



HOUSE OF LORDS

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Inquiry on

THE UNION AND DEVOLUTION

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3 pm

Witnesses: Owen Kelly and Garry Clark

Members present

Lord Lang of Monkton (Chairman)
 Lord Cullen of Whitekirk
 Lord Hunt of Wirral
 Lord Judge
 Lord MacGregor of Pulham Market
 Lord Morgan

Examination of Witnesses

Owen Kelly, Chief Executive, Scottish Financial Enterprise, and **Garry Clark**, Head of Policy and Research, Scottish Chambers of Commerce

Q168 The Chairman: We are very grateful to you for being here early. As you can see, we had a slight hiatus because our last witness answered our questions so briskly. We are very grateful to you for being available, in particular in your case, Mr Kelly. I know you are no longer in the position of chief executive of SFE.

Owen Kelly: This is my last outing, so it is very appropriate.

The Chairman: You are ending on a high note. We appreciate it. We were very keen to get the views of the business community on where things were. We are talking to trade unions as well, and to the voluntary sector and so on, but we felt we really must cover the whole area if we could. I will dive straight into the questions that we have. The first one that we want to ask is: how much is business affected by the devolutionary process in Scotland and between Scotland and England?

Garry Clark: It is fair to say that it has been very high on our agenda for some time. It has been a constant source of conversation between us and our membership in various chambers of commerce across Scotland, particularly over the last three or four years and during the referendum process, but prior to that as well, and through the process that eventually culminated in the Scotland Act 2012.

The Chairman: Can you give us some examples, some background?

Garry Clark: As the debate has moved towards the change in the nature of the Scottish Parliament, from being a Parliament that was largely about spending money to being a Parliament that is increasingly about revenue-raising as well as spending those revenues, that has made a lot of our members take much closer notice of what is happening, both in the Scottish Parliament and in terms of the wider debate around the powers of the Parliament. Clearly, they are looking at potential impacts. The work of this Committee is extremely important in trying to identify some of the impacts. There is some concern out there about the

unintended consequences of further devolution and perhaps a general feeling that with greater levels of power would come greater levels of accountability. At the same time, there are real concerns about what that could mean in practice in terms of a growing differential, particularly in tax terms, between the Scottish position and the UK position.

The Chairman: Do you have an accumulated record of points of complaint or concern from your members that you can brigade under certain headings, or is it more general?

Garry Clark: A lot of the feedback we had been getting over a concentrated period of time, particularly between 2011 and 2014, was probably encapsulated in the response that Scottish Chambers of Commerce put into the Smith Commission in October 2014 and the correspondence we have had with politicians both at Holyrood and Westminster since then. We would be more than happy to share that. It is fair to say that there are conflicting views, as you would expect, among the business community, but certainly a degree of interest and some concern.

The Chairman: We would be very grateful if you would send us a copy, because I do not think we have seen it. I have not personally seen it.

Garry Clark: I am happy to do that.

The Chairman: Mr Kelly, from the point of view of Scottish Financial Enterprise, how do you see the situation?

Owen Kelly: The Committee is well aware that how financial services operate is shaped by financial regulation, of course, and by taxation primarily. The impact of devolution in general terms, in the round, on our industry has, to some extent, been mitigated by the fact that the big-ticket items are still part of the UK and are organised out of London by the Bank of England, the Treasury and so on. I will not say we have less interest, but, in a certain sense, we have less direct interest in what has in the past gone on at Holyrood, because the big things that affect international competitiveness are still determined at UK level. Having said all that, the responsibilities of the Scottish Parliament are very, very material for our industry in terms of skills, infrastructure, a whole load of things. Therefore, there is a recognition of the importance of the Scottish Parliament and an eagerness to engage and work with the devolved authorities.

In terms of the sorts of things Garry was touching on about where the shoe rubs, where we see awkwardness, with the new powers coming to the Scottish Parliament, people in our industry probably feel we are entering a bit of a new phase. The capacity for the Scottish Parliament to shape our operating environment is growing by quite a jump. We are all familiar with the process we are going through, but having the capacity to shape a different income tax system

in terms of bands and all the rest of it creates real possibilities for significant differences of approach. In a way, that has upped the ante in terms of the task of engagement with the Scottish Parliament and devolved Scottish politicians. As you kindly said, I am moving on from this role, but that is something my successor will have to take very seriously. Perhaps because of the distribution of responsibilities, it is something we have not always prioritised in the past.

The Chairman: Yes. We will come on to taxation. At the moment, I am trying to ascertain the degree of uncertainty, of concern, that may be affecting business and the degree of confidence or lack of confidence that there is on the way the wind is blowing. For example, in your sector, in the financial sector, has employment been expanding? Has investment been expanding in the last year or two? What has been happening?

Owen Kelly: It would be astonishing if the sort of uncertainty we have just lived through, having a referendum on independence, had not affected business. That would be really astonishing. Political uncertainty always affects business decisions, and Scotland has not been any different. In the course of the particular moment of uncertainty around the referendum, I think that did have a material impact. Some of that was public; much of it was not, in my own industry, for obvious reasons.

Perhaps it is worth acknowledging that, from the point of view of a company of the kind that I work with, there is not really anything to be gained by being public about your risk management. That is just in the nature of private business on the whole. It is different if you have listing responsibilities and, as we saw with some of our members who are public companies, they did have to talk a bit more about the sort of contingency planning they were making.

But that was the referendum. Obviously that is past. Is it still having an effect? I think it is, yes. As I say, it would be astonishing if it was not having any effect. Does that mean that people are wanting to move offices? No, but does it mean that perhaps people are taking a bit longer to make decisions? I know there is stuff being written into contracts of people who are moving here, to try to offset the uncertainty from an individual perspective. It would be amazing if these things were not happening, because it is just part and parcel of how business deals with uncertainty.

Q169 Lord MacGregor of Pulham Market: Given the position of a lot of your members, how much does the outcome of the fiscal framework concern them?

Owen Kelly: It concerns them quite a lot. I would not say that they are mobilising their internal resources to get involved in the debate. There is a recognition that making the Smith

proposals workable is a real challenge. People in our industry are, in a sense, watching and waiting, rather than seeking to get involved and try to shape it, because it is very much a political process. There are clearly still some quite big questions about how the accountabilities that flow from this new framework will operate. If I had to characterise it in very general terms for what is a very diverse industry, I would say people are watching and waiting to see what happens.

Lord Cullen of Whitekirk: When you were asked about uncertainty, were you thinking almost entirely in temporal terms—in other words, once it is clear how the Scotland Act, if it becomes an Act, works out, everything will settle down—or is there a longer-term concern as to that perhaps not being the end of the story, and possibly some further changes after that might affect confidence in investment?

Owen Kelly: As in we might have another referendum on independence?

Lord Cullen of Whitekirk: Yes.

Owen Kelly: Yes, that has not gone away. The political environment means that it has not gone away. There is still lots of talk by very prominent political leaders about the possibility of having a further referendum. We have an election next year. We will see what the outcome of that is. Depending on whom you go up to in any pub near any financial company, you will probably hear different views of people's expectations, but I do not get the feeling that most people think we are fully settled yet. That does not mean it cannot come about, but at the moment, as long as people who have the political goal of independence are in many ways in the ascendant and talking about it, seen from a distance that looks very much like it is still on the agenda.

Q170 Lord Judge: In relation to both your different areas of commercial and business enterprise, is there a different impact between the ways government regulation and delivery operate in Scotland and in the rest of the United Kingdom? If there is, when is it going to stop? Perhaps not when is it going to stop, but how are you going to make it stop, if you wish it to?

Garry Clark: That is a very interesting question, because that probably goes more to the heart of devolution per se, rather than necessarily the changes that we are in the beginnings of experiencing.

To take up some of the points that Owen has just made about the process of change, to some extent it is, particularly for smaller businesses, quite a bewildering pace of change. We have a situation where there is a Scotland Bill going through Parliament still, which is going to introduce a whole raft of new changes in terms of taxation in Scotland. We have not even

seen all the implementation of the 2012 Act yet, because income tax does not come on stream until next year. Small businesses in Scotland, and even some medium and large-sized businesses in Scotland and elsewhere in the UK, it has to be said, where they have Scottish domiciled employees, are struggling to come to terms with something that is happening next year, which is the result of an Act that happened three years ago. In the meantime, your Lordships are dealing with another Bill, which is going to change things again in two to three years' time. From that point of view, there is a very bewildering pace of change.

In terms of the regulatory environment, that is something that has differentiated between Scotland and the rest of the UK, for better or for worse, over the last 16 years of devolution. We have seen the Scottish Government, and Scottish local authorities for that matter, implement regulation, sometimes in a more complicated, sometimes in a less complicated way than is happening in the rest of the United Kingdom. That is a challenge for many businesses.

Advances that have happened in the rest of the UK, such as the single authority principle, have taken longer to apply in Scotland, so businesses have been faced with a complexity in Scotland. Within Scotland, there are 32 different local authorities, all with regulatory functions, and some businesses have to interact with a range or all of them, in addition to the Scottish Government and UK Government. It is a bewildering array of authorities and regulatory bodies that we are subject to, so there are definitely challenges in that. Despite the fact that the Scottish Government have talked a lot about how government could be done better in Scotland, there are probably not many great examples of that being put into practice, in terms of a fundamental change for the better in the way that business can interact with government at a local or a national level.

Owen Kelly: I would agree with that and, as I said a moment ago, the fact is that financial regulation, which is the big thing for shaping our environment, is absolutely at UK level. There is no devolution there, and I do not think under EU frameworks there could be. None the less, for all the waves of financial regulation that have come at the industry, all for understandable reasons, it is very clear who is responsible and who is doing it. Just to add to what Garry was saying, there is certainly a sense among the Scottish authorities—it is probably a statement of the obvious—that the dominant political party or movement has a single, very strong political goal, which it is absolutely clear about. That seems to perhaps encourage the idea of being different and doing different things.

The Chairman asked for examples, and an example is that there is a proposal to have a Scottish Business Bank. The idea is to have an entity that could be like a public sector

investment bank. There is already the British Business Bank, which does all the same things. Do we need one at Scottish level? I do not know. The jury is probably out on that, but it is an example of the sense of wanting to do something that is Scottish, even though from a completely technocratic, business perspective that is really a political choice, rather than one based on the detail of policy effectiveness and so on. The political climate is one where we expect there will be a continued interest in doing things either to emphasise the unworkability of the current constitutional settlement, which is obviously going to be part and parcel of things, or to continue to create the sense of Scotland being sustainable and self-standing in its own right.

Lord Judge: Again, from both your different perspectives, do you see anything in what either of you have described as undermining the union, longer term or short term?

Garry Clark: As to the regulatory functions, I am not sure that there is necessarily anything game-changing there, in terms of differentials between Scotland and the rest of the UK. I cannot think of any examples where there would be something that materially changed that relationship. Possibly the risk there would be more in terms of taxation rather than the regulatory environment, because we have, over the past 16 years, grown used to differentials. There are differentials whenever you have local authorities doing one thing over here, environmental agencies doing another thing over here, the planning authorities doing something over here, licensing doing something. There is always a diversity and different ways of addressing and reaching a solution to a problem, even within Scotland, or within England, Wales or Northern Ireland, never mind across the UK. It is taxation that creates the biggest potential fault line.

Owen Kelly: It depends what you mean by the union. From our relatively narrow perspective, the single market that currently exists for financial services throughout the UK is seen very much as what makes the UK the market for financial services that it is. We are already seeing some impacts on that. For example, the powers that are in train for personal income tax have led to a lot of work over the last few years around the treatment of personal pensions tax relief. That is a fairly narrow thing, but there are implications there for how pensions are sold throughout the single market that is the UK.

If in a few years' time, following the powers recommended by Lord Smith, we start to see a different type of personal tax structure and framework, then I guess different products will be needed from the financial services industry, perhaps in relation to investments and other things. There comes a point at which you start to lose the single market. If we see that as underpinning the union, then one could say that, while it is not necessarily undermining the

union—that might be a bit dramatic—there are things that start to chip away at the UK-wide frameworks that support an entirely free and untrammelled market for providers from any part of the UK.

Q171 Lord Morgan: We have heard in a number of connections about how individual citizens can often find it rather difficult to see at what level of government responsibility decisions are taken. That is both in terms of, as it were, Edinburgh and Whitehall or Westminster, but also taking account of the asymmetry between the different nations of the United Kingdom. That is a problem that I know in Wales is particularly sensitive. Is this an issue for business at all?

Owen Kelly: You probably have a better answer than I have. Very quickly, I would say that it is not necessarily a problem, but it requires quite a lot of careful attention. Many people in business do not really spend their lives following this stuff, because they are making a success of their business. There is sometimes, for reasons I completely understand, a tendency to assume or suppose that one Government has responsibilities that it does not necessarily have. One of the things we have been trying to do—and I hope Garry would agree—is to look for ways in which we can bring round the same table the Scottish Government and the UK Government to talk about the things that affect our industry. That is not always easy to achieve, which is, again, understandable: there are different political parties in Government. But I think people have now come to accept the task of having to take our own steps to ensure co-ordination that suits our interests. I suspect that is true of other sectors of the economy and other areas as well.

Garry Clark: That is right. I would agree with that. We tend to think about Governments in plural, in terms of the Scottish Government and their role and the UK Government and their role. Sometimes there are areas where you need to deal with both in order to get any kind of workable solution. That is where a lot of the issues round about the fiscal framework are important. Again, as Owen has said, it is on our minds, but we will probably allow it to come to a conclusion before having to work out how we deal with the consequences of it.

In a practical sense, looking at the range of powers that exist in the Scottish Parliament and UK Parliament and the differential there, during the course of the independence referendum in 2013 and 2014 we carried out two pieces of research among our membership. We asked them what they thought the main issues were in terms of the referendum debate. In terms of tax, the one that usually came out on top was business rates, which has been devolved since 1999. Businesses are not necessarily aware of that. There are good reasons for that, in terms of the Scottish Government's decision to shadow in large measure the headline rates of the uniform

business rate, as was, I suppose, in the rest of the UK. There will be necessary changes coming to that, and maybe more of a distinction will emerge as a result of that. But that is one example of businesses lumping in the same basket a number of taxes, whether it be income tax, which the Scottish Government has theoretical partial control of at the moment, and will increasingly have greater control of; business rates, which it has entire control of; and issues like corporation tax, where it has no control.

Of course, as business representatives, it is our job to speak to the relevant politicians no matter where they might be, and that we do. But I am not too sure many businesses will be able to put different things in the boxes of reserved and devolved powers, and I think the same is true of most individuals up and down the country.

Lord Morgan: Yes, that is very true.

Lord MacGregor of Pulham Market: Following on from that, what impact might the devolution of income tax rates, and potential divergence in rates and bands, as you just referred to, between Scotland, England and Wales, have on business?

Garry Clark: We are beginning to see some emerging thoughts on that from the business community in Scotland. As I suggested earlier, many businesses are probably still getting their heads around the tax changes in terms of the Scottish rate of income tax coming in next year. That is a tax we would expect the Government to maintain at a relatively neutral level, in terms of the current overall rates of income tax that we are subject to. There are powers contained within the Scotland Bill at the moment that would allow the Scottish Parliament greater leeway in terms of moulding the bands and the rates of those bands. We are beginning to see some of the potential political use of that power, in that we have had the land and buildings transaction tax coming in in Scotland this year, 2015-16, and replacing stamp duty land tax. The current Scottish Government have been very open in suggesting that it be used in a redistributive way, by imposing higher rates at the top end and having a greater level of exemption at the bottom end than exists in the rest of the UK.

A lot of businesses are looking at that and they are looking at the same Parliament acquiring powers over income tax. I think the Scottish Government have said in the past that, under the Scottish rate of income tax coming in next year and the way that will operate, they do not see particular merit in changing the rates of tax, because, if you raise the top end, you would also be raising the bottom end. That is a disincentive and it does not provide that redistributive quality that the Scottish Government sought to achieve with the land and buildings transaction tax.

Given freer rein, we are beginning to see politicians of various parties coming forward and suggesting perhaps a return to the 50p top rate of income tax in Scotland. That is something that we are looking closely at. Very many of our members would suggest that we want to try to bring investment into Scotland, to bring talent and people into Scotland, to acquire or build and develop more headquartered business functions in Scotland. A higher rate of tax in Scotland than the rest of the UK at the top end may not be the best way of doing that. That is something we are beginning to look at.

We would want to see any divergence in terms of rates of tax providing a more competitive place in Scotland to do business and attracting and retaining more high-quality, talented people in Scotland, not providing more reasons for them to go elsewhere.

The Chairman: You say it would fail to attract people in if it went up to 50p. Would it act as a disincentive to people who are here, remaining here, or might some individuals or even businesses move out?

Garry Clark: Businesses will look at the terms and conditions and the environment in which their staff are operating. They will look for the most competitive way of operating. If that means that some people might be diverted out of Scotland as a result, I am sure businesses would consider options. If they were trying to attract staff to come to Scotland, they would want to make sure that that was at least as competitive as offices in the rest of the United Kingdom or elsewhere in the world.

There is potentially some benefit from the ability to raise or lower taxes, but there is also a risk attached to that. I suppose politicians in a Scottish sense, in the Scottish Parliament, are used to spending a chunk of money, and, by and large, that chunk of money coming to them in the form of a block grant from the UK Government. Having a limited basket of taxes and the ability to manipulate some of those taxes may not always result in what they assume the result will be. If they think increasing the top rate from 45p to 50p will raise £X, they may be mistaken in that assumption. Scottish politicians, with the best will in the world, have not had to make those kinds of decisions within the Scottish Parliament before. As to where they have made decisions, business rates is one example: we have seen that go up by 40% in terms of revenues over the last five years, so we will all be looking with great interest to see what the various parties are putting forward in terms of the manifestos for the elections next year.

Owen Kelly: To echo Garry, the working expectation is that taxes would go up rather than down, which people are looking to be indemnified against in contracts and so on. I suppose the overall impact of this, to come back to the single market, could be an effect on labour mobility. Seen from the UK overall economic efficiency perspective, then that may not be a

good thing. Having said that, we already live in a world where some of our members will say that they can operate in Glasgow with people at least as good as the people they have in London but at 40% cheaper, because of office rents and all sorts of other things. There are a number of factors in play.

Having said that, I think everyone's expectation, as Garry has said, is that there will not be any early moves to introduce difference. But, when the powers are there for something more redistributive and to pursue particular policy goals through the tax framework rather than just have the rates, then that is probably when people will be expecting more difference to emerge.

Q172 Lord MacGregor of Pulham Market: I know we are not there yet, but would divergent corporation tax rates across the UK be problematical for Scottish business?

Garry Clark: I suspect Owen will probably have more to say on this than I, but our organisation represents members of all shapes and sizes. Not all of them, clearly, pay corporation tax. Some of them may pay other forms of tax, whether that is income tax, capital gains tax, et cetera. We looked at this as a network in some detail probably about 2011, when the Scottish Government were coming forward with some proposals in advance of the Scotland Act 2012 about the devolution of corporation tax. There were mixed views among our membership. At that time, the Scottish Government were proposing a potential 3p cut in the rate of corporation tax over and above whatever the UK rate happened to be. At that time it was about 26%. It is now 20% and falling, so that is perhaps less relevant now than it was, and that offer does not seem to be on the table at the moment.

Some businesses were attracted by that, but I think probably more businesses said, "Yes, it could set Scotland apart in providing a lower tax regime". Whether 3p would have been enough to do that I do not know, but I think Scotland has to market itself on the basis of a number of factors. As Owen has alluded to, our skills base, our excellent universities, our quality of life, all those things would come in alongside rates of corporation tax as an attraction for Scotland as a place to do business.

Speaking to a lot of businesses, certainly ones that operate throughout the United Kingdom, there is a concern about devolution of corporation tax. Many of those businesses believe it would create an additional internal administrative hurdle for them to overcome. The benefits, if there are any—and of course we do not know what the rate of any devolved corporation tax would be—may not be worth the hassle of what they would have to put up with in order to pay that separate rate of tax in Scotland. That said, a lower rate is and may be attractive to a lot of businesses in Scotland, but that is not a given.

Owen Kelly: We approach these issues trying to make as few assumptions as possible about whether rates will go up or down. Clearly, expectations at the moment, because of the Scottish Government's rhetoric, are in one direction. Most of our members operate throughout the UK. They employ people doing operations throughout the UK. Corporation tax is a tax on activity, so from their point of view it introduces that internal cost and complexity of having to account separately to two different tax authorities, presumably, about what you are doing. That is complex. In other economies where this happens, there is lots of stuff—we already have it in the UK—to prevent transfer pricing and so on.

It also raises a question: if one imagines that, then the accountability for the impacts of a decision on corporation tax need to be as clearly transmitted as possible to those making the decision. There seem to be some things that still make that a little difficult. One, for example, is that, if you want to move your registered office from the jurisdiction of Scotland to the jurisdiction of England and Wales, or the jurisdiction of Northern Ireland, or in any direction, it is a more costly and complicated process than it is to move from Cornwall to London within the one jurisdiction. In a way, that is a market distortion. Should companies, in theory, not be free to respond to the different decisions that have been taken, the tax competition, I suppose? It is an archaism, as I understand it. There is no policy reason for this. It is just to do with the historical difference of having three legal jurisdictions within the UK. Some of those kinds of things need to be ironed out so that, if you did contemplate corporation tax, the consequences of the choices made would be clear.

Q173 Lord Hunt of Wirral: Staying with tax for a moment, on decentralisation, the majority of taxation is raised nationally, whether it is at UK level or now to be devolved to Scotland. Should tax and regulation powers be devolved to a lower level than the UK and devolved national Governments? We have been hearing some evidence to that effect. Lord Smith of Kelvin challenged the Scottish Government, the Parliament, civic Scotland and local authorities to consider ways in which local areas could benefit more, but seemed to miss out business and commerce. Are you involved in any way? Is this something that you would like to see devolved?

Garry Clark: One of the obvious local examples of a tax would be business rates that are paid locally and, notionally at least, are redistributed, as the Scottish Government would tell us, in full to the local authorities where they are raised. Of course, the revenue support grant applied to those local authorities means that we are, in effect, where we were before, in terms of essentially a needs-based redistribution of business rates income across Scotland. Of course, that reduces the incentive on local government to do anything locally that will create wealth

and jobs in that local area, because it is not necessarily going to benefit from the results of that.

Lord Hunt of Wirral: That is as it is now. What would you like to see, and are you being consulted?

Garry Clark: We have been consulted quite a lot over the past five years in general, specifically on the issue of business rates, but we have not seen an awful lot happen in response to that. The Scottish Government have created some minor powers. I cannot remember the name of the Act, but an Act has come into power this year that provides local authorities with the power to reduce business rates in their local area. But it is such a minor power and there is not really much in the way of an incentive provided to that local authority, for the increased business rates that are generated as a result of changes or a reduction in business rates locally, to be worth that local authority's while changing it.

We are beginning to see some changes at a UK Government level, where the Chancellor has indicated that local authorities may be able to reduce business rates downwards, and only upwards in the case of specific infrastructure investments in large cities or city regions. That is the beginning of the kind of thinking that we would like to see within Scotland, thinking more creatively about how we use a local tax like business rates to incentivise economic growth across Scotland.

Owen Kelly: From a financial services perspective, it is relatively simple in a sense. As an industry, we do best in open markets that are as barrier-free as possible. As I say, I think under EU law this is possibly not permissible anyway, but if one were even to theorise about devolving aspects of financial regulation below member state level, perhaps even to city region level or whatever, one would run into the same problem of undermining the single market, because how individual financial services provision is supported by capital requirements and all those kinds of things would then have to fragment. It would probably be impractical to contemplate it specifically for the financial services industry.

Q174 Lord MacGregor of Pulham Market: Can I ask you one last question? Are there any points that we have not raised with you that you would like to put to the Committee?

Lord Morgan: Can I suggest one? Is that possible?

The Chairman: Yes, unless they are about to, unprovoked, offer one.

Lord Morgan: I was wondering about Europe. The Scottish Government appears particularly sympathetic towards Europe. Business is generally thought to be so, and business was also very sympathetic to maintaining the union. Is that a possible bond that you might have?

Owen Kelly: We have the EU referendum coming up and I think the organisation I represent will follow the same broad approach as we had in the referendum on independence: that is not to speculate about what decisions might be taken in some notional future but to focus on what we can know. I think the Scottish Government's support for Europe partly stems from the fairly long history of the SNP favouring the idea of Scotland being an independent country but a member of the EU at the same time, so it certainly fits with that.

We are finding in our conversations with some campaign groups that the conversation starts to move quite quickly to the "what if" question. If the UK votes to leave, what if Scotland somehow expresses a slightly different view, maybe 55% in favour or whatever? What will people do? These are such hypothetical questions as to be almost impossible, but, as with the Scottish referendum, it will depend on the customer base and on how important it is to be in the EU for any company and where all their customers are. Some 90% of our members are in England. There is not a one-size-fits-all answer to that question that comes up, but in broad terms I would say that our industry does think the UK financial services industry benefits from the UK being part of the EU. On that issue, we are absolutely at one with the Scottish Government.

Garry Clark: We have been doing a bit of research with our members in Scotland, and across the United Kingdom through colleagues at the British Chambers of Commerce as well, measuring business sentiment and tracking how that changes over the period. We have only really had one snapshot of opinion so far, which was taken in August and September of this year. We found that, if a referendum had been held at that point, about 74% of our members would have voted to remain within the EU, according to what they told us in that poll, and 14% would have voted to leave. That said, we had a big chunk, probably about 40% overall of those businesses, who said that their vote would be influenced by whatever came out of the Prime Minister's negotiations. Of course, we await the results of that with great interest. We are going back to our members again in January and getting their views. As an organisation we remain, as we did with the independence referendum, strictly impartial, but we are perfectly happy to share the views of those members who wish to share them with us.

Lord MacGregor of Pulham Market: Can I take it, for the sake of the record and the transcript, that the answer to my last question after you consulted your notes was no?

Owen Kelly: Actually, I was going to respond. People sometimes look to business organisations and companies to have opinions and express views on political questions, whether that is about devolution or anything else. As I may have said earlier, for most companies there is almost never anything to be gained from that. I would say that the

companies I work with will really just fit in with whatever political settlement is reached. That is not the same thing, of course, as saying that nothing matters and that everything is just going to carry on, whatever decisions are taken. If we are trying to understand the consequences for business of how the issues that I know this Committee is looking at are resolved, in a strange way, businesses will not shout about them, in my opinion. It is part of the responsibility of legislators and Governments to make sure that they are thinking them through.

Some would say, “Well, that is your job. You should shout, should you not, if things are not going well or things are going to affect your industry?”. Actually, it is a premium for most companies, in my experience, to keep their own counsel. As I say, it is rare that a company will gain from becoming embroiled in a political controversy. In a way, I am, probably unhelpfully, saying how important it is that we try to get these things right. It is not that business is neutral; it is simply that it will respond to the decisions that are made rather than trying to shape them.

The Chairman: That is not unhelpful. I do not think there is any need to shout, but I do think that, if business feeds into Government its views and anxieties—and I hope it does, however quietly—then there is a better chance of heading off the problem that might cause the row. I am not going to, through you, urge business what to do. They know what to do, but I just make the point in passing. You have been extremely helpful to us and thank you very much indeed for coming. We have filled the time very profitably and we are most grateful to you.