ECONOMY, ENERGY AND FAIR WORK COMMITTEE

SCOTTISH NATIONAL INVESTMENT BANK

SUBMISSION FROM SCOTTISH TRADES UNION CONGRESS

Summary of key points

- The Bill should make reference to the need to support a low-carbon and more equal economy which provides fair work for all.
- The Bill should ensure representation from trade unions on governance and advisory structures.
- The Bill should allow for the Bank to make investments in the public sector.
- The Bill should have reference to ethical standards which, in turn, provoke questions around what type of employers receive public money, what value they bring to the economy, and whether this investment supports good quality jobs.
- Relevant civil service unions should be involved in early discussions about terms and conditions and public sector pay policy.

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

Being established as a public-limited company wholly owned by Ministers ensures that the Bank is publicly-owned and privatisation would require primary legislation. This is welcome.

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

A national investment bank for Scotland should address the challenges of the 21st century which the current finance sector and economic model is palpably failing to do. Primary amongst these challenges, or ‘missions’, should be tackling climate change; reducing inequality and providing fair work for all.

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

£2 billion over ten years is a significant investment, although whether it is enough to ‘catalyse private investment to achieve a step change in growth for the Scottish economy’¹ is open to question.

Perhaps of greater concern is that the Bill, as drafted, means that the Bank cannot borrow from the private sector. 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 note explains that this is because:

“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.”

This stands the Scottish National Investment Bank in contrast to a number of state investment banks who are able to borrow from a range of sources. This is disappointing.

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

The Bill states that “remuneration of the Bank’s directors and staff is to be determined by the directors, subject to any direction from the Scottish Ministers.” However, the Bank’s pay policy will be required to adhere to public sector pay policy.

It is crucial that the remuneration policies of the Bank retain public support. Given the Scottish financial sector’s track record of failure, it is simply not credible to pay senior staff as private sector bankers instead of public servants.

If there are issues around recruitment and retention for the SNIB, then this is an issue for public sector pay policy as a whole rather than for excluding Scottish National Investment Bank from public sector pay policy.

For the reasons outlined above, civil service unions should have a key role in early discussions about pay policy. In addition, in order to provide leadership by example, there should be a requirement within the Bill that the Bank provides Fair Work for its employees.

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

The Bill should provide for a trade union seat on the governance structures in line with the Fair Work Framework and a number of European state investment banks such as KfW. Unfortunately, the current draft bill only stipulates that Directors are to be appointed by Scottish Ministers, with no specific requirement to have trade unions represented on the Board.

While the board’s make-up will be established in line with the Scottish Government’s “On Board” guidance for public boards and the Gender Representation on Public Boards (Scotland) Act 2018 which sets an objective for public body boards that 50% of their non-executive members are women, there is also a need to ensure black and minority ethnic people and disabled people are represented on the board.

Ensuring diverse governance arrangements and a specific role for trade unions would better ensure better outcomes for workers and ultimately the economy.

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

Meeting the challenges of the 21\textsuperscript{st} century cannot and will not be met by the private sector alone. Addressing climate change and digitalisation for example will require new models of public ownership and finance. This is illustrated in part by the recent collapse in investment in green energy in the UK.\(^4\)

For these reasons, ensuring the market is ready for investment opportunities means not restricting it. Unfortunately, the Policy Memorandum states:

“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.”

Again, this stands the Scottish National Investment Bank in contrast to a number of state investment banks who are able to lend to the public as well as private sectors.\(^5\)

Economies such as the Nordics have higher shares of the public sector than Scotland and the UK and yet outperform us on a number of social, economic and environmental metrics. It is important that the Bank is geared towards improving the economy as a whole, and making investments in the public sector, not just the private sector.

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

In the same way that a high street bank would have traditionally asked questions of customers to determine whether it is appropriate to give a loan, the Scottish national investment bank should ask ethical questions of companies and customers to determine whether it is appropriate to lend to. For these reasons we believe the Bill should have reference to ethical standards which, in turn, provoke questions around what type of employers receive public money, what value they bring to the economy, wider society and the natural environment. Key among these questions should be how investments help tackle climate change; reduce economic inequality and promote fair work for all (and for women, disabled people, and black and minority ethnic people in particular).

While these may be considered as initial ‘missions’ of the Bank, there is a need to ensure the Bill references these. Unfortunately, while Section 2 titled ‘Bank Objects’ refers to various economic objects, the Bill has no mention of fair work, inequality or climate change. It is also unclear why Scottish Government economic policy is referred to rather than wider policy objectives included in the National Performance Framework.

Reference to these wider issues would also support compliance with the Public Sector Equality Duty.

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\(^4\) Environmental Audit Committee, Green Finance Inquiry 2018
https://publications.parliament.uk/pa/cm201719/cmselect/cmmenvaud/617/61704.htm#_idTextAnchor010

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?

We support Ministers having a key role in determining the strategic framework, setting missions, and defining performance objectives. However, ultimately, we believe that Parliament should also input and authorise final approval. They should therefore be subject to affirmative procedure.

It is also not clear if the missions apply to all funding that the Bank provides or whether the Bank can still lend businesses in line with its objectives but not necessarily in line with the missions. We do not believe funding should be issued which is counter to missions or core objectives – such as providing fair work or tackling climate change.

9. Is there any other aspect of the Bill you wish to address? Please elaborate.

Section 23 titled ‘Ancillary Provision’ allows for Scottish Ministers to “make any incidental, supplementary, consequential, transitional, transitory or saving provision they consider appropriate the purposes of, or in connection with, or for giving full effect to this Act or any provision made under it.”

It further states that regulations under this section “are subject to the affirmative procedure if they add to, replace or omit any part of the text of an Act (including this Act), but otherwise are subject to the negative procedure”.

The STUC believe these should be subject to the affirmative procedure.