

RESPONSE FROM SCOTTISH FINANCIAL ENTERPRISE TO THE SCOTTISH EXECUTIVE'S CONSULTATION ON SCOTLAND'S NATIONAL TRANSPORT STRATEGY

Scotland has a distinguished history in financial services that dates back over 300 years. It is now one of Europe's leading financial centres and the second largest financial hub in the UK next to London. The international financial services industry based in Scotland has a long-held reputation for innovation and excellence and provides financial products and services to businesses, private and public organisations and individuals across the world.

The financial services industry is of major importance to the Scottish economy. In the last five years (2000 to 2005) financial services in Scotland grew by 36% while the overall Scottish economy grew by 9% and the whole of the UK financial services industry grew by 15% in the same period. The financial services industry accounts for one in 10 Scottish jobs, with over 113,000 people directly employed in the industry and over 100,000 more employed in support services.

Scottish Financial Enterprise (SFE) is the independent organisation, formed in 1986, that supports and represents the interests of Scotland's financial services industry. Our members encompass all sectors of the industry including banks and building societies, general insurance, life assurance and pensions, investment managers, asset servicing, corporate finance and broking services, professional advisors and support services.

The competitiveness of Scotland as a business base for financial services companies – and thus Scotland's ability to attract and retain the financial services investment that is so vital to the Scottish and UK economies – is affected significantly by the policies determined at Scottish level.

SFE and its member companies maintain regular contact with policymakers, primarily in Scotland, the UK and Europe. In Scotland, we have established a pioneering approach that brings government, the industry and trade unions together in partnership to deliver the Strategy for the Financial Services Industry in Scotland. This successful initiative aims to ensure that Scotland continues to flourish as an international financial services centre and provide a world class environment for the industry. It specifically recognises the importance of transport to the financial services industry and embraces our top transport priorities.

This review of Scotland's National Transport Strategy provides a vital opportunity to shape the policy framework for delivering 21st century transport infrastructure to secure our economic future. This is a crucial issue for the financial services industry in Scotland and SFE is pleased to respond to this consultation.

I. WHERE WE ARE NOW

From the perspective of Scotland's financial services industry, the current state of Scotland's transport infrastructure poses an immediate and long-term threat to the industry and its future. This, in turn, affects Scotland's competitiveness as a financial services business location. As financial services are a key component of the Scottish economy, this is a threat to our future prosperity as a nation.

As part of the SFE Report on the Connectivity Needs of Scotland's Financial Services Industry (April 2005), a survey of SFE's member companies was conducted. This showed that 70 per cent of respondents were dissatisfied with current transport infrastructure and nearly 80 per cent believed that Scotland's transport system compared unfavourably with other financial services centres. Furthermore, 62 per cent of respondents did not think that the Scottish Executive was doing enough to address the industry's transport needs.

The state of Scotland's transport infrastructure matters because it affects Scotland's attractiveness as a business location. Professor Michael Parkinson, Director of the European Institute for Urban Affairs at Liverpool's John Moores University, identified good internal and external links as one of the five critical features for competitive European cities in his study for the UK Government. These are even more important for the financial services industry which is highly mobile and truly global. To prosper, financial services companies must be able to compete in national and international markets. They rely on transport links to exploit their competitive advantages. They must be able to access markets, suppliers, sources of capital and skills regionally, nationally and internationally.

The attractiveness of Scotland as an environment in which to live and pursue a career in financial services is affected by Scotland's relative geographical isolation. SFE's member companies have reported difficulties in recruiting people with particular skills and believe that their geographical location hinders recruitment. Better transport links are, therefore, vital to attract and retain a skilled financial services workforce in Scotland as well as to service the global market place from Scotland.

As Scotland's financial services industry has grown, the need for greater mobility has increased. This is true of both internal and external links. Jobs in financial services are spread throughout Scotland, although the highest concentration is in Edinburgh with Glasgow growing in importance and significant presences in Perth, Dundee, Stirling, Fife and Aberdeen. Labour supply is a key factor influencing business location, so the ability to access skilled people must be a key consideration in Scotland's transport strategy. Good transport links can reduce travel time and increase the supply of labour in an area, directly through easier access to the workplace, but also through making well-connected locations more attractive places in which to live. Equally, poor transport links and congestion may have the effect of reducing the labour pool.

Dissatisfaction amongst SFE's member companies with the current transport infrastructure is caused by the fact that the required transport links either do not exist or that they are too slow, infrequent and unreliable. The lack of certain important transport links is largely a legacy of previous investment decisions. However, a number of factors have contributed to journeys being slow and unreliable, including economic growth which has meant greater demand for goods and services and, therefore, for transport. This has led to increasing congestion on our roads which has a serious constraining effect on the Scottish economy and a detrimental impact on the environment as vehicles stuck on congested roads cause pollution. As the Consultation Document makes clear, social factors have also played their part. More people now live alone, there is an older population, car ownership has increased and lifestyle and land use patterns have changed with people, shops, leisure and industries moving out of cities so many people have further to travel.

2. WHAT WE ARE TRYING TO ACHIEVE

SFE wants to see a fast, efficient and reliable transport system in Scotland which is at least a match for competing locations around the world and acts as a catalyst for long-term economic success.

We believe that this aspiration is in line with the Scottish Executive's own thinking. As the Transport Minister, Tavish Scott MSP, restates in his introduction to the Consultation Paper, the Partnership Agreement between Labour and the Liberal Democrats "notes that a successful economy is key to our future prosperity and a pre-requisite for building first class public services, social justice and a Scotland of opportunity."

The Consultation Document mentions two other Scottish Executive policy papers, "The Framework for Economic Development in Scotland (FEDS)" and "A Smart, Successful Scotland" in Annex D. Both documents stress the centrality of an efficient transport system to achieving the goal of increased economic growth in Scotland. High quality transport infrastructure is an enabler of economic growth. It joins business to business, consumer to business and people to jobs. It ensures the efficient movement of goods and people to the right places at the right times and ensures that the Scottish economy is fully integrated into the world economy. SFE is convinced that the current transport infrastructure in Scotland is inadequate and must be significantly improved and developed to enable Scotland's economy to thrive and grow to the advantage of all who live and work here.

SFE does not believe that such a primary focus on transport as a facilitator of economic growth is incompatible with the Scottish Executive's other transport goals and broader policy objectives. For instance, economic growth is essential to

creating jobs and providing economic opportunities for individuals. Having a job is a fundamental part of ensuring that people are included in society. An efficient transport system not only helps to create job opportunities, but also enables people to access them and helps the economic regeneration of particular locations.

Equally, everyone who lives and works in Scotland has an interest in promoting a safer transport system and there are also ways of reducing the external costs associated with transport, thereby helping to protect the environment, which would not necessarily affect our economic performance. The management of demand for road space through road pricing systems; the provision of attractive and affordable transport options including high speed ground transport as well as existing options; and the use of the planning system to reduce the distances travelled are all areas which could lead to a more efficient transport system and, therefore, help to increase economic growth. At the same time, they could help the Scottish Executive to meet its environmental objectives for sustainable economic growth.

3. THE ACTION WE WILL TAKE

In considering the more specific areas of action which SFE would like to see, we have concentrated on the particular priorities of the financial services industry in Scotland.

As the financial services industry is a major driving force behind Scotland's economy, its transport needs must be addressed for Scotland to retain and enhance its status as a major international financial services centre. The importance of the industry to meeting the Scottish Executive's number one priority of growing the Scottish economy is recognised by the establishment of The Strategy for the Financial Services Industry in Scotland. The Strategy acknowledges the importance of improving Scotland's transport infrastructure to the industry. Points 9 and 10 of the Specific Actions for Year Two set out in the 2006 Annual Report state:

9. Address the industry's transport priorities, by using FiSAB's influence to ensure:

- the National Transport Strategy and transport planning take account of the needs of the financial services industry
- the Route Development Fund is utilised to create new direct air routes from Scotland to key financial services locations across the globe
- the earliest possible delivery of EARL and GARL, the new rail routes connecting Edinburgh and Glasgow airports to their city centres

10. Ensure improvements to the transport connectivity between Edinburgh and Glasgow, including rail links, by influencing key stakeholders to build on key transport studies including: the study underway into high speed links between Scotland's major metropolitan areas.

3.1 International Transport Links

The SFE transport survey of the needs of member companies identified improving air transport as a key concern. This is not surprising bearing in mind the global nature of the financial services industry.

Good transport links are a key factor in the location decisions taken by mobile financial services businesses and global accessibility is vital. Air services in Scotland reduce journey times and increase accessibility. They help to attract inward investment, particularly from overseas, and open up new markets for local businesses. Therefore, they are vital contributors to enhanced economic growth and performance.

The Royal Bank of Scotland's decision to locate its headquarters next to Edinburgh Airport shows the significance of good air links, which can enhance the growth potential of a region. It is, therefore, no surprise that the top three transport improvements that SFE member companies would like to see are the Edinburgh Airport Rail Link, the Glasgow Airport Rail Link and more direct international flights from Scotland.

Both Edinburgh and Glasgow airports have the capacity to take more traffic and so Scotland is well placed to attract more direct air routes. The Scottish Executive's Air Route Development Fund has already been successful in

generating new direct routes from Scotland. This initiative is important as historically Scotland has had fewer international flights compared with similar-sized competitors.

To keep thriving and growing as an international financial services centre, Scotland needs more direct flights to other financial centres around the world, ideally through established providers that are able to deliver a scheduled daily service to the standard required by business users.

We are pleased that this has been recognised as a priority in the Strategy for the Financial Services Industry in Scotland and that, since the publication of the Strategy in March 2005, there is now a daily direct flight service from Edinburgh to Geneva, established with support from the Route Development Fund. The other priority direct flight destinations for Scotland's financial services industry include Zurich, Madrid, Frankfurt, Munich, Luxembourg, Boston, New York, Chicago, San Francisco, Hong Kong, Singapore and Mumbai.

SFE recognises that there are concerns about the environmental impact of aviation. However, increasing the number of direct flights to Scotland may well have a beneficial effect in environmental as well as economic terms. By reducing the need for connecting flights, the total volume of air travel may be reduced.

The fact is that air links are essential to our future economic prosperity and there is no adequate alternative. However, we recognise that efforts are being made at the UK level to develop an Emissions Trading Programme involving aviation which would provide incentives to reduce emissions. Such market-based methods of tackling environmental problems are preferable to more heavy-handed and costly government intervention and SFE will examine any proposals put forward with an open mind.

3.2 National Transport Links

The key destination for SFE's member companies is London as a global financial hub. The City is a unique asset to the UK economy, as it provides a range of specialist services and access to the wider world markets. Air and rail links to London are, therefore, crucial to the success of Scotland's financial services industry.

Improvements are required to the East and West Coast Main Lines, including upgrading track and improving journey times and reliability. We should also deliver new 21st Century high speed ground transport infrastructure, providing a high-speed link between Scotland and London, extending from the high-speed link between Glasgow and Edinburgh that we want to have delivered (See 3.3). This would make ground transport more competitive with flying and relieve pressure on domestic flights. This is particularly important as Heathrow Airport is reaching saturation point which may result in rationing of domestic flights in the near future.

There is still a strong demand among SFE's member companies for more frequent flights and later evening departures to and from London. There is a particular demand for more flights to London City Airport from Glasgow, as the opening of the Docklands Light Railway and Jubilee Line have made City Airport a much more attractive alternative destination.

As well as London, Birmingham, Manchester and Leeds are important destinations for the financial services industry and there is demand for more flights to these locations.

3.3 Inter-Regional Transport Links

The road and rail links between the major Scottish cities and to international airports are vital to the Scottish economy as a whole and financial services in particular.

Inter-regional links make it possible for companies to recruit their workforces from a wide geographical area. In turn, this creates economies of scale and the coming together of business activities, both of which are common features of successful city and metropolitan economies.

The rail links to Glasgow and Edinburgh airports are the most important projects as far as SFE member companies are concerned. SFE would like to see these projects completed at the earliest possible opportunity.

A key aim of the financial services industry in Scotland is to build on the Scottish Executive's city regions strategy and develop a financial services super-hub bringing together Glasgow and Edinburgh. This makes the transport corridor between the two cities vitally important in terms of future economic development.

Road links between the two cities will continue to play a dominant role, which makes the completion of the M8 upgrade essential.

Faster links would also aid the process of bringing the two cities together as one integrated financial services unit. SFE believes that a high speed ground transport link between Glasgow and Edinburgh should be taken forward as a matter of urgency. This could be the first part of a UK-wide system of high speed infrastructure linking Scotland with the City of London, as we state above in 3.2.

To enable other parts of the country to benefit economically from the growth of the Edinburgh-Glasgow financial services hub, road and rail links to other key areas such as the Borders, Fife, Perth, Dundee, Aberdeen and Stirling should be improved. In particular, there is a need for measures to alleviate the congestion bottleneck around the Forth Road Bridge. SFE would like to see more park and ride facilities together with an enhanced bus corridor into Edinburgh and upgrading of the A8000 to ease congestion between the Forth Road Bridge and the motorway network.

3.4 Intra-Regional Transport Links

The ability of Scottish cities to compete internationally depends, to a large extent, on their transport systems. Congestion is a problem in cities and has led companies to move out of the centre of town to areas such as Edinburgh Park.

It is crucial that cities look at ways of reducing congestion so that there is faster, more efficient access and mobility which will lead to an improved living and working environment.

Respondents to SFE's survey of member companies identified high quality commuter bus shuttles as the most important requirement within cities. The proposed tram system in Edinburgh was also felt to be of great benefit to the financial services industry.

3.4 Funding and Delivery

SFE recognises that meeting the transport needs of the financial services industry in Scotland will require substantial additional funding and new delivery mechanisms. Public funding is limited, particularly as there is likely to be a need for a new Forth Bridge crossing in the not-too-distant future.

A partnership between the public and private sectors to develop innovative ways of funding and delivering transport projects is the best way forward and SFE would like to see the encouragement of innovative pilot schemes. The partnership developed as part of the Strategy for the Financial Services in Scotland is a good basis on which to take forward these recommendations.

There is a wealth of experience within the Scottish financial services industry which could be harnessed to this end and plenty of overseas examples from which we could learn. SFE would be happy to work with the Scottish Executive on research into best practice from around the world.

All of this would help to foster confidence that the Scottish Executive is determined to fulfil its objective of improving Scotland's transport infrastructure and to do so in as short a timescale as possible.

3.6 External Costs Associated with Transport

SFE believes that transport must be seen primarily as a catalyst to achieving a step change in economic growth. However, there are measures which might help to achieve that aim while also lessening the external, largely environmental, costs which transport imposes.

Foremost among these are measures aimed at managing demand for transport, so that the network is used in the most efficient way possible. These measures largely affect the pricing of roads, although they also apply to fares on the railways.

As the Consultation Document notes, managing demand promotes economic growth as ‘reduced congestion means improved flows of traffic and better journey reliability which in turn means goods getting to market and people to jobs more quickly and more predictably.’ Reducing congestion would also lessen polluting emissions from idling cars.

The UK Government is already looking at options for a UK-wide road pricing scheme which it believes could cut congestion by half. While there are still many questions which require specific answers before SFE could support such a scheme, the potential benefits demonstrate clearly why this option is worthy of further investigation.

The problems of the ill-fated Edinburgh congestion charging scheme show that the UK Government still has much work to do to convince the public that road pricing is a good idea. SFE believes that any scheme would require a restructuring of motoring taxation, for example with offsetting reductions in Vehicle Excise Duty and Fuel Duty so that it was seen to be fair. It would also require genuine, competitive public transport alternatives to be available.

The other area of reform which might enhance economic growth and reduce environmental costs involves planning. A more integrated approach to economic development, for example, might see business developments being clustered around airports to lessen the need for travel. High-speed transport technology may also bring wider advantages.

In addition, further development of the mobile communications infrastructure would also reduce the need for some travel without any harm to Scotland’s economic performance or growth rate.

4. HOW WE WILL IMPLEMENT AND MONITOR THE STRATEGY

As SFE’s view is that the delivery of enhanced economic growth should be the primary aim of the National Transport Strategy, our main concern is how transport’s contribution to this is measured.

SFE would like to see benchmarking of the quality of transport infrastructure and plans in Scotland against global competition. We would welcome the measurement of journey times between selected locations as an appropriate part of this comparison.

In the implementation of the strategy, we are particularly concerned that all future projects should have a clear timetable for delivery and are delivered on time. We would also consider that four years hence, as proposed in the Consultation Document, would be a sensible time to review the priorities and performance so far.

5. SUMMARY

As a way of summarising some of the key points that SFE would like to make in response to this consultation, we attach responses to specific questions which we feel are particularly relevant to SFE and its member companies. However, these brief answers are for ease of reference only and should not be viewed in isolation. The bulk of our response is contained in the text above.

Questions 1 and 2

The overriding objective of our transport system must be to facilitate economic growth because, as the Scottish Executive has explained, so much else that we value and which contributes to a better society is dependent on a strong economy.

Question 4

SFE would like the National Transport Strategy to focus on strengthening those areas which have the greatest potential to increase economic growth. These are the links between Edinburgh and Glasgow, Scotland and London and direct links between Scotland and the rest of the world. This should be combined with looking at new technologies to improve our transport infrastructure and ensure that it is fit for a competitive, world-class 21st Century economy.

Question 6

The primary aim should be facilitate the growth of existing economic hubs, particularly the growing collaboration between Glasgow and Edinburgh as this will have knock-on benefits for the rest of the Scottish economy.

Question 7

As global connections are so important to Scotland's competitiveness as an international financial services centre, we need to build on the progress made since the Air Route Development Fund was introduced. That means continuing to operate a similar scheme after the present funding period ends in 2007/08 so that we open up new direct flights to Scotland.

Questions 8 and 9

Time is clearly the most significant factor for people travelling to London on business and high speed ground transport to cut journey times is essential in order to provide a competitive alternative to flying. This will be particularly important if Heathrow introduces rationing of domestic flights in the near future as it struggles to cope with increased demand.

Question 13

The National Transport Strategy must take into account skills issues as they are a vital economic factor. The financial services industry, along with other parts of the economy requires as wide a labour market pool as possible to ensure it has access to the skilled workers it requires in order to compete globally. Good transport links are essential to widening Scotland's labour market pool.

Question 24

As there are already many examples of good practice in this area, there is no need for compulsion and any further increase in the provision of employer travel plans should be encouraged on a voluntary basis.

Question 26

We should always recognise that in certain parts of the country modal shift is often not possible and road infrastructure must be maintained and enhanced. We should continue to investigate methods of demand management, such as road pricing, which might create more of a level playing field between different modes of transport. However, to compete effectively the issue is the quality, reliability, frequency and speed of the public transport alternative.

Question 32

Again, while ways of creating more of a level playing field in terms of cost should be explored, the railways must offer quality, reliability, frequency and speed to compete effectively.

Question 42

There are significant potential economic and environmental gains in new forms of high speed ground transport, which will reduce journey times between key destinations and also encourage a shift from forms of transport which have a greater environmental impact such as cars and aeroplanes. Technology to improve traffic management would also make the road system more efficient and help to reduce emissions from idling cars.

Questions 48 and 49

The aim of any system of road pricing should be to make our transport system work more efficiently in terms of cutting journey times and improving reliability. If structured properly, it could have both economic and environmental benefits.

However, any scheme would require a restructuring of motoring taxation, for example with offsetting reductions in Vehicle Excise Duty and Fuel Duty so that it was seen to be fair. Under the present constitutional settlement, a Scotland-only system could not fulfil this criterion and we would certainly be against any system which put Scotland at a competitive disadvantage with the rest of the UK.

Question 52

It is not an either/or as we need to improve both our mobile communications and our transport infrastructure. Improvements in mobile communications infrastructure are vital to Scotland's economic competitiveness and would reduce the need for some travel. However, they will not eliminate the need for travel entirely.

Questions 56 and 59

It is SFE's view that facilitating economic growth must be the overriding objective of the transport strategy.

Question 62

We do not believe we should have such a target, as economic growth should be the priority and a target for traffic stabilisation would almost certainly conflict with this objective.

Question 65

Four years, as proposed in the Consultation Document, is a sensible timescale for a review of the National Transport Strategy.

Further Comment

Scottish Financial Enterprise would be very pleased to provide further comment on any of the issues we raise in this response and to facilitate engagement with our member companies. Please contact:

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