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Richard Leonard MSP
Convener
Public Audit Committee
Scottish Parliament

By Email

29 March 2022

Dear Convener

As part of a wider update, I wrote to you on 21 September 2021 setting out the Scottish Government's work on interventions in the private sector and offered to provide an update. The Scottish Government has been investigating its capacity and capability to manage interventions in business following the report of the Advisory Group on Economic Recovery (AGER), which recommended:

The Scottish Government should build its professional capability to manage ownership stakes in private businesses, which are likely to arise out of the crisis. This should not require new legislation, nor a new public sector organisation.

In the response to the report the Scottish Government committed as part of the Economic Recovery Implementation Plan to establish a short life working group to scope out the capability that may be required to manage these stakes in Scotland and consider the optimum delivery model.

To deliver this, work has been led by a project team from across the Scottish Government drawing on expertise from the Scottish Government, Enterprise Agencies and wider public sector partners, an Expert Reference Group and individuals from the private sector. Both the AGER report and this work have been framed around reactive Government intervention in private businesses, either in cases of distress or to achieve a specific policy objective.

The Business Investment Framework is available on this link: [Annex A: Business Investment Framework - Scottish Public Finance Manual - gov.scot \(www.gov.scot\)](https://www.gov.scot/resources/publications/2022/02/annex-a-business-investment-framework-scottish-public-finance-manual-2022-02/)

The Finance Guidance Note is available on this link: [FGN2022/02 SPFM amendments: March 2022 - Scottish Public Finance Manual - gov.scot \(www.gov.scot\)](https://www.gov.scot/resources/publications/2022/02/fgn2022-02-spfm-amendments-march-2022-scottish-public-finance-manual-2022-02/)

The group was established to scope out the capability required to manage existing and future Scottish Government shareholdings. It also covered how to monitor obligations of financial guarantees or other investments in private businesses effectively, now and in future and consider the optimum delivery model for this capability.

Following a process of consultation and feedback, the short life working group made recommendations as follows:

- There is a ready, knowledgeable resource that can be “stood-up” when cases arise with access to corporate finance, legal, due diligence, communications, policy and sectoral expertise.
- Scottish Government is able to access external professional advice on legal, financial and other matters in a timely and cost effective manner, proportionate to the risk exposure to Scottish Government.
- There is a separation of policy and investment advice. This could be through introduction of a peer review/investment board or through organisational separation.
- In all interventions, there is a clear strategy for realising the objective of the intervention and its expected duration.
- Scottish Government’s ongoing interests are actively managed to optimise the performance of the business and delivery of the initial objective of the intervention.
- Scottish Government has clear governance and accountability processes that help maintain corporate memory of how and why decisions were taken and that enables the sharing and learning of lessons.

Since the short life working group made its recommendations in early 2021, Scottish Government has strengthened its approach by:

- (a) updating and developing a ‘Business Investment Framework’ within the Scottish Public Finance Manual (SPFM) for all types of intervention in private companies; and
- (b) the creation of new teams whose consolidated expertise and capacity convenes a specialist response service when businesses approach the Scottish Government with a request for support.

These ‘response’ teams sit alongside the teams responsible for management of the Scottish Government’s ongoing interests in Ferguson Marine (Port Glasgow) and Burntisland Fabrications Ltd (BiFab), within the Strategic Commercial Interventions Division (Covid Business Resilience and Support Directorate). This co-location gives an opportunity to maximise synergies and the value of the capacity.

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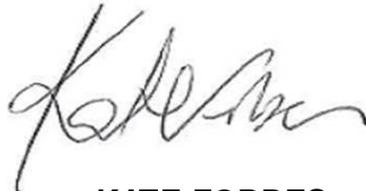


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My officials have set out this work to Audit Scotland who have considered the Scottish Government's approach to interventions over recent years and will continue to engage with Audit Scotland on the work on the interventions development. Audit Scotland's section 22 report published on 16 December 2021 acknowledged the progress made in this area and that their recommendation to create a framework had been actioned. The further discussions will also cover the Scottish Public Finance Manual Principles that the Permanent Secretary outlined earlier in February 2021 to the Public Audit Committee. I would be happy to provide any further information that would be helpful to the Committee. I am also writing on the same matters to your colleague, Claire Baker MSP, Convenor of the Economy and Fair Work Committee.

Yours sincerely,



KATE FORBES

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