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Dear Committee members,

Inquiry into the role of local government and its cross-sectoral partners in financing and delivering a net-zero Scotland

Thank you for the invitation to speak with the Committee last week. I'm also grateful for the invitation to follow up with any further thinking which we feel may be helpful to your current inquiry.

I wanted to summarise points I covered on the subject of local economy transition and add a dimension around Scotland's ambitions as a global financial centre.

Local economy transition

For a local economy to successfully transition, it needs to support changes at household, business, infrastructure, and sectoral level. Financing has a major role to play at every level. Having covered some of these already in comments to committee, I wanted to summarise the overall picture for a successful local economy transition and add a further detail on the challenge for SMEs (small and medium enterprises).

The specific opportunities and challenges at local economy level in different parts of the country will differ, but the importance of recognising the specific local assets and context when planning the transition is consistent.

The Committee will know that Scotland fared well in Climate Emergency UK's recent ranking of UK councils on climate action, helped by the legal requirement since 2011 to reduce emissions and, since 2019, to report on progress. Edinburgh was the highest rated Scottish council, on 83%, and the joint fifth highest-scoring UK local authority.

It is performing well because of its intention to make use of assets available to it, and because it has developed a clear plan with short, medium, and long-term delivery. This includes the city's £1.3bn redevelopment of Granton Waterfront that will create an 11-hectare coastal park to protect biodiversity, create up to 3,500 new net zero carbon homes, use lower-emitting offsite construction methods and improve public transport links. Edinburgh has also allocated £2.8bn over 10 years to build 10,000 new sustainable and affordable homes by 2027, and to retrofit its 20,000 council houses to make them more energy efficient. And from 2025, all new school and early years buildings

will be built to Passivhaus standard. It is also collaborating with Forth Ports to capitalise on opportunities related to the recent Crown Estate and Scotwind announcement.

Clear, well-developed regional plans such as this make it much more likely that private sector finance can align to support an accelerated and just transition. Scale is an important factor in developing 'investible' projects, and so further pooling and alignment across regions to achieve economies of scales will help still further.

Large scale infrastructure and investment projects

Last week's announcement by the Crown Estate (25 GW of offshore wind power) presents a significant opportunity for local authorities to partner with the private sector and education institutions to maximise economic growth and employment / skills development as part of the journey to net zero. This is already happening.

- Highlands & Islands Council working with Nigg (Global Energy) and UWS.
- Aberdeen City & Shire Councils working with ETZ Ltd, Aberdeen Harbour, University of Aberdeen, Robert Gordon University, North East College
- Edinburgh City Council working with Forth Ports.

Ports the length and breadth of Scotland will have the opportunity to manufacture, fabricate and maintain the structures to support this massive undertaking which will in turn create billions of pounds investment and the creation of jobs and sustainable growth for the long term.

A good example that illustrates the potential to attract major investment in large scale projects that take advantage of regional strengths and create significant employment opportunities is the private public sector partnership working with UK Government, Northumberland County Council and SFE member Abrdn, which can and should be replicated in Scotland. The UK Government is backing British Volt's plans to build a £2billion electric vehicle battery plant in Northumberland, creating 3,000+ jobs.

SME transition

One of the most potentially difficult but important areas of a just transition is in supporting SMEs. There are opportunities in the net zero transition, but many smaller businesses lack the capability and expertise to make the most of them and at the current time, many are burdened with other challenges such as labour market and supply chain issues, digital disruption, and the need to recover and recapitalise following the challenges of the Covid-19 pandemic.

Our members are already providing significant, innovative support, both financial and advisory, to SMEs. Examples include RBS's climate accelerator hub, Lloyds Banking Group's carbon footprint calculator for SMEs, and HSBC's £500m Green SME fund. Considering the role of SMEs within a local economy, clear communication of strategies and plans in a region and the use of the different levers available to national government and local authorities to support smaller businesses must all be considered if we are to successfully transition. Small businesses make up a significant proportion of the economy in Scotland, and a just transition simply will not be successfully achieved, at the required pace, without ensuring that small businesses are supported too.

Key to this is maintaining a competitive operating environment and clarity around the vision for a local economy, so that SMEs can see transition as an opportunity aligned with their commercial interests, rather than a burden.

Scotland's ambition to be a leading global centre for green finance

In Scotland's financial services sector strategy, published in May 2021 by SFE on behalf of our members, we stated our aim for Scotland to inspire global leadership in green finance while supporting the Scottish economy to achieve net zero.

We believe that Scotland has a unique opportunity to be at the forefront of this ambition. Financial services and energy are the two largest sectors in Scotland by GVA, employing an estimated 375,000 people between them.

We have enviable tools across both sectors at our disposal; a world class talent pool supporting a globally recognised business environment underpinned by a pioneering entrepreneurial spirit. Scotland's natural resources mean our energy sector expertise spans both 'old' and 'new' energy. Added to this, we have the capability of our world class universities and colleges, and an outstanding professional services ecosystem.

However, it is also true that most financial centres around the world will state somewhere in their strategic narrative and marketing materials that they are well positioned to lead in the areas of green finance and fintech. To build credibility and enhance our leadership position, it is absolutely vital that we capitalize on the assets we have so that we genuinely come together to drive change and ensure our domestic transition visibly demonstrates how we are successfully bringing finance and delivery together. Bridging the gap between large, long-term capital pools from private sector finance, enabled by national government through to implementation and delivery at a local level is crucial to achieve this.

SFE is determined to act as a bridge in this transition and ensure we are facilitating collaboration and connection that benefits us both domestically at all levels from household to sector, while creating a leadership position internationally that can attract investment and opportunity for shared benefit.

Thank you again for the opportunity to meet with the Committee, we look forward to further collaboration to achieve our shared aims.

Kind Regards

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