

FOI 2020 00011732 [Redacted] – MEETING BETWEEN FIRST MINISTER AND BENNY HIGGINS – BUTE HOUSE, MONDAY 24 JUNE 2019

**BRIEFING FOR THE FIRST MINISTER
MEETING WITH BENNY HIGGINS - 24 JUNE 2019**

Key message	The Scottish National Investment Bank is a Programme for Government commitment and work to implement it is progressing well.
What	A meeting to allow Benny Higgins to provide you with an update on progress to establish the Scottish National Investment Bank.
Why	To allow FM to provide input on progress and direction of travel.
Who	Benny Higgins, Strategic Advisor to the First Minister on the Scottish National Investment Bank.
Where	Bute House
When	Monday 24 June 14:30 – 15:00
Likely themes	Progress to date and future expectations.
Media	Private meeting. No Comms support required.
Supporting official	David Wilson [REDACTED]
Attached documents	Annex A: Summary Annex B: The Bill Annex C: Missions Annex D: Recruitment of Chair Annex E: State Aid Annex F: Capitalisation and HMT dispensation

Annex A

Summary

You last met Benny Higgins on 07 November 2018 in his role as your Strategic Adviser on the establishment of the Bank. This meeting is a chance to catch up on progress since then. Suggested points of discussion are the Bill; missions; recruitment of the Bank's Chair; State Aid and HMT dispensation. Annexes B-F provide detail on each discussion point.

Annex B

The Bill

The Scottish National Investment Bank Bill was introduced to the Scottish Parliament on 27 February 2019. The Bill places a duty on Scottish Ministers to establish the Bank as a public limited company and gives Ministers the necessary powers to capitalise the Bank. It also gives Ministers the power to set the strategic direction of the Bank by the setting of Missions that will address socio-economic challenges.

The Economy, Energy and Fair Work Committee has now concluded its evidence sessions on the Scottish National Investment Bank Bill at Stage 1: officials gave informal evidence to the Committee on 30 April; there were five stakeholder evidence sessions over May and June; and the Cabinet Secretary for Finance, the Economy and Fair Work gave evidence to the Committee on 11 June. The Committee is anticipated to publish its Stage 1 report following its next meeting on 25 June. The Stage 1 debate and vote is anticipated to take place in September. We do not anticipate any significant issues that would prevent the Bill from passing Stage 1.

The Committee's evidence sessions were constructive with stakeholders expressing broad support for our proposals. There was particular discussion of: potential amendments to the Bank's objects to set out an environmental and/or social purpose, the prospective target rate of return for the Bank, how the Bank will work with the public sector investment landscape, and how the Bank will act as a source of ethical finance.

Annex C

Missions

The Bill gives Scottish Ministers the power to set strategic missions for the Bank; these will be socio-economic challenges that the Bank's activity can help to address.

- Scottish Ministers can set new missions for the Bank or modify or bring to an end an existing mission.

The Bank will respond to the missions through its Investment Strategy. The Government and the Bank will develop indicators to measure progress on the delivery of the missions.

- The missions should be considered as a collective endeavour involving the Bank, the Scottish Government and other partners across the public sector all using the levers under their control to tackle one of the socio economic challenges facing Scotland.
- The illustrative missions set out in the implementation plan will form the basis of discussions on the Bank's initial missions.
- The missions will not specify the types of businesses or sectors in which the Bank should invest.

At the STUC Conference in April 2019 the First Minister confirmed that supporting the transition to a zero-carbon society will be a key mission for the Bank.

- This recognises the important role the Bank has to play in supporting future low- and carbon-neutral industries and infrastructure, and financing improvements to existing industries.
- We have been carefully observing and considering the evidence that has been provided to the Committee on this issue, and look forward to receiving the Committee's recommendations in its Stage 1 report.
- Where changes can be made, to ensure that the Bank is better able to meet the ambitions set for it, we will work with partners across the Chamber and beyond to deliver those.

To date, we have been engaged in a process of co-production, both across Government and with external stakeholders to shape the development of the missions. This process has been crucial for a number of reasons:

- In order to have the desired effect, the Bank's missions must be aligned with Government priorities – policy and financial levers have to work together to tackle the broad societal challenges that the missions will be set up to address.

- If the Bank's missions are to secure buy-in, and promote cross sectoral bottom up solutions, their development of them must be informed by a wide range of voices from outwith Government.

Annex D

Recruitment of Chair

The advert for the Chair of the Bank will go live at the end of June/start of July. Benny Higgins is chairing the selection panel along with Liz Ditchburn, Dame Susan Rice and Professor Sir Anton Muscatelli.

The recruitment of the Chair is a major appointment for the Government. An accelerated timetable for this is being undertaken to ensure the Chair and Chief Executive are in place to contribute effectively to the final set up of the Bank, ideally at least six months before the Bank is established. This follows the timeline for Stage 1 passage of the SNIB Bill through parliamentary process.

The recruitment process for the Chair and other key appointments is being designed to attract a diverse range of candidates and a diversity search agency is being sought to assist.

Mr Mackay has given approval to proceed with an unregulated appointments round following advice from the Public Appointments Team. This unregulated approach has received support from the Economy, Energy & Fair Work Committee, who have requested that the Ethical Standards Commissioner take oversight of the accelerated process. The Ethical Standards Commissioner has declined this request due to legislative restrictions which limits their involvement in unregulated appointments [response letter to this is being prepared].

The Public Appointments Team have advised that the Chair should be in post to support the appointment of other senior figures in the Bank such as the Chief Executive and Director of Finance, so the Programme Team is proceeding on that basis. This timeframe also allows the Programme Team to test the market and get the right people for the role.

Although unregulated the process for appointing the Chair will closely follow the Ethical Standards Commissioner's Code of Practice for public appointments to ensure that it is an open, transparent and fair process.

Annex E

State Aid

We are building the State Aid case for the Bank and ensuring that the process for securing approval by the regulator is built into the implementation process.

We are also learning from the experience of others, such as the Green Investment Bank and the British Business Bank (BBB) which previously were approved through the notification process by the European Commission.

The BBB undertakes many of the functions that the Scottish Government is looking for the Bank to undertake including commercial lending and the provisions of 'non-market' debt and equity products that constitute State Aid.

We are preparing a notification for State Aid approval for capitalisation of the Bank, in line with the Commission's recommended guidance. This will include a Pre-notification process, ahead of submitting a full notification later in the year. We are in close discussion with colleagues in the Scottish Government State Aid Unit and the UK Government Department for Business, Energy and Industrial Strategy to ensure they demonstrate compliance with all state aid regulations.

Brexit

The current UK Government proposals for State Aid are that post EU Exit, and following any transition period, the EU State Aid regime will be transposed into UK law and regulated UK-wide by the Competition and Markets Authority independent from Government. The UK Government has committed to maintain a common rulebook on State Aid in the Future Economic Partnership with the EU consistent with Scottish Government's position of wishing to stay in the European Single Market and Customs Union.

The notification will be considered by the European Commission until the UK has withdrawn from the EU and any Implementation Period is complete. In the event of a no-deal EU Exit, the Competition and Markets Authority will take on responsibility for State Aid approvals within the UK, and they will be the responsible authority post-Brexit.

Annex F

Capitalisation and HMT dispensation

Following a correspondence and a meeting between the Chief Sec to the Treasury and Mr Mackay on 15 February and a subsequent letter on 25 April, constructive discussions at official level continue between the SG and HMT around financial flexibility, future availability of FTs and repayment of FTs over the longer term continue (most recently on Thur 14 June). The case for the Bank having year end flexibility - £200 million for the Bank has been suggested in addition to the £700 million for the Scotland Reserve – has included discussion of the precedents offered by arrangements in place between HMT and the British Business Bank and Transport for London.

The primary SG ask is for flexibility to carry cash over between one financial year and the next, without impacting on the Scotland Reserve. HMT remains open to further discussion, but their concerns and our responses are:

[REDACTED]

Internally, the Bank team are fully engaged with Scottish Exchequer colleagues re the profile for capital going into the Bank and coming out of the Bank, and implications for repayment of FTs by the SG to HMT going forward – this is informing the next version of a more detailed financial model – further advice on the results of this will emerge over the Summer. The current working assumptions remain that:

- The SG provides £2 billion by 2028 (£0.490 million by March 2021 via Building Scotland Fund and other pre-cursor Bank investments; with £1.51 billion between 2021-2028 from other sources – this excludes Scottish Investment Bank and other existing SG investments which may transfer into the Bank);
- The Bank makes dividend payments back to the SG over the long-term (40+ years) which will contribute to the FT repayments to HMT; and

- The SG continues to manage the FT repayment arrangements with HMT - making sure that the Bank's contributions fit within the SG's overall financial position.

Should there be limited or no progress in discussions with HMT in time for the Bank becoming operational in 2020, the position should be manageable in the short term via the Scotland Reserve. It would mean:

- that the arrangements between the Bank and Scottish Ministers (as sole shareholder) would be similar to those between the SG and other public bodies.
- the Bank would need to invest and fully deploy all the capital that is allocated to it through that year's budget settlement, seeking to minimise the risk of over and underspend, which is best achieved by establishing and maintaining a strong level of demand for Bank investment.
- Initially more controls and engagement by the SG over the Bank's activities and its investment plans will be needed, compared with that envisaged in the Implementation Plan.