



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Wednesday 10 September 2025

Session 6



The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 10 September 2025

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PUBLIC AUDIT COMMITTEE

23rd Meeting 2025, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

*Jamie Greene (West Scotland) (LD)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

Joe FitzPatrick (Dundee City West) (SNP)

*Graham Simpson (Central Scotland) (Reform)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephanie Callaghan (Uddingston and Bellshill) (SNP) (Committee Substitute)

Andy Hogg (Scottish Government)

Gregor Irwin (Scottish Government)

Richard Rollison (Scottish Government)

CLERK TO THE COMMITTEE

Katrina Venters

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Parliament

Public Audit Committee

Wednesday 10 September 2025

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning. I welcome everyone to the 23rd meeting in 2025 of the Public Audit Committee. We have received apologies from Joe FitzPatrick, but we will be joined online by his substitute, Stephanie Callaghan.

The first agenda item is a decision on whether to take agenda items 3 and 4 in private. Does the committee agree to take those items in private?

Members indicated agreement.

“Scottish National Investment Bank”

09:30

The Convener: Our main agenda item is further consideration of the Auditor General for Scotland’s report on the Scottish National Investment Bank, which came out earlier this year. We have previously taken evidence from representatives of the bank and, before that, we took evidence from the Auditor General and his team. This morning, we are joined by Scottish Government representatives to give us their views on the report and to answer our questions. I am pleased to welcome to the committee Gregor Irwin, who is the director general for economy. Alongside Mr Irwin is Richard Rollison, who is the director for international trade and investment. We are also joined by Andy Hogg, who is the deputy director for investment and financial services.

As I said, we have a number of questions to put to you, director general, but, before we get to those, I invite you to give us a short opening statement.

Gregor Irwin (Scottish Government): Good morning, convener, and thank you for the opportunity to appear before the committee.

As you have noted, I am joined by Richard Rollison, who is our director for international trade and investment. Richard has been the portfolio director responsible for the Scottish National Investment Bank since April 2021, and he is the Government’s observer on the bank’s board.

I am also joined by Andy Hogg, who is the deputy director for investment and financial services. Andy leads the Scottish Government’s shareholder team and works with our exchequer and finance colleagues on matters relating to the bank’s financial and budgetary arrangements.

At the outset, let me thank the Auditor General and his team for their report. It offers clear recommendations and a valuable assessment of the bank’s role in Scotland’s investment landscape. The report highlights the important role that SNIB now plays in our economy and the strong rationale for its operational independence. It observes that long-term patient capital investment will inevitably result in some losses, alongside investment gains.

I welcome the Auditor General’s conclusion that the bank has strong governance and clear accountability arrangements. I also welcome the recognition that the Scottish Government’s oversight strikes the right balance between scrutiny and allowing the bank operational independence to enable it to pursue its missions.

The report makes five recommendations: three for Government and two for the bank itself. We have already implemented two of the recommendations for Government and work is under way on the third, which relates to the United Kingdom Government's public finance institutions framework and the plan for the bank to become a perpetual investment fund. My colleagues and I can provide more detail on that work during today's session. I note that the bank's chair has already confirmed to the committee that work is in hand to address the two recommendations that were directed at the bank.

We look forward to answering your questions.

The Convener: Thank you very much indeed. I take it that you accept in full each of the report's recommendations.

Gregor Irwin: Yes, I do.

The Convener: Thank you. I turn to one of those—a recommendation for you—which is to ensure that the business investment group is up and running and working effectively. Will you give us an update on where you have got to with that?

Gregor Irwin: Yes. We accept that recommendation, as I have said, and we have established what is called the business investment co-ordination group. The role of that group is to identify market gaps and trends in the investment landscape, to share information on product development, to provide general updates and to ensure a cohesive approach by all the public bodies that are involved in investment in Scotland. It is not a public-facing forum. It is really a working-level group that brings together the most important participants in that system in Scotland. Andy Hogg, who chairs the group, might want to say more about that.

The sponsor team for our enterprise agencies is involved in the group, as is, of course, the sponsor team for the bank itself, and the key bodies that participate are the bank and the three enterprise agencies. We also invite others to participate, and the group meets on a quarterly basis.

The Convener: Mr Hogg, do you want to give us more information about the workings of the business investment group?

Andy Hogg (Scottish Government): As Gregor Irwin said, the primary function of the group is to provide co-ordination across key members in each of those organisations—the Scottish National Investment Bank, Scottish Enterprise, Highlands and Islands Enterprise, and South of Scotland Enterprise—with the key Government departments that engage and work with those organisations.

The group has met three times. Its first meeting in February was about understanding the

landscape and looking at how the delivery partners can work together and improve efficiencies. It met again in May and had a wider discussion about the changing and evolving landscape across investment in the United Kingdom and Scotland. Most recently, it met on 2 September, when we had a deeper dive into and a deeper discussion about some of the programme for government commitments around scale-up and entrepreneurship and how public bodies can engage on those and make the most impact. As Gregor said, the group can engage externally as well, so, at the next meeting, we are planning to bring along counterparts from the British Business Bank to have a wider discussion about interdependencies and ways of working across the system. Predominantly, it is meant to be a useful forum where colleagues share information and we establish a shared understanding of key areas.

The Convener: For clarity, director general, you are the accountable officer in the Scottish Government for the Scottish National Investment Bank, and I think that you described Mr Rollison as the portfolio director, so how does that relationship work? What is your relationship with the Scottish National Investment Bank—is it simply through delegated authority through Mr Rollison and Mr Hogg?

Gregor Irwin: No, I have direct responsibilities. I have regular meetings with the senior independent director, who is an important part of the governance framework for the Scottish National Investment Bank. On a less regular and formal basis, I meet with the chair and the chief executive. Beyond my accountable officer responsibilities for the bank itself, my full range of responsibilities include a number of circumstances in which I will work with the chief executive and his team to pursue the Government's objectives.

The Convener: You said—and I think that it is recorded in the Auditor General's report—that the bank is well governed. However, when the Auditor General gave evidence to the committee on 28 May, he also said that overgovernance is

"a real risk to be managed."—[*Official Report, Public Audit Committee*, 28 May 2025; c19.]

I have listened to the description of the various bits of apparatus, some of which are described in exhibit 3 of the Auditor General's report. There is a business investment group; a Scottish Government ministerial advisory group; the board of the National Investment Bank itself; and there is this figure who acts as a provider of independent oversight and who, as you have described it, liaises. There is a danger, is there not, that, at a strategic level, and even possibly at an operational level, there are lots of cooks who might spoil the broth?

Gregor Irwin: Yes. The issue here is balance. It is also important that we comply with legislation, and the ministerial advisory group is required under the Scottish National Investment Bank Act 2020. Andy Hogg or Richard Rollison might be able to explain more about the origins of the business investment group that Andy just described, but that was a recommendation from the Auditor General's report. The role of senior independent director is unique to the bank in Scotland, but such roles are standard practice for financial institutions across the rest of the UK. The board itself plays a very important role, and I have referred already to the operational independence of the bank, which I think is critically important to the bank's success. I am sure that we will come back to that issue.

I judge that that is a good governance system, but the key to ensuring that it works well is to respect the roles and responsibilities of different parties in the system. That needs to be combined with an element of pragmatism, but I do not have any concerns about any elements of the system, and I judge that we have got the balance right.

The Convener: But you are vigilant, no doubt.

Gregor Irwin: Of course.

Graham Simpson (Central Scotland) (Reform): Good morning, gents. If it is okay, I want to look at some of the losses that the bank has incurred so far. We had a very useful evidence session with the bank, and we accept that the nature of its work is that there will be losses—and there have been losses; from what I can see, there have been a couple. We know about Circularity Scotland, and we can come back to that, but there has been a more recent one—M Squared Lasers Ltd. What is your understanding of the potential loss there?

Gregor Irwin: First of all, I agree with your point that it is important to recognise the very nature of what the bank does. It invests in a diversified portfolio to pursue missions that are agreed with the Government and it is required to make a commercial rate of return. However, it takes risks, and it provides funding at a relatively early stage, which is riskier. Almost by necessity, that means that it will invest in some companies that are very successful and in others that are not successful. That is the context in which we need to evaluate the bank's performance.

Over several tranches of investment, the bank has invested £34 million in M Squared. As you know, administrators were appointed on 27 August, and the insolvency process is on-going, so we do not yet know what the outcome will be and, therefore, what the implications are for the bank's investment. However, obviously, that has

been reflected in its approach to provisioning in the accounts for 2024-25.

Graham Simpson: Is it possible that the taxpayer—because it is ultimately the taxpayer who funds the bank—could lose all £34 million?

Gregor Irwin: I think that it is essential to look at the bank's financial performance in the round because there will be gains as well as losses. To come back to the point about operational independence, it is important to consider that, as you and we scrutinise the bank's performance, there is a risk that focusing too much on individual investments will compromise the operational independence of the bank. Specifically in this case, we are not yet able to say what the extent of the loss will be, because the administration process is still under way.

Graham Simpson: However, potentially the loss could be all £34 million.

Gregor Irwin: There is no point in speculating—

Graham Simpson: I am saying that, potentially, the loss could be all £34 million. I am not saying that it will be, but, potentially, it could be.

Gregor Irwin: I do not know what the outcome of the administration process will be. Potentially, there are losses—

Graham Simpson: Mr Hogg seems to want to say something.

Gregor Irwin: I suppose that I would say that, potentially, there are losses on any investment that is undertaken.

Graham Simpson: I get that—listen, I completely get that. There are risks and there are rewards, and I am not obsessing about this one. I think that, if the M Squared loss was the whole £34 million, the two losses together would represent around 5 per cent of the money that has been invested so far by the bank. You can correct me if I am wrong.

Richard Rollison (Scottish Government): It is a little bit less but that is more or less right—4 or 5 per cent.

Graham Simpson: I do not know whether that is an acceptable level of loss or not. It seems quite small, and you could get a return on the bank's investments in other companies. That is the nature of it—I get that—but it is important that I ask about this particular investment, because it is quite recent.

Gregor Irwin: Yes.

Graham Simpson: So, you would accept that.

Gregor Irwin: I would accept that, yes.

09:45

Graham Simpson: Is the loss of 4 to 5 per cent of the money that has been invested an acceptable level of loss? Do you have a figure in mind for what you can live with?

Andy Hogg: I have a couple of points to add. First, to date, only one loss with the bank has been crystallised and had an impact on the Government's budgets—that of Circularity Scotland Ltd. M Squared Lasers, which you are asking about, has a provision against it in the accounts, and, as Gregor Irwin noted, it is in administration. That process has to be followed through.

For full transparency, I should mention that Krucial, which is a smaller-scale company with a £4.6 million investment, has also appointed administrators. No loss has yet been crystallised, but provisions have been made against it.

In relation to your question about specific losses, we do not have a shareholder view on that. We point to the fact that the bank provides longer-term patient capital investment, for which the Scottish ministers set a target rate of return over the longer term of between 3 and 4 per cent. When losses and gains are balanced off, we would expect that sort of level of return.

Graham Simpson: Members of the committee were chatting earlier, and we were a bit unclear about whether Krucial had appointed administrators. You are saying that it has done that.

Andy Hogg: Yes, it has. As we understand it, Krucial's board directors appointed insolvency advisers on 2 June and staff were advised on 25 June.

Graham Simpson: Right—so that is another potential loss. However, it is only a potential loss.

Andy Hogg: Yes—all of them are only potential losses.

Graham Simpson: Given that we have had one definite loss and two potential losses, what lessons are you learning about the kind of investments that you make in future—or, rather, that the bank makes in future?

Gregor Irwin: You have partly answered the question, in that it is for the bank to make investment decisions. We took some assurance from Audit Scotland's report, which examined the bank's internal processes and tested the robustness of its decision making. We think that that is important.

Richard Rollison is an observer at the bank's board meetings, and, as I have noted, I have a regular formal meeting with the senior independent director. Those represent

opportunities for us to understand and scrutinise the bank's internal processes without getting involved in individual investment decision-making processes.

There will also be the five-year review of the operations of the bank, which will provide an opportunity to examine the bank's success against the target rate of return of 3 to 4 per cent, which Andy Hogg referred to. That will provide an opportunity to take a step back, to look across the portfolio and to look across a significant period of the bank's operation without focusing too much on one individual investment or one moment in time.

Richard Rollison: As the observer at board meetings, I can give you an assurance that the board looks very seriously, and at length, at its portfolio of investments, through the valuation committee. At every board meeting, the board looks at all the bank's investments in the portfolio as a whole, and, in particular, at the ones that might be said to be at risk.

Andy Hogg: I also note that the bank continually keeps its investment strategy under review. Some of the investments that we are talking about here were made quite early in the bank's establishment. Subsequently, the bank has updated its investment strategy. Among the things that the bank has changed is the fact that it now requires a higher level of technology readiness. As well as increasing the TRL, it now requires greater experience and capacity at management team level.

At an operational level, the bank keeps under review what it believes to be robust investments, and it publishes all that information as part of its investment strategy.

Graham Simpson: That is interesting. Would you say that it is taking what we might describe as less risky investments now?

Andy Hogg: I would consider that to be largely an operational decision for the bank. We would require it to publish the information in the strategy.

Gregor Irwin: My only observation is that it is probably important to distinguish between the controls around risk and the risk tolerance of the bank.

Graham Simpson: I am sorry to keep focusing on losses, but I will ask about the other side in a minute. Probably the most high-profile loss was Circularity Scotland. When Willie Watt was at the committee, I asked him whether the bank had underestimated the politicisation of the deposit return scheme, and he said that it probably had. I am paraphrasing.

Were there lessons for the bank and even for the Government in such a scheme? It was highly political.

Gregor Irwin: As the chief executive officer, Al Denholm conducted an investigation into that particular investment. As part of that investigation, he considered whether the bank had followed its own processes. In 2023, he reported to the Net Zero, Energy and Transport Committee on the outcome of that investigation. He noted then that the bank would draw lessons, including in its approach to risks relating to legislation. He concluded from his review that there were a number of macro factors that are important in making an investment decision of that sort, such as the prevalence of deposit return schemes worldwide. He specifically noted that, because similar policy frameworks for deposit return schemes had been adopted by the United Kingdom, Welsh and Scottish Governments, the bank took that as a risk mitigant. The bank also acknowledged that it perhaps underestimated—I am paraphrasing Willie Watt's words, not mine—the extent to which a decision-making process of that sort could become political, as you have suggested.

Graham Simpson: I think that the bank has learned its lesson and got its fingers burned, so I hope that that will not happen again.

I have been a bit negative, so let us talk about the positives. Are there any success stories that you would like to highlight?

Gregor Irwin: Yes. It is important to recognise the role that the bank is playing in a number of areas. The bank has played a leading role not just in investing its core funding but as a delivery partner for the offshore wind investment programme, with particular focus, as is understandable at this early stage, on port infrastructure.

I draw your attention to Ardersier port in particular, which is a massive investment and represents a massive expansion in port infrastructure in Scotland and capacity to accommodate supply chain manufacturing in the offshore wind sector. The fact that the bank has collaborated with the National Wealth Fund in co-investing there is also a good example. Of course, there is still a way to go in the development of Ardersier port, but that is a hugely ambitious operation.

More recently, ZeroAvia is another good example of the bank doing something different—not investing in infrastructure as such but investing in a highly innovative company that has tremendous potential to succeed and is also part of the net zero transition. ZeroAvia is a developer and manufacturer of zero-emissions engines for commercial aviation. It signed an agreement with Scottish Power to develop a low-carbon hydrogen supply for key airport locations. That is really important for the future of the aviation sector in

Scotland, as well as being an exciting commercial prospect. Yes, it is a risky investment, because all investment is risky, but that is a really good example of mission aligning with a calibrated risk that has been undertaken by investing in a company that potentially has a very good commercial future.

I also draw your attention—this is the last example that I will give—to the role that the bank is playing in undertaking a number of investments in the housing sector. Some of them have been microinvestments, which are nevertheless very important in the locations where they occur, and others have been on a larger scale—for example, Thriving Investments, in essence, act as an anchor for a larger fund and leverage in private sector finance. Those investments are playing a really important role as part of the Government's work to support the housing sector.

Graham Simpson: That is great. Those are very good examples. I am particularly excited about ZeroAvia.

I have a final question. You mentioned housing. In a previous session, when we looked at other models and other development banks around the world, there was a brief discussion about the KfW Development Bank in Germany, which has been around for 80 years and does a lot of work on public housing. That is one model. We also looked at the Connecticut Green Bank, which helps to fund net zero projects in that state. Have you considered and learned from other models around the world?

Gregor Irwin: Yes. Andy Hogg might be able to say a bit more about that. We are certainly familiar with the first example that you gave. We pay close attention to how similar institutions in the UK, including the Development Bank of Wales, are evolving. As well as international examples, there are some good examples close to home.

Andy, do you want to add anything specifically on KfW?

Andy Hogg: The bank's chair raised the example of KfW, particularly in relation to the ability to recycle funds and demonstrate some of the perpetual activities that the bank would like to do. KfW is a much larger international bank, which has a huge capital base and borrows from markets. It was established in 1948, so it has been around for a long time. Therefore, it is a very different organisation from the Scottish National Investment Bank, which was established only in 2020, but the chair raised the point about compatibility and the potential things that could be done.

We have quite an active dialogue with a lot of other banks. Colleagues in the shareholder team meet other devolved Governments, including the

Welsh Government to explore what is happening in the Development Bank of Wales. The bank meets counterparts in the British Business Bank, the National Wealth Fund and the Development Bank of Wales to build connections, so there is active horizon scanning to find out what opportunities there might be.

On the point about housing, the commitments relating to the bank in the recent housing emergency action plan are an example of the bank taking a more active role in market creation by looking at different activities and ways of working to unlock potential investments. It might not be as simple as having a single investment opportunity coming to the door; the bank has a role in structuring and defining some of the opportunities. That is an important area in which the bank is evolving its approach.

Graham Simpson: Thank you.

The Convener: When you were asked about positive examples, you spoke about the renewables sector and cited the port at Ardersier. That work is being driven by Quantum Capital Group, which is headquartered in Houston, Texas. We had discussions with Mr Denholm and Mr Watt about covenants and trying to lock in Scottish ownership and control. What balance has been struck in the renewables sector, for example, between investment in indigenous businesses and foreign direct investment projects such as that at Ardersier?

Gregor Irwin: We need to look across portfolios. The bank has undertaken a number of investments in ports across Scotland under various types of ownership—in many cases, under Scottish ownership.

The Convener: In ports?

Gregor Irwin: Yes.

Richard Rollison: Aberdeen is an example.

The Convener: Okay.

10:00

Gregor Irwin: There is a range of ownership structures for ports. It is essential that the bank undertakes different types of investment, and one of the things that we look for when the bank invests is the extent to which it is able to bring in private investment to leverage its impact. That is important not just in terms of commercial returns, but certainly in terms of the bank's impact and its missions, and there are also advantages in bringing in investors who have knowledge of and expertise in particular sectors and might be able to access opportunities that might not otherwise be available. Without wanting to focus on specific investors, I would hope that, as part of the process

that the bank goes through, it is looking very carefully at the partners with whom they are working, what they bring to that opportunity and what it means for the bank's ability to have impact.

When you look at other parts of the bank's portfolio, including some of the many companies in which it has invested—of course, they will have other investors, some of which might be international, some of which will be Scotland-based—you will see that very often, though not always, we are talking about Scottish companies that have started up or are scaling up in Scotland. Therefore, the bank's role as supporter of scale-up funding for fast-growing companies in Scotland is important when it comes to creating successful, large-scale, multinational and international companies that are based and anchored in Scotland.

The Convener: Okay, but we, as a committee, have been interested in the balance between those bigger transnational corporation investments and investments in small and medium-sized enterprises. The figure quoted in the report, which was supplied to the Auditor General by the bank, is that 92.3 per cent of all investments have been made in SMEs; however, that does not sound right, because we know about the Gresham House Forestry Fund, Quantum at Ardersier and so on. The figure for investment that we have arrived at is nearer to a 60:40 balance between SMEs and non-SMEs. I do not know whether you can verify that.

Gregor Irwin: I cannot comment on those figures—that would be a question for the bank—but from your explanation, I wonder whether it is the difference between the scale of investment and the number of investments. However, I think that the bank would be best placed to help you with that.

Richard Rollison: Looking across the portfolio, I think that, as Gregor Irwin is suggesting, it is the nature of the larger investments—clearly, Ardersier is a very large investment that brings in quite a lot of international capital—set against the portfolio of smaller businesses, which I guess tend to be just shifting from their early stages into growth. The nature of those investments is usually in the £2 million to £10 million range.

The Convener: Okay—thank you. I invite Colin Beattie to put some questions to you.

Colin Beattie (Midlothian North and Musselburgh) (SNP): First, I want to pick up on one of your responses to the convener's questions. You talked about SNIB having the responsibility—or task—of bringing in private capital to be used alongside public capital. By the bank's very nature, that capital will go into higher-risk investments, and it must be a bit of a task to

bring in private investors when your focus is at least partly on encouraging and bringing through high-risk companies. That will be reflected either in pricing to match the risk or an inability to get private investors to come in. How do you see that being managed?

Gregor Irwin: The very fact that the bank is willing to invest in certain areas—including individual companies, but, in some cases, in projects—might in itself be sufficient to give comfort to other investors.

Colin Beattie: But you are not giving any guarantees.

Gregor Irwin: No, you are not giving any guarantees, but you are committing your own investment and money to that particular entity, and that in itself sends a signal to other investors. That might, in some circumstances, be sufficient to swing the investment decision for those investors.

Colin Beattie: That is true up to a point. My experience in the industry is that it often does not work like that. People are encouraged to invest if the Government or other institutions are putting in money, but, at the end of the day, they have to look at the project and, if it is high risk, it remains as such, even if others are prepared to risk their capital—

Gregor Irwin: I fully agree with that, so—

Colin Beattie: —so expectations should not be too high in relation to the private income.

Gregor Irwin: That is where the skill of the investment team at SNIB—and having good processes—really matters, because they have to identify where they can make a commercial return, which is a requirement of the bank, and where they can have most impact. So, you are right.

Some entities might have no difficulty in raising private finance, in which case the role for SNIB in being able to progress its mission through investing in that entity, which would otherwise be successful in attracting commercial finance, might be less clear cut. There are other projects in which it would be too risky, so the bank and private sector participants would not invest. However, there are certainly areas where the very fact that the bank is willing to invest can give comfort to other investors and encourage them to co-invest with the bank.

As I am sure that you heard from the chair and the chief executive of the bank in June, the bank is keen to develop different ways to work with other investors to get the most out of that co-investment model.

Another important element is the requirement that the bank makes a commercial rate of return. Some people might ask whether the bank should

offer funding on sub-commercial terms—in essence, whether it should subsidise investment. The argument about the signal that it sends to other private investors on encouraging them to co-invest is weaker in those circumstances, because there is something quite powerful about the bank as a commercial investor that is willing to commit its capital to certain projects and investments, albeit with a target rate of return that is lower than is the case with purely private investment funds. That in itself tells you about the due diligence process that the bank has gone through, the assessment of its investment professionals and its willingness to commit to that particular operation.

That is part of a well-crafted model that we have for the bank. It needs to be kept under review, and, again, the five-year review is an opportunity to examine success in different areas and we need to always be open to the evolution of that. However, that sort of balance—we have talked about balance in a number of different areas—is important here, too.

Colin Beattie: If the bank was operating on a purely commercial basis, it would have to reflect risk through the interest rates and so on that were being charged. That would defeat some of the objectives around investing in companies and encouraging them to develop, as the rates and the fees that would be attached would be punitive. Presumably, there must be an element of flexibility when it comes to SNIB setting rates at a level that might be below a commercial rate so that a company can afford to take on the loan.

Gregor Irwin: It is important to recognise that the target rate of return for the bank is 3 to 4 per cent, which is below what a typical investment fund would seek. Although the bank is required to make a commercial return, it is also a mission-based investor. Therefore, its approach is about both making a commercial return and pursuing a mission.

Andy Hogg might want to come in on that.

Colin Beattie: Perhaps you could comment on my next point, too, Andy.

The logic that Gregor Irwin is using indicates that, in high-risk circumstances, the bank perhaps would not seek a commercial rate of return or it might seek a return that would scare off some of the other investors.

Andy Hogg: We are talking about crowding in finance from other private sector investors, but the bank need not always invest on the exact same terms as other investors. For example, the bank could take a particularly long-term and patient view of returns, and in doing so and investing in something, that might bring in other sources of finance with their own rate of return and objectives. The bank is almost catalysing wider

private finance by taking those positions, but that does not necessarily mean that the bank is not commercial in its own right. It just means that the bank takes a particular view of commerciality in line with its target rate of return, impact priorities and investment decision-making forum.

A second point—in giving evidence to the committee, the chair made this point—is that one reason why the bank pursued the stage 1 Financial Conduct Authority approvals was that those allow it to give advice to others in the market. The work that the bank is doing to bring together different parties and encourage collaboration across those investors could be construed as advice. There is a structuring element to what the bank can bring, as well as just the direct investment.

Colin Beattie: That leads me to another point. The bank is not a fully commercial operation—it is offering a mission. It is also giving advice to private investors. How is the conflict between those two aspects dealt with?

Andy Hogg: That comes under the terms of the bank's authorisations from the Financial Conduct Authority. The bank pursued stage 1 authorisations from the FCA and secured them in January of this year, so the bank will have shared all that information with the relevant regulators and have the right processes in place to satisfy public sector reporting requirements and regulatory requirements.

Colin Beattie: It sounds to me as though there are a few conflicts that have not been worked out, but I will move on.

Funding arrangements are important for the bank. Historically, it had to use its income in the same financial year. Of course, single-year capital allocations from the Scottish Government are quite difficult to align with properly commercial activity. The Scottish Government's response to that was to give the bank £25 million of underspend or overspend for the next year. When the bank gave evidence to the committee, it said that it welcomed that, but that it did not go as far as it thought was needed. Why was that?

Gregor Irwin: That is one of the elements that we need to put in place to allow the bank to operate fully as a perpetual fund.

Colin Beattie: The £25 million has been agreed. What bits were not agreed?

Gregor Irwin: Year-end flexibility is important, and multiyear funding settlements are also important. We need to provide that in a way that fits with the rules and the financial environment within which financial institutions operate in the UK system. The UK spending review has just been completed. That provides a basis for the Scottish

spending review, which will be undertaken at the end of this year. That provides a vehicle for getting into the question of multiyear settlements. We could get into some of the details on the complexities of that, if you would find that helpful.

Colin Beattie: Is it only multiyear flexibility that was not agreed? Is that the only issue?

Gregor Irwin: Do you mean for the perpetual fund?

Colin Beattie: I mean from the point of view of SNIB. To repeat, SNIB said that it welcomed the flexibility of the £25 million, but noted that it did not go as far as is needed. It used the word "needed", not "wanted". What is the piece that is missing?

Richard Rollison: In an ideal world, for the perpetual fund, the bank would like increased flexibility across financial years. It wants to be able to keep and reinvest its gains on investments across financial years.

Colin Beattie: That is understandable. That would be normal commercial activity.

Richard Rollison: As part of that, it wants to be able to absorb its own losses, such as in relation to some of the examples that we have spoken about.

10:15

Colin Beattie: I am sure that the Government would want that as well. Was that the only issue that was under discussion, or were there other issues for which you were unable to agree to what the bank was asking for?

Richard Rollison: The Auditor General's report is clear that some of that description of what the bank would ideally want is dependent on the UK Government as well as on the Scottish Government.

Colin Beattie: I accept that in relation to the multiyear settlement and all the rest of it—with the way that things are, there has to be alignment with what the UK Government is doing. Other than that particular multiyear settlement, what needs did the bank have that were not met?

Richard Rollison: The bank would like to be able to reinvest all its returns. Those returns will start to appear over the next three to four years. At the minute, the financial rules in the Scottish public finance manual and the consolidated budget guidance—which are a combination of Scottish and UK Government rules—prevent us from providing that to the bank. We are working internally and with the UK Government to address that.

Colin Beattie: Okay. I will leave that point.

Historically, SNIB has mainly been funded through financial transactions, and those are running out. I am interested to get a grip on how the repayments work. From the Scottish Government's point of view, it is only required to refund about 80 per cent of the financial transactions, if I recall correctly—I am talking from memory. My understanding is that, when a repayment that is related to financial transactions is made to SNIB, it must immediately make that payment to the Scottish Government. How are you managing that and how, if at all, does it impact on the £25 million?

Andy Hogg: I will come in first on that question. On the point about financial transaction allocations, in the past few years, all that we have had at the Scottish Government is an annual allocation of financial transactions. There has been no forward certainty about how much we will get the following year or beyond that. The UK spending review a few months ago gave us a five-year outlook of those financial transactions. The profile is increasing—the amount of financial transactions allocated to the Scottish Government will rise to £360 million, or thereabouts, by the end of the spending review period. That, for the first time, gives us some longer term visibility on the amount of FTs coming to the Scottish Government.

On your point about repayments, it is not the bank that exchanges directly with His Majesty's Treasury on those. It is for the Scottish Government to agree a repayment plan with the UK Government and HM Treasury on financial transactions, and Scottish Government finance and exchequer colleagues have agreed that repayment plan over the longer term. The plan reflects the longer term and also the fact that we are able to use underspends in financial transactions from previous years to make increased payments, therefore reducing payments in future years. It is not as straightforward as the bank having to repay a set amount every year. There is a longer-term agreement between the Scottish and UK Government.

Colin Beattie: There are two points on that. First, financial transactions do not affect at all the £25 million fixed flexibility. Secondly, repayments from lending that has been backed by financial transactions do not have to go back to the Scottish Government right away; they are part of the—

Andy Hogg: —of the longer-term repayment plan between the Scottish Government and the UK Government.

Colin Beattie: Okay. That is clear.

Richard Rollison: I can add to that. This financial year, the bank will have FT income coming back of around £7 million. We have

agreed with the bank that it can reinvest that in this financial year but, as I said earlier, it cannot move it across financial years, except within the £25 million flex.

Gregor Irwin: Mr Beattie, it might be helpful if I explain the operation of that £25 million mechanism. The bank gets its budget allocation each year and, given the uncertainty of the timing of investment decisions, the question is whether the bank is able—or, in fact, wants—to commit those funds during the year or whether it might be better to allow things to slip into the following year. That is why that specific mechanism has been created. In essence, we need to use part of the Scotland reserve to provide it, which reduces financial flexibility elsewhere for the Scottish Government, but that is the trade-off that we make when it comes to the size of that facility.

A separate issue is the ability to reinvest returns on investments, which can come in the form of revenue or capital, and the requirement for the bank to be able to absorb losses. The two things are related, but this is a separate issue, and it gets you into other difficult issues around what is permissible under the rules, which have partly been established by the Scottish Government but also reflect the UK Government approach and framework.

Against that context, a lot is changing at UK level. It is partly about the spending review, but it is also partly about the PuFins designation, which is a new system that has been created in the financial transaction control framework and which has been put in place alongside the review. The Scottish Government was not consulted on that, and the system does not apply to it, but a great deal of work is under way to work constructively with the UK Government and explore what is possible in enabling the Scottish National Investment Bank to benefit, potentially, from some of those flexibilities.

These are complex issues, because they also impact on the bank's governance. The new frameworks have been established very much on the basis of how the governance structures of UK Government institutions such as the National Wealth Fund and the British Business Bank operate—that is, accountable to the UK Parliament and audited by the National Audit Office rather than Audit Scotland.

Therefore, there are a number of issues that we are trying to work through, including with the UK Government. There are some issues that we can pursue independently, and we are absolutely determined to do so—the spending review process will be helpful in that regard—but there are other issues that we will have to work through with the UK Government to see what is possible.

Colin Beattie: Just to tie up this question of the £25 million mechanism, I assume that you will be reviewing it from time to time to ensure that it is the solution that you think that it is.

Gregor Irwin: Yes, I think that we would keep that under review.

Colin Beattie: How often?

Richard Rollison: We are in regular dialogue with the bank, and we have discussions about its financial needs across the year; in particular, when we get into the third or fourth quarter of each year, we assess what flexibility it needs. At this point, that £25 million is the maximum that we are able to provide, but we will keep that under review. It will depend partly on the progress that we can make in our discussions with the UK Government on some of the flexibilities.

Colin Beattie: We have been talking about the bank becoming a perpetual fund, which would obviously have lots of advantages all round. Clearly, you are in discussions with the Treasury over this, presumably on a regular basis.

Gregor Irwin: There are on-going discussions at ministerial and official level. Richard Rollison might be able to say more about how that works in practice, but it absolutely involves our exchequer and finance colleagues, because it is part of broader engagement with the UK Government.

Colin Beattie: Do you have any timescale for completing these discussions?

Richard Rollison: Not at this point, I would say. Exchequer colleagues lead on this with the UK Government and the Treasury, because, as fiscal discussions, they are part of the overall fiscal framework. There were discussions with the previous Chief Secretary to the Treasury in which all devolved Governments participated and which were essentially about the extent to which the financial transaction control framework and the designation of institutions as public finance institutions can apply to devolved bodies. The previous Chief Secretary to the Treasury agreed to open a dialogue on the issue and to look at the implications of the financial transaction control framework and the designation of PuFins for the devolved Administrations.

Colin Beattie: If the bank is to successfully move to becoming a perpetual fund, do you anticipate that any structural changes in the bank would be required, or would it simply be a technical change?

Richard Rollison: At this point, our analysis is that most of the changes relate to the financial arrangements between the Scottish and UK Governments and the extent to which PuFin status could apply to the bank. Previously, the committee had a discussion about whether legislative

changes would be needed. At this point, we do not think that such changes will be needed. However, if, as we work things through, we find that we need to change the bank's articles of association, for example, a legislative change would be needed to achieve that.

Colin Beattie: If the bank becomes a perpetual fund, there will be different profiles of public finance risks, so there will need to be discussions—at least between the Government and SNIB—about how those risks are managed.

Gregor Irwin: You have identified a core issue, which is the public finance risk that might be created. That links to the question of how we approach meeting the requirements for SNIB to become a perpetual fund. We have rightly focused on PuFin status, which might be the, or part of the, solution—or it might not be the solution, because there are other ways in which the UK Government could give the Scottish Government flexibilities to allow us to manage public finance risks and, therefore, do what we want to do by allowing SNIB to become a perpetual fund.

I mention that because there are a number of moving parts. We control quite a few of them, but we also do not control quite a few. We are engaging constructively with our exchequer and finance colleagues—and, alongside and through them, with the UK Government—to ensure that we get things right. Management of public finance risks is the core perspective that our exchequer colleagues take on that question.

Colin Beattie: If the UK Government does not agree to any measures that would make the bank a perpetual fund, what is plan B? How will you give the bank the flexibility that it needs?

Andy Hogg: Audit Scotland's recommendation was that the Scottish Government should understand the position and then set out a plan. The basis of our plan is threefold. Step 1 is to use the forthcoming Scottish spending review to give the bank the multiyear certainty that it needs. That will give it the greatest ability to manage forecast income and losses and to use that end-year flexibility to build on a sustainable and enduring basis.

Step 2 is to understand how the financial transaction control framework might apply to the Scottish Government and other devolved Governments. In doing so, we need to understand the implications of whether it will apply directly. If it will and there is a practical way that we can make it work, designation of the bank as a PuFin might give us a route to applying some flexibilities, such as the different treatment of income and losses and of end-year budgeting. If it is deemed that the application of that financial transaction control framework to Scotland is not appropriate, we

might have to look at other mechanisms, such as use of the Scotland reserve. To do that, it is likely that we would require a larger increase in the Scotland reserve to give us the flexibility and capacity to manage year-to-year changes.

We can go down different routes at each step of the plan. The next stage—understanding how the financial transaction control framework might apply to Scotland—is crucial. The next milestone is a finance interministerial discussion between the UK and Scottish Governments in October. That will be one of the issues on the agenda.

Colin Beattie: Let me ask you one final, simple question. My colleague Graham Simpson has been talking about potential losses and so on. What happens if there are losses that the bank cannot manage within its budget cover? How do you manage that in relation to the risk to public finances? Presumably, the Government stands behind the bank.

10:30

Gregor Irwin: Yes. In essence, losses and gains are offset against each other. If losses are greater than gains, that comes back to my budget and we need to manage that by working with the finance team to ensure that it is done in a way that can be accommodated in the best possible way within the Scottish Government's budget.

Colin Beattie: At the moment, do you have something in your management of the risks in relation to that? You must have a view.

Gregor Irwin: Indeed. Clearly, having sight of gains as well as losses is an important part of the financial management process of offsetting those against each other. If losses are greater than gains, that comes back and impacts on the portfolio budget, but there are many moving parts and uncertain elements in that budget. Of course, as part of good budget management during any financial year, we will be able to offset different elements. That is the approach that we take.

The Convener: I do not want to labour this point but, just for clarity, my understanding, from reading the Auditor General's report and then from the exchanges that we had with the chair of the bank back in June, was that the Treasury was undertaking a discrete review to look at the rules, and possibly the legislative framework, around these public financial institutions, which are presumably the PuFins that you are talking about—the National Wealth Fund and so on.

Has such a discrete review started? Has it been completed? Have recommendations been made and are the chancellor or Treasury officials now musing over those, or have they decided, or what? When Mr Beattie asked Mr Rollison about the

timetable, it was all a bit woolly. However, the recommendation in the report is that, within three months of those recommendations, action should be taken.

Gregor Irwin: It is probably more accurate to describe it as a process rather than an event, but the UK Government has made progress in relation to that process. We are still engaging with the UK Government on the question of whether and how that might change the context within which we operate in Scotland. It is not just Scotland—the PuFins model and the new FT controls framework do not apply to any of the devolved Administrations. The interministerial group that Andy Hogg referred to brings together all the devolved finance ministers with the Chief Secretary to the Treasury, if I remember correctly.

The UK Government has announced the new approach for certain public finance institutions, which are very clearly designated. They are the British Business Bank, the British International Fund, the National Wealth Fund, the national housing bank and UK Export Finance. Those are the PuFins. The UK Government has set out the criteria by which they are designated and it has set out a new financial control framework within which they will operate. There are still some elements of that which are not clear to us but, at the moment, it very explicitly does not apply to Scottish or Welsh institutions.

The Convener: But are you lobbying so that it does apply to them?

Gregor Irwin: That is where it becomes quite complicated.

The Convener: Well, is it a yes or a no—what is the Scottish Government's position?

Gregor Irwin: We are exploring what is possible in that regard. As I say, some of the ways in which—

The Convener: That is less than clear, is it not?

Gregor Irwin: It is an honest, straightforward answer. Let me explain. Some aspects of that framework do not readily apply to the Scottish National Investment Bank. The bank was established under an act of the Scottish Parliament. I have already referred to the role that Audit Scotland plays in auditing its accounts. The framework for the PuFins specifically refers to the roles of the National Audit Office and the UK Parliament. Therefore, there are some very specific areas where it is not directly applicable to SNIB. That is what we need to explore. We need to understand what is possible, and that is the process that we are engaged in just now.

The Convener: Are you going to meet the three-month timetable set out in the Auditor General's recommendation?

Gregor Irwin: That process is undergoing a review. I admit that we find it quite hard to date exactly when the clock should start on meeting that three-month deadline, because the process of establishing that framework is still on-going—it is not an event.

The Convener: I am still none the wiser as to whether the Scottish Government's position is that it wants the Scottish National Investment Bank to be a perpetual investment fund or not.

Gregor Irwin: That is our position.

Andy Hogg: I will add to that. That is the stated position of the bank. When we set up the bank, we said that it should act like a perpetual investment fund and have the benefits of those types of flexibilities.

The complexity around the timing is that the financial control framework is exactly what it says: it is a framework that the UK Government has put in place to control spend under its remit, if you like. Its institutions, such as the National Wealth Fund and the British Business Bank, are currently working through how the framework applies, what controls are in place and what flexibilities they might be able to access as a result of its being applicable to them.

We have the additional layer of the Scottish Government to understand. The starting point was that the framework does not apply to devolved Governments. We have to make sure that, in applying it to them, it does not impact wider financial pressures or considerations. The first stage is to understand whether it will apply to us in an effective way before we can think about its benefits.

The Convener: Thanks, Mr Hogg. I now move on to the deputy convener's questions. Jamie, over to you.

Jamie Greene (West Scotland) (LD): Good morning. I have a few areas to cover, so I will get cracking. Mr Irwin, can you describe, for the committee's benefit, where you fit into the equation, in terms of lines of accountability or the oversight of SNIB?

Gregor Irwin: I am the portfolio accountable officer. That is my primary responsibility. As I have explained already, I have a formal role in engaging, each quarter, with the newly appointed senior independent director. Conducting the chair's performance review is one of her roles. If there are any tensions between the bank and the Scottish Government, she is the person through whom we seek to resolve them. Richard Rollison and Andy Hogg are part of my team, and I work with them as they exercise their responsibilities. Richard is our observer on the board, and Andy is the head of the sponsor team.

Jamie Greene: Thank you for that. Is it a fair assumption that decisions made by the bank, including day-to-day investment decisions, are operational matters for it to deal with, and that your role in representing Government is to manage the risk to the public purse rather than the day-to-day risk to the bank?

Gregor Irwin: Operational decisions are certainly ones for the bank to make. That is what operational independence means; the bank should manage its own risks, including its investment risks.

We need to be satisfied that the bank is doing that in a manner that is consistent with its obligations under the relevant legislation and the framework document that we have agreed with it, and that the bank is following good practice more generally in key areas, including risk management.

Jamie Greene: In your role as the principal accountable officer, do you personally have any statutory duty or responsibilities to manage risk to the public finance of the bank? For example, what was your reaction to the news that the bank had announced £77 million of unrealised losses? We know that that figure will subsequently change, but some of it might be realised, unfortunately. How did you react to that?

Gregor Irwin: As an accountable officer, I am responsible to Parliament for the regular and proper value-for-money use of public funds. Certainly, from that perspective, I have specific responsibilities regarding the bank. We have a clear governance framework for it, which has been set up in a particular way to allow the bank to have operational independence.

I am of course acutely aware of that outturn for the bank this year. I am also aware that the National Wealth Fund and British Business Bank, which are similar institutions, have reported significant losses in some years and large gains in others. It is important to take very seriously the process that Audit Scotland has just gone through and the assurance that it can provide, as well as the recommendations that it makes. We need to take a sufficiently long-term and broad perspective in evaluating the financial performance of the bank, so the five-year review is important in that regard.

Jamie Greene: All of that is very diplomatic. What was your gut reaction to that figure, though? Give me some adjectives. How did you feel when you saw the numbers?

Gregor Irwin: That is precisely the sort of area that I am careful not to be drawn into, because there is a risk that, if I provide a commentary on the outturn in specific years or on specific investments, that could compromise the bank's operational independence. I take very seriously

my responsibilities as an accountable officer, and I hope that I have explained the way in which I see those as being undertaken.

Jamie Greene: You have.

The bank must conform to Government-set missions or thematic areas where the Government expects it to invest. At the moment, those are: 50 per cent in the net zero space; 25 per cent in the vague concept of place or people, or something like that; and 25 per cent in innovation. Is that the right balance or mix? Those are Government-set missions, not bank-described ones.

Gregor Irwin: Richard Rollison was involved in setting those missions, so he might be able to put them into context.

Richard Rollison: Yes. It is set out in the legislation that the Government sets the missions for the bank, and there is consultation on that. The missions that we set at the outset, which are long term and, as Mr Greene suggested, quite wide ranging, are still in place. At this point, we have no intention to change those missions.

The bank reports on its progress on the missions through its impact report, which is published and transparent. The bank is always reviewing the mix across the missions and the mix of investments to try to hit its target rate of return.

Jamie Greene: To be fair to the bank, if we look at its targets versus its actual investments, they are pretty bang on. The target for net zero is 50 per cent, and 50 per cent of its investments relate to net zero. The target for place is 25 per cent, and the investments in that are sitting at around 26 per cent. On innovation, the figure is around 23 per cent, so it is not far off.

Is it restrictive for the bank to have those predetermined percentages of investments in different types of portfolios by default? For example, does that inhibit its ability to invest more in housing, which I presume would sit in the place section, or to invest more in technology and innovation, which would sit in the other quartile?

Richard Rollison: To go back to what I said earlier, because of the nature of the investments in net zero compared with the innovation investments, in general terms—not exclusively, but in general terms—the net zero ones are larger investments. You do not need many Ardersiers to form an important part of your portfolio. I think that that mix is about right at the minute, but the bank is always reviewing that.

Jamie Greene: Have you had any feedback from the bank about whether it would prefer to rearrange that balance?

Richard Rollison: No.

Jamie Greene: So you are quite happy with it.

Richard Rollison: Yes.

10:45

Jamie Greene: I want to ask about subsidy control. There are always concerns about market distortion when a Government intervenes in a sector, and this will probably not be the last time.

I understand that the three main tests for the Government to intervene in a market are that it should be able to demonstrate that it is an area of market failure; that the investee has been unable to secure private finance and; that the terms and conditions of its intervention do not undercut the normal private market. It is difficult to describe that process, but the words that the Auditor General uses are that the terms and conditions of the bank's investment

“do not undercut private market operators.”

We can interpret that as you like. What oversight does the Scottish Government perform to ensure that SNIB's investments are all subject to subsidy control assessments?

Gregor Irwin: It is the board's role to ensure that the bank complies with relevant legislation, which includes subsidy control legislation.

Jamie Greene: Are you comfortable that that is the case in all investments?

Gregor Irwin: We have observer status on the boards. Without getting too drawn into detail, I observe that the bank operates on a commercial basis. It is, as Andy Hogg has noted, a long-term patient capital investor, which means that it might do things that other investors are not willing to, but it still operates on a commercial basis. One key test of whether you are complying with subsidy control legislation is whether you pass the commercial market operator test, and SNIB has been set up to reflect that. Again, without getting too drawn into detail, I think that that should provide some confidence that compliance is not a major issue for the bank.

Jamie Greene: You said that SNIB operates as a private bank, but it uses public money, so there are complications.

Gregor Irwin: The commercial market operator test is that you make decisions similarly to how a commercial market operator would in the same circumstances, even if you are not a commercial market operator.

Richard Rollison: I think that this point is in the Auditor General's report but, as part of the bank's investment due diligence process, as it works its way through from identifying a potential investment to making an investment decision, it absolutely tests whether what it proposes to do is subsidy control compliant.

Jamie Greene: Thank you for clarifying. I understand that the bank has not, to date, exercised its right to exit an investment in a profitable manner. Indeed, most exits have been forced on the bank due to losses or the administration of its investments. Are you comfortable that the bank has robust exit strategies?

Gregor Irwin: Colleagues might want to add to this, but I am not surprised by that, given that the bank is now in its fifth year of operation, it is a long-term patient capital investor and the nature of investment means that losses tend to be realised more quickly than successful exits. If you are a long-term patient capital investor that has invested in a successful entity, you might choose to remain committed to subsequent investments with that investee. Therefore, I do not have any concerns about the exits and I am not particularly surprised by what you raised. It is the sort of issue that would be explored as part of the five-year review.

Jamie Greene: I am sorry—I am rattling through questions, because I have to leave at 11 am. I am perfectly comfortable with short responses, and not everyone needs to reply.

In the previous committee session, a new issue came up that has been reported in the media over the past few months. Scottish Investments Ltd, which is one of the entities under the bank, has secured phase 1 approval from the FCA to effectively become an investment vehicle to manage third-party capital in consolidating investments. I do not know whether that is something to be concerned about or excited about. Could you clarify?

Gregor Irwin: That is something that we support, and we have actively supported the bank in that; indeed, Andy Hogg has already referred to it. It received first-stage FCA authorisation on 7 January, and that important step allows the bank to make progress in managing third-party capital alongside capital from the Scottish Government.

It is one of the ways in which the bank can have more impact. It is a pretty intensive process, and it has required the Scottish Government's support. I believe that we provided a letter to the FCA in July 2022 in support of the application, and we have had to make some what are, I suppose, relatively modest but important changes, such as agreeing to increase the minimum amount of cash held by the bank in order to meet the FCA's regulatory capital requirements. However, it is an on-going process. You need to get through to stage 3 authorisation before you can manage third-party funds.

Jamie Greene: Why do you think that the bank wants to do this? Is it not venturing far away from its original construct as an entity?

Gregor Irwin: It is about impact. The model would allow the bank not just to operate at scale with Scottish capital that is provided by the Scottish Government but to have additional impact with the third-party funds that it would be able to manage.

Jamie Greene: Will it increase the risk to the public purse? If, for example, a publicly owned vehicle that takes money from external sources made an investment that went bust and led to considerable losses, what exposure would the public purse have to that?

Gregor Irwin: Without wanting to get drawn into technical detail—I am perhaps not the right person to respond on that basis—I would say that there is a distinction between leveraged investment by the bank, which would be risky, and co-investment through managing third-party funds, which is essentially about arranging to bring investment in alongside your own investment. That would be less risky.

Richard Rollison: Perhaps I can add another point for clarity. We touched on this earlier, but the FCA authorisation that the bank has at this point is on the provision of advice relating to specific investments that it might be working on. At this point, it does not have FCA authorisation to manage third-party capital; that is something that it needs to work towards.

Gregor Irwin: Managing third-party capital requires stage 3 authorisation. That is significant, and also helpful, because it changes the way in which the bank is able to interact with other investors. As I have said, it is important in the bank's ability to have impact.

Jamie Greene: Absolutely. Just to clarify, are you saying that, at that stage, the bank—or that arm of the bank—would be able not just to co-invest but to borrow capital for investment?

Richard Rollison: The bank at this point is not able to borrow, except from the Scottish Government.

Jamie Greene: But could it go down that road, if it so chose?

Richard Rollison: That would require a change to its shareholder framework document and the delegations between the Scottish Government and the bank.

Jamie Greene: Do you think that this is a bit of a distraction, given the scale of the losses that are being reported and the increase in annual losses?

Gregor Irwin: I think that it is part of very carefully thought-through and deliberate work by the bank to position itself in a well-managed way, with risks properly controlled, in order to have maximum impact.

Jamie Greene: I will finish with two very brief questions, the first of which brings me back to the wider discussion that we had in the previous evidence session on this issue and which you might have followed. I was interested in the bank's support for small businesses, not necessarily start-ups. I appreciate that it is not part of its remit, but anecdotal feedback is that smaller investment sums from the bank have been very difficult to come by.

Of course, those things are often the duties of other organisations that provide Government investment, such as Business Gateway and the enterprise agencies. However, what happens when they say no, when the private market says no and when the big banks say no? Is there a perception that people can come to SNIB and get lower-level funding—say, less than £500,000? It seems very much geared at the higher end of the market, and the investment portfolio seems to support that. Do you think that we are missing an opportunity here to support small businesses in Scotland through what is a publicly owned bank?

Richard Rollison: Again—and this comes back to some of the discussion that we have had on the business investment group—we are clear that Scottish Enterprise is the primary vehicle for that kind of early-stage investment, although it is for companies with quite high growth potential. If you look through some of the bank's investments, sometimes those follow on from investments that Scottish Enterprise has made. You are right. In broad terms, the bank is looking at investments of over £2 million. Occasionally, it will step down from that, but it is Scottish Enterprise that is involved in that early-stage growth investment. That is its role, and we are keen to delineate that so that there is no confusion.

Jamie Greene: That was not a criticism—it was just a question.

Last but not least, there has been a lot of discussion—rightfully so—in the media about the level of pay and bonuses in public bodies. I am sure that you have been following the debates that the Parliament and this committee have had on that very issue in recent weeks.

In 2023-24, £865,000 was paid in bonuses to SNIB staff. The outgoing chief executive's package was £340,000 and the chief financial officer's package was £240,000. Those amounts are way above normal public sector payments. We understand the reasons for that, but do you appreciate the public's concern about the scale of bonuses that are being paid, while the bank is making losses?

Gregor Irwin: It is absolutely right that there should be full scrutiny of pay and rewards across all public bodies. SNIB is, of course, subject to the

Government's pay policy. The approach that is taken at SNIB aligns with other UK development banks, although I think that, if you make direct comparisons with those UK development banks, you will see that the pay and reward package at SNIB is lower. The institution operates on a different scale, so perhaps that is appropriate.

The long-term incentive plan is carefully constructed, and there is a clearly set-out process for ensuring that both the different elements in the plan and the weightings that are given to them, and how success against those elements is judged, is done in an appropriate way, with full transparency by people who do not participate in the plan, with appropriate involvement of ministers.

The plan has various elements: demonstrating and enabling impact has a 25 per cent weighting, delivering investment is 40 per cent and targeting financial sustainability is 10 per cent and so on. I will not go into detail on that, but things are done in a balanced way. A judgment is made on both impact that is aligned to the bank's missions and development of the bank as an institution; it is also about financial performance. However, where the bank is not successful in meeting those criteria, payments are adjusted accordingly.

Jamie Greene: In the real world, if I had a business unit that was losing millions of pounds, I would not be getting a bonus.

Gregor Irwin: It has been noted already that a development bank, particularly one in the stage of development that the Scottish National Investment Bank is at, will report losses in some years, as the National Wealth Fund and the British Business Bank did, and it will report operational profits in other years as well. If the long-term incentive plan was purely based on that financial performance, that would rightly come under criticism. It is also based on targets that are set for development of the bank as an institution and, very importantly, the impact that the bank has against its mission.

Jamie Greene: That is very helpful. Just out of interest, did you personally have any exit interviews with any of the outgoing chief executives of the bank? They have had quite a high rate of turnover. Does that cause you, as the sponsor element of the Government, any concern, given what is happening in other public bodies and the turnover rates of chief executives?

Gregor Irwin: I have certainly met the current outgoing chief executive, and I have had an informal conversation with him. I would not describe it as a formal exit interview. We will absolutely comply with best practice within the Scottish Government in that regard. If we need to, we will give further consideration to that.

Al Denholm was appointed soon after I joined, and it was the interim chief executive who was in position when I joined the Scottish Government, so I was not in this current position when the previous chief executive left.

Jamie Greene: Okay, but you have no concerns.

Gregor Irwin: I am satisfied with the process by which Al Denholm was appointed, the development of the bank under his tenure and the process that the bank is going through to seek an appointment, now that Al has decided that he wants to retire from the position.

11:00

Jamie Greene: It is 11 o'clock, convener.

The Convener: Okay—I understand that you may need to leave us now.

On that last point, Mr Denholm announced on 10 April that he was planning to step down, and today is 10 September, which is five months later. What stage is the bank at in the recruitment of his replacement?

Richard Rollison: The bank is working towards the end of that process. It has gone through a recruitment process and is trying to identify the right candidate for the post. For transparency, I note that I am part of that interview process, which is going on at the minute and will come to a conclusion quite soon.

The Convener: Do you expect that, by the six-month mark—10 October—there will be an announcement about who the new chief executive officer for the Scottish National Investment Bank is?

Richard Rollison: I cannot give you a guarantee by that date, but I would expect an announcement to be made within the next couple of months. It might depend on discussions with whomever is chosen.

The Convener: Why does it take so long? The announcement was made in April that Mr Denholm was standing down. I think that he was very generous in saying that he would hang around to make sure that there was a transition and that he was in no rush to get out of the door and so on, but you might be trying his patience if you are saying that it will be another couple of months before somebody is going to be in post.

Gregor Irwin: He is a very patient man.

The Convener: Yes, there is patient capital and there are patient men. However, on a serious note, from the point of view of the good operation of the bank and the maintenance of the leadership of the bank, surely there should be a little bit more

urgency and an understanding that, presumably, whoever is appointed will need to give notice to their current employer. You could be looking at next year before someone is in post.

Richard Rollison: Clearly, I cannot talk about the individuals who are involved, but, depending on who is appointed, there might be some discussion about whether they are coming from outwith Scotland, the nature of their contract and various other things that are part and parcel of agreeing a contract of employment with someone. That might take a few extra weeks once that kind of decision is made.

Gregor Irwin: We can all agree that it is essential that we get the right person in this role, and Richard Rollison has worked with the chair and others to ensure that we do that. Al Denholm has also agreed to stay in post for longer than six months if necessary, to ensure a smooth transition, so we have good arrangements in place to enable that.

The Convener: He told us that he had a six-month notice period, and he announced on 10 April—five months ago—that he was going. I think that it is quite a long process. We recognise that we need to get the right person in position, but it seems to be a heck of a long time.

I am going to move on, because I know that Stephanie Callaghan, who is joining us online today, is itching to ask some questions.

Stephanie Callaghan (Uddingston and Bellshill) (SNP): Good morning. We have spoken about the bank's mission-led approach, which involves ensuring that its investments deliver meaningful social, environmental and economic benefits, not just financial returns. Those outcomes are central to achieving the bank's 2030 impact ambitions across net zero, place and innovation.

I am mindful of time, so I will ask only a couple of short questions around community engagement. First, how does SNIB engage with local communities to assess the social impact of place-based investments such as Thriving Investments?

Secondly, what feedback has the bank received from stakeholders on the effectiveness of its impact delivery?

Richard Rollison: I will take Thriving Investments as an example, but this applies across all SNIB's investments. There is a process by which, as part of the agreement of investment, the bank gets information from companies or projects about the impact that they are making, whether that involves net zero targets, job creation or whatever. As was touched on in the chairman and chief executive's evidence, the bank has an

annual stakeholder survey, which provides feedback every year across the broad range of its stakeholders.

For individual place-based investments, the bank expects projects that it invests in to engage locally. I cannot speak for the bank, but it is primarily the project that is engaging on the ground.

Stephanie Callaghan: What does the Scottish Government have in place to ensure that there is direct engagement and feedback from people in those communities?

Richard Rollison: Primarily, we use the stakeholder survey. To a degree, we use the ministerial advisory group as a way of getting intelligence, information and views on the bank's performance from a cross-section of people, some of whom are perhaps closer to the sort of areas that you are talking about than others. Clearly, ministers occasionally receive direct feedback as well.

The Convener: Those were our final questions this morning, so, with that, I take this opportunity again to thank you, Gregor Irwin, for the evidence that you have led this morning. Mr Hogg and Mr Rollison, you have both been very—what is the word that I am looking for?—comprehensive contributors, so we thank you very much indeed for the evidence that you have given us. The session has been very informative.

I move the committee into private session.

11:06

Meeting continued in private until 11:37.

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