need to bring together academics and have knowledge transfer. We need to bring citizens, consumers, customers—that is every one of us—businesses and policy makers together. We all know this that is a hard thing to do. However, the more we talk about it and the more we embrace that, the more diverse the conversation will be, and today is a prime example of that.

Technology is driven by people. The one thing that I am cautious about is that we use technology to leverage the knowledge that we are creating through that collaboration, rather than the technology driving those decisions. That is a hard balance to make. We all know that there have been lots of people talking about different apps and ways to engage. I am not saying that we should not leverage that, but we would not want that to be the driving force. People have to be the driving force, and changing that mindset first is the most important thing in my eyes.

John Ferguson: I absolutely agree with what Jo Chidley said. I would only add two points to what is an endorsement.

One is that I think that it works best within sectors. We tend to look at our peers; if there is leadership within a peer group, that tends to create transition and movement. Therefore, it is best to try to get knowledge exchanges, standards, communications of information and best practice within sectors. We need to identify champions within each sector and link to the benefits for that company, because then other people will think, "I should be doing that for my company," and we create a mass transition. The change is a lot less amorphous if it is done within sectors because, fundamentally, that is where people look for their main competition.

Secondly, I endorse the point that we are all businesses that, in one way or another, service consumers and consumption. We have to create the behaviour-change momentum among consumers around the world, because we are simply consuming too much. There is a lot of focus now on what to do about consumption being the big question. I do not think that we can make the transition and just keep on with the same level and model of consumption. We need to focus on changing everybody's behaviour, and that is a big challenge.

Michael Cusack: I agree with John Ferguson and Jo Chidley. I will build on that by saying, let us not talk about consumers, but about users and usership. We put a big focus on the next generation; we are working with schools, colleges and universities and making young people more aware about our industry—the evils of our industry and the hope in our industry. Our company is organising eight fashion sustainability conferences. We are partnering with different universities and bodies, and with lots of charities and other companies that are involved in fashion. We need more of that—more of people coming together for the greater good and targeting young people and embedding sustainable practices in them at a young age. That will give us hope for the future. They will demand sustainability.

Jamie Halcro Johnston (Highlands and Islands) (Con): The Federation of Small Businesses told the committee:

> "I am not sure that businesses can be in survival mode and also make the transition to substantial decarbonisation. I just do not think that they can do it, and if they can ... they will need extensive public support."—[*Official Report, Economy and Fair Work Committee,* 1 September 2021; c 32.]

Obviously, we have had a difficult last couple of years with all that has gone on with the pandemic. That might have had no impact on your plans for decarbonisation or it might have made those plans more of a priority. How has the pandemic impacted on your plans for decarbonisation?

11:00

Paul O'Keeffe: Covid has certainly been a priority for the business. Operationally, our whole focus has been on the safety of our customers and staff, which has meant that issues around carbon have fallen by the wayside a bit. To go back to the point about some of the things that we might have introduced, we were advised that maybe we should get a destratifier to push warm air down into the main cafe area to keep customers comfortable. How can that work when we need to make sure that the environment is properly ventilated? There are unanticipated consequences.

If financing was in place that was sustainable, and if our bounce back loan could be compartmentalised away from financing to do with carbon, we could definitely think about that.

Jo Chidley: Before Covid, 90 per cent of our turnover was in bricks and mortar retail. We had to de-risk our business significantly by placing a focus on e-commerce, both direct to the consumer from Beauty Kitchen and through other e-tailers. That has helped us to come out stronger from Covid.

The pandemic did not change our decarbonisation strategy. We still had the same focus on that because we knew that implementing energy efficiency measures, particularly those within scope 1, would provide savings as we went into the winter by reducing our energy costs. To be fair, the reduction in our energy bills has not necessarily been the same as the investment that we had to put in to get those reductions, but it will pay back within the next two years.

We just reprioritised. For us, decarbonisation is at the forefront in future proofing our business. We see decarbonisation as innovation for our business rather than as something cumbersome that is holding us back.

Jamie Halcro Johnston: A Citizens Advice Scotland report earlier this year found that 52 per cent of small and medium-sized enterprises have not taken any action to decarbonise. Obviously, all the panellists today are very passionate about and committed to decarbonisation, but many are not as advanced as you are. There are a number of questions. We have talked briefly about barriers to decarbonisation. Fairly substantial amounts of resources and time will be required to look at the support available, to get advice and to take projects through. For businesses that are smaller than those that you represent, that could have a real impact on the desire to decarbonise. How much personal resource have you had to put into it? Is the information and support that is presented to you available in an easy way? Is there a one-stop shop that provides UK and Scottish Government support and advice and, if not, would that be helpful?

Jo Chidley: The energy efficiency service is a resource that is free to all SMEs. I encourage anyone who I come into contact with to get on the website and have a look at it. Responsibility for the net zero targets sits with me personally and not somebody else in the organisation—that is how important it is. I think that the leaders in organisations of any size have to take responsibility and be the role model in their business.

To come back to your first point about our being enthusiastic about sustainability, you are right—it is something that I talk about a lot. I try to inject that energy and enthusiasm into the beauty industry through my associations in it. The beauty industry is not known for sustainability, but I hope that if others involved see people like me—with a small independent and growing business—showing leadership and being at the forefront of decarbonisation and net zero, that will encourage other people to do the same.

Paul O’Keeffe: A consultant came to us through the resource efficient Scotland programme, and went through all our bills and looked around the whole building. They basically produced a report and handed it to us, and we got costings for some of the things that they suggested. With some of the suggestions, we had to find out what the best destratifier was and what would be the best parts or machinery to work in this way or that way. That is where you could probably give additional support. Once a report is produced by the resource efficient Scotland programme, maybe there could be a list of preferred suppliers or suppliers that are accredited by Zero Waste Scotland to help businesses to get to the next stage of implementing the ideas that they have been given.

Murray Whittaker: There is a wide range of service providers. As the other panellists have, I advise everyone to engage with them all.

As to the question about time, the management of every SME is time poor. That is the nature of the job—you always struggle to get things done. I see decarbonisation and all the elements around it as a key priority. Businesses that do not take the time for it might struggle in the future. It is a key part of business excellence and on-going operational matters. We are now talking about sustainability and carbon reduction with the same gravitas with which we talk about health and safety in our industry.

I come from the energy sector, so I am talking about oil and gas companies that have changed their direct way of working and their engagement. In our sector, we are all heavily on board. Health and safety is obviously paramount to all businesses but, in a high-risk environment such as the offshore oil and gas sector, it is critical. Sadly, we have learned the lessons from some pretty serious disasters in the North Sea and around the world. If we give the same importance to the climate emergency—I genuinely feel that we are seeing that in us and others—that will give real weight and gravitas to the subject.

As for Government support, all support is welcome but it is very difficult to get that across at all levels. I advocate engagement with all the bodies that the others have mentioned, such as Zero Waste Scotland. Organisations must allocate time within their business for an individual in senior management to take it seriously, and I suggest that it should be taken as seriously as companies take their health and safety departments.

Jamie Halcro Johnston: It is encouraging to hear such enthusiastic people talk about the issue. Perhaps we should have had some complete cynics as well, to give a fuller idea of some of the barriers.

Michelle Thomson (Falkirk East) (SNP): I think in that case, it falls to me to engender a little cynicism in the discussion.

We could probably all agree that true sustainability is underpinned by a golden ethical thread, if you like. I suspect that all of you on the panel, as exemplars, will privately be aware of companies that are, frankly, taking advantage of consumer demand for the changes that we all want—the so-called greenwashing. I would appreciate some examples from your SME level—obviously do not name any businesses—of what you would consider to be greenwashing.

Jo Chidley: Greenwashing happens every day in our business. The Chartered Management Institute has only just come out with guidance on greenwashing, particularly in relation to consumer products in the beauty industry. Any consumer industry is trying to sell more products, and it will try to do that by any means possible. That goes across the industry and businesses of all sizes.

To give some context, in the £1 billion beauty industry in the UK, there are only 12 B Corp certified businesses. I use that as one example of a third-party verification mark. That means that the other businesses in the industry can basically say whatever they want to encourage customers to buy more stuff. If companies take the sustainable angle and use words such as “green”, “organic” or “natural”, those words do not have recognised definitions unless the companies have a third-party verification mark.

To go back to Murray Whittaker’s point, it is about having different standards within industries that have certification marks, which we should use to our advantage to make sure that there is no greenwashing. There will always be some greenwashing, so we must minimise it.

Michael Cusack: I totally agree with Jo Chidley. It is a fantastic marketing tool for organisations to say, “Buy this product and plant a tree—the more you buy, the more trees there are.” Lots of shipping companies are offsetting all their carbon, but how much investment are they making in eliminating carbon? The airline industry is exactly the same.

We protect ourselves by trying to go above and beyond. We are open about the areas where we want to improve. We use polyurethane and plastics—they are not evil, and they have a role to play.

Greenwashing exists and is a marketing tool. People are becoming more aware and conscious of sustainability. Suppliers are providing a service and they are leveraging that.

We are offsetting carbon. I wanted to offset it in Scotland by planting trees, having woodlands and working with local communities. However, we could not afford to do that, as it would have cost us about five times the amount. It costs us £14,000 to offset our carbon emissions. To do it in Scotland, that would have been £70,000. Therefore, we need to tighten up a bit on carbon offsetting.

We should shame organisations that are greenwashing. We should bring it out and make people more aware of it. It is about more than just planting a tree; there is a lot more that we have to do. We need to eliminate carbon, which is the critical thing. The important thing is achieving net zero, rather than being carbon neutral.

Murray Whittaker: It is a difficult question for me to speak to, unless you are asking me to risk our business, but I suggest that it is complicated. We work in a sector that is potentially going against the grain. We are extracting hydrocarbons from the North Sea and other areas around the world. It is a transition—we cannot turn our business off tomorrow. Around 35,000 people in Aberdeen directly rely on the industry. I personally am very proud to have worked in the oil and gas sector all my life, as did my father. However, our time is coming, and we are making a big movement. We see the large international oil companies buying into renewables and wind farms off the north-east of Scotland. That will be our future. I hope that many of the highly skilled and high-wage jobs that we are being encouraged to get in the UK will come from us.

Forgive me, but it is difficult for me to answer, because of my client base. However, we all need to move to energy transition. Green issues are important. Things such as hydrogen production and carbon capture will be done in the north-east of Scotland and based around the oil and gas sector. We have 2,400m of subsea pipelines, which will be great for hydrogen storage. For us, the emphasis is very much on the transition. The energy sector still feeds, clothes, moves and saves the world, but that will change. It is very difficult for me to answer that.

11:15

Michelle Thomson: In some respects, I appreciate that I was being unfair in asking that, but, on legislators' understanding of the transition, you have correctly identified that interim moves could be claimed to be greenwashing. A classic example is to say that zero waste is going to landfill, when 50 per cent might be incinerated and ultimately end up in landfill. You have correctly highlighted some of the transitional points that businesses might go through in scoping out the various options.

My final question is this: how would you help legislators to understand the transitional steps from your perspective, and the complexity that you have highlighted? John Ferguson did not have a chance to answer the previous question, so do you want to come in here?

John Ferguson: I will go back to one point that Jamie Halcro Johnston made about cynics. Cynics do us all a great favour in asking the "So what?" question. It is generally relatively easy to have a conversation with cynics, because you can get down to facts and information and a detailed discussion, and usually you will make progress from there. Antipathy and complacency are the biggest issues, and we need to remember the Maslow priorities for people who are struggling, too poor and too distracted—maybe they are migrants, for example. We have a global issue that is much bigger than whether people are being cynical.

On regulatory support, a key point for me is that the public sector is very capable; we have very clever civil servants. Zero Waste Scotland has a lot of really good people.

I worked in the Scottish Environment Protection Agency and I have a massive regard for it, but it needs to engage earlier with industry. We see a lot of design work on policies and legislation well down the line before SEPA engages with us. We need to improve the quality of regulation of policy by earlier engagement, co-created policy development and cross-sectoral policy development, which will originate more coherent delivery mechanisms, because everyone will be on board earlier.

I am a great believer in best available techniques. When something changes in a sector, we should all do it. We should not be allowing the age-old practices that are more polluting to continue. The best available techniques need to be adopted more readily, and there needs to be earlier engagement with the sectors that are being regulated on what is needed for the transition. We have to find different ways of working that are more co-creative and more cross sectoral, and we have to speed it all up.

Jo Chidley: John Ferguson has put it eloquently enough; I do not have anything to add to that. The earlier industry is engaged in policy changes, the better.

Industry also needs to look at the best available technology globally. For us, it has been about third-party certification marks. Cradle-to-cradle design is about designing products and services with the circular economy in mind. We need to elevate ways of doing things. People do not necessarily have to pay for it—a lot of the information is accessible—and it is not necessarily guided through policy.

Michelle Thomson: It strikes me that government—I am talking about all government across the piece—might choose to engage with larger more established businesses, because that is often where its channels are. However, a lot of the change in the sector is coming from businesses such as yours, which experience very rapid growth and are more fleet of foot. Does that cause a disconnect, in general terms?

Jo Chidley: I do not think that it does, because businesses such as ours—and probably every business that is represented on the panel—are the bridge between innovation and large businesses. We are directing Unilever on how it can use reusable packaging. We are using the best of both worlds and we are nimble of foot. We are less risky, because it is less expensive for us, as a smaller business, to make mistakes than it is for a big conglomerate such as Unilever.

I do not think that large businesses and small businesses are bridged together to support Government policies or other agency policies as often as they should be. Doing that brings the best of both worlds together and it changes the impact. We are a small business and our impact on sustainability is small, but if we can influence larger businesses, such as Unilever, the impact is much bigger.

Michelle Thomson: Let us have the last words from Michael Cusack and Paul O'Keeffe, who has not had a chance to comment on this topic.

The Convener: It would be helpful if the panellists could be brief in their responses. Thank you.

Michael Cusack: I agree with everything that has been said. I would also say that to force a change you sometimes need to have a clean break and say, "By this date everybody must transition to hydrogen from natural gas." That makes the need more immediate and it focuses the mind. You then need to put the infrastructure in place to support that transition.

Paul O'Keeffe: I do not consider my business to be in any way saintly, because it is so dependent still on oil for its heating. Legislators need to think about a framework such as the one that Michael Cusack just suggested. A big takeaway—people on the panel have talked about this—is that, in the long run, making the change has saved us money and has made our customers more comfortable in our building.

The Convener: I thank all the panellists for spending time with the committee for what was a very interesting discussion. We will now have a short suspension, while we change over the witnesses.

11:21

Meeting suspended.

11:28

On resuming—

The Convener: We are joined by our second panel of witnesses, who will speak from the investment perspective. I thank panellists for joining us. I welcome Simon Crichton, who is head of relationship management at Triodos Bank UK; David Ovens, who is the joint managing director of Archangel Investors; and Fraser Sime, who is the regional director for SMEs and mid corporate at the Bank of Scotland.

We are holding this evidence session because we are weeks away from the start of the 26th United Nations climate change conference of the parties—COP26. We are interested in hearing witnesses' expectations of COP26, as well as their responses to our evidence session this morning with SMEs.

I noticed that Triodos is a member of the bankers for net zero initiative, which has identified some issues for SMEs around misaligned or weak incentives and inadequate information in supporting businesses that are moving to net zero. Let us start in that area and talk about the support that is available. Simon Crichton, would you like to respond?

Simon Crichton (Triodos Bank UK Ltd): As a short introduction to Triodos Bank, I note that we have been in the social and environmental sustainability space for 40 years—it is really in our DNA. You are correct that we took part in bankers for net zero as part of our change finance agenda, and we helped and supported other organisations. It was great to hear some of the SMEs talking this morning about how they support their peers and competitors in many ways to make changes for the better.

11:30

In the bankers for net zero work, it was clear from research that Covid is pretty dominant in SMEs' minds in terms of their going into survival mode. However, when we dig deeper into net zero, it is clear that the incentive programmes are not quite right. Quite often, we are talking about, as Jo Chidley mentioned, the shift from pioneers engaging and taking that on to its becoming mainstream. We have to make the leap pretty quickly and dramatically to the main economy, so that we all become pioneers in net zero.

In terms of carrot and stick approaches, there is no magic bullet. It is about bringing together all the solutions at the same time, joining them together and thinking about them together. When the Government comes up with policy, it should think about how that will interact with its procurement policy. With linkages and by thinking about procurement in line with the net zero strategy, we can support SMEs.

The Convener: Thank you. I am sorry—I did not mean to interrupt. Please continue, Mr Crichton.

Simon Crichton: That is fine. I was just going to say that, in banking we should think about the cost of capital. When we invest in new technologies and seek to support SMEs and organisations that are pioneering new technologies in the change agenda, a lower cost could be attributed to capital to support that journey. That does not necessarily have to be in deep policy, as we saw with the lower capital requirements of the Covid structured support that helped banks to support SMEs and the like. Such a system could be used to support the transition that we need to make in similarly short order. We need to get on with it. Something on action to support SMEs could come out of COP26.

The Convener: I ask David Ovens to respond on issues that were raised by the earlier panel and to talk a bit about Archangel Investors' role and how you see your organisation addressing some of the funding gaps in support for SMEs?

David Ovens (Archangel Investors Ltd): Yes—absolutely. I will start by describing the universe of companies that we support. We are early-stage investors, so we support high-growth companies in the tech and life science sectors at the start—within the first 10 years or so—of their journeys. As such, they are consumers rather than generators of cash, if I can put it that way. Although pretty much all the businesses that we support recognise the challenges in and support the ambition of getting to net zero, most of them are frank that they focus on their core business of trying to grow sales and to manage costs and cash. They have limited resources.

In addition, there is a knowledge gap, which was touched on by the panellists this morning. Many small businesses lack the knowledge and expertise to implement effective carbon-reduction strategies. For example, most would not know where to start in measuring their base-line position or monitoring their progress. For our universe of companies, the challenges are finance and knowledge. I would like progress on that over the next few years.

The Convener: I will close with a question for Fraser Sime. Will you reflect on this morning's evidence? I had a look at the Bank of Scotland's website and the case studies of organisations and companies that have been funded. There is quite a mix, and many businesses are taking loans to finance their transition to net zero. Are there incentives or are those loans treated differently from loans that other businesses are requesting?

Fraser Sime (Bank of Scotland plc): From a product perspective, our clean growth finance initiative is helping to incentivise our clients, if you like, for the green initiatives that they are funding. It is a £5 billion fund, which was upsized from £3 billion earlier this year. There are two aspects to it that help clients. For term loans, there are discounted arrangement fees or, in many cases, no arrangement fees for funding to support a particular initiative. With asset finance, which might be for kit that is required to help in the transition, there is a discounted margin compared to the published rates. From a financial support perspective, our clean growth finance initiative is probably the key thing.

The Convener: Is it typical of the banking sector to take that kind of approach to encourage green investment?

Fraser Sime: I cannot comment on what other banks are doing, but it is a challenge that we need to solve collectively. I do not think that one organisation on its own will play a transformational role.

Yesterday, we held an event hosted by Kaye Adams, the broadcaster, for the run-up to COP26; 300 of our SME clients in Scotland registered for the event. There were some really interesting parallels to the discussion that took place in the committee earlier this morning. SMEs do not have dedicated teams to help them on the journey, unlike some larger companies in Scotland and across the UK more widely. SMEs are asking for help from the banking community, the professional community, the Government, Scottish Enterprise and Zero Waste Scotland. Everyone needs to work collaboratively to make a difference against the common enemy, which is carbon emissions. I suspect that all the other banks have initiatives to help, but I can only comment on ours, which we are really proud of.

Fiona Hyslop (Linlithgow) (SNP): There is global self-interest, and the market situation will drive the adoption of net zero measures by many companies, but we also need other carrots and sticks. Should net zero be incorporated into UK financial regulations? If so, what form could that take? Do you have any views on tax or other financial incentives that might assist?

Simon Crichton: Dare I say, "All of the above"? We will need to use all measures. Triodos was a founding partner in the Partnership for Carbon Accounting Financials, which looks at the carbon emissions of banks—not only the bank's emissions, but those of its borrowers and the customers to whom it lends. The impact of that is important, because the majority of a bank's carbon emissions are from lending activity.

We founded PCAF, along with 12 other partners, in 2018. It has stepped forward globally and has been accepted as a way of measuring carbon emissions. We have talked about standardised approaches to measuring, which is important for banks and for SMEs. We have gone for that route, and it has really been important for us. We are pushing the regulators to include it and to be part of the drive towards investment from banks, in terms of where it goes towards net zero, because it is really important.

There are also the carrots for banks—such as capital reliefs that might allow further investment in the sector—as well as for SMEs. It is important to join that up—there is not only one approach. I am sorry to repeat this, but they have to be joined up and brought together. In the earlier evidence session I heard someone—I cannot remember who—talking about a sector-by-sector approach, because you do not want to cause disadvantage. That is a good approach to take in order really to follow through on all the actions that are required.

David Ovens: Again, I will speak with reference to the area of the market in which I operate, which is the earlier-stage market. I agree that industry standards and accreditation is an approach that we should be trying to adopt. However, again, I go back to help and incentivisation to allow companies to achieve that, particularly with regard to early-stage companies and other cash-constrained companies.

We have historically had a lot of support from Scottish Enterprise through funding and company support. In terms of the direction of travel, Scottish Enterprise published a net zero framework in the summer. It continues to update that document and is asking companies that it supports to commit to working towards net zero. Moreover, it is providing some of the support that is required for them to get there. It provides access to its sustainability experts, it runs good webinars and it provides advice. Beyond that, it also provides funding, which is really important. For example, there was the recent green jobs call; I know that another call is to be made on that front. That is the direction of travel locally.

In terms of the national position, we touched on the tax system. There are things that could be done through the tax system, certainly in Archangels' area. The research and development tax credit has been an important mechanism for getting cash back into the hands of early-stage companies. I wonder whether something could done at UK level on greening that type of structure.

I think that industry standards and financial regulation need to evolve to take into account our global ambitions, but companies need help, support and knowledge to be able to achieve them.

Fraser Sime: I will build on my previous answer. During the conversation that we had yesterday with 300 SME clients, we asked what was stopping those businesses from transitioning faster to net zero. There were probably three themes that came out of that. One was a lack of knowledge, one was the existence of other priorities—whether they involved recovering from Covid or supply-chain issues—and the other was that the cost was prohibitive. A few minutes ago, I alluded to what we are trying to do as an organisation with our fund. We are trying to help with regard to costs, but if the industry and the Government work collaboratively to move towards other incentives to accelerate the transition to net zero—for example, tax incentives—that would be hugely welcomed by the SME community.

Fiona Hyslop: I want to ask about the international competitiveness of our systems with regard to our ability to do that. Clearly, businesses have been trading through the pandemic period. We have heard that by working sector by sector we could take everybody along at the same time. However, clearly, we are also in competition internationally. Could Fraser Sime comment on the international competitiveness of funding of SMEs? Are Scotland and the UK competitive with regard to the direction that we are going in on net zero?

I also have a question for Simon Crichton and David Ovens. I am interested in the strength of Scotland's asset management potential for green investment. Where is the competitive edge that we could have, and will we get enough from COP26 in respect of global financial regulations to allow us to make the most of the opportunities here and to increase the speed of transition?

Fraser Sime: I will touch first on the UK green growth index, which is work that we commissioned in conjunction with Oxford Economics to look at the Scottish business landscape. We published a report on it in September, which shows a positive outcome for Scottish businesses in general, and SMEs in particular. Not internationally but in the UK, Scotland is in pole position on capitalising on the opportunities of the green economic revolution. That view is justified in two ways. One concerns the 21,000 green jobs—mainly highly-skilled jobs—that already exist in Scotland. That compares extremely favourably to any other part of the UK per capita.

11:45

The second way concerns the fact that the education footprint that we have is geared towards green jobs in the future, which will help with the transition. From a skills perspective, we are well placed already and the research that we have done shows that, arguably, Scotland has greater opportunities than other parts of the UK. In itself, that will, we hope, provide part of the infrastructure to help our SMEs to transition faster.

Fiona Hyslop: Could Simon Crichton speak about the wider international perspective?

Simon Crichton: We cannot ignore Scotland's natural capital base, which gives it an immediate advantage. I agree that the pioneers that already existed in Scotland make the place almost a breeding centre, because they feed off each other. Scotland is like the silicon valley of green innovation, with companies coming together and working together. We have seen new entrants from Scotland, such as Ember, which is the first bus company in the UK to use solely electric buses. There is also the green tourism certification scheme, which was born in Scotland—it was developed by VisitScotland, so it is almost as if it was developed by Government. That has grown into a thriving business that is, from what I and colleagues see, a leading brand in certification and accreditation in the green transition. VisitScotland is working on net zero and is constantly developing and forging ahead. The model in which companies feed off one another is strong and has great potential for Scotland.

Fiona Hyslop: I am thinking more about the financial situation, the financial opportunities and what banks and asset managers can do. How is Scotland placed in that respect? What potential do we have to be extremely competitive and what is holding us back? I would like Simon Crichton to answer, then David Ovens.

Simon Crichton: Triodos is a relatively simple bank for loans and overdrafts and is supported by retail customers. In Scotland, we see very strong support on the retail side, so there is clearly a demand from customers for support for businesses. We do not face any challenge in bringing that type of finance—lending finance—into Scotland. Bringing in other types of capital might be different; many of the challenges are in the transition to net zero.

Earlier, I mentioned natural capital. It is quite challenging to bring funds into natural capital. There is high demand for that but the models for bringing money in and how to develop carbon capture in nature, which Scotland is well set up to deliver, have not quite matured yet. Pioneers are researching ways of doing that. Some of those pioneers are based in Scotland. I know of one organisation in the forestry sector on Mull that is working on models of enhanced carbon capture.

David Ovens: What I would like from COP26 is a commitment to support businesses financially and with knowledge in order that we can achieve the ambitious targets. I will bring this back to Scotland and our advantages. Somebody on the previous panel talked about tech as an enabler for getting to net zero. For instance, five or 10 years ago, if you wanted to meet someone from the US, you had to jump on a plane and head out there, but now you can meet a person on Zoom. In Edinburgh in particular, many of our companies are now harnessing data and allowing us to make much more informed and better decisions, which will help us to achieve our targets.

Scotland has a very strong ecosystem built around the universities and our knowledge base. From an early-stage funding perspective, one of the great things that in Scotland historically has been the partnership that Scottish Enterprise has developed with private sector investors. The co-investment model has been replicated across the world. We should not underestimate the strength of the Scottish ecosystem.

Let us take what Scottish Enterprise has done with the Covid response over the past 18 months. We had the systems, the structures and the knowledge to get cash very quickly into the hands of companies. Scottish Enterprise will have a key part to play in applying its knowledge of innovative funding structures to the challenges of transitioning to net zero and getting grants into the hands of early-stage companies. It will also impart its knowledge to companies about how to measure and monitor their carbon footprints. Scottish Enterprise will have an important role to play.

Michelle Thomson: I draw the attention of the panel to the fact that I am an ambassador of the all-party parliamentary group for fair business banking, which took part in the bankers for net zero work that has been mentioned.

Some say that there is a paradox between the endless drive for profit and the drive to reach net zero. Arguably, that is nowhere more evident than in our financial system. I want to ask the bankers, first of all, about the banks reaching net zero. Have your pension schemes set targets for when they will reach net zero and do you measure that? I see that Fraser Sime is nodding, so I ask him to respond first, then Simon Crichton.

Fraser Sime: Lloyds Banking Group made seven commitments when we issued the financial results in February, including about the investments that we make through our pension scheme and the aspiration for them to transition to net zero. Our group ambition is to be net zero by 2030. We, like everybody else, are on a journey.

We have done a number of things on that transition already. They are relatively simple things but they can translate to all the things that our SME clients should be thinking about. Sharing knowledge about what we do and what our clients do is important. For example, using LED lighting in the buildings, having electric vehicle charging points in our car parks and using renewable energy sources for our electricity and gas are things that we are transitioning to in relation to our hope and aspiration to be net zero by 2030.

Michelle Thomson: Are you reporting against those measures annually or every three years? Is that just set as an ambition?

Fraser Sime: I do not know whether we will report annually. However, given that sustainability is such an important part of our organisation and of client organisations and the wider economy, I suspect that it will not take three years until we report but that there will be more frequent updates. I can check.

Michelle Thomson: That would be useful, thank you. How about Triodos?

Simon Crichton: Reporting is key for Triodos. We report our emissions in our financial accounts each year; since we launched the PCAF system for measuring the emissions of the customers to which we lend, we also report the emissions in that supply chain.

Our emissions and record on renewable energy are what you would expect from Triodos, as a pioneer. Our UK office is outstanding. Our Dutch office is groundbreaking in that it was established in 2020 and is wholly deconstructable and was built with the circular economy in mind. You can take it apart and re-use the materials, which is where we consider we have to get to in the construction industry. As a bank, we are backing what we believe in.

We do not manage our own pension fund. Our co-workers' pensions are set up initially on the most sustainable offering. It is then up to individuals to decide which fund they go with. The bank also does managed funds. In the Netherlands, we have a pioneer fund comprising outstanding sustainable businesses. We support customers to find investment space in that pioneer fund to support those companies on their journeys. We also have a fund that is what we might call the best of the rest for people who want to find maybe not the ultimate pioneers, but the next tier of organisations, covering the fullest part of our lives, so that people can direct their investment towards the best operators.

Michelle Thomson: Following on from that, I have a couple more questions for Fraser Sime and Simon Crichton before I bring David Ovens in on a general question. How, specifically, have your banks changed their measures—the balanced-business scorecard or whatever—in order to put net zero and not just profit at the top?

Fraser Sime: I go back to the point that I made a moment ago about the seven commitments that we made in our annual report and accounts. If you were to look back two or three years, you would not see that amount of detail about what we are trying to achieve as an organisation through the investments that we make and our commitment to our organisation’s transition to net zero. You would not see anything as detailed or as ambitious as what is there now. The half-yearly results were reported in the *Financial Times,* in which we were recognised in an article on Europe’s climate leaders’ article as having made a huge amount of progress. As an organisation, we need to run these things in parallel.

Early messaging from our new group chief executive about how high sustainability is on the agenda for the group suggests that it will permeate through everything that we do from now on. Bringing that back to the colleague journey, our colleagues are in the process of being trained and accredited through a sustainability programme with the Cambridge Institute for Sustainability Leadership—900 of our commercial banking colleagues have already gone through that programme, which translates to more than 75 per cent of my team here in Scotland. My team consists of the relationship managers and relationship directors who do face-to-face client engagement with our SMEs. That is a very powerful commitment. On top of that, there is an obligation and commitment to ensuring that 100 per cent of my team are fully trained by the end of this year.

The fact that the ambition of the group permeates down to what we are doing at colleague level is important, because that can help our clients to navigate through what is a complex area. They might have information on sustainability, but helping them to see the wood in the trees is part of the role of our RMs and RDs, who can also share intelligence on best practice—ideas that they have seen or heard about that we are doing internally as a group or that they have seen elsewhere—with our client base, in order to drive at least marginal gains. That is really important. We cannot overstate how seriously the group is taking the issue.

Michelle Thomson: In that respect, I was surprised to see that the Bank of Scotland, or Lloyds Group, had not participated in bankers for net zero, given that that initiative will be presented at COP26. What was the thinking on that? I note that Handelsbanken and Triodos are in it, as is Barclays, which is one of the very large banks. What was the rationale for your not participating?

Fraser Sime: We are fully engaged in other alliances, such as the Glasgow Financial Alliance for Net Zero. We are also an active member of the Scottish Business Climate Collaboration forum. The purpose of all those initiatives is to collaborate on ideas generation as we transition to net zero. We are members of other alliances, but not the one that you mentioned.

12:00

Michelle Thomson: I want to quickly bring in Simon Crichton on the question that I asked about how, specifically, his bank has changed its measures to ensure that net zero is on or near the top, alongside profit, given the paradox that I described earlier.

Simon Crichton: We must remember that Triodos was established 40 years ago to be all about putting together people, planet and profit, but that does not mean that we have not evolved and radically changed over those 40 years. PCAF—measuring the emissions of its lending book—is a serious part of any bank’s understanding, as is understanding how we can support customers on their journeys. That is in our relationship manager training. All our customers have a relationship manager. If we are to transition SMEs—the majority of our customers are SMEs—we must support relationship managers to signpost SMEs better.

As has been highlighted, there is a plethora of information. SMEs can get snowballed by the amount of information, so we must support our relationship managers to understand what are the good sources that we can point to and the pioneers that we can highlight—the great organisations that are doing things brilliantly. The pioneers are willing to share. They are motivated by profit—profit is an important part of sustainability—but they realise that the climate issue is for all of us and are willing to share.

Michelle Thomson: For my last question—I am aware that I need to leave time for other members to get in—I would like to bring in David Ovens. It is about risk appetite generally. Do you perceive that sustainable businesses are treated differently from a risk perspective, given that they are often new, innovative and smaller? What is your perception of risk appetite across the finance sector?

David Ovens: I will apply that to net zero specifically. There is a weight of capital in early-stage investment markets and there are a lot of gaps. Historically, capital has been targeted generally. Within the asset class, there have been extremely forward-thinking organisations—one such organisation is Social Investment Scotland, with its equity subsidiary SIS Ventures, which is focused on identifying entrepreneurs who have social and environmental impact at the core of what they do. They want to make a profit, but they also want to make a social or environmental impact. SIS is focused on how to embed that within the operations of a company. In the context of the asset class, that has been the exception rather than the rule, but we are now seeing a shift. There is much more focus on net zero and environmental, social and governance aspects more broadly.

I heard the previous panel say that Covid was awful because a lot of things had to be put on hold. In the broader universe of early-stage companies, 18 months ago they had to step back and look at all aspects of how their businesses were operating. It was a survival thing. They were forced to stop travelling and had to embrace technology platforms such as Zoom, MS Teams and all the rest of it.

There were global supply chain issues and businesses were forced to look at what they could source more locally. They were forced into a lot of business decisions that, when we step back and look at them now, were not only necessary at the time, but which make a lot of sense from the point of view of the transition to net zero. The focus of the broader asset class is now much more on net zero plans, and we are more inclined to back people who have in place a positive net zero strategy.

We also try our best to help companies to achieve net zero. The industry body for venture capital, the British Private Equity and Venture Capital Association, has been developing an ESG framework questionnaire that helps companies. It includes simple questions, such as “Do you have a net zero policy?” and “Where are your suppliers based?”, that allow companies to build up a picture of where they are in terms of their carbon footprint. Having built a dashboard, they can see what they can do to improve performance.

To answer your original question, if anything, the risk appetite is growing rather than reducing.

The Convener: We move on to questions from Colin Beattie. As we are a bit pushed for time, it would be helpful if questioners and panel members could be succinct.

Colin Beattie: As has been said, SMEs come in all sizes, shapes and forms. Accordingly, no one finance option covers them all. We have seen the lack of diversity in how SMEs approach financing. How do we ensure that diversity in financing is made available for the transition to net zero? How do we communicate the existence of such financing to the companies concerned? What can the banking sector do to improve in that regard? I will start with Fraser Sime.

Fraser Sime: I will probably end up repeating some points that I have already made. We are trying to help through the clean growth financing initiative, but I do not think that that, in itself, will solve the challenge across the spectrum from the very smallest to the largest companies. We have mentioned Scottish Enterprise, the grants that are available and tax incentives. We want to ensure that every SME has the wherewithal—through intelligence and knowledge building, as well as financial support—that is required in order to make the necessary investments in the transition to net zero.

There has to be a collaborative approach from the banks, the Government and industry bodies, because none of us can solve the problem on our own. We are trying to play our part through discounted arrangement fees and discounted margins, where appropriate, to make the cost of transition easier for an SME to take on. I will highlight one of the points that came out in yesterday’s wide-ranging conversation. Cost seems to be one of the three key concerns of SME clients. It is an interesting and highly topical point to raise, but from our perspective, providing support through margin and fee enhancements is a good start.

Colin Beattie: You mentioned that the Government could do something. What, specifically, do you hope the Scottish or UK Government will do to help?

Fraser Sime: There is definitely a role for Government to play in bringing all the interested parties together. It is a complicated area to navigate, as we have all mentioned. The amount of resource that is available to upskill on sustainability is huge, varied and can be quite daunting for SMEs in particular. Government could help with education by supporting what we and other professionals including SFE and Zero Waste Scotland are trying to do. That is probably the most important thing that it could do in the short term, because a lot of SMEs are still trying to get a handle on what the transition to net zero means for them. The priority should be on education and the support that Government can offer in bringing all the interested stakeholders together.

Colin Beattie: Simon Crichton, what is your view?

Simon Crichton: On what Fraser Sime said about education, I mentioned our relationship managers, and they are a great place to start. We need to make sure that, as a bank, we are educated in the fast-changing and fast-paced world of net zero, and that our knowledge is growing across all areas and sectors.

Triodos has been on a mission anyway, but part of that work involves supporting other banks and organisations, as well as Governments. We consider the bankers for net zero work to be part of our job. I have spoken about our relationship managers, who have direct contact with the SMEs. It is critical that there is signposting to quality information. As has been mentioned, the approach is very fragmented; it involves fixing one problem at a time rather than taking a holistic approach. I would ask for a standardised approach for measuring SMEs' emissions, which Governments and banks could rely on when incentivising businesses.

Colin Beattie: That is an important point, but how would you drive that? Who would drive that approach?

Simon Crichton: We are driving it from the banking sector's perspective, having established PCAF and the science-based targets initiative. However, the science-based targets initiative is really for larger businesses and is, arguably, overly complicated for SMEs. We need a simplified approach for SMEs, but on a similar international and global scale. There might already be moves afoot to deliver that; Governments, including the Scottish Government, should get behind those moves.

Colin Beattie: Do you feel that it is Government's responsibility to establish a standardised approach to measurement?

Simon Crichton: Government has to be part of the approach by accepting it. If we believe that some work will need grant support and wider patient-capital support, as well as direct bank-lending support, in order to make the transition to net zero, that will have to be well accepted, and the role of Government will be critical to that acceptance.

Colin Beattie: Does David Ovens have any comments?

David Ovens: I do. The funding has to be appropriate to the stage that the company is at. For the companies that we support, that is early-stage equity funding, but grant funding is also important. There are many different sources of grant funding, including Zero Waste Scotland, SE, Innovate UK and others. Companies need to be aware of those sources, and the funding side needs to be as joined up as possible. The Scottish National Investment Bank has an important part to play on the financing side, as does Scottish Enterprise. It is important to make sure that the market is clear about the interaction between the funding that can be obtained at the very early stage from Scottish Enterprise and funding from the Scottish National Investment Bank. There is a bit of work to be done on that.

You asked who can drive such standards. Scottish Enterprise has an important role to play there. That is starting to happen in the context of the support requirements under its "Net zero framework for action". I see that becoming much more important, particularly for early-stage companies.

The Convener: I need to make progress. Alexander Burnett will be followed by Maggie Chapman.

Alexander Burnett: I note my registered interest as a house builder.

I want to build on Michelle Thomson's point about risk appetite. Green mortgages were first offered over a decade ago—I think that they were linked to the "Code for Sustainable Homes". They disappeared, but are now making a tentative reappearance. It should be logical to assume that a homeowner who spends less on energy is a lesser credit risk, which should be reflected in their mortgage terms. Why is that not fully reflected in the mortgage market? What are the stumbling blocks in conversations in your credit teams? At the risk of this being a leading question, I ask this: is the credibility of the energy performance certificate system a stumbling block? Would one solution be to improve the loan-to-value regulation that is imposed by the Government on banks for energy-efficient homes or accredited businesses?

12:15

Simon Crichton: We do not offer residential domestic mortgages in the UK, but we offer them in the Netherlands, where the interest rate is scaled according to that country's equivalent of the EPC, and there is a pricing differential based on that. I believe that in the Netherlands the bank also offers an interest-rate differential to people who are looking to improve their homes in order to transition to net zero. We have not yet taken that approach in the UK yet.

We think that regulation has its part to play in capital weighting and loan-to-value ratios. A bank that invests in building today considers building use as well as the EPC rating. Investment in a possibly substandard building that is intended for office use could be subject to climate risk and collateral valuation risk.

EPCs are a baseline. The UK Green Building Council proposed alternative methods to improve the ratings of buildings; I would defer to it regarding the quality of EPCs.

Fraser Sime: I have worked mainly in the commercial bank rather than the retail bank, so I am probably not best placed to comment on the specific mortgages question, but I can bridge to how we are looking at the matter through the commercial bank, which is relevant.

The green buildings tool is a free tool that one can access through the Bank of Scotland's website. It does a couple of things. First, it helps to identify energy efficiency improvements that clients can make to their buildings. Clients either own or rent their building; either way, they are incentivised by everything that is going on at the minute to improve the efficiency of their buildings. The tool helps to shine a light on the efficiency or otherwise of a building, and considers the investment that would be required to improve its EPC rating. Our perspective is as a commercial bank that tries to help our SME clients with their EPC transition, so there is a free tool to which we have given our clients access.

The other thing that is relevant from a commercial bank's perspective is our ambition on building sustainable housing. We see that on a number of fronts—through lending to house builders and through our housing growth partnership, for example. Those components of our commercial bank look at building houses through a sustainability lens. I hope that that is helpful; I am not an expert on the mortgage market.

Alexander Burnett: I appreciate that. Does David Ovens have anything to add?

David Ovens: Mortgages are not in Archangels' space, so I have nothing to add to what Simon Crichton and Fraser Sime have said.

Maggie Chapman: I thank the panel for their contributions today. I have two questions. First, we have heard from each of you about different positive incentives and approaches to funding people who are doing the right thing and who have positive action in mind. Is there any likelihood that you or others will increase the cost of funding for companies in high-carbon sectors or high-carbon supply chains? Is there a negative instrument?

Secondly, how do we make sure that we do not continue with the "valley of death", or "missing middle", in which Scottish start-ups fail to commercialise or achieve scale due to lack of access to funding?

I ask all three witnesses to respond briefly to the first question about increasing costs to fund grey companies. The second question is for the two banking folk.

Simon Crichton: Triodos already has lending criteria on building quality, so it could be argued that we are restricting the capital that we deploy by lending for house building that is on the highest levels of EPC and sustainability and is new. That is already built in to our—

Maggie Chapman: I will cut in there. I am talking about lending to all SMEs, not just those that are involved in house building.

Simon Crichton: If we are taking collateral as security, when we look at an SME that is building a new care home, we look at what it is building. Given our net zero ambitions, our lending criteria are partly about making sure that what a company is building is up to the quality that we expect. I was thinking about our discussion as being about residential buildings and was not focusing on the commercial perspective.

For organisations that already have a building and are operational, we might initially price a facility at one price, but our support offers a step in the facility agreement if the borrower can demonstrate that they have made the changes for the transition that we are helping them to finance. That is normally applied across a sector. We have done it in tourism—[*Inaudible*.]—cost of funding based on performance in the transition.

Fraser Sime: It is important that access to finance be available to all SMEs. We are trying to incentivise the transition to a green future through the clean growth financing initiative, which is available to all clients who want to make a green investment.

I go back to points we have already talked about. It is important that everybody throughout the supply chain transitions, from the largest companies all the way down to the smaller ones. Larger companies need all parts of their supply chains to make their own transitions to net zero. It is therefore very important—I think that this is where the question was going—that access to financial incentives be made available to all.

If we are collectively to achieve the ambitious targets, we need to ensure that everyone is on the journey with us. That involves a combination of targeting support where we can and—to go back to education—ensuring that people understand what support is available for them and how we can help their transition and support them, through generating ideas and initiatives such as we have seen elsewhere. I argue that we are trying to make sure that funding is available to all.

David Ovens: I will be brief because I am conscious of the time. The instrument that we use is investment in early-stage equity, so pricing is less relevant. There is relevance in terms of our investment strategy and policy. We tend to invest in technology and life sciences companies, which tend to be enablers of the transition to low carbon. We tend to look less favourably, from an investment-policy perspective, on companies that are in, for example, oil and gas.

Maggie Chapman: I will go back to Simon Crichton and Fraser Sime. How do we ensure that companies get beyond start-up and how do we deal with the valley of death for post start-up companies?

Fraser Sime: Would you mind repeating the question? I did not quite hear it.

Maggie Chapman: Of course. We see what the Scottish Council for Development and Industry has called "the valley of death" or "the missing middle", where Scottish start-ups fail to commercialise or scale up because of lack of support and lack of access to capital. Do you envisage that changing?

Fraser Sime: I could be wrong about the number, but I think that we have committed to trying to support 75,000 start-ups. Although most equity funding comes from people like David Ovens and Archangels, there is also a role for the banking community to play. We have a material commitment to helping start-ups, but my core focus is more on established SMEs and the support measures that I have outlined so far.

Simon Crichton: Triodos's focus is also on the SME sector; we do not specialise in start-up finance. However, if we see something that is potentially pioneering and, having taken time to understand it, we believe that it is replicable across many regions—that it is not just a done and dusted, one-time-only project, with all the risk in that one project and no further gain—we would be willing to fund it. We have a pot of high-impact funds to take the additional risk that is specific to the situations of such pioneers. We are willing to invest if we see benefit.

The Convener: We are pressed for time, but I invite Colin Smyth to ask a brief question, followed by Jamie Halcro Johnston.

Colin Smyth: We have already touched on how we stand in Scotland when it comes to access to finance. Are there any countries that Scotland could learn from? Simon Crichton mentioned the pioneer fund in the Netherlands. Are there other examples?

Simon Crichton: Crikey! There are always examples to learn from. One of the things that Triodos does in the SME world is publish, when we find such examples, information to our customers who borrow from us. That is partly so that organisations can learn from each other and spot chances to improve. There are always such things.

For example, Denmark's food policy and how it transitioned its food strategy is amazing. It is moving towards being a world leader in sustainable food production, so there is lots to learn from it. I believe that Nourish Scotland has already been to see what Denmark is up to, so Scotland is already learning. There are lots of examples—more than I can think of, at the minute. There are always chances to learn, which Triodos believes in relation to its own actions. We are always looking to learn, develop and evolve.

Colin Smyth: I am sure that you could mention many more examples. Thank you. Do David Ovens or Fraser Sime have anything to suggest?

David Ovens: I will just jump in briefly, and will touch on Maggie Chapman's question, as well.

I will not pat us on the back too much, but I will say that many countries have learned from the Scottish model. We do public-private partnerships well for early-stage companies. We have done that in the past particularly through Scottish Enterprise. That model has been replicated in other countries. It is a valuable model that allows companies to grow.

On Maggie Chapman's point about scaling, I say that the journey of a growing company can take many years and it is only when a company is more mature that debt becomes an appropriate instrument. In the early days, the appropriate instrument tends to be equity.

In the past there were, for various reasons, issues about access to scaling capital. I will not bore you with the details, but there were issues of alignment of early-stage investors and later-stage venture capitalists. That situation is getting much better; there is now a much broader weight of capital in the equity markets globally.

The issue for Scottish companies is how to communicate the great activity that is going on now within our ecosystem. There are some very good early-stage companies and scaling companies in the tech and lifestyle sectors that deserve to scale; they just need to get themselves out there and communicate what they have.

The Scottish National Investment Bank is important on the journey. I will go back to an earlier point: we need to be clear about interaction between the Scottish National Investment Bank—which should be capable of dealing with the scaling that Maggie Chapman mentioned—and Scottish Enterprise, which deals very much with the earlier stages of a company's journey.

Colin Smyth: Fraser, do you want to add anything about whom we could learn from?

Fraser Sime: I will make two very quick points. I refer back to the green growth index that I alluded to earlier. It looks as though Scotland is in pole position in the UK in the sustainability journey. We have within our commercial bank, and the wider group, dedicated teams whose purpose is to help the organisation on its journey towards net zero, and to educate the commercial bank and the retail bank.

We scan intelligence from all over the place. In our RM training programme we use the Cambridge Institute for Sustainability Leadership, which picks up the best of the initiatives that are out there. I do not have a specific country to home in on right now, but those are ways in which we try to improve our proposition.

Jamie Halcro Johnston: I am a Highlands and Islands MSP, so many of the businesses that I represent are in rural areas. What do you think is the impact of rurality on the transition to net zero? What more can be done? Do you feel that your organisations can deliver support in rural areas?

12:30

Fraser Sime: Everything that we do is available to all our clients, from the CGFI fund to RMs on the ground. We have RMs in the Western Isles and up in Orkney. They are all trained and dedicated to helping clients on their journeys. In the Kaye Adams hosted event yesterday, people were complimentary about the work of the banks, professionals and Highland and Islands Enterprise in helping all clients, no matter where they are, on their road to net zero.

Jamie Halcro Johnston: This question is for Fraser Sime, because of the nature of the work of the Bank of Scotland. A number of banks have closed branches in rural areas and across the Highlands and Islands. Do you think that the closures have had an impact, particularly in terms of the ability to deliver face-to-face and one-to-one services?

Fraser Sime: The commercial bank has not changed the face-to-face model. We have RMs in every corner of Scotland supporting SME clients. SME clients who fall below the level that I look after are supported by our business bank, which is a telephone banking service anyway. Face-to-face access to RMs in my world, or to an RM on the telephone in the business banking world, remain unchanged.

Jamie Halcro Johnston: I put the same question about supporting rural businesses to David Ovens and then to Simon Crichton.

David Ovens: I will be brief. From my perspective, the key aspects are digital infrastructure and access to finance and people. A company that is based in Moray should be just as capable of being a responsible global business as a company that is based in Edinburgh. Broadband infrastructure is important, and the role of the enterprise agencies in accessing finance and knowledge from the investor community about what is going on in rural communities are also very important. That is probably all that I have to say.

Simon Crichton: The Triodos model is not a branch network so, ironically, our customer base is probably more dense in rural areas because we have not generally been competing with high street branch banks. Our model is set up to serve everyone equally.

Clearly, during the Covid years, we have all learned that the relationship value is not in seeing customers individually as we used to, but in doing it instead via Teams or Skype calls, for which broadband is essential. We have financed broadband infrastructure in rural communities in other countries. In the UK, our corporate finance team supported raising capital for a broadband installation and rural network. I live in the countryside; broadband is critical because such things are now important parts of our lives that will stay with us.

Jamie Halcro Johnston: It always comes back to broadband for rural regions, does it not? Thank you very much.

The Convener: I thank Simon Crichton, David Ovens and Fraser Sime for being here this morning and for staying for the extended session. Your contributions are much appreciated.

12:34

Meeting continued in private until 12:50.

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