OFFICIAL REPORT
AITHISG OIFIGEIL

Economy and Fair Work Committee

Wednesday 16 March 2022

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 16 March 2022

CONTENTS

ECONOMY AND FAIR WORK COMMITTEE
8th Meeting 2022, 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:

Kate Forbes (Cabinet Secretary for Finance and the Economy)
Gary Gillespie (Scottish Government)
Carolyn Jameson (Scottish National Investment Bank)
Adam Reid (Scottish Government)
Liz Smith (Mid Scotland and Fife) (Con)
Willie Watt (Scottish National Investment Bank)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy and Fair Work Committee

Wednesday 16 March 2022

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Claire Baker): Good morning, and welcome to the eighth meeting in 2022 of the Economy and Fair Work Committee. Our first item of business is a decision on taking agenda items 3 and 4 in private. Are members content to take those items in private?

Members *indicated agreement.*

National Strategy for Economic Transformation

The Convener: Our next item of business is an evidence session with the Cabinet Secretary for Finance and the Economy on the Scottish Government's national strategy for economic transformation, which was published on 1 March 2022.

I welcome Kate Forbes, the Cabinet Secretary for Finance and the Economy, and, from the Scottish Government, Colin Cook, the director of economic development; Gary Gillespie, the chief economist; and Adam Read, the deputy director for skills. As always, members and witnesses should keep questions and answers short. I invite the cabinet secretary to make a short opening statement.

The Cabinet Secretary for Finance and the Economy (Kate Forbes): Thanks very much, convener. I will take that on board and keep my opening remarks fairly short.

As you said, the national strategy for economic transformation was published earlier this month. The strategy sets out what we want to achieve and what kind of country we want to be. We want a strong economy that outperforms the previous decade, builds on our strengths and recognises our weaknesses.

Some of those weaknesses are short term and relate to the emergence of the economy from Covid, but some of them are longer term and the strategy does not shy away from that. We used extensive and detailed analysis, consultation and input from the advisory council for economic transformation to develop five programmes of action. Although "Delivering Economic Prosperity" explains the front end of the strategy, I encourage members to engage with the analytics paper, which is a lot lengthier and gives more detail on the data that underpins the five programmes of action.

The five programmes of action are entrepreneurial people and culture, which covers citizens; new market opportunities, which covers emerging economic opportunities—in particular, those that relate to net zero; productive businesses and regions; skilled workforce, which will enable all of that; and, finally, a fairer and more equal society, which is what we want to achieve.

I know that the committee, the country and the Government will judge me on our ability to deliver what we have set out, so there is also a hugely important sixth programme that focuses on delivery. That will introduce a new, streamlined model to maximise our success. That issue has been of interest to the committee on a number of past occasions.

That is all that I have to say at the outset, but I could go into detail about some of the challenges that we face. The situation in Europe has become worse since the strategy was published, and that will have an economic impact. Therefore, my last comment is that publishing a 10-year strategy when none of us has a crystal ball is challenging. The strategy has to be flexible and high-level enough to be able to adapt to emerging situations, but it also has to be focused on the routes to success. I hope we have achieved that balance by being flexible and focused at a macro level as well as on the key vehicles to success.

The Convener: Thank you, cabinet secretary. You mentioned a number of areas that committee members will wish to explore, not least the changed context in which the document has been published. Although we recognise that this is a high-level document, it is not clear what is different in this economic strategy to previous ones. We know there are significant issues with Scotland's economy, but what is new and different that will mean that this strategy will deliver on the priorities you identified?

Kate Forbes: Interestingly, I posed a similar question to various advisory council members and to a lot of the people with whom we consulted. I asked what needs to be done to deliver a step change. By and large, the feedback was that we know what to do—I am sure that the committee and the Government are mostly aligned on what needs to be done for the Scottish economy—but we need to improve our ability to get it done and to be focused, determined and ruthless in our execution of the strategy during the next 10 years.

When we look at international examples of models that involve Government-led national strategies, we see that what often separates the successful ones from the unsuccessful ones is that, in the successful ones, there is consensus across political parties, Parliament and Government about what needs to be done. That means that, irrespective of the challenges that emerge, those Governments are able to deliver, because whoever forms the Administration knows what needs to be done.

One thing that makes the strategy stand out considerably is the ruthless focus on delivery. Of course, that will never grab a headline. There is a lot in this document that will grab headlines, particularly around entrepreneurship, but that focus on the execution of what we know we need to do and on streamlining our ability to do it is key.

There is one smaller area that is equally important, and that is the new opportunities that have emerged. When the previous strategy was published, in 2015, we knew that Scotland had great strengths when it came to our natural assets around energy, but in the past few weeks we have seen the announcement of the world's largest floating offshore wind technology. That is remarkable, but it will be effective only if we can develop the supply chain and establish the businesses that accompany that. Those massive, momentous opportunities that are recognised the world over are new, and the strategy sets out in detail how we can make the most of those opportunities and, basically, build businesses and deliver jobs over the next 10 years.

The Convener: I mentioned that the Fraser of Allander Institute and other organisations have concerns that there is not enough detail, clarity or direction. The delivery plans will not be published for another six months. Why were they not published with the original document? Will they fill the vacuum that has been created?

Kate Forbes: I think that they will. Again, I refer you to the two documents that have been published: the analytics paper, which is quite a weighty document, and the document that sets out the emerging actions, which is an easier read.

There are two issues. One is that we had given a commitment to publish the strategy document as quickly as possible after the election and, obviously, there was some delay because of the emergence of the omicron variant over the winter period.

The other issue is that the agents of delivery are not all within Government. For example, with regard to health, the national health service reports directly to the Government, and all of it, in its entirety, is in the public sector. However, with regard to economic growth, 70 per cent of the agents of delivery are in the private sector. That means that we need businesses, entrepreneurs and academics to be on board with the strategy, and they need to play their part in the delivery and implementation. You will see in the document that, next to each of the actions, we have detailed who we think owns each one, and, in order to deliver an implementation plan, we need to work with them. That is why we believed that it was more important to publish high-level actions and then work with those people on the implementation plan.

Jamie Halcro Johnston (Highlands and Islands) (Con): The convener has covered the views of the Fraser of Allander Institute, but a number of other organisations and pretty eminent people have raised concerns. In the chamber, I raised with you the response of Professor Ronald MacDonald, who said:

> "This report provides a widely known and understood diagnosis of the problems facing the Scottish economy but, on solutions, it is simply a rehash of all the failed scripts

that we have seen since 2007 ... The kind of substantive issues we need to discuss are simply not there."

You have talked about your hopes for the strategy and delivery. How will you measure that delivery and keep us updated on where the strategy is in that regard?

Kate Forbes: I will take that question in two parts. The second part of the question is about measurement and the first part is about solutions.

I will take this opportunity to say that I am pleased that Ronald MacDonald agrees that we have diagnosed the problem, because that, in itself, is where we should start. It is easy to shy away from diagnosing the problems, which involve long-term structural challenges and some of the short-term post-Covid challenges.

There is a lot that is new in the strategy on solutions. I have already referred to some examples around developing a more robust supply chain—a Scotland-based supply chain—for our renewables. I am sure that you would be one of the first in the Parliament to criticise the Government for not having done enough to develop the supply chain for renewables. The fact that we have set out a comprehensive plan for how we are going to do that and a commitment to do it sounds like it is new, to my mind.

It is unfair to suggest that there are no new solutions. We have started with the data, diagnosed the problem and identified the actions to get where we want to be, bearing in mind the fact that not all the agency lies with Government. A lot of it lies with other institutions and the private sector.

Measurement is vital. If we are not measuring the right things, we will probably not be able to define success. Ultimately, there will be clear metrics for success in the implementation plan.

On what we are measuring, I go back to the analytics paper. I will give the example of entrepreneurship. Scotland is an entrepreneurial country if we define it in terms of entrepreneurial activity such as start-ups—new businesses—but we are not performing as we should on scale-ups. In other words, the success rate for new businesses is not as high as it should be. There is much to celebrate in the way of entrepreneurial activity. If we just stop there, we could say that it has been a success, but there is a problem with business survival rates. We do not perform in the way that Ireland performs, for example.

What we measure is key, and we will set out the measurements. That is unpacked in the analytics paper—particularly the example on entrepreneurship. Gary Gillespie, the chief economist, might want to come in on measurement, because we debated at length what we should measure.

Gary Gillespie (Scottish Government): You will see in the analytics paper a detailed analysis of all the five programmes and the underlying data. There was a lot of discussion at the advisory council about what we are trying to achieve across each of those objectives. That is different in each domain, so, across the 18 projects and 77 actions, you will see that some of the actions are continuing, some are new, some have existing governance and some have data in place at the moment. For those that do not have data, we are considering how best to measure the impact of the direct action and the wider interaction.

In the analytics paper, we also publish some illustrative modelling of the types of impact that the strategy could have. Focusing on our export performance and a small increase in real wages and productivity, the impact over 10 years could be quite profound. As the cabinet secretary said, you cannot model everything over a 10-year period. The strategy is truly transformational in the sense that we will see a lot of new market areas develop, and we cannot model in entirety the final solutions across those. However, we have a clear grasp of all the metrics in those areas. We have already done modelling on that, and, in the work on delivery with the enterprise agencies and others, we are tying down what the metrics will be for the actions being in place, how we will report progress on that and what it will ultimately mean to our key metrics in the economy, which is set out in the strategy.

Jamie Halcro Johnston: I do not want to put words into Professor MacDonald's mouth, but I think that he was suggesting that you have not diagnosed the problems. They have been well known in the economics sector, and there seems at last to be a recognition in Government of some of the issues.

The Fraser of Allander Institute has concerns about whether, even if the measures are achieved, that will lead to the plan succeeding as you believe it will. I appreciate that you said that we cannot read the future, but are you concerned that, even if the plan's objectives or ambitions are achieved in terms of deliverables, that might not lead to the success that you want?

09:45

Kate Forbes: Again, I will take the question in two parts. If we have a streamlined, focused delivery landscape, in a sense, that vehicle will drive itself. We need a very focused approach from our enterprise agencies and so on to what we are trying to achieve: new market opportunities, more entrepreneurial culture and citizens and a focus on productivity. If we look internationally, we see that those are three ingredients for success. That is not aligned with a particular circumstance or with being relevant only in the immediate post-Covid phase. Those things will be relevant going forward, and they have certainly been the foundation stones for Scottish economic success to date. Therefore, there is an element around delivery to consider.

On the other point, we need to be flexible and agile enough to respond. Therefore, when it comes to productivity across our regions, I want to see the Highlands, Ayrshire, Glasgow, Edinburgh and the north-east being as productive as possible, and that will remain a focus, irrespective of the circumstances. Success is never inevitable. In no country and on no planet is success ever inevitable if you do not go out and seek it. The strategy is built on the fact that Scotland has advantages and strengths that are the envy of many other countries. Let us build on them and ensure that we are as successful as possible.

Maggie Chapman (North East Scotland) (Green): Good morning, cabinet secretary. Thank you for your opening remarks. I will follow on from Jamie Halcro Johnston's question on measurement. I am interested in exploring two areas, one of which is around the indicators of progress, and measurement feeds into that. Obviously, the inclusive development index is welcome, but how can we take it further to measure intrinsic environmental wellbeing and, importantly, to include the benefits of a care economy? That is implicit in the document, but it does not come out as a significant single thing by itself.

Kate Forbes: Those are great questions. On your first point, one of the actions is to develop a wellbeing economy monitor. That will bring in measurements of, for example, healthy life expectancy, fair work indicators, mental wellbeing, child poverty, greenhouse gas emissions and biodiversity. It goes back to a previous question to which I responded. The measurements are key, so what we measure really matters. We are one of the founding Governments of the wellbeing economy Governments initiative, working with countries such as New Zealand to improve our measurement of wellbeing, because we talk about trying to build a wellbeing economy but the measurement of it is really important.

Some elements of that will align with other metrics that we already work to. We have metrics in place around biodiversity, greenhouse gas emissions—obviously—and child poverty. The point is to ensure that economic activity is certainly not undermining efforts on those issues but, more than that, is contributing to addressing them.

On your second point, about care, as you say, the strategy is a fairly short document. We could have taken the approach, which might have been quite popular, of listing everything that we think people would like to see name checked. However, there is reference to the importance of care in achieving all our economic aims.

It is an economic strategy, not a care strategy. However, going back to my favourite subject of entrepreneurship and the fact that certain groups are still underrepresented, the strategy specifically says that, in order to provide those underrepresented groups with more exposure to entrepreneurship and mentorship and more encouragement and support to build businesses and so on, we need to understand what is stopping them.

Let us take women as an example. Obviously, it is not just women who have caring responsibilities, by any means, but supporting women to be entrepreneurs probably means providing enhanced wraparound care support. Where individuals have caring responsibilities, how do we ensure that there is wraparound support to help them with those responsibilities? The strategy identifies the fact that, if we are serious about supporting those with caring responsibilities in either a paid or unpaid capacity, we need to do more as a Government to provide that wraparound care.

That sits alongside a lot of other things that are going on, such as the establishment of the national care service and improving terms and conditions and pay for our carers, but that is where it is referenced in the strategy.

Maggie Chapman: I see the care economy as being about more than just giving people the care that they need so that they can go out to work, but I take your point that it is part of a much wider situation and connects to other things.

It is good to see renewable energy, heat in buildings and decarbonising transport being highlighted as opportunities in the strategy, but how will constrained public funding be structured to enable action in those plans and the delivery that you have spoken about?

Kate Forbes: That is a critical question, and it goes back to two points. One is that we are halfway through our resource spending review and setting out multiyear budgets. The strategy acknowledges and reflects the fact that we need multiyear budgeting for the approach to be successful. That is the bottom line. The resource spending review is due to be published in the coming months, and it will set out a medium-term trajectory on spending. However, on opportunities, we absolutely have to leverage in private sector funding in new markets. There is no question about that. It is well documented that, for example, the gap between what we need to achieve to meet net zero and what we have funding to be able to do is significant.

The bottom line is that the funding exists. As part of the Global Fund Advocates Network initiative, $130 trillion of assets under management right now that need to find a home have been identified. Either that money will find a home in Scotland or it will find a home elsewhere. I want it to find a home in Scotland, but, for it to find a home in Scotland, we need two things. First, we need to be clear about the green prospectus. We have built the £3 billion green prospectus, which we used extensively at the 26th UN climate change conference of the parties—COP26. We need to expand on that and bring in more initiatives so that investors can easily find opportunities. Those opportunities also need to align with our values—that is an important point.

The second thing relates to the supply chain. We face a choice. As part of the up to 25GW of offshore wind energy that might be developed over the next 10 years, we will create jobs outwith Scotland or in Scotland. The way to create jobs in Scotland is for businesses to be established, to grow and to identify and take a larger share of that market. I refer you to project 5 under “New Market Opportunities”, which explicitly says:

> “Build on Scotland’s Strengths to Win an Ever Greater Share of Domestic and International Market Opportunities”.

That is the action that hits the nail on the head, and I do not want to miss that opportunity.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Good morning, cabinet secretary. You touched on productivity and I will ask you a few questions on that.

A report published in December by the University of Glasgow’ and the Productivity Institute highlighted that

> “Scotland’s productivity growth has outperformed all regions of the UK”

over the 1999 to 2019 period. However, our productivity is still below the United Kingdom average. What are the challenges that Scotland faces in continuing to improve its productivity?

Kate Forbes: It is good to reference that growth in productivity over the past 10 years in particular.

Productivity is an issue with which a lot of developed countries are grappling just now. In the strategy—there is more analysis in the analytics paper—we identify a mixture of business investment and the need to improve business productivity. That mixture includes specific investment opportunities. It also includes increased digitalisation. We know that more businesses have access to, for example, superfast broadband than use it to its full extent.

Alongside business investment and digitalisation, we need to address workforce matters. We need to ensure that our workers have the skills that they need to be as productive as possible.

Quite clearly, productivity is one of the most important metrics for not just improved economic performance but wellbeing, because it drives up wages, improves work-life balance and, ultimately, positions Scotland internationally. That is on the private sector side.

On the public sector side, we have a role when it comes to improving infrastructure. We have set out the second strategic transport projects review, which is under consultation just now, to ensure that we are investing in the right infrastructure to improve productivity. That is my quick summary of what we are talking about.

There is one other part to our actions that I am hugely supportive of, which is the notion that it is not a mark of success to improve national productivity while leaving parts of the country behind. We must identify the building blocks and try to work with every region in Scotland to improve regional productivity, which will contribute to national productivity. There is a big focus on not forgetting any part of the country or leaving any part behind. In terms of the measurement, some regions are coming across as more productive right now, which is due to the skills and industry mix. We need to work with those parts of the country that need additional Government investment and support for business.

Gordon MacDonald: My next question was going to be about how we support the areas that are not doing as well as the likes of Edinburgh, Stirling or Aberdeen.

On productivity growth, Scotland has eight industrial sectors, including energy and finance, that outperform the UK average. What steps will the strategy take so that other companies and sectors can learn and understand how business can drive productivity improvements?

Kate Forbes: There is a point to be made around businesses working with business. One of the actions to which we have committed is appointing productivity ambassadors. There has been talk in the past about productivity commissioners, but we chose productivity ambassadors, and their job will be to work intensively with key industries to drive productivity improvements.

As part of that, they will work internationally. They will build international networks and work with similar industries in other parts of the world to learn what are the key investments, perhaps in technology or workforce, to improve productivity. They will ensure that there is a particular focus on leadership in those key industries in order to improve productivity.

As you said, there are some industries that are significantly more productive than others by far. However, we must work with them because we cannot be content that they are more productive than other industries; they should be world leading on productivity, because many of them compete on an international stage and not a domestic one. We must also work with other industries—this point is well rehearsed so I will not list them—in which, to bring them higher, there needs to be more investment in reskilling, upskilling, digital, technology and innovation.

Colin Smyth (South Scotland) (Lab): Good morning, cabinet secretary. The Scottish Trades Union Congress has branded the strategy a "missed opportunity" to deliver a "transformative change", saying that there is not enough focus on improving pay and conditions in the foundational economy, which is the largest employer and an engine room of economic activity. Roz Foyer, who is part of the advisory council that you referred to, said:

> "this is more a strategy for economic status quo than economic transformation."

Why do you think the STUC is wrong?

10:00

Kate Forbes: The STUC makes a significant contribution on this issue, and I know that it is interested in helping us with delivery. On the launch morning, there were at least two representatives from unions, including one from Unite, who specifically said how pleased they were to see fair work built into so much of the strategy's work.

The programmes of action that we have chosen are based on evidence, but we recognise that economic growth and prosperity have a purpose, which is to ensure that we have a fairer and more equal society.

Some of the initiatives in the strategy are pretty pioneering from a Scottish perspective, not least building conditionality into support for business, ensuring that we focus on underrepresented groups and ensuring greater payment of the real living wage across our economy. Those are all in line with the STUC's requirements. We are committed to developing sectoral fair work agreements with industry and to working with trade unions.

There is a lot in the strategy that will deliver what the STUC and others have looked for regarding fair work and greater equality.

Colin Smyth: When the general secretary of the STUC says that

> "this is more a strategy for economic status quo than economic transformation",

there must be things missing from the strategy.

Kate Forbes: What do you suggest is missing?

Colin Smyth: We should go much further with conditionality in areas such as trade union access.

You mentioned one big issue that trade unions are deeply concerned about, which is jobs in the supply chain. You highlighted offshore wind. The former First Minister, Alex Salmond, said that Scotland would be the "Saudi Arabia of renewables". The Government promised that there would be 130,000 jobs in renewables. The most recent figures from the Office for National Statistics show that that number is 20,500 and that it is actually falling. Why has the Government failed to meet those targets? If we are focusing on delivery, what is your new target for renewable jobs?

Kate Forbes: The Bank of Scotland and PWC would disagree with you. Both of them have referenced Scotland as leading the way in the creation of green jobs. In the UK, the greatest opportunities in the green economy are already here in Scotland. That is not wishful thinking for the future; that is in the present.

Our commitment, which comes through loudly and clearly in the strategy, is to a just transition. Great economic opportunities are emerging. I have already referred to some of them, such as ScotWind. We must do that transition fairly. We have moved a significant distance on conditionality, with a commitment to embedding conditionality by this summer. We also recognised the importance of sectoral agreement and of trade union recognition. Those points will ensure that the transition, and the significant economic opportunities, are underpinned by a fair-work approach.

Adam Reid may want to come in on the subject of fair work.

Adam Reid (Scottish Government): As the cabinet secretary said, the plan is clear about applying fair work and conditionality, including really effective channels for worker voice. We will be taking that forward as part of the delivery of the plan. We can give the committee more detail if that would be helpful.

Colin Smyth: To come back to the issue of jobs in renewables, you said that we are leading the way. Your Government promised 130,000 renewable jobs by 2020, but the ONS figures show that we have a sixth of that number of jobs and that the number is falling. I am keen to know why you think that we are leading the way if we are so far behind your Government's target for renewable jobs. The trade unions are very concerned about supply chain jobs. What is your new target for renewable jobs if you are so far from delivering the target of 130,000?

Kate Forbes: I quoted two independent analysts.

Colin Smyth: I quoted your target and I would like to know why you failed to meet it.

Kate Forbes: We can consider and defend what was said by the Bank of Scotland and in the "Green Jobs Barometer" that is published by PWC.

We are doing quite a lot of work in Government at the moment to measure green jobs. There are narrow ways of measuring green jobs, but a lot of jobs that could be classified as green are being established and created in a number of industries.

For example, I recently met one of the largest real estate businesses in the world, and it can reference a number of jobs that have been created, including as a result of work in Scotland, that directly contribute to making non-domestic properties net zero. At the moment, jobs such as those are probably not classified as green jobs, but they contribute to making the country as a whole net zero. Our approach through the strategy is to ask where the challenges are, meet them head on and ensure that we build a more robust supply chain.

Colin Smyth: It would certainly take a leap to go from 20,500 to 130,000 jobs just by changing the definition. I would be keen to hear what the Government's target actually is, however you define it.

I will briefly raise a final issue. I have previously raised the issue of the cluttered landscape that businesses and organisations face when they seek support, which was highlighted by Audit Scotland. You changed the name of the Enterprise and Skills Strategic Board; I think that you now call it the snappy "national strategy for economic transformation delivery board", which you will co-chair. If I am a business that is getting on with the day job and looking to see where I am best placed to get support from all the various organisations, how does the strategy make that less cluttered? You are obviously not removing any of those organisations, so what has changed from that very cluttered landscape that businesses keep referring to?

Kate Forbes: There are two things. First, the access that businesses have to support will change. It will be more streamlined, in that it needs to align with what our strategy says—for example, there will be changes to conditionality and to the things that we focus on. There will inevitably be changes to the support that businesses receive. In relation to that streamlining, as soon as anything is stopped, I guarantee that people, whether it is Colin Smyth or somebody else, will be posing questions to me about why we have stopped certain schemes and initiatives and so on. Inevitably, one of the by-products of streamlining is that you bring everything into one place and by default, things might have to change. If the Parliament believes in change, I hope that members remember that in the future, when considering the schemes that are available. Some of the schemes will have to change or will be no more, because we have adapted our approach.

The second thing is that there is support that is provided by, for example, the enterprise agencies that is not specifically grant support and is not about accessing funding. Again, the enterprise agencies will align all their activity to the actions and objectives that we set out in the strategy. It will be very clear to businesses what the enterprise agencies are doing, what they are seeking to achieve and the opportunities that come from getting on board with that.

The Convener: Thank you. I am going to make some progress now. I call Colin Smyth to be followed by Alexander Burnett. [*Interruption*.] I apologise—I meant Colin Beattie.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Ah—both the Colins are handsome people.

Cabinet secretary, there has been some criticism that the strategy does not quantify the benefits that each project is expected to deliver or how it will directly link into the higher-level ambitions and the vision for the Scottish economy in 2032. How far will the delivery plans, which will be finalised in six months, go to flesh out the strategy?

Kate Forbes: The delivery plans will definitely flesh out the strategy, and as we have already said, we will make sure that there are clear metrics in those. We have set out, at high level, what we think the contribution to the Scottish economy will be over the next 10 years, but as Gary Gillespie said a few moments ago, some areas are, by their nature, more difficult to measure and define, particularly the opportunities that come with new markets. We are still at an early stage in relation to that. In other words, some things are easier to model than others. There is certainly a graph in the 133-page analytics paper of the overall contribution to the Scottish economy.

Some areas are easier to define than others. For example, when it comes to our export strategy, we will know what success looks like and, when it comes to fair work, success will be building in conditionality. Some things are easier to quantify and others are more challenging, and we will set out the metrics in the implementation strategy.

Colin Beattie: I have a slightly different question. In the past day or so, I saw a figure that showed unemployment in Scotland at 3.8 per cent. I seem to remember an economist saying that, when we get to 3 per cent, we are effectively at full employment. We have significant labour shortages in certain areas, but the strategy sets out our ambition for new start-ups, expansion of information technology capabilities and an increase in exports, all of which need labour. To what extent will our inability to control our borders with our own immigration policies impact on us? Where will we find the labour that we need in order to carry out all those new strategies?

Kate Forbes: Compared with other independent Government strategies, this strategy is unusual. We did some comparison work, and pretty much all other international, independent Governments have far more tools and levers at their disposal. Macro, fiscal, economic and monetary levers are all reserved. Trying to build an economic strategy is quite remarkable when, for example, we do not have any control over migration, the vast majority of tax powers, international trade and some regulation.

You are right to say that our unemployment rate is 3.8 per cent, which is lower than the UK's unemployment rate. From that perspective, accessing additional labour is hugely challenging in a country that has always welcomed inward migration and that now has a demographic outlook that indicates that we absolutely need to build and extend our working-age population. It is a huge challenge.

One of the actions in the strategy is around talent attraction from the rest of the UK. To date, Scotland has done very well on that, but we need to do even better because, right now, our businesses and industries are crying out for labour. There is an acute labour shortage, but we have no capacity to manage visas or ensure that, once we have attracted individuals, there is an easy route for them to get here.

Colin Beattie: You highlighted a number of areas where there are constraints on what we can do, because of matters being reserved. Given our ambitions, is there any prospect that there are areas where the UK Government might support those ambitions and the vision that we have in Scotland?

Kate Forbes: I think that the chance is slim, but it is worth trying. To go back a year or so to Mark Logan's review of the opportunities for the tech industry in Scotland, as an independent individual—not a politician—he set out clearly the need, for example, to have a tech visa. In my conversations with them, many industries talk about the need for industry-specific visas. That is not something that I can grant but, in the engagement with the UK Government, there has been no appetite or willingness to consider sector-specific visa arrangements for the tech industry, for example.

Thus far, I do not think that there has been much progress, if any. Even in industries where the issue is UK wide, we have not seen huge progress and, right now, the current discourse around refugees and migration suggests that we have a long way to go before making progress.

The Convener: Thank you. We have to make some progress. Alexander Burnett is next, to be followed by Fiona Hyslop.

10:15

Alexander Burnett (Aberdeenshire West) (Con): My question is about measurement of labour, particularly of the underrepresented groups that the cabinet secretary referred to earlier. First, may I ask about comments in your opening statement? You talk about seeing now how important delivery is. Why was delivery not seen as important until now? In your answer to Jamie Halcro Johnston, you blame the private sector's having agency for lack of delivery. What responsibility lies with the Scottish Government for the lack of delivery over the past 14 years?

Kate Forbes: It is quite a stretch to suggest that I am blaming the private sector; that is a quite remarkable misrepresentation of my remarks.

I am not saying that delivery has not been a focus. In response to Jamie Halcro Johnston's and the convener's questions about what is new, I said that our evidence suggests that we understand what the challenges are but that the issue now is that we should focus ruthlessly over a 10-year period on delivering what we know to be the solutions to those challenges. As I said, that is not going to grab any headlines, but we know what we need to do, and we need to persevere in delivering that.

New opportunities have also emerged—not least in Alexander Burnett's part of the country—so the issue now is to ensure that we deliver on the supply chain that exists but needs to expand to meet Scotland's opportunities. Clearly, the supply chain is where we need to work with the private sector to maximise opportunities.

Alexander Burnett: Thank you. I will move on to the labour question. Unfortunately, our economically inactive population is larger than the UK average. I am not sure why and I do not know whether the cabinet secretary has an opinion, but it is obviously a historical matter. More important is that getting those people into work is particularly difficult, given the diversity of the group—you have mentioned underrepresented groups in the economy. How, therefore, do you intend to do that, and what measurements will you be able to provide for that group? Most importantly, how will you break down that larger group into subgroups, so that we can see what is happening and how things are working or not working?

Kate Forbes: The economic inactivity figures are well documented in the analytics paper. The most common reason that is cited for economic inactivity in Scotland is temporary or long-term health problems. We also have big contingents who are in full-time study and who have caring responsibilities. "Economic inactivity" is a catch-all term, so getting underneath that and understanding how we encourage those who can work into work is important. The commitment in the strategy is to remove more of the barriers and to simplify the employability system by implementing the "no one left behind" strategy.

It is important to say that the people who are furthest from the job market will require greater and more intensive investment to bring them closer to it. That is a commitment that we are willing to make, but it requires significant up-front investment and willingness to work intensively with individuals. We have set out that commitment—we need to do it.

The earlier question about the need to access skills demonstrates that we need to support into work as many people as possible, but we also need to understand what is preventing people from working. For some, it is the caring responsibilities that I mentioned in my earlier answer to Maggie Chapman. For others, it is full time study, which is good, and for others it is ill health. Given all that, there is quite a small group of people whom we need to work with to encourage them into work and to provide them with the support that they need.

Fiona Hyslop (Linlithgow) (SNP): Good morning. The focus on transformation and change means that you want to do things differently. There is a focus on the entrepreneurial aspect as well as on the need to be streamlined and focused on delivery. One of the things that is mentioned in the entrepreneurship section of the strategy is expansion to all sectors of the tech-scaler model. That model comes with a cost. Expanding it to all sectors will mean that it is not necessarily streamlined or focused, but it will have a cost, which will mean that other things will not happen unless you have additional budget. Will you unpack some of that thinking for us?

Kate Forbes: That is a great question. Running through all our budget discussions on the economy is our asking what we are going to do and saying let us do it really well.

We have set out our belief that entrepreneurial people and culture are among the key building blocks of economic transformation and that we will, therefore, prioritise them when it comes to funding and we will expand them. Alongside expansion of the tech-scaler programme, we will create pre-scaler hubs so that we engage much earlier with potential high-growth businesses. We are committed to that approach. We want to do it in partnership with the private sector, so we will prioritise it as we have already prioritised implementation of the Logan review.

You are right to say that, inevitably, that will mean that there are other things that we cannot do. That takes us back to my point to Colin Smyth: when we stop doing certain things to focus on what we have set out in the strategy, there will be questions. However, we have set out the blueprint in the strategy. That is what we want to deliver and it is what we are focused on delivering. Rather than trying to do everything under the sun, let us focus on where we think we will make the biggest impact and really shift the dial. That is what the strategy captures.

Fiona Hyslop: I am sure that, at some point, the committee will have to focus on what is not going to be done.

I will move on to questions about resilience in supply chains. "Delivering Economic Prosperity" is a 10-year transformational strategy. However, we are dealing, and will continue to deal, with the consequences of Brexit. We are still living through a pandemic. International security issues and the war in Ukraine will also have global economic consequences. Therefore, a resilient supply chain is more important than ever.

You focused your earlier remarks on ScotWind and the supply chain for new and developing industries. However, during the 10 years of the strategy, an important focus will remain on resilience in the bread-and-butter industries—our foundational economy. I refer to food and drink, engineering and construction, for example. What measures in the strategy will enable Scotland to build a more resilient supply chain overall to help us to ensure that we have economic security?

Kate Forbes: There is specific reference in the strategy—because we are post Covid, I guess—to the need to build in resilience.

On specific action, we are committed to expanding a programme that we already have and in which you are probably well versed: the supply chain development programme, which is about improving the capacity, capability and development of Scottish supply chains. It includes identifying and targeting Scottish companies that have the skills, capacity and capability to allow them to bid for, win and deliver contracts in key industries. That goes beyond ScotWind. The programme is about identifying intentionally such businesses and working with them to improve their resilience. Some of them might already be operating within the key supply chains, but others might not be and should be building their business more.

Identifying those businesses and working with them is a more intensive way of working than just waiting for the supply chain to develop its own resilience. However, after Covid, many supply chains are far more resilient than they were going into Covid because of the necessity for them to have adapted.

The Convener: I have a question that is connected to that. It is about the target that is set in the export plan to increase exports by 5 per cent to 25 per cent of gross domestic product by 2030. As Fiona Hyslop outlined, there are extreme pressures, such as Covid. We still have the hangover from Brexit and now the war in Ukraine is putting on pressure. Are you still confident about achieving that target? How will the plan have to change to acknowledge the situation that we are in?

Kate Forbes: We are still focused on that target. We carefully monitor the progress of the export strategy, on which my colleague Ivan McKee leads.

Gary Gillespie might want to answer the question about the impact on the export target, because his team have been doing extensive work on monitoring the impact of the war in Ukraine on our trading arrangements, as well as on our resilience as an economy.

The Convener: It would be helpful if Mr Gilliespie’s answer could be brief.

Gary Gillespie: Since Covid—and pre-Covid—there has been a change in how the global system works: supply chains have been shortened. Initially, that resulted from Covid in China, but supply chains have also been impacted by the Ukraine-Russia conflict. That is primarily because of continued disruption and increased commodity prices. Obviously, that feeds through into producer input prices in Scotland, and has a wider impact on the cost of doing business and the cost of living.

We monitor our exposure to economic sanctions and restrictions; through that, we can see that our trading world has become smaller. Scotland’s exports to Russia have been worth £245 million to £250 million, and our exports to Ukraine about £50 million. Similarly, our imports have been about £200 million from Russia and a smaller amount from Ukraine. The impact from those trades on our key sectors and parts of our economy is relatively small. Our imports and exports have been impacted more by Covid and our exit from the European Union, which is intertwined with the supply chain constraints that I mentioned.

The resilience of supply chains is now one of the top risks for businesses in Scotland, the UK and Europe, so the focus is on shorter supply chains and on investing in and understanding those supply chains. The food and drink supply chain sets a good example for Scotland; it is a strong supply chain that is built on a lot of the natural capital that exists. That industry is keen to understand how resilient its exports are and how they feed through.

The current situation in Ukraine and Russia means global growth is expected to slow this year. It will impact on trade—the estimate is that there will be around a 1 per cent fall in global growth—and it has the potential to increase global inflationary pressures by about 2 to 3 per cent. That will impact on domestic production through squeezing both the input and goods costs for consumers. There will be an immediate negative shock, but the global economy has gone through a number of those during recent years and it will come back from this one.

The Convener: Jamie Halcro Johnston—do you have another question on that?

Jamie Halcro Johnston: Yes, I have a brief question about supply chains. It has been reported that the former Minister for Transport, Graeme Dey, said £1.5 billion could be needed for replacement ferries. That could be an opportunity for shipbuilding, but contracts to build ferries have gone to Turkey—as you are well aware. How can the strategy support our shipbuilding sector and ensure that Caledonian Maritime Assets is looking at yards here—not only Government-owned yards, but others—and ensuring that procurement processes work, and how can the strategy work with the UK Government’s refreshed shipbuilding strategy?

Kate Forbes: We have engaged with the UK Government’s refreshed shipbuilding strategy because of its opportunities for Scotland, in particular. We also recognise that that is one of the most powerful arms that the Scottish Government has for procurement at a time when public finances are not plentiful as the Chancellor of the Exchequer tightens the purse strings, post-

Covid. Quite clearly, there will be opportunities for ferries—in Scotland and outwith it—when those links are developed.

However, to cut a long story short, I note that procurement is a key arm. It is an area that we reference alongside our spending power to create new opportunities for Scotland, and it goes right to the heart of developing a supply chain. Under project 6 in the strategy, which is on development of Scottish supply chains, we specifically talk about our strategic approach to public ownership, so that public companies are managed, developed and initiated for the public good. That relates to what you asked about.

10:30

The Convener: I will bring in Michelle Thomson for a closing question.

Michelle Thomson (Falkirk East) (SNP): I was interested in what you and Gary Gillespie said about exports and evidence of impacts that is still to emerge. Perhaps inadvertently, Gary gave a very good explanation and reminder of why proximity in relation to trade is vital. I understand that we will see the global impacts of the geopolitics that is going on unfold, but in relation to proximity impacts and our trade with Europe, do you have a sense, in numerical terms, of the additional costs that have been incurred as a result of Brexit? How will those additional costs impact on the development of resilience in supply chains? Brexit is on-going and is important in relation to proximity. Do you have any further reflections on that?

Kate Forbes: I will prime Gary Gillespie, in case he wants to come in with additional analysis about additional costs.

Certainly, the anecdotal feedback from businesses, particularly smaller businesses, is that higher costs and increased bureaucracy have impacted on trade. They seem to be disproportionately affecting small and medium-sized enterprises that had previously been able to trade in and of themselves. Some larger businesses are able to access markets more easily, but there are increased costs.

If we go back to the questions about how we improve our productivity in our economy, I note that one of the most significant opportunities is through increased exports. That is why our export plan and the 25 per cent target are so important; there being additional costs of accessing one of the largest trading blocs in the world does not help with that.

Gary Gillespie might have some analysis on EU exit.

Gary Gillespie: We are looking at analyses in order to try to disentangle the impacts of EU exit and Covid; we are trying to break down how Covid and EU exit have impacted on Scotland's trade figures. We do that with a technique called synthetic control. We look at a peer group of similar-sized countries, model the impact that Covid has had on them and look at how they responded, and compare that to Scotland. From that initial work, we have picked up an additional negative impact on trade for Scotland over and above what should primarily have been the case from Covid. We are doing that work internally; I would be happy to share it with the committee in due course, once it has been finalised and shared more widely.

Michelle Thomson: It has been very brave to do a 10-year macro strategy. I regard it as a framework strategy, and have read the 118 pages of analysis underneath it. In relation to other important areas, the section on our financial services and fintech sector, which are of personal interest to me, includes Scotland's leading position in responsible and ethical finance. I am on the record as being fairly active in that area and in highlighting where lax governance has allowed extensive corruption in the UK. Very conservative figures put that at £290 billion—or 15 per cent of UK gross domestic product—every year, which is utterly shocking. My concern is the potential impact that that could have on Scotland's brand, which is viewed as being trustworthy, for Scots who do business around the world and for the country itself. Have you managed to consider that specifically, and have you looked at how we might heighten Scotland's brand profile to avoid issues around global corruption in relation to the City of London. Can you reflect on that?

Kate Forbes: That is a big focus for us. The brand is identified in the strategy as one of our strengths and as one of the areas of greatest growth.

We already know that, in Scotland, we have more assets under management that is defined as ethical than would be our proportional share in the market. There has already been disproportionate growth in ethical financing, so there is a huge opportunity to position Scotland's brand as being distinct from that of the rest of the UK. That is largely because we have a well-known and well-regarded financial services industry in Scotland, and because we have, on our doorstep, significant opportunities to connect what our financial services are doing with our natural assets, for example. I refer to my point about the significant opportunities in that regard.

Just a fortnight ago, we launched the Global Ethical Finance Initiative with none other than Mark Carney, who was the keynote speaker and with whom I shared a panel. The issue is firmly on his radar, and he is conscious of the work that we are doing. We had a lot of interest from around the world in that launch and in what we are trying to achieve. Such initiatives set Scotland apart. Of course, we want to build on the legacy of COP26, in particular.

On the question about branding, we have set out a plan through the Global Ethical Finance Initiative. We are working on it, and we are keen to position Scotland as the home of ethical finance.

The Convener: Thank you, cabinet secretary, for attending this morning, along with your officials.

I suspend the meeting briefly while we change the panel.

10:37

Meeting suspended.

10:41

On resuming—

Scottish National Investment Bank

The Convener: The next item is an evidence session with the Scottish National Investment Bank. I welcome Willie Watt, who is the chair, and Carolyn Jameson, a board member, both from the Scottish National Investment Bank. I also welcome Liz Smith MSP, who has asked to attend the session.

As always, I ask members and witnesses to keep their questions and answers concise.

I invite Mr Watt to make an opening statement.

Willie Watt (Scottish National Investment Bank): I have a slight problem: I can either see all of you, or I can see my notes. I will concentrate on the notes as I read my opening statement.

Thank you for agreeing to our request to provide evidence to the committee; I appreciate it. I hope that this will be the first of many interactions with the committee. I am pleased to be here to speak about the bank's work and the progress that we have made since our launch at the end of November 2020. Carolyn and I will be happy to take questions on the work of the bank. She joins me in her capacity as a member of the bank's board and of its remuneration and nominations committee. She will introduce herself at the end of my comments.

I am sure that we will touch on many areas today, including our investments and the on-going work to establish the bank. I will give the committee a short update.

Since the bank's launch in November 2020, we have concluded 13 investments, totalling £191 million of committed capital. We have a strong pipeline and are currently considering 50 opportunities, which are spread across all the bank's missions and a wide geographical area. Those investments speak to all three of the bank's missions and are divided between direct investments in SMEs, project finance, and investments in externally managed funds.

To recap, the missions that were set for the bank by Scottish ministers are: supporting Scotland's transition to net zero; investing to improve opportunities for people and communities, which is our place mission; and harnessing future technology and innovation to build a more resilient, productive economy, which is our people mission. I am proud of the progress that we have made in developing the bank's investment portfolio while building up its operational capacity. The investments will deliver mission impacts across

Scotland and form a strong basis for the bank to operate as a key pillar of the Scottish economy.

As well as concluding investments, we have substantially grown our organisational capacity since the launch. We are now a fully functioning organisation with capacity and capability in all aspects of our business. We are well placed to continue the bank's journey as it becomes a key pillar of the Scottish economy and in broader civic society.

At the point of launch, the bank had a skeleton team that had been recruited predominantly on an interim basis or seconded from the Scottish Government. In the past 16 months, we have recruited a permanent team, which combines private and public sector expertise. The total head count is now 62.

10:45

We have created a professional investment process, in line with development bank and private sector impact investment best practice.

Since launch, we have been working hard to establish ourselves in the economic and investment ecosystem in Scotland, and we have made significant progress in building relationships across the public and private sectors, but there is still much that we can do in both those areas. Perhaps we can discuss that later.

I am fully aware that the recent resignation of Eilidh Mactaggart will be of interest to the committee, as will, no doubt, the process for recruiting her successor. As we outlined in the bank's public statement on the matter, Eilidh Mactaggart decided to resign from her position as chief executive officer at the bank for personal reasons, and she resigned on 27 January. She then made a statement on 5 March confirming that she had stepped down for personal reasons. The board respected her decision, and we are grateful to her for the contribution that she has made to the establishment of the bank. She was significantly involved in many of the achievements that I highlighted in my introduction.

We have not shared further details. As an employer, we respect Eilidh Mactaggart's decision and her request for privacy. As the committee is aware, she said in her announcement that she would like to spend more time with her young family and that she will go on to consider her future opportunities as and when she feels that it is appropriate. We have a duty of care to all our employees, past and current, and our policy is not to divulge information on confidential and personal employee matters. That is not just in relation to Eilidh Mactaggart. We entirely respect that team members have the right to privacy and that individuals place their trust in us as an employer, and we will not and do not comment on personal, confidential or private matters. We take that principle seriously.

We have confirmed that Sarah Roughead is now acting CEO, which will ensure that the bank continues to run as usual until the appointment of a permanent successor. Sarah is doing an excellent job, and as our chief financial officer she was already involved in all aspects of our business. We have a good team in place, along with robust governance and processes, supported by a strong board, so we believe that we are on the front foot as we move forward.

I will stop there. Before any questions, I will hand over to Carolyn Jameson who can introduce herself.

Carolyn Jameson (Scottish National Investment Bank): Good morning, everyone, and thank you for having me here. By way of introduction, as Willie Watt said, I am on the board at the Scottish National Investment Bank and, as part of that, I have a role on the remuneration committee and on the risk committee. In addition—in my day job, if you like—I am the chief trust officer at Trustpilot. Prior to that, I spent many years on the executive team at Skyscanner and then, after the sale of Skyscanner, I worked for Ctrip as its head of mergers and acquisitions. That is a little bit of my background.

The Convener: Thank you, Ms Jameson and Mr Watt, and welcome to the committee.

Mr Watt, as you set out in your statement, there is a recent resignation issue, which I am sure that some members of the committee will wish to ask about. I understand your role as employer, and you have set out clearly the parameters within which you wish to discuss the issue.

I have some questions about timescales. I am interested in when you, as the chair, were notified of the chief executive's decision to resign, when the board was informed, and at what stage the shareholder—which is the Scottish Government—was informed.

Carolyn Jameson: Eilidh Mactaggart resigned to Willie Watt on 27 January, and the shareholder was made aware on 31 January, which was also the day on which the board was made aware.

The Convener: Was the chair made aware at the same time as the board, or at a different time?

Willie Watt: I was made aware on 27 January.

The Convener: I will now hand over to the committee's deputy convener.

Colin Beattie: Are you confident that you will have a new chief executive in place at the start of the financial year?

Willie Watt: No, to be totally honest with you. I think that it will take some time to recruit the right person. We will need to ensure that we have a broad funnel to attract a wide range of potential candidates, and we will then want to go through a diligent process to ensure that we recruit the right person.

We have already started the process, but it will probably take until the second half of this year—potentially the end of the second half—before we have someone in place. That does not overly concern me because I have confidence in Sarah Roughead in her role as acting CEO and the fact that we have a strong team around her.

Colin Beattie: As a matter of interest, will the recruitment process include the use of headhunters?

Willie Watt: We will use external search consultants, who will enable us to broaden the trawl across a much wider range than would be possible just by advertising. It will allow us to target individuals who might have specific experience in other development banks, for example. It would be difficult for us to do that if we just put up an advert on LinkedIn or something like that.

Colin Beattie: Arising from that, I suppose that there is a certain interest in what the cost of the recruitment will be.

Willie Watt: Yes. We are identifying a set of firms that we feel have the right professional capabilities. I am sure that every member of the committee will agree that the role is extremely important, and we absolutely have to make the right choice. We will select a group of potential search firms that we think have the capability. We will then seek proposals from them, and we will evaluate those proposals, based on a combination of cost and capability. Value for money will certainly be a very important criterion in that selection.

The Convener: Before I bring in Jamie Halcro Johnston, I have a question. Given that the chief executive left with immediate effect, what impact did that have on the bank? You seemed to suggest that there has been no impact, but with such a post there would usually be a handover period, and you would know in advance that somebody was about to leave. What impact did the immediate resignation have on the bank?

Carolyn Jameson: The bank has coped remarkably well. Eilidh Mactaggart had built a very strong, high-quality team. Its members were left to pick up the reins, and they have done so very well. The board is pleased with what we have seen, and we have also been providing additional support to, and spending time in, the bank.

Jamie Halcro Johnston: Good morning to you both. I have a number of questions, all of which relate to the resignation, so I am happy to have one-word or “Can’t say” answers.

My first question is for Mr Watt. Did the chief executive’s resignation come as a surprise to you?

Willie Watt: Yes, I think that it would be true to say that that was the case.

Jamie Halcro Johnston: Were there are any efforts by you, or instructions from the board, to see whether there was any way that the chief executive could stay on, perhaps looking at the circumstances?

Willie Watt: Eilidh Mactaggart resigned for personal reasons. The board took the position that she was entirely within her rights to do so, and we respected that decision.

Jamie Halcro Johnston: You were comfortable that it was for personal reasons. There was nothing relating to the work or her relationships with the board, or anything like that.

Willie Watt: No—she resigned for personal reasons.

Jamie Halcro Johnston: My next question might be on an area in which you are not able to comment; I am comfortable with that. You said that Eilidh Mactaggart resigned on 27 January. Was an enhanced severance package or anything like that made available?

Carolyn Jameson: No. There was no severance package at all.

Jamie Halcro Johnston: There was no—I am trying to think of the correct term—non-disclosure agreement, gagging order or anything like that, so she would be quite available to speak.

Carolyn Jameson: No, there was nothing.

Jamie Halcro Johnston: Moving on a little bit, I think you said that the Scottish Government was made aware on the 31st. How was that done?

Willie Watt : There was a telephone call to the relevant civil servant.

Jamie Halcro Johnston: Was there any inquiry from them or anybody else about the reason for the resignation, or was it simply said that the chief executive had stepped down? Obviously, that call was made four days later, although I am not sure exactly which days of the week those were.

Willie Watt : Thursday and Monday.

Jamie Halcro Johnston: Right. Did the Scottish Government inquire about the reasons behind the resignation?

Willie Watt: We had a conversation and I relayed the various reasons to the individual.

Jamie Halcro Johnston: According to the timeline that you gave us, the chief executive was supposed to have stepped down on the 27th, but a statement was not made until 5 March. Your argument would be that it was a personal issue, but that is quite a long time for a formal response to come. Are you aware whether the Scottish Government or any of its agencies were involved in encouraging the chief executive to come out with something, or was the bank doing so? The cabinet secretary and the First Minister have made the point that you are making now—that the resignation was for personal reasons—but that had not officially been said. There was a kind of suggestion that there was a reason behind it. Do you know why that statement was made, why it was made so late and whether there was any encouragement to make it?

Carolyn Jameson: There was no encouragement to make that statement. Eilidh had resigned for personal reasons, and she had requested privacy. She then got in touch and told me that she would make that statement, so that I would know about it in advance. She was feeling uncomfortable about the scrutiny that she was seeing in the discussions that were taking place, so she made the decision independently to make that statement.

Jamie Halcro Johnston: It was her choice to make that decision and she was able to do so.

Carolyn Jameson: Yes.

Jamie Halcro Johnston: Okay. We have talked about the new chief executive. Will the Scottish Government or its agencies be involved in that, or is it just a matter for yourselves?

Willie Watt: The recruitment and selection process is a matter for the board of the bank. The final decision to appoint is a matter for Scottish ministers. The cabinet secretary will have to be happy with the appointment, and our job as a board is to bring the best candidate that we can find for the role to the cabinet secretary.

We will be running the process. We will take into account best practice for public bodies in that regard, and we will seek to apply the bank's equality and diversity parameters to make sure that we do that in the right way. It is a board matter.

Jamie Halcro Johnston: It is a board matter, and the board's final choice will be put before the cabinet secretary for appointment.

Willie Watt: Yes.

Jamie Halcro Johnston: There will be a number of options.

Willie Watt: No. We would not be doing our job if we came up with two or three options. It is our job to make a decision. Of course, the cabinet secretary can decide not to confirm that individual, but I would hope that she would trust our judgment.

Jamie Halcro Johnston: You have not had any interaction with regard to—

Willie Watt: None whatsoever.

Jamie Halcro Johnston: So it will be your process and then that person—

Willie Watt: That is correct.

Jamie Halcro Johnston: I am conscious of time, so I will stop there.

The Convener: Thank you. We are essentially repeating the questions that were asked by Mr Beattie. I will go back to Mr Beattie, however, as he has a couple of questions to ask on broader issues.

Colin Beattie: Moving on to something that is a little less sensitive, I realise that these are early days yet for judging the success or failure of the investments, but I am going to ask you just the same. You indicated that you have £191 million invested in 13 projects or companies. How were those opportunities identified, and what selection criteria were used in the decision to invest?

Willie Watt: The first thing to say is that there was pent-up demand. Obviously, the investment bank had not existed previously, and the things that it does are different from what enterprise agencies and other elements of the public infrastructure do, so there is a lot of inbound demand, and we are open to people coming to us with opportunities.

11:00

We also get referrals from the enterprise agencies—they are an important source of opportunities—as well as the private sector and their advisers seeking to raise project finance or finance for SMEs. Those have been the prime sources of opportunities.

Going forward, we want to make what we call outbound origination more prevalent than inbound. That means taking the missions and seeking out opportunities that we feel fit with those. For example, we have identified the area of the decarbonisation of heat. It is a massive problem for us in Scotland, it is hugely expensive, and it will require a lot of private sector capital. Having said all that, we need to start to target projects and companies that we think can contribute to that and engage with them directly. We want to do more of that in year 2 of the bank's existence than we did in year 1.

With regard to how we assess opportunities, we start with a mission fit. When an opportunity comes to us, we ask whether it fits with one of the three missions. Sometimes, it fits with all three, sometimes it fits with two, but it must fit with at least one. We then look at the sort of impact it will make on the mission objectives. The second criterion is whether there is a commercial investment opportunity that makes sense for the bank. The bank is not giving out grants or making sub-commercial investments. It is making investments on which we expect to get our money back and make a positive return that will go into the bank's coffers for reinvestment. The third element is our state aid compliance. We cannot crowd out the private sector, and we have no wish to do that. Therefore, if the private sector can, should or wants to do something, we will step back. I like to see the process as three rings: the missions, commerciality and state aid, and our landing area is in the centre of those three rings in that overlap space. Every project we do needs to be in that overlap space.

Colin Beattie: I will not ask you to comment on individual projects or investments, but from the figures that I have, I cannot work out how much of the investments are equity investments in the business and how much is a loan. Of course, the intention always was that the bank would provide patient capital.

Willie Watt: Yes. The loan investments tend to be extremely long-term investments, so they are very much in the patient capital space, which will continue. We do some lending on what one might call project finance where there is an element of getting a project off the ground that the private sector will not or cannot provide. Some of those loans can be made on a shorter-term basis, but our equity investments are all made on a long-term basis. We are passionate about scaling up Scottish businesses. A lot of work has been done by Scottish Enterprise and the enterprise agencies generally on the business birth rate and early-stage investment. However, in Scotland, we need more scaling up of businesses. Carolyn Jameson's previous company, Skyscanner, was a great example of a start-up business that scaled up to employ hundreds of people and create a huge amount of value for the Scottish economy. Scaling up is important and it is a long-term process, so I envisage the bank making multiple investments over a period of three, five or 10 years in some of those companies as they get bigger.

Another issue that this committee will be concerned about is productivity. Scale-up companies make a much bigger impact on productivity, because they are more efficient, they have a greater reach within the economy and they create more high-quality jobs, so more tax is paid. That is very much a patient capital thing.

Finally, in answer to your question, the numbers on the loans and project finance tend to be quite big. For example, we put £30 million into helping to complete the new Aberdeen harbour development, but there are fewer of those big project finance loans. The investments in equity tend to be smaller—between £1 million and £15 million—but there are more of them.

Colin Beattie: I have one last question, which is about the performance of the investments. As I said at the start, it is fairly early days for the measurement of that, but do you feel that any of those investments are not performing? How are you measuring success? Is it by profitability, jobs or turnover?

Willie Watt: At the moment, we feel confident about the performance of all the investments that we have made, but they are recent, so one would expect that to be the case. We will not be doing our job if every investment that we make performs, because we need to take higher risks than the private sector, so we will have losses. Some of the projects in which we invest will not work. Private sector investment firms have losses, so we will have losses and we ought to have more losses than the private sector. There is no doubt that, over time, I will be coming to the committee to talk about investments that do not work but, as we stand at the moment, I am very comfortable with the positioning of the portfolio.

With regard to how we measure success, we use a number of measures that are tailored to a particular investment. In relation to project finance, it is very important to consider whether the project is on time and on budget. In relation to the missions, we put mission covenants into our investments, so whether the mission is net zero, place or people, there will be a commitment from the company to do certain things that relate to the missions, not to the commerciality of the investment, and we measure that twice a year. Of course, it is also important to measure the number of jobs that are created, the revenue that is generated and the profitability. There will be a suite of measures for each company. As the portfolio evolves, we will publish the sum total of all that in our mission report and in the way that we report on the performance of the portfolio from a financial perspective, as well as a mission perspective.

Fiona Hyslop: Good morning. You have already talked about the importance of the bank not crowding out private finance, and the fact that the role of the bank is to invest where the private sector is failing to provide sufficient finance. How can the bank ensure that it is investing in a company or project that would not get private investment? Can you give us an indication of where there is greater appetite from the private sector to invest and where there is less appetite? Within your Venn diagram, are there areas that you might look to target?

Willie Watt: Our subsidy control team looks at every opportunity through that lens and it operates separately from the investment team, so that there is no pressure on it. We seek written proof from companies that they have tried to raise private finance for that particular component but have not been able to achieve it. We also benchmark that with other banks and investment institutions that we think they might have spoken to. Essentially, we reference the opportunity and apply the framework of our state aid approval, then we compare where that company is with the state aid approval framework that came down to us from the European Union, before we left. Therefore, there is a separate, auditable thread that runs through all the subsidy control and state aid side. Further, we have debates in our investment committee, and members of our investment team ask whether something is commercial and whether there is somebody out there who will invest. We talk about that a lot.

On where the gaps are, it is an evolving picture. A reasonable amount of capital is available at the early stage of scale-up. In later stages, the private sector is capable of financing scale-up. However, there is a bit in the middle where there might be a role for the bank.

In technical terms, there is start-up funding, series A funding and series B funding. The gap between series A and series B is a place where I can see the bank helping companies to achieve the milestones that they will need to achieve in order to be able to raise the next set of capital totally in the private sector.

The private sector will finance most projects without the need for bank capital. We find that, if a project is very innovative or in an unproven technology, perhaps only 70 per cent or 80 per cent of the funding is available from the private sector, so there is a need for us to provide an element of that.

We provide either a foundation that enables a project to get going—the first £1 million is often the hardest to find, so we can provide that—or, when most of the investment is available but there is a gap, we can provide the keystone capital that makes the arch stand up. It is the piece that holds the other pieces of the investment structure together.

Those are some of the areas in which we have found ourselves.

Fiona Hyslop: I know that it is early days, but is there any evidence that the bank is attracting domestic and international private investment into Scotland? By its sheer existence, a development bank can provide a mission-led focus. Obviously, the bank is attracting interest but does it give outside investors confidence that there is something interesting going on in Scotland that they want to be part of?

Willie Watt: I think so. It is early days but there are projects that would not have got off the ground without our involvement.

The world of investment is global and capital is easily moved around, so it is important that we highlight the kind of projects that we think are investable. That is the reason why it is important that we have a professional investment capability. If we do not have that, we cannot demonstrate a level of professionalism that will attract private sector investors. I am often asked whether there is too much of an investment focus in our team but, if we do not have that, we cannot crowd in. The reason for the bank is to be a catalyst for the creation of more investment in Scotland—more than the £200 million a year that the Scottish Government has allocated to us.

However, we can do more in the future to be a champion of what is available in Scotland. There are good examples of development banks around the world that are good at that. We need to earn the right to be trusted. We are just new. People will not just trust us because we ask them to do it. We need to earn that right, and I like to think that, if we make good investments and demonstrate thoughtfulness and professionalism, we can become that trusted partner that will help to bring in external capital.

11:15

Maggie Chapman: Thank you for expressing your willingness to come back to us. I appreciate that and I know that others on the committee would appreciate regular engagement with you.

Following on from Fiona Hyslop and Colin Beattie’s points earlier, I appreciate that it is early days but I am interested in exploring the challenges that you face in meeting the strategic objectives. There will be a limit to the life of some of those projects, and challenges in relation to them. What do you need to overcome those challenges?

My next question is linked to that, although it deals with a slightly separate matter. Given the overarching purpose of the bank and its strategic objectives, it is clear that good examples of sustainable development are offered by the bank, but those projects—some more notably than others—could have negative social and/or environmental consequences. In your longer-term thinking about the life cycle of a project and the consequences thereafter, do you consider circular economy spin-offs or building in the initial aims across the full lifetime of the project?

Willie Watt: Yes. Those are very good points and they are the right things to think about. I will start at the end and go back to the beginning. We try not to invest in projects where we see disbenefits, if you want to call them that, in relation to the missions, but if you are going to renovate a hotel in the Highlands or pour concrete into a harbour in Aberdeen that is going to be a centre for offshore wind, you are in a sense having a negative environmental impact.

Intellectually, it is about the balance between positive and negative impacts, and the balance needs to be skewed dramatically towards the positive. It cannot just be a fine balance, because, as you suggest, we would not then be investing to the purpose.

We could be better at explaining our thinking on some of the investments that we have made, and maybe we were a bit naive about the need for a detailed level of explanation of the issues that might be behind your question. You will see in the future a lot more of that detailed thinking being made public about why an investment has been made and how what our thinking was in relation to those issues.

To be honest with you, we are still learning—we are all learning, are we not? There are unintended consequences of most types of activity and that is certainly true of investment activity, so we need to make sure that we are thoughtful about that. We need to take part in the debate and help to shape that debate. That is how I would respond to the second part of your question.

In relation to the first part of your question, there are lots of challenges around linking investment activity to the missions in the right way and avoiding the problems of competing with the private sector while investing in projects that are viable. That is why, in the future, we want to do more of our own origination and be in more of an outreach mode. We get so many inquiries that it would be quite easy for us just to deal with those. However, if we want to become more thoughtful about how investment can help to solve the problems that underlie the missions, we need to go out and find things in a more positive way. If I were sitting here in a year's time having this conversation, I would like to be able to give the committee more evidence of where we have done that.

I hope that that answers your question.

Maggie Chapman: That answer is really helpful, and it highlights why I linked those two points. I was thinking about the ability to see the connections between negative or detrimental consequences and supporting those who can mitigate such consequences, thinking about the circular economy in a way that we have not seen previously with this type of strategic investment. I look forward to your update next year.

Michelle Thomson: Good morning, and thank you very much for attending today's meeting.

I want to pick up on an earlier point about subsidies—Willie Watt referred to it, but then moved on. In your submission, you comment on the new UK subsidy control regime and note that, at this point in time, there is not really any clarity in that regard. Having followed up on that myself, I understand that there are some principles that may ultimately rely on legal challenges leading to precedent. That seems to be a very clumsy way of doing things.

I have two questions. First, have you had any further insights of which the committee might not be aware? Secondly, what impact might that approach have on your investments?

Willie Watt: That is a very interesting area for us, as you can imagine. Our approach to it is to say, "What do we know?" We know what our state aid approvals were in the context of European Union membership. The principles on which those were founded were sound, and we feel that they allow us to do pretty much everything that we want to do. That is foundational for us.

It is not unreasonable that there should be a period of uncertainty around what the UK Government's position on state aid will ultimately be. I suppose that the Government in Westminster left the European Union in part so that it could have more flexibility around things such as state aid, so I do not anticipate—although I could be completely wrong—that the state aid landing zone in a UK context will be more problematic for the bank than the current state aid position. Nonetheless, in this current period of uncertainty, we are sticking with what we know—and that is UK Government guidance, too. I do not think that we are doing anything that would be out of the ordinary in a broader context.

We would all like to have more clarity on that matter, but that is not something that we can directly influence.

Michelle Thomson: I want to pick up on another issue that we touched on earlier: that of risk relative to innovation, which is one of your guiding mantras. It almost seems counterintuitive that, at present, when geopolitics is in a state of flux, there is a requirement for more innovation, including with regard to net zero.

How confident are you that you have landed it just right in the current climate? As you alluded to, if you only ever invested in Government bonds, you would always get a guaranteed return. There is a sweet spot, which I regard as quite challenging, given the nature of how the bank is set up and structured. Not everybody necessarily understands how that translates into risk appetite, and it is not all that common for parliamentarians to understand risk appetite. Do you have any further reflections, in the light of the current state of geopolitics?

Willie Watt: The situation is fluid, and there is not one answer that covers a significant amount of time. In the private sector, risk appetite flows in and out. There will be periods when we might look at projects for which there will be no requirement for the bank to act because the private sector's risk appetite will be higher, and there will be other periods when that risk appetite is lower and we will be active in a particular space. That situation might last for a few years and then change.

The situation is fluid, and it is something that we think about literally every day. It is a matter of judgment, and it will need to evolve over time. We will need to look at the investments that we make, assess those against the risk appetite framework, and decide whether we have been too conservative or too liberal with our risk budget.

With regard to the current geopolitical times, it is interesting, in many respects, to consider the drivers. I think that the missions are quite well thought through—although I claim no authorship of them—because they speak to fundamental issues in our economy. However, they also speak to issues that are highlighted by the geopolitical uncertainty that we currently see. The importance of the move to net zero is highlighted by the current volatility in energy prices. That has a knock-on effect on poverty and on our place mission, because the poorest in our society are least able to deal with that volatility.

The need for an innovative and vibrant business community that creates jobs is really important. The digital world and innovative companies tend to perform best in difficult times; they are more resilient in difficult periods. I would therefore expect a lot of the digital businesses that we back to continue to drive forward, despite all the current uncertainty.

We need to take all those things into account. Overall, that underscores the importance of the missions and the need to make progress on them.

Colin Smyth: Good morning to the panel. With regard to the bank's role in investing where the private sector is failing to provide sufficient funds, your biggest investment is £50 million in a forestry fund that is run by the asset manager Gresham House. I have to say that that firm has admitted to owning a management company in Guernsey, which is a well-known tax haven. Forestry is not short of people queuing up to invest, so where did you see a particular market failure in that sector that you needed to fill? I notice that your website says that the forest growth and sustainability fund is going to create rural jobs. How many jobs have been created so far as a result of that investment?

Willie Watt: I could not tell you how many jobs have been created so far; it is very early days for the fund. From memory, I think that the figure of 200 jobs, over a broader period, has been mentioned in the past.

With regard to what the market failure was in that sector, you are absolutely right to say that forestry is normally perfectly capable of getting investment from the private sector. The problem with that fund is that it involves a much higher percentage of new planting and a higher percentage of native species than has historically been the case.

11:30

The investment managers' thesis was that, in a period when natural environment regeneration and the planting of trees are becoming more prevalent, there would be demand for a fund that—as its title explains—is based on sustainability. They felt that it was likely to be attractive to investors because sustainability is very much what we should all be doing, but they could not find a cornerstone investor to get the fund up and running. Without that, there was no way that they could raise the rest of the money. The bank's role, therefore, was to be the cornerstone. As I said earlier, the first money is often the hardest to get.

There is a bit of a misconception about where the capital for that fund comes from. Most of the fund's capital has come from public sector organisations. The second-largest investor in the fund is a local authority pension scheme, whose members are local authority workers, and the third-largest investor is a state-run pension scheme. It is institutional, responsible capital that is investing on a very long-term basis to create more forested land in the UK and Scotland.

Colin Smyth: Even since you made that investment, the market has changed significantly. We now see a lot of private companies that—if we are being perfectly honest—want to buy up huge swathes of Scotland to plant trees, including native species, not for commercial planting but to offset their carbon footprint. Given that the market is changing, what mechanisms do you have in place to enable you to say, "Well, actually, we no longer need to have a role there," because the private sector—including green lairds and all sorts of interesting organisations—is moving in to buy up land for tree planting? Is there a mechanism for the bank to say that it does not need to be there, because the private sector is, rightly or wrongly, filling that gap?

Willie Watt: That goes back to Ms Hyslop's earlier question. We look at every opportunity with regard to whether or not there is a market failure, and we assess each opportunity on its merits. It may well be that we do not invest in another fund like that one, for the reasons that you have mentioned, but—

Colin Smyth: But you do not have a mechanism by which you can say, "Well, actually, we don't need to put that money there—somebody else will fill that gap."

Willie Watt: No, because at the time when we invested in the fund, there was a gap. We had identified that gap, and we felt that it was right to fill it. We very much believe in planting more trees in Scotland.

The scale of the requirement if we are to get to net zero by 2045 is huge; it is many billions of pounds. That relates to the forestry sector and to the decarbonisation of housing and transport. The fact that two or three companies have invested in some forestry since we made that investment does not mean that we have got to the end of what is required in terms of tree planting in Scotland.

Scotland and the UK have among the lowest tree cover of European countries. If you go somewhere such as France or Switzerland, you will see that there is far greater forest cover. We really need to think about that, and there is a role for the private sector, the third sector and the public sector in that regard. It is all about balance.

Colin Smyth: Sticking with the key role of achieving a just transition to net zero, which is one of your main missions, the Government has a fund—the energy investment fund—to support community and commercial renewable energy projects. Are you familiar with it?

Willie Watt: Yes, we know about that fund, which has an important role to play.

Colin Smyth: You say that it has an important role to play, but the Government is ending that fund at the end of the month. It has been £13 million a year over the past 10 years. A market failure was identified when it was set up.

In response to a parliamentary question, the Government said that one of the reasons why it is ending the fund is that

"There are new investment mechanisms in place, through the Scottish National Investment Bank, which supports the Scottish Government's strategic priorities to achieving our net zero ambitions."—[*Written Answers*, 11 March 2022; S6W-06172.]

Given that that £13 million-a-year fund, which is largely spent on community renewables, is being ended in a few weeks' time, what is the bank doing to support community renewables?

Willie Watt: Community renewables would certainly be within the scope of what we could invest in. We would apply exactly the same metrics that I explained earlier: does the project meet subsidy control, is there a good opportunity to get our money back, and does it meet the missions? A community renewables project would clearly meet the missions because it is about renewables.

We certainly support community-based investing, and we would certainly consider projects. We have a minimum project size of £1 million, so any project would need to meet that minimum requirement, but there is no reason why we cannot look at community-based renewables.

Colin Smyth: However, you are not actively investing in them at the moment. My concern is that the Government has said that the fund is ending and that the matter will land on your desk in a few weeks' time but, I presume, you do not have plans to invest £13 million in community renewables over the next year, so there is obviously a gap.

Willie Watt: I do not know whether there is a gap. You would need to speak to the Government about what it means by the cessation of that fund. If people have projects that they want to talk to us about, we are happy to talk to them. I do not know whether that means that there is £2 million of demand or £20 million of demand in community renewables, but we are certainly open for business with regard to community projects.

Colin Smyth: That is an important point.

Gordon MacDonald: Good morning, Mr Watt. I will ask about the bank's mission to address innovation. You have already talked about the need to improve productivity. How does the bank assess investment opportunities for innovation and what weighting is given to how an opportunity would improve productivity?

Willie Watt: That is a good question. When we think about innovation, we are usually thinking about doing things differently either in the digital world or the world of physical products. We are thinking about companies that are breaking the mould with regard to technology and software as well as hardware. Part of that is analysing the feasibility of those businesses.

Early-stage investment is primarily the home of Scottish Enterprise and the enterprise agencies but, where we invest at an early stage in innovation, it is about how practical what the company is doing is. It is then about the path to revenue growth. The annualised revenue from an innovative company is seen as a more important measure of its viability than its profitability is, because many innovative companies are not profitable or are marginally profitable because they are investing as much as they can in innovation.

There is a measure called economic value add, which tries to translate the value of innovation into pounds, shillings and pence. That is quite a good measure, because, although it is important that we have more early-stage companies, if they only do things that are already done well by existing companies, they are probably not addressing the productivity gap. Therefore, the viability and growth rate of companies in product and revenue terms are really important.

That will be associated with job growth. I have been in the investment world for nearly 40 years and, in my early days, most people in a company were employed by that company. Most companies did pretty much everything in-house, but that is not the case any more. The jobs that an innovative company creates include all the jobs in-house, which will grow, as well as all the jobs through the partnership relationships that the company has with companies and individuals in Scotland, the UK and across Europe. Therefore, we need to think about that ecosystem that surrounds each company.

I go back to the ability to scale up. We are doing this work so that companies can get bigger and make more of an impact, which is just more of everything. We need to figure out how we articulate all that in the way that we communicate with the outside world. We talked a bit about that with regard to the green space, but there is also the innovation space. We are talking to organisations such as the Hunter Foundation and other entrepreneurs who have been thoughtful about that whole space, so that we can help to encapsulate how it works better.

Gordon MacDonald: You commented on the need to make good investments. You also spoke about the bank's risk appetite. How do you balance the need to make good investments with innovation and the bank's risk appetite?

Willie Watt: We need to take more risk than the private sector. With every one of these innovation-type companies, there is the risk that it will not work, or that it will get to £1 million of revenue but will never get to £10 million of revenue. Alternatively, there is the risk that it works but cannot produce the thing at scale. There are all kinds of risks. The private sector wants to invest in such companies, and a lot of capital is available internationally to do that. We need to be earlier and bigger than the private sector—that is another way that we can take more risk—or we need to do the bit of the financing that the private sector does not want to do. That is all within the context of state aid and not crowding out somebody else, so it is complicated.

As I said in my introduction, we should be losing money. We would be nuts to think that we should be losing a lot of money, because we want the fund to compound so that we can invest more in the future, and we cannot do that if the loss rate is too high. However, if there is no loss rate, we are not taking enough risk.

We will be coming to the committee over the years and continuing to debate whether we are taking enough risk. There will be times when we will be criticised because something has gone bust and we are a shower of idiots, and there will be other times when we will be criticised because somebody will say, "Hang on, all your investments are successful. You're just doing what the private sector could have done and you're not taking enough risk." We have to get that balance right.

Gordon MacDonald: I have a final point on innovation. You said that you have invested £191 million in 13 projects. We have heard that your biggest investment is in forestry and that your next biggest investment is in housing. Of the 13 projects, which are your innovative projects so far?

11:45

Willie Watt: I think that we should send the committee a pie chart of where the capital has been invested, in relation to the three missions, to show the amount of money and the number of projects.

More generally, we have invested in R3-IoT, an innovative internet-of-things company in Glasgow that uses sensors to measure the performance of things from railway tracks all the way up to satellites. We have invested in smart battery technology that is designed to address low-carbon heat, and in a company that is selling innovative tidal turbines in Canada and, we hope, will soon sell into Indonesia. We have also invested in an innovative young business in the Borders that has come up with circular economy green insulation materials for buildings, and in one of the world's leading laser technology companies, which was a spin-out from Glasgow university. The company's strapline says that it produces the world's purest light. Those are some examples of innovations.

The Convener: A couple of members still have questions. I will take Alexander Burnett first, and then I would like Liz Smith, as a visiting member, to have a chance to come in. It would be helpful if people could be concise in their questions and answers.

Alexander Burnett: I have a couple of questions. Mr Watt, let us hope that we do not see you too often regarding individual investments that do not work. You mentioned the sum total. Does the bank have a benchmark in the banking sector that you measure yourself against? At what point would it be reasonable for the Scottish Government to set a target rate of return?

Willie Watt: Those are good questions, and we are working on both of those things at the moment. As I said, the issue of return targets for particular types of investments is a dynamic area, and it is a component part of the broader issue of target rate of return. At the moment, we are working on a paper for ministers on target rate of return. It is quite a technical subject, so we are being very thoughtful about that. We will have recommendations for Scottish ministers by the middle of the year, and we will produce a detailed paper that will deconstruct our thinking on that. The committee will probably find that interesting. The actual decision on target rate of return is for ministers but, as we are the technical experts, we ought to try and advise ministers as to what we think is right.

Alexander Burnett: Thank you—we look forward to that paper.

Your 2021 annual accounts show that just over 80 per cent of the bank's assets by value are held in investments with no quoted market rate price. Is it just at that point in time that the figure is so high? Obviously, it feeds into how difficult it is to measure your return when there is no market for what you hold. Do you envisage that figure coming down? Is there a target for what the figure should be?

Willie Watt: Most of our investments will be unlisted, because that is where the market failure is. In listed markets, there is less evidence of any market failure. However, having said that, there are benchmarks for innovation type investments and infrastructure investment returns, so we can benchmark the individual types of return, both in a development bank context and a private sector context. Those benchmarks should help to guide us on what the ultimate target rate of return should be.

Liz Smith (Mid Scotland and Fife) (Con): Mr Watt, from having met you before, I know that, when it comes to the very large sums of public money that the bank holds, you agree whole-heartedly that there should be full accountability and transparency about how the money is spent. In particular, you have said publicly and privately that the way that the public are made aware of the objectives of the bank and the direction of policy is extremely important. I want to be absolutely clear about whether, in the past year, the board was made aware of any disagreements between the then chief executive and Scottish Government ministers about the direction of policy or the objectives of the bank. If there were any disagreements, what were they?

Willie Watt: I am not aware of any disagreements about policy or the direction of the bank that are relevant to your question.

Liz Smith: In the past year, has the board been made aware of any disagreements at all, which are unrelated to policy and the direction of the bank?

Willie Watt: No.

Liz Smith: Was the board made aware of any concerns between the former chief executive and Scottish Enterprise?

Willie Watt: No. The chief executive worked with Scottish Enterprise. As you and I have talked about previously, we need to work out how all the organisations work together. We are the new kid on the block, so we have had lots of discussions to make sure that we are aligned with Scottish Enterprise, but there are no issues that are not covered by the normal discussions that you would expect us to have.

Liz Smith: Therefore, for absolute clarity, to the knowledge of the board, there has been no disagreement about any of the bank's operations or engagement with other stakeholders.

Willie Watt: Not that I am aware of.

Liz Smith: Thank you very much for that.

When you spoke to the Enterprise and Skills Strategic Board in August 2021, according to the minutes, you said that "part of the role" of the SNIB

"is to solve the lack of private sector investment in certain projects."

Your responses to Fiona Hyslop's line of questioning on the same issue were very interesting. Since that meeting, which was six or seven months ago, have your fears been slightly allayed? Is putting the money in becoming more attractive to the private sector?

Willie Watt: Do you mean generally putting money into projects in Scotland?

Liz Smith: Yes.

Willie Watt: It is a matter of degree, so it is difficult to take a point-in-time view of it. At the time of that meeting, the private sector had a high appetite for investment in low carbon, and I do not think that anything that has happened since then has changed that. Therefore, we are going towards projects that are at a very early stage or where there is a specific gap.

More generally, markets tend to be risk averse during times of heightened geopolitical risk, so it is conceivable that there will be a lowering of risk appetite in the private sector because of the events of the past few months. How do we learn about those things? We learn about them from how we experience projects. I am not sure that we have seen a spike in demand. It is probably too early for that. There has probably not been much change since what I said in August last year, but that might change now and going forward.

Liz Smith: On that theme, what do you feel that SNIB has to do in order to attract and help the private sector to become more engaged?

Willie Watt: We need to demonstrate that projects that the private sector thinks are too risky are not as risky as it thinks. The Green Investment Bank's investment in offshore wind was a really good example of that. The Green Investment Bank pioneered offshore wind and now it is all done by the private sector. Therefore, I would like us to find areas where we can show that it can be done properly. Ultimately, I expect us to step back and let the private sector get on with it. That is why, as investors, we need to operate at the highest professional level, so that we can demonstrate that.

I would like to find ways in which we could pioneer something in domestic heat. I do not have anything on the stocks that will do that but, if we could pioneer something in domestic heat that was perceived as investable by the private sector, that could be a phenomenal win. However, we are not there at the moment.

Liz Smith: That is helpful.

I have a final question. How often does the board meet?

Willie Watt: The board has four regular meetings a year. It also meets off site, on an ad hoc basis, whenever we decide that we need to meet, so in total it meets around 10 times a year.

Liz Smith: Are those meetings minuted?

Willie Watt: A call might not be minuted, but normal board meetings are all minuted.

Liz Smith: Thank you.

The Convener: When will this year's business plan be published? Can we expect it to be significantly different from the current business plan or will it be much the same?

Willie Watt: The business plan should be published before the start of the next financial year, so the plan should be published by the end of March.

The Convener: That is in the next two weeks, so it will be published quite soon.

Willie Watt: Yes. It will not be significantly different, but it will probably have a bigger emphasis on stakeholder engagement and the bank being outward facing. It is time for us to be more outward facing because, now that we have our internal house in order, we should be going out more aggressively into the wider world.

The Convener: Thank you very much. That brings us to the end of the evidence session. I thank both witnesses for speaking to us this morning.

11:56

Meeting continued in private until 12:10.

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@parliament.scot

The Scottish Parliament
Pàrlamaid na h-Alba