Official Report
Aithisg Oifigeil

DRAFT

Economy, Tourism and Energy Committee

Comataidh na h-Eaconamaidh, Turasachd agus Cumhachd

Tuesday 6 October 2026

Session 7

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ECONOMY, TOURISM AND ENERGY COMMITTEE
7th Meeting 2026, Session 7

CONVENER

*Duncan Massey (North East Scotland) (Reform)

DEPUTY CONVENER

*Daniel Johnson (Edinburgh Southern) (Lab)

COMMITTEE MEMBERS

*Gary Bouse (Falkirk West) (SNP)
*Kate Campbell (Edinburgh Eastern, Musselburgh and Tranent) (SNP)
*Martyn Day (Falkirk East and Linlithgow) (SNP)
*Rachael Hamilton (Ettrick, Roxburgh and Berwickshire) (Con)
*Kristopher Leask (Highlands and Islands) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stuart Black (Highlands and Islands Enterprise)
Adrian Gillespie (Scottish Enterprise)
Jason McGibbon (Scottish National Investment Bank)
Jane Morrison-Ross (South of Scotland Enterprise)
David Ritchie (Scottish National Investment Bank)

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Economy, Tourism and Energy Committee

Tuesday 6 October 2026

[The Convener opened the meeting at 09:04]

Decision on Taking Business in Private

The Convener (Duncan Massey): Good morning, everyone. Welcome to the seventh meeting in 2026 of the Economy, Tourism and Energy Committee. Our first item of business is a decision on taking items 3 and 4 in private. Do we agree to take those items in private?

Members *indicated agreement*.

Pre-budget Scrutiny 2027-28

09:04

The Convener: Our second item of business is an evidence session as part of the committee's pre-budget scrutiny. I refer members to papers 1 and 2. I welcome to the meeting our witnesses: Stuart Black, who is the chief executive of Highlands and Islands Enterprise; Adrian Gillespie, who is the chief executive of Scottish Enterprise; and Jane Morrison-Ross, who is the chief executive of South of Scotland Enterprise. I thank you folks for coming in today and for the submissions that we have received in our meeting papers.

I ask Stuart Black to start with some opening remarks and to introduce himself.

Stuart Black (Highlands and Islands Enterprise): Good morning, convener and members. Madainn mhath. Thank you for inviting Highlands and Islands Enterprise to present evidence to the committee.

The Highlands and Islands Development Board was set up 60 years ago to address depopulation and economic disadvantage. Today, in contrast, the Highlands and Islands is a region of significant opportunity, although challenges remain.

We focus on delivering prosperity through four strategic themes: people, place, planet and prosperity, which are underpinned by net zero, fair and inclusive growth, and transformational regional opportunities. The region is at the forefront of industries that will shape Scotland's future economy, including renewable energy, life sciences and space. Research that we published in May 2025 identified more than 250 regional transformation projects that were planned or under way across the region, representing around £100 billion of investment. Those projects could create around 18,000 operational jobs and 16,000 jobs during construction, so there is a lot of economic activity in our area.

Probably the best example is the new Sumitomo Electric factory, which is opening in Nigg in two weeks' time. That is a Japanese company investing £350 million in the Highlands to make subsea cables for the offshore wind industry, and the project will create 200 jobs. Established sectors such as tourism, food and drink and the creative industries are also creating opportunity.

However, we need to address long-term structural challenges in our region. Population decline, uneven patterns of growth and the need to attract and retain young people remain key concerns for us, particularly in island and rural

communities that are away from main settlements. Realising the region's potential requires investment in housing, transport, ports, digital connectivity, the energy network, workforce skills and training. Transmission charging unfairly discriminates against our part of the United Kingdom, so effective partnerships are needed.

HIE's opening revenue and capital budget allocations need to at least remain at current levels. In fact, in 2025-26, we doubled our budget with £43.8 million of additional funding, £36 million of which came from the Scottish Government's offshore wind fund. We would like to have indicative three-year budgets, which would help with planning.

We are committed to public service reform through continuous improvement and, in 2025-26, we delivered £1.6 million in savings and generated £1.2 million in income. We continue to seek efficiencies through a range of measures, including workforce management, in-house delivery and collaboration with partners. For example, we share our headquarters with Skills Development Scotland, the Scottish Land Commission and VisitScotland.

I will talk about our return on investment. Our cost-benefit ratio is 1:9—for every £1 we spend, we generate £9 of benefits. During 2025-26, we directly supported almost 2,000 organisations across the region, 1,400 of which were small and medium-sized enterprises, and around 300 community groups. For every £1 invested, we leveraged £2.58 from other sources, and we supported 642 jobs.

We target our investment, as well as opportunities, on the areas of greatest need. For example, our 2025-26 spend in the Outer Hebrides was five times that in the area around Inverness. During the past year, we enabled more than 275 community-led projects, helping communities to develop assets, increase resilience and create opportunities.

I will conclude with an example from Fair Isle, which is the most remote island in the UK, with a population of around 50 people. We supported the bird observatory there, which was redeveloped at a cost of £9.5 million, with £3.6 million of our funds. Without the bird observatory, the future of the island would have been in significant doubt, so we are providing support to disadvantaged communities that have difficulties.

In the 1960s, when the Highlands and Islands Development Board was set up, there was a lack of jobs in our region and, arguably, people had to leave. Now, we have plenty of jobs and we need more people coming to the Highlands and Islands. Thank you for your attention.

Adrian Gillespie (Scottish Enterprise): Good morning, members. I very much welcome the opportunity to discuss with you our impact and role, and why the public funding that is provided to us is an investment in Scotland's future economic growth.

Our team in Scotland and across the world helps create conditions for ambitious businesses, sectors and regions to grow, supporting innovation, attracting investment, helping companies internationalise and working with partners to unlock opportunities. We focus on Scotland's strongest competitive advantage and on where intervention can make the greatest difference.

Our submission details substantial and tangible returns. In 2025-26, SE supported companies and projects with the potential to deliver international sales of more than £2 billion; create or safeguard more than 12,400 jobs; invest more than £1 billion in capital expenditure, facilities, equipment and future growth; and generate more than £500 million in cumulative additional Scottish income tax receipts over the next five years. Those outcomes represent higher-value employment creation, stronger companies, increased productivity, more resilient supply chains and increased revenues to support wider public service priorities.

We believe that our funding should be seen not as a cost but as an investment, used to optimum effect to unlock activity that would otherwise not happen or happen much more slowly, at lower scale or with less benefit to Scotland. Our missions are central to that through accelerating the energy transition, boosting capital investment and scaling innovation. We focus resources on long-term opportunities that can strengthen Scotland's competitiveness. That includes supporting clean energy supply chains, building investable propositions for international capital attraction, helping innovative companies to scale and turning Scotland's research strengths into commercially successful businesses with global potential. We recognise the significant public finance pressures and the need to demonstrate value for money. SE continually reviews and refines how we work, including through better use of data, artificial intelligence, digital tools and evidence-led decision making, to remain agile, responsive and focused on impact.

Sustained action over multiple years is required to create the conditions for companies to unlock investment, to scale up innovation and to create impact through internationalisation. This morning, we very much look forward to discussing how we do that.

Jane Morrison-Ross (South of Scotland Enterprise): Good morning. SOSE was created

six years ago to unlock the potential of the south of Scotland and to tackle the distinct challenges that Stuart Black mentioned: a rural economy, distance from markets, transport, housing, skills, lower productivity and access to finance, alongside the needs of our communities and our environment. Six years on, we have real momentum. We are proving what is possible when local ambition and regional strengths are backed by the right investment and support.

Yesterday, we announced a £32 billion pipeline of potential investment in transformational opportunities across the south of Scotland. Delivering that would create thousands of jobs and establish the south as a major location for innovation and investment, with space to grow businesses of scale. However, this is about more than growth. This is about better-paid jobs, stronger communities and more opportunities for young people to build their future in the south. Our message is clear: invest in the south of Scotland, and Scotland gets a strong national return.

Last year, we delivered record support across the south. Almost 2,300 organisations engaged and £18.3 million of funding was approved. That support created 749 jobs and leveraged a further £61 million of investment into the south. We also worked with more than 2,800 people in entrepreneurship, with pathways participants starting 223 new businesses in one year alone, including 50 potential high-growth companies.

The return is clear. For every £1 we invested, we helped to secure more than £3 in wider investment for the south. We have seen a 400 per cent-plus increase in inward investment opportunities, with a pipeline of 81 triaged opportunities. We achieved that by working differently, boldly, with speed and focus and alongside partners.

Pressures are real. Costs remain high. Investment is tighter. Profitability is being squeezed. However, the south is resilient, and major opportunities are now progressing. Center Parcs is investing £450 million into a location near Hawick, which will create jobs, strengthen supply chains and bring new visitors to Scotland. Some of those contracts are being awarded nationally. Chapelcross will put the south at the heart of Scotland's energy transition and support national energy security. Our Borderlands deep tech accelerator hub will help businesses innovate, scale and compete, which will build capability that benefits Scotland's economy as a whole.

However, potential is not delivery. Without sustained investment and the power to make more decisions regionally, we risk losing momentum and failing to convert that £32 billion pipeline into projects on the ground.

The opportunity is there, though, and the pipeline is strong. Our ask of the committee is clear: champion sustained multiyear investment in the south, support greater regional decision making and back the infrastructure that is needed to turn opportunity into delivery. Give the south the tools to deliver, and we will deliver more for our communities, for our economy and for Scotland.

09:15

The Convener: Thank you very much for your opening remarks. The committee has received quite detailed papers that summarise your financial information and a number of your reports. However, as a committee, we were struggling to really understand them and get a feel for the granularity and where the bang for the buck comes from, particularly in relation to numbers that show returns on investment and increases in productivity. I think that Daniel Johnson might come in with some detailed questions on that point.

As a general question, how should we scrutinise you as agencies? What are the key numbers that we should focus on, and how do we really understand on a more granular level what the agencies are delivering?

Adrian Gillespie: I guess that we covered some of the measures in the introduction. The frameworks that we use are strictly compliant with the Treasury green book, and they are backed up by evaluation as well. We forecast our impact, but we also measure it. For example, the evaluation that the Scottish Government has done on trade and inward investment very much backs up our forecast impacts and underestimates them, if anything.

When we talk about the £28 return that we make over five years on our investments, that is very much backed up by best practice and by evaluation. The key measures that we have around jobs, capital investment and research and development attracted are good measures of in-year activity. However, over the piece, we must look not only at how that investment pays back in a year but at how it pays back over the long term——we have all mentioned the importance of investing over the long term—and how jobs or infrastructure that we create today, such as investment in port infrastructure, will pay back over many years.

I think that the measures that we use are robust. We need to work to further harmonise them and make them easier for you as a committee. That work is ongoing, but we have a way to go yet.

Jane Morrison-Ross: One thing that those of us on the panel regularly discuss, and that we are working on in the south, is how to capture some of

the intangible measures that are harder to quantify and that are not GVA—gross value added—such as the impact on communities, child poverty, employability, satisfaction and the feeling in communities, in other words, the changes that we make to communities and the social impact that we make on the ground. That is not easy, so we are working on it.

We are starting to capture some of those measures, but our approach still needs refinement. The hard tangible numbers need to be considered against some of those measures that are harder to quantify but are reflected in the morale of the regions that we serve.

Stuart Black: My first point is that you should scrutinise us against the targets that we are set. We are set annual targets by the Government as part of our operating plans and our agreements with ministers.

As Adrian Gillespie said, in the longer term, the economic impact often involves evaluation work, so we have used outside consultants to look at some of our projects. I can see why the committee might mention it by noting that Jane Morrison-Ross's organisation has put in £18 million and got 700 jobs, and my organisation has put in £80 million of investment and we have around 650 jobs. However, that speaks to Adrian Gillespie's point. A lot of our investment last year was in ports and harbours, and the immediate impact is not evident. You get the construction impact, but we are setting up for the renewables activity that is coming down the pipeline. I can see why the committee would look at the numbers and think, "Are they comparable?"

The other point is that Adrian Gillespie covers a bigger economy, so his economic impact per pound is higher, whereas we have more leakage. Spending in the Highlands and Islands leaks into other parts of Scotland, whereas Scotland as a whole has a bigger economy, so his return on investment might look higher than ours because of that factor. A range of different things are at play here, but the hard-and-fast measures that you should look at are the targets that are set by the Government.

The Convener: Daniel Johnson has some follow-up questions on that point.

Daniel Johnson (Edinburgh Southern) (Lab): I will challenge you on that last comment, Mr Black. The effects might be outside your region, but they should still be measurable—right?

Stuart Black: I can come back if you want to follow up with the rest of your questions, but yes, the effects are measurable. However, a lot of spend—

Daniel Johnson: So, you measure them.

Stuart Black: Yes—

Daniel Johnson: And then you state them.

Stuart Black: —but the impact is beyond our region. For example—

Daniel Johnson: But that should not matter; you should still be able to state the effects.

Stuart Black: It helps the rest of the country, so it does matter—it is beneficial to the country as a whole.

Daniel Johnson: This is germane to my main point. I completely accept that the work that you do has consequential indirect and external impacts, which is right and proper, but I struggle with the presentation of your numbers, because it is not always 100 per cent clear. It was a bit easier this year—maybe that is due to my familiarity with your annual reports; maybe the problem is just on me. However, will you, in broad terms, take me through your approach to discerning the direct consequential effects and the indirect effects? It is important to be clear about those. Adrian Gillespie, would you like to start?

Adrian Gillespie: Sure. Another point that is relevant to the previous discussion is that we are each tasked with doing different things, so our measurements will not always be consistent. For example, Scottish Enterprise does not have a community remit, but we have an international remit and a footprint all over the world. We are doing different things and investing in different areas, while some of our activities, such as on inward investment and trade, cover the whole country.

To respond to your question, we use the methodology that is prescribed in the green book. When we forecast, we underestimate the impact that inward investment has. We have a lot of evidence to suggest that inward investment has double the impact on research and exports than investment from domestic companies, but we set only a 20 per cent uplift for that impact. In other areas, we use average sectoral values, whereas some of the sectors tend to be higher value because they are where we are targeting.

We are quite conservative in the estimates, and the evaluation backs that up. However, the methodologies for them are fairly standard across economic development and Government forecasts.

Daniel Johnson: Before I put my question to Mr Black, I want to clarify something. My understanding is that, against a resource allocation of £173 million and a capital budget of £115 million, Scottish Enterprise made 879 grants totalling £182.5 million and 129 investments totalling £50 million. Is that correct?

Adrian Gillespie: Yes, those figures are familiar.

Daniel Johnson: Okay, good. Mr Black, I will come back to you with the same question: how do you understand and quantify the difference between direct and indirect impacts?

Stuart Black: That is a good question. I used to do the economic analysis for Highlands and Islands Enterprise in my first job as head of economics. The direct impacts are the jobs that are created in the business that we assist, and the indirect jobs are those that come with that company expanding and requiring equipment and suchlike from elsewhere.

That comes back to the point that I made about leakage. To return to the Sumitomo example, although it tries to maximise its spend in Scotland and the UK, it cannot source a lot of the things that it needs for its new factory within the Highlands and Islands. However, it can source some of them from the rest of Scotland and the UK. The indirect effects are greater further away from our area.

The third element is induced effects. That is the spending of the people who work in the factory, which is more local. Those are the three separate elements in any economic appraisal. As Adrian Gillespie said, we use fairly standard methodology to approach those. It is not a perfect science but, some years down the line, we try to follow up to ensure that the jobs have been created in the business that we assisted, while the indirect and induced jobs are more estimates.

Daniel Johnson: Looking at your annual report, I could not immediately identify clear figures for your grant and loan funding. I note that page 23 sets out total HIE investment. However, that figure is more than your total budget, because you included external investment of £78.5 million alongside your total budget of just over £50 million.

Stuart Black: Indeed—I made that point in my introduction, too. Last year, we secured significant additional budget on top of our start budget; our start budget was £56 million, but we got an additional £36 million from the offshore wind investment programme. That is why our investment figure is higher than our start budget—we generated a lot of additional income. We also had some money—another £4.4 million—for the islands business resilience fund. We were quite entrepreneurial as an organisation in looking for additional funds.

You are right, though. Our investment in projects came to about £80 million.

Daniel Johnson: Just to be clear, was all of that income publicly sourced?

Stuart Black: Most of it—the vast majority—was publicly sourced, but we also sourced some money from other partners. For example, we gained some money from BT for one of our programmes.

Daniel Johnson: But do you understand my point? It is quite difficult for us to scrutinise the effectiveness of public expenditure if we are not 100 per cent clear on what is publicly sourced and what the direct impacts are. I think that what you have been doing is totally valid—indeed, all agencies should be seeking to leverage external or additional funding—but to ensure that we are getting value for the taxpayer, we need to be very clear about which pots your total expenditure fits into. Do you understand my slight confusion here?

Stuart Black: Yes. Let me put it another way: I think that we did extremely well last year in generating additional income, but it was my team who delivered those projects with no additional resource. We were able to do all those projects, bring in that extra funding and support those businesses using our existing staff team. Our investment per head in terms of numbers of staff was really good, too. After all, we virtually doubled our budget last year.

Daniel Johnson: My point, though, is this: unless I am clear about your core funding and what additional funding you received—and, indeed, what amount of that core funding went out the door on operating costs—it is very hard for me to understand whether we are getting value for the taxpayer. In some ways, it is hard for me to give credit to your staff, because I cannot identify how much of that additional £78.5 million is over and above your core expenditure. That figure might well be set out in the report—I probably need to go right the way to the bottom of it—but I am looking at the first number that has been presented, and it is difficult for me to really understand its composition in terms of inputs.

Stuart Black: We certainly need to make clear the additional funds that we brought in and what the sources were. Those things are in our accounts; I think that it was you, Mr Johnson, who pointed out last year that we did not have the accounts ready—

Daniel Johnson: I was going to ask about that, too.

Stuart Black: They are going to our audit committee on Thursday—it is just a matter of timing with Audit Scotland. Actually, this year, we are a bit ahead of where we were last year, but we are not as far ahead as Scottish Enterprise and SOSE.

Daniel Johnson: I want to ask the same question of SOSE. How does it understand and

measure direct, indirect and consequential benefits?

Jane Morrison-Ross: I would just go back to what Adrian Gillespie and Stuart Black said. The three of us have very similar methodologies, although we track slightly different things. We have the measures in place; we respond to the categories that the Scottish Government has set out; we track our spending and investment; and we work regularly with clients to measure the return on that investment, track job numbers et cetera. We are small enough—and small enough in area—to be able to do that.

We have introduced, in the past couple of years, a new customer relationship management system; actually, it goes broader than a normal CRM system, as it allows us to track at a more granular level all the impacts on clients. We track all of that against our six As, which are the categories that we break things down into. Whether it be entrepreneurship, net zero, community impact or fair work, we look at the budget that we allocate against each of those target areas and track that, too.

Daniel Johnson: Great. I should probably draw my questions to a close, because I do not want to take up all the time. However, if there is time, I might come back with a couple of additional questions.

Rachael Hamilton (Ettrick, Roxburgh and Berwickshire) (Con): Can I ask a supplementary, convener?

The Convener: Yes.

09:30

Rachael Hamilton: As a supplementary to Daniel Johnson's question, can the panel tell me the total investment, in simple, percentage terms, of the total budget for 2024-25, which will be the last figures that you have? Further, what is the cost of staffing as a percentage of the budget, and is that a metric that is provided as standard through the Treasury's green book rules?

Adrian Gillespie: It is not, as far as I am aware, something that is provided by Treasury. Our staffing budget is just under £90 million each year. Our full-time equivalents, or heads, have reduced by 20 per cent over the past five years and will reduce further; by the end of 2027-28, they will reduce by 30 per cent. It is an area that we monitor very closely, particularly within the reducing resource budget that we have. We have also been matching our budget reductions with our fixed cost reductions.

The first question was about investment as a percentage overall.

Rachael Hamilton: It was about the total investment of the pot that you get as part of public funding from the Scottish Government. Do you know the percentage figure of the total investment of that pot of funding that is made?

Adrian Gillespie: I am sorry, but I do not quite understand the question.

Rachael Hamilton: Investment in business.

Adrian Gillespie: Oh, I see. Do you mean in terms of funding investment that goes into business?

Rachael Hamilton: Yes.

Adrian Gillespie: I do not have the figure to hand. However, yes, you can see that from the grants that we undertake.

I would stress, however, that the majority of our impact does not come through funding, but through the assistance that our people give; for example, in relation to export support, working with inward investors, account managing companies and providing specialist innovation support. I would consider all of that an investment in the economy. We can, however, strip out the actual financial investment from some of the other costs.

The other relevant point that I will quickly make is that Scottish Enterprise also generates a lot of external income. Last year, that was more than £60 million. It is very variable. However, that is not netted off in terms of our impact. It is a bonus, if you like, over and above the impact that we measure. We do not credit the investment income; we do not reduce that from our funding to determine our impact. That all comes in, and it is then reinvested in the economy for the future. That is another area where we are conservative about our measurement, because we do not include the income that offsets the Government funding.

The Convener: I want to pull it back out to a higher level, as I think that we are getting stuck into the numbers a little bit too much.

This kind of came out in relation to some of Daniel Johnson's questions. How do the agencies think about their investments? Do you typically do grant funding or do you take any sort of shares of business? How do you think about scale-up versus start-up? How much of your work is about giving out money and how much of it is more about supporting businesses in other ways, such as training and hand holding through the business process?

I will start with you, Jane.

Jane Morrison-Ross: Over the past six years, we have put a lot of time and energy into pre-start, start-up, scale-up and scale-deep. We want companies in the south of Scotland that build roots

and that do not simply grow large and then get sold off somewhere else. We have a team that is very focused on that.

We ran the first pathways pilot for the Scottish Government. In total, we have had more than 300 companies start through the pathways programme, aside from the rest of the traditional support that we provide. We are continually trying to innovate that. We also run business gateways in the Borders, where we have wrapped up all the more innovative services, from artificial intelligence to data and robotics and so on. It is a real area of focus for us.

The next iteration that we are building is to take companies through the scale-up phase to not only be investor ready but to learn how to sell, which is still very much a gap for Scottish companies. Sales is often still one of those things that people do not want to talk about too much, and so we are looking at tangible support around that.

We work with partners in that area. We set up the deep tech accelerator hub in the Scottish Borders, and 15 life sciences companies are now clustered around that centre. We also work with the National Robotarium and with Edinburgh Napier University, which is a partner in the mountain bike innovation centre.

Everything that we do is centred on building that approach to a circular economy. Even with the Center Parcs investment, which Ms Hamilton will be very familiar with, the real area of focus for us is the supply chain opportunities around that. It is about the local contracts and the contracts that will be awarded nationally, and how we bring all that into a coherent picture for the south.

The Convener: Adrian, maybe you could add more on this question about scale-up versus start-up. How much of your business do you dedicate to the funding element rather than the skills?

Adrian Gillespie: Our starting point is not that we have a metric that says, "We have this much funding to invest." Funding is rigorously assessed in terms of need, and funding is deployed only when it is required. The majority of our assistance comes through the day-to-day support that we give to companies. Although funding probably gets more of the headlines when it comes to announcements and that kind of thing, the day-to-day work is very much more about the impact that our people and connections have.

On the point about investment, that is an area where Scottish Enterprise is different from the other agencies, as we have an investment function. We invest very significantly in early-stage companies, and we take an equity stake. We are investing on behalf of the country, in the future of those companies, and we get a financial and economic return. That is a model that we have been operating for more than 20 years, and our returns are broadly in line with what you would expect to see in the private sector.

That is very measurable. The financial element of that is measurable down to the very last pound. In any year, we invest in more than 100 early-stage companies, which totals about £50 million. The budget to do that has been decreasing in recent years and we have been cross-subsidising that from other budgets, because it is an essential part of investing in Scotland's economic future. That is where most of our really exciting, fast-growing start-ups and scale-ups come from.

The committee will see that we have recently invested significantly in some of Scotland's most exciting scale-ups. For example, there was a £16 million investment in Chemify, which is a spin-out from the University of Glasgow. There has also been substantial early-stage investment in Integrated Graphene in Stirling and, just today, we announced funding of more than £7 million in RoslinCT, which is based at the Edinburgh BioQuarter and which is manufacturing a cure for sickle cell disease.

We are investing very substantially in early-stage companies. However, we do not start out with a metric; it is more about finding projects that have a really high return for the country, rather than starting off with budgets and allocating them to particular lines of activity.

Jane Morrison-Ross: I should have added that, in the south, we are probably at an earlier stage of maturity. We have been around for only six years.

We felt that there was a gap in the funding available for start-up and scale-up companies, so we are taking carefully curated equity stakes in a small number of businesses. Our target is probably two to three per year. Hemspan is one that we announced more recently. Carbon Capture Scotland was a previous one. For us, it was a gap that we needed to fill. However, I would also agree with what Adrian said.

Around four and a half years ago, we looked at the wider state of the economy and realised that we would have to work differently across the south. The majority of our people are front-line facing. They work directly with clients of all types, whether they are third sector communities, SMEs or large inward investors. They act, in essence, as consultants to provide expert support to take companies through that pathway to development.

Stuart Black: I would like to address Rachael Hamilton's question. Our total wage bill is around £16.4 million. Last year, our investment into businesses and communities was £80 million. Those are, I think, the two numbers that Ms

Hamilton was looking for. Like Adrian, however, we have also had to reduce our staff numbers. Over the past five years, our staff numbers have come down by about 15 per cent, from around 280 to 240. We have done that through workforce management: not replacing people who have left, and also bringing in a younger cohort where possible. I wanted to deal with that question.

On the question of financial assistance versus advice, the bulk of our support is through advice. As Adrian said, advisory support for companies is often significant, particularly for community organisations, given the variety of different funding sources that there are for that sector.

We do not provide as many loans as we used to provide. We no longer have a financial transactions budget, which was used for loans. If loans go badly, they affect our revenue budget and, given that our revenue budget has been reducing, it is quite risky for me, as the accountable officer, to provide loans rather than grants, so we tend to provide more grants.

In relation to start-ups and scale-ups, start-ups are dealt with by Business Gateway, but we are very much in the business of supporting businesses that want to grow more quickly and to develop new products and processes. We provide significant support for innovation, research and development.

Adrian Gillespie mentioned a company, so I will mention Ross-shire Engineering, which is probably our star in relation to research and development in the water industry. A few years ago, we helped it by providing a £2 million R and D grant, which proved to be very successful. It is now an excellent example of a Scottish company that is taking its product around the world.

The Convener: I would like to broaden the conversation, so I will bring in Martyn Day.

Martyn Day (Falkirk East and Linlithgow) (SNP): My main questions are for Scottish Enterprise. Our papers detail that Scottish Enterprise has supported or safeguarded 12,459 jobs. Can you give a breakdown of that number? How many of those jobs were created and how many were retained?

Adrian Gillespie: The split is about 50:50. I can provide the exact figures, but I think that it is 49:51.

Martyn Day: That would be useful. How do you track how long those jobs are retained for?

Adrian Gillespie: That is done through evaluation and the application of some metrics, which are economic development standard green book statutory measurements. We do not track every individual job, because that would not be practical. We collect an evidence base, and the grants that we provide are based on companies achieving those milestones. Although a grant might have been awarded to a company this year, the money will be paid over many years. However, if the milestones are not achieved next year, or the year after that, the grant will not be paid, so safeguards are in place for the public funding.

Martyn Day: That is good. Based on past performance, what proportion of those jobs do you expect to be retained in, say, 10 years' time?

Adrian Gillespie: I do not know the answer to that. I would need to make further inquiries. On the £28 return for every £1 spent after five years, which I talked about in relation to GVA, the biggest driver is employment. Although not all the jobs will be retained, a significant amount will be. What happens after those five years? I will pose that question to our economics team.

Martyn Day: Do you have evidence of what would have happened in relation to jobs and growth without your intervention? Have you any estimates on that?

Adrian Gillespie: We have to demonstrate that jobs would not have been created to that extent, or that they would not have been created in Scotland. Our procedures include capturing such measures, and those procedures are subject to audit. For each of our measures, we have detailed guidelines about what we can and cannot capture, and that is all subject to audit.

Martyn Day: Can you put a figure on how many of those almost 12,500 jobs would have been lost or would not have been created without your intervention?

Adrian Gillespie: The majority of the jobs would not have been created without our intervention. Some of them would have been created more slowly, but an inward investment decision, for example, will either go the way of Scotland or go somewhere else. There is fairly clear evidence in that regard.

Martyn Day: You have identified Grangemouth as being central to your strategy for energy transition. What expenditure is committed specifically to Grangemouth in the coming financial year?

Adrian Gillespie: We do not budget in that way. As I said, we do not allocate budgets and then seek to spend against them; we follow the opportunities in each financial year. Therefore, the limits of Scottish Enterprise's funding could be spent on Grangemouth if the opportunities were there. It is an open-ended approach, but that is positive because we can draw on the full resources that are available to us if the opportunities arise. The example of Celtic Renewables, in which we have invested tens of millions of pounds since the

company's creation, shows that we can go very far with our investments when there is an opportunity or an economic imperative.

09:45

Martyn Day: I have a final question, which is for all the witnesses. If you had an additional £1 million of funding, where would you get the biggest bang for your buck?

Adrian Gillespie: Public sector funding has been constrained for many years, so we have been managing a reducing budget, but we have still found ways to invest significantly in the companies of the future.

In times of public sector constraints, it can be harder to make the economic case for longer-term infrastructure investment. That concerns me, because the investment that we have made in the SSE Hydro, in Gartcosh—Guala Closures is now investing there—and in the financial services district in Glasgow, the Dundee waterfront area and the port of Aberdeen, for example, is paid back over many years. Those are all really important to the future economy, but substantial investment was required.

We can consider the amount of capital investment that companies need to make now. Unfortunately, there have been recent examples of substantial gaps between our capital investment and that of other countries. We need to put large amounts of capital funding into the economy in order to protect its future. I would target any future available funding at that. As we strive to derive more of our income from other sources, we are targeting investment in that area.

Stuart Black: That is a great question. Usually, we are asked to think about how we could make savings and what we could reduce, so it is nice to be asked a more positive question.

We are seeing huge demand from companies for our innovation support and for support in the use of artificial intelligence. That is one area. Another area relates to our green grant programme, which helps companies to decarbonise and to become more energy efficient. For example, a remote hotel might be making improvements to reduce its energy bill, because everyone can see the impact of rising energy costs on businesses.

Those are two areas that we would focus on. One relates to support for businesses to deal with artificial intelligence and the opportunities that it provides, and one relates to support with energy efficiency and reducing energy costs, because they are huge. In rural and island communities, energy costs are way above what is paid in the central belt—for example, the cost of a litre of diesel is way over £2.20—so businesses in remoter locations face eye-watering costs. That is why the green grants are really important.

Jane Morrison-Ross: My answer will be a mix of what has been said. As a new agency, we have set out to tackle some of the foundational challenges in the south, which are akin to those that Stuart Black sees in the Highlands and Islands: housing, skills and transport. Those issues underpin our ability, as a development agency, to deliver more efficiently and effectively.

Housing is a particular challenge. We have been doing a lot of work with the regional economic partnership on a housing strategy. We invest carefully, as a catalyst, in projects in communities across the south of Scotland where large house builders will not go. Nine houses might be needed to keep a primary school open, to keep a village shop open or to bring people into an area where there are jobs but there is no housing for people to fill those jobs. Infrastructure is definitely one area.

Investment is another area. In relation to scale-ups, there is a gap in relation to what we can do with SNIB, the British Business Bank or private investors, so we find it hard to source investment for early-stage companies.

We are doing a lot in relation to innovation. We have set up a deep tech hub and have secured funding to bring in a tech specialist, a robotics specialist and a commercial specialist, but we could do more and we could do things more quickly in that area.

A mix of all those things is needed.

The Convener: Rachael Hamilton has a follow-up question about jobs.

Rachael Hamilton: I know the Scottish Borders very well. It remains a low-wage economy, particularly for women, and rural areas are falling behind the urban belt on wage growth. Based on the national average, women earn significantly less than men, and I assume that that is the case in the Highlands and Islands as well as in the Borders. What are your agencies doing to tackle low wages for women?

Jane Morrison-Ross: I mentioned the pathways programme, which was an initiative to support women and underrepresented founders to start businesses. In the past year, we have had 725 women go through that programme. As I mentioned, in the past year alone, 300 companies have started up on the back of that, the majority of which—more than 95 per cent of them—are led by women. Through that start-up programme, we will support them on a growth trajectory.

We recognise and are working hard to tackle the issue that you raise. For example, we have set up

the centre in Hawick, where we are bringing together 15 life sciences companies, a number of the founders of which are female. We are looking for opportunities to support women to come back into the workforce around their other responsibilities and to start businesses, and we are working with companies to encourage fair work in all its forms, including equity and diversity, in the employment that they create. As an organisation, we have a board that is split equally on gender lines, and two thirds of our members are women, so we are trying to lead by example.

Rachael Hamilton: Forgive me, but, in your organisation, you have the ability to pay an average wage of £60,000 or whatever it is, whereas other companies do not have the ability to pay that level of wage. Do you monitor the number of jobs that have been created in the 300 companies that have been set up through the pathways programme and the average wage of employees?

Jane Morrison-Ross: Yes, but that process is very new, because the pathways programme has been running for only two years. We will track and measure that as we go forward.

Rachael Hamilton: But that information is not publicly available at the moment.

Jane Morrison-Ross: I would have to check that with the team.

Rachael Hamilton: I could not find the information.

Jane Morrison-Ross: It is quite possible that, because the pathways programme is only in year 2, the data will still be forming and being gathered. I will check that, and we will make the information available as soon as we can.

Rachael Hamilton: I would like to see that information, as, I am sure, would the committee, because, from the point of view of the Treasury's green book, we are talking about a social cost that can be monetised.

Stuart Black: We recognise that low wages are an issue in the Highlands and Islands, as they are in many rural parts of Scotland, so one of our targets is a wage rate target. All three agencies are fair work compliant, so, if a business wants assistance from any of us, it must meet the fair work criteria. It is important to make that point at the outset.

Last year, our target for average salary was £34,000, but we achieved a figure of more than £35,000. We do not necessarily know what the gender make-up of that is, but we track gender participation in some of our training and development programmes. For example, 302—which is 58 per cent—of the participants in the HIE IMPACT30 programme, which was designed to support entrepreneurs under the age of 30, were female. Fifteen organisations took part in the rural leadership programme, which we run with Scottish Enterprise and SOSE, including nine women. I also have figures on the pathways to start programme, 81 out of the 113 participants in which were female.

We track the measures in certain locations, and we look to increase average wages, particularly in rural areas. We have a target for what we call our focus areas, which include the islands and places such as Caithness and Sutherland, where there is population loss. We also managed to exceed the £34,000 target in that category.

The Convener: Do you have anything to add, Adrian?

Adrian Gillespie: Yes. One of our missions—attracting capital investment—is all about creating better-value jobs and recognising that investment in capital infrastructure is one of the best ways that we can go about increasing wages. Of the 12,400 jobs that we created last year, 4,889 of them were higher paid, by which I mean that they have a salary of more than £42,000.

Wages are a significant issue for us, but there is also the issue of youth unemployment, which is growing at under-25 level. We are increasingly focusing on that. For some of the jobs that we are looking to create, we are relaxing the condition relating to the £42,000 target and are looking at high-value careers. By that, I mean that we are considering whether those jobs will progress to be high-value, higher-paid jobs in the future. For example, 170 of the 450 jobs as part of the Ryanair maintenance project at Prestwick were for people from disadvantaged backgrounds. Very high-value apprenticeships and career paths are being created that will lead to very high-value jobs. That is a significant issue for us and one of the best ways that we can make Scotland more prosperous through investment.

Rachael Hamilton: That leads on to the important issue—which might be brought up later—of the skills pipeline that is being created in such areas. We need to ask whether we have the right pathways to create well-paid jobs.

The Convener: Kate Campbell also wants to ask about jobs.

Kate Campbell (Edinburgh Eastern, Musselburgh and Tranent) (SNP): I do. I have a couple of questions, one of which has just been set up nicely by Rachael Hamilton, but I will ask that one later, because there is something that is really playing on my mind, having listened to you all.

I understand that you are set objectives and outcomes by the Scottish Government. Jane, you

mentioned that you had done some analysis, which led you to focus on investing in start-ups. You identified a gap there. When you say that you have a target for this or that you are aiming to achieve that, what leads to that becoming your target? What analysis do you do to get to that place? Obviously, your targets are partly set by the Scottish Government, but how much agency do you have as part of that process?

That question is for all of you, but, as I mentioned Jane, perhaps she would like to start.

Jane Morrison-Ross: I would be happy to. With South of Scotland Enterprise still being so new, the south of Scotland was, in many ways, very much a blank canvas. Most of us live and work there and are embedded in the communities. We have a network of people who regularly go round some of the smaller and more remote communities across the south, from Stranraer to Eyemouth, and we listen to what communities tell us. We also commission research. We do the business survey twice a year with HIE. That involves us going out and asking around 600 businesses in the south what they need. We work directly with inward investors to ask them what they need.

We are also very engaged with the colleges and universities that operate in the south, and we regularly meet, plan and work with them. We are working with a number of them on several projects to look at how we can meet the skills demands.

In relation to how we decide where to focus our activity for the south as a region, there were several clear gaps in support that we needed to fill. We wanted to bring equitable access to the south. Instead of businesses or entrepreneurs having to go to the central belt to access innovation, or expert or specialist support, we wanted to make those available in the region. We recognised very quickly that there are a lot of resilient people in the south. It is a bit like the situation in the Highlands and Islands, where someone who is a crofter is also the postman, and they might run a creative business on the side. We have a not dissimilar capability in the south.

We wanted to harness that and to provide a framework and a support network that could take people from having an idea to delivering it and starting that business, or to getting the skills and support that they need to pivot, to grow their business or to start something completely different. We listen, we research, we talk to people and we go out and use our network across the south. We also have key partners, such as Skills Development Scotland, to get the insight and the data to help to reinforce what we think we know.

Kate Campbell: I am interested to hear what Adrian and Stuart have to say.

Adrian Gillespie: Each year, we consider a number of factors. I mentioned our three missions, which are long-term economic objectives. A big part of our plans for our scaling innovation mission is the creation of 600 new scale-up companies over the period of the mission, which is nine years. Each year, we will have a target that will lead us towards that outcome. That is one factor. Another factor is the economic situation, and another is the funding that is available to us. We then take proposals to our board, which challenges us on those, and we set a range of outcomes.

We can evidence that, over the past number of years, we have set ambitious outcomes and, in the main, we have achieved them. In the jobs market last year, we slightly missed our target, which is highly unusual for us. That is a reflection of the pace at which the renewables sector is moving at the moment.

10:00

With everything that we have talked about, an element of judgment is applied to economic development, because we are working not on a budget application to allocate money but on where we think that we can best stimulate the economy by applying co-investment to it. Therefore, there will inevitably be an element of judgment. However, there is a robust process for setting those targets. It reflects long-term ambitions, what the Government expects from us, and the letter of guidance from the cabinet secretary about where we have to focus. All those factors come together in a proposal to our board for how we set our targets each year.

Kate Campbell: I am reflecting on evidence that we took a couple of weeks ago in which Stephen Boyd said to us that our economic strategy should focus on supporting the things that Scotland does best. How responsive or reactive are you able to be? Are you able to look at your areas and realise that you need to adjust your strategy because you can see emerging opportunity in a particular place, sector or type of business that needs to be supported? Are you doing that enough and do you have the capacity to do it?

Adrian Gillespie: We absolutely can. It is a core part of what we do. The emergence of AI over the past 18 months or two years has changed our focus, but it is still based on our competitive advantage, so we are considering AI in life sciences and financial services, for example. However, we change tack. Our close engagement with investors helps us with that, as does the fact that, through our investments in early-stage companies, we are on the boards of many such companies and we see at first hand what some of the emerging opportunities are. That means that we can play that straight into where we put our

investments and our focus in the future. We have a robust, close-to-the-customer system for doing that.

Jane Morrison-Ross: We spend a lot of time being flexible, pivoting and trying to accelerate what we see and where the opportunities are that we see.

A couple of years ago, the Scottish Government designated the south of Scotland the natural capital innovation zone for Scotland. We have put a lot of time and effort into the Invest in South of Scotland portal and using it as a brand to stimulate inward investment to showcase the space and natural resources that we have in the south. However, through establishing the deep tech hub with an initial focus on robotics and working with the National Robotarium, we have also discovered that we have a life sciences cluster.

For instance, there are three pharmaceutical companies in the south of Scotland trading internationally and creating new drugs to tackle prostate cancer that did not know that the others were there. Therefore, we realised that life sciences needed to be a focus for us in the south. We will absolutely hook into the national support that is available, but creating laboratory space in the hub has been a major ask for those companies. We did not know that a year or 18 months ago, but we are able to flex and deliver on it.

We are also fortunate to have UniGreenScheme in the region. It recycles university lab equipment, so that has been a nice circular economy opportunity, too.

Stuart Black: It is a really good question—what analysis of the economy do we do to drive what services we provide? As Jane Morrison-Ross and Adrian Gillespie said, it is a mix of top-down and bottom-up approaches.

We have staff across the Highlands and islands. I have a team in Lerwick and one in Lochgilphead. I have teams in Benbecula and in Forres. We are right across the patch. There is a team in Orkney as well—I see Councillor Leask here. We have people on the ground who listen to businesses and communities. They find out what they require. Our board also goes out on visits and conducts engagement sessions. We have one coming up in Elgin in a few weeks' time.

That is one way in which we conduct analysis. We also consider demand for our programmes. I mentioned the innovation programme that we have run successfully. We have just put out a new one because companies in our region are looking to innovate, so they have asked for more of that support.

Another area that has not been touched on is property provision. We build a lot of advanced units around the Highlands and islands. We built some in Wick recently and we are building some in Golspie. They are small business units, which are important not only for start-ups but for businesses that want to grow. That is based on the fact that there is not much private sector provision of business premises in rural areas.

We respond to market needs. However, your point about key sectors, Ms Campbell, is important as well. We have benefited significantly from the Scottish Government offshore wind investment programme. It is a huge investment. That sector is tricky at the moment because projects are not happening as quickly as we would like, but we believe that they will happen. In fact, Nigg is being used to work on the Dogger Bank project in England at the moment, so we are capturing projects even though they are not happening around our coast.

The three key sectors that we invested in most last year were offshore wind, tourism, and food and drink, so we are balancing the new sectors with some of the traditional ones. It is a mix of bottom-up listening to our customers and top-down approaches with things such as AI. We can see how important AI will be, so we are working with partners in SE and SOSE and the Scottish Government on that. There is an excellent programme on it and we have been able to supplement that through some additional funding from BT for AI support.

The Convener: I am cognisant of time, colleagues. I will bring in Kristopher Leask with our final questions.

Kristopher Leask (Highlands and Islands) (Green): I will ask about public service reform. I am aware that the public body clusters have been meeting and I am sure that you have had discussions about public service reform across Government, across cluster and internally. I am sure that it has been on your mind.

Jane Morrison-Ross made an excellent point about the increasing interconnectedness of economic development, particularly at a regional level, and the services that we depend on, be it connectivity, housing, education, skills or transport—the list goes on. This might be more a question for her and Stuart Black. When it comes to the public service reform agenda, where do you see the opportunities at a regional level to act in a more interconnected and effective way that brings in the services that are the structural barriers to unlocking more development?

Jane Morrison-Ross: In the south of Scotland, we have an active regional economic partnership. It was one of the first to be established. That has

led us to an interconnected way of working anyway, so we work closely with our councils, the national health service, educational partners and all the registered social landlords in the south of Scotland and we have a number of projects live across all those areas.

The partners in the south of Scotland would like to build more homes more quickly and tackle transport infrastructure. A lot of progress has been made on digital infrastructure—there is still the last little bit to go, particularly for some of our more rural houses and businesses—but all of us would like to do more collaboratively to tackle transport issues. We would like to do that innovatively as well and find new solutions. However, the foundations already exist in the south because of the strength of the regional partnerships.

Kristopher Leask: What are the barriers to doing more of that?

Jane Morrison-Ross: With transport, some of the levers are national rather than regional and it is sometimes difficult for regions to have the focus to unlock some of the transport challenges because there is a national focus on national infrastructure. That means that it can be difficult to make a case for funding and investment when something is already being done at a national level that takes a huge chunk of that budget. Therefore, more autonomy in how transport budgets are spent in the south of Scotland would be helpful.

With housing, it would also be helpful to have more autonomy and additional budget being made available for house building in a different way or to have additional support, as Stuart Black said. House building costs, like diesel costs, are similar in the Highlands and Islands and the south of Scotland and far more significant than they are in the central belt. Because of the distance, it can be hard to attract large house builders to the south. To be honest, we do not necessarily want 400 or 500 new houses on the edge of Dumfries or Hawick; we need smaller numbers of houses where the communities want and demand them. Some additional support to be able to balance out that cost impact would be useful.

Stuart Black: That is another good question. In the Highlands and Islands, we have a regional economic partnership like the one that Jane Morrison-Ross mentioned. The Highlands and Islands Regional Economic Partnership has been going for about three years. We have been fundamentally behind all the support for HIREP. Different councils have chaired it at different times.

The areas that we have focused on are similar to those that Jane Morrison-Ross set out. Housing is the first one. It is fundamental to the future of our region. I chair a sub-group on different initiatives to support housing across the Highlands and Islands. There have been some great examples of community-led housing.

Orkney has been at the forefront of some of that, with small islands using funding through their small wind turbines to generate revenue to build housing. That is a great model. We are engaging fully in relation to the new agency, more homes Scotland, which will have rural and island housing as a focus. That is partly down to the work that the Highlands and Islands Regional Economic Partnership has done to push the importance of housing—we are certainly keen to see that.

As a regional agency, we welcome the increased regional focus on economic development through the Scottish Government. We have seen some good initiatives on skills. For example, the workforce north skills programme is designed to help businesses to get ready for the types of skills that are needed for the renewables industry. That is a good programme, and we would like more of that.

An issue that has not been touched on but which is fundamental in rural areas is childcare. Our regional economic partnership has been very active on that. We have been particularly focused on how to make childcare a bit more flexible, because it is set up with an urban mindset, in terms of numbers and ways of supervision. There is an excellent example through the Care and Learning Alliance, which is bringing together childcare with care of the elderly, and making those more cost effective.

Jane Morrison-Ross touched on transport. Most of the issues in the Highlands and Islands can be traced back to challenges with transport, particularly in the ferries network and in air services, which have been under threat. I am sure that Mr Leask will be aware that there was a threat to the air service between Inverness and Orkney, which was dealt with by the Scottish Government.

Transport, skills, housing and childcare all require greater regional focus, and I hope that the regional economic partnership can address those.

The Convener: I am cognisant of the time. We will soon have to move on to our next panel but, to conclude this session, I want to go back to Kristopher Leask's point and ask about public sector reform. In other areas of reform, the Scottish Government is proposing a consolidation. Do you feel that having the three agencies is right, or should there be more? I am from the north-east of Scotland, and I feel that there should perhaps be a north-east agency. How do you see it?

Adrian Gillespie: Public service reform and working regionally are extremely relevant to Scottish Enterprise. We are committed to deeper engagement regionally, and to working with

regions to improve their economic development infrastructure. We have done that work for many years now with the Glasgow city region, for example. Money and effort have gone into innovation, and we have built a good partnership approach.

We can take that approach around the country. Our chair, Sir Jim McDonald, is also chair of the Glasgow economic leadership board, so some of the learning from that is being applied. We are having many conversations across the other regions of Scotland about how to get the right balance between regional economic development and the benefits that our national and international reach can bring. That is hugely relevant to us.

I see development of the regional economic infrastructure in areas such as the north-east, but I also see us working differently. We recently appointed a director for the north-east, which is a new post that has been created. We are involved in the effort around Grangemouth and some of the challenges and opportunities there on behalf of the Scottish and UK Governments. It is about bringing the right balance of international, national and regional focus. When we get that right, it can be extremely powerful.

For me, the big opportunity is that we need more regional initiative around developing and building project opportunities for the future that we can get behind and around which we can bring in investment. That is a big opportunity, and as an organisation we are very committed to that, as is our board.

How we apply public service reform to what we do is important. We have a programme called ambition 28, the three factors of which are how we, in times of public sector financial constraint, go further into the economy than we have been able to before by using the latest technology and artificial intelligence; empowering our people to have those tools; and focusing our human effort in the places where it makes the biggest difference and helps us make the best decisions for Scotland's economy. That is a fundamental change, and we have restructured ourselves to create the platform for working in that way in the future. We have embraced it, and it is very significant for us.

The Convener: I presume that Jane Morrison-Ross and Stuart Black think that the uniqueness of the south and the Highlands and Islands necessitates having two separate agencies for those areas and that they would argue for that to stay the same, despite what councils and so on are doing.

Jane Morrison-Ross: We would certainly vote for that—not for Christmas. Six years ago, we were set up to fill a gap that was found by the Scottish Government through analysis across the south of Scotland. We were set up to be another lever for the Scottish Government to use to drive economic growth. HIE has proved in the 60 years that it has been there that the rural economy has real power. The south of Scotland, as a region that is slap bang in the middle of the UK, had untapped resources and potential.

The rural economies are great sources of growth that will support and drive growth at national level, too. We need to have people embedded in them who understand the potential of the place and know the businesses that are there, because a lot of them were very well-kept and hidden secrets.

Stuart Black: The benefit of having a single agency that covers the Highlands and Islands is that we can flex our budget. If a large project happens one year in the Western Isles, we can put additional money into that. If, the next year, there is a big project in Shetland, we can put the money into that. We have that flexibility. The danger of fragmentation of our agency would be that we would have very small budgets in many different places, so we would lose the ability to flex our budget across the region.

We would also lose expertise. Many of the issues that are faced in places such as Argyll and the islands there are similar to those that are faced in the Western Isles or the outer islands of Orkney and Shetland. It is important to retain the integrity of the Highlands and Islands in any new structure.

The Convener: I thank all three of you for attending. I suspend the meeting to allow for a change in witnesses and a short comfort break.

10:16

Meeting suspended.

10:23

On resuming—

The Convener: I welcome David Ritchie, who is chief executive of the Scottish National Investment Bank, and Jason McGibbon, who is a non-executive director, for our second panel this morning.

As we did with the witnesses in our earlier session, I invite David to make some brief opening remarks, before we move on to questions.

David Ritchie (Scottish National Investment Bank): Good morning. Thank you for the opportunity to appear before the committee today. This is my first appearance, and I welcome the opportunity to discuss the bank's progress, performance and future priorities.

I am joined today by Jason McGibbon, who is one of our non-executive directors and also chair of our investment oversight and valuations committee, or IOVC. If I may, I will give Jason a brief opportunity to introduce himself.

Jason McGibbon (Scottish National Investment Bank): Good morning. I have served on the bank board since its inception, so that is more than five years now. As David said, I chair the IOVC, which has responsibility over investment strategy and management through to the valuation of the investments. It sets the processes and governance that we run by.

Prior to joining the bank, I had a number of investment roles globally, with scaling investment firms. I currently mentor or chair a number of businesses and scale-ups, principally in Scotland. One of them is in London, but the other three are in Scotland. That is what I do when I am not at the bank.

David Ritchie: Thank you, Jason. As the committee will be aware, the Scottish National Investment Bank was established in 2020, with a remit to provide patient capital to businesses and projects across Scotland. Establishing the bank brought new capability to the public sector. As a dedicated institution, we invest on fully commercial terms through debt, equity and fund investments. We do not provide grants or sub-commercial capital. We want to become a permanent capital institution within the Scottish investment landscape, cover our operating costs and recycle returns into new investments.

Since our launch, we have made significant progress and have committed more than £1.2 billion across 53 businesses and projects as a direct investor. That has helped to mobilise a further £1.9 billion of public and private investment alongside our capital.

To date, the bank has supported more than 3,000 jobs and the building of around 1,000 new homes, and has investments in 29 of the 32 local authorities across Scotland, as well as £411 million of supply chain spend in Scotland.

Our latest annual report and accounts recorded the bank's strongest year of investment activity to date. Last year, we committed £374 million to businesses and projects across Scotland. We also attracted a further £445 million of co-investment from a range of high-quality investment partners.

However, it is important that we acknowledge the losses reported in our most recent accounts. Although a degree of loss is consistent with the higher-risk elements of a development bank portfolio, the losses that we have seen are not where we want to be. As chief executive, I have spent time reflecting on what the next phase of the bank's development should look like, and our recently published business plan and investment strategy set out that direction. That builds on changes that we have already made to strengthen our approach to investment selection, due diligence, governance and portfolio management. Looking ahead, I am excited by the opportunities that we see, particularly across housing, infrastructure, innovation and energy transition. I look forward to today's discussion.

The Convener: I have a few high-level questions. How do you perceive your actual role? We talked earlier with the enterprise agencies about whether they focused on start-up or scale-up. It seems to me that the bank focuses more on scale-up. What is the hole that you try to fill? Perhaps, in answering the question, you could also reflect on the rough split between debt and equity investments.

David Ritchie: Your analysis is correct on where we sit with regard to start-up or scale-up—we focus more on the scale-up side of the business journey. We are also keen to look at how we can support businesses and projects that contribute to our missions. Our missions are how we support the transition to net zero, how we have a meaningful impact on place and how we can support the economy to become more productive.

On energy transition, we are out in the market, looking at both businesses and projects that can have a meaningful impact on the transition journey. For example, we look at port infrastructure, as we have done in Ardersier and south harbour in Aberdeen. We also look at how we can support the development of the emerging floating offshore wind sector.

10:30

On place, we are thoughtful about the role that we can play in helping to create more homes and about how we can have a meaningful impact in addressing some of the challenges that we have with housing.

Innovation is where the bank's focus on scale ups comes into play. We are looking at businesses that have potential to grow in scale and become internationally competitive. When the bank first set out on its innovation journey it was focused on life sciences and deep tech, for example. We are still interested in those areas, but we have become more sector agnostic in our scaling journey, because lots of businesses in different sectors across Scotland, such as those in retail or food and drink, have huge potential to scale and grow. The bank is keen to lean into that.

On quantum investment, we can provide investment of as low as £2 million, but we can go up to £50 million on an individual transaction. The investments of higher amounts, such as £50 million, are most often related to infrastructure, such as that in Ardersier. We have also supported North Star, a shipping company based in Aberdeen that is looking to make the transition away from oil and gas and into the sectors that are more connected with the energy transition.

We do not have a hard and fast rule on the split between debt and equity. We will always base that on the portfolio configuration and what we consider to be the best value for the bank, and we will look at every opportunity case by case. The split at the moment is about 50 per cent debt, 30 per cent equity and 20 per cent funds.

The Convener: Those investments or loans are, in effect, given at commercial rates. Is the hole that we are trying to fill there because there is a lack of other capital for some of those projects and businesses?

David Ritchie: That is a good question. There are a few different components to the answer. There is a challenge with access to finance, and a lot of emerging and scaling businesses in Scotland find it difficult to access the right form of capital.

There is also a gap in commercial finance, which is where a development bank can be additive, because we have the ability to be more patient and to take on a greater degree of risk. However, we still want to invest on commercial terms. Development banks are well-proven models, and the Scottish National Investment Bank is the first of its kind in Scotland.

There is an access to finance challenge, and also some of the businesses that we want to invest in are producing new products and running new business models, so we are investing in potential new sectors. Sometimes that can be challenging for more established forms of capital, so that is where the role of a development bank can be additive.

Jason McGibbon: Our position in the ecosystem is pretty clearly in the scale-up space. Over time, we have refined our criteria to make that even clearer. There is a lot of data out there that backs up the hypothesis that Scotland is quite good in the start-up space but has more work to do in the scale-up space.

The one additional criterion that I would add in relation to the mix of instruments that we invest in—David Ritchie has covered the splits in that regard—is that we have an obligation to be sustainable at an operating level. Commercially yielding debt is an important component of that. There is a gap in the market for that, and we can be part of the solution in that regard. That will drive us toward self-sustainability at a profit and loss level.

I should say that we are quite unusual in an international context, because, unlike similar institutions elsewhere, we can invest across a wide range of instruments—debt, equity, infrastructure funds and so on. Comparable institutions in other countries are often more concentrated than that. That flexibility is helpful, because we have to work across three missions that have been set for us by Parliament.

The Convener: Thanks. That was a helpful overview.

Daniel Johnson: Thank you for being so clear about your views on the sustainability point, because I think that that is the key question. David Ritchie, your reflection on the losses and how to address them was important, and that is what I would like to focus on.

I want to clarify the key numbers. I should comment that, with regard to what was said earlier, it is relatively easy to find the numbers that I want to look at in your report.

You are in receipt of £119 million of financial transactions money from the Scottish Government. In the past year, you made an operating loss of £117 million in total, and the loss in the previous year was £40 million. However, your balance sheet increased by £80 million. Basically, you are sustainable if you continue to get around £200 million a year from the Government. However, what is your reflection on how you ensure that you do not continue to make losses and that you make gains? What is the strategy? Indeed, what would you do if that £200 million a year of capitalisation stopped? I think that that is the plan.

David Ritchie: That is a great question. The long-term ambition is for the bank to be a perpetual institution, so that it is not reliant on Government capital to fund its investments. That has been a stated objective from the creation of the organisation, and it is still our ambition. We and the Scottish Government are making good progress in that regard. I know that the issue has been discussed by economy committees in previous sessions, and I know that it has also been discussed by the Public Audit Committee. We are making good progress with the Scottish Government and the UK Government to enable us to be granted UK public financial institution—PuFin—status, which will give us the flexibility to invest returns over financial years and to retain income and recycle returns that we get into the portfolio. That is still the ambition.

Daniel Johnson: Can you clarify where you are in the process around securing that classification?

David Ritchie: As the committee may be aware, the UK Government introduced a PuFin framework, whereby public investment institutions such as the National Wealth Fund, the British Business Bank, UK Export Finance and Homes England all have additional flexibilities that allow them to work over financial years and to retain and recycle returns into their portfolio. The Scottish National Investment Bank does not have that ability, so we have to work on annual budgets, which is a situation that has challenges. We are incredibly grateful for the £200 million that we receive from the Government annually, but trying to land on that £200 million every year when we are part of an investment process that has co-investors and we are depending on where the business is at in its own process has its difficulties.

We have been engaging with our shareholder team, as well as the Scottish Government Exchequer team. We have had conversations with the Cabinet Secretary for Economy, Tourism and Transport, as well as the Cabinet Secretary for Finance and Local Government—the Deputy First Minister—and we have also had constructive dialogue with HM Treasury.

We have carried out an open-book analysis to demonstrate how we believe that the portfolio will evolve and how we can take advantage of returns that are coming into the portfolio. We have shared the analysis with the Scottish Government, and it is our understanding that a formal application will be made to HM Treasury before the end of this calendar year, which should determine whether we will be granted PuFin status.

Daniel Johnson: That is a useful clarification, and it would be helpful to be kept up to date on how that progresses.

In terms of addressing the fundamentals and the losses that you are reporting, what is the strategy to get that into a positive place, so that you are making returns, not losses, on your invested capital?

David Ritchie: I will offer a couple of comments in relation to the overall accounts that are outlined in our annual report and accounts. From an operating perspective, we cover our own costs. Our operating expenses are around £20 million, and we generate around £30 million in income. We do not require any grant in aid or support from the Government to cover our operational expenditure.

From a portfolio perspective, as you said, we get £190 million of financial transactions and an additional £10 million of capital, so we have a total of £200 million to deploy over the financial year. In terms of the portfolio performance, we have published unrealised losses of around £85 million. Within that, individual businesses such as Orbex have gone into administration, but the delta in the balance of those unrealised losses is fair-value write-downs. Those companies are not in administration. We are actively working with them to support them and improve their performance.

Daniel Johnson: They could come good, but right now you have to value them at a lower level.

David Ritchie: Exactly. We have to value them in accordance with the accounting guidance. It is right and prudent that we do so, and we are transparent about it.

The other component of the losses relates to companies such as Trojan Energy and M Squared, about which we have been very open and public. However, this is the first time that they have been captured in the annual report and accounts. Those unrealised losses are not new losses on top of what we reported earlier in the year; rather, this is the first time that they have been reflected in the—

Daniel Johnson: Forgive me for interrupting. I am hearing an explanation of where the losses come from, but I am not necessarily hearing what has changed in your investment strategy in relation to your assessment process, the types of companies in which you invest or the way in which you invest, in order to turn that £80 million loss around and move from the red into the black. I accept that a big chunk of that is a book loss rather than an actual loss, but it is nonetheless a loss. What is the strategy? Give me the elevator-pitch one-liner. What is the change?

David Ritchie: We published an update to our investment strategy, and we have put forward revised criteria. For example, when the bank first launched, we were looking to invest in companies operating at technology readiness level 3 or level 4, which is quite early stage for businesses. We

have moved that up to technology readiness level 8, so the businesses that we are now looking at are more mature, which is an important consideration.

In addition, we have made it explicit and clear in the revised investment strategy that we are seeking to work with co-investors who are willing to follow their own money, so that it is not always the bank that has to follow into future rounds. That is an important evolution, because it ensures that a variety of capital is available to individual companies for when they need to go again or if they run into any challenges.

We have also tightened up and looked again at the due diligence process that we go through, and we now have a greater focus on management due diligence, which is an important consideration, particularly in relation to scaling businesses that are looking to go from the start-up phase all the way through to fully established.

10:45

We are also thoughtful about the sectors in the markets in which we are investing. For example, we launched on the back of COP26, when there was a huge amount of enthusiasm for where renewable technology and investment models could go from a net zero transition perspective. The reality is that a lot of that has moved to the right. The opportunity of floating offshore wind is still there, but it is perhaps further to the right. We have adjusted our investment strategy into areas, particularly in net zero, where we see good opportunities, such as battery storage and grid stabilisation. We are pivoting towards many areas where there is a strong demand for our capital and which remain consistent with our remit.

Daniel Johnson: Just to clarify, when you say move to the right, do you mean longer term?

David Ritchie: Yes.

Daniel Johnson: Left and right could mean different things in this place.

David Ritchie: Apologies. When I said move to the right, I meant slightly further into the future.

Jason McGibbon: I can give you a little more context from a committee standpoint. As a development bank and a development fund, we are going to make losses. As we are a patient capital investor, those losses that will probably be front-end loaded. In general, your problems come at you pretty fast, and you want to hold on to your successes for longer, particularly if they sit in infrastructure or yielding debt, where you would have a longer tenure of investment.

At a committee level, we ask for a few things to be done. Although we are going to make losses, we have to strive to be better at every point. We ask for a segmentation of the portfolio. The vast majority—90 per cent—of the unrealised losses sit within the first three vintages at the bank; they are much lower level. You could say that they are not as old and that they will come through. It was comforting to hear the layering of investment type that plays into all the things that David Ritchie talked about.

We also asked for a review of people and process. Some of the people cost investment that you see in our profit and loss statement has gone towards portfolio management. We did not have a portfolio of assets five years ago. We had a small handful, and now we have a large portfolio. We have recruited and we continue to recruit. We have a chief portfolio officer starting in the business imminently. That is investment in people to support the maximisation and, in some cases, the recovery of assets that are facing challenges.

On process, David Ritchie has talked about investment criteria. He highlighted some relevant examples around crowd-in, the types of partnerships that we enter into and the cash runway that those businesses have when we invest in them. That is not a once-and-done process. It is a continual process that we continue to review, and it feeds back into the refined investment strategy that we publish regularly.

Rachael Hamilton: Following on from what you have just said, I note that KPMG found that the bank invested £3.2 million in companies that were worth zero within six months. What did the bank know when those follow-on investments were made? Would the financial investment decisions have changed because the investment tests are now different?

Jason McGibbon: It is difficult to say whether we would or would not have invested on the back of that. What the committee has confidence in is that the investment processes have been improved and enhanced, and that is directional. However, on the specifics of the asset, I would have to come back to you.

I think that it is a process of continual improvement with early-stage investing. I am on three—or four, I think—other boards in Scotland that are scaling businesses, and we regularly face cash-runway challenges; in fact, I will be spending quite a bit of time this afternoon on one of them. It is an everyday challenge.

As the chair of the committee, I would say that committee members are constantly trying to enhance the process and to strive to be better on the criteria—that is, whether it is a slightly later-stage business; whether the technology readiness levels are moving; the levels of management diligence; and the types of co-investment partners

that we work with. If you look at the bank's tenure, you will see that we are starting to work with some blue-chip private sector partners across our three missions. All those things give us confidence.

It is never good news when an individual business in an individual town in Scotland runs into difficulties but, equally, there will be circumstances in which we have to say, "We cannot continue," because we do not have either the breadth of financial capacity or the capitalisation table support. That is always difficult at an individual level, but the fact is that we will always have limited resources to meet the very significant challenges in each of our missions. We have to put that pound—and there is always a marginal pound—where it will have best impact.

Rachael Hamilton: I want to go back to David Ritchie's comment about sometimes finding it difficult to spend the £200 million. I presume that you were referring to the public finance rules. Would the bank ever, say, accelerate or resize a deal, because that funding could not be used?

David Ritchie: With every deal, we look at the capital requirement, the cap table and the other co-investors who are coming alongside us, and we seek to ensure that the business is capitalised effectively. However, it is important that we let the formal diligence processes be concluded. Once we start the diligence process, we look at a whole range of areas—commercial diligence, legal diligence and management diligence—and it is important that, as stewards of public capital, we are in a comfortable position before we commit any of the capital that we have available to us.

There are some opportunities that are quite dynamic—another co-investor might step back or, indeed, increase their own appetite, or something might delay the process—and we need to respond to such situations. There have been scenarios in which co-investors have stepped back, but we have still been comfortable with the deal's overall shape and so we have increased the amount that we have committed to the individual business.

However, it is critical that we do not shortcut the process to try to fit a capital deployment into a given financial year. We need to be comfortable that the business has given us the confidence and comfort that we need before we will invest.

Rachael Hamilton: Finally, my interpretation of your comments is that, eventually, you do not want to receive support from the Government. You want to be almost a stand-alone bank. However, Sir John Elvidge has talked about the uncertainty that there could be beyond 2030, and investors and co-investors might be put off by the prospect and not commit right now. Could you comment on that?

David Ritchie: On your first point, we have outlined in our business plan our objective, and our ambition, to diversify our capital sources. We think that that is important, because even with the £2 billion capitalisation that we have received from the Government—and which we are incredibly grateful for—the scale of the challenge with regard to emissions and what we are trying to achieve is such that that sum of money will never be enough. Therefore, it is important that we try to identify other forms of capital.

We are constantly engaged with the Scottish Government about what the future will look like beyond 2030, and we are encouraged by those conversations. Sir John Elvidge makes a good point about the potential uncertainty that will be created in the market if our perpetual status is not granted or if the process is not concluded and there is no line of sight for further Scottish Government funding. From our interactions with the Government and the shareholder, I do not get the sense that that will be the case, but it is important that we manage that message. We have to do that, but the Government is thoughtful about it, too.

Jason McGibbon: In large part, it comes back to the topic of perpetual status, which, as a board, we see as an existential challenge for the organisation. It is why people signed up to serve on the board in the first place. We are absolutely determined to drive the organisation to self-sustainability. That does not in any way take away from the gratitude that is felt for the capital that has been granted; it is because the missions that we are operating within are wide ranging and the challenges are significant.

When we backsolve it, as many people within and outside the organisation have done, and say what sort of balance sheet the bank requires in order to lean in fully, the figure goes beyond the £2 billion that was committed to by the Government. To achieve that, third-party capital sources would seem to be the most self-sustaining route, and a lot of hard work is going on in that respect. We have gained helpful financial flexibility of £25 million around year ends, because investing does not lend itself to Government year cycles; it lends itself to being disciplined right through the period. We have benefited from some of that flex, but we have to get over the line the work that remains outstanding in order to deliver in the way that we are keen to deliver—and can deliver—against the missions that we have been set.

Rachael Hamilton: To be clear, have any investor decisions been delayed or have any live deals been affected by that rhetoric?

David Ritchie: None.

Jason McGibbon: None.

Kate Campbell: There is quite a lot for us to think about. You said that, to achieve the missions, it goes way beyond £2 billion. Do you have a figure?

Jason McGibbon: It is not an empirical exercise, so one person's calculation will differ from another's. I have always been fascinated by the topic. I think that it goes materially beyond the £2 billion. How do you address that? You address it by stewarding the £2 billion effectively and—to respond to a question that was asked earlier—by turning it into a number that is more than £2 billion, not less. We are endeavouring to do that, and we have talked about the processes to do it. We have already made a couple of successful exits, but people always focus on the losses. The organisation has two or three asset processes that are well developed, but you do not get all the way there by recycling capital—that is a personal opinion—so you need to look to third-party capital initiatives. The university fund in Scotland would be at the forefront of that, and there are a number of others that we are working through that would give us the opportunity to crowd in high-quality private and public sector investors to better meet the challenge.

David Ritchie: How much capital we require to deliver the missions is a good question. I agree with what Jason McGibbon has said. We see strong demand for our capital, so our pipeline is constantly evolving. This year, because of the way in which the capital allocation works, although we have £200 million, a significant proportion of it is already captured by previous years' legal commitments. If we invest in a company in 2024 or 2025, for example, and it meets certain milestones, we invest further funds when it gets to 2026, which come out of this year's capital allocation. There might be other businesses in which we look to follow on because they are performing well and we think that further capital from us can help them to realise their ambitions. Therefore, the amount of free capital this year for new deals is not £200 million—it is around the £100 million mark.

What we see is a developing pipeline, particularly with regard to new areas such as housing and net zero, where there is significant demand for the bank's support, and it is difficult to meet the demands with the £200 million that we currently have. I do not see the demand on the bank to support businesses and projects dropping; I see it as something that will continue for a long time, if not in perpetuity.

11:00

Kate Campbell: I am sorry to circle back to the issue of the losses, but I will frame my question slightly differently.

You said earlier that two things are important for a development bank: the ability to be patient; and the ability to take risks. Given the missions that you have to work to and your approach regarding innovation—I know that you are focused on scale-up, not start-up—you must be allowed to take risks, to an extent. Can you give us an idea of how you are managing your risk appetite? Are you setting expectations in relation to the fact that, in order to be successful, you will have to take risks, and some of those risks will not pay off? You have changed your investment strategy. Do you feel confident that you will continue to be able to manage that? Will you be able to set the expectations of Parliament, the Government and the public in relation to what that approach will look like?

Jason McGibbon: At the very first meeting of the bank, we had not made any investments, obviously, and we were not sure about what the demand would be or what would be the mix of opportunity across the three missions, which we have not touched on but is pretty much on track for what we want it to be. Rolling forward six years, we now have 50-plus investments sitting in our portfolio and we are starting to gather a lot of useful data. One of my concerns early on was whether we would be able to have the relevant opportunities to invest—that is an issue that, as David Ritchie said, goes well beyond the capital availability.

I think of our approach to risk as being similar to the construction of a pyramid, which you have to build in layers. Similar organisations in other countries have applied that approach pretty effectively. There is a lower loss rate in relation to certain types of fund investment or infrastructure investment than there is in very early-stage high-scale technology—we have a 0 per cent loss rate in housing, for example. I think of the riskiest assets as the tip of the pyramid, and we absolutely must engage with them, even though that means that we will have to come to this committee and report that we have made losses, because those businesses can fail—certainly, I know that businesses in that environment that I work with outside of my role at the bank can fail.

However, the most effective place for the bank to operate is in the scale-up space. We are trying to make a commercial financial return, but we are also trying to make a material non-financial contribution to the country, be that in jobs supported, carbon sequestrated or other metrics. However, as we always remind our investment teams, there is not a lot of non-financial impact if the business is not commercially and financially successful—it needs to be around next week.

I totally agree with your hypothesis that we need to take that risk, but we must do so in the context

of the total capital that we are afforded. Where we can diversify with partners, we should do so. A third-party capital initiative such as the university spin-out fund is an example of very early-stage investing that would still support that part of the ecosystem.

The Convener: If you dial down the risk appetite, is there a risk that you would just become a normal commercial bank? Have you considered that risk?

David Ritchie: It is a good question. With regard to some of the challenges that we have faced in our portfolio, we have assessed what has happened and learned the appropriate lessons, while still ensuring that we are operating as a development bank.

Even in the areas that Jason McGibbon referred to, such as housing, there was a funding requirement for development bank capital. Although that is less risky than some of the early-stage tech or life science investing that we have done, we still believe that we are fulfilling an important role and not crowding out commercial banks or investors. We will continue to monitor that and ensure that we stay on the right side of the line. I am very comfortable that, based on what I see in the pipeline and what we bring into the portfolio, we are still operating as a development bank should operate. We are still looking at how we can be patient and add to the cap stack. Although the investment strategy has evolved, it has not evolved to the point that we would be considered a purely commercial investor.

The other component is the impact that we are always looking to make. As the committee might be aware, the bank is an accredited impact investor. We operate to open standards, which are the principles for investment management in a United Nations-governed framework. We have that audited every year. Our impact considerations are every bit as important to us as our commercial considerations, which is another differentiator for us compared with a pure commercial investor.

Jason McGibbon: That commitment was a board ask. The Scottish National Investment Bank Act 2020 requires us to be mission-aligned across the three missions. The board was keen to take it a step further so that we say that we will make a material non-financial contribution. As someone who has worked in the space for 30 years, I think that it is really important that we do that in Scotland's current ecosystem. Other organisations also seek to do so.

I almost see it the other way round when it comes to impact funds and impact investors: we are dragging commercial behaviour to a slightly better place. We have impact covenants and due diligence requirements that probably take the overall investing consortium to a better place in terms of its consideration of impact. That is a really important role for the bank.

Kate Campbell: Jason said earlier that we had not really talked about the missions, so I would quite like to do so. You have your outline targets, but what sits beneath those in terms of key performance indicators? How do you monitor your alignment with and achievement of the missions?

David Ritchie: As you said, we publish our high-level mission objectives. Every year, when we look at our potential portfolio and potential list of investments, we look at what contribution each and every single one of those investments can make to the missions. From a net zero perspective, every year we measure the CO_2 that we are sequestering or removing as a result of our investments. From a place perspective, we constantly look at the lives that are touched by our investments, which we report on annually. That can be at a more micro level, such as the number of homes that we are creating, the extent to which our investments in broadband infrastructure are connecting local communities or the impact of our regeneration investments. In relation to innovation, we look specifically at the number of patents and jobs that we are creating.

All that sits underneath the overall mission target, which takes us to 2030. We constantly look at how each year's activity builds towards the achievement of that target, and we publish annual updates on that. If you do not have copies of the impact report, we are happy to share them with the committee.

Jason McGibbon: The board committee reviews that just as frequently as it reviews financial performance. It is also a process of improvement. We have multiple audiences, so there is a headline non-financial KPI under each mission, and a range of KPIs sit below that. Quite a lot of work has gone into that, so we have not shied away from scrutiny. We have gone out and done BlueMark audits and done things that we were not required to do that are about cementing our place in that ecosystem, which is a subset of the investment ecosystem. In the organisation, we are proud of that area of work, if I am honest.

David Ritchie: I know that the convener is trying to move on, but I have a quick point. The point about BlueMark is important, because it is an important, globally recognised organisation that assesses impact credentials. We get ours assessed every year, and it has accredited us as an advanced organisation. We are one of only a handful of organisations that have that status. For BlueMark, it is important that an organisation not only describes its impact for communications purposes but demonstrates that it has its impact

embedded all the way through its processes. Impact is a consideration at the earliest point at which we consider any opportunity.

Gary Bouse (Falkirk West) (SNP): Thank you very much for the presentation. I have been impressed by how open and clear you both were with it. Youse did not shy away from the losses before anybody asked you, which I liked, and I like that, in the light of your problems, you are tightening up your systems.

I will continue in that vein. You both mentioned the drive to self-sustainability. My question is simply: when will you reach that point?

Jason McGibbon: We look at it at two levels. As an operating entity, we look at operational sustainability and our profit and loss. We have made great progress, because our income is significantly ahead of our cost base.

To come back to the loss question, a number of members have asked what an acceptable level of loss is. As an organisation, you have to strive for it to be the lowest that it can possibly be, while acknowledging that, as a development entity, you will have losses. I almost think of it as a pendulum that constantly moves back and forth. We need to do better than the rate that we delivered in the first three years. The second three years are currently going a lot better, so we need to continue in that vein. We have also deployed more capital in the second three years, so there is a weight-of-money factor.

I come back to the perpetual piece. Unfortunately, I do not often get the opportunity to make this point, but we are working on a number of assets that could be pretty successful realisations for the organisation. We want that capital to circulate back into investing in Scotland and other deserving opportunities, because the opportunity set is greater than the capital that we have. We need to resolve the issue of status and the issue of perpetuity.

David Ritchie: I agree with that. The question of "when" is a great question, but, as Jason McGibbon said earlier, when we look at the portfolio's performance, there is rightly a lot of focus on the losses. It is important that those losses are scrutinised, that we are transparent and that we explain how those were incurred. However, so many positive things are happening in the portfolio. We have already had a couple of exits. For commercial sensitivity, I will not divulge any of the details, but we are actively engaged on things where we believe that we will exit over the next 12 months. When we look further ahead in terms of the portfolio, there are more and more of those assets emerging.

11:15

If we can solve PuFin status, it will give us a choice about whether we just continue to invest the recycled returns that we get from the portfolio or whether there is potential demand and an opportunity for us to utilise further capitalisation from our shareholder—the Scottish Government. We are really focused on both solving the returns and trying to identify alternative sources beyond the Government. We think that that is right and proper for us as a business, particularly given some of the persistent challenges around the fiscal position.

If, given the returns from our portfolio and our relationships with other capital investors, we can invest and satisfy the demand, that is a great position to be in. We are having a constructive and positive dialogue with the Scottish Government about what future capitalisation from it would look like.

Gary Bouse: I agree that you might have to use the money as you go forward to develop other projects. I understand that. However, to be honest, gentlemen, youse didnae give me any sort of timeline. Let us say that you come back in four years' time and the investments have not moved as far as you had hoped and we are still making losses. Would that be a challenge?

Jason McGibbon: Let me try to answer the question in another way. I always separate out the operational business of the bank and the people who sit across the country and invest in and support businesses. Our profit and loss statement is positive. That was an objective and we have delivered that. Our income is higher than our cost base. At an asset level, we have invested more than £1 billion of capital and we are sitting with a valuation below that. How quickly do we drive that back above £1 billion? We have a stated target rate of return that we need to make and we think that we can deliver that. It is not an exact science, but it will not be done in 12 months. It will take a number of years, but we are working towards that. It is a medium-term objective for the organisation.

We can see that the performance of the more recent vintages is encouraging relative to the earlier vintages. We have adapted and changed our processes, as we outlined, and we believe that we are making good progress. However, it would be a hostage to fortune to say that it will be done in four years' time or in two years 12 days' time, given the size of the portfolio that we have.

Gary Bouse: You used the magic words when you said that it is a medium-term objective. I understand that it may have to be stretched, because the investment portfolio may have to grow at the same time. I will take that as a fair and reasonable answer.

Martyn Day: To date, you have committed over £1.2 billion and you have crowded in £1.9 billion of other funding. How much of that £1.9 billion is genuinely additional new money that would not have been spent without your investment?

David Ritchie: That is a good question. With every transaction and every asset that we have invested in, we always seek to understand from the business or the project lead what access they have to other finance. We are subject to subsidy control and state aid considerations, so we cannot crowd out other investors. When we have invested, there has always been a clear need and demand for bank capital. In the vast majority of the investments that we have made, we have engaged during the process with the other investors that are part of the cap stack, and they have made it clear that having the bank as part of the capitalisation and support for the business is vital.

To give you a precise number, I will need to go away and speak to some colleagues and write to you, Mr Day. However, we are clear that, given the processes that we have to go through, we are not crowding out the private sector. We are doing the opposite and crowding in.

Jason McGibbon: That is the key point. My committee reviews the data, and we are conservative in the way that we interpret it. The vast bulk of the £1.9 billion is private sector capital. Our inability to crowd out means that we are pretty central to the capital stack on individual investments.

In general, from my lived experience with the other businesses and scale-ups that I work with, if you are trying to get to a 10 of funding, everyone is important, because no one wants to do 10. Everyone wants to do three and a third. The bank is a pretty fundamental component, but we do not want to be the only component. We do not want to carry the whole weight of the asset, because the breadth of the capitalisation of the business is a pretty good indicator of its chances of success.

Martyn Day: Thank you. I look forward to receiving the additional information.

The Convener: We have had a really good discussion. I thank Jason McGibbon and David Ritchie for their time.

That concludes our public business for today. Our next meeting will be on Tuesday 27 October, when we will continue to take evidence as part of our pre-budget scrutiny.

11:21

Meeting continued in private until 12:15.

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