

Consultation on the Scottish National Investment Bank Bill

September 2018

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Ministerial Foreword



“It is apparent that we are now at a critical juncture, with a once-in-a generation opportunity for Scotland to grasp the potential that comes from technical advancement. To unlock such potential the new Scottish National Investment Bank will be a cornerstone institution in Scotland’s economic architecture to help realise these possibilities”

Last September, the First Minister announced plans to establish a Scottish National Investment Bank. Since then, the Implementation Plan published in February 2018, set out a high level, strategic blueprint for Scotland’s investment bank as a unique new public institution and cornerstone body in Scotland’s economic architecture. The Government has now accepted all 21 of the recommendations in the Implementation Plan. Subsequent parliamentary endorsement of our approach confirmed the need for a Bank with ambition and vision to address Scotland’s economic priorities in a sustainable, inclusive and ethical way.

I am delighted that the launch of this further consultation, ahead of the introduction of a Bill, brings us another step towards seeing the Bank established in 2020. The Bank will work for the benefit of the people of Scotland which is why it is essential that all have the opportunity to express views on how best the Bank can meet its objectives. The Bank has the potential to help transform Scotland’s economy. It will focus on long-term patient capital, and be shaped by a mission-orientated approach. It will create and shape future markets and define how our economy will develop. I want Scotland to be a nation with an enviable place in the world. This means Scotland inventing, designing and manufacturing the innovations that will shape the future – not just being a consumer of other people’s ideas – and this is at the heart of the role for this Bank.

The Bank will serve businesses who wish to innovate and grow but find the traditional routes to finance challenging. By providing a single point of access to investment, and adopting a strategic focus and risk appetite that is different, the Bank can fuel the economy and catalyse additional private sector investment.

The Scottish Government has committed to providing £2 billion over 10 years to initially capitalise the Bank which is both ambitious and achievable. It will make a material difference to the supply of capital to the Scottish economy by leveraging in additional private investment, supporting ambitious firms to flourish and enabling the transformational change that is essential for sustaining Scotland’s position as a vibrant economy.

Through this consultation we will further refine how this unique new body will operate, its relationship with Ministers and the people of Scotland, and how its strategic direction will be set by missions. We will listen to your views on priorities for investment and governance of the Bank and use them to inform the proposals that will be included in legislation next year to pave the way for the Bank. This will help build an institution with the right values, vision and purpose.

A handwritten signature in black ink, appearing to read 'D Mackay', written on a light-colored background.

Derek Mackay
Cabinet Secretary for Finance,
Economy and Fair Work

1. INTRODUCTION

“Where it identifies need, it will invest and lend on commercial terms, but with a different risk appetite to other financiers where required and appropriate, taking a longer term view on returns”¹

1.1 The Scottish Government’s 2017-18 Programme for Government included a commitment to establish a Scottish National Investment Bank, with the aim of boosting Scotland’s economic performance and realising the Scottish Government’s ambitions for the economy by providing patient capital to finance growth.

1.2 The Scottish Government commissioned Mr. Benny Higgins, former Chief Executive of Tesco Bank, to provide recommendations on the role, remit, governance and capitalisation of the Bank. Alongside the work commissioned from Mr Higgins, a Consultation Paper was issued on 20 October. The consultation invited comments and suggestions from stakeholders on a series of key issues on the creation of a Bank.

1.3 An Implementation Plan was launched on 28 February by the First Minister and Mr Higgins. The Plan was developed by Mr Higgins and an Advisory Group. The Plan also included: an overview of the economic case for having a Scottish National Investment Bank; the sort of products and markets that the Bank should target; the type of strategic missions which Ministers could set for the Bank; an overview of how the Bank should be structured and capitalised; what sort of corporate body it should be; and an outline transition plan. The 21 recommendations within the Implementation Plan along with analysis and commentary about them are included in Annex A for information.

1.4 The following suite of documents were published alongside the Implementation Plan summarising the consultation responses and containing supporting technical information. Analysis of consultation responses, a supporting economic report and a review of national promotional banks globally (developed by Professor Mariana Mazzucato, Director of the Institute for Innovation and Public Purpose at University College London, who is also a member of our Council of Economic Advisers).

1.5 In a Parliamentary Statement on 8 May, Keith Brown, MSP, then Cabinet Secretary for Economy, Jobs and Fair Work, announced that the Cabinet had accepted all 21 Recommendations in Mr Higgins’ report. The Parliamentary Statement also reiterated the Government’s commitment to additional funding to support the Bank.

1.6 The draft Budget for 2018-19, published in December 2017, signalled the Government’s commitment to funding the new Bank. It outlined how *“to give the bank the financial platform and clout it needs to make a transformational impact from the outset, we will provide initial capitalisation of £340 million over the first two years of its operation”*. It also outlined the establishment of a *“Building Scotland Fund (BSF), as a pre-cursor for the Bank, and part of its initial capitalisation, will provide support to secure new public and private sector house building; provision of modern industrial and commercial facilities; and business-led research and development”*. Operation of the BSF has commenced.

¹Scottish National Investment Plan – February 2018. Other quotes in this paper are from the same source.

1.7 The Scottish Government has now appointed Mr. Higgins as Strategic Adviser to the First Minister on the Scottish National Investment Bank. Mr Higgins will provide advice from an authoritative and independent perspective on the establishment of the Bank to Scottish Ministers, in particular to the First Minister and Cabinet Secretary for Finance, Economy and Fair Work. Mr Higgins' work to develop the Implementation Plan makes him uniquely placed to provide strategic advice on the Programme immediately.

1.8 A key part of the implementation of the Bank will be parliamentary legislation. This Consultation is the first step in this process; an electronic version of this paper as well as how to respond is available at <https://consult.gov.scot/>.

1.9 This consultation focusses on the Bank's objectives, purpose and governance, as well as its relationship with Ministers and stakeholders. The proposals set out here will inform further conversations with key stakeholders. Responses to the consultation will help to shape the Bank's Articles of Association and what is set out in the draft Bill and accompanying documents, planned for introduction early in 2019.

2. THE IMPLEMENTATION PLAN REPORT

“The plans for the Bank must be bold, ambitious and based on financial innovation and market leadership”

2.1 The Implementation Plan’s approach, and its 21 recommendations (provided in Annex A for information), were subject to a debate in the Scottish Parliament on 8 May. Keith Brown MSP, then Cabinet Secretary for Economy, Jobs and Fair Work, indicated the Government’s acceptance of the recommendations in Mr Higgins’ report, and agreed to proceed along the lines set out in the Implementation Plan.

2.2 Proposals and recommendations for establishing the Bank are consistent with the Scottish Government’s Economic Strategy. All of the four priorities for supporting sustainable economic growth in the Economic Strategy are relevant to the Bank²:

- 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; and
- promoting Scotland's international trade, investment, influence and networks.

2.3 The creation of the Bank is one essential component of the architecture required to support Scotland’s economic aspirations. There are many examples of national investment banks around the world, structured to address the challenges faced by the countries who have set up such banks. This Bank will focus on long-term patient capital missions, where a different risk appetite can be utilised to complement private sector investment. The Bank will also seek to serve SMEs who wish to grow their businesses and find the traditional routes to finance challenging.

2.4 The Government’s approach to the economy sets the context for the further development of the Bank. In broad terms, the Scottish Government’s proposals for the Bank have the following objectives.

Mission-orientated: Scottish Ministers will set the outcomes for the Bank’s investment, including setting it ‘missions’ and performance objectives, in a Strategic Framework document.

Publicly owned: The Bank should be an enduring, cornerstone institution, constituted as a public company limited by shares, with Ministers as the sole initial shareholder. Legislation will be brought forward in 2019 with the aim of having the bank operating in 2020.

Crowding-in investment: The Bank should provide income-generating and repayable debt or equity, with a focus on investment that is not currently being provided by the market, in order to “crowd-in” investment, and shape and create markets.

² <https://beta.gov.scot/policies/economic-growth/>

Commercial: The Bank will operate on a commercial basis at all stages of the investment life-cycle and provide a single point of delivery for financing support for businesses. Its operations will take full advantage of modern digital and FinTech technologies.

Operationally Independent: While priorities for the Bank will be set by Ministers the Investment Strategy will be determined by the Bank. The Bank will have a Board, with the Chair of the Bank and Non-Executive Board Members appointed by Scottish Ministers.

Investing ethically and sustainably: The Bank will provide a leadership role in terms of diversity and inclusion, as well as in ethical and inclusive investment;

Strongly capitalised: The Scottish Government is committed to providing £2 billion over 10 years.

Open and transparent: A Stakeholder Working Group will guide implementation of the Bank and once in operation, wider society interests will inform the strategic direction for the Bank through an Advisory Board.

3. THE OPPORTUNITY AND THE BANK'S OBJECTIVES AND PURPOSE

“The Bank should be an enduring institution, set-up as a public sector institution in perpetuity that aligns with the Scottish Government and its agencies to provide financing leadership”

3.1 The Implementation Plan proposed a vision for the Bank. The Government will ensure that the Bank contributes to the Scottish Government's priority to increase sustainable economic growth by aligning its aims and objectives with Scotland's Economic Strategy and National Performance Framework. A purpose for the Bank will be set out in the Bill, and the Bank will act within devolved economic development powers to focus on provision of financial assistance for commercial activities for the purpose of enabling, promoting or sustaining economic development or employment in Scotland.

3.2 The Vision proposed by Mr Higgins and endorsed by 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.”

3.3 Through its delivery of missions and the provision of patient capital (see section 4) the Bank will also be focussed on enabling transformative change in society, harnessing innovation and releasing untapped potential within Scotland's wider economy. This means greater access to debt and equity investment for business, both those starting out as well as for those who are seeking to transition into the next stage of business growth and scale up their activities. As part of this, and subject to state aid, the Bank will take a different approach to risk and return on investment than other providers of finance.

3.4 There is some precedent to this approach. The “Green Purposes” of the Green Investment Bank were set out in Enterprise and Regulatory Reform Act (2013) and provided a statutory purpose for the remit of the Bank. The Articles of Association and this Bank's statutory mandate will also describe its purpose and objectives.

3.5 Whilst Ministers will set the mission-orientation for the Bank, the Bank should be given powers to make a range of types of investment as part of its response to Ministers, and to enable it to prepare a robust Investment Strategy. The types of investment that the Bank should be able to make include loans, equity stakes and the provision of guarantees. The Bank is not intended to have a retail banking function. Including a retail banking function now would require the agreement and co-operation of the UK Government because this is a reserved power, and it would substantially increase the period for establishing this Bank and introduce an additional layer of complexity to these proposed arrangements. Further, required compliance with retail banking regulations would both delay and dilute the desired impact of the Bank as set out above. Establishing the Bank in this manner does not exclude the possibility for the Bank to have a retail banking function in the future, once the body is fully established.

Question 1:

Are the proposed 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?

Question 2:

Do you have views on the statement of the Vision which has been set for the Bank, in paragraph 3.2?

4. THE FOCUS FOR INVESTMENT ACTIVITIES

The mission-based approach

“The missions set for the Bank would provide a focus for its investment strategy, but not constrain the Bank’s activity. The Bank should support innovative, high growth Scottish firms in whatever sector they appear other than those activities that may cause reputational issues or go against the principles of the Bank’s ethical investment code”

4.1 The Implementation Plan concluded that the Bank should take a mission-based approach to investment. This concept comes from advice from the Scottish Government’s Council of Economic Advisers, and specifically the work of Professor Mariana Mazzucato. A mission-oriented approach is consistent with the Scottish Government’s National Performance Framework. It focuses on problem-specific societal challenges, which depend on transformative solutions through the interaction of many different sectors. A key feature is that missions are essentially sector-neutral and business neutral, and do not involve specifying the types of business into which the Bank should invest. Mission-based investment should generate both financial returns, as well as grow and strengthen Scotland’s economic base by increasing jobs (especially higher value jobs) and supporting new and innovative industries.

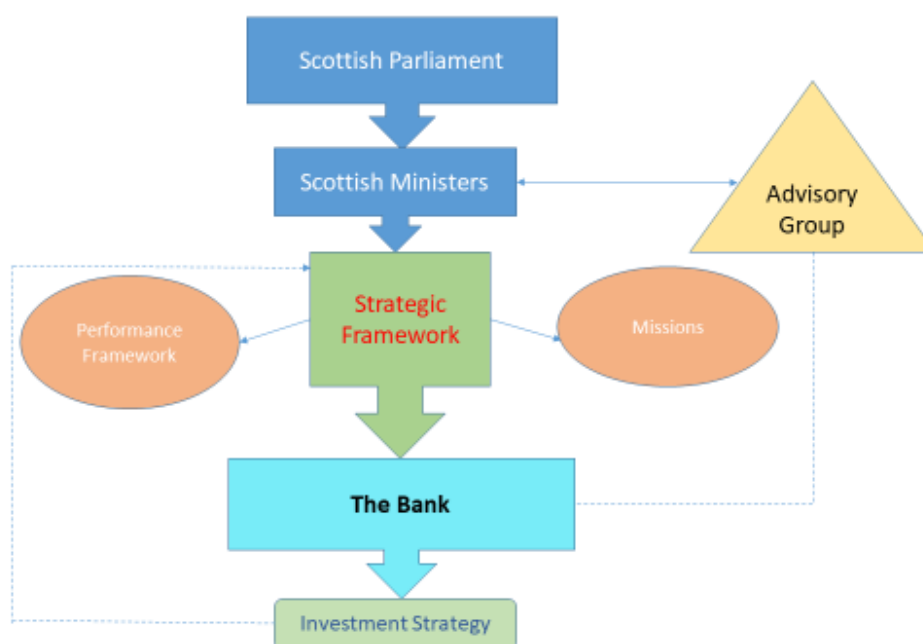
4.2 Alongside the mission-orientated approach, the Bank will take on a strategic role investing in a range of businesses, at different stages of their investment life-cycle. In this way the Bank can be both market-shaping and market-creating, opening up opportunities for investment in new technologies and innovation to add social and economic value and allowing it to respond and adapt to changing market conditions.

4.3 Other national promotional banks have a similar approach. Germany’s KfW, for example, is mandated to tackle large societal challenges (or megatrends).³

4.4 The Bank’s governance arrangements (see the diagram below) will ensure that it operates a mission-based approach. Ministers will periodically set missions for the Bank to ensure that the Bank’s approach to investment aligns with the Scottish Government’s economic priorities, with the initial set of missions confirmed ahead of the Bank being fully operational in 2020. Ministers will communicate the missions to the Bank and the Bank’s Board will be required to report on how they have responded to the missions set for them, and how the investments made by the Bank are performing.

³ See <https://www.kfw.de/nachhaltigkeit/KfW-Group/Sustainability/Unser-Anspruch/Auftrag-Ziele/>

Bank relationships and structures



4.5 Key to this approach is a **Strategic Framework**, agreed between Ministers and the Bank, which will be reviewed and revised on a fixed timescale. Along with setting the missions, the Strategic Framework will:

- provide the Bank with its direction and priorities, including the Bank's contribution to the Government's Economic Strategy and the outcomes and areas of Scotland's economic performance on which it will focus through the missions;
- set out the relationship between the Chair, Board and Ministers, and liaison between the Bank and the Scottish Government – including the operation of a Performance and Reporting framework that will include how the Bank is progressing the missions set for it and the setting and revision of a financial target rate of return;
- set out arrangements for the sharing of information by the Bank, such as its Investment Strategy, Risk Strategy and business plan;
- explain how financial provision for the Bank will be made through the budget process; and
- explain how arrangements will work for the Bank to issue shares to Scottish Ministers and return money to Scottish Ministers through dividend payments.

4.6 The Bank's response to the missions will therefore be articulated in its Investment Strategy and business plan which the Board will approve.

4.7 The Implementation Plan identified possible transformative missions for the Bank which reflected the priorities set out in the September 2017 Programme for Government: transitioning to a low carbon economy; responding to an ageing population and wider population health; and promoting inclusive growth through place-making and regeneration. These are informing early development of the Bank and related pre-cursor investment through the Building Scotland Fund (see 5.6), although other priorities are available to choose as missions.

4.8 Where appropriate, the new Bank will also integrate existing financing activities provided by Scottish Government and its agencies into its remit and operating model to build on the success of operations and initiatives underway, offering an opportunity to develop strengths and build on existing skills and align complimentary activity by Scottish Enterprise and others.

4.9 The target rate of financial return for the Bank's overall investment portfolio, included in the Performance and Reporting Framework, will need to exceed the Bank's expected rate of return on its investments, and incentivise the Bank's sustained investment performance. A challenging but achievable target rate of financial return is essential to ensure that the Bank becomes financially self-sustaining (in terms of funding its operational costs) in the medium term. An initial rate of return for the Bank will be determined in 2019; it should reflect the Bank's projected operating costs and the forward interest expected from the Bank's pipeline of planned investments (including those to be developed by the Bank's transition team in conjunction with the Scottish Government in 2019).

The Bank's approach to Investment

“It should have the capability to provide capital across all stages of the business growth lifecycle and ensure that, where there are gaps or opportunities, it can address these through a range of financial products”

4.10 While a Strategic Framework for the Bank's activities should be set by Ministers, it is intended that the bank should be operationally and administratively independent in its decision making.

4.11 The Bank's Board will need continually to assess the financial markets, the economy and the needs of business in order to determine what investment products are offered, on what terms, who any investment partners are, how they will be procured, and who the target customers will be. The Bank's approach to investment will need to factor in how to support delivery of Inclusive Growth.

4.12 Plans for investment will be set out in an **Investment Strategy**, which will be developed and implemented by the Bank's Board. The initial version of the Investment Strategy will be prepared during 2019 and will set the direction for the Bank once it becomes fully operational in 2020. It will take full account of the Strategic Framework and incorporate:

- the Bank's approach to investment, how that will deliver the missions and align the Bank's activities with the strategic direction that has been set for it, and meet the target rate of return that has been set by Ministers;
- how the economic priorities identified for the Bank will be fulfilled;
- the types of product to be offered and the target customers and sectors in which the Bank will invest; and
- the Bank's risk appetite – informing a separate Risk Strategy.

4.13 The Investment Strategy will be periodically revised and updated by the Board, taking account of any adjustments to the target rate of return and missions, as well as market conditions.

4.14 The Board will also be responsible and accountable for ensuring that the Bank maintains an appropriate risk profile across its portfolio of investments and that the Bank delivers against the target rate of return set by Ministers. The impact on portfolio risk will need to be considered by the Board when it agrees its Investment Strategy. The Bank's approach to investment risk and reward (in terms of the investments it makes and the level of return which is generated from these investments), and how it will manage this will be set out in a Risk Strategy which must also be regularly reviewed by the Board.

4.15 The Board's responsibilities and accountability will also include compliance with regulatory requirements (to be set by the Financial Conduct Authority where these apply) and State Aid requirements (set by the European Commission and any successor arrangements being led by the Competition and Markets Authority) as well as for procurement of investment partners within the appropriate regulations and frameworks.

4.16 Ministers will not be involved in determining the Bank's Investment Strategy nor in managing the portfolio risk. They will, however, be consulted on drafts of the Investment Plan and Risk Strategy.

Patient Capital

“Because innovation is highly uncertain and has long lead times, achieving smart, innovation-led growth requires not just any type of finance, but patient finance. The Bank should, therefore, provide access to long-term patient finance where need exists”.

4.17 A strong feature of the Bank's approach to investment will be its provision of patient capital in the form of debt (loans) or equity (stakes in businesses, which can include a shareholding). "Patient" is an average term of 10-15 years for a loan or equity investment, reflecting the typical investment lifecycle for businesses as they move from one stage to another (eg from start up to a more mature business seeking to expand activity). Longer terms for investment will be possible, eg 20-25 years, if that's what the Board determines. The longer the overall length of its investments, the less capital that will be coming back into the Bank for re-investment. So in making long term investments the Bank will still need to remain within its profiled and agreed requirement for capital.

4.18 In developing its Investment Strategy, the Bank is expected to have a strong, but not an exclusive, focus on investment in small and medium-sized business enterprises. It should be able to take a different view of risk and reward to other commercial investors, enabling it to offer investment for projects and ideas which would otherwise struggle to attract investment due to gaps in the market and need for new financial products and services. The Bank could still take a commercial view of an investment, but offer a rate of interest which is materially below the private sector commercial rate as long as the underlying products and investments are state aid compliant. In making such investments, which will yield a lower level of financial return than other options, the Board must also be able to show that the target rate of financial return will continue to be satisfied overall and that its risk profile is not adversely affected.

4.19 The Bank's requirement to operate commercially means that it should not consider investing in businesses which are at financial risk, or as part of rescue and restructuring. Financial intervention into businesses of strategic or national importance which would otherwise be at risk of failure will remain an option for the Scottish Government and the enterprise bodies.

4.20 There may be scope for the Bank to develop approaches to lending which may include some guarantees on loans made. However, it is not expected to offer guarantees initially, but will remain an option for government. Any utilisation of guarantees in the future would be as part of the Bank's risk profile, taking into account the need to satisfy the target rate of return and deliver the missions set for it by Ministers.

4.21 The Bank will be able to invest in both UK-registered and non-UK registered businesses and projects, so long as the investments are consistent with delivery of the missions set for the Bank, reflect its approach to investing ethically and sustainably, and facilitate economic growth in Scotland. This ensures that Scotland remains globally-focussed and it is also an established strategy for management and mitigation of risk within investment portfolios. The Board will need to provide stakeholders and others assurance about the risks being introduced as well as those mitigated through non-UK investment, including any ethical considerations.

The Bank's ethical commitment

The Bank should adopt a leadership role with regards to diversity and inclusiveness within its governance, operational arrangement and investment strategy"

4.22 One of the Bank's objects will be that it will invest ethically and sustainably. The way the Bank operates – its culture, governance, and approach to businesses and individuals - must also be different to that of other financial and investment bodies. At the heart of this will be a requirement for the Bank to hold to the following principles:

- Equality
- Transparency
- Diversity; and
- Inclusion
- Established and will be run following the spirit and practise of Open Government

4.23 These principles will underpin all the Bank does and will complement the Bank's duty to comply with Freedom of Information, the Public Sector Equality Duty and the Fairer Scotland Duty. There is also an equalities aspect to be considered in terms of the Bank's investments and who it invests in.

4.24 The expression of these principles and how the Bank will ensure and report on its ethical approach will be set out in an **Ethics Statement** to be developed, published and reviewed by the Board on a regular basis. There is also scope to consider whether in terms of delivery of missions, the Bank should be specifically prevented from investing in certain sectors or areas as part of its ethical framework, and what these sectors or areas might be

4.25 An initial Equalities Impact Assessment is in development. It will be refined during the course of 2019 as thinking and planning for the Bank's operation and investment frameworks are refined. This work will inform the Bank's first Ethical Statement which should be in place prior to the Bank going formally live in 2020.

Question 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?

Question 4:

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

Question 5:

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

Question 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?

Question 7:

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

5. OPERATING MODEL, CLASSIFICATION AND CAPITALISATION

"The Bank should be a limited company, wholly owned by the SG. The Bank should be accountable to the Scottish Ministers for its performance, and through them to the Scottish Parliament. SG should have the ability to set and monitor the overall mission of the Bank."

5.1 The Bank will adopt the limited company model (incorporated under the Companies Act 2006 with a separate legal personality from the Scottish Government and Scottish Ministers) and Scottish Ministers should be the only shareholder. It is expected to be classified to the public sector (central government) by virtue of the degree of control which Ministers will have over the Bank's strategic direction and the appointment of the Chair and non-executive directors. The Bank will also be initially provided with capital up to the level of £2 billion over 10 years.

The limited company model

5.2 The Implementation Plan did not specify which limited company model should be used and there are several options with different implications for the Bank and for Ministers.

- **Private company limited by shares** – fewer options for raising capital, only requires one shareholder, who can also be the sole director, no minimum requirement in terms of share capital and no requirement for a qualified company director.
- **Company limited by guarantee** – Most guarantee companies are not-for-profit and do not distribute surpluses but either retain them within the company or use them for some other specified purpose. They have members, not shareholders, and can raise capital through borrowing but not from offering shares in the company.
- **Public limited company** – can raise capital by offering shares or securities to the public and can distribute profits to shareholders through payment of dividends; increased governance requirements compared with a private limited company with a minimum of 2 directors and qualified company secretary and other requirements related to annual meetings and accounts.
- **Companies created by legislation** – consistent with the way that many public bodies are created, and also called statutory companies or corporations. They are created through bespoke legislation.
- **Community Interest Company (CIC)** – can also be a limited company and therefore can be similar to company limited by guarantee. Created for undertaking an activity or business with community benefit and with an "asset lock" which can limit the way in which surpluses are distributed and, like charities, the CIC's assets and profits must be permanently retained within the company or only transferred to another company with a similar "asset lock".

5.3 The Government is considering a public limited company model as the best way forward and the most appropriate match for the purposes and objectives for this Bank. It would be possible to set the Bank up as a private limited company, but if it were to raise finance from wider sources in the future (for example, a public bond or share issue) it would have to change to being a public limited company. A company limited by guarantee is not an ideal choice because it cannot issue dividends to Scottish Ministers which would enable surplus funds to be available for other national priorities. The community interest model introduces an additional layer of regulation as well as a lock on assets.

5.4 Adoption of the public limited company model can include additional protections within the Bank’s Articles. For example, to ensure that share ownership remains with Scottish Ministers, and that the Bank’s borrowing is zero (as this would impact on the Scottish Government’s fiscal position), unless Ministers or the Scottish Parliament approve a different arrangement in the future.

Capitalisation

“The Bank should reinvest its financial returns, both capital and interest, to create a self-sustaining, lasting institution with increasing influence on the Scottish economy”

5.5 The Bank’s initial capitalisation is to be £2 billion provided over 10 years by Scottish Ministers. This level of capitalisation is deemed to be both ambitious and achievable, as well as capable of making a material difference to the Scottish economy. An initial £490 million of capital is to come from a combination of investments to be made through the £150 million Building Scotland Fund and a further £340 million which was committed to in the 2018-19 Draft Budget. These and later capital provisions will involve the issue of shares by the Bank which will be purchased by Scottish Ministers. The exact timing of the balance of capital to be provided to 2028 will depend on a number of factors, including: demand for the Bank’s products, the Scottish Government’s wider capital programme, future budgets agreed with Parliament, the Bank’s forward projections in terms of capital coming back from investments (for example, through the Building Scotland Fund), and the arrangement for year-end flexibility agreed with HM Treasury.

5.6 An anticipated profile for providing the Bank with capital is set out in the following table.

Profiled capital for the Scottish National Investment Bank	Budget	Future budgets to be agreed			Total
	2018-19	2019-20	2020-21	2021-28	
	£m	£m	£m	£m	£m
Building Scotland Fund (1)	70	80			150
Initial funding (2)		340			340
Further capitalisation (3)				1,510	1,510
Total Capital	70	420		1,510	2,000

(1) A three year Fund, which will be invested prior/as the Bank is formally established, and transferred into the Bank.

(2) Committed in the 2018-19 draft budget. Anticipated investments prior to the Bank being established and will also transfer into it. Exact profile still to be determined

(3) The balance of capital to be provided between 2021-28, subject to future budgets and to agreement of required profile.

5.7 Any arrangements for the Bank’s Board and Scottish Ministers to agree the issue and purchase of share capital, or other routes for capitalisation of the Bank, will be set out in the Bank’s Articles. Arrangements will also be supplemented in a Strategic Framework for the Bank.

5.8 Once the Bank is fully established the aim is for financial returns from its investment portfolio to at least meet its current and projected operating costs. This is not unrealistic; a net financial return of 2.5% on a £1 billion investment portfolio will be sufficient to fully cover operating costs of £25 million per annum. Any part of the financial return on investment that is not required either for re-investment by the Bank, or to help meet its operating costs (especially in the early years of the Bank’s operations), could be returned to Ministers in the form of a dividend. The precise arrangements for this will be included in the Bank’s governance documents.

Classification

“Over the longer term the Bank should also look to leverage its initial capital base, further strengthening its investment capability”.

5.9 Classification is a process to determine the treatment of expenditure in the economy and National Accounts and it is overseen by the Office of National Statistics. The level of control exercised by Ministers over a body will primarily determine the outcome of classification (ie private body, or central government). The outcome of classification also determines how the body’s financial activity is scored against the Scottish Government’s budgets. The Bank’s initial governance and funding means that it is likely to be classified to central government with all of its activities scored against Scottish Government budgets. Over time, it could be advantageous for the Bank’s classification status to change to a Self-Financing Public Corporation⁴, if it were to generate sufficient income from external sources and revised governance arrangements were put in place to ensure fully independent decision-making. In terms of the Bank’s ability to operate efficiently, the benefits of that alternative classification would include the ability for the Bank to carry and deploy reserves whilst minimising the impact on the Scottish Government’s budget. Whilst it is only for the Office of National Statistics to determine the classification status of bodies, any proposal for change in the Bank’s governance and control arrangements would be subject to review and there would be an opportunity for the Scottish Parliament to consider the options.

Question 8:

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

Question 9:

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

4

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/681713/2018-19_Consolidated_Budget_Guidance.pdf

Question 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?

6. GOVERNANCE ARRANGEMENTS

“Operating on a commercial basis, to the highest investment management standards and operationally independent of SG, the Bank will be in a position to make robust investment decisions without undue influence or control from SG”

6.1 The Bank’s governance will ensure it is operationally and administratively independent from Ministers. Ministers will not have a role in the Bank’s internal governance or the operational decisions made by the Board in order to respond to the missions set by Ministers. The Chair and non-executive members of the Board would be appointed by Scottish Ministers, and there should be two Executive Directors (the Chief Executive and the Finance Director). Further development of the Bank’s governance will be consistent with the guidance contained in “On Board” which applies to Scottish public bodies, and with the principles set out in the Financial Reporting Council’s UK Corporate Governance Code. Appointment of the Chair and non-executive directors will also comply with the Code of Practice for Ministerial Appointments to Public Bodies in Scotland (2013) which is based on the principles of merit, integrity and diversity and equality.

6.2 Further proposals for governance and the Board are as follows:

- The number of board members should be between 8 and 12;
- At least two thirds of Board members to be non-executive members – the Board can decide to appoint up to 2 further executive directors to the Board in addition to the Chief Executive and the Finance Director;
- The Chair and Non-Executive Directors should be appointed by Ministers under the regulated public appointments process (a separate arrangement will be needed for initial appointments, as the Bank will not be formally established at that stage);
- In addition to having an Audit and Risk Committee (to be chaired by a non-executive director) the Board will determine which sub-committees are required and which Board members and others are invited to sit on them;
- The Board’s responsibilities will include:
 - determining how to respond to the missions set for the Bank by Ministers
 - signing off the Investment Strategy, business plan, Risk Statement and Statement of Ethics (see following sections) and a Strategic Framework agreed with Ministers
 - ensuring that the Bank’s capitalisation requirements and risk profile is acceptable and sustainable
 - ensuring that the Bank’s performance – including against missions and the target rate of financial return - is effectively reported to all stakeholders
 - ensuring the culture of the Bank reflects and promotes the objectives of equality, diversity, transparency and accountability

6.3 Since the Bank should be commercially minded as well as publicly accountable, it should follow the requirements of the Scottish Public Finance Manual, Freedom of Information (Scotland) Act 2002 and all other statutory duties and requirements of public bodies. In order for the Bank to have the level of autonomy and authority that it requires to operate effectively and in the manner envisaged in the Implementation Plan, it will need some latitude in terms of the delegated authorities which are usually given to Scottish public bodies. For example, the Bank should be able to offer loans and make investments, and enter into joint ventures or set up subsidiaries within the limits of its Investment Strategy and Risk Strategy without further authority from Scottish Ministers. This will require detailed arrangements for both reporting and controlling such delegated powers to be set out in the Bill, the Bank's Articles and in a Strategic Framework.

6.4 Governance of the Bank and its relationship with Ministers will be supported by close communication between the Bank and its sponsor team within the Scottish Government, and regular meetings between the Chair and Chief Executive of the Bank and Ministers.

Taking account of wider stakeholder interests

6.5 The Implementation Plan recommended that there be an Advisory Group established for the Bank and that the Scottish Government should consult further with stakeholders about their role going forward. There are several options for realising wider engagement with civic society.

6.6 A Stakeholder Working Group will be created for the implementation phase to conduct wider engagement on the legislation, the development of a Strategic Framework for the Bank and to advise Ministers on the implementation of the governance and operation of the Bank.

6.7 Once the Bank is operational, the Implementation Plan proposed a formal Advisory Group as part of the Bank's governance arrangements. There are various ways in which an Advisory Group for the Bank might be constructed, and a number of existing models to draw on. The following structure develops the approach suggested in the Implementation Plan as a basis for further discussion:

- the Advisory Group should be established by Scottish Ministers and resourced by the Scottish Government;
- the Advisory Group's membership should number up to 20, drawn from across a range of interests including those who benefit from the Bank's investment activities, and those who have an interest or stake in the missions set for the Bank by Ministers and delivery of Scotland's economic strategy;
- the Group will have a formal remit which will include how it operates, how members are appointed and retire and how the group's meetings are conducted;

- the Group can advise Ministers on:
 - The Bank's Strategic Framework and Performance Framework;
 - the Bank's reported performance;
 - the Bank's Investment Strategy; and
 - Any changes or revisions to missions.
- the Advisory Group Chair, who should also be a non-executive director of the Bank, should meet with Ministers periodically;
- the Group will meet every 6 to 12 months, reporting to Ministers after each meeting. Ministers should outline how they have taken the views of the Advisory Board into account in the subsequent Strategic Framework; and
- The Bank's Board is not accountable to the Advisory Group, but should consider the Group's views and take them into account in its operations.

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?

Question 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?

Question 13:

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

7. THE BANK'S STAFFING AND EMPLOYMENT ARRANGEMENTS

“The Bank must be able to attract the right expertise into its management and delivery teams, given it will be competing for specialist staff with the private sector”

7.1 The Government accepts the recommendation that the Bank should be able to offer employment and remuneration terms which are sufficiently competitive to attract suitably skilled and experienced people. The Bank will need to recruit a range of staff with a variety of skill sets. The Bank's employment terms and conditions must assist, and not hinder the Bank in what it is intended to deliver.

7.2 A major element of the Bank's costs will be staffing. The Evidence Paper which supported the Implementation Plan set out analysis which concluded that the Bank would require between 100-150 staff and that the annual cost of operating the Bank would be between £20 million and £30 million. It also contained initial thoughts on the target operating model and structure, which will be further developed prior to introduction of the Bill, and refined during 2019. The Scottish Government considers £30 million to be at the top end of the Bank's anticipated operating costs and expects the eventual model to be below this.

7.3 The presumption is that the Bank, like most other public bodies, will be subject to Public Sector Pay Policy. It will be expected to pay the lowest remunerated staff at least the real Living Wage (sometimes referred to as the Scottish Living Wage) which equates to a full time salary of £16,900 per annum in 2018/19.

7.4 The required skillsets for the Bank, however, are not always going to be available in the public sector. Terms and conditions for some staff in the Bank may need to more closely reflect market rates and benefits in the financial services sector. The business needs of the Bank need to be balanced against a wider perspective on remuneration within public bodies. The appropriate approach to senior pay and remuneration for specialist posts will be subject to further evaluation of the options and implications for Public Sector Pay Policy.

Question 14:

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

Question 15:

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

Question 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?

ANNEX A

Consultation on the Scottish National Investment Bank Bill

RESPONDENT INFORMATION FORM

Please Note this form **must** be completed and returned with your response.

To find out how we handle your personal data, please see our privacy policy:

<https://beta.gov.scot/privacy/>

Are you responding as an individual or an organisation?

- Individual
 Organisation

Full name or organisation's name

Phone number

Address

Postcode

Email

The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

- Publish response with name
 Publish response only (without name)
 Do not publish response

Information for organisations:

The option 'Publish response only (without name)' is available for individual respondents only. If this option is selected, the organisation name will still be published.

If you choose the option 'Do not publish response', your organisation name may still be listed as having responded to the consultation in, for example, the analysis report.

We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

Yes

No

SCOTTISH NATIONAL INVESTMENT BANK

RECOMMENDATIONS FROM THE IMPLEMENTATION PLAN – 28 FEBRUARY 2018

No.	Mr Higgins' recommendation	Response	Commitment to Implementation
The Opportunity of a Scottish National Investment Bank			
1	A national investment bank should be established for Scotland with a vision to “ <i>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.</i> ”	Accept	<p>This recommendation reflects the Government’s overall approach to inclusive economic growth, and to the Government’s Economic Strategy.</p> <p>This Vision will form the mandate to be given to the Bank, subject to additional consultation with stakeholders and the Parliament through the Bill process.</p> <p>The result of which can be reflected in the Strategic Framework to be set for the Bank by Ministers and in the Bank’s wider governance arrangements.</p>
2	The Bank’s strategic priorities for investment should be centred on a core role of helping to address Scotland’s economic priorities in an inclusive and ethical way.	Accept	<p>This recommendation reflects the Government’s overall approach to inclusive economic growth, and to the Government’s Economic Strategy.</p> <p>The role and remit of the Bank should align closely and transparently with the remits of partner agencies.</p> <p>This will be ensured through the legislation and building on the response to Recommendation 21.</p>

Focus for Investment Activities			
3	<p>This new, mission-led institution will actively create and shape markets. It will intervene in a variety of areas – to supporting early stage and smaller firms and larger scale innovative projects get access to investment, through to financing infrastructure where the private sector will not invest. The initial focus of the Bank should be:</p> <ul style="list-style-type: none"> • Providing growth capital to ambitious and innovative companies – with the capability to support across the lifecycle of a company’s need for capital. • Providing finance to support the projects and initiatives aimed at realising opportunities to transform the economy. <p>The Implementation Plan sets out a range of financial products that the Bank should seek to develop to support this initial focus.</p>	Accept	<p>This recommendation reflects the market analysis provided in the supporting documentation and the advice from the Council of Economic Advisers.</p> <p>Legislation can formalise the mission-based approach and enable Ministers to set the strategic and reporting frameworks for the Bank. While Ministers will set the Bank’s strategic direction, it will be for the Board and the senior management team determining how to fulfil the missions.</p> <p>Further economic analysis will build on the work collected as part of the Implementation Plan to provide assurance around the choice of missions and initial priorities for investment.</p>
4	<p>In addition to the supply of capital, the Bank should coordinate with other entities seeking to stimulate demand for financing. In financing transformational projects, the Bank will need financial structuring and complex transactional skills and consequently an element of demand stimulation will be required in this area, working closely with the enterprise agencies who provide a range of support services to companies, and with the Scottish Futures Trust in relation to its activities on infrastructure.</p>	Accept	<p>The need for demand stimulation and the origination of investment proposals is an essential part of the Bank’s remit.</p> <p>This will require active engagement with business based in Scotland and close alignment with partner agencies</p> <p>See also Recommendation 9.</p>

5	<p>The Bank should aim to focus on, and give priority to, areas of investment that are additional to the finance already provided by the market and by other providers in Scotland, complementing rather than crowding-out existing or potential investment.</p>	<p>Accept</p>	<p>The Government fully endorses this approach. The Bank should avoid “crowding-out” commercial activities, and instead seek to “crowd-in” and complement otherwise commercial activities.</p> <p>The detailed approach to the focus of the Bank will be covered in the proposed Strategic Framework and the Bank’s own Business Plan and Investment Strategy. It will also form the basis for compliance with EU State Aid rules and their successor arrangements.</p> <p>See Recommendation 14</p>
6	<p>The Bank should adopt a balanced portfolio approach across a range of potential products and asset types. Its target should be to achieve a positive financial return on its individual investments, and at a portfolio level which should be measured over at least a 10-15 year horizon, recognising the focus on investment in patient capital and transformative infrastructure.</p>	<p>Accept</p>	<p>The Government supports the recommendation that the Bank should operate commercially, making rational, market-based investment decisions. This should be built into the Bank’s statutory framework, and be outlined in both the Strategic Framework and the Bank’s Business Plan.</p> <p>Ministers will need to set a benchmark (or hurdle rate of return) against which the Bank’s performance over time and across its whole portfolio should be judged.</p>
7	<p>Scottish Ministers should determine an appropriate basis for measuring the Bank’s performance, taking into account the long-term nature of the investments and mission-orientated approach that’s envisaged for the Bank. A balanced scorecard approach is required that reports on the financial performance as well as on economic impact over time, including social, environmental and ethical returns.</p>	<p>Accept</p>	<p>The Government recognises that while operating commercially, the Bank’s investment decisions should reflect financial, economic and wider social and ethical interests (inherent in the missions), in order for it to have the societal impact, contribute to inclusive growth and fulfil the missions to be set for it.</p> <p>The performance framework for the Bank will be outlined as part of the Strategic Framework (see Recommendation 14)</p> <p>The body will be required to adhere to the Scottish Public Finance Manual which includes reporting requirements. The reporting framework for the Bank (potentially in addition to the SPFM requirements) should ensure that it can demonstrate fulfilment of missions set for it and enhanced benefits for society and the economy.</p>

			There will be substantial stakeholder interest in how the Bank will reconcile delivery of missions against operating commercially and being a leader in terms of inclusion, equalities and the environment (Recommendation 21).
8	<p>The Bank should seek to maximise leverage of private capital as appropriate, alongside its own investments. In doing so, it should adopt a flexible approach; it may be appropriate for the Bank to invest or lend directly alongside private sector investors through third party delivery agents or via external funds.</p>	Accept	<p>The Government supports the use of co-investment of the Bank's funds alongside private investment will be essential in order for the Bank to have early impact</p> <p>Work on this can only substantially commence at the point that there is an interim management team in place, although some work after May to scope out and start off the process will commence.</p> <p>Choice of investment partners should be aligned to the Bank's ethical ethos and delivery of missions – which will require front-end due diligence, initially by the Bank's transition management team.</p> <p>To have an early impact, there will need to be early clarity around initial missions so that procurement of partners can begin. Shadow Chair/Board members are also likely to have views to feed into this.</p> <p>See also Recommendation 6</p>
9	<p>The Bank should build on current skills and experience successfully developed in Scotland, building on the track record of success, and creating a single point of delivery of financing support for business growth and innovation financing for transformational projects.</p> <p>A detailed review will be required in response to this recommendation in order to achieve the optimal operating model and ensure essential</p>	Accept	<p>The development of the Bank will build on the extensive expertise in other agencies, most notably in Scottish Enterprise, the Scottish Futures Trust and in the business, energy and housing Directorates of the Scottish Government.</p> <p>Further consideration is underway on the existing landscape and how it might evolve with the creation of the Bank.</p>

	close interaction between the Bank and the enterprise agencies, including how to ensure co-ordination of funding, company relationships and financial readiness activities that will be provided by the agencies.		
10	The Bank's activities should be aligned with the activities of the British Business Bank in Scotland, which may require establishing a strategy for alignment between both institutions.	Accept	The Government supports the general consensus that the objective is to ensure that Scottish business has access to a full range of financing and investment options. Options to consider for achieving this include a Memorandum of Understanding.
Classification and capitalisation of the Bank			
11	The Bank should be established as a public body to ensure a continued focus on the Scottish economic strategy and alignment with a mission-based approach to investment. The form of public body should ensure maximum flexibility in how the Bank invests.	Accept	The Government supports the recommendation that the missions and strategic framework for the Bank are aligned with the Government's purpose and objectives. See Recommendation 14 – there will need to close co-operation between the Bank, the SG sponsor team and the wider SG.
12	Long term, mission-orientated investment requires a long-term capitalisation and funding commitment by the Scottish Government. The target level of initial capitalisation is £1bn for new activity provided over the first five years, followed by a further £1bn over years 6-10.	Accept	The Government supports the proposal for initial capitalisation of £2bn by 2028. This could include almost £500 million through the Building Scotland Fund and initial capitalisation of £340 million from 2019-20 as set out in the draft budget for 2018-19. The remaining £1.5 billion equates to around a further £200 million per annum by 2028. There will need to be sustained and transparent discussions between the SG and the Bank about investment plans and strategies as well as risks and mitigations to ensure that capitalisation is aligned with the investment pipeline and programme. This should be built into the Strategic Framework.

			See also recommendation 16.
13	<p>Three essential milestones should be set for implementation and successful operation of the Bank at the scale envisaged:</p> <ul style="list-style-type: none"> • To be set-up with the flexibility to manage, retain and carry-forward cash balances over financial year-ends • To become self-funding over the medium term that is; the Bank covers its operating costs from investment returns • To be able to raise capital in its own right and no longer be reliant on capital advances from the Scottish Government to fund its investments. 	Accept	<p>The Government supports this recommendation and the need to set clear milestones for these three essential outcomes.</p> <p>The Government's initial thinking is that;</p> <p>The <u>first milestone</u> to secure a dispensation from the UK Treasury is critical to the project, and must be achieved before the Parliamentary process can commence.</p> <p>The <u>second milestone</u> for the Bank to cover its operating costs from income receipts lies a few years in the future. It is envisaged that the performance management framework, including the arrangements for funding operating costs, is a key part of a statutory Strategic Framework. See also recommendations 6, 7 and 8.</p> <p>The <u>third milestone</u> on raising capital lies beyond the initial 5 years of the Bank's existence. It is envisaged that the</p>
14	<p>As sole shareholder and sponsor of the Bank, Scottish Ministers will need to set the parameters within which the Bank should work. To do this Ministers should set a five year Strategic Framework for the Bank to respond to in its Investment Strategy and Business Plan. The reporting framework should ensure the highest standards of transparency and accountability.</p>	Accept	<p>The Government supports the recommendation that the overall Governance framework should be founded on a statutory Strategic Framework and be reflected in the Bank's governance arrangements.</p> <p>The approach to governance will be the focus for further consultation with stakeholders, and be a key component of the planned legislation.</p> <p>See also recommendations 2, 3, 7, 8, 10, 15-17, 19 and 21.</p>
15	<p>The Bank should be administratively and operationally independent of Scottish Ministers. The Board should include a Chair</p>	Accept	<p>The Government supports the recommendation that the Bank should be administratively and operationally independent. Appropriate safeguards should be in place to ensure this</p>

	and non-Executive members appointed by Scottish Ministers, and two Executive Directors in the shape of the Chief Executive Officer and Finance Director. There should be an appropriately experienced and professional Executive Management Team.		<p>independence, while maintaining an active engagement in the delivery of the missions and strategic framework set by the Scottish Government.</p> <p>The lines of accountability to Ministers and to Parliament will be clarified, subject to further engagement with wider stakeholders about the details. The option of including SG membership of the Board in a non-executive capacity will be considered as part of the Consultation. See Recommendation 20.</p>
16	The Scottish Government should consider how best to consult with wider stakeholders on setting the Strategic Framework for the Bank to ensure that there is broad engagement with civic society on how the Bank is operating. This report recommends that an advisory group should be established whose membership comprises representatives from stakeholders and wider civic society. The group should advise Ministers on the Bank's Strategic Framework. The Chair of this advisory group could be on the main Bank Board as a Non-Executive Director.	Accept	<p>The Government is clear that the Bank should follow an open and transparent approach, given the major transformational role which is envisaged for it. This recommendation about the conduct and ethos of the Bank underpins other recommendations.</p> <p>There are several options for realising wider engagement with civic society. These will include;</p> <ul style="list-style-type: none"> - An initial Stakeholder Working Group during the implementation phase to conduct wider engagement on the legislation, the development of the Strategic Framework and advise Ministers on the implementation of the governance and operation of the Bank; and. - An Advisory Group that is part of the Bank's governance arrangements as set out in the statutory Strategic Framework. <p>Further development of options for stakeholder engagement will build on discussions with key stakeholders which is already underway (eg COSLA, Common Weal, Friends of the Earth, the Royal Society of Edinburgh etc).</p>
17	The Bank should establish and operate to the highest standards of transparency, accountability and management of risk. This should be reflected in the reporting and	Accept	These should be defining characteristic of the Bank – underpins and influences recommendations 2, 7, 15, 16, 18 and 21.

	accountability arrangements to be put in place, and in the formal governance arrangements of the Bank.		
18	In setting up the Bank, Ministers should appoint an independent shadow Chair as soon as possible, to oversee the work of a project team responsible for the transition and set-up of the Bank. A shadow Board and interim Management Team should be put in place prior to the Bank operating in shadow form in 2019.	Accept	<p>The Government supports the recommendation, but is proposing to implement the recommendation in a different way. Following consideration of the options for ensuring continuity and momentum during the Implementation Plan phase. The Government appointed Benny Higgins as a Strategic Adviser on the programme in July 2019.</p> <p>The appointment of an interim (rather than shadow) chair would normally be made around 6 months prior to a new public body being fully established, after the necessary legislation has been introduced to Parliament.</p> <p>A formal appointments process for the Chair, board and senior management can be actioned during 2019, following consideration of the Stage 1 of the Bill.</p>
19	Scottish Ministers should concurrently confirm the Bank's initial missions and the first Strategic Framework, ensuring that the essential clearances and changes required are obtained from HM Treasury and others.	Accept	<p>The Government supports the two distinct parts to this recommendation.</p> <p>The initial set of missions suggested in the Implementation Plan – carbon reduction, demographic change and place-making – will be subject to further review and consultation as part of the development of the Strategic Framework. See Recommendations 3, 5, 14 and 16.</p> <p>The second part of the recommendation is critical to the progress of establishing the Bank. Without HMT agreement to at least allowing the Bank to carry balances between financial years, it will be difficult to set up a Bank which is able to have the impact that is envisaged here.</p>
20	The Bank will need staff with the right mix of skills and experience to ensure its success and sustainability. The Scottish Government	Accept	The Government acknowledges the need to recruit suitably qualified people to the Bank, and recognises that these skills are not widely available in the public sector and that they can secure

	<p>should ensure that the Bank can offer employment and remuneration terms which are sufficiently competitive to attract suitably skilled and experienced people.</p>		<p>high remuneration in comparable roles in the financial services sector. The estimated operating costs of the Bank of between £20-£30 million per annum reflects this recommendation</p> <p>The terms and conditions for many staff in the Bank may need to reflect market rates and benefits and such salary levels would pose challenges for public sector pay policy.</p> <p>Such arrangements are however not uncommon, even in the public sector. This is consistent with experience and arrangements put in place for the Green Investment Bank and British Business Bank. The Bank would not be unique in terms of employing staff who are not civil servants with non-standard public-sector pay arrangements (eg Scottish Water).</p> <p>However, the business needs for the Bank will need to be balanced with a wider perspective on senior remuneration. The appropriate approach to senior pay will be subject to further evaluation of the options and implications for public pay policy.</p>
21	<p>The Bank should adopt a leadership role with regards to diversity and inclusiveness within its governance, operational arrangements and investment strategy.</p>	Accept	<p>This Recommendation will become a core principle for the Bank's future operation. See also recommendations 2, 7, 16-18 and 20.</p>

SUMMARY OF CONSULTATION PAPER QUESTIONS

Question 1:

Are the proposed 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?

Question 2:

Do you have views on the statement of the Vision which has been set for the Bank, in paragraph 3.2?

Question 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?

Question 4:

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

Question 5:

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

Question 6:

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

Question 7:

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

Question 8:

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

Question 9:

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

Question 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?

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?

Question 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?

Question 13:

Do you have views on whether and how an Advisory Group could provide advice to Ministers on the progress being made by the Bank?

Question 14:

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

Question 15:

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

Question 16:

Do you have views on areas where the current approach to public sector pay would suit the needs of the Bank, 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?



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