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AUDITOR GENERAL

16 June 2025

Richard Leonard
Convener
Public Audit Committee
Scottish Parliament
By email

Dear Richard

At the committee evidence session on 28 May 2025 on my performance audit of the Scottish National Investment Bank (the Bank), I committed to sharing additional information with you on areas of committee members' interest.

**Allocated funding compared to capital committed for investment**

I agreed to provide further detail of the comparison between the Scottish Government's capital funding allocated to the Bank, and what the Bank has committed (the amount the Bank has agreed to invest) and deployed (the amount actually invested or drawn down by an investee). The table below sets out details:

| Year | Allocated (£m) | Committed (£m) | Deployed (£m) |
|---|---|---|---|
| **2020/21** | 75 | 52.5 | 22.9 |
| **2021/22** | 200 | 141.9 | 129.3 |
| **2022/23** | 206 | 220.7 | 151.9 |
| **2023/24** | 263 | 224.6 | 227.1 |
| **2024/25** | 174 | 145.3 | n/a |

The allocation figures are from Scottish Government budgets. The committed and deployed figures are taken from the Bank's annual accounts, except for the 2024/25 figures which are unaudited data provided by the Bank. Deployment data are not yet available for 2024/25.

**Investment share in Small and Medium Enterprises (SMEs)**

I agreed to provide further details of the Bank's reporting of its investment support for SMEs. The Bank's investment strategy, which it reviews annually and publishes on its website, sets out the principles for its investment decisions, and the types of businesses in which it will invest in.

As discussed during the committee evidence session, the Bank focuses its investment primarily on SMEs that are in their scale-up phase. The Bank uses the European Union's definition of an SME in categorising its investments. This determines an SME by staff headcount, annual turnover or balance sheet total as follows:

| Business category | Staff headcount | Annual Turnover | Balance sheet total |
|---|---|---|---|
| **Medium-sized** | <250 | <=£50 million | <=£43 million |
| **Small** | <50 | <=£10 million | <=£10 million |
| **Micro** | <10 | <=£2 million | <=£2 million |

The Bank has reported the share of its investees which are SMEs. This is based on its direct investments, which is those on a debt or equity basis, and does not include its investments through funds. In my report we state that 92.3 per cent of the Bank's direct investees were classed as SMEs. This figure is published by the Bank in its impact report 2024 and no further detail on the numbers is provided.

**Bank representation on firms in which it holds an equity share**

I agreed to clarify whether, when making an equity investment, the Bank is subsequently represented on the investee business's board. The Bank's 2024-25 investment strategy states that it seeks to actively manage these investments by requiring an 'Investor Observer' board attendee, and that it may also instruct the investee business to appoint an independent Non-Executive Director to its board.

The arrangements at each investee business vary in response to the context of the business and investment. For example, as part of the Bank's investment in Utopi, which we reviewed as a case study, the Bank was an observer member and had appointed a Non-executive Director to the company's board.

**Liability for repayment of financial transactions**

I agreed to provide further detail on the liability for repayment of financial transactions funding used by the Scottish Government to capitalise the Bank. Section 18 of the Financial Memorandum to the Scottish National Investment Bank Bill 2019 states that:

"Financial Transactions facilities provided by HM Treasury have to be repaid by the Scottish Government in future years. Where FTs are used to capitalise the Bank, liability for repayment to HM Treasury remains with the Scottish Government and does not transfer to the Bank."

I note in my report that HM Treasury rules mean that the Bank cannot retain capital returned from investments over financial year-ends to recycle into future investments. Under current rules, income from financial transactions which is not reinvested in year, must be repaid to the Scottish Government. This occurs when the Bank exits from investments or receives dividend payments during the period of the investment.

In its 2018 Medium Term Financial Strategy (MTFS) the Scottish Government sets out at section 2 that:

"FTs need to be repaid to the Scottish Government for onward repayment to HM Treasury. Agreement has been reached with HM Treasury that only 80 per cent of the total needs to be repaid, with the remainder available for recycling into other FT funded schemes."

The Scottish Government has agreed a financial transactions repayment profile with HM Treasury which is reviewed annually.

With the Scottish Government due to publish a revised MTFS on 25 June 2025, my expectation is that it will provide an updated position on its use and management of financial transactions.

Yours sincerely

**Stephen Boyle**
**Auditor General for Scotland**