



Lowlands and Uplands Scotland ERDF and ESF Programmes 2007 - 2013 Programme Monitoring Committee

DEVELOPMENT OF A SCOTTISH INVESTMENT BANK AND THE POTENTIAL IMPACT ON THE SCOTTISH CO-INVESTMENT AND VENTURE FUNDS

1. Purpose

The purpose of this paper is to provide the Programme Monitoring Committee with an update on progress towards a Scottish Investment Bank (SIB) and an outline of how this might develop over the coming months, potentially including the adoption of a JEREMIE fund for Scotland.

2. Scottish Investment Bank

- 2.1 At the STUC annual conference on 21 April the First Minister announced the Scottish Government's intention to create a Scottish Investment Bank which would initially be comprised of the existing Scottish Enterprise (SE) Scottish Seed (SSF), Co-investment (SCF) and Venture (SVF) Funds. The combination of these interventions under an SIB would not change their focus on growth potential Scottish firms, with the SCF and SVF operating as now on a co-investment basis with the private sector.
- 2.2 In the 2000-2006 programme, SCF received ERDF funding of £26,697,000. In the LUPS ERDF 2007-2013 Programme round 1, a further SCF application for £26,666,667 was approved, followed by a successful bid from SVF in round 2 for £20,000,000.
- 2.3 In the short term, therefore, there will be no change to delivery of the SCF and SVF under SE's management and continuing accountability. Investments are being made under both Funds and resources will continue to be deployed for the same purposes and as per the applications for ERDF support agreed by the PMC. Scottish Government officials updated European Commission colleagues on 29 April and confirmed that these two Funds are currently in operation and would continue to be delivered as agreed in the original ERDF applications, unless and until agreed otherwise with the PMC. Any such proposed changes would also by then have been agreed with the SE Board and discussed with interested stakeholders including Highlands & Islands Enterprise (HIE) and COSLA.

3. Direction of Travel

- 3.1 The First Minister also signalled on 21 April the Scottish Government's intention to seek additional funding from other sources to enhance the scale and impact of the financial support available for Scotland's growth potential businesses. Scottish Government propose to examine - jointly with SE and taking account of the views of HIE and the Local Authorities - if other market gaps exist in the financial support for growth potential businesses in Scotland. This work may, for example, identify a need to develop greater capacity for

specialised types of loan funding that might be delivered by a Scottish Investment Bank alongside the existing mainly equity-based interventions of the SSF, SCF and SVF.

- 3.2** SG and SE officials also intend to pursue additional sources of finance for a Scottish Investment Bank, potentially including a loan from the European Investment Bank (EIB) with a view to establishing a JEREMIE fund for Scotland - a detailed description of the EC's JEREMIE initiative was provided to the PMC in October 2007. There are a number of issues to be resolved, not least in terms of Government accounting and budgeting rules which will require guidance from Treasury, before an application to the EIB for loan funding could be made. It is possible that, in order to access external loan funding and meet those rules, the SIB may ultimately have to be structured as a private/public delivery vehicle. However, in the first instance, it will be established as a subsidiary of Scottish Enterprise.
- 3.3** SG officials have also opened discussions with COSLA on the potential for Local Authorities to participate in the Scottish Investment Bank.
- 3.4** It will be seen from the above that Ministers regard the creation of a Scottish Investment Bank, through the combination of Scottish Enterprise's existing SSF, SCF and SVF interventions, as an important first step in the development of the SIB.
- 3.5** Scottish Government policy and ERDF officials are working with Scottish Enterprise colleagues and private sector investment partners to deliver the SCF and SVF in line with the approved applications and to offer the level of assurance needed that the funds are and will continue to be managed in compliance with all relevant audit and governance requirements and regulations relating to ERDF. We will keep both the Programme Monitoring Committee and the Commission up to date throughout the progression of the work to develop the SIB and potential EIB loan and will ensure that any proposed changes to the SCF or SVF will adhere to the necessary application and approval process.
- 3.6** Finally, it is envisaged that the Scottish Investment Bank will operate on a pan Scotland basis. Again, the Scottish Government will work with SE, HIE, the Programme Monitoring Committees for both Programme areas and the Commission following the required approval process.

4. Next Steps

- 4.1** As yet, there is no definitive timescale for the creation of a Scottish Investment Bank. The next steps are likely to be as follows:
 - 4.1.1** SE and SG to explore with UK Treasury which potential governance model for the Scottish Investment Bank would allow scope for external borrowing without such borrowing scoring against the Scottish Government's Departmental Expenditure Limit.
 - 4.1.2** SE and SG to finalise the market gap analysis and business plan to support a JEREMIE loan application to the European Investment Bank.
 - 4.1.3** Subject to Treasury advice and as a first step to establishing the SIB, Scottish Enterprise to establish a subsidiary company with its own Board and independent Advisory Committee but remaining accountable to the main SE Board.
 - 4.1.4** To discuss further with COSLA and Local Authorities the scope for LA involvement in the Scottish Investment Bank.

- 4.1.5 Subject to advice from Treasury and the conclusion of the gap analysis and business plan, SE and SG to develop an application for loan funding to the European Investment Bank.
- 4.1.6 SE and SG to seek formal PMC approval in October 2009 for the transfer of the existing SCF and SVF cash (ERDF plus related co-finance) and realisations to the Scottish Investment Bank, again subject to the advice from Treasury.

5. Recommendation

5.1 The Committee are invited to:

- 5.1.1 note the progress on the establishment of a Scottish Investment Bank.

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