ECONOMY, ENERGY AND TOURISM COMMITTEE

AGENDA

18th Meeting, 2010 (Session 3)

Wednesday 2 June 2010

The Committee will meet at 9.30 am in Committee Room 2.

1. Decision on taking business in private: The Committee will decide whether to take item 4 in private.

2. The public sector's support for exporters, international trade and the attraction of inward investment: The Committee will take evidence from—

   Rupert Soames, Chief Executive, Aggreko plc.

3. The way forward for Scotland’s banking, building society and financial services sector: The Committee will consider the response from the Scottish Government to the inquiry report.

4. The public sector's support for exporters, international trade and the attraction of inward investment: The Committee will consider its approach to the inquiry report.

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The papers for this meeting are as follows—

**Agenda item 3**

Scottish Government response to the banking inquiry

EET/S3/10/18/1
I was very pleased to have received the Economy, Energy and Tourism Committee’s Report on the way forward for Scotland’s banking, building society and financial services sector and would ask you to pass on my congratulations to the Committee for delivering a comprehensive and wide ranging report within such a short space of time and following consideration of a mass of evidence, both written and oral. I am sure the Committee must have been delighted with the level of co-operation it elicited from very senior figures in the industry and other professional and representative bodies, as well as other government and public sector organisations. I am sure that the Committee’s decision to agree such a forward looking remit played its part in encouraging this high level of contributions.

Please find attached the Scottish Government’s response to those issues raised in the report which are specific to the Scottish Government. I hope you find this helpful.

As you know, I very much welcomed the Committee’s inquiry and I look forward to the debate in Parliament which will enable all parties to consider the full report across all areas of responsibility. I believe that this presents an excellent opportunity for Members, the financial services industry, and the wider business community as well as consumers, to formulate a position on how best to ensure Scotland has, and maintains, the kind of financial services industry it needs. While the global financial services industry continues to experience significant change and uncertainty, the industry here in Scotland remains extremely important for our economy and the Scottish Government is determined to continue to support it in maintaining its real strengths and adapting to change.

JOHN SWINNEY

We note that the Scottish Government did not refer to the proposed Scottish Investment Bank in evidence and the Committee will therefore seek clarification from the Scottish Government on the role of this institution. We also encourage the Scottish Government to continue to monitor SME access to finance by updating its survey on a regular basis while concerns still exist over access to finance.

Following receipt of a letter of 15 December 2009 from Iain Smith MSP, Convener of the EET Committee, a response was issued on 22 January with a detailed note on the Scottish Investment Bank and the position with regard to the proposed establishment of a JEREMIE fund. We also offered to provide whatever supplementary advice the Committee might require. Following the Cabinet Secretary for Finance and Sustainable Growth’s appearance before the Inquiry on 10 February, the Committee wrote to him on 15 February seeking supplementary evidence and he responded in full on 28 February. The request for supplementary evidence did not include any reference to the Scottish Investment Bank, and as he had already provided information to the Committee on this in the letter of 22 January - prior to his appearance before the Inquiry, he concluded that nothing further was required at that time. Since then, on 21 April, the Scottish Government announced plans for a £50 million loan facility to be delivered through the new Scottish Investment Bank to help growth and exporting firms to expand and so boost economic recovery. Officials have since provided the Committee with more detailed information on this.

In terms of our work on SME access to finance, the Scottish Government will continue to follow-up on the analysis and evidence emerging from the survey work over the course of 2010/11, including a further update to the survey to ensure that credit conditions are monitored for any improvements in access to finance. We will keep the Committee informed of results.

The Committee is disappointed that the Office of Fair Trading (OFT) has failed to keep a “watching brief”, as requested by Lord Mandelson, on the competition situation following the acquisition of HBOS by Lloyds TSB. Before the divestments required of RBS and LBG in Scotland have been made, the Committee calls on the Office of Fair Trading to conduct a formal investigation into competition in banking in Scotland in personal current accounts, home loans and business banking. The Committee has written to the Office of Fair Trading to request that it conducts such an investigation. We are disappointed that to date, the OFT has not seen fit to conduct such an inquiry. The Committee also recommends that the Scottish Government formally asks the Office of Fair Trading to conduct such an inquiry.

Responsibility for Competition issues are reserved to the UK Parliament by the Scotland Act 1998. We have, however, been aware of the ongoing work of the OFT in relation to personal current accounts. In its latest report on this issue, published on 16 March, the OFT states that it will monitor developments in the market over the next two years and will consider further intervention, including recommending legislation, if competition and change fail to deliver expected improvements. In addition, the OFT has also committed, in this report, to undertake a review during 2010 looking at barriers to entry in banking. This review will cover the UK, including Scotland. The Scottish Government welcomes this commitment and officials will continue to liaise with the OFT on this to ensure that Scottish issues are fully
taken account of. The Scottish Government will continue to make data in relation to the workings of the market in Scotland available to the OFT.

**In order to develop a sound basis for more engagement on the financial sector, the Committee calls on the Scottish Government to develop a far more detailed and publicly available vision for the sustainable growth of the financial sector in Scotland. This should be developed in collaboration with the Financial Services Advisory Board and include an assessment of the sector, the potential for growth and the identification of the factors that can sustain and grow the sector.**

The Financial Services Strategy Group (FSSG), a unique partnership between government, the industry and trade unions, was established in 2003 and was chaired by Jim Wallace, QC MSP then Deputy First Minister and Minister for Enterprise and Lifelong Learning in the Scottish Executive. The FSSG’s mission was:

**To align the public and private sectors to develop and deliver a long term shared vision and strategy in order to sustain and maximise the success of the financial services industry and its contribution to Scotland’s prosperity.**

The aims of the FSSG were:

- *Through the success of the firms comprising the industry, to strengthen Scotland’s position as a leading financial services centre and thereby maximise the industry’s contribution to Scotland’s economic success.*

- *To foster an economic and social environment which encourages the development of the industry and responds to its priorities, making it attractive for firms to choose and maintain Scotland as a key operating base.*

The culmination of the work of the FSSG was the *Strategy for the Financial Services Industry in Scotland* (the *Strategy*) which was published in 2005 and which aims to deliver the vision of:

**An innovative, competitive and thriving international financial services industry in Scotland, underpinned by world-class infrastructure and universally recognised as a leader on the global stage.**

In measuring progress, the *Strategy* set out a number of indicators, such as contribution to the economy (output and employment) as well as earnings and qualifications data, which should continue to be monitored. More detailed industry specific measures were also identified and this data for Scotland is benchmarked against international comparators.

The *Strategy* which includes details of the vision is published on the Scottish Government website. Each year an annual report is published which provides a summary of activity for the year, comparative data as outlined in the *Strategy* as well as an indication of plans for future years. The *Strategy* and annual reports for 2005-06 through to 2008-09 are available on the Scottish Government website at [www.scotland.gov.uk/financialservices](http://www.scotland.gov.uk/financialservices). Work is underway to produce the Annual Report for the period 2009-10.
The Financial Services Advisory Board (FiSAB) is the custodian and advocate of the Strategy. Work is focused on three Strategy pillars:

People - to strengthen our world-class workforce through labour market and skills development, raising the appeal of the industry as a career choice, and ensuring delivery of financial education in schools and beyond.

Profile - to enhance Scotland’s image, identity and profile as a centre of financial services expertise and as a preferred location for financial services investment.

Infrastructure - to ensure the business environment in Scotland is conducive to achieving a successful financial services industry.

In 2007, the incoming Scottish Government considered the current Strategy and the FiSAB structure and decided that, although developed and established during the previous administration, it continued to meet the needs of this key industry for Scotland. We signalled our commitment to the Strategy and the work of FiSAB by ensuring full Ministerial support - FiSAB is chaired by the First Minister and both John Swinney, Cabinet Secretary for Finance and Sustainable Growth and Jim Mather, Minister for Enterprise, Energy and Tourism are Board members.

Of course, all of this took place during a period of continued growth for the financial services industry in Scotland and elsewhere. In December 2008, in response to the global financial crisis and to ensure that the Strategy remains a relevant vehicle to support the industry, the Financial Services Implementation Group (FiSIG) (the working group which supports FiSAB) engaged in a scenario planning exercise. FiSIG worked with academics from the universities of St Andrews and Edinburgh to identify a range of possible future scenarios and actions which might mitigate risks and capitalise on opportunities created by these scenarios. These actions were, in turn, sense checked against plans and high level objectives. It was concluded that the Strategy and the work of FiSAB continue to be relevant to the future success of the industry in Scotland.

In February 2010 the Scottish Government published its Financial and Business Services Key Sector Paper as part of a series of reports that describe the composition and performance of each of the key sectors of the Scottish economy. The reports also summarise key policy interventions plus known challenges and opportunities facing the key sectors.

It remains our view that the Strategy, with its vision and FiSAB as its custodian and advocate, continues to be the most effective vehicle to sustain and grow the financial services industry in Scotland.

This vision should include a blueprint for the type of banking sector that the Scottish Government would like to see in Scotland, with a strong emphasis on increased competition and diversity. It should also include the Scottish Government’s view on the HBOS and RBS divestments and how they could best benefit competition in the financial sector in Scotland. We have given our view above on the vision and we encourage the Scottish Government to build on this and bring back a report to the Parliament and this Committee in the coming months for a full debate and endorsement.

1 http://www.scotland.gov.uk/Topics/Economy/Key-Sectors

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As already stated, it is our view that the current *Strategy for the Financial Services Industry in Scotland* and the vision it defines remains fit for purpose as the relevant vehicle to support the industry and ensure its future growth. The Scottish Government has made clear that we would like to see a diverse and competitive banking sector in Scotland and the planned divestments provide both challenges and opportunities for Scotland. While the Scottish Government has some powers available to ensure that Scotland can attract the type of financial services organisations it wishes to see operate here, we are somewhat limited by the Devolution settlement in terms of some major issues of importance to such organisations, for example a competitive tax structure, including corporation tax. Despite this, we will continue to use all resources at our disposal, including the expertise of Scottish Enterprise (SE), Highlands and Islands Enterprise (HIE), Scottish Development International (SDI) and Skills Development Scotland (SDS) to ensure that Scotland is the best place in Europe in which to do business. This also includes ensuring we continue to provide a wide pool of highly skilled and flexible talent, infrastructure which meets the industry’s needs, and a commitment to continue our work to align the efforts of public sector delivery partners in engaging with private sector partners to help the industry to grow and succeed.

Ministers and officials continue to engage closely with interested parties in our efforts to ensure that Scotland can attract the investors we require to ensure the type of banking sector necessary to meet the needs of both business and individual consumers. The Committee will understand that it would not be appropriate to make public the detail of any commercially sensitive discussions or contacts that may be ongoing.

To ensure that Scotland can benefit from an increased number of providers and greater competition in the banking sector, we will therefore also continue in our efforts to engage with stakeholders and potential investors. We will also continue to work to ensure that businesses, particularly SME and start up firms, have access to the help and advice and the range of finance products that they require to succeed and grow while ensuring that our citizens have access to the information and education they require to demand choice and transparency in financial products.

*The Committee notes the Scottish Government’s view that the Financial Services Advisory Board can act to provide a collective “Scottish Voice” on regulatory matters. However, in light of the potential conflicts of interest, the Committee is of the view that Scottish Financial Enterprise (SFE) is the industry body in Scotland and that it is consequently the role of SFE to lobby on behalf of its members.*

In considering the impact of “regulatory matters” on Scotland’s financial services industry, the Scottish Government consults appropriate stakeholders for their views, and FiSAB is one way of consulting with industry experts. Where an issue has the potential to impact negatively on Scotland’s financial services industry, which contributes significantly to the life and economy of Scotland, we consider that the Scottish Government has a legitimate interest in those matters and will lobby the relevant UK, EU or other appropriate authorities to ensure Scotland’s position is fully understood and taken account of. A good example of this has been work on the draft Alternative Investment Fund Managers (AIFM) Directive where the Scottish Government, at the request of the industry in Scotland through SFE made our support for the industry view on this very clear. The Committee will no doubt remember the excellent the members’ debate ([S3M-5419 David Whiton: Scotland’s Investment Management Industry](http://www.scotland.gov.uk)) in January and the all party support across the Chamber for the Scottish financial services industry’s view. The Cabinet Secretary for Finance and Sustainable Growth communicated the content and result of that debate to the European Commission, the UK Government and all Scottish MEPs seeking their support for the proposed amendments to the draft AIFM Directive which we believe will help ensure that

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we secure regulation which is both effective and proportionate. In considering these matters, of course, the Scottish Government will take account of a wide range of views, including those of industry and other stakeholders, in defining our own position.

The Committee is concerned about whether FiSAB is properly constituted and reflects the interests of the real economy and banking consumers in Scotland. The Committee therefore calls for the composition of FiSAB to be reviewed with a view to establishing a body which represents not only the industry but a broader range of interests, particularly those of businesses and consumers. The Scottish Government should then draw on the views of this body to consider how it can champion a financial sector that supports the interests of the people and the economy as whole in Scotland.

As set out earlier in this response, FiSAB was established to be the custodian and guardian of the Strategy for the Financial Services Industry in Scotland. It is not intended to be a representative body for either consumers or businesses within the wider economy. The focus of FiSAB and the Strategy is to ensure the success and growth of the financial services industry which itself consists of a diverse range of sectors. In 2008 FiSAB undertook a review of its membership to ensure that it continues to meet the needs of the industry and following that review the membership was restructured to better reflect the sub sectors which make up the industry in Scotland.

This structure brings together experts from across all sub sectors of the financial services industry in Scotland who are able to discuss in full the issues that affect the industry here, alongside colleagues who represent financial services employees and those in our wider public sector who are delivering economic development opportunities to the industry as well as policy makers who need to be aware of the industry’s requirements. The Scottish Government considers that this continues to be the right focus and that any move to alter it to directly encompass other sectors or representative bodies will dilute the effectiveness of the collaborative partnership which FiSAB achieves. FiSAB has, and will continue to, consider high level strategic issues and the Scottish Government and its agencies will benefit from these discussions in formulating policies and plans for the future.

We do, however, fully recognise the legitimate concerns of the wider economy and consumers. There are other vehicles through which the interests of the wider business community and consumer groups can engage. These include, in particular, the National Economic Forum which brings together senior figures in business, trade unions, government, the wider public sector, and the third sector, as an important aspect of the Government's strategy to achieve transformational change and higher sustainable economic growth throughout Scotland. The Forum provides a vehicle to generate support and momentum behind the Government Economic Strategy, helping to bring about an increased, shared understanding of Scotland's economic challenges and solutions. The Forum also provides a further opportunity for new initiatives and partnerships to flourish as a new form of broad-based social and economic partnership for Scotland.

In addition, Scottish Government Ministers and officials meet regularly with the main business organisations in Scotland as well as a variety of consumer and community groups to ensure we understand their needs and concerns and this has been of particular importance during the global financial crisis. The Minister for Enterprise, Energy and Tourism's Civic Scotland initiative is about mobilising as many people as possible to work towards the Scottish Government's goal of sustainable economic growth and making Scotland the best place in Europe to do business. The initiative engages Scots from a wide range of intellectual and civic traditions with over 6500 stakeholders having had the
opportunity to engage directly with the Minister to date and to have their views heard. Increasing local ownership will lead to greater economic resilience as long term relationships and traditions of problem solving are established in local communities and sectors.

And of course, the Scottish Parliament itself offers a vehicle in the form of the annual Business in Parliament Conferences, jointly organised with the Scottish Government and enjoying the strong support of our partners amongst the business organisations and trades unions. The Conference provides another opportunity to discuss plans and priorities vital to achieving our shared goal of growing our economy.

The Scottish Government is committed to working in partnership across all sections of the community and business. We do not consider that the role, focus or structure of FiSAB needs to be changed and believe that there are sufficient opportunities in place to enable consumers and businesses to discuss issues of concern. The Board will, of course, continue to consider current issues of concern, and in doing so may invite others to present views and information to FiSAB.

The Committee welcomes the commitment of the Finance Sector Jobs Task Force to alleviating the impact of redundancies in the financial sector in Scotland. It also supports the Scottish Government’s continuing assistance to the Task Force. The Committee considers that the lack of accurate statistics on the job losses that have resulted from financial crisis provide further evidence on the weakness of the statistics available for this sector. It therefore calls for better and more regularly updated baseline data on employment in the financial sector.

The work of the Finance Sector Jobs Taskforce has been undertaken in a period of significant uncertainty for the financial services industry and we believe that its alignment of the skills and expertise across the relevant public sector bodies has been of paramount importance in responding positively in the current climate. We also consider that its ability to respond has been enhanced by its position within the FiSAB structure, enabling it to exploit the knowledge and experience of the range of Board members.

Employee jobs statistics for all sectors in the economy are obtained through the co-operation of industry partners who provide data returns to the Office of National Statistics (ONS). ONS employee survey results which are published on an annual and quarterly basis, however, do not allow for estimates of changes in sector level employment over the more immediate short term.

The Annual Business Inquiry (ABI), an employer survey, is therefore used as the main source for employment data in the financial services sector and other industries across the economy. The main benefits of the ABI are that:

- it reports the overall level of employment in the sector and therefore captures the net effect of both job losses and job creation on an annual basis;
- it covers the whole economy and therefore allows direct comparisons with UK data and other industries;
- it allows analysis of the sub sectors in the industry; and
- data is collected through a statutory requirement ensuring a high response rate leading to more reliable estimates.

Improvements on the timeliness of publication of ABI data are planned and developments are underway at the ONS which mean that in future years the publication of employment data from the ABI, for financial services and other sectors across the economy, will be

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available three months earlier than is currently available. Publication is anticipated to take place in the September following the reference year of the data from 2011 onwards.

As part of a Scottish Government initiative to improve the quality of measurement of financial services output in Scotland, a new quarterly data return from all banks and building societies in Scotland is planned. In addition to informing estimates of changes in output in the sector, this return will also include data on employment. For the reasons outlined above, the ABI would remain the main source of employment information for the sector in Scotland; however the new quarterly returns are anticipated to provide a useful source of data to supplement analysis of the latest developments in the sector. We have been pleased to be able to discuss this initiative with FiSAB during its development and to have obtained the agreement of industry partners for the implementation of this new data return in Scotland. Work on this is being undertaken in partnership with the ONS and the Bank of England to ensure best use is made of data from a range of sources.

The Committee calls on the Scottish Government to initiate a step change in communication and contact at the highest levels with the Tripartite Authorities with a view to discussing issues of relevance to the financial sector in Scotland, as well as macro-prudential and broader economic issues. The Committee considers that as the Scottish Government’s overarching purpose is to promote sustainable economic growth in Scotland it is crucial that it better engages with all of the Tripartite Authorities on these issues, particular by the Scottish Ministers. The financial crisis has had such a profound effect on the Scottish economy that it is important that there is an exchange of information between these bodies going forward. This is exemplified by the situation faced by small and medium enterprises in Scotland in accessing finance over the last two years. Given the role of the Tripartite Authorities in ensuring flows of credit and that banks continue to lend, it is important that reports such as the Scottish Government’s reports on SME Access to Finance are provided to the Tripartite Authorities.

As set out in the response from the Cabinet Secretary for Finance and Sustainable Growth on 28 February to the Committee’s additional questions and points, Scottish Government officials have regular contact with counterparts in HM Treasury, Bank of England, the Financial Services Authority (FSA) and the OFT on a wide range of issues as part of normal working. Scottish Ministers communicate with HM Treasury Ministers on a wide range of issues, both in writing and in person. In 2008, FiSAB considered the structure of its membership, and this included consideration of the arrangements for official observers at FiSAB. At its meeting on 2 September 2008 FiSAB agreed a new structure to better reflect the sub sectors which make up the industry in Scotland and also agreed to approach both the Bank of England and the FSA seeking their views on whether they would take up the same observer status at FiSAB which is enjoyed by HM Treasury. Both the Bank of England and the FSA responded that they would be happy to attend those FiSAB meetings at which they could be of assistance during the Board’s discussions. Since then, the Bank of England’s Agent for Scotland attended the FiSAB meeting on 1 June 2009. The FSA has not yet been invited to attend a specific meeting and HM Treasury continues to have observer status at all meetings. The regulation of financial services is a matter reserved to the UK Parliament and as HM Treasury, the Bank of England and the FSA all have responsibility for the whole of the United Kingdom on these matters, we expect all of these institutions to take full account of Scottish specific issues in their day to day operations.

Throughout the current financial crisis and within correspondence on various issues, Scottish Ministers have offered to work with the UK Government to ensure that issues with specific impact on Scotland, or information pertaining to Scotland’s economy and the workings of the

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banking market can be properly taken account of in formulating policies and response to the economic turmoil being experienced. We will continue to ensure that Scottish Government analysis and reports such as the SME Access to Finance Survey are shared with UK authorities.

The Committee calls on the Scottish Government to engage with the UK authorities systematically at the early stages of the development of European Union legislation and emerging financial regulation, as well as on the transposition of European Union directives by the UK Parliament. We recommend that an assessment of the challenges and opportunities from future EU legislative proposals is made and shared with the Parliament.

While regulation of financial services as well as responsibility for negotiating with the EU on regulatory matters lies with the UK Government, the Scottish Government believes that EU decisions on financial services matters are of critical importance to the industry in Scotland and to our economy as a whole. Companies in Scotland are engaged by a variety of means, principally through sectoral industry bodies (e.g. the Association of British Insurers and the British Bankers Association) as well as through the industry-wide representative body in Scotland, Scottish Financial Enterprise (SFE). The Scottish Government, however, believes that it has a legitimate right to influence these matters at the heart of the EU decision making centre.

SG EU office Brussels

The Scottish Government's EU office is based in Brussels and supports the EU related work of the government. Officials provide operational support to the government by gathering information, developing regional and national links and attending and monitoring European Council working groups, sessions of the European Parliament and other events to ensure that decision makers in Scotland are kept fully informed of the latest developments in the EU. The office has built an effective network of contacts in the institutions through which officials explain and promote Scotland's particular interests and views on matters being discussed. It also strives to raise Scotland's profile and build its image and reputation amongst EU partners. The office also works closely with the United Kingdom's Permanent Representation to the EU (UKRep) which remains responsible for representing the views of the UK as a whole to the EU institutions. Working effectively with UKRep contributes to ensuring that the UK's negotiating position reflects that of Scotland and the other Devolved Administrations.

Scotland Europa and Scotland House

Part of our economic development agency, Scottish Enterprise, Scotland Europa provides intelligence, policy analysis and strategic funding advice about the EU and its relevance to Scottish organisations. It offers insight and expertise into EU public affairs, bringing careful analysis and fresh interpretation to European issues affecting Scottish interests. It also works to raise Scotland's profile in the EU and to increase the level of expertise and knowledge of European issues within Scotland.

Scotland Europa also provides these services to over 50 Scottish organisations from the public, private and academic sectors, the diversity of interest across its membership gives Scotland Europa an influential voice in European Affairs. Through Scotland Europa membership these Scottish-based organisations are able to share resources for EU engagement, rather than going it alone - giving a stronger, strategic positioning for Scotland in the EU.
For example Scottish Financial Enterprise is a member of Scotland Europa. Scotland Europa have worked closely with SFE over the last year in particular to help them negotiate the proposed change in EU Financial Services legislation following the global economic crisis, to promote a greater understanding of the specificities of the Scottish Sector amongst EU politicians and decision makers.

Scotland Europa also operates Scotland House, in Brussels, which is home to a number of key Scottish partner organisations including the Scottish Government's EU Office, Highlands and Islands European Partnership, the Scottish Parliament, as well as other European partners (from Eurodesk Brussels Link to the City of London EU Office, HP and SUN Microsystems EU public affairs teams, as well as colleagues from Ireland, Poland and Finland) with whom we work closely to monitor upcoming EU opportunities and develop projects and position Scotland as a key player in the EU.

UK Relations

In addition, Scottish Ministers maintain an active and constructive relationship with the UK Government on EU matters, sharing our ideas, resources and experience with Whitehall counterparts including active participation with UK Ministers and those from other Devolved Administrations in the Joint Ministerial Committee Europe (JMCE) chaired by the UK Foreign Secretary.

The Scottish Government takes an active role in the transposition of European Union directives where they fall within devolved competence. Guidance on handling European obligations encourages policy leads to engage with their Whitehall counterparts to ensure timely and appropriate transposition. The Scottish Government is mindful of its responsibilities to ensure transposition deadlines are achieved and actively contributes to the positive UK response.

In terms of engaging with the UK Government on transposition of EU directives into UK legislation, in progressing UK legislation which extends to Scotland, Scottish and UK officials liaise appropriately throughout the process.

European Commission Work Plan (CWP)

The CWP was published on 31 March 2010. It is the first such publication of the second Barroso Commission and as such it represents a departure from the work of previous years as it contains not only the list of proposals for the year ahead, but also includes a new indicative multi-annual list of proposals for the remainder of the mandate. Each successive CWP of the Barroso II Commission will flesh out proposals drawn from the multi-annual list for the year ahead. Scottish Government officials are currently analysing the CWP.

We understand that the Scottish Parliament European and External Relations Committee (EERC) agreed, at its meeting on 20 April, to seek the views of relevant subject committees on the CWP and that a debate sponsored by the EERC will take place on 12 May 2010.

The evidence heard by the Committee emphasised the importance of the headquartering of financial institutions in Scotland. This helps to promote high-end jobs within the institution concerned, as well as supporting other business services, particularly in the professions. The Committee calls on the Scottish Government to consider how it can support the retention of headquartering functions in Scotland and provide the detail of its plans in the report to Parliament that we have requested.
A successful Scottish economy is dependent on having significant headquarters and decision making functions. With these activities come higher value employment and also the increased likelihood that the local supply chain can benefit from the procurement of these major firms. This has also been an area of debate among policy makers in recent years. For example, the Council of Economic Advisers, in January 2009, expressed its concern that "over the last thirty years, the UK Government has generally been a passive actor...questions of industrial structure" and that this had led to a "denuding of Scotland of corporate headquarters". Despite the difficulties faced lately, Scotland still has significant headquarters functions in financial services, notably in Banking where RBS has given a commitment that Gogarburn will remain its headquarters but also in sub-sectors such as Asset Management where companies such as Baillie Gifford and Martin Currie continue to trade successfully from a Scottish base.

The private sector will typically locate in those areas which best meet its business needs and from where it is able to source the skilled labour, property and capital to operate and serve customers most effectively. For large companies, with a global customer base, this inevitably raises the possibility that such firms may choose to locate elsewhere from Scotland. To try to ensure that this does not happen, and indeed that we are able to attract further regional headquarters, the public and private sectors have to work in partnership to demonstrate the opportunities that are available to companies and also to help remove any barriers which prohibit the growth of these firms. Of particular note is the work that the Finance Sector Jobs Taskforce has been doing with RBS. Through close engagement with the company, the Taskforce has been able to create an effective partnership which has mitigated some of the job losses across the sector through signposting employees to other companies which are looking to expand.

Scottish Development International has been successful in attracting headquarter functions from new entrants into the banking market, most notably Virgin Money and Tesco Bank, demonstrating that Scotland can compete against offerings from other regions within the UK and globally. As the divestment of assets from RBS and Lloyds continues, the opportunities for new entrants locating their headquarter functions here will be actively explored. Furthermore, to help retain existing functions, Scottish Enterprise works in partnership with other parts of the public sector to help engage with large companies on areas of significant opportunity. By engaging proactively through the Scottish Enterprise account management support, the intention is to provide "early warning" of potential expansions, thus allowing a strong proposition to be made, but also to help understand the company’s needs should it be considering relocation.

The Committee calls on the Scottish Government to consider how it can promote inward investment to support the critical mass in life, insurance, investment management and asset servicing that already exists in Scotland. The Scottish Government should continue to use all measures at its disposal including RSA grants to attract new financial sector businesses to Scotland and ensure that existing companies remain. It also calls on the Scottish Government to work with the relevant agencies to promote Scottish financial service companies abroad, particularly in the emerging markets. We will return to this area in our current inquiry on international trade and inward investment policies.

The Scottish Government will continue to promote both inward investment by and internationalisation of financial services companies through Scottish Development International (SDI).
To win investment Scotland needs to beat intense international competition and demonstrate it is the best location to invest in. SDI’s core focus and competence is in the delivery of world class sales and marketing to both attract investment and talent to Scotland and to support Scottish businesses to internationalise through, in particular, enhancing business development activities.

Critical to future success in attracting investment and increasing trade is effective partnership working both at a Scottish and UK level, including:

- alignment across the public and private sector to enhance the global competitiveness of the business environment in Scotland including: skills, research, transport, regulatory and fiscal environment.
- harnessing the full potential of international networks and influencers and working with partners to actively co-ordinate the wider promotion of Scotland globally.

Within this context the focus of SDI over the coming three years is to concentrate its resources on the generation of trade and investment opportunities for Scotland that help strengthen Scotland’s competitiveness within the global economy. SDI working closely with Scottish Government (SG), Scottish Enterprise (SE) and Highlands & Islands Enterprise (HIE) has just refreshed its Strategic Direction and Priorities for the next three years (2010-13). SDI’s objectives are to:

- attract investment and talent which builds on Scotland’s globally competitive sectors (which include Financial Services)
- raise the aspirations and capabilities of more Scottish businesses to think, compete and trade globally
- actively work with others to increase the global competitiveness of the business environment in Scotland and to align the wider promotion of Scotland internationally

SDI and its partners provide a number of international products and services to support Scottish businesses and potential investors to achieve their international aspirations. These include bespoke and industry wide training assistance, R&D support as well as more direct financial assistance through RSA and other grants. Support will most often be delivered through a package of interventions to assist companies with their growth plans over a period of time. In many cases businesses will need more than one type of assistance in order to pursue their international ambitions and aspirations.

Specific work with the financial services industry in relation to internationalisation activities will focus on key sub-sectors, for example, helping Scotland asset managers to access markets where government support is important to make high level connections, for example China & Japan. SDI has already held a number of Fund Management events in China to highlight Scotland’s overall Financial Services strengths, but importantly allow Scotland’s Fund Managers to highlight their own services and products to representatives of China's regulators and financial services companies. Further work in this regard is already planned during Shanghai Expo in September 2010. A key focus of SDI work within the financial services industry is the attraction of financial services companies to Scotland, but also in the retention and expansion of financial services companies already established in Scotland. SDI is already a key partner within the Finance Sector Jobs Taskforce. In undertaking all of this SDI works with a range of partners including Scottish Financial Enterprise (SFE) where it has undertaken numerous joint promotional events both in Scotland and across the globe. SDI also works closely with UKTI to ensure Scotland's proposition is integral to the UK financial services proposition and is represented on UKTI Regional Forum. Mark Tennant, Chairman, SFE and FiSAB Industry Deputy Chair also represents Scotland on theCity UK
overseas promotion committee again to ensure Scotland’s overall message continues to be promoted.

The Committee’s current inquiry on international trade and investment policies is most welcome and will provide it the opportunity to examine these issues in more detail.

Many of the witnesses who gave evidence to the Committee emphasised the importance of education at all levels. They stressed the importance of good numeracy, literacy and functional skills in school leavers as well as high-quality university graduates. The Committee calls on the Scottish Government to promote these skills further and consider how it can deliver a skilled work force at school leaver, further education and university level. The Committee stresses the importance of highly-skilled workers and the value of modern apprenticeships in this context. The industry should also be promoted as a potential area of employment to counteract any negative impact that the financial crisis may have had on interest in the sector. We expect this issue too to be covered in the report we have requested.

Schools

Curriculum for Excellence prepares young people for the challenges of life in the 21st century. It builds on the strengths of Scotland’s education system and will raise standards for every child. It enables every child to become a successful learner, confident individual, effective contributor and responsible citizen.

In order to encourage the development of numeracy skills within Curriculum for Excellence, Learning and Teaching Scotland has established a National Numeracy Network. The Network will promote new ideas, disseminate information, discuss emerging good practice in local authorities and share learning between and across authorities. The Network supports a Financial Education Strategy Review Group that is looking at the range of teaching resources currently supporting financial education in schools and how these might be updated and improved. The Review Group is also developing a Financial Education Delivery Plan that will illustrate how financial capability can be embedded in the curriculum through a continuous focus on numeracy skills.

Further and Higher Education Institutions

In terms of further and higher education, the Scottish Further and Higher Education Funding Council (SFC) is the national, strategic body that is responsible for funding teaching and learning provision, research and other activities in Scotland’s 43 colleges and 20 universities and higher education institutions.

A key priority for the SFC, in line with Scottish Government policy, is to improve the employability of learners and their skills development. This is an important area of public policy because of the impact that skills and employability have on individual life chances, the performance of our economy and our public services.

Working with Scotland’s colleges, universities and other partners, SFC seeks a system of further and higher education in which through the provision of high quality education and learning, students have enhanced their general and specific skills, their confidence, self-reliance, motivation, knowledge and capacities in ways that:

- meet the needs and expectations of employers;
- lead to improved utilisation of skills in the workplace; and
• contribute to improved personal, social, civic and cultural outcomes for the people of Scotland.

“Learning to Work” is the SFC’s employability strategy for supporting college and university work to build capacity and good practice with a view to enhancing student employability. It defines employability as “a combination of knowledge, skills and attributes (attitudes and values) which result in capable people who will be effective in their chosen occupation - as employees, employers and entrepreneurs”.

The Horizon Fund allows the SFC to work closely with universities and other partners in ways that are potentially groundbreaking, nationally and internationally, by developing and investing in projects that are intended to bring economic, social and other benefits to Scotland.

Financial Services Skills Gateway

We recognises the importance of a skilled workforce within the financial services industry and the need to support activity to promote it as an attractive career option and address negative perceptions that may have developed. SDS has worked with the industry to create the Financial Services Skills Gateway, bringing the work of the Financial Services Sector Skills Council and key Scottish employers together into one focused vehicle to drive and shape the skills agenda as the industry adjusts to the new market conditions. SDS, working in conjunction with the Financial Services Sector Skills Council and the Financial Services Skills Gateway will develop a comprehensive programme of action to be delivered in partnership with industry to address future skill requirements across the sector. More specifically the Gateway will aim to:

• articulate clearly the industry’s skills requirements;
• improve the understanding of the career pathways available in financial services;
• increase the flow of school leavers, graduates and adult returners into the industry by creating a talent “pipeline” that is predictable and manageable;
• develop workforce capability at all levels; and
• facilitate collaboration between all stakeholders involved in education, training and skills development for the Scottish financial services industry.

Modern Apprenticeships

We also recognise the importance of Modern Apprenticeships for the sector and during 2009/10 over 600 financial services apprenticeships were supported by SDS - a significant increase on previous years and which reflects a positive SDS response to increased industry demand during the economic downturn.

Infrastructure in Scotland, as well as the transport links between Scotland and other countries, was identified as being important, particularly in the context of Scotland’s geographic position. In this context, the Scottish Government should continue to develop Scotland's transport infrastructure and connections with other countries, particularly by means of direct flights to and from Scottish airports. In particular, travel to London – as one of the two main global financial centres – should be facilitated by a high-speed rail link.
The Scottish Government recognises the importance of international connections for business to attract inward investment and to make access to Scotland easier for inbound tourists. We continue to work with airlines to persuade them that Scotland is a market which can sustain more direct international connections. We want to ensure Scotland is at the forefront when airlines take route development decisions. Through continued engagement, we have built up excellent relationships with a range of airlines which offer potential for the development of further air links with Scotland.

The Route Development Fund contributed to a dramatic improvement in Scotland’s direct international air network by concentrating on those routes that helped business and inbound tourism. Routes continue to operate as a result of investment from the Fund which ended to new air routes in May 2007. EC guidelines on start-up aid constrained us from developing a replacement to the Fund. However, the Commission is now reviewing these guidelines and the Scottish Government plans to respond to its forthcoming consultation.

Scotland is central to the business case for high speed rail in Britain. It is the clear view of Scottish Ministers that Scotland must be part of the UK Government’s plan for a high speed rail network from the outset. Successive reports show that the economic case for high speed rail is significantly stronger when it includes an extension to Scotland. With the potential to offer a journey time between Scotland and London of three hours, a high speed rail link is expected to enjoy a 67% share of the travel market, offering a real alternative to domestic aviation, contributing to our long term carbon reduction targets.

When we discuss investment in high speed rail, we must view it as a long term infrastructure investment rather than an individual rail project; the benefits go far beyond the rail industry. The costs associated with a project of this scale are substantial. We will work with the UK Government to clearly and realistically define the scope of the project north of the border to develop our understanding of the costs involved.

This report has noted the consolidation that took place in the banking sector over the last century. The Committee calls on the Scottish Government to explore how mutuals, cooperatives and credit unions can be further supported and local initiatives developed. In particular, the Scottish Government should seek to engage on development of regulation that would support this diversification.

Legislation on and regulation of industrial and provident societies and credit unions is reserved. We are fully engaged with HM Treasury and the FSA.

The UK Government launched Review of the GB cooperative and credit union legislation: a consultation in June 2007. This distinguished between mutuals (broadly speaking, societies registered under the Building Societies, Friendly Societies and Industrial & Provident Societies Acts. The latter includes credit unions), cooperative and credit unions. This consultation focused on the legislation relating to cooperatives and credit unions and did not include building or friendly societies, where the legislative framework was considered to be reasonably up-to-date. It noted:

There is at present no national law on cooperatives in GB, the closest being that relating to Industrial and Provident Societies (IPSSs). The cooperative form is an important legal structure for businesses and an alternative to companies. It would therefore be useful for steps to be taken to ensure as far as possible that the legislative framework for IPSs is updated where appropriate so that it is no less convenient or efficient than company law.

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2 [http://www.hm-treasury.gov.uk/d/consult_creditunion_210607.pdf](http://www.hm-treasury.gov.uk/d/consult_creditunion_210607.pdf)
To this end the review will seek to identify the implications of any recent changes in the legislative landscape such as the Enterprise Act 2000 and the Companies Act 2006 to consider whether there are any areas where there is disparate treatment between companies and cooperative societies. This will help create a level playing field between companies and cooperative societies and ensure that potential new registrants are not discouraged from using the mutual form. It is also worth considering whether GB cooperatives should be brought into line with their EU counterparts, for example in expanding the services they can offer to members to include banking and the ability to attract investment from a wider range of sources.

There are currently legal barriers to the provision of certain financial services under IPS legislation in Great Britain. For example a GB IPS with withdrawable share capital is not allowed to carry on banking business because one of the effects is that withdrawable share capital would make it difficult to ensure capital adequacy requirements are always met.

It has been suggested that this review should consider if the GB IPS sector should be allowed to engage in such services. One of the main risks of IPSs in GB engaging in certain financial services is that it could result in increased regulation both from GB regulators and the EU, especially for those societies that wanted to engage in deposit taking. Question 1 of the consultation sought views on this issue.

Questions 17-30 sought views on a range of changes for credit unions, including membership and the provision of auxiliary services to their members, including for example complementary financial services, hire purchase and holding of land.

The summary of consultation responses published in December 2007 indicated that a majority of respondents agreed that the cooperative sector should have the option to engage in financial services, however respondents pointed out that there did not appear to be an urgent need for change, despite the fact that the cooperative model is widely used to deliver financial services throughout the EU. The UK Government response was that it considered that there did not appear to be any evidence to support a wider role for cooperatives in the provision of financial services and therefore it did not intend to take any action.

There was considerable support for a number of proposed changes to the membership criteria for credit unions and the UK Government indicated that it would accept and take these forward. Response to the question as to whether credit unions should be able to provide complementary financial services was muted. The UK Government accepted that the objects and powers of credit unions required clarification, and that credit unions should be given some flexibility, but did not indicate that it would pursue making changes quickly.

In July 2008 the UK Government launched a further consultation Proposals for a Legislative Reform Order for Credit Unions and Industrial & Provident Societies in Great Britain. The Legislative Reform Order (LRO) LRO was laid before Parliament in December 2009 and comes into force on 1 July 2010.

The Scottish Government did not respond formally to either of these consultations, and was broadly content with the UK Government’s plans for legislative changes. We consider that these will provide a modern framework to allow the development of credit unions in particular. However, we will make representations to the UK Government if we consider that further changes to legislation are needed. Similarly, we will make representations to the FSA if we feel that is appropriate.

3 http://www.hm-treasury.gov.uk/d/consult_coopreviewresponses211207.pdf
4 http://www.hm-treasury.gov.uk/d/consult_lro230708.pdf
Because legislation and regulation are reserved, Scottish Government support for credit unions has been to provide funding to help them develop their businesses, most recently through the various funding streams for social enterprises, and the specific £250,000 Credit Union Fund.