



OFFICIAL REPORT  
AITHISG OIFIGEIL

# Economy and Fair Work Committee

Wednesday 21 June 2023

Session 6



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**Wednesday 21 June 2023**

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**ECONOMY AND FAIR WORK COMMITTEE**

**20<sup>th</sup> Meeting 2023, Session 6**

**CONVENER**

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

**DEPUTY CONVENER**

Colin Beattie (Midlothian North and Musselburgh) (SNP)

**COMMITTEE MEMBERS**

\*Maggie Chapman (North East Scotland) (Green)

\*Jamie Halcro Johnston (Highlands and Islands) (Con)

Gordon MacDonald (Edinburgh Pentlands) (SNP)

\*Graham Simpson (Central Scotland) (Con)

\*Colin Smyth (South Scotland) (Lab)

\*Michelle Thomson (Falkirk East) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Al Denholm (Scottish National Investment Bank)

John Mason (Glasgow Shettleston) (SNP) (Committee Substitute)

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 21 June 2023*

*[The Convener opened the meeting at 09:32]*

**Decision on Taking Business in**  
**Private**

**The Convener (Claire Baker):** Good morning, and welcome to the 20th meeting in 2023 of the Economy and Fair Work Committee. I have received apologies from Colin Beattie and Gordon MacDonald; John Mason is attending in Gordon MacDonald's place.

Since our last meeting, Fiona Hyslop has resigned from the committee and has been appointed as Minister for Transport. On behalf of the committee, I place on record our thanks to Fiona Hyslop for her work in this session as a member of the committee. We send her our best wishes in her new role.

Our first item of business is a decision to take items 3 and 5 in private. We previously agreed that other items would be taken in private. Does the committee agree to do that?

**Members indicated agreement.**

**Scottish National Investment**  
**Bank**

09:33

**The Convener:** Our next item of business is an evidence session with the Scottish National Investment Bank. I welcome from the bank Willie Watt, chair, and Al Denholm, chief executive officer. As always, I ask members and witnesses to keep their questions and answers as concise as possible. I invite both witnesses to make short opening statements.

**Willie Watt (Scottish National Investment Bank):** Thank you, convener. I am pleased to be here today to talk about the development and activities of the Scottish National Investment Bank and to look ahead to our future priorities. I will shortly pass to Al Denholm, our recently appointed chief executive officer of the bank, for some introductory remarks, but before I do so I would like to make a few points about context.

This is an important phase for the bank as an institution. We have moved out of our start-up period and the bank is becoming an increasingly established organisation that is delivering solidly against our business plans. We are an independent development bank working for all the people of Scotland. Our capacity as an organisation to deliver insight, investment and impact has grown significantly over the past two years. We have developed a portfolio of diverse and innovative investments around the three grand challenges that the bank was established to help to address: the climate emergency, place-based inequality, and innovation.

This year has brought significant economic challenges. High levels of inflation have driven up business operating costs, a post-Covid hangover and the war in Ukraine have impacted the supply chains of companies in Scotland, and the overall economic climate has been challenging for companies seeking to raise investment. Raising capital has become harder for businesses in this environment.

Despite that context, we have continued to make progress. In 2022-23—our year end is the end of March—we have added 30 new investments to our portfolio and have provided extensive support to our investee companies through follow-on investments. In doing so, we have committed £221 million of capital in that financial year, which is a 56 per cent increase on the previous year. Our deployed capital was £152 million, which was an 18 per cent increase on the previous year. In 2022-23, we grew our income significantly to £10.7 million, up from £1.9 million the previous year, thereby greatly reducing the

taxpayers' commitment to cover our operating costs. We have made progress across the bank's activities, submitted our application for Financial Conduct Authority authorisation, significantly honed our approach to impact investment and, in 2022, we hosted impact investment and scale-up conferences. We have published thought leadership across a range of topics, including investment in scale-up companies and offshore wind supply chains. We have also concluded AI Denholm's appointment as the new CEO. The board and I believe that AI has the right balance of skills, experience and values to successfully lead the bank as it grows and develops in this coming year and into the future.

Before I pass to AI, I want to say a few words on Circularity Scotland. As the committee will be aware, in May 2022, alongside the Bank of Scotland, the bank agreed a debt facility with Circularity Scotland. Our £9 million investment was to fund the start-up costs for administration of the deposit return scheme. The announcement that the deposit scheme will not commence until at least 2025 created uncertainty, which has crystallised in the recent announcement that Circularity Scotland has now appointed administrators. Those developments will clearly have negative implications for the bank, but we also recognise that this is a challenging time for the staff of Circularity Scotland. We are now working with the appointed administrators to understand the implications for the bank's investment. I appreciate that the committee may have further questions on Circularity Scotland and we will answer those as far as we can. However, the committee will also appreciate that, as the bank is engaged in an on-going administration event, that might limit what we can say.

That said, I am pleased to have AI Denholm with me today and I will pass on to him to make some introductory comments.

**AI Denholm (Scottish National Investment Bank):** Good morning, convener and the committee. Thank you for the opportunity to introduce myself to the committee. I am looking forward to the discussion today and to working with the committee in the future.

By way of introduction to my background, I have worked in the investment industry for more than 35 years. Initially, that was with a subsidiary of the Royal Bank of Scotland, before I started managing investment portfolios and investment management businesses for a number of leading asset managers. That experience spanned Aviva Investors, Prudential, BlackRock, ING investment management, Insight Investment and Scottish Widows.

I have also led environmental, social and governance teams since 2000, and their

development has been something of a theme through my career. Over that time, I have seen ESG factors evolving from being considered by a minority of asset management institutions to being considered by most institutions, aided in part by the forward-thinking legislation and guidelines for asset managers from the Government and regulatory bodies and, of course, an increased societal awareness of their importance.

I have been in post since the start of May, so it is still early in my tenure at the bank. However, I have been impressed by the progress that it has made in such a short time since its launch. Seeing the bank's high level of ambition as a new impact-oriented institution, matched by its emerging track record of delivery, was a significant draw for me.

Looking forward, providing finance to address significant societal challenges such as the transition to net zero, addressing place-based inequality and driving up productivity through innovation across the economy will clearly not be easy, but I am excited to continue the progress that the bank has made to date. I see particular opportunities to build on the bank's developing reputation as an impact investor and to work with institutional investors to mobilise their capital to meet the key economic and societal opportunities that Scotland faces, effectively to crowd third-party capital into our missions. My ambition is therefore to generate great returns with great impact. I think we can achieve both in the years to come.

**The Convener:** Thank you very much. Members will want to ask about a range of issues, but you have raised Circularity Scotland and members would like to focus on that initially. The news of the administration came yesterday. Mr Watt, you have described your being in discussions with the administrators. Could you explain the impact of the announcement, what the timescale will be for any resolution to the situation and what the status of the £9 million loan will be going forward?

**Willie Watt:** The directors of Circularity Scotland had to make a decision as to whether they thought the business was viable going forward, following the delay to implementation of the scheme to 2025. They concluded that they did not have sufficient capital to deal with that delay, so they decided that they had no option but to call in an administrator. They have a statutory right to cease trading if they do not feel they have enough funds to carry on. The administrator will be working through the hierarchy of creditors that have been left by the situation, including the employees, trade creditors and the bank's loan. The administrator will report back with their view in the next short number of weeks.

We do not know exactly what that impact on our loan to Circularity Scotland will be, but it is fair to

say that there will be significant losses on it. We will report those losses once we know what they are.

**The Convener:** I want to go back to the start of the process and the awarding of the loan. The bank is independent from Government, but did ministers or Scottish Government officials make any representation to the bank about awarding the loan? Did any meetings or conversations take place?

**Willie Watt:** No. We felt that the circular economy was squarely within the net zero mission. We were approached directly by the company and we went through significant due diligence. There was no involvement from the Scottish Government in our decision to make the loan.

**The Convener:** Would you say that there was an expectation from the Scottish Government? When the loan was announced, there was quite a nice picture and press release that went out that included the minister, yourselves, RBS and Circularity Scotland, and it looked very much like a joint venture.

**Willie Watt:** It honestly was not. We make all our decisions totally independent of the Scottish Government. We are a fiercely independent institution. When we get things right, we get them right because we make those decisions. When things they go wrong, they go wrong because we make our decisions, and we stand by the decisions that we make.

There was no Government involvement. Clearly, we were aware of the support that the Scottish Government was giving to the scheme. There was an act of Parliament, there was cross-party support for the scheme and it was clearly central to Government policy, but our involvement was with Circularity Scotland. It was totally to do with Circularity Scotland, and the bank offered the loan. For better or worse, the Scottish Government was not involved in that decision at all.

**The Convener:** When you were here about a year ago, you described the process of investment and how proposals come to you. You said that you get referrals from the enterprise agencies. Did the enterprise agencies play any part in securing the loan?

**Willie Watt:** I do not think that that was the case. I think that the request came directly to us, but we can check on that and come back to you. I do not think that there was any enterprise agency involvement.

09:45

**Colin Smyth (South Scotland) (Lab):** In March 2020 ministers announced that there was going to

be a delay in the DRS scheme until July 2022. In December 2021 there was the announcement of a further delay until August 2023. There were numerous internal reports flagging up concerns about the scheme and there was widespread opposition from many potential customers. It does not say a lot about your due diligence process that, given all that, you thought in May 2022 that it was a good investment.

**Willie Watt:** The scheme was to recycle cans, bottles and plastics in Scotland as much as possible, and the scheme had the support of producers and retailers representing 90 per cent—I repeat: 90 per cent—of all recycling in Scotland. The large producers and the large retailers were committed to the scheme. There were, as you said, problems with small retailers and small producers. The delays to the scheme were not helpful, but the company was clear that the scheme would be viable. The big picture is that many countries have implemented deposit return schemes successfully. We felt that Circularity Scotland could do the same here.

**Colin Smyth:** When you made the decision, was the bank aware of the concerns about the Internal Market Act 2020? What was your take on that? Did you think that it was not a problem?

**Willie Watt:** The timeline of the Internal Market Act 2020 becoming an issue is something that we have detailed notes on, but the company itself had been in long discussions with the United Kingdom Government regarding the impact of the act. The bank's view was that the impact of the Internal Market 2020 was a hurdle that had to be got over, but we believed that that hurdle would be jumped and that permission for the scheme would be given under the act—as, indeed, it was.

**Colin Smyth:** So, when you made the decision to invest the money, you were fully aware of the fact that that hurdle needed to be jumped, so to speak.

**Willie Watt:** We were not as fully aware of the facts as we are now. Hindsight, of course, is a great teacher. The way that the 2020 act and the permission from the UK Government have played out is somewhat different from what we had expected, but we took the Internal Market Act 2020 risk into account in making our decision.

**Colin Smyth:** You said there will be challenges in getting the loan back. The reality is that Circularity Scotland has no income. You will not get the money back, will you?

**Willie Watt:** Circularity Scotland has some cash in its deposit. It also has other creditors. I think that I said in my opening remarks that there would be significant losses from the loan.

**Colin Smyth:** How do you define “significant”? From looking at CSL’s income, we see that nobody is paying any money into the scheme.

**Willie Watt:** I cannot answer that question in specific terms because we do not know what the result of the administrator’s work will be. How does one define “significant”? Would it be over 50 per cent? I am sure that the losses will be in excess of 50 per cent, but I hope that they are less than 100 per cent.

**Colin Smyth:** Are there any lessons from this for your due diligence?

**Willie Watt:** We will do a complete drains-up piece of work on how we looked at the investment, but Al Denholm and I have been through all the papers and all the approvals and we think that the bank team did a thorough job on the investment. Significant things have changed in the recent past, and those significant changes have led us to the point at which we are now.

**Graham Simpson (Central Scotland) (Con):** You say you did a thorough job, but if you had done a really thorough job, we would not be in this mess, would we? That is the reality. You should have foreseen the risks—[*Laughter.*]—ahead. You have described the Internal Market Act 2020—that is, having a scheme that works across the whole UK—as “a hurdle”. It is a pretty big hurdle and we have ended up with a company in administration. Is not it a fact that if you had done proper due diligence, you would not have gone ahead with the loan?

**Willie Watt:** No—that is not the case at all. We cannot know the future. I have been investing for about 40 years, and sometimes things do not turn out the way we thought they would. The important thing is to have looked at the risks and to have made considered decisions on the basis of those risks. Sometimes people make mistakes, sometimes people get things wrong, and sometimes the facts turn out to be different from what we thought they would be. That is part of being an investor.

I have sat at the committee before and said that we will make losses on investments: we will. We cannot always get things right, but Al Denholm and I will look at the lessons to be learned and will continually try to improve our processes. Sitting here before the committee, knowing what we know today and having gone through the detailed investment papers, I can say that I do not think that we were incompetent in respect of our diligence.

**Graham Simpson:** You could lose the whole £9 million, could you not?

**Willie Watt:** Yes, we could.

**Graham Simpson:** That is the truth of the matter.

**Willie Watt:** That is the truth.

**Graham Simpson:** The convener asked you about the independence of the bank. In terms of perception, it looks as though you did the Government’s bidding. It was a political project that was voted through by Parliament, so to get the scheme up and running was political. You have come in full square behind the Government and have put £9 million of taxpayers’ money in and have just admitted that we could lose all that. The perception is that you were doing the Government’s work for it.

**Willie Watt:** You might remember that the DRS legislation had all-party support when it went through Parliament.

When we were looking at the scheme, we perceived it to be a good scheme for the whole of Scotland. All that I can do is answer your questions honestly and say that the Scottish Government had no role to play in our decision-making. Either you believe me or you do not, but that is the fact. The Scottish Government is not involved in our investment decision making in any way. We are a development bank for all the people of Scotland and we are endeavouring to build an institution that has broad support. The perception might be as you outline it, but that is not the reality of how we make decisions.

**Graham Simpson:** That is why I deliberately used the word “perception”—

**Willie Watt:** Yes—absolutely.

**Graham Simpson:** —because perception is important. It is maybe not something that you often consider in the banking world, but perhaps you should.

I have a final question. Does Circularity Scotland have any assets? Does it own anything?

**Willie Watt:** It does not have significant assets. It has some cash on its balance sheet and that is its major asset, but it obviously has significant liabilities. It does not own much intellectual capital or equipment; most of that is leased or owned by producers.

**Jamie Halcro Johnston (Highlands and Islands) (Con):** Good morning, and congratulations on your appointment to your new role, Mr Denholm. I have a number of questions. I will make them quite quick—some are just for information.

You have referred to the money as a debt facility, but also as a loan. Is it the straightforward case that the £9 million is with Circularity Scotland? Was it money that it could draw down on or has it all gone to it?



**Willie Watt:** The money has been fully drawn down, but it was done gradually.

**Jamie Halcro Johnston:** When was the last withdrawal? Was it recently?

**Willie Watt:** We have that in our notes.

**AI Denholm:** The money was drawn down in two stages. I will send you the information.

**Jamie Halcro Johnston:** It would be helpful to give us an idea of exactly when it was drawn down. Was the second drawing down done at a time when there was real risk? It would be helpful to know that.

**Willie Watt:** Yes. We will find that out for you.

**Jamie Halcro Johnston:** Is there any other exposure for the bank from Circularity Scotland's being in administration?

**Willie Watt:** No.

**Jamie Halcro Johnston:** Is there any from other organisations that you have been involved with?

**Willie Watt:** No.

**Jamie Halcro Johnston:** Are there projects that you had in the pipeline and were considering that were reliant on the DRS?

**Willie Watt:** No.

**Jamie Halcro Johnston:** Okay.

When did you first find out that CSL was going into administration?

**Willie Watt:** Maybe AI Denholm could—

**AI Denholm:** It was on Monday.

**Jamie Halcro Johnston:** Monday?

**AI Denholm:** We were given a heads-up by the company that the direction of travel was that it would seek administration. It would have taken a number of days to work through the process, but that was when we first heard.

**Jamie Halcro Johnston:** That is the first time that the company said that it would do that, but had it intimated previously that it might consider it?

**Willie Watt:** It is fair to say that it had not intimated that it would do that. It had to consider all the options, of which administration would be one, but it is fair to say that it was trying to see whether it could continue as a going concern. That was the primary goal and primary objective until it was determined—sometime on Monday, I would guess—that that path was no longer viable.

**Jamie Halcro Johnston:** I certainly had contact from producers that had not heard that CSL was going into administration until yesterday, so you essentially had a heads-up before they did.

**AI Denholm:** There is a legal process in which a company appoints someone who will then go through a process. What I understand from lawyers is that that process can take around two days—not just in this situation. That is normal in the administration system, so that ties in with that timeline that you have just mentioned.

**Jamie Halcro Johnston:** It seems to me that it first became public when it was mentioned by the minister in the chamber yesterday. I certainly did not see anything else. That might follow the process, but other organisations had not heard. That might not be an issue for you, but it is interesting. You heard directly from CSL.

There was certainly what was described as a “begging letter” sent out to producers and retailers—I think last week—asking for more support to keep CSL going. Were you contacted about additional support?

**AI Denholm:** Over the course of the past week or so there have been discussions between the company and its various stakeholders and creditors, industry participants and us to see how things might move forward. Obviously we, as a senior creditor, were involved in those discussions and were aware that the company would reach out to other stakeholders to seek their support.

**Jamie Halcro Johnston:** Was SNIB not asked for additional support?

**AI Denholm:** We were not asked for additional support. We suggested that we would consider ways in which we might be able to help in the process, in trying to resolve the situation, but no additional support was asked for.

**Jamie Halcro Johnston:** How might you be able to help, other than by providing capital?

**AI Denholm:** One way in which we might be able to help is by thinking about whether it is possible to continue accruing interest on the debt, rather than have a cash payment, over the period until the situation is resolved. That would not mean an additional injection from the bank, but would help with cash flow over the period. That would be a fairly typical and normal thing for a creditor to consider.

**Jamie Halcro Johnston:** The hierarchy of creditors was mentioned. Obviously, that is something that the administrators will look at. Many organisations will have lost money—SNIB included. Some will be very small and will not be able to deal with the loss, given the other additional costs that they have had. Is it your understanding that SNIB is higher in the hierarchy of creditors than smaller organisations? Where do you fit in? Is there potential that you will be reimbursed at least some of the money ahead of

smaller organisations or other private organisations?

**Willie Watt:** The administrator will look at that issue. There are certainly creditors that rank ahead of the bank. We will be guided by what the administrator says. He has just been appointed, so we genuinely do not know. Obviously, we know that it is a bad situation and that, as you said, people will lose money, but we do not know the exact extent of that. Your central premise is correct; there will be small creditors that will lose out.

**Jamie Halcro Johnston:** I have just one more question, if that is all right. How will you review what has happened? You have talked about mistakes that have been made, and my colleagues have asked about due diligence. Is there a formal process, perhaps once the dust has settled, to formally review the matter?

10:00

**Al Denholm:** Clearly, this is the first loss that we have had. We need to go back and do a drains-up review of the decision-making process. I have, over the past week or two, started considering the matter just to get up to speed. I have seen that lots of very good high-quality due diligence was performed in time, and at the standard that I would expect of such an institution. It included a good-quality research, good discussions, good debates and good analysis of the risks and so on, including the mitigants of risks. We have a process that I consider to be robust.

As Willie Watt said, the final conclusion and decision-making turned out, with 20:20 hindsight, not to be the right answer or the right outcome. On first blush, however, the process was good, but we will review it. We will look, for example, into how much weight was given to some of the uncertainties. We talked earlier with Mr Simpson about the Internal Market Act 2020 and the fact that UK Government legislation was driving us in this direction. Is it reasonable to assume that that was something that we could rely upon? We will have to look at all such factors; they were all factors in our decision-making, as you will see if you go back to our initial decision-making process. There were some mitigants to some of the risks that we were facing.

**Jamie Halcro Johnston:** I would be grateful if you could provide the information on the money being drawn down.

**John Mason (Glasgow Shettleston) (SNP):** From the way in which you described the United Kingdom Internal Market Act 2020 and so on, it sounded like you just thought that that was a

minor hurdle that would be overcome. Is that the case?

**Willie Watt:** I would not say that. I would say that it was an important part of the decision-making process for the scheme to go ahead. However, the UK Government's approach to the 2020 act was evolving during the period in which we were making the investment. It had committed to a UK-based scheme. Throughout the whole period, the company was talking to the UK Government department—I think that it is the Department for the Environment, Food and Rural Affairs—that is responsible for the scheme in the UK context. As you probably know, the company felt that the scheme was viable even without glass. Therefore the impact of the 2020 act is significant, but the legislation in itself is not the reason why the company has failed.

**John Mason:** Were other banks lending as well?

**Willie Watt:** Yes, the company had a commitment from the Bank of Scotland to lend to it. However, as a commercial bank rather than a development bank, the Bank of Scotland would lend only once the revenue from the scheme started to flow, which would have been at the point of launch. We provided the working capital to get the scheme up and running, and capital would then have been provided by the Bank of Scotland at the point of launch, once the revenue from the scheme was turned on.

**John Mason:** Is no other bank involved currently?

**Willie Watt:** We are the only lender that has capital deployed in the company.

**John Mason:** Assuming that you lose money, would you consider suing the relevant secretary of state?

**Willie Watt:** No, I would not consider suing the secretary of state. I do not think that that would be an appropriate course of action. However, we will look at all the options that we have in relation to how we might take things forward, but that is not something that would be front and centre of my mind.

**John Mason:** You do not think that there is anyone else who you could get the money back from.

**Willie Watt:** I do not think so. As I said, we will look at every option, but there would be significant cost and risk around taking litigation action in this case. However, we have good-quality lawyers and good-quality legal advice in our organisation and will look at all options.

We take the stewardship of public capital seriously. This is a portfolio so there will be losses.

It is the net impact on the overall portfolio that we should be measured on, but that does not mean that we are not interested in routes to recover capital that appears to be lost.

**The Convener:** I think that Jamie wants to ask a follow-up question.

**Jamie Halcro Johnston:** It is to clarify an issue, convener. You said that Scottish ministers were not involved in the original decision to lend. Were reassurances received either directly from ministers or via CSL that the scheme would go ahead that might have influenced you, for example, in considering the second draw down?

**Willie Watt:** I think that it is fair to say that we took comfort from ministerial commitment to the scheme and from public statements that ministers had made about their commitment to it.

**Jamie Halcro Johnston:** Okay. Was that throughout the process and could have been around the time that you were making the decision about whether to authorise the second draw down? I realise that you said earlier that you will provide that information to us.

**Willie Watt:** I cannot reconcile in my mind exactly the timing of ministerial statements. Certainly a number of ministerial statements were made, which everyone in the room will be aware of, that were very supportive of the scheme, and there were sequential commitments to the scheme going ahead in a timescale that could have seen Circularity Scotland run the scheme.

**Jamie Halcro Johnston:** If a minister had said, "Look, we're concerned about the viability of the scheme and whether it will go ahead", might that have influenced your decisions?

**Willie Watt:** Yes.

**The Convener:** I have a couple of final questions on this subject. You mentioned the Bank of Scotland, did you mean RBS?

**AI Denholm:** No, it was the Bank of Scotland.

**The Convener:** RBS provided the initial sum of £9 million.

**AI Denholm:** No, the Bank of Scotland was the other bank that was looking to lend. RBS has not made any commitment.

**The Convener:** It was the Bank of Scotland—apologies. Actually, the press release that came out in May last year said:

"The Royal Bank of Scotland money will be used to fund the start-up costs."

To be fair, the photograph is captioned "Bank of Scotland", so I think there is a mistake in the press release, so apologies for the confusion.

It was the Bank of Scotland that invested £9 million along with the £9 million from—

**AI Denholm:** It was committing to invest.

**The Convener:** It was committing that amount, which would be provided once the scheme was operational?

**AI Denholm:** Yes.

**The Convener:** The Bank of Scotland is not involved in the administration process.

**AI Denholm:** Correct.

**The Convener:** Finally, I think that Mr Denholm has recognised that the description that has been given of the support and encouragement from ministers is something that the bank will reflect on. Is the project unique to the bank's investment portfolio, or is there a comparable investment in terms of the reliance on political statements and Parliament's support for an investment?

**AI Denholm:** Unfortunately, I cannot answer that because I am new in the job and do not yet know all the due diligence for all the 27 investments. If you do not mind, I will pass that one over.

**Willie Watt:** This investment was different as it was as a result of new legislation that created a new organisation run by producers and the industry. Therefore, by its very nature, it was more directly aligned with new policy than other investments that we have made. That is a factual statement. Obviously, all the investments that we make are linked to the grand challenges and missions that we have, but they are not linked as directly to an individual piece of legislation.

**The Convener:** Okay—thank you.

We will move on to other subjects. I again welcome Mr Denholm to the committee, which is his first appearance before us. In addition to what you said in your opening statement, I will give you the opportunity to set out what you see as the investment bank's priorities for this financial year.

**AI Denholm:** Thank you very much, convener. As I said earlier, I am very happy to be here, and am very happy and excited to be in this role.

The priority for us as a bank for this financial year is a continuation of the priority that we have had for the past couple of years: to take the mission statements that are assigned to us in the Scottish National Investment Bank Act 2020 and to deliver them on behalf of the people of Scotland. Those are about creating a portfolio of investments that will help to achieve the transition to net zero, helping with place-based inequality and supporting innovation. That does not change; what is specific to this year continues that process.

To give context, the bank is two and a half years old now. It is at a stage of its maturity in which, as Willie Watt said earlier, it is no longer a start-up. We are properly operating and looking at many investment cases and many opportunities, and doing due diligence on them. We have been set some financial targets for deployment, which we are seeking to deliver—they run to the tune of about £260 million this year—and we are working diligently to do that. This year, there will also be some additional draw down from investments that we committed to last year. The team is very focused on that.

As I am new to the role, one of the things that I want to do is to get up to speed with all aspects of the bank. I want to understand all the processes—clearly, that is pertinent to this discussion—understand the people, the policies and the stakeholder views, including in this room and of private companies if we are trying to crowd in third-party capital, and understand the other strategic objectives of our ecosystem. I am trying to make sure that we have the right people doing the right things, that they know how to deliver on that, and they are doing it in the right way and in a timely way, so that we are delivering on the financial commitments that we have been asked to deliver.

**Maggie Chapman (North East Scotland) (Green):** You have both spoken about the three missions of the bank. In addition to what you have outlined in response to the convener's question, where do you see the risks in each of those missions in the coming year?

**Al Denholm:** That is an interesting question because I see the opportunities, but I will try to think about the risks. I will quickly run through the opportunities then I can think about the risks.

**Maggie Chapman:** Yes—of course.

**Al Denholm:** One of the biggest opportunities in the transition to net zero is clearly, as we all know, ScotWind. It is a massive opportunity for us if we deliver on that. The risk is making sure that the supply chain is ready for that, which creates the opportunity for us to help. It is all linked.

With a reward, there is always a risk; they are two sides of the coin. There are other transition to net zero projects and opportunities as well, whether it be heat decarbonisation or hydrogen and so on. There are always risks to the opportunities, but there are always opportunities.

On place, that is about ensuring that we can focus on the things that matter to individual communities, and getting the word out there that we are focused on helping with that. We have been doing some things in social housing and so on, and will continue to do that. It is a case of making sure that we do not step on the toes of

other entities that are in that area and that we focus elsewhere, making sure that we work in the right way to deploy our capital.

Clearly, innovation is risky in itself, as you are looking at opportunities that are new. That creates risk, so we will be very carefully stepping through our due diligence on those. However, I do not see any specific overarching risks, which is why I answered the question the way that I did. Maybe I see it more as a nitty-gritty line-by-line risk.

**Maggie Chapman:** That is fine. I will take a couple of the things that you said and tease them out a bit more. You mentioned the risks around the net zero mission and the supply chain. Do you think that the Scottish Government and other actors have the right strategies aligned to ensure that you have the opportunities to make the investment in the supply chain to enable the outcomes and have the impact that you want to see? Do you see any gaps? For example, are you unable to do something in one area as something has not happened in another area?

10:15

**Willie Watt:** There are always things that can be improved. The problem with the ScotWind opportunity is, in part, that there are lots of uncertainties around technology, grid connections and the electricity price that might be associated with the development of the fields.

One area in which both the UK and Scottish Governments can help is the planning system. An interesting idea, which some countries have deployed, is to make the net zero planning decision one that goes ahead of other requirements in the planning system, so there is a presumption towards development for the net zero mission. That has worked well in places such as Portugal and western Australia. The planning system could aid the net zero challenge.

The speed of grid connection is an issue that many of you will hear about. That issue requires to be worked on. The investment decisions that require to be made if ScotWind is to be up and running towards the back end of the 2020s need to be made now, but there is a lot of uncertainty with investors. Whether you are a wind farm developer, an equipment manufacturer, a port operator or an investment organisation, it is easier to wait than to make a decision now. The bank is thinking about what our role could be to try to use capital to take some of the additional risk so as to crystallise decision making and enable that to be made at an earlier stage. Those are some of the areas that are relevant.

**Maggie Chapman:** We could probably explore some of those in a little bit more detail, but I will move on.

I appreciate that it is early days in the bank's life, but do you have the balance of investment over the three missions right? Do you see competing or disproportionate demand for investment or a lack of demand across those three? How do you balance that out?

**AI Denholm:** As I look at it, we have managed to deploy across all three missions so far, and I expect that we will continue to deploy. The key for us is to make sure that our teams are lined up to deploy in that way, and that we remember the balance and deploy in line with the balance.

Some of the investments in innovation might be smaller by nature of the risk, and some of the investments in infrastructure might be bigger. There is always a challenge in getting the pounds and pence balance right, but in terms of our objectives, we are focused on all three of those missions.

**Maggie Chapman:** Over the coming months, will you develop interim targets or ways of assessing success across each of those three, given that it is not just about the total sum invested?

**AI Denholm:** Exactly. We are very cognisant of the fact that, in effect, we have a dual mission. We have a financial mission and an impact mission, and we want to make sure that we are measured against both. One of the things that we are doing is making sure we get those non-financial measures—the societal and environmental benefits—very visible and measurable as well.

There are a couple of ways in which we are doing that. One is that we are not only investing in projects that ought to deliver that, but working with our investee companies to make sure that they are thinking about that as well. We are making those conditions on our investment and we are getting investees to feed back to us key performance indicators or key statistics on how they are doing there. It is very important to us to think about impact and not just pounds and pence, and get both right.

The other factor that we are focused on is getting a geographical spread to the extent that is possible and not just go for one region or another. That is something that we think about consciously, but we have to think about how to achieve that, because some regions, perhaps for historical reasons, have more opportunities than others. However, we might be able to do different things in different regions. It might not be one size fits all in all regions, and we are conscious of that as well.

**Maggie Chapman:** I suppose that along with geographic distribution there is also sectoral distribution—

**AI Denholm:** Exactly. That goes alongside the geographic distribution. I can give you one example of something that we have been very focused on and have funded recently. We gave funding to one of our investments for some of the rural communities in poorer districts of the country—I have forgotten the exact expression that we use for that—to make sure that we are helping to roll out broadband into those communities, which might not have been top of mind for some of the big providers in the past. We want to make sure that those communities are not forgotten.

**The Convener:** Before I bring in Jamie Halcro Johnston, I have a question that follows on from Maggie Chapman's questions.

Recent annual accounts notwithstanding, Circularity Scotland reported a small loss of around £4 million, which I understand was due to the re-evaluation of investments. Could you say a bit about how that was within tolerance and what that means for longer-term investments and the approach toward investments? What will the impact of the expected loss from that project be? At the moment it is sitting at £4 million in the annual accounts.

**AI Denholm:** It goes back to Mr Simpson's question. The maximum loss is our commitment, which is £9 million. We are hoping it will not be that much, and, based on our understanding when we put that number into our accounts, we did not think that £9 million would be the answer. That was a judgment based on what we knew at the time.

**The Convener:** Will that loss—whether it is £4 million or £9 million—have any impact on the overall investment programme of the bank or is that manageable?

**AI Denholm:** It is totally manageable within the context. When we look at the rest of the portfolio and think about how that is performing, we see that the total portfolio performance will more than offset that loss.

**The Convener:** Thank you. I bring in Jamie Halcro Johnston.

**Jamie Halcro Johnston:** I was interested to hear what you were saying to Maggie Chapman about the importance of geographic and rural distribution. As a Highlands and Islands MSP, I know that that is very important to my region. The broadband issue brought up nicely the question that I was going to ask. You are obviously supporting a roll-out, as is Highlands and Islands Enterprise, the Scottish Government and the UK Government. There are lots of different organisations involved, so co-ordination and working together are key. In what one of my colleagues and others have described as the

cluttered landscape of public lenders, how do you make sure that that co-ordination, collaboration and working together are done? There needs to be work done with local authorities as well—there are so many organisations out there. How do you make sure that that is done?

**Willie Watt:** It is a very good question. One way that we were able to help with that was with Lothian Broadband, which is a company that we have backed in that space, and Highlands and Islands Enterprise. We facilitated discussions in the Highlands between local authorities and HIE to make sure that where Lothian Broadband was going fitted in with the priorities in the overall Highland broadband strategy.

You are absolutely right that it is an incredibly cluttered landscape, and one of the core skills that companies operating in that space must have is the ability to navigate that. We can help organisations such as HIE and we can take an overview.

The company is good at finding the niche that Al Denholm talked about: the place where others are not treading. We do not get an impact or a commercial return if we go where others are going, so the company needs to go elsewhere. So far it has been good at doing that, but we have helped at the margins on that matter.

**Jamie Halcro Johnston:** That is good, because I know that there is a concern, particularly with things such as broadband, that the easy fruit is always picked rather than, for example, broadband being supplied for the house miles up a road—there are quite a few of them.

You have covered a little bit about how you will look at the corporate structure: how everything works in SNIB and what changes you that you might need to make for the structure to be more responsive or streamlined, or however you feel that it has to be. How much of a priority is that for you and what timescales do you have on that?

**Al Denholm:** When I looked at the corporate structure of the bank—bear in mind that I have 35 years' experience of institutional management—I recognised what I considered to be an institutional-style asset manager. It has all the right departments, all the right processes, all the right controls and all the right balances. It has an investment team, a risk team, a compliance team, a legal team, an ops team and so on. It has all the core components that it needs, which is very positive. It has been designed to be robust.

I do not think that I suggested that I would be looking at the structure. What I was suggesting was that I will be looking at some of the nitty-gritty processes with a fresh pair of eyes, to make sure that they are what I consider, based on my experience, to be as effective as they can be. As a

new person coming in, I am asking, "Does that look right? Is there something over there that can be improved on?", and so on. That is how I see the role.

Based on what I have seen so far of the investment process—we talked about Circularity Scotland—and from doing what I call kicking the tyres, I can say that the bank is doing what I would expect of an institutional asset manager and is going through the processes that I would expect. Might there be ways to do that quicker or more effectively? There might well be, but I need to get there. However, I do not see anything structural that is saying that there is something missing.

**Jamie Halcro Johnston:** There is the additional challenge that SNIB is not a traditional asset manager. It is a publicly owned bank that reports to the Scottish Parliament. How does that provide challenges, or is it too early to say?

**Al Denholm:** In response to your suggestion that the bank is not a traditional asset manager, the first thing that I would say is that it has the same responsibility as a traditional asset manager: deploying capital in a responsible way on behalf of its clients. That is no different from Scottish Widows or Standard Life or anyone else; we all do the same thing. The bank is no different from those others, which are doing their job to the right fiduciary standards.

On other aspects, such as stakeholder management, in the traditional asset management space you always have to report to clients on how you are doing. The bank has a different set of clients, including the people in this room, for example, and the Scottish taxpayer. We have to make sure we are reporting in the right and responsible way and answering all those questions effectively. We are set up to do that and we take those responsibilities seriously.

**Willie Watt:** I will add that an investment firm in the private sector would be accountable solely to the Financial Conduct Authority for its compliance and regulation. There is a compliance manual that relates to being a public body and, of course, we comply with that as well. There is added complexity in marrying our role as a public body and the accountabilities involved with our role and accountabilities as a financial organisation. It makes things a little more complicated, but that is what we have to do.

10:30

**Michelle Thomson (Falkirk East) (SNP):** Good morning. I want to explore three areas. The first is the equitability of the contribution of women, which is almost becoming a personal mission for me, having spent many years in various business roles and being up against all the barriers that we know

about. As is my wont, I had a quick look at the bank's distribution. I see that 42 per cent of board members, 33 per cent of executives and 28 per cent of investment leads are women. I do not know what the overall staff ratio is; perhaps you could enlighten me on that. What specific plans do you have to make things fair in that regard and to lead by example?

**AI Denholm:** Those statistics reflect the situation—you are right. Relative to the financial services sector, based on my experience, I think that we are in a good position with regard to our board and our executives. I have not done any benchmarking, but my perception is that we are in a good position.

One of the things that I have observed over the years is that, as an industry, the financial sector is always a bit lighter on investment leadership in that respect. It is not just our bank; if you went to any such institution in this city or in London, you would expect to see something roughly similar. However, in relation to our total staff, I think that we are relatively well balanced. One thing—

**Michelle Thomson:** I am sorry to interrupt, but would it be possible for you to send us those statistics so that we can monitor the situation regularly?

**AI Denholm:** Absolutely. We take all the things that you have raised—equality, diversity and so on—very seriously. We have our own equality and diversity policy, and we fit in with the Scottish Government guidelines for a non-departmental public entity. We are very conscious of and very focused on delivering those objectives. I—

**Michelle Thomson:** I will come on to that. I am sorry to interrupt, but I want to square off my first question about your specific plans to get to equitability. I absolutely understand that the whole infrastructure of the financial sector has traditionally been heavily weighted in a certain way, but I imagine that you have a leadership role that means that you can effect positive change, given your guiding mission. Do you have specific plans to get to equitability, and, if so, over what timeframe do you plan to get there? I am happy for you to write to the committee if you do not have all that information available just now.

**AI Denholm:** That is one of those questions that is difficult for me to answer six weeks into the job. I do not know all the background so, if you would excuse me, I will defer to Willie Watt.

**Willie Watt:** We have an equalities strategy, which covers the recruitment and development of people in the organisation. As AI Denholm said, we are well aware of the areas in which there is less equality rather than more. We engage with all our investee companies on equality matters, and we encourage them to develop equality policies for

their own businesses. The job of our internal equality group is to champion these things.

AI Denholm was being a bit modest. In one of his previous roles, he was responsible for transforming, through recruitment, the equality landscape in one of the organisations that he was involved with, and he did much better than the industry averages for, in particular, female representation.

**Michelle Thomson:** I look forward to hearing more about that. I am happy for you to write to the committee, given that AI Denholm is new to his post, but I gently give you notice that I will ask exactly the same questions this time next year.

**Willie Watt:** Please do.

**Michelle Thomson:** I will move on. I had a look at your interim equalities report, and I can see that there is still quite a gender gap in relation to the projects that are mentioned—the pay gap is 18.2 per cent compared with an average of 12.2 per cent. There is therefore still some way to go in relation to your projects. Only 13 per cent of board members across your portfolio of projects are women, which is well below the average. Are you applying any conditionality to projects in relation to equal representation? If not, why not? How will you break down those barriers in the wider environment?

**Willie Watt:** Our overall view is that a process involving encouragement and the creation of frameworks for people to do better is better than prohibition. We could say that we will not invest in any company unless it has a balanced board or a certain ratio in relation to equality statistics. The problem with that is that it would significantly reduce the number of investments that we make. That said, we think that such things are important. Diversity is important not just from an equality perspective but from a decision-making perspective. With each company, we try to have a diversity plan that encourages it to increase diverse representation at particular levels within the business. We speak to companies about that regularly, year on year; we do not just tick a box on a piece of paper and then move on.

**Michelle Thomson:** Does that mean that you are as aware of these stats as I am and that you have internal targets to improve them so that you can see the positive outcomes of your encouragement?

**Willie Watt:** Yes.

**Michelle Thomson:** When you are in front of us next year, will you therefore be able to provide input data and say, "We were there; now we are here", confident in the knowledge that I will ask about it?

**Willie Watt:** It certainly concentrates the mind to hear you say that.

**Michelle Thomson:** Excellent.

**Willie Watt:** If you have an equality strategy, you must wish to see year-on-year improvement. If you do not see year-on-year improvement, what is the strategy doing? As Al Denholm said, the challenge for us relates to how we measure impact. People are already looking at what the right measures are to measure impact and improvement. We very much take on board your point, and we will come prepared for that question.

**Michelle Thomson:** I will move on. I understand that the bank is still in a loss-making position—we know where you are in your journey. However, I found myself thinking about what will happen to profits when the bank starts to make them. My view is that it is very important that the bank is able to reinvest profits so that you can get to the scale that will effect change, but I know that the Scottish Government claws back money from the likes of Registers of Scotland and enterprise agencies. Have you considered what the position would be with the investment bank?

**Willie Watt:** That is a very good question. The bank was set up to be a perpetual institution for the people of Scotland that would become more helpful as time went on by reinvesting proceeds. Government accounting rules are not helpful in that regard, but we are talking to the Scottish Government about those issues.

We believe that it is imperative that solutions are found that allow the bank to become a perpetual institution, because there was cross-party support for that when the bank was launched. It will not be able to become that if return flows of capital are swept off the balance sheet and returned to the Exchequer. If that happens, we will always be dependent on state funding. It would be much better if the bank was funded through its own cash flow and did not require £200 million or £250 million a year from the public purse, but that can happen only if we keep our return cash flow. That is front and centre of our minds, and we are discussing the matter with the Government.

**Michelle Thomson:** I look forward to hearing more about that.

My last wee point leads on from that and is about impact. One of the points that I picked up from the recent report by the bank and the Good Economy, “Unlocking the potential of impact investing in Scotland”, was the lack of identity within the impact investment community in Scotland. The report makes various points about that. How do you see your role in establishing a proper impact investment community, particularly given Scotland’s strong hinterland in that regard,

which we might attribute to our history of ESG investment?

**Willie Watt:** When we convened that conference, we were surprised by the extent to which we were asked to help to convene an impact investing community. We think that we have a role to play in that regard and that we can do that. Sustainability and ESG investing go only so far; there is a need to move towards impact. In different ways, many members of the committee have asked how we ensure that we get not only financial returns but environmental or equality benefits. As a key investor, I think that the day for impact has come. Interestingly, even on a UK-wide scale, we are one of the largest impact investors. Broadly speaking, it is quite a new thing.

We plan to have another impact conference this calendar year. We plan to bring together impact organisations, and we will provide more thought leadership. You will see us talking about that a lot in the press. Our impact report is an important document because it allows us to socialise what we do to a much broader community.

We will also talk to the investment management and banking industry about these issues. There is more interest from that industry in such issues, too. This afternoon, I have a call with the CEO of one of the UK’s largest investment management firms to talk about this very subject. It is something that we are serious about, and you should expect to see a lot happening on it over the next year.

**Michelle Thomson:** Thank you very much.

**The Convener:** I have a quick question relating to one of Michelle Thomson’s questions. Is it possible to get an update on the development of the rate of return metrics that I understand the bank was developing?

**Willie Watt:** Yes. You might recall that the Scottish National Investment Bank Act 2020 talks about a target rate of return for the bank. We believe that it is important that we have a target rate of return. In a sense, that unifies the discussion around whether the bank makes losses or gains, how that all balances out and whether the bank is doing a good job. If we do not have a target rate of return, how will we know whether we are doing a good job?

It is important that, internally, we get the right balance between impact and financial return. Without having a target rate of return, we cannot do that. Having a target rate of return is therefore important, but such things cannot be measured over a short term. The 2020 act specifies that the Scottish ministers, not the bank, set the target rate of return. However, we are the experts on returns, so we have discussed with the Scottish Government what we think the target rate of return ought to be. We have looked at the UK



Infrastructure Bank and at other international development banks. We are in discussion with ministers on what the target rate of return should be, but it is for ministers to set it. I expect that ministers will wish to take that discussion forward and publish something in the next few months.

**The Convener:** We might follow that up with the Scottish Government, at the right opportunity.

**Colin Smyth:** The bank has expressed a desire to manage third-party capital. I think that you said in your opening statement that you had applied to the FCA for the relevant permission. What is the anticipated timeline for that process?

10:45

**Al Denholm:** The application is in with the FCA just now. The latest feedback that we have had from our compliance team that is dealing with the application—our legal team—is that it is on the case officer's desk at the moment. I am not entirely sure how long it will be on his or her desk for, but the application is being actively looked at. That is the process that we are in. We are waiting for the puffs of white smoke to come up at some point to tell us yes or no. We are in that area just now and we are actively engaging with the FCA on the application.

We think that being able to manage third-party capital is important because it represents a great opportunity to take the capital that the Scottish Government has allocated through the Scottish National Investment Bank Act 2020—£2 billion over 10 years—and turn that into a bigger number through crowding in third-party capital and applying multiples of that to the missions in Scotland. If we can crowd in as we have done with some of our investments so far—we have invested £400 million, roughly, and have crowded in £600 million through people coming in alongside us—and do that on a larger scale through being able to manage money for people, I think that that is a goal or aspiration that will benefit Scotland as a whole.

That is why the application is important. We are confident that our having the ability to manage third-party capital will enable a number of large institutions to come along with us in that structure. It is a structure that they would recognise of managing money on behalf of third parties. It is entirely standard in the industry.

**Colin Smyth:** Do you have a particular target for the volume that you are looking to manage? When do you anticipate that would start? Much will depend on your own balance sheet, so to speak, but when do you anticipate that starting, if permissions are given? What sort of volume are we talking about?

**Al Denholm:** When it comes to the actual volume, it is a case of “How long is a piece of string?” I do not mean to be obstructive, but that will depend on finding opportunities that other third parties think are attractive and want to come alongside with.

For example—this is just an example—we think that there might be an opportunity with ScotWind. ScotWind is a very high-profile large project that people might want to get involved with. We think that there might be some other opportunities in innovation areas as well. We want to explore that. We are thinking about how can we take forward our missions. They are attractive. As Willie Watt said, a lot of institutions are interested in doing impact investments now—they want to do that. How can we channel their interest into something that makes commercial sense?

Looking forward, if we do some crystal-ball gazing, I hope that, in a number of years' time, the third-party capital that we manage ought to be as big as—we do not have a specific target, but this would be a reasonable assumption—the capital that the Government has allocated to us, if we are successful and we get to line up the opportunities with the third-party interest.

**Willie Watt:** The way I would characterise it is that we cannot do it without the FCA's approval, but FCA approval alone is not sufficient to bring in third-party capital. We will have to demonstrate a track record. I think that Al Denholm's sizing of the opportunity is right, but it will take time for us to build up. It will be slower in the earlier years and then, I hope, it will—

**Colin Smyth:** Notwithstanding the fact that you need the permissions, what sort of timeline are we talking about? I think that you previously said that your aim was to start this by 2030.

**Willie Watt:** It is hard to put numbers on it. We are already talking to potential co-investors. We are already doing things with people as much as we can, within the context of not being FCA regulated. As Al Denholm said, we have brought in about £600 million of third-party capital alongside the £440 million that we have committed.

I think that you will see a gradual ramping up. It will take us some months after we get FCA approval to start doing things. That work is important to us and we will make sure that it is properly resourced, but I am not sure that I can give you a date by which we will definitely be doing £50 million or £100 million of third-party capital.

**Colin Smyth:** That is obviously crucial to the bank. You are on record as saying that the money that you have been given will be

“insufficient to crack the missions”

if you do not get the relevant permission.

**Willie Watt:** Yes.

**Colin Smyth:** Assuming that the FCA grants permission, are any further permissions or regulatory approvals required, or does managing third-party capital represent the settled state of the medium-term operation of the bank?

**Willie Watt:** The other route for bringing more capital to bear is to become a public body that is allowed to borrow on its own balance sheet. That requires the Office for National Statistics to give a particular permission. Most European development banks can borrow on their own balance sheets. Ultimately, we could have four pots of capital. We could have third-party capital, managed on behalf of commercial clients. We could have return flow, as Ms Thomson mentioned, around profits that we have made that we could reinvest. We could have Scottish Government allocations of capital. We could also borrow money ourselves from the market and then reinvest it alongside our other investments. That is what banks do.

There is a lot of potential for the bank to grow, but the hurdle of becoming an organisation that can borrow is very rarely overcome in a UK context. I think that the Treasury's view is that it wants to control the number of organisations that can independently borrow, so it does not allow that designation to be given lightly. In answer to your question, that is the other way that we could do it.

**Colin Smyth:** Okay. I anticipate that your success with the first application might be better than your success with the second one, but good luck.

I would like to go back to an unrelated point. It is a question that I raised at your most recent appearance before the committee. It is about the £50 million investment in the forestry fund that is run by the asset manager Gresham House. At the time, I raised the fact that your website said that that fund would create rural jobs. When I asked how many jobs it had created, you were not able to answer. Do you have an update on how many jobs that particular investment has created?

**Willie Watt:** No, but we can answer that question. We will ask the company. The schemes are going well. They are up and running, with the level of planting that was anticipated. The fund is doing what it is supposed to do, and there should be jobs associated with that work. We will report back to you on that.

**Colin Smyth:** Thank you.

**Graham Simpson:** I will follow up on that last question from Colin Smyth about the Gresham House forestry fund, because I looked at your website, which says that 60 per cent of the fund

will be directed to Scotland. Where is the rest going?

**Willie Watt:** The rest of the UK.

**Graham Simpson:** The rest of the UK—not anywhere else?

**Willie Watt:** No. What we did there to ensure that Scottish capital was not funding English forests was make sure that there was more of a commitment to Scotland than the amount of capital that we were putting into the fund. That way, we know that more money will be spent in Scotland than the amount of money that we have committed.

**Graham Simpson:** Okay. When you make investments, do you always try to invest in companies that are based in Scotland to ensure that the money is, as you have just said, spent in Scotland?

**Willie Watt:** Yes. In the case of the forestry fund, the fund manager is in London, but the fund will be invested, as I said, in Scottish projects. Most of the companies that we invest in have head offices in Scotland and most of their activities are based here, but business is a global entity and they will have people in various countries around the world.

In addition, we could invest in a situation in which the company is a foreign company but the money will be invested in Scotland. Another thing that we measure is how much of the supply chain is provided by Scottish companies. The most up-to-date statistic that we have is that 60 per cent of the supply chain for companies in which we have invested is provided from Scotland.

**Graham Simpson:** I want to ask about your investment in the company Travelnest, which also has London headquarters and is in essence a virtual company.

**Willie Watt:** The headquarters that you are referring to is the lawyers' office, which is just the registered office. The actual head office is in Scotland and the people who work for the company are in Scotland. It is a Scottish company, but it has a brass plate where its lawyers are.

**Graham Simpson:** I am afraid that I could not find that address anywhere when I looked.

**Willie Watt:** If you would like more details outside the meeting, we can furnish you with information on where all the people are and what they are doing. Clearly, we would be interested in that issue and, if a company was not in Scotland, we would not make the investment.

**Graham Simpson:** Okay. According to the statement on your website about mission impacts,

“Investment in Travelnest supports the Bank’s mission to invest in innovation and industries of the future and supports key elements of the Scottish Technology Ecosystem Review.”

That review was written by the Government’s chief entrepreneur, Mark Logan, who was a director of Travelnest. When Mr Logan appeared before this committee in January this year, I put it to him that there was a potential conflict of interests there, with money going to Travelnest while he was a director. He agreed and said that he had already resigned as a director although, according to Companies House, he resigned 15 days after that. However, he is no longer a director. Do you accept that there was a conflict of interests there?

**Willie Watt:** Scotland is a small place and, if you are going to have a chief entrepreneur who has a background in technology companies, he might well be involved in some technology companies. I think that it was right that he resigned from that position. Conflict of interests is something that we take into account in all the investments that we make. We have a conflict policy and, where there are real or perceived conflicts of interests, we make sure that people recuse themselves from decision making. Mark Logan had no role to play in decision making within the bank on the Travelnest investment, or indeed any other investment. He has no access to the bank’s papers or our decision making, and he had no involvement in our investment in Travelnest.

**Graham Simpson:** I take your word for that, but I think that it goes back to the point that I made earlier about perception. Sometimes, you have to be very careful about these things.

**Willie Watt:** Yes, I think that that is right. With issues of perception, it is about how one manages the conflict. Conflicts will occur, because we are a small country. People try to do things with the Government because they want to be helpful. In Mark Logan’s case, he wants to help to build the ecosystem in Scotland. Conflicts will occur. I think that they have to be actively managed, and we need to demonstrate that we have done so.

I would be uncomfortable if we just could not act where there was any perceived conflict, because those circumstances could be so restricting that we would not be able to pursue our remit. However, we must manage conflicts actively. We need to be explicit about that and be able to demonstrate that we have done it properly.

**Graham Simpson:** I will move on. I have just one more question. I know that you work with the UK Infrastructure Bank. Do you have a memorandum of understanding with it yet?

11:00

**Willie Watt:** We are working on that. Again, we will come back to you on this, but I am not sure whether we have a fully stamped memorandum of understanding yet. We are certainly talking to that bank about creating something like that to enable us to work through how we work with it in practice. In the meantime, we see it as being very much a like-minded organisation. Al Denholm and I will meet with the CEO soon. We have contacts at all levels in that organisation and we see it as being totally complementary to what SNIB does. The UKIB has a bigger balance sheet than we have, and it can give guarantees that we cannot. On ScotWind, for example, I see us working alongside the UK Infrastructure Bank and I think that, if representatives of that bank were here, they would say the same.

**Graham Simpson:** That could be quite a useful relationship.

**Willie Watt:** It could be very useful.

**Graham Simpson:** Thank you.

**John Mason:** Mr Denholm, you said that you are happy with the structure of the bank, but there is still a loss at the moment because you are still building up. I think that the Scottish Government has £5.8 million in resources for the budget this year, although you said that the income was up to £10.7 million now, which sounds positive. Where are we in terms of moving towards a balanced budget and even making a profit on the operating side?

**Al Denholm:** I am sorry, but I cannot go into the nitty-gritty details because I do not know them off the top of my head—that is the reason; it is not for any other reason. However, very quickly, at a high level in our business plan, we have an objective of getting to a net positive position on income and cost by, I think, 2025-26. Does that sound right, Willie?

**Willie Watt:** Yes.

**Al Denholm:** Sorry for having to double-check on the facts.

**John Mason:** It is all right.

**Al Denholm:** That is when we hope to get to that crossover point, based on projections.

**John Mason:** As far as staffing levels are concerned, you have the right departments in place, but is your staffing where you feel it should be?

**Al Denholm:** One thing that I want to do is to answer that question by doing a final deep dive into that. That is part of my initial view. I would not want to say yes or no; I want to confirm the answer to that by doing an analysis. I do not

expect that it would be much different from what we have, though.

**John Mason:** Okay—fair enough.

On a different point, on the concept of crowding-in private capital, I think that the ratio has been given of 2:1, which I take it means that, for every £1 you put in, there is £2 coming along. I think that we also saw a figure of £400 million from the bank and £1 billion from the private sector. Is that right?

**Al Denholm:** The total was £1 billion—it was £400 million plus £600 million.

**John Mason:** So that would be 1:1.5 or thereabouts. Where are we going on that? Is there a target for that and are we getting there?

**Al Denholm:** I have not seen a specific target at this point. I do not know whether we have set a target—I am sorry, but I am not able to answer that question.

**Willie Watt:** Broadly speaking, the target is what you have said, Mr Mason. Each project is different and with some of them there is a higher amount of crowded-in capital. In others—not many, but some—we are the only investor. It is an average across the whole portfolio. A ratio of 66:33 or 60:40 is definitely where we think it should be. Ultimately, the higher that number the better, because that is a sign that we are doing well.

We could reassess that number once we can start managing third-party capital. For now, that is broadly the correct target. We do not target it formally, but of course we report on it every year, so there is an audit trail on how we are doing.

**John Mason:** You are in the space of investing and taking a slightly higher risk or a slightly longer-term approach and being more patient. I do not want to concentrate on Circularity Scotland, but is what happened there the typical picture? Is it the idea that you put in money first and then at some later point the private sector will come in with its money?

**Willie Watt:** Probably not. That certainly happens, and not just with Circularity Scotland but in other areas. Sometimes, we are the foundational investor and getting the first person to commit might be the hardest part, so we will commit and that then allows a company to get other people to invest alongside us. Sometimes, we are the last investor, where a company has all the debt and it has the equity but there is some kind of subordinated debt that it does not have, and we could provide that. For example, the Aberdeen harbour project was a £350 million project. The company had all the financing apart from the last £35 million, which it could not get. That was a case in which we provided the final piece of the jigsaw. It is a mix of different things.

Innovation companies tend to have multiple rounds of financing. As they grow, the multiple rounds get bigger, so our share of the round ought to get smaller. We might be a dominant investor at the very early stages—well, the early stages rather than the very early ones, because that is done by Scottish Enterprise—but by the time a company has raised two or three rounds of investment, the multiple on that money would be very significant.

**John Mason:** That makes a lot of sense.

You have had quite a lot of focus on ScotWind, and you have published a series of blogs on that. Just to choose one, I understand that part 4 of that series looked at accelerating transition in other sectors, including hydrogen. I am personally quite enthusiastic about the idea of hydrogen. We have had a number of briefings in Parliament about that. However, compared to electric vehicles and so on, hydrogen seems to be slightly further down the line and slightly less developed, and the likes of Friends of the Earth would say that it is very expensive. I just choose that as an example, but what is the bank doing in that field? Again, is it this idea of supporting the initial move?

**Willie Watt:** I agree with everything that you said. We are talking to experts. Last week, we were down in London spending a lot of time on that. I guess our view is that the technology to create green or blue hydrogen is very well understood, that the capital investment required to do it is massive and that the market for hydrogen is developing. Adding all those things together, there is likely to be a gap in the funding of hydrogen, because of the uncertainties around it. Therefore, there may be a role for the bank to provide catalytic investment in projects. However, if we had a pipeline of technologies that were likely to be coming on stream, hydrogen would not be in the first wave; it would be in the second wave.

In the United States, that has been turned on its head by the Inflation Reduction Act of 2022, which has brought in a subsidy for green hydrogen. That subsidy has taken hydrogen from being uneconomic to being broadly neutral, which is pulling forward a lot of investment in green hydrogen in the US.

The point at which hydrogen becomes commercial can be impacted by Government policy, and it will also be impacted by the building of scale resources, which will then reduce the price. Most things start off being uneconomic until they go to massive scale. That is a problem for early-stage projects, because you do not have that scale up front.

There are a lot of challenges around hydrogen in a Scottish context. There is potential to associate hydrogen with the Acorn project at St Fergus in Aberdeenshire. Experts are still

evaluating what role hydrogen will play in the decarbonisation of industry and power and, when you talk to different people, they will say somewhat different things about that. There is uncertainty around hydrogen. We are trying to understand the issues and talk to investors. We are trying to work out what role we could play and to ensure that we know what is going on so that we can be there if there is a need.

**John Mason:** Is that space of the next technology the kind of space that the bank is happy to be in?

**Willie Watt:** It is a space that we think we should be in. I would say that floating offshore wind is a more pressing example of where we should be. Floating offshore wind is less risky than hydrogen. There is one floating field—the Kincardine field, east of Aberdeen—which is the only field at that kind of scale in the world. I think that 60 per cent of ScotWind is potentially floating offshore wind. That is an interesting opportunity for the supply chain, because the potential for transferability of skills from the oil and gas industry into floating wind is quite high, and the technology challenges are less than for hydrogen. However, there is still a lot of uncertainty about that. Offshore wind is more of a near-term focus than hydrogen, but we cannot afford to ignore hydrogen, because things could change quite quickly. Therefore, it is about trying to keep all these things in scope and trying to be there at the right place at the right time.

**John Mason:** Thanks very much.

**The Convener:** Finally, in response to Colin Smyth, you talked about whether you could become a public body and where we are in terms of the permissions. I understand that the UK Infrastructure Bank has the ability to invest in public sector bodies. It can do partnerships with local authorities. Can you see the SNIB becoming involved in something like that? I understand that a significant change might be needed to the way in which you operate.

**Willie Watt:** That is a good point. The UKIB was set up almost to take the role that the European Investment Bank had before Brexit. The European Investment Bank could invest in UK local authorities, so the UKIB was given that right. We cannot invest in local authorities under our remit or give guarantees, but we can work with local authorities and create joint venture structures with them, as long as we are not investing in the local authority.

We have had good conversations with local authorities across Scotland about different types of projects, some to do with net zero and some to do with social and affordable housing. We are keen to work with local authorities. A lot of the place

mission around inequality is tied up with regeneration, and regeneration is very much at the centre of what local authorities are interested in. I cannot point to a signature project with local authorities at the moment, but it is definitely something that we would be keen to do. We are having conversations on that with local authorities.

**The Convener:** Do you feel that that is the best approach, or would you welcome an opportunity to do the same as the UK Infrastructure Bank does?

**Willie Watt:** We do not have as much capital as the UK Infrastructure Bank has, and we would need Treasury approval to do that, which I do not think would be particularly straightforward. Being practical, I think that we should work with what we have. The more flexibility we have the better, but we are working with the art of the possible.

**The Convener:** The committee carried out an inquiry into town centres, and we would welcome seeing the Scottish National Investment Bank having that kind of relationship with local authorities and helping them to invest in local communities, and in town centres in particular.

I thank both of our witnesses for giving evidence. It has been interesting for the committee, and I look forward to our future discussions together.

11:15

*Meeting continued in private until 12:02.*



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

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