


## BRIEFING FOR THE FIRST MINISTER

### MEETING WITH BARCLAYS CHAIRMAN, JOHN MCFARLANE

1 December 2016

<b>Key message</b>	Support for financial services sector in Scotland,
<b>What</b>	Meeting with John McFarlane, Chairman Barclays PLC
<b>Why</b>	Meeting requested by Barclays to discuss issues including impact of Brexit on financial services sector.
<b>Who</b>	 <p>John McFarlane is a senior figure in global banking and financial services circles and is in his 40th year in the sector (including 20 years as a main-Board director, 10 years as CEO and more recently as Chairman). John was formerly Chairman of Aviva plc, and for a brief period he was also Chairman of FirstGroup plc.</p> <p>John is a <b>member of the European Financial Services Chairman's Advisory Council (EFSCAC</b> – Martin Gilbert also a member), a member of the Financial Services Trade and Investment Board and the European Financial Roundtable and is <b>Chairman of TheCityUK</b></p>
<b>Where</b>	Parliament
<b>When</b>	1 December, 14:00-15:00
<b>Likely themes</b>	Current issues including impact of Brexit. Mr McFarlane is keen to hear the First Minister's and Scottish Government's thinking on Brexit and the Scottish Economy.
<b>Supporting official</b>	<b>REDACTED</b>
<b>Attached documents</b>	ANNEX A – Barclays Key Facts ANNEX B – Financial Services and Brexit ANNEX C – EU referendum: Implications for business and the economy ANNEX D – Scottish Economy – Performance and after the EU referendum ANNEX E – Long Term Economic Implications of Brexit ANNEX F – Scottish Growth Scheme

**BARCLAYS – Key Facts**

Barclays updated the market on its strategy in March 2016, announcing initiatives to accelerate the bank's strategy and simplify Barclays, as they prepare for regulatory ring-fencing requirements.

Barclays operates two clearly defined businesses: Barclays UK and Barclays Corporate & International.

**Barclays UK**

Barclays UK is a personal and business banking franchise with true scale, built around customers' needs with innovation at its core. It comprises UK retail banking operations, UK consumer credit cards business, UK-based wealth offering, and corporate banking for smaller businesses. With around 22 million retail customers, and almost one million business banking clients, Barclays are a pre-eminent UK financial services provider. This division will become a UK ring-fenced bank by 2019.

**Barclays Corporate & International**

Barclays Corporate & International is a diversified transatlantic business comprising their corporate banking franchise, which is market leading in the UK with strong international growth opportunities, their top-tier investment bank, a strong and growing US and international cards business, their international wealth offering, and leading payments capability through both corporate banking and the Barclaycard merchant acquiring expertise. Barclays Corporate & International has scale in wholesale banking and consumer lending, strength in the key markets, excellent growth potential, and good balance in its revenue streams, delivering further resilience and diversification.

Barclays expect that both divisions, when separately assessed, would support solid investment grade credit ratings; and both generated double digit returns on tangible equity on a pro-forma adjusted basis for 2015.

- **Barclay's business in Scotland has grown from REDACTED in Barclays Stockbrokers in 1986 to REDACTED.**
- In 2006 plans were announced to expand the Glasgow platform and the Aurora building was officially opened by the First Minister in 2007. The Shared Service Operation was opened two years later in 2010.
- The bank has 17 Retail branches in Scotland and has key office locations in Glasgow, Aberdeen, Inverness and Edinburgh.

Barclays businesses represented in Scotland

Barclays Wealth (Private Bank); Barclays Corporate; Personal Banking & SkyBranch; Investment Bank

Functional Areas represented on the main Glasgow site

Operations & Technology; Data Systems & Insight; Human Resources; Risk; Legal & Compliance (incl. Financial Crime); Finance; Payments; Resilience; Customer & Client Experience

**SDI, November 2016**

**Top lines**

- The Scottish Government appreciates the contribution of the financial services sector to the Scottish economy and understands the threat posed to the sector by the UK's decision to leave the European Union.
- 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.
- It is essential that the UK Government sets out its position on membership of the Single Market and 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.
- **Brexit is by far and away the biggest threat to Scotland's economy, jobs and long term prosperity. That is why we are doing everything we can to protect Scotland's interests.**
- That means working with others to keep the UK in the Single Market and towards a deal 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.

**Financial Services In Scotland**

Scotland is an attractive and competitive location for locally based and international businesses both in terms of establishing operations, and as a consumer base.

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.

**Economic Contribution**

- The sector makes a significant contribution to Scotland's economy – accounting for around 7% of GDP.
- Output in the sector remains around 13% below pre-recession level.
- The sector employs more than 1 million people, of which two thirds are based outside
- London, with around 86,500 employed directly in financial services in Scotland.

A 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 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.*

*"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.*

*"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)"*

The 4-consulting report estimates that 20,000 EU nationals work in the banking and finance sector in Scotland.

## **Financial Services Employment in Scotland by Sub-Sector**

	<b>2012</b>	<b>2013</b>	<b>2014</b>
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.

### **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.

- Scottish Financial Enterprise estimate that the value of funds under management in Scotland is around £800 billion .
- 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.

**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** - is 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.

### **FIRMS SIZE AND OWNERSHIP**

#### **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.

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

### **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<sup>1</sup>).
- 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<sup>2</sup>.

### **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**

### **Passporting**

Banks and investment companies authorised in an EEA state, bound by EU legislation, have the right to “passport” certain services across the EEA, either on a cross-border basis or through branches, without the need for additional local authorisations.

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 FX activities will be most affected by the issue 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 MFID 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.

### **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.

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<sup>1</sup> Businesses in Scotland 2013. “Foreign owned” is defined as outside the United Kingdom.

<sup>2</sup> 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).

- 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.

### **Access to single market**

- Unless agreements on access are put in place, the UK would lose access to the full EU market for financial services through current passporting mechanism.
- Scottish based companies 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).

## **FLEXIBILITY AND ALTERNATIVE OPTIONS**

### **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.

### **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.

### **The Trade Minister suggests UK will look to replace EU financial services passport with “new model”**

In a phone interview with Bloomberg, UK Trade Minister Mark Garnier suggested that the UK was likely to lose the so-called passporting rights – the ability of UK-headquartered financial firms to provide services across the EU – after Brexit, but added,

*“If we can create a special hybrid version of that, with a better version of [regulatory] equivalence or a different version of passporting, then that’s what we will try to achieve. What we are not trying to do is fit into an existing box. We are trying to create a new model.”*

Source: Open Europe Intelligence Bloomberg

### **Overall**

The extent to which BREXIT would affect market access for Scottish financial services firms is unclear and is dependent on the agreement reached in negotiations. 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.

### **Transition Agreement**

Without an agreed transition, the legal basis for operating across the Single Market. This has implications for financial and economic stability, it is therefore in everyone's mutual interest that an agreement on transition arrangements be reached.

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.

### **Potential Opportunities**

If Scotland was able to negotiate preferential position re access to European market over that of London then Scotland might be able to attract financial services companies jobs currently using London as a base.

### **Quotes from John McFarlane on Brexit:**

*"Our industry is a national asset – one that employs nearly 2.2m people across the UK. A robust and globally competitive industry helps to build a strong and thriving economy.*

*"Our changing relationship with EU is critical. The new terms of trade will be of fundamental importance to our industry and to the long-term attractiveness of the UK."*

FT, October 4 2016

*"This [Brexit is a geopolitical and economic shock that requires a coordinated response.*

*"Unfortunately it is far from certain what we might be able to secure in our discussions with the EU. It is nevertheless important for us to understand what options exist and to plan prudently for all contingencies.*

*"We don't know if the exit is inevitable nor the shape of an exit if it occurs.*

*"Cool heads need to prevail*

*"markets tend to overreact and things eventually recover but rarely do they return to previous state.*

*"There remains a great deal of uncertainty, and we need things to settle down and find a new equilibrium."*

Independent, 30 June 2016

**REDACTED**

Top Lines

- **More than 60% of voters in Scotland wanted to stay in the EU**
- The Scottish Government has a **mandate to protect Scotland's interests**, ensure a **continuing relationship with Europe** and **work with business, trade unions and others** to maintain our strong economic performance and pursue new business opportunities as they arise.
- **Our overriding priority is protecting Scotland's relationship with, and place in the European Union**, and its related economic and social benefits.
- Business and the economy is at the heart of that, and the **First Minister has established the Standing Council on Europe** which comprises specialists in legal, financial, business and diplomatic matters. She also met the main business organisations in Scotland, the STUC, and other key stakeholders. That provides a platform for on-going and close collaboration.
- We welcome the statement issued jointly by Scotland's main business organisations on 8 July::
  - **Scotland's businesses need continued access to the single market and free movement of labour;**
  - Scotland's **businesses need information and support** which is clear, relevant and up to date;
  - **Scotland remains part of the EU and an attractive and stable place to do business, with a fundamentally strong economy.**

Business suggested we establish a dedicated Information Service to answer companies' question about the Business implications of the Referendum result. It launched on 22 August .

- We will continue to work with business bodies and sectors - and individual companies - to share information, listen and understand business priorities and concerns, and make clear - here and further afield - that **Scotland remains a stable and attractive place to do business.**
- On 10 August, FM announced a new **Capital Acceleration Programme with measures to support and stimulate the economy in the wake of the EU referendum.** An additional £100 million of Capital funding – made available in this financial year - for projects that support and create employment and speed up delivery of health and infrastructure projects. FM called upon UK Govt. for urgent action and a UK wide stimulus package to enable the SG to do more to accelerate capital spending.
- FM also announced plans to establish a **post-referendum business network** to work closely with the main business bodies, the STUC and Scotland Office to respond to the new environment.
- Analysis published by the Scottish Government on 23 August 2016 suggests that by 2030, Scottish GDP is projected to be between £1.7 billion and £11.2 billion per year lower than it would have been if Brexit does not occur. Tax revenue is projected to be between £1.7 billion and £3.7 billion lower.
- Linked to PfG, on 6 September FM announced:
  - a new **£500 million Scottish Growth Scheme**, using the strength of SG's balance sheet to create a new 3 year facility of financial guarantees and, if appropriate, loans.
  - **how the £100 capital investment package will accelerate 16 projects** selected because of the early benefits they offer to the Scottish economy. **They include a £20 million investment in energy saving** measures for homes and public sector buildings, **£23 million to upgrade the higher education estate** and **£10 million for local economic development.**
  - Actions to further strengthen and promote Scotland's economic relationships with our EU and global trading partners, including new **innovation and investment hubs** in London, Dublin and Brussels, a comprehensive **programme of SDI led trade missions**, the work of Global Scots and **new trade envoys**, and the advice and guidance from a **new Ministerial Trade Board**

REDACTED



## SCOTTISH ECONOMY – PERFORMANCE BEFORE AND AFTER THE EU REFERENDUM

### KEY ISSUES OVER PAST WEEK

- [16 Nov] Labour Market Statistics showed that over the quarter to Jul-Sep 2016 the unemployment rate fell to 4.7%, however the employment rate fell to 73.6% and the inactivity rate rose to 22.6%.
- [15 Nov] The latest PWC Economic Outlook forecasts for Scottish growth in 2017 increased to 0.9% (forecast made in July was 0.3%), however this still represents a slowdown from 1.8% growth in 2016, due to a 'drag on investment' as a result of increased uncertainty post-EU referendum result.
- [14 Nov] The Scotsman reported that a hard Brexit could cost companies an estimated £1.2 billion (The Open Europe Group) whilst RBS chief warns that banks could pull out of Britain due to post Brexit uncertainty.
- [14 Nov] Bank of Scotland PMI for October signalled that Scotland's private sector output and employment continued to expand for both manufacturers and service providers, albeit at a slower rate than in September.

### ECONOMIC PERFORMANCE PRE-EU REFERENDUM

#### (1) Scotland's economy was growing in the run up to the EU Referendum.

- **Scotland's economy grew by 0.4% over the second quarter of 2016** (UK 0.7%), spurring a 0.7% increase on the year compared with 2.1% in the UK.
- **Scotland's GDP per head is now 2.1% above its pre-recession peak, compared to the UK which is only 1.2% above its pre-recession level.**
- Excluding oil, Scotland's GDP per head is the third highest in the UK behind London and South East.

#### (2) Scotland attracted more FDI projects in 2015 than rest of UK outside London.

- The EY Attractiveness Survey (May 2016) shows that in 2015 Scotland attracted 119 FDI projects – a 51% increase on the previous year and more than any other part of the UK outside of London.
- FDI projects helped to create over 5,300 jobs in Scotland last year – a 52% increase on 2014.
- In each year since 2006 Scotland has ranked in the top two regions outside London for FDI in terms of number of projects secured.

#### (3) Since the SNP took power in 2007, Scotland has achieved significant economic goals.

- **Registered Businesses** – The number of registered businesses in Scotland has grown by 15% since 2007 to an all-time record level of 173, 995 in 2016.
- **Research & Development** – Scotland's business R&D rose by 41% in real terms between 2007 and 2015 from £617 million to £871 million. UK expenditure increased by only 17% over the same period.
- **Productivity** – output per hour – has grown 4.4% since 2007 compared to no growth in the UK.
- **Exports** – the value of Scotland's international exports has increased by around 36% between 2007 and 2014 (from £20.3 billion to £27.5 billion).

### ECONOMIC PERFORMANCE POST-EU REFERENDUM

#### (4) Growth forecasts stabilise in 2016 however signal a significant slowdown in 2017.

- **Scotland: PWC** – in November, growth revised up to 1.8% in 2016 (1.3% in July) and 0.9% in 2017, (0.3% in July). **Fraser of Allander Institute** – in July, growth was revised down for 2016 to 0.9% (1.4% pre-ref), and for 2017 to 0.5% (1.9% pre-ref).
- **UK: IMF** – In October, UK growth forecast for 2016 was 1.8% (down from 1.9% pre-ref), and 1.1% for 2017 (down from 2.2% pre-ref).

#### 5) Labour Market resilient: unemployment rate fell over the quarter and remains below the UK.

- **Unemployment fell by 14,000 over the quarter to Jul-Sep 2016.**
- There are now **40,000 more people in employment than before the recession** (Mar-May 2008).
- **Scotland's female outperforms the UK on female employment, unemployment and inactivity rates.**

- **Scotland outperforms the rest of the UK on the youth employment** rate (60.0% vs. 55.9%), youth unemployment rate (12.0% vs. 14.3%) and youth inactivity rate (31.8% vs. 34.7%).

(6) Business Surveys provide encouraging signs for Q3 2016, however business groups continue to voice concerns about weakening trade relations with the EU.

- In October, the CBI signed an open letter from business groups setting out that moving to WTO trade agreements would do serious and lasting damage to the UK economy and those of our trading partners.
- In October, the US Chamber of Commerce published its priorities for UK/EU negotiations setting out that the UK should retain unfettered access to the European market in goods and services.
- In September, Japan's Foreign Ministry warned that Japanese businesses with their European headquarters in the UK may decide to transfer their head-office function to Continental Europe if EU laws cease to be applicable in the UK after its withdrawal from the EU.

**REDACTED**

**November 2016**

**Fraser of Allander warns that Brexit could reduce Scotland's economic performance**

- The Fraser of Allander modelling of the WTO scenario suggests that after 10 years:
- GDP expected to be over 5% (£8bn in 2015-16 terms) lower than would otherwise be the case and exports over 11% lower; Real wages are expected to be 7% lower, a reduction of around £2,000 per year;
- The number of people employed is 3% lower (around 80,000 jobs).

**The Resolution Foundation highlights Brexit and UK Government benefit cuts will hit low income households**

- By 2020, the Resolution Foundation estimate that low income working families will be £2,200 a year worse off as a result of the cuts implemented during this parliament

**Analysis from NIESR finds that BREXIT could result in significant losses in bilateral trade with other EEA countries**

- UK exports from the services sector could be cut by up to 60% and good trade could decline by 35-44%.
- For Scotland equivalent to a £2.3bn hit in service trade and around £3bn decline in goods trade.

**The European Single Market has opened Scotland to a market of over 500 million people**

- Scotland exports £11.6 billion a year to EU – 42% of total international exports
- There are nearly 1,000 EU owned companies in Scotland employing over 115,000 people
- Scotland secured more FDI projects than any part of the UK outside of London in 2015. FDI has created 40,000 jobs in Scotland since 2006.
- Around 173,000 EU citizens live in Scotland, bringing new skills and expertise.

**Brexit could hinder long term economic performance**

An open economy trading with the world provides opportunities to introduce new technology, management techniques and innovations, boosting productivity and prosperity. Brexit reduces these opportunities.

- **Lower Exports** - Any relationship with the EU short of full membership risks introducing tariffs and other trade barriers which would harm Scottish exports.
- **Lower FDI** - EY Attractiveness Survey finds that 79% of investors list access to the EU single market as an important element of the UK's attractiveness for investment.
- **Reduced Migration** – Reducing free movement of people into Scotland will increase skill shortages and exacerbate demographic pressures
- **Weaker Public Finances** – Lower economic growth will reduce receipts and funding for public services

**Projected impact on Scottish GDP**

**Range of institutions have estimated the long run impact that Brexit could have on UK economy.**

**Applying this analysis to Scotland implies that by 2030:**

- EEA membership could reduce Scottish GDP by £1.8bn - £11.2bn (£300 to £2,100 per capita)
- Bilateral agreement could reduce Scottish GDP by £1.7bn - £8.8bn (£300 to £1,600 per capita)
- WTO trading relationship could reduce Scottish GDP by £3.7bn - £11.2bn (£700 to £2,100 per capita)

All results relative to what output forecast to be if Brexit didn't happen

**Projected impact on Scottish tax receipts**

- Treasury analysis suggests that by 2030 funding for public services could be between £20 billion and £45 billion a year lower under Brexit compared to if UK remained in EU.
- Applying Treasury analysis to Scotland suggests Brexit could reduce Scottish tax revenues by between £1.7 billion and £3.7 billion a year by 2030 - equivalent to a cut in the Scottish Government DEL budget of 6% to 13%.

**Contact - REDACTED, November 2016**

**PROGRAMME FOR GOVERNMENT 2016:SCOTTISH GROWTH SCHEME (SGS)**

**Issue:** Despite current levels of business support, more is needed. There is, in particular, a need for government to encourage high quality investment where the market might not have the requisite risk appetite, for example where companies are capable of growing and securing new contracts but struggle to access working capital and finance from lenders. The Scheme will be focused on new and early-stage high growth potential companies, with clear export growth plans, particularly in technology-intensive firms and businesses in emerging markets, such as Fintech. There have been 35 PQs on the scheme, all now answered. A response issued on 1 November on the FOI case. Scottish Financial Enterprise (SFE) hosted a workshop (held on 14th October – SIB represented at workshop) with the main lenders in Scotland to discuss the planned scheme. **REDACTED.**

**Top lines**

- Scotland's future economic success lies in the strength of our SMEs.
- Scottish Government Officials are progressing discussion with the business community and financial institutions (Scottish Financial Enterprise workshop with lenders held on 14th October – SIB represented at workshop).
- Current uncertainty is putting investment at risk especially the type of innovative and ambitious investment that is needed to deliver jobs, growth and revenues.
- The Scottish Government will work with business organisations, the UK Government and Scottish Parliament to establish a new Scottish Growth Scheme to provide up to **£500 million over three years** of investment guarantees, and some loans, up to a maximum of **£5 million per eligible business**
- **REDACTED.**
- Focus on companies in tech-intensive fields such as Fintech, new early-stage companies seeking to grow, and in firms ambitious to expand internationally, opening new markets, creating new jobs and boosting Scotland's economy.
- This scheme is a new departure for Scottish Government. It is an **exceptional response to an exceptional economic challenge** in the wake of the EU referendum and the uncertainty that it has created.
- It is a half-billion pound vote of confidence in Scottish business, Scottish workers and the Scottish economy and yet another example of the Scottish Government working to give certainty and stability while the UK Government continues to provide anything but.
- The Scottish Government intends to use the strength of its balance sheet to create a new 3 year facility of financial guarantees and, if appropriate, loans. The government will share some of the risk faced by small companies, when they make big investment decisions. The guarantees will appear on the SG's balance sheet as contingent liabilities – and will not come from existing spending – it will help to remove some of the uncertainty faced when making investment critical decisions.

**We will design scheme in consultation, to get it right for today's market**

- Demand for guarantees will depend on the detail of the scheme's design.
- We will develop the scheme in **consultation with business organisations, banks, insurance companies** and the wider financial markets to ensure that we get the balance right between stimulating investment and risk.
- Discussions with businesses, lenders and the UK Government to agree the detailed criteria for the scheme are ongoing. Important that the process put in place is the right one for Scotland's economy. **Scottish**

**Government seeking to share the risk faced by small businesses and to influence the level of finance being offered.**

### **What is the current thinking on how the scheme will operate**

- **There are various challenges. We are working on designing the most effective high quality scheme possible that will compliment exiting funding landscape for SMEs, rather than duplicate. As such, full details remain to be finalised.**
- The guarantee is designed to leverage the release of capital by removing uncertainty and share the risk that high growth potential business face when making investment or export decisions. Such leverage would include a variety of funding sources depending on the specific requirements of the individual business. All lender options would be explored in the due diligence process.
- We are keen to ensure that we maximize flexibility so that we can meet the needs of different businesses in different circumstances. We will consider whether matched funding to top up a loan might form part of a blended approach within the scheme.
- Our focus however, is to help lenders to provide the capital required by the companies concerned. The aim is to stimulate the release of capital by helping to remove the uncertainty that lenders face when making decisions on high growth potential businesses funding requirements for growth or entering new markets.
- The main form of support will, therefore, be guarantees however, loans may be appropriate in certain circumstances in line with the specific needs of the individual company and the best funding solution.

### **Wider background: Budget Position/UK Government**

- At the point of issue the guarantees will score as a **non-cash** fair value assessment against the SG AME budget. At this point, they will not impact on the discretionary spend available for allocation as part of the SG budget process. When a call is made on a guarantee it will score against SG capital budgets (CDEL) this impact will need to be managed as part of the SG budget setting, and in year budgetary management. Due diligence will be used to mitigate any impact this may have.
- **REDACTED.** Any guarantee defaults to be absorbed by SG within the pre-existing capital budget.

### **QUOTES**

**Press & Journal (1 October) Willie Rennie MSP said:**“The SNP government trumpeted this announcement as a big part of their economic response to Brexit but it emerges that businesses won’t see any of that help for some time yet “The parliamentary answers show the scheme is still under development, no markets have been specifically identified yet and new parliamentary procedures will be required. “Businesses crying out for support will think this is another hollow promise from First Minister.”

**CBI Scotland website - Hugh Aitken said:** *“Small and mid-sized businesses should be at the heart of Scotland’s long-term economic strategy, which is why we’re encouraged by the Scottish Growth Scheme and look forward to working with the Government on the detail.*

**REDACTED**