

The Connectivity Needs of Scotland's Financial Services Industry

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Scottish Financial Enterprise Transport Survey: summary of findings

Scottish Financial Enterprise (SFE) is the independent organisation that supports and represents the interests of Scotland’s financial services industry. Our members encompass all sectors of the industry including banks, insurance, fund management, asset servicing, corporate finance and broking services, professional advisors and support services.

Executive Summary

Scotland is one of Europe's leading financial centres and the second largest financial services hub in the UK next to London. It is the headquarters and operating base of an international financial services industry that makes a substantial contribution to Scotland's economy. The financial services industry in Scotland has shown strong growth and resilience in a challenging global environment, however Scotland must do all it can to ensure optimum conditions for the industry's ongoing development if it is to continue to retain existing and attract new financial services business investment in the face of increasing competition from other locations.

Current transport connectivity in Scotland is inadequate and poses a significant threat to the industry's future here. As the financial services industry is a major driving force behind Scotland's economy, its connectivity needs must be addressed for Scotland to retain and potentially grow its status as a major international financial services centre.

A survey of Scottish Financial Enterprise's (SFE's) members has emphasised the demand for transport infrastructure improvements and highlighted specific areas where these need to be made including international connectivity, national connectivity to London, inter-regional connectivity - particularly between Glasgow and Edinburgh - and transport links within these cities.

The implications of the continuing growth of the financial services industry in Scotland present potential opportunities for future land-use planning such as the development of an international financial services super-hub through the agglomeration of Edinburgh and Glasgow.

Opportunities also exist for developing innovative mechanisms for funding and delivering transport improvements and further evidence should be gathered to explore the most appropriate and advantageous options for Scotland.

Key recommendations for action centre on the development of an overarching and interconnected transport and economic development strategy to include the industry's future office and residential needs.

The Scottish Executive has recognised the importance of improving Scotland's transport infrastructure within its Strategy for the Financial Services Industry in Scotland that it published in March 2005. The Strategy outlines a vision and strategic approach to be delivered by government and the industry working together with the aim of further developing Scotland's position as a leading international financial centre. It is supported by an implementation plan that summarises the main areas of activity for year one. Transport priorities already identified in the Strategy include: the development of new air routes; delivering the rail links to Glasgow and Edinburgh airports within their currently projected timescales of 2008 and 2010 respectively; and considering a jointly-funded study to investigate the feasibility of making significant improvements to the Edinburgh-Glasgow rail link. SFE has contributed to and welcomed the Strategy and is working with the Scottish Executive and the other organisations involved to deliver it. SFE is recommending to the Scottish Executive that the broader opportunities identified in this report on the industry's connectivity needs are also delivered to maximise the opportunities for Scotland to develop as a financial centre.

I Introduction

I.1 Scotland's international financial services industry provides products and services to organisations, businesses and people across the world and is of vital importance to Scotland's current and future economy. Among the companies now headquartered and located in Scotland are highly successful, indigenous businesses including Royal Bank of Scotland, HBOS, Standard Life, Scottish Widows and Baillie Gifford, and major international corporations that have recently established substantial operations here including JPMorgan, Bank of New York, Citigroup, State Street and Morgan Stanley. All of these companies have identified the many opportunities and advantages a Scottish base can provide.

I.2 The present constraints in Scotland's transport infrastructure pose immediate and long-term threats to the current financial services industry and its future growth, and to Scotland's competitiveness as a financial services business location. Characterised by its mobility and global reach, the financial services industry requires efficient access from Scotland to European and global markets as well as surface access to the domestic market. To enable Scotland's financial services industry to continue to compete globally, its connectivity needs must be better supported now and in the future. Addressing these connectivity needs is therefore imperative to ensure that Scotland provides the conditions necessary to retain existing and attract new financial services business investment in the face of increasing competition from other investment locations around the world.

I.3 While highly skilled financial services workers are particularly mobile, the potential to attract more of them to Scotland is balanced by the threat of losing them due to Scotland's relative geographical isolation. For Scotland to continue to offer a highly attractive, efficient and cost effective location for financial services business, and to retain and attract a highly skilled workforce, significant improvements in international, national, inter-regional and local transport connectivity and infrastructure are vital.

I.4 A survey of Scottish Financial Enterprise's (SFE's) member companies encompassing all sectors of the industry, (including banks and building societies, general insurance, life assurance and pensions, investment management, asset servicing, corporate finance and broking services, professional advisors and support services), revealed that nearly 80% of respondents think that Scotland's transport system compares unfavourably with other financial services centres. Furthermore, 62% of respondents do not believe that the Scottish Executive is doing enough to address the industry's connectivity needs. Scotland is one of Europe's leading financial centres and the second largest financial services hub in the UK next to London. Neglecting the industry's connectivity needs could threaten Scotland's status as an international financial services centre and the major contribution that the industry makes to the Scottish economy.

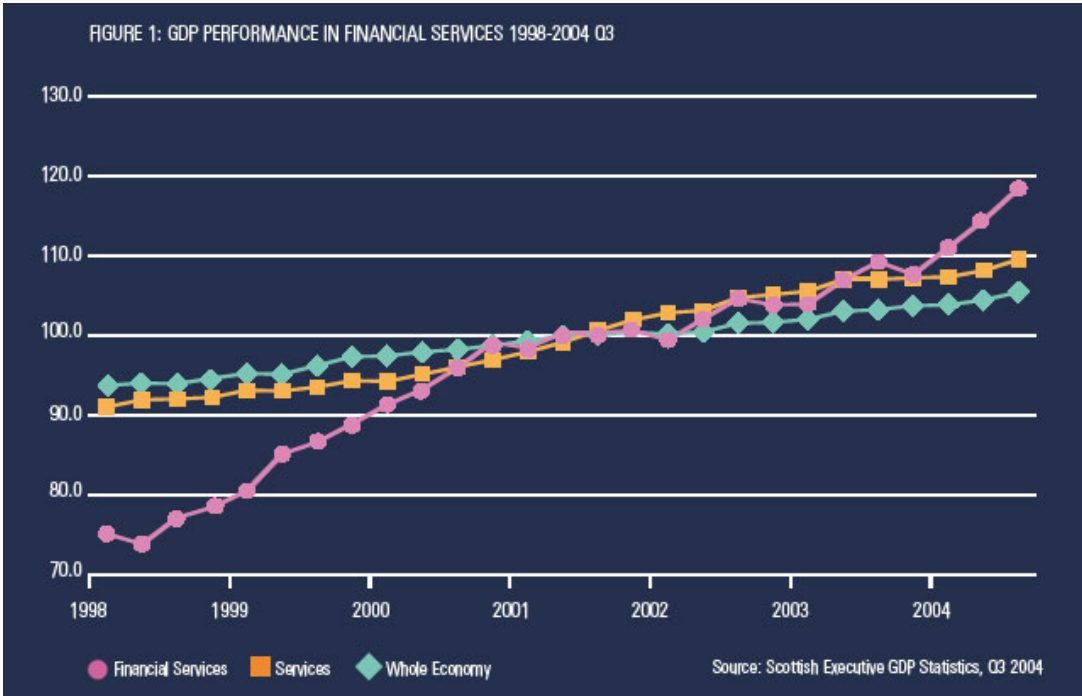
I.5 This paper highlights the current and potential contribution of the financial services industry to the Scottish economy, identifies the industry's connectivity needs and examines the consequent issues and threats that could affect its continuing success in Scotland. A wider perspective further identifies the planning opportunities and consequences that impinge on the connectivity needs. Some specific solutions are proposed as well as research recommendations for funding and delivering the solutions. Finally, the paper summarises the results of a survey carried out by SFE which supports the need for improved connectivity for the financial services industry in Scotland. The results are summarised in Appendix A and integrated into the paper.

Key Points:

- *The financial industry in Scotland is significant in scale, scope and strength.*
- *In view of the size and global reach of the industry, current transport connectivity in Scotland is inadequate and poses a threat to future growth, investment and economic contribution.*

2 Contribution of the Financial Services Industry to the Scottish Economy

2.1 The financial services industry in Scotland continues to grow in strength, diversity and size. The industry accounts for £5bn (nearly 6%) of Scotland’s GDP (measured as Gross Value Added) and nearly 10% of Scottish full-time jobs. The industry includes both Scottish companies that are leaders in global markets and international companies that are investing in bases in Scotland. Furthermore financial services has been the fastest growing industry sector in Scotland in recent years and continues to be so, thus boosting the economy and offsetting some of the decline in Scotland’s traditional industry sectors. In the last five years (1999 Q3 to 2004 Q3) financial services in Scotland grew by 36.5% while the overall Scottish economy grew by 9.5% and the whole of the UK financial services industry grew by 17.5% in the same period. The following graph¹ illustrates the financial services industry’s contribution to the Scottish economy in comparison with other industry sectors.



2.2 Scotland has benefited from a financial services industry for over 300 years and is now one of Europe’s leading financial centres and the second largest financial services hub in the UK next to London. Scotland is particularly recognised for its strengths in banking, life assurance and pensions, investment management and asset servicing. It also has vibrant general insurance and corporate finance and broking services sectors and a strong community of professional advisors and other companies that support the industry. Scotland is the headquarters location of two of Europe’s top 10 banks. Seven of the top 20 companies in Scotland are financial services companies, accounting for 67% of turnover, 78% of profit and 52% of employment of the top 20 (Scottish Business Insider, 2005).

2.3 The financial services industry is a major employer in Scotland providing highly skilled and highly rewarded career opportunities. In the six years to 2003, the yearly average direct employment in financial services in Scotland rose by 30.4% compared with 6.3% for the economy as a whole. Over 108,000 people in Scotland are directly employed in financial services and over 100,000 more are employed in support services. The financial services industry accounts for nearly 10% of

¹ Scottish Executive March 2005 ‘A Strategy for the Financial Services Industry in Scotland’.

the Scottish workforce. More than 46% of these jobs are located in Edinburgh and 23% are located in Glasgow.

Key Points:

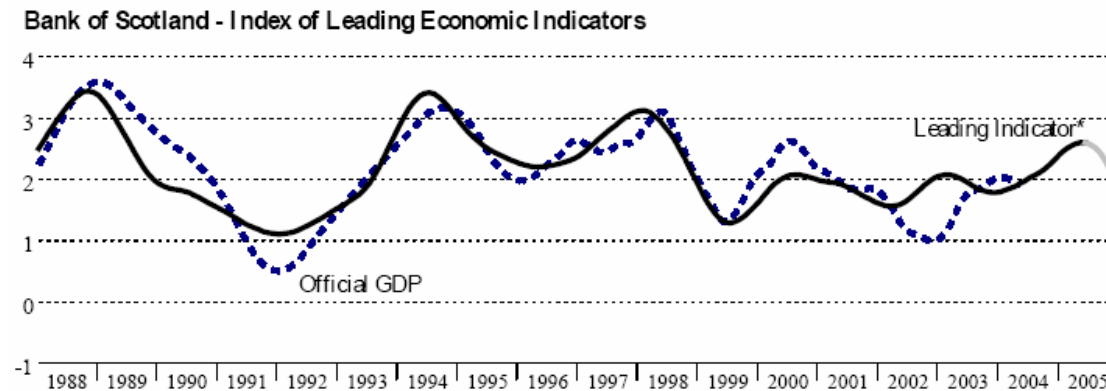
- *The Scottish financial industry in Scotland contributes to nearly 6% of GDP, 10% of employment (directly and indirectly) and has a high profile in Europe and worldwide.*
- *The financial services industry in Scotland experienced strong growth rates of 36.5% in the last five years and is the fastest growing sector of the Scottish economy.*
- *To sustain, retain and foster future financial services growth, Scotland must do all it can to support the industry through improved connectivity infrastructure.*

3 Market Characteristics and Economic Factors

3.1 The Scottish financial services industry has diversified substantially in the last 10 years and now encompasses international companies that are building operating bases in Scotland, companies of Scottish origin that are leaders in global markets and many smaller financial services providers. They are supported by a range of local and international service companies and professional advisors. All of these companies are competing for business in an increasingly competitive global market.

3.2 The global financial services industry faces continuing pressure and change, influenced by a variety of economic, market, political and regulatory factors. Different sectors of the industry face different challenges and will develop at different rates. However Scotland's financial services industry has, overall, demonstrated its ability to change, adapt and take advantage of emerging trends and opportunities, and it continues to grow. Without the continued boost from financial services, the Scottish economy's outlook would be far less promising. There is significant opportunity for Scotland to create enhanced conditions to encourage and accelerate the further growth of its financial services industry and the economic contribution the industry makes.

3.3 The Bank of Scotland Index published in January 2005 indicates that the Scottish economy will perform relatively well in 2005, with growth remaining above trend throughout much of the year. The likelihood of an upturn in growth in the UK from around mid-2005 bodes well for Scotland, as Scotland's economy tends to follow overall UK performance trends. Rising industrial output, and improved stock market performance and consumer confidence are among the factors supporting continued economic expansion over this year which will contribute to the provision of opportunities in the home market for Scotland's financial services industry.

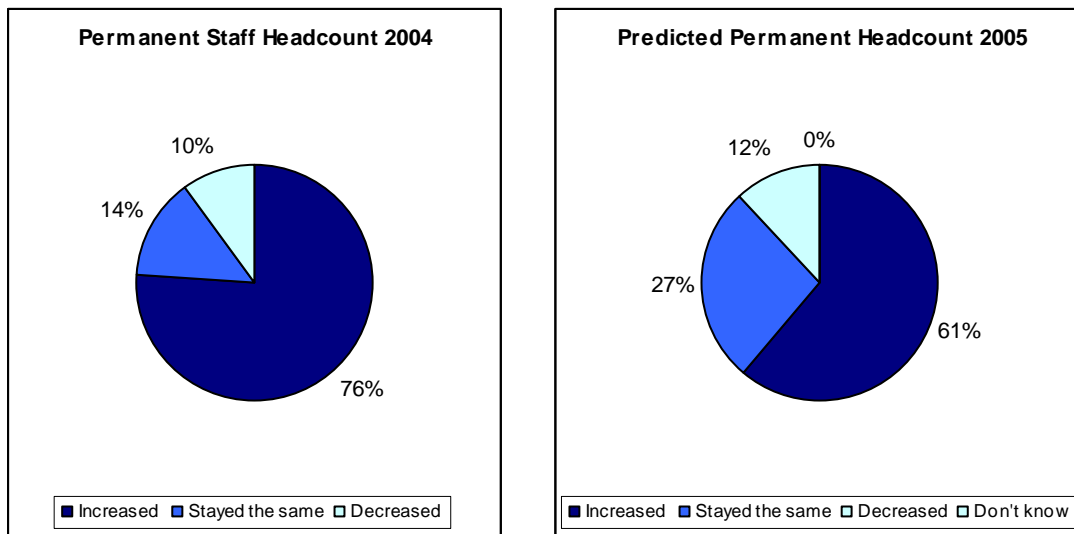


*The Bank of Scotland Index of Leading Economic Indicators is plotted against a twelve-month moving average in the annual rate of growth of GDP. The index exhibits a correlation of 0.86 against the annual rate of change of GDP between 1988 and 2004. Sources: Scottish Executive; NTC Research Limited.

HBOS Jan 2005 Scottish Economic Index

3.4 The predicted overall growth of the Scottish economy is underpinned by substantial growth in the financial services industry which has grown at nearly four times the rate of the overall Scottish economy in the last five years (see 2.1). The results of the 2005 Joslin Rowe Review of Recruitment Trends within Scotland's Financial Markets, supported by Scottish Enterprise and SFE, show that there is a strong sense of business confidence for 2005 within the sector with 87% of respondents across the industry reporting that they felt either 'optimistic' or 'very optimistic'. In addition 61% of respondents said that they would be increasing permanent employee numbers during 2005. Of Edinburgh-based respondents 76% expect to increase headcount, and of Glasgow-based respondents 79% expect to do the same, indicating that Edinburgh and Glasgow will continue to be the growth hub for the financial services industry. Temporary employment is expected to remain relatively static.

Predicted Permanent Staff Headcounts for 2005



Source: 2005 Joslin Rowe Scottish Financial Services Review

3.5 This high degree of confidence about business prospects for 2005 is promising for the short and medium term outlook. As Scotland continues to grow in significance as an important financial centre, Scottish-based companies are well-placed to take advantage of an upturn in the Scottish and UK economies. However, there is no room for complacency. It is important to remember that the fortunes of individual companies, and therefore the different sectors and the overall industry in Scotland that they comprise, are all affected by and vulnerable to wider global market issues.

3.6 The fundamental outlook for the global economy in 2005 is one of slower growth. Specifically, forecasts predict a slight slowing in global economic growth from 4.5% in 2004 to 4.1% in 2005 and 4% in 2006². China will post the highest growth rate. Japan will post a second year of above-trend growth, whereas US and UK growth will drop below trend. The Eurozone remains the laggard. Chronic geopolitical risks and abrupt changes in oil prices and financial markets will continue to shake growth trends. The UK economy seems set for a slower but continued solid rate of growth in 2005 of a predicted 2.5%³, with rather modest interest rate rises in prospect. While these figures are not forecasting above trend growth, they do indicate slow but sustained growth.

3.7 The National Planning Framework for Scotland states that a global recession would emphasise Scotland's peripherality, while global economic success would provide opportunities to expand world markets for Scottish goods and services. Either would bring pressure to improve Scotland's global connections. However, success will bring more planning challenges than a global recession, with a growing economy generating increased traffic and transport capacity problems and stimulating demand for housing, services and amenities in successful locations, particularly Scotland's main cities.

² National Institute Economic Review, 31 January 2005

³ Global Strategic Analysis, Forbes.com 01.01.05

Key Points:

- *Scotland's financial services industry is performing well in a challenging global environment.*
- *The future of the industry in Scotland is potentially one of continued growth, with the opportunity for accelerated growth and economic contribution.*
- *However, the industry is not immune to global pressure and Scotland must do all it can to ensure optimum growth conditions.*
- *The multiplier effects of continued steady economic growth together with business optimism in Scotland's financial industry and a growth in recruitment will mean transport problems and connectivity challenges as well as demand for housing, office space and services.*

4 Connectivity Issues, Threats and Opportunities affecting Scotland's Financial Services Industry

4.1 Good international, national, inter-regional and intra-regional connections are vital for economic growth. Internal and external transport connectivity is one of the five critical features identified by Professor Michael Parkinson⁴ for competitive European cities. This is particularly important in the highly mobile and global financial services industry. To prosper, financial businesses need to be able to compete in national and international markets. They rely on transport links to exploit their competitive advantages. They must be enabled to efficiently access markets, suppliers, sources of capital and skills, regionally, nationally and internationally.

4.2 The attractiveness of Scotland as an environment in which to live and pursue a career in financial services is annulled in part by Scotland's geographical isolation. In the afore-mentioned Recruitment Review (see 3.4) 58% of respondents reported difficulties in recruiting for specific skill sets in 2004 and 53% felt their geographical location hindered recruitment, underpinning the need for improving connectivity as a key strategy in attracting and retaining a skilled financial services workforce in Scotland.

4.3 The growth of Scotland's financial services industry has fuelled the need for increased mobility and heightened the requirement for high quality national and international transport networks. In addition, inter-regional and city-region transport links remain vital components for workforce commuting. Financial services jobs are spread throughout Scotland, but Edinburgh retains the highest concentration with Glasgow growing in importance and significant presences in Perth, Dundee, Stirling, Fife and Aberdeen. As labour supply is usually cited as one of the most important factors in influencing business location, the ability to physically access labour supply is a key connectivity consideration. 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 increasing the attractiveness of an area in which to live. Conversely, poor transport links and congestion may have the effect of reducing the labour pool.

4.4 The Financial Times' influential fDi magazine named Scotland "European Region of the Future 2004/05". However, in the Global Office Occupancy Costs Survey 2004⁵, Edinburgh ranked as the 14th most expensive location in terms of office accommodation costs, just after downtown New York City and with higher costs than Boston, Birmingham and Brussels; and Glasgow ranked 29th, being more expensive than Hong Kong and Madrid. Clearly Scotland must keep raising its game if it is to compete with other financial services centres for investment and gain "place competitiveness" over a growing number of attractive and economically vibrant locations throughout Europe and the rest of the world.

4.5 Financial services activity in Scotland is centred on Edinburgh and Glasgow. At present these two cities operate as separate financial centres. The high cost and lack of efficiency of commuting between Edinburgh and Glasgow, as well as the difference in house prices between the cities, acts as a constraint on workforce mobility and on the labour market pool available to financial services companies, and hence the opportunities for expanding industry activity in Scotland.

4.6 Edinburgh and Glasgow should be viewed as one financial services unit and, with improved transport connectivity between the two cities, could eventually agglomerate and become one financial services super-hub working in co-operation rather than competition. Around this central belt hub there is a polycentric pattern of cities including Perth, Dundee, Stirling and Aberdeen that should link directly into it. Creation of a financial services super-hub, with all the benefits this would entail for business expansion, connectivity and labour force development and mobility, would be an

⁴ Professor Michael Parkinson et al (January 2004), Competitive European Cities: Where do the Core Cities Stand? Commissioned by the ODPM.

⁵ DTZ Research, Global Office Occupancy Costs Survey, 2004.

exceptional opportunity for the industry and Scotland, potentially making it the most attractive business base in Europe. Immediate transport infrastructure changes should first build the core of the Edinburgh-Glasgow super-hub allowing other, more marginal cities to link into its prosperity and success.

4.7 The Scottish Executive can play a vital role in improving the physical environment in Scotland for the financial services industry in terms of transport, communications, planning policy and infrastructure. An overarching, strategic and interconnected plan, incorporating transportation and connectivity planning with development planning for business premises and housing, would improve Scotland's ability to attract investment and the skilled workforce required by the industry.

Key Points:

- *The financial services industry is a key driver of Scotland's economy.*
- *The industry's connectivity needs must be addressed for Scotland to retain and develop its status as a significant international financial centre.*
- *Failure to address these needs could result in relocation of investment and companies away from Scotland, failure to attract new investment and an inability to attract the requisite high quality work force.*
- *Development of a successfully connected financial services super-hub centred on Edinburgh and Glasgow would offer substantial opportunities for growth of the industry in Scotland.*

5 The Connectivity Needs of Scotland's Financial Services Industry

5.1 We have identified four levels of connectivity needs affecting Scotland's financial services industry: international, national, inter-regional (between cities) and intra-regional (within cities). We see the connectivity needs of the sector comprising all of the following:

- direct air services to international business destinations;
- national connectivity by air and rail to London;
- road and rail links between the major Scottish cities and to international airports;
- multi-modal links within and between major cities, in particular Edinburgh and Glasgow.

5.2 The SFE transport survey supports this with respondents stating that their two main connectivity concerns are to improve air transport and commuting infrastructure. More specifically, they cited: increasing the number of direct international flight destinations from Scotland; improving the frequency and cost competitiveness of national air links to London, and particularly London City airport; improving rail links from Edinburgh and Glasgow airport to those city centres; and reducing city traffic congestion.

5.3 International Connectivity - air services to international business destinations

5.3.1 Globalisation of the world economy is a key driver of air traffic growth, and investment between European countries, as well as to and from the USA, Far East and the rest of the world, is increasingly a feature of modern business. The escalating globalisation of the financial services business environment means that it is becoming increasingly important to consider the national transport system as a whole and its connectivity with the rest of the world.

5.3.2 Air services play a vital role in Scotland in reducing travel times, increasing accessibility and therefore improving economic efficiency and productivity. They serve an important function in attracting inward investment, particularly from overseas, and help to stimulate and sustain the growth of local businesses by opening up new markets. The decision by the Royal Bank of Scotland, Scotland's largest company and the world's 5th largest bank, to locate its new headquarters at Gogarburn near Edinburgh Airport is a clear indication of the importance of air connectivity to the financial services industry. Global accessibility is becoming a key factor for business location and economic performance in all regions of Europe. Growth in air services can enhance the growth potential of a region, which in turn will increase the demand for air travel, creating a 'virtuous circle' of economic growth.

5.3.3 From the SFE Survey, the top three specific transport development priorities are concerned with air connectivity and include, in order of importance: the Edinburgh city centre-airport rail link, the Glasgow city centre-airport rail link and more direct international flights from Scotland. Edinburgh and Glasgow airports have considerable capacity for growth in traffic, and Edinburgh has recently secured agreement for more from the Secretary of State for Transport. Scotland is therefore well-positioned to attract a broader range of direct air routes.

5.3.4 It is encouraging that the Scottish Executive's Route Development Fund has been successful in supporting the opening of new direct air routes into Scotland. Thanks to the initiative, Scotland now has direct links with a number of new destinations, including Stockholm, Girona, Dubai and Newark, New Jersey. We would support a continuation of the Fund with a particular focus on the financial services industry's international connectivity needs. The Route Development Fund should be honed further to focus on business travel, not just budget airlines and tourism. The new Globespan route to Geneva is welcome, however this should be enlarged from its current short season and restricted flight schedule to provide an all year round, daily service with departure times that support business activity as well as tourism. Similarly, the lesson to be learnt from the collapse

of the budget airline, Duo, due to operate direct flights from Edinburgh to Zurich, Geneva, Milan and Oslo, is that funds should not be focused on budget, start-up airlines, but established providers able to deliver a scheduled service to the standard required by business users.

5.3.5 The top three new European direct flight destinations requested by respondents⁶ in the SFE survey in order of importance are Zurich, Geneva and Madrid. Direct flights to Europe are particularly important in terms of reducing journey times by offering alternatives to flying through hubs like London and Frankfurt. This would improve Scotland's European connectivity: shrinking its geographical isolation and improving productivity and place competitiveness. The main long-haul direct flight destination requirements are concentrated on the financial hubs of the US and the Far East, with Boston, New York, Chicago and San Francisco rating slightly above Hong Kong, Singapore and Mumbai.

5.4 National Connectivity by air and rail to London

5.4.1 Inter-regional networks are important in providing access from Scotland's cities to the global financial hub of London. London is a unique asset to the UK economy, providing a range of specialist services and access to the wider world markets. Connectivity to the UK capital is essential to the success of Scotland's financial services industry.

5.4.2 Improvements to the East Coast rail link to London ranked as the top national transport initiative priority for connectivity to London. Rail links to London must be improved in terms of line upgrading, journey time and reliability. This would relieve some of the pressure on domestic flights and, if reliability and speed improved, rail could compete with flights in terms of journey time, cost and sustainability.

5.4.3 London is the main flight destination for 95% of the companies that responded to the survey. The survey results highlight a very strong demand for more frequent national flights including: later departures in the evening; flights to London City from Glasgow; more flights to London City airport generally; and more choice and competition. London City will become an even more attractive London airport destination when the Dockland's Light Railway is completed.

5.4.4 Birmingham is also a significant national flight destination for Scotland's financial services industry as are Manchester and Leeds. The success of the Scottish Executive's Route Development Fund in opening new direct international flights from Scotland could be replicated for national destinations.

5.5 Inter-Regional Connectivity: road and rail links between the major Scottish cities and to international airports

5.5.1 Inter-regional networks enable businesses to assemble large and diverse workforces from extensive geographical areas. This is essential to create the economies of scale and agglomeration of business activities that are common features of successful city economies and which are attractive to knowledge intensive businesses. The more senior and more specialised labour becomes, the further afield the relevant labour market extends.

5.5.2 While demand for more direct international flights and improved national air service is high, the most urgent transport development demanded by Scotland's financial services industry is improving rail links between Edinburgh and Glasgow airports and their city centres. The Edinburgh airport rail link ranked as the highest transport development priority. Of the companies that responded to the SFE survey, 51% rank the Edinburgh airport rail link in their top three transport

⁶ These figures are based on number of companies stating their top three new flight destinations; it is not based on company size and estimated number of flights to the destination. Further detailed research would be required to estimate the market value of these destinations.

needs, with 34% ranking the Glasgow link in their top three, making airport to city centre rail links in Edinburgh and Glasgow the greatest connectivity needs perceived by the financial community.

5.5.3 Inter-regional road and rail links are also essential in providing connections to major airports, thereby strengthening links to the international marketplace and, in providing links between major regional cities, enabling access to extensive labour pools, clients and suppliers. Research by JMP Consultants on behalf of *pteg*⁷ shows that rail is already vital to the successful functioning of our major cities. It provides a high capacity means of access, which enables the necessary agglomeration of skills and knowledge in core city centres. The links between the major financial hubs of Edinburgh and Glasgow require urgent attention. In the short-term, improvements in the reliability and frequency of current rail services should be the main focus, while planning for the development of a high-speed rail link between the cities should be prioritised.

5.5.4 Road transportation networks, and specifically the car, continue to play a dominant role in connectivity between Scotland's major cities. The M8 corridor between Glasgow and Edinburgh needs upgrading at both ends to improve reliability and relieve congestion. This is reflected in the SFE survey with the high-speed Edinburgh-Glasgow rail link ranked only fractionally above the completion of the M8 as key transport initiatives. Improving the reliability and speed of connectivity between the two main financial industry cities in Scotland would be essential for the development of a financial services super-hub.

5.5.5 Improving the road and rail links from the central belt, the Borders and northern cities to the Edinburgh/Glasgow hub would extend Scotland's financial industry labour market and encourage smaller cities and regions to compete for investment. In particular, access from Fife to Edinburgh should be addressed to relieve the congestion bottleneck around the Forth Road Bridge. We would encourage increased park and ride facilities together with an enhanced bus corridor into the city centre as well as upgrading the A8000 to ease congestion between the Forth Road Bridge and the motorway network. In terms of rail improvement, the plans for the heavy rail link to connect with Edinburgh airport would reduce road congestion caused by air passengers and improve the northern city regions' international connectivity.

5.6 Intra-Regional Connectivity: multi-modal links within major cities

5.6.1 Place competitiveness relies heavily on adequate transport links within cities. Congestion in city centres contributes to stress and a reduction in staff productivity, quality of life and city attractiveness. Businesses are beginning to cluster around the edge of cities to avoid city centre congestion. This is particularly noticeable to the west of Edinburgh where many financial services companies have secured offices at Edinburgh Park and RBS, Scotland's biggest company, has decided to site its headquarters at Gogarburn.

5.6.2 High quality commuter bus shuttles are recognised by respondents to the SFE survey as the primary within-city transport connectivity need. Extending and integrating current dedicated bus lanes would help as a short-term measure with a view to developing a rapid bus transport system. There was also a specific call from respondents of the survey for an Edinburgh to Glasgow bullet train to stop at Edinburgh Park. Edinburgh Park could then link the bullet train and Edinburgh's proposed Tram Line 2, thereby improving the integration and efficiency of the local transport system.

5.6.3 Local transport networks help to extend the range and potential of the economies of the major cities, leading to benefits for firms in satellite towns and from commuter spending. They also play a critical role in reducing congestion when part of an overall strategy, thereby enabling economic growth. Buses are the main mode of public transport in all the core cities. It is important that their increased use is encouraged to address escalating traffic congestion, as well as providing an attractive

⁷ JMP Consultants Ltd (March 2004), Rail in the City-Regions, Final Report to the Passenger Transport Executive Group (*pteg*).

form of public transport that improves access for those dependent on buses for their everyday travel needs. Tram systems (light rail) offer an effective and attractive alternative to the bus on high volume corridors – and can achieve greater levels of transfer from the car. The proposed tram system in Edinburgh would be of great benefit to the financial services industry.

Key Points:

- *The industry needs new direct international air routes from Scotland. The top three new European destinations requested are: Zurich, Geneva and Madrid. Boston is the top new US direct flight requested.*
- *More flights to London City, a new link between Glasgow airport and London City, more evening flight times and increased choice and competition of providers would improve Scotland's air connectivity to London.*
- *Rail services to London need improvement in terms of reliability, journey time and cost.*
- *Edinburgh/Glasgow city centre to airport rail links should be prioritised.*
- *For improved connectivity between Edinburgh and Glasgow, both a high-speed rail link and completion of the M8 are necessary.*
- *When planning a high-speed rail link between Edinburgh and Glasgow, this should also connect to the high-speed airport rail links.*
- *Efforts to ensure Scotland's other major cities are well-connected to the Edinburgh/Glasgow super-hub by road and rail should be increased.*
- *Transport connectivity into and within cities is directly related to place competitiveness and staff productivity. Reducing congestion and improving public transport in Edinburgh particularly, but also Glasgow, is a priority for the industry.*

6 Implications of Financial Service Industry Growth for Land-Use Planning

6.1 Creation of a Super-Hub

6.1.1 Research evidence has demonstrated that it is the set of economic assets in cities which is the critical factor by which nations and regions achieve comparative advantage over their competitors. In practical terms these assets comprise a critical mass of knowledge institutions, advanced services, highly qualified people, innovative businesses engaged in demanding external markets, transport connections, cultural milieus and markets for locally produced products and services. In short, cities provide the optimal combination of proximities, densities and infrastructure for the generation of new knowledge and its exploitation for economic advantage.

6.1.2 Successful core cities thrive through acquiring reputations as 'decision taking magnets' - i.e. places where ambitious organisations and individuals choose to cluster because they can be part of leading edge developments. This reinforces the economic significance of core cities over smaller cities and towns. The scale and depth of a city's assets are vital factors in attracting large enough clusters of market leading businesses - and major public service organisations - to create the necessary critical mass for gaining a comparative advantage in national and international markets. Agglomeration economies are therefore at the heart of urban advantage and economic competitiveness.

6.1.3 The opportunity presented by the potential agglomeration of Edinburgh and Glasgow into one financial services super-hub could provide substantially more economic growth for the whole industry than the two cities produce in isolation. Planning a 'growth corridor' between Edinburgh and Glasgow would stimulate the agglomeration effect as well as increase the connectivity of both regions and Scotland as a whole. Furthermore, we would advise planning now for the fast rail link between the cities to link in with proposed high speed rails links from Edinburgh and Glasgow airports to those city centres, thereby creating an interconnected international super-hub for the financial services industry in Scotland. This will mean development of the spatial planning frameworks in Edinburgh and Glasgow, and between them, to plan for the appropriate office and housing growth.

6.2 Airports as Economic Growth Poles

6.2.1 Research undertaken by York Aviation⁸ concluded that although airports are major generators of economic prosperity through their direct and measurable economic contribution, their most important function is the role they play in securing the accessibility that allows regions and businesses to develop. The report comments, "*Airports are an essential part of the regional economic infrastructure and it is important that the growth of airports is seen as an integral part of national and regional economic development strategies. Growth of air service access can enhance the growth potential of a region, which in turn will increase the demand for air travel, creating a 'virtuous circle' of growth*".

6.2.2 The research highlights how airports facilitate economic growth at a regional and national level and act as magnets for a wide range of economic activities. The presence of an airport can attract new investment from outside the area, especially by companies from overseas; retain existing companies; secure the expansion of existing companies in the face of competition and promote the export success of companies by the provision of passenger and freight links to key markets. The report gives clear examples of airports acting as attractors of global companies - 31% of companies relocating to the area around Munich cited the airport as the primary factor in their location decision; similarly, connections to Eastern Europe offered by Vienna Airport have enabled Vienna to provide the location for the Eastern European headquarters of several global companies. We strongly recommend that the spatial planning immediately around airports recognises their importance as economic growth areas.

⁸ York Aviation (January 2004), The Social and Economic Impact of Airports in Europe, Commissioned by the Airports Council International (ACI).

6.2.3 The “Future of Air Transport” White Paper⁹ acknowledges the increasing dependence placed by the UK economy on air travel and the role of airports as an important focus for the development of local and regional economies. The paper comments “(regional airports) attract business and generate employment and open up wider markets. They can provide an important impetus to regeneration and industrial development. And they are increasingly important transport hubs, especially for the logistics industry. Many airports increasingly act as a focal point for ‘clusters’ of business development. By offering the potential for the rapid delivery of products by air freight and convenient access to international markets through the availability of flights for business travel, they can attract inward investment to a region”.

Key Points:

- *The agglomeration of Edinburgh and Glasgow into one interconnected international financial services super-hub would increase Scotland’s place competitiveness in the financial services industry and foster the industry’s growth in Scotland.*
- *Integrated planning now for the high-speed rail link between Edinburgh and Glasgow to link in with high-speed rail links between their airports and city centres is fundamental to creating an interconnected international super-hub.*
- *Airport developments can act as economic growth poles, creating the potential for international business districts; sometimes called “aero-cities”. Re-zoning for development around airports would facilitate the development of such economic growth hubs.*

⁹ Department for Transport (December 2003), The Future of Air Transport.

7 Funding And Delivery

7.1 To meet the connectivity needs of the financial services industry in Scotland will require substantial additional funding and new delivery mechanisms. Recognising that public funding is limited, we would encourage a strong partnership approach between the Scottish Executive and the private sector to develop innovative ways of funding and delivering transport improvements. The Scottish Executive needs to send a clear signal to the private sector that it is serious about harnessing expertise in this area. We also propose that an innovation fund is set up to develop new ideas and pilot projects with respect to funding and delivery. The partnership approach established between the Scottish Executive and the industry in developing the Strategy for the Financial Services Industry in Scotland (published by the Scottish Executive in March 2005) is very welcome and provides a strong base from which to take forward these recommendations.

7.2 We further recommend that the Scottish Executive commissions research to capture best practice around the world with respect to funding and delivery as a priority. There are very interesting examples where transport projects have been delivered in a new way. For example in Portland, Oregon the new street car was financed through a combination of Municipal Bonds, a premium on city centre charging (together with a free square mile for public transport in the city centre) and a voluntary property levy along the route. The Hong Kong Government uses a transport and development model where the transit agency uses property uplift around its stations to part finance the system and there are many more examples. The same is true for delivery mechanisms. In New York, the Grand Central Station Partnership and in Boston the Friends of Post Office Square are interesting models of delivery. The latter example funded the demolition of a multi-storey car park, its reconstruction underground, the provision of a new park on top with local civic art and a fund to maintain the park all through private sector funding. We would be very keen to work with the Executive on this research.

7.3 At present, unfortunately, there is a lack of belief that the public sector will be able to deliver the necessary improvements in transport and connectivity that Scotland needs. (The new Transport Agency may help but only if it has the right people and the right structure.) It is vital that the Scottish Executive dispels this perception. To do this it will need to be seen to be working successfully with the private sector in developing effective funding methods and delivering projects quickly. We are keen to work with the Executive to this end.

Key Points:

- *There are opportunities for joint working between the public and private sectors to develop innovative ways of funding and delivering transport improvements.*
- *Research to gather international evidence on innovative funding and delivery of transport infrastructure should be commissioned.*
- *An innovation fund should be set up to encourage innovative pilot schemes.*

APPENDIX A

SCOTTISH FINANCIAL ENTERPRISE TRANSPORT SURVEY: SUMMARY OF FINDINGS

The purpose of the survey was to seek the views of Scottish Financial Enterprise's (SFE's) members on current transport issues and needs. A sample of 40 companies from the different sectors of Scotland's financial services industry were selected to participate. These companies employ nearly 50% of the industry's direct employees in Scotland, accounting for some 50,000 jobs.

1 Transport Expenditure by Scotland's Financial Services Industry

We calculate a conservative estimate of upwards of £100 million expenditure on transport per annum by the whole of Scotland's financial services industry. Some respondents reported that travel expenditure data was unavailable for their Scottish-based operations, so we calculated a rough average based on company size and sector. The real figure could well exceed £100 million.

- 37% of companies have multiple locations within Scotland
- Edinburgh and Glasgow are the predominant multiple locations

2 Transport Issues Affecting Scotland's Financial Services Industry

The main transport issues affecting businesses operating from Scotland are:

Air Connectivity

- Lack of direct flights to Europe
- Lack of direct flights to the US and East Asian financial centres
- Lack of flights to London City, particularly from Glasgow airport
- Delays, costs and timings of flights to London
- Absence of rail links to Edinburgh and Glasgow airports

Road Connectivity

- Traffic congestion in M8 corridor
- Traffic congestion at Forth Road Bridge and in West Edinburgh
- Traffic congestion in Glasgow, especially on and around the M8

Rail Connectivity

- Frequency, speed, reliability and cost of rail links between Edinburgh and Glasgow and the North of Scotland
- Inadequate rail links with London (the East Coast Line)
- Absence of rail links to airports
- Limited trains stopping at Edinburgh Park

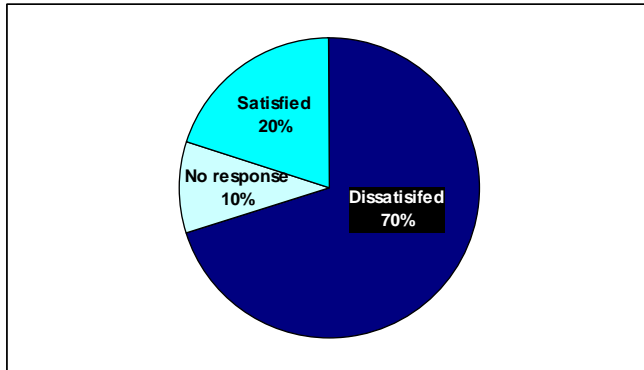
General Issues

- Poor public transport between Scotland's five cities
- Lack of integrated systems
- Poor public transport in and around Edinburgh
- Poor public transport links with Edinburgh Park
- Lack of fast, direct and reliable transport to London and the South
- Lack of fast, efficient and cheap travel between Edinburgh and Glasgow

3 Scotland's Current Transport System

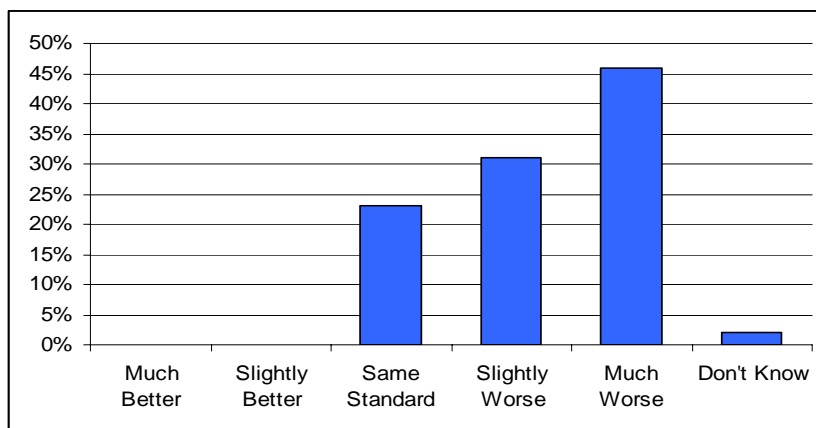
- 70% of respondents reported that they are either dissatisfied or very dissatisfied with Scotland's current transport infrastructure

Satisfaction with Transport Infrastructure



The picture is very similar when they were asked how they thought Scotland compared with other financial services centres in terms of transport infrastructure. 77% said they think that Scotland's transport connectivity does not compare favourably with other financial services centres, with 46% expressing that it is "much worse". Zurich, Frankfurt and London were cited as the most popular benchmarks to judge Scotland against; Brussels, Stockholm, Amsterdam, Hong Kong, Geneva, Paris and Singapore were also mentioned.

How Does Scotland's Infrastructure Compare?



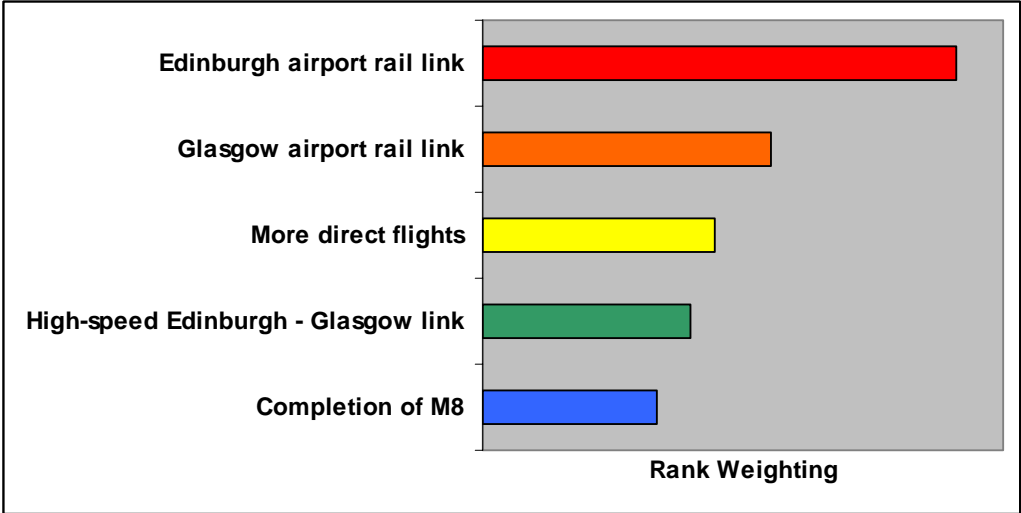
- 60% of respondents think that the Scottish Executive is **not** doing enough to address the industry's connectivity needs
- 6% of respondents think that the Scottish Executive **is** doing enough to address the industry's connectivity needs
- The remainder either don't know or did not comment

4 Top Transport Initiatives

The top three transport issues for respondents are concerned with air connectivity, in particular more direct flights to Europe and globally, and high speed transport links between Edinburgh and Glasgow and their airports. The Edinburgh airport rail link ranks as the most urgent transport development, followed by the Glasgow airport rail link and then more direct flights from Scotland.

This reinforces the fact that Scotland’s financial services industry is highly mobile and international connectivity is vital to it.

Ranked Importance of Top Five Transport Initiatives



5 Flight Destinations

Existing Flight Destinations

London is the main existing flight destination for almost every single company in the survey. Birmingham, Manchester, Dublin, Amsterdam, Brussels, New York and Leeds are also rated in the main three existing flight destinations for many respondents.

New Direct Flight Destinations

The top three new direct flight destinations requested by respondents are **Zurich**, **Geneva** and **Boston** in order of popularity. Other direct flight destinations ranking equally in terms of number of companies requesting them, but not necessarily in terms of the anticipated frequency of journeys, are Madrid, Frankfurt, Dublin, Luxemburg, the Channel Islands, Munich, New York, Chicago and San Francisco.

6 Congestion Charging Schemes in Scotland

Opinion is divided almost equally on the overall principle of congestion charging in Scotland with 49% of respondents in favour, 43% not in favour and 8% that don’t know or didn’t comment.

When asked what impact they thought the introduction of the Edinburgh scheme as proposed would have on the financial services industry, the majority (43%) predicted a negative impact, while only 20% predicted a positive impact. (Since the survey was undertaken the proposed scheme was rejected in the referendum held by the City of Edinburgh Council.)

7 Company Travel Plans

A company travel plan is described by the Scottish Executive as a package of measures tailored to the needs of an individual site and aimed at promoting more sustainable travel choices (for both those travelling to work and those travelling on business) and reducing reliance on the car.

Only one in six companies that responded report having company travel plans. Eighteen companies (51%) who did not have company travel plans said that they are **not** intending to adopt them. Factors that would persuade companies to adopt travel plans are:

- A better integrated transport system
- Support for companies which reduce car use
- Help/advice on how to develop a plan
- Financial benefits/incentives

Without the basic interconnecting infrastructure, there is no incentive for companies to provide company travel plans. The Scottish Executive should do more to explain the commercial and congestion advantages of company travel plans.