



UNISON Scotland response

Scottish Government Consultation on the Creation of a Scottish National Investment Bank

November 2017

Introduction

UNISON is Scotland's largest trade union with members across the public, private and voluntary sectors. We welcome the opportunity to take part in this consultation.

General overview

UNISON welcomes the decision to establish a Scottish National Investment Bank (SNIB). We have long argued that increased public investment is essential and that austerity policies are immensely damaging to the economy as well as to families struggling to get by. We have proposed that the Scottish Government and local authorities work with other public bodies in seeking innovative new ways of funding public infrastructure including using bonds and pension funds to invest in green, sustainable projects, such as social housing and municipal energy companies. UNISON believes the decision by the UK Government to sell off the Green Investment Bank was wrong. The SNIB should be a green and ethical bank, investing for the common good of the people of Scotland.

We welcome the reference in the consultation paper to seizing "the economic opportunities of tackling climate change." Also welcome is the draft mission statement reference to "accelerating the transformation to a low carbon, high-tech, connected, globally competitive and inclusive economy." It is becoming increasingly accepted that climate change is the greatest threat to all our futures and that economic policies must ensure we plan properly for both the opportunities and to minimise the risks. The Labour party has just proposed¹ that the UK Government should be including climate change risks in economic forecasting. It would be wrong for this new bank not to have support for action on climate high in its priorities.

We urge the Scottish Government to incorporate Just Transition principles in the remit for the SNIB. UNISON has played an active role in the Just Transition Partnership² and is keen to see the new Just Transition Commission having a powerful role, remit and representation, for work ensuring that the transformation to a low or zero carbon economy is carried out fairly, supporting those communities and workers where industries and jobs must change, investing in retraining and measures to tackle disadvantage in the labour market. The Just Transition Partnership called³ in February for Scotland's Climate Change Plan (RPP3) to be the foundation of an industrial plan which should marshal the public and private investment needed for the transition. We need that plan and the Scottish National Investment Bank has an extremely important role.

Our responses to the specific consultation questions follow. In responding, we support the response of the Just Transition Partnership and our response is largely based on theirs, for which we thank them - and Friends of the Earth Scotland for their ongoing work on this.

¹ <https://www.theguardian.com/environment/2017/nov/13/labour-vows-to-factor-climate-change-risk-into-economic-forecasts>

² <http://www.unison-scotland.org/2016/12/16/just-transition-low-carbon-economy-steering-group-statement-16-december-2016/>

³ http://www.parliament.scot/S5_Rural/Inquiries/Just_Transition_Partnership.pdf

RESPONSE TO CONSULTATION QUESTIONS

1. What are the top 3 areas of interventions where you think the Scottish National Investment Bank can have the greatest impact on sustainable economic growth?

1. Addressing access to finance for SMEs
2. Providing countercyclical financing during periods of economic and financial crisis
3. Financing infrastructure projects which support economic growth
4. Providing long term patient funding for capital projects
5. Targeting investments in high-risk R&D, innovative start-ups, and lengthy innovations, areas that private capital investment models may not address
6. **Promotion of investments that help address complex societal problems eg. the provision of infrastructure in deprived areas or addressing financial constraints in the housing sector**
7. Targeting groups that evidence shows have less access to capital than others (e.g. female and BME entrepreneurs)
8. **Providing mission-oriented finance eg providing finance for transformational technologies to reduce carbon emissions**
9. **Other: Targeting infrastructure projects necessary for transition to a low-carbon economy.**

1a. Can you explain why you chose these as the most important?

Investment that promotes inclusion and sustainability is least likely to be championed by those who are succeeding in our currently uninclusive, unsustainable economy.

However none of the eight areas listed are well provided for by existing investment institutions, public or private, and the SNIB's activities should be expected to offer all of these functions.

The starting point should be the purpose of the SNIB. The draft mission statement, as published, is laudable: "The mission of the Scottish National Investment Bank is to provide and catalyse investment in order to create opportunities for Scotland, by powering innovation and accelerating the transformation to a low carbon, high-tech, connected, globally competitive and inclusive economy". **We would propose amending this, re the transformation, to read "...accelerating a just transformation to a low carbon...."**

The focus on developing a low or zero carbon economy, and the avoidance of a focus on generating economic growth purely for its own sake, are commendable. An additional focus on 'tackling inequality' – both regional and between people of different genders, abilities and ethnic backgrounds – should be added to the SNIB's purpose statement.

The SNIB should focus its resources on transforming the Scottish economy, moving it towards net zero greenhouse gas emissions, creating good quality new jobs to replace those dependent on fossil fuels and creating a more equal labour market. Rather than identifying specific investment gaps or market failures it should seek to support long-term public policy objectives such as tackling inequality and cutting carbon emissions, and undertake patient, long-term interventions to address these challenges. Therefore it should aim eventually to be the investor of first resort, not lender of last resort, which is the approach which will follow from conceiving its function as responding to 'market failures'.

Infrastructure is vital for this but the criterion should not be economic growth alone – that approach can drive investments which lock in high emissions technologies. It should be clear

that this encompasses infrastructure owned by private, public and community sectors, all of which can contribute to the overall goals.

2. Which of these financial instruments might have the greatest impact in addressing your chosen areas of intervention?

This question addresses the stages of business development the SNIB might focus on in delivering its objectives.

This questions asks that the following instruments are ranked as No Impact, Low, Medium or High:-

Helping access to finance by SMEs

Guarantee solutions

Providing patient/long-term finance

Seed/start up equity solutions

Early stage capital equity

Later stage (patient/long term) equity

The instruments highlighted are those which are likely to have High Impact for the purposes outlined above

Microfinance and a focus on SMEs are likely to have low impact.

3. In terms of existing international models, is there a particular example that you think is appropriate for Scotland and why?

This question asks for best practice from other public development banks.

Germany's KfW is a strong example for Scotland to follow, making a significant intervention in the economy to improve household and business energy efficiency, the development of new forms of renewable energy, and support small-scale programmes via regional and local public banks. As Scotland currently lacks smaller-scale public banks, the SNIB should work with local authorities to provide local advice and shop-front lending services to businesses. The SNIB could at a later time seed fund new local banking institutions to assist with dispersing lending to small-scale projects and businesses.

4. Do you think that the Scottish National Investment Bank should have explicit regional mandates within Scotland, to address specific regional issues and/or to contribute towards greater regional economic cohesion?

This question addresses whether the SNIB should have a role in tackling regional inequalities.

Yes

Regional inequalities within Scotland are acute. The SNIB should include within its purposes an objective to address geographical inequality and assist areas of high unemployment, e.g. ex-coalmining areas. In practice this might mean directing investment into communities with high unemployment and low life-expectancy, and by investing to pre-empt economic shocks, for example by funding green employment in the North East where fossil fuel extraction will

decline. Tackling inequality also requires funding schemes that benefit marginalised groups including women, disabled people and people of colour.

5. Bearing in mind the potential cost implications, should the Scottish National Investment Bank...

1. Focus on solely providing financing
2. **Provide advice and support to assist entities/projects in becoming “funding ready”**
3. Provide ongoing advice and support to entities / projects in which it has supported

This question addresses to what level the SNIB should become involved with entities it lends to.

Transforming Scotland’s economy will require that there is a sufficient demand for finance from innovative and high-impact projects and companies, as well as sufficient supply. At present that pipeline is not in place and it will have to be built up within both private and public sectors, fostered by the SNIB.

The SNIB should have all the powers listed, but may therefore need to work hardest in assisting entities to become funding ready.

It should take this approach seriously by intervening fully in the economy to create new entities, markets and supply chains where they do not exist but are much needed, such as in renewable heat, off-shore floating wind power and public transport. For example the Offshore Valuation Group assesses that Scotland could have 86 GW in floating wind capacity but the supply chain in Scotland is limited: the first such facility opened in September 2017 was built by the Norwegian company StatOil.

A narrow approach focused on addressing market failures, such as that adopted by the Green Investment Bank, had a limited impact compared with other development banks worldwide.

6. Do you think that the Scottish National Investment Bank should act...

	Y	N
Solely through intermediaries/delivery bodies		x
As a co-investor or co-lender on equal terms with others		
As a principal investor/lender in its own right	x	
Through the provision of finance guarantees	x	
Differently in different areas of activity	x	

Existing public bodies deliver investment, lend in partnership and offer finance guarantees including Scottish Futures Trust, Scottish Investment Bank and Scottish Growth Scheme. Whether or not their functions are consolidated within the new Bank, it should be able to provide any of the financial instruments listed above in pursuance of its purposes. It should also be significantly *more* powerful than the sum of existing public bodies, and to achieve this it will need sufficient capital and borrowing powers.

7. Are there particular issues on governance and the operational model, including issues such as public/private classification, that you think would strengthen, or constrain, the bank's ability to deliver on its mission?

The SNIB should be a public bank, owned and financed jointly by local authorities and the Scottish Government. The Green Investment Bank was a private bank owned fully by the UK Government, leaving it open to its eventual privatisation. By sharing ownership with local authorities, the SNIB will have more sticking power and be able to use local authorities' borrowing powers to increase its lending power.

As a public body the SNIB should be transparent in its activities, covered by the Freedom of Information Act, with an automatic disclosure approach to information about its lending and internal practices.

The SNIB should have a governance structure which includes people that represent Scotland's regions, industrial sectors, civil society and trade unions, and reflects the genders, abilities and ethnic backgrounds of the population. Although aligned with public policy objectives, it should be able to carry out its functions free from day-to-day political interference.

The SNIB should have a strict code of practice that ensures the entities it lends to adhere to the highest environmental and workers rights standards, and do not engage in tax avoidance, or undermine other public policy objectives. Civil society and trade unions should have a role in ensuring compliance with these standards.

In general, the SNIB should look to public sector best practice internationally and not seek to emulate the toxic culture and bloated pay scales of the private financial sector.

This question addresses the governance and structure of the SNIB, and whether it should be a public or private institution.

8. Do you have any more comments about the establishment of a Scottish National Investment Bank?

This question offers a space for additional comments.

In summary, we believe these four points are important. The SNIB should:

1. Exist to make Scotland **greener and more equal**.
2. Be a **public body** with the **full powers of a bank**, such that it can intervene to direct the development of Scotland's economy.
3. Be able to invest in **publicly-owned infrastructure**, as well as ethical businesses.
4. Have governance structures that **reflect Scotland's diversity** and include people from across the country's regions, industrial sectors, trade unions and civil society.

UNISON has welcomed the proposed establishment by the Scottish Government of a public energy company. This should be involved in electricity generation and the SNIB should be looking to support local authorities also setting up municipal energy companies.