Cabinet Secretary for Economy, Tourism and Transport
Rùnaire a' Chaibineit airson na h-Eaconamaidh, Turasachd agus Còmhdhail
Rt Hon Stephen Flynn MSP
An Fhìor Urr Stephen Flynn BPA

T: 0300 244 4000
E: scottish.ministers@gov.scot

Scottish Government
Riaghaltas na h-Alba
gov.scot

Duncan Massey MSP
Convener
Economy, Tourism and Energy Committee
By email: economy.committee@parliament.scot

Cc Neil Bibby MSP
Convener
Public Audit Committee
By email: publicaudit.committee@parliament.scot

17 August 2026

Dear Conveners,

I am writing to share the independent five-year performance review of the Scottish National Investment Bank, undertaken by Sir John Elvidge and commissioned in fulfilment of the requirements of the Scottish National Investment Bank Act 2020.

The review provides an assessment of the Bank's performance during its first five years of operation and concludes that the Bank has established a strong foundation as Scotland's mission-led development bank. The report also identifies a number of opportunities for both the Bank and the Scottish Government to strengthen its impact and contribution in the years ahead.

I would like to extend my sincere thanks to Sir John Elvidge for the thoroughness and insight he has brought to this review. Drawing on his extensive experience in public service, Sir John has provided an independent and constructive assessment of the Bank's progress to date, as well as some valuable recommendations to support its continued development and impact in the years ahead.

I have today laid the review before the Scottish Parliament and published it alongside the Scottish Government's response to its findings and recommendations. Copies of both documents are enclosed for the Committee's information.

The Scottish Government welcomes the review and accepts its broad conclusions. These are consistent with Audit Scotland's assessment of the Bank last year. We are committed to working with the Bank to take forward the recommendations directed to both the Scottish Government and the Bank, including through an implementation framework with clear responsibilities and timescales.

Given the Committee's interest in the Bank and its role within Scotland's economy, I wanted to ensure that members had sight of the review and the Government's response at the earliest opportunity.

I would, of course, be happy to provide any further information that would assist the Committee in its consideration of this matter.

Yours sincerely,

STEPHEN FLYNN MSP

Five-year review of the Scottish National Investment Bank

An independent report by Sir John Elvidge

August 2026

Scottish Government
Riaghaltas na h-Alba

August 2026

Five-year review of the Scottish National Investment Bank

Scope

1. Scottish Ministers appointed me in November 2025 to conduct the first statutory review of the Scottish National Investment Bank (the Bank) as required under the Scottish National Investment Bank Act 2020.

2. The Act indicates that the review should focus on the performance of the Bank with reference to its objects, the missions set for it by Scottish Ministers, and any national performance indicators specified by Ministers in appointing a reviewer.

3. In asking me to conduct this review, the then Deputy First Minister did not specify any such additional indicators. However, she suggested in preliminary discussion that it might be helpful for me to consider the position the Bank had taken up in Scotland's financial landscape, and its relationships with others in the ecosystem.

My approach

4. I conducted my review principally through a programme of individual interviews, supplemented by a limited number of roundtable discussions, with different groups inside and outside the Bank:

- The Bank's senior leadership team;
- Other subject matter experts at the Bank;
- Representatives of the Bank's employee forum;
- The Bank's chair and non-executive directors;
- The sponsor/shareholder team at the Scottish Government;
- Members of the Ministerial Advisory Group on the Bank;
- Senior leaders in relevant public and private sector institutions, both Scottish and UK-wide; and
- Selected founders and chief executives of companies who had engaged with the Bank - both investees and others.

5. I decided not to issue a broad formal call for feedback about the Bank: but a number of senior individuals approached me to share their experience of engaging with the Bank, including as investees, would-be investees and co investors.

6. I also reviewed Bank board papers, strategic documents and other internal Bank material, as well as published reports. In addition, I was able to see the summary results of stakeholder surveys commissioned by the Bank from an independent consultancy; and the most recent external assessment commissioned by the Bank on its performance as an "impact investor", benchmarked against wider financial services standards.

7. I decided that it would not be productive for me to seek to examine retrospectively the detail of specific individual investment decisions made by

the Bank. It seemed to me that this went well beyond the fundamental purpose of the review; and also that neither I, nor other outside observers who were not investment professionals, would be well-placed to apply hindsight - which would inevitably be on the basis of limited information - to the judgements of the Bank's investment team on particular investment propositions.

8. Instead, I sought to focus on the broad learnings that could be drawn from the first five years of the Bank's existence; and to seek to identify possible areas to build on that experience to deliver a stronger performance in the period ahead, for Ministers, the Bank's leadership team and the Parliament to consider.

9. In so doing, I have taken account of action and thinking which took place after the review period defined in the Act – which ended on the date of my appointment – but which seemed to me to be significant in considering the question of future direction. I am very conscious that a new chief executive of the Bank was appointed at the beginning of this year, with plans to refresh the Bank's strategy and reshape the senior leadership team; answering to a new Scottish Government, appointed on the basis of a refreshed prospectus for supporting the Scottish economy and for public sector reform; and accountable to a new Scottish Parliament, which will soon be seeking to establish its own priorities.

The Bank as an organisation

10. In late 2024/early 2025, Audit Scotland conducted its own performance review of the Bank, looking in particular at the Bank's operational, governance and accountability arrangements. Its report was published in May 2025 and was considered by the Public Audit Committee of the Scottish Parliament.

11. Having discussed that report with the Auditor General and the lead auditor, having reviewed the scope of the material shared with Audit Scotland by the Bank team as the basis of that review, and having heard about follow-up action in hand, I concluded that it would be neither necessary nor helpful for me to revisit the whole territory covered in that exercise. Although, unsurprisingly, some of the issues mentioned then came up in the course of my work, nothing I heard caused me to call into question the very positive account in the Audit Scotland report.

People

12. Over its first five years the Bank has grown from a handful of staff – just eight at launch – to 92 at the end of 2025-26. While this is a very substantial rate of growth, the Bank remains relatively small for an organisation with such a broad remit.

13. Given the range of its activities and its position both as a public body and a regulated private company, the breadth of the specialised skills and capabilities it requires in its staff is unusual. For that reason, while the Bank

operates within the overall pay policy set by the Scottish Government, it has a number of carve-outs in relation to salaries and incentive programmes, to ensure that it is able to recruit, retain and motivate high-quality professional staff.

14. I heard widespread external expressions of confidence in the ability of the Bank staff to fulfil their roles. Internally, employee engagement and confidence, as measured by its annual people survey, are high; attrition is low; and there is a well-functioning employee forum bringing together staff, senior leaders and non-executive directors. The Bank has twice been included in the Sunday Times Best Places to Work list.

15. While the Bank enjoys flexibilities in terms of pay and reward, and reports that the Scottish Government is understanding and supportive both as its sponsor and its shareholder, the Bank team remains concerned that the process for considering and agreeing any changes to terms and conditions can be slow, risking practical challenges in implementing policies, for example in relation to performance management; and that greater flexibility would facilitate quicker and more effective organisational change.

Oversight

16. The legislation provides that the Bank should have a board of between 9 and 13. At the moment it has 10, including a chair and non-executive directors with a wide range of very senior relevant experience in investment, in business, and in government. One of the non-executive directors is appointed as “senior independent director” with particular responsibilities in relation to liaison with the shareholder.

17. This board has been a considerable source of strength. In the early days, the non-executive directors, and in particular the chair, had to take a more active, hands-on role in steering the organisation as it built itself from a slender base. More specifically, the chair, supported by other board members, played a vital role in ensuring stability and direction through a series of changes of chief executive, particularly over the extended period in 2022 and early 2023 when there was no permanent chief executive in post. I also heard that there was a particularly strong team dynamic within the board.

18. As well as exercising the normal functions associated with corporate governance oversight of the Bank, the non-executive directors remain closely engaged with the investment process, providing insight and challenge upstream of individual investment decisions. This has been invaluable as the Bank has evolved its investment approach.

19. As the Bank matures and the leadership team expands, there is now an opportunity for the non-executive directors to step back from the operational detail. It is worth noting that the terms of the original board members come to an end over the next two years, giving the Bank and its shareholder the chance to consider the ideal profile for the board over the next phase of the

Bank's existence; and also, going forward, to consider whether there might be a case for slimming it down slightly.

The relationship with the Scottish Government

20. While it was not my main purpose to look at the relationship between the Bank and its Scottish Government shareholder, I heard positive feedback from the Bank side about the support it receives at working level from the shareholder team, and at political level from Scottish Ministers.

21. In particular, I heard appreciation for the way in which the Scottish Government had respected in practice the Bank's requirement for operational independence and the need for commercial confidentiality around individual investment propositions. Both of these are essential for the Bank to establish and maintain credibility in the marketplace, and to provide the necessary assurances to the Financial Conduct Authority.

22. In formal terms, the framework is set out in the Shareholder Relationship Framework Document (SRFD), which describes the rules of engagement and reporting requirements. This is supplemented by broad guidance on relevant policies issued by Ministers to the Bank - as to other public bodies - each year.

23. The SRFD has not been amended since it was first agreed in November 2020. Now would be a good time to review and update it in the light of experience, particularly as it relates to information flows and the rhythm and form of strategic steers from the Scottish Government and formal reporting by the Bank.

24. I would note in passing that the Bank has a wider set of current and potential relationships with the Scottish Government going beyond the shareholder dimension; and that it has an important broader potential contribution to make to the Scottish Government's understanding of market conditions and to its policy-making on a number of fronts. I saw practical evidence of this in relation both to housing and to offshore wind. There might be a case to look more systematically at how such dialogue could be structured to best effect.

The wider landscape

25. The Bank had to find its place in an institutional landscape that was already relatively crowded, alongside not only Scottish bodies, notably the enterprise agencies and the Scottish Futures Trust, but also UK investment bodies such as the British Business Bank (BBB), and the National Wealth Fund (NWF); as well as the wider private sector investment ecosystem.

26. That landscape has itself not remained static over the past five years. For example, the UK Government has evolved its general approach to all public finance institutions; has amended and widened the mandates for the NWF and the BBB, giving them additional resources and new flexibilities. It has also established an entirely new body, GB Energy, with a significant role to play in

Scotland. All of these developments have practical implications for the Bank and its activities.

27. Against that backdrop, the Bank has worked hard to establish its distinctive identity, to build wider understanding of its role, and to establish positive relationships with other institutions at both strategic and practical level. I heard positive feedback from many of them around this, and there were some good examples of collaboration to point to: however, I also heard of a degree of continuing uncertainty among some other market participants and some wider stakeholders.

28. Clearly this is not an issue for the Bank alone. There is a need for strategic clarity, supported by effective communication, clear referral mechanisms, and where appropriate strong partnership working arrangements, on the part of all relevant institutions, in order to maximise the effectiveness of collective public sector activity alongside private investors in support of the Scottish economy.

29. In this context, it was encouraging to hear that the Bank now participates in the UK Government's strategic forum for public finance institutions. However, I think there is also scope for the Bank and the key UK institutions to work together to set out more clearly for the Scottish marketplace a shared view of their respective positioning and the way they collaborate. In parallel, the Bank and the other specifically Scottish bodies, facilitated by the Scottish Government, should produce a similar joint statement around roles, responsibilities and collaboration.

Mandate and missions

30. The overarching mandate for the Bank is set out in its founding legislation, the Scottish National Investment Bank Act 2020. This states that the Bank's vision is:

- To provide finance and act to catalyse private investment to achieve a step change in growth for the Scottish economy by powering innovation and accelerating the move to a net-zero emissions, high-tech, connected, globally competitive and inclusive economy.

31. Its main object is:

- Giving financial assistance to commercial activities for the purpose of promoting or sustaining economic development or employment in Scotland.

32. However the Act also requires Scottish Ministers to set strategic missions for the Bank, describing the broad socio-economic and environmental challenges that the Bank should seek to address through its investment activities – in other words, the Scottish Government's overarching, long-term policy priorities for the Bank.

33. It is then for the Bank, operating independently of the Scottish Government, to interpret and operationalise these missions, and use them to guide its investment activities.

34. The missions set by Scottish Ministers in 2020 were as follows:

- Net zero: Address the climate crisis through growing a fair and sustainable economy by 2045.
- Innovation: Scale up innovation and technology for a more competitive and productive economy by 2040.
- Place: Transform communities by making them places where everyone thrives by 2040.

35. These missions are intentionally very broad, and somewhat different in nature. Taken together, they have given the Bank considerable practical room for manoeuvre in terms of the specific areas, and the types of companies and projects, on which to focus its attention and resources.

36. In the first phase of the Bank's existence, this was undoubtedly helpful in allowing the Bank to respond flexibly to investment opportunities coming its way – recognising that there was a very high degree of interest in the Bank from the outset, and a correspondingly high volume of enquiries and requests for funding – while at the same time building the organisation, determining its operating model and investment strategy, and developing tailored approaches to each mission.

37. I also heard that the Bank's status as an explicitly mission-led organisation was also helpful in recruiting and motivating committed staff to what was effectively a purpose-driven start-up, and in differentiating itself from other institutions in the marketplace.

38. However, although the breadth of the way in which the missions were expressed was clearly positive in many respects, it did present a challenge in establishing external understanding among potential investees and wider stakeholders over the Bank's specific areas of priority interest. Not everyone I spoke to was fully clear about the Bank's strategic focus within each of the missions, and the relative priority it attaches to each of them.

39. This is not necessarily all the Bank's responsibility: but now that the Bank can draw on the learning from the first five years, there is scope for the Bank to do more to articulate its strategy, its priorities and its approach in this regard - both in its set-piece publications, such as its annual investment strategy, and in its ongoing communications activity.

40. For the first period of its existence, the Bank set itself the goal of achieving a broad split between the missions across its investment portfolio of 50 per cent net zero, 25 per cent innovation and 25 per cent place – whilst recognising that in practice some investments may speak to more than one mission.

41. I understand that at this point the split stands at about 49/20/31. The Bank is currently considering its goals for the next five years, in the light both of its on the-ground experience so far and of the evolution of the wider economic and policy environment within which it operates; and it will of course keep its desired balance under review on an ongoing basis as it goes forward.

42. In that context, it is striking to note how far the national and global context for the net zero mission has shifted since 2020, as a consequence both of fluidity in the UK policy landscape, and of wider geopolitical shifts. This has had a major impact on the investment climate around offshore wind in particular, and on the number of commercially viable investment propositions of scale in Scotland in which the Bank could invest.

43. The policy context for the innovation mission, meanwhile, has been made more complex by the publication of successive Scottish and UK Government strategies and policy statements on industrial policy, on specific sectors and subsectors, on innovation, and on support for business start-ups and scale ups by both governments and their relevant public bodies.

44. Finally, the Bank's approach to the place mission has increasingly been shaped by the spotlight on weaknesses in Scotland's housing market, and the priority the Scottish Government has given to addressing the housing emergency. Indeed, investment in housing constitutes the bulk of the Bank's place activity; and I understand that the Scottish Government has committed to provide additional capital to the Bank, over and above the planned allocation, specifically to do more on housing between now and 2030.

Evolving the approach to the missions

45. Against this backdrop, the Bank's leadership team is currently considering how it proposes to evolve its overall approach to the missions, and the emphasis between and within them, over the period ahead.

46. A first step towards setting this is the publication on 8 July of its investment strategy for 2026-27. In relation to the net zero mission, the refreshed strategy places more emphasis on energy security and resilience, adopting a pragmatic, system-led approach to unlocking bottlenecks, supporting transition technologies and energy storage solutions, and investing in supply chains which will support both energy security and a just transition.

47. On innovation, the Bank will adopt a more sector-agnostic approach focused on proven high-growth businesses with scaling prospects, leaning more to later-stage investment than to start-up funding.

48. These seem to me to be rational strategic responses to changing economic and geo-political circumstances and to the first five years of experience. It will be important for the Bank, in consultation with the Scottish Government, to communicate its analysis and reasoning for this shift in emphasis; and also for the Scottish Government to consider any wider implications for its policy agenda.

49. On place, I fully understand the social policy rationale for greater investment in housing, as well as the investment opportunity for the Bank, and its relevance right across the country. I also appreciate the place that housing investment – being relatively lower-risk, with shorter return cycles – has to play in ensuring balance within the Bank's overall portfolio, not to mention its potential significance for the Bank's ambitions to attract third party capital.

50. However, I did not come across any evidence of the medium- to long-term impact of housing investment at the level of regional and local economies, except where it unlocks a major strategic industrial development. So while it makes sense for the Bank to invest in housing, that in itself does not speak fully to the transformational ambition expressed in the mission set out by the Scottish Government.

51. The Bank cannot be expected to carry sole responsibility for this. It has to operate within the context of an overall policy framework established by government. From the First Minister's comments since the election, I understand that he thinks there is further work to be done to articulate the Scottish Government's vision for regional and local economic policy. Fulfilment of that intention would greatly assist the Bank in developing its approach to the place mission.

52. Overall, on the basis of my discussions, I do not think that it is necessary for the Scottish Government to amend or rewrite the Bank's missions. Indeed, that could be a counter-productive distraction as the Bank seeks to build on the successes of its first five years.

53. However, now is a good time for incoming Ministers and the Bank's leadership to take stock together of the way the Bank proposes to pursue the missions in the period ahead, against the emerging economic policy priorities of the new administration and the broader economic and geopolitical context. These discussions in turn should inform the Bank's approach to wider public reporting of its priorities, its activities, and their impacts.

Investment approach

54. As a publicly-funded development bank, the Bank's overall approach to investment rests on five main pillars:

- It operates commercially, but it is able to take on more risk than mainstream private sector providers of finance, in order to fill gaps in the market in pursuit of its missions. It is also prepared to be a patient investor, rather than seeking a rapid exit from its investment.
- The minimum investment it normally offers is £1 million; the maximum normally £50 million.
- The Bank seeks to crowd in other investment from the private sector, aiming to deliver at least a 1:1 ratio at portfolio level - a target which it has comfortably exceeded in its first five years. Wherever possible, it aspires to

act as a “cornerstone” investor, drawing in others, and to avoid being a “last mile” investor or a “lender of last resort”.

- In line with subsidy control requirements, it seeks to demonstrate additionality in its investments, to show that it is not crowding out private investment.
- It aims to be financially self-sustaining, without the need for Scottish Government subsidy for its running costs, and over the medium-term to achieve an overall target rate of return on its investments of 3% - 4%. It achieved the former in 2023-24, and generated an operating profit of £15 million in 2025-26; it will report on progress towards the target rate of return later this year.

55. It should be acknowledged that there are inevitably some potential tensions between seeking a commercial return and the broader goal of unlocking additional economic activity which would not otherwise have taken place. I think that the Bank has sought to navigate those thoughtfully in its first five years; and this continues to be a focus of attention. It has worked hard to communicate with stakeholders on its approach, although I found a continuing lack of clarity in some quarters around the Bank’s risk appetite. This suggests that there is scope for the Bank to do more in explaining its approach – building, for example, on its recent publication of a refreshed risk management framework.

56. It is also worth noting that the Bank does have the power to offer sub commercial finance in some circumstances, as long as it complies with subsidy control requirements. The Bank is reflective on the potential to offer sub commercial finance alongside its commercial investments going forward; and is also open to considering “blended” finance opportunities, where grant capital, for example from the enterprise agencies, sits alongside Bank commercial capital. It should be emphasised, though, that the Bank is not, and was not designed to be, a grant-giver.

Investments to date

57. The Bank is able to invest directly in companies and projects by way of debt, equity, or a combination of the two; to invest in funds; or to issue guarantees.

58. To date, the Bank has committed a total of £1.16bn with 53 live investments: 31 per cent in debt, 34 per cent in combined debt and equity, and 10 per cent in equity; and it invested 25 per cent in funds. It has yet to issue any guarantees.

59. The Bank’s smallest investment to date was £700,000; its largest £70 million. A quarter of its investments were under £5 million; a fifth over £45 million; but the largest proportion were in the range between £5 million and £45 million.

60. The Bank has invested widely around Scotland, in about half of local authority areas, with wider impacts touching nearly all of them: but roughly half of its investments so far have been in Edinburgh, Glasgow or Aberdeen city regions, reflecting the location of industry clusters; and there has been relatively little investment directly in the South of Scotland.

61. It should of course be emphasised that the balance of investments in the Bank’s portfolio, in terms both of type and of location, is influenced very heavily by the nature of the specific propositions coming forward – remembering that roughly half of the investments so far have come from approaches to the Bank. The type of investment also reflects the particular circumstances and needs of the companies and projects that the Bank is supporting.

62. The composition of the portfolio is also a reflection of the Bank’s overall strategy, against the twin backdrop of its missions and its need to ensure a reliable flow of returns, so that it is financially self-sustaining, balancing riskier longer-term investments against surer prospects.

63. Seen in that light, and bearing in mind that the Bank is an economic development institution, one might expect, over the period ahead, to see the proportion of equity in its portfolio growing relative to debt – all other things being equal.

64. It is also worth highlighting the Bank’s choice to invest fairly substantially in funds, in particular in relation to its innovation mission. There are good reasons to invest in funds: in order to increase exposure to sectors where relatively few specific propositions have come forward; to allow the Bank to be proactive in sectors where it does not currently have the capabilities to be an expert specialist investor; or to achieve greater impact through combining its resources with those of other private sector investors, as one way of crowding additional investment into particular sectors of the Scottish economy.

65. It has been put to me that investing in existing funds, as opposed to creating, catalysing the creation of, or participating in new ones, is not where the Bank stands to create most value-added as a mission-led impact investor. The Bank’s leadership will no doubt want to keep this in mind when considering its longer-term strategy, in particular in relation to their ambitions to attract third party capital, and to fulfil its goal of being a “cornerstone” investor.

66. It has also been suggested to me that issuing guarantees could be an effective way for the Bank to derisk propositions to attract other private capital without tying up too much of the Bank’s limited capital. I understand that to date no investee has sought a guarantee. But it seems to me that there would be merit in exploring the option for the future. I understand that work is in hand between the Bank and the Scottish Government to identify whether there is a market opportunity in this area; and if so what would need to be done to take advantage of it, including in relation to public finance rules and processes.

Investment process

67. As well as speaking to the Bank’s leadership team and board, I spoke to a number of investees, would-be investees and co-investors about their experience of the Bank’s investment process.

68. The Bank has a rigorous internal process for considering individual investment propositions, assessing their alignment to its risk appetite, and looking at their fit with the Bank's missions and its ambitions as an impact investor. And as befits a publicly funded institution, the Bank has to carry out a careful due diligence process before reaching its final investment decisions.

69. But I heard that, particularly in its early days, the Bank could sometimes take a long time to respond to initial enquiries; that its due diligence process, parts of which were outsourced to external providers, could lead to heavy information demands on small potential investees; and that communication about progress could be patchy or inconsistent.

70. I am reluctant to lean too heavily on evidence that is inevitably anecdotal and historic, particularly given that the Bank was in its start-up phase; and I am aware that in the past year or two the Bank has taken steps both to streamline its processes and to monitor and seek to reduce timescales.

71. I would, however, suggest that the Bank considers not only including indicators of time taken as part of the management information routinely presented to the board, but also proactively publishing data on this going forward – not least to demonstrate to potential co-investors that the Bank can be fleet of foot.

Investment terms

72. One question that has been raised with me both by investees and by co-investors in relatively early stage businesses is whether the Bank's structural terms are fully aligned with its positioning as a relatively high-risk investor seeking to crowd others in: or whether in some respects, in particular the downside protections, they might in fact be more onerous than the circumstances require.

73. It has been suggested by some that this could have the unintended effect of changing expectations and behaviours in the wider investment ecosystem, for example by putting off international angel or venture capital investors, who have a very different culture and approach. If that were indeed the case, this could have potentially negative impacts for the broader private investment market in Scotland.

74. For obvious reasons, I have not been in a position to examine the underlying facts relating to specific investments, or to speak directly to international investors: but it seems to me that the issue merits some consideration by the Bank, in dialogue with others in the ecosystem. In that context, I was encouraged to hear about recent structured discussions between the Bank and representatives of Scotland's angel community. I hope that this dialogue continues and yields concrete results. It would be helpful if the Bank could set out the outcomes of these discussions for the benefit of wider stakeholders.

Managing investments

75. In the first period of the Bank's existence, the priority was rightly on establishing the institution, developing its investment strategy, and building a portfolio of viable investments that speak to the missions, vision and mandate for the Bank. However, how the Bank manages its relationships with investees after its initial investment decision is also important both in terms of maximising the potential of the investment and in addressing any concerns that may emerge in a timely and effective way. A patient investor must not be a passive investor.

76. I was therefore encouraged to hear about the increased focus within the Bank on more active management of its portfolio; on broadening its network of potential non-executives to sit on the board of investee companies; and giving formal status and a larger role to its internal asset management committee. I was also pleased to hear of the creation of a new senior role of chief portfolio officer working alongside the chief investment officer as a member of the executive team. These seem to me to be evidence of a timely development in emphasis.

Losses and learnings

77. It is in the nature of things that not all investments will succeed - particularly since the Bank is seeking to invest in propositions that might not otherwise take flight. And it is a fact that failed investments generally materialise more quickly than major successes, especially when the Bank is investing for the longer term. It is also worth noting that there have been serious economic headwinds since the Bank was established.

78. Up to the end of 2025-26, losses of £73 million had been crystallised across four investees. Further losses of up to £37 million are expected to arise from two investees who have entered administration or liquidation; and since the last year-end accounts, there is an additional sum of as yet unrealised losses, although these have yet to crystallise. The Bank will provide updated figures and explanation in its annual report and accounts due to be published in August.

79. Each investment failed for a particular combination of specific reasons. And it is difficult to express a general view with any confidence as to whether the overall level of losses, while considerable, is higher than might have been expected from an institution in its start-up phase. I heard views from external investment professionals that it was not.

80. Given that Bank investments are funded by the taxpayer, it is nevertheless entirely understandable that there has been some public and political concern about the losses; and it is right that the Bank should stand ready to defend its record. It is also valuable that the Bank has had consistent support from Scottish Ministers on this front.

81. The most important thing is that the leadership of the Bank learns the right lessons from the experience of each individual unsuccessful investment; and that where necessary, it puts measures in place to address any points on which the Bank's policies, processes or actions were considered to have had any bearing on the outcome.

82. So I was reassured to see evidence of formal "lessons learned" exercises, involving all relevant members of the Bank's investment team, being presented both to the executive leadership and to the board for discussion.

Assessing impact

83. As well as being a mission-led organisation, the Bank has committed to being an impact investor; and has adopted a formal impact management framework to capture, assess and report on the expected impacts of its investments – both in relation to its missions and in terms of economic, social and governance goals – in line with financial industry standards, specifically the Operating Principles of Impact Management (OPIM).

84. Each year, the Bank publishes an impact report summarising the projected impacts and outcomes of its investments, against a set of 2030 ambition targets. The report for 2026 was published on 24 June. The Bank also produces, but does not publish, a complementary short report for Scottish Ministers on progress towards its longer-term missions.

85. In addition, the Bank undergoes an annual external assessment of its alignment with the OPIM principles. The most recent assessment, in December 2025, was externally verified by BlueMark, who gave the Bank a very strong performance rating.

86. This commitment to transparency and external benchmarking is very welcome; and in response to observations by Audit Scotland, which looked closely at this area in its review, the Bank is working to set out more clearly the connections between its impact ambitions, key performance indicators and mission objectives. Improved clarity here has an important contribution to make to wider understanding of the difference the Bank is making.

87. So far, however, the Bank has not commissioned any external analysis of the broader economic impact of its activities. This was understandable in the start up phase, as the Bank sought to establish a substantial portfolio. After five years, it may now be timely to consider commissioning such a study.

Awareness, relationships and partnerships

88. Most representatives of other public sector bodies and other finance institutions reported positive contact with the Bank, although some felt that communication and information-sharing could perhaps be more structured and more frequent.

89. It was suggested to me by a number of external sources that there was a continuing lack of clarity about the respective roles of the Bank and Scottish Enterprise in relation to support for early-stage and scaling companies in particular - an area where both organisations are active. It was put to me that this might cause confusion in the marketplace, with the potential for missed opportunities for a joined-up strategic approach between the two bodies: although I also heard of positive working-level collaboration between them.

90. Against the backdrop of broader public debate around public sector reform, I think that the Scottish Government should take forward discussion between the two organisations to review the current position; agree any necessary action; and ensure that the outcome is communicated widely.

The future – a perpetual fund

91. Since the Scottish Government first established the Bank, it made clear that its intention was to create a permanent institution. This was a central part of the original blueprint set out by Benny Higgins in 2018, and it received cross-party support in the Scottish Parliament during the passage of the 2020 Act.

92. It was entirely understandable that the Scottish Government's initial financial commitment to capitalise the Bank to the tune of £1 billion covered one Parliamentary term, with a statement of intent of a further £1 billion by 2030. It was also understandable that the Bank was initially established within the budgetary framework for public bodies.

93. However, having to deploy capital effectively within the constraints of the public finance framework, which mean operating with annual financial contributions which must be deployed within the same year, with very limited ability to carry unused funds from one year to the next, has created significant inflexibility in the Bank's operations, running the risk of distorting decision-making.

94. And having to operate in the marketplace without certainty as to the existence of the organisation beyond 2030 is presenting increasing challenges in terms of forming and managing long-term relationships of trust and confidence with investees and co-investors alike.

95. There is now urgency to resolve these interlinked issues. I heard compelling evidence that there will be negative consequences if the Bank's ability to be a reliable source of long-term and repeat funding is not clearly established and understood externally within the next year or so.

96. It will require action by both the Scottish and UK Governments to give the Bank the ability to manage, retain, carry forward and redeploy cash balances across years; and also to raise capital in its own right, so that it is no longer reliant on continuing capital advances from the Scottish Government beyond 2030.

97. I understand that in recent months there have been productive discussions on these questions between the Bank, the Scottish Government and HM Treasury; and I note the shared statement of intent from outgoing Scottish Ministers and the Bank to the Parliament in March 2026. It would be very helpful if incoming Ministers could now set out a clear plan of action and timetable with a view to securing the necessary agreement by early 2027.

Growing the Bank – third party capital

98. One strategic issue which has been raised in the course of my review is whether the £2 billion capitalisation to which the Scottish Government committed by 2030 would be sufficient for the longer term.

99. When the Bank was first under discussion, that figure was considered to be broadly comparable with the size of other development banks in relation to the size of the Scottish economy: but I have heard arguments that in fact this leaves the Bank with relatively limited “firepower”, particularly if it wishes to act as a catalytic cornerstone investor for large, strategically important investment positions without using too large a proportion of its overall capital.

100. It has also been put to me that if the conditions are right, the Scottish economy could sustain a significantly higher overall level of investment than is presently the case.

101. Against that background, the Bank’s leadership has the long-run ambition to create a significantly larger balance sheet than the £2 billion capitalisation from the Scottish Government.

102. The only way the Bank could achieve such growth would be to attract significant volumes of additional capital from the private sector, over and above crowding-in on individual Bank investments. The Bank has the ambition to do this by creating new funds in which private sector investors could participate.

103. This would require further authorisations from the Financial Conduct Authority; and it would also need the Bank to be able to satisfy investors as well as regulators that it has full independence from Ministers; has a stable long-term future; that it has strong credibility and expertise as an organisation; and that it has access to a sufficient number and range of investible propositions that are not visible or available elsewhere.

104. The Bank’s performance over its first five years has gone some way towards establishing a platform on these points. Depending on how it evolves, the Bank’s expanded activity in the area of housing may further strengthen its position. And the way the Bank develops its current proposals for a university spinout fund will be an important test, both of its attractiveness to private investors and also of the extent to which the Bank and Scottish Enterprise are able to develop a strong, clear, credible, and mutually complementary partnership approach in this area.

105. The need for the Scottish Government to take action soon, in collaboration with the UK Government, to set the Bank on course to become a permanent feature of the Scottish financial landscape is clear, and is crucial to creating the conditions for the Bank's future success. But in the near term, and as a matter of strategic priority, the Scottish Government also needs to decide and give a clear steer on where, how and how far it wants the Bank to pursue the third party capital route.

Final thoughts

106. My reflections on this review are that the Bank is an organisation which has developed successfully from scratch over its initial five years, so that it is reasonable to focus on what it does, rather than what it is.

107. I heard some views that it should have been designed differently and given a different role: but the board and executive leadership of the Bank have, rightly, concentrated on seeking to build success within the role Ministers had given them.

108. I too have taken the view that the intention of the Scottish Parliament in inserting the requirement for a review in the 2020 Act was that it should address what is, rather than what might have been.

109. I have also been conscious that the Scottish Government was also entering for the first time into shareholder responsibility for a financial institution, and has been engaged in its own learning process, including use of the mission based approach to give the Bank a longer-term strategic steer.

110. The subject of the review was the Bank, rather than the Scottish Government and its decisions, but I found that the interaction which was established over the five years was positively regarded on both sides.

111. My overarching conclusion, therefore, is that a solid foundation has been set to use the learning from the first five years to build for the next five-year period. Changes in the external world will continue to demand agility in seeking to fulfil the ambitions for the Bank's contribution to improved economic and social wellbeing for Scotland.

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