BRIEFING NOTE FOR THE CABINET SECRETARY FOR FINANCE AND THE CONSTITUTION

MEETING WITH ALISON MCGREGOR, HSBC.

FRIDAY 31 MARCH 2017

Key Message	• Pleased to have the opportunity to meet with you after our initial discussion at the CBI Dinner last year. • The Scottish Government is committed to supporting HSBC's continued growth in Scotland and I'm interested to hear more about HSBC's operations and your future plans.
Who	Alison McGregor, CEO HSBC Scotland.
What	Meeting.
Why	You met with Alison at the CBI annual dinner in 2016 and she followed this up with a request for a meeting to discuss HSBC's operations in Scotland and the company's contribution to the Scottish economy. MACCS ref: 2017/0001465. While there is no fixed agenda for this meeting Alison has indicated that she may also use this meeting to: • Discuss the potential second Independence Referendum • Discuss the work of CBI Scotland (Alison is the Chair). • Update you on HSBC's recent bond with Aberdeen City Council
Where	Atlantic Quay, Glasgow.
When	Friday 31 March, 10-11am.
Supporting Official	Paul Lewis, SDI Managing Director International Operations. **Mobile: [REDACTED]**
Attached documents	Annex A: Lines to Take Annex B: Company Profile Annex C: Biography Annex D: Financial Services in Scotland Annex E: CBI Scotland Annex F: CBI Scotland 2016 Manifesto Annex G: Aberdeen City Council Bond Annex H: Enterprise and Skills Review

LINES TO TAKE **ANNEX A**

- Appreciate the important contribution made by HSBC to the financial services sector in Scotland.
- Delighted that HSBC continues to invest and grow in Scotland. Through our enterprise agencies, the Scottish Government is committed to supporting HSBC's continued growth and investment in Scotland.
- Keen to hear more about HSBC's operations in Scotland, and your thoughts on any potential areas for future growth and how you can be supported in that.
- Understand that HSBC has a positive relationship with SE and I would encourage you to continue to explore potential support that may be available to you in future.

EU Referendum

- The Scottish Government is determined to protect Scotland's place within the European Single Market and remains committed to shared values that underpin the EU: solidarity, cooperation and democracy.
- The financial services sector is important to Scotland, for its direct contribution to our economy and for the essential support it provides to consumers and businesses in all economic sectors, continued uncertainty over the UK Government's negotiating position on Europe risks jobs and future investment in the financial services sector across the UK.
- Now that the UK Government has made clear its intention to leave the Single market it is essential that the UK Government sets out how it intends to protect the financial services sector and Scotland in the forthcoming negotiations.
- The Scottish Government will explore differential options for Scotland and is considering all possible steps to ensure Scotland's continuing relationship with the EU, including seeking an agreement that will ensure Scotland retains Single Market membership, even if the rest of the UK leaves.
- But we must also include the option of independence if it becomes clear that is the best or only way to protect our national interests.

Work of CBI

- The Scottish Government greatly values the ties we have with business organisations – including of course CBI Scotland - as we work together to build a fairer and more prosperous country.
- We welcome and will actively consider proposals designed to boost sustainable and inclusive growth. These specific recommendations will feature in our on-going dialogue with CBI Scotland officials and members, recognising that the Scottish Government is already investing in skills and transport and digital infrastructure, and business support.

Aberdeen City Council Bond Issue

- Borrowing is a matter for each local authority, including the source and form of that borrowing.
- Local authority borrowing should be prudent, affordable and sustainable.

If pressed on Enterprise and Skills Review

- In our report on phase one of the Enterprise and Skills Review we have committed to work and listen to the agencies and other partners to strengthen our enterprise and skills system.
- All of the agencies featured in the Review make a significant contribution to Scotland’s business, education and skills landscapes, and have done so for some time, but it is right that we review the work they do to ensure that this continues to offer the best possible support.

COMPANY PROFILE **ANNEX B**

HSBC is headquartered in London, with more **4,000 offices in 70 countries employing over 235,000 people.** As of 2016 the company reported **profits before tax of 7.1billion**

It is one of the largest banking and financial services organisations in the world looking after the needs of **some 47 million customers**.

HSBC operates across four key entities: Commercial Banking (CMB), Global Banking & Markets (GB&M); Private banking (GPB); Retail Banking and wealth management (RBWM).

The UK franchise is regarded as a **robust business with dependable contribution and solid returns**. The focus of the UK business is to develop wealth management propositions, focus on target relationships and develop its digital platforms to deliver a superior multi-channel experience for clients, and grow its international commercial business. HSBC also has a substantial and long standing presence in China and SE Asia. Priority growth markets are **[REDACTED].**

IN SCOTLAND

HSBC has operated in Scotland since 1989 and now employs more than **3,700** people. Operations comprise of banking (**950** across Edinburgh and Glasgow), securities and fund services (**850** in Edinburgh & Glasgow), customer services & premier banking (**1,500** in Hamilton), a reducing IT support operation in Stirling (previously **340**) as per 2016 public announcement.

SE/SDI ENGAGEMENT

- SE has wide ranging engagement with HSBC at leadership level and through tactical and operational links across various business areas.
- In 2015 HSBC decided to locate a Risk and Compliance CoE in Edinburgh. SE have been actively supporting this project, providing detailed information on Scotland's capabilities, advising HSBC staff on the attractions of Scotland's FS sector and as a destination to live and work. SE has also provided introductions to Scottish universities and employers (who may be releasing staff with relevant skills) to support recruitment. **[REDACTED]**. SE's understanding is that HSBC are very happy with progress of the project to date and the support provided by SE (no financial assistance was required).
- **[REDACTED].**
- The Scottish Government has recently announced the creation of a London Innovation and Investment Hub, to be branded as Scotland House. The hub is based at Victoria Embankment and will create opportunities to progress our international trade, investment and innovation agendas with governments, companies, investors and academic, research and policy institutions headquartered in London. The Hub will also support SE/SDI's continuing senior engagement programme in London, which has included recent meetings HSBC with Douglas Flint (Sept16), Stuart Haire (Nov16) and GlobalScot Ian Stuart (Mar 17).

Future Opportunities in Scotland – to note in confidence.

[REDACTED].

Job losses in 2016

- On 29 Sept 2016, HSBC announced plans to close its Technology Centre in Stirling (Oct 2017), which employs 209 staff.
- **[REDACTED]**.
- On 4 Oct 2016, HSBC announced plans to close its call centre in Edinburgh (Feb 2017) with 180 employees asked to relocate to Hamilton which will become a Centre of Excellence for Contact Centre Operations.
- Both decisions were driven by a UK wide review of HSBC real estate and a need to reduce overall operating costs.
- HSBC have spoken positively about the work of Scottish Enterprise and PACE to help support the company and employees facing redundancies.

  [REDACTED]

BIOGRAPHY **ANNEX C**

Alison McGregor, HSBC Chief Executive for Scotland

Alison McGregor is CEO of HSBC Scotland, responsible for the HSBC Group in Scotland, with 3,700 employees across a range of businesses. In addition to responsibility for people, customers and shareholders, she has primary responsibility for maintaining the Group's relationship with key external stakeholders and senior leaders with an interest and responsibility for supporting the growth of our economy.

Alison joined HSBC in March 2013 as Corporate Director UK North with responsibility for the regional corporate businesses in Scotland, North West England, Yorkshire and North East and Midlands.

Prior to joining HSBC, she was UK National Director for Corporate and Structured Banking at National Australia Group, having spent the bulk of her career prior to that at Barclays Bank PLC. Roles there included Corporate Director, Commercial and Corporate Director Scotland and Deputy Managing Director Scotland.

She is a Non-Executive Director of The Beatson Cancer Charity and Chair of CBI Scotland. Alison has been on Scottish Enterprise's Board since 1 March 2015.

- The financial services sector is important to Scotland, for its direct contribution to our economy and for the essential support it provides to consumers and businesses in all economic sectors. Continued uncertainty over the UK Government's negotiating position risks jobs and future investment in the financial services sector across the UK.
- Now that the UK Government has made clear its intention to leave the Single market it is essential that the UK Government sets out how it intends to protect the financial services sector and Scotland in the forthcoming negotiations.
- The Scottish Government will explore differential options for Scotland and is considering all possible steps to ensure Scotland's continuing relationship with the EU, including seeking an agreement that will ensure Scotland retains Single Market membership, even if the rest of the UK leaves.
- But we must also include the option of independence if it becomes clear that is the best or only way to protect our national interests.

1. Economic Contribution

- GDP in the Financial Services sector[1] increased by 0.8 per cent in 2016 Q3 compared with the previous quarter and by 12.3 per cent over the year[2].
- The Financial Services sector contributed £8.3 billion in Gross Value Added (GVA) to Scotland's economy in 2015, 6.5 per cent of total Scottish GVA. This was slightly lower than the UK overall (7.2 per cent) and significantly lower than London (16.3 per cent).
- Employment in Scotland's Financial Services sector was 86,200 in 2015 (3.4 per cent of total employment in Scotland).
- In 2015, international exports by the Scottish Financial Services sector[3] are estimated at £1.3 billion. Specifically, exports to the EU are estimated at £210 million and Non-EU exports at £1.1 billion. Exports to the rest of the UK are estimated at £7.6 billion.

Recent report by 4-consulting – '*Economic Impact of Leaving the European Union'* – presented to Economy and Fair Work Committee on 2 November 2016 highlighted the importance of financial services:

"Edinburgh's economy is <u>more reliant on financial services than the London economy or any other UK city economy. Edinburgh's share of financial services is markedly ahead of most large European cities.</u>

"The latest available data from the Office for National Statistics (ONS) shows that financial services accounted for a higher share of Edinburgh's national economy (23.8%) than London (18.9%) or any other city in the UK. This is measured by Gross Value Added (GVA) in 2014.

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[1] GPD and employment data for the Financial Services sector are for SIC (2007) Section K – Financial and Insurance Activities.

[2] The July 2016 publication of Scottish GDP coincides with two major annual publications (the Scottish Supply-Use Tables and UK Blue Book). As in previous years, these publications have led to revisions of the time series of Scottish GDP. Additionally, an annual update from the Bank of England has particularly affected the Financial and Insurance Industries data, however it appears that the variation from the previously published quarter is likely to also be the result of a genuine increase.

[3] Exports figures relate to SIC (2007) Divisions 64-66.

“Additional data published by Eurostat shows Edinburgh’s economy is more reliant on financial services than any other European city (for which data is available) apart from Luxembourg. (Eurostat data for some cities was only available for 2013)”

2. Employment

4-consulting report estimates that 20,000 EU nationals work in the banking and finance sector in Scotland. We need assurance that the rights of these workers will be protected and that the financial sector in Scotland will continue to be able to attract talented workers from across the EU.

Financial Services Employment in Scotland by Sub-Sector

	2012	**2013**	**2014**
Banking	46,400	45,900	46,600
Life and Pensions	11,000	9,400	8,200
General Insurance	2,000	2,400	2,200
Asset Management	19,600	16,400	16,900
Intermediation	12,100	11,300	12,500

- The sector accounts for around 3.5% of total employment – similar to the proportion in the UK as a whole.
- Overall, Scotland’s share of GB financial services employment was 8.3 per cent in 2014.
- Life and pensions employment has fallen over recent years but the industry retains significant footprint in Scotland with more than 25 per cent of GB employment located here.

3. Firms in Scotland

Institutions **headquartered in other parts of the UK** have substantial operations and customers in Scotland - for example Barclays, HSBC and Santander. In recent years **new entrants** to the UK banking sector, such as Tesco Bank, Virgin Money and Sainsbury’s Bank, have all established a significant operational and headquarter presence in Scotland.

- **Asset management and servicing -** Six of the top ten asset servicing firms (in terms of worldwide assets under custody and administration) have operations in Scotland, including BNY Mellon, JP Morgan and State Street. . Aberdeen Asset Management, AEGON Asset Management UK, Alliance Trust, Baillie Gifford and Co, First State Investments, Scottish Widows Investment Partnership and Standard Life Investments all have a significant presence in Scotland.
- Scottish Financial Enterprise estimate that the value of funds under management in Scotland is around £800 billion .

Life and pensions - Over 25 per cent of GB employment in the life and pensions sector is located in Scotland in firms including Standard Life, Scottish Widows, Aviva and Royal London.

General insurance - a mature market with a long-established reputation and wealth of experience. A number of firms that provide services across the UK have operations located here, including Esure and Direct Line.

4. Large firms dominate employment in the sector in Scotland

- The top ten financial services companies by employment account for two thirds of employment in the industry in Scotland. In the UK as a whole, the top ten companies account for 35 per cent of employment.

Country	Top 10 Financial Services Businesses Employment	All Financial Services Employment	Top 10 Share of All Employment
Scotland	58,510	88,510	66%
UK	364,740	1,037,650	35%

5. Foreign owned firms have a significant presence in the industry in Scotland.

- In 2015, foreign owned enterprises accounted for 6 per cent of the total number of enterprises in financial services (and 20 per cent of employment in the sector[4]).
- For the economy as a whole, the average level of foreign ownership of Scottish enterprises is 1 per cent and the average level of employment accounted for by these firms is 17 per cent[5].

6. Exports

- The EU accounts for around 155 million of the £8.6bn exported by financial services in Scotland (1.8%), with the vast majority (£7.4bn) going to the rest of the UK.
- The UK financial services sector exports around 33% of its financial, insurance and pensions services exports to the EU. Within this, non-insurance financial services export most intensively to the EU and account for the larger share of jobs in the broad sector.

BREXIT IMPLICATIONS

7. Access to EU market

- White Paper acknowledges strategic importance of the financial services sector and claims that the UK Government will "*be aiming for the freest possible trade in financial services between the UK and EU Member States."*
- It is not yet clear what form such an agreement might take or what provisions will be made to allow transition to a new regulatory regime.
- Unless agreements on access are put in place, the UK would lose access to the full EU market for financial services though current passporting mechanism.
- Scottish based companies operating in EU markets would have to set up a base of operations in another European state to allow access to continue.
- Some companies (e.g. Aberdeen Asset Management) already have operations elsewhere in the EU that may allow them to continue to offer some services to the European market. RBS also currently hold operating licenses in Ireland, Netherlands and Germany).

- **There are no real examples of trade agreements/deals on financial services outside of the EU.** This is mainly due to the importance of financial services to

4 Businesses in Scotland 2013. "Foreign owned" is defined as outside the United Kingdom.

5 Foreign owned firms are those enterprises with ultimate ownership outside the UK. The country of ownership is based on where the enterprise is ultimately registered (i.e. where the parent company is incorporated).

the national economy and therefore subject to regulation "prudentialism" to protect national economies from the failure of financial services

City UK have called for the UK and EU to agree:

- a framework for the mutual recognition of regulatory regimes, <u>going beyond the existing equivalence regimes</u>
- <u>continued close cooperation</u> between the FCA/PRA, the European Supervisory Authorities and Member States' competent authorities, as well as the Bank of England and the ECB.
- the ability to market and provide agreed services to existing and new customers, transact business with them, and manage their money efficiently
- <u>acceptance of professional qualifications</u>, practice rights, standards for regulated products and services and especially prudential regulation set by the relevant regimes
- non-discriminatory access to market infrastructure and <u>free cross-border data flows</u>.

8. Transition Agreement

- Even if a trade agreement is reached in 2 years, regulators and institutions will need a transitional legal framework in order to restructure operations in line with the newly agreed legal and regulatory frameworks.
- Firms will require time in relation to granting of licences to operate in Europe and approval/assessment of capital models can also take years. Also need to consider the physical costs of operational set-up to expand the entity, staff, risk controls, real estate etc.
- Smaller companies are less likely to have the organisational structures in place to deal with loss of passporting and changes to regulatory regime and will be highly dependent on transitional arrangements while they adapt their business models. Scotland has more small financial services companies than rest of UK.

9. Current arrangements - Passporting

Financial services is an area that has benefitted significantly from harmonization, mutual recognition and the ability to provide cross border services. The system of "passporting" has enabled financial institutions to reduce or to avoid substantial costs associated with operating local subsidiaries by instead converting these into passported branches of an entity registered in another EU country. Currently, banks and investment companies authorized in an EEA state are entitled to provide services to clients in other EEA states by exercising the right of establishment via a branch or to provide services across borders, without further authorisation requirements.

The passporting regime covers services including deposit taking and lending, insurance (life and non-life), reinsurance, investment services management and offering of Undertakings for Collective Investments in Transferrable Securities (UCITS), alternative investment funds, payment services and electronic money.

It is likely that cross-border banking and investment banking and foreign exchange activities would be most affected by the loss of passporting;

- Depending on the agreement reached it may only affect a subset of the industry – for example PWC analysis focuses only on a sub-set of the UK banking sector.

Specifically non-EU banks. (specifically they model a 25% reduction in banking activity attributable to non- EU banks).
- If the UK could secure Equivalence determinations by the European Commission, this would be likely to facilitate market access for a range of financial services activities.
- However, these will not cover banks' ability to provide cross-border services in a number of core areas. (these include lending, deposit taking, FX, and other investment banking areas outside scope of MiFID II)
- For example, non-EU banks are required to be licensed to conduct deposit taking activities in individual Member States (under the Capital Requirement Directive – CRD IV).
- In practice passporting could affect the provision of both retail and investment banking on a cross – border basis and UK-based banks currently operating via branches in other EU member states.

10. This would translate into an increase in non-tariff barriers
- Banks and institutions could adapt to market restrictions by setting up branches that would enable them to continue to service EU clients.
- Over the long term – it is likely that some trading activity could migrate to the EU, along with market infrastructure including exchanges, clearing houses and CCPs. (Central Counterparty Clearinghouses)
- Therefore the balance of some investment decisions could tip in favour of relocation to EU hubs, particularly in services relating to serving EU customers.

ALTERNATIVE OPTIONS
11. EEA membership ("Norwegian model")
Passporting does not require full EU membership. Membership of the EEA would allow Scotland to continue to benefit from access to the EU's single market, but with reduced influence on development of regulation. However, EU leaders have been clear that retention of passporting capability requires acceptance of EU rules and requirements.
- The UK White Paper appears to rule out this option *8.2 "We do not seek to adopt a model already enjoyed by other countries."*
- The Scottish Government has put forward a solution under which Scotland should continue to be a member of the European Economic Area, even if the UK leaves. Such a differentiated approach would allow Scotland to continue as a member of the European Single Market in addition to – not instead of – free trade across the UK. This approach will require UK cooperation and should form part of the UK Government's Article 50 process.
- The proposed integrated solution for Scotland ensures continued membership of the Single Market, and collaboration with EU partners on key aspects of policy and participation in EU programmes.
- As part of the proposal Scotland will remain part of the UK single market – goods and services will still be able to move freely across the UK. As such, the external UK border will still be the current UK border with the EU.

12. Equivalence
It is possible for 'third countries' outside of the EU single market to obtain access to the single market for some financial activities through a mechanism known as

‘equivalency’ – provisions have been made to offer market access to companies based in **countries that can demonstrate that their financial regulation matches the standards set by Europe.**

- Equivalence does not cover all areas of financial services and any agreement may be subject to extra conditions.
- There could be issues with delays around being granted equivalence.
- Equivalence is determined by the European Commission and can be revoked unilaterally by the EC at any time, particularly if a home country deviates from EU standards.

<u>CONCLUSIONS</u>

- Difficult to assess full impact of Brexit until precise terms of negotiation and eventual economic and regulatory relationship between UK and EU is known.
- Further detail needed on the level of market access that can be agreed and what transition arrangements will be made.
- Challenges facing the financial services sector in Scotland largely reflect those facing the wider industry across the UK
- It is likely that the implications for passporting are likely to be felt most in investment banking activities and in non-EU firms servicing EU markets. This may suggest that activity in Scotland may be less affected than activity in the UK and London.
- The balance of some investment decisions, and in particular decisions of non-EU firms could tip away in favour of relocation to EU hubs, particularly in services relating to serving EU customers.

[REDACTED]

CBI SCOTLAND **ANNEX E**

- The Confederation of British Industry (CBI) was incorporated by Royal Charter **50 years ago**, in **1965**.
- CBI Scotland is an independent not-for-profit business advocacy organisation funded by its members in industry and commerce and representing firms of all sizes and from all industrial and commercial sectors across Scotland.
- Across the UK, the CBI has **190,000 member businesses** which together **employ nearly 7m people**, about one third of the private sector workforce (**1,200** of these are in Scotland, employing around **500,000** people, around a quarter of the private sector workforce). These include many in the FTSE 100 and FTSE 350, mid-caps, SMEs, micro businesses, private and family owned businesses, startups, universities, and trade associations.
- The CBI's mission is to help create and sustain the conditions in which businesses in the United Kingdom can compete and prosper.
- The CBI consults and supports its members through a regional organisation and has a network of offices in Scotland, Northern Ireland, Wales, North East, North West, Yorkshire and the Humber, East Midlands, West Midlands, East England, London, Thames Valley, South East, South West, Brussels, Beijing, Washington DC and New Delhi.

Activities/Campaigns

- The CBI have urged the Scottish Government to do more to support exporters and make Scotland an even better location for indigenous businesses and inward investors.
- New CBI Scotland Director, Hugh Aitken CBE, has indicated that he is looking forward to building a positive relationship with the Scottish Government. He said following his appointment in January 2015: "It's critical (to repair relationships). We don't look backwards, we look forwards and there's so much opportunity here with devolution coming through and my job is to put a plan in place that allows that devolution to have a positive effect for the business community."
- Mr Aitken also reacted positively to the publication of Scotland's Economic Strategy in March 2015, saying: "The Government's economic strategy rightly prioritises making Scotland more competitive by investing in infrastructure, education and apprenticeships. To make sure growth benefits everyone, we need to boost productivity by fostering investment and making sure our workforce get the skills they need to compete in a globalised world. Businesses will also welcome the focus on making it easier for them to access growth finance and support to sell their products and services to new markets around the world."

Previous Meetings with CBI Scotland

- **Cabinet Secretary for Economy, Jobs and Fair Work and FM met with CBI**, who are part of the Group of 6 Business organisations at Bute House on 5 July 2016.
- **Cabinet Secretary for the Rural Economy and Connectivity** had a private meeting with Hugh Aitken on 29 September to discuss the importance of investment in digital connectivity to commerce. A further meeting is in the process of being arranged by Digital Colleagues.

- **Minister for Employability and Training** met with Mari Tunby, Assistant CBI Policy Director on 27 October to discuss the Apprenticeship Levy and Labour Market Strategy
- **Cabinet Secretary for Economy, Jobs and Fair Work –last met with CBI Scotland on 30 November** when he attended a private dinner arranged by CBI Scotland and hosted by Standard Life around the challenges and opportunities facing business, both current and going forward with a range of business leaders.
- **Minister for Employability and Training last met with CBI Scotland** on 1 December at a Cross-Government Roundtable on the Scottish Business Perspective On UK-EU Negotiations with The Lord Dunlop, Parliamentary Under-Secretary of State for Scotland, Scotland Office, Hugh Aitken, Director, CBI Scotland and Ewan Alexander, Partner, Pinsent Masons and a cross-sector of business representatives.

Recent Press Articles from CBI Scotland website

CBI response to FMs £100m Capital Funding Stimulus Announcement on 10 August - Hugh Aitken, CBI Scotland Director, said:
“We welcome the Scottish Government’s commitment to boosting growth through infrastructure spending and look forward to seeing more details.

“Progress on the Glasgow airport link, together with improvements to the A82, A96 and A9 are projects previously identified by businesses as vital, alongside advances in digital infrastructure.

“Firms will also be encouraged by the Scottish Government’s pledge to work closely with the Scotland Office as it engages with firms following the EU Referendum.

“Our members stand ready to work alongside both the Scottish and the UK Governments as companies seek clarity on trade, regulation, access to talent and protection for the economic and social benefits of EU funded projects.

“As options for the future take shape, it will be more important than ever for both governments to partner with businesses in navigating their approach.”

On 13 March, CBI Scotland responded to the First Minister's announcement at Bute House ahead of the triggering of Article 50 - Hugh Aitken, CBI Scotland Director, said:

“Scottish businesses have acted with resilience since the EU Referendum, and, in an already uncertain environment, their priority is clarity as soon as possible on what a future deal could look like.

“What’s important is that the needs of Scotland – and the other devolved nations - are heard and understood in the discussions on the UK’s future relationship with Europe. That’s where the CBI’s focus will be.

“The Scottish and UK Governments must continue to work together, with business, to ensure the best deal from the negotiations for Scottish firms, and this work should continue as a matter of priority.”

[REDACTED]

<u>Line to take</u>:
- **The Scottish Government greatly values the ties we have with business organisations – including of course CBI Scotland - as we work together to build a fairer and more prosperous country.**
- **We welcome and will actively consider proposals designed to boost sustainable and inclusive growth. These specific recommendations will feature in our on-going dialogue with CBI Scotland officials and members, recognising that the Scottish Government is already investing in skills and transport and digital infrastructure, and business support.**

<u>Background</u>

CBI Scotland published their Manifesto for the 2016 Scottish Parliament Election on 9 October 2015. It is entitled: *Accelerating our Ambitions - A business vision to drive success in Scotland*. It sets out high level priorities for each of the first three years of the next Parliamentary term, and for the duration of Parliament.

<u>Priorities Year 1</u>
- Economy - Set out a roadmap that shows how new and existing tax powers and revenue in Scotland will be used to drive growth – as a part of this, business rates need to be overhauled to ensure rates are competitive with the rest of the UK.
- People - Create a new business-led board to provide Skills Development Scotland with strategic forward-looking advice to ensure that skills provision effectively reflects current and future business needs.
- Place - Commit to a focused shortlist of future transport infrastructure priorities that has business buy-in and cross-party support to ensure long-term delivery.

<u>Priorities Year 2</u>
- People - Commit to use the additional funding raised through the UK Apprenticeship Levy to improve workforce skills – putting business in control of the direction of this funding towards vocational education.
- Place - Commit to including plans for digital connectivity in government and local authority infrastructure projects before they are approved, rather than as an afterthought.
- Delivery - Ease navigation of business support for any type of business by making Scottish Enterprise the first port of call.

<u>Priorities Year 3</u>
- People - Prioritise closing the gap between statutory maternity pay and the provision of free childcare by extending 15 hours childcare to all one and two year-olds. Aim to further increase the number of free hours in time.
- Place - Link Scotland to the rest of the UK and to high-growth export markets by supporting the recommendations of the Airports Commission to deliver new hub capacity.
- Delivery - Business needs the Scottish and UK governments to work collaboratively to develop our future energy plan that can help providers, users

and investors across the energy mix to deliver and develop the energy infrastructure we need for the long term.

Priorities throughout the Parliament

- Economy - Help Scottish business compete on a global stage through coordinated export support across all UK executive agencies, while stressing the need for access to European markets within a reformed EU.
- People - Keep facilitating the collaborations between business and universities that drive innovation, and the research that underpins it, through the successful Innovation Scotland and Interface programmes.
- Place - Boost the Infrastructure Investment plan with a commitment to increase housing supply to 25,000 new homes each year, while strengthening the capability of local planning authorities to help

[REDACTED]

ABERDEEN CITY COUNCIL BOND **ANNEX G**

Aberdeen City Council announced in November last year the successful issue of index linked bonds for £370 million that will help secure investment in the city to deliver its transformational capital and infrastructure programme. Borrowing through a bond issue was specifically linked to the provision of a new exhibition and conference centre with an associated hotel. This is the first Scottish council to borrow in this way. **HSBC managed the bond issue**.

Moody's Investors Service confirmed an Aa2 credit rating for Aberdeen City Council on October 7, with the Council becoming the first local authority in Scotland to be assigned a credit rating. Aberdeen City Council's Aa2 issuer credit rating is one level below the United Kingdom as a whole.

Borrowing by means of a bond issue was attractive to Aberdeen City largely because of the flexibility the bond give them to match their cashflows. Briefly, the Council will have heavy capital expenditure in the first 3 or 4 years after the bond issues, mainly on the building of a new conference centre and associated hotel. The bond is designed to provide staged payments to the Council to match their capital expenditure. Rental income will start to flow from year 4 with tenants for the Conference Centre and associated hotels signing up to long leases. The rental income will offset interest costs of the bond.

Interest due on the bond in the first 4 years will be rolled up, i.e. capitalised, with interest payments starting from year 5. No capital repayments will be made until maturity in 30 years' time, and the 'par value' of the bond will rise in line with retail price inflation (RPI) in the UK. The flexibility of interest and repayment terms sought by the council is not possible from a loan from the Public Works Loan Board (PWLB) (i.e. from the UK Government). However, whilst the bond provides a financial flexibility in the early years of the investment, our understanding is that the total cost of the debt is higher than a loan from the PWLB, and also carries risks as the bond is indexed - linked to RPI. There are also the costs of continued compliance with the bond issue – maintaining their credit rating, quarterly accounts. Borrowing through a bond issue is unlikely to be suitable for many local authorities given the availability of low cost borrowing from the PWLB.

An alternative structure under development is local authority borrowing via a UK Municipal Bonds Agency. This is not a central government body. It was set up by the Local Government Association (LGA), the English equivalent of COSLA. This body will raise money through bond issues and then lend to local authorities. Local authorities who borrow from this agency are required to do so through a joint and several liability arrangement, that is various councils pooling risk.

[REDACTED]

ENTERPRISE AND SKILLS REVIEW **ANNEX H**

ISSUE 1: FUTURE OF HIE

- Decision to establish overarching board has led to significant media and political interest, with the Press and Journal campaigning to save HIE and HIE Board, backed by opposition parties.
- Ministers have repeatedly made clear that HIE will be retained as a separate legal entity and will maintain local decision making and service delivery.
- The key principles of Professor Lorne Crerar's paper published in February on the structure of the Strategic Board are: **Improving the overall performance** of Scotland's economy by ensuring the system delivers Scotland's Economy Strategy; ensuring hard alignment between agencies through **collective responsibility**; holding agencies to account for **performance** against agreed measures; and **actively engaging** other agencies and bodies who support the economy.

ISSUE 2: FUTURE OF SFC

- Concerns about the future of the SFC Board in relation to protecting academic freedom and universities' independence have been raised by Universities Scotland, UCU, NUS and others.
- Replying to an Iain Gray PQ in November, DFM said, "Our intention is that, once established, the overarching board will replace individual agency boards while retaining the separate legal status of each of the bodies."
- SPICe enquiries and a series of PQs and FOIs have been asked about governance and the evidence base for change.A letter from Alice Brown, Chair of SFC, to Mr Brown advising against abolishing individual agency boards is very likely to be published in response to the FOIs.

PARLIAMENTARY DEBATE

- Conservative Debate on 18 January for the Scottish Government not to disband the HIE Board. The Scottish Government amendment to the motion was narrowly defeated 64 votes to 63.
- Conservative Debate on 1 March for the Scottish Government not to abolish the SFC Board. The Scottish Government amendment to the motion was defeated.

ISSUE 3: OTHER GOVERNANCE ISSUES

- Claims that HIE's budget for 2017/18 has been cut. It is £67m for 17/18 compared to £67.5m in 16/17
- Accusations from Tavish Scott MSP, following meeting of Education and Skills Committee at which Keith Brown gave evidence, that SG is refusing to provide details of organisations that support its plans re the Enterprise and Skills Review. Also concerns about tight timeframe.

Top Lines

- In our report on phase one of the Enterprise and Skills Review we have committed to work and listen to the agencies and other partners to strengthen our enterprise and skills system.
- The core purpose of the Strategic Board must be to align our Enterprise and Skills system to improve our collective impact, driving a step change in the performance of our economy, and delivering strong, vibrant and inclusive growth at scale.
- The Board will utilise a strong industry and wider stakeholder voice to support its aims to deliver collectively more effective support for businesses and users of the skills system.
- We want to ensure our agencies work together in a co-ordinated way to deliver the maximum impact on our economy, with the Strategic Board driving hard alignment of services and strategic goals to tackle Scotland's long-term economic challenges and deliver on all 4 pillars of Scotland's Economic Strategy.
- Highlands and Islands Enterprise will continue to be locally-based, managed and directed providing dedicated support to the local economy. Highlands and Islands Enterprise will not be abolished.
- Lorne Crerar's paper and the work of Governance workstream is about ensuring all our agencies work together in a co-ordinated way to deliver the maximum impact on our economy. We will consider Prof Crerar's paper fully in determining how best we can achieve the ambitions set out in the review.
- The Chairs of all agencies are fully engaged in the review as Phase 2 progresses, with over 300 responses to our consultation showing support from organisations including Skills Development Scotland, Scottish Enterprise, Colleges Scotland and the University of Strathclyde for a Strategic Board.
- All of the agencies featured in the Review make a significant contribution to Scotland's business, education and skills landscapes, and have done so for some time, but it is right that we review the work they do to ensure that this continues to offer the best possible support.
- Current boards will continue to perform their current roles as the process to set up the new statutory body gets underway, and there will be a transition process to the new arrangements, ensuring any interim measures necessary for smooth transition, ensuring no negative impact on service delivery.
- The establishment of the new Board will not affect the autonomy of Scotland's universities or how they are governed. We are absolutely committed to ensuring that our world class higher education institutions remain independent and that their academic freedom continues to be protected.

[REDACTED]