

Scottish National Investment Bank

Proposal to Set Missions for the Scottish National Investment Bank

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Introduction

Purpose

1. This document sets out the Scottish Government's proposed missions for the Scottish National Investment Bank (the Bank). It outlines the Bank's mission-oriented approach and explains why these are the right missions for the Bank to adopt at this time.
2. This document will be laid in the Scottish Parliament for the purposes of consultation for a period of 40 days. This 40 day period will not take into account any time when Parliament is dissolved or in recess for more than 4 days.

Support for a Mission-Oriented Approach

3. The Bank will adopt a mission-oriented approach when providing finance, with missions set by the Scottish Government as recommended in the Bank's Implementation Plan¹. Adopting this approach will focus the Bank towards addressing pressing challenges facing Scottish society. The clarity that the missions provide will also give the opportunity to crowd-in investment, create and shape new markets and promote inclusive economic growth. This is an innovative opportunity for investment drivers to be along different lines from those typically used by private investment institutions and development banks.
4. A mission-oriented approach will support delivery of the Bank's vision to "*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 net zero emissions, high-tech, connected, globally-competitive and inclusive economy*".
5. The Scottish Government has held two public consultations regarding proposals to establish the Bank. The first consultation invited comments and suggestions on key issues on the creation of the Bank (responses published in February 2018²), and the second consultation was undertaken to help inform development of the Scottish National Investment Bank Bill (the Bill) (responses published February 2019³). The consultation responses show extensive support for the proposed approach, with mission-oriented finance expected to impact positively on sustainable economic growth.

¹ <https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2018/02/scottish-national-investment-bank-implementation-plan/documents/00532119-pdf/00532119-pdf/govscot%3Adocument/00532119.pdf>

² <https://www.gov.scot/publications/scottish-national-investment-bank-consultation-report/>

³ <https://www.gov.scot/publications/scottish-national-investment-bank-consultation-analysis-responses/>

6. Similarly, support for the Bank to adopt a mission-oriented approach was demonstrated during the passage of the Bill. The Economy, Energy and Fair Work Committee stated in its Stage 1 report⁴ on the Bill that they welcomed the intention that the missions will be “*central to the ethos of the Bank, will absorb and direct its energy and resources, and will ensure the focus of its work*”.

⁴ <https://sp-bpr-en-prod-cdnep.azureedge.net/published/EEFW/2019/7/4/Scottish-National-Investment-Bank-Stage-1-Report/EEFWS052019R09.pdf>

1. Developing Missions for the Bank

Implementation Plan and Public Consultation

7. The Implementation Plan for the Bank stated that any missions developed should align to economic policy priorities of the Scottish Government. While it was out with the scope of the Implementation Plan to propose such missions, the following examples were suggested:

- Transitioning to a low carbon economy, including decarbonisation of the transport network;
- Promoting inclusive growth through place-making and local regeneration, including site preparation, infrastructure (transport and communication links) housing and related commercial, education and health investment; and,
- Responding to emerging demographic pressures, including the twin challenges of an ageing population and wider population health.

8. The second public consultation gathered further views and suggestions regarding potential missions the Bank could adopt. Responses generally fell within broad themes which were:

- Carbon reduction (a significant number of respondents indicated that carbon reduction should be a key mission for the Bank);
- Ageing population;
- Innovation; and,
- Ethical investment.

The Institute for Innovation and Public Purpose's Mission-Oriented Framework for the Bank

9. In 2019, *A Mission-Oriented Framework for the Scottish National Investment Bank*⁵ (written by Professor Mariana Mazzucato and Laurie Macfarlane from the Institute for Innovation and Public Purpose (IIPP)) was published. The Framework states that missions should:

- Have a clear direction;
- Be targeted, measurable and time-bound;
- Be ambitious but realistic;
- Be cross-disciplinary and cross-sectoral; and,
- Involve multiple, bottom-up solutions.

10. This Framework has informed development of the proposed missions for the Bank, along with stakeholder engagement, the illustrative missions in the Implementation Plan, Government policy priorities and the National Performance

⁵ https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/mission-oriented-framework-for-snib_final.pdf

Framework (NPF)⁶. Further information about the IIPP’s Mission-Oriented Framework for the Bank can be found in Appendix A.

Proposed Missions for the Bank

11. The proposed missions for the Bank are set out below. These missions respond to specific ‘grand challenges’ facing Scotland as required by the IIPP’s Mission-Oriented Framework.

<p style="text-align: center;">Grand Challenge 1:</p> <p style="text-align: center;">Climate Emergency</p>
<p style="text-align: center;">Mission 1 (Net Zero Mission):</p> <p style="text-align: center;">Achieving a Just Transition to net zero carbon emissions by 2045.</p> <p style="text-align: center;">Invest in rebalancing our economy towards leadership in sustainable technology, services and industries.</p>

<p style="text-align: center;">Grand Challenge 2:</p> <p style="text-align: center;">Place-Based Opportunity</p>
<p style="text-align: center;">Mission 2 (Place Mission):</p> <p style="text-align: center;">Extending equality of opportunity through improving places by 2040.</p> <p style="text-align: center;">Invest in places and regeneration to reduce inequality, and improve opportunities and outcomes for people and communities.</p>

⁶ <https://nationalperformance.gov.scot/>

Grand Challenge 3:

Demographic Change

Mission 3 (Demographic Mission):

Harnessing innovation to enable our people to flourish by 2040.

Invest in innovation and industries of the future for a healthier, more resilient and productive population.

12. In order for the Bank to make a significant impact against the missions set for it, there is a limit to how many it can have. This is why the Government is proposing that three missions are initially set for the Bank.

13. The long-term nature of the grand challenges mean that social, economic and environmental returns should not be expected immediately after the Bank has been vested. Therefore, while the Bank is expected to deliver both financial and non-financial impact, it should be noted that it will take time for impact to be evidenced against the missions.

14. It is envisaged that while investing towards a particular mission, there will likely be knock-on effects that result in positive outcomes against other missions set for the Bank. For example, investing in a project which contributes towards a Just Transition to net zero could then also reduce disadvantage, and improve opportunities and outcomes in the place in which that project is based.

2. The Importance of Mission-Oriented Investment in Supporting the Economic Recovery from the 2020 Coronavirus (COVID-19) Crisis

Supporting and Shaping Economic Recovery

15. The Scottish and UK Governments have introduced a range of support measures for businesses impacted by COVID-19. The Scottish Government has further set out a four-step plan to respond, reset, restart, and recover. While the initial economic shock of COVID-19 is expected to be shorter term than the long-term nature of the Bank's mission-oriented investment objectives, the Bank is expected to play a key role in supporting Scotland's recovery by delivering patient and sustained investment in Scotland's businesses and communities.

16. The immediate impacts of COVID-19 underline the need for the Bank and support the adoption of a mission-oriented investment approach. The climate emergency, place-based opportunity and demographic change represent compelling challenges now more than ever. The Bank is uniquely placed to work towards addressing these challenges through providing patient capital to support long-term economic growth in tandem with the business community and public sector partners. Therefore, the Bank's mission-oriented approach provides a unique opportunity to influence the direction of economic recovery in the long-term interests of the people of Scotland.

17. The Scottish Government established the Advisory Group on Economic Recovery (the Advisory Group) to provide expert and independent advice on Scotland's economic recovery from COVID-19. Its work has set out the impacts of the shock to the economy and the scale of the challenge ahead. The Advisory Group's recommendations⁷ have highlighted both the need for the Bank and support for its intended approach to crowd-in investment to deliver long-term outcomes. Amongst its key findings, it concluded that the "*crisis accelerates the need for an investment institution at the heart of the Scottish economic landscape*" and that it is imperative that the Bank opens in 2020. The Group also highlighted that there is significant appetite from Scotland's investment community to co-invest with the Bank.

18. There are themes which link to Scottish Government recovery policy, the Advisory Group's report and the Bank's proposed missions. These are:

- Green recovery;
- Equality and wellbeing; and
- Increased economic robustness and resilience.

⁷ <https://www.gov.scot/publications/towards-robust-resilient-wellbeing-economy-scotland-report-advisory-group-economic-recovery/>

Green Recovery

19. A green recovery is one that is aligned to Scotland's ambitious climate change targets. A recast Climate Change Plan⁸ update (due at the end of 2020) will account for the challenges brought by COVID-19 and reflect the opportunities for a green recovery, as well as showing how Scotland can meet its emissions reductions targets.

20. The published and ongoing advice from the Committee on Climate Change, the Just Transition Commission⁹ and the Advisory Group on Economic Recovery will also be invaluable for informing Scotland's green recovery. The latter has concluded that green economic recovery is central to economic recovery overall.

21. Through the proposed Net Zero Mission for the Bank - achieving a Just Transition to net zero carbon emissions by 2045 - the Bank's investment will act as a catalyst to build the momentum needed to reduce emissions and support the Just Transition to a greener economy. The IIPP recognises this and has set out the necessity for public financial institutions to provide patient finance towards a green recovery.¹⁰

Equality and Wellbeing

22. COVID-19 has served to highlight and exacerbate a range of inequalities in Scotland and across the world. The Bank's mission-oriented approach means that it will not seek to invest purely for financial gain, but will pursue growth in a way which addresses inequality and increases wellbeing in an inclusive way. The Bank's Place Mission will specifically direct it to invest in places and regeneration to reduce inequality, and improve opportunities and outcomes for people and communities.

23. The Bank also has ancillary objects to specifically promote inclusive economic growth, social wellbeing and environmental wellbeing, and to advance equality and non-discrimination (more information in section 4).

24. Performance against the Bank's missions will also be measured with reference to the NPF which inherently focuses on *creating a more successful country with opportunities for all of Scotland to flourish through increased wellbeing, and sustainable and inclusive economic growth*. This should also be considered alongside global standards for impact investment measurement relating to wellbeing, including the United Nations Principles for Responsible Investment (UN PRI)¹¹ and

⁸ <https://www.gov.scot/news/climate-change-plan-update/>

⁹ <https://www.gov.scot/groups/just-transition-commission/>

¹⁰ [https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/04 - a green economic renewal after the covid-19 crisis 1.pdf](https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/04_-_a_green_economic_renewal_after_the_covid-19_crisis_1.pdf)

¹¹ <https://www.unpri.org/>

the United Nations Sustainable Development Goals (UN SDG)¹². More information on measuring performance is found in section 5.

Increased Economic Robustness and Resilience

25. COVID-19 has highlighted the world's dependence on global supply chains and interactions. The Advisory Group has recommended a need to build readiness in preparation for potential risks and future disruptions facing our economy and society. The need to support businesses and sectors which Scotland has, or can develop, a competitive advantage is referenced. The Group has specifically highlighted that *“by crowding-in investment, the Bank will be in a unique position to help deliver a robust and resilient wellbeing economy”*.

26. The Bank will seek to shape and create future markets, by crowding in private capital to invest alongside the Bank's public capital to maximise the impact of its activity to address the grand challenges faced by Scotland. In doing so, the Bank will be contributing to building a more robust and resilient domestic economy for Scotland.

27. An understanding of how the Bank could increase resilience becomes clearer when we consider the rationale for each of the proposed missions, and the potential investment opportunities arising from them. As such, explanations on how the proposed missions could support resilience are found in section 3 below.

¹² <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>

3. The Proposed Missions

Mission 1 (Net Zero Mission)

Grand Challenge 1: Climate Emergency
Mission 1 (Net Zero Mission): Achieving a Just Transition to net zero carbon emissions by 2045. Invest in rebalancing our economy towards leadership in sustainable technology, services and industries.

28. Scotland and the rest of the world is facing a climate emergency and our wellbeing, along with that of future generations, is at risk. In 2019, the Scottish Parliament passed legislation adopting a net zero emissions target by 2045.¹³ Adopting this net zero emissions target by 2045 underlines the ambition that Scotland will no longer contribute to global climate change.

29. The Scottish National Investment Bank Act 2020 (the Act) states that the Bank should have an ancillary object regarding promoting environmental wellbeing, particularly on supporting this transition to net zero emissions. The Act also specifies that it should support circular economy initiatives and biodiversity as part of this ancillary object to promote environmental wellbeing.

30. Further to this, the First Minister has already announced that supporting the transition to net zero will be the Bank's primary mission¹⁴. By setting this as the Bank's primary mission, the Government expects significant investment activity to occur under this mission.

31. The Bank has a valuable role to play in rebalancing Scotland's economy away from carbon towards leadership in sustainable technology, services and industries. Harnessing the power from businesses and third sector organisations to achieve this has never been more important.

32. The Bank will be operationally independent when it is making its investment decisions and so it is for the Bank to determine how it will invest to meet this mission.

¹³ <http://www.legislation.gov.uk/asp/2019/15/enacted>

¹⁴ <https://www.gov.scot/binaries/content/documents/govscot/publications/publication/2019/09/protecting-scotlands-future-governments-programme-scotland-2019-20/documents/governments-programme-scotland-2019-20/governments-programme-scotland-2019-20/govscot%3Adocument/governments-programme-scotland-2019-20.pdf>

However, for the purposes of illustration, it could be anticipated that to meet this mission the Bank may invest in areas which support:

- Low emission transport;
- Carbon neutral power generation, storage and distribution;
- Carbon neutral domestic and commercial heat generation and distribution;
- Carbon neutral industry and agriculture;
- Domestic and commercial energy-efficiency initiatives; and,
- A circular green economy.

33. The Bank's investments towards this mission could increase Scotland's resilience by supporting the usage and prevalence of more sustainable supply chains for the production and distribution of energy.

34. Providing finance and crowding in investment towards this mission will form part of Scotland's 'Green New Deal'¹⁵. This will kick-start investment and build the momentum needed to make a significant impact on reducing emissions and guaranteeing new, high quality jobs to support the resilience of Scotland's workforce and communities.

35. This proposed mission will particularly direct the Bank to support a Just Transition to net zero. The principles of a Just Transition, as defined in the Climate Change (Emission Reduction Targets) (Scotland) Act 2019, are the importance of reducing net emissions in a way in which:

- Supports environmentally and socially sustainable jobs;
- Supports low-carbon investment and infrastructure;
- Develops and maintains social consensus through engagement with workers, trade unions, communities, non-governmental organisations, representatives of the interests of business and industry and such other persons as the Scottish Ministers consider appropriate;
- Creates decent, fair and high-value employment opportunities in a way which seeks to minimise negative impacts on the current workforce and overall economy; and
- Contributes to resource efficient and sustainable economic approaches which help to address inequality and poverty.

36. As such, this primary mission clarifies that transitioning to net zero should be done in a way which maximises economic and social opportunities, builds on Scotland's existing strengths, while also taking the opportunity to mitigate arising societal risks. The Bank will seek to complement the work of the Just Transition

¹⁵<https://www.gov.scot/binaries/content/documents/govscot/publications/publication/2019/09/protecting-scotlands-future-governments-programme-scotland-2019-20/documents/governments-programme-scotland-2019-20/governments-programme-scotland-2019-20/govscot%3Adocument/governments-programme-scotland-2019-20.pdf>

Commission, which will provide practical advice on how best to achieve a Just Transition.

37. In addition to the Climate Change Plan and Just Transition Commission, this proposed mission further aligns with other current policy regarding the climate emergency. This includes, but is not limited to:

- Protecting Scotland’s Future: The Government’s Programme for Scotland 2019-2020¹⁶
- Climate Ready Scotland: Climate Change Adaptation Programme¹⁷
- Hydro Nation agenda¹⁸
- Active Nation agenda¹⁹
- Circular Economy Strategy²⁰
- Proposals to introduce a deposit return scheme²¹
- The Energy Efficient Route Map²²
- Scotland’s Energy Strategy²³
- The Scottish Biodiversity Strategy²⁴
- Proposals to transition to low carbon transport²⁵
- Scotland’s Land Use Strategy²⁶

38. In terms of aligning to the National Performance Framework (NPF), whilst individual projects under this mission may impact across all 11 national outcomes and could be measured in such a way, it could be expected that this proposed mission would contribute most strongly to the following national outcomes:

- We value, enjoy, project and enhance our environment;
- We have a globally competitive, entrepreneurial, inclusive and sustainable economy;
- We tackle poverty by sharing opportunities, wealth and power more equally;
- We are healthy and active;

¹⁶<https://www.gov.scot/binaries/content/documents/govscot/publications/publication/2019/09/protecting-scotlands-future-governments-programme-scotland-2019-20/documents/governments-programme-scotland-2019-20/governments-programme-scotland-2019-20/govscot%3Adocument/governments-programme-scotland-2019-20.pdf>

¹⁷ <https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2019/09/climate-ready-scotland-second-scottish-climate-change-adaptation-programme-2019-2024/documents/climate-ready-scotland-second-scottish-climate-change-adaptation-programme-2019-2024/govscot%3Adocument/climate-ready-scotland-second-scottish-climate-change-adaptation-programme-2019-2024.pdf>

¹⁸ <https://www.gov.scot/policies/water/hydro-nation/>

¹⁹ <https://www.transport.gov.scot/active-travel/>

²⁰ <https://www.gov.scot/publications/making-things-last-circular-economy-strategy-scotland/>

²¹ <https://www.gov.scot/policies/managing-waste/deposit-return-scheme/>

²² <https://www.gov.scot/publications/energy-efficient-scotland-route-map/>

²³ <https://www.gov.scot/publications/scottish-energy-strategy-future-energy-scotland-9781788515276/pages/1/>

²⁴ <https://www.gov.scot/policies/biodiversity/scottish-biodiversity-strategy/>

²⁵ <https://www.gov.scot/policies/renewable-and-low-carbon-energy/low-carbon-transport/>

²⁶ <https://www.gov.scot/publications/getting-best-land-land-use-strategy-scotland-2016-2021/>

- We live in communities that are inclusive, empowered, resilient and safe;
- We have thriving and innovative businesses, with quality jobs and fair work for everyone; and
- We are open, connected and make a positive contribution internationally.

Mission 2 (Place Mission)

<p>Grand Challenge 2:</p> <p>Place-Based Opportunity</p>
<p>Mission 2 (Place Mission):</p> <p>Extending equality of opportunity through improving places by 2040.</p> <p>Invest in places and regeneration to reduce inequality, and improve opportunities and outcomes for people and communities.</p>

39. Differences and inequalities exist across Scotland’s places in terms of income, employment, education, health, geographical access, crime, and housing. This is captured by the Scottish Index of Multiple Deprivation²⁷, and a large range of wider indicators covering other economic, social and environmental outcomes is captured through the Inclusive Growth Outcomes Framework²⁸. This variation across places is important for considering how disadvantaged or advantaged Scotland’s places are, and what this means for wellbeing and opportunities for the people who live there.

40. Research suggests that the prosperity of places²⁹ and the available opportunities in those places, is interdependent on the prosperity of people and businesses in those places. The Advisory Group on Economic Recovery has further recognised the importance of place for Scotland’s economic performance, and also for the strengthening of communities and Scotland’s ‘social capital’. Place-based interventions are crucial for economic and societal returns, including tackling inequality.

41. The Government recognises that there is an expectation for the Bank to work to extend equality of opportunity through improving places right across Scotland. The Bank could invest in both rural and urban areas in pursuit of this mission.

²⁷ <https://www.gov.scot/publications/scottish-index-multiple-deprivation-2020/>

²⁸ <http://www.inclusivegrowth.scot>

²⁹ This could be understood to involve: having places to live, work and visit; being connected through infrastructure; and standard of amenities.

42. A 2040 target date has been proposed for this mission. This will provide the Bank with a sufficient amount of time to evidence its impact over the medium- to long-term.

43. The Scottish Government has recently held a consultation gathering views on how our homes and communities should look and feel by 2040, and the options and choices to get there.³⁰ This consultation will inform the final vision and route map for 'Housing to 2040'. When published, 'Housing to 2040' is expected to help inform how the Bank delivers against this mission. This will be a further opportunity for the Bank to seek to align its investment activity with relevant Scottish Government policy and deliver against stakeholder expectations.

44. The Building Scotland Fund is a pre-cursor fund for the Bank and while the Fund's investments have preceded this proposed mission, the Fund aims to reflect the values, principles and ambitions of the Bank. It is therefore a promising sign of what we could expect from the Bank regarding place-based investments.

45. As of March 2020, the Fund had agreed investments of £102 million, unlocking projects in excess of £240 million which will provide a significant boost to the Scottish economy. The Fund is supporting the development of over 5,500 homes and 600 associated full time jobs. £25 million from the Fund is also supporting a range of regeneration, industrial and commercial property projects through the Scottish Government's SPRUCE fund.

46. This proposed mission has been designed to facilitate the continuation and further development of the type of financial support that the Building Scotland Fund provides, while including further social value elements. The mission further considers how the Bank can work strategically to maximise transformational outcomes by investing in places to reduce inequality and improve opportunities through increased availability of housing options³¹, secure employment, education and commercial prospects.

47. The Bank will be operationally independent so it is for the Bank to determine how it will invest to meet this mission. However, for the purposes of illustration, it could be anticipated that to meet this mission the Bank may invest in areas which support:

- Housing (meeting need and enhancing choice and availability);
- Regeneration;
- Industrial and commercial projects across a wide range of businesses; and,
- Commercially viable local community sustainability, equality and inclusion projects.

³⁰ <https://www.gov.scot/publications/housing-2040-consultation-outline-policy-options/>

³¹ The Advisory Group on Economic Recovery has suggested that housing investment can support jobs, create confidence, and contribute to social and climate change aspirations. As such, the Group recommends that the Bank be part of efforts to "*accelerate investment in housing*".

48. In terms of alignment to current policy, this proposed mission has been developed considering the understanding and importance of place as set out in the Place Principle³². In particular, the Place Principle states:

“Place is where people, location and resources combine to create a sense of identity and purpose, and is at the heart of addressing the needs and realising the full potential of communities. Places are shaped by the way resources, services and assets are directed and used by the people who live in and invest in them.”

49. This proposed mission further aligns with current policy regarding Scotland’s places. This includes, but is not limited to:

- More Homes Scotland approach³³
- Empowering Communities Programme³⁴
- Housing and Regeneration Outcomes Framework³⁵
- Planning Policy³⁶
- City and Regional Growth deals^{37, 38}
- National Planning Framework³⁹
- Town Centre Action Plan⁴⁰

50. In terms of aligning to the NPF (whilst again this mission will potentially cut across all national outcomes), it could be expected that this proposed mission would contribute most strongly to the following:

- We have a globally competitive, entrepreneurial, inclusive and sustainable economy;
- We tackle poverty by sharing opportunities, wealth and power more equally;
- We are healthy and active;
- We live in communities that are inclusive, empowered, resilient and safe;
- We grow up loved, safe and respected so that we realise our full potential;
- We have thriving and innovative businesses, with quality jobs and fair work for everyone;
- We are open, connected and make a positive contribution internationally; and,
- We value, enjoy, protect and enhance our environment.

51. Working towards this mission will require investing in different types of projects which aim to extend equality of opportunity in ways which best serve the particular

³² <https://www.gov.scot/publications/place-principle-introduction/>

³³ <https://www.gov.scot/policies/more-homes/>

³⁴ <https://www.gov.scot/policies/community-empowerment/empowering-communities-fund/>

³⁵ <https://www2.gov.scot/About/Performance/scotPerforms/partnerstories/HARO>

³⁶ <https://www.gov.scot/policies/planning-architecture/>

³⁷ <https://www.gov.scot/policies/cities-regions/city-region-deals/>

³⁸ <https://www.gov.scot/policies/cities-regions/regional-growth-deals/>

³⁹ <https://www.gov.scot/publications/national-planning-framework-3/>

⁴⁰ <https://www.gov.scot/publications/town-centre-action-plan-scottish-government-response/>

places they are based in. As such, a variety of relevant indicators will be used to show progress made against a variety of national outcomes to measure social, environmental and economic impact. More information on measuring the Bank’s performance can be found in section 5.

Mission 3 (Demographic Mission)

<p>Grand Challenge 3:</p> <p>Demographic Change</p>
<p>Mission 3 (Demographic Mission):</p> <p>Harnessing innovation to enable our people to flourish by 2040.</p> <p>Invest in innovation and industries of the future for a healthier, more resilient and productive population.</p>

52. Official figures published in 2019 project that, while Scotland’s population is expected to increase, many communities in Scotland will experience the dual challenge of both an ageing population and rural depopulation:

- There is expected to be 240,000 more pensioners by mid-2043 and the working age population is set to fall by 7,000 over the same period⁴¹;
- Scottish council areas with the highest percentage reductions in population are forecasted to be mainly rural and island areas, as well as areas in the West of Scotland;
- Areas in Scotland which have a median age of 54 years or over were mainly rural or island areas⁴²; and,
- By 2040, the number of those aged 90 and over is projected to approach 80,000 and nearly 20% of the population will be aged 70 and over.

53. In addition, technological advancement and innovation are expected to further bring changes to how Scotland’s population will live and work. The workforce is expected to experience significant change and a demand for new skills through increased used of innovative technologies, such as artificial intelligence and automation.⁴³

54. Given these multiple changes to Scotland’s population, the proposed grand challenge refers to demographic change more broadly rather than just the aging population. These demographic changes could significantly impact on Scotland’s

⁴¹ <https://www.nrscotland.gov.uk/files//statistics/population-projections/2018-based/pop-proj-2018-scot-nat-pub.pdf>

⁴² <https://www.nrscotland.gov.uk/files/statistics/population-estimates/sape-18/sape-18-publication.pdf>

⁴³ <https://www.scdi.org.uk/news-item/skillsforthefuture/>

economic growth performance, the demand for services, and the quality of future services provided.

55. This proposed mission would specifically direct the Bank to support a changing population to flourish through harnessing innovation. Innovative products and services both pose threats and opportunities depending on how they are used.⁴⁴ For instance, it is easy to see how innovative technologies could change the nature of work and leave behind those who are unable to adapt.

56. However, innovation could instead be harnessed to increase productivity and provide workers with new skills. There are also major opportunities to use patient capital to unlock innovation for improved public services and wellbeing, particularly through innovations in digital healthcare and life sciences which respond to public health challenges. As such, it is anticipated that the Bank could invest in innovation and industries of the future to support a healthier, more resilient and productive population. This further aligns with the responses gathered in the second consultation, with many respondents identifying the need for the Bank to support innovation.

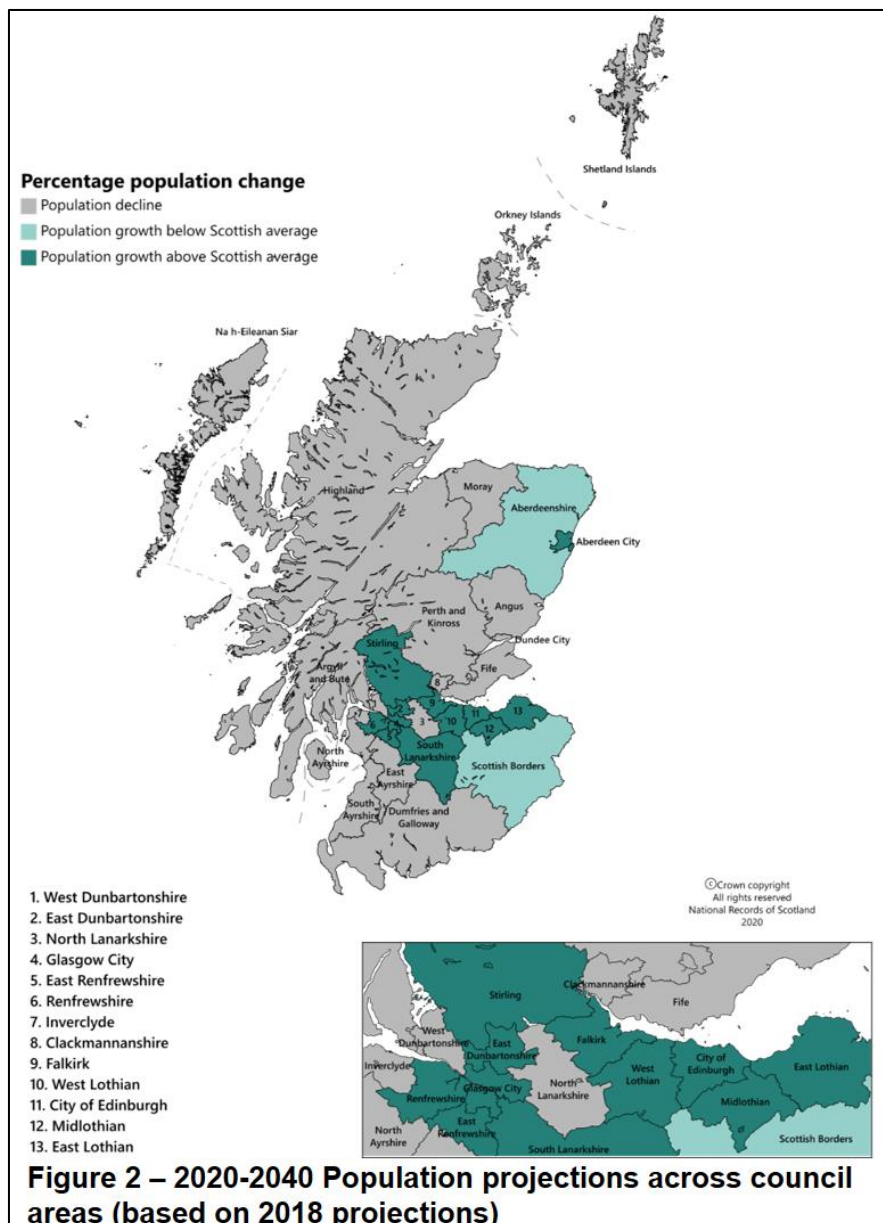
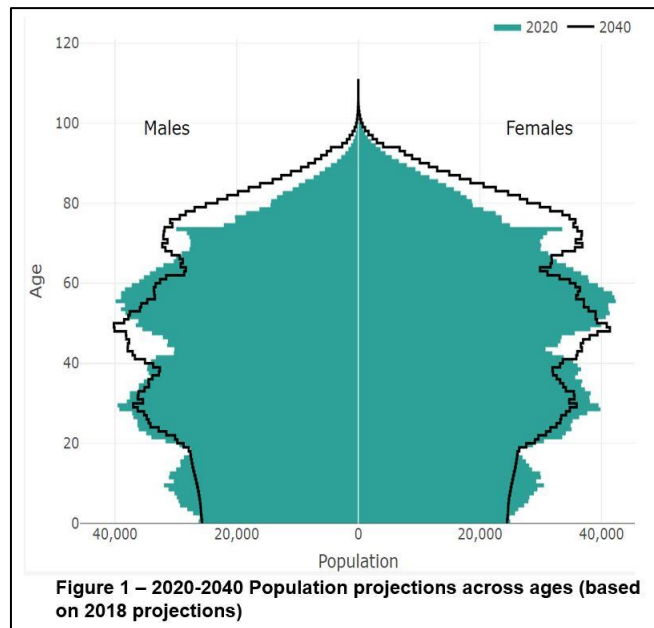
57. A target date of 2040 has been proposed for this mission. As with the second proposed mission, this will provide the Bank with sufficient time to evidence impact. Further, Scotland is projected to experience significant changes to its population across this period.

58. Figures 1 and 2 below show the difference between Scotland's current population and the projected population by 2040 across age groups⁴⁵, and council areas⁴⁶. Looking at these projected changes, we can see that many rural and island communities will face decreasing and ageing populations which can bring significant challenges across the next 20 years. These changes ought to be considered alongside technological advancement and innovation which will bring further shifts to how Scotland's population will live and work across the next 20 years.

⁴⁴ <https://www.mckinsey.com/featured-insights/future-of-work/tech-for-good-using-technology-to-smooth-disruption-and-improve-well-being>

⁴⁵ <https://scotland.shinyapps.io/nrs-population-projection-variants-scotland-uk/>

⁴⁶ <https://www.nrscotland.gov.uk/statistics-and-data/statistics/statistics-by-theme/population/population-projections/sub-national-population-projections/2018-based/>



59. The Scottish Council for Development and Industry (SCDI) is supportive of this proposed mission for the Bank. SCDI's Deputy Chief Executive, Matt Lancashire, said:

“SCDI strongly backed the creation of the Scottish National Investment Bank, and its mission-oriented approach, to help businesses access the patient capital they need to innovate, grow and internationalise. We now welcome this proposed mission for the Bank.

“Our extensive research in recent years – including our ongoing Big Data and Health Economy project exploring how technological innovation could transform health & social care to save lives, reduce costs and create jobs – demonstrates that the Bank could unlock significant social and economic opportunities by investing in technological innovations which respond to our demographic and public health challenges.”

60. The Bank will be operationally independent so it is for the Bank to determine how it will invest to meet this mission. However, for the purposes of illustration, it could be anticipated that to meet this mission the Bank may invest in areas which support:

- Assisted living and flexible housing;
- Medical technologies and technology enabled care;
- Automation while supporting changing skill needs;
- Life sciences;
- Data driven innovation; and,
- Digital capabilities and infrastructure⁴⁷.

61. This proposed mission further aligns with current policy. This includes, but is not limited to:

- Ministerial Population Task Force⁴⁸
- National Strategy for Older People⁴⁹
- Rural Economy Action Group⁵⁰
- National Plan for Scotland's Islands⁵¹
- Age, Home and Community Strategy⁵²

⁴⁷ The Advisory Group on Economic Recovery recognised the key importance of digital technologies for a robust wellbeing economy, and the advantages of improved connectivity. Investment in Scotland's digital infrastructure has the potential to be a strong enabler of growth, productivity and inclusion which can build resilience and enhance exports.

⁴⁸ <https://www.gov.scot/news/population-challenges/>

⁴⁹ <https://www.gov.scot/policies/independent-living/national-strategy-for-older-people/>

⁵⁰ <https://www.gov.scot/groups/rural-economy-action-group/>

⁵¹ <https://www.gov.scot/publications/national-plan-scotlands-islands/>

⁵² <https://www.gov.scot/publications/age-home-community-next-phase/>

- Realising Scotland's Full Potential in a Digital World: A Digital Strategy for Scotland⁵³
- Scotland's Digital Health and Care Strategy⁵⁴
- A Scottish Government commitment to develop an AI strategy⁵⁵

62. In terms of aligning to the NPF, it could again be expected that projects under this proposed mission would contribute towards many of the national outcomes but the key impacts are likely to be on the following:

- We are healthy and active;
- We have a globally competitive, entrepreneurial, inclusive and sustainable economy;
- We are well educated, skilled and able to contribute to society;
- We have thriving and innovative businesses, with quality jobs and fair work for everyone;
- We are open, connected and make a positive contribution internationally.

63. Similar to the Place Mission, a variety of indicators will be used to show progress against the national outcomes suggested above. This is expected to better account for the multiple ways in which the Bank could invest in support of this mission. More information on measuring the Bank's performance can be found in section 5.

⁵³ <https://www.gov.scot/publications/realising-scotlands-full-potential-digital-world-digital-strategy-scotland/>

⁵⁴ <https://www.gov.scot/publications/scotlands-digital-health-care-strategy-enabling-connecting-empowering/>

⁵⁵ <https://www.gov.scot/publications/protecting-scotlands-future-governments-programme-scotland-2019-20/pages/6/>

4. How the Bank Will Adopt Missions

64. The Bank will respond to the missions set by the Scottish Government through the development of its Investment Strategy, and wider engagement with Scottish Government and stakeholders. The Bank will also report to Scottish Ministers on how it intends to work towards the missions within 3 months of them being set, as required by the Act.

65. The Scottish Government has committed to capitalise the Bank with £2 billion over 10 years. The Bank will re-cycle returned capital from initial investments and leverage co-investment from the private market, increasing its capacity to stimulate the economy beyond this proposed £2 billion. The Bank is also expected to, in time, cover its operating costs and not be reliant on the taxpayer. The Bank will be a public body but it will operate commercially, and be operationally and administratively independent from the Government. This provides the Bank with the scope and freedom to decide what its Investment Strategy offers and how it invests to deliver the missions.

66. It will take time for impact to be evidenced against the Bank's activities. The long-term nature of the grand challenges means that social, economic and environmental returns should not be expected shortly after the Bank has been vested. The Bank will be expected to deliver these impacts in the medium- to long-term.

67. The missions set for the Bank will provide a direction for its Investment Strategy but will not constrain its activity. Ultimately, the Bank will be required to invest in opportunities in line with its vision, objects, missions, and ethical standards. Therefore, the missions should be viewed as part of a wider picture of the Bank's governance, rather than in isolation. Concepts such as inclusive growth or fair work should be supported throughout all of the Bank's activity, rather than trying to set specific missions to support these particular aims.

68. As set out in the Act, the Bank's main object is investing in commercial activities for the purpose of promoting or sustaining economic development or employment in Scotland. The Bank's ancillary objects concern:

- Investing in inclusive and sustainable economic growth;
- Investing to promote social wellbeing;
- Investing to promote environmental wellbeing, and in particular:
 - Support the transitions required to meet the net zero emissions target;
 - Support proposals and policies regarding circular economy initiatives;
 - Promote biodiversity;
- Promoting Just Transition principles;
- Promoting and developing the activities of enterprises, where lack of financial investment is holding back economically viable commercial activity;

- Promoting and developing the activities of small and medium-sized enterprises;
- Promoting and developing the activities of enterprises which promote fair work and pay their employees a living wage;
- Creating and shaping markets through the provision of patient capital;
- Contributing to the achievement of the Scottish Government’s economic, social and environmental policy objectives; and,
- Advancing equality and non-discrimination.

69. The Bank will seek to be considerate of overarching policy developments and priorities. For example:

- The Bank will seek to align its investment activity to support the Scottish Government’s update to the Infrastructure Investment Plan.⁵⁶ This Plan will set out the Scottish Government’s approach to future infrastructure investments in Scotland and will build on recommendations made by the Infrastructure Commission for Scotland and focus on three long-term outcomes of inclusive economic growth, tackling the climate emergency, and building sustainable places. When working towards these outcomes, consideration will also be given to projected forecasts regarding changes to Scotland’s demography, technological trends and adaption to climate change.
- The Bank will seek to tailor its investment activity following the expected publication of Scotland’s fourth National Planning Framework, which will provide a long-term spatial plan supporting sustainable and inclusive growth in Scotland and its development between now and 2050.

70. It should also be noted that officials are developing and engaging with the European Commission on State Aid⁵⁷ approval required for the capitalisation of the Bank. Approval is expected to be in place in the second half of 2020. The scope of State Aid approval granted will inform the Bank’s response to the missions and influence how it will deliver against them.

⁵⁶ <https://www.gov.scot/policies/government-finance/infrastructure-investment/#plan>

⁵⁷ https://ec.europa.eu/competition/state_aid/overview/index_en.html

5. Measuring Performance Against the Bank's Missions

71. The Bank will develop its approach to measuring performance. As set out in the Act, the Bank will measure and report on its financial and non-financial performance. In particular, the Act requires that the Bank use a balanced scorecard approach to support this. The balanced scorecard will capture the environmental, economic and social impact of the Bank's investments, as well as its financial performance. This will allow performance against the missions to be measured with the potential to develop innovative metrics for doing so. The missions are intended to be in place long enough for the Bank's activities to have a lasting impact.

72. The non-financial impact of the Bank's activity is expected to be measured with reference to:

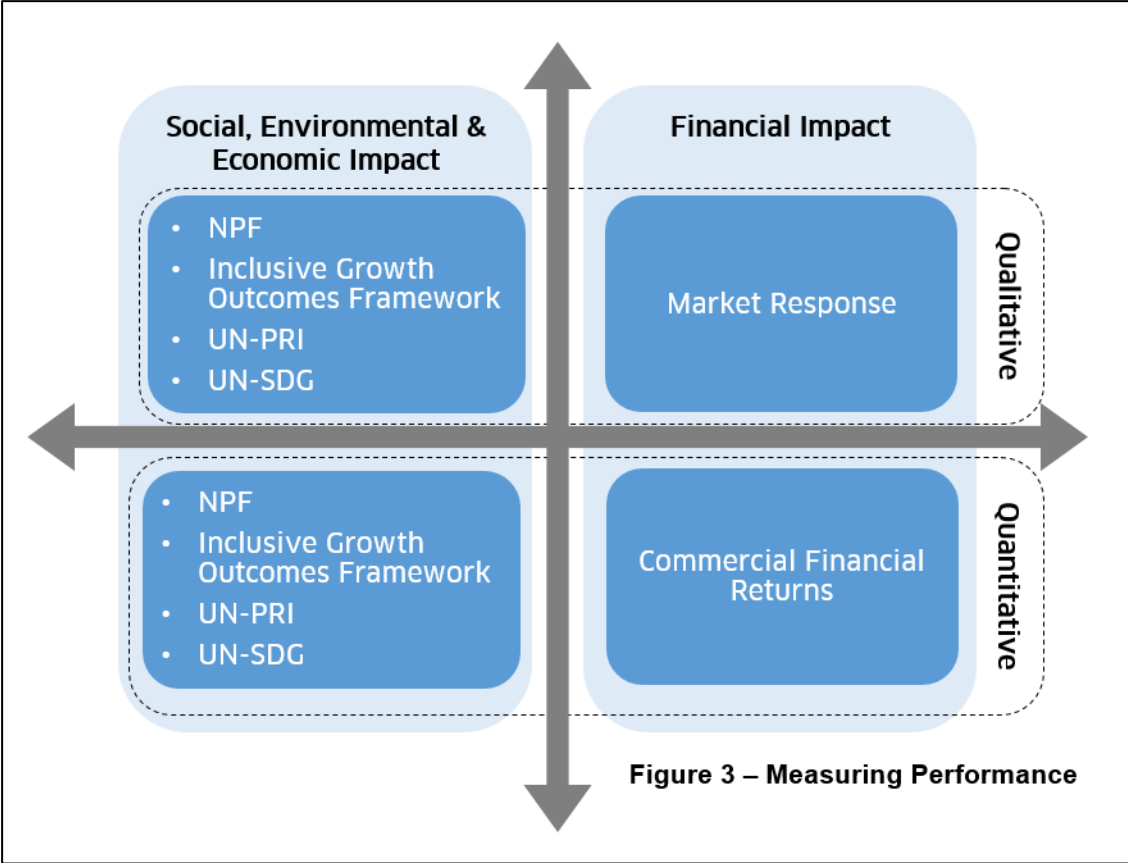
- the NPF;
- the Inclusive Growth Outcomes Framework;
- the United Nations Sustainable Development Goals (UN-SDG); and,
- the United Nations Principles for Responsible Investment (UN-PRI).

73. Work is already underway to consider which of the 81 national indicators (used to measure performance against the national outcomes within the NPF) are most likely to be impacted on by the Bank's activity. Measuring the Bank's activity with reference to the NPF will need to allow for flexibility. It is not appropriate for the Bank to be measured against every national indicator given their inherently wide focus. Therefore, consideration is being given to how the national indicators can be used to determine the impact against both the Bank's portfolio as a whole, and against individual investments.

74. Performance is further expected to be measured with reference to the Inclusive Growth Outcomes Framework. The Bank will also consider the optimal method for applying globally accepted best practice of impact assessment such as UN-PRI and UN-SDG. Other impact assessments already undertaken throughout the public sector, such as those relating to equalities or island communities, are further expected to be used. These could be used at the point of decision making to assess the wide ranging potential impacts of investments.

75. The Act further requires the Government to appoint a person to undertake a review of the Bank's performance. This should happen at least every 5 years and performance will be measured in relation to the Bank's objects, missions, and national performance indicators as specified by Scottish Ministers. The report will be laid before Parliament and made publicly available.

76. Figure 3 below outlines the variety of impacts expected to be measured to demonstrate the Bank's performance.



6. Setting Missions for the Bank

Upcoming Activity to Set Missions for the Bank

77. This document will be laid in Parliament for the purposes of consultation for a period of 40 days. This 40 day period will not take into account any time when Parliament is dissolved or in recess for more than 4 days.

78. After this consultation period, the Act provides that Government sends a document to the Bank setting out its missions. As also provided for in the Act, this document will explain how the missions relate to the Bank's objects. The Act further requires that Ministers lay before Parliament a statement describing how the consultation influenced the content of the document sent to the Bank.

Future Missions for the Bank

79. The same consultation process will apply if the Government proposes to modify or end any of the Bank's missions. This will also apply if the Government intends to set new missions for the Bank.

80. The Act also provides that the Bank's Board is consulted (before undertaking a wider public consultation) when making a future proposal to set, modify or end a mission. The Bank is further able to propose to Scottish Ministers that a mission be set, modified or ended. As with the current process, the Bank will be required to respond to new or modified missions within 3 months of them being set.

7. Focus of Consultation

Suggested Questions for Consideration

81. Any considerations or responses regarding any of the content in this document is welcome. However, it would be particularly helpful if the following points are considered for discussion in order to aid development of these proposed missions:

- Should anything be referenced to further support the Bank when developing its approach to meeting its missions?
- Should an alternative target year for any of the proposed missions be used and, if so, why?
- Are there suggestions on how the proposed missions could align more with the NPF?
- When the missions are set for the Bank, the Government will describe how they relate to each of the Bank's objects as set out in the Act. Is there anything which should be particularly considered when setting out how the missions relate to the objects?
- What else could the Bank report on when measuring performance against the missions?

82. Any written responses to any of the above questions, or concerning any other information in this document, should be directed to ScottishNationalInvestmentBankMissions@gov.scot.

Appendix A – The IIPP’s Mission-Oriented Framework for the Bank

83. The IIPP’s Framework identifies that a mission-oriented approach will encourage efforts towards addressing significant societal challenges which require different sectors to invest and innovate. A mission-oriented approach further encourages transformative solutions that are sector and technology neutral. The missions, therefore, will not specify the solutions or the types of businesses in which the Bank should invest.

84. A mission-oriented approach to investment recognises key principles which will allow the Bank to create its intended impact. These principles are:

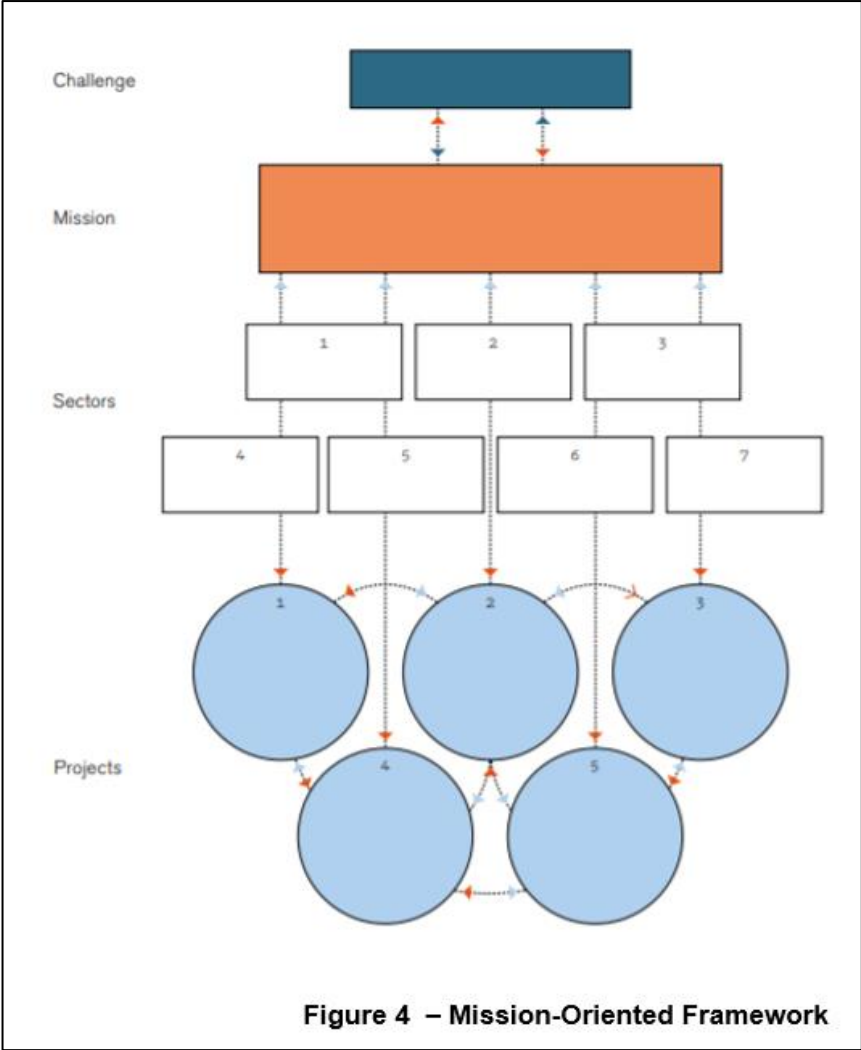
- Economic growth has not only a rate but also a direction;
- Innovation requires investments and risk-taking by both private and public actors;
- The state has a role in not only fixing markets but also in co-creating and shaping them;
- Successful innovation policy combines the need to set directions from above with the ability to enable bottom-up experimentation and learning; and,
- Missions may require consensus-building in civil society.

85. This Mission-Oriented Framework makes a distinction between ‘grand challenges’ and ‘missions’. Grand challenges are defined as “*broadly defined areas that have been identified as a priority in Scotland, either through political leadership, or the outcome of a movement in civil society*”. Missions are defined as “*a set of concrete problems that different sectors can address to tackle the [grand] challenge.*”

86. Under this Framework, working towards a mission will involve ‘sectors’ and ‘solutions’. Sectors are understood as “*sectors of the Scottish economy that are well placed to invest and innovate in ways that will contribute to a mission*”. Solutions are then defined as “*a portfolio of potential projects from across different sectors that could be financed by [the Bank] to help support a mission*”.

87. The IIPP’s Framework also sets out that working towards missions can lead to “*cross-sectorial spillover effects*” which can create additional impact. These are unexpected benefits which materialise outside of the immediate policy area. These may not be known beforehand but can nonetheless lead to further innovation, the creation of new markets, and positive outcomes. These can be hard to predict and measure.

88. Figure 4 below demonstrates the relationship between a mission and its corresponding grand challenge, and the role sectors and solutions will play towards achieving a mission:



Appendix B – Overview of the Bank’s Mission-Oriented Approach

89. Figure 5 below provides an overview of the Bank’s mission-oriented approach and how this relates to the Bank’s vision and objects, and expectations on measuring performance:

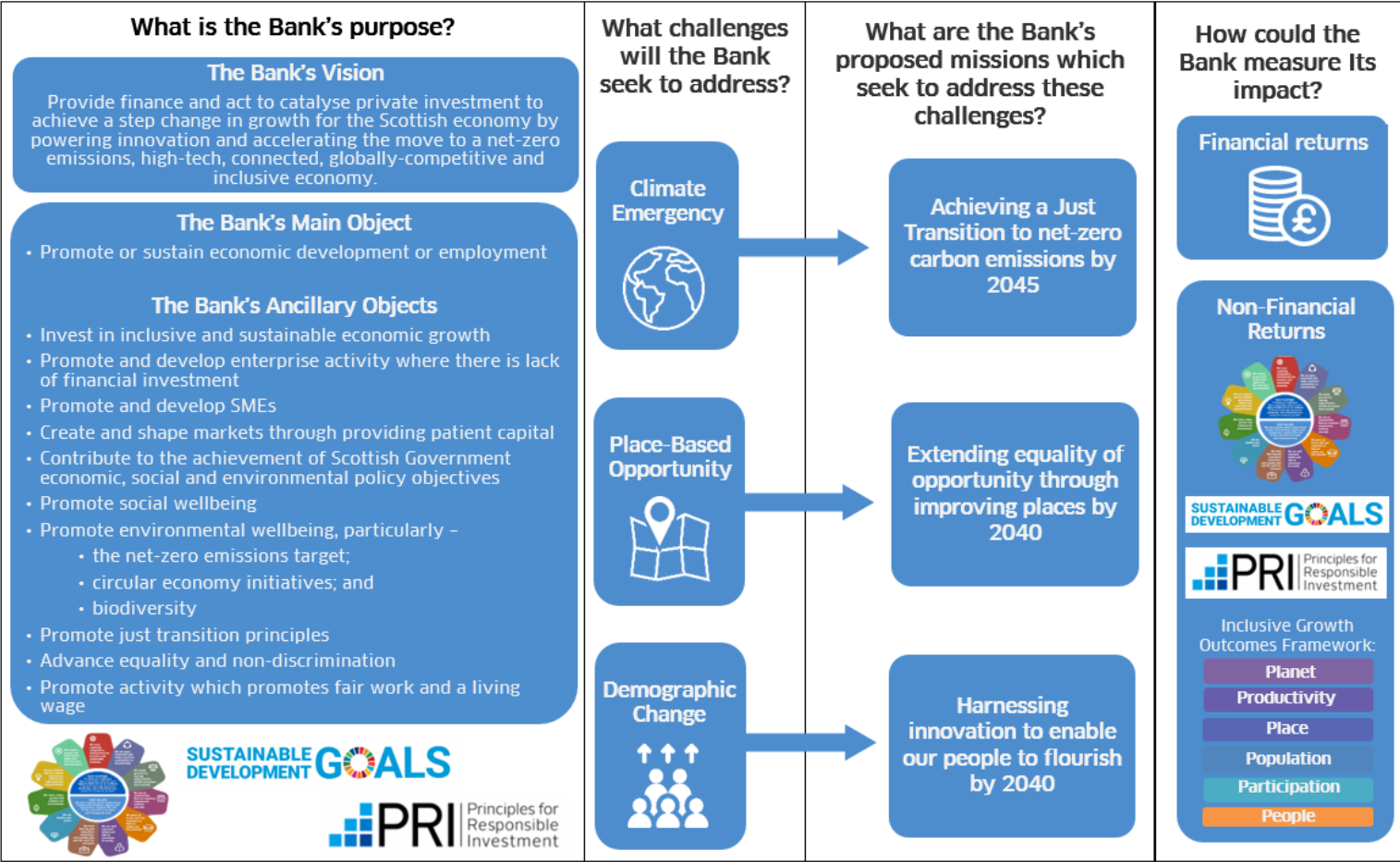


Figure 5 – The Bank’s Mission-Oriented Approach



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