

Scottish National Investment Bank Consultation



Scottish Government
Riaghaltas na h-Alba
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RESPONDENT INFORMATION FORM

Please Note this form **must** be completed and returned with your response.

Are you responding as an individual or an organisation?

- Individual
 Organisation

Full name or organisation's name

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The Scottish Government would like your permission to publish your consultation response. Please indicate your publishing preference:

- Publish response with name
 Publish response only (without name)
 Do not publish response

Information for organisations:

The option 'Publish response only (without name)' is available for individual respondents only. If this option is selected, the organisation name will still be published.

If you choose the option 'Do not publish response', your organisation name may still be listed as having responded to the consultation in, for example, the analysis report.

We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

- Yes
 No

This consultation is about your views of the formation of a Scottish National Investment Bank. Given the mission statement as set out above, we invite your views on the following.

Q1

What are the **top 3 areas of interventions** where you think the Scottish National Investment Bank can have the greatest impact on sustainable economic growth?

Please tick the **THREE** that you think are the most important.

- Addressing access to finance for SMEs
 - Providing countercyclical financing during periods of economic and financial crisis
 - Financing infrastructure projects which support economic growth
 - Providing long term patient funding for capital projects
 - Targeting investments in high-risk R&D, innovative start-ups, and lengthy innovations, areas that private capital investment models may not address
 - Promotion of investments that help address complex societal problems eg. the provision of infrastructure in deprived areas or addressing financial constraints in the housing sector
 - Targeting groups that evidence shows have less access to capital than others (e.g. female and BME entrepreneurs)
 - Providing mission-oriented finance eg providing finance for transformational technologies to reduce carbon emissions.
-
- Something else.
Please tell us **in the box below**

We would also support Box Six with its emphasis on the financial constraints in the housing sector. Our main concern here is for SME house-builders and property entrepreneurs seeking access to capital, and that is the basis of our support for accessing finance for SMEs more generally under Box One.

Q1a

Can you explain why you chose these as the most important?
Please tell us **in the box below**

To address the market failure evident particularly in the development finance sector, where even in areas of strong take-up and limited property supply developers are unable to obtain capital. This is because of risk-aversion by the Banks towards the real estate sector and to be fair because of a greatly increased regulatory structure controlling lending for commercial real estate projects in the UK. Indeed, the recent de Montfort half year survey of UK commercial property lending found a 24% decline in lending activity in the first half of 2017 since the first half of 2016, and with widescale regional differences with in excess of 50% of lending in the first half of 2017 located in London and the south east of England.

In relation to supporting infrastructure finance then it will be important that this is done with a long-term repayment facility if this support is to be effective. More generally it would also be helpful if some of the security requirements for loans could be minimised so much as is feasible as this would speed the delivery of finance for infrastructure or indeed development projects.

Q2

Which of these financial instruments might have the greatest impact in addressing your chosen areas of intervention?

Scottish National Investment Bank would have an impact via	No Impact	Low	Medium	High
Providing microfinance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Helping access to finance by SMEs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Guarantee solutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Providing patient / long-term finance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Seed/start up equity solutions	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Early stage capital equity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Later stage (patient/long term) equity	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Another area that is not on this list: Please specify below	□ ₁	□ ₂	□ ₃	□ ₄
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If other, please specify. Please add any comments in the box below.

Q3

In terms of existing international models, is there a particular example that you think is appropriate for Scotland and why?

Please add any comments in the box below

There are strong examples internationally of public pension funds investing in their own local built environment. The SNIB could play a role in facilitating and perhaps consolidating this opportunity. As the accompanying papers note there are also examples of National Promotional Banks in other EU countries which have proven to be a successful part of their approach to key infrastructure for example. From our industry's perspective this focus on infrastructure could be a vital support to unlocking further development activity in Scotland.

It may not be necessary to look overseas for examples of a role for the SNIB. The National Housing Trust model was built on public lending and guarantees with the private sector and with an exit strategy for SPV established for the projects concerned. The SNIB could play a significant role across a wider field of business and certainly real estate sector projects if it could galvanise and expand upon this model.

Q4

Do you think that the Scottish National Investment Bank should have explicit regional mandates within Scotland, to address specific regional issues and/or to contribute towards greater regional economic cohesion?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

What leads you to that conclusion?

The SNIB should seek to support economic growth on a national basis. But it is an investment bank and not a grants based body – so it will need to ensure public investment is repaid and ideally makes a return. So, while seeking to support regional economic growth is an important facet of the SNIB it must do so based on a business model that will ensure a return for any public finance deployed to support a project or business.

Q5

Bearing in mind the potential cost implications, should the Scottish National Investment Bank

Should the Scottish National Investment Bank	Please choose
Focus on solely providing financing	<input checked="" type="checkbox"/>
Provide advice and support to assist entities / projects in becoming “funding ready”	<input checked="" type="checkbox"/>
Provide on-going advice and support to entities / projects in which it has supported	<input checked="" type="checkbox"/>

What leads you to that conclusion?

While supporting and facilitating finance for business is a key objective to support economic growth, the SNIB will wish to have an on-going role to support and ensure the returns for its investment.

Q6

Do you think that the Scottish National Investment Bank should act

Scottish National Investment Bank should act	Yes	No
Solely through intermediaries/delivery bodies	<input type="checkbox"/>	<input checked="" type="checkbox"/> <input type="checkbox"/>
as a co-investor or co-lender on equal terms with others	<input checked="" type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>
as a principal investor / lender in its own right	<input checked="" type="checkbox"/> ₁	<input type="checkbox"/> ₂
through the provision of finance guarantees	<input checked="" type="checkbox"/> ₁	<input type="checkbox"/> ₂
differently in different areas of activity.	<input checked="" type="checkbox"/> ₁	<input type="checkbox"/> ₂
Other: Please specify below	<input type="checkbox"/>	<input type="checkbox"/>

Please add any comments in the box below

Q7

Are there particular issues on governance and the operational model, including issues such as public/private classification, that you think would strengthen, or constrain, the bank's ability to deliver on its mission?

Please tell us **in the box below**

Clearly the investment of public resources or covenants would require a strong accountable governance for the SNIB. However, we would not wish to see the SNIB unnecessarily restricted in its activities due to public classification and any consequent budgetary constraints or processes. However, the ability to draw on public covenant could well be crucial to the success of the SNIB. Where possible the SNIB should seek to work with private finance including from lenders/investors who will clearly be concerned at the potential of a State backed entity that might infringe on their markets. SNIB should seek to avoid such competition and cooperate with the private sector, or facilitate private sector activity, as much as possible.

Q8

Do you have any more comments about the establishment of the Scottish National Investment Bank?

Please tell us in the box below

Traditionally there has been little appetite within government for direct financial support in financial support for real estate companies. However, we believe the aftermath of the recession of 2007-2012 and the long-standing concerns in the development finance markets require a new approach if the sector is to realise its potential to support the Scottish economy and attract investment into the country.

We believe the establishment of a Scottish National Investment Bank offers a major opportunity to unlock the potential of the business sector to establish sustainable economic growth. This is vital for the growth of businesses which will come to require business premises and create value for our economy and built environment alike. More specifically in our sector, real estate, financial constraints caused by both risk-aversion and regulatory requirements are limiting our ability to deliver economic growth in Scotland. In some of our sectors there is a good basis for development, yet the failure is not in the fundamentals of our key markets but the ability of the real estate industry to raise development finance on project or corporate basis.

More broadly the lack of finance even for relatively smaller scale projects is an inhibition not just for regeneration projects but also the development of the sector. If start-up property businesses cannot get access to finance for a capital-intensive business such as property then we will not see the build-up of SME housebuilders or property entrepreneurs who play an important role in developing smaller sites, re-using older buildings that have fallen vacant or producing new homes in locations or on sites not seen as worthwhile by the larger scale developers and investors. This lack of support will also stymie the potential of Scottish real estate companies to grow and invest in Scotland.

Development or re-development brings jobs, homes and investment to Scotland. It also improves the quality of the built environment and delivers better, low carbon and energy efficiency buildings into being. For these reasons we believe real estate projects and businesses should be within the scope of the SNIB.