



Scottish Government

Written consultation response

**Consultation on the Scottish National
Investment Bank Bill**

The Scottish Council for Development and Industry (SCDI) is an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members and partners across the private, public and third sectors to collaborate to deliver inclusive and sustainable economic growth.

For more information on this consultation response, please contact the SCDI Policy Team:

Matt Lancashire
Director of Policy and Public Affairs
matt.lancashire@scdi.org.uk

Gareth Williams
Head of Policy
gareth.williams@scdi.org.uk

David Kelly
Policy Analyst and Administrator
david.kelly@scdi.org.uk

Scottish Council for Development and Industry
1 Cadogan Square
Cadogan Street
Glasgow
G2 7HF

0141 243 2667

Consultation on the Scottish National Investment Bank Bill

Introduction

The Scottish Council for Development and Industry (SCDI) is an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members and partners across the private, public and third sectors to collaborate to deliver inclusive and sustainable economic growth.

SCDI welcomed the commitment made by the First Minister Nicola Sturgeon MSP in September 2017 to establish a Scottish National Investment Bank and this consultation on its final configuration. Long-term investment and access to patient capital are critical ingredients for a successful economy, driving increased innovation, productivity and inclusive economic growth.

SCDI has worked closely with the Scottish Government's project team to facilitate engagement with businesses and organisations from across the Scottish economy as part of this consultation exercise.

The following purpose for the Bank has been proposed:

- **Investing in people and infrastructure to safeguard Scotland's future**
- **Fostering a culture of innovation, entrepreneurship and research and development**
- **Stimulating inclusive growth through a fair and inclusive jobs market and regional cohesion to provide economic opportunities across all of Scotland**
- **Promoting Scotland's international trade, investment, influence and networks**

The following objectives for the Bank have been proposed:

- **Mission-orientated**
- **Publicly-owned**
- **Crowding-in investment**
- **Commercial**
- **Operationally independent**
- **Investing ethically and sustainably**
- **Strongly capitalised**
- **Open and transparent**

1. **Are these objectives and purposes for the Bank the most appropriate to deliver the Implementation Plan's recommendations, and to fulfil the**

Bank's potential contribution to increasing sustainable economic growth?

SCDI supports the proposed purpose for the Bank. It is vitally important that the interventions of the Bank support and increase innovation, entrepreneurship, trade and, ultimately, inclusive growth in the Scottish economy to deliver higher levels of fair work and prosperity. Delivering higher levels of economic growth through its deployment of patient capital at a higher level of risk appetite should be the core purpose of the Bank.

SCDI supports the proposed objectives for the Bank as broadly outlined, while noting that each will have to be clearly and carefully defined. In particular, the ethical and green credentials of the Bank have been touted strongly by Ministers and others. The precise meaning of "investing ethically and sustainably" as understood by the Bank, in conversation with business, will require further detail to provide clarity. There should be scope for the Bank to all sectors of the Scottish economy in which there are significant growth opportunities consistent with a strong ethical foundation.

To achieve its objective of crowding-in private sector investment, it is critical that the Bank develops a risk appetite which is at a substantially higher level from that currently provided by the conventional commercial banking sector to add to the financing options for business. Its activities should be focused in the areas where it can deliver the greatest economic impact and the sectors of the Scottish economy identified as having the greatest growth potential, particularly those which are new or nascent.

The Vision proposed by the Implementation Plan and endorsed by the Scottish Government is:

"Provide finance and act to catalyse private investment to achieve a step change in growth for the Scottish economy by powering innovation and accelerating the move to a low-carbon, high-tech, connected, globally competitive and inclusive economy."

2. Do you have views on the statement of the Vision?

SCDI welcomes the focus on achieving a "step change in growth" and the presence of innovation, global competitiveness and inclusivity in the stated Vision for the Bank. SCDI believes in an open, inclusive and growing Scottish economy. The Bank will play an important role in crowding-in investment to address the underperformance of Scotland's levels of economic growth compared to its competitor and comparator countries across Europe.

Similarly, historically low productivity growth is a central challenge of the Scottish economy. Productivity is critical to the prosperity of the nation and the success of our businesses. Increasing levels of productivity reduce costs, increase competitiveness and fuel higher levels of wage growth and economic growth. Scotland has a long-standing target to rank in the top quartile of productive economies in the Organisation for Economic Co-operation and Development (OECD), but remains in the fourth and lowest quartile. Scotland has many

highly productive businesses, but also a long tail of businesses which lag behind our leading firms and similar firms in other countries. There will be a role for the Bank in supporting our highest-performing businesses to increase their growth and in assisting other businesses to invest in innovation, digitisation and automation to improve their productivity. Therefore, accelerating the move to a highly-productive economy should be considered for insertion into the Bank's Vision statement.

3. Do you agree that the overall direction for the Bank should be set by Ministers through a Strategic Framework, including the setting of missions and performance objectives and a target rate of financial return?

The Bank should be operationally independent. The Bank's autonomy, and its relationship with the Scottish Government and its other agencies, should be agreed and respected by all parties and clearly established by the Strategic Framework. The role of the Advisory Group, for example, as a repository of expertise and information should not conflict with the role of Scottish Ministers and the Scottish Parliament as the institutions to which the Bank is accountable. SCDI members have noted that clear and simple lines of responsibility need to be in place to enable efficiency and impact.

The missions of the Bank set by Ministers should be formulated and agreed after discussions with business, industry and academia to reflect the current and future trends, challenges and opportunities in the Scottish, UK and global economies.

4. Do you have any views and suggestions on the example of missions, outlined in paragraph 4.7 and what are these?

The consultation document outlines the low-carbon economy, an ageing population and inclusive growth through place-making as example missions for the Bank. SCDI agrees that there is a convincing case for each of these to be established as missions of the Bank to exploit the opportunities for increased innovation, employment and growth of a just transition to a low-carbon economy; address the challenge of a shrinking working age population creating potential skills and labour shortages and a growing ageing population increasing demand for health and social care; and reduce the deep-rooted economic inequalities between Scotland's regions and communities.

A further mission which is worthy of strong consideration is to position Scotland as a leader of the Fourth Industrial Revolution. The Fourth Industrial Revolution is already transforming the way people live, work and spend their leisure time across the world. It involves rapid and radical technological progress in areas of the digital economy such as automation, robotics, artificial intelligence, big data, nanotechnology and biotechnology. The First Minister has declared that Scotland should pioneer the industries of the future, inventing and manufacturing their products and services not merely consuming them. Scotland's resources and skills strengths should be marshalled to develop competitive advantage. The Bank can play a critical role as an early investor in and backer of digital start-ups, scientific spin-offs and technological innovations which require significant capital, and a long-term, patient approach, to realise their full social and economic potential. There are vast opportunities to

substantially increase employment and economic growth in these sectors for Scotland to seize if a strategic approach is taken, with action coordinated across the public, private and third sectors in areas such as Electric Vehicles (EVs), Connected and Autonomous Vehicles (CAVs) and Mobility as a Service (MaaS). As highlighted by *Scotland's Big Mo*, the report of SCDI's Connectivity Commission, these technologies could transform our urban economies and communities to create a Smart City or Smart City Region connected by green, seamless and integrated transport systems.

5. Do you agree that the Bank should identify and implement an Investment Strategy, which is along the lines suggested?

SCDI agrees that the Bank's Investment Strategy should focus on the provision of patient capital in the form of debt or equity with a different risk appetite and assessment of reward to existing providers of such financial products, complimenting the activities of the commercial banking sector, the British Business bank and so on. The Bank should be empowered to take a long-term view of investment decisions. It should invest in ideas and projects which otherwise struggle to secure support. It should focus, albeit not exclusively, on small- and medium-sized enterprises (SMEs), which are much more likely to face low access to finance.

SMEs are the backbone of the Scottish economy, particularly in rural areas, and their unique needs will need to be catered for. Indeed, flexibility within the Bank's commercial focus will be required, potentially offering rates of interest which are materially below the private sector commercial rate. Such products could be considered on a case-by-case basis and in response to opportunities to maximise impact in delivering on the agreed missions of the Bank. The Bank's commercial identity, however, prevents investing in businesses which are at financial risk, or as part of rescue and restructuring.

The Bank should connect the Scottish economy to the global economy and to global investment opportunities. SCDI agrees, therefore, that the Bank should be able to invest in UK-registered and non-UK-registered businesses and projects. However, given the Bank's ethical, public service and inclusive growth commitments, it should refrain from investing in businesses or projects which facilitate tax evasion or avoidance and thereby deny the Scottish Government or the UK Government of legitimate revenue.

6. Are there any arrangements or requirements not already considered that would inform the Equalities Impact Assessment and strengthen and enhance the Bank's ethical approach to investment, and what are these?

SCDI supports the Bank's ethical approach and believes that the arrangements and requirements already considered are sufficient.

7. Do you agree with the principles approach that is proposed for the Bank, including publication of an Ethics Statement by the Board?

As a publicly-owned institution addressing national missions and accountable to elected Members of the Scottish Parliament, it is essential in order to build and maintain public trust that the policies and activities of the Bank are ethical and perceived as such. SCDI supports

the principles of Equality, Transparency, Diversity, Inclusion and Open Government as the basis for the Bank's approach. The regular publication of a comprehensive Ethics Statement by the Board would be welcome as part of this approach. The Bank must also be an equal opportunities employer and investor which reflects and serves modern Scotland in all its diversity in terms of gender, ethnicity, religion, sexual orientation, disability and so on.

Before the Bank is fully operational there will need to be further clarity on the question of whether the Bank will be "specifically prevented from investing in certain sectors or areas as part of its ethical framework, and what these sectors or areas might be", as suggested in the consultation document. Categorising a sector as unethical, and thereby ineligible for support from the Bank, will be a challenging and controversial process.

8. Is there a better option than the Public Limited Company model, and if so what is it and why?

SCDI agrees that the Public Limited Company model is the most suitable for the Bank.

9. Do you have views at this stage on the proposals for capitalisation of the Bank?

The Bank will have to possess sufficient capital to deliver on its stated ambitions. SCDI welcomes the Scottish Government's commitment to invest £2 billion over the first ten years of the Bank's operation. However, there are concerns that an annual commitment of £200 million could prove insufficient to deliver truly transformative macroeconomic impact for Scotland. For example, as a proportion of the national economy Germany's renowned national promotional bank, the *KfW*, is ten times larger by capital presence than the Scottish National Investment Bank as currently proposed. The Scottish Government should explore how to increase the ambition and scale of its current proposals for capitalisation within the constraints of devolution.

10. Do you have views on how the governance and classification of the Bank should evolve over time, and if so, what measures and protections should be included now to guide and inform a future change in governance and classification of the Bank?

SCDI's members have not expressed a view on this question.

11. Do you agree with the proposed approach to the Bank's governance and Board arrangements which will inform the Bill, the Articles of Association and a Strategic Framework document?

SCDI supports the proposed approach to the Bank's governance and Board arrangements. It is important that the operational autonomy implied in the Implementation Plan and the consultation document is reflected unequivocally in the legislation presented to the Scottish Parliament. The Bank should be empowered to offer loans, make investments, agree joint ventures or create subsidiaries aligned with its agreed Investment Strategy and Risk Strategy without further approval from Ministers.

12. Do you have any comments on the need for the Bank to have Delegated Powers, in order to achieve the aim of it being operational and administratively independent?

SCDI's members have not expressed a view on this question.

13. Do you have views on whether and how an Advisory Group could provide advice to Ministers on issues relating to the Bank?

The Advisory Group should be a diverse and dynamic group with the skills and expertise to engage with all sectors and all geographies of the Scottish economy. It can play a particularly useful role in providing intelligence and analysis of emerging and future trends, challenges and opportunities in society, the labour market and the wider economy to advise on the creation of new or amended missions for the Bank, or to identify growth sectors which require patient capital.

14. Do you have views on the initial operating model and costs identified in the Implementation Plan and what are these?

SCDI supports the initial operating model as proposed in the consultation document. It is important that the Bank builds on existing institutions in this space such as the Scottish Investment Bank and the British Business Bank, avoiding unnecessary duplication and identifying complementarities.

15. Do you have views on any criteria for the approach to remuneration for senior and specialist roles in the Bank?

The consultation document correctly identifies that the Bank will face strong competition from the private sector for staff with the necessary specialist skills and experience. The Bank will require substantial technical expertise, including trained statisticians and economists. There will be a need to strike a delicate balance between empowering the Bank to attract talent and retaining public trust in the Bank as an institution serving the people of Scotland. Given the scrutiny to which it will be inevitably subject, the Bank will be challenged to achieve financial and economic success whilst abiding by its ethical commitments to inclusivity and sustainability. The highest standards of compliance are also essential. Ensuring that the Bank is a positive place to work with a strong identity and a strong sense of mission will also support attracting talent from within and beyond Scotland.

It is SCDI's view that investing in people is vital to business or organisational success. SCDI therefore supports a judicious approach to remuneration which ultimately reflects labour market realities. However, remuneration, particularly for senior leadership staff, should be closely linked to the performance of the Bank, macroeconomic impact delivered and rates of financial return achieved.

SCDI strongly supports the Fair Work and inclusive growth agendas. It is right that all employees of the Bank, in whatever capacity, are paid at least the Scottish Living Wage. Although some employees of the Bank may sit outside its scope for the reasons noted above, future changes to the Public Sector Pay Policy set by the Scottish Government which benefit lower-paid public sector workers should also apply to lower-paid workers of the Bank to ensure parity and fairness.

16. Do you have views on areas where the current approach to public sector pay would suit the needs of the Bank, and are there other examples of

variations in public pay policy that would be suitable for the Bank and any areas where some changes may be needed?

Please see answer to question 15.