



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Economy and Fair Work Committee

**Wednesday 24 September 2025**

**Session 6**



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**ECONOMY AND FAIR WORK COMMITTEE**

**26<sup>th</sup> Meeting 2025, Session 6**

**CONVENER**

\*Daniel Johnson (Edinburgh Southern) (Lab)

**DEPUTY CONVENER**

Michelle Thomson (Falkirk East) (SNP)

**COMMITTEE MEMBERS**

Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

\*Murdo Fraser (Mid Scotland and Fife) (Con)

\*Stephen Kerr (Central Scotland) (Con)

\*Gordon MacDonald (Edinburgh Pentlands) (SNP)

Lorna Slater (Lothian) (Green)

\*Kevin Stewart (Aberdeen Central) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Michael Robertson (Scottish National Investment Bank)

Willie Watt (Scottish National Investment Bank)

**CLERK TO THE COMMITTEE**

Anne Peat

**LOCATION**

The James Clerk Maxwell Room (CR4)



# Scottish Parliament

## Economy and Fair Work Committee

Wednesday 24 September 2025

*[The Convener opened the meeting at 09:30]*

### Pre-Budget Scrutiny 2026-27

**The Convener (Daniel Johnson):** Good morning and welcome to the 26th meeting in 2025 of the Economy and Fair Work Committee. Today, the committee will continue its pre-budget scrutiny and will hear evidence from the Scottish National Investment Bank.

Before we proceed, I note that we have apologies from Willie Coffey, Lorna Slater and Michelle Thomson, the deputy convener. However, although the committee is smaller in number, I am sure that we will have just as many questions.

I refer members to papers 1 and 2 in their packs. Members have agreed to take agenda items 2 and 3 in private, which may also afford us the opportunity to discuss recent urgent questions and responses from the minister regarding the transient visitor levy.

Agenda item 1 is our pre-budget scrutiny with the Scottish National Investment Bank. We are joined by Willie Watt, who is the chair, and Michael Robertson, who is the chief financial officer.

I will begin by asking questions about financial sustainability. In the most recent year for which we have reports, there was an operating income of £34.5 million, with operating costs of just over £16 million, and there were significant write-offs. I want to understand what the bank's plan is to meet financial sustainability so that, rather than simply operating in profit, you are making a net profit, which, ultimately, is surely the aim of the bank.

**Willie Watt (Scottish National Investment Bank):** Would it be okay if I make an opening statement before we go to the questions?

**The Convener:** Surely, if you can keep it brief.

**Willie Watt:** It is very short. I will then let Michael Robertson have a first go at that question, and then I will probably come in.

Good morning, committee members. Since we last met the committee it has been a busy year, with lots of things happening. Today, we have a portfolio of 43 businesses, with £790 million of funding committed to those businesses. We have also crowded in £1.4 billion of third-party money.

In January of this year, we were given Financial Conduct Authority accreditation, which is an important milestone. We also received a report from Audit Scotland concluding that the bank's governance and internal processes had been developed to a high standard.

We have made limited progress with financial flex, and our key objective is still to be able to act as a perpetual fund. I am sure that we will speak more about that in response to questions later in our discussion.

As the committee will be aware from its other activities, the economic conditions have been very challenging. We have a busy pipeline of opportunities, but we are seeing significant sliding rightwards in relation to the future of economic activity to do with net zero, which is causing us some thoughtfulness.

We are also seeing a lack of co-investor appetite, which I think is to do more with concerns around economic growth and economic stability in the broader economy. It is difficult for businesses, including our investee companies, to deliver their growth plans and raise capital. The convener mentioned sustainability, and I note that we have had two loss events during the year, which we will no doubt talk to the committee about during the discussion. Although development banks are always going to lose money, it is unfortunate and very upsetting for the employees and businesses that do not succeed, which we take very seriously.

We see housing as an important part of our place mission, and we are seeing a significant uptake in interesting opportunities in housing. That is another topic that we would like to talk about.

Finally, I apologise on behalf of Al Denholm, our chief executive officer, who announced his retirement in April of this year. Unfortunately, he has a long-standing commitment that means that he cannot be with us today. We have been grateful for his leadership, and we wish him well going forward. We are at the final stages of CEO recruitment, and we expect to make an announcement on that in due course.

We remain hugely ambitious for what the bank can deliver for the people of Scotland and the positive impacts that it can make. We look forward to the discussion this morning.

**Michael Robertson (Scottish National Investment Bank):** I thank the convener for his question. He is right about the result of last year. We were pleased to see the income grow year on year to that £34.5 million figure, which covers our operational costs.

That is partly as a result of our building a mixed portfolio—that is, having debt, equity and funds in there, and having yields coming through in our

income line. We are seeing that progress each year, with the deployment of capital.

The convener mentioned unrealised loss, and £77 million was booked as an unrealised loss last year. That is a point-in-time valuation. We carry out a valuation four times a year, and the £77 million represents an individual valuation of all of the portfolio companies that we have invested in, amalgamated up to that number that the convener quoted for last year, as a full year.

As Willie Watt mentioned, allied to that unrealised loss, there have been two subsequent losses in the financial year that we are in. We would hope to initially fund those losses from budget cover—from our own resource surplus—but we also acknowledge that, in the early years, that might not always be possible.

**The Convener:** I think that we will get into that with subsequent questions.

My first question is about whether the plan is to get to a point where the bank stands on its own two feet, or whether it will require on-going capital injections or financial interventions from Government to carry on operating. What is the forward plan, and what does sustainability look like for the Scottish National Investment Bank?

**Willie Watt:** The bank has a commitment from the Scottish Government of £2 billion of funding over the first 10 years of its life. We do not see any threat to that commitment, and we think that we can build a portfolio during that 10-year period that will produce a positive net return on capital. We have modelled that.

At the moment, each portfolio investment has an average life of fewer than three years. Many of the investments that we make will not start yielding profits themselves for a considerable amount of time. For example, the first few years of the life of Ardersier port were about digging foundations, pouring concrete and creating infrastructure, and the same would be true of a number of our other activities.

Positive net returns will therefore inevitably be back-end loaded within that 10-year period, but we certainly envisage making a positive return on capital.

**The Convener:** Critically, at what point is the bank planning to be self-sustaining? I understand what you have said, and we are all familiar with the commitment of £2 billion over 10 years. However, circumstances change and Government priorities change. Although that commitment is there and is broadly supported across the parties, if that funding were to stop today you would have a problem. At what point will the bank cease to have a problem?

**Willie Watt:** It is difficult to be specific. A number of things are going on here.

We are already self-sustaining, in that our revenue from our investments more than covers our operating costs. Based on that definition, we are self-sustaining, and we think that we will continue to be so. However, the issue of self-sustainability has two other elements.

One is the supply of capital. At the moment, that capital comes only from the Scottish Government. To broaden the sustainability of capital, we would therefore need to raise third-party capital from outside Government. For that, we need to have FCA accreditation and a track record. We have the first phase of accreditation, but we need the second phase, and then we will need to bring in that third-party capital. That is a job for the next year or two, and doing that will definitely increase our self-sustainability.

The third component of self-sustainability is the ability to become a perpetual capital institution. At the moment, if we have return capital from our investments, it goes back to the Scottish Government, and so we cannot recycle that to be sustainable. As the convener pointed out, if we have a loss on an investment, that has to be written off against the Government's balance sheet rather than wholly against ours.

**The Convener:** So—

**Willie Watt:** I will say just one more sentence, if I may.

The complete answer to your question is that we would need that perpetual capital issue to be resolved before we would be completely self-sustaining.

**The Convener:** I understand that you do not necessarily have complete foresight in terms of what will happen with your portfolio, and that there are a number of other things that you need to have in place. I get all that. However, I am still not entirely clear on what the plan is. If all those things happen, when will the bank be self-sustaining? Do you have that plan? Do you have a target date?

**Willie Watt:** Well, yes. I mean—

**The Convener:** You do not sound entirely sure.

**Willie Watt:** The difficulty is that some of those things are not within my control.

**The Convener:** That is different. They are not within your control—I accept that. However, you must have a plan, surely.

**Willie Watt:** We have plans. We publish three-year business plans in which we make assumptions about loss rates, growth in revenue, and how many investments we will make within that period. That all comes together in our long-

term planning. Of course, that is also linked to the commitment of £2 billion over 10 years.

I do not think that it would be prudent to set a hard-and-fast date in relation to third-party capital, because we are not yet at the point where we are 100 per cent confident that we can deliver that; I am being honest with the committee on that. A hell of a lot has also happened in relation to perpetual capital in the past year, which we can go into in more detail. We have an expectation that that could be resolved within the next 12 months, if the Scottish Government, the United Kingdom Government, and the bank can work together effectively to make that happen.

However, as I said at the start, we fully anticipate that, within that 10-year period, we will be making a positive capital return of between 3 and 4 per cent on our portfolio, which, at that point, will be £2 billion. Our expectation is therefore that we will be making capital profits of £30 million to £60 million towards the back end of that period. In that sense, we would be self-sustaining, in terms of making a capital profit. However, we need those other moving parts to be resolved before the recycling of capital could be self-sustaining.

That was long winded, but I hope that it was helpful.

09:45

**The Convener:** In our briefing documents, Treasury rules are also flagged as a key issue. You are not unique, in that a number of other bodies in the United Kingdom—such as the National Wealth Fund and Great British Energy, and, in the past, the Green Investment Bank—operate within the same Treasury rules. Will you explain why there are particular issues for you, and why they are different from those for other bodies, organisations and institutions that exist in the same space?

**Willie Watt:** I will let Michael kick off on that one, and then I will jump in.

**Michael Robertson:** In relation to the framework that we operate within, we are seeking perpetual capital status in order to allow us the ability to recycle capital on returns—as Willie mentioned—and potentially also the ability to carry over resource surplus from, say, last year into this year, in order to help absorb realised losses.

Last October, a helpful public financial institution paper was published by His Majesty's Treasury, which covered a framework for those in receipt of financial transactions—which the bank, ultimately, is; that is where the bulk of our investment funding comes from.

Within the public financial institution—shortened to PuFin—framework is an annexed list of UK institutions, which includes NWF and the British Business Bank. It is about organisations that meet certain criteria, which tend to be around patient capital investing, not investing in any one loss-making product right at the outset, and the ability to demonstrate a return on investment. Those would be the main criteria that the framework would list. We are working through—with HMT, and with the support of the Scottish Government—how we see the bank meeting those criteria. We have also been invited on to a working group with HMT representatives to hear about and contribute to the discussion of some of the challenges around the adoption of that PuFin framework.

There is a bit to work through. There is also a challenge in that, if PuFin was also to be overlaid into Scotland, with the bank's main shareholder being the Scottish Government, there would have to be a mechanism to allow PuFins to operate within the Scottish landscape as well.

**Willie Watt:** I add that we meet all the criteria that have been set by the Treasury. In that sense, we are in exactly the same position as the National Wealth Fund. The added complexity is the devolution settlement, because we are not directly managed by the Treasury, which the National Wealth Fund is. The Scottish Government is supportive of our wish to see perpetual capital status, in the same way as the National Wealth Fund is seeking it.

Being on the working group is incredibly important, and so we are very pleased that we have made that progress. I met the previous Chief Secretary to the Treasury three or four months ago, and he was incredibly helpful in getting us into that.

The UK and Scottish Governments see the benefit of the bank's being in that framework. We now need to work through the complexities of the devolution settlement to ensure that we can make that a reality.

**The Convener:** Therefore, the short answer is that we need to devolution-proof the approach for the PuFin framework.

**Willie Watt:** Yes.

**The Convener:** Good. That is really helpful. If colleagues will bear with me, given that we have touched on the losses and Murdo Fraser was going to ask questions on that area, I will slightly rejig the order of questions that we agreed on, so that he can delve into that.

**Murdo Fraser (Mid Scotland and Fife) (Con):** Good morning. Looking at your accounts, I see that, since your launch, you have made £785 million in investments, with an unrealised loss of

£76.9 million—or 10 per cent, more or less—also reported. I entirely appreciate that, in the business that you are in, there will be losses, but is 10 per cent a reasonable level of loss, given where the bank is?

**Willie Watt:** That is a good question. What are the factors involved? An early-stage private sector investor would expect to have a loss rate. When you do the kinds of things that we are doing, you would expect to lose money in the private sector; indeed, in two of the three companies that have failed in the first five years of the bank's existence, private sector investors, too, have lost money, alongside the bank. So, a loss rate is certainly to be expected. Moreover, given that we are a development bank, our loss rate ought, logically speaking, to be higher than that of the private sector, because we take on more risk than the private sector and get other impacts that the private sector will not be seeking. The third element is that the economic conditions have been exceptionally challenging. I would rather not see that £77 million provision, but I do not think that it is unexpected, given where we are.

The other thing is that it is a paper loss, which we have written down against our investments. We would expect some of those investments to improve their performance and for the provisions against them to come off. Of course, there might, in the future, be other companies to add to that list. I would prefer the number to be smaller, but, given what I have said, it is not an unreasonable number at this point.

**Murdo Fraser:** Thanks for putting that in context.

On the specifics, there is the satellite and digital connectivity firm Krucial, which has a provisioned £4.6 million loss; the £34 million investment in M Squared Lasers, much of which might be lost; and we previously had the loss in relation to Circularity Scotland. What lessons have been learned? Is there anything that you can do better in future to avoid losses?

**Willie Watt:** There are undoubtedly lessons to be learned from the first few years of the bank's existence. We were a start-up team trying to find our place in the financial and economic ecosystem of Scotland. As for what kinds of lessons we have learned—

**Murdo Fraser:** I wonder whether I may interrupt you for a second, because what you have said is quite interesting. Do you think that, when the bank was set up and given a chunk of taxpayers' money to invest, there was political pressure on the bank to get that money out the door—in other words, to invest in and to be seen to be engaging with the Scottish economy—and that, perhaps with

hindsight, some of those investments might have needed more careful consideration?

**Willie Watt:** There has never been political pressure in the sense of ministers or officials ringing up the bank, saying, "You'd better get the money out the bloody door." I think that there was an expectation in civic and business Scotland that we should deploy the capital that we had been allocated, and we probably felt internal pressure to deploy it. However, we have always resisted that; there have been quite a number of years in which we have not deployed the capital that we have been allocated—and we have been criticised for not doing so. It is always a challenge to balance the will to commit capital with the quality threshold that we have set.

Going back to the start of your question, I think that we have become tougher on the level of technical complexity. Perhaps "complexity" is not the right word—I mean the level of the technology's development at which we will invest. We now want to invest at the point at which the risk with regard to the technology has been lessened. We have increased our focus on the breadth and depth of management teams; we have reflected on the need to invest with partners who are capable of following their money in the same way that we can follow ours; and we believe that being the only major investor in some of these companies is not the right place for the bank to be.

We are learning—those are some of the things that we have learned. We do a specific piece of work on every company that fails, and, in two of those three cases, those pieces of work are ongoing.

**Murdo Fraser:** It is helpful to have that put in context.

I want to ask about another specific investment, and an issue that has been raised with committee members. You have invested in the Gresham House forest growth and sustainability fund. We have had communication from the Lilliesleaf, Ashkirk and Midlem community council in the Borders. It is very concerned by Gresham House's acquiring of an estate at Todrig and Whitslade, which is biodiverse moorland; its plan is to plant large numbers of Sitka spruce, and the community council is concerned that that will have a negative impact on biodiversity. I believe that Gresham House has received £50 million investment from SNIB. Given that your remit is to help the environment, is that investment reasonable?

**Willie Watt:** First, I personally am not aware of the issue that the group has raised with the committee, and I encourage it to get in touch with us directly to share its concerns, because we would be happy to engage on that.



We got involved with the Gresham trust fund because it was a different type of forestry fund from what had been done by Gresham or other investors in the past, in that it involved a larger percentage of native species. The plan was to build something that would be commercial but which would also have more balanced woodland flora and fauna. That was why it needed the help of a development bank—there were to be fewer Sitka spruce and more Scots pine, birch, rowan and so on.

The other reason for investing in that fund is that Scotland needs more tree cover. It has one of the lowest levels of tree cover of any country in Europe. There are definitely biodiverse moorlands, but there are also moorlands that are devoid of much biodiversity at all, because of burning and other practices.

We see forestry as being part of biodiversity in Scotland, and it is our expectation that Gresham should be planting out its forests in conjunction with local communities, working with those communities and coming up with solutions with which those communities are in tune. I would be interested to talk to that group.

10:00

**Murdo Fraser:** Okay—we can pass that on.

I have met representatives of Gresham House, which is the number 1 commercial forestry planter in the UK. I note that, as of last December, it has assets under management of £8.7 billion, and its ambition is to grow its assets-under-management base to £200 billion by 2030. Why does it need £50 million of taxpayers' money?

**Willie Watt:** Because of the high level of native species. The more non-commercial trees you plant, the lower the returns.

I cannot remember exactly how big the fund is—it is £250 million or something like that—but it is made up mainly of local authority pension schemes and SNIB. We were the cornerstone to help raise the rest. Gresham has a bit of a bad reputation, because quite a lot of its investment is tax driven, but the fund is much more about SNIB and pension funds investing in forests.

**Murdo Fraser:** Okay. Thank you.

**Willie Watt:** Just to clarify, the fund is £300 million.

**Murdo Fraser:** I am sure that the community council can follow the matter up with you.

I have one more question, on a separate topic. Parliament is sitting late this week—as we know, because we are all weary this morning—to deal with the Housing (Scotland) Bill. You said that you

had investor interest in housing. Is that in the build-to-rent sector, or in other sectors?

**Willie Watt:** It is across multiple tenures. We have engaged with the Scottish Government, political parties, local authorities, developers and house builders, and we have done a lot of work on what we think is wrong with the sector. We are now working on different types of initiatives.

I can give you some examples of the types of things that we are currently exploring. We are looking at developing, with a local authority and an international investment company, a big brownfield, mixed-tenure site in one of our major cities. We are working with local authorities and house builders in rural areas close to major net zero developments to try to build more houses for workers in rural and semi-rural areas. We are also working with a major bank on a scheme to help finance small builders and developers. Over the past few years, the number of independent builders in Scotland has gone through the floor—a lot have retired—so we are working on a scheme to help them develop smaller sites.

We are doing a range of things, and we hope to make some announcements on that. We very much welcome the housing bill. We think that the previous constraints on rental made Scotland unattractive as a place to build buy-to-rent accommodation and other tenures, so we welcome the changes in the bill and think that it will make a significant difference. We want to get behind the push on housing, because it works for our place mission.

**Stephen Kerr (Central Scotland) (Con):** On that theme, how important is additionality to the bank's role? In what respect is the bank fulfilling that aspect of its role with regard to housing? That is not clear to me.

**Willie Watt:** To take a step back, we clearly have a problem with housing, in the sense that we are not building enough. The private sector has been absent, partly because of the rental issue, and partly because the housing infrastructure in Scotland has been less positive about working with the private sector.

SNIB is trying to bring the private sector back into big developments in Scotland. The type of brownfield developments that I mentioned to Mr Fraser probably would not happen without our involvement, given the economics of the sites and our ability to bring together the private and public sectors. We do not think that those developments would happen if SNIB were not there as a catalyst for that.

**Stephen Kerr:** But that is because of the business environment, is it not? There are developments on brownfield sites happening across the UK.

**Willie Watt:** Yes, and we will not get involved in those if they are going to happen without our capital.

**Stephen Kerr:** But the problem is that the business environment is not right for the private investors; that is what you are saying.

**Willie Watt:** Well, it has not been—

**Stephen Kerr:** What is going to change?

**Willie Watt:** I think that the Housing (Scotland) Bill will change things. The willingness of local authorities to work with private developers is changing, and we can be a catalyst for that.

There will be a lot of housing developments in Scotland that we have nothing to do with at all. We will get involved in those only when we think that we can be a catalyst and—as you said—produce additionality. We have a team in the bank that looks at additionality in every investment that we make, because we are not there to compete with the private sector—we do not have enough capital to do that. We must ensure that, where we invest, it is additive, and we test ourselves on that—

**Stephen Kerr:** I am just checking that the bank is not doing something to compensate for the lack of attractiveness, for private investors, of operating in that space because of things—economic and political things—that we are doing. You are convinced that the bank is providing additionality, and that those developments would not happen if the bank was not involved.

**Willie Watt:** Yes.

**Stephen Kerr:** And the Housing (Scotland) Bill is going to bring a wave of new private investment, is it?

**Willie Watt:** No—

**Stephen Kerr:** Okay—right. Fair enough.

**Willie Watt:** But I think that it will definitely help, and it is very much to be welcomed.

**Stephen Kerr:** All right. I want to circle back to what you said about the restrictions from HM Treasury on NDPBs—non-departmental public bodies; it is sometimes easier to say the actual name than it is the initials—which was interesting. You mentioned the working group that HMT has invited you to be involved in. Who else is on the group, what is its remit and what is the expectation regarding an outcome from its work?

**Michael Robertson:** The other members of the group are, in the main, the bodies that are listed in the annex. They include the National Wealth Fund and the British Business Bank; I think that Homes England is on the list as well.

The PuFin framework was just that—a framework—and, in some respects, in effect, a

series of principles that require to be worked through as to how individual organisations demonstrate various aspects of compliance with the framework. There are approaches to measurement of risk in the portfolio, for example. In addition, theoretical economic capital is an area that we are working through.

**Stephen Kerr:** What will be the output of the working group? You are identifying hurdles, or the tests that you need to pass. It seems that the framework already exists to get past the Treasury rules. Is that right? If so, what is the working group going to achieve?

**Michael Robertson:** It should achieve the ability to recycle and to act as a perpetual investor.

**Stephen Kerr:** It is about getting past the Treasury rules, in effect.

**Willie Watt:** The Treasury wants to change the rules, because it has created development banks and it wants them to operate as development banks. However, the public accounting rules do not actually allow any of us to do that.

**Stephen Kerr:** Development banks are on the balance sheet. That is the problem, is it not?

**Willie Watt:** Yes—exactly. As a development bank, we are interested in the ability to recycle. The Treasury, however, is interested in how much of the capital is on the Treasury's balance sheet and what risk level it is at.

The work of the working group is quite technical. It is about how to characterise the risk profile of what development banks in the UK are doing, and coming up with, in effect, a one-size-fits-all model that would work for the Scottish National Investment Bank and Homes England, for example.

**Stephen Kerr:** Is there an international model that we can draw on? The Germans, for example, have mastered this, have they not? Can we learn something from the Germans about how to have a national investment bank?

**Willie Watt:** That is a good question. I am not sufficiently aware of what public accounting in Germany looks like for the KfW Development Bank, which I guess is what you are referring to.

**Stephen Kerr:** Yes. Basically, it is off the national balance sheet.

**Willie Watt:** I think that the longer you have been around, the more chance you have to be off the balance sheet, because you are then completely self-sustaining—that goes back to the convener's opening question. The KfW, which has been in existence for more than 40 years, is completely self-sustaining, which is why it is off the balance sheet.

All our development banks, however, have been launched in the last while. I think that the BBB was the first one. The convener also asked about the Green Investment Bank; part of the reason that it was privatised was to avoid it being on the Government's balance sheet. Basically, it is about working through the balance sheet rules.

The final point is that financial transactions have been used by Government departments, including in the Scottish Government, to do all kinds of things, including building schools and hospitals, and the Treasury pretty much wants to shrink the use of financial transactions to development banks.

**Stephen Kerr:** So we should see some progress.

**Willie Watt:** I am hopeful.

**Stephen Kerr:** Very good.

I want to ask you about the health of the organisation, because it is about to have its fourth CEO in five years. It is like the Aberdeen and Hibs of leadership roles, is it not?

**Kevin Stewart (Aberdeen Central) (SNP):** Behave. [*Laughter.*]

**Stephen Kerr:** I am sorry, Kevin; it was too tempting to miss the chance to say that.

What does the constant rotation of CEOs—which, in most organisations, would be seen as a negative—do in relation to strategic continuity, staff morale and, of course, external confidence, because the face of the organisation keeps changing?

**Willie Watt:** Our first CEO was in place for two years. She joined a year before the bank was founded in order to set it up. Her job was, in effect, to set up the bank, which she did very effectively. We then had a year when we had an interim CEO, because we were trying to recruit a new CEO. Al Denholm has been with us for two and a half years. That is the way that I would describe that journey. It has not been a journey of knee-jerk reactions or things not working out; there has been a programme of growth in the organisation, which has led to the point that we are at now.

10:15

In its report, the Auditor General's office was very positive about the controls, processes and procedures that run the bank. That is a testament to the hard work of the team and it does not reflect a crisis of leadership. There has been almost complete continuity of the board during that five-year period, which has added a lot to the team. We were pleased to be rated as one of Scotland's best places to work in a survey by *The Sunday Times*, which was all audited by a third party.

Therefore, we are in a good place. The skills that are needed to start up a bank are different from those that are needed to run it once it is already in operation. Al Denholm's retirement gives us an opportunity to calibrate what we need from a chief executive for where the bank is now after being around for five years. We will write to the committee once we can tell you who our new chief executive will be, but I think that that person will have the right skills to take the bank forward right up to the end of the first 10-year period after the bank was founded.

**Stephen Kerr:** You have done an impressive job of trying to convince us that having four CEOs in five years is actually a good thing.

**Willie Watt:** Well, three—

**Stephen Kerr:** I suggest that there must be some downside to such rotation of the senior leader.

**Willie Watt:** Yes, of course, but the point that I am making is that, despite the fact that there has been change, that has not held the organisation back. Would I have preferred to have had two rather than three CEOs during the first five years? The answer to that is yes.

**Stephen Kerr:** Of course. I have a quick question about the ministerial advisory group. Is that an encroachment on the independence of SNIB? What useful purpose does it play?

**Willie Watt:** It is not an encroachment; it is there to advise the minister. Its members have specialist skills that officials probably do not have. It is not there to be a shadow board for the bank. I have met the group and its chair a couple of times, and I do not see it as a threat to our operational independence. The Scottish National Investment Bank Act 2020 said that the group had to happen—

**Stephen Kerr:** So it happened.

**Willie Watt:** —so it had to happen. However, I am confident that the group is not, in any way, getting in the way of what we are doing.

**Stephen Kerr:** I have one last question to ask, with the convener's indulgence. It would be wrong of me not to raise this point, particularly on a day when all the committee members present at the meeting are male. Our female committee members are not with us today, which is a great pity. If Michelle Thomson were here, she would want me to ask you about the issue of female-led companies.

On innovation investment—we are now going back to the theme of additionality, because this is a traditional problem—innovation businesses that are led by women struggle to raise capital. That funding from SNIB fell to just 4.2 per cent of the

investment moneys in 2024. What is happening there? What is going wrong? How can we remedy that? Clearly, that 50-plus per cent of the population of this country have more than their fair share of entrepreneurial flair and courage, but they are not getting the funding.

**Willie Watt:** That is something that we are acutely aware of and very much focused on. We have been working with Ana Stewart on the female founder pathway. In answer to an earlier question, I said that we are moving up the scale-up curve so that we do not invest in the very smallest companies.

However, we are trying to encourage more female participation in companies at an earlier stage so that, when companies get to a size at which the bank can invest in them, there is more senior management in that female space. Outside the innovation mission, there is a lot more participation by female leaders in our portfolio. We have prepared some statistics on that—more than 20 per cent of our committed capital is in companies with significant female senior leadership—but there is a particular problem in the innovation space, and we will have to do more work on that.

I agree with your premise that something is not really right, but we cannot simply wait for female founders to get to a position of maturity, and we cannot say, “It’s going to take years, so there’s nothing we can do.” We have to go down to that level and help with developing skills and building networks.

**Stephen Kerr:** When you say “we”, do you mean the bank?

**Willie Watt:** Yes. We need to encourage women to found businesses and go on that scale-up journey. The bank executive who runs our innovation work is a woman, and she is completely committed to this.

**Stephen Kerr:** You talked in the future tense about giving support. Is that not something that you currently do?

**Willie Watt:** No, it is.

**Stephen Kerr:** Oh, it is—I beg your pardon.

**Willie Watt:** Yes. We recently sponsored a female founders growth summit, at which there were 200 female business leaders. We have partnered with the Employers Network for Equality and Inclusion to try to make people who are in less well-represented groups aware of what the bank does. We are working with Ana Stewart on the pathways pledge, which is something that she is doing to create a pathway that recognises the point that you have raised.

We are already doing all that. We are updating our data collection to capture more information on the issue and are looking at our investment processes to ensure that nothing in the way that we look at businesses has unintentional bias. There is no intentional bias, but there can be unintentional bias. Women are well represented in the team that does the innovation investing. As I said, they are really committed to that issue.

**Gordon MacDonald (Edinburgh Pentlands) (SNP):** Good morning. Some of the questions that I was going to ask have already been covered, but I have a few follow-up points. On the ambition for you to be a perpetual investment fund, you said that you want to try to achieve some progress in the next 12 months. Is there any requirement for rule changes—either in the bank’s constitution or the governance rules—for that to happen?

**Willie Watt:** The shareholder framework document that governs the relationship between the bank and the Scottish Government might well have to change. The act that set up the bank envisages finance coming from only the Scottish Government, so we would need to sit down with the shareholder team and the Deputy First Minister and work out whether there is a need for secondary legislation associated with that. There is probably a requirement for the Scottish Government and the Treasury to look at the allocation of capital in the devolution settlement, and I know that discussions on that are taking place. So, there is probably a bit of work to be done.

**Gordon MacDonald:** On the Scottish Government’s reserve, I believe that the Government gave you a bit of flexibility, with £25 million.

**Willie Watt:** Yes.

**Gordon MacDonald:** How does that benefit the organisation?

**Willie Watt:** It is incredibly important. At the moment, we are allocated a capital sum to invest through financial transactions, and we cannot go a pound over that amount. As we get closer to year end, we have to make judgments about what we can invest in, because we cannot ever go above that amount. That means that we always go below it—structurally, we must be below it.

This year, we were in the later stages of quite a big investment—it was coming to completion—but we found out things about it that meant that we did not want to complete it. We had to pull out of it, but we could not replace it with anything, because it was so close to year end. The £25 million helps us to bridge such gaps. We do not think that it is a full solution to all the issues that we have, but it has been a very helpful addition.

**Michael Robertson:** It can also help in a situation where there is a return of capital, which, technically, would constitute an underspend. Noting where the bank is at the moment, in a few years, it might not be sufficient to enable such movement between years.

**Gordon MacDonald:** I have a question about your risk appetite. First, I welcome your investment of £34 million into Lost Shore, Scotland's only surf resort, which is in my constituency. It is a fantastic facility. We heard from Murdo Fraser about Gresham House, which I think that you are putting £50 million into.

**Willie Watt:** Yes.

**Gordon MacDonald:** How do you decide which projects you are investing in? I note that 70 per cent of all trees planted in the UK are being planted in Scotland. How do you decide what your risk appetite is?

**Willie Watt:** We consider that against a number of different criteria. What we are seeking to build for the people of Scotland is a £2 billion balance sheet with a broad risk-return basis. The Gresham House investment is at the less risky end of what we do. We lent money to Aberdeen harbour, which was probably also at the less risky end. You mentioned Lost Shore, which was incredibly risky before it had been built but is somewhat less risky now.

We look at the overall risk profile of each individual investment, and we then piece the investments together to produce an overall return that we think could deliver 3 or 4 per cent over a 10-year period. We then look at each mission, according to place, net zero and innovation, as we want to right-size each of those—we do not want them to get grossly out of balance. At the moment, the weighting is about 40 or 50 per cent on net zero, and the other two elements are broadly similar to each other. If the innovation element got too big there would be too much risk in the portfolio, because a lot of the outcomes in innovation are binary: it will either be a great success or it will not.

The challenges with net zero are to do with how quickly offshore wind will be developed and how much of the supply chain will be in Scotland. We consider those bottom-up and top-down elements, and we then try to work out our track record in each area.

The good thing is that, although we would have liked to deploy more, we have deployed £800 million, which is about 40 per cent of the total. We can still nudge, if you like, 60 per cent of the total towards the outcome that we are looking for. I do not know whether that is helpful.

10:30

**Michael Robertson:** The other element of that is the split of the portfolio between debt, equity and funds, where debt yields and supports our operating expenses in the early years of our creation, which is important.

**Gordon MacDonald:** My last point is about leverage. You referred to the £800 million that you have invested to date, and you got about £1.4 billion back from private capital—that is a leverage ratio between 1.6 and 1.8. How does that compare with other organisations in a similar space?

**Willie Watt:** That is a good question. I do not want to speculate, but I think that our leverage ratio is less than that of the National Wealth Fund. However, if I may, I would like to write to you with some comparators.

Stepping back from the comparison, I will say that we need to push the leverage ratio up. It speaks to what I said earlier about wanting to invest alongside partners, because it not only makes good business sense to do so; it increases the leverage ratio, so it is a win-win situation. The leverage ratio is a justifiable way in which a development bank should be measured; it is not as high as it should be, so we would like to push it up.

**Gordon MacDonald:** Is that because you are a new bank and there is risk? I asked a question earlier about your risk assessments.

**Willie Watt:** It is partly because of that. We started investing in net zero around the time of the 26th United Nations climate change conference of the parties—COP26—when there was a huge amount of interest in that in the private sector. However, returns have not been as strong in the net zero space. There has been a retreat of investment capital, which has impacted the ratio.

The shortage of capital in the innovation space has meant that we have had to do more ourselves—we have sometimes invested with no leverage, which, of course, brings down the overall ratio. Those things are partly to do with the external environment and partly to do with the risk profile, as you have said; however, we can manage them and it is our job to do so.

**The Convener:** Okay, thanks very much. I bring in Kevin Stewart.

**Kevin Stewart:** Thank you, convener, and good morning to the witnesses. I was pleased to hear you mention the investment in the Port of Aberdeen. As you said, there is less risk there, given that it is one of the oldest businesses, if not the oldest existing business, in these islands, having been founded in 1136—history lesson over.

How much of the £1.4 billion of leverage that you spoke about with Gordon MacDonald is private sector money and how much might come from the public sector?

**Willie Watt:** The vast majority of it is private.

**Kevin Stewart:** I am really interested in co-operation. Obviously, a lot is going on out there and, as you stated earlier, Mr Watt, it is quite difficult for companies to deliver on their growth plans and raise capital at the moment.

**Willie Watt:** Yes.

**Kevin Stewart:** A huge amount of the investment in relation to the city growth deals, for example, in particular in the north east, has gone into creating private opportunities. How are you matching with that kind of organisation to ensure that we get the biggest bangs for the buck with regard to public sector investment?

**Willie Watt:** One of the constraints that we have is that, through our founding act, we are not allowed to invest alongside or into local authorities, whereas the National Wealth Fund can do so. That is a bit of a constraint.

Earlier, I gave an example of housing on brownfield sites. To get over the issue on that, we are creating joint venture companies with the private sector and the local authority to develop the land. I would not call it a pilot, but we are working on the first of those at the moment. We think that that model could be rolled out across Scotland in lots of different local authority areas.

**Kevin Stewart:** It is not a new thing.

**Willie Watt:** It is new to us but, obviously, joint ventures are not new per se. They are a way for us to get more involved in placemaking with local authorities. Because of the focus that we have on innovation, place and net zero in our missions, we are looking for things in the city deals that we might get involved with that look to such priorities.

**Kevin Stewart:** Does the constraint on local authority involvement include possible joint development on delivering housing with resourcing from local authority pension funds, for example?

**Willie Watt:** No. We can work directly with local authority pension funds and would be keen to do so.

**Kevin Stewart:** In the formulation of the joint venture companies, has there been any discussion about you adding in resource and local authorities adding resource from their pension funds?

**Willie Watt:** We have had discussions with pension funds about that kind of model. I am racking my brains, but the one that I was talking about—which is the most developed—does not

have a local authority pension scheme in the structure. However, it certainly could have.

**Kevin Stewart:** Is that something that you will explore after this line of questioning? When I was a housing minister, I was frustrated at the fact that local authority pension funds were not investing in housing development in Scotland. I think that there has been one example. A joint venture with the SNIB involved could help to de-risk that to a degree. Will you explore that?

**Willie Watt:** Yes. We are exploring it and we will double down on that. When I go back to the office, I will raise it with the team and ensure that we are focused on it.

**Kevin Stewart:** How many joint venture companies are you involved in or looking to get involved in at the moment?

**Willie Watt:** One is at a reasonably advanced stage and various others are in a pipeline. However, as you know, some ventures take a while to come to fruition and there are many moving parts. We are focusing more on joint ventures. The Housing (Scotland) Bill will help with that, in particular on affordable housing.

**Kevin Stewart:** I will come back to build-to-rent housing in a second. In your on-going discussions about JVCs, have you had discussions with the Convention of Scottish Local Authorities and its leads? Are all 32 local authorities aware of your interest in JVCs?

**Willie Watt:** I do not know the answer to that question. We have tended to work with the willing and we have found particular local authorities more receptive. However, it would be a good idea to make all the local authorities aware, through COSLA, of our willingness to enter joint ventures. I can take that away as a good, commonsense thing to do.

**Kevin Stewart:** Is there a lot of interest from the private sector in possible investment by SNIB in housing developments?

**Willie Watt:** Yes, I think so. As I said earlier, there are a lot of developments that we will not be involved in at all, because the private sector will just do them, perhaps working with local authorities. However, I think that there is an interest in working with us.

In Scotland, there is no equivalent to Homes England, as you will know, given your background. Therefore, as an investing institution, we can, to an extent, play a role similar to that which Homes England plays in terms of being a catalyst for the private and public sectors to work together. I know that the Scottish Government is in a thoughtful mode about the allocation of capital to housing, because of the housing emergency, and we are in discussions with ministers and officials about

whether more capital could be allocated to the bank outside our core allocation that could enable us to play that catalytic role in housing.

**Kevin Stewart:** I recall, from when I was a minister before the establishment of SNIB, that there used to be a bit of a bun fight to see who was getting financial transactions—I always wanted them for housing. Now, it is said by some that the lack of availability of financial transactions is an impediment. However, if there is a move towards housing and place being a national mission, that changes the ball game completely and utterly.

On the build-to-rent sector, you might have heard some of the discussion in Parliament yesterday about that—although it is probably best if you did not. What discussions are you having with that sector to try to deliver more investment in Scotland? Are you going to see what some of the more socially responsible companies in the sector can add in that regard?

**Willie Watt:** We certainly want to work with the more socially responsible investors. In housing, we look for impacts over and above the commercial return, and we are looking closely at how affordable different developments are. We have allocated a very senior individual to do what we call origination work in the housing space. It has been her job to get to know all the affordable housing companies that could invest in Scotland, to build relationships with those companies and to talk to them about what they could do here. The previous situation with regard to rent controls meant that most of their activity was focused on England, but I think that that will now change.

I believe that we are talking to all the right people in terms of affordable housing, but some of the developments that we will get involved with will involve mixed tenures. The housing emergency involves more than just social and affordable housing. Structurally, we just need to build a lot more houses, and delivering more commercial housing will potentially take the pressure off the affordable housing sector. We will take a mixed-tenure approach, but the focus will definitely be on affordable housing.

**Kevin Stewart:** A mixed-tenure approach is the right one to take, in my humble opinion.

My final question moves away from the build-to-rent sector. Have you had any approaches from housing associations, for example, with regard to mid-market rent and possible investment from you in that sector?

**Willie Watt:** Yes, we have had a number of discussions with housing associations, but, at this point, those have not come to fruition.

**Kevin Stewart:** Is there a reason for that?

**Willie Watt:** I knew that you were going to ask me that question. I am too far away from it to answer it, so we will write back to you on that. We will ask our housing team to come back with a proper answer instead of my trying to say something that I do not know enough about.

**Kevin Stewart:** We would be grateful if you could do that.

**Willie Watt:** Yes, I will definitely do so.

**Kevin Stewart:** Thank you very much for that.

10:45

**The Convener:** Stephen Kerr would like to come in with a supplementary.

**Stephen Kerr:** In my allocated questions, I asked about the ministerial advisory group, and we talked about the bank's operational independence. I would like to ask you a couple of questions about that, particularly in relation to the recent changes in the Scottish Government's position on munitions.

The bank's current policies talk about not investing in weapons, but you obviously work with the defence sector to some degree.

**Willie Watt:** Yes.

**Stephen Kerr:** What is the update on your policy following the First Minister's announcement? The reason for asking that question is that I am making a connection between the First Minister's pronouncements and your guidance and policy.

**Willie Watt:** We have not, historically, made any investments in munitions, but I think that our policy could allow us to invest in certain munitions. What it does not allow us to do is to invest in cluster bombs, nuclear weapons and chemical weapons. The other thing that it does not allow us to do is to invest in oppressive regimes.

**Stephen Kerr:** Whom are you thinking of?

**Willie Watt:** Oppressive regimes would cover Russia, Israel and Myanmar, so—

**Stephen Kerr:** So, Israel is considered to be an oppressive regime.

**Gordon MacDonald:** Absolutely.

**Willie Watt:** With regard to the war in Gaza, yes.

**Stephen Kerr:** And that is the policy of the bank.

**Willie Watt:** The policy of the bank is that we would not—

**Stephen Kerr:** When John Swinney made his speech about Israel, he specifically mentioned the

Scottish National Investment Bank. He announced a policy.

**Willie Watt:** Yes, he did.

**Stephen Kerr:** How does that square with our earlier discussion?

**Willie Watt:** My argument to you is that we would not have invested in arms suppliers to Israel. What John Swinney was stating was something that the bank's policy would not allow anyway. We would not have done that.

**Stephen Kerr:** You would not have invested previously in a defence company that was exporting arms to Israel.

**Willie Watt:** Directly to Israel? I do not think that we would have, no.

**Stephen Kerr:** You do not think that you would have.

**Willie Watt:** Yes.

**Stephen Kerr:** Was that your policy, not to support investment?

**Willie Watt:** Well, the policy—

**The Convener:** I think that the question has been answered.

**Willie Watt:** The policy talks about particular types of regimes. We would then need to map across to see whether Israel was one of those regimes. To be honest with you, it has not come up as an issue, so we have never had to test it.

**Stephen Kerr:** I suppose that my question is this: is the policy of the bank framed by what the First Minister announces, or are you totally independent and setting your own policies?

**Willie Watt:** The policy of the bank is the policy of the bank. The Scottish Government is the shareholder in the bank. We certainly take into account its views on those matters, and we would talk to it about that.

The Government could persuade us that a particular view on something was correct, and we would adapt our policy. However, it is still our policy, and we own that policy as a board. The Scottish Government does not own that policy—we do. Of course, we will take note of what the Government requires in terms of, say, the topic that we are talking about.

**Stephen Kerr:** Right—okay. Will the current policy be updated in the light of the shareholder's statements about munitions?

**Willie Watt:** I think that we should review the policy. I am not sure that it needs updating, though, because I think that the things that the First Minister is saying are things that are already covered by the policy.

**Stephen Kerr:** Right.

**The Convener:** I have a couple of questions that follow on from some of those answers. You have alluded to the work that you have been doing alongside the National Wealth Fund and the British Business Bank, mainly to do with the Treasury rules. That raises another question of how you work operationally with them. Ultimately, we want public money to work in concert rather than pull in different directions. Will you outline your approach to working with other bodies such as those?

**Willie Watt:** We have to work closely with them. We are technocratic organisations, so it is not about politics—it is our about working together for the best outcome for, in our case, the people of Scotland. To give an example, we brought the National Wealth Fund into the Ardersier project, because we did not have a big enough balance sheet to do all of it ourselves. In Hunterston in Ayrshire, a company called XLCC brought us into that project, because it wanted us to be involved.

We have a memorandum of understanding with the National Wealth Fund, which works to do exactly as you say. There is contact at every level between its bank and ours; Michael Robertson talks to its chief financial officer, and the CEOs and investment teams talk to each other, too. That arrangement works really well.

We are trying to build the same relationship with GB Energy; it is a much newer organisation that has just been set up, but we expect to have the same relationship with it. We also have a good relationship with the British Business Bank. Its role in Scotland has been to invest in funds to upgrade local commercial capability, and we have worked with it on that. It now has more direct investment capability, so we are having discussions with it on how we can work together on that.

**The Convener:** Are there any lessons to be learned from the British Business Bank? Given its very different model of funding funds—it does not make direct investment decisions but seeks to de-risk—are there any lessons that the Scottish National Investment Bank can learn from that?

**Willie Watt:** Yes. Funding funds is something that we do. For example, we invested in the Par institutional fund, because we wanted to develop Scotland's capability in scale-up funding. We have also invested in an affordable housing fund and in an onshore wind development fund.

From a funds point of view, the challenge is that Scotland is quite a small country, and most funds might be Europe or UK-wide. It is easier for the BBB to invest on a UK-wide basis than it is for us to invest on a Scotland-wide basis, because of scale, but there are certainly things that we can



learn from the BBB, which is one of the reasons why we talk to it.

**The Convener:** A final question has occurred to me while you were providing your answers, which have been varied and broad. Indeed, we have managed to cover everything from investment strategy and housing to Israel and Gaza.

What strikes me is that you, Mr Watt, are very close to operational decisions. That might be a necessity, given the number of chief executives that you have had, but, ultimately, one would want a division between the chair and the chief executive and for the chair to have a broader view of strategy and be less proximate to the operation. Is there a risk that your role is too close to the bank's operational and management decisions? That approach might have been necessitated, because of the change of chief executives, but it strikes me that that is a question that needs to be asked in the interest of corporate governance.

**Willie Watt:** It is a good question, and if I did not ask it of myself, and if we as a board did not ask it of ourselves, we would not be doing our jobs properly.

I think that the board provides good governance and that I am able to thread the needle on that challenge, but it is a perfectly legitimate challenge to make. My involvement is a lot less than it was a few years ago; I just happen to have a lot of retained knowledge of the bank, because I was involved with it a year before it launched. I am an investment person—that is in my DNA—so I am completely committed to the bank's being a success. However, our job is to scrutinise it, and we need to make sure that those lines are properly policed.

**The Convener:** With that, I will draw our questions to a close. I thank both witnesses for attending the meeting and for providing such full answers.

10:56

*Meeting continued in private until 11:26.*



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