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Convener
Net Zero, Energy and Transport Committee
The Scottish Parliament
EH99 1SP

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Net Zero, Energy and Transport Committee meeting, 21st June 2022: the role of local government and its cross-sectoral partners in financing and delivering a net-zero Scotland

Dear Convenor

Thank you for the invitation from the Committee to contribute to the above meeting on the role of local government and its cross-sectoral partners in financing and delivering a net zero Scotland.

As the Committee will be aware, the Bank has previously set out in written submission to the call for views (January 2022) its role in relation to Local Authorities. This outlined the importance of Local Authorities as a key stakeholder of the Bank, and that the Bank can engage with Local Authorities primarily in relation to: 1) the development of investment opportunities that the Bank can invest in; and 2) investing alongside Local Authority capital.

I understand that the Committee is interested to explore means on financing Local Authority schemes, and that this includes innovative practice and support in developing strategies to enable net zero. I thought therefore that it might be useful to set out further information on the Bank's position with regards to Local Authorities, in order to inform the discussion on how Local Authority net zero aims can be financed. To do this, I will touch on the Bank's ability to invest in and alongside Local Authorities, and its role in facilitating the financial aims of Local Authorities.

Direct and co- investment

The Bank continues to work with Local Authorities to seek opportunities to unlock specific projects that align with the Bank's missions and Local Authority objectives. Whilst the status of the Bank prevents it from investing directly in Local Authorities (due to the Bank's capitalisation via Financial Transactions, which is unable to be invested in bodies classified to the public sector) it can, in certain circumstances, invest *alongside* other sources of public capital.

An example of how this might work in practice is a project in which Bank capital is deployed to fund an early stage, with Local Authority finance entering at a later – separate – stage. In this scenario, the early-stage funding from the Bank unlocks initial work to get the project underway, with later stages funding its subsequent development and ongoing operation.

It must however be stressed that the Bank is unable to invest in instances where that investment would result in a cumulative public sector majority share. As such, each prospective investment where a Local Authority is involved is carefully considered on a case-by-case basis to ensure the Bank is operating within the bounds of its role and limitations.

Facilitation and advisory services

Similarly, the Bank is keen to provide support where it can for Local Authorities seeking private sector investment to achieve mission-related objectives. This may for example include contributing to roundtable discussions and action planning on issues and solutions to key net zero challenges; or providing a point of view on the financing landscape as it relates to Local Authorities; or discussing potential investment approaches to meet Authority objectives. In this capacity, the Bank would effectively be operating as a subject matter expert to inform Local Authority decisions with regards to financing options.

Another potential role for the Bank is in effecting introductions between parties, acting as a catalyst to bring together Local Authorities with investors that may be able to provide private finance to achieve net zero aims. The Bank is very keen to contribute in this manner, facilitating productive introductions across the public and private sectors; although it should be noted that this must not be done in return for an arranger's or introducer's fee.

The Bank cannot, however, become involved in any detailed discussions between parties in terms of transaction design, structuring, or indeed managing 3rd party capital; this would be classed as 'arranging' or 'advisory' services, which require Financial Conduct Authority approval.

I hope the above is useful in clarifying the scope within which the Bank can – and actively seeks to – engage with Local Authorities on matters relating to net zero. We would be delighted to meet with you to discuss how we can support the focus of the Committee further and will reach out to your office on that basis.

Yours sincerely

David Ritchie
Executive Director, Scottish National Investment Bank

