ECONOMY, ENERGY AND FAIR WORK COMMITTEE

SCOTTISH NATIONAL INVESTMENT BANK

SUBMISSION FROM UNITE SCOTLAND

1. What are the advantages or otherwise in establishing the Bank as a public limited company?

Unite has concerns over establishing the Bank as a public limited company (PLC). We would require clarification over the proposals, as put forward, to ensure adequate safeguards exist against the Bank being privatised in the future. Unite is firmly of the opinion that the Bank must remain in the public sector. The Bank should also have at its core an ambition to improve Scotland’s socio-economic position and Unite would be concerned that setting it up as a PLC could allow a potential drive for profit to divert the Bank from this principle.

2. What in your view are the fundamental characteristics of a national investment bank?

Unite believes the time is right to establish a Scottish National Investment Bank (SNIB). We urgently need to reinvigorate our economy and a fully funded NIB, supported by an industrial strategy that creates jobs and supports a diverse economy is the best option to deliver this.

A motion passed at Unite’s 2016 policy conference called for a strategic plan for manufacturing that would include a NIB for industry. We believe that the fundamental characteristics of a NIB should include the ability to create the environment that encourages sustainable growth; Offers a vehicle on which to base a robust strategy for economic success and develops opportunities that would allow more innovative lending to businesses. Importantly it must reflect the interests of society and key stakeholders and have a moral and social imperative at its core which is based on fairness.

The Bank should also encourage support for a skills structure in lending proposals designed to avoid skill shortages as well as allowing for opportunities for high quality apprenticeships; decent stable employment and support for SMEs and the supply chain. Delivering on this would provide a real opportunity to change the industrial landscape in Scotland.

The bank should be set up in such a way so as to attract and encourage sustainable investment in Scotland’s economy.

It would appear from the Bill, as drafted, that the Bank cannot borrow from the private sector nor lend to the public sector. Specifically Section 4 of the Bill states:

“The articles of association must include a prohibition on the Bank borrowing from anyone other than the Scottish Ministers.”
The explanatory notes states:

Section 4 makes provision, for inclusion in the Articles, about the borrowing powers of the Bank. Under the fiscal framework agreement between the Scottish and UK governments, the Scottish Government has limited powers to borrow finance. Borrowing by the Bank from parties other than the Scottish Ministers would be counted towards the Scottish Government’s borrowing limit. Restrictions are therefore placed on the Bank’s ability to borrow to ensure it does not impact upon the Scottish Government’s fiscal position.1

The Policy Memorandum states:

“The Bank will not issue bonds or public shares. As set out in section 4 of the Bill, the Bank can only borrow from the Scottish Ministers. The Bank will lend solely to the private sector. It will not lend to public institutions including local authorities, government agencies or arms-length bodies.”2

Unite believes the Bank should be given the widest possible options to improve the Scottish economy. Therefore the Bank should be given the opportunity to lend to the public sector and equally borrow from the private sector if interest rates or borrowing conditions are more favourable.

Equally to encourage diversity in the economy and extend the reach of the lending, the Bank should be able to lend to cooperatives and employee ownership schemes should they seek funding from the SNIB.

Scotland has a strong history of invention. Unite would like to see innovative and creative business plans given the opportunity to develop and therefore lending decisions should give as much weight to creative and ambitious proposals as practical ones. We have in the past witnessed excellent innovative ideas such as wind and wave technology projects lost to Scotland as funding could not be secured here in the UK. This has resulted in good ideas, and potential for job creation to be lost. We would like to see a NIB focused on strategic lending decisions that are directed towards jobs growth allowing such schemes to flourish and remain in Scotland in the future.

It is essential that a robust industrial strategy is firmly rooted at the core of the Bank’s lending. The Bank must support, stimulate and encourage investment that focuses on environmentally sustainable growth. Decisions on lending should also be tied to obligations around worker’s rights including trade union recognition, collective bargaining and fair pay.

With uncertainties over Brexit remaining, it is evident that the present forecasts for economic growth outlook for the UK paint a bleak picture. Businesses remain cautious and lenders are prudent. This has placed our economy in a precarious position which is reflected in the level and quality of jobs being created, on wage rates and productivity outputs.

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3. **Is the level of capitalisation proposed sufficient for the Bank to deliver its desired impact? Please expand.**

Under the current proposals the Scottish Government intends to invest £2 billion over 10 years into the Bank which is equal to 1.3% of national GDP.

Over 10 years, this equates to just £200 million per annum. Unite is not convinced that this is a sufficient level of capital investment to deliver real economic change to Scotland. For example, the Beatrice offshore wind farm is a £2.6 billion project. If the owners were to have sought investment from a SNIB of say just 10% of the project, that would have equated to £260 million, wiping out the whole budget in one year, on one project. We accept this is purely hypothetical. The Queensferry Crossing project was a £1.4 billion project. The redevelopment of Edinburgh’s Haymarket area is a £200 million project. In Glasgow the redevelopment of the Police Scotland Headquarters in Pitt Street into 433 flats is likely to cost in the region of £105 million and a recent council housing project in North Lanarkshire cost £160 million.

The point being made is that real change requires capital investment measured in millions of pounds, which given the proposed annual budget of just £200 million, is unlikely to deliver any real industrial or economic change.

What we would recommend is that the SNIB is given the funding it requires to fully support the economy which would expect to be in excess of the £2 billion capitalisation proposed.

4. **What is your view on the proposed costs in the set up and day-to-day running of the Bank?**

The costs involved in setting up of a bank, and its day to day running costs are difficult for Unite to predict. What we would recommend is that there must be sufficient funding to enable the Bank to operate in a way that fully supports its objectives and the workers tasked with carrying them out.

5. **What governance arrangements ought to be in place?**

Unite would wish to see a governance structure which includes stakeholder representation. The Implementation Plan has identified priorities and we believe that fair work and collective bargaining should form an integral part of those priorities.

The Bank’s investment decisions should align with Scottish Government economic priorities with input from sector forums.

While the Bank should be operationally and administratively independent from the Scottish Government in its decision making, the governance of the Bank must be such that the structures allow for checks and balances to take place including on lending and ultimately accountability should lie with the Scottish Government.
Organisations which don’t acknowledge fair work or recognise trade unions are often those which seek to treat workers unfairly. We would therefore recommend that the governance structure should include a trade union representative appointed as a non-executive Director of the Board. Unite sees a role for setting up key industrial Sector Forums linking directly with the SNIB to influence lending decisions. A trade union member representing Sector Forums should also play a key role in the Bank’s governance.

6. How can we ensure the market is ready for the investment opportunities the Bank can offer?

A decade of slow growth in productivity and wages has left a swathe of Scottish society struggling to get by.

The economy at present is on a knife edge. It is very difficult to predict the outcome of Brexit for the UK and as such difficult to predict how markets will perform.

Scotland’s manufacturing sector has declined hugely in the last decade. Since 2007 Scotland has lost around 22% of its manufacturing jobs. Between December 2008 and December 2018 manufacturing jobs fell from 205,214 to 175,299 a drop of 29,915. In construction jobs fell by almost 25,000 over the same period.

Unite sees a role for functions and services, wherever possible to be delivered in-house within the public sector. This format for delivery should not be thought of as the ‘option of last resort’.

Unite believes that there must be a clear focus on growing the manufacturing sector. Manufacturing has steadily produced the highest value GVA of all sectors.

We also need to ensure greater transparency in the supply chain. Unfortunately we have witnessed the highest incidence of poor pay rates and worker exploitation within the supply chain.

Scotland’s industrial landscape has changed significantly over the last few decades. Despite a decline in some of Scotland’s traditional manufacturing processes we have witnessed a growth in emerging industries in life sciences, chemicals, pharmaceuticals, creative industries and renewable energy.

A SNIB is therefore a valuable addition to the Scottish economic infrastructure in which to capitalise on the successes of these industries and to provide access to capital funding.

There are also now fewer large manufacturing sites and instead a significant increase in SME’s and micro businesses, which account for the majority of manufacturing employers.

In the EU, Germany, Italy and France sit above the UK table in terms of manufacturing output. Following the financial crisis in 2008 UK government policy failed to sufficiently stimulate growth in manufacturing not least because businesses found it difficult to access funds from banks despite them being given the financial capability to do so. The Banks created capital constraints and limited investment – which ultimately limited growth.
SME’s nevertheless fared better than larger enterprises during this period which may in part be a result of lower levels of borrowing as well as anecdotal evidence suggesting that some SME’s survived simply by relying on credit cards to bolster cash flow. While still struggling, they remained in better shape to continue trading as the crisis waned.

The need to work towards a balanced and integrated economy must entail looking at how we fairly award contracts and target investment in sector such as construction, transport, general infrastructure and energy. Such a strategy has to include applying influence on financial institutions – particularly where public bodies have large accounts – to ensure that lending is given to small manufacturers in particular, so they don’t go under and jobs and skills are lost for generations.

The SNIB should contribute to rebalancing the economy. While unemployment is at a historically low rate we should be cautious at measuring this as a success, as much of the private sector job creation we have witnessed has been in low-paid, insecure and low productivity jobs which has led to the rise of in-work poverty.

Therefore we must ensure that support for businesses is tied to the quality of employment standards, commitment to apprenticeships and socially just procurement and where possible sourced from local suppliers and so called ‘anchor’ organisations.

Such a strategy would encourage support for businesses that show a strong commitment to decent jobs and a commitment to communities.

7. What ethical and equalities considerations do you think should inform the Bank’s ethos and decision making?

This must include promotion of direct employment and adherence to all negotiated industry agreements, ending the blacklisting of trade unionists, the abuse of workers through umbrella companies, the use of exploitative zero hours contracts and addressing inequality at work for women and minority groups.

8. It is proposed that the Scottish Government will set the strategic direction of the Bank but the body itself decide on its investment approach. What is your view on this “mission-led” approach?

Despite the suggestion that the Bank will have political independence, we do not believe that the Scottish Government should completely abdicate responsibility for lending decisions to appointed executives without some form of due diligence on worker’s rights.

It is incumbent on the Bank to ensure that they do not lend to any organisation that has previously blacklisted workers or has exploited workers. There must therefore be some political oversight and responsibility as well as accountable structures in place which would prohibit this.

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3 https://ctmfile.com/story/debt-mountain-for-smes1-generates-self-destructive-behaviour
9. Is there any other aspect of the Bill you wish to address? Please elaborate.

Unite believes sector forums can act as a platform for addressing critical issues in private sector industries. We support the creation of Scottish Strategic Sector Forums tri-partite institutions involving employers, Government and trade unions to look at productivity, procurement, investment grants, competitiveness, and the skills and training including apprenticeships needs within the strategic sectors such as transport, energy, tourism, housing, oil and gas, and manufacturing. This must include the promotion of sectoral bargaining arrangements for pay which can help to reduce economic and social inequalities. Sector forms would help to combat inequality and assist in improving worker’s purchasing power, in contrast with the downward spiral of consumer confidence and reduced incomes.

The public sector has already taken the lead in paying the Living Wage in Scotland but the challenge will be to spread the Living Wage’s impact further into the private sector and especially in low-paying industries.

As long as so-called cheap labour dominates the labour market, we will not see any productivity gains. Low wages, precarious contracts including zero hours and fake self-employment all lead to low productivity (and lower public revenues). Unite believes the best way to address failings in the labour market is to devolve Employment Law to Scotland and we will continue to press this point.

A SNIB holds some hope that its lending decisions will encourage reform of the labour market away from the idea of so-called cheap labour. Many of our young people are being pushed into low-paid precarious work as there are few alternative opportunities.

The SNIB also provides opportunities for building on cooperatives ownership. The cooperative movement and community wealth initiatives provide an ambitious and forward looking way for local communities and local businesses to benefit from opportunities to bid for procurement contracts. We would welcome this.

Scotland has lost a huge number of fte jobs in manufacturing over the last 18 months including 2 Sisters, Young’s of Annan, Gemini Rail, Bifab and Michelin. While alternative opportunities have also been created to mitigate some of these job losses we must not allow jobs and industries to be stripped from our economy.

We note that the Bill states one of the Bank’s objects as ‘promoting and developing the activities of enterprises, where lack of financial investment is holding back economically viable commercial activity’. We would hope that a SNIB would step in to provide opportunities for financial investment in similar circumstances to alleviate job losses.

On pay, we note the points made regarding attracting the right expertise to manage the Bank and the presumption that the Bank will be subject to Public Sector Pay Policy. It is clear however, that while there are assumptions regarding the minimum wage, there are no such recommendations regarding a maximum wage.

Unite has previously called for pay ratios to be introduced to limit the excessive pay levels between the highest and lowest earners within an organisation. We do not believe that the remuneration package necessarily attracts the most competent or the best. Fred Goodwin,
the disgraced ex-Royal Bank Chief Executive received a salary in excess of £4 million yet, his decisions brought the bank to near collapse and was instrumental in placing our economy into recession. Indeed, the Fraser of Allander Institute report that the recession that followed the 2008 financial crisis wiped around 4% of output from the Scottish economy.

Unite would therefore wish to see trade union representation on the remuneration committee to provide oversight on pay levels to ensure fairness and equitability.

Scotland spends around £11 billion a year on procurement investment programmes and this must be used to transform workers’ rights and promote fair work and decent pay. While work is being done to ensure the Living Wage is paid to all public sector contractors, more should be done through procurement to filter this to the supply chain as well as private sector employers.

Obligations to increase apprenticeships should also be considered to address the skills gap in some of our most strategic industries including offshore oil and gas, construction and engineering.

Employers that receive public money should bring value to the wider economy and SNIB decisions regarding investment should be made in conjunction with sector forums.

Automation offers opportunities as well as adversity and some sectors may be impacted more than others. A SNIB should ensure that new industries and automation do not deliver a race to the bottom on worker’s rights.

Unite set up the Drop the Debt campaign to urge a renegotiation of local government debt. Presently local authorities are tied in to interest rates that are considerably in excess of the Bank of England base rate. In the longer term, Unite would wish to see the SNIB in a position to provide an alternative lending mechanism to this burden on local government finance. The Bank must therefore be given the powers to lend to the public sector.

Ends.