Introduction

As Scotland’s lead economic development agency, with a key role in the delivery of the Government’s Economic Strategy, Scottish Enterprise is pleased to present this submission to the Economy, Energy and Tourism Committee, as part of the committee’s research into the potential impact of the report of the Independent Commission on Banking (ICB).

We believe it is essential that Scotland has a strong, competitive Banking sector. Despite the recent downturn, Banking remains a key component of the Scottish economy, both as a major employer and as a provider of finance to individuals and businesses. Currently, the sector employs around 50,000, around half the total for financial services as a whole. Furthermore, many of these posts are in highly skilled and well paid functions.

This submission focuses on the role that Scottish Enterprise can play, both in helping to provide access to finance for growth firms and in our engagement with banks. Although the legislative and fiscal environment in Scotland could have a significant impact on banks, as an economic development agency, we do not have a role in the regulation of the banking system. Instead, our role is to monitor the potential effect of the ICB’s recommendations on bank lending to companies and the potential impact on functions and employment within Scotland.

This submission therefore covers the following areas:

- Promoting Competition in the Banking Sector
- Access to Finance for Growth Firms
- Engagement with Banks

Promoting Competition in the Banking Sector

We believe that a strong competitive banking sector can lead to innovation and greater customer service to SME’s. We therefore welcome the ICB’s objective of promoting greater competition within the Scottish Banking Sector. However, we are also keen to help ensure the competitiveness of existing banks so that they can, if possible, retain and expand their operations here.

Scottish Enterprise does not have a direct role in promoting competition in the banking sector. Any decision to start a new bank, offering retail and business functions to the public and to SME’s is purely for the private sector. However, we believe that by creating a favourable business environment in which banks can operate, we can facilitate new entrants and hopefully encourage them to site many of their functions here in Scotland.

To date, this strategy has proved successful. Through a programme of engagement with potential entrants, and by demonstrating the competitiveness of Scotland as a location which can meet their skills and property needs, we have been successful in attracting new firms to Scotland.

In relation to banking, this has included:

- Virgin: New headquarters in Edinburgh which will employ over 300
Tesco: Facilities in both Edinburgh and Glasgow employing around 1,800 in total

Furthermore, we believe the decision that Lloyds be forced to divest itself of over 600 branches to either a new entrant or a smaller rival represents an opportunity for Scotland. While it is an extremely competitive market, we believe that Scotland has a strong proposition for attracting the functions of a retail bank. We will present this proposition to the successful bidder for the branches and attempt to attract investment into Scotland.

Access to Finance for Growth Firms

Access to Finance is fundamental for the growth and development of the Scottish economy. Of late, there have been concerns that many firms have been unable to access the required level of funding at appropriate terms. To help assess this, the Scottish Government has commissioned surveys to assess the scale of the funding problems faced by small and medium sized companies. The latest of these, “SME Access to Finance 2010” demonstrated the scale of the problem that is being faced, showing that:

- 24% of all firms who applied for finance over a three year period were rejected outright compared to 19% of respondents in 2009
- For firms seeking new lending over the last twelve months, 56% reported that they did not get any of the funding sought and a further 3% got some but not all of the lending sought
- Of firms applying for finance, 50% stated that the costs of new credit had increased compared to 38% in 2009

Scottish Enterprise also surveys the approximately 2000 companies we engage with through Account Management on access to funding. These are the type of firms, given their growth ambitions, which are fundamental to realising the objectives of sustainable economic growth.

The SE survey found that between April 2010 and March 2011:

- 52% of firms found it more difficult to raise new funding compared to previous attempts
- Only 7% found it easier to raise funding
- 75% of firms were able to raise their required funding

It is therefore clear that access to finance remains a key issue for firms in Scotland. Although we cannot easily influence the lending policy of banks, we believe that by working with firms to help them articulate the case for funding, we can help improve their chances of accessing appropriate investment. Among the areas where we can help are:

- **Investor Ready Programmes**: These help firms create a business plan to help them apply for funding
- **Account Management**: Where an investment package is critical to the ambitions of an account managed company, SE can work very closely with the firm to help present the investment case to funders
- **Scottish Investment Bank**: There are various programmes included within this including Seed Funding, the Scottish Co-Investment Fund and the Scottish Venture Fund
- **Scottish Loan Fund**: This fund totals £94m including £55m from SE which is managed by the Scottish Investment Bank. Lloyds Banking Group, RBS, Clydesdale
and Santander are contributors to the fund, as are Strathclyde Pension Fund and fund managers, Maven.

A key part of our role in the future will be to continue working with firms to help them gain access to funding. Furthermore, we will undertake any follow on actions requested from the Government’s proposed Banking Summit.

**Engagement with Banks**

Scottish Enterprise recognises the importance of strong relationships with the banks operating in Scotland. These firms have a fundamental role to play in the provision of finance but moreover, they are also significant employers contributing to the overall wealth of the country.

Our engagement includes:

- **Principal Relationship Management**: Four of the main banks in Scotland have been allocated a Principal Relationship Manager. This is a senior member of staff from Scottish Enterprise whose role is to understand the strategic direction of the company and identify areas where we can work together.

- **Account Management**: Currently all of the major banks have a dedicated account manager from Scottish Enterprise charged with helping to improve the competitiveness and efficiency of their operations.

- **Finance Sector Jobs Taskforce**: Set up by the Scottish Government, the Taskforce engages with firms facing redundancies and seeks to minimise job losses overall by matching these losses with potential opportunities elsewhere. The greatest engagement has been with Lloyds Banking Group and RBS. The latest employment statistics which show a decrease in employment of 2,200 principally from RBS and Lloyds in Scotland underline the continued importance of this engagement.

In addition to the above, senior management in Scottish Enterprise have been working closely with major banks to help understand both the constraints that funders are facing in the provision of finance to companies and also the support that banks can offer to specific companies who are facing difficulties in raising funds.

We believe that our role in the future should be to continue with each of the above. By working in partnership with banks, we can work with them to better understand the potential impact of the ICB’s recommendations on their operations in Scotland and present the Scottish proposition for the attraction, retention and expansion of functions here.

Scottish Enterprise

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