Business in the Parliament Conference 2019

Agents of Change: Scottish Business Leading the Way (BiPC in the 20th Year of the Parliament)

Workshop Note – The Scottish National Investment Bank – Leadership and Governance

Co-Chairs: Kate Forbes MSP, Minister for Public Finance and Digital Economy and Gordon Lindhurst MSP, Economy, Energy and Fair Work Committee Member

Speakers: Daniel Kleinberg, Deputy Director in the Scottish National Investment Bank, Scottish Government

Summary

Gordon Lindhurst MSP began the workshop with some opening remarks before Ms Forbes provided an update on progress towards establishing the Scottish National Investment Bank. Ms Forbes welcomed the cross-party support for the Bank whilst recognising that there will rightly be further debate and scrutiny as the legislation progresses through the parliamentary process. Ms Forbes was clear that the case for the Bank is overwhelming, and explained that the Bank will take a mission-oriented approach to investment, aligned to Scottish Government policy. Each mission set by Ministers will work towards tackling a societal challenge. The Bank will create and shape future markets and become a keystone in Scotland’s economic architecture. Ms Forbes stated the Bank will be an ethical, inclusive and trusted institution and emphasised the importance of leadership and governance in achieving this.

Daniel Kleinberg (Deputy Director, Scottish National Investment Bank) then gave a brief description of the Bill and how it is a framework for the establishment and capitalisation of the Bank. Daniel stated the importance of ensuring that this is done correctly to allow the Bank to be operationally independent of Ministers and therefore free of political interference. Daniel then turned to the questions in the accompanying paper and highlighted these as a starting point for the workshop discussion.

Key Points Discussed:

Maintaining operational independence of SNIB

- The discussion focused on how we can protect the Bank from political interference and the models used in other countries.
- There is some precedent but it’s limited and the mission-oriented approach the Bank will take is innovative. The KfW Bank in Germany has achieved
operational independence through a robust constitutional structure. However, as the Bank will seek to achieve social and environmental outcomes, it will be relatively uncharted territory. But ultimately, the commercial judgement of the executive management team is important for maintaining political independence.

- The importance of cross-party support was emphasised as a key point in contributing to the Bank's success. The societal grand challenges the Bank will aim at addressing (through working towards its missions) might not be solved in a five-year political cycle. Stakeholders broadly agree on the potential grand challenges proposed for the Bank, but there are differing opinions on how to address them.
- The value of non-financial returns were also mentioned with delegates interested in how performance against the missions can be measured. The importance of using the national performance framework to measure success was discussed in this context.

**How will SNIB fit into the financial landscape?**

- This discussion centred on how the Bank will fit into the economic landscape in Scotland. A discussion took place around the Bank’s products and how these must be accessible and applicable to the diversity of the Scottish Economy.
- The Green Investment Bank (GIB) was discussed. Some delegates viewed investments made by GIB to be inappropriate and raised concerns over its subsequent privatisation. It was said that this should not be an example that SNIB should follow. It was noted that the Government is mindful of the concerns around the GIB and that there are protections in the Bill to prevent privatisation. It was explained that an Advisory Group will be established to advise Ministers on the operation of the Bank.
- A question was raised over the number of projects the Bank will invest in and delegates wanted to know whether this will be a high volume of projects but with low investment for each, or low volume of projects with high investment for each. It was noted that it will be for the Bank to decide through its Investment Strategy where and when it invests and what products it might offer. Delegates challenged this and thought that it was a strategic decision for Ministers on the scale and scope of the investment landscape the Bank might operate in.
- Delegates asked for clarification about how SNIB fits in with existing agencies, such as the Scottish Investment Bank (SIB). It was noted that SNIB will be an opportunity to declutter the public sector financial landscape. It was explained that work is ongoing to establish how SIB investments will transition into SNIB. The Building Scotland Fund in operation at the moment is a precursor to the Bank. The Enterprise Agencies will have a role to play in developing the markets.
Mission-oriented Investment

- With the Bank being set up to have a mission-oriented approach to investment, delegates asked for clarity around the missions that will be set. It was noted that the Bank is expected to promote economic development but will further promote social and environmental wellbeing through its mission-oriented approach.

- The primary mission for the Bank will be to support the transition to net-zero carbon emissions; this was announced in the 2019-2020 Programme for Government released in September. Delegates were keen to understand what the other missions would be and who would be the target audience. It was explained that the Implementation Plan contains three indicative missions and now, following consultations, the wording of the missions are being developed.

- Concerns were raised over the possibility of investing in the oil and gas sector and the potential for missions to change depending on the party in charge. KfW were again posited as a good example of a public Bank that retains operational independence regardless of the political landscape. Delegates were assured that whilst the nature of democracy means there are disagreements and fluctuations, it should be for the Bank to decide on the investment decisions.

- Delegates were assured that the focus of the Bank would be on the provision of long term patient capital. As it will be a commercial operation, directors will have fiduciary duties, however as discussed earlier in the session, alignment with the national performance framework will be important in measuring the success of mission-oriented investments.

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