Suggested Questions for Discussion

- The primary mission for the Bank will be in supporting the achievement of net zero emissions by 2045. What should be the initial investment priorities for the Bank, and how can it best develop its contribution to this target?
- What are your views on the proposed governance structure for an institution which will be both a public limited company and a public body?
- The Bank will be operationally and administratively independent of Government but will also be a public body. How can we ensure the independence of the Bank’s leadership to allow them freedom to decide where and when to invest?
- The Scottish Government is committed to ensuring the Bank will be an ethical, inclusive and trusted financial institution. How can the Bank best establish its culture and values to reflect this?

Overview

This workshop will allow businesses to engage with Government around the leadership and governance of the Scottish National Investment Bank. The Bank will play a national and international leadership role in supporting investments in Scotland to deliver on a set of missions set by Ministers for the Bank to tackle societal challenges. The Bank’s success will be highly dependent on its leadership and governance. This workshop seeks the views from businesses on our plans to achieve this.

Policy Context

The Scottish National Investment Bank, due to be operational in 2020, will be mission-oriented and will align with the economic policy of the Scottish Government. The Bank will be a cornerstone institution in Scotland’s financial landscape and will provide businesses and communities with a clear point of access to potential sources of finance to support inclusive, ethical and sustainable growth across Scotland.

With regards to the governance structure, the Bank will be set up as a public body and a public limited company. The sole shareholder will be the Scottish Ministers, therefore ensuring the Bank will be publicly accountable. Whilst Ministers will set the missions and therefore the strategic direction of the Bank, the Bank will be operationally independent with regards to its investment activity. Ministers have committed to providing £2 billion over 10 years to capitalise the bank.

The Bank will take a missions-oriented approach to investment; missions will be set by the Ministers and confirmed before the Bank launches in 2020. The Bank will be required to set out how it intends to work towards these missions. As tackling climate
change is a major commitment for the Scottish Government, the primary mission for the Scottish National Investment Bank, as stated in the 2019-2020 Programme for Government, will be to enable Scotland to transition to net zero emissions by 2045.

Other possible missions, detailed in the implementation plan for the Bank, were responding to demographic change and promoting inclusive growth through place-making and regeneration. Overall, the missions will be reflective of societal challenges that Scotland faces and will be aligned with the National Performance Framework (NPF). The success of the Bank will be measured through a range of indicators aligned to the NPF, covering the economic, social and environmental impact of its activity.

The Scottish National Investment Bank Bill

In late 2018, a public consultation, designed to help shape the Bill and the Bank’s Articles of Association, was conducted with a focus on the Bank’s objectives, purpose, governance, and relationship with Ministers and stakeholders. The analysis of the consultation, published in February 2019, has shown strong support for the Bank's proposed objectives, purposes and investment activities. In addition, the proposed approach to governance and Board arrangements for the Bank received broad agreement across the responses.

The Scottish National Investment Bank Bill was introduced in February 2019 to allow establishment of the Bank in 2020. Following this, the Economy, Energy and Fair Work Committee published its Stage 1 report which demonstrated widespread support for the Bank and recommended that Parliament accept the general principles of the Bill at Stage 1. The Stage 1 debate took place in late September; the Bill passed Stage 1 following a constructive debate with cross-party support for the establishment of the Bank. Stage 2 and 3 of the Bill are expected in November 2019 and early in 2020 respectively.

The Bill places a duty on Scottish Ministers to establish the Bank, and gives them powers to capitalise it. It also makes provision for the purpose, objects, ownership and governance of the Bank. The Bill describes the relevant powers of the Bank in broad terms but leaves a lot of the detail to the Articles of Association. The Bill does not confer any powers in itself, rather it sets out what the Bank's Articles of Association will have to say about its powers. The Bill places a duty on Scottish Ministers to establish the Bank as a public limited company. The limited company model is consistent with the Bank being a financial institution with a readily understood system of governance. This allows for a clear divide (underpinned by a shareholder framework document) between the shareholders of a company, which set its strategic direction, and the Bank itself, through its Board of Directors, which make the independent investment decisions. In addition, the Bill gives Ministers the powers to capitalise the Bank and set the missions that will define the strategic direction of the Bank.

Leadership and Governance in the Bank

As the Scottish National Investment Bank will be both a public limited company and a public body, the way the Bank is governed will be unique with respect to the Scottish economy. The Scottish Government is committed to ensuring that the way
the Bank operates – its culture, governance, and approach to businesses and individuals – will define it as an ethical, inclusive and trusted institution. In line with this, the Bank will have an ethical statement and will operate based on four key principles: equality, diversity, transparency, and inclusivity. Furthermore, the operations of the Bank will adhere to the Open Government Action plan to ensure the Bank functions as a transparent and trusted institution. In addition, the governance and risk management of the Bank will align with financial services good practice.

The right leadership and governance structure is important to ensure the Bank will achieve this. In line with the key principles, the Bank will have a strong and effective Board which will reflect the diversity of Scotland’s population, and will embed diversity into its policies and procedures. Recruitment of the Board will align with the Gender Representation on Public Boards (Scotland) Act 2018. The Board of the Bank will be responsible for ensuring that the Bank delivers on the strategic direction set for it by Ministers.

The recruitment for the Chair of the Board of the Bank is a major appointment for the Scottish Government. Ministers are looking for an outstanding ability and commitment to instil a culture of transparency, equality, diversity, and inclusion in the boardroom and beyond. With this in mind, the recruitment process was designed to attract a diverse field of applicants to secure the best possible field of candidates. Both the Chair of the Bank and the CEO will be in place for six months before the Bank opens to allow them to guide the final stages of the Bank.

A Strategic Framework to be provided by the Scottish Government will describe how the Bank is to be governed. As it will be a limited company, the Bank will require a shareholders’ agreement to regulate the relationship between the sole shareholder, the Scottish Ministers, and the Bank itself. In addition, the Bank will adhere to the obligations for public bodies and will be accountable both to the Scottish Ministers and the Scottish Parliament. However, as the Bank will remain operationally and administratively independent from the Scottish Government, it will be up to the Bank to manage its investments, risks, and products.

Whilst it will function independently, as a public body which will be capitalised by the Scottish Ministers using public funds, the Bank will be responsible for reporting on operations on a regular basis. Ministers will set the missions that the Bank will have to operate on, and in return the Bank will submit mission reports which will detail how the Bank intends to respond to these missions. Furthermore, the Bank will also report on the performance of its investments at the end of the financial year and be subject to a performance review every five years. The Bank will be a commercial operation, therefore Ministers are considering setting a target rate of return for investments. The Economy, Energy and Fair Work Committee’s Stage 1 report raised some concerns around the setting of a target rate of return during the Bank’s initial years of operation.

Following Stage 3 of the Bill process in early 2020, an advisory group will be established. This will be drawn from a cross-section of external stakeholders and civic society and will have a role in advising Ministers on the performance and strategic direction of the Bank. The advisory group will not advise the Bank’s Board, and therefore will not interfere with the operational independence of the Bank.