Public Audit Committee
Wednesday 25 June 2025
21st Meeting, 2025 (Session 6)

Scottish National Investment Bank

Introduction

1. At its meeting today, the Public Audit Committee will take evidence from the Chair and the Chief Executive Officer of the Scottish National Investment Bank on the Auditor General for Scotland (AGS) Scottish National Investment Bank report, which was published on 15 May 2025. A copy of the report can be found at **Annexe A**.

2. The Committee previously heard evidence from the AGS on the report at its meeting on 28 May 2025. Papers and the Official Report from the meeting can be found on the Committee's web pages.

3. Following the meeting the AGS wrote to the Committee to provide follow up information on issues which arose during the session. These relate to:

   - Allocated funding compared to capital committed for investment
   - Investment share in Small and Medium Enterprises (SMEs)
   - Bank representation on firms in which it holds an equity share
   - Liability for repayment of financial transactions

4. A copy of the letter from the AGS can be found at **Annexe B.**

Next steps

5. The Public Audit Committee has agreed to hear from the Scottish Government at a future meeting.

Clerks to the Committee
June 2025

Annexe A: Scottish National Investment Bank report

Scottish National Investment Bank

AUDITOR GENERAL

Prepared by Audit Scotland
May 2025

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Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Audit team

The core audit team consisted of: Catherine Young, Kirsty Ridd, David Love and Tracy Jones, under the direction of Cornilius Chikwama.

Key facts

	£2bn	Scottish Government funding commitment for the Bank over its first ten years
	£16.1m	Operating costs in 2023/24
	£19.3m	Gross income in 2023/24
	£785m	Capital committed for investment by the Bank since it launched in 2020 (year-end 2024/25)
	43	Businesses and projects in the Bank's investment portfolio (year-end 2024/25)
	£1.4bn	Funding attracted from other investors as a result of investment by the Bank (year-end 2024/25)

Key messages

1 Since it was launched in 2020, the Scottish National Investment Bank PLC (the Bank) has made good progress with establishing its position in the Scottish investment financing landscape. It can demonstrate it is addressing a gap in the market by providing capital financing to, typically, higher-risk but viable businesses and projects that the private sector can be reluctant to finance. The Bank has committed £785 million of investment into these projects and businesses in line with its three missions of addressing the climate crisis, transforming communities, and scaling up innovation and technology. The Bank has also helped to attract £1.4 billion of private sector funding into some of these investments.

2 The Bank's focus is on delivering economic, social and environmental benefits for Scotland alongside a financial return, and this is reflected in its investment strategy and decision-making process. The Bank has developed a framework for evaluating impact over time and is committed to measuring and reporting progress against its missions. It is aware of areas for further development, including the need to continue developing its impact ambitions and metrics. While it is too early to judge the full impact of the Bank's long-term investments, the Bank reports it is on target against its 2030 impact ambitions. It has reported some positive benefits to date, for example helping create jobs and reducing carbon emissions.

3 The nature of the Bank's investment activity exposes the Scottish public purse to financial risk and losses are inevitable in investment financing. The Bank recognises this and seeks to mitigate and manage this through its risk management process. It has established a clear and rigorous process for making decisions about investing public funds.

4 The Bank has worked hard to develop good governance arrangements, with clear lines of accountability and escalation processes. The Scottish Government has put in place sound governance and accountability arrangements which balance scrutiny with allowing the Bank operational independence to pursue the missions set by Scottish ministers.

5 The Scottish Government provides the Bank with funding to invest on a commercial basis. Investments are expected to deliver a financial return. The Bank has made progress against its objective to become operationally financially self-sustaining by 2024/25, helping reduce dependency on the Scottish Government for its operating costs. Single-year capital allocations from the Scottish Government, which are difficult to align with the Bank's commercial activity, make maintaining this position a challenge. The Scottish Government's ambition is for the Bank to become a perpetual investment fund that is not dependent on ongoing public funding. To achieve this perpetual fund ambition, the Scottish Government will need to address the barriers presented by current HM Treasury financial management rules.

Recommendations

The Scottish Government should:

- Ensure that it can effectively influence the UK Government's review of public finance institutions by having clear proposals to support the long-term ambition for the Bank to become a perpetual investment fund. Then, within three months of the UK Government's review concluding, set out implications for the Bank and a plan for how it will respond to the review's findings.
- Provide the Bank with certainty on plans to introduce year-end budget flexibility for the 2025/26 financial year.
- By December 2025, ensure the new Business Investment Group is a useful forum to maximise opportunities for coordination and collaboration across the Bank and the enterprise agencies.

The Scottish National Investment Bank should:

- In its public announcements of investments, set out more clearly how it reaches specific investment decisions and the factors that have influenced its choice of investment.
- In future impact reports, set out more clearly the connections between its impact ambitions, key performance indicators and mission objectives.

Introduction

Background

1. The Scottish National Investment Bank PLC (the Bank) was launched by the Scottish Government in November 2020. It is wholly owned by Scottish ministers on behalf of the people of Scotland.

2. The Scottish Government set out plans to establish the Bank in its 2017–18 programme for government. To support this commitment, the Scottish Government set up an advisory group tasked with developing an implementation plan to provide recommendations on the role, remit, governance and funding arrangements of the Bank. The advisory group published its implementation plan in February 2018. The Scottish National Investment Bank Bill was introduced to the Scottish Parliament in February 2019 and passed into law in February 2020.

3. The Bank has been established to support growth across the Scottish economy by providing investment finance to businesses and projects that will help deliver the following missions, set by the Scottish Government:

- **Net zero:** address the climate crisis through growing a fair and sustainable economy by 2045.
- **Place:** transform communities by making them places where everyone thrives by 2040.
- **Innovation:** scale up innovation and technology for a more competitive and productive economy by 2040.

4. The Bank's missions align with wider Scottish Government policy objectives, but it operates independently of government. It is currently funded by the Scottish Government, but the shared ambition is for the Bank to be financially self-sustainable and, in the longer term, to be able to reinvest the returns it generates and capital repayments into future investments.

About this audit

5. This is a new type of body within the Scottish public sector, which uses public money in a distinctive way to support the economy.

6. It is important that the Scottish Government is clear on what impact the Bank is expected to deliver through its long-term investment of public money and what progress it is making. This performance audit assesses how well the Scottish National Investment Bank is performing. It considers the following audit questions:

- Does the Bank have a clearly defined purpose and how effectively is it establishing itself to deliver on this?
- How effective are the Scottish Government's oversight arrangements of the Bank, and does the Bank have effective governance, corporate risk management and operational arrangements in place?
- How is the Bank measuring its impact and what progress has it made to date in delivering its missions and operational objectives?

7. Our findings and recommendations are based on evidence gathered through reviewing documents, analysing data and interviews with the Bank and the Scottish Government. We also spoke with Scottish Enterprise, Highlands and Islands Enterprise, South of Scotland Enterprise, representatives from the financial services and renewable energy sectors, public finance economists and an equalities and human rights specialist.

8. This audit does not make judgements on individual investments made by the Bank. Before the Bank decides to invest in a business or project, it goes through a multi-stage investment process (paragraphs 66–71). As part of our audit work, we looked at three investments to gain assurance on this process, test alignment of investments to the Bank's missions, and to assess impact monitoring arrangements for these. The level of investment made, the type of investment and when the decision to invest was made varies. The case studies are included at Appendix 1 (page 37).

1. The Bank's purpose and progress on operational arrangements

The Bank has found its place in the investment finance market by supporting higher risk opportunities

9. Planning for the Bank, set out in the 2018 implementation plan, identified gaps in the private finance market in Scotland which were holding back viable commercial activity. These gaps related mainly to the availability of longer-term investment to support businesses and projects at the growth stage. The Bank looks to address this market gap by investing in higher-risk areas where the private market is not active or has no appetite to support. This is a key consideration in the Bank's investment decision-making processes (paragraphs 66–71).

10. The Bank and the Scottish Government share a clear understanding of the Bank's purpose to invest public money on a commercial basis in businesses and projects with the aim of tackling persistent, long-term challenges facing Scotland. This has been clearly articulated in the Bank's framework document and strategic plans.

11. The Bank also seeks to **crowd-in** private sector investment finance into the projects that it funds. The Bank has demonstrated that its investments have created the confidence for private investment to follow.

12. Those we spoke to in financial and business support organisations in Scotland agreed there was a gap in the private finance market that the Bank was filling. They recognised the Bank's activities have progressed since it was launched and the potential for it to support emerging industries and technologies.

The Bank is building relationships with its public sector investment finance partners

13. The overarching aims of the Bank and the **enterprise agencies** align well, with a shared focus on climate change, place-based opportunity, and the role of innovation to drive economic development. The Bank's role is, however, distinct to that of the enterprise agencies in key areas: it only offers investment on commercial terms and no other forms of financial support, such as grants. It also does not provide general business development support and advice, which is a core activity of

Crowding-in is a term used when public spending leads to an increase in private sector investment. This is a key aim for the Bank, to help direct private investment to businesses and projects which support its missions.

Enterprise agencies

Highlands and Islands Enterprise, Scottish Enterprise, and South of Scotland Enterprise are Scotland's economic development agencies. Their role is to support economic growth and business development.

the enterprise agencies. The enterprise agencies generally support earlier-stage businesses, while the Bank focuses mainly on those with growth-stage finance needs.

14. The Bank and enterprise agencies' roles generally complement each other. Early plans for the Bank included proposals to transfer Scottish Enterprise's commercial investment functions to the Bank. The Scottish Government, in consultation with Scottish Enterprise and the Bank, did not take this forward. This has resulted in some areas of potential overlap in the level of investments each can offer and the types of businesses both might look to support. In practice this has been limited, and Scottish Enterprise and the Bank continue to work together to improve their shared understanding of roles and where each of them can best add value through their investment finance activity.

15. The Bank engages routinely with the enterprise agencies, both through its investment teams and at a senior leadership level. We have heard from the enterprise agencies of positive relationships and a growing understanding of how activity can best be aligned to support the Scottish economy.

16. In early 2025, the Scottish Government's Directorate for International Trade and Investment set up an internal stakeholder group bringing together government policy teams, representatives from the Bank and Scotland's three enterprise agencies. This is an additional initiative being established to further promote regular collaboration. This Business Investment Group plans to meet quarterly to discuss the investment landscape and potential opportunities for Scotland, along with relevant organisational and funding updates.

17. The Bank has also developed relationships with UK public bodies involved in investment activity, including the **British Business Bank** and the **National Wealth Fund**. It has a memorandum of understanding in place with the National Wealth Fund and it has invested collaboratively with these partners across its portfolio.[1] The Bank recognises the potential to maximise the impact of limited public funds by playing an active role in directing investment in Scotland through collaboration with these UK level partners. This is particularly significant for supporting Scotland's energy transition and net zero ambitions.

18. There are examples of the Bank and the enterprise agencies working together to support businesses and attract private and other public sector investment finance to projects. This includes businesses which have been supported at the early development stage by Scottish Enterprise and which have then gone on to secure growth stage funding from the Bank. The Ardersier Port investment (page 11) is an example of collaboration with Highlands and Islands Enterprise to support the wider regeneration project and attract private investors. This is also an example of the Bank working collaboratively with the UK National Wealth Fund to direct money to its missions.[2]

The **British Business Bank** is an operationally independent economic development bank wholly owned by the UK Government's Department for Business and Trade. It was established in 2014 to help small UK businesses grow and prosper.

Formerly known as the UK Infrastructure Bank, the **National Wealth Fund** is wholly owned by HM Treasury but operationally independent. Its role is to provide finance and work in partnership with the private sector and local government to support projects that attract private finance to drive economic growth across the UK.

Ardersier Port

In May 2024, the Bank agreed a joint investment with the National Wealth Fund, in Haventus, the owner of Ardersier Port. Highlands and Islands Enterprise played a key role in facilitating the wider regeneration project and in attracting private investors. The Bank and National Wealth Fund each invested £50 million alongside significant private sector investment. The investment will support the operating company to regenerate the port to become Scotland's largest offshore wind deployment facility. This is a net zero mission-aligned investment and will also deliver impact by creating jobs at the port and boosting local employment.

19. The Bank has developed relationships with other bodies which support economic development in Scotland. In March 2024, the Bank partnered with Strathclyde University to establish the Scottish Impact Investor Readiness Programme. The programme is aimed at senior leaders of organisations looking to enhance their impact on the environment and society through the way they work and to grow their businesses. The Bank's business plan sets out ambitions to further build its networks within the private markets and with public and third sector bodies.

The Bank is building its profile with the private investment market and business sector in Scotland

20. Over its initial years of operation, the Bank has carried out engagement activity to build external awareness and to develop its reputation within Scottish and UK financial and business support organisations. It carries out an annual stakeholder survey which allows it to monitor its progress and gather feedback. Its 2024 stakeholder survey showed increasing awareness of the Bank's role and overall positivity about the Bank over the previous year:

- Respondents saying they know a lot about the Bank increased from 54 per cent to 67 per cent.
- Overall positivity about the Bank increased from 68 per cent to 83 per cent.

21. Feedback from its stakeholder survey highlights areas for the Bank to consider. This includes:

- continuing to grow awareness of how it differs from other sources of finance
- making its investment decisions more quickly
- continuing to work collaboratively with other public finance bodies

- looking at where it can be flexible in its approach to best support a range of businesses
- considering whether it could take more risk in its investments to have more impact.

22. The Bank has reflected on this feedback when making improvements to its processes, for example it now aims to provide an initial response on investment decisions to prospective investees within 14 days and the Bank's 2024/25 business plan sets out its priority to share market insights and experience with public sector partners.

23. Those we engaged with in financial and business support organisations also reflected positively on the Bank's work to build awareness of its role. They highlighted similar feedback to the Bank's stakeholders survey, encouraging the Bank to:

- continue building awareness of its role and how it operates
- work collaboratively with others to tap into knowledge about investment opportunities and emerging technologies
- consider whether it could take more risk to support scalable businesses which have the potential to improvement Scotland's productivity.

The Bank has made good progress with its operational arrangements

24. The Bank has moved beyond the establishing phase into a steady state of operations. It has developed clear strategic objectives along with establishing its operational structures, processes and internal capabilities.

25. The Bank's strategic objectives, set out in its annual business plans, direct how the Bank will work across its functions to support achieving its missions. It has six strategic objectives:

- Demonstrating and enabling impact
- Delivering investment
- Building insights, partnerships and its reputation
- Enabling private sector investment
- Targeting financial self-sustainability
- Realising the potential of its people.

26. The Bank has established the key components of its operating model. This includes corporate functions such as finance, human resources, legal, risk and compliance, and also operational functions including its investments and impact assessment teams.

27. The Bank demonstrates a culture of continuous improvement in its operational arrangements. Through our evidence gathering, we found evidence of it reviewing and adapting its processes and procedures, drawing on its operational learning and stakeholder feedback. The Bank also demonstrates awareness of areas for further improvement and development, which includes building its processes for gathering impact data, continuing to build its role in sharing market knowledge, and engaging with the third sector and communities.

The Bank has recruited to key roles and is close to its planned staffing levels for current operations

28. Recruiting and retaining people with the right skills and expertise is crucial to the success of the Bank. It has continued to establish its staffing profile with 85 employees as of 31 March 2025 (76 permanent and nine on fixed-term contracts), up from 79 in the previous year. Building up the specialist investment skills it needs will inevitably increase the Bank's operating costs (paragraphs 41–43).

29. Staffing across key leadership roles has been consolidated, reflecting the growth and stabilisation of the organisation. A new chief executive officer, with private sector asset management experience, was appointed in April 2023. A new role of chief investment officer was appointed in June 2023, providing oversight and leadership of the full investment team, in recognition of the growth of the Bank's portfolio.

The Bank is managing risks to recruitment and retention

30. The Bank's framework agreement requires that its pay and reward framework is developed by the Bank and Scottish Government to provide it with flexibility to attract staff with the right skills and experience, while maintaining the principles and approach of the Public Sector Pay Policy in Scotland. It was expected from the outset that remuneration costs would be high relative to other public bodies as the Bank would be competing with the private sector for specialist staff with banking and investment backgrounds.

31. As set out in the framework, the Bank operates a bonus scheme or Long-Term Incentives Plan (LTIP) as part of its overall pay and reward package for both its executive staff and those in direct investment roles. This provides payments, phased over three years, if staff meet and sustain annually agreed performance conditions. The Bank also offers a discretionary, non-contractual, Mission-Contribution Reward Scheme (MCRS), for staff not eligible for the LTIP. In 2023/24, there were 44 staff eligible for the MCRS. This provides the opportunity for staff to be recognised and rewarded for specific contributions to the delivery of the Bank's missions. In the year to 31 March 2024, payments under these schemes totalled £865,000, which is 9.2 per cent of all employee costs.

32. Both schemes are overseen by the Remuneration and Nominations Committee and are subject to affordability within the Bank's operating costs. The LTIP performance conditions are agreed annually with Scottish ministers at the start of each review period, and performance of the Bank's pay and reward framework is discussed with the shareholder team at the Bank's annual general meeting, after awards have been made by the Bank. Details of the schemes and pay-outs made under them are published in the Bank's annual reports.

33. Bonus schemes are not standard practice within public sector pay and reward frameworks. As with all public bodies, we would expect the Bank to continue to monitor its operating efficiency and ensure arrangements deliver good value. We discuss the Bank's operating costs at paragraphs 41–43. The Bank recognises there are risks and challenges with attracting and retaining staff, and that it cannot compete for the specialist skills it requires on remuneration alone. It has developed its wider offer to attract staff which involves promoting the Bank's values and culture, its focus on delivering impact for the people of Scotland, and its approaches to flexible working.

34. The Bank had a median gender pay gap of 30.9 per cent in 2023/24. It recognises that its gender pay balance is not where it needs to be and is managing this as an operational risk.[3] The Bank's aim is to move closer to the Scottish average, which for the same period was 8.7 per cent. Gender pay balance is a particular issue in the financial services industry; the current median gap in the UK is 34.2 per cent and 26.8 per cent in Scotland. The Bank is taking actions in response including: a review of the gender balance on committees, establishing an internal Gender Equality Networking Group, working with the Employers Network for Equality and Inclusion, signing up to the Women in Finance Charter, and placing a greater focus on flexible working within recruitment approaches. Progress against the planned actions is monitored by the Remuneration and Nominations Committee and delivery of the actions is also part of the 2024/25 performance conditions set for the Bank's senior executive team.

35. The Bank's ambitions extend to taking on a more active role in the private investment market, through engagement, providing advice, investment arrangement activity and management of third-party capital (paragraph 57). It will continue to recruit where specific skills or additional capacity is needed to support its business plans and continued growth of its investment portfolio.

The Scottish Government has used mostly financial transactions funding from the UK Government to capitalise the Bank

36. When the Scottish Government established the Bank, it committed to providing it with £2 billion to invest over its first ten years, with £1 billion of this by the end of the Scottish parliamentary term in 2026. This funding commitment was informed by a review of similar organisations in other countries carried out by the advisory group during planning for the Bank.

37. Scottish ministers ultimately decide funding priorities for Scotland's capital investment programme, which includes capitalisation of the Bank. The Bank has been allocated £1,147.7 million since it was launched; £1,118 million capital and £29.7 million resource funding (Exhibit 1, page 16).[4]

38. For the most part, the Scottish Government has used **financial transactions** for the Bank's capitalisation. The Scottish Government's financial transactions funding from the UK Government has reduced in recent years and unprecedented pressure on public finances means the Scottish Government has to make tough spending choices when prioritising its capital plans and spending. The UK Government is currently reviewing the role of public finance institutions in deploying financial transactions. If this review leads to any changes in the operation of financial transactions or relevant HM Treasury rules, this could have implications for the Bank and other UK bodies involved in the investment of public funds. The Bank is monitoring progress on this.

39. In 2024/25, the Bank's capital allocation from the Scottish Government was less than it had anticipated in its business plan; £174 million compared with the £250 million forecast. Nonetheless, the Bank's allocation was relatively protected compared with other areas of the capital budget, such as the Affordable Housing Supply Programme. The Scottish budget for 2025/26 sets out proposals to fund the Bank's capital from a mix of financial transactions and the Scottish Government's capital budget (note in Exhibit 1).

40. When the Bank agrees to provide investment finance, the business or project does not typically receive the entire amount all at once, but instead it draws this down in stages across several years. Given the Bank must meet these existing investment finance commitments, a reduction in planned capital allocation could limit its ability to finance new investment opportunities. This could also limit the income the Bank can generate and its ability to deliver its missions.

Financial transactions are funds the Scottish Government receives from the UK Government, on an annual basis, which have specific restrictions on how they can be used; they can only be used to support long-term equity or loan investment outside the public sector. Financial transactions cannot be used for day-to-day government spending or to fund other public services. Liability for repayment of these sits with the Scottish Government.

Exhibit 1.
Scottish Government capital and resource allocations to the Bank

Financial Year	Scottish Government capital allocation (£m)	Scottish Government resource allocation (£m)
2020/21	£75	£7.1
2021/22	£200	£5
2022/23	£206	£9
2023/24	£263	£5.8
2024/25	£174	£2.8
2025/26 (budget)[1]	£200	£0
Total	**£1,118**	**£29.7**

Note:
1. The 2025/26 proposed capital allocation comprises £167.4 million in financial transactions and £32.6 million from the Scottish Government's capital budget. Capital allocations are shown as net figures.

Source: Scottish Government

The Bank has made progress towards funding itself operationally but maintaining this position is linked to its capital allocation from the Scottish Government

41. The Scottish Government provides the Bank with resource funding towards operational costs, such as staffing, IT equipment and property (Exhibit 1). To date, the Bank's annual operating costs have been below the forecast set out in its business plan. This reflects underspends across a range of budget areas including lower than planned staff costs and associated spend such as recruitment, training and IT licences, and lower than planned spend on contractors and external advisers.

42. The Scottish Government's intention from the outset was that, over the medium term, the Bank would cover its operating costs from the income it generates, referred to as being operationally financially self-sustainable. The income comes from interest earned on debt investments and arrangement and monitoring fees that are agreed when making investments. The Bank can only use this income in the same financial year.

43. The Bank has made progress against this objective of self-sustainability, reducing its dependency on the Scottish Government's resource budget (Exhibit 2). In 2023/24, the Bank's income exceeded its operational costs, excluding investment losses, for the first time. The Bank expects to achieve operational self-sustainability in 2024/25, excluding unrealised and realised investment losses, but has highlighted that this will depend on it continuing to have sufficient capital to invest in order to generate income. The Scottish Government's 2025/26 budget has no resource funding provision for the Bank.

Exhibit 2.
The Bank's operational costs

Financial Year	Budget (£m)	Actual (£m)	Income (£m)
2020/21	£7.1	£2.9	£0.4
2021/22	£15.7	£9.7	£1.9
2022/23	£16.2	£13.0	£10.7
2023/24	£18.5	£16.1	£19.3

Note: The 2020/21 year covers the Bank's initial four-month period of operation from incorporation on 23 November 2020 to 31 March 2021.

Source: Scottish Government and Scottish National Investment Bank

The Scottish Government's and HM Treasury's annual budgeting and financial management rules present challenges for the Bank

44. The Scottish Government's annual budget approach and standard financial management arrangements for the Bank as a non-departmental public body (NDPB) which are set by the UK Government place constraints on the Bank in how it manages resource and deploys capital allocations.

45. Under the current funding arrangements, money must be spent in year; the Bank does not have the ability to carry budget allocation between financial years. If the Bank makes losses on its investments during the year it could cover these if it has generated enough net income from interest on investments and arrangements fees in that year. Any loss that it cannot cover in the financial year will require unplanned funding from the Scottish Government, creating a budget pressure.

46. The Bank makes investments over several years but currently relies on an annual capital allocation, which it cannot exceed. Without flexibility to carry capital or resource over, it is difficult for the Bank to align a commercial investment profile with the annual budget approach. While the Bank's investment strategy reflects the funding arrangements, it has indicated that single-year funding allocations make planning more of a challenge. In each year to date the Bank has not invested its full capital allocation. This challenge is particularly acute when the Bank is investing alongside private investors whose timelines may change and who do not need to work within the same annual budgeting constraints.

47. Through our interviews, the Bank has been clear that it will not compromise its investment strategy to spend its allocation in a given financial year. Without the ability to carry any capital allocation forward, it is likely the Bank will continue to underspend its annual capital allocations.

The Scottish Government and the Bank are exploring options to increase flexibility to manage budgets across financial years

48. The challenging financial management context and rules are captured on both the Scottish Government and the Bank's risk registers. There has been direct engagement between the Bank's leaders and Scottish ministers on this issue. In early 2025, Scottish ministers agreed in principle to providing year-end flexibility. The shareholder team has dedicated a member of staff to explore options for implementing this.

Current financial arrangements hinder the long-term ambition for the Bank to be a perpetual investment fund

49. The Scottish Government's long-term ambition is for the Bank to retain and reinvest the capital returns from investments, which is referred to as a perpetual fund. This would mean it could fully fund itself without further capital allocations from the Scottish Government.

50. HM Treasury rules mean that the Bank cannot retain returns from investments over financial year-ends to recycle into future investments and would require a dispensation from HM Treasury to do this. Without this mechanism, the Bank will need ongoing capital allocations from the Scottish Government to remain operational.

51. Both the Bank and the Scottish Government demonstrate clear awareness of the issues and the impact for the operational effectiveness of the Bank and to achieving its long-term objectives. While we recognise the complexity of these financial management arrangements, the ambition for the Bank to become a perpetual investment fund was set out prior to its being established and these issues were highlighted in the financial memorandum to the Scottish National Investment Bank Bill. While the Bank has not yet had to manage capital returns on exit from investments, resolving these issues will become more pressing as early investments start to mature. The Bank has clearly set this out its 2023/24 annual report.

2. Governance, accountability and risk management arrangements

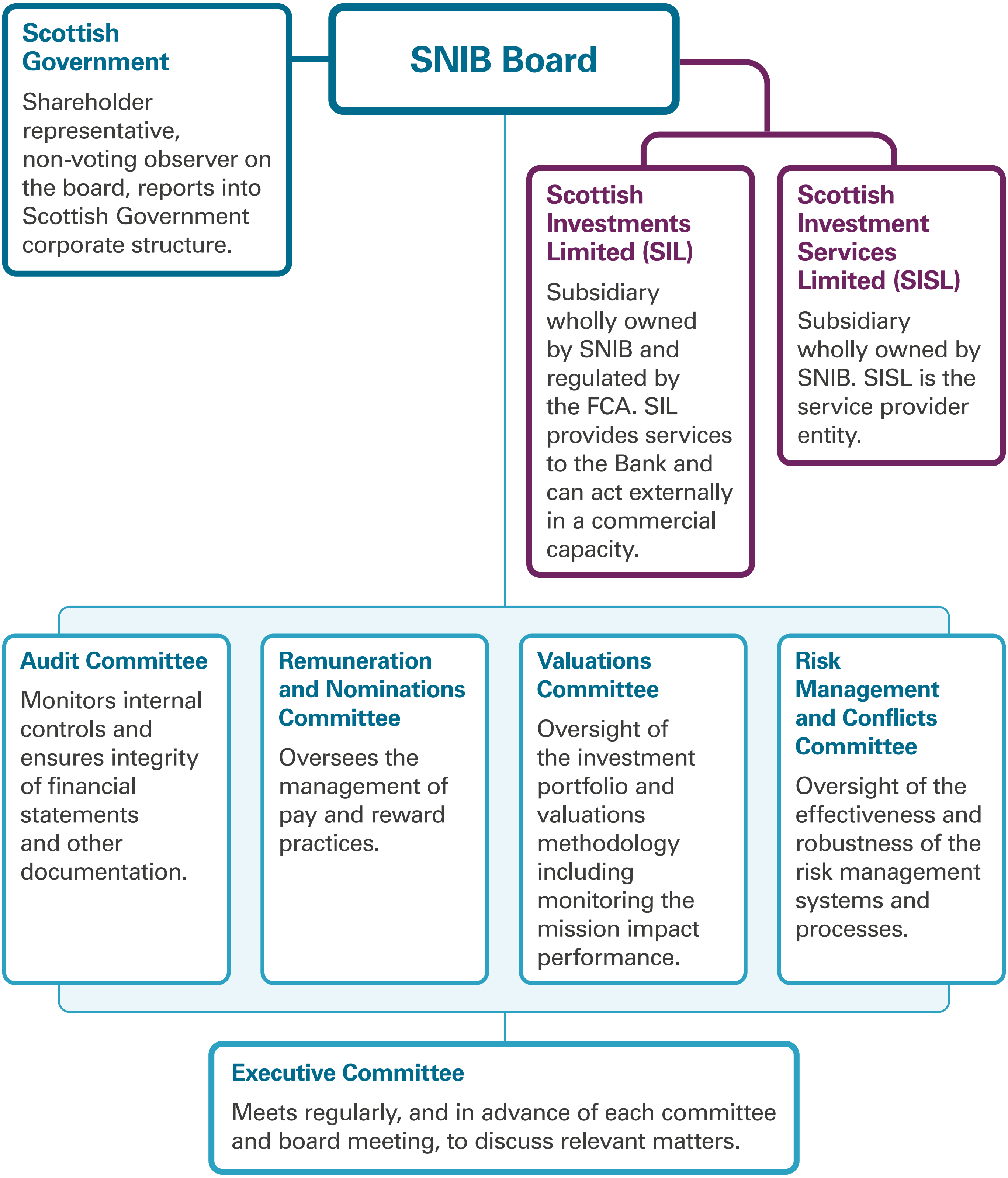
The Bank has established sound governance and reporting arrangements

52. The Bank is a public limited company wholly owned by Scottish ministers, on behalf of the people of Scotland. The Bank operates as a group structure with two subsidiaries: Scottish Investments Limited (SIL), the company through which investments are made, and Scottish Investment Services Limited (SISL) which is the service provider entity. From the outset, the Bank developed governance arrangements which met its public sector requirements, while also being aligned with the private investment finance sector. It sees this as critical to building confidence with the private investors it seeks to work with to support delivery of its missions.

53. The Bank is governed by a board supported by four committees (Exhibit 3, page 20). There are ten independent non-executive directors, together with the chief executive officer and chief finance officer on the board. Non-executive director appointments to the Bank board are public appointments by Scottish ministers, overseen by the commissioner for ethical standards in public life in Scotland. The non-executive directors bring a range of backgrounds and expertise, including private equity and investing, asset management, public sector leadership, risk management, infrastructure development, and net zero transition. The board has ultimate accountability for strategy, financial reporting, and risk management. It delegates the day-to-day running of the business to the chief executive officer with the support of the Executive Committee. The Bank has a specific governance structure for investment decision-making (paragraphs 66–71).

54. The role and remit of the board and committees are clearly set out, with Terms of Reference publicly available. Chairs of the committees meet to discuss management of cross-cutting areas of interest. A summary of committee performance is provided in the Bank's annual report. The board members we engaged with were positive about the governance arrangements and quality of reporting, and the Bank's stage of development. They are aware there is a balance to be struck between ensuring they receive enough information to be able to monitor and scrutinise the Bank's performance, while not becoming too involved in the details of the day-to-day operations. They feel well supported by staff, and staff have responded well to their suggested improvements, for example in the amount of information they receive.

Exhibit 3.
The Bank's governance structure



Note: The Bank has a dedicated governance process for investment decisions, which we set out at paragraphs 66–71 and in Exhibit 4 (page 25).

Source: Audit Scotland, using information from the Scottish National Investment Bank

55. The board regularly reviews the Bank's performance through balanced scorecard reports which detail performance against business plan strategic themes and performance of the investment portfolio. These use traffic-light assessments to report against agreed performance indicators and are supported by updates from executive team members. The board also receives a performance update from the chief investment officer and information on the investment pipeline and trends in investment activity. The Executive Committee reviews monthly management information scoresheets, which cover progress on the Bank's business plan strategic themes.

56. The 2018 implementation plan states that if the Bank carries out asset management activity, it will need to be regulated by the **Financial Conduct Authority** (FCA). The Bank's activity to date has not required regulation but it has undertaken significant work in the preparation and submission of an application by its subsidiary SIL. This has included engagement with the private market to inform its future strategy for how it works with other investors to direct their capital investments, and work in 2024 to amend how the Bank's investment portfolio is held. The Bank's appointed external auditors will examine and report on the transfer of investments from SIL as part of the 2024/25 annual audit process.

57. SIL received approval for initial permissions from the FCA in January 2025. These permissions allow SIL to carry out enhanced arrangement and introduction activity within the private market. Securing this approval supports the Bank's ambition to crowd-in private investment finance into projects it funds by increasing its scope to work with private investors. The Bank sees this as a first step in its longer-term ambitions for its role in facilitating the investment of third-party capital to align with its missions.

The **Financial Conduct Authority** is a public body that regulates the financial services industry in the UK. The FCA regulates a range of financial services, including investment activity, asset management, holding deposits, and dealing in stock and shares. FCA approval is specific to the type of activity that is undertaken and the nature of the business, so can vary across different bodies.

The Bank has effective risk management arrangements and continuously monitors and reviews risks

58. The Bank recognises the risks to public money which is inherent in the investment finance activity it carries out. It has set out a clear understanding of those risks and has established robust corporate risk management arrangements.

59. Its risk management framework sets out the Bank's corporate risk strategy, risk governance, and risk management processes. The Bank identifies key risks, and assesses and seeks to mitigate and manage these. The Bank has identified the following risk categories: mission; investment; financial; operational; environmental, social and governance; culture; and stakeholder. The framework sets out the Bank's risk appetite for each of these categories, which informs the assessment of required management actions.

60. Risk is routinely considered at committee and board. Key Risk Indicators are in place for each of the Bank's identified risk categories, with red-amber-green thresholds. Performance against these is reported to Executive Team, the Risk Management and Conflicts Committee and the board for scrutiny. The Bank has also sought assurance on its approach from its internal auditors through an audit of the risk management framework, which identified opportunities for further improvement but no areas of weakness.

61. Well-developed risk registers are in place across all business areas of the Bank, with executive director level sponsorship and sign-off required. A self-assessment process is undertaken on a six-monthly basis where teams assess the effectiveness of the mitigation actions in place to address each identified risk. The Bank's Governance, Legal, Risk and Compliance department plans to introduce sample testing of self-assessments, by the end of 2024/25, to further strengthen this approach.

62. The risk management framework considers reputational risk as a cross-cutting component of all level one risks. The board reviewed the Bank's approach to reputational risk at its September 2023 strategy day, drawing on learning from investments to date including from the failed investment in Circularity Scotland Ltd (page 23). Partly in response to the board's review and as part of its wider improvement activity, the executive team reviewed the risk appetites where there were specific reputational factors. In September 2024, the board again reviewed risk management arrangements. It tasked the Bank with refining statements to reflect variations in appetite within its identified risk categories. This work is due to be completed by spring 2025.

63. The Bank recognises the risks of real and perceived conflicts of interest due to the type of activity it is involved in, for example with many of its non-executive directors having current or previous involvement in the private sector investment finance market. It has a range of policies in place relating to management of conflicts, including its Code of Conduct, Conflicts of Interest, Gifts and Hospitality, Market Abuse and Personal Account Dealing, and Financial Crime policies. Each year a review of these policies is reported to the Risk Management and Conflicts Committee.

The Bank has established a robust framework for assessing and approving investments

64. The Bank has developed an investment strategy that sets out how it will invest to deliver on its missions. This states that the Bank will:

- invest for impact, with all investments aligned against its missions and wider social and environmental impact objectives
- invest on commercial terms
- invest to leverage private capital
- invest between £1 million and £50 million across a balance of **investment types – debt, equity and funds**

Investment finance types – debt, equity and funds

Debt investments involve lending money to a business over a set period at an agreed rate of interest. **Equity** investments involve purchasing a share of ownership in the business, which can be re-sold at the end of the investment period. Investing in **funds** involves contributing to a pool of money, which is used to make larger investments, with returns made through a combination of share ownership and interest payments.

- by exception, invest outwith these parameters where the business or project has particularly strong mission alignment or specific place-based benefit to smaller and more remote communities.

Circularity Scotland Ltd

In May 2020, the Deposit and Return Scheme for Scotland Regulations 2020 were approved by the Scottish Parliament. The Deposit Return Scheme aimed at increasing recycling rates to support the Scottish Government's national recycling target.

In March 2021, the Scottish Government announced Circularity Scotland Ltd as the scheme administrator. Circularity Scotland Ltd was a non-for-profit company, established by drinks producers, trade associations and retailers.

In May 2022, the Bank committed £9 million of investment in Circularity Scotland Ltd. This investment was followed by matched investment from the Bank of Scotland. In announcing the investment, the Bank stated that it supported its net zero mission and its objective to leverage private capital though its investments.

On 7 June 2023, the Scottish Government announced that implementation of the Deposit Return Scheme would be delayed until at least October 2025. This was due to the Scottish Government not securing the exemption from the UK Internal Market Act required to allow the scheme to operate as it had been designed. Following this, Circularity Scotland Ltd announced it had entered administration. The Bank received £1 million of its investment back and reported a loss of £8 million in its 2023/24 accounts.

Following his appointment in April 2023, the Bank's new chief executive reviewed the investment decision process and concluded that all aspects of the process had been followed appropriately and to market best practice standards. He added that the Bank would draw lessons from this investment, noting for example its approach to considering risks relating to legislation. He discussed his findings when giving evidence to the Economy and Fair Work Committee on 21 June 2023 and to the Net Zero, Energy and Transport Committee on 31 October 2023.

65. The strategy has been reviewed and adapted as the Bank has evolved and its investment portfolio has grown. The 2024/25 strategy refined the investment criteria, drawing on lessons learned from previous investments and in response to challenging public finances. The refined criteria include:

- requiring investee businesses to already be generating revenue and to have sufficient funds in place to cover their day-to-day operational costs over a longer period

- requiring leadership teams of investees to have demonstrable experience of proven delivery in the relevant sector
- the investment being able to secure sufficient private sector investment to maintain a crowding-in ratio of at least 1:1 across the portfolio
- for innovation led investment, any technology must have completed development and testing stages.[5]

66. The Bank has a clear decision-making framework in place for all investments (Exhibit 4, page 25). This framework sets out the purpose of each governance stage, who is involved, and the reporting requirements. Final approval of an investment is made by the Investment Committee. Decisions to invest are solely for the Bank to make, with no involvement of the Scottish Government in the process, protecting the Bank's operational independence.

67. This decision-making process was refined as part of the updated strategy. Stages were streamlined to ensure minimal duplication between stages, clearer guidance on the roles, remits and decision responsibilities for each stage, and improved information to support efficient reviews. The revised process aims to ensure informed decisions are timely. This is partly in response to market feedback on the length of time it took the Bank to make investment decisions.

68. As part of demonstrating long-term value for money, the Scottish Government expects the Bank to make a financial return across its portfolio of investments. A target rate of return (TRR) for the Bank's investments has been agreed by Scottish ministers. The initial TRR has been set at three to four per cent, drawing on the Bank's early operational experience and reviewing performance of other similar bodies in the UK and internationally. As with all investment activity, performance can fluctuate and will be affected by changes to the Bank's portfolio. The TRR will be measured and reported on from the end of 2025/26 and a longer-term TRR will be agreed with the Scottish Government.

69. The decision-making framework ensures a balance across financial, impact and risk considerations. The Bank's investment, impact and risk leads are required to present opinion statements on each investment to inform the Investment Committee's considerations. The chief risk officer and the chief investment officer are both voting members on the committee. Aware of the risk involved in using public money to invest in private businesses, the process includes a multi-layered due diligence process at various stages which considers legal, financial and management factors.

Exhibit 4.
The Bank's investment decision-making framework

Investment opportunity identified

Opportunities can be identified by the Bank through its engagement activity or through an inward enquiry.

Stage 1: New Business Forum

Meets weekly to discuss investment opportunities, considering mission alignment, potential impact, initial risk factors, commercial viability and subsidy controls.

Chaired by Chief Investment Officer

Stage 2: Investment Panel

Confirms impact contribution, commercial considerations and financial return, due diligence requirements and subsidy control assessments. Opinions required from impact and risk leads.

Chaired by Chief Investment Officer

Majority vote required to proceed.

Gateway check

Review by the Sponsoring Executive Director to ensure actions from Investment Panel have been addressed and all required papers are ready for Investment Committee.

Stage 3: Investment Committee

Reviews and confirms impact and risk assessments, with supporting statements required from two lead officers. Authority to approve investment. Minimum of two non-executive directors must be in attendance.

Chaired by Chief Investment Officer

Majority vote required to approve investment.

Exit feedback provided for rejected opportunities, with referral to other potential investors where appropriate.

Option to hold insights debrief meeting.

Source: Audit Scotland, using information from the Scottish National Investment Bank

The Bank's investment decision-making process is operating well

70. Our review of case study investments (paragraph 8) provided assurance that the decision-making process was operating as set out in the investment strategy. The required papers were presented at each stage with clear records of decisions taken. There was evidence of strong emphasis by the Bank on ensuring investment opportunities align to its missions. Consideration of the market gap being addressed was also evident, with this forming part of initial consideration of the investment and through the **subsidy control assessment** presented to the investment panel.

71. The Bank announces its investments publicly through press releases and updates on its website. These go some way to setting out the Bank's rationale for making the investment and the Bank supports this with case studies in its annual reports and other promotional material, such as videos, to illustrate its activity. But the Bank could go further to communicate publicly on how it reaches specific investment decisions and what factors have influenced its choice of investment opportunities.

Scottish Government oversight arrangements balance scrutiny with the Bank's operational independence

72. The Scottish Government, through its shareholder team, has put in place sound oversight arrangements which balance scrutiny with allowing the Bank operational independence to pursue the missions set by Scottish ministers.

73. The Scottish Government's Director General for Economy is the Portfolio Accountable Officer with responsibility for the Bank, and the International Trade and Investment Directorate acts as the shareholder team. The shareholder representative is an observer at the Bank's board and receives all board papers but does not have voting rights. The Bank's annual general meeting provides a specific forum for formal review of the Bank's performance by the shareholder.

74. The shareholder team reports on the Bank's performance on a quarterly basis as part of the Scottish Government's monitoring arrangements for sponsored public bodies. Key risks relating to the Bank, such as funding arrangements, are appropriately reported in Scottish Government directorate and director general-level risk registers.

75. The Scottish National Investment Bank Act 2020 requires Scottish ministers to establish and maintain an advisory group to provide them with advice on the Bank's purpose, conduct and performance. During our evidence gathering, the shareholder team indicated the group would add most value once the Bank had moved into a steady state of operations and had a track record of investments. There was no timeframe set out in the Act for establishing the advisory group. While we did not identify any gap in the shareholder team's arrangements for providing

Subsidy control assessment

The Bank's subsidy control assessment ensures it is complying with both EU State Aid rules and the UK Subsidy Control Act. In meeting these requirements, the Bank must demonstrate that its investment is in an area with market failure and that the business or project has not been able to secure finance through the private market. The Bank must also ensure that the terms and conditions of its investment do not undercut private market operators.

advice to ministers and portfolio accountable officers on accountability, governance and performance, it has taken some time for this additional advisory group to be established. The Scottish Government announced membership of the group in October 2024.[6] It met for the first time in December 2024, where it discussed its terms of reference, initial areas of interest and received an introductory presentation from the Bank's chief executive, chair and chief strategy officer. The group will also advise on planning for a five-year review of the Bank which is required under the 2020 Act. The group is expected to meet quarterly. It does not form part of the Bank's governance arrangements. It reports to Scottish ministers and not the Bank's board.

76. The Bank has appointed a senior independent non-executive director (SID). The SID provides an additional link between the Bank and the shareholder, complementing the role of the board chair. The SID also acts as a sounding board for the chair and can offer support to the other board members if needed. The SID oversees the chair's annual performance appraisal, which the shareholder also contributes to. While a feature in many companies, this is not a common role in governance operating models of public bodies. The stakeholders we engaged with were positive about the benefits of these additional links and relationships.

3. Assessing impact and progress to date

The Bank has established good foundations for monitoring, assessing and reporting impact

77. The Bank is committed to reporting on how its investments can generate positive benefits for Scotland's people. It is important to establish monitoring and assessment arrangements, and set clear, measurable, achievable, relevant and time-bound targets (SMART), from the outset. This helps to ensure the approach focuses on the things that matter to an organisation's aims and objectives and that it understands the data it needs to collect.

The Bank has developed a framework for evaluating the impact of investment finance over time

78. The Bank makes investments to achieve positive social and environmental benefits in line with its three missions set by Scottish ministers (paragraph 3). This is known as mission-led impact investing. The Bank's approach to measuring the impact of its missions, along with its arrangements for monitoring and reporting on progress, is set out in its Impact Management Framework. It has developed a supporting toolkit for investment teams which provides a step-by-step guide to identifying, assessing, articulating and measuring impact. This makes clear what impact-related actions are required at each step of the investment process and who is responsible for them.

79. The Bank has developed its impact approach to align with the **Operating Principles of Impact Management** (OPIM). The principles define a process for demonstrating impact over the course of an investment, provide an internationally recognised framework, and are independently verified to ensure the Bank's approach is credible and comparative to its peers.

80. The most recent review of the Bank's alignment with the OPIM principles in December 2023 found it was advanced in five areas; high in two; and moderate in one. This was a strong result for the Bank in comparison to its comparator group (other development financial institutions). The one area with a moderate rating related to the Bank's approach to considering sustained impact when conducting exits from investments. The Bank has not yet exited any investments. It is developing its approach on this to ensure its exit strategy aligns with the updated investment strategy and plans to finalise an exit checklist this year. The Bank also plans to commission a further external review of its impact approach later in 2025.

The **Operating Principles for Impact Management** provide a framework for shaping and aligning impact assessment with industry best practices and promote transparency, discipline, and credibility for impact management practice in capital markets. There are nine principles covering the five areas of the investment cycle process:

- Strategic intent
- Origination and structuring
- Portfolio management
- Impact at exit
- Independent verification.

More information can be found at: www.impactprinciples.org

The Bank is continuing to develop its range of measures used to support evaluation of the impact of its investment finance

81. The Bank has developed specific objectives for each mission; four each for the net zero and innovation missions and five for the place mission. These are based mainly around increasing growth, services and investment within these areas (Appendix 2, page 41).

82. As these objectives are longer term, the Bank has set target ranges for its 2030 impact ambitions which it uses to track progress towards the mission objectives (Exhibit 5). These ambitions are a mix of outputs and impact measures. The Bank has not set targets for its longer-term objectives. It intends to assess progress against the 2030 impact ambitions as an indicator of impact performance in the medium term. For its 2024 impact report the Bank introduced and reported on portfolio key performance indicators. These draw together data from across investments to provide an overview of the Bank's overall impact.

Exhibit 5.
Scottish National Investment Bank – impact ambitions

Mission	By 2030
Net Zero	The Bank will have invested £0.8–£1 billion in high potential Net Zero businesses and projects
Net Zero	The Bank's investments will have helped to avoid, reduce or remove 185,000 – 225,000 tCO2e from the Earth's atmosphere
Place	The Bank will have invested £400–£500 million in improving Scotland's places and communities
Place	The Bank's investments will have positively impacted the lives of 350,000 – 430,000 people through regeneration, high-quality housing, and connectivity (both digital and physical)
Innovation	The Bank will have invested £400–£500 million in innovative, productive businesses
Innovation	The Bank's investments in innovative industries will have contributed towards the creation and safeguarding of 6,300 – 7,700 jobs

Source: Scottish National Investment Bank, Impact Management Framework 2024

83. At the individual investment level, the Impact Management Framework sets out five dimensions which are to be considered to create a bespoke **impact thesis**. This is used to identify the type, scale and beneficiaries of the investment. The thesis is used when assessing the performance of individual investments and to identify where interventions or mitigations may be required if performance is not on track.

Impact thesis – five dimensions of impact

1. What – what outcome the enterprise is contributing to, whether it is positive or negative and how important the outcome is to stakeholders.

2. Who – which stakeholders are experiencing the outcome and how underserved they are in relation to the outcome.

3. How much – how many stakeholders will experience the potential outcomes and impact, what degree of change will they experience and how long they will experience the outcome for.

4. Contribution – whether and how the Bank's investment will result in outcomes that were better than what would have occurred otherwise.

5. Risk – the likelihood that impact will be materially different than expected

This is an industry-recognised framework.

Source: SNIB Impact Management Framework 2024

The Bank collects performance information regularly from its investees

84. The Bank requires investees to agree a set of performance and impact measures. These include standard measures for all investees, such as gender pay gap and fair work criteria, and tailored measures specific to the investment's impact thesis. The investees must report performance data against these measures to the Bank. For debt and equity investment finance this is twice yearly and annually for fund investment finance.

85. The Bank's impact assessment team uses this data to monitor both the performance of individual investments and progress against overarching mission impact. The Bank has recently introduced a digital tool to improve efficiency of the data collection process for this.

86. To better understand wider community benefits, the Bank plans to collect further information to demonstrate how the investments and the crowded-in funds are impacting communities.

The Bank provides comprehensive impact reports but could make the connections across performance measures clearer

87. The Bank publishes an annual impact report which sets out progress against its missions including supporting objectives and outputs for each. The impact report is comprehensive, providing results against both the 2030 ambition targets and its longer-term objectives. The report provides clear narrative on what the Bank is aiming to achieve and how it plans to do this through its impact investing.

88. The Bank's annual impact report includes detail of its overall contribution to the National Performance Framework outcomes and sets out alignment of individual investments. It also sets out how its mission focus contributes to the UN Sustainable Development Goals and, again, sets out specific alignment of each of its investments. These are welcome features of its reporting which help demonstrate the Bank's wider contribution to Scottish Government priorities.

89. The Bank has made improvements in the content and presentation of its annual impact reports, with further improvements planned for its 2025 report. The Bank could more clearly set out the connections across its performance measures, and the underpinning data. Making clearer relationships between the Bank's impact ambitions, key performance indicators and mission objectives would improve transparency and make the reports more reader-friendly. There is also the opportunity for the Bank to build on its reporting of individual investments by setting out more detail on the specific impacts each investment is expected to deliver and progress of these.

The Bank is growing its investment portfolio and reports that it is on track against its 2030 impact ambitions

90. The Bank is growing the portfolio of investments it has committed capital to. By the end of March 2025, it had committed to invest £785 million in long-term capital in 43 businesses and projects, of which one has failed.[7] These investments have ranged in value from £730,000 to £60 million.

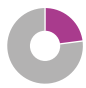
DITT Construction Ltd

In November 2024, the Bank made an investment below its normal threshold of £1 million. It has invested £730,000 in DITT Construction Ltd to help provide affordable housing for key workers and young people in the Shetland Islands. It views the opportunity as demonstrating a strong alignment to its place mission, meeting a specific local need. It was also attracted by DITT's move to being an employee-owned business and its commitment to addressing local housing and employment issues.

91. The investments cover a wide range of areas including renewable energy, housing projects, broadband installation, leisure activities and medical advances. They vary from small innovation-focused business to large-scale housing and infrastructure projects. To date, 92.3 per cent of the direct investees were classed as small or medium enterprises (SMEs). We carried out case studies of a selection of the Bank's investments (Utopi, Thriving Investments, and Orbex) to explore the mission alignment and impact monitoring arrangements. These are included at Appendix 1 (page 37).

92. The Bank reports that its portfolio of investments is currently on track against where it would expect to be at this stage, to achieve the impact ambitions targets for 2030. Exhibit 6 sets out the Bank's reported performance against its 2030 impact ambitions.

Exhibit 6.
The Bank's performance against its 2030 impact ambitions as of end of December 2024

Impact ambition	Performance	
Net Zero – Investment	£348.5m (target £0.8–£1bn)	
Net Zero – CO2 avoided or removed	28.9k tCO2e (target 185k to 225k tCO2e)	
Place – Investment	£185.3m (target £400–£500m)	
Place – Lives positively impacted	80.3k people (target 350k to 430k people)	
Innovation – Investment	£162.6m (target £400–£500m)	
Innovation – Jobs created or safeguarded	1642 jobs (target 6,300 to 7,700 jobs)	

Source: Scottish National Investment Bank Impact Report 2025

93. While is too early to determine the full impact of its long-term investments, the Bank's reporting demonstrates that its investments to date are delivering positive benefits (Exhibit 7, page 33).

Exhibit 7.
Portfolio impact and performance

4.70 GWh

Total renewable energy generated within the investment portfolio since launch – the equivalent of powering 1,394 homes in a year

135,531 tCO2e

Total carbon avoided, reduced and removed by the investment portfolio since launch – the equivalent of 1,786 full capacity, return flights from Glasgow to London

3,091

Jobs supported by the investment portfolio in 2024

139

Apprenticeships or internships supported by the investment portfolio in 2024 (self-reported)

27 areas

The investment portfolio had **operations in 27 of 32 Scottish local authorities** and all 8 Regional Economic Partnership areas in 2024

31.4%

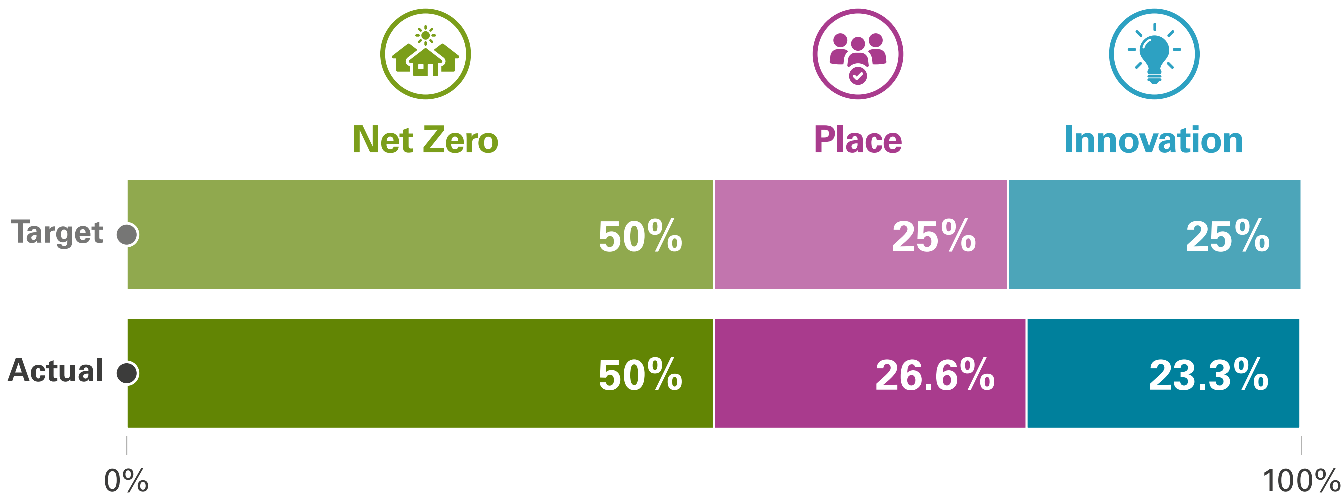
Supply chain spend reported by portfolio businesses expended in Scotland in 2024 – equating to £168.6m

Source: Scottish National Investment Bank Impact Report 2025

The Bank is investing as planned across its missions and is attracting private investment

94. The Bank has set aims for the split of its investments, by value, across the three missions. It is currently performing well, with its investment split within two per cent of its targets (Exhibit 8). The split is monitored through dashboard reports to the board.

Exhibit 8.
Percentage split of investments by value across the Bank's missions as of end December 2024



Source: Scottish National Investment Bank Impact Report 2025

95. The Bank has calculated its investment finance to date has crowded-in £1.4 billion of finance from other investors to the businesses and projects that it has supported. Encouraging increased private investment in Scotland is a core part of the Bank's role. This level of crowded-in investment demonstrates good performance against the Bank's investment principle of achieving at least a 1:1 ratio across its investment portfolio.

The Bank also delivers impact through supporting investees and sharing insights

96. The Bank uses a variety of approaches, aside from investing funds, to support its investees. This has included advising on governance, appointing representatives onto the boards of investee businesses and assisting investees to develop carbon management plans if they do not have these in place.

97. The Bank provides insights to markets, policymakers and regulators, through involvement at events and publishing reports and opinion pieces. The Bank has also held annual summits and conferences to share knowledge and promote networking across the investors and businesses. It monitors the effectiveness of this activity through its annual stakeholder survey. In 2023/24, 52 per cent of respondents acknowledged its insightful contributions, an increase from 40 per cent in the previous year.

The Bank has identified future opportunities to support its missions

98. The Bank has identified future opportunities to support its mission focus. Having identified that the pipeline of investment opportunities aligned to its place mission is not as developed as it would like, the Bank has started to take a more active market creation role. It has appointed a director to develop and lead this work.

99. The Bank has played an active role in providing insights and research to support the Scottish Government's ScotWind project. It has published a series of insights papers looking at key issues and opportunities related to the project. The Bank sees this as a critical area of focus to support its net zero mission and has identified it as an ongoing priority in its 2024 investment strategy.

ScotWind

ScotWind is a project which enables companies to lease sections of the seabed around Scotland. The ScotWind leasing auction enabled developers to apply for seabed rights to plan and then build windfarms in Scottish waters. The project is managed by Crown Estates Scotland and over time the money it receives will be transferred for use by the Scottish Government.

Further details on ScotWind funds can be found on the Crown Estate's website.

Endnotes

1 At the point of the agreement being reached, the National Wealth Fund was operating as the UK Infrastructure Bank.

2 At the point of this investment, the National Wealth Fund was operating as the UK Infrastructure Bank.

3 The gap is the percentage difference among employees between men's average hourly pay and women's average hourly pay.

4 2025/26 figures subject to final budget position.

5 The investment strategy defines this as meeting Technology Readiness Level 8. Technology Readiness Levels are a widely used method for estimating the maturity of technologies.

6 Core membership of the group includes those with knowledge of investment, trade union, business scale-up, equalities and inclusive growth and impact investing.

7 This was the Bank's investment in Circularity Scotland Ltd (page 23).

Appendix 1

Investment case studies

Net Zero case study:
Utopi

Background

Utopi is a Scottish digital company that has developed technology to help improve energy efficiency in buildings. The technology enables monitoring and reporting on factors such as energy efficiency, indoor air quality and occupancy rates of communal areas, in real time. The technology can be used in both existing and new-build properties, marking a difference from other technology which needs to be installed when properties are built.

The technology is targeted at multi-occupancy buildings such as student accommodation. It includes a gaming style app for tenants, creating an engaging way for them to see how changes to their behaviours could lead to financial savings as well as reducing their environmental impact.

The Bank's investment

The company was looking for investment to support scaling up of the technology and to target international export markets. It had initially approached the Bank in 2021, and, following ongoing engagement with the company as it continued to develop, in March 2023 the Bank agreed a £5 million equity investment. The Bank assessed that the opportunity aligned well with its net zero mission as it supports energy efficiency and carbon reduction, particularly in existing multi-occupancy buildings where this can be difficult. It also assessed that the opportunity supported its innovation mission, due to the development of unique technology that targets a gap in existing approaches to building efficiency monitoring and carbon emissions reduction.

From early in its life the company has engaged with markets across the UK, Europe and North America. The Bank's investment will keep the company headquartered in Scotland.

The expected impact

As part of the initial investment impact case, Utopi is expected to deliver:

- around 50 new jobs
- around 20 per cent reduction in carbon emissions for the properties its technology is installed in.

Progress and further developments

With the Bank's investment, Utopi have been able to grow their workforce. In February 2025, the Bank agreed a further £5 million investment in Utopi. This is to support increasing the company's sales capacity and in doing so help secure additional private investment. The Bank is currently collating impact monitoring returns for its 2025 Impact Report, expected to be published in May 2025.

Innovation case study:
Orbex

Background

Orbex is an orbital launch service targeted at the small satellite industry. Small satellites are important for many uses including providing the network for navigation systems, mobile phones and weather monitoring. Currently, small satellites rely on being launched alongside other cargo on large rockets. This can result in long waits for smaller projects. Orbex is addressing this gap by creating reusable small rockets that can be launched individually. Orbex is also developing a renewable biofuel solution for rockets, which will significantly reduce the carbon footprint of launches.

The Bank's investment

In 2022, the Bank made a £17.8 million equity investment in Orbex. The Bank assessed that the opportunity aligned clearly with its innovation mission, as it supports the development of Scotland's space sector, and its net zero mission due to the potential to significantly reduce the sector's carbon emissions. Its investment would support Orbex's ongoing research and development, and development of the Space Port site at Sutherland, which was also being supported by Highlands and Islands Enterprise. As part of its investment offer, the Bank worked with Orbex to strengthen its management approaches, leadership team and business plans.

In April 2024, as the company moved into pre-launch testing, the Bank agreed a follow-on equity investment of £10.5 million. This helped to crowd-in £6.2 million from private investors. This investment would support expansion at Orbex's base in Forres and support the company to reach its next development and regulatory milestones.

The expected impact

As part of the initial investment impact case, Orbex is expected to:

- support job creation through both its manufacturing activity at Forres and the through the wider launch site support and supply chain needs
- support reducing rocket launch emissions through the development of its renewable biofuel.

The space industry is Scotland is a growth sector. The Bank's investment has crowded-in private finance and has ensured that Orbex remains headquartered in Scotland. This supports the wider sector and supply chain development.

Progress and further developments

In late 2024, due to development delays at the Sutherland Space Port, Orbex refocused its launch plans to the SaxaVord facility in Shetland. Development at the Shetland facility is more advanced, allowing Orbex to target launch dates in late 2025. Orbex continues to hold the Sutherland Space Port lease.

In early 2025, Orbex announced £20 million further investment from the UK Government's Department of Science, Innovation and Technology. The Bank is currently collating impact monitoring returns for its 2025 Impact Report, expected to be published in May 2025.

Place case study:
Thriving Investments Ltd

Background

Thriving Investments Ltd (originally named PfP Capital) was established by the Places for People group in 2017. It aims to create thriving communities by developing high-quality affordable homes, using different types of investment across different funds.

The company's New Avenue Living Fund (the Fund) is targeted to meet a gap in the housing market. It provides homes for mid-market rent to help people who have difficulty getting access to social rented housing, and who financially can't afford the costs of buying their own home or renting privately in their local area. Mid-market rent levels are designed to be affordable compared to local area market rents.

The Bank's investment

The Bank invested £40 million in the Fund in 2020 to support the delivery of new homes for rent across Scotland. The Bank's investment finance added to financial support from Strathclyde Pension Fund, Nationwide

Pension Fund, and an earlier low-cost long-term loan of £47.5 million from the Scottish Government. The Bank assessed the investment as aligning well with its place mission, supporting the public and private sectors to work together to increase the supply of affordable housing.

In March 2024, the Bank agreed a follow-on investment of £20 million in the Fund. This was approved by the Scottish Government due to it exceeding the Bank's £50 million investment limit. The Bank assessed the Fund's performance to date as positive given the challenging financial context and that it continued to present clear mission alignment and good impact potential. The additional investment would support completion of existing developments and new developments outside the Edinburgh and Glasgow areas.

The expected impact

The Bank's investment is intended to support expansion of mid-market rent housing to meet housing need and encourage further investment to support sustainable communities through targeted house building.

A number of conditions are being supported through the Bank's investment including measurements that cover the effectiveness and quality of housing:

- Minimum EPC (Energy Performance Certificate) 'B' ratings for all homes delivered by the Fund.
- High levels of tenants' satisfaction and complaints performance expectations.
- Allocations policy criteria and housing allocations will fit with target housing group needs.
- The housing developed and allocated to tenants will fit well with local authority housing priorities and local housing strategies.

The Bank also monitors the economic, social and governance performance of the Fund to ensure alignment with its policies.

Progress and further developments

The Fund's initial targets were to secure £240 million by March 2021 to develop up to 1,500 homes. It has since extended its ambitions to December 2026 due to housing and financial market challenges, including impacts of the Covid-19 pandemic and the economic situation post-Brexit.

By April 2024, the Fund had delivered 649 homes with a further 422 under construction. Additional homes in the development pipeline are anticipated to increase the total to 1,112 homes. The Bank is currently collating impact monitoring returns for its 2025 Impact Report, expected to be published in May 2025.

Appendix 2

Long-term mission objectives

Mission impact	Mission objective
Net Zero	To catalyse investment in businesses and projects connected to Scotland to move towards a net zero economy.
Net Zero	To increase Scottish-based expertise in technology, services and industries that support decarbonisation, mitigation, and climate change amelioration activity.
Net Zero	To grow the circular economy within Scotland by 2045.
Net Zero	To support Scotland's transition to net zero.
Place	Overarching place-based opportunity.
Place	To enhance the natural and built environment of Scotland through utilisation of undervalued space and the regeneration and improvement of built and natural environments.
Place	To improve by 2040 the physical and digital connectivity across Scotland to increase access to services, training and employment opportunities, and greenspace.
Place	To increase the supply of high-quality affordable homes and support the transition to net zero for existing homes with corresponding sustainable infrastructure by 2040.
Place	To invest in businesses and projects that promote high-quality place-based employment and training opportunities.
Place	To invest in businesses and projects that provide community benefit and support local supply chains.
Innovation	To grow the Scottish innovation ecosystem, by supporting innovative businesses to have a catalytic effect in their sector through the diffusion of ideas and learning.
Innovation	To increase investment in the scaling of transformational and emerging technologies, discoveries, and business processes.
Innovation	To develop products and services that improve Scotland's human wellbeing and environmental resilience.
Innovation	To invest in businesses and projects that enhance productivity through product or process innovation.

Scottish National Investment Bank

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Annexe B: Letter from the AGS 16 June 2025

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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