

INTRODUCTION

The primary Agenda of the Consultation Event was for Scottish Government to obtain feedback, inputs and suggestions regarding various aspects of The Scottish National Investment Bank through discussion.

The meeting kicked off with welcomes by organisers Ethical Finance Hub and hosts Cameron McKenna Nabarro Olswang LLP. This was followed by an update from Scottish Government on the Scottish National Investment Bank.

The Bank will be an institution that will have an enduring impact on the Scottish economy. With Scottish Government committing to capitalising the Bank with £2 billion over 10 years it will be an essential component of Scotland's economic architecture. The Bank will focus its investment on small to medium-sized enterprises, providing strategic, patient capital through debt and equity financing that must be repaid on a commercial basis typically over a 10-15 year period. Establishing the Bank will stimulate economic growth in Scotland.

INITIAL DISCUSSION

- Delegates highlighted the complexity of creating a linkage between the bank and other private financial institutions and the Scottish Government. Delegates stressed on the importance of understanding the financial landscape in order to align the missions of the Bank and other institutions.
- In an open discussion, the importance of an advisory board and presence of executive / non-executive directors was discussed to achieve a required balance between changing political scenarios and influence of ministerial approach towards the bank.
- Scottish Government representatives highlighted the operating costs of the bank to be £30m per annum and the importance of making separate payment arrangements for the Specialist roles.
- Delegates suggested the incorporation of a social rate of impact apart from the financial return and sustainability indicators for better measurement of sustainability of the Bank.
- It was noted that the dividend policy has to be formulated for the Bank.
- The requirement for feedback by the Scottish Government with respect to the creation of blended exclusive financial instruments was noted.

BREAKOUT SESSIONS

This was followed by a breakout session of three groups discussing Governance and Staffing, Investment Approach and Products and Relationship between the Bank and current financial services sector .

1. Breakout session: Governance and Staffing

- Oversight of the Bank's Board
 - i. The role of the advisory group was discussed and it was suggested that this group should have a stronger oversight function, or sit alongside a supervisory board.
 - ii. Greater 'circularity to accountability' is desirable within the governance structure of the Bank. The proposed advisory group should provide sectoral expertise, but that this should be supplemented by a supervisory group whose primary purpose would be to provide oversight of the board.
 - iii. A general need for more clarity around the intended governance structure of the Bank was highlighted.
- Decision making within the Bank's Board
 - i. The appointment of the chair and non-executive directors by Scottish Ministers may impact on decision-making within the Bank's board.
 - ii. Dispute handling within the board, particularly between executive and non-executive members and how the Bank will maintain its operational and administrative independence within this structure were considered.
- Classification of the Bank

- i. Delegates discussed the classification of the Bank and the implications this would have on its governance structures.
 - ii. It was noted that under the limited company model, the Bank may be required to implement a corporate governance code, which would strengthen the accountability of the Board and suggested this is something the Bank should explore.
 - iii. The Bank should ensure that it remains a “public sector institution in perpetuity”, and the ownership of shares within the Bank, thinking particularly about the powers of Scottish Ministers to sell shares, was considered. Delegates also discussed the employee-owned company model and its potential application to the Bank.
 - iv. Further to this, the impact of political changes to the ‘government of the day’ on the governance of the Bank, and what measures would be put in place if future Scottish Ministers wished to sell the shares of the Bank was discussed.
- Openness and transparency
 - i. The level of transparency and openness the Bank will operate under was considered. Delegates noted the duty of the Bank to comply with Freedom of Information and the operational implications this might have around disclosing information on investment decisions taken by the Bank.
 - Terminology
 - i. Choosing to apply the name ‘Bank’ could have certain connotations, particularly around the type of regulation it will be subject to were it to be subject to the Prudential Regulation Authority and the Bank of England.
 - ii. Delegates noted that there is a need for more clarity around what the Bank will do and the products it would offer, as well as how it will be regulated within the context of the Banking/ financial sector.

2. Breakout session: Investment Approach / Products

- Nature of products
 - i. There was an initial discussion about the nature of the banks approach to investment and the nature of the specific products. It was viewed that flexibility in approach was important and that being able to look at things that commercial banks were unfamiliar with would be extremely beneficial.
 - ii. The importance of taking a long-term view (and one longer than commercial institutions) was also generally viewed as being crucial.
 - iii. There was also discussion from some delegates around the importance of innovative financial products such as social investment bond type entities.
- Importance of mission-led approach
 - i. This led to an exploration of the importance of the mission-led approach to investment.
 - ii. Delegates were interested in the nature of the 3 missions and wondered how they might change over time. This was both in terms of the changing technological environment and there was also some pick-up of the political landscape and how the bank would react to a change in administration.
 - iii. There was a discussion of the importance of access for SME’s even in the context of the missions
- Links to Inclusive Growth
 - i. The link between the actions of the bank and Inclusive Growth as part of the Governments Economic Strategy were discussed and was viewed as extremely important. There was a

detailed discussion of how the Bank's investment approach would be monitored and evaluated against the National Performance Framework.

- ii. The importance of embedding Inclusive Growth was stressed several times and was viewed as crucial.

- Level of risk
 - i. There was interest in the level of risk the bank would be prepared to take and how that would be related to the appetite for doing due diligence on novel potential investments in a way that the private sector might find uneconomic.

3. Breakout session: Relationship between the Bank and current financial services sector

- Position in the market
 - i. Unclear about the Bank's intended position and its relationship to other financial institutions.
 - ii. Would welcome more information about the nature of the gap in finance – understanding that is at the heart of the relationship it will have with other banks and finance providers.
 - iii. There is believed to be no issue with availability of money – the issue is more one of a plethora of opportunities which smaller businesses find it hard to navigate through and find confusing about which is the best option for them.
 - iv. Lenders tend to approve a high proportion of lending applications (8/10) that come to them – question is what happens to those which are unsuccessful – which the Bank might assist with.
 - v. Questions regarding future plans of the Bank to work with/relate to the British Business Bank, Green Investment Bank, etc. were raised.

- Other options
 - i. If the Bank could provide guarantees that would enable other lenders to do more business without further provision for capital adequacy/offer lower rates of interest.
 - ii. This would have the effect of helping to “crowd in” finance, so that High Street lenders can do more business.
 - iii. The Bank should look at the Business Growth Fund – very commercial and not just funding deals that others don't want to finance.
 - iv. There is considerable existing expertise within High Street lenders – Bank should use/access that and not use its resources to do stuff that others already doing.

MEETING CLOSE

The discussion concluded with a brief of all breakout sessions being given to all the delegates by Scottish Government Delegates and a note of thanks from Ethical Finance Hub.