

## BRIEFING NOTE FOR FIRST MINISTER

### MEETING WITH DAVID SPROUL, CEO, DELOITTE UK,

20 March 2017

<b>Key Messages</b>	<ul style="list-style-type: none"><li>• Keen to hear more about Deloitte's operations in Scotland, and your thoughts on any potential areas for future growth.</li><li>• Welcome your company's involvement in the development and implementation of the Fintech Action Plan for Scotland. Would like to hear your thoughts on where you see potential opportunities for Scotland in this area going forward and how we capitalise on them.</li><li>• Scotland must continue to be a location of choice for investment by world leading global companies. I am interested in how Deloitte can help us market Scotland as a location of choice to your clients.</li><li>• Appreciate Deloitte's work with Scottish Enterprise to help smaller firms with significant growth potential. Keen to see this continue.</li><li>• Inclusive growth and creating opportunity for all is a central focus for my government. Pleased to note your commitment to talent development and to activities aimed at inspiring young people. And that Deloitte's has signed up to the Scottish Business Pledge.</li></ul>
<b>Who</b>	<ul style="list-style-type: none"><li>• David Sproul: Senior Partner and CEO of Deloitte in the UK</li><li>• Angela Mitchell: Lead Partner for the Scottish Public Sector</li></ul>
<b>Why</b>	<p>To give an opportunity to discuss Deloitte's operations in Scotland and the company's future growth and investment plans. David also wants to provide an overview on how they see the fintech sector and how Deloitte's can work with SE to meet Scotland's ambitions in this area.</p> <p>The meeting supports SE and SDI's strategic engagement with Deloitte's. You previously met with Angela Mitchell and Nick Owen, Chairman, Deloitte UK and Switzerland in January 2016. You officially opened Deloitte's new office in Glasgow in June 2016.</p>
<b>Where</b>	Bute House
<b>When</b>	Monday 20 March, 2pm-2.45pm
<b>Supporting Officials</b>	Paul Lewis, Managing Director, SDI <b>[REDACTED]</b> <b>[REDACTED]</b> , Senior Policy Executive, Financial Services and SME Finance Policy <b>[REDACTED]</b>
<b>Attached documents</b>	Annex A: Biographies Annex B: Company Profile Annex C: Engagement with SE/ SDI including the Fintech Action Plan Annex D: Other areas of engagement with the Scottish Public Sector Annex E: Financial Services Key Facts

**BIOGRAPHIES**

**David Sproul - Senior Partner and CEO of Deloitte in the UK**



David is the Senior Partner & CEO of Deloitte in the UK. David is also a member of the Deloitte Global Executive.

- Before his election to UK CEO on 1 June 2011, David led Deloitte’s Tax function in EMEA and the UK, and was a member of the UK Firm’s Executive and Board of Partners.
- Previously, David was Managing Partner for Operations at Andersen in the UK until 2002. He led Deloitte’s Consulting & Advisory business from 2002 to 2004 and Deloitte’s Talent agenda in 2004 – 2006.
- David has significant experience of working with clients on strategic, transaction and tax-related engagements, across many geographies and varied sectors including consumer business, professional services, private equity and real estate.
- David is a member of the CBI President’s Club, The Advisory Board to The CityUK, the Leadership Council of the NCUB, and Board of Honorary Directors, Royal Opera House.
- His interests outside work are travel, cycling, motor racing and family.

**Angela Mitchell – Lead Partner for the Scottish Public Sector**



- Angela Mitchell is Deloitte’s lead partner for the Scottish public sector. She also leads the Local Public Services practice across the UK which covers local & regional government, health, police & justice and universities.
- Angela has twenty years’ experience in transformation programme delivery and has worked extensively in the public sector, in particular with the Scottish Government, NHS Scotland, Police Scotland and a number of councils and NDPBs.
- She has also worked for central government with the Department for International Development, the Cabinet Office and the Department for Work and Pensions. In a previous role, Angela acted as Head of Programmes within the Scottish Government Health Department’s eHealth executive team to establish the eHealth Programme.
- Angela is a keen participant in women’s initiatives and leads the Women in Technology Network within Deloitte, which has 800 members within the firm and relationships across partner organisations.
- You previously met Angela in January 2016 and June 2016.

**COMPANY PROFILE**

- Globally, **Deloitte is now the largest global consultancy firm** with fee income rising 5% in 2016 to \$36.8bn with 244,000 employees in total.
- The **UK operation has also had a very successful year in 2016** with Group Revenue for the UK operation reaching in excess of £3bn for the first time.

**Deloitte in Scotland**

- Deloitte employ **615 staff in Scotland** in Aberdeen, Edinburgh and Glasgow.

Office	Head Count	Partners	Directors
Aberdeen	89	3	4
Edinburgh	314	21	29
Glasgow	212	10	13
<b>Total</b>	<b>615</b>	<b>34</b>	<b>46</b>

- The firm states that its direct **contribution to the Scottish economy from all activity is estimated at £110m** – this includes direct, indirect and induced contributions – including economic links as purchasers as well as employers.
- It has also recently invested in physical infrastructure with a new office in Glasgow (opened by FM in June 2016) and a “Greenhouse” and Digital studio in Edinburgh.
- **In June 2016, Deloitte signed up to the Scottish Business Pledge** which it believes shares the ambition of boosting productivity and competitiveness, via sustainable employment, and workforce engagement and development.
- Deloitte continues to invest in Scotland and has brought in **seven new partners** over the last 18 months.
- The firm is **committed to social mobility** and has transformed its recruitment practices taking account of future potential rather than past circumstances.
- It supports the **“Inspiring the Future”** campaign which encourages ambition in children. As part of this, colleagues are encouraged to commit time to speaking at schools across the country on a range of themes.
- The firm’s strategy **“One Million Futures”** aspires to help one million people reach their potential by overcoming barriers to education and employment.
- There is a stated ambition that **25% of the partner group will be women by 2020** and 30% by 2030. Initiatives to help this include a return to work placement programme to help women who have been out of the workforce for more than three years to return to work.

**Contact: [REDACTED]**

## DELOITTE ENGAGEMENT WITH SCOTTISH ENTERPRISE/ SDI

**1. Fintech Action Plan for Scotland**

- The principal engagement between SE/SDI and Deloitte has been in the development of an **action plan for Fintech in Scotland**.
- This is a private sector led initiative which will lead to the creation and implementation of a plan which will help Scotland realise this major opportunity.
- The development and application of **technology** is playing an increasing role within the industry to **enhance customer service and streamline processes**.
- It has the potential to change and enhance how the industry operates.
- Fintech has the potential to grow Scotland's financial services industry, develop the sector's supply chain and attract new foreign direct investment to Scotland.
- The work is overseen by a steering group, chaired by Louise Smith of RBS and within this there are four key "themes":
  - **Talent and Skills:** Ensuring firms can access a pipeline of talented workers;
  - **Profile and Branding:** Raising awareness of the Scottish proposition and key strengths;
  - **Finance and Support:** Working with partners in the investment community to allow firms access to the growth capital required;
  - **Innovation and Infrastructure:** Providing innovation support to growing firms and ensuring that the Fintech "system" in Scotland is fully connected
- The **Innovation and Infrastructure theme is led by Kent McKenzie, a Director in the Risk Advisory practice of Deloitte**, based in Edinburgh.
- He has been charged with the development of a business case for a "hub" for the colocation of Fintech firms which may include a physical development.
- **[REDACTED]** RBS announced in February that it is creating an incubator/accelerator "hub" for start-up Fintech firms at its Gogarburn headquarters due to open in May 2017. **[REDACTED]**
- At the last meeting of FiSAB SFE and Deloitte demonstrated a prototype of a "virtual hub" for the FinTech sector in Scotland, in essence a website, which will showcase the Scottish offering externally while also helping to foster collaboration between different parts of the Fintech eco-system.
- **[REDACTED]**
- **[REDACTED]**
- **[REDACTED]**
- **[REDACTED]**
- **[REDACTED]**
- Earlier in the process, as part of the work to develop the action plan, Deloitte was commissioned by Scottish Enterprise to undertake two distinct pieces of work:

- An assessment of technology strengths in Scotland and gaps in prospective support to firms to help grow Fintech in Scotland
- Stakeholder engagement and action planning workshops
- Each of these projects was completed successfully with a strong working relationship developed with Deloitte which has since continued.
- With respect to the Fintech Action Plan overall, there is no date for completion of this work and responsibility for this lies with the private sector Steering Group.

Aside from the assistance with the Fintech Action Plan, Deloitte has also been assisting efforts to develop Fintech in Scotland in the following ways:

- In discussion with **Strathclyde University** to prospectively offer guest lectures and mentoring support to students as part of the latter's MSc in Fintech
- Recent conversations with the **University of Edinburgh** about collaborating to develop an MSc in Finance, Technology and Policy
- Offer of projects to four MSc Data Science students at the **University of Stirling**
- Supporting clients to help them scale and unlock new opportunities including
  - Assisting a major bank **[REDACTED]**
  - Business support to a Scottish Fintech firm **[REDACTED]**
  - Providing advisory services to a **[REDACTED]**
- **More widely, Deloitte also works closely with Scotland's technology sector – including Scotland's two £1bn technology companies;** it has a long term relationship with Skyscanner, and also with fantasy sports operator Fanduel.

## **2. Inward Investment**

- **The SDI Financial and Business Services team is keen to partner with Deloitte on inward investment opportunities where possible.**
- Having such an extensive client base, the firm may be aware of expansion opportunities where Scotland may be an ideal location and we would like the firm to be aware of the support that can be offered and the advantages to firms which may choose to locate here.
- SDI already regularly uses Deloitte in its role as an intermediary and would be keen to have a closer relationship in the future.
- Examples of where we have worked in partnership include:
  - SDI works with the Deloitte location advisory group personnel in London, Brussels and across the US to get visibility of inward investment opportunities and, in return, assist in providing the latest information about what's happening in Scotland.
  - SDI is currently working with Deloitte in Scotland to involve them in inward investment company visits – Deloitte providing third party endorsement that Scotland is a great place to do business.
  - In 2014, Deloitte hosted its annual Global Business Services conference in Edinburgh and several Scottish firms were showcased as part of this including Sky, Eaton and Hewlett Packard

### **3. Assistance with Growth Companies**

- In late November 2016, David Mitchell, a partner in the private markets business for Deloitte, attended an informal dinner with SE's Chairman to explore areas where intermediaries may be able to help SE in its ambition to help growth firms with significant potential – so called "Scaling Accounts".
- Discussions are ongoing but prospective areas of collaboration include:
  - **CPD Session:** Deloitte to present to company representatives on specific challenges that can be faced by growth firms. Deloitte is to suggest topics for these sessions.
  - **Short Term Secondment:** An opportunity for a secondment from the firm to work with the Scottish Enterprise team. The secondment would be expected to participate in client discussions and specific projects as a specialist.
  - **In-company Placement:** Placement within a specific firm within the Scaling Accounts programme to help them address a specific project or challenge
- Nothing has yet been formalised and the above are suggestions at this stage.

**Contact: [REDACTED]**

## AREAS OF ENGAGEMENT WITH THE PUBLIC SECTOR IN SCOTLAND

*(Information supplied by Deloitte)*

- In recent years, Deloitte has worked on a number of high profile transformation programmes for Scottish Government (and public sector partners).
- **Police Scotland (SPSA, SCDEA and ACPOS)** – Deloitte supported the definition of the single police force, and have been involved in the flagship i6 Programme, and other associated transformation projects. Currently working on the **2026 Programme and 10 Year strategy for policing in Scotland**.
- Deloitte was appointed to work collaboratively with the Scottish Police Authority (SPA) and Police Scotland on their Policing 2026 Programme. The Programme aims to shape the type of policing service that is delivered over the next decade. Deloitte was engaged to provide specialist skills and expertise into the Programme and worked collaboratively from August until December 2016. Key activities included:
  - **Creating an evidence base to inform the strategy.** This included leading work around defining what trends will impact the shape of policing in 10 years' time, understanding the current demand for policing services, defining what the future workforce may look like and what capabilities will be required for policing over the next decade, and the development of the programme management office to support the 2026 programme.
  - Working as part of an integrated team, along with SPA and Police Scotland, Deloitte supported the design and development of the 10 year strategy for policing in Scotland that was launched for consultation at the end of February 2017.
- **Audit Scotland** – Deloitte undertakes 27 audits across local government, central government and health including best value work. It is the biggest external provider in Scotland.
- **Scottish Government Agriculture, Food and Rural Communities Directorate** – Over the last three years, Deloitte has supported the Rural Payments and Inspections Division (RPID) with the implementation of EU Common Agriculture Policy (CAP) Reform.
- **The Scottish Government Health Department (SGHD)** – The services provided by the NHS in Scotland are delivered by 22 independent NHS Health Boards, and Deloitte has worked with the SGHD to set-up a national ICT collaboration programme.
- **Justice Directorate** – Supported the development of the Digital Justice Strategy.
- **ePlanning Efficient Government Programme** – Supported Scottish Government in setting up the shared services planning programme.

- **Disclosure Scotland** –Supporting Disclosure Scotland with its Transformation Programme.
- **University of Glasgow** –Supported the University of Glasgow with its ‘Transforming Research programme’ and increasing student attraction and retention.
- **Glasgow Caledonian University and Glasgow School of Art** –Worked with both of these organisations to look at ways to reduce costs and improve the student experience across a range of services.

**Edinburgh City Council** –Supporting Edinburgh City Council with the delivery of Programme Momentum, Project Power and Project Joule. Programme Momentum has been established to address both the outstanding ‘Property Conservation’ legacy service, and to design a new ‘Edinburgh Shared Repairs Service’.

Other Public Sector Initiatives – additional material received from Deloitte and included as background

### **Overview of Strategic Finance Leaders Programme**

- In response to the changes and financial challenges facing Scotland’s public sector, Deloitte developed the Strategic Finance Leaders Programme in association with the Scottish Government in 2012.
- The programme, which has delivered three cohorts to date, supports public sector finance directors who are directly responsible for managing and implementing these changes.
- It is aimed at existing FDs (or deputy FDs in the largest organisations) – those that have shown the potential to develop into the most influential finance roles in the Scottish public sector.
- Almost 40 finance leaders in Scotland have completed the two-day bespoke workshop, and now continue to form part of the alumni network who meet two to three times each year.

### **Overview of State of the State**

- The *State of the State* report provides a unique, independent analysis of the UK public sector through a business lens.
- Produced in collaboration with think tank, Reform, the insight is informed by interviews with public sector leaders, citizen research and an in-depth analysis of government data.
- For this year’s *State of the State* report, Deloitte and Reform commissioned Ipsos MORI to interview more than one thousand people across the UK.
- Deloitte asked for their perspectives on the government’s priorities, their experience of local public services and their views on specific issues including Brexit.

**Inclusive growth report**

- Deloitte's public sector team is developing a report, for publication this spring, which will look into how public bodies can support inclusive growth.
- Scotland will have its own findings.

**Contact: [REDACTED]**

## BUSINESS DIRECTORATE CORE BRIEF

<b>Title:</b>	Scotland's Financial Services Industry		
<b>Lead Minister:</b>	Cabinet Secretary for Economy, Jobs and Fair work and Minister for Business, Innovation and Energy		
<b>Division:</b>	Innovation, Investment and Industries		
<b>Lead Contact:</b>	[REDACTED]	<b>Extension:</b>	[REDACTED]
<b>Backup Contact:</b>	[REDACTED]	<b>Extension:</b>	[REDACTED]
<b>Updated on:</b>	March 2017	<b>Next Review Date:</b>	April 2017
<b>National Outcome:</b>	We realise our full economic potential with more employment opportunities for our people	<b>Strategic Objective:</b>	Wealthier & Fairer
<b>Top Line/ Government Position:</b>	<p>The Scottish Government fully recognises the key role that the financial services industry plays in the Scottish economy and is absolutely committed to supporting and working with the industry to strengthen our foothold in financial and business services.</p> <p>The financial and business services industry is one of the key sectors within the Scottish Government Economic Strategy, identified as providing an opportunity to strengthen Scotland's areas of international comparative advantage and the capacity to boost productivity.</p>		
<b>Lines to Take:</b>	<p>The Scottish Government is working to build a sustainable future for the financial services industry in Scotland and to maximise jobs and headquarter functions in Scotland.</p> <p>Scotland is internationally recognised as the most important UK financial centre outside London and the South East, with a breadth of services including global custody, asset servicing, banking, investment management, corporate finance, general/ life assurance and pensions.</p> <p>Banking accounts for just over half of financial services sector jobs in Scotland. However, we also have real strengths and continued potential for growth in other areas such as asset servicing/fund management, life assurance, insurance and pensions, along with strong robust infrastructure to support the sector.</p> <p>Scotland remains an attractive and highly competitive location for both indigenous and international businesses and recent announcements of expansion and investment plans by financial services companies have buoyed prospects for the future.</p> <p>Scottish Government recognises the importance of a sustainable and competitive banking sector to the Scottish economy.</p> <p>The Scottish Government will continue to work with the banks for a robust, competitive banking market in Scotland and will urge the banks to</p>		

	<p>respond positively to the proposed reforms in a way that protects Scottish consumers and the Scottish economy.</p> <p>The Scottish Government will continue to support Scotland’s financial services industry in maintaining its real strength and adapting to change. This includes a highly qualified and adaptive workforce, with around half of the Scottish financial services workforce qualified to a higher education level including degree level and higher.</p>
<p><b>Key Facts:<sup>1</sup></b></p>	<p><b>Output (Gross Domestic Product)</b></p> <p>Following a steep decline in output over 2009–2011 with the onset of the global financial crisis, the sector experienced some unstable growth over 2012-2013. After further declines in 2014 and the first half of 2015, growth in the sector has started to pick up in the most recent quarters.</p> <p>In 2016 Q3, output in the Scottish financial services sector was 4.9 per cent below the peak level reached in the first quarter of 2009. However, as the decrease in the sector’s output, that began with the crisis, followed an extended period of rapid growth, gross domestic product (GDP) in the sector in 2016 Q3 was 11.4 per cent higher than in 2005 Q1.</p> <p>The most recent Scottish GDP data, published in January 2017, shows that<sup>2</sup>:</p> <ul style="list-style-type: none"> <li>• GDP in the financial services sector increased by 0.8 per cent in 2016 Q3 compared with the previous quarter (2016 Q2). Compared to the same quarter a year previously (2015 Q3) GDP in the sector also increased by 12.3 per cent.</li> <li>• The Scottish economy grew by 0.2 per cent in 2016 Q3 compared to the previous quarter (2016 Q2). Compared to the same quarter a year previously (2015 Q3), the economy grew by 0.7 per cent.</li> </ul> <p><b>Employment</b></p> <p><b><i>Financial Services Industry</i></b></p> <p>Employment in Scotland’s Financial Services industry was 86,200 in 2015 (Figure 2)<sup>3</sup>. This was broadly aligned (100 units difference) with the</p>

<sup>1</sup> With the exception of employment data from the Business Register and Employment Survey (BRES), **data in this section is for SIC (2007) section K, Financial and Insurance Activities**. For BRES data, the Financial Services sector is defined using SIC (2007) codes 64.1, 64.3, 64.9, 65, and 66. This is consistent with the Financial Services part of the definition of the Financial and Business Services Growth Sector. Sub-sectors are defined using SIC(2007) codes as follows: Banking: 64.1, 64.91, 64.92, 64.992; Life & Pensions: 65.11, 65.201, 65.3; General Insurance: 65.12, 65.202; Asset Management: 64.3, 64.991, 64.999, 66.1, 66.3; Intermediation: 66.2.

<sup>2</sup> 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.

<sup>3</sup> Employment figures from Business Register and Employment Survey include working proprietors, but do not include the smallest sole traders that have an annual turnover below the VAT threshold.

level of employment in 2014 (86,100), representing a 0.1 per cent increase. This follows a 0.7 per cent increase in employment between 2013 and 2014.

Employment in the Financial Services industry for Great Britain overall decreased in 2015 to 1,023,900 from 1,031,800 in 2014, a decrease of 0.8 per cent.

The Banking sub-sector accounts for just over half of all Financial Services employment in Scotland. In 2015, there was an increase in the employment within three of the five financial services sub-sectors<sup>4</sup>, with the biggest increase seen in Life and Pensions (+3.7 per cent).

Overall, Scotland's share of GB Financial Services employment was 8.4 per cent in 2015. This represents a small increase from 8.3 per cent in 2014. The Life and Pensions sub-sector is particularly strong in Scotland, accounting for 26.3 per cent of total employment in this sub-sector for Great Britain as a whole.

#### Financial Services Industry – Employment as a Share of Total Employment

- Employment in Scotland's Financial Services industry represented 3.4 per cent of total employment in Scotland in 2015. This is the second highest out of the 11 GB regions and nations (after London, where Financial Services accounted for 7.2 per cent of total employment in the city and tied with Yorkshire and The Humber, where Financial Services also accounted for 3.4 per cent of total employment) and represents no change in position from 2009.

#### Financial Services Industry - Employment Growth

- Over the period 2009 to 2015, employment in the Financial Services industry in Scotland fell by 8.3 per cent. This compares with a decrease of 2.4 per cent in Great Britain as a whole. Scotland ranked 7<sup>th</sup> out of the 11 UK regions and nations in terms of employment growth.

#### Financial Services Industry - Contribution to Scottish Output

- Scotland's Financial Services industry contributed 7.0 per cent of Scotland's gross **[REDACTED]**<sup>5</sup>. This is slightly lower than the UK as a whole (8.2 per cent) and significantly lower than London, where the Financial Services industry contributed 18.9 per cent to GVA. Out of the 11 UK regions and nations, Scotland ranked second on this measure in 2014.

<sup>4</sup> Sub-sectors are defined using SIC (2007) codes as follows: Banking: 64.1, 64.91, 64.92, 64.992; Life and Pensions: 65.11, 65.201, 65.3; General Insurance: 65.12, 65.202; Asset Management: 64.3, 64.991, 64.999, 66.1, 66.3; Intermediation: 66.2

<sup>5</sup> Source: ONS Regional Gross Value Added (Income Approach) - 2014 GVA provisional.

### ***Business Services Industry<sup>6</sup>***

The Business Services sector accounted for around 5 per cent of total employment in Scotland in 2015. This definition is based on the Business Services part of the Financial and Business Services Growth Sector. It should be noted that alternative definitions of the business services sector exist. Total employment in the sector decreased by six per cent in 2015 compared with 2014.

The Business Services sub-sector with the greatest employment is Other Engineering Activities<sup>7</sup>, which has grown by one per cent between 2014 and 2015. The sub-sector Management Consultancy Activities, which was the sector with the greatest employment in 2014, has decreased by 23 per cent in terms of employment level over the period 2014-15. Sub-sectors that have seen increases in employment include Accounting, Bookkeeping and Auditing Activities; Tax Consultancies (+21 per cent) and Market Research and Public Opinion Polling (+47 per cent).

The Business Services sector in Scotland had GVA of £7.0 billion in 2014, an increase of 3.1 per cent on 2013. Legal Activities, Accounting, Bookkeeping & Auditing; Tax Consultancy and Management Consultancy Activities sub-sectors accounted together for half (£3.5 billion) of the GVA produced in the Business Services sector. The 'Other Engineering Activities' sub-sector also accounts for a significant proportion (35 per cent) of GVA in the sector.

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<sup>6</sup> The Business Services industry is defined by the SIC (2007) codes: 69.1: Legal activities, 69.2: Accounting, bookkeeping and auditing activities; tax consultancy, 70.2: Management consultancy activities, 71.129: Other engineering activities (not including engineering design for industrial process and production or engineering related scientific and technical consulting activities), 73.2 : Market research and public opinion polling, 74.3: Translation and interpretation activities, 78.109: Activities of employment placement agencies (other than motion picture, television and other theatrical casting) nec, 78.3: Other human resources provision, 82.1: Office administrative and support activities, 82.2: Activities of call centres, 82.3: Organisation of conventions and trade shows, 82.91: Activities of collection agencies and credit bureaus, 82.99: Other business support service activities n.e.c.

<sup>7</sup> Not including engineering design for industrial process and production or engineering related scientific and technical consulting activities.