

Gordon Lindhurst MSP  
Convener  
Economy, Energy and Fair Work Committee  
Scottish Parliament  
Edinburgh  
EH99 1SP

03 July 2019

Dear Convener,

In response to the Committee's request within its Pre-Budget report regarding Scottish Enterprise's use of Financial Transaction monies in 2018-19, I am pleased to provide further information below.

Scottish Enterprise was originally allocated **£68.5m** of Financial Transactions ('FT's') within our Grant In Aid allocation for 2018/19.

Throughout the year, we sought to identify opportunities for utilising FT funding outwith normal channels (the Scottish Investment Bank), particularly in relation to business infrastructure and R&D support activities.

However, over the short term (the first six months of 2018/19) we were unable to align utilisation of FT monies with project opportunities, due to the nature of the pipeline and uncertainty of the timing of delivery of these - as a result, we reluctantly made the decision to surrender **£28.0m** of our FT budget allocation via the Spring Budget Revision Process.

At this time, Scottish Government agreed that Scottish Enterprise could access up to £10m of FT monies during the final quarter of the 2018/19 financial year if additional opportunities to utilise FTs occurred.

Of the surrendered amount **£18.0m** was from an allocation to SIB, reflecting projected underspends in the Scottish European Growth Co-Investment Programme (SEGCP) and direct investment opportunities which did not materialise. The majority of this was SEGCP. This is an innovative pilot programme which was a first of its kind in Europe. It has completed three deals and while the leverage has been around five-fold (much higher than originally anticipated) and across companies at difference stages and sectors, the take up has been slower than anticipated, with the uncertainties linked to Brexit impacting on investor appetite and company demand.

At the beginning of the 2018/19 operating year, SE's Business Infrastructure and R & D teams were tasked with assessing the suitability of FT funding to address new investment opportunities that were seeking SE support. However, this proved difficult and consequently, **£10m** FT monies set aside for these activities was handed back as part of the Spring Budget Revision.

The remaining core FT budget allocation of **£40.5m** was successfully utilised by SIB. In addition, a further **£1.5m** of FT monies were invested from the £10m year-end flexibility

provided by the Scottish Government. SIB's final expenditure for 2018/19 (excluding the Energy Investment Fund) was £47.5m

Given the challenges in the funding market and emerging areas of demand, SIB introduced or supported three new interventions during the year - the Scottish Loan Scheme (a direct loan product) which was funded via the redeployment of Financial Transactions monies from the Scottish Growth Scheme that were originally designated for the SEGCP, the Maven Buyout Fund (a third party fund supporting Management Buyouts) and Edinburgh Alternative Lending (provision of funding across the LendingCrowd peer to peer lending platform). These have allowed SIB to support new cohorts of companies, and areas of the market where there has been a gap in provision, collectively resulting in £10.7m in-year expenditure.

I trust that the Committee finds this information helpful, please do not hesitate to contact me if I can assist in any other way.

Yours Sincerely



Douglas Colquhoun  
Director of Finance  
Scottish Enterprise