OFFICIAL REPORT
AITHISG OIFIGEIL

Economy, Energy and Fair Work Committee

Tuesday 4 June 2019

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

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ECONOMY, ENERGY AND FAIR WORK COMMITTEE
19th Meeting 2019, Session 5

CONVENER

*Gordon Lindhurst (Lothian) (Con)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Jackie Baillie (Dumbarton) (Lab)
*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Angela Constance (Almond Valley) (SNP)
*Jamie Halcro Johnston (Highlands and Islands) (Con)
*Dean Lockhart (Mid Scotland and Fife) (Con)
*Gordon MacDonald (Edinburgh Pentlands) (SNP)
*Andy Wightman (Lothian) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Rob Hunter (Development Bank of Wales)
Kerry Sharp (Scottish Enterprise)

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Economy, Energy and Fair Work Committee

Tuesday 4 June 2019

[The Convener opened the meeting at 09:45]

Decision on Taking Business in Private

The Convener (Gordon Lindhurst): Good morning, and welcome to the 19th meeting in 2019 of the Economy, Energy and Fair Work Committee.

Under agenda item 1, the committee will decide whether to take items 4, 5 and 6 in private. Do members agree to take those items in private?

Members *indicated agreement.*

Subordinate Legislation

Public Procurement etc (Miscellaneous Amendments) (Scotland) Regulations 2019 (SSI 2019/173)

09:45

The Convener: Agenda item 2 is subordinate legislation. The Public Procurement etc (Miscellaneous Amendments) (Scotland) Regulations 2019 make minor corrections to the transposition of European Union directives that regulate the award of concession and utilities contracts. As members have no substantive issues that they wish to raise, are we content for the instrument to come into force?

Members *indicated agreement.*

Scottish National Investment Bank Bill: Stage 1

09:46

The Convener: Under agenda item 3, the committee will take evidence on the Scottish National Investment Bank Bill. I welcome our two witnesses: Rob Hunter, director of strategy, Development Bank of Wales; and Kerry Sharp, director, Scottish Investment Bank, Scottish Enterprise.

The British Business Bank has been in operation for around five years. One of its goals was to change the structure of finance markets for smaller businesses in the United Kingdom. What has been the impact of its activity in Scotland and Wales? Are the banks that you represent involved with the British Business Bank, or have they had much interaction or contact with it? Does Kerry Sharp want to comment on that?

Kerry Sharp (Scottish Enterprise): We have a really good relationship with the British Business Bank, which undertakes quite a number of activities, many of which are focused on Scotland as well as elsewhere in the UK. It is particularly active in Scotland on the start-up loans side and on the enterprise finance guarantee—the bank debt guarantee—scheme.

We often engage with the British Business Bank to try to understand the breadth and scale of its activity, but it records things slightly differently from how we record them, including in capturing all the private sector leverage that it achieves through the deployment of its fund. That makes it quite difficult for us to compare the numbers. However, it is very active on those two instruments in particular and, from the statistics that we see, we think that Scotland gets its fair share.

The British Business Bank is also quite active on the venture capital investment side. It is a limited partner for three of our largest VC funds in Scotland—the Panoramic Growth Equity and Scottish Equity Partners funds are two of them. We continually work with the British Business Bank to see what else we can do and what further funds can be deployed in Scotland.

The Convener: Does Rob Hunter want to comment on that? I should have said that there is no need to press buttons, as the sound desk will operate the microphone system. If you want to say something, you should indicate that by raising your hand.

Rob Hunter (Development Bank of Wales): The situation is similar in Wales. We have a very good working relationship with the British Business Bank. As banks in devolved nations, we regularly meet the British Business Bank, and it gives us an awful lot of time.

I echo Kerry Sharp's comment: we have an issue with the transparency of the information, which is more to do with the British Business Bank's systems than anything else. Things are kind of mixed up. It is very difficult for us to compare apples with apples, because the British Business Bank mixes in the private sector leverage that it achieves on deals with its own investments. It is therefore very difficult to work out what has gone into the region. However, according to the statistics, Wales, like Scotland, receives its fair share.

In addition, the enterprise finance guarantee and the start-up loans are very good. For example, since start-up loans began, the British Business Bank has invested in the order of £20 million across Wales in those loans, which are very low-value ones. That complements the similar amount that the Development Bank of Wales has invested in microfinance. There is very little, if any, overlap between the two, and, between us and the British Business Bank, we have delivered about £40 million of microfinance into businesses across Wales. That being the case, the British Business Bank is definitely a force for good.

John Mason (Glasgow Shettleston) (SNP): I want to ask about integration and how the Scottish Investment Bank will move over to the new bank. I might also come on to Wales a bit later. Will the whole Scottish Investment Bank move over lock, stock and barrel and become part of the Scottish national investment bank?

Kerry Sharp: The plans for the new bank are very much to build on what exists in the market and integrate interventions and activities that exist across the public sector. Work is on-going on exactly what will go into the bank, but it has been clear since the implementation plan that the Scottish Investment Bank's activities will form part of the new bank. However, that does not include all of the SIB's activities. The financial readiness service that we deliver now will stay within Scottish Enterprise, because it is a company support activity that does not deploy any finance and so it fits better with the work of Scottish Enterprise more widely. The activities and functions of the Scottish Investment Bank, the assets that have been invested or lent to and the people are all expected to move into the Scottish national investment bank. A lot of work is under way to try to work out exactly how and when that will happen and what further work we need to do. The plan is that, shortly after vesting, all the items that are expected to go across will move across.

John Mason: Would it be fair to say that the broad split is that advice or grant-making functions will stay with Scottish Enterprise and loan or equity investment functions will move to the SNIB?

Kerry Sharp: That is about right.

John Mason: Will the staff therefore split in reflection of that? Will some stay and some go?

Kerry Sharp: The vast majority of staff in the Scottish Investment Bank are on the financing side or in support services thereof. There is a discrete team in the financial readiness service of about eight or nine people, and the demarcation is clear. Those individuals will stay with Scottish Enterprise. Obviously, a lot of work needs to be done to dot the i's and cross the t's, but the working assumption is that all the other staff in the SIB will move across.

John Mason: On governance and accountability, obviously Scottish Enterprise is a kind of independent body, and the SNIB will be too, although they are slightly different models. Do you anticipate any difference in the level of oversight for the Government or Parliament, or will it be much the same whether it is Scottish Enterprise or the SNIB?

Kerry Sharp: Do you mean oversight of the SIB's activities when they move into the new bank?

John Mason: Yes—that is exactly what I meant.

Kerry Sharp: Obviously, the Government and the bill will determine how the reporting and other elements are delivered by the new bank. However, we have a strong governance and reporting culture, so I struggle to think that we will need to do too much more. There is more to be done on the ethics policy and the like for the bank, in which we will be directed by whatever the requirements are. Our activities and reporting functions will support what is required.

John Mason: My colleagues have supplementary questions, but I have a question for Mr Hunter. Am I right in saying that Finance Wales was the previous body and it moved over entirely into the Development Bank of Wales?

Rob Hunter: Yes, that is exactly the case. We had an advantage in that Finance Wales was a public limited company, so it was set up and had all the governance structures and the funds, and then it transitioned into the Development Bank of Wales.

John Mason: Did that process go smoothly?

Rob Hunter: Yes, but with an awful lot of preparation. We worked towards the launch for two years. When you are changing an entity that already exists into something new, one of the challenges is that you need to deliver something new when the time comes. We had a build-up for about two years, during which we raised new funds, worked to be ready for the launch and the announcements and prepared the staff and the culture of the organisation to be new and different. I think that we achieved that. Across Wales, there has been a fairly significant shift in the perception of what the organisation does and in the expectations on it since we launched as a development bank. However, that took an awful lot of work.

John Mason: You wanted to do something new and therefore a new organisation was set up, but I presume that there were some good things that you wanted to carry on, and those have broadly been okay.

Rob Hunter: They have. A complexity in our case was that the first access to finance review was in 2012, and that led to the feasibility study into the development bank. There were very good ideas in the reviews; we were told that it would be great to launch specific funds, for example, to increase microfinance or seed funding across Wales. Rather than waiting until we launched as a development bank, Finance Wales started that change, probably in 2013. The actual transition to the development bank did not happen at midnight on whatever date it was in October 2017. It was a transition that took place over about four years, which culminated in the change to a development bank. We had already made a significant shift before the launch date.

Andy Wightman (Lothian) (Green): I have a couple of questions on structures. What is the difference between the Scottish Investment Bank and the Scottish national investment bank, other than the insertion of the word "national"?

Kerry Sharp: There is quite a lot of difference. As you are aware, the SIB is part of Scottish Enterprise at the moment. Our focus is on early-stage risk capital and lending of up to maybe £5 million. We also deliver the energy investment fund, which is a low-carbon focused, mission-led fund for the Scottish Government.

We deliver only an element of what the new Scottish national investment bank will do. It will be a separate legal entity, with all that goes with that—I know that the committee has talked about that at various times. The breadth and scale of the activities are quite significant compared with what the Scottish Investment Bank has done. I see the new bank as one that will build on the success that we have created to date, but do a lot more for the economy, and make a step change in both the capital that is available and the areas that it will be able to look at.

Andy Wightman: Is there anything that the Scottish national investment bank is planned to do that you cannot do?

Kerry Sharp: Certainly, the scale of capital that the bank will deploy would be too significant to be deployed by Scottish Enterprise. Discussions on dispensations from the UK Treasury are under way. The team working on that are hopeful that if those dispensations are forthcoming, it will mean a significant change in the way that the bank operates, meaning that it will be able to make a much more beneficial market impact.

Andy Wightman: Was the Development Bank of Wales or Finance Wales established by statute?

Rob Hunter: Finance Wales was—well, kind of. It dates back to the Welsh Development Agency Act 1975. That was updated by the Government of Wales Act 2006, which had provision for Finance Wales. The formation of the Development Bank of Wales was not done through statute. That was just branding, if you like—a change to the name and focus of the organisation—and a change to the missions.

Andy Wightman: How is the bank capitalised?

Rob Hunter: It is a very different model from the one that is proposed for the Scottish national investment bank. In effect, we cannot say that we are not capitalised; we are. In the 18-month lead-up to the launch in October 2017, we achieved a commitment from the Government of an additional £154 million. Since the launch, we have received commitments of a further £430 million for the bank. Significant sums of money have been committed.

We have about 15 funds and we go to the Government with a business case for each fund, using the Treasury five case model. That is approved by the department, and then the money is released to us through the life of the fund. It is a different operating model. We do not have the autonomy to make the decision as to how to deploy the money on our own; we have to do that through Government departments. I have to say that, for us, it has worked exceptionally well.

Gordon MacDonald (Edinburgh Pentlands) (SNP): Evidence to the committee suggests that despite an increase in private capital in Scotland, investment is still low and there is a lack of demand. If that is the case, what factors can inhibit demand?

10:00

Kerry Sharp: Demand is always a difficult area. From our understanding of the market, it is clear that it takes different forms, and often the problem is having the right supply to meet particular demand at any point in time. As a result, it will be important for the bank to take a flexible and agile approach. After all, gaps do not stay the same; they change all the time, and the bank's response to these gaps will be incredibly important.

Moreover, on the mission-led side of things, there will be a need to think far and wide about the different kinds of support, technologies and companies that will achieve the mission that the bank is looking to deliver for the Government. It will not be a case of having a one-size-fits-all approach or saying, "This is the answer. If we invest in it, it'll all be fine." Different technologies, responses and types of innovation will be required. The most important thing in that respect is to be close to the market, to be informed, to challenge what is there and to ensure that the bank speaks to the market, that its responses reflect what the market really needs and that the projects, the companies and everybody else involved are supported as we move forward.

Gordon MacDonald: Do you believe that there is a lack of demand for patient capital in Scotland?

Kerry Sharp: I think that we need to make more of the demand viable and interested in raising that sort of funding. There are definitely gaps in the market, some of which we are supporting at the moment, and our evaluation says that our role is fundamental to the market and that if we were to step out the market would reduce. There are gaps, but what we need is more demand to be stimulated and more support mechanisms that will work with the companies to ensure that they are funded to take the next step in their journey. The confidence of the market will be incredibly important, and the very existence of the bank as a trusted and transparent entity with strong ethics and working practices, with the amount of capital that has been earmarked, will create demand among companies, which will be saying, "That's something that we want to work with."

Gordon MacDonald: Apart from the things that you have just mentioned, how else will the bank stimulate demand? Will that involve working with the development agencies and so on?

Kerry Sharp: Absolutely. The ecosystem and how the bank works with others will without a doubt be the most important part of its ability to deliver. Coming back to your earlier question, supply itself is not enough—managing demand, too, is incredibly important—and I see the bank leading on the supply side of things and the enterprise agencies, in particular, and others in the market leading on the demand side. Obviously, though, there will be a lot of cross-working.

The system will need to work well to ensure that there are integrated support and services and that there are forums in which we can discuss how we move the market forward. Without a doubt, though, it sits across a number of different parties.

Gordon MacDonald: Mr Hunter, I note that the Development Bank of Wales was established in October 2017 and that, in the last full financial year to March 2019, it had investments of £80 million, which is 18 per cent higher than the previous year, and the number of investments increased by 30 per cent to 420 across Wales. How do you manage and meet demand in Wales?

Rob Hunter: The organisation’s targets were originally set out in a business case produced in 2016. Our aim was to reach around £80 million of investment by 2022, and we have actually achieved that in the bank’s first two years.

In Wales, we have found that demand comes from a number of places. I know that in Scotland the challenge is to invest £200 million a year, and from our experience in Wales, I think that that is probably the right level to aim at. That said, I would echo Kerry Sharp’s point that the Scottish national investment bank will need to remain highly flexible in trying to meet the widest demands of the business. For example, two thirds of all our funds in Wales can give access to the kind of patient capital that Mr MacDonald mentioned, but the remaining third of the funds, which do not involve patient capital but are about short-term, sometimes fast-revolving funds, forms a critical part of the ecosystem in Wales. Those are very important gaps that can deliver quite a lot of economic as well as financial benefit.

We have been fortunate in having a wide remit. It is amazing that once we formed, the simple fact that we had become a bank and were serious about being a bank—that is, we put something genuine behind it—created a lot of demand and interest across Government. We have been speaking to various Government departments. Two years ago, I would not have guessed that one of our key performance indicators would be the number of homes built in Wales, for example. That work is driven through our residential property funds. A lot of the ideas are coming through Government departments, and we are lucky enough that we do not have anything that absolutely restricts us. I suppose that the only piece of advice that I could probably give to Scotland is to leave things as open as you possibly can; do not close things down.

It seems obvious that a development bank should lend only to medium-sized enterprises. However, we administer the help to buy Wales scheme on behalf of the Welsh Government, so we lend to individuals. We are just about to launch a self-build fund for people who want to build their own homes. That is very much aligned to a lot of other Government interventions, to make it easy for people to pick a plot. Local authorities designate a site—they call those plot shops. They put in the services and an individual can go along and choose from a pattern book. They are then put on to a registered builder, so they know that they will be good. We provide the bridging finance for the build, which is then remortgaged out.

Therefore, we can fund the small builder through our small loan funds and we can also fund the purchaser. Working with local authorities and Government across Wales, we can generate an industry that, although it might already flourish abroad, does not really flourish in the United Kingdom. If we were restricted from lending to individuals, we would not be able to intervene in that way.

Until the SNIB is launched, I do not think that you will really know what its capacity is. We are still learning. I am in discussions with literally all Government departments in Wales. There are a lot of things in which the Development Bank of Wales’s involvement would be inappropriate or inefficient, but the fact is that when I walk into those discussions, nothing is off the table. That is really important.

Gordon MacDonald: When it comes to stimulating demand, how important are the microloans that the Development Bank of Wales hands out to the sector?

Rob Hunter: There are a number of reasons that microloans are important. You mentioned the 420 investments that were made last year. You will not be surprised to hear that a lot of those were delivered through microfinance.

There is a thing about connecting the Development Bank of Wales, or the Scottish national investment bank for that matter, to the people and showing that it is making a difference. Rather than making 20 large-scale investments a year, for example, the finance is being spread across the nation and businesses across the region can identify with what is going on and share in that success. That is crucial.

One of the interesting things—I know that the British Business Bank has said this about our rise—is that we are exceeding our target. I am not saying that microfinance is a loss-making area—I am trying to think of a better way of putting it—but you will not get a huge return on investments. In Wales, we have found that the default rates are a lot less than we had originally modelled for, which enables us to revolve the funds and invest more in those activities.

Microfinancing is a crucial part of the bank. That takes us back to the point that there is not a single market gap. Market gaps exist across the spectrum from very small people who need a couple of hundred pounds to buy a sewing machine or whatever it might be to get them into business, right up to the large scale £5 million and

£10 million investments. The gap exists across sectors, too.

Jackie Baillie (Dumbarton) (Lab): Uptake of Scottish-European growth co-investment funding has been slow. I think that the SIB said in a previous submission that that is because the fund is new and different, and it will take time to educate companies and investors. Ms Sharp, will you update us on progress in delivering the programme? Are there lessons that the SNIB can learn from your experience?

Kerry Sharp: The Scottish-European growth co-investment programme—SEGCP for short, which is slightly easier to say—has been slower than we would have liked it to be. We have done three deals, and investment of about £1.53 million has leveraged in £8.5 million. We are about to do two more deals—they are imminent, although I had hoped that they would be done by today's meeting—that should see us deploy about £1.7 million and will lever in another £5 million.

We nearly did a couple of other deals. In one case, the company managed to raise the funding that it needed, so it did not need our money. In another, the company decided to go into sales mode rather than fundraising mode. We have about 120 inquiries on our books, and we are actively working on 30 or so, for which we are making introductions and supporting companies with their business plans, pitches and the like. Uptake has certainly been slower than we would have liked it to be. However, the SEGCP was always a niche fund—the objective was to support only five, six or seven companies a year.

That said, we have learned that it always takes longer than expected to get a new initiative going, even when we think that we have planned enough for delays. Without a doubt, Brexit has played a negative role in respect of uptake, both from the investor side and the company side. We speak to a lot of investors that are based across Europe that have a relationship with the European Investment Fund, and some are nervous about where they invest their money at the moment. Likewise, we have found that when we encourage companies to speak to European investors, given the role of the EIF in the programme, Brexit is causing them to think a little more.

You asked what lessons the Scottish national investment bank can learn, which probably brings me back to my comments about the need to be clear what the market gap is and about taking a flexible approach. A benefit of the way in which the current system is set up is the relationship with the EIF and its fund managers, but that can also be a downside, because the approach is quite particular and there are deals with investors that are not eligible. More flexibility in the instruments that are used would be useful.

Jackie Baillie: You said that investment is uncertain because of Brexit. That is interesting, because my understanding, from the announcement in the programme for government, was that the fund was being set up to counter some of the impacts of Brexit.

Will you remind us of the amount that you expected to spend? If my memory is right, it was £10 million in year 1 and another £10 million now—and that was just SE's contribution; the drawdown would have been much more significant. We are well short of that.

Kerry Sharp: That is correct. We had a £50 million commitment from the Government, which we then committed to the programme, so we are, indeed, well short of that.

The fund was not set up to counter Brexit. Our relationship with the EIF allowed us to access funding that will certainly be available until Brexit, but we do not yet know whether it will be available after that. The proposition was that there was a window of opportunity for us to access the funding; the longer we delayed, the smaller the opportunity of the funding being available would be. Through the Brexit negotiations, we will see whether we will be able to continue to access the funding.

Jackie Baillie: My recollection is that the fund was announced in the programme for government as part of a package of measures that were designed to make the Scottish economy more resilient to Brexit. I remember the fund being the centrepiece of the announcement, which is slightly at odds with what you are saying, so perhaps what we heard was a measure of political spin rather than anything else.

Kerry Sharp: I certainly cannot comment on that. I do not recollect the statement at all, so I cannot say anything, I am afraid.

Jackie Baillie: Okay. You talked a little about the need for demand-stimulation activity. What activities need to be delivered on the demand side? Are resources and capacity in the enterprise agencies sufficient to enable you to do that?

10:15

Kerry Sharp: Earlier, I mentioned the importance of the fact that the bank will exist. There is a need to join together all the players in the ecosystem to ensure that there is a stronger digital approach to allow easy access for companies, projects and communities. The system must be as joined up as possible to ensure that there is no wrong door and that the customer journey is as smooth as possible, so that when someone approaches whatever part of the public sector, they can find their way to wherever the funding might be.

Lots of work is under way as part of the enterprise and skills review, and the strategic board is leading on that. However, there is a need to ensure that those who are involved are engaging with the bank in the same way. I know that there have been initial discussions to make sure that that happens.

Jackie Baillie: One of the outputs from a recent committee inquiry was about the lack of joins between business gateway and Scottish Enterprise in some areas. Is that being actively considered? That might be the first step for a company in accessing funding.

Kerry Sharp: With large organisations, it is difficult to make that process as smooth as we would like. Obviously, the structure of business gateway can also make that slightly more challenging. However, without a doubt, business gateway plays an important role in the ecosystem, as other players do. I absolutely agree that there is a need to ensure that everything in the ecosystem is as joined up as possible.

Our financial readiness team, which will stay within Scottish Enterprise and which provides support to companies, works well with business gateway. Members of the team are often based in business gateway offices so that they can get closer to companies and support business gateway advisers with financial readiness advice, which is growing in importance. That area of specialism is very much the linchpin between the wider enterprise support of the type that is delivered by business gateway and the funding support that the SNIB will provide.

Jackie Baillie: Thank you.

One of the major transitions from Finance Wales to the Development Bank of Wales involved a commitment to work much more closely with public sector business support. Can Rob Hunter update the committee on how that is evolving and whether there are lessons for us to learn? I am conscious that we have a number of different enterprise agencies, all of which have something to give, so I wonder whether we need to join them up more than is currently the case.

Rob Hunter: The main provider of advice and support to businesses in Wales is business Wales. There was a lot of discussion around how the Development Bank of Wales could integrate better with it. We now have board representation: one of our people sits on its board and one of its people—in fact, the person who leads it—sits as an observer on our board. That was the first step.

Secondly, we recognised that we wanted to hide the wiring as far as businesses were concerned. Previously, a business might phone business Wales seeking what turned out to be commercial finance, and would be batted around various departments and individuals before it eventually ended up with us. Now, there is an automatic routing: in effect, one phone call comes in, and the two sides of the business support area have a mutual arrangement to ensure that the service is completely joined up. Business Wales is hugely important to the Development Bank of Wales. Its representatives on the ground are an enormous source of leads for us, and it is important that we work seamlessly with it.

In Wales, as in Scotland, however, there are a lot of other players. For example, the Welsh Government's business, economy and innovation department co-ordinates other grant schemes and means of support. There has been a significant shift in that area. In about two weeks we will, for the first time, have a full joint strategy session between that department and all the other elements that are involved, so that we can see how the Development Bank of Wales can assist them. Reorganisation of that department this year is driving that effort.

As I said, in growing the process, you do not know what is there until you start to discuss it. However, given the enormous pressure on capital budgets and Government, one thing that we have been able to work on with the Government is how it can stretch its grant schemes and make best use of the Welsh pound, as it were.

If you look at how grants have been administered, you can see that historically binary decisions were made about whether something should be given a grant or be commercially supported. However, I think that the decision is rarely binary. In the vast majority of cases, you do not need to give a 100 per cent grant, because there is a commercial element of whatever the intervention is that should be repaid.

In the past year, we have launched three funds, across two Government departments, that have a commercial element that sits alongside Welsh Government grant schemes. For example, there is the property development grant for commercial premises, which is administered in the department for economy, science and transport. The department has put £15 million of grant into a pot, alongside which we have a £40 million fund, and we work the two together. The department administers the grants under its general block exemption regulation scheme—its state aid cover—and we do the commercial finance element.

The results of that can be incredible. Such a fund revolves quite fast, and you might get two or three revolutions out of it. If we revolve £15 million of grant two or three times, we might get £160 million-worth of delivery across Wales. Such approaches are innovative. It is about genuinely combining things and the bank being seen as a solution right across the Government.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I would like to explore three areas, one of which is patient capital, on which we have already touched. The DBW extended its loan-repayment time to 10 years, which was viewed as a long-overdue development. I think that it led to quite an increase in demand for patient capital among Welsh businesses. What does the SIB currently do in terms of patient capital?

Kerry Sharp: I would say that everything that we do is patient capital. The largest part of what we deliver is early-stage equity investment: anybody in that area would tell you that you have to be patient if you want to be in that area. The exit-horizon timeline is 10 to 12 years, and we have a number of investments that are older than that. We are not required to force exit; we are there to support the growth of a company, working alongside the private sector investors. It is very much a patient approach.

We launched a new loan scheme last December under the Scottish growth scheme. The repayment terms are normally up to seven years. That is the demand that we have in the market at the moment. We can be flexible in that—it is a pilot—and we will be looking at whether there is a need to make the time longer. If there is, we will certainly consider doing that. We do not see that as not being patient.

I mentioned our energy investment fund, which is focused on low carbon. That fund is very flexible and, as the team would tell you, very patient. The team plays a phenomenal role, from market making and developing the market, to intensive financial readiness with community projects and wider low-carbon projects, right through to structuring and investing or lending. The loans to the community projects are normally over 10 to 15 years, and are sometimes for longer. The benefits that return to the community on the back of those are for 25 years or so. Overall, it is a very patient approach.

Colin Beattie: You seem to be talking mainly about loans. Do you do any equity investment of patient capital?

Kerry Sharp: The first section of my comments was on our equity funds. The majority of our investments are equity investments, and the energy investment fund is debt and equity in equal proportions. We are very focused on equity, as well as now starting to do more on the lending side.

Colin Beattie: Do you believe that you are meeting the current need for patient capital?

Kerry Sharp: We believe that, by providing the level of patient capital that we provide, we are playing a strong and fundamental role in the market. I mentioned earlier the real impact that the bank can make going forward. There is potential for a lot more patient capital to be provided. We have been looking at scale-up capital in particular. The SEGCP, which I mentioned earlier, is our response to that. However, we feel that there is a need to do more in that area.

Colin Beattie: How much of a step change in the market will the SNIB make by providing the patient capital that is envisaged?

Kerry Sharp: The bank’s focus will be on providing the level of capital to change the market dynamics and on identifying evolving gaps, which will, I think, have a transformational effect on the economy. The challenge with the way in which we operate now is in the amount of budget and funding that is available, so the Government’s commitment over such a long time will allow the bank’s team to look forward and to make different choices.

We have certainly identified, from the energy investment fund, the need to be ambitious and very patient, and to take a different approach when we are dealing with new technologies and emerging markets. The bank will be able to focus a lot of its attention and funding on making substantial investments in order to change our economy.

Colin Beattie: Would you say that the SNIB will take the right approach to the market?

Kerry Sharp: Yes—I believe that it will.

Colin Beattie: The target rate of return is always an interesting issue. The financial target rate of return for the bank will be set and finalised prior to the vesting of the company. What is the target rate of return for the SIB and the DBW?

Kerry Sharp: The SIB does not have a target rate of return at the moment, because we have not been required to have one. We act commercially in all our investments and seek to maximise the return, and we do not need to select a portfolio or an approach to achieve a specific target.

Colin Beattie: What is your rate of return?

Kerry Sharp: There are lots of different ways of considering that. The exits that we have made have been very successful, and our overall internal rate of return on the successful exits is about 29 per cent. It is important to look at things in the round, however, so if we include write-offs, the figure is about 9 per cent. If we also include our current portfolio, which is sizeable and valued at more than £300 million, we just about break even.

Colin Beattie: What is your percentage failure on capital and employment?

Kerry Sharp: I will need to double check the figure for you, but I think that it is about 20 per cent. We have had write-offs of £80 million since we started our activities in 2003.

Colin Beattie: Is that figure comparable with figures for similar institutions?

Kerry Sharp: It is very difficult to compare what we do with what other institutions do, given that we fill gaps in the market, and that our equity fund deals are brought to us from the private sector, so we are in the highest-risk category in a very risky area. Therefore, we are not comparable with many other institutions.

We are very comfortable with our level of failure and write-offs, but I know that some people will say that the write-off figure could be higher, if we are making a real difference in the market. Clearly, we are not keen on losing money; we are trying to make money.

Colin Beattie: What about the DBW?

Rob Hunter: The DBW has a very similar story. We do not have a set target return on investment, which I am quite pleased about. We tend to negotiate a projected ROI case by case because, as I said earlier, we create a business case for every one of our funds. We negotiate with the Welsh Government on the sort of return that it is looking for from the fund. Once the fund goes live, we manage the portfolio of investments for that fund in order to deliver the agreed ROI.

I am not sure whether it is critical that an organisation has a positive or negative ROI after aggregating all the figures. We are playing in the very difficult part of the market. If there were very high expectations for the ROI, there would be a great temptation to start to take on less risky and more market-facing investments. That would just displace the market. We want to crowd more funders into Wales rather than to crowd existing funders out of Wales.

My answer to the question is very similar to Kerry Sharp's. I think that our target ROI is currently forecast to be positive by about 0.7 per cent. However, as I said, the target is not set in stone.

The other important issue from our point of view—which might or might not be a difference—is that our operating costs are covered through the fees that we charge on the funds. We do not have any Government subsidy for our operating costs; we have to stand on our own two feet and fully cover organisational operating costs. That is also factored into the calculations.

10:30

Colin Beattie: Is it right for the SNIB to have a target rate of return from day 1?

Kerry Sharp: That is probably a question for the Government to answer.

Colin Beattie: I am thinking about the witnesses' experience, and I am hearing from both of you that you do not have a target rate. I do not know whether that is a good or a bad thing.

Kerry Sharp: We do not have a target rate of return, and we are targeted to do lots of things. One of those targets is to increase the size of the early-stage risk capital market, which we have been successful in doing—it has grown fourfold since 2012 as a result of our investment and the amount of leverage that we achieve in the market. If a body has a target to deliver financial return, that will doubtless have consequences for how it operates.

One of the benefits of the planned scale and breadth of the bank is that there will be different ways to do different things. It will be entirely possible for one part of the bank to have either a different target rate of return or no target rate of return, depending on what it sets out to do. The challenge in the economy is definitely the need for income to flow, and for the Government's commitment not to be too long into the future. That is clearly why the Government is considering a rate of return that it thinks is reasonable. There are clear examples of such targets—the BBB had one and exceeded it. Such examples can be looked at in working out the best way for the Scottish Government to put the target into place.

Colin Beattie: If you were pushed, what sort of target rate of return should the SNIB be aiming for?

Kerry Sharp: Given that you are pushing me and that I will be part of the bank, I would say that it should aim for a low one, which will make life a little easier. [*Laughter*.] The bank will have to be realistic. I would certainly consider the example of the BBB to ask why it thought that its target was appropriate and to understand its performance.

I would advise against aiming for a high rate of return, because that would, without a doubt, be challenging to achieve and would change behaviours. Given that the bank is about patient capital and the change that ministers want to see in the economy, ministers need to be careful and conscious of that when setting targets that will determine how people will operate day to day.

Colin Beattie: To continue down that road, the SNIB will have a high risk profile, as—indeed—does the SIB. Given that risk profile, is the expected break-even timeline of 2023-24 realistic?

Kerry Sharp: I do not think that that is the break-even timeline; I think that it is the timeline for covering the operational costs—for the bank to be self-funding rather than self-financing, which is being set at 10 years or so.

Colin Beattie: I was talking about operational costs; I am sorry that I was not clear.

Kerry Sharp: That is no problem.

We have covered our operational costs for a large number of years. It is certainly possible for the SNIB to do that. Clearly, that will depend on what its costs end up being. Given what they are proposed to be at the moment, I think that that timeline is entirely achievable, given our activities alone, plus the activities that we know will move in and all the new things that the bank will do.

Colin Beattie: How long did it take you to become self-funding in relation to operational costs?

Kerry Sharp: I do not have the answer to that. Staffing costs in the SIB are around £3.3 million at the moment. Given that our activities have grown over a number of years, we have obviously grown. Our income over the past five years has been, on average, £20 million. I cannot tell you when we started to cover our costs, but it was quite a long time ago.

Colin Beattie: Rob Hunter said that the DBW covers its running costs from fees. How long did it take to get to the point where the DBW was covering its costs?

Rob Hunter: When I started in the role, one of the first jobs that I had to do was to co-ordinate the production of a financial model for the business, which brought together all the funds and all the costs and projected how much in funds we would need over the five-year period to generate enough fees to cover our costs. The figure came out at £154 million over the first five years. Interestingly, by the time we reached June or July 2017, we had received commitments to all but £23 million of it. Because that figure was relatively small in the grand scheme of things, the minister at the time said, "I'm not signing the bank off until we've given you a commitment to the full amount," so we had a commitment for the final £23 million a week before we launched. In other words, it was at launch that we stopped receiving any Government grant.

On the question of demand, we genuinely could not have predicted that we would raise £430 million of additional commitments to funds in the two years since then. When we produced the first business case, we thought that raising the £154 million would be a tough ask. What has happened is testament to the fact that, if things are done properly and with the gravitas that one would want for such a long-term, national institution, the amount of interest that the bank generates from other players generates its own demand. Looking forward, I would say that our operating costs are probably covered for at least the next seven or eight years, based on our existing funds.

Andy Wightman: On the subject of costs, one of the issues that we have discussed is remuneration. We have had mixed views on the matter. Some people feel that the Scottish national investment bank should operate a remuneration policy that is consistent with what the financial sector does, while other people take the view that, as a public body, its pay levels should reflect public sector pay levels. What is the position in Wales?

Rob Hunter: I know that this will sound strange, but the answer to that question is probably that we do both those things—our approach is to reflect pay in the financial sector and pay in the public sector. I will go through our process for setting our salaries. We are not on civil service salaries. A very small element of the staff of the organisation are on local government pensions, but the figure is now less than 10 per cent, and that scheme has not been open to new people for about seven or eight years.

Our salaries are market tested, independently, every three years. We use two benchmarks: the financial services industry and the non-financial services industry. We have certain specialists, particularly on the equity/deal-doer side. In effect, we are a fund manager. We contract out some funds, but we deliver the vast majority ourselves. The pinchpoints for the higher salaries relate to the equity staff, and we look at those.

I will come back to a comparison with Government shortly, but our salaries are pretty attractive for the non-financial services people and the non-equity/deal-doer people. We have adjusted our salaries for the people who deal with equity, but we recognise that we cannot offer the stellar bonuses that people who work in the private sector can get. It is high risk, but it is high return. We recognise that, in attracting those people into the business, we must have a much wider offering. We are a great place to work. Our mission is to do great things—to improve the economy and the conditions of people who live in Wales—which is a great thing to get up in the morning to come to work to do. We offer a good work-life balance. Our targets are challenging, but they are not impossible to meet. In effect, we are developing an employer brand to get into the harder-to-reach areas.

Our pay is also tempered by Government pay. We have an independent review, but all our pay awards have to be signed off by Welsh ministers, so we must make sure that we pay sensible salary levels.

I was recently involved in a piece of work in which we did a direct comparison between the pay in the bank and the pay in the Government. When you compare pay to pay, there are two big differences. One is that Government employees have a final salary pension scheme. Taking the Welsh Government's figure, last year, that involved an average employer contribution across the piece of 23.6 per cent, and we know that, this year, the contribution has increased right across the public sector. The figure was being understated by 6 per cent, so the Treasury has put on another 6 per cent. That adds another 30 per cent to a civil service employee's pay. On average across the piece, our employer contribution is around 10.8 per cent, and we also have an incentive scheme, which is no more than 10 per cent of our total pay bill.

It is spooky but, when we compare like with like and look at the average pay per grade, the salaries are almost identical in real terms. The difference is how we divvy that up and how we put it out there in the sector in order to attract the right people. People in the financial services sector are used to working in an incentive-based environment. When we are trying to deliver the funds, such an environment is a useful tool.

The gap between Government and the private sector is a lot less than most people think. It is about how the money is deployed rather than the quantum.

Andy Wightman: Thank you for that very full answer. Are any of the policies that you have developed in that regard or any of the comparisons that you have done in the public domain, or are they internal?

Rob Hunter: They are internal.

Andy Wightman: If there is anything that you can share with the committee, that would be useful, although I understand that it is probably not much.

Rob Hunter: Sure—yes.

Andy Wightman: On the Scottish Investment Bank, I presume that all the staff are Scottish Enterprise employees who are on public sector pay grades.

Kerry Sharp: That is correct. We comply fully with public sector pay policies. There is a mix of staff in the Scottish Investment Bank directorate, with a number of non-investment specialists as well as investment specialists. A number of years ago, we negotiated an allowance that we can apply to our investment specialists to allow us to attract and retain them. Obviously, a specialist skill set is required—there is no doubt that people need to have the right skills to be able to deploy the instruments. We can deploy that benefit to particular members of staff. It is role, post and individual specific.

Andy Wightman: I will move on to the question of additionality. Mr Hunter talked about the risk of crowding out investors from Wales. How do you ensure that the funds that you deploy are genuinely additional to the investments that are available to businesses?

Rob Hunter: We always ask investee companies whether they have tried to access the market. That simple test comes right at the beginning, and it is driven by the history of the organisation and its deployment of EU funds, in which that is a condition. We are clear that we are not here to compete with the banks or the private sector. Indeed, we have a good working relationship with the banks. Banks often come to us with a deal that they want to do and that they believe has a strong business case but where there is a problem of security—the banks can secure only a certain amount of the loan. Particularly in Wales, that is often a result of property values being low. A bank will come to us and say, "We've got a £1 million deal and we'd be happy to lend £600,000," and then we step in behind the bank with a £400,000 subordinated loan, which gets the deal off the ground. It works both ways. Banks will come to us and we will bring deals to the banks.

Kerry Sharp made an interesting point in that regard. For some of our work, there is no KPI that we can measure, although I wish that we could, but that work is testament to the fact that we are not crowding out investors. Quite often, particularly with the bigger deals—we find this with the patient capital stuff and the large-scale investments that are getting into the £8 million to £10 million area—a company comes to us with a business plan or proposal that is not investor ready. The teams will put enormous effort into getting the thing investor ready, at which stage the people involved will rush off to an investor and do the deal away from the bank.

We get a fair bit of that, and it is a difficult issue. If you look at the Welsh economy, you will see that that is exactly what you want to happen, because it allows us to deploy elsewhere the funds that we have been given in order to grow the economy. However, for those staff who are incentivised or target driven, it can be a little upsetting when it happens.

10:45

Andy Wightman: I am also interested in the issue of mission-oriented finance, which has been advocated by Mariana Mazzucato, whom we spoke to a few weeks ago, and which is in the bill as a purpose of the Scottish national investment bank. Does the bank in Wales have anything that could be called mission-oriented finance, or is it more of a conventional development bank?

Rob Hunter: I would have to understand what is meant by the term “mission oriented”, but interestingly, what lies at the core of a lot of the funding proposals and the other things that we discuss with the Government is, in fact, the Government’s mission. I have had meetings on pretty much every aspect of government that you can imagine from care homes and domiciliary care to transportation such as buses, trains and taxis; we will not be able to assist with many of those things, but in certain instances, we can. Our position is that we are there to support the delivery of Government priorities, and where there is a commercial element to that delivery, we want to step in and do a good job. However, I am not sure that that is what you mean by mission-oriented finance.

Andy Wightman: It is about the Government setting a long-term mission by, as the bill describes it,

“sending ... a document describing the socio-economic challenges that the Bank is to seek to address.”

Examples of that might be moving to a low-carbon economy or upholding the human right to housing, and it will typically happen over a long period of time. That is what it is about.

Rob Hunter: That is very much the case with our bank. In fact, alongside our standard KPIs, we will by the end of this year be measuring ourselves against a supplementary set of KPIs that includes carbon reduction, assistance to female entrepreneurs and a lot of other such indicators that we have not traditionally captured in the past. Shifting the bank towards the Government’s longer-term vision and goals is absolutely on our agenda.

Andy Wightman: So those are new KPIs that you will be reporting on.

Rob Hunter: Yes, by the end of the year.

Andy Wightman: You are not reporting on them at the moment.

Rob Hunter: We have not done so in the past, but we are developing a set of KPIs that we will be reporting on throughout this financial year.

Andy Wightman: Will that report be available next summer?

Rob Hunter: Yes.

Andy Wightman: I wonder whether Kerry Sharp has anything to say about additionality and the Scottish Investment Bank. I think that you mentioned a client who turned down your money because they got money elsewhere.

Kerry Sharp: Yes, through our SEGCP. We are very much targeted at achieving additionality, and private sector leverage is one of the things that we record and which we try to maximise at every possible point. Our role in the market is to be gap funders, but the issue sometimes is the time when that funding is available. Time can be of the essence, and we can move very quickly with some of the private sector partners that we are close to. It is all about different levels of additionality in the market.

Virtually everything that we do is done with co-investors or co-lenders, so we are not doing things on our own, and the vast majority of those projects are, in the main, brought to us by others who feel that they have a gap that they want us to fund. Just now, we have very strong additionality, and I would expect the Scottish national investment bank to operate in exactly the same way, too.

Andy Wightman: Who identifies the gaps that you mentioned—the lenders or the clients?

Kerry Sharp: Both. If the client cannot raise the funding that they need, they will come to us directly and ask for help from our financial readiness team, which I mentioned earlier. Its number 1 role is to get funding from the private sector, and only when it cannot do that will it look to colleagues to see what other support can be given. However, lenders or investors who want to support businesses but who cannot provide the level of funding that they need will also look to us to co-invest or co-lend with them.

Andy Wightman: Do you recognise Mr Hunter’s point about the private sector perhaps not lending because it does not have enough security? Would that be a typical instance in which you would consider stepping in?

Kerry Sharp: Yes—certainly through our debt fund. The issue could be the level of security, the length of term that is needed, or that they cannot afford to start to repay for a couple of years. We are very flexible in our moratoriums, which will provide interest or capital holidays. The future projections could be racier than some of the banks or others might be interested in.

The vast majority of what we do is on the equity side. There, the gap is usually to do with the level of capital that the investor is willing to put at risk not being enough for the deal to go ahead. We need our businesses to be properly capitalised. There is no point in investing in a business that does not have enough capital to get to the next value inflection point. If there is not sufficient capital to be deployed, our partners or co-investors will come to us and ask us to invest alongside them.

Angela Constance (Almond Valley) (SNP): Good morning to our guests. The implementation plan for the Scottish national investment bank says that, when investment decisions are being made, the broader approach of taking into account economic, social and environmental factors as well as commercial factors needs to be taken. Does the Scottish Investment Bank take that approach now? What attempts are made to have a balance between commercial factors and other aspects in measuring performance?

Kerry Sharp: We absolutely look at a lot of different levels. As I touched on earlier, we have been looking to grow the market on the risk capital side for a number of years, and that has been done successfully. That is now performing best regionally across the UK, and Scotland is punching at or above its weight on the early-stage side. We monitor closely the size of the overall market and strip out the large deals of over £10 million—the outliers—to see the underlying market and ensure that it is still healthy and growing. That is one element that we look at.

We also carry out evaluations, which is really important from the point of view of the role that we play in the market. The evaluations, which are qualitative and quantitative, try to work out the gross value add, including jobs and various other elements that are obviously important for an economic development agency. They also speak to investors, companies and other market players and ask questions about the role that we have played in the market, whether we have filled gaps, and whether we have been additional, for example. That allows us to consider the success of the fund, whether what we would like to be delivered in the market has been delivered, whether we can make improvements, whether the approach is fit for purpose, and whether any changes need to be made to make the approach more relevant and useful to the market.

The other level is the financial performance, which we touched on earlier. We do not have a target rate of return, but we have to act commercially, so we seek to maximise individual returns. It is therefore important for us to monitor the income that we bring in from our exits and to do all that we can to try to maximise that.

Angela Constance: You have outlined how market factors and financial returns are evaluated. If anyone had to randomly pick any investment decision that the Scottish Investment Bank has made and ask about broader social factors or environmental impacts, for example, would you be able to articulate a response to demonstrate its impact and explain how it was measured?

Kerry Sharp: I would not be able to do that for every single decision. That is work in progress for us. For a number of years, we have worked closely with colleagues to record some of the important factors—for example, women-led businesses and ethnic minorities. We have had a couple of general data protection regulation challenges, which we are just working through, but we are still developing our approach to that.

Overall, that is one of the things that we are strongly focused on as a business. Scottish Enterprise as a whole is very clear about the need to record social factors as well as environmental factors, and we are putting in place the tools to allow us to do that consistently across all our different areas of activities, right down to a company basis or a project basis.

Angela Constance: Do you use anything like a balanced scorecard? If you do not, do you consider that to be a potentially good tool for the Scottish national investment bank to use to measure broader performance?

Kerry Sharp: We do. We do not publish it externally, but we produce it internally. Previously, we have had an annual review that set out the factors on a portfolio and company basis—employee levels and so on. However, with regard to the overall market and the economic and financial performance, we record that internally using what is, essentially, a balanced scorecard approach. I think that it will be important for the bank to do that in future. It would not be sensible to focus on one of the elements and not the others; it is important that there is a focus across all the factors that can make a change to the economy.

Angela Constance: I would be interested to hear about the experience of the Development Bank of Wales with regard to whether broader factors are taken into account in investment decisions and how those are measured.

Rob Hunter: The easiest examples, which I talked about earlier, include our provision of commercial finance alongside Welsh Government grant funding. Generally, the mix might be up to 20 per cent grant funding and 80 per cent commercial finance. Those are two separate elements, but they work in a joined-up way.

In order to receive a Government grant through the ministers' economic action plan, companies have to sign up to a contract with Government that promotes progress on reducing their carbon footprint; offers fair wages and fair work, as defined by the fair work board; promotes health, including a special emphasis on mental health; and delivers skills and learning in the workplace. Further, they must demonstrate growth potential. Those elements are specifically measured by the Welsh Government and, therefore, our commercial finance flows in behind that.

A separate part of the process involves developing funds that specifically address some of those issues. With regard to decarbonisation, there is a lot that we can do with modern methods of manufacture in order to support businesses in the supply chain to do more of that. Decarbonising the existing housing stock is a massive issue; I assume that it is just as big an issue in Scotland as it is in Wales. I think that something in the order of 85 per cent of all houses that will be built in 50 years' time have been built now, which means that, if you do not ensure that those houses are decarbonised, there will be a massive drag on efforts to move decarbonisation forward in future. We are in discussions with the department with responsibility for housing to see how we can intervene to create specific funds to accelerate that change across Wales. We are working at a number of different levels.

Angela Constance: Do you recommend taking a balanced scorecard approach?

Rob Hunter: Yes, definitely. Like Kerry Sharp, we operate a balanced scorecard within the business, which we use to look at things from a customer perspective, the finance perspective, the delivery perspective and so on. We operate that on a day-to-day basis.

I think that you are asking about a balanced scorecard approach that involves consideration of not only financial returns but socioeconomic returns. We are developing that this year as part of our KPI measurement, which will be in place this year and will be reported on next year.

Jamie Halcro Johnston (Highlands and Islands) (Con): I will ask about the regional perspective. The DBW has four offices across Wales, and I know that the Scottish Government has been considering options for a physical location, or physical locations, for the Scottish national investment bank. Consultation on that is under way. Mr Hunter, what are the pros and cons of having those offices spread out across the regions of Wales?

11:00

Rob Hunter: A few years ago, I produced the pan-Wales strategy for locations across Wales. It is available on our website, if you want to see it. We and the minister were extremely keen that we would be a development bank for the whole of Wales, but we were a Cardiff-centric organisation with a few satellites outside of that area. We have generated a headquarters office in Wrexham, which will have in the order of 52 to 55 members of staff. We are well on track to reach the target earlier than we originally forecast, so that is going well.

Cardiff will still be our biggest office physically, as the majority of the businesses are in the south-east of Wales, but the mix of staff between Wrexham and Cardiff has been designed to ensure that we have a presence that is consistent with the business demography in those regions. That will drive up investment levels, which we are already seeing in north Wales. We have an office in Llanelli, which is in south-west Wales, and we are about to open a small office near Llandudno, which is in north-east Wales, so we will have people on the ground. That is important, because there is a thought that banks retrenching, moving away or closing branches—so that they are no longer as close to the businesses—is a new thing, but actually the business decisions have been removed from those branches for probably a very long time and most of the investment decisions are made remotely in an HQ office somewhere else.

One of the unique selling points of our organisation is that we are a friendly face—we meet our clients face to face and build a relationship with them, and will continue to do so. That is extremely important.

We have 22 unitary authorities in Wales and we noticed that there were pockets of very low investment activity. About three years ago, we set ourselves a specific target to increase the investment in the five lowest-performing local authority areas by 10 per cent in a year. The target changes every year because the unitary authorities that are in the bottom five will change every year. Last year, the combined growth of those five authorities was about 64 or 65 per cent, which was very positive and it raised the bar, so we have to do more next time. From our point of view in Wales, it is crucial that the organisation is not seen as a bank for Cardiff or as Cardiff-centric. It is certainly not that, as we now have very good reach right across Wales.

Jamie Halcro Johnston: You were testing my knowledge of the geography of Wales when you mentioned the different offices.

Rather than necessarily focusing on where the businesses and the demand are, you are looking to target those areas in which there is the lowest demand and in which demand needs to be increased.

Rob Hunter: Yes, absolutely. That is critical, and it is very easy to do. When any target-driven organisation sets targets on anything, there can be good intended consequences and there can be unintended consequences. An unintended consequence might be that the poorest-performing regions are left alone, but we cannot let that happen. The organisation has to reach across all the boundaries. There is a lot of talk about patient capital, but people need to see that such a national institution is real and that it is doing something in their area, which highlights the importance of doing smaller-value deals as well. If we were only doing large-scale patient capital deals, the likelihood is that we would be doing the vast majority of our deals in Cardiff or very close to the border with England, in Wrexham.

Jamie Halcro Johnston: Are you pretty clear that if you only had one office, that would limit the bank's ability or impact?

Rob Hunter: I genuinely believe that it would. I have been in Wales for 15 years, but when I first went there I allowed myself about three hours to drive from south to north Wales. It is 180 miles, so I thought that it would take three hours, but it is actually quite a journey. It is a strange thing. The M4 runs across the bottom of Wales and the A55 runs across the top, but then there are roads that are quite difficult to navigate to get from north to south. Therefore, if all our staff were in south Wales, the bank would feel very remote to people in the north. We have always had people based in north Wales, but not at the scale that we needed, in order to demonstrate that we are on the ground and we are doing business.

Jamie Halcro Johnston: Having driven from Abergavenny to Betws-y-Coed not that long ago, I appreciate the issue. In that context, will you and Kerry Sharp give me your thoughts about the idea of the SNIB having more than one office, so that there are offices out and about across the regions of Scotland? I represent the Highlands and Islands, which can feel a long way from many parts of Scotland.

Rob Hunter: If you look at our footprint, you will see that we are going to have 14 to 17 people down in Llanelli, in south-west Wales, about 100 to 110 in Cardiff and about 50 to 55 in Wrexham. For areas that are further out—because the bank is not a development bank for the whole of east Wales; it is a development bank for the whole of Wales—we have smaller satellite offices: there is one in Newtown and there will be one in Llandudno, which will cover the areas at the more extreme end of the A55 in north Wales.

Our staff in the Wrexham and Cardiff offices can reach out and get to most businesses in their regions pretty much within an hour and a half, but other offices cover patches where there is a little underrepresentation. The bit that is missing is Aberystwyth, which is between the two, right in the middle. At some point, when we have created enough demand, we will look to base a small office there.

Jamie Halcro Johnston: Your suggestion is that we should make sure that the footprint covers as wide an area as possible.

Rob Hunter: Yes. A hugely important lesson that we have learned is about having telepresence in our offices. The one thing that we do not want is for people to travel for three hours to go to a half-hour meeting, so having a state-of-the-art telepresence—I am not necessarily talking about the gold-plated stuff—and getting everyone to use it is important. Again, it is about carbon footprint and making best use of individuals' time. We have put pretty much state-of-the-art equipment in all our main offices.

Kerry Sharp: I agree entirely with Rob Hunter. The Scottish Investment Bank is pan-Scotland, so we operate across the whole of Scotland. We have staff based in virtually all SE's offices—if I remember rightly, there are 12 offices. Most staff are in the three main hubs, in Glasgow, Edinburgh and Bellshill, but there are people far and wide. It is important to be close to the businesses, the advisers, the projects and the communities we work with.

We work closely with Highlands and Islands Enterprise and we will work closely with the south of Scotland enterprise agency when it is up and running. We ensure that we are available, from a finance point of view, to interact with companies, account managers and other colleagues in HIE.

I agree with Rob, too, on the need for technology of a good standard, to enable us to have Webexes, online conference calls and the like, so that we can be available consistently and continually.

Jamie Halcro Johnston: Do you see that improving when the Scottish national investment bank is up and running?

Kerry Sharp: A decision has to be made about where the head office and any other offices will be. There is the potential for co-location with SE, HIE or others. There needs to be a cost-effective way of ensuring that staff get out and about. As Rob Hunter said, there is no point in someone spending all their time—carbon footprint aside—in the car or on a train.

Ideally, staff would be based in different locations. Of course, that brings a staff management dimension, matrix structures and everything else, but it is important to ensure that companies have full access to the bank. Just as Rob said that the Development Bank of Wales is for the whole of Wales, I am sure that the Scottish Government would say that the new Scottish national investment bank is for the whole of Scotland.

Rob Hunter: It is also important to encourage flexible working. The idea that everyone goes to a very big office at 9 o'clock in the morning and leaves at 5 o'clock in the evening is changing dramatically. The Development Bank of Wales encourages people to work from home. We have people based right across Wales who work from home for a reasonable amount of their time, so that is another resource that we can tap into. With excellent Skype connections through laptops, it is much easier to communicate and stay in touch with people as they work remotely.

The Convener: Finally—and very briefly, I hope—Andy Wightman has a question.

Andy Wightman: I want to put our question on governance to Rob Hunter. The Development Bank of Wales is a plc. The bank, or its predecessor, was established in 2000. Have your objects changed since then, or are they as they were in incorporation?

Rob Hunter: They are pretty much as they were when they were incorporated at that time. I know that there is an on-going debate about whether the organisation should be a plc. I think that being a plc works—it is very much a known quantity, it has got a very—

Andy Wightman: Sorry to interrupt, but I am not particularly interested in the plc aspect; I am interested in the objects. Chapter 2 of the Scottish National Investment Bank Bill has the statutory objects for the SNIB. You probably have not had the time to look at that, but I would certainly welcome any comments on those objects if you have any.

Secondly—I am being encouraged to be brief; I apologise, convener—who is the shareholder of the Development Bank of Wales?

Rob Hunter: It is Welsh ministers. I think that one share is with our chief executive officer. The Welsh Government is the majority shareholder.

The Convener: You can submit additional comments in writing after the session, so do not hesitate to do so.

That is all the time that we have this morning. Thank you very much for coming.

11:10

Meeting continued in private until 12:54.

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