ECONOMY, ENERGY AND TOURISM COMMITTEE

AGENDA

4th Meeting, 2010 (Session 3)

Wednesday 27 January 2010

The Committee will meet at 9.30 am in Committee Room 1.

1. **The way forward for Scotland’s banking, building society and financial services sector:** The Committee will take evidence from—
   
   Bryan Johnston, Divisional Director, Brewin Dolphin;

   and then from—

   Stephen Boyd, Assistant Secretary, Scottish Trades Union Congress;

   Wendy Dunsmore, National Secretary, and Rob MacGregor, National (UK) Officer for Finance, Unite the Union;

   and then from—

   Colin Borland, Public Affairs Manager, Federation of Small Businesses, and Brian Scott, Assistant National Secretary, Unite the Union, representing the Post Bank Coalition.

2. **Work programme:** The Committee will review its work programme.

3. **Proposal for a joint seminar with the Scottish Trades Union Congress:** The Committee will discuss proposals to hold the next in a series of joint seminars with the STUC.

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The papers for this meeting are as follows—

**Agenda item 1**

Note by the Clerk

Note by the Clerk

**Agenda item 2**

Note by the Clerk

**Agenda item 3**

Note by the Clerk
Economy, Energy and Tourism Committee

4th Meeting, 2010 (Session 3), Wednesday, 27 January, 2010

The way forward for Scotland's banking, building society and financial services sector

Background

1. The Committee has received two written submissions from today’s witnesses (the STUC and Unite the Union) in response to the Committee’s call for evidence in September 2009.

2. The submissions are attached in the annexe to this paper and Members are invited to take them into account in their deliberations when questioning today’s witness.

Stephen Imrie
Clerk to the Committee
January 2010
SUBMISSION FROM THE SCOTTISH TRADE UNION CONGRESS (STUC)

Introduction

1. The STUC welcomes the opportunity to contribute to this important inquiry. The 2008 global financial crisis of which the problems in the Scottish banks and building societies were a part, represented, the STUC would argue, the inevitable implosion of the ‘financialised’ economy. Whilst we cannot claim to have predicted the timing, scale and pace of events over the past year, the STUC can point to a consistent track record in questioning the sustainability of the economic model promoted by governments of all hues over the past 30 years.

2. Both the scale of the crisis in UK banks and the extent of its impact on the wider economy and ordinary workers are already being deliberately downplayed by those who will benefit from a ‘return to normality’. The opportunity for a fundamental overhaul of a failed economic and social model is in danger of slipping away before the implementation of any meaningful reform.

3. Therefore, the STUC believes it is essential that, at the very least, the public consultations and inquiries currently underway result in transformative change in the way the sector is regulated and financial companies managed. The financial sector must return to performing its basic functions effectively: mobilising savings, allocating capital and managing risk, transferring risk to those more able to bear it.

4. In doing so, the STUC believes that the financial services sector in Scotland can continue to be a key provider of quality, sustainable employment. The STUC believes that any reputational damage inflicted on the Scottish financial services sector is repairable. The aspiration must now be to rebuild a banking sector which supports rather than undermines the wider economy.

Questions

5. To answer the specific questions set by the Committee:

Q1. What is your view on the cause, nature and impact of the recent difficulties in the financial sector in Scotland?

Cause

6. It is impossible to a) separate the problems in Scottish banking from the wider global financial crisis or b) identify a single cause. The STUC believes that a number of factors conflated to produce the credit and housing bubbles which culminated in the 2008 global financial crisis:

1. Global macro-imbalances - ultimately, the roots of the crisis can be traced to the global macro-imbalances that have grown rapidly over the
last decade. These are commonly believed to have driven two main effects: rapid credit expansion in developed nations and a 'search for yield' among investors; these processes in turn provided fertile conditions for the growth of complex financial innovation and, in the end, resulted in crisis.

II. Financialisation - The US economist Thomas Palley identifies 3 principal impacts of financialisation: (a) the elevation of the significance of the financial sector relative to the real sector; (b) the transfer of income from the real sector to the financial sector; (c) greater income inequality and wage stagnation. To these can be added a fourth; the sector's extraordinary lobbying power.

III. The emergence of banking conglomerates - facilitated by deregulation and globalisation, huge financial conglomerates emerged which combine the traditional banking activities of borrowing and lending with asset management and advisory services. As John Kay has noted, ‘these institutions were riddled with conflicts of culture and of interests. They proved largely unmanageable and were largely unmanaged’.

IV. Innovation - The belief amongst bank executives, other participants in global financial markets, regulators and government that financial innovation - particularly securitisation - had fundamentally changed the system was deeply held. Widely dispersed risk, so the argument went, provided for greater stability and negated the need for large capital reserves. Of course, when US sub-prime losses hit, it was discovered that this complex financial innovation had 1) led to the creation of products on which no accurate value could be placed; and, 2) ensured that the consequences of irresponsible lending in specific markets would be rapidly globalised.

V. Failure of corporate governance - bank boards were either incapable of identifying, or unwilling to object to, the unsustainable business strategies being pursued by those whom they supposedly had a duty to oversee. It is difficult to escape the conclusion that the primary cause of the recent problems in the Scottish banking sector was this abject failure of corporate governance.

VI. The prodigious growth of, and influence exerted by, the unregulated shadow banking system - to get around capital ratios and maximise profitability, the banks set about creating a huge and complex network of structured investment vehicles. Together with a growing hedge fund sector, this massively reduced transparency; rendering effective regulation practically impossible.
VII. **Remuneration practices** - there can be little doubt that the bonus culture encouraged excessive risk taking in an already fragile system. The arguments hitherto invoked to justify the massive rewards have been revealed as superficial and self-serving. It should now be abundantly clear to all that incentive pay may work for those performing the most basic, routine tasks but, in situations of any complexity, especially where the quality of decisions made is only revealed in the longer-term, pay that truly reflects performance is not only unachievable: the attempt to make it so is catastrophically counter-productive.

VIII. **Conflicts of interest** - the relationship between banks, auditors and, especially, credit-rating agencies, is replete with conflicts of interest - a state of affairs scandalously overlooked by government and regulators. For instance, credit rating agencies singularly failed to discharge their duty in relation to credit derivatives. To do so, would have jeopardised easy profits. In the majority of cases, UK listed banks paid considerable fees to their auditor for non-audit work. Of course, the most obvious and damaging conflicts were inherent in the financial conglomerates themselves.

IX. **Regulation** – regulatory authorities manifestly failed in the effective discharge of their functions. As indicated above, regulators were far too ready to accept the claims being made for financial innovation. It is also worth remembering that, until the crisis hit, it was not considered good form to raise any concerns over the potentially destabilising impact of the bonus culture. To have done so would have invited scorn from the beneficiaries and their supporters in the press, politics and government.

7. In relation to the Scottish banks, it is difficult to disagree with the assessment set out in the Treasury’s Reforming Financial Markets consultation paper: the firms that failed in the UK typically allowed their business to become overextended through:

- **Excessive leverage and risk taking** - between 2001 and 2004 HBOS jumped from being the 33rd largest to the 5th largest arranger of leveraged loans (loans whose interest rate is substantially higher than the base rate due to perceived higher risk);
- **Over-reliance on wholesale funding** - when the inter bank markets seized following the collapse of Lehman’s, the business strategy disintegrated;
- **Poor management in respect of acquisitions** - such as RBS’s decision to purchase ABN-Amro at the top of the market; and,
- **Over dependence on particularly risky product streams**, such as buy-to-let mortgages and derivatives - the bubble mentality undoubtedly infected the business strategies of supposedly sober and respectable institutions.

These failures confirm the woeful inadequacies of corporate governance.
Impact

8. The impact has been severe. The global economic recession of 2008/09 is directly attributable to the credit crunch which began in summer 2007 as the housing and credit bubbles in the US and UK burst spectacularly. The impact of the credit crunch rapidly intensified following the collapse of Lehmans.

9. In Scotland, in the year to June 2009, employment has fallen by 54,000 and ILO unemployment risen by 75,000. The unemployment rate for Scotland has risen by 74% over the year to June. The corresponding figure for Edinburgh and the Lothians is 92%. In Lanarkshire it is 108%.

10. The fall in GDP is now apparent in Financial Services which showed a decline of 4.4% in Quarter 1 2009. Interestingly, the sector was still growing in quarter 4 2008 (2.2%). The greater impact of the recession on manufacturing is apparent in the figures: a decline of 4.6% in quarter 4 2008 was followed by a further decline of 6.3% in Quarter 1 2009. The quarter 1 2009 GDP statistics confirm that the recession is affecting nearly all Scotland’s key industrial sectors.

11. It is difficult to provide accurate figures for job losses/gains in Scotland’s financial services sector over the past year. The drip feed of job losses in RBS and Lloyds Group has been at least partially offset by new investments. Trade unions initially estimated that job losses in the banking sector following the crisis could be between 10 – 30% and it is difficult at this stage to provide a more accurate figure.

12. The impacts extend beyond what can be easily quantified in growth and employment statistics. Those who are lucky enough to retain employment face increasing levels of economic inequality and insecurity, and real wages for ordinary workers will continue to stagnate (laying the grounds for another credit bubble?). There is a widespread lack of faith in the current model of globalisation to produce fair outcomes in both developed and developing nations and societal pressures associated with the rise of a super-rich class continue to grow.

13. The upfront costs of rescuing the banks are proportionately higher in the UK than any other OECD country. The scale and pace of decline in the economy has resulted in a huge drop in government revenue. Contrary to popular perception, this year’s deficit is largely attributable to the costs of the bank rescue packages and falling revenues; not discretionary stimulus measures.
Q2. What evidence do you have on the issue of the availability and the cost of credit and what effect have the initiatives undertaken by the banks, government bodies, regulators and others had?

14. Plenty of evidence on the availability and cost of credit is already in the public domain. The Scottish Government’s recent reportiv found that the supply of finance has reduced and the cost has risen; findings confirmed by a recent Bank of England (BoE) lending survey. The BoE also noted that ‘spreads and fees are reported to have risen in recent monthsv’.

15. These findings support the considerable anecdotal evidence the STUC has received over the past year from trade union officials and workplace representatives. There can be little doubt that job related investment has suffered in Scotland as a result of the banking crisis.

16. The STUC has generally been supportive of the initiatives undertaken to date. The rescue packages of October 2008 and January 2009 may have left an unpleasant taste in the mouth, but there can be little doubt they were necessary to introduce stability and protect the wider economy. Similarly, with monetary policy having reached the limits of its usefulness, the BoE was correct to embark on a programme of quantitative easing and to extend it in August 2009.

17. It is difficult to discern the impact of the initiatives undertaken to date. It is clear that business lending is not yet at a desirable level, but the position would undoubtedly be worse were it not for the action taken.

18. It must also be noted that problems with availability and cost of credit are also, at least in part, attributable to the retreat of foreign banks from the UK market.

Q3. What changes can be expected as part of the ongoing and future restructuring plans in the financial services sector within Scotland?

19. It is difficult to answer this question with any certainty at this moment in time. The nature of restructuring of the financial services sector in Scotland will be determined by a range of factors:

- **Convergence and contraction resulting directly from the recent crisis.** For example, rationalisation within the Lloyds Banking Group and potential restructuring of global companies with a presence in Scotland;
- **Timing and nature of disposal of the Government’s stake in Lloyds and RBS;**
- **Nature and extent of public sector support:** of limited impact at this stage; and, most importantly,
- **Potential changes in regulation of the sector:** it is difficult within the confines of this submission to do justice to the sheer weight of consultative activity which has recently reported or is currently underway. The Treasury Select Committee has reported extensively
and the Turner Review has proved influential in setting the terms of the Treasury’s Review of Financial Markets and Sir David Walker’s Review of Corporate Governance (both currently ongoing). The FSA continues to consider how best to implement its code on remuneration. Nelly Kroes, EU Competition Commissioner is likely to continue taking a robust line on the lack of competition in the UK retail-banking sector. To this must be added the activity being undertaken by the G20 at global level.

20. The STUC would be prepared to submit a separate paper on regulation if the Committee would find it helpful. Given that it is not possible in this submission to provide a detailed analysis of the above listed reports/consultations, the STUC will simply highlight the following principles that we believe should underpin a sustainable regulatory response to the crisis:

- Regulation by technocrats and industry insiders – such an approach invites industry capture. The STUC believes that the boards of regulatory institutions should, as a minimum, include trade union representatives if not a range of civic society interests;
- Global action is essential to reduce risk of regulatory arbitrage – the G20’s progress has been slow and action taken wholly insufficient;
- There must be some separation of retail and investment banking - it is no longer acceptable for retail deposits covered by state guarantees to be used to fund speculative activity;
- Action to address the bonus culture and the irresponsibility it generates is essential - this must move far beyond the proposed FSA code, which is in no way sufficient to deal with the scale of the threat posed by the incentivisation of irresponsibility in financial markets;
- Regulators must have clearly defined roles and responsibilities and mechanisms for effective collaboration must be established as a priority. Paying regulators at similar levels to the highest earners in the sector is neither necessary nor desirable. Regulatory bodies should be sufficiently resourced and offer quality employment and career progression;
- Transparent arrangements for the trading of debt securities must be established;
- Strong action is required to promote transparency in tax havens and secrecy jurisdictions;
- Systemically important institutions in the shadow banking sector should be subject to regulatory oversight - indeed, there is strong case for the hedge fund sector to be brought into regulatory structures; and
- Corporate governance and remuneration structures need to support sustainable long-term growth.

21. It is important to stress that the impact of even mild regulatory reforms is potentially huge given the potential for reduced profitability. Three points are crucial here:
22. **Capital requirements**: the Basel Accords are founded on the principle that banks must hold a minimum amount of capital (cash or liquid bonds) to match their risks. The Basel II treaty set a Tier 1 capital ratio of 4%. Banks found a way round this requirement by creating a ‘shadow banking system’ where risks were parked off balance sheet. This minimized capital requirements and boosted profitability.

23. Therefore, even if regulators now only enforce a strict 4% limit, banks will find their opportunities to make profits severely limited. But the signals are that much higher ratios will be set: the British Government imposed a 9% ratio in October 2008 and the French Government quickly followed.

24. **Risk management**: as this submission is being compiled in September 2009, the FT index is rising strongly. It appears cash provided to banks through capitalization and quantative easing is being speculated with; not invested. However, it is difficult to escape the conclusion that banks are bound to become more risk averse. Regulation requires that banks calculate the risk side of the balance sheet using computer models based on available data. Prior to the crisis, the digital data fed into these models related only to the boom years. From this moment on, accurate data relating to the current crisis will have to be introduced into the models.

25. **Competition**: the convergence in the sector, some of it forced by the need to maintain stability, has led to the creation of huge banks operating in a more concentrated market. It is inevitable in such circumstances that banks will face tighter controls on their profits.

26. Consequently, it is sensible to anticipate even mild regulatory reforms producing potentially transformative results. In terms of what this might mean for financial services in Scotland:

- **A smaller sector** - if not in real terms then relative to the economy as a whole - and one that is potentially much less profitable;
- **Greater role for the state** - if we are to witness, for the reasons listed above, a shift towards low profit, utility style banking where banks are asked/forced to meet social objectives, people will legitimately question whether or not it would be more efficient for the state to own key parts of the sector. Also, the STUC has long argued the case for a Scottish Investment Bank to support productive, long-term investment. The STUC also supports the People’s Bank initiative;
- **Fairer, more sustainable remuneration practices**; see response to question 5
- **More stable utility banking**; and
- **Changes in nature and quality of employment**: see response to question 5
Q4. How might these changes affect the business and retail banking market in Scotland, access to project finance, a reduction in competition on the ‘high street’ for lending, the plans for the retention of functions and ‘headquartering’ etc and what can the public sector in Scotland do to ensure the best possible result for Scotland?

27. Again, it is difficult to answer these questions with any certainty. Suffice to say that strong growth in the financial sector during this decade suggests that Scotland must be providing an attractive business environment. It is important that the public sector continues to deliver the skills and infrastructure necessary to support the sector. It is essential that this support does not seek to placate the more extreme voices within the financial sector who do not appear to have been cowed by recent events. Threats of offshoring of business services or whole firms for tax purposes, by institutions with a substantial public stake or who have benefitted from public guarantees, should be treated with the contempt that they deserve.

Q5. What are the current employment levels and skills base in the financial sector in Scotland and how may these change? Additionally, what are the types of jobs that might be expected to be lost as part of any restructuring plans?

28. The skills base remains strong and current activity underway through FISAB should help deliver the higher end skills necessary to support the sector. Recent inward investments such as Tesco Personal Finance provide hard evidence that the investment community has faith in the skills base.

29. Due to the extravagant rewards paid to executives and traders, there is a widespread misconception that wages and conditions in the financial services sector are well above average vii. Employment in the Scottish banking sector for the majority of staff has in fact been characterized by aggressive performance management practices using inappropriate target regimes. Counter staff have been incentivised to deliver sales while capacity to deliver effective retail services has been diminished. Pension entitlements have been reduced whilst executives have lined their pockets.

30. It is difficult to assess how these practices might change as the sector moves forward. Reduced profitability may threaten jobs, wages and terms and conditions unless prevailing attitudes over internal dispersal of wages change.

31. The STUC is clear that while the Government retains major stakes in RBS and Lloyds Group, it should exert control to match its shareholding. Further attacks on jobs, pensions, wages, terms and conditions should not be tolerated. There is also a growing fear that Scottish banks may revisit previous decisions not to offshore back office operations and/or voice delivered services.

32. The STUC supports UNITE’s campaign for a social contract for financial services viii.
Q6. How are employment levels in the financial sector calculated at present, under what definitions and how do these relate to ONS figures? What changes are required to make employment figures more meaningful and comparable with other financial centres?

33. No comment

Q7. What are your views on the current efforts across the public sector in Scotland to respond to the recent difficulties in the financial sector in Scotland and what, if anything, needs to change in the future as the situation develops?

34. The public sector has already provided assistance on a monumental scale to the failing banks.

35. A range of activity overseen by FISAB and the Finance Sector Jobs Taskforce is currently ongoing. The priorities for these bodies should continue to be:

- Retain maximum levels of employment in the industry;
- Redundancy response – in the first instance this should involve negating the need for job losses in the first place but where this is not possible, effective redeployment with other firms. It is essential that employers are open and honest about emerging redundancy situations to allow the public sector to assist the staff affected;
- Skills – in its 2009 Annual Report, FISAB lists strengthening the world class workforce as one of its key aims. It is essential that the partnership approach continues to deliver added value; and,
- Inward investment – SDI has sensibly approached the global crisis as an opportunity rather than a threat; the evidence is in the investments already announced. It is essential that SDI continues to work with the industry to deliver new investment for Scotland.

Q8. Has Scotland’s reputation as a global financial services centre been detrimentally affected by the global crisis and has this been to any greater extent than the problems felt in other financial centres?

36. The STUC does not believe that this is a particularly fruitful avenue for exploration. No financial centre has escaped the recent turmoil - the argument can be made that Scotland’s reputation for financial probity has been damaged, but what of our neighbours in Iceland and Ireland? Or the City, Wall Street and Frankfurt?

37. For those considering hard-nosed investment decisions, any fuzzy concerns around Scotland’s reputation for financial probity will more than likely be outweighed by the UK’s well-established reputation for security and property rights: the UK is currently 5th out of 181 countries on the World
Bank’s ease of doing business rankings. This ranking is assessed on performance on 10 sub-indicators: the UK is currently 9th out of 181 countries on ‘protecting investors’ and 24th out of 181 countries in ‘enforcing contracts’.

**Q9. How should Scotland differentiate itself and promote itself as a financial services centre in the future and what steps are being taken by our competitors in this respect?**

38. On the skills base and quality of service provided. Whilst it is sensible to emphasise Scotland’s advantage over London, it makes little sense to market Scotland simply on the basis of lower costs.

10. *How can we ensure that the Scottish financial sector continues to retain a global perspective and does not retreat into a purely localised lending regime?*

39. The STUC does not believe that there is any prospect of the sector retreating in this way.

11. *Why are “new” banks choosing to establish themselves in Scotland, what is it that is particularly attractive and how can we build on this and attract additional investment into Scotland?*

40. Again, these investment decisions suggest that Scotland remains an attractive location for investment: primarily due to the skills base and the cost advantage over London. The regulatory regime has of course been attractive to financial services companies. For reasons that should be self-evident, the STUC would caution against continuing to promote Scotland on the basis of light-touch regulation.

41. Ongoing consonance with the UK regulatory regime is desirable.

STUC

September 2009
SUMBISSION FROM UNITE THE UNION

1. This response is submitted by Unite the Union. Unite is the UK’s largest trade union with 2 million members across the private and public sectors. The union has around 200,000 members in Scotland working in a range of industries including financial services, manufacturing, print, media, construction, transport, local government, education, health and not for profit sectors.

2. Unite welcomes the opportunity to respond to this inquiry and to contribute to the debate in Scotland surrounding the current financial crisis. The impact of the crisis has been felt across the economy with increasing levels of home repossessions, unemployment, redundancy, debt and bankruptcy cases. While much has been written on this issue a considerable amount of anger has been directed at the Executives, Directors and regulators by members of the public to Unite members on the front line who have courageously bore the brunt of the crisis in many different ways.

3. It is clear that the finance sector is central to the effective functioning of the economy. It is also important that following the plethora of evidence, consultation and debate that has taken place surrounding the crisis, that when looking forward, the end result is a finance sector which serves the needs of society; that delivers a fairer, transparent, sustainable and equitable finance sector for consumers, employees, and shareholders - an industry that is fit for purpose.

4. Unite, is well placed to respond to this call for evidence on the way forward for Scotland’s banking, building society and financial services sector as it represents thousands of finance sector workers across Scotland in all grades and all occupations, in banks, investment banks, insurance companies, building societies, finance houses and business services companies.

Q1. What is your view on the cause, nature and impact of the recent difficulties in the financial sector in Scotland?

5. Unite is disappointed with the Committees use of words in this question. The ‘recent difficulties’ mentioned in the question undervalue the massive scale of events in the sector which has led to around ten thousand job losses for finance sector workers in Scotland as well as the knock on effect being felt in other sectors of the economy with access to credit drying up and the resultant redundancies in SMEs.

6. However in response to the question Unite is clear that the cause and nature of the ‘recent difficulties’ in the financial sector in Scotland are a result of a combination of inextricable factors which include:

- Short term decisions which relied on long term outcomes that handsomely rewarded those at the highest level of the banking sector in the short run;
• An apparent bullish attitude to lending (e.g. 125% loan to value mortgages and unsustainable credit facilities) which created severe liquidity problems;

• An over-reliance on the regulatory system to properly police the sector;

• Poor internal risk management strategies;

• Remuneration policies which were not linked to long term success and sustainability coupled with incentivisation schemes which were target driven and did not take into account consumer needs;

• Inadequate experience and knowledge of the complexities of the business of Non-Executive Directors as well as inappropriate independent channels for them to challenge business decisions.

7. The impact of these combined factors on the financial services sector in Scotland is similar to that throughout the UK: a breakdown in confidence across the sector by businesses, consumers and employees; a lowering of morale among the workforce as job losses continue; a restriction of competition in the high street; an inability for businesses to access credit and a sector indebted to the tax payers for trillions of pounds.

Q3 What changes can be expected as part of the ongoing and future restructuring plans in the financial services sector within Scotland?

8. Unite has no doubt that a restructuring of the sector is inevitable and reforms are necessary given the massive financial losses incurred across the sector and the cost cutting measures which include a significant number of job loses. However Unite remain concerned that while job losses are a consequence of the crisis, a voluntary route should be sought wherever practicable. This is particularly pertinent given that tax payers have a significant investment in a number of finance sector companies.

9. Restructuring of the financial system should also include retaining a diverse and vibrant sector. Mutuals and building societies should be encouraged, rather than being financially penalised through the disproportionate levy required to be paid to the FSCS which is based on deposits held. This has had a huge impact on smaller financial institutions that do not make profits in the millions but who have felt the impact of this levy most acutely and for some their survival hangs in the balance.

10. Issues with regards to maintaining Headquarters in Scotland will be paramount in any restructuring proposals. At present three clearing banks retain HQ’s in Scotland, Royal Bank of Scotland, Clydesdale Bank and Standard Life Bank with Lloyds Banking Group maintaining a significant presence in Scotland at this time. The retention of these businesses in Scotland is vital for Scotland’s position on the international stage and therefore must remain a key strategic priority for the Scottish Government.
Q4. How might these changes affect the business and retail banking market in Scotland, access to project finance, a reduction in competition on the ‘high street’ for lending, the plans for the retention of functions and ‘headquartering’ etc and what can the public sector in Scotland do to ensure the best possible result for Scotland?

11. Parts of this question have been addressed elsewhere. Scotland has been badly impacted upon by the financial crisis given the finance sectors input into the Scottish economy and the number of people employed in the sector in Scotland. The Scottish finance sector has performed well in recent years and contributed around 8% to the country’s output in 2008 and employs over 90,000 people.\(^1\) From Q1 2000 to Q1 2007 the financial services industry in Scotland grew by 60%.\(^2\) This level of growth and employment in the past decade is a reflection of what is achievable and with the right level of skills and investment, Unite would argue that despite the present crisis and fall in employment and productivity this does not preclude the sector from similar levels of growth in the future.

12. Competition however has been severely restricted in recent times with the merger of HBOS and LTSB; Co-op and Britannia; Abbey and Grupo Santander. This has changed the face of the high street and impacted significantly on competition for financial products and services for consumers. A diverse and competitive sector is necessary to increase consumer choice and to create demand. Consumers are also becoming increasingly financially aware and the sector requires to address this issue.

13. Unite welcomes the Financial Services Authority announcement that it will now require to see a copy of all company remuneration policies. A thorough review of pay and reward systems within the sector should also be carried out. The sector should not base its pay and reward systems on selling inappropriate products to consumers.\(^3\) In the UK this type of behaviour goes against the Treating Customers Fairly policy which forms part of the FSA regulatory principles.

Q.7 What are your views on the current efforts across the public sector in Scotland to respond to the recent difficulties in the financial sector in Scotland and what, if anything, needs to change in the future as the situation develops?

14. Unite is keen to see the sector work closely with the public sector in order to ensure sufficient opportunities and support is put in place to limit the impact of job losses in the sector.

15. Organisations like Partnership Action for Continuing Employment (PACE) offer a vital service to employers and employees offering support, both

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\(^1\) Strategy for the Financial Services Industry in Scotland 2009 Annual Report

\(^2\) www.sfe.org.uk

\(^3\) A survey carried out by Irish trade union IBOA found that employees were placed under pressure to reach target rather than addressing the concerns of consumers. Access the results at: http://www.uniglobalunion.org/Apps/iportal.nsf/pages/homeEn
practical and financial to companies and advice and information to those affected by redundancy. Unite has worked closely with PACE through the FISAB Scottish Jobs Taskforce and would encourage employers to use such services whenever possible.

Q.9 How should Scotland differentiate itself and promote itself as a financial services centre in the future and what steps are being taken by our competitors in this respect?

16. Scotland has always been home to innovation which has heightened its status on the international stage. Innovative financial products are no different and through partnership working with industry experts, the university network and SDI, Unite sees no reason why Scotland is not well placed to continue to develop its international standing as a competitive location.

17. However this will come at a price and the Scottish Government must be prepared to make funds available to increase training opportunities across all key industries by investing in its people and infrastructure to support growth.

Q.10 How can we ensure that the Scottish financial sector continues to retain a global perspective and does not retreat into a purely localised lending regime?

18. In terms of ensuring Scotland retains a global perspective Unite would wish to highlight the quality of the workforce.

19. It is imperative that the sector does all it can to attract a diverse and talented workforce and is able to retain them. While average earnings in the sector are above the national average when compared with other industrial sectors in Scotland, Scotland’s finance sector employers pay less to those who work in Scotland when compared to those who work in financial services in the UK.\(^4\)

20. Despite this the sector has always managed to attract and retain the skills of a significant proportion of Scotland’s best qualified people with around 33% of the sector’s workforce holding level SVQ 4 qualifications or higher.\(^5\) However significant damage has been done to the reputation of the sector by the sector itself and it may have an uphill struggle to attract or retain people in the future.

21. The sector may therefore require to be more creative in attracting people into the industry by highlighting some of the less obvious career choices on offer in the sector e.g. IT, HR, advertising and property management functions.

Q. 11 Why are “new” banks choosing to establish themselves in Scotland, what is it that is particularly attractive and how can we build on this and attract additional investment into Scotland?

\(^4\) FISAB Annual Report 2009

22. Unite believes that ‘new’ banks are choosing to establish themselves in Scotland due to the quality of the workforce. The sector appears to pride itself in getting the right people into the right job by paying them an attractive and competitive salary. This is especially evident at the highest level of an organisation. This method of reward must be filtered down the organisation to attract and retain the right people in order to maintain the sector’s standing globally.

23. To do this skills and training must be pushed higher up the agenda, an issue Unite has been campaigning for for some time. Skills audits should be carried out to identify current and future skills needs to ensure the workforce is equipped to take account of the upturn when it arrives with training opportunities made available to all workers.

Going Forward

24. Unite has a number of points while not specifically addressed in the questions raised are relevant to the success of the Scottish finance sector going forward.

25. Unite wishes to see an end to the unfair bonus culture – a system which lacks transparency, is inequitable, discretionary, inconsistent and non-pensionable. Unite wants to ensure that our members receive a fair days pay for a fair days wage and this would involve the removal of remuneration systems which focuses on target driven sales to the detriment of consumer needs.

26. It is unsurprising that bonuses have come under scrutiny with the Treasury recently announcing plans to give the banking regulator, the Financial Services Authority (FSA), new powers to control bonuses in all banks, a move which is likely to require new legislation. The new rules would cover the whole of the banking system not just those institutions that are part-owned by the taxpayer, such as the RBS and LBG.

27. On a more general note but not however unrelated, Unite has observed an increase in the workload on our members and has evidence of escalating levels of unpaid overtime as redundancies impact on those who remain. A Unite survey of finance sector members in 2008 found that within banking 63.4% of members work unpaid overtime of which 15% work 10 hours or more per week of unpaid overtime.\[6\]

28. Unite Finance Sector National Committee recently passed a motion supporting the introduction of a National Maximum Wage. While this policy has not been adopted across the whole of Unite, it remains a significant issue for Unite members in the sector. Unite believes that the excessive pay levels of senior executives has fuelled the huge inequality in pay levels in the UK in both the public and private sector. In order to close the gap and contribute to the restructuring of the economy necessary after the current financial crisis

\[6\] Unite Finance Sector Members Survey 2008
Unite, among others, is calling for the introduction of a national maximum wage of ten times the average UK wage. According to Labour Research Department the average UK wage today stands at £592.70 per week which would give a national maximum wage of £308,204 per annum.

29. Unite will be campaigning around this issue and will be lobbying the Westminster Government to introduce legislation to redress the imbalance in pay and remuneration across the economy. Unite would urge the Scottish Government to support this proposal and put pressure on colleagues in Westminster to consider any proposals which restrict excessive remuneration and which aims to tackle the divide between the highest and lowest earners in society.

Unite the Union

Graham Goddard          Rob MacGregor          Cath Speight
Deputy General           National Officer       National Officer

September 2008

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1 Financialisation: what it is and why it matters, Thomas Palley, Political Economy Research Institute, November 2007
2 Making Banks Boring Again, John Kay, Prospect January 2009
3 How a staid Scottish Bank came to outstrip Wall Street in Toxic Loans, Guardian, 5 August 2009
5 Trends In Lending, Bank of England, July 2009
6 http://www.unitetheunion.com/pdf/Myths%20v%20reality.pdf see UNITE’s ‘Pay – Finance sector employees: myth vs reality’
8 http://www.doingbusiness.org/EconomyRankings/
Economy, Energy and Tourism Committee

4th Meeting, 2010 (Session 3), Wednesday, 27 January 2010

Forward work programme - update

Background

1. At the time of writing, the Committee is currently coming to the end of its inquiry into the way forward for Scotland’s banking and financial services sector and is also embarking on a new inquiry into efficacy of the public sector’s support for international trade, export promotion and the attraction of inward investment. There are, however, a number of other confirmed or proposed items of work and this paper identifies these.

Current work programme

Inquiries

2. As members will be aware, the Committee is currently engaged with two inquiries, namely banking/financial services and international trade, exports and inward investment. The broad timetable for these are as follows:

- Banking and financial services inquiry – further evidence sessions are planned for 3rd and 10th February and then the Committee will seek to finalise its report on 24th February and finally on 3rd March. Publication of the report will be shortly thereafter;

- International trade, exports and inward investment – the Committee has agreed its remit and terms of reference and has launched a call for evidence with a deadline of 5th March. The intention would be for the Committee to discuss an approach paper in late February/early March and then schedule oral evidence, external visits etc during March to May and seek to finalise a report by the summer recess.

3. In addition to the above, the Committee has given notice that it intends to engage in a ‘review’ of the efficacy of the reforms made to the enterprise networks (e.g. transfer of responsibilities to local government, creation of Skills Development Scotland etc) and to look at the fundamental purpose of ‘enterprise agencies’. It has been suggested that this ‘review’ commence in summer 2010. If this is the case, it is suggested that terms of reference for the ‘review’ need to be agreed in May with a view to taking a limited amount of oral evidence through June or just after the summer recess. Members will wish to note that this timetable has been suggested because of other commitments (see below).

4. Finally, during previous discussions on the work programme, members have agreed, at least in principle, to consider the issues of innovation and productivity as the provisional subject matter for any new inquiry to be scheduled after the summer recess. It is suggested that members may with to
re-affirm this inquiry choice in principle, but take a final decision closer to the time. Due to the likely timing of the next Scottish Parliament elections, this would probably be the last major inquiry of the Committee this session.

Legislation
5. At this stage, the clerk to the Committee is not aware of any Scottish Government primary legislation that is set to be referred to this Committee before the summer recess. Should the situation change however, members may have to update their proposed work programme.

6. However, as agreed by Parliament, this Committee will need to scrutinise the proposed draft Census (Scotland) Order when it is re-laid. The expected timetable for the Committee is to complete this work during the month of March.

7. It is not known what further secondary legislation or legislative consent memoranda may be referred to this Committee although it could be anticipated that the latter would be rare given the limited time available for the passage of any bill in the UK Parliament.

Budget scrutiny
8. Members may wish to note that it is likely that all relevant subject committees will need to be engaged as part of stage 1 (budget strategy phase) of the next Scottish Government budget. The likely timetable for subject committee work will be April/May 2010. Members will wish to note that this timetable means that the Committee will be running this scrutiny alongside the new inquiry on international trade, exports and inward investment and the start of any review of the enterprise networks/agencies.

Events
9. Members may wish to note that the likely dates, subject to approvals, for the Committee’s event with the STUC will be a Tuesday morning in early May and mid-November for the next Business in the Parliament Conference; a paper on the former is being discussed at today’s meeting and the clerk will bring forward a paper on the latter at a later meeting.

Other
10. In addition to the above, the Committee has already given an indication that it would wish to include the following in its forward work programme form spring/summer 2010 if time allows:

- *Whisky* – following the Committee’s consideration in October 2009 of a research paper produced by SPICe, members agreed to hold a one-off ‘hearing/roundtable’ on related issues (e.g. the pace of the restructuring in Diageo and Whyte and MacKay, bottling issues etc) and to also to consider organising a one-off evidence session on minimum pricing of alcohol and the impact on the spirits industry. Dates for these have not yet been arranged and members are asked for views;
• **Tourism related** – following earlier meetings, members have agreed a number of areas of work, namely:
  
  o to revisit the reforms underway in the National Trust for Scotland and to invite George Reid to present his report when completed (probably in spring 2010)
  
  o to evaluate the success of the Homecoming programme in due course (probably spring 2010), including the management and aftermath of *The Gathering 2009* event. This may include the Committee questioning the Scottish Ministers, VisitScotland etc as well as commissioning SPICe or an external expert/adviser to provide some detailed analysis of, or commentary on, any research produced by the Scottish Government’s consultants that have been contracted to evaluate Homecoming. Dates for this work have not yet been arranged and members are asked for views;

• **Energy related** – following the Committee’s then report published in July 2009, members have agreed to review the progress of the delivery of the recommendations that the Scottish Government agreed to and to do this in the summer of 2010, which may mean June or just after the summer recess. However, in addition, members may wish to look at the various action plans and strategy documents that are set to be published shortly as well as the implementation of the provisions of the Climate Change (Scotland) Act.

**New proposals**

11. In addition to the above, members may wish to note that the Deputy Convener of the Committee has written to the Convener suggesting that the Committee hears from a panel of witnesses from the power utilities on the level of service provision they have offered customers in Scotland this winter. Dates for these have not yet been arranged and members are asked for views on whether and when to proceed.

**Summary**

12. Assuming all of the above items for the work programme are taken on board, the following would be the outline work programme and associated timetable for the Committee through to the summer recess.
# Indicative work programme (spring/summer 2010)

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<th>Task</th>
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<td>Financial evaluation of Orangeberg, including The Clydeside</td>
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<td>Census Order</td>
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**Notes**

1. Exact timings for the budget strategy plan are still to be agreed.
2. In order to fit with the likely timetable for the relevant bill, March would be the optimum time to take any evidence if that was desirable.
3. It is not clear at this stage when Mr Field’s report will be finished. However, HTS will seek to update its financial performance and annual report in February 2010.
4. Exact timing of the review by the Committee will be dependent on when the Scottish Government’s contribution has completed their evaluation of Orangeberg.
5. Consideration of the draft Census (Scotland) Order will depend on when it is re-laid.
6. Agreement in principle to any hearing on the needs to be taken first followed by consideration of when to hold it.
Action/recommendation

13. Members are asked to consider the proposed work programme above, identify any changes they wish to make or priorities they wish to specify and agree the final version. Members are also asked to agree that the Convener and the clerk should endeavour to provide a further update for approval of the Committee, probably shortly before the summer recess.

Stephen Imrie
Clerk to the Committee
January 2010
Economy, Energy and Tourism Committee

4th Meeting, 2010 (Session 3), Wednesday, 27 January 2010

PROPOSED JOINT SEMINAR WITH THE SCOTTISH TRADE UNION CONGRESS (STUC)

Background

1. This proposal for a joint seminar with the STUC originates from a recommendation made by the then Enterprise and Culture Committee in its legacy paper at the end of session two. The Economy, Energy and Tourism Committee agreed with this recommendation and included it in its work programme. The Committee agreed to hold this event annually.

2. If Members agree, the event will follow the same format as the previous two seminars and will be broadcast and a transcript of the event will be produced. Feedback from both previous events suggests that the seminars have been received favourably by all who attended and the above ideas were suggested as improvements.

3. Members are now invited to decide the date and theme for this year’s seminar. The STUC has submitted some initial ideas on potential themes for the 2010 event. These are attached as an annexe to this paper.

The theme of the seminar

4. There is no preference from the STUC on any of the proposed themes in the annexe. Members are therefore invited to discuss each proposal and give views on which theme merits the approval of the Committee as this year’s seminar theme.

5. Members should note that the STUC are already planning to hold two seminars of their own in the Parliament involving MSPs:

   - Digital Britain - which is likely to be held before the Easter recess;
   - Support for Manufacturing - proposed to be held in May.

Date and Participants

6. It is proposed to hold the Committee half-day event, along similar lines as last year’s event, in the Parliament on a Tuesday morning in May 2010. The programme will include guest speakers and question and answer sessions. Efforts will be made to include as many MSPs as possible in the event.
Decision

7. Members are invited to consider whether to go ahead with their own Committee seminar or join in with one of the events already planned by the STUC. If Members do decide to hold their own event, you are asked to agree the theme for this event and whether to task the Convener and clerk with the organisation. Members should also note that the approval of the Conveners Group is required for the expenditure associated with this event.

Gail Grant
Assistant Clerk to the Committee
January 2010
Annexe

Proposal for the third Economy, Energy and Tourism Committee and STUC joint seminar

Background

The Economy, Energy and Tourism Committee (EETC) and the STUC have recently held two joint seminars:

- **Productivity and the Scottish Workplace** in January 2008 – this examined issues around skills, skills utilisation and workplace organisation. Presentations were provided by Graeme Waddell, Rolls Royce, Steve Grahame, SMAS and Damian Thomas, the Irish National Centre for Partnership and Performance; and,

- **Trade Unions and the Arc of Prosperity** in February 2009 – this examined issues around the ‘Arc of Prosperity’ as described in the Scottish Government’s Economic Strategy. Presentations were provided by Paul Sweeney and Peter Bunting from the Irish Congress of Trade Unions, Stein Reegard, Chief Economist Norwegian Confederation of Trade Unions (LO) and Erica Sjölander, Chief Economist, IF Metall, Sweden.

The STUC is hugely appreciative of the opportunity to work with the Committee in this way. Feedback from both events suggests that the seminars have been successful in a variety of ways:

- Providing an opportunity for the STUC to highlight trade union priorities and views to MSPs in a forum which allows for extensive discussion and debate;
- Extending the range of economic debate in Scotland which is often narrowly focused;
- Promoting and indeed generating new ideas around economic development. For instance, in developing work around the skills utilization agenda it has been helpful to refer to the January 2008 seminar and the positive feedback from the Committee on the issues raised.

The purpose of this paper is to provide EETC members with the STUC’s thoughts on potential themes for a third seminar to be held in 2010. These are listed below with the running order not intended to indicate a preference on the STUC’s part. The STUC will of course be delighted to consider any proposals from the EETC which are not covered below.
Potential themes

1. Information, Ideas and Ideology

The global financial crisis is attributable to the failures of corporate management and governance, regulation, central banks and Governments. But, most importantly, many commentators have argued that the crisis resulted from the failure of the ideas which had underpinned policy making for three decades e.g. the retreat of government from the economic sphere (particularly from financial markets), privatization, flexible labour markets and the dominant theories of neoclassical economics (rational expectations, real business cycle theory and the efficient market hypothesis).

The crisis has therefore created something of an ideas vacuum. How this is filled will determine the path of economic development in rich and poor countries alike.

Therefore, now seems an apposite time to consider the future of economic development policy making in Scotland. The seminar would focus on:

- The relevance post crisis of prevailing economic orthodoxies;
- The extent to which policy making can ever be truly evidence based;
- Whether Scotland has the tools in terms of economic data to develop evidence based policy;
- Whether the institutional framework – Government, agencies, CoEA and NEF – is fit for purpose in developing evidence based policy;
- Practical steps to better policy making.

2. Productivity Revisited

The STUC’s first seminar with the EETC focused on Productivity and the Scottish Workplace. Two years and one global recession later might be an appropriate time to revisit this issue. The First Minister’s Council of Economic Advisers is expected to publish a report on productivity later this year and the EETC has proposed to undertake a future inquiry into innovation and productivity.

The seminar would focus on:

- The CoEA report and STUC response;
- Lessons from the global financial crisis and recession;
- Relationship between rising productivity and sustainable development;
- Potential conflict between measures to raise productivity and achieving Scottish Government targets on sustainability, solidarity and cohesion.
3. The Golden Rules

The Scottish Government’s Economic Strategy contains targets on Solidarity, Cohesion and Sustainability – targets Ministers referred to at the time as the Scottish Government’s ‘golden rules’. These targets have been little discussed with attention focusing almost exclusively on the growth targets.

This seminar would focus on progress towards these targets and measures which could hasten their achievement.

4. Scotland in the Global Economy

Both the current recession and the financial crisis which precipitated it have served to emphasise the extent of globalization. Diageo’s announcement of the closure of its Johnnie Walker plant in Kilmarnock highlighted, once again, the ability of firms to shift production in order to enhance already substantial profits.

The STUC believes that the globalization debate is often built around shibboleths which too often go unchallenged i.e. all citizens have/will benefit from greater trade flows.

Recognising that these issues are more important than new, the seminar would focus on:

- The threats and opportunities globalization poses for Scotland;
- Whether Scotland is a ‘good place to do business’? Does the Scottish Government’s Economic Strategy provide a relevant policy framework post global financial crisis? Is it possible for Scotland to become a better place in which to live and work as well as a better place in which to do business?
- Is it realistic to expect 21st century inward investors to be good corporate citizens?

5. Scotland’s Key Sectors

The Scottish Government’s Economic Strategy contains a ‘particular policy focus on a number of key sectors with high-growth potential and the capacity to boost productivity through enhanced support across the Strategic priorities, including the regulatory and fiscal environment’. The sectors identified are Creative Industries, Energy, Financial and Business Services, Food and Drink, Life sciences and Tourism. The strategy also states that the Scottish Government will seek to take advantage of public sector strengths in Education and Healthcare.

The Strategy does not explicitly refer to what were previously known as the ‘regional priority industries’: textiles, aerospace, construction, forestry and chemicals. However, Scottish Enterprise does still support these sectors through its industry teams.
The seminar would focus on:

- The intellectual basis for the key industry strategy and whether the key sectors genuinely reflect Scotland’s comparative advantages;
- Potential confusion over the status of the ‘regional priority’ industries;
- The case for a generic ‘manufacturing’ priority;
- Whether the key sector strategy should be supplemented with an industry replacement strategy.

6. Climate Change (Scotland) Act

The purpose of this seminar would simply be to examine:

- the industrial opportunities and threats posed by the Climate Change (Scotland) Act; and,
- the action required to maximize economic and employment opportunities.